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

FROM: Joel Wagner, Interim Chief Financial Officer

SUBJECT: Investment Performance as of September 30, 2024

DATE: December 2, 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

- The easing cycle begins: The Federal Open Market Committee (FOMC) cut rates by 50bps at its September meeting, taking the Fed Funds rate to a range of 4.75% to 5%. The committee pencilled in a steeper path of rate cuts to come over the next few years than it did in June. Forward guidance from the FOMC revealed that two further 25bp rate cuts are expected by December 2024, with an additional 100bp of cuts to follow in 2025, based on the median projections of the committee members. The FOMC also nudged up its median projection of the long-term “neutral” rate, from 2.8% to 2.9%.

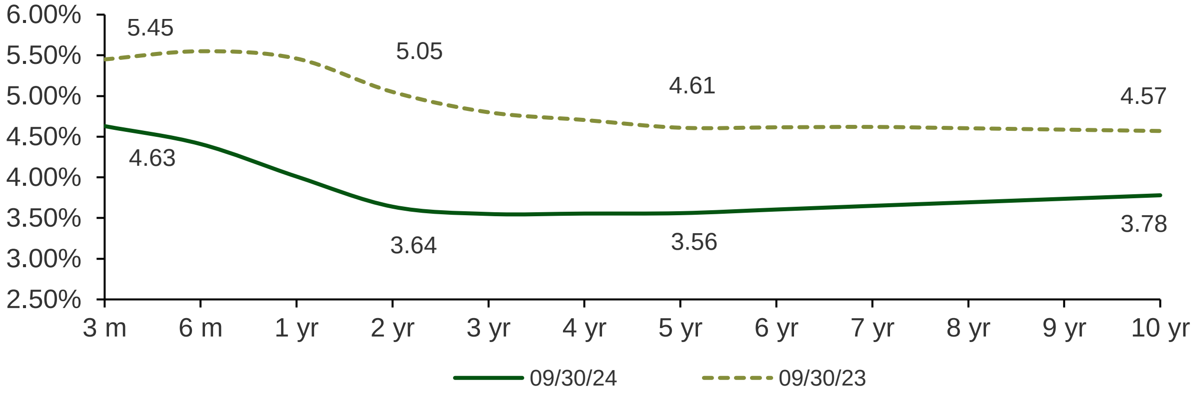
- Interest rates fell across the yield curve: Interest rate volatility was elevated as the market priced in future rate decreases by the FOMC. Two-year Treasury yields ended the quarter at 3.64%, 111bp lower. At the longer end of the curve, 30-year Treasury yields ended the quarter at 4.12%, 44bp lower.

- Credit spreads tightened: Aggregate credit spreads tightened in Q3, with the spread of the Bloomberg US Corporate Index ending 5bp tighter over the quarter. A-rated credit outperformed other rating categories on a spread basis at the longer end of the curve.

- Duration and corporate exposure remain attractive during easing cycle: With central banks easing monetary policy, the returns available from cash are likely to quickly fade away. Although spreads are narrow, corporate bond holdings and longer maturity exposure should benefit from the easing cycle. Falling rates enhance capital gains and since yields are still attractive there is time to lock-in income.

- The S&P 500 Index continued a strong year: Equity markets recorded another strong gain over the quarter, with the S&P 500 Index gaining 5.9%, taking the year-to-date return to over 22%.

Treasury Yield Curve: 09/30/24 and 09/30/23 (Source: Bloomberg)

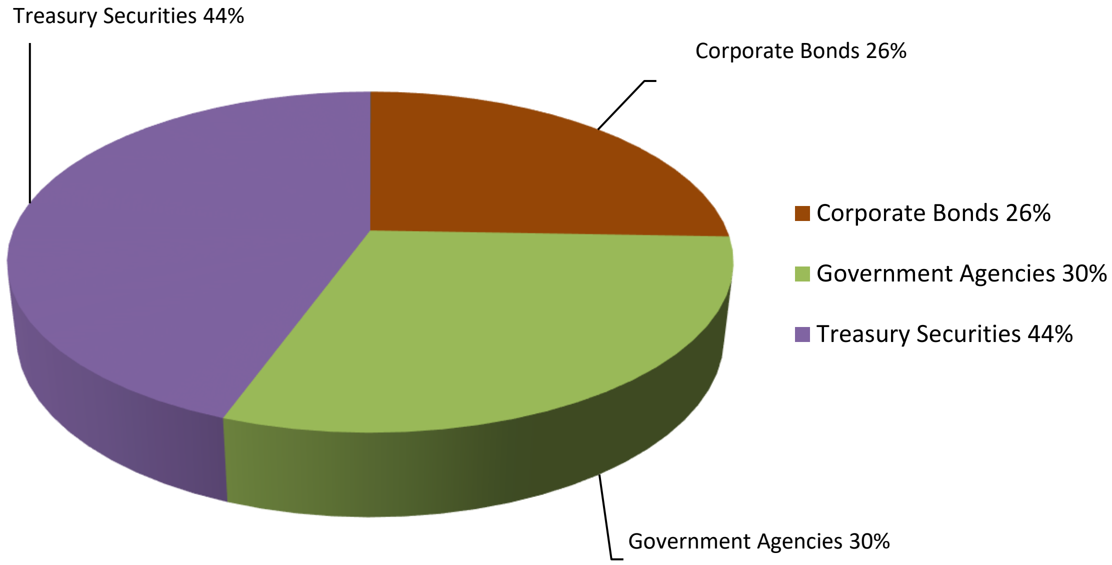


Section 3 – The City's Portfolio

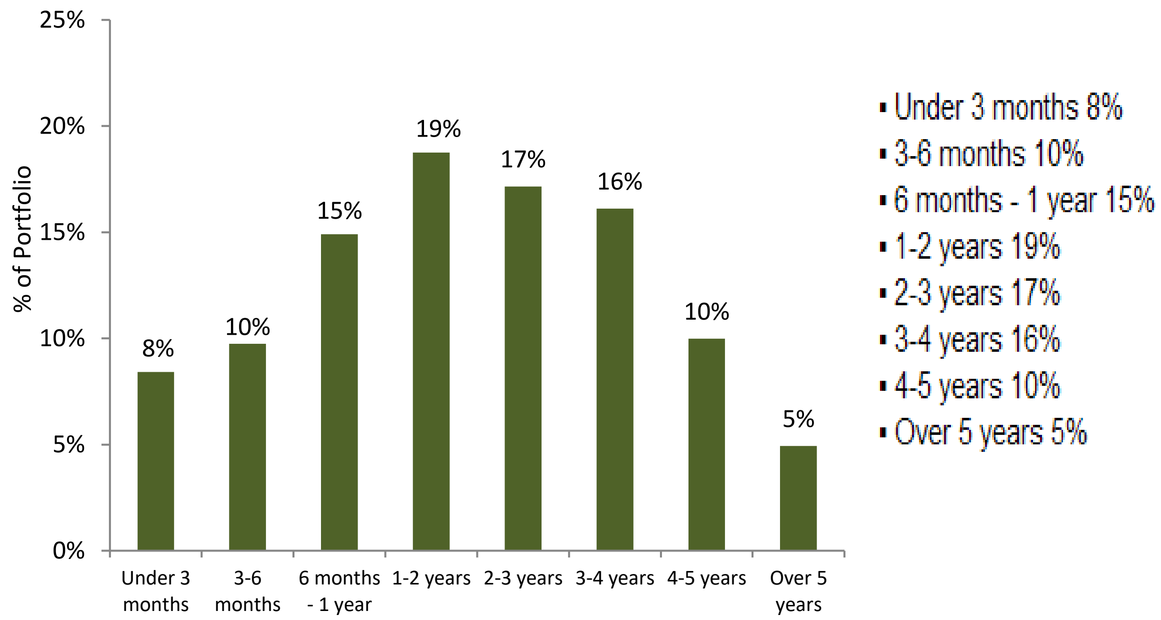
- Portfolio strategies implemented this quarter and the investments held in the portfolio comply with the City's investment objectives and the Ordinance that specifies allowable investments.
  - The objective of safety is achieved through a well-diversified portfolio invested primarily in US Treasury 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 September 30, 2024, the WAM of the operating portfolio is 2.14 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 September 30, the weighted average purchase yield for the operating portfolio holdings is 3.37%. The yield benchmark is the six-month trailing average of the yield on the 2-year Treasury note, which is 4.44% as of September 30. The purchase yield on the operating portfolio as of September 30 trails the benchmark yield by 1.07%.
  - For the third quarter 2024, the fair value periodic return on the operating portfolio is 2.93%. The 1-3 Treasury Index return for the period is 2.87%. The periodic return on the operating portfolio for the third quarter is .06% 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 third quarter 2024, the City's investment advisor invested approximately $27 million in long-term securities for the operating portfolio. Purchases included US Treasury and Agency notes and corporate bonds at a weighted average purchase yield of 3.73%. The weighted average maturity at the time of purchase for these investments is 4 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 September 30, 2024

Asset Allocation - Historical Cost



Final Maturity Distribution - Historical Cost



Summary of Operating Portfolio Characteristics

	September 30, 2024	June 30, 2024
Average Final Maturity (years)	2.14	2.16
Effective Duration (years)	1.96	1.96
Average Purchase Yield	3.37%	3.18%
Average Market Yield	3.98%	4.94%
Average Credit Quality (S&P/Moody's)	AA+/Aaa	AA+/Aaa
Total Market Value ($)	482,109,656	475,397,027

Portfolio Holdings as of September 30, 2024

Issuer	Historical Cost	% Portfolio
US Treasury	212,710,955	44.47%
Federal Home Loan Bank	55,993,456	11.71%
Federal Farm Credit Banks	41,566,794	8.69%
Federal National Mortgage Association	31,854,996	6.66%
State Street Corp	17,386,764	3.64%
John Deere Capital Corp	15,334,272	3.21%
Home Depot Inc/The	14,704,250	3.07%
PepsiCo Inc	14,648,253	3.06%
Federal Home Loan Mortgage Corp	13,850,661	2.90%
Toyota Motor Credit Corp	13,669,540	2.86%
Colgate-Palmolive Co	10,754,910	2.25%
Caterpillar Financial Services Corp	10,472,451	2.19%
3M Co	9,366,900	1.96%
Microsoft Corp	6,508,430	1.36%
Cisco Systems Inc	4,669,050	0.98%
Apple Inc	2,527,125	0.53%
Johnson & Johnson	2,217,912	0.46%
Cash	58,403	0.01%
Total Historical Cost	**478,295,122**	**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 7.4 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: 5.5
- MSCI Governance Pillar Score: 5.7

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.