

**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, 2018

DATE: October 18, 2018

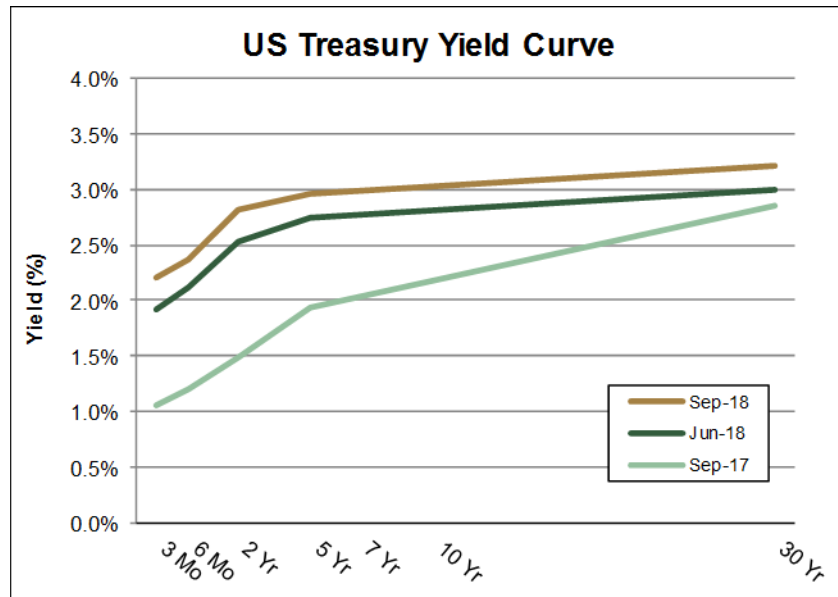
**Section 1 – Background**

- 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

09/30/2018 vs. 06/30/2018 vs. 09/30/17



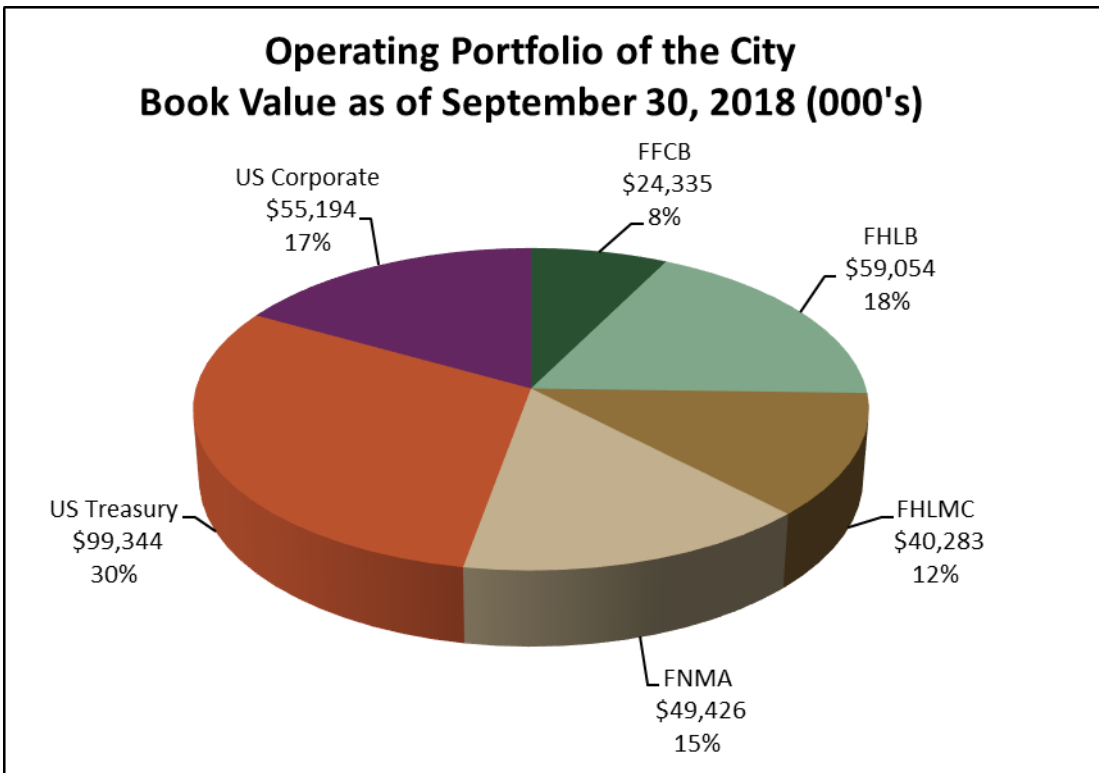
Source: Bloomberg

- On a year-over-year basis, the Treasury yield curve has flattened. The spread between 2-Year and 10-Year Treasury yields has narrowed from 85 basis points to 24 basis points, year-over-year as of September month-end. Rate hikes by the Federal Reserve have put upward pressure on rates, while supply and demand imbalances, technical factors, and subdued inflation expectations have contributed to the curve flattening.
- As expected, the Federal Open Market Committee voted to raise the fed funds target rate by 25 basis points to a range of 2.00%-2.25% at the September 26<sup>th</sup> meeting. The vote was unanimous, including a vote from the new Board of Governors Vice Chair, Richard Clarida. The Fed raised its median forecast for GDP growth in 2018 and 2019 and left its forecasts for unemployment and inflation relatively unchanged. The Fed also kept its fed funds rate forecasts unchanged with the exception of the longer-run target which increased slightly to 3.0%. The Fed’s forecast points to one more fed funds rate hike this year and three more hikes next year. Once again, in its policy statement, the FOMC noted that economic activity has been rising at a “strong rate” and policymakers expect that further gradual increases in the fed funds rate will be appropriate. The FOMC continues to believe risks to the economic outlook are roughly balanced. Market participants believe there is a very high probability that there will be another rate hike in December.

### **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 7<sup>th</sup> 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, 2018, the WAM was 1.69 years while the Ordinance allows up to a five-year WAM.
  - The City maintains sufficient liquidity. As of September 30, 2018, 1.24% of the portfolio or \$4.0 million will mature over the next 30 days.
  - As of September 30, 2018, the yield on the pooled investment portfolio was 1.84%. Our current yield benchmark is the six-month trailing average on the 2-year Treasury, which was 2.56%, as of September 30, 2018. The benchmark yield exceeded the investment portfolio by 0.72%.
- There are no investments in the oil and gas industry in the City’s portfolio.
- In Q3 2018 the City’s investment adviser purchased approximately \$23.0 million of securities at an average yield of 2.67% for the City of Boulder’s investment portfolio. The proceeds of \$23.0 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 September 2019 and October 2020. On a year-over year basis, short-term Treasury yields continued their upward momentum. The 2-year Treasury yield increased 135 basis points to 2.82%. Longer term Treasury yields also moved higher with the 10- year Treasury yield moving up 72 basis points, to 3.06%. The Federal Reserve raised the fed funds target rate by another 25 basis points in the third quarter and based upon the FOMC’s recent guidance, it’s likely an additional rate hike will occur in December. We will continue to strategically position the portfolio to take advantage of higher rate levels through the end of the year.

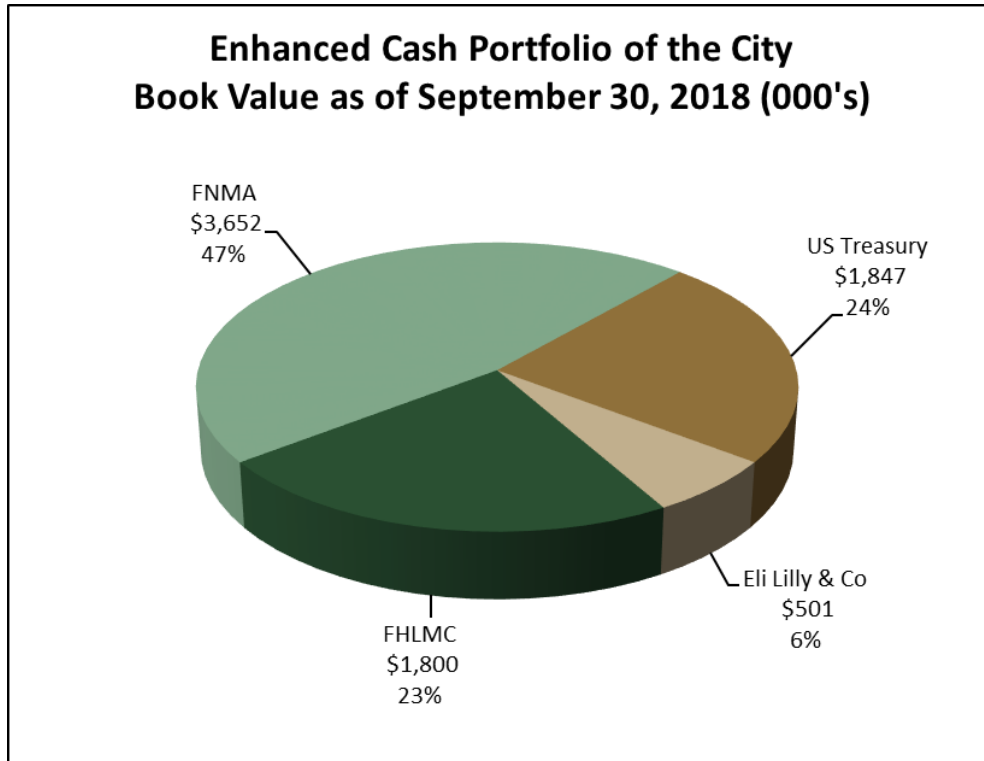
**Operating Portfolio of the City**



**Portfolio Characteristics  
Operating Portfolio of the City of Boulder**

	<b>09/30/2018</b>	<b>06/30/2018</b>
	<b>Portfolio</b>	<b>Portfolio</b>
Average Maturity (yrs)	1.69	1.82
Modified Duration	1.63	1.75
Average Purchase Yield	1.84%	1.72%
Average Market Yield	2.69%	2.475%
Average Quality	AA+/Aa1	AA+/Aa1
Total Market Value	324,796,520	325,064,571

## Enhanced Cash Portfolio



### **Portfolio Characteristics City of Boulder Enhanced Cash Portfolio**

	<b>09/30/2018</b>	<b>06/30/2018</b>
	<b>Portfolio</b>	<b>Portfolio</b>
Average Maturity (yrs)	0.59	0.64
Modified Duration	0.58	0.63
Average Purchase Yield	1.388%	1.562%
Average Market Yield	2.467%	2.258%
Average Quality	AA+/Aaa	AA+/Aaa
Total Market Value	7,768,990	16,874,557

In March 2012, a separate portfolio was established to facilitate IRS required arbitrage calculations on Bond Reserve and Project Funds. The balance of \$7.8 million as of September 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 September 30, 2018 the portfolio yield was 1.39%.
- As of September 30, 2018, 0% of the portfolio or \$0 will mature over the next 30 days.
- The average maturity of the portfolio was 211 days as of September 30, 2018. An objective of this portfolio is to safely support the liabilities of the projected project cash flows.

<b>Holding Details for City of Boulder Operating Portfolio</b>		
<b>Issuer</b>	<b>Book Value</b>	<b>% of Portfolio</b>
FFCB	\$ 24,335	6.36%
FHLB	\$ 59,054	15.43%
FHLMC	\$ 40,283	10.52%
FNMA	\$ 49,426	12.91%
US Treasury	\$ 99,344	25.95%
Apple Inc	\$ 3,068	0.80%
Bank of NY Mellon Corp	\$ 2,927	0.76%
Charles Schwab Corp	\$ 2,058	0.54%
Chubb INA Holdings Inc	\$ 2,470	0.65%
Cisco Systems	\$ 2,911	0.76%
Coca Cola Company	\$ 1,968	0.51%
FirstBank	\$ 5,154	1.35%
Great Western	\$ 4,089	1.07%
IBM Credit Corp	\$ 2,471	0.65%
Intel Corp	\$ 2,490	0.65%
Microsoft	\$ 2,897	0.76%
Northern Trust Company	\$ 2,851	0.74%
Oracle Corp	\$ 2,909	0.76%
Pepsico Inc.	\$ 2,479	0.65%
Praxair	\$ 2,463	0.64%
State Street Bank	\$ 3,010	0.78%
UPS	\$ 2,516	0.66%
Visa Inc	\$ 2,473	0.65%
Wal-Mart Stores	\$ 3,003	0.77%
Walt Disney Company	\$ 984	0.26%
<b>Total Book Value</b>	<b>\$ 327,635</b>	<b>100%</b>

<b>Holding Details for City of Boulder Enhanced Cash Portfolio</b>		
<b>Issuer</b>	<b>Book Value</b>	<b>% of Portfolio</b>
Eli Lilly & Co	\$ 501	6.42%
FHLMC	\$ 1,800	23.08%
FNMA	\$ 3,652	46.82%
US Treasury	\$ 1,847	23.68%
<b>Total Book Value</b>	<b>\$ 7,800</b>	<b>100.00%</b>