

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

FROM: Cheryl Pattelli, CFO

SUBJECT: Investment Performance as of March 31, 2021

Date: April 20, 2021

### **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 – Market Conditions, the Federal Reserve and the Yield Curve**

**Fiscal stimulus passes:** The Biden Administration successfully passed the \$1.9 trillion fiscal America Rescue Act plan, which included \$1,400 stimulus checks, enhanced jobless benefits, state and local aid, and funding for vaccines and testing.

**Fed accommodative even as economy impresses:** The Federal Open Market Committee significantly revised its economic projections to forecast GDP growth of 6.5% this year (from 4.2% previously), unemployment below 4% by the end of 2022 and perhaps most notably, core PCE at or above its 2% inflation target over the next three years. The Fed's dot plot was unchanged, reflecting a median expectation of no policy rate hikes through 2023, although several more members anticipate a hike in 2023.

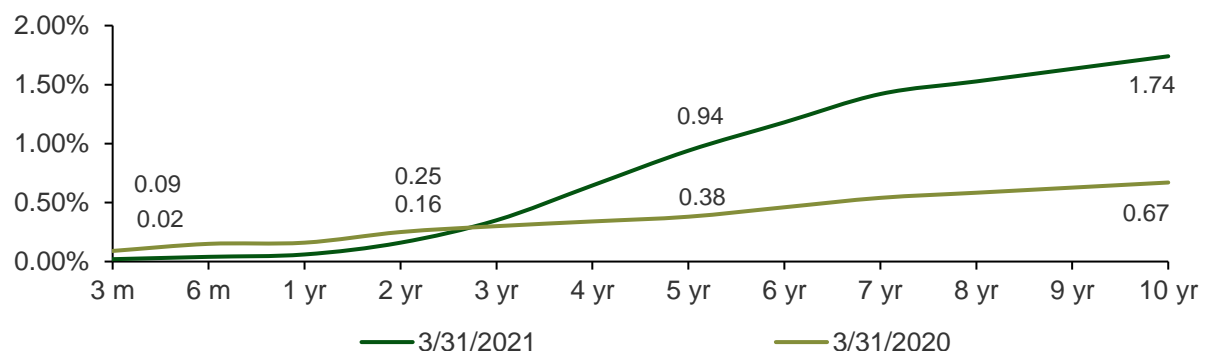
**US ramps up vaccinations:** Close to 40% of the adult population received one dose by the end of the quarter, reaching a pace of ~3m vaccinations per day. Economic restrictions continued to be scaled back across most states, and business restrictions were removed outright in others.

**Economic restrictions begin to ease:** At the beginning of the period, COVID-19 deaths in the US were running at the highest levels since the start of the pandemic, but hospitalizations began to ease from the end of January onwards.

**Yield curve aggressively steepens:** Improving growth expectations led the yield curve to steepen, with longer-dated Treasuries selling off sharply. 10-year yields increased more than 80 basis points during the first quarter to 1.74% while the 2-year Treasury rose just 4 basis points to 0.16%.

**Credit spreads trade at cycle lows:** Having already recovered to pre-pandemic levels at the end of 2020, US investment grade credit spreads ended Q1 only modestly tighter, albeit trading at the tightest levels since early 2018 and close to pre-2008 levels.

### **Treasury Yield Curve: 03/31/21 and 03/31/20 (Source: Bloomberg)**

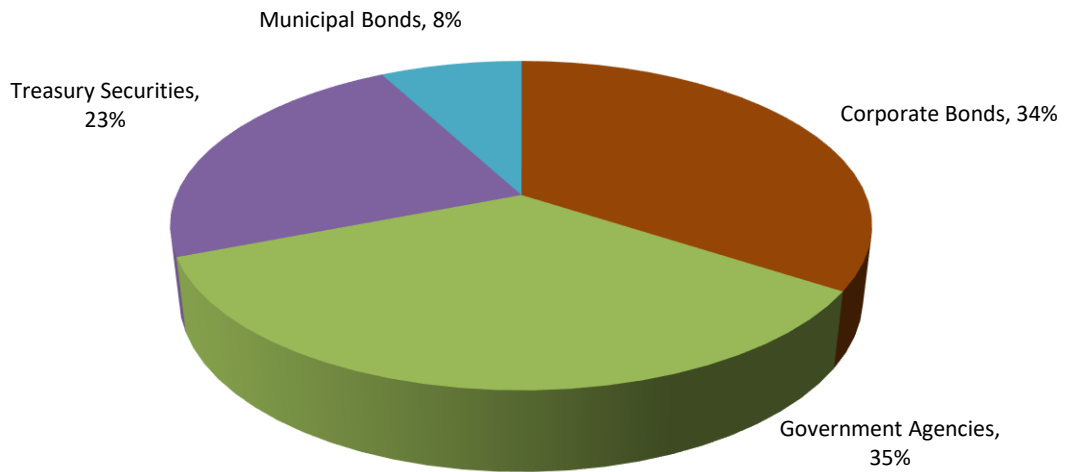


### **Section 3 – The City’s Portfolio**

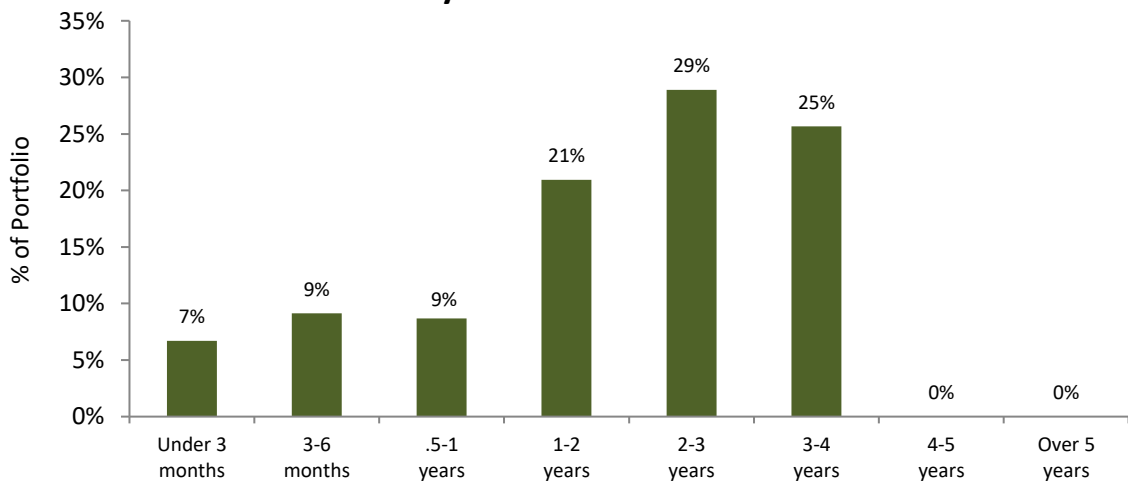
- Portfolio strategies implemented this quarter and the investments held in the portfolio comply with the City’s investment objectives and the Ordinance that specifies allowable investments.
  - The objective of safety is achieved through a well-diversified portfolio invested primarily in US Treasury and Agency securities of various maturities. In March 2017 the City Council approved amendments to the Investment Policy proposed by finance staff expanding opportunities to further diversify the portfolios. Pursuit of further diversification through the revised policies will progress strategically relative to market conditions. Market risk is managed by maintaining a low weighted average maturity (WAM) in the City’s portfolios. As of March 31, 2021, the WAM of the operating portfolio was 2.04 years while the Ordinance allows for a WAM of up to 5 years.
  - The City maintains sufficient liquidity. A minimum of 5% of the City’s total portfolio is held in liquidity accounts. In addition, 2.4% of the term securities held as of March 31 will mature within 30 days.
  - As of March 31, the weighted average purchase yield for the operating portfolio holdings was 1.56%. The yield benchmark is the six-month trailing average of the yield on the 2-year Treasury note, which was .14% as of March 31. The purchase yield on the operating portfolio as of March 31 exceeded the benchmark yield by 1.42%.
  - For the first quarter 2021, the fair value periodic return on the operating portfolio was negative .15%. The 1-3 Treasury Index return for the period was negative .05%. The return on the operating portfolio for the first quarter was .10% lower than the 1-3 Treasury Index return.
- The City’s portfolio does not hold any investments in the following: fossil fuels inclusive of pipeline construction and extraction; firearms or weapons not used in national defense; tobacco companies; and firms related to mass incarceration/private prisons/detention centers.
- In the first quarter 2021, the City’s investment advisor invested approximately \$27 million in longer-term securities for the operating portfolio. US Treasury notes, a US Agency bond and corporate securities were purchased at a weighted average yield of .44%. The weighted average maturity at the time of purchase for these investments was 3.3 years.
- The portfolio duration maintains exposure to longer-term interest rates and the portfolio is well diversified to various market sectors which may enhance the portfolio’s return.

# City of Boulder Operating Portfolio Profile As of March 31, 2021

## Asset Allocation - Historical Cost



## Final Maturity Distribution - Historical Cost



## Summary of Operating Portfolio Characteristics

	March 31, 2021	December 31, 2020
Average Final Maturity (years)	2.04	2.02
Modified Duration (years)	1.85	1.80
Average Purchase Yield	1.56%	1.69%
Average Market Yield	0.35%	0.25%
Average Credit Quality (S&P/Moody's)	AA+/Aa1	AA+/Aa1
Total Market Value (\$)	337,637,162	338,155,500

## Portfolio Holdings as of March 31, 2021

Issuer	Historical Cost	% of Portfolio
US Treasury	77,088,360	23.13%
Federal National Mortgage Association	41,685,263	12.51%
Federal Home Loan Bank	29,105,206	8.73%
Federal Home Loan Mortgage Corp	26,890,868	8.07%
Federal Farm Credit Bank	18,581,703	5.57%
State Street Corp	12,316,811	3.70%
Microsoft Corp	11,736,902	3.52%
American Honda Finance Corp	10,545,614	3.16%
Caterpillar Financial Services Corp	10,371,046	3.11%
Toyota Motor Credit Corp	10,317,940	3.10%
Wal-Mart Inc	10,033,900	3.01%
Apple Inc	8,891,597	2.67%
City of New York, New York	8,478,013	2.54%
Cisco Systems Inc	7,971,070	2.39%
Metro Oregon	7,550,720	2.27%
John Deere Capital Corp	5,308,612	1.59%
PepsiCo Inc	5,067,281	1.52%
State of Florida	5,001,000	1.50%
State of Maryland	5,000,000	1.50%
International Business Machines Corp	4,871,700	1.46%
Johnson & Johnson	4,401,352	1.32%
Intel Corp	3,771,120	1.13%
Bank of New York Mellon Corp	2,912,725	0.87%
Oracle Corp	2,895,060	0.87%
Linde Inc	2,456,740	0.74%
Cash	55,862	0.02%
<b>Total Historical Cost</b>	<b>333,306,466</b>	<b>100.00%</b>

## **Section 4 - The City's Socially Responsible Investment (SRI) Initiative**

The City's investment framework includes considering socially responsible investment factors. The City's SRI program intends to allow the City to better achieve its sustainability and resilience goals, remain financially strong and better align community values. The program incorporates the strategies described below.

**Exclusionary Screening.** Exclusionary screening, or negative screening, is the process of excluding from investment certain sectors or companies involved in activities which are unacceptable or controversial. Investments for the City's portfolio exclude the following sectors:

- Fossil fuels inclusive of pipeline construction and extraction
- Firearms or weapons not used in national defense
- Tobacco companies
- Firms related to mass incarceration/private prisons/detention centers

Included in these negative screens is the prohibition of financial firms associated with pipeline construction. The City has further applied this limitation on financial firms to the group of broker/dealers through which investments may be transacted and the City has taken steps to remove any money market funds or cash pools that invest in the above sectors.

**Positive Screening and Impact Investing.** Positive screening and impact investing consider the impact that an investment is making. Implementation of this strategy is illustrated by the investment in a municipal bond issued for the construction and management of affordable housing. Other potential impact investing opportunities include investing in securities issued by the World Bank, which is an approved asset class per the City's investment policy.

**Environmental, Social and Governance (ESG) Integration.** The City's goal is to bring ESG integration to the heart of the investment decision process. The City monitors the ESG ratings provided by MSCI for the corporate bonds in the portfolio. The MSCI ratings are provided on a scale of 1 to 10 with ten being the highest. At this time, the weighted average Industry-Adjusted Score from MSCI for the corporate bond holdings is 6.5 which maps to a letter rated of "A" on a scale of triple-C to triple-A.

The City also monitors the unadjusted Pillar Scores from MSCI for the corporate holdings. At this time, the weighted average Pillar Scores for the corporate bond holdings are as follows:

- MSCI Environmental Pillar Score: 7.1
- MSCI Social Pillar Score: 4.9
- MSCI Governance Pillar Score: 4.1

The City's ESG model can be refined to reflect the issues that matter most to the citizens of Boulder by applying customized weights to the MSCI Pillar Scores, thus creating ESG scores that better reflect the City's values, goals and policies.

**Active Ownership/Corporate Engagement.** Corporate engagement involves discussions with issuers about ESG risks and opportunities. The City is partnering with Insight Investment to seek the benefits of this goal. Insight requests and participates in meetings with management to understand key risks and potentially influence outcomes. Company engagement is critical to Insight's credit process and their analysts meet with issuers to address ESG factors as well as other credit-related concerns or questions.

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