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 September 30, 2015

DATE: October 13, 2015

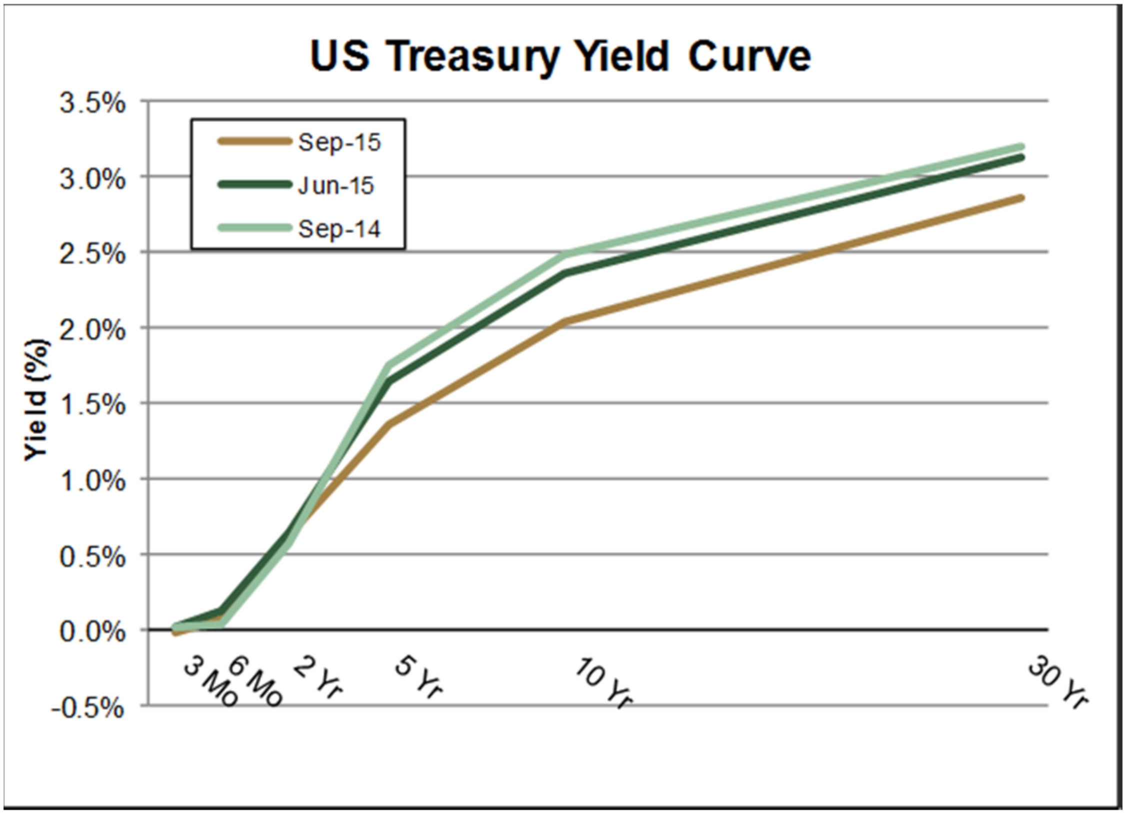
Section 1 – Background

- 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

09/30/2014 vs. 06/30/2015 vs. 09/30/15

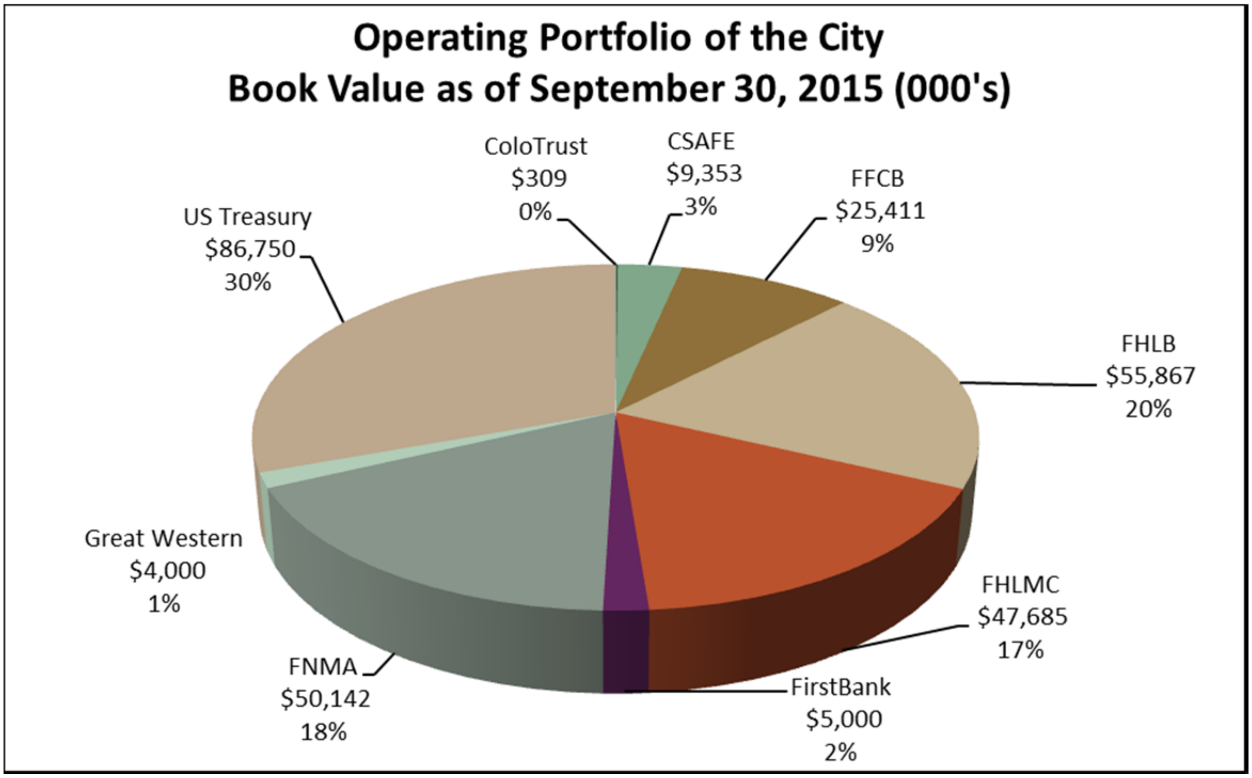


- During the past three months, the Treasury yield curve has flattened with the yield on 10-year Treasuries falling about 40 basis points. Mixed US economic data, divergent central bank monetary policies, and concerns about weakening economic growth in China and other emerging markets have influenced interest rates.
- In light of weak September jobs report and the latest reading on inflation, we believe the probability of a fed funds rate hike by the Federal Reserve before year-end has further diminished. Nonfarm payrolls rose by 142,000 in September, below the consensus forecast of 201,000. Meanwhile, the PCE price index is still running well below the Fed's 2.0% target, at just 0.3% on a year-over-year basis in August. In our view, a rate hike is still possible before year-end, but depending on domestic and global economic data, as well as any potential financial market volatility fueled by a US debt ceiling debate over the next few months, it could be pushed out to 2016. Fed funds futures currently imply that the Fed could remain on hold until March or even June of next year. The Federal Open Market Committee (FOMC) left policy rates unchanged at its September meeting. The Committee cautioned that "recent global economic and financial developments may restrain economic activity." Overall, the Fed's September policy statement was dovish and the outlook for future monetary policy changes remains uncertain. There are two remaining FOMC meetings scheduled this year.

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, 2015 the WAM was 1.59 years while the Ordinance allows up to a five year WAM.
    - The City maintains sufficient liquidity. As of September 30, 2015, 3.0% of the portfolio, or $9.7 million remained in overnight accounts.
    - As of September 30, 2015, the yield on the pooled investment portfolio was 0.896%. Our current benchmark is the six month trailing average on the 2-year Treasury, which was 0.630%, as of September 30, 2015. The objective was exceeded by 0.266%.
- There are no investments in the oil and gas industry in the City's portfolio.
- The City's investment adviser purchased approximately $17.9 million of securities during Q3 2015 for the City of Boulder's investment portfolio. The security purchases included Treasury and Agency securities maturing between August 2017 and June 2019. These securities were purchased in this maturity range to maintain the portfolio characteristics in line with the strategy. Although some members of the Federal Reserve continue to speak about raising the federal funds rate the this year, interest rates across the yield curve fell during the quarter reflecting a cautious tone from their September meeting regarding the volatility in global financial markets and weaker economic data. The downward movement in interest rates was especially prevalent in maturities greater than 5 years. The decision by the Fed to raise the federal funds rate will be predicated on continued improvement of the economic data. The proceeds of $7.6 million of maturities along with existing liquid funds were used to fund the security purchases.

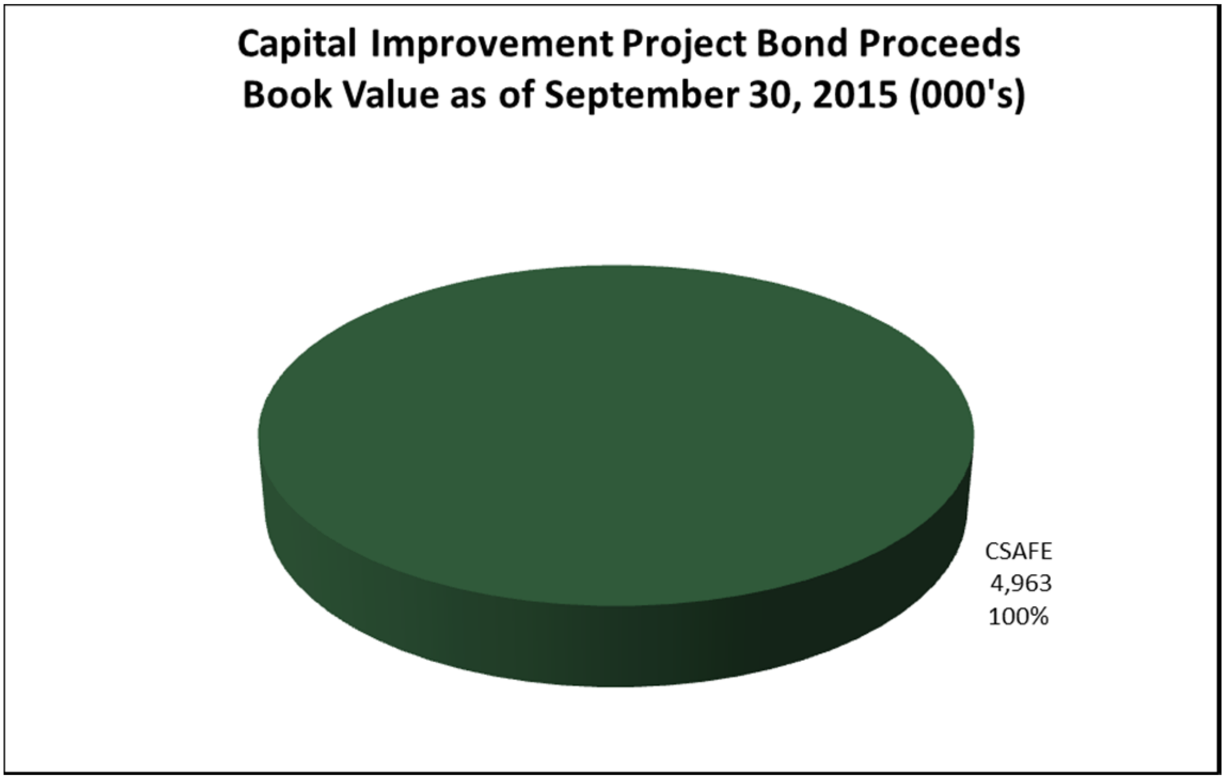
Operating Portfolio of the City



Portfolio Characteristics
City of Boulder Consolidated Non CIP

	09/30/2015 Portfolio	06/30/2015 Portfolio
Average Maturity (yrs)	1.59	1.69
Modified Duration	1.56	1.66
Average Purchase Yield	0.896%	0.862%
Average Market Yield	0.591%	0.635%
Average Quality	AA+/Aaa	AA+/Aaa
Total Market Value	286,563,731	275,626,013

Capital Improvement Project 2012 Bond Proceeds



Portfolio Characteristics
Capital Improvement Project 2012 Bond Proceeds

	09/30/2015	06/30/2015
	Portfolio	Portfolio
Average Maturity (yrs)	0.00	0.00
Modified Duration	0.00	0.00
Average Purchase Yield	0.19%	0.17%
Average Market Yield	0.19%	0.17%
Average Quality	NR/NR	NR/NR
Total Market Value	4,963,302	4,960,965

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 September 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 September 30, 2015 the portfolio yield was 0.19% compared to a yield of 0.308% 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.