

TO: The Mayor and Members of City Council
Nuria Rivera-Vandermyde, City Manager

FROM: Kara Skinner, Chief Financial Officer

SUBJECT: Investment Performance as of December 31, 2023

DATE: January 19, 2024

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.

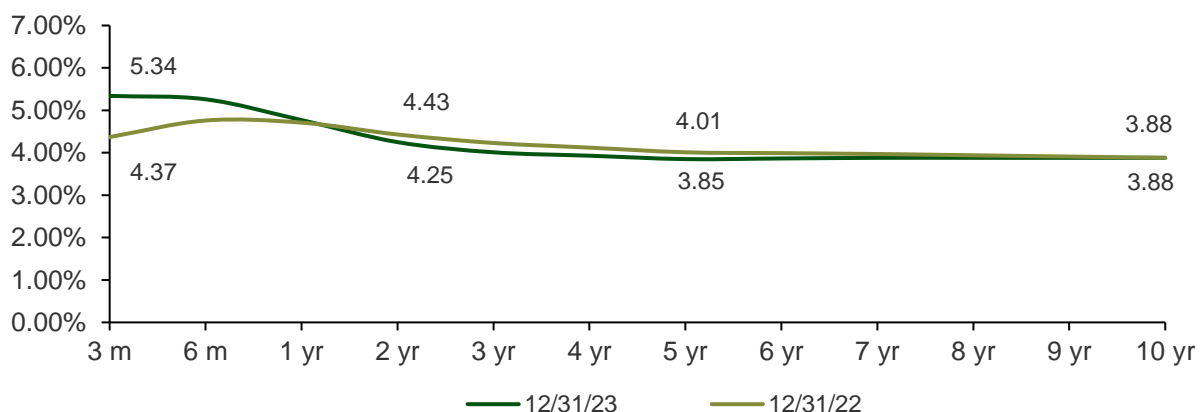
Section 2 – Market Conditions, the Federal Reserve and the Yield Curve

- Treasury yields moved sharply lower: In a surprise move, the Federal Open Market Committee updated their 'dot-plot' forecasts of future monetary policy to indicate a median projection of three 25bp rate cuts in 2024. Two-year yields ended the quarter at 4.25%, 79bp lower. At the longer end of the curve, 30-year yields ended the quarter at 4.03%, 67bp lower.
- Credit spreads tightened: Aggregate Credit spreads tightened in Q4, with the spread of the Bloomberg US Corporate Index ending the quarter 22bp tighter than it began, and 31bp tighter over the year as a whole. The intermediate section of the credit curve outperformed on a spread basis, with spreads tightening by 25bp, versus an 18bp tightening for the long duration index.
- Too far, too fast: Rate cuts are coming, which should be broadly positive for fixed income assets, but the market has gotten ahead of itself, and there is now scope for disappointment in the months ahead.
- The S&P 500 Index made strong gains: US equity markets rose strongly, with the S&P 500 Index gaining 11.7% in Q4 and 26.3% over 2023.

Risks include:

- Markets are pricing in an aggressive easing cycle in 2024 and this increases the risk of market volatility if the Fed fails to deliver as expected.
- The wars in Europe and the Middle East continue to be a concern, and there is a risk that events escalate with unexpected consequences.
- Broader geopolitical tensions are elevated, and tensions between the US and China risk an increasingly polarized world.

Treasury Yield Curve: 12/31/2023 and 12/31/2022 (Source: Bloomberg)

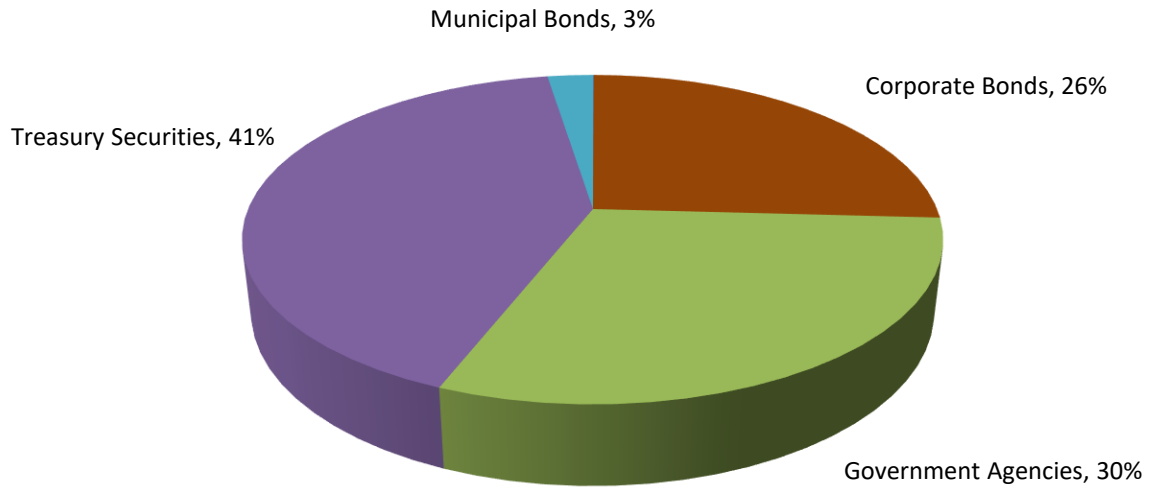


Section 3 – The City’s Portfolio

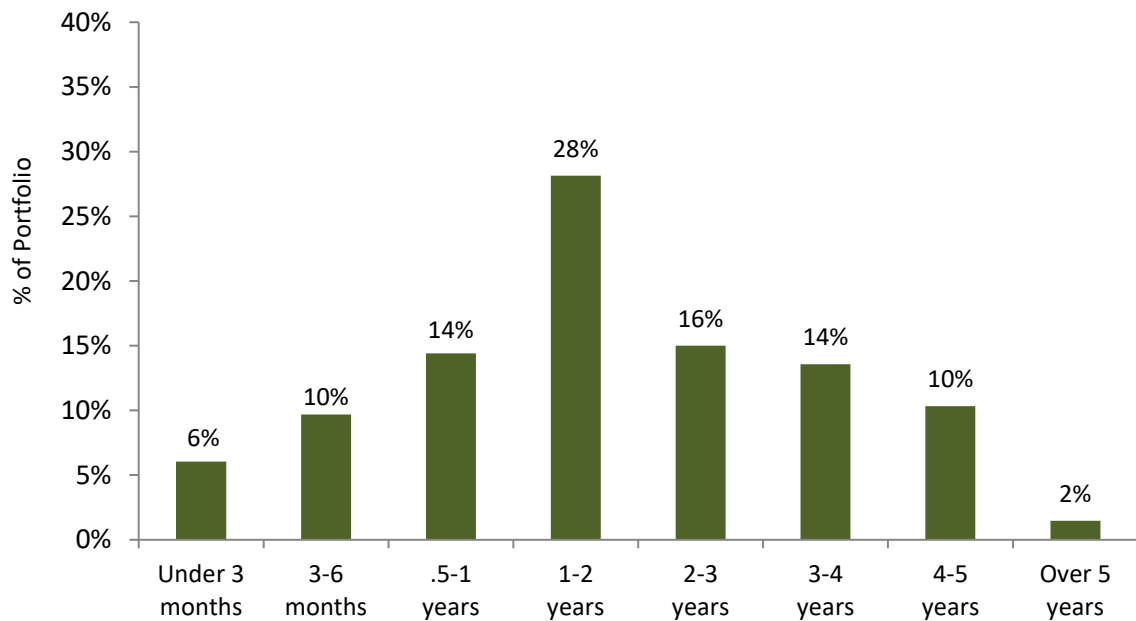
- Portfolio strategies implemented this quarter and the investments held in the portfolio comply with the City’s investment objectives and the Ordinance that specifies allowable investments.
 - The objective of safety is achieved through a well-diversified portfolio invested primarily in US Treasury 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 portfolio. Pursuit of further diversification through the revised policies is progressing strategically relative to market conditions. Market risk is managed by maintaining a low weighted average final maturity (WAM) in the City’s portfolios. As of December 31, 2023, the WAM of the operating portfolio is 2.02 years while the Ordinance allows for a WAM of up to 5 years.
 - The City maintains sufficient liquidity. A minimum of 5% of the City’s total portfolio is held in liquidity accounts.
 - As of December 31, the weighted average purchase yield for the operating portfolio holdings is 2.72%. The yield benchmark is the six-month trailing average of the yield on the 2-year Treasury note, which is 4.88% as of December 31. The purchase yield on the operating portfolio as of December 31 trails the benchmark yield by 2.16%.
 - For the fourth quarter 2023, the fair value periodic return on the operating portfolio is 2.73%. The 1-3 Treasury Index return for the period is 2.49%. The periodic return on the operating portfolio for the fourth quarter is .24% higher than the 1-3 Treasury Index return.
- The City’s portfolio does not hold any investments in the following: fossil fuels inclusive of pipeline construction and extraction; firearms or weapons not used in national defense; tobacco companies; and firms related to mass incarceration/private prisons/detention centers.
- In the fourth quarter 2023, the City’s investment advisor invested approximately \$27 million in long-term securities for the operating portfolio. US Treasury securities and corporate notes were purchased at a weighted average purchase yield of 4.77%. The weighted average maturity at the time of purchase for these investments is 4.15 years.
- The portfolio duration maintains exposure to longer-term interest rates and the portfolio is well diversified to various market sectors which may enhance the portfolio’s return over time.

City of Boulder Operating Portfolio Profile As of December 31, 2023

Asset Allocation - Historical Cost



Final Maturity Distribution - Historical Cost



Summary of Operating Portfolio Characteristics

	December 31, 2023	September 30, 2023
Average Final Maturity (years)	2.02	1.99
Modified Duration (years)	1.82	1.82
Average Purchase Yield	2.72%	2.48%
Average Market Yield	4.54%	5.27%
Average Credit Quality (S&P/Moody's)	AA+/Aa1	AA+/Aa1
Total Market Value (\$)	483,984,263	486,853,725

Portfolio Holdings as of December 31, 2023

Issuer	Historical Cost	% Portfolio
US Treasury	204,777,572	41.48%
Federal Home Loan Bank	55,036,141	11.15%
Federal National Mortgage Association	38,954,996	7.89%
Federal Farm Credit Banks	29,861,668	6.05%
Federal Home Loan Mortgage Corp	25,049,011	5.07%
John Deere Capital Corp	17,263,359	3.50%
State Street Corp	14,891,564	3.02%
The Home Depot	14,704,250	2.98%
Toyota Motor Credit Corp	13,669,540	2.77%
PepsiCo Inc	12,648,873	2.56%
Colgate-Palmolive Co	10,754,910	2.18%
3M Co	9,366,900	1.90%
Caterpillar Financial Services Corp	8,594,881	1.74%
Microsoft Corp	6,508,430	1.32%
State of Florida	5,001,000	1.01%
State of Maryland	5,000,000	1.01%
International Business Machines Corp	4,871,700	0.99%
Cisco Systems Inc	4,669,050	0.95%
Apple Inc	4,606,145	0.93%
Intel Corp	2,624,093	0.53%
Metro Oregon	2,349,820	0.48%
Johnson & Johnson	2,217,912	0.45%
Cash	204,434	0.04%
Total Historical Cost	493,626,248	100.00%

Section 4 - The City's Socially Responsible Investment (SRI) Initiative

The City's investment framework includes considering socially responsible investment factors. The City's SRI program intends to allow the City to better achieve its sustainability and resilience goals, remain financially strong and better align community values. The program incorporates the strategies described below.

Exclusionary Screening. Exclusionary screening, or negative screening, is the process of excluding from investment certain sectors or companies involved in activities which are unacceptable or controversial. Investments for the City's portfolio exclude the following sectors:

- Fossil fuels inclusive of pipeline construction and extraction
- Firearms or weapons not used in national defense
- Tobacco companies
- Firms related to mass incarceration/private prisons/detention centers

Included in these negative screens is the prohibition of financial firms associated with pipeline construction. The City has further applied this limitation on financial firms to the group of broker/dealers through which investments may be transacted and the City has taken steps to remove any money market funds or cash pools that invest in the above sectors.

Positive Screening and Impact Investing. Positive screening and impact investing consider the impact that an investment is making. Implementation of this strategy is illustrated by the investment in a municipal bond issued for the construction and management of affordable housing. Other potential impact investing opportunities include investing in securities issued by the World Bank, which is an approved asset class per the City's investment policy.

Environmental, Social and Governance (ESG) Integration. The City's goal is to bring ESG integration to the heart of the investment decision process. The City monitors the ESG ratings provided by MSCI for the corporate bonds in the portfolio. The MSCI ratings are provided on a scale of 1 to 10 with ten being the highest. At this time, the weighted average Industry-Adjusted Score from MSCI for the corporate bond holdings is 7.5 which maps to a letter rated of "AA" on a scale of triple-C to triple-A.

The City also monitors the unadjusted Pillar Scores from MSCI for the corporate holdings. At this time, the weighted average Pillar Scores for the corporate bond holdings are as follows:

- MSCI Environmental Pillar Score: 6.5
- MSCI Social Pillar Score: 5.6
- MSCI Governance Pillar Score: 5.4

The City's ESG model can be refined to reflect the issues that matter most to the citizens of Boulder by applying customized weights to the MSCI Pillar Scores, thus creating ESG scores that better reflect the City's values, goals and policies.

Active Ownership/Corporate Engagement. Corporate engagement involves discussions with issuers about ESG risks and opportunities. The City is partnering with Insight Investment to seek the benefits of this goal. Insight requests and participates in meetings with management to understand key risks and potentially influence outcomes. Company engagement is critical to Insight's credit process and their analysts meet with issuers to address ESG factors as well as other credit-related concerns or questions.

© 2015 MSCI ESG Research Inc. Reproduced by permission.

Although Insight Investment's information providers, including without limitation, MSCI ESG Research Inc. and its affiliates (the "ESG Parties"), obtain information from sources they consider reliable, none of the ESG parties warrants or guarantees the originality, accuracy and/or completeness of any data herein. None of the ESG Parties makes any express or implied warranties of any kind, and the ESG Parties hereby expressly disclaim all warranties of merchantability and fitness for a particular purpose, with respect to any data herein. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein. Further, without limiting any of the foregoing, in no event shall any of the ESG Parties have any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.