

City of Boulder
Finance Department

TO: The Mayor and Members of City Council
Jane S. Brautigam, City Manager

FROM: Cheryl Pattelli, CFO

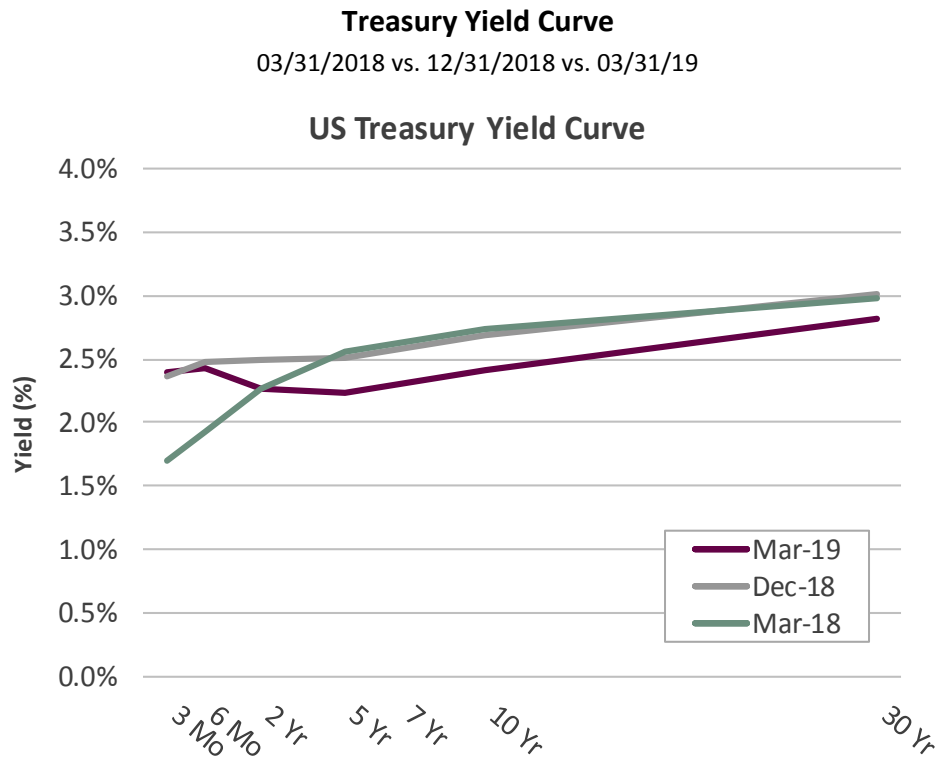
SUBJECT: Investment Performance as of March 31, 2019

DATE: April 23, 2019

Section 1 – Background

- This report is for City Council information only and requires no action by City Council.
- The investment of City funds is guided by and this report is submitted in compliance with the City's Investment Ordinance. (Chapter 2-10, *Investment of City Funds*, Boulder Revised Code 1981).
- The investment objectives as specified in the Ordinance, are:
 - The primary objective is preservation and protection of capital. This objective reduces the risk to which the portfolio can be subjected. To comply with this objective, investments are diversified by type and maturity horizons.
 - The second objective is to maintain adequate liquidity to meet the daily cash needs of the City. The City's ordinance requires that 5% of the portfolio matures within 30 days.
 - Yield is the third objective. The City strives to maximize return, while minimizing the risks of the market.

Section 2 – The Yield Curve and Federal Open Market Committee (“the Fed”)



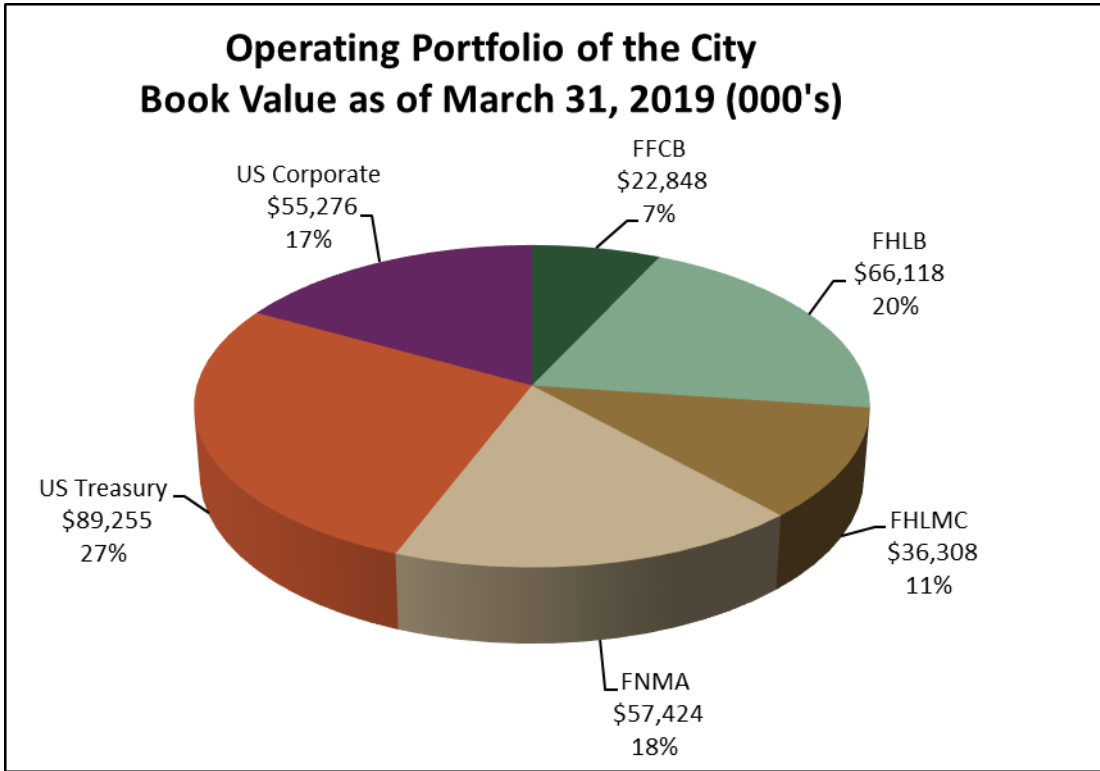
Source: Bloomberg

- On a year-over-year basis at the end of March, the Treasury yield curve flattened with short-term rates higher and long-term rates lower on a year-over-year basis. The yield on the 3-month T-bills rose nearly 70 basis points year-over-year, 2-Year Treasury yields were essentially flat, and the yield on 10-Year Treasuries declined more than 33 basis points. The spread between 2-Year and 10-Year Treasury yields narrowed from 47 basis points to less than 15 basis points, year-over-year. Rate hikes by the Federal Reserve have put upward pressure on shorter-term rates, while slower global economic growth, subdued inflation expectations, and a flight to quality have put downward pressure on longer-term rates.
- The Federal Open Market Committee kept the target fed funds rate unchanged in March at a range of 2.25%-2.50%. However, the Fed’s economic projections, along with the tone of the policy statement and the Fed Chair’s press conference, were more dovish than expected. The Fed’s median forecast now calls for target fed funds rate of 2.4% at year-end, which implies that there will be no further rate hikes this year. The Fed is projecting one rate hike in 2020 (to an effective rate of 2.6%) and then expects to keep policy on hold in 2021. The Fed’s longer-run fed funds rate target is still 2.8%. This implies that the Fed intends to keep the target fed funds rate below the neutral rate for the foreseeable future. Furthermore, the Fed announced that they will begin slowing down the reduction of their balance sheet and conclude their balance sheet reduction program at the end of September 2019. This will leave the Fed with a larger balance sheet (slightly higher than \$3.5 trillion) than they originally expected.

Section 3 – The City’s Portfolios

- Portfolio strategies implemented this quarter and all investments held in the portfolios comply with the City’s investment objectives and the Ordinance that specifies allowable investments:
 - The objective of safety is achieved through a well-diversified portfolio, primarily among two major sectors (Treasury and Agency), the Agency issuers and various maturities along the yield curve. On March 7th 2017 the City Council approved amendments to the Investment Policy proposed by finance staff expanding opportunities to further diversify the portfolios. Pursuit of further diversification through the recently revised policies will progress strategically relative to market conditions. Market risk is managed by maintaining a low weighted average maturity (WAM) in the City’s portfolio. As of March 31, 2019, the WAM was 1.50 years while the Ordinance allows up to a five-year WAM.
 - The City maintains sufficient liquidity. As of March 31, 2019, 3.37% of the portfolio or \$11.0 million will mature over the next 30 days.
 - As of March 31, 2019, the yield on the pooled investment portfolio was 1.99%. Our current yield benchmark is the six-month trailing average on the 2-year Treasury, which was 2.64%, as of March 31, 2019. The benchmark yield exceeded the investment portfolio by 0.65%.
- There are no investments in the oil and gas industry in the City’s portfolio.
- In Q1 2019 the City’s investment adviser purchased approximately \$19.6 million of securities at an average yield of 2.57% for the City of Boulder’s investment portfolio. The proceeds of \$19.6 million of sales and maturities were used to fund these purchases. Purchases included Treasury and Agency securities maturing between January 2022 and February 2023.
- Over the prior year, Treasury yields experienced a significant amount of volatility reaching a high of 2.97% on November 8th and a low of 2.20% on March 27th. Nevertheless, short-term Treasury yields were flat year over year with the 2-year Treasury yield closing the first quarter of both 2018 and 2019 unchanged at 2.26%. Longer term Treasury yields moved lower with the 10- year Treasury yield moving down 18 basis points, to close at 2.40% .
- In their March meeting, the Federal Open Market Committee kept the target fed funds rate unchanged at a range of 2.25%-2.50%. However, the Fed’s economic projections, along with the tone of the policy statement and the Fed Chair’s press conference, were more dovish than expected. The Fed’s median forecast now calls for a target fed funds rate of 2.4% at year-end, which implies that there will be no further rate hikes this year.

Operating Portfolio of the City

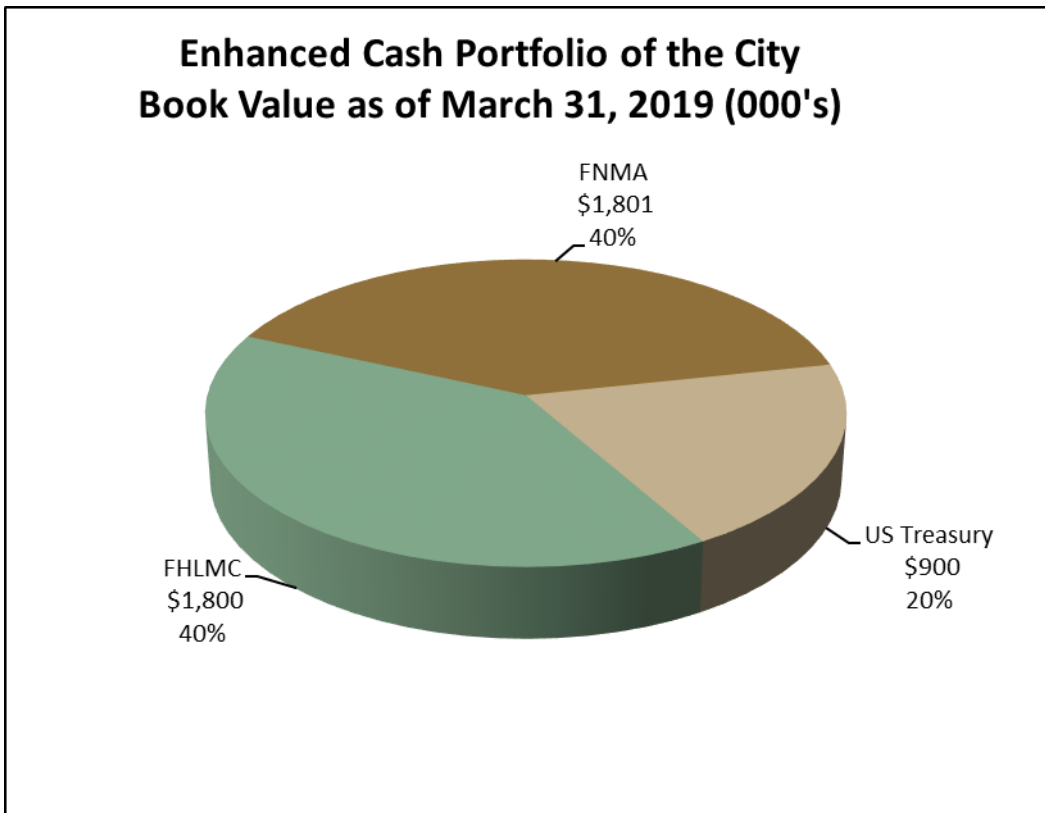


Portfolio Characteristics

Operating Portfolio of the City of Boulder

	03/31/2019	12/31/2018
	Portfolio	Portfolio
Average Maturity (yrs)	1.50	1.53
Modified Duration	1.45	1.47
Average Purchase Yield	1.99%	1.91%
Average Market Yield	2.35%	2.54%
Average Quality	AA+/Aa1	AA+/Aa1
Total Market Value	328,128,881	326,270,500

Enhanced Cash Portfolio



Portfolio Characteristics

City of Boulder Enhanced Cash Portfolio

	03/31/2019	12/31/2018
	Portfolio	Portfolio
Average Maturity (yrs)	0.25	0.40
Modified Duration	0.24	0.40
Average Purchase Yield	1.38%	1.40%
Average Market Yield	2.42%	2.59%
Average Quality	AA+/Aaa	AA+/Aaa
Total Market Value	4,505,251	6,190,249

In March 2012, a separate portfolio was established to facilitate IRS required arbitrage calculations on Bond Reserve and Project Funds. The balance of \$4.5 million as of March 31, 2019 was invested as shown above in the graph and table to assure timely funding for the projected draw down schedule.

- In June 2012, the investment committee selected the one year Treasury as the benchmark for the bond proceeds based upon an average maturity of approximately one year for the portfolio at that time. As of March 31, 2019 the portfolio yield was 1.38%.
- As of March 31, 2019, 20% of the portfolio or \$900,000 will mature over the next 30 days.
- The average maturity of the portfolio was 89 days as of March 31, 2019. An objective of this portfolio is to safely support the liabilities of the projected project cash flows.

Holding Details for City of Boulder		
Operating Portfolio		
Issuer	Book Value	% of Portfolio
FFCB	\$ 22,848	6.98%
FHLB	\$ 66,118	20.21%
FHLMC	\$ 36,308	11.10%
FNMA	\$ 57,424	17.55%
US Treasury	\$ 89,255	27.28%
Apple Inc	\$ 3,070	0.94%
Bank of NY Mellon Corp	\$ 2,941	0.90%
Charles Schwab Corp	\$ 2,042	0.62%
Chubb INA Holdings Inc	\$ 2,477	0.76%
Cisco Systems	\$ 2,926	0.89%
Coca Cola Company	\$ 1,976	0.60%
FirstBank	\$ 5,161	1.58%
Great Western	\$ 4,089	1.25%
IBM Credit Corp	\$ 2,478	0.76%
Intel Corp	\$ 2,493	0.76%
Microsoft	\$ 2,915	0.89%
Northern Trust Company	\$ 2,845	0.87%
Oracle Corp	\$ 2,925	0.89%
Pepsico Inc.	\$ 2,483	0.76%
Praxair	\$ 2,468	0.75%
State Street Bank	\$ 3,007	0.92%
TWDC Enterprises 18 Corp	\$ 986	0.30%
UPS	\$ 2,512	0.77%
Visa Inc	\$ 2,479	0.76%
Wal-Mart Stores	\$ 3,003	0.92%
Total Book Value	\$ 327,228	100%

Holding Details for City of Boulder		
Enhanced Cash Portfolio		
Issuer	Book Value	% of Portfolio
FHLMC	\$ 1,800	39.99%
FNMA	\$ 1,801	40.02%
US Treasury	\$ 900	19.99%
Total Book Value	\$ 4,501	100.00%