

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 June 30, 2018

DATE: July 31, 2018

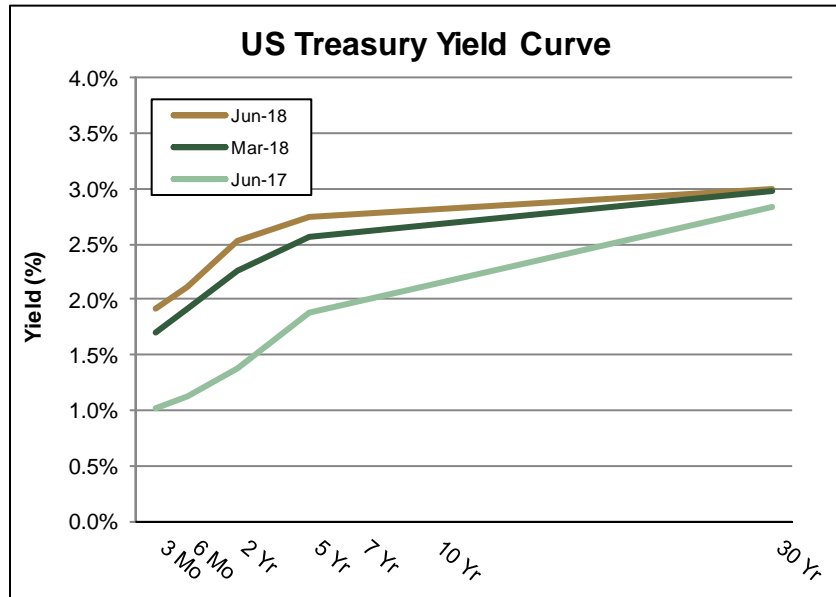
Section 1 – Background

- 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

06/30/2018 vs. 03/31/2018 vs. 06/30/17



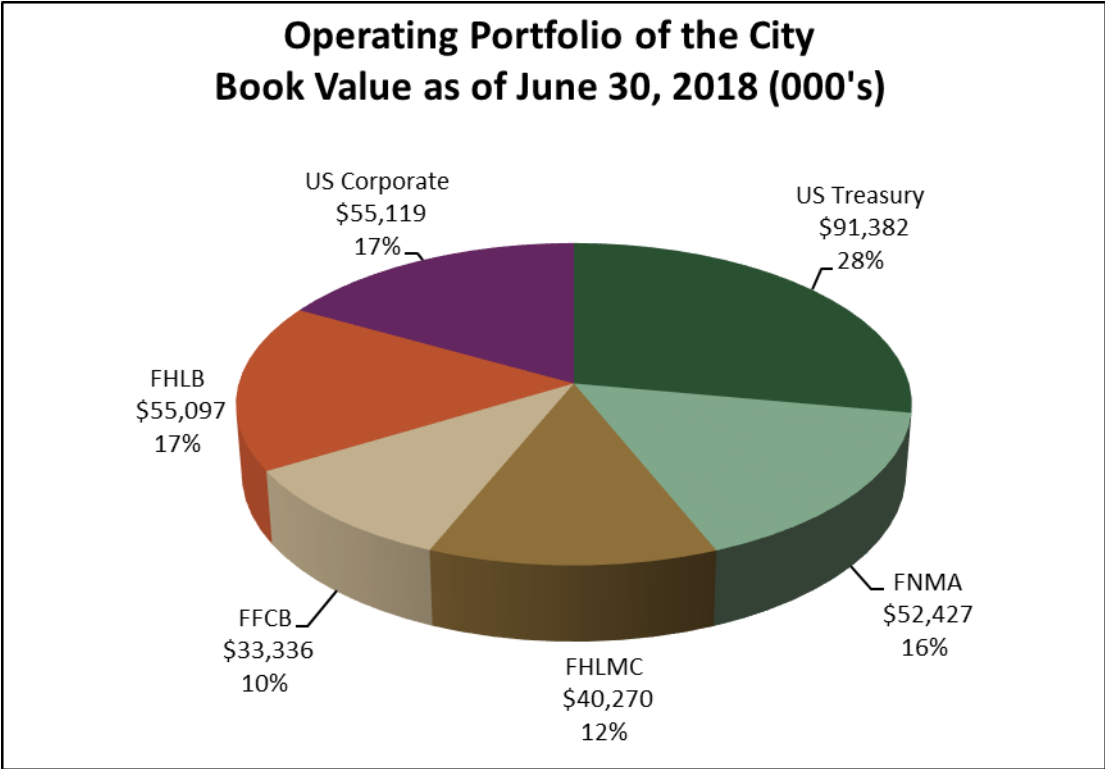
Source: Bloomberg

- On a year-over-year basis, the Treasury yield curve has flattened. Rate hikes by the Federal Reserve have put upward pressure on shorter-term rates, while supply and demand imbalances, technical factors, and subdued inflation expectations have kept longer rates relatively contained. The yield curve is currently quite flat by historical standards.
- As expected, the Federal Open Market Committee raised the fed funds target rate by 25 basis points to a range of 1.75%-2.00% at the June 13 meeting. Though the decision to hike the fed funds rate was widely anticipated, market participants generally interpreted the policy statement and summary of economic projections as being more hawkish than expected. The Fed signaled there could be a total of four rate hikes this year. However, we anticipate the impact of market dynamics related to a stronger US dollar, increased deficit-related Treasury issuance, and the continued roll-off of the Fed’s balance sheet will cause financial conditions to tighten in the second half of this year and thus slow down the pace of future rate hikes. These factors, along with ongoing concerns about global trade, the potential for increased volatility sparked by the upcoming US midterm elections, and a shift toward less accommodative monetary policy by the European Central Bank, may cause the Fed to move more gradually. However, if we do not see signs of increased financial market tightening over the next 3-4 months, we think the Fed will move forward with two more rate hikes before year-end.

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 June 30, 2018 the WAM was 1.82 years while the Ordinance allows up to a five year WAM.
 - The City maintains sufficient liquidity. As of June 30, 2018, 1.5% of the portfolio or \$5.0 million will mature over the next 30 days.
 - As of June 30, 2018, the yield on the pooled investment portfolio was 1.72%. Our current yield benchmark is the six month trailing average on the 2-year Treasury, which was 2.32%, as of June 30, 2018. The benchmark yield exceeded the investment portfolio by 0.60%.
- There are no investments in the oil and gas industry in the City’s portfolio.
- In Q2 2018 the City’s investment adviser purchased approximately \$43.13 million of securities at an average yield of 2.76% for the City of Boulder’s investment portfolio. The proceeds of \$43.0 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 May 2019 and September 2021. On a year-over year basis, short-term Treasury yields continued their upward momentum. The 2-year Treasury yield increased 153 basis points to 2.53%. Longer term Treasury yields also moved higher with the 10- year Treasury yield moving up 56 basis points, to 2.86%. The Federal Reserve raised the fed funds target rate by another 25 basis points in the second quarter and the possibility exists that an additional two will occur in 2018. We will continue to strategically position the portfolio to take advantage of higher rate levels through the end of the year and perhaps into 2019.

Operating Portfolio of the City

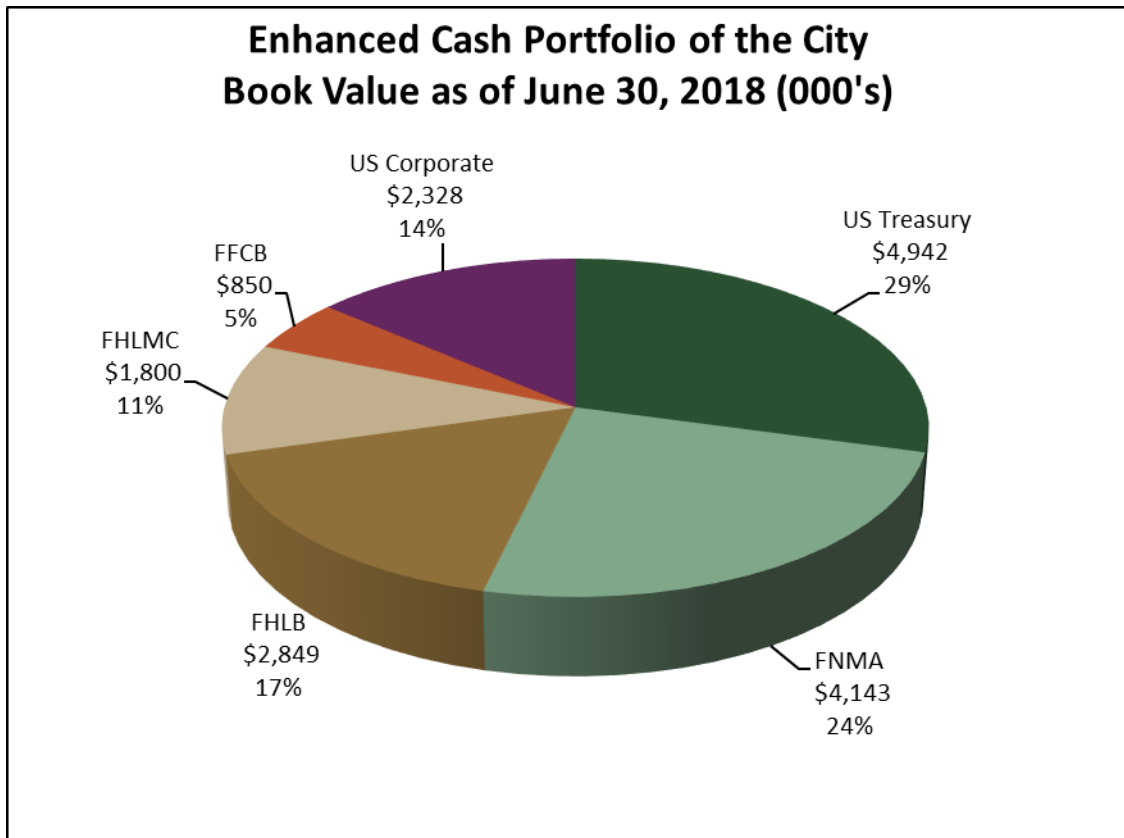


Portfolio Characteristics

Operating Portfolio of the City of Boulder

	06/30/2018	03/31/2018
	Portfolio	Portfolio
Average Maturity (yrs)	1.82	1.81
Modified Duration	1.75	1.74
Average Purchase Yield	1.72%	1.56%
Average Market Yield	2.48%	2.22%
Average Quality	AA+/Aa1	AA+/Aa1
Total Market Value	325,064,571	325,189,565

Enhanced Cash Portfolio



Portfolio Characteristics City of Boulder Enhanced Cash Portfolio

	06/30/2018	03/31/2018
	Portfolio	Portfolio
Average Maturity (yrs)	0.64	0.77
Modified Duration	0.63	0.76
Average Purchase Yield	1.56%	1.45%
Average Market Yield	2.26%	2.10%
Average Quality	AA+/Aa1	AA+/Aa1
Total Market Value	16,874,557	16,890,646

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 June 30, 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 June 30, 2018 the portfolio yield was 1.56%.
- As of June 30, 2018, 10.97% of the portfolio or \$1,850,000 will mature over the next 30 days.
- The average maturity of the portfolio was 234 days as of June 30, 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	\$ 91,382	27.89%
FNMA	\$ 52,427	16.00%
FHLMC	\$ 40,270	12.29%
FFCB	\$ 33,336	10.17%
FHLB	\$ 55,097	16.82%
Apple Inc	\$ 3,067	0.94%
Bank of NY Mellon Corp	\$ 2,920	0.89%
Charles Schwab Corp	\$ 2,066	0.63%
Chubb INA Holdings Inc	\$ 2,467	0.75%
Cisco Systems	\$ 2,904	0.89%
Coca Cola Company	\$ 1,964	0.60%
FirstBank	\$ 5,139	1.57%
Great Western	\$ 4,068	1.24%
IBM Credit Corp	\$ 2,468	0.75%
Intel Corp	\$ 2,489	0.76%
Microsoft	\$ 2,888	0.88%
Northern Trust Company	\$ 2,855	0.87%
Oracle Corp	\$ 2,901	0.89%
Pepsico Inc.	\$ 2,477	0.76%
Praxair	\$ 2,460	0.75%
State Street Bank	\$ 3,011	0.92%
UPS	\$ 2,517	0.77%
Visa Inc	\$ 2,470	0.75%
Wal-Mart Stores	\$ 3,004	0.92%
Walt Disney Company	\$ 983	0.30%
Total Book Value	\$ 327,631	100%

Holding Details for City of Boulder Enhanced Cash Portfolio		
Issuer	Book Value	% of Portfolio
US Treasury	\$ 4,942	29.22%
FNMA	\$ 4,143	24.50%
FHLB	\$ 2,849	16.85%
FHLMC	\$ 1,800	10.64%
FFCB	\$ 850	5.02%
Bank of New York	\$ 307	1.82%
Cisco Systems	\$ 300	1.77%
Eli Lilly & Co	\$ 501	2.96%
IBM Corp	\$ 222	1.31%
Oracle Corp	\$ 497	2.94%
Wal-Mart Stores	\$ 501	2.96%
Total Book Value	\$ 16,912	100.00%