TO: The Mayor and Members of City Council
Nuria Rivera-Vandermyde, City Manager

FROM: Cheryl Pattelli, CFO

SUBJECT: Investment Performance as of June 30, 2021

Date: July 21, 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

Vaccines and fiscal stimulus should turbo charge growth: Markets continued their optimistic tone in the second quarter of 2021, with the vaccine rollout making solid progress and a larger than expected fiscal stimulus causing a significant upgrade to US growth forecasts.

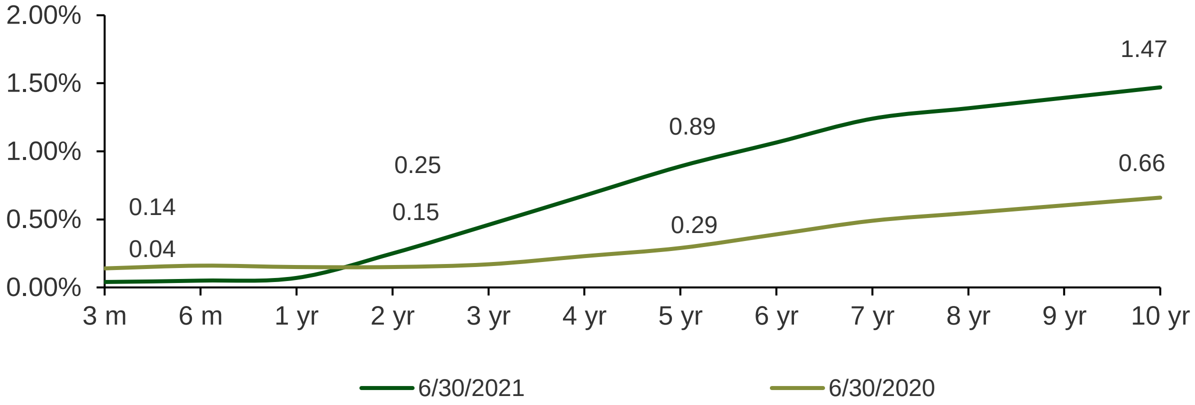
Surge in inflation raises taper talk: Headline CPI accelerated to 5% year-on-year in May, the fastest since 2008. This led to speculation that the Fed would start to taper their bond purchase program in the coming months. This uptick in inflation may prove transitory and gradually dissipate in the months ahead.

The yield curve and Federal Open Market Committee (FOMC) expectations: The yield curve flattened amid the search for yield. Longer maturity Treasury securities significantly outperformed as pensions and foreigners added to US fixed income allocations. The median forecast of US FOMC members suggests a more hawkish stance than in Q1, with a median expectation that interest rates will be raised twice in 2023. Previously the first hike was not expected until 2024. The 2-year maturity Treasury yield rose by 10bp to 0.25%, the 10-year maturity Treasury yield fell by 37bp to 1.47% and the 30-year maturity Treasury yield declined by 38bp to 2.1%.

Credit spreads rallied towards pre-crisis levels: Credit spreads tightened in Q2, with aggregate US corporate spreads ending the quarter 11bp tighter. The intermediate area of the credit curve outperformed, tightening by 12bp. BBB-rated issues and high yield generally outperformed given the positive economic outlook.

The S&P 500 Index made substantial gains: US equity markets experienced a strong quarter, buoyed by upward revisions to growth forecasts, high cash balances, and extremely strong earnings growth in Q1.

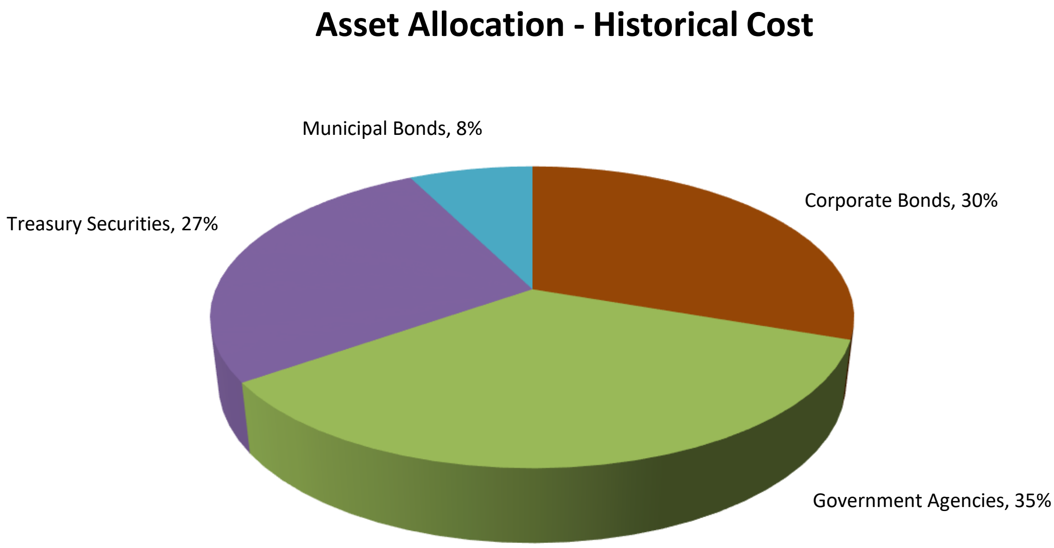
Treasury Yield Curve: 06/30/21 and 06/30/20 (Source: Bloomberg)

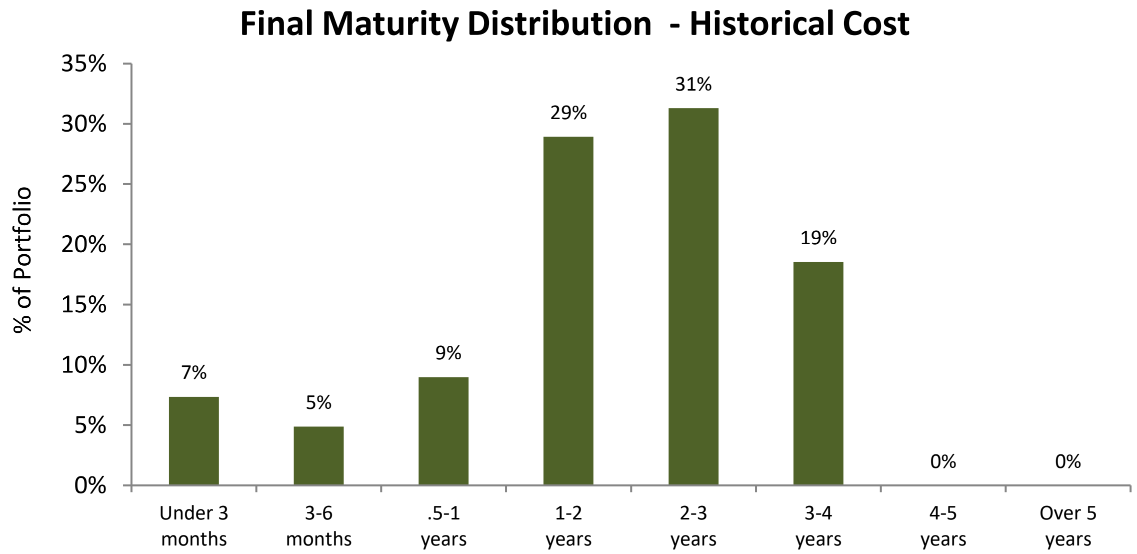


Section 3 – The City's Portfolio

- 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 June 30, 2021, the WAM of the operating portfolio was 1.95 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, 2.5% of the term securities held as of June 30 will mature or be called within 30 days.
  - As of June 30, the weighted average purchase yield for the operating portfolio holdings was 1.34%. The yield benchmark is the six-month trailing average of the yield on the 2-year Treasury note, which was .16% as of June 30. The purchase yield on the operating portfolio as of June 30 exceeded the benchmark yield by 1.18%.
  - For the second quarter 2021, the fair value periodic return on the operating portfolio was positive .08%. The 1-3 Treasury Index return for the period was negative .03%. The periodic return on the operating portfolio for the second quarter was .11% higher 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 second quarter 2021, the City's investment advisor invested approximately $44 million in longer-term securities for the operating portfolio. US Treasury notes, US Agency bonds and one corporate security were purchased at a weighted average yield of .23%. The weighted average maturity at the time of purchase for these investments was 2 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 June 30, 2021





Summary of Operating Portfolio Characteristics

	June 30, 2021	March 31, 2021
Average Final Maturity (years)	1.95	2.04
Modified Duration (years)	1.78	1.85
Average Purchase Yield	1.34%	1.56%
Average Market Yield	0.34%	0.35%
Average Credit Quality (S&P/Moody's)	AA+/Aa1	AA+/Aa1
Total Market Value ($)	352,905,904	337,637,162

Portfolio Holdings as of June 30, 2021

Issuer	Historical Cost	% of Portfolio
US Treasury	95,574,510	27.29%
Federal National Mortgage Association	37,710,463	10.77%
Federal Home Loan Bank	31,405,206	8.97%
Federal Home Loan Mortgage Corp	26,890,868	7.68%
Federal Farm Credit Bank	26,580,663	7.59%
State Street Corp	12,316,811	3.52%
Microsoft Corp	11,736,902	3.35%
American Honda Finance Corp	10,545,614	3.01%
John Deere Capital Corp	10,353,112	2.96%
Toyota Motor Credit Corp	10,317,940	2.95%
City of New York, New York	8,478,013	2.42%
Cisco Systems Inc	7,971,070	2.28%
Metro Oregon	7,550,720	2.16%
Caterpillar Financial Services Corp	7,414,466	2.12%
Apple Inc	7,392,482	2.11%
Wal-Mart Inc	7,029,820	2.01%
State of Florida	5,001,000	1.43%
State of Maryland	5,000,000	1.43%
International Business Machines Corp	4,871,700	1.39%
Johnson & Johnson	4,401,352	1.26%
Intel Corp	3,771,120	1.08%
Oracle Corp	2,895,060	0.83%
PepsiCo Inc	2,594,756	0.74%
Linde Inc	2,456,740	0.70%
Cash	8,480	0.00%
Total Historical Cost	**350,268,868**	**100.00%**

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 6.6 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: 7.0
- MSCI Social Pillar Score: 5.0
- MSCI Governance Pillar Score: 4.4

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.