



Quarterly Review of Investment Strategy

Bernalillo County, NM

Chris DeBow, *Managing Director*

Sheila Duffy, *Director*

Todd Alton, CFA, *Portfolio Manager*

Bernalillo County Investment Committee

October 12, 2017

Bernalillo County Board of Finance

November 28, 2017








Table of Contents

- Investment Priorities
- Economic Update
- Investment Strategy: Operating Funds Portfolio
 - Strategy Last Quarter
 - Current Portfolio
 - Proposed Strategy for Next Quarter
- Investment Strategy: Bond Proceeds Portfolio
 - Strategy Last Quarter
 - Current Portfolio
 - Proposed Strategy for Next Quarter
- Fiduciary Standard

Investment Priorities

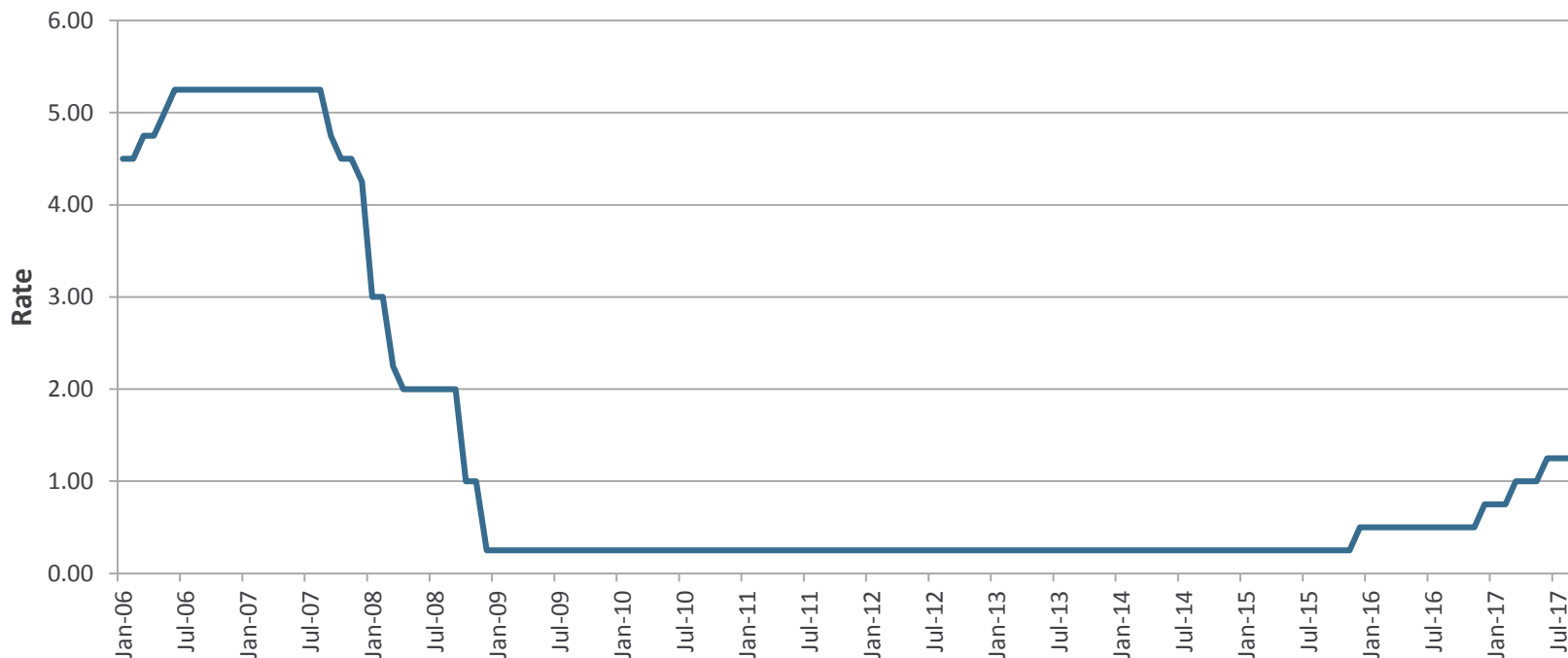
Investment Priorities

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

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

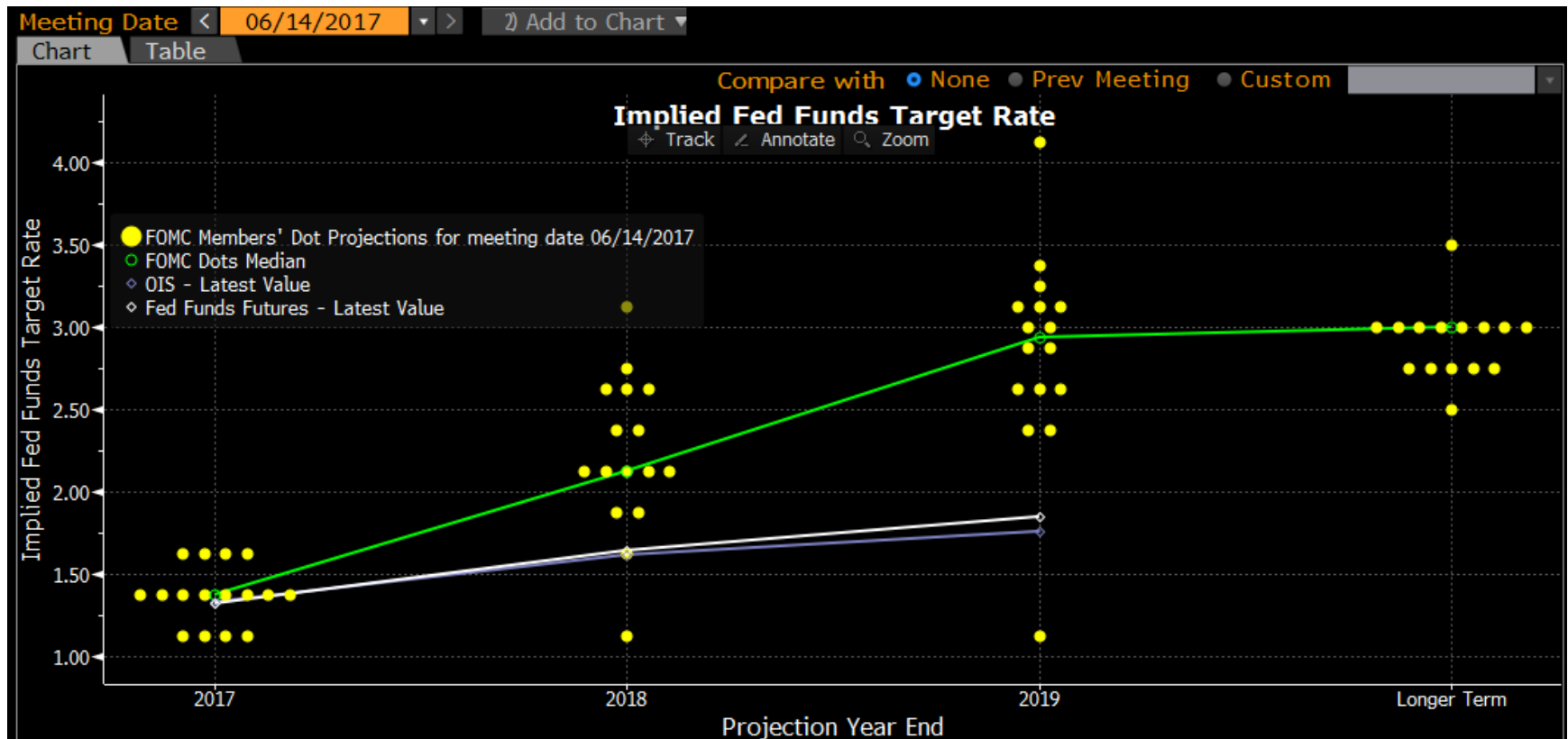
Economic Update

Fed Funds Target Rate

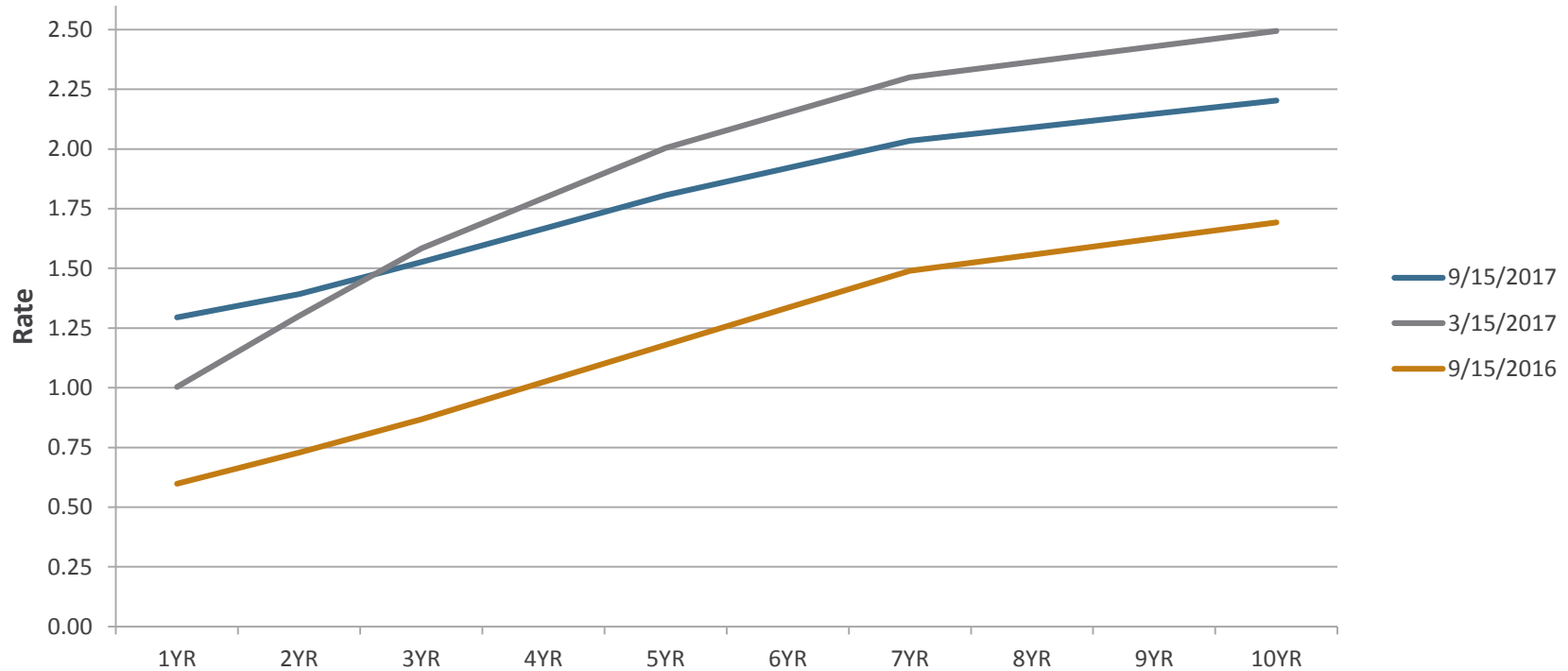


- The Federal Reserve increased its target rate to a range of 1.00% to 1.25% on June 15, 2017.
- The FOMC believes the economy has improved enough to withstand higher interest rates and began the tightening process in December of 2015.

FOMC Dot Plot – June 2017

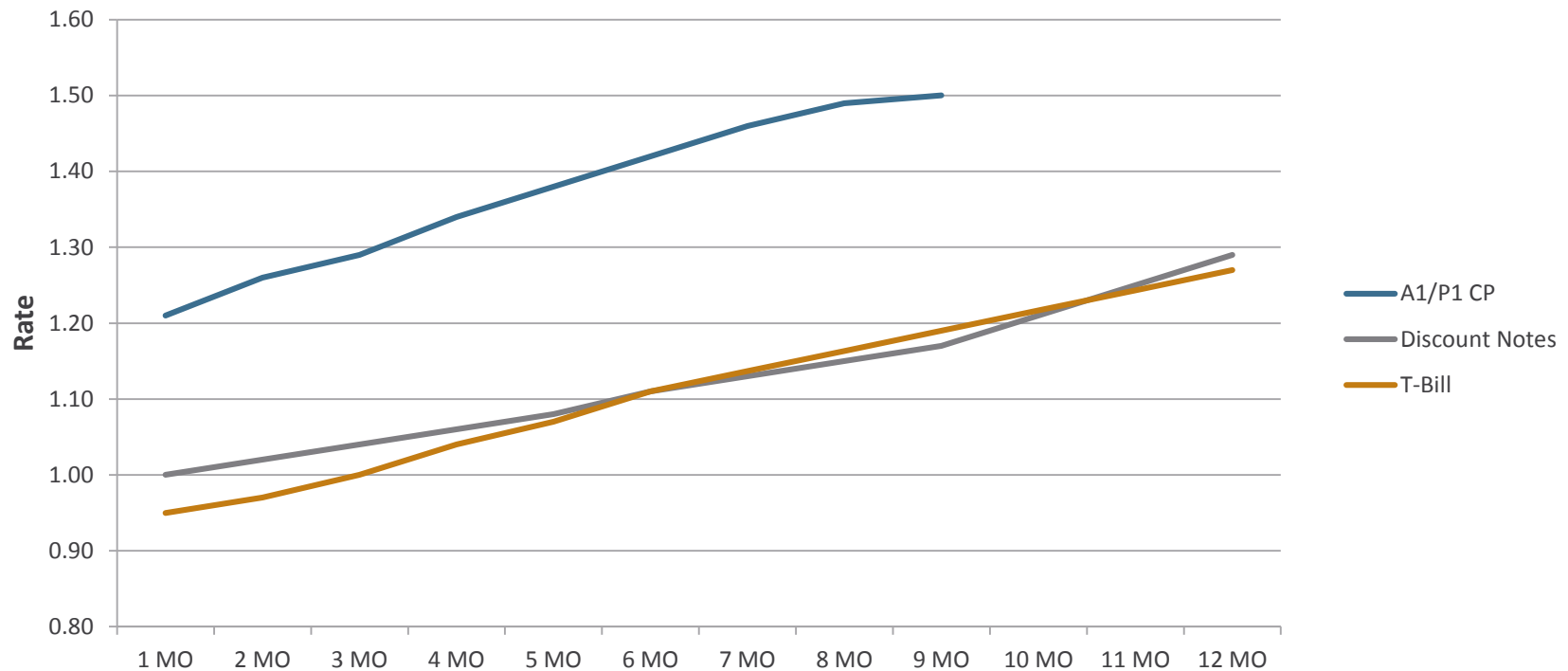


Comparative Historical Yield Curves



- Interest rates are generally higher along the curve as the Fed has begun its tightening cycle.
- The yield curve has flattened as expectations for growth and inflation have diminished over the past six months.

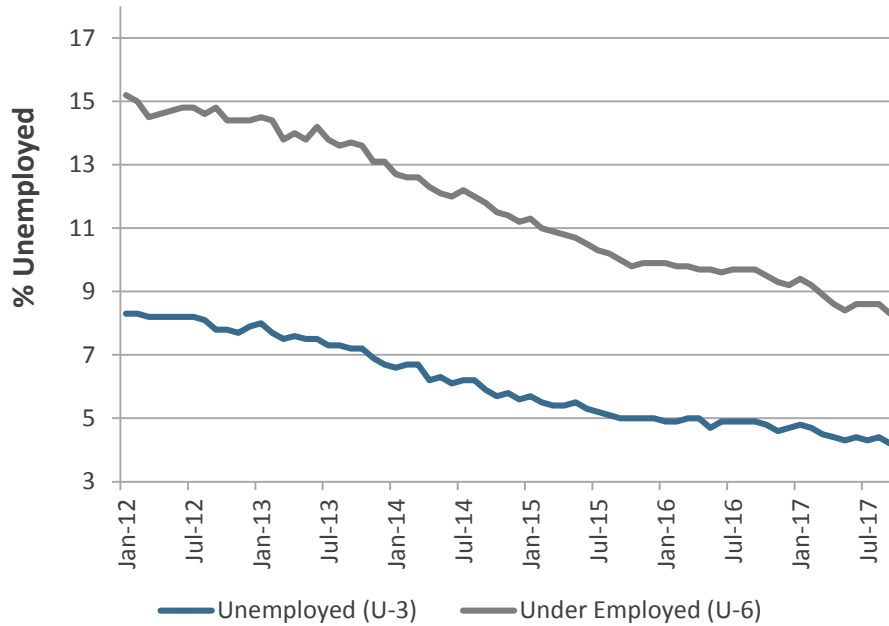
Money Market Yield Curves



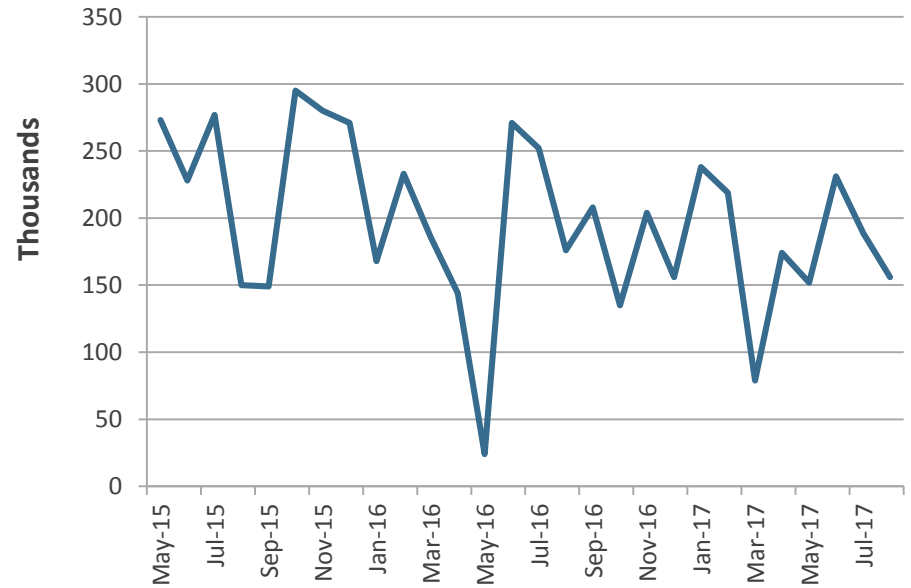
- Yield spread between short-term Treasuries and discount notes remain at very tight levels.
- Adding credit in the form of commercial paper enhances the yield of the portfolio.
- Money market yields have risen following the FOMC rate increase in June 2017.

Unemployment Rate and Nonfarm Payrolls

US Unemployment Rate

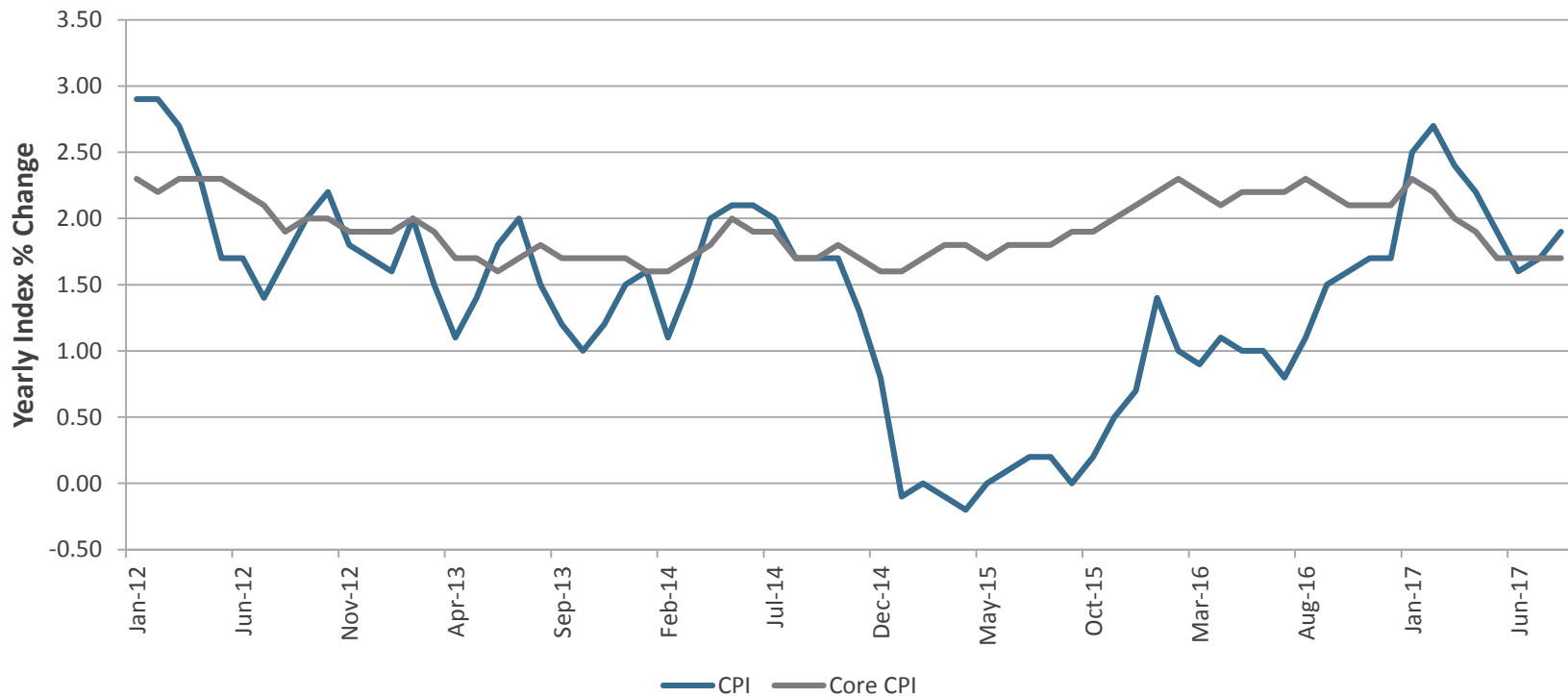


Nonfarm Payrolls



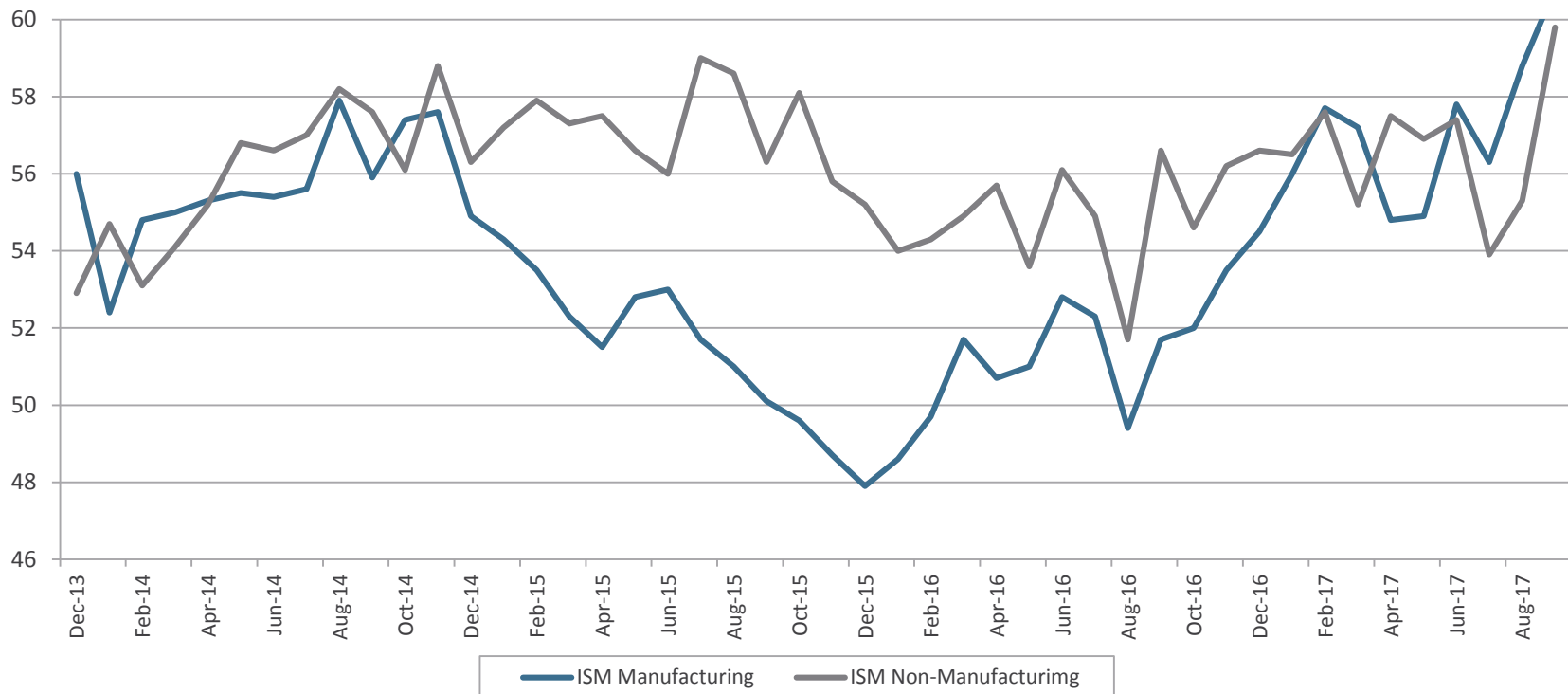
- The unemployment rate fell to a 16-year low from 4.4% to 4.2% in September.
- August jobs creation was at 156k, down from 189k in July.
- Average hourly earnings increased 2.5% on a year-over-year basis in August.

Consumer Price Index



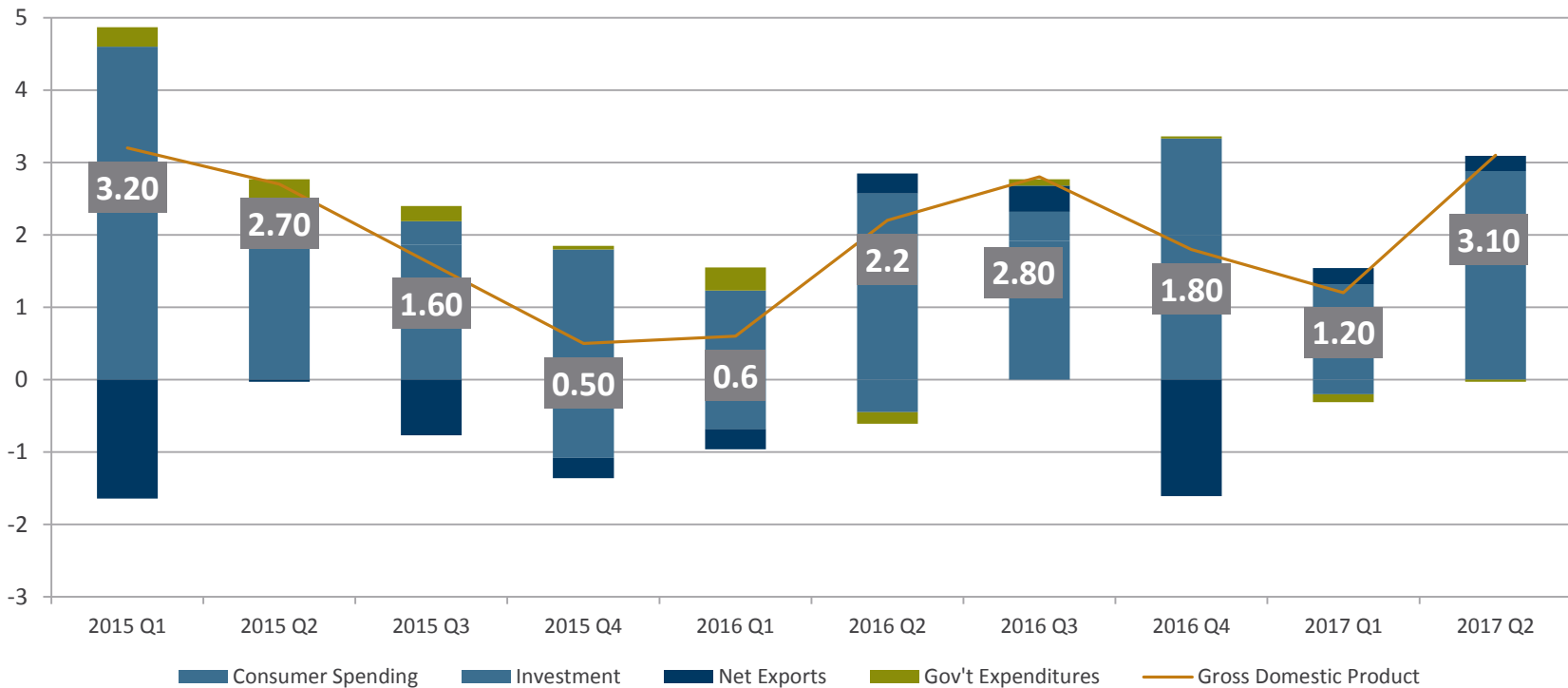
- Inflation continues to trend away from the Fed's 2% target in 2017.
- Recent softness in inflation numbers has cast doubt on the Fed's ability to continue to raise rates at its forecasted pace.
- CPI on a year-over-year basis has decreased to 1.9% in August, down from 2.5% in January.

Institute for Supply Management



- ISM Manufacturing for September was 60.8 signaling continued expansion in the manufacturing sector of the economy.
- ISM Non-manufacturing (Service) increased in September to 59.8 up from 55.3 in August. ISM Non-manufacturing decreased sharply in July from 57.4 to 53.9. Decline was largest since November 2008, however index remains above 50 signaling continued expansion in the service sector.

Contributions to Percent Change in Real GDP



- The U.S. economy expanded at a 3.0% annualized pace during the second quarter of 2017.
- Consumer Spending increased at a 3.3% annual pace adding 2.3% to second quarter growth.
- GDP growth expectations remain at 2.0-2.5% for the foreseeable future.

Investment Strategy – Operating Funds Portfolio

Fiscal Year 2017 – Previous Quarter Strategy*

Operating Funds Portfolio

- The focus of the working group is to split the operating funds portfolio into three “buckets”: (1) 15% 30-day Liquidity policy requirement; (2) Liquidity portfolio with all securities having a final stated maturity of no longer than one year; and (3) Core portfolio that will be benchmarked to the BAML 1-3 year Treasury/Agency Index.
- The question posed at previous Board of Finance presentations is, does the county need virtually the entire portfolio to be liquid (defined as maturing within one year) or is there opportunity to carve out another core portfolio with a somewhat longer duration strategy for enhanced performance, while maintaining safety and sufficient liquidity?
- Last quarter’s presentation discussed the details of creating a third portfolio for the county for efficient management and enhanced performance.
- Slides to follow cover creating a CORE portfolio, as a review, and illustrate that this strategy was contemplated in the original rewrite of the investment policy that happened in 2014, but was never implemented.
- At the August 8, 2017 Board of Finance meeting, the Treasurer sought and received approval to implement the “Three Bucket” strategy.

Bernalillo County Operating Funds Portfolio – Sept 30, 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	\$ 5,156,162.44	2.15%	0.592%
Bank of the West	\$ 65,661,332.94	27.44%	0.920%
Total Month-end CDARS/ICS Balances	\$ 70,817,495.38	29.59%	
<u>Liquid Portfolio: Must Mature Within 12 Months</u>			
Investments:			
US Treasury Securities	\$ 64,891,857.99	27.12%	1.096%
US Agency Securities	\$ 14,773,153.40	6.17%	1.132%
Cash - Wells Fargo MMF	\$ 10,427,977.28	4.36%	0.850%
Cash/Receivable	\$ 5,022,997.43	2.10%	0.00%
Summary of Negotiated Bank Deposits:*			
Wells Fargo Savings	\$ 8,760,898.34	3.66%	0.168%
Bank of the West	\$ 40,489.39	0.02%	0.079%
Total Month-end Bank Balances	\$ 8,801,387.73	3.68%	
Total Liquid Portfolio: 0-12 months	\$ 174,734,869.21	73.02%	1.144%
Core Portfolio	\$ 64,575,243.45	26.98%	1.084%
Total Operating Funds	\$ 239,310,112.66	100.00%	1.128%
Previous Month Operating Funds	\$ 241,618,438.71		1.143%

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

Balance Sheet Summary

	<i>Bernalillo County Liq Op</i>
Book Value	95,034,913.71
Accrued Balance	171,861.39
Net Unrealized Gain/Loss	-90,789.00
Market Value + Accrued	95,115,986.10

Net Income

	<i>Bernalillo County Liq Op</i>
Current Units	95,150,974.71
Interest Income	79,707.28
Net Amortization/Accretion Income	12,231.49
Net Realized Gain/Loss	0.00
Net Income	91,938.77

Index Comparison Summary

Risk Metric	Portfolio	Index	Difference
Duration	0.574	0.944	-0.37
Yield	1.146	1.333	-0.187
Years to Effective Maturity	0.577	0.953	-0.376
Years to Final Maturity	0.577	0.953	-0.376
Average Credit Rating	AAA	AAA	---

Fixed Income Holdings by Market Sector

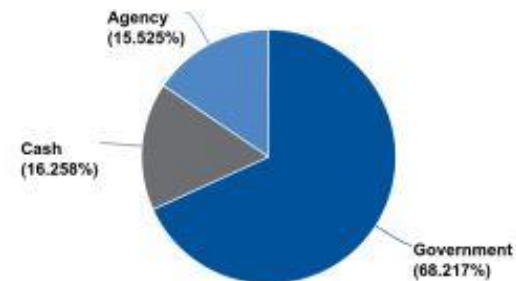
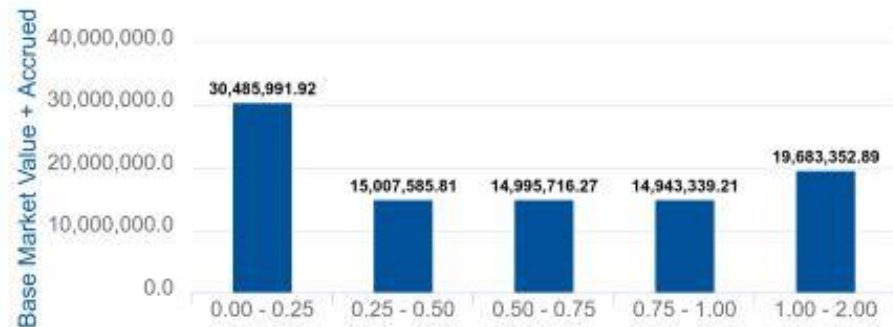


Chart calculated by: % of Book Value

Duration



Bernalillo County Operating Funds Core Portfolio

Balance Sheet Summary

Bernalillo County Core Op	
Book Value	64,836,779.48
Accrued Balance	162,008.19
Net Unrealized Gain/Loss	-423,544.22
Market Value + Accrued	64,575,243.45

Net Income

Bernalillo County Core Op	
Current Units	64,746,378.66
Interest Income	52,691.11
Net Amortization/Accretion Income	-4,573.06
Net Realized Gain/Loss	0.00
Net Income	48,118.05

Index Comparison Summary

Risk Metric	Portfolio	Index	Difference
Duration	1.759	1.872	-0.113
Yield	1.466	1.491	-0.025
Years to Effective Maturity	1.788	1.93	-0.142
Years to Final Maturity	1.788	1.93	-0.142
Average Credit Rating	AAA	AAA	--

Fixed Income Holdings by Market Sector

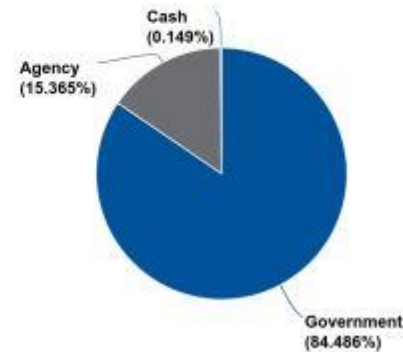


Chart calculated by: % of Book Value

Duration



Investment Strategy - Operating Funds

- ❏ 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.

Investment Strategy – Bond Proceeds Portfolio

Fiscal Year 2016 – 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.
- Each maturity will be evaluated against the most current project draw information to determine if funds will be drawn down or reinvested.
- 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.

Bernalillo County Bond Proceeds Portfolio

Balance Sheet Summary

	<i>Bernalillo County Bond Proceed</i>
Book Value	37,862,279.17
Accrued Balance	71,888.61
Net Unrealized Gain/Loss	-47,042.41
Market Value + Accrued	37,886,925.37

Net Income

	<i>Bernalillo County Bond Proceed</i>
Current Units	37,930,363.92
Interest Income	27,123.86
Net Amortization/Accretion Income	6,113.15
Net Realized Gain/Loss	0.00
Net Income	33,237.01

Index Comparison Summary

Risk Metric	Portfolio	Index	Difference
Duration	0.771	0.944	-0.173
Yield	1.24	1.333	-0.093
Years to Effective Maturity	0.777	0.953	-0.176
Years to Final Maturity	0.777	0.953	-0.176
Average Credit Rating	AAA	AAA	---

Fixed Income Holdings by Market Sector

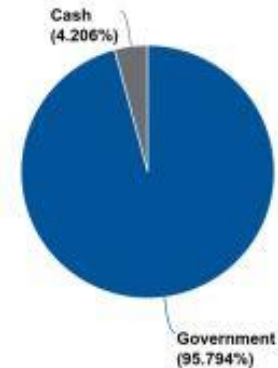
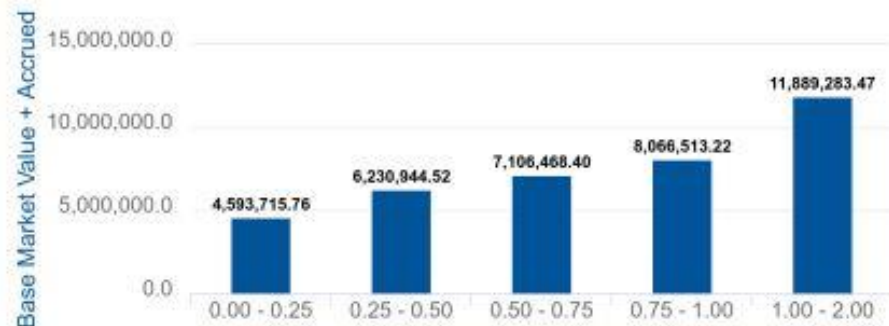


Chart calculated by: % of Book Value

Duration



Investment Strategy – Bond Proceeds

- 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.

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/>

Disclosures

This presentation is for informational purposes only. All information is assumed to be correct but the accuracy has not been confirmed and therefore is not guaranteed to be correct. Information is obtained from third party sources that may or may not be verified. The information presented should not be used in making any investment decisions and is not a recommendation to buy, sell, implement or change any securities or investment strategy, function or process. Any financial and/or investment decision should be made only after considerable research, consideration and involvement with an experienced professional engaged for the specific purpose. All comments and discussion presented are purely based on opinion and assumptions, not fact, and these assumptions may or may not be correct based on foreseen and unforeseen events. All calculations and results presented are for discussion purposes only and should not be used for making calculations and/or decisions.

The data in this presentation is unaudited.

Performance comparisons will be affected by changes in interest rates. Investment returns fluctuate due to changes in market conditions. Investment involves risk, including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. Past performance is not an indicator of future performance or results. Any financial and/or investment decision may incur losses.

The investment advisor providing these services is Public Trust Advisors, LLC, an investment adviser registered with the U.S. Securities and Exchange Commission (SEC) under the Investment Advisers Act of 1940, as amended. Registration with the SEC does not imply a certain level of skill or training. Public Trust is required to maintain a written disclosure brochure of our background and business experience. If you would like to receive a copy of our current disclosure brochure, privacy policy, or code of ethics please contact us.