

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

FROM: Cheryl Pattelli, CFO

SUBJECT: Investment Performance as of June 30, 2019

Date: August 21, 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 – Market Conditions, the Federal Reserve and the Yield Curve**

### The global trade war erupted once again:

With US-China talks reaching an impasse, on May 10th the US raised tariffs to 25% from 10% on \$200 billion of Chinese goods. President Trump then shook markets with a surprise announcement of a new tariff program on \$350 billion of Mexican goods. Although Mexico was able to quickly de-escalate the standoff, concerns about the volatile rhetoric on trade compounded global growth concerns.

### Bond markets continued the rally that began in the second quarter:

Over the quarter the aggregate value of outstanding debt which trades with a negative yield accelerated sharply, reaching a new high of \$13 trillion. In a world of negative yields, demand for US Treasury yields pushed interest rates downward and 10-year Treasury yields moved lower to levels last seen in 2017. During the second quarter, 2-year Treasury yields dropped by 51 basis points, 10-year yields dropped by 40 basis points and 30-year yields dropped by 29 basis points.

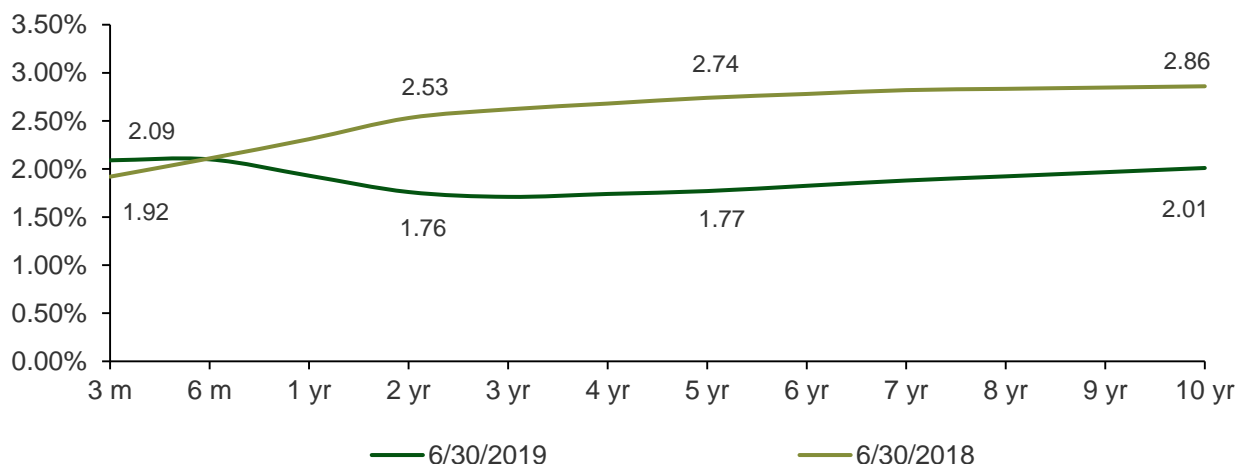
### Central bank policy:

The Federal Open Market Committee (FOMC) maintained the target range for the federal funds rate at 2.25% to 2.50% during the second quarter. However, statements by the FOMC and Federal Reserve members including Chair Powell were more dovish than the market expected. At the FOMC meeting in June, Chair Powell noted that the FOMC would “act as appropriate to sustain the expansion”.

### Market Risks include:

- Protectionism escalates to a point where it has a severe impact on the global growth outlook.
- Inflationary pressures unexpectedly turn upwards, forcing the Fed to abruptly change position again.
- Fears of increasing US Treasury supply lead to a disorderly upward shift in yields.

### Treasury Yield Curve: 6/30/18 and 6/30/19



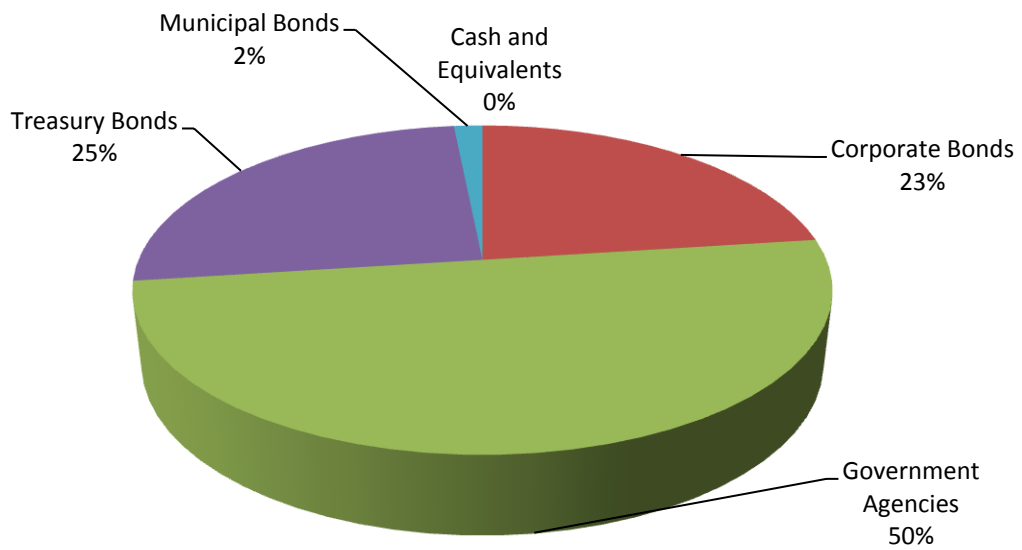
Source: Bloomberg

### **Section 3 – The City’s Portfolios**

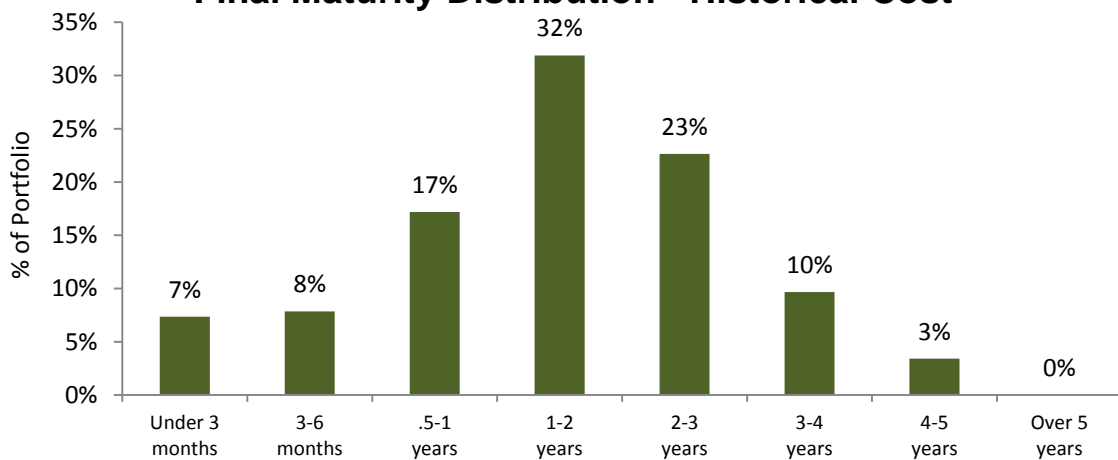
- Portfolio strategies implemented this quarter and all investments held in the portfolios comply with the City’s investment objectives and the Ordinance that specifies allowable investments.
  - The objective of safety is achieved through a well-diversified portfolio invested primarily in US Treasury and Agency securities of various maturities. In March, 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 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 portfolios. As of June 30, 2019 the WAM of the operating portfolio was 1.68 years while the Ordinance allows for up to a five-year WAM.
  - The City maintains sufficient liquidity. As of June 30, 2019, 1.51% of the term securities in the operating portfolio, or approximately 5 million, will mature within 30 days. Continuing cash balances fund the remaining liquidity requirement.
  - As of June 30, 2019, the gross yield on the operating portfolio was 2.13%. The yield benchmark is currently the six-month trailing average of the yield on the 2-year Treasury note, which was 2.31% as of June 30, 2019. The benchmark yield exceeded the yield on the operating portfolio by 0.18%.
  - For the second quarter of 2019, the gross fair value return on the operating portfolio was 1.26%. The 1-3 Treasury Index return for the period was 1.44%, which exceeded the portfolio return by 0.18%.
- The City’s portfolios do not hold any investments in the following: fossil fuels inclusive of pipeline construction and extraction; firearms or weapons not used in national defense; and tobacco companies.
- In the second quarter of 2019 the City’s investment advisor invested approximately \$52.4 million in securities for the operating portfolio at a weighted average yield of 2.36%. Investments were made in Treasury securities, a general obligation municipal issue and corporate bonds. The weighted average maturity at the time of purchases for these investments was 3.08 years. The security purchases were funded by maturing investments, strategic sales of portfolio holdings and cash contributed to the term portfolio for investment during the quarter. The purchases described herein exclude investments which matured before June 30, 2019.
- The maturity extension strategy is anchored in the expectation that interest rates may have reached their peak for this interest rate cycle. Moderate increases in the maturity of recent purchases are intended to limit the impact of decreasing rates on future portfolio earnings. These active duration management strategies are designed to increase the portfolio’s exposure to longer-term interest rates, while the continued diversification to additional market sectors may enhance the portfolio’s return.
- Investments executed for the Bond Proceeds portfolio for the quarter were short-term in nature and ranged from one to four months in maturity.

# City of Boulder Operating Portfolio Profile As of June 30, 2019

## Asset Allocation - Historical Cost



## Final Maturity Distribution - Historical Cost



## Summary of Operating Portfolio Characteristics

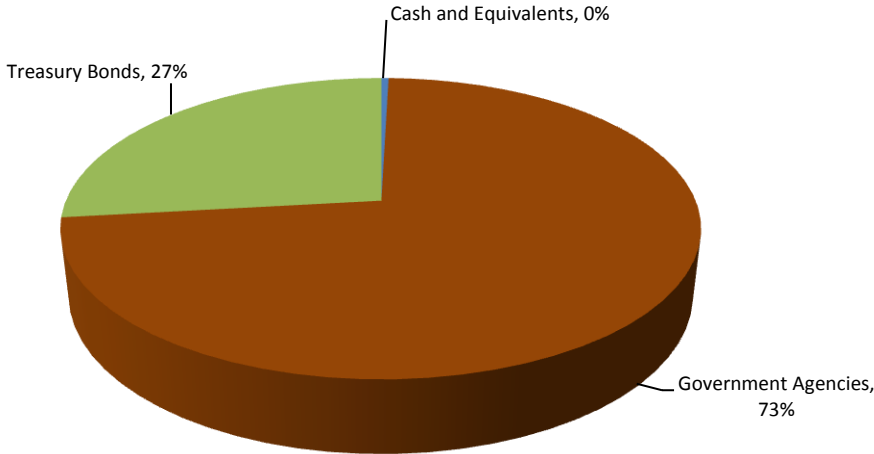
	June 30, 2019	March 31, 2019
Average Final Maturity (years)	1.68	1.50
Modified Duration (years)	1.60	1.45
Average Purchase Yield	2.13%	1.99%
Average Market Yield	1.97%	2.35%
Average Credit Quality (S&P/Moody's)	AA+/Aa1	AA+/Aa1
Total Market Value (\$)	333,330,800	328,128,881

## Securities Held as of June 30, 2019

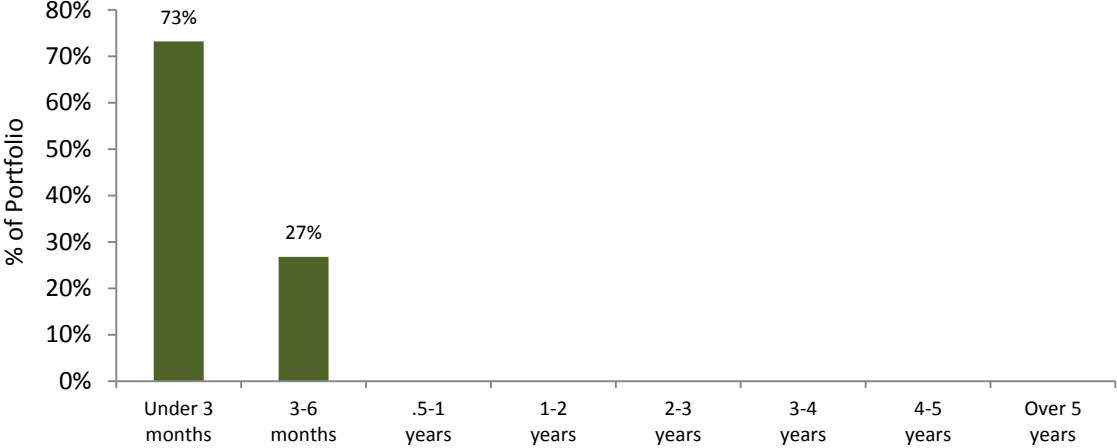
Issuer	Historical Cost	% of Portfolio
US Treasury	84,284,312	25.47%
Federal Home Loan Bank	61,219,932	18.50%
Federal National Mortgage Association	57,389,532	17.34%
Federal Home Loan Mortgage Corp	28,377,040	8.58%
Federal Farm Credit Bank	18,472,219	5.58%
Wal-Mart	10,033,900	3.03%
Apple	8,378,915	2.53%
Toyota Motor Credit Corp	8,210,880	2.48%
Microsoft Corp	7,669,302	2.32%
TWDC Enterprises 18 Corp	5,722,720	1.73%
Metro Oregon	5,200,900	1.57%
Johnson & Johnson	4,401,352	1.33%
State Street Corp	3,014,500	0.91%
Bank of New York Mellon Corp	2,912,725	0.88%
Oracle Corp	2,895,060	0.87%
Caterpillar Financial Services Corp	2,956,580	0.89%
Cisco Systems Inc	2,895,870	0.88%
United Parcel Service	2,519,450	0.76%
Praxair Inc	2,456,740	0.74%
Intel Corp	2,487,550	0.75%
Chubb INA Holdings Inc	2,462,300	0.74%
PepsiCo Inc	2,472,525	0.75%
IBM Credit LLC	2,461,975	0.74%
Coca-Cola Company	1,960,940	0.59%
Cash	19,949	0.01%
<b>Total Historical Cost</b>	<b>330,877,168</b>	<b>100.00%</b>

# City of Boulder Bond Proceeds Portfolio Profile As of June 30, 2019

## Asset Allocation - Historical Cost



## Final Maturity Distribution - Historical Cost



## Summary of Bond Proceeds Portfolio Characteristics

	June 30, 2019	March 31, 2019
Average Final Maturity (years)	0.21	0.25
Modified Duration (years)	0.20	0.24
Average Purchase Yield	1.85%	1.38%
Average Market Yield	2.13%	2.42%
Average Credit Quality (S&P/Moody's)	AA+/Aa1	AA+/Aa1
Total Market Value (\$)	4,523,273	4,505,251

## Securities Held as of June 30, 2019

Issuer	Historical Cost	% of Portfolio
Federal Home Loan Mortgage Corp	1,799,280	39.79%
Federal Home Loan Bank	1,491,897	32.99%
US Treasury	1,211,531	26.79%
Cash	19,615	0.43%
<b>Total Historical Cost</b>	<b>4,522,323</b>	<b>100.00%</b>