



Quarterly Review of Investment Strategy

December 31, 2018

Bernalillo County, NM

Chris DeBow, *Managing Director*

Sheila Duffy, *Director*

Neil Waud, CFA, *CIO*

Cory Gebel, CFA, *Portfolio Manager*

Bernalillo County Investment Committee

January 31, 2019

Bernalillo County Board of Finance

February 12, 2019



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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

Investment Strategy – Operating Funds Portfolio

Bernalillo County Operating Funds Portfolio – Dec 31, 2018

	Market Value + Accrued	% of Total	Book Yield
<u>Highly Liquid Portfolio: Must Mature Within 30 Days Per Policy</u>			
CDARS/ICS:			
Bank of the West	\$ 99,436,129.27	17.34%	2.279%
State of New Mexico LGIP	\$ 75,916.24	0.01%	1.964%
Total Month-end CDARS/ICS Balances	\$ 99,512,045.51	17.35%	
<u>Liquid Portfolio: Must Mature Within 12 Months</u>			
Investments:			
US Treasury Securities	\$ 329,279,404.81	57.41%	2.330%
US Agency Securities	\$ 8,156,104.54	1.42%	1.688%
Cash - Wells Fargo MMF	\$ 30,048,396.50	5.24%	2.230%
Cash/Receivable	\$ 178,583.46	0.03%	0.00%
Summary of Negotiated Bank Deposits:*			
Wells Fargo Savings	\$ 192,802.14	0.03%	0.195%
Bank of the West	\$ 10,892.42	0.00%	0.082%
Total Month-end Bank Balances	\$ 203,694.56	0.04%	
Total Liquid Portfolio: 0-12 months	\$ 467,378,229.38	81.49%	2.299%
Core Portfolio	\$ 106,143,213.59	18.51%	2.045%
Total Operating Funds	\$ 573,521,442.97	100.00%	2.252%
Previous Month Operating Funds	\$ 354,476,257.42		2.105%

Bernalillo County Operating Funds Liquidity Portfolio

(ex. Highly Liquid Portfolio and Bank Products)

Balance Sheet Summary

	<i>Bernalillo County Liq Op</i>
Book Value	367,509,597.20
Accrued Balance	172,427.35
Net Unrealized Gain/Loss	-19,535.24
Market Value + Accrued	367,862,489.31

Net Income

	<i>Bernalillo County Liq Op</i>
Ending Current Units	368,476,979.96
Interest Income	234,812.25
Net Amortization/Accretion Income	333,335.01
Net Realized Gain/Loss	0.00
Misc Income	0.00
Expense	0.00
Net Income	568,147.26

Index Comparison Summary

Risk Metric	Portfolio	Index	Difference
Duration	0.124	0.914	-0.790
Yield	2.129	2.804	-0.475
Years to Effective Maturity	0.125	0.929	-0.804
Years to Final Maturity	0.125	0.929	-0.804
Average Credit Rating	AAA	AAA	--

Fixed Income Holdings by Market Sector

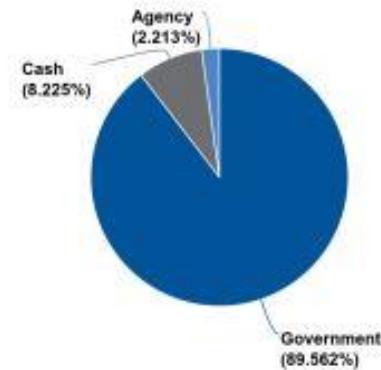
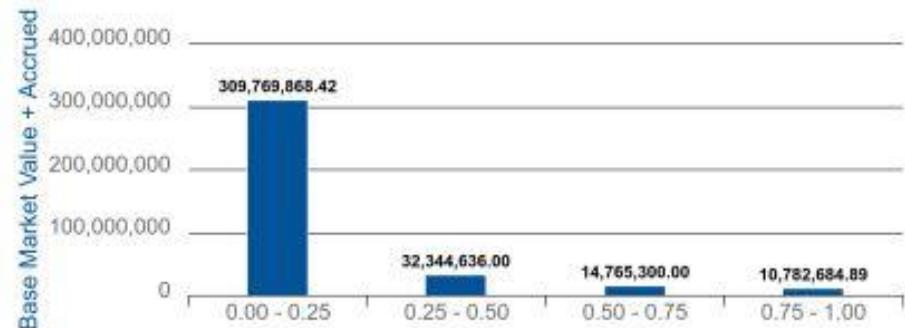


Chart calculated by: % of Book Value

Duration



Bernalillo County Operating Funds Core Portfolio

Balance Sheet Summary

	<i>Bernalillo County Core Op</i>
Book Value	106,076,385.69
Accrued Balance	445,731.09
Net Unrealized Gain/Loss	-378,903.19
Market Value + Accrued	106,143,213.59

Net Income

	<i>Bernalillo County Core Op</i>
Ending Current Units	106,392,564.75
Interest Income	169,701.49
Net Amortization/Accretion Income	14,099.11
Net Realized Gain/Loss	0.00
Misc Income	0.00
Expense	0.00
Net Income	183,800.60

Index Comparison Summary

Risk Metric	Portfolio	Index	Difference
Duration	1.448	1.864	-0.418
Yield	2.551	2.527	0.024
Years to Effective Maturity	1.492	1.940	-0.448
Years to Final Maturity	1.492	1.940	-0.448
Average Credit Rating	AAA	AAA	--

Fixed Income Holdings by Market Sector

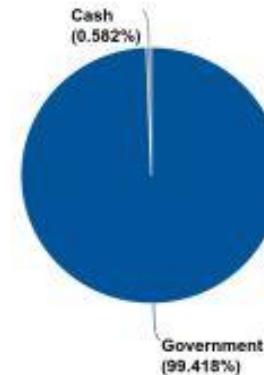
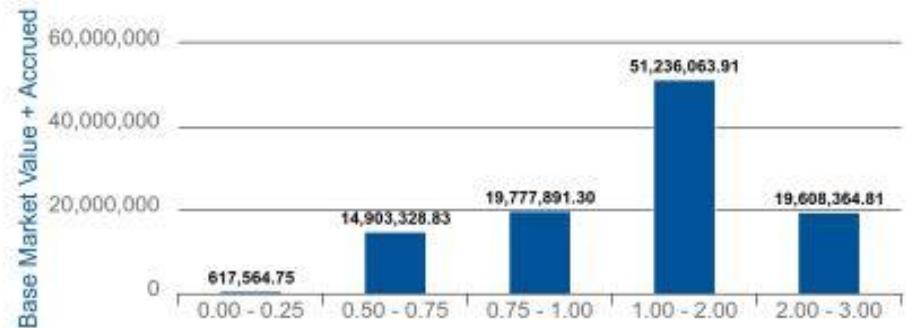


Chart calculated by: % of Book Value

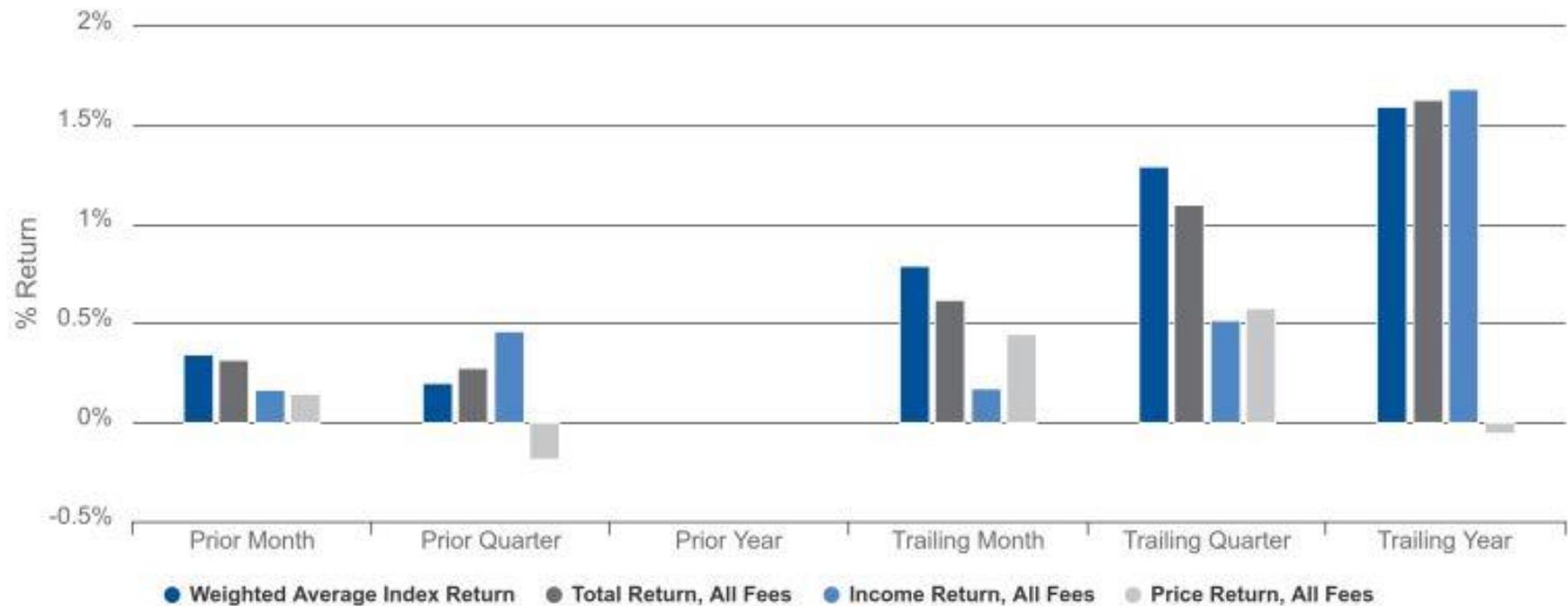
Duration



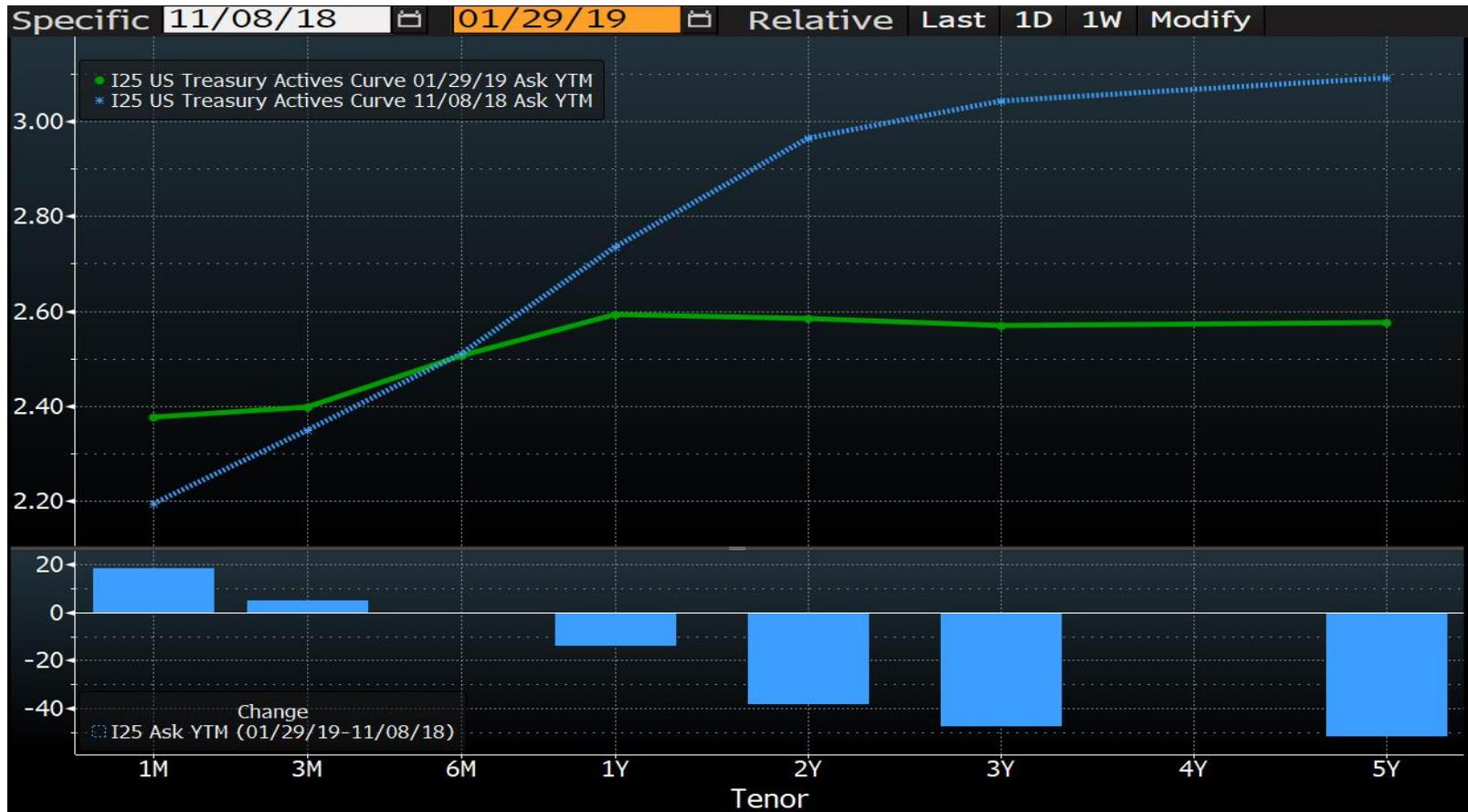
Operating Funds Core Portfolio Strategy

- Market conditions have shifted and the strategy for the Core portfolio needs to be revisited
- Yield curve inversion and interest rate cycles
- Active management and swap trades
- Current 1-3 benchmark has duration of 1.80 vs 1.37 for core
- County does not want to realize losses that can't be paid back
- Recognize potential mis-match in performance due to limitation due to the shape of the curve

Bernalillo County Op Funds Core Portfolio - Performance

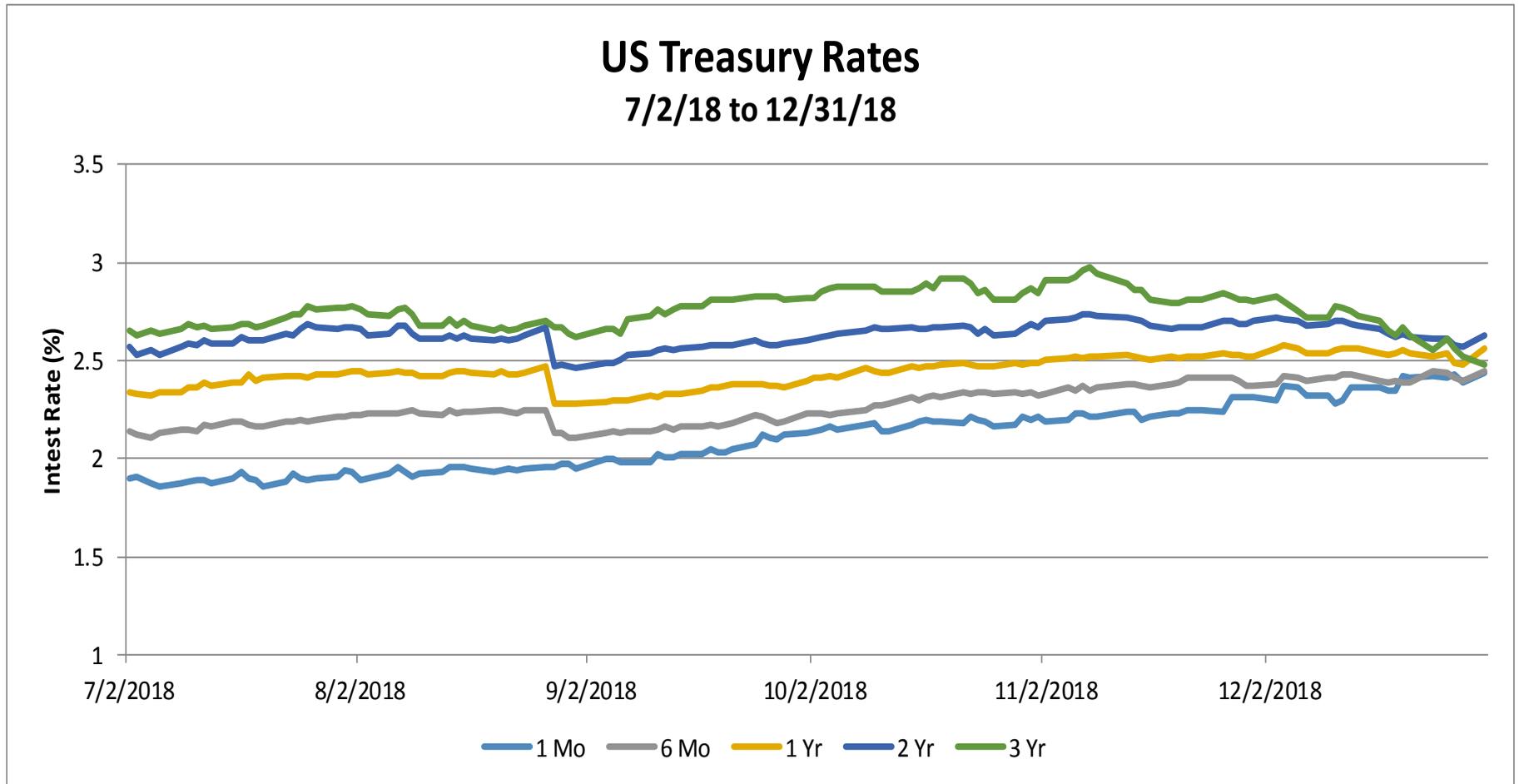


Flattening Yield Curve



Source: Bloomberg

Yield Curve Inversion



Source: US Department of the Treasury. <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/>

Quarterly Strategy Update – Operating Funds Portfolio

- 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
 - Amount updated per FY19 budget, now \$73 million
 - Add two benchmarks for this portfolio: Standard & Poor’s Gov’t LGIP and the One Month Treasury
 - Bucket #2: Liquidity Ladder
 - Benchmark – 1 year T-bill
 - Includes smooth ladder of minimum \$5mm monthly maturities through 12months for a minimum total \$60 million for the first 12 months
 - Bucket #3: Core Operating Funds
 - Benchmark – 1-3 year Treasury/Agency
 - Made up of funds not immediately needed for operations
 - Actively managed
- Strategy approval for the operating funds portfolios will happen on a quarterly basis.
- The Bernalillo County Treasurer manages Bucket #1. Public Trust manages Buckets #2 and #3 on a non-discretionary basis.
- Annual Investment Policy updates will be presented for review by this committee and approval by the Board of Finance.

Investment Strategy: Three Buckets

Bucket	Policy Parameter (\$)	Current Position (\$ 12/31/18)	Goal (\$)	Strategy Comments
30 Day*	\$73 million	\$99.5 mm	\$73million	\$10mm WF MMF buffer
Liquidity	Balance of Funds	\$367.9mm	Balance of funds	With adoption of new policy, \$60mm must mature w/in 12 months
Core	Undefined	\$106.1mm	\$120million	

* Defined as 15% of budget per Investment Policy

-  Strategy approval for the operating funds portfolios will happen on a quarterly basis.
-  Public Trust manages the Laddered Liquidity and Core portfolios on a non-discretionary basis.
-  Bernalillo County manages the Highly Liquid 30 Day portfolio.
-  Investment Policy updates presented for approval last quarter.

Investment Strategy – Bond Proceeds Portfolio

Bernalillo County Bond Proceeds Portfolio

Balance Sheet Summary

	<i>Bernalillo County Bond Proceed</i>
Book Value	67,953,197.24
Accrued Balance	230,432.80
Net Unrealized Gain/Loss	-45,836.35
Market Value + Accrued	68,137,793.69

Net Income

	<i>Bernalillo County Bond Proceed</i>
Ending Current Units	68,345,282.09
Interest Income	90,423.17
Net Amortization/Accretion Income	40,059.28
Net Realized Gain/Loss	0.00
Misc Income	0.00
Expense	0.00
Net Income	130,482.44

Index Comparison Summary

Risk Metric	Portfolio	Index	Difference
Duration	0.690	0.914	-0.224
Yield	2.521	2.604	-0.083
Years to Effective Maturity	0.703	0.929	-0.226
Years to Final Maturity	0.703	0.929	-0.226
Average Credit Rating	AAA	AAA	--

Fixed Income Holdings by Market Sector

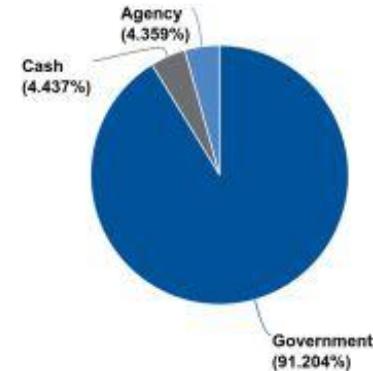
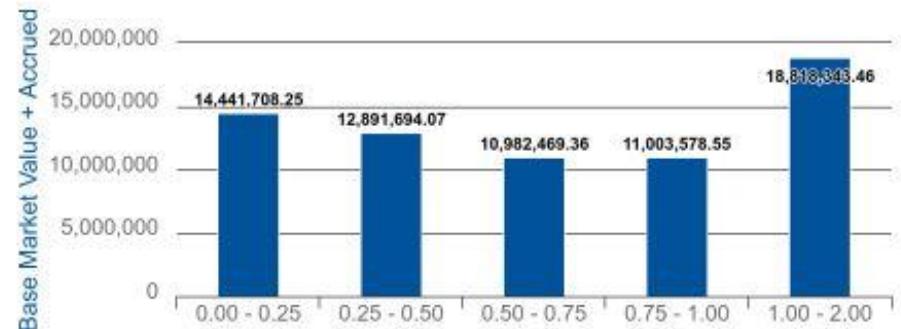


Chart calculated by: % of Book Value

Duration



Stable Strategy: Bond Proceeds Portfolio, Manage to Project Draws

- This portfolio strategy remains the same quarter to quarter.
- The GO bond proceeds portfolio maturities are laddered monthly to fund project draws. Any funds not needed for capital project draws will be invested at the end of the ladder.
- The working group is actively discusses cash flows for both GO Bond Proceeds and the GRT funded projects.
- 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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