



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 December 31, 2014

DATE:

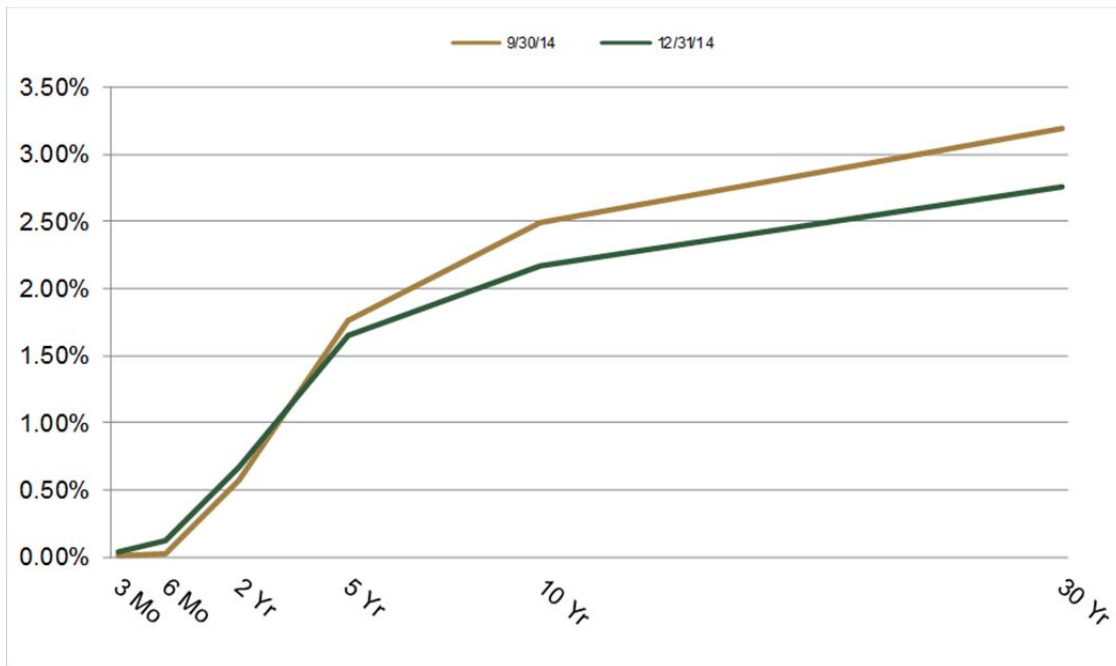
Section 1 – Background

- 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

9/30/2014 vs. 12/31/14

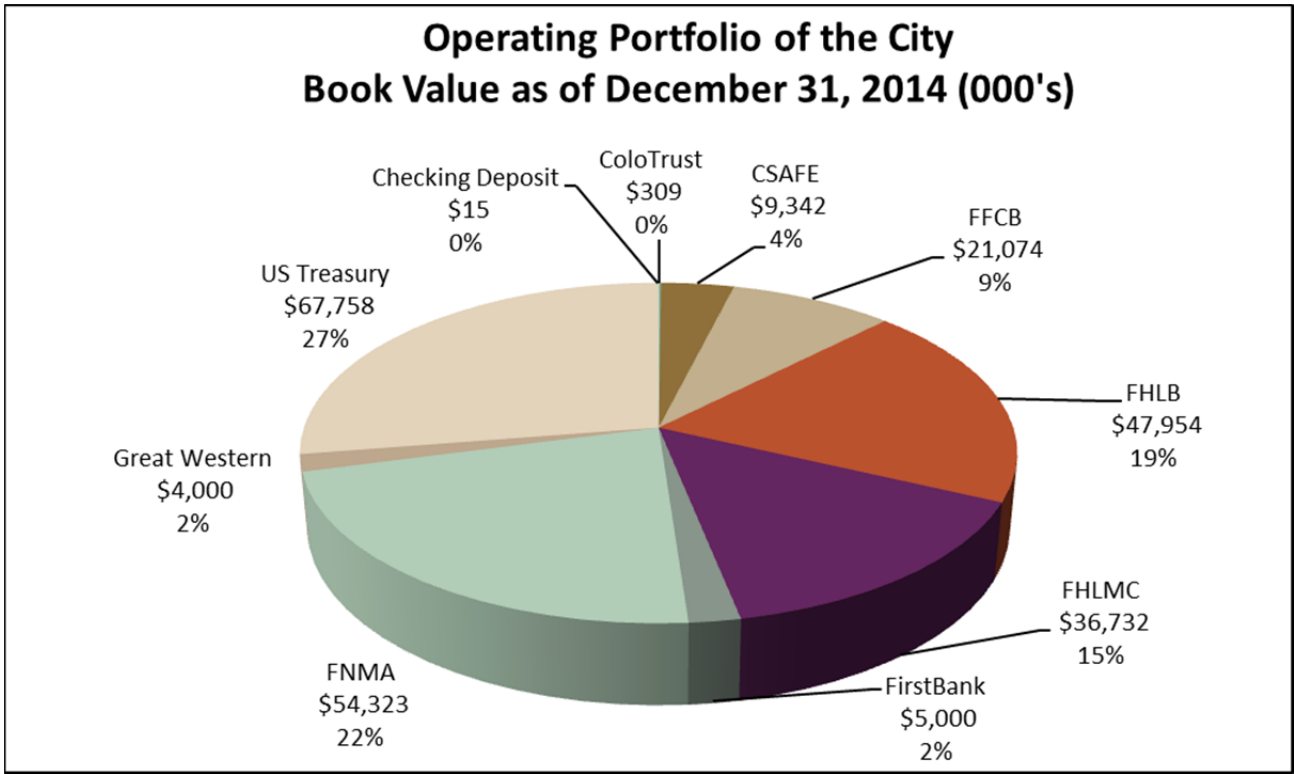


- During the past three months, the yield curve flattened. Concerns about weak global economic growth kept downward pressure on longer US Treasury yields, even as the Fed signaled the possibility of a fed funds rate hike this year.
- The Federal Open Market Committee (FOMC) left policy rates unchanged at its final meeting of 2014. The FOMC indicated that it will take a “patient” approach toward normalizing monetary policy, and implied that the first rate hike is likely to be in (or around) mid-2015 based on the Fed’s economic forecasts. Overall, the FOMC’s guidance on policy action was consistent with its previous guidance, but the Committee is moving away from its “considerable time” language and emphasizing that policy changes will be data-dependent. During her post-meeting press conference, Fed Chair Yellen indicated that policy rates would likely remain unchanged for at least the next couple of FOMC meetings. This suggests that a rate hike is unlikely to happen any sooner than April, unless there is an unexpected change in economic data. The Committee also expects the fed funds rate to approach a more normalized level by the end of 2017, which suggests that any rate increases are likely to be gradual over the next few years. We expect FOMC members will continue to debate the appropriate timing of the first fed funds rate hike when they meet again on January 27-28, 2015.

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 December 31, 2014 the WAM was 1.67 years while the Ordinance allows up to a five year WAM.
 - The City maintains sufficient liquidity. As of December 31, 2014, 3.9% of the portfolio, or \$9.6 million remained in overnight accounts.
 - As of December 31, 2014, the yield on the pooled investment portfolio was 0.76%. Our current benchmark is the six month trailing average on the 2-year Treasury, which was 0.41%, as of December 31, 2014. The objective was exceeded by 0.35%.
- There are no direct investments in the oil and gas industry in the City’s portfolio.
- The City’s investment adviser purchased approximately \$32.2 million of securities during Q4 2014 for the City of Boulder’s investment portfolio. The security purchases included Treasury and Agency securities maturing between September 2016 and June 2018. The securities were purchased in this maturity range to take advantage of the historically steep yield curve. The historically steep yield curve is a result of the Federal Reserve’s accommodative monetary policy along with an expanding US economy resulting in very low short-term interest rates and normalizing long-term interest rates. The proceeds of \$23.5 million of maturities along with existing liquid funds were used to fund the purchase of these securities. Future security purchases will likely be used to rebalance the City’s investment portfolio to the strategy characteristics. This will be accomplished by investing liquidity not needed for other operations of the City and reinvesting the proceeds from maturing bonds.

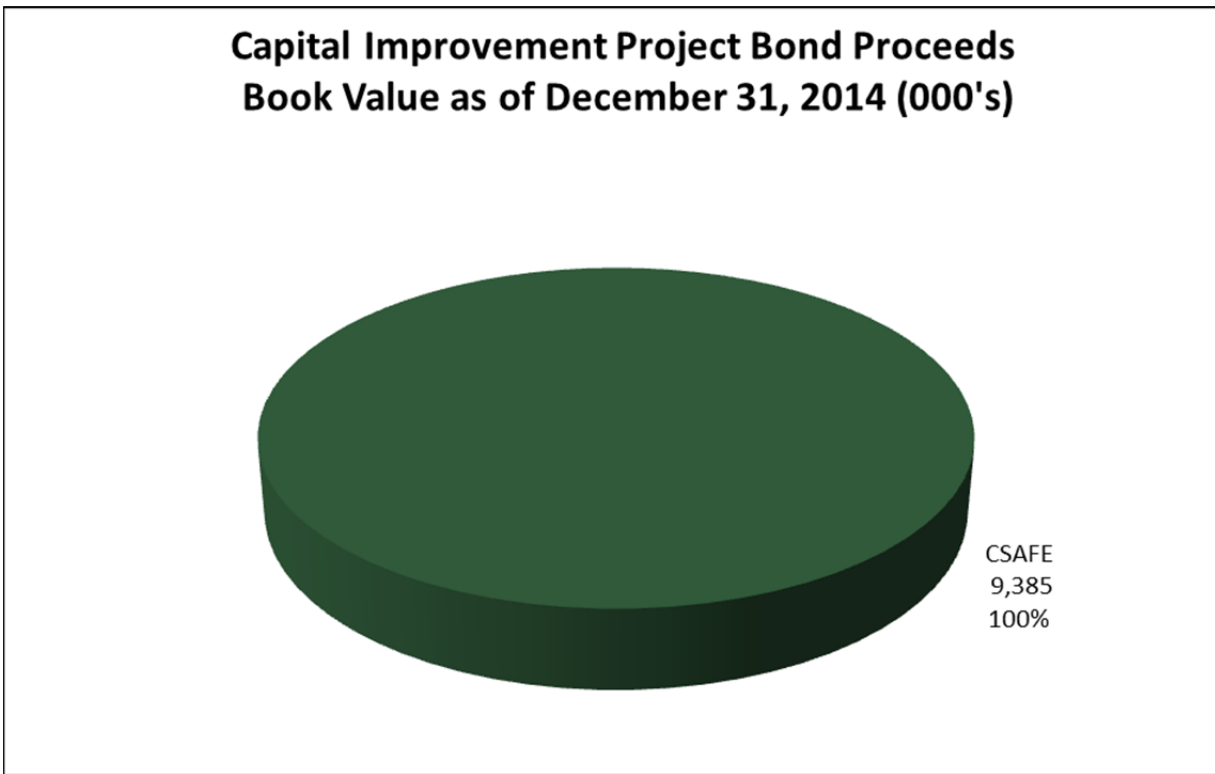
Operating Portfolio of the City



**Portfolio Characteristics
Operating Portfolio of the City**

	12/31/2014	09/30/2014
	Portfolio	Portfolio
Average Maturity (yrs)	1.67	1.58
Modified Duration	1.65	1.55
Average Purchase Yield	0.76%	0.709%
Average Market Yield	0.642%	0.557%
Average Quality	AA+/Aaa	AA+/Aaa
Total Market Value	247,335,546	240,365,542

Capital Improvement Project 2012 Bond Proceeds



Portfolio Characteristics Capital Improvement Project 2012 Bond Proceeds

	12/31/2014	09/30/2014
	Portfolio	Portfolio
Average Maturity (yrs)	0.00	0.03
Modified Duration	0.00	0.03
Average Purchase Yield	0.12%	0.078%
Average Market Yield	0.12%	0.032%
Average Quality**	NR/NR	AA+/NR
Total Market Value	9,385,093	16,616,178

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 \$9.4 million as of December 31, 2014 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 December 31, 2014 the portfolio yield was 0.12% compared to a yield of 0.22% on the one year Treasury.

- Daily liquidity in the portfolio is currently 100% of the portfolio, or \$9.3 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.