City of Boulder

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 September 30, 2017
DATE:	October 20, 2017

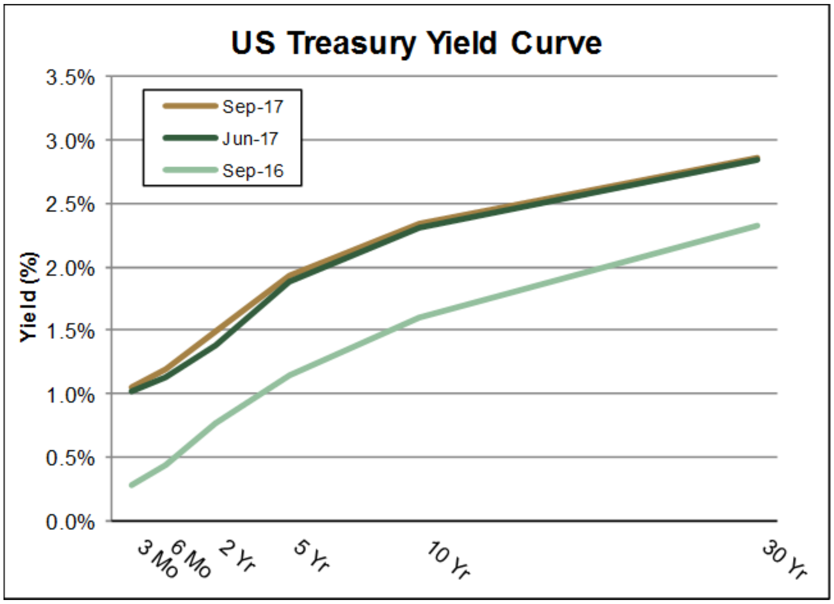
Section 1 – Background

- 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

09/30/2017 vs. 06/30/2017 vs. 09/30/16



Source: Bloomberg

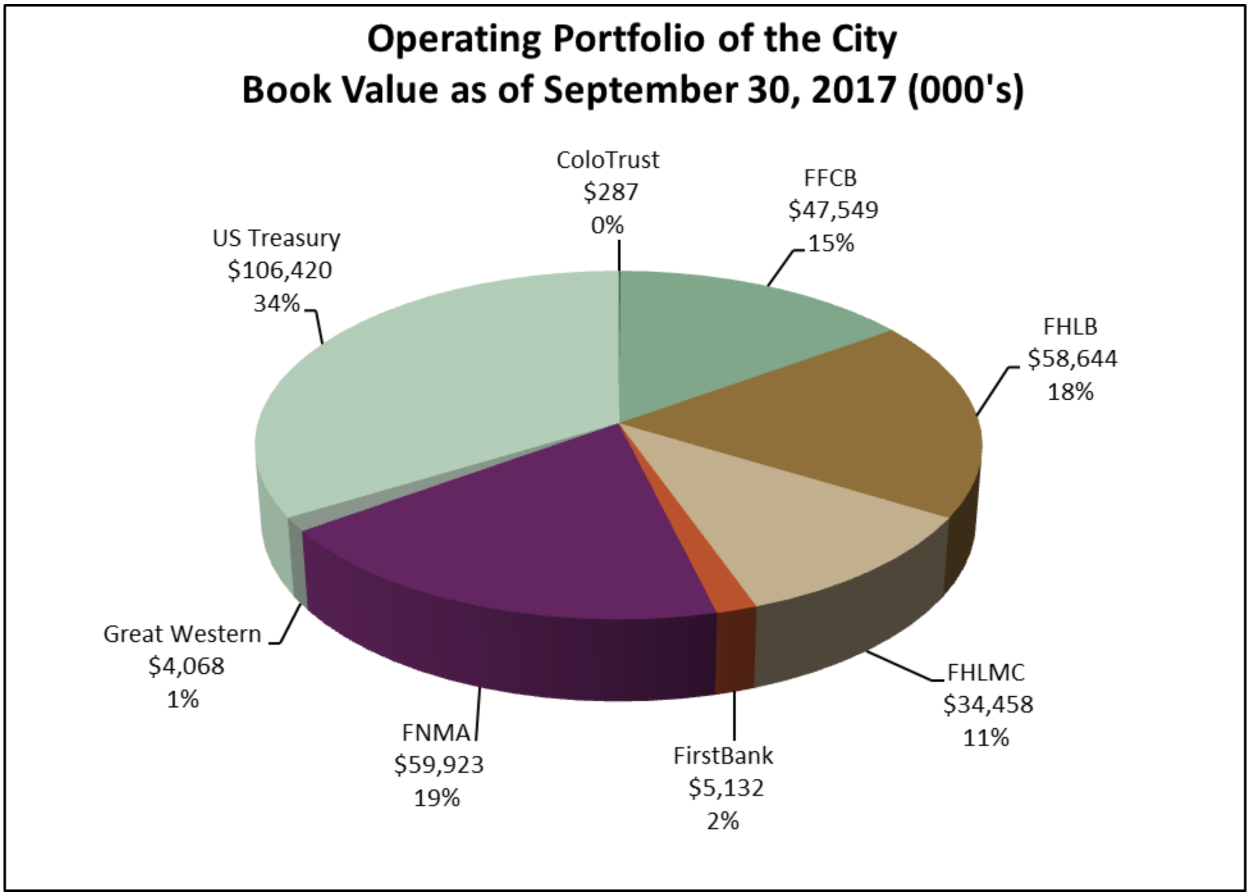
- The yield curve has continued to flatten this year. The spread between 2-year and 10-year Treasury yields was just 85 basis points at the end of September, compared to 126 at the end of 2016. In the three months ending in September, the 2-year Treasury yield increased about ten basis while the 10-year Treasury yield increased just three basis points. Immediately following the US Presidential election last fall, the Treasury yield steepened meaningfully, driven by heightened expectations for tax reform, fiscal stimulus, and above-trend economic growth under the Trump administration. However, market participants are skeptical the Trump administration will deliver on their legislative agenda.

- The Federal Open Market Committee (FOMC) left the fed funds target rate unchanged at a range of 1.00%-1.25% at the September 19-20 meeting. As expected, the Committee announced plans to initiate the balance sheet normalization program in October. The process of unwinding the Fed's $4.5 trillion balance sheet will begin gradually by allowing $6 billion per month in Treasury securities and $4 billion per month in mortgage-backed and agency securities to roll off the balance sheet. Over time, the amounts will slowly increase to $30 billion per month in Treasury securities and $20 billion per month in mortgage-backed and agency securities. The Fed's plans to unwind the balance sheet were widely telegraphed and the policy statement was generally in line with expectations. There were no dissenting votes among FOMC members in September. The Fed's updated economic projections still indicated one more rate hike before year-end is expected. However, the Fed lowered its median longer-run fed funds rate projection to 2.8% from 3.0%. The Fed's other economic projections were little changed, although the median 2018 inflation forecast was lowered slightly, suggesting that the Committee now thinks inflation may remain below the Fed's 2.0% target until 2019.

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 September 30, 2017 the WAM was 1.80 years while the Ordinance allows up to a five year WAM.
    - The City maintains sufficient liquidity. As of September 30, 2017, 5.3% of the portfolio or $16.78 million will mature over the next 30 days.
    - As of September 30, 2017, the yield on the pooled investment portfolio was 1.26%. Our current yield benchmark is the six month trailing average on the 2-year Treasury, which was 1.32%, as of September 30, 2017. The benchmark yield exceeded the investment portfolio by 0.06%.
- There are no investments in the oil and gas industry in the City's portfolio.
- The City's investment adviser purchased approximately $71.86 million of securities during Q3 2017 for the City of Boulder's investment portfolio. The proceeds of $72.86 million of sales and maturities along with additional cash contributions were used to fund these purchases. Purchases included Treasury and Agency securities maturing between July 2017 and October 2018. On a year-over year basis, Treasury yields have increased significantly. The 2-year Treasury yield increased 73 basis points to 1.49% and the 10- year Treasury yield up 74 basis points to 2.33%. The Federal Reserve has raised the fed funds target rate by 25 basis points three times in the past year and the possibility exists that an additional increase will occur later this year. 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.

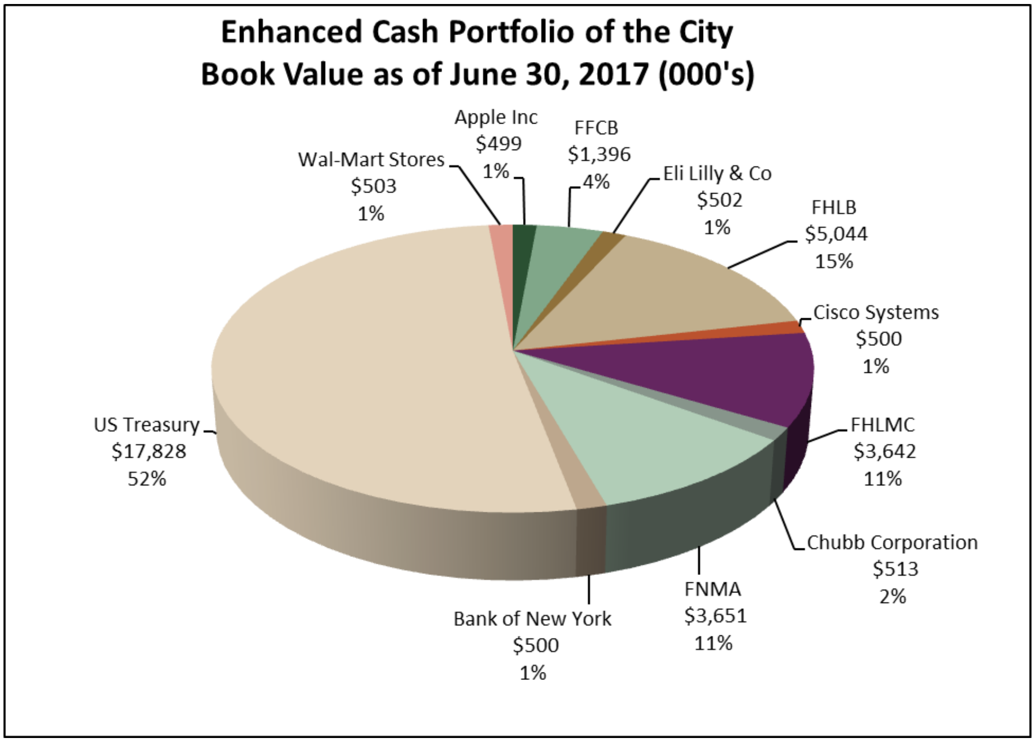
Operating Portfolio of the City



Portfolio Characteristics
City of Boulder Consolidated Non CIP

	09/30/2017	06/30/2017
	Portfolio	**Portfolio**
Average Maturity (yrs)	1.80	1.81
Modified Duration	1.74	1.76
Average Purchase Yield	1.26%	1.21%
Average Market Yield	1.43%	1.369%
Average Quality**	AA+/Aaa	AA+/Aaa
Total Market Value	316,691,175	317,854,815

Enhanced Cash Portfolio



Portfolio Characteristics
City of Boulder Enhanced Cash Portfolio

	09/30/2017		06/30/2017
	Benchmark*	**Portfolio**	**Portfolio**
Average Maturity (yrs)	1.08	0.79	0.74
Modified Duration	1.07	0.78	0.73
Average Purchase Yield	n/a	1.239%	1.153%
Average Market Yield	1.341%	1.294%	1.191%
Average Quality**	AA+	AA+/Aaa	AA+/Aaa
Total Market Value		34,655,098	36,498,935

* 2Yr Held-To-Maturity Treasury Index

** Benchmark is a blended rating of S&P, Moody's, and Fitch. Portfolio is S&P and Moody's respectively.

In March 2012, a separate portfolio was established to facilitate IRS required arbitrage calculations on Bond Reserve and Project Funds. The balance of $34.7 million as of September 30, 2017 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 September 30, 2017 the portfolio yield was 1.239%.
- As of September 30, 2017, 13.58% of the portfolio or $4.7 million will mature over the next 30 days.
- The average maturity of the portfolio was 288 days as of September 30, 2017. This portfolio structure safely supports the liabilities of the projected project cash flows.