



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

FROM: Kara Skinner, Chief Financial Officer

SUBJECT: Investment Performance as of June 30, 2024

DATE: July 22, 2024

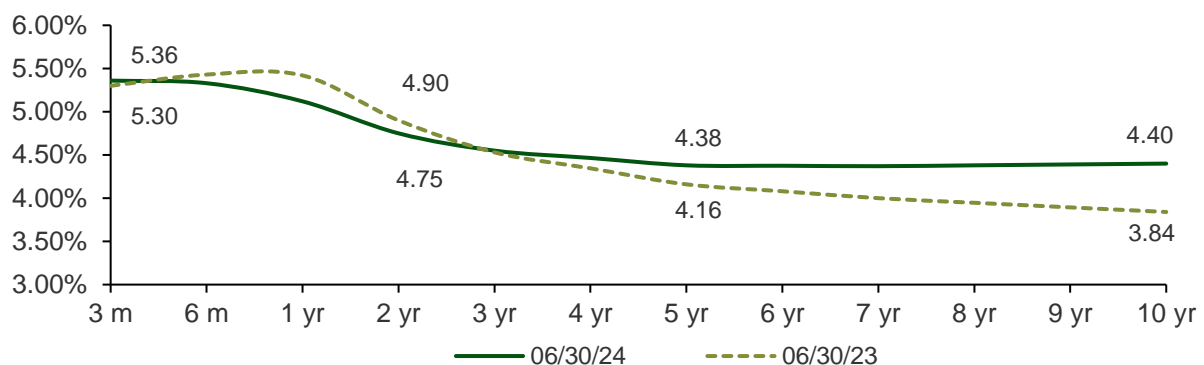
### **Section 1 – Background**

- 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**

- **Markets continued to assess the timing of rate cuts:** Economic activity was strong but showed some moderation in Q2. Markets pushed out expectations for the start of the easing cycle and yields in longer maturities drifted upwards. The Federal Reserve will likely have flexibility to cut rates this year, followed by a series of cuts in 2025. Two-year treasury yields ended the quarter at 4.75%, 13 bp higher. At the longer-end of the curve, 30-year yields ended the quarter at 4.56%, 22 bp higher.
- **Inflation eased in the second quarter:** Core CPI, excluding the volatile food and energy components, averaged 3.4 percent in the second quarter on a year-over-year basis compared to 3.8 percent in the first quarter and 4.8 percent for all of 2023. The Fed's preferred measure of inflation, the Core Personal Consumption Expenditure Price Index, showed a similar trend, falling to 2.6% year-over-year to end the second quarter.
- **Labor conditions remained robust:** The number of jobs added in Q2 averaged nearly 200,000 jobs a month. Job growth continues to be strong, albeit lower than the average in Q1 of approximately 270,000 jobs added per month. The unemployment rate increased to 4.1 percent in June, which is .4 percent higher than the start of the year and reflects increased entrants to the labor force.
- **The Federal Reserve remained on hold:** There was no change in interest rate policy by the Federal Reserve in the second quarter and the overnight rate remains in a range of 5.25%-5.50%. At the June meeting, the forward guidance by the Federal Reserve indicated only one rate cut is expected this year and four rate cuts for 100bps is the median expectation for 2025. Earlier in the quarter, the Fed announced that beginning in June it would slow the runoff of its balance sheet to ensure orderly markets, reducing the monthly redemptions cap on Treasuries to \$25 billion from \$60 billion.
- **The S&P 500 Index made strong gains:** Equity markets recorded another strong gain over the quarter, with the S&P 500 Index gaining over 4.3%, taking the year-to-date return to over 15%.

**Treasury Yield Curve: 06/30/24 and 06/30/23 (Source: Bloomberg)**

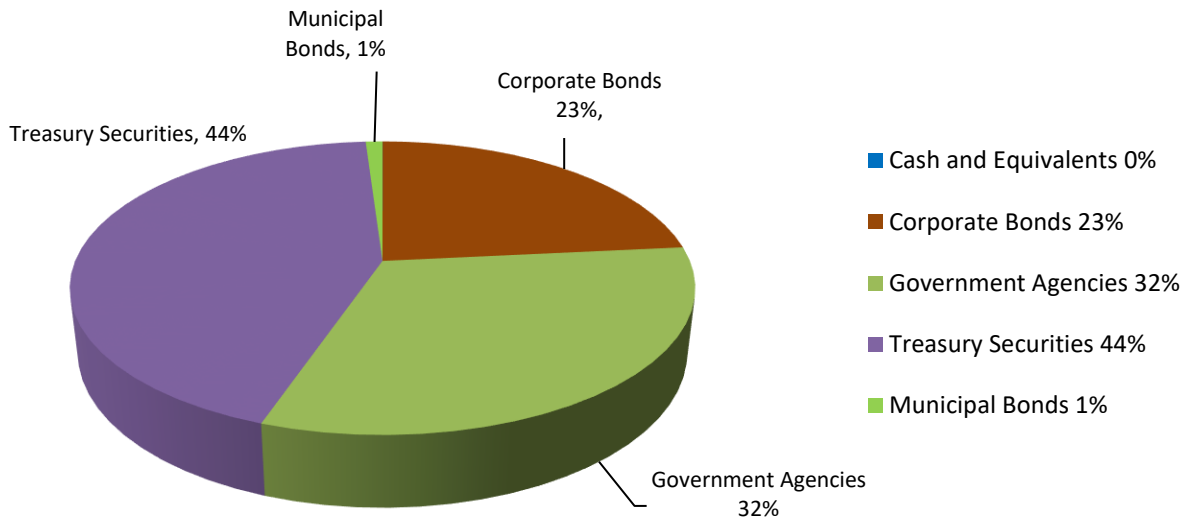


### **Section 3 – The City’s Portfolio**

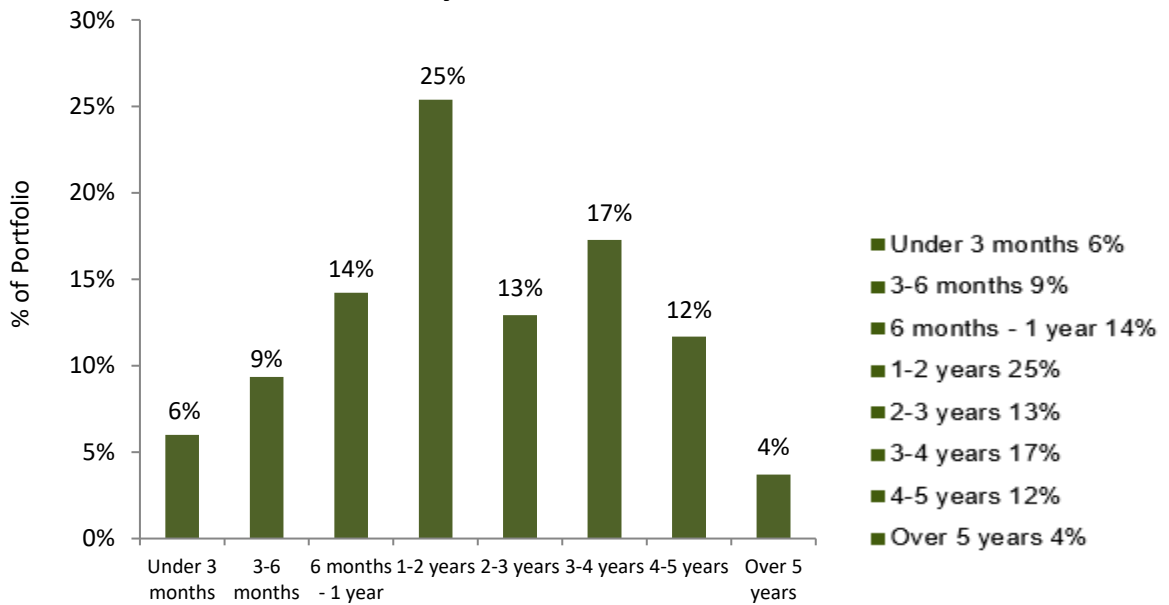
- Portfolio strategies implemented this quarter and the investments held in the portfolio comply with the City’s investment objectives and the Ordinance that specifies allowable investments.
  - The objective of safety is achieved through a well-diversified portfolio invested primarily in US Treasury 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 moderate weighted average final maturity (WAM) in the City’s portfolio. As of June 30, 2024, the WAM of the operating portfolio is 2.16 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 June 30, the weighted average purchase yield for the operating portfolio holdings is 3.18%. The yield benchmark is the six-month trailing average of the yield on the 2-year Treasury note, which is 4.67% as of June 30. The purchase yield on the operating portfolio as of June 30 trails the benchmark yield by 1.49%.
  - For the second quarter 2024, the fair value periodic return on the operating portfolio is 0.95%. The 1-3 Treasury Index return for the period is 0.94%. The periodic return on the operating portfolio for the first quarter is .01% 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 second quarter 2024, the City’s investment advisor invested approximately \$50 million in long-term securities for the operating portfolio. Purchases included corporate exposure, US Treasury securities and US Agency notes at a weighted average purchase yield of 4.56%. The weighted average maturity at the time of purchase for these investments is 4.89 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 June 30, 2024

## Asset Allocation - Historical Cost



## Final Maturity Distribution - Historical Cost



## Summary of Operating Portfolio Characteristics

	June 30, 2024	March 31, 2024
Average Final Maturity (years)	2.16	1.91
Effective Duration (years)	1.96	1.76
Average Purchase Yield	3.18%	2.79%
Average Market Yield	4.94%	4.79%
Average Credit Quality (S&P/Moody's)	AA+/Aaa	AA+/Aa1
Total Market Value (\$)	475,397,027	471,768,727

## Portfolio Holdings as of June 30, 2024

Issuer	Historical Cost	% Portfolio
US Treasury	210,942,418	43.69%
Federal Home Loan Bank	67,102,204	13.90%
Federal Farm Credit Banks	40,888,002	8.47%
Federal National Mortgage Association	31,854,996	6.60%
State Street Corp	17,386,764	3.60%
Home Depot Inc/The	14,704,250	3.05%
Federal Home Loan Mortgage Corp	13,850,661	2.87%
Toyota Motor Credit Corp	13,669,540	2.83%
John Deere Capital Corp	13,318,552	2.76%
PepsiCo Inc	12,648,873	2.62%
Colgate-Palmolive Co	10,754,910	2.23%
3M Co	9,366,900	1.94%
Microsoft Corp	6,508,430	1.35%
Caterpillar Financial Services Corp	5,365,051	1.11%
State of Maryland	5,000,000	1.04%
Cisco Systems Inc	4,669,050	0.97%
Apple Inc	2,527,125	0.52%
Johnson & Johnson	2,217,912	0.46%
Cash	42,376	0.01%
<b>Total Historical Cost</b>	<b>482,818,014</b>	<b>100.00%</b>

## **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 7.3 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: 5.3
- 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.