



Quarterly Review of Investment Strategy

December 31, 2017

Bernalillo County, NM

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Bernalillo County Investment Committee

January 25, 2018

Bernalillo County Board of Finance

February 13, 2018








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Investment Priorities

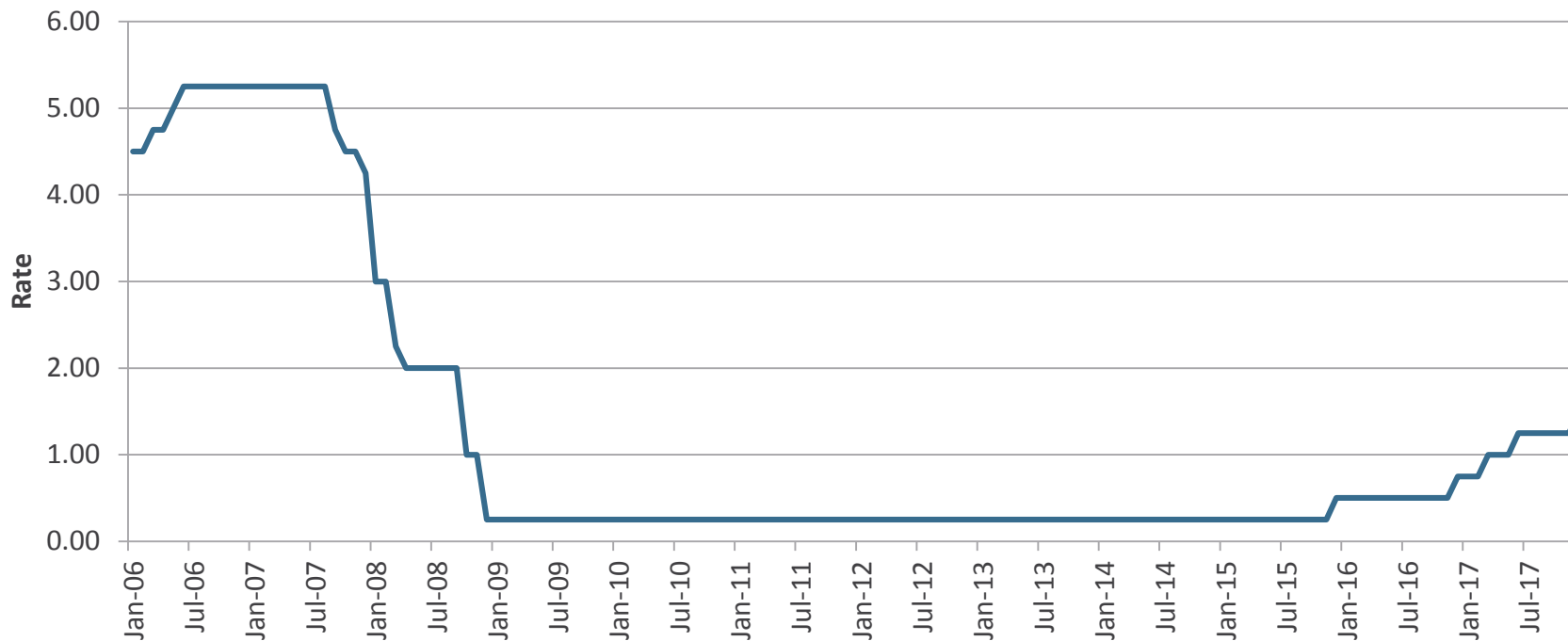
Investment Priorities

Our investment objectives and philosophy are consistent with all of our clients:

-  ***Safety is primary objective***
-  Transparency
-  Compliance
-  Liquidity
-  Yield

Economic Update

Fed Funds Target Rate

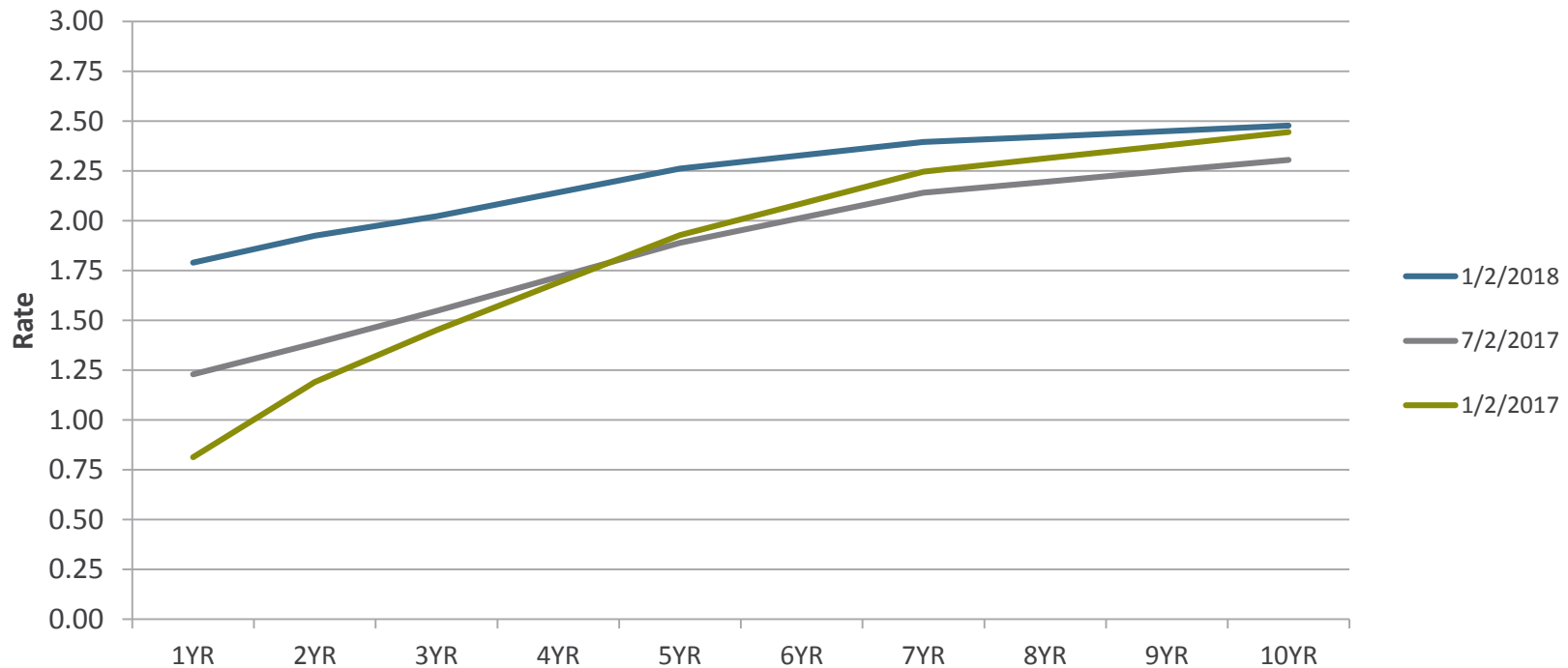


- The Federal Reserve increased its target rate to a range of 1.25% to 1.50% on December 13, 2017.
- The Federal Reserve began reducing its \$4.5 trillion balance sheet in October 2017 by not reinvesting all of the maturing securities from its portfolio on a monthly basis.
- Beginning in January 2018, the Federal Reserve will allow a total of \$20 billion to roll off its balance sheet each month.

FOMC Dot Plot – December 2017

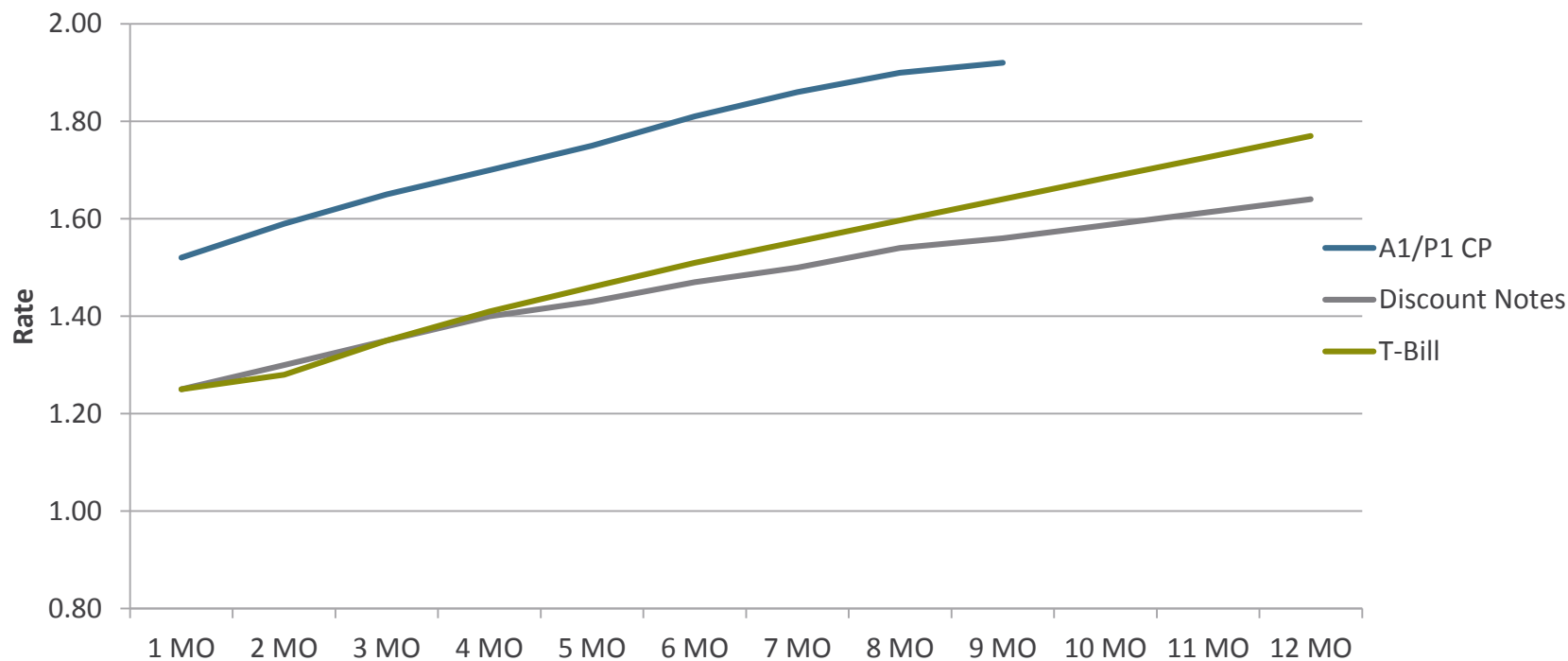


Comparative Historical Yield Curves



- Interest rates have increased all along the yield curve as the Fed continues to raise the Fed Funds target rate.
- The yield curve continues to flattened as expectations for growth and inflation have diminished over the past several months.

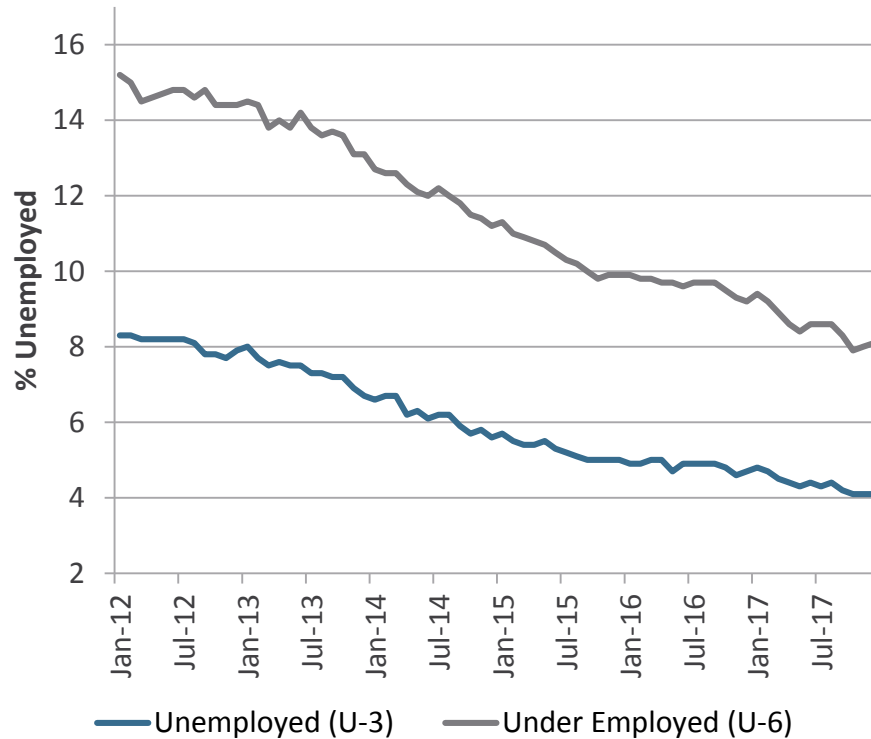
Money Market Yield Curves



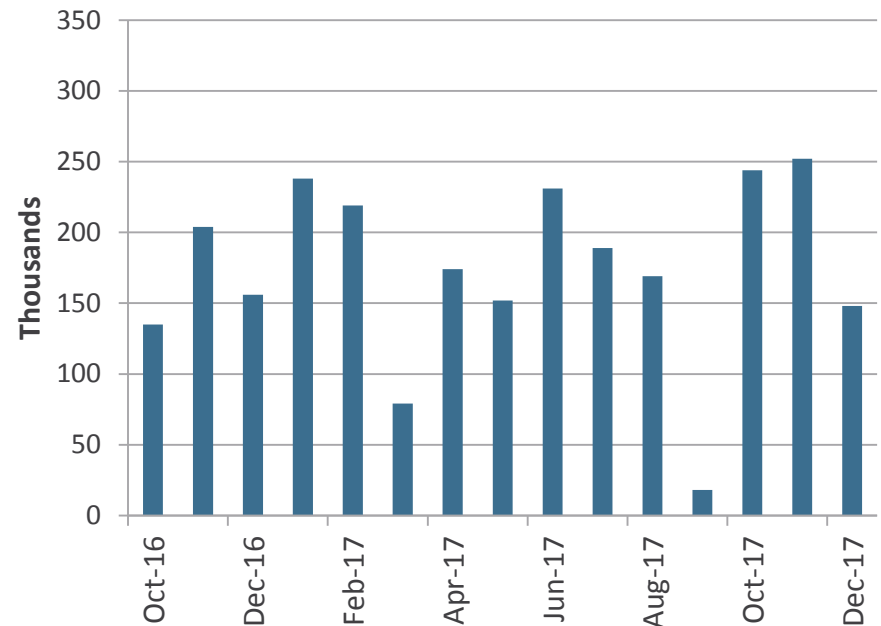
- The yield spread between short-term Treasuries and discount notes remains at a very tight level.
- Adding credit in the form of commercial paper enhances the yield of the portfolio.
- Money market yields continue to rise as the market expects the FOMC to increase the target rate again at its March 2018 meeting.

Unemployment Rate and Average Hourly Earnings

US Unemployment Rate

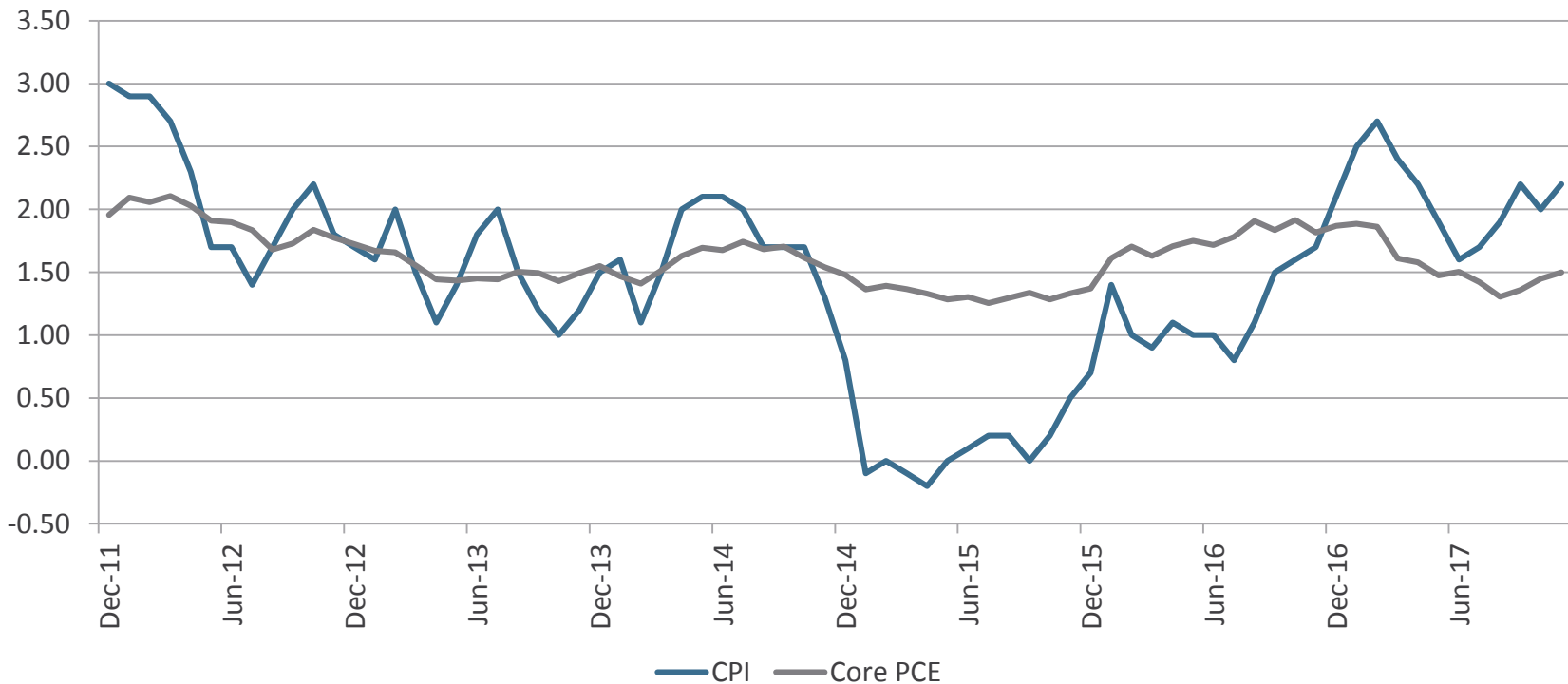


Nonfarm Payrolls



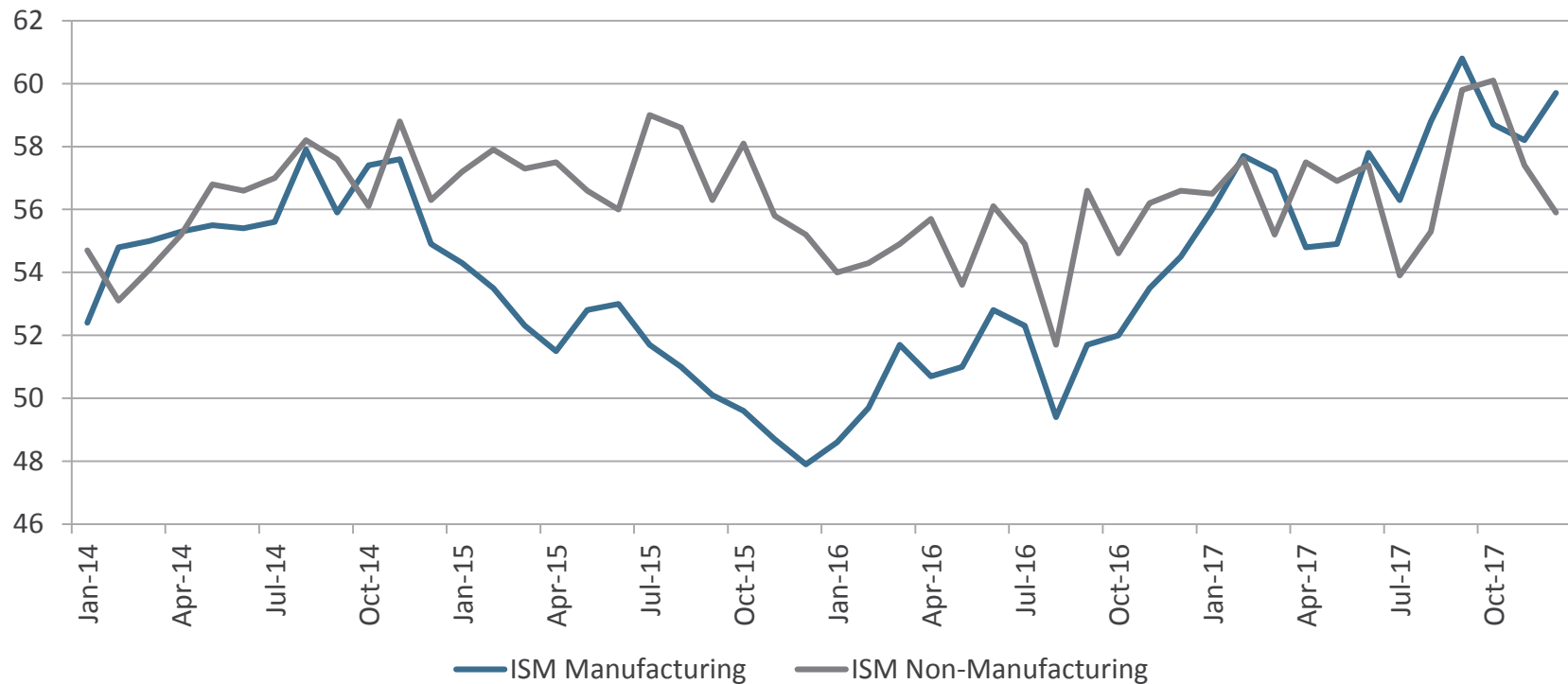
- The unemployment rate held at 4.1% in December, the lowest since December 2000.
- Average hourly earnings increased 2.5% on a year-over-year basis in December, up from the 2.4% increase reported in November.
- Nonfarm payrolls rose 148,000 in December, below the median forecast of 190,000.

Inflation



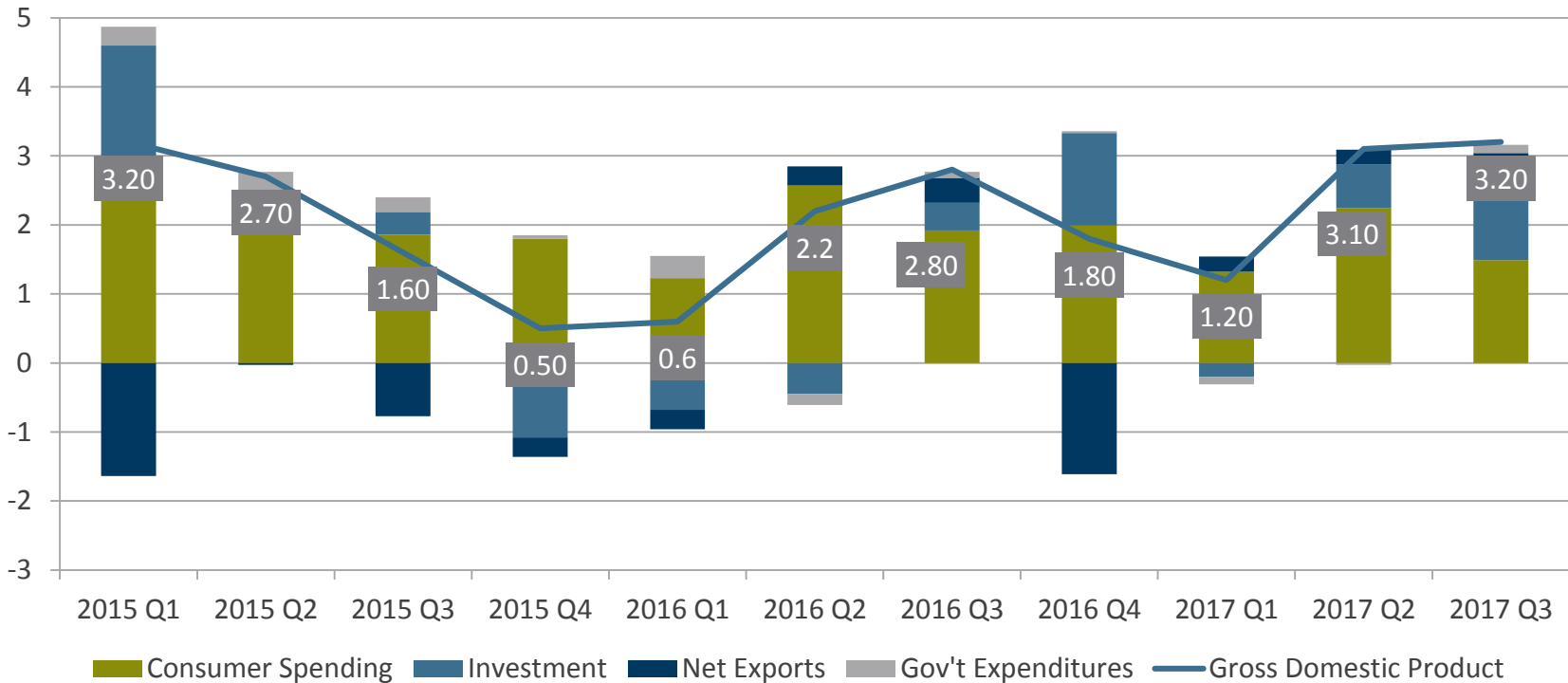
- Inflation continued to remain below the Fed's 2.0% target in 2017.
- November CPI rose 2.2% on a year-over-year basis. Core CPI (less food and energy) increased at a 1.7% year-over-year pace.
- The Fed's preferred measure of inflation, core PCE, was reported at 1.5% in November, well below the Fed's target of 2.0%.

Institute for Supply Management



- ISM Manufacturing for December was stronger than expected coming in at 59.7 versus 58.2 in November and a forecasted 58.2.
- ISM Non-Manufacturing (Service) came in much weaker than expected decreasing to 55.9 in December versus 57.4 in November and an expected 57.6.
- Both indexes remain well above 50 signaling continued expansion in these sectors of the economy.

Contributions to Percent Change in Real GDP



- The U.S. economy expanded at a revised 3.2% annualized pace during the third quarter of 2017, up from the initial estimate of 3.0%.
- Consumer spending, the largest part of the economy, rose at a 2.2% annual pace after increasing 3.3% in the second quarter.
- GDP growth expectations remain at 2.0-2.5% for the foreseeable future.

Investment Strategy – Operating Funds Portfolio

Previous Quarter Strategy*

Operating Funds Portfolio

- ❏ The Treasurer presented the “Three Bucket” strategy to the Investment Committee and the Board of Finance last quarter.
- ❏ The implementation of the strategy is now underway.
- ❏ The core portfolio has been created as of September 6, 2017, by simply transferring certain holdings from the existing operating funds portfolio.
- ❏ Strategy approval for the core portfolio will happen on a quarterly basis and it was approved last quarter so the team is ready to actively manage the portfolio.
- ❏ Public Trust will now be able to buy and sell securities in this portfolio, staying within all policy constraints and the objectives of safety first investing, followed by liquidity and yield objectives.
- ❏ The core portfolio will be managed to a BAML 1-3 year Treasury/Agency benchmark.
- ❏ The Investment Procedures have been updated to reflect the change in strategy to the “Three Bucket” model.
- ❏ The liquidity portfolio will continue to have steady monthly maturities to meet the cash needed for normal operations of the County.

Bernalillo County Operating Funds Portfolio – Dec 31, 2017

	Market Value + Accrued	% of Total	Book Yield
<u>Highly Liquid Portfolio: Must Mature Within 30 Days Per Policy</u>			
CDARS/ICS:			
First National Bank Santa Fe	\$ 5,163,965.82	1.09%	0.612%
Bank of the West	\$ 94,900,081.72	20.03%	1.086%
Total Month-end CDARS/ICS Balances	\$ 100,064,047.54	21.12%	
<u>Liquid Portfolio: Must Mature Within 12 Months</u>			
Investments:			
US Treasury Securities	\$ 250,182,314.11	52.81%	1.227%
US Agency Securities	\$ 9,769,122.43	2.06%	1.139%
Cash - Wells Fargo MMF	\$ 10,357,341.19	2.19%	1.140%
Cash/Receivable	\$ 67,694.43	0.01%	0.00%
Summary of Negotiated Bank Deposits:*			
Wells Fargo Savings	\$ 38,895,922.30	8.21%	0.173%
Bank of the West	\$ 10,213.02	0.00%	0.081%
Total Month-end Bank Balances	\$ 38,906,135.32	8.21%	
Total Liquid Portfolio: 0-12 months	\$ 409,346,655.02	86.40%	1.141%
Core Portfolio	\$ 64,418,985.85	13.60%	1.084%
Total Operating Funds	\$ 473,765,640.87	100.00%	1.133%
Previous Month Operating Funds	\$ 359,153,712.15		1.165%

Bernalillo County Operating Funds Liquidity Portfolio (ex. Bank Products)

Balance Sheet Summary

	Bernalillo County Liq Op
Book Value	270,375,356.84
Accrued Balance	206,579.04
Net Unrealized Gain/Loss	-205,463.72
Market Value + Accrued	270,376,472.16

Net Income

	Bernalillo County Liq Op
Current Units	270,625,035.62
Interest Income	90,100.59
Net Amortization/Accretion Income	119,914.18
Net Realized Gain/Loss	0.00
Net Income	210,014.77

Index Comparison Summary

Risk Metric	Portfolio	Index	Difference
Duration	0.240	0.921	-0.681
Yield	1.188	1.732	-0.544
Years to Effective Maturity	0.237	0.932	-0.695
Years to Final Maturity	0.237	0.932	-0.695
Average Credit Rating	AAA	AAA	--

Fixed Income Holdings by Market Sector

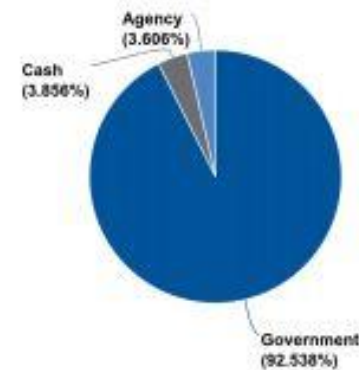
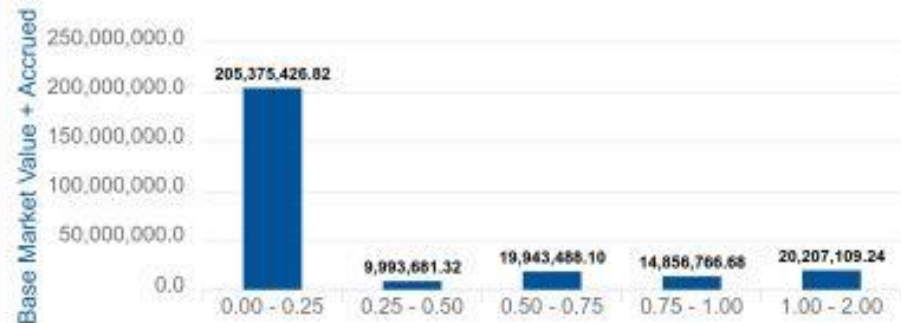


Chart calculated by: % of Book Value

Duration



Bernalillo County Operating Funds Core Portfolio

Balance Sheet Summary

	Bernalillo County Core Op
Book Value	65,022,279.44
Accrued Balance	145,159.20
Net Unrealized Gain/Loss	-748,452.79
Market Value + Accrued	64,418,985.85

Net Income

	Bernalillo County Core Op
Current Units	64,957,029.05
Interest Income	66,383.25
Net Amortization/Accretion Income	-5,168.02
Net Realized Gain/Loss	0.00
Net Income	61,215.23

Index Comparison Summary

Risk Metric	Portfolio	Index	Difference
Duration	1.639	1.861	-0.222
Yield	1.861	1.895	-0.034
Years to Effective Maturity	1.670	1.922	-0.252
Years to Final Maturity	1.670	1.922	-0.252
Average Credit Rating	AAA	AAA	---

Fixed Income Holdings by Market Sector

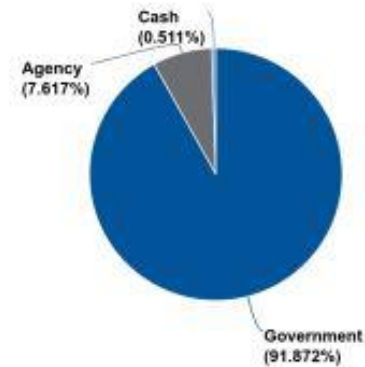
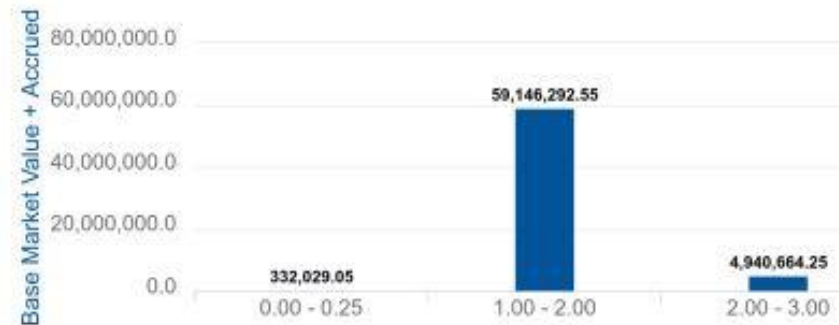


Chart calculated by: % of Book Value

Duration



Investment Strategy - Operating Funds

- ☰ The “Three Bucket” strategy is in place:
 - ☰ Bucket #1: “15% Rule”- Must Mature Within 30 Days
 - ☰ Includes the 15% Liquidity requirement as defined in the investment policy
 - ☰ Bucket #2: Liquidity Ladder
 - ☰ Benchmark – 1 year T-bill
 - ☰ Includes smooth ladder of minimum \$5mm monthly maturities to cover the cash needs of the County operations
 - ☰ Bucket #3: Core Operating Funds
 - ☰ Benchmark – 1-3 year Treasury/Agency
 - ☰ Made up of reserve dollars
 - ☰ Actively managed

- ☰ Strategy approval for the core portfolio will happen on a quarterly basis.

Investment Strategy – Bond Proceeds Portfolio

Previous Quarter Strategy*

Bond Proceeds Portfolio

- Maintain the course.
- This portfolio strategy is to structure investment maturities to meet the cash needs of the capital projects currently underway.
- The portfolio has been invested in a smooth ladder of securities with a target of \$1.5 million maturing each month to fund project draws.
- Any funds not needed for capital project draws will be invested at the end of the ladder.
- Trade authorization will be required for each trade.
- The County plans to issue Gross Receipts Tax (GRT) revenue bonds on or after October 24, 2017.
- The next GO bond issue is planned for sometime in the first half of 2018.

Bernalillo County Bond Proceeds Portfolio

Balance Sheet Summary

	<i>Bernalillo County Bond Proceed</i>
Book Value	83,447,389.18
Accrued Balance	65,864.36
Net Unrealized Gain/Loss	-100,823.73
Market Value + Accrued	83,412,429.81

Net Income

	<i>Bernalillo County Bond Proceed</i>
Current Units	83,591,383.00
Interest Income	29,254.79
Net Amortization/Accretion Income	57,080.26
Net Realized Gain/Loss	0.00
Net Income	86,335.04

Index Comparison Summary

Risk Metric	Portfolio	Index	Difference
Duration	0.340	0.921	-0.581
Yield	1.335	1.732	-0.397
Years to Effective Maturity	0.338	0.932	-0.594
Years to Final Maturity	0.338	0.932	-0.594
Average Credit Rating	AAA	AAA	---

Fixed Income Holdings by Market Sector

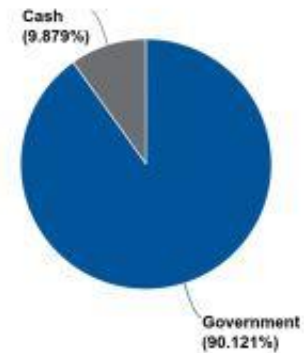
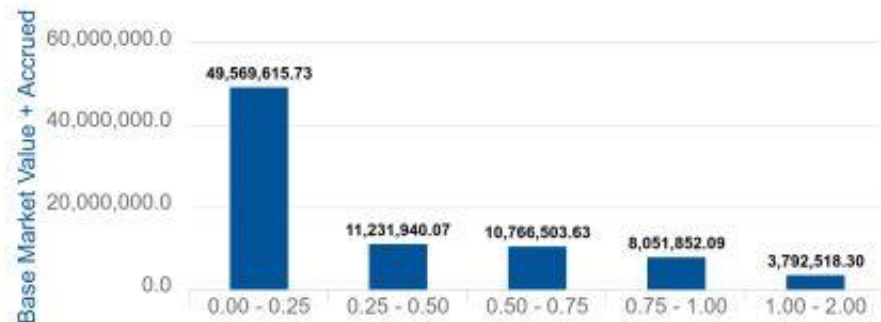


Chart calculated by: % of Book Value

Duration



Investment Strategy – Bond Proceeds

- This portfolio, since its inception, has held only General Obligation (GO) bond proceeds.
- The GO bond proceeds portfolio has been invested in a smooth ladder of securities with a target of \$1.5 million maturing each month to fund project draws. Any funds not needed for capital project draws will be invested at the end of the ladder.
- In November 2017, \$47.5 million of Gross Receipts Tax (GRT) bond proceeds were added to the portfolio. These bond proceeds are specific to two projects: (1) related to moving the County offices to the new building at Alvarado Square; and (2) related to energy efficiency at the Metropolitan Detention Center (MDC).
- The working group is actively discussing expected cash flows for the GRT funded projects and all proceeds have been invested in relatively short-term securities (maturing December 2017 – June 2018) while information continues to flow in. Consequently, we no longer see a perfectly smooth ladder in this portfolio.
- Trade authorization will be required for each trade for both GO and GRT bond proceeds investments.

Registered Investment Advisor – Standard of Care

Per Public Trust Advisors' current scope of work for Bernalillo County, we are required to prepare a quarterly investment review and present it to the Investment Committee and the Board of Finance. As a Registered Investment Advisor (RIA) under the Securities Exchange Act of 1940, we act in a fiduciary capacity for the County.

*A **fiduciary** relationship is generally viewed as the highest standard of customer care available under law. Fiduciary duty includes both a duty of care and a duty of loyalty. Collectively, and generally speaking, these duties require a fiduciary to act in the best interest of the customer, and to provide full and fair disclosure of material facts and conflicts of interest.*

~ Securities Industry and Financial Markets Association (SIFMA)

SIFMA Fiduciary Standard Resource Center, <https://www.sifma.org/issues/private-client/fiduciary-standard/overview/>

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