

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 March 31, 2017

DATE: April 12, 2017

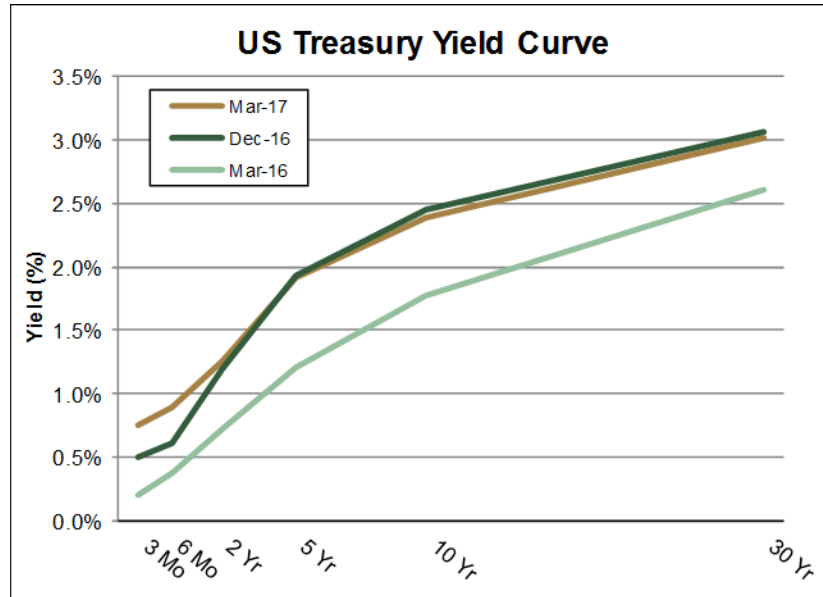
Section 1 – Background

- 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

03/31/2017 vs. 12/31/2016 vs. 03/31/16



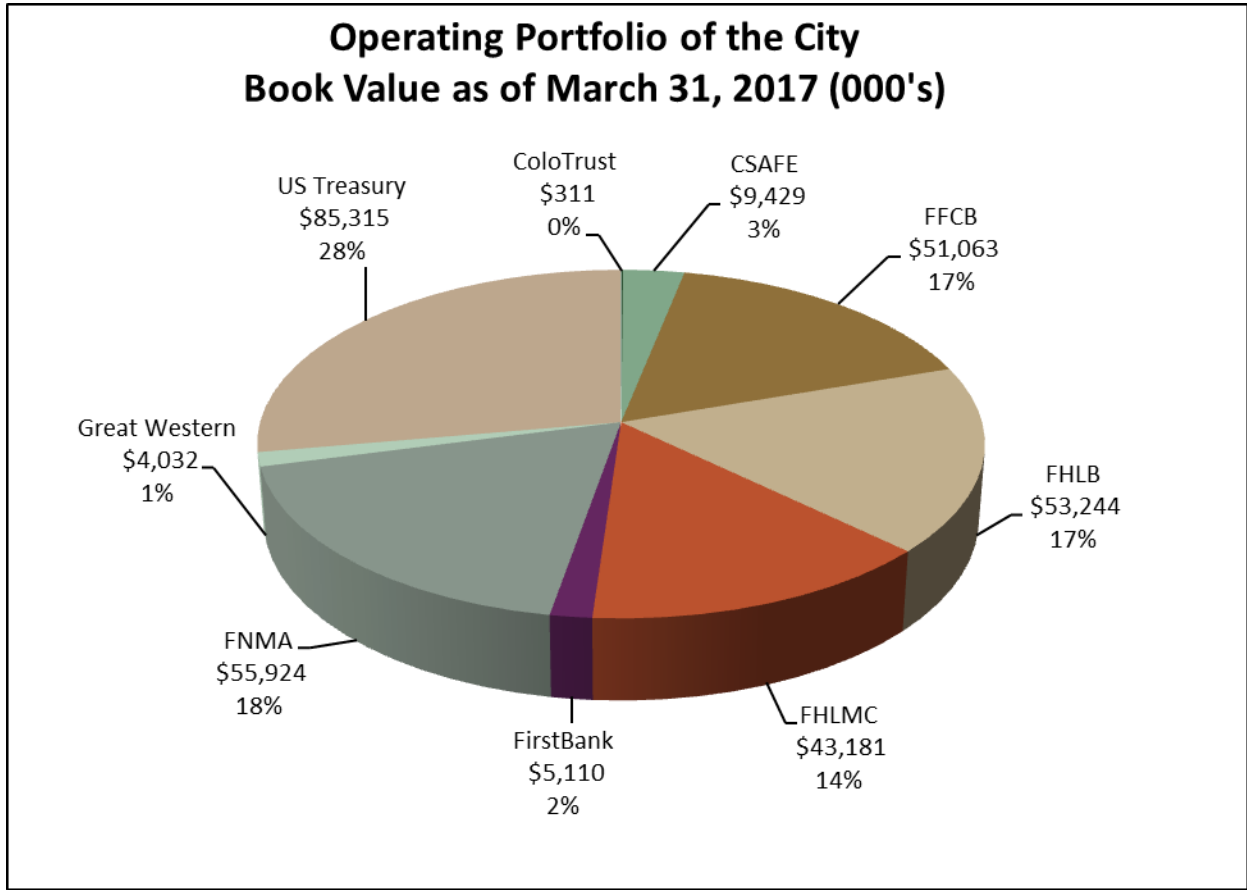
Source: Bloomberg

- Over the past three months, the yield curve flattened, following a dramatic post-election curve steepener. In the past three months, the 2-year Treasury yield is up about 7 basis points and the 10-year Treasury yield is down about 6 basis points. Notably, shorter-term yields (1-year and under) are up more than 20 basis points during that time period. On a year-over-year basis the 2-year Treasury yield has increased 53 basis points and 10-year Treasury yield is up about 62 basis points.
- The Federal Open Market Committee (FOMC) raised the fed funds target rate by 25 basis points to a range of 0.75%-1.00% in March. There was one dissenting vote from Minneapolis Fed President Neel Kashkari who preferred no rate hike. The Fed noted economic activity expanded at a moderate pace, labor market gains remain solid, and inflation is moving close to the Fed's 2.0% target. The Fed is still projecting a 1.4% fed funds rate by the end of this year, which implies two more 25 basis point hikes. The long-run neutral level of the fed funds rate (the level of the fed funds rate that is neither stimulative to the economy nor contractionary) is likely to remain relatively low which should warrant a gradual pace of rate hikes. Fed chair Yellen indicated the current level of the fed funds rate is below the neutral rate, but not significantly lower. The FOMC did not make any decisions about their balance sheet reinvestment plans and will continue that discussion during future meetings.

Section 3 – The City’s Portfolios

- Portfolio strategies implemented this quarter and all 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, primarily among two major sectors (Treasury and Agency), the Agency issuers and various maturities along the yield curve. Market risk is managed by maintaining a low weighted average maturity (WAM) in the City’s portfolio. As of March 31, 2017 the WAM was 1.75 years while the Ordinance allows up to a five year WAM.
 - The City maintains sufficient liquidity. As of March 31, 2017, 3.0% of the portfolio, or \$9.7 million remained in overnight accounts.
 - As of March 31, 2017, the yield on the pooled investment portfolio was 1.15%. Our current benchmark is the six month trailing average on the 2-year Treasury, which was 1.12%, as of March 31, 2017. The objective was exceeded by 0.03%.
- There are no investments in the oil and gas industry in the City’s portfolio.
- The City’s investment adviser purchased approximately \$22.9 million of securities during Q1 2017 for the City of Boulder’s investment portfolio. The proceeds of \$22.9 million of sales and maturities were used to fund these purchases. Purchases included Treasury and Agency securities maturing between May 2018 and November 2021. These securities were purchased in this maturity range to maintain the portfolio characteristics in line with the strategy. The domestic economic data remains indicative of slow growth and is likely at or near full employment. Looking further ahead, a potential boost in fiscal stimulus could provide a further tailwind to economic growth. GDP grew by 2.1% in the fourth quarter. We expect GDP growth of 2.0%-2.5% in 2017. The Federal Open Market Committee (FOMC) raised the fed funds target rate by 25 basis points to a range of 0.75%-1.00% in March in light of continued good economic data. Over the past three months, the yield curve continued to flatten. The 2-year Treasury yield is up about 7 basis points and the 10-year Treasury yield is down about 6 basis points. Meanwhile sovereign yields in Germany increased in March, and yields in Japan were little changed. At the end of 2016, following the election, US Treasury yields increased driven by heightened expectations for fiscal stimulus and better economic growth under the Trump administration. Some of the post-election exuberance regarding fiscal spending, tax reform, and healthcare reform has started to wane, as market participants begin to sense the timeline and magnitude of such policies may be delayed or potentially less robust than previously hoped. We continue to position the portfolio to take advantage of upcoming rate increases by the Federal Reserve from reinvestments.

Operating Portfolio of the City

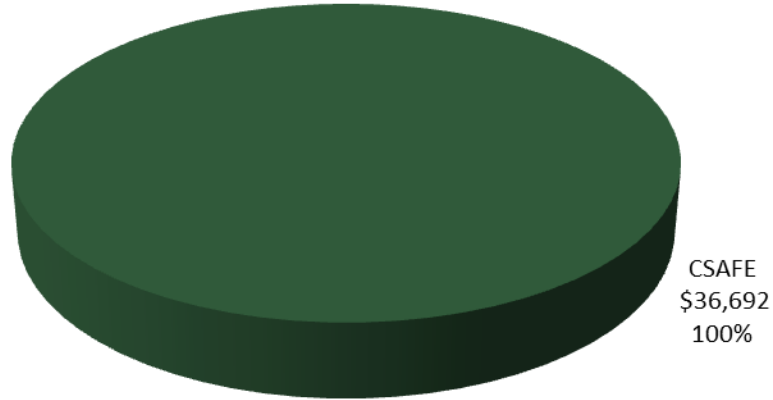


**Portfolio Characteristics
City of Boulder Consolidated Non CIP**

	03/31/2017	12/31/2016
	Portfolio	Portfolio
Average Maturity (yrs)	1.75	1.73
Modified Duration	1.70	1.69
Average Purchase Yield	1.153%	1.074%
Average Market Yield	1.246%	1.122%
Average Quality**	AA+/Aaa	AA+/Aaa
Total Market Value	307,788,835	307,867,680

Bond Reserve and Project Funds

**Capital Improvement Project Bond Proceeds
Book Value as of March 31, 2017 (000's)**



**Portfolio Characteristics
Bond Reserve and Project Funds**

	03/31/2017	12/31/2016
	Portfolio	Portfolio
Average Maturity (yrs)	0.00	0.00
Modified Duration	0.00	0.00
Average Purchase Yield	0.84%	0.67%
Average Market Yield	0.84%	0.67%
Average Quality	AAA/NR	AAA/NR
Total Market Value	36,691,504	45,734,342

In March 2012, a separate portfolio was established to facilitate IRS required arbitrage calculations on Bond Reserve and Project Funds. The balance of \$36.7 million as of March 31, 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 March 31, 2017 the portfolio yield was 0.84%.
- Daily liquidity in the portfolio is currently 100% of the portfolio, or \$36.7 million, resulting in a very short weighted average maturity of 0.0 years. The portfolio has virtually no market risk and 100% of the funds are available for immediate draw down as projects need funding. This portfolio structure safely supports the short liability duration of the projects.