



# Annual Review of Investments

Bernalillo County, NM

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Bernalillo County Investment Committee

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(FYE is June 30, 2017)

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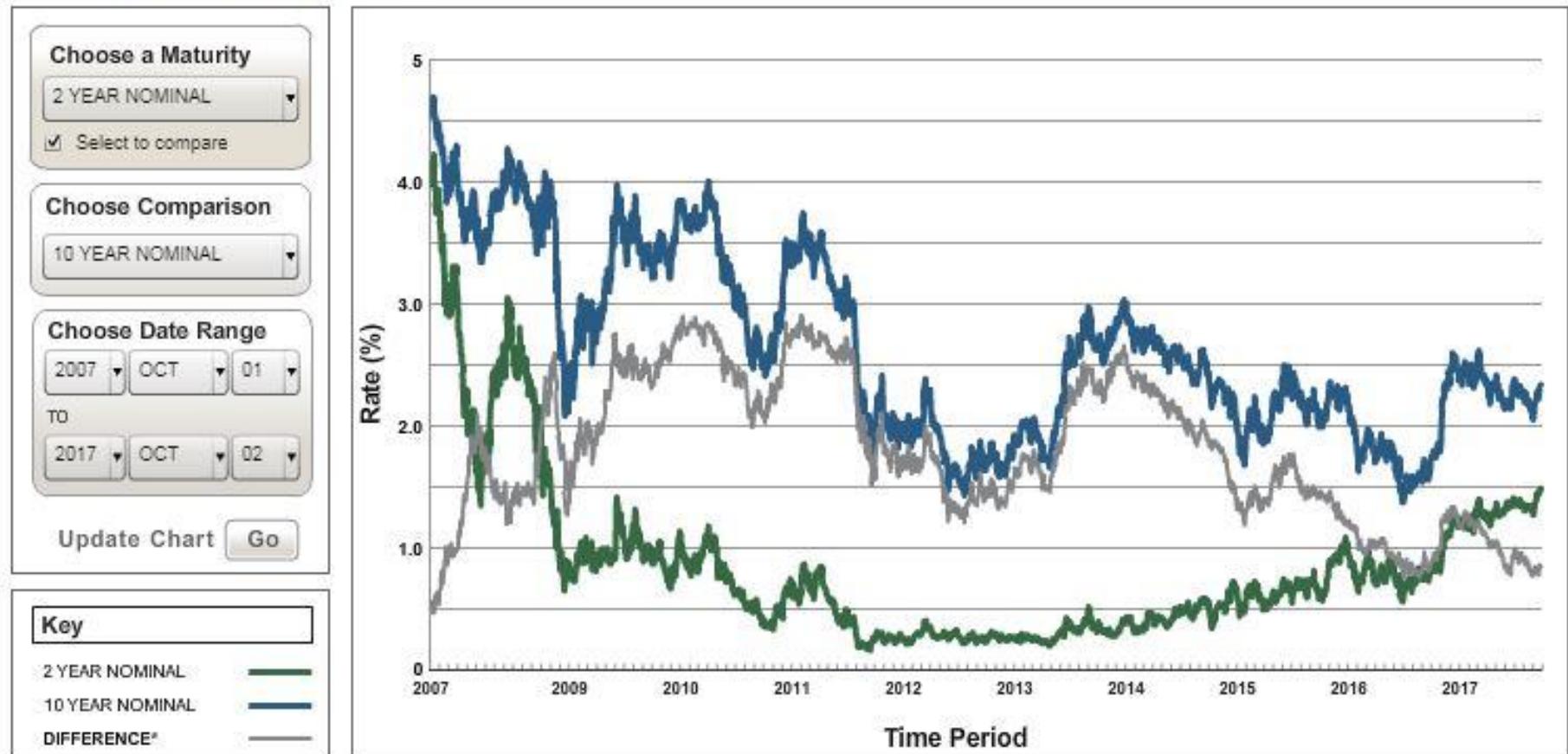
# Investment Objectives

- ❏ In fiscal year 2017, all operating funds investments were laddered to best match cash flows and cash needs – smooth ladder.
- ❏ Investments complied with the investment policy, including the liquidity requirement, which says that funds equal to 15% of budget should mature within 30 days -- \$60 million.
- ❏ The investment working group met monthly to discuss cash flows and investment strategy implementation.
- ❏ The group maintained a high level of communication between departments to facilitate optimal investment strategy implementation and to update the investment policy and procedures where needed .

## Review of Markets

# Historical Treasury Rates – 10yr and 2yr – Past 10 Years

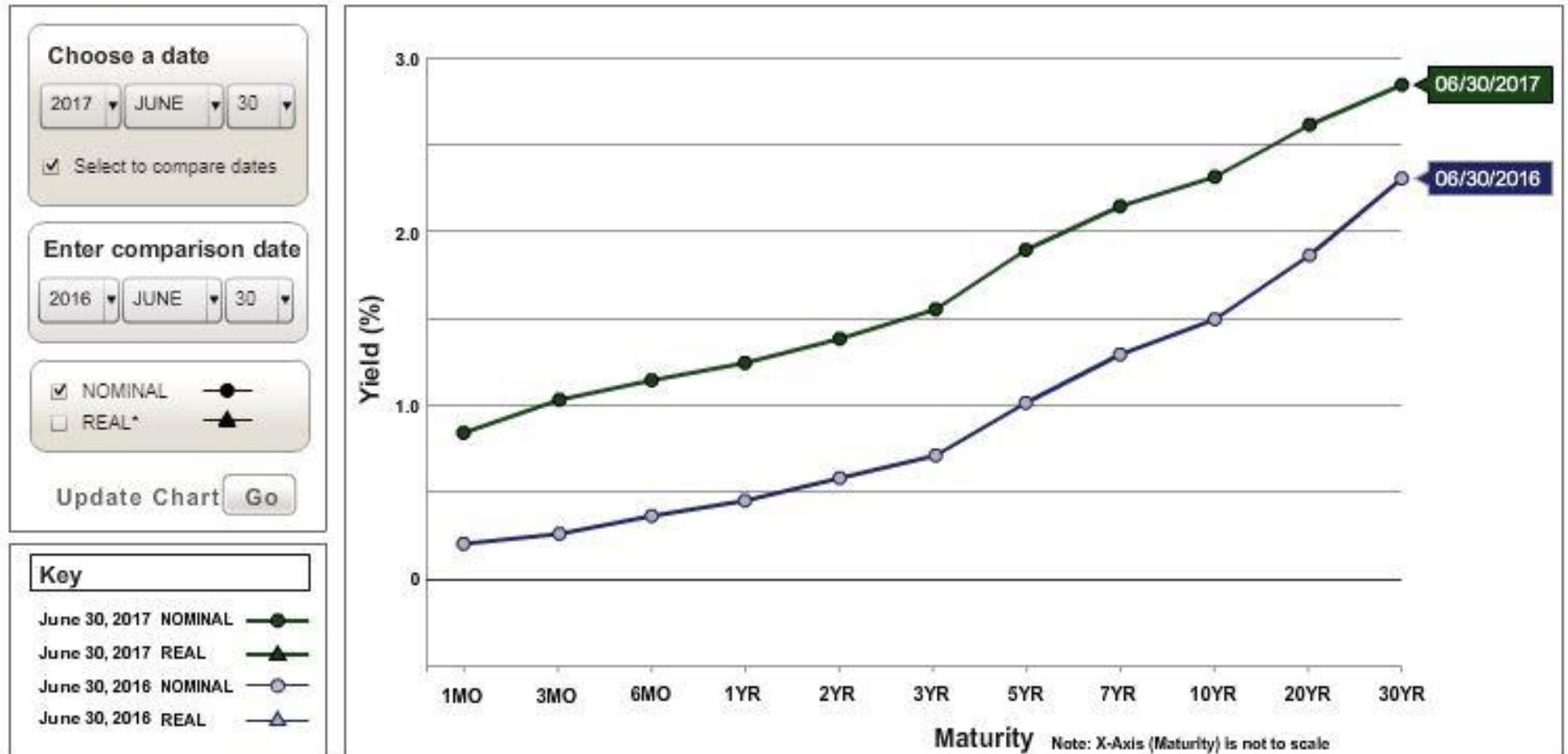
## Historical Treasury Rates



Source: US Department of the Treasury. <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/Historic-LongTerm-Rate-Data-Visualization.aspx>

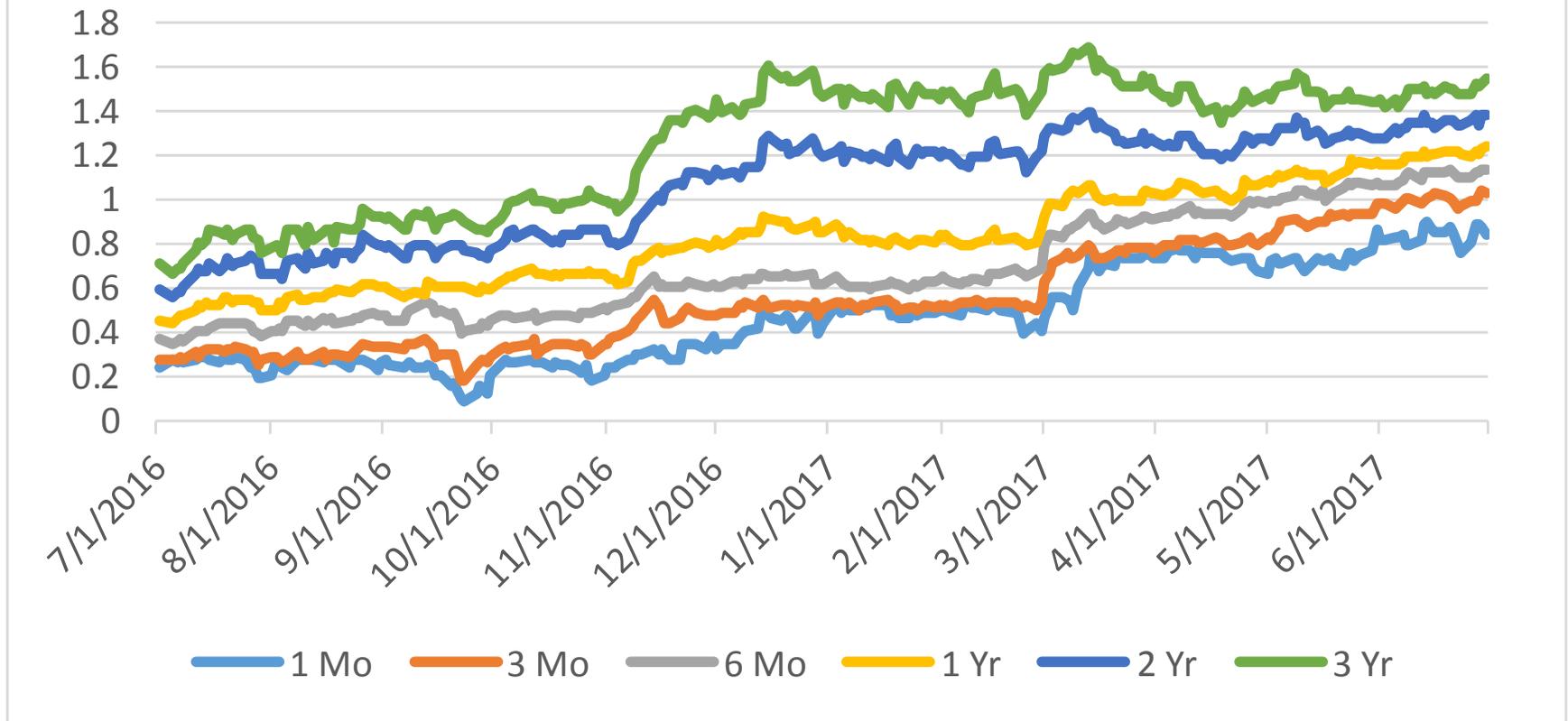
# Treasury Yield Curve – 2016 vs. 2017

## Treasury Yield Curve



Source: US Department of the Treasury. <http://www.treasury.gov/resource-center/data-chart-center/interest-rates/Pages/Historic-LongTerm-Rate-Data-Visualization.aspx>

## US Treasury Yields July 1, 2016 to June 30, 2017



# Review of the County's Investments

# Fiscal Year 2017 – Annual Review

- 🏛️ Focus for the year was to reduce the amount of funds in bank deposits and improve performance.
- 🏛️ Legislation passed in the 2016 regular session of the NM Legislature that allowed new investment vehicles, effective July 1, 2016:
  - 🏛️ Federally insured obligations, including brokered certificates of deposit, certificate of deposit account registry service (CDARS) and federally insured cash accounts (FICA).
- 🏛️ Investment diversification improved by adding CDARS products\* to hold the \$60 million in liquid investments (must mature within 30 days per the policy)
- 🏛️ The investment policy was updated in fiscal year 2017 to reflect the change in law and was adopted by the Board of Finance on August 9, 2016. See next slide.

• CDARS and the Insured Cash Sweep (ICS) are products of Promontory Interfinancial Network, LLC.

# Investment Policy Update

The Board of Finance passed an updated investment policy at their August 2016 meeting. Two of the changes have a direct impact on the investment strategy. \*

## ☰ VII Eligible Investments, A. Eligible Investments:

### **Old version:**

8. State of New Mexico Local Government Investment Pool.

### **New version:**

8. Federally insured obligations, including brokered certificates of deposit, certificate of deposit account registry service and federally insured cash accounts; or
9. State of New Mexico Local Government Investment Pool.

## ☰ VIII. Investment Parameters, B2. Maturity Restrictions:

### **Old version:**

2. Maturity limits for the liquidity component:

- (a) An amount equal to at least fifteen (15) percent of the annual budget of the County shall have a maturity limit of thirty (30) days or less.
- (b) The remainder of the liquidity component shall have a maturity limit of one (1) year or less.

### **New version:**

2. Maturity limits for the liquidity component of the Operating Funds portfolio:

- (a) An amount equal to at least fifteen (15) percent of the annual operating budget of the County, at the time the original budget is approved, plus estimates of cash flow expenditures from grant and capital funds shall have a maturity limit of thirty (30) days or less. Should balances fall below the 15% of budget limit, the Treasurer's Office will notify members of the investment committee and have a 60-day cure period.
- (b) The remainder of the liquidity component shall have a maturity limit of one (1) year or less.

# Bernalillo County Op Funds – Total Return v. Benchmark FY17



Period	Period Begin	Period End	Total Return	Income Return	Price Return
Prior Year	07/01/2015	06/30/2016	0.572%	0.460%	0.111%
Prior Quarter	01/01/2017	03/31/2017	0.214%	0.205%	0.009%
Prior Month	05/01/2017	05/31/2017	0.030%	0.073%	-0.043%
Trailing Month	06/01/2017	06/30/2017	0.014%	0.074%	-0.061%
Trailing Quarter	04/01/2017	06/30/2017	0.154%	0.224%	-0.070%
Trailing Year	07/01/2016	06/30/2017	0.212%	0.789%	-0.557%

Account	Index	Index Start Date	Index End Date
Bernalillo County Liq Op	BofA ML 1-Yr TBill	11/30/2007	---

All Fees (includes administrative, management, and trading).

Returns are actual and have not been annualized.

No Tax Adjustment.

Note that data will not exist prior to the performance inception date of: 02/14/2014.

Reported Index Return is always Total Return.

*Source: Clearwater Analytics. Figures reflect return on securities owned by the County and not on negotiated bank deposits.*

- If one is implementing a buy and hold strategy, which does not allow for rebalancing the portfolio (selling securities), it is almost a mathematical impossibility to exceed the returns on a benchmark portfolio (that rebalances monthly) in a rising rate environment.*

# Bernalillo County Operating Funds Portfolio – June 30, 2017

	Market Value + Accrued	% of Total	Book Yield
<b>Summary of Investment Funds:</b>			
US Treasury Securities	\$ 99,397,316.00	37.62%	0.945%
US Agency Securities	\$ 34,795,907.38	13.17%	1.157%
Cash - Wells Fargo MMF	\$ 15,082,743.06	5.71%	0.810%
Cash/Receivable	\$ 6,955.38	0.00%	0.00%
<b>Summary of Negotiated Bank Deposits:*</b>			
Wells Fargo Savings	\$ 14,228,686.34	5.39%	0.168%
Bank of the West	\$ 40,506.23	0.02%	0.079%
<b>Total Month-end Bank Balances</b>	<b>\$ 14,269,192.57</b>	<b>5.40%</b>	
<b>CDARS/ICS</b>			
First National Bank Santa Fe	\$ 20,139,170.04	7.62%	0.552%
Bank of the West	\$ 80,495,278.02	30.47%	0.784%
<b>Total Month-end CDARS/ICS Balances</b>	<b>\$ 100,634,448.06</b>	<b>38.09%</b>	
<b>Total Investable Funds</b>	<b>\$ 264,186,562.46</b>	<b>100.00%</b>	<b>1.002%</b>
<b>Previous Month Total Investable Funds</b>	<b>\$ 255,941,788.61</b>		<b>0.848%</b>

Source: Monthly Investment Statement, June 30, 2017

# Bernalillo County Operating Funds Portfolio – June 30, 2016

	Market Value + Accrued	% of Total	Book Yield
<b>Summary of Investment Funds:</b>			
US Treasury Securities	\$ 75,172,472.44	31.86%	0.584%
US Agency Securities	\$ 15,126,006.94	6.41%	1.039%
Cash - Wells Fargo MMF	\$ 10,182,682.45	4.32%	0.250%
<b>Summary of Negotiated Bank Deposits:*</b>			
Wells Fargo Savings	55,132,511.44		0.187%
First National Bank Santa Fe	25,062,743.28		0.247%
Bank of the West	55,298,484.69		0.295%
<b>Total Month-end Bank Balances</b>	<b>\$ 135,493,739.41</b>	<b>57.42%</b>	<b>0.242%</b>
<b>Total Investable Funds</b>	<b>\$ 235,974,901.24</b>	<b>100.00%</b>	<b>0.403%</b>
Previous Month Total Investable Funds	\$ 331,231,028.72		0.326%

\* Average Monthly Bank Deposit Balances (on which returns are calculated):

Wells Fargo Savings	125,664,001.53
First National Bank Santa Fe	25,057,766.08
Bank of the West	55,312,082.68
<b>Total Average Bank Balances</b>	<b>\$ 206,033,850.29</b>

No primary issue securities were purchased. Please see trading reports attached.

Compliance:

No compliance issues for funds managed by Public Trust Advisor

Collateral compliance is attached separately, as it is checked by the Accounting Department of the Treasurer's Office.

Note: Legacy term repurchase agreement information is filed with the collateral compliance report.

## Looking Forward – Strategy FY18

# Looking Forward – Strategy for Multiple Portfolios, FY18

- Hold to the priorities of safety, liquidity and then yield.
- The new operating funds strategy calls for dividing the Operating Funds portfolio into a liquidity portfolio and a core portfolio, which will have different strategies and different benchmarks (see next two slides).
- The investment procedures have been updated to reflect the new portfolio structure.
- The plan is to actively manage the core operating funds portfolio to a slightly longer duration benchmark, which will give more opportunity to take advantage of market movements rather than strictly managing to cash flow needs (buy and hold portfolio).
- The liquidity operating funds portfolio will continue to focus on the monthly cash needs of the County, and have a smooth ladder of monthly maturities to meet cash needs.
- The bond proceeds portfolio will continue to be managed to the forecasted capital project draw schedules, and will also be invested in a smooth ladder of monthly maturities.

# Investment Strategy - Operating Funds – Implementation

- ❏ The Liquidity and Core portfolios will have different benchmarks and will have separate monthly reports.
  - ❏ Liquidity Portfolio benchmark: BAML 1 year Treasury Index
  - ❏ Core Portfolio benchmark: BAML 1-3yr Treasury/Agency Index
- ❏ Trade authorization for the Liquidity and Core buckets will happen on a quarterly basis\* in order to optimally manage the portfolios to current market conditions.
- ❏ All trades will have to comply with the investment policy and will be reviewed on a monthly basis by the Investment Working Group.

# What funds would make up the Core portfolio?

## Create investment strategies by fund type:

- ❏ GFOA best practices suggests dividing managed funds into Liquidity and Core portfolios (see best practices <http://www.gfoa.org/investment-policy> ).
- ❏ Funds included in the Core portfolio are often reserve funds.
- ❏ Funds being considered for a Core portfolio for Bernalillo County are:
  - ❏ DFA required reserves, often referred to as the “3/12<sup>th</sup> reserve” = \$70 million
  - ❏ Bernalillo County general fund stabilization reserve = 5% of general fund or \$14 million
- ❏ The Treasurer will assess balances as of fiscal year end to determine what amount would be proposed for an initial targeted balance in the Core portfolio.
- ❏ The plan was discussed at the March and July, 2017 investment committee meetings and ultimately presented to the Board of Finance at their August 8<sup>th</sup> meeting.

# Disclosures

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The data in this presentation is unaudited.

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