

City of Boulder
Finance Department

TO: The Mayor and Members of City Council
Jane S. Brautigam, City Manager

FROM: Cheryl Pattelli, Director of Finance

SUBJECT: Investment Performance as of September 30, 2016

DATE: October 24, 2016

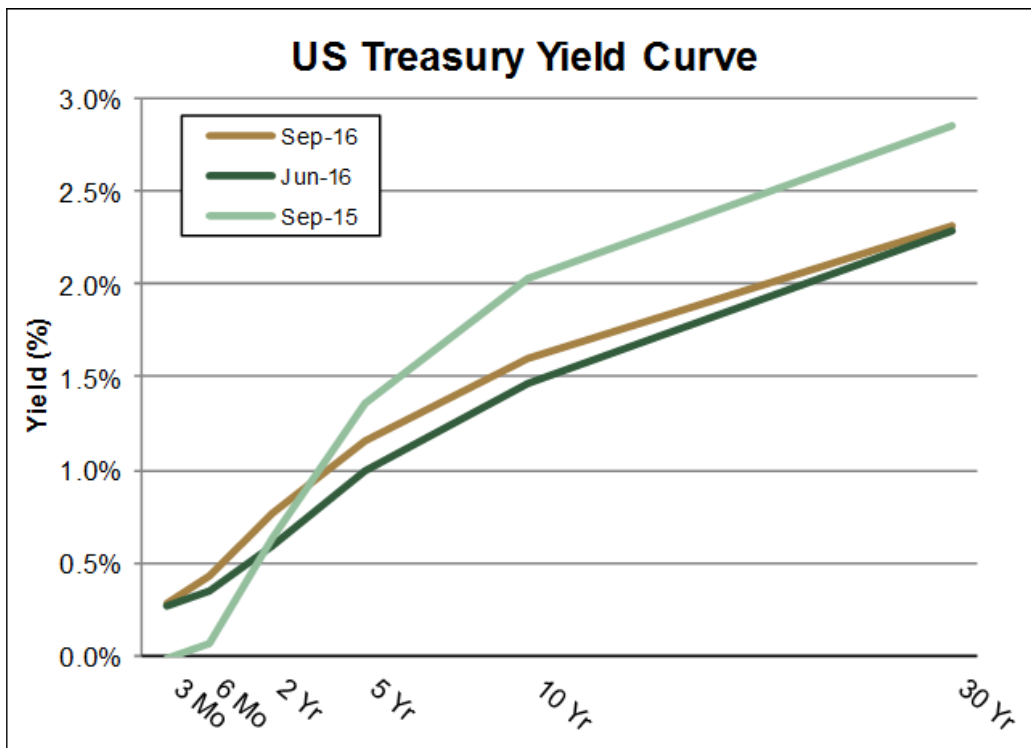
Section 1 – Background

- 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

09/30/2015 vs. 06/30/2016 vs. 09/30/16

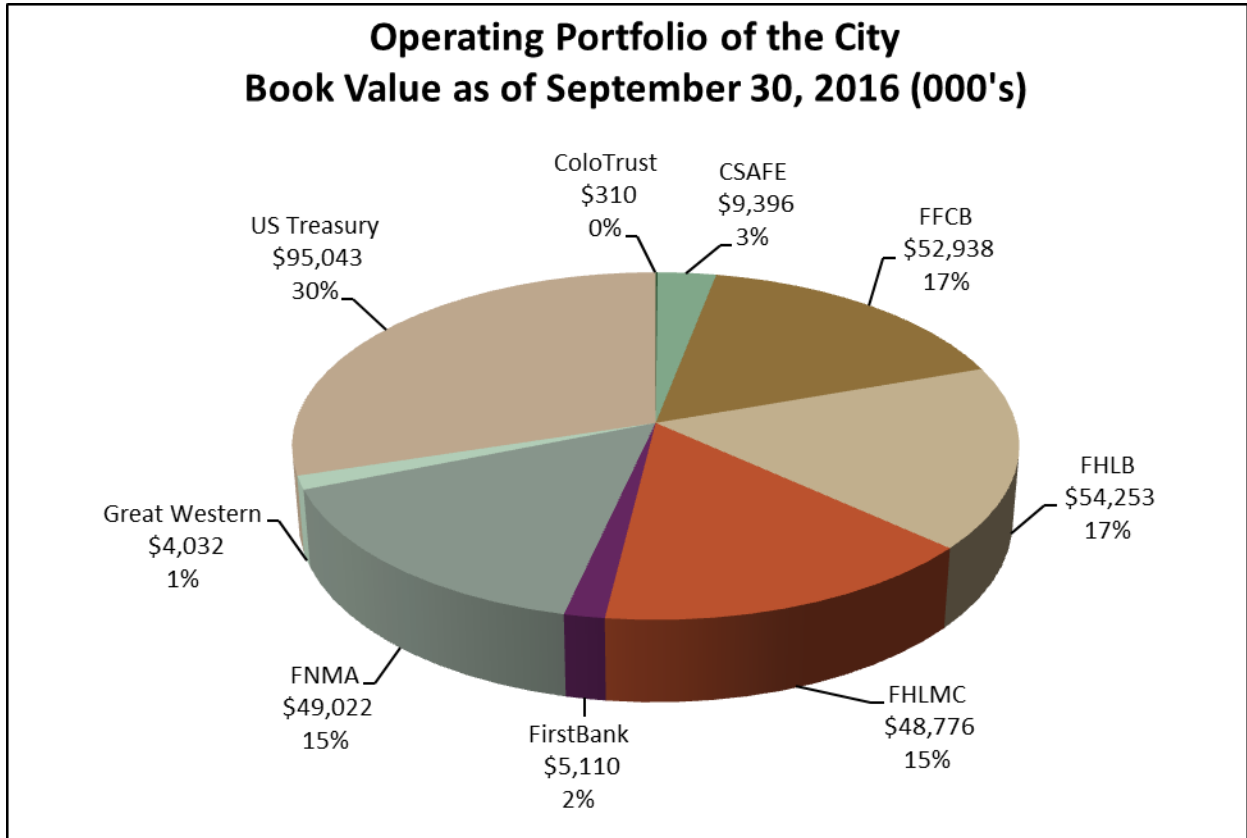


- Over the past three months, the yield curve shifted upward with the 2-year Treasury yield up 18 basis points and the 10-year Treasury yield up nearly 13 basis points. However, on a year-over-year basis the yield curve flattened with the 2-year Treasury yield up about 13 basis points and the 10-year Treasury yield down more than 44 basis points. Over the past year, financial market volatility has been elevated due to weak global economic growth, volatile commodity prices, political uncertainty, and divergent global central bank monetary policy.
- The Federal Open Market Committee (FOMC) kept the fed funds rate unchanged at a range of 0.25%-0.50% in September. However, there were three dissenting votes (out of ten), as Esther George (Kansas City), Loretta Mester (Cleveland), and Eric Rosengren (Boston) preferred to raise the target range by a quarter percent. The Fed’s overall assessment of the economy was little changed from July. In the policy statement, the Committee noted the labor market has continued to strengthen but inflation remains below target. In deciding whether or not to raise the fed funds target rate, the Committee said “the case for an increase in the federal funds rate has strengthened but decided, for the time being, to wait for further evidence of continued progress toward its objectives.” In her press conference, Fed Chair Yellen remarked that the next meeting on November 1-2 is a “live” meeting but given its proximity to the US Presidential election on November 8, we think the Fed is likely to keep monetary policy on hold until December. If economic data remains modestly favorable over the next few months, we expect the Fed will hike the fed funds rate range by 25 basis points in December.

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 September 30, 2016 the WAM was 1.80 years while the Ordinance allows up to a five year WAM.
 - The City maintains sufficient liquidity. As of September 30, 2016, 4.0% of the portfolio, or \$9.7 million remained in overnight accounts.
 - As of September 30, 2016, the yield on the pooled investment portfolio was 1.03%. Our current benchmark is the six month trailing average on the 2-year Treasury, which was 0.75%, as of September 30, 2016. The objective was exceeded by 0.28%.
- There are no investments in the oil and gas industry in the City’s portfolio.
- The City’s investment adviser purchased approximately \$22.5 million of securities during Q3 2016 for the City of Boulder’s investment portfolio. The proceeds of \$15.0 million of maturities along with existing liquid funds were used to fund these purchases. Purchases included Treasury and Agency securities maturing between June 2018 and January 2020. These securities were purchased in this maturity range to maintain the portfolio characteristics in line with the strategy. We continue to position the portfolio in a market that has experienced elevated financial market volatility due to weak global economic growth, political uncertainty, and divergent global central bank monetary policies over the past year. The Federal Open Market Committee (FOMC) kept the fed funds rate unchanged at a range of 0.25%-0.50% in September. However, there were three dissenting votes (out of ten), as Esther George (Kansas City), Loretta Master (Cleveland), and Eric Rosengren (Boston) preferred to raise the target range by a quarter percent. If economic data remains favorable over the next few months, we expect the Federal Reserve (Fed) will likely hike the fed funds rate range by 0.25% in December. In light of recent communication from the Fed, the yield curve shifted upward with the 2-year Treasury yield up 18 basis points and the 10-year Treasury yield up nearly 13 basis points over the past three months. The portfolio will continue to benefit from higher reinvestment rates on maturities as the Fed continues its slow transition to a less accommodative monetary policy.

Operating Portfolio of the City

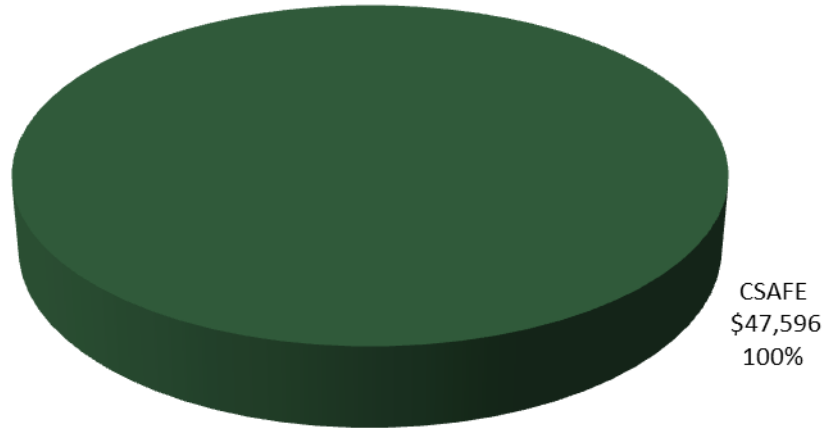


**Portfolio Characteristics
City of Boulder Consolidated Non CIP**

	09/30/2016	06/30/2016
	Portfolio	Portfolio
Average Maturity (yrs)	1.80	1.86
Modified Duration	1.77	1.83
Average Purchase Yield	1.033%	1.026%
Average Market Yield	0.784%	0.664%
Average Quality	AA+/Aaa	AA+/Aaa
Total Market Value	321,082,072	339,463,291

Bond Reserve and Project Funds

**Capital Improvement Project Bond Proceeds
Book Value as of September 30, 2016 (000's)**



**Portfolio Characteristics
Bond Reserve and Project Funds**

	09/30/2016	06/30/2016
	Portfolio	Portfolio
Average Maturity (yrs)	0.00	0.00
Modified Duration	0.00	0.00
Average Purchase Yield	0.59%	0.55%
Average Market Yield	0.59%	0.55%
Average Quality**	AAA/NR	AAA/NR
Total Market Value	47,596,242	49,980,496

When the Bond Reserve and Project Funds proceeds of over \$54 million were received in March 2012, a separate portfolio was established to facilitate IRS required arbitrage calculations. The balance of \$47.6 million as of September 30, 2016 was invested as shown above in the graph and table to assure timely funding for the projected draw down schedule expected to end in January 2015.

- 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, 2016 the portfolio yield was 0.59%.
- Daily liquidity in the portfolio is currently 100% of the portfolio, or \$47.6 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 that are expected to end in January 2015.