



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, 2018

DATE: April 14, 2018

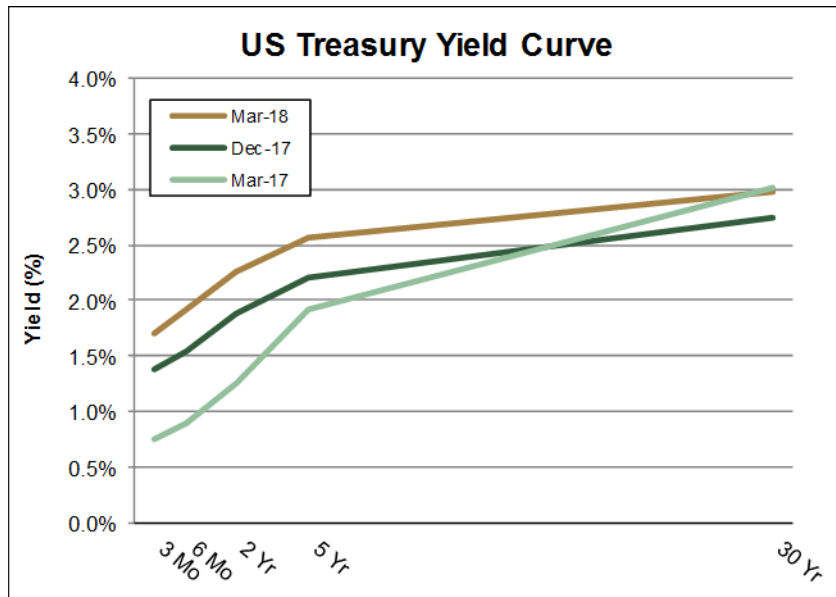
Section 1 – Background

- 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”)

Treasury Yield Curve

03/31/2018 vs. 12/31/2017 vs. 03/31/17



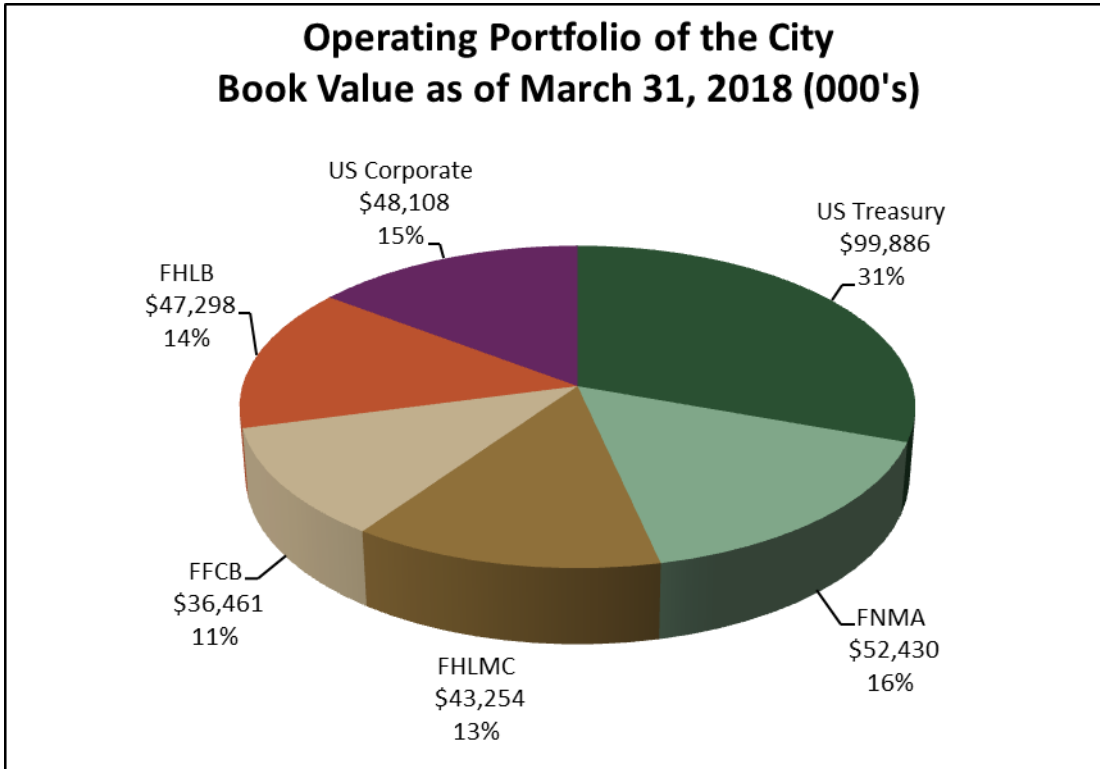
Source: Bloomberg

- Financial markets experienced increased volatility in recent months. Uncertainty about global trade, inflation, and the pace of monetary policy normalization have all contributed to the volatility. After steepening slightly earlier this year, the yield curve flattened in March and is quite flat by historical standards with the spread between 2-year and 10-year Treasuries just 47 basis points at the end of March.
- The Federal Open Market Committee (FOMC) raised the fed funds target to a range of 1.50%-1.75% at the March 21 meeting, as expected. The vote was unanimous. In the policy statement, the Fed said economic activity has been “rising at a moderate rate” which was somewhat less bullish than the “solid rate” of growth cited in the January statement. Household and business fixed investment moderated from the fourth quarter. Inflation for items other than food and energy continues to run below 2.0% but the Fed expects inflation to move up in the coming months. The FOMC left its median fed funds rate forecast unchanged for 2018 at 2.1% which implies two more rate hikes by year-end. Although the forecasted median fed funds rate for 2018 did not change, the dot plot did change with 13 out of 15 FOMC members forecasting median fed funds rate hikes this year, compared with 10 out of 16 members at the December 2017 meeting. The fed funds rate target for 2019 and beyond were revised up slightly. By the end of 2020, the FOMC’s median forecast now calls for a fed funds rate of 3.4%. Overall, the Fed revised their GDP forecasts up slightly, their unemployment forecasts down slightly, and left their inflation projections mostly unchanged.

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, 2018 the WAM was 1.81 years while the Ordinance allows up to a five year WAM.
 - The City maintains sufficient liquidity. As of March 31, 2018, 4.0% of the portfolio or \$13.0 million will mature over the next 30 days.
 - As of March 31, 2018, the yield on the pooled investment portfolio was 1.56%. Our current yield benchmark is the six month trailing average on the 2-year Treasury, which was 2.15%, as of March 31, 2018. The benchmark yield exceeded the investment portfolio by 0.56%.
- There are no investments in the oil and gas industry in the City’s portfolio.
- The City’s investment adviser purchased approximately \$75.76 million of securities during Q1 2018 for the City of Boulder’s investment portfolio. The proceeds of \$61.6 million of sales and maturities along with additional cash contributions were used to fund these purchases. Purchases included Treasury, Agency and Corporate securities maturing between February 2018 and March 2022. On a year-over year basis, short-term Treasury yields increased significantly. The 2-year Treasury yield increased 101 basis points to 2.27%. Longer term Treasury yields also moved higher with the 10- year Treasury yield moving up 36 basis points, to 2.74%. The Federal Reserve raised the fed funds target rate by 25 basis points in the first quarter and the possibility exists that an additional two to three increases will occur in 2018. We continue to position the portfolio to take advantage of higher rates as the Federal Reserve continues to adjust its policy for the current economic environment.

Operating Portfolio of the City

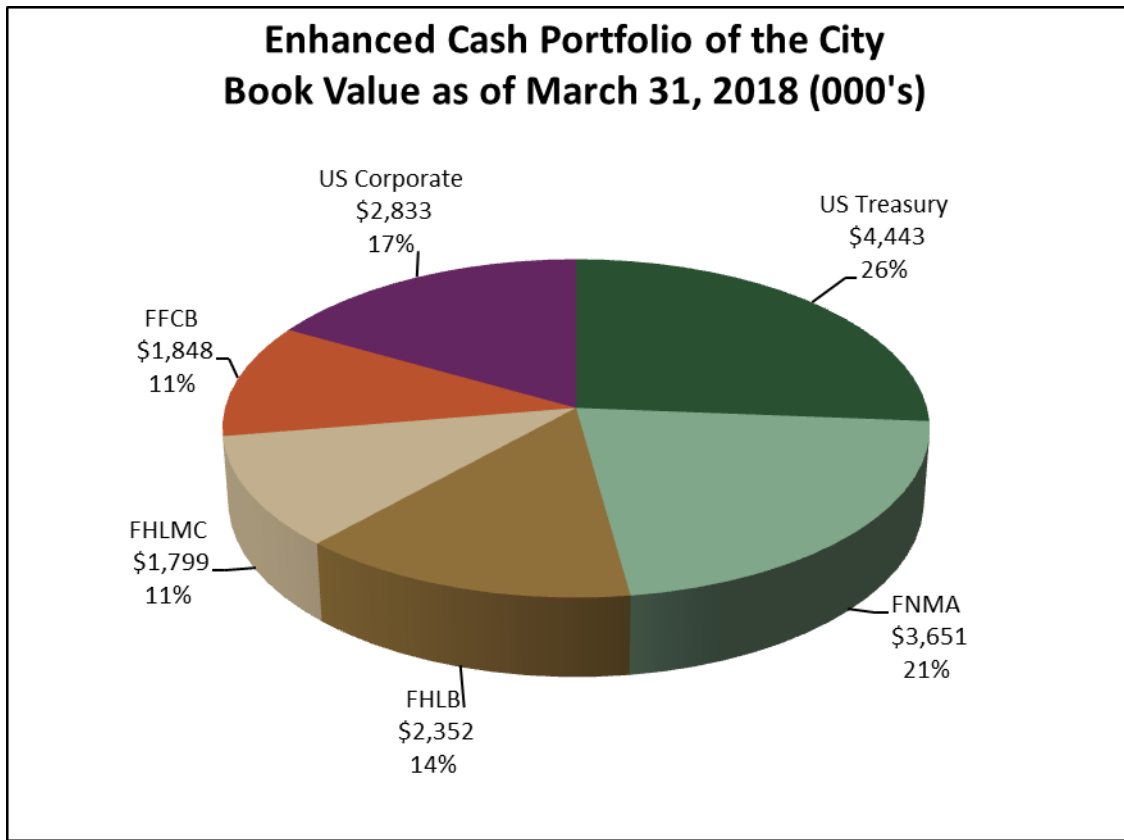


Portfolio Characteristics

Operating Portfolio of the City of Boulder

	03/31/2018	12/31/2017
	Portfolio	Portfolio
Average Maturity (yrs)	1.81	1.69
Modified Duration	1.74	1.64
Average Purchase Yield	1.563%	1.322%
Average Market Yield	2.216%	1.774%
Average Quality	AA+/Aa1	AA+/Aa1
Total Market Value	325,189,565	312,607,768

Enhanced Cash Portfolio



Portfolio Characteristics City of Boulder Enhanced Cash Portfolio

	03/31/2018	12/31/2017
	Portfolio	Portfolio
Average Maturity (yrs)	0.77	0.96
Modified Duration	0.76	0.95
Average Purchase Yield	1.452%	1.375%
Average Market Yield	2.10%	1.797%
Average Quality	AA+/Aa1	AA+/Aa1
Total Market Value	16,890,646	16,922,172

In March 2012, a separate portfolio was established to facilitate IRS required arbitrage calculations on Bond Reserve and Project Funds. The balance of \$16.9 million as of March 31, 2018 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, 2018 the portfolio yield was 1.45%.
- As of March 31, 2018, 11.86% of the portfolio or \$2,000,000 will mature over the next 30 days.
- The average maturity of the portfolio was 277 days as of March 31, 2018. 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
US Treasury	\$ 99,886	30.51%
FNMA	\$ 52,430	16.01%
FHLMC	\$ 43,254	13.21%
FFCB	\$ 36,461	11.14%
FHLB	\$ 47,298	14.44%
Apple Inc	\$ 3,067	0.94%
Cisco Systems	\$ 2,416	0.74%
Chubb INA Holdings Inc	\$ 2,463	0.75%
IBM Credit Corp	\$ 2,465	0.75%
Praxair	\$ 2,457	0.75%
Eli Lilly & Co	\$ 2,985	0.91%
State Street Bank	\$ 2,017	0.62%
Bank of NY Mellon Corp	\$ 2,430	0.74%
Pepsico Inc.	\$ 2,475	0.76%
UPS	\$ 2,519	0.77%
Northern Trust Company	\$ 2,858	0.87%
FirstBank	\$ 5,138	1.57%
Oracle Corp	\$ 1,935	0.59%
Great Western	\$ 4,068	1.24%
Walt Disney Company	\$ 982	0.30%
Intel Corp	\$ 2,488	0.76%
Microsoft	\$ 2,879	0.88%
Visa Inc	\$ 2,467	0.75%
Total Book Value	\$ 327,437	100%

Holding Details for City of Boulder Enhanced Cash Portfolio		
Issuer	Book Value	% of Portfolio
US Treasury	\$ 4,443	26.25%
FNMA	\$ 3,651	21.57%
FHLB	\$ 2,352	13.90%
FHLMC	\$ 1,799	10.63%
FFCB	\$ 1,848	10.92%
Apple Inc	\$ 500	2.95%
Eli Lilly & Co	\$ 502	2.96%
Chubb Corporation	\$ 503	2.97%
Bank of New York	\$ 307	1.81%
Cisco Systems	\$ 299	1.77%
IBM Corp	\$ 220	1.31%
Wal-Mart Stores	\$ 502	2.96%
Total Book Value	\$ 16,926	100.00%