



CITY OF GRAND RAPIDS AGENDA ACTION REQUEST

DATE: December 4, 2018

TO: Mark Washington, City Manager

COMMITTEE: Fiscal Committee

LIAISON: Jeff Dood, Chief Financial Officer

FROM: John M Globensky, City Treasurer
City of Grand Rapids Treasurer's Office

SUBJECT: **Treasurer's Report for Period of November 13, 2018 through
November 23, 2018**

The Federal Reserve Open Market Committee (FOMC) has been slowly increasing short-term interest rates since December 2015. The next meeting of the Federal Reserve Open Market Committee (FOMC) meeting is December 18-19. Interest rate futures markets have priced in a 79.2% probability of a short-term rate increase of 0.25% at that time.

The next step for short-term rates is uncertain. FOMC publishes an anonymized "dot plot" showing committee members' short-term rate forecast. This predicts an additional three short-term interest rate increases totaling 0.75% by the end of 2019. However, market participants have only priced in one increase of 0.25% over the same time frame.

As interest rates rise, the market price of most outstanding fixed income securities declines. It is important to note that the Treasurer's Office expects the market prices of the various securities held in the City's portfolio to decline. The City's investment strategy has been based on the thesis that interest earnings will exceed market price declines. In addition, the strategy generally holds securities to maturity, so unrealized market price changes do not necessarily impact portfolio results. Occasionally, securities may be sold prior to maturity at a loss and the proceeds reinvested in another security or securities with sufficiently higher earnings that the result is a net gain.

In order to minimize adverse market pricing, the Treasurer's Office and contracted money managers have weighted portfolio towards shorter maturities. While market rates do not yet justify significantly lengthening portfolio maturities at this time, certain market segments that previously did not adequately reward risks have become more attractive.

The City utilizes the services of three third-party money managers, plus City staff to monitor their performance and Policy compliance as well as directly manage a portion of

the portfolio in-house. Each manager applies its own expertise, strategy, research, and analysis of the fixed income marketplace to manage the City's investments and has discretionary authority to execute the City's Investment Policy on its behalf. The internally-managed portion of the portfolio is the primary tool used by the Treasurer's Office for liquidity management.

ClearArc Capital, which manages approximately \$106.6 million, yields 1.821%. Insight Investments, which manages approximately \$99.4 million, yields 1.738%. Robinson Capital Management, which handles approximately \$56.2 million, yields 2.449%. The yield of the portion of the City's portfolio run by third-party managers stands at 1.924%. Internally managed monies, approximately \$98.0 million, yield 2.248%. Combined, the City's current yield on pooled surplus funds investments is 1.937%.

The attached tables detail the total portfolio holdings. For comparison purposes, internally-managed and externally-managed reserve investments are broken out separately.

Please contact me at ext. 3285 with any questions on this Treasurer's report. Thank you.

cc: Roberta Cahill, Deputy City Treasurer
Levi Boldt, Investment Analyst

Prepared by John M Globensky and Levi Boldt

Sherry Batzer