City of Boulder

City of Boulder

Finance Department

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

FROM: Bob Eichem, Chief Financial Officer

SUBJECT: Investment Performance as of June 30, 2015

DATE:

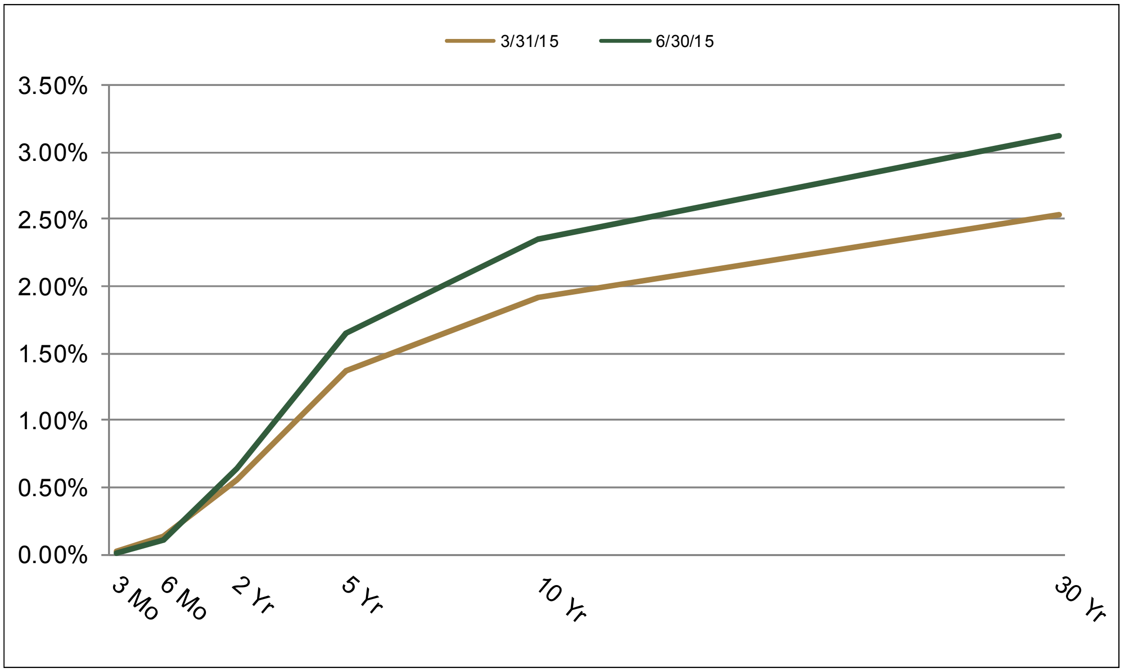
Section 1 – Background

- 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

03/31/2015 vs. 06/30/15

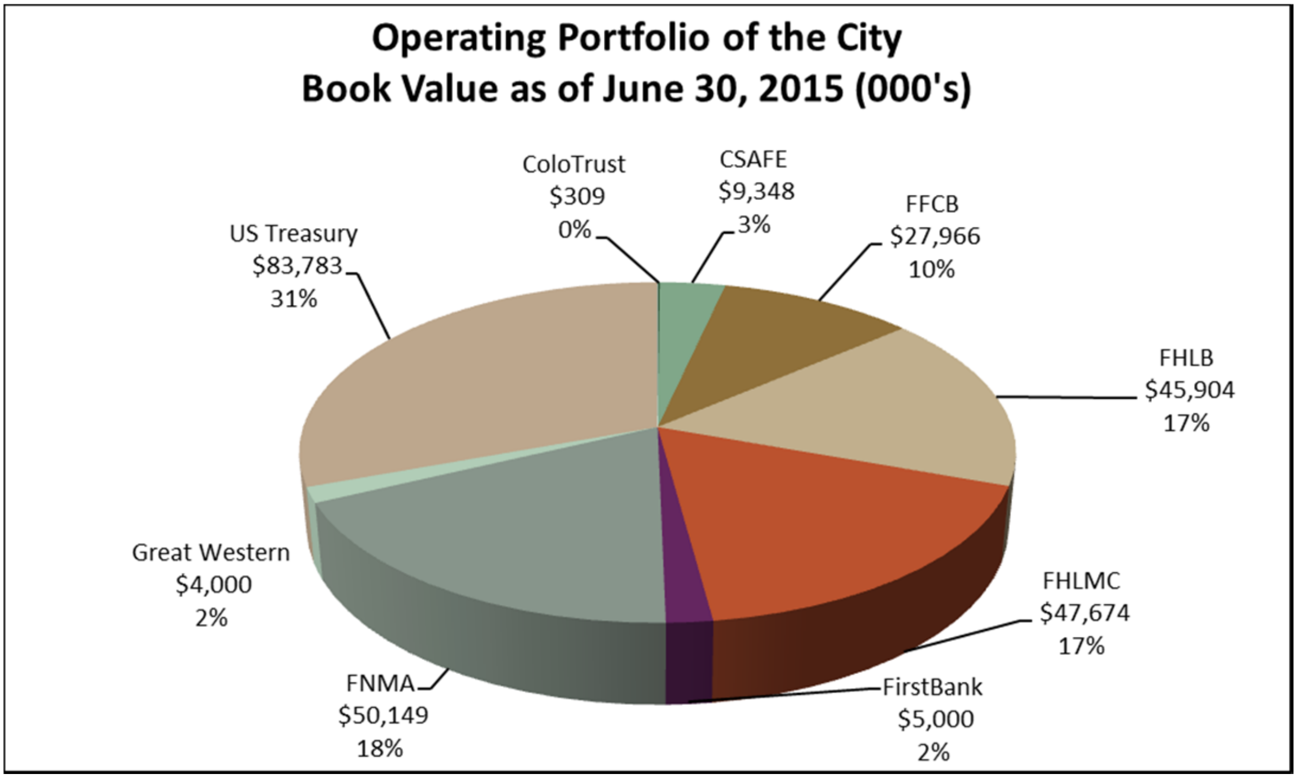


- During the past three months, the Treasury Yield curve continued its steepening trend. The Fed remains the only major central bank contemplating a tightening of monetary policy, fueling interest rate volatility. Concerns about the ability and desire of Greece to remain in the Euro continue to keep markets on edge and is adding to the uncertain economic outlook.
- As expected, the Federal Open Market Committee (FOMC) left policy rates unchanged at its June 16-17 meeting without any dissenting votes. The FOMC noted that economic activity has been expanding moderately. In recent months, job growth accelerated and the housing sector improved, but business fixed investment and exports were soft. In addition, there is still slack in the labor market. Inflation also remains below the Fed's target. The FOMC still expects to see further improvement in the labor market and needs to be confident that inflation will move back towards its 2% target before they raise rates. The FOMC continues to emphasize that monetary policy changes will be data-dependent. At this point, we believe the first fed funds rate hike will be near the end of this year. In the meantime, ongoing uncertainty about the timing of the first fed funds rate hike will likely continue to fuel financial market volatility.

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 June 30, 2015 the WAM was 1.69 years while the Ordinance allows up to a five year WAM.
  - The City maintains sufficient liquidity. As of June 30, 2015, 3.5% of the portfolio, or $9.7 million remained in overnight accounts.
  - As of June 30, 2015, the yield on the pooled investment portfolio was 0.862%. Our current benchmark is the six month trailing average on the 2-year Treasury, which was 0.598%, as of June 30, 2015. The objective was exceeded by 0.264%.
- There are no investments in the oil and gas industry in the City's portfolio.
- The City's investment adviser purchased approximately $29.7 million of securities during Q2 2015 for the City of Boulder's investment portfolio. The security purchases included Treasury and Agency securities maturing between December 2016 and August 2019. The securities were purchased in this maturity range to take advantage of the area on the yield curve that offers the best tradeoff between yield and maturity while and maintaining the portfolio characteristics. The increased yield differential in short maturity versus long maturity securities this quarter is a result of recent statements by the Federal Reserve (Fed) that it may initiate the first increase in the federal funds rate in 10 years by year end. The decision by the Fed to raise the federal funds rate will be predicated on continued improvement of the economic data. The proceeds of $17.0 million of maturities along with existing liquid funds were used to fund the security purchases.

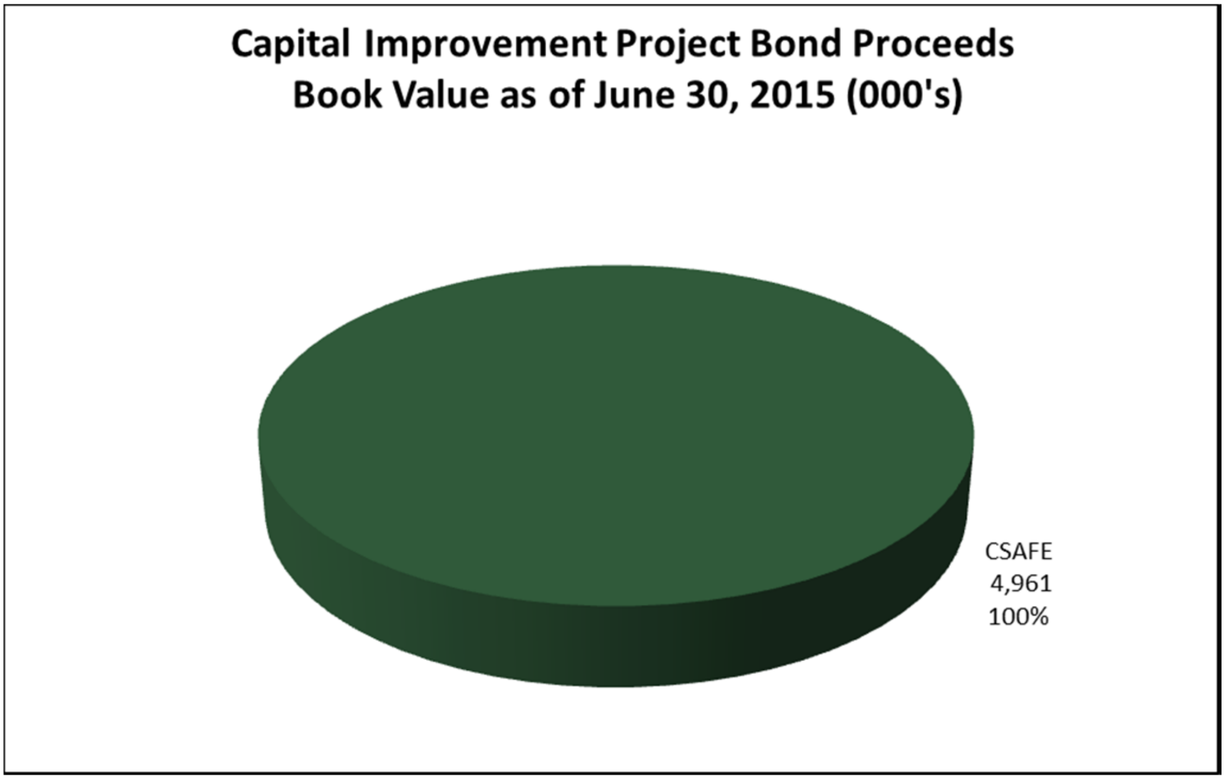
Operating Portfolio of the City



Portfolio Characteristics
City of Boulder Consolidated Non CIP

	06/30/2015	03/31/2015
	Portfolio	**Portfolio**
Average Maturity (yrs)	1.69	1.70
Modified Duration	1.66	1.67
Average Purchase Yield	0.862%	0.813%
Average Market Yield	0.635%	0.557%
Average Quality**	AA+/Aaa	AA+/Aaa
Total Market Value	275,626,013	263,242,497

Capital Improvement Project 2012 Bond Proceeds



Portfolio Characteristics
Capital Improvement Project 2012 Bond Proceeds

	06/30/2015	03/31/2015
	Portfolio	**Portfolio**
Average Maturity (yrs)	0.00	0.00
Modified Duration	0.00	0.00
Average Purchase Yield	0.17%	0.14%
Average Market Yield	0.17%	0.14%
Average Quality	NR/NR	NR/NR
Total Market Value	4,960,965	7,958,590

When the Capital Improvement Bond proceeds of over $54 million were received in March 2012, a separate portfolio was established to facilitate IRS required arbitrage calculations. The balance of $4.9 million as of June 30, 2015 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 June 30, 2015 the portfolio yield was 0.17% compared to a yield of 0.267% on the one year Treasury.

- Daily liquidity in the portfolio is currently 100% of the portfolio, or $4.9 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.