



**City of Dallas**

# **Investment Portfolio Overview**

**Government Performance &  
Financial Management Committee  
May 22, 2023**

**Jenny Kerzman  
Assistant Director of Treasury  
City Controller's Office**

# Overview



- Review Background
  - City's Investment Policy
  - City's Investment Committee
  - City's Investment Advisor
- Provide overview of the City's investment portfolio
  - Highlights of 2<sup>nd</sup> quarter performance – all funds
  - Highlights of year-to-date operating portfolio performance
- Outline Next Steps



# Review Background – City’s Investment Policy



- Treasury Division of the City Controller’s Office manages the investment of City funds under the guidelines of the City’s Investment Policy and in accordance with Federal and State law and the City Charter
- State of Texas Public Funds Investment Act (“PFIA”) requires that investments shall be made in accordance with written policies approved, at least annually, by the governing body
- City’s Investment Policy was first adopted in 1987, amended in 1995, and reviewed annually from 1997 through 2022 to incorporate amendments to the PFIA and to improve management of the City’s investments
- City Council approved the current policy on October 26, 2022 (Resolution No. 22-1598)



# Review Background – City’s Investment Policy



# Review Background – City's Investment Committee



- City's Investment Committee is composed of the City's:
  - Chief Financial Officer
  - Controller
  - Assistant Director of Treasury
  - Director of Dallas Water Utilities
  - Director of Budget and Management Services (pending)
- Committee meets on a quarterly basis to review the performance of the investment portfolio, economic trends, compliance requirements, and to submit strategy recommendations for the following quarter, while meeting the objectives of the City's Investment Policy of safety, liquidity and yield
- Since 1989, the City has intermittently contracted with an investment advisor from qualified firms that are registered with the Securities and Exchange Commission and the Texas State Securities Board to assist with the management of the City's investment pool portfolio



# Review Background – City's Investment Advisor



- On April 13, 2022, City Council approved a three-year consultant contract, with two one-year renewal options, with Meeder Public Funds, Inc. dba Patterson & Associates for investment advisory services
- Investment advisory services include, but are not limited to, review and reporting of investment activity, quantitative analysis, evaluation and presentation of investment options, investment advice, market research and updates, securities valuation, and attendance at the quarterly Investment Committee meetings
- This is a non-discretionary agreement in which the investment advisor must obtain approval from City staff before executing any trade



# Highlights of 2<sup>nd</sup> Quarter Performance – ALL FUNDS



- City Controller's Office Treasury Division staff manages the City's investments including Operating Portfolio, Arts Endowment, GO and DWU Commercial Paper Programs, Ida Green Library Fund, and Water Reserve
- Quarterly report is prepared in compliance with the City's Investment Policy and strategy of the City of Dallas and the Public Funds Investment Act (Chapter 2256, Texas Government Code)
- As of March 31, 2023, the **market value** for all funds was **\$3,488,074,267**, producing interest earnings of **\$26,332,611**
- Weighted average maturity was **634 days** and the weighted average yield was **3.40%**



# Highlights of 2<sup>nd</sup> Quarter Performance – ALL FUNDS



## Quarterly Portfolio Summary – All Funds



This quarterly report is prepared in compliance with the Investment Policy and Strategy of the City of Dallas and the Public Funds Investment Act (Chapter 2256, Texas Government Code).

| Portfolio as of December 31, 2022 |                 | Portfolio as of March 31, 2023   |                 |
|-----------------------------------|-----------------|----------------------------------|-----------------|
| Beginning Book Value              | \$2,939,622,830 | Ending Book Value                | \$3,516,830,038 |
| Beginning Market Value            | \$2,888,264,818 | Ending Market Value              | \$3,488,074,267 |
|                                   |                 | Investment Income for the period | \$26,332,611    |
| Unrealized Gain/(Loss)            | (\$51,358,012)  | Unrealized Gain/(Loss)           | (\$28,755,770)  |
|                                   |                 | Change in Unrealized Gain/(Loss) | \$22,602,241    |
| Weighted Average Maturity         | 419 days        | Weighted Average Maturity        | 634 days        |
| Weighted Average Yield            | 2.19%           | Weighted Average Yield           | 3.40%           |

| Portfolio Market Value by Fund | 12/31/2022                | 3/31/2023                 | Change                  | Interest Earned        |
|--------------------------------|---------------------------|---------------------------|-------------------------|------------------------|
| Operating Portfolio            | \$2,774,327,252.25        | \$3,374,136,553.82        | \$599,809,301.57        | \$25,485,064.40        |
| Arts Endowment                 | \$2,235,000.00            | \$2,235,000.00            | \$0.00                  | \$19,749.43            |
| DWU Commercial Paper Program   | \$13,960.15               | \$13,960.15               | \$0.00                  | \$144.96               |
| GO Commercial Paper Program    | \$20,688,605.94           | \$20,688,753.36           | \$147.42                | \$221,941.50           |
| Ida Green Library Fund         | \$1,000,000.00            | \$1,000,000.00            | \$0.00                  | \$9,542.47             |
| Water Reserve                  | \$90,000,000.00           | \$90,000,000.00           | \$0.00                  | \$596,168.20           |
| <b>Total</b>                   | <b>\$2,888,264,818.34</b> | <b>\$3,488,074,267.33</b> | <b>\$599,809,448.99</b> | <b>\$26,332,610.96</b> |



# Highlights of Year-to-Year Operating Portfolio Performance



## Book Balance

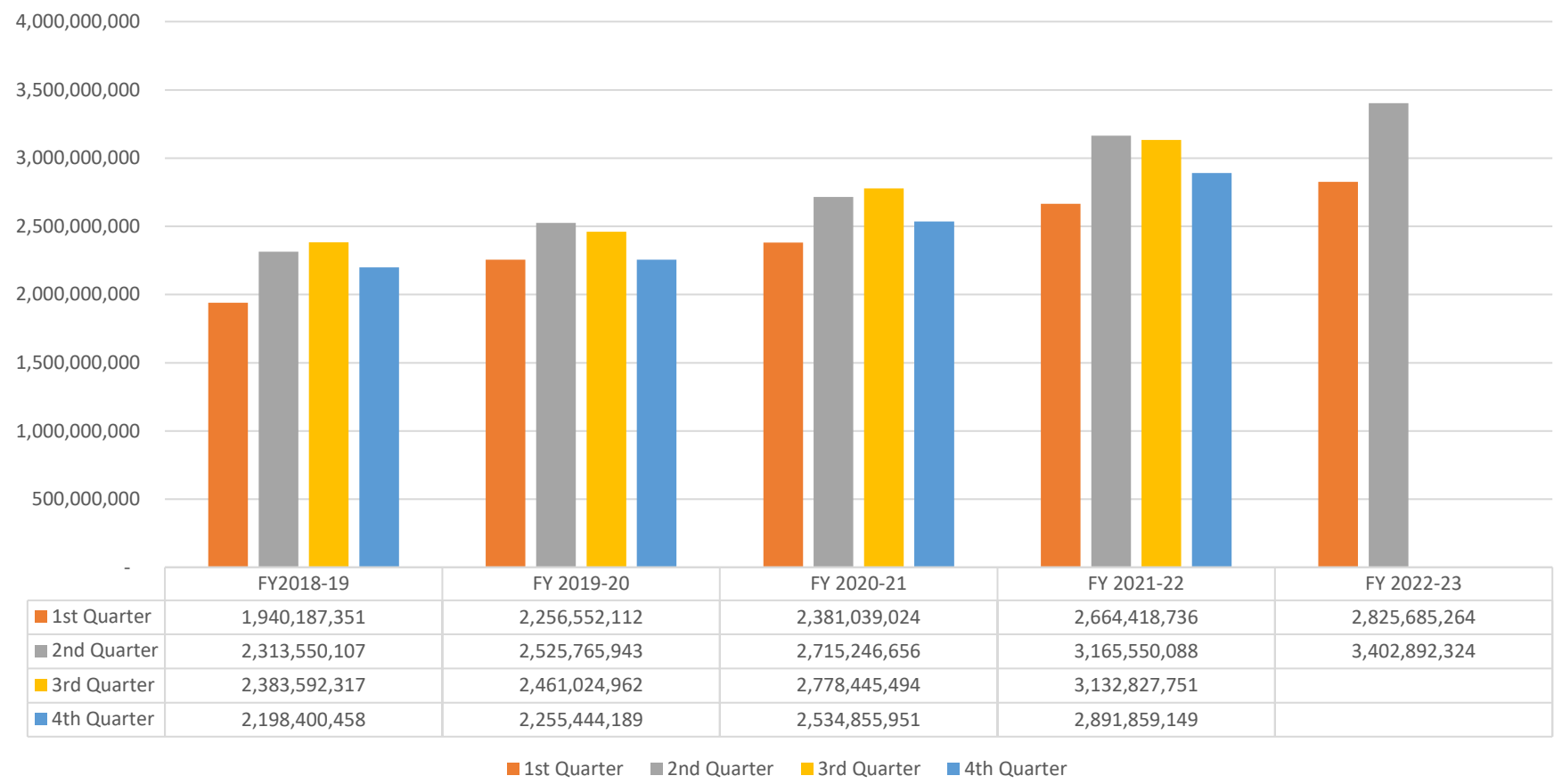
- As of March 31, 2023, the Operating portfolio's book balance was **\$3,402,892,324**, producing interest earnings of **\$25,485,064**
- City's Operating portfolio balances have trended higher over the past two fiscal years
- Typical low points occur in the last quarter of each fiscal year and start to build higher with property tax revenue collections starting in the first quarter and peaking in the second quarter
- Book balance for the 2nd quarter of FY 2022-23 is the highest of the last five fiscal years



# Highlights of Year-to-Year Operating Portfolio Performance



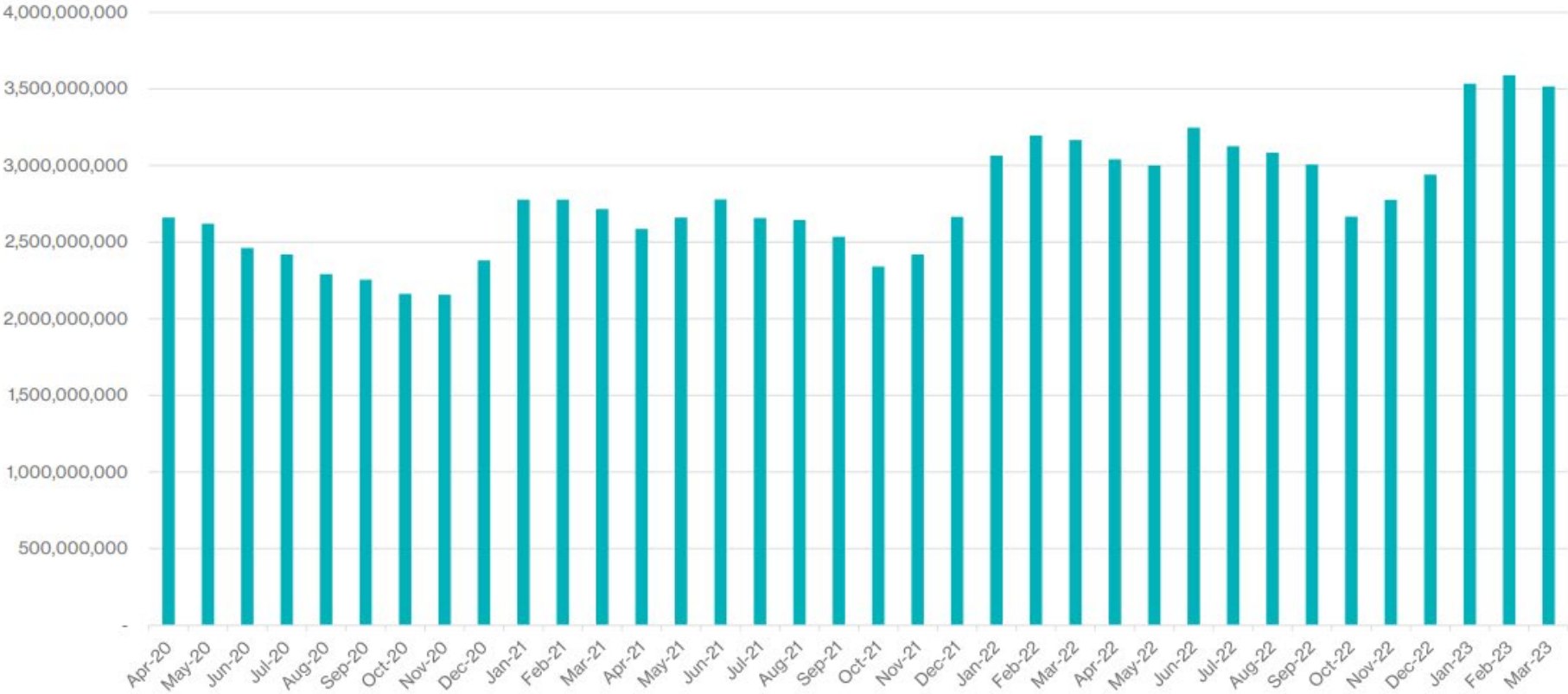
BOOK BALANCE



# Highlights of Year-to-Year Operating Portfolio Performance



## Historical Balances – Book Value



# Highlights of Year-to-Year Operating Portfolio Performance



## Interest Earned

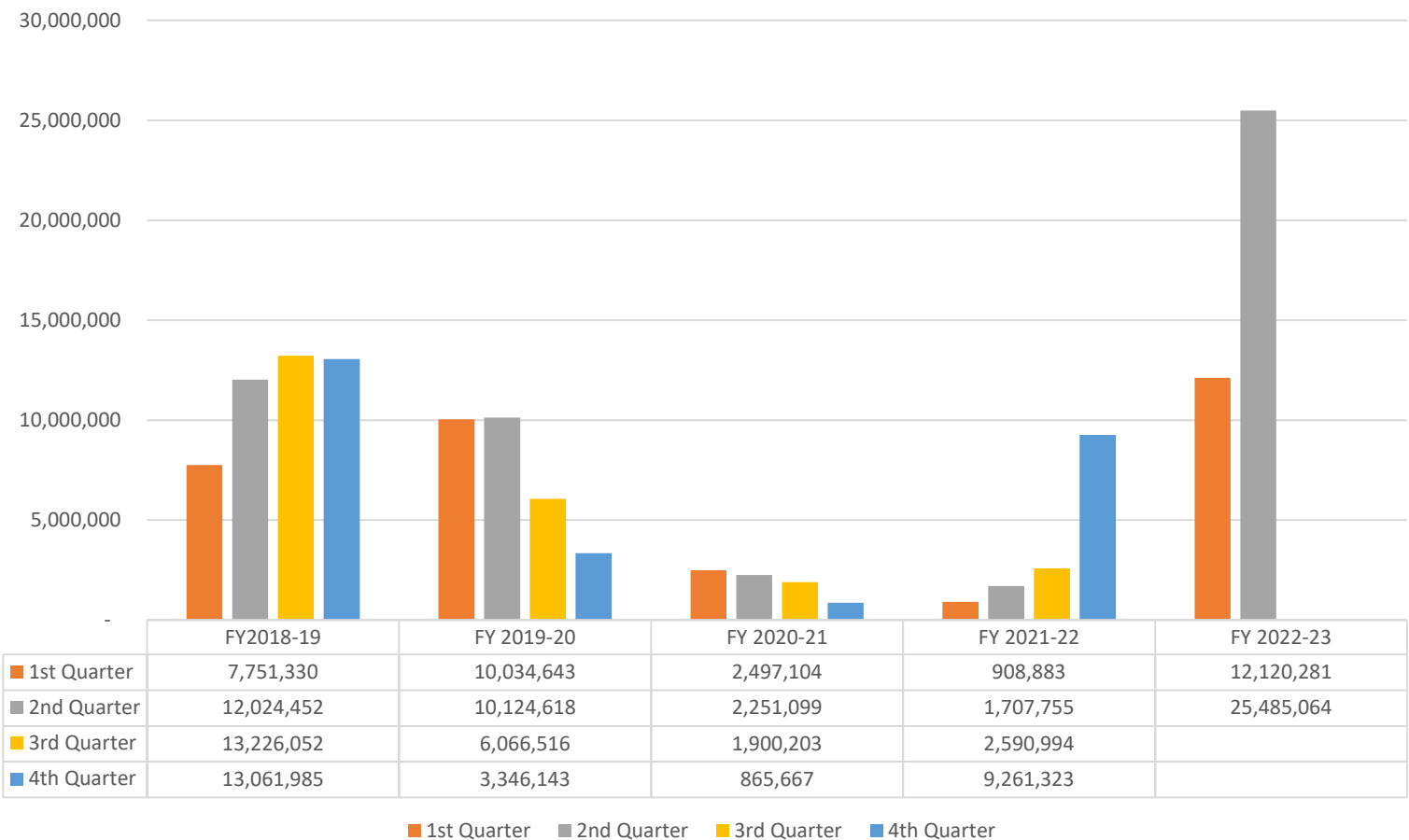
- Interest earnings tapered off through FY 2020-21 due to overall interest rates dropping to historic lows
  - Interest earned for the 2nd quarter of FY 2022-23 is the highest of the last five fiscal years
  - Interest earnings are expected to trend higher through the remainder of FY 2022-23 and into early FY 2023-24
- This past quarter interest earnings were reported at **\$25.5 million** compared to **\$12.1 million** the previous quarter
- Positioning the portfolio with longer dated securities, we have been able to capture higher rates in the 3-5 year area
  - This will preserve interest earnings over a longer term, in a declining interest rate environment



# Highlights of Year-to-Year Operating Portfolio Performance



INTEREST EARNED



# Highlights of Year-to-Year Operating Portfolio Performance



## Asset Composition

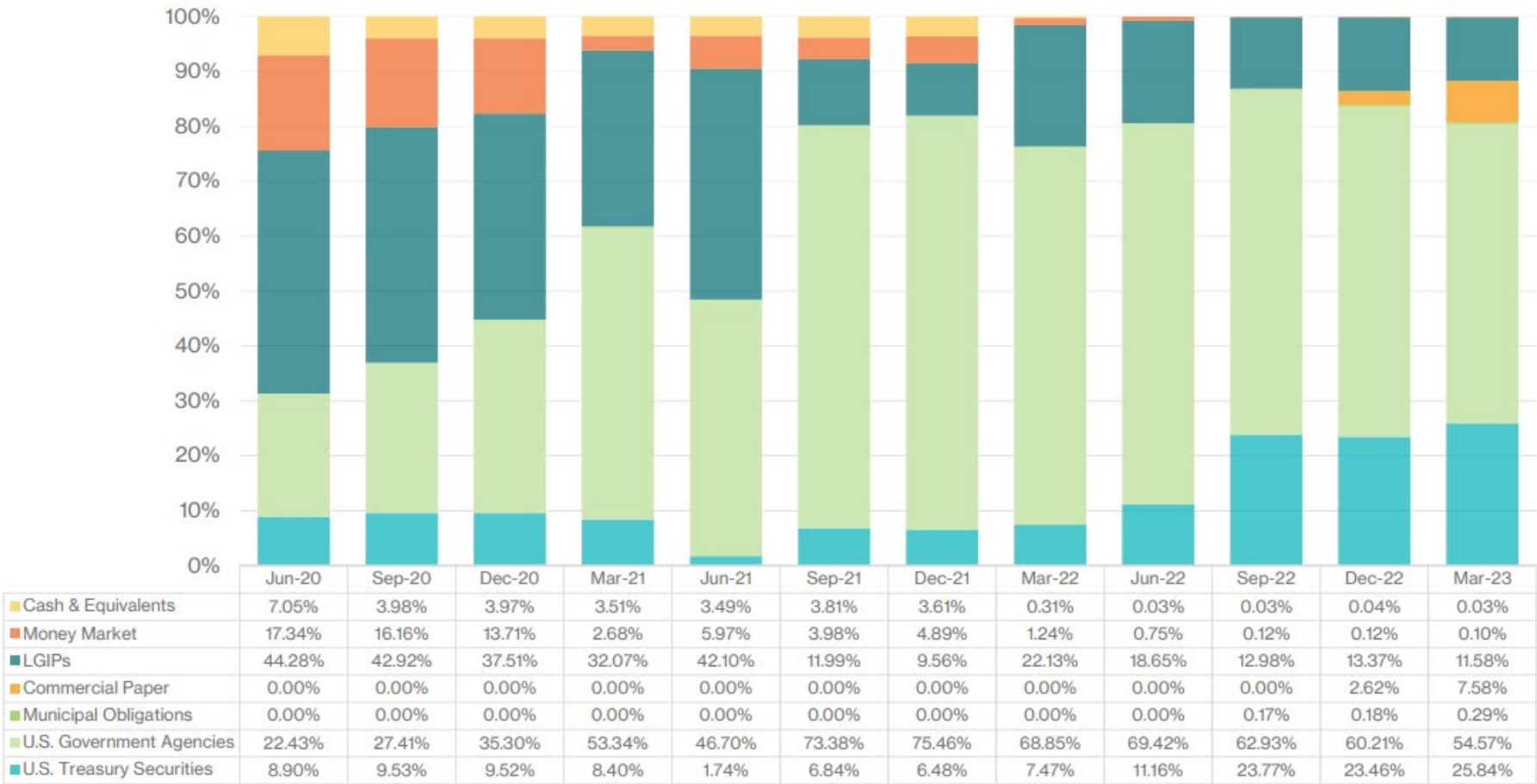
- Priority is to first ensure enough liquidity on hand to meet debt payments and expenditures and then minimizing the amount of excess cash in overnight funds to keep the portfolio appropriately sized
- Our objective, as we seek to right-size the portfolio, is to maintain a minimum cash/overnight investment target of approximately 10%
- Currently, we see value in commercial paper within the 0-1 year area, while US Treasury and Government Agencies are generating more value in the longer dated maturity ranges



# Highlights of Year-to-Year Operating Portfolio Performance



## Asset Composition



# Highlights of Year-to-Year Operating Portfolio Performance



## Portfolio Summary – Investment Pool

As of 3/31/2023



**MEEDER**  
PUBLIC FUNDS | PATTERSON GROUP

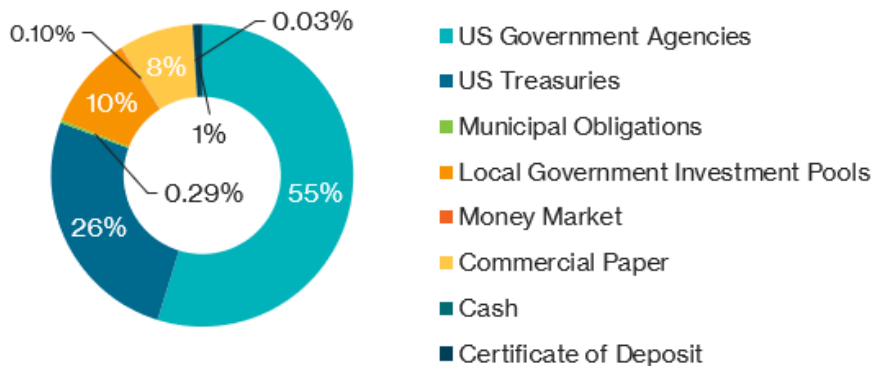
### Your Portfolio

|                            |                 |
|----------------------------|-----------------|
| Cash/LGIPs                 | \$358,602,982   |
| Securities Book Value      | \$3,044,289,342 |
| Total Portfolio Book Value | \$3,402,892,324 |

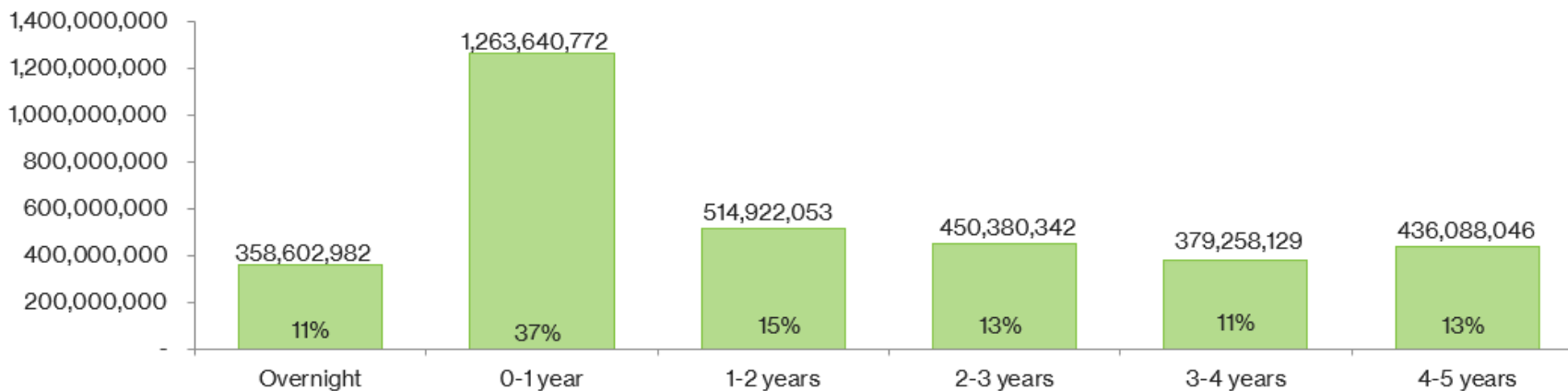
### Your Securities

|                           |            |
|---------------------------|------------|
| Weighted Average Maturity | 1.78 years |
| Weighted Average Yield    | 3.36%      |

### Your Asset Allocation



### Your Maturity Distribution



YIELD AND INTEREST INCOME INFORMATION IS ANNUALIZED. ALL YIELD INFORMATION IS SHOWN GROSS OF ANY ADVISORY AND CUSTODY FEES AND IS BASED ON YIELD TO MATURITY AT COST.  
PAST PERFORMANCE IS NOT A GUARANTEE OF FUTURE RESULTS.





## Weighted Average Yield (“WAY”)

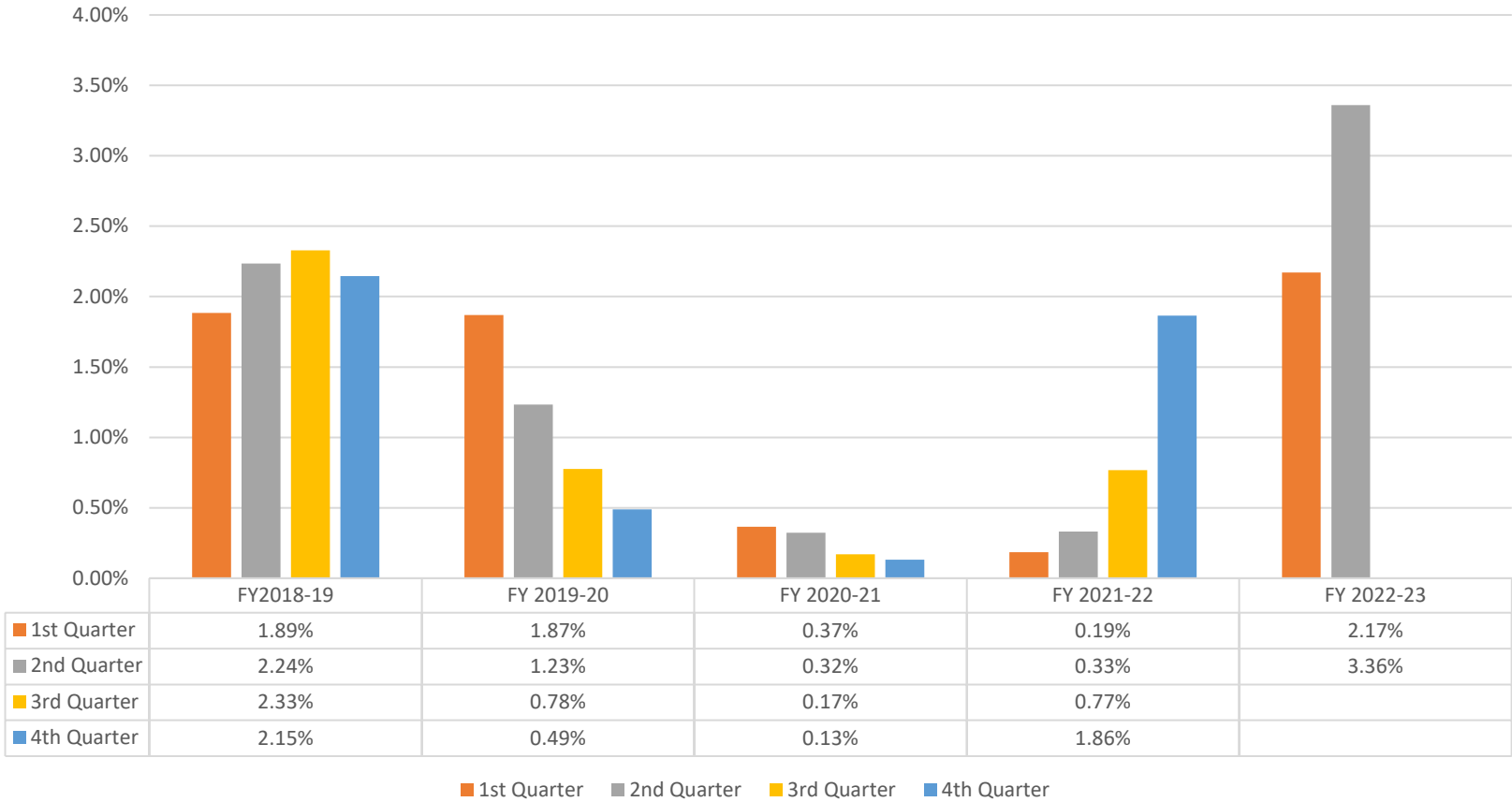
- Weighted Average Yield (“WAY”) represents an average of the yield to maturity of each of the bonds held in the portfolio, weighted by the relative size of each bond in the portfolio
- Portfolio’s weighted average yield continues to rise coming out of FY 2021-22 and into FY 2022-23
  - As of March 31, 2023, the weighted average yield was 3.36%
- As the Federal Reserve nears the top end of the current hiking cycle, our investment strategy will be to lock in longer term rates to allow the portfolio yield to remain elevated over a longer period of time



# Highlights of Year-to-Year Operating Portfolio Performance



WEIGHTED AVERAGE YIELD



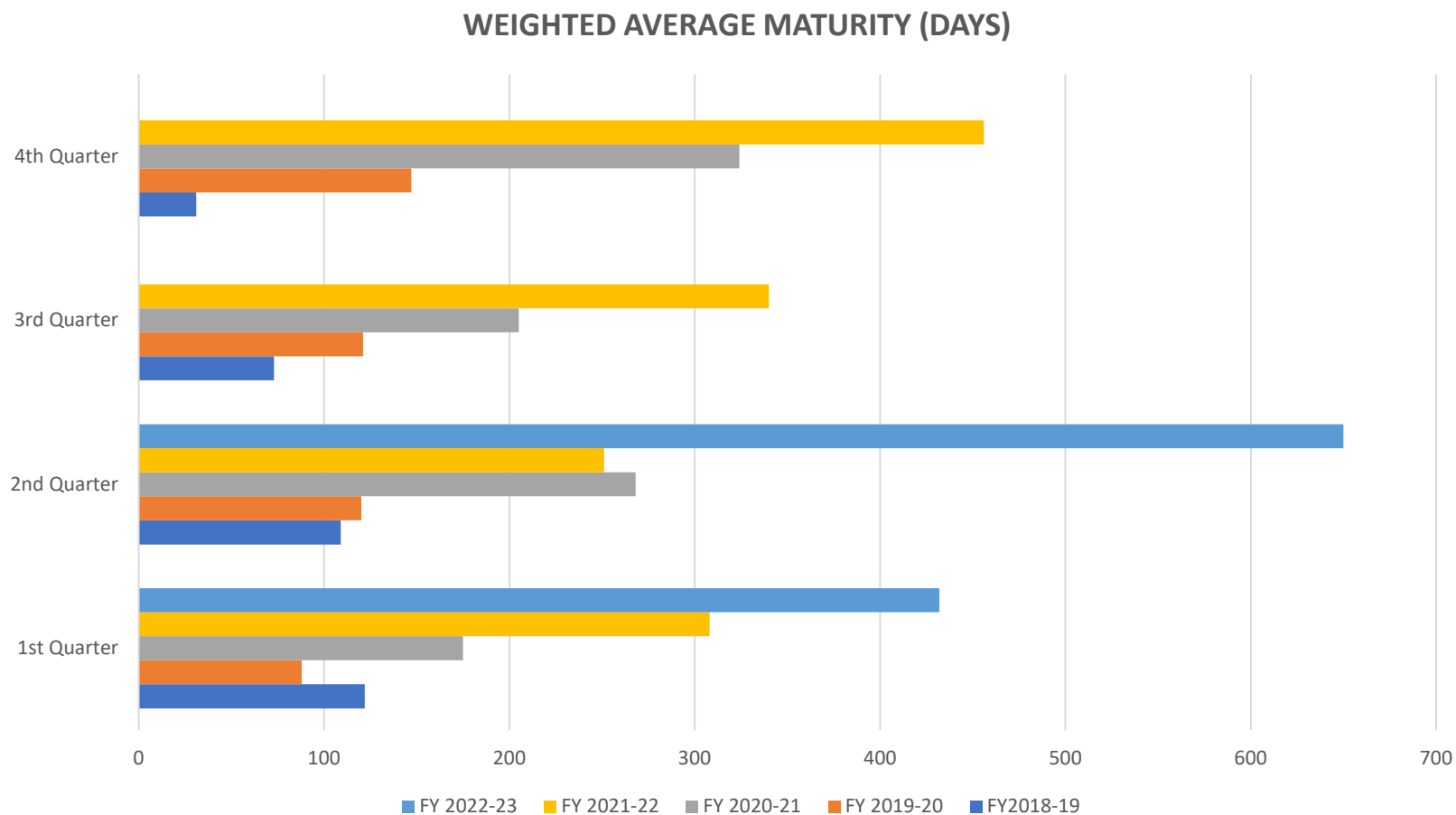


## Weighted Average Maturity (“WAM”)

- Weighted Average Maturity (“WAM”) is the average time it takes for securities in a portfolio to mature, weighted in proportion to the dollar amount that is invested in the portfolio
- On October 26, 2022, City Council approved extending the portfolio’s WAM from 1.5 years (547 days) to 3 years to allow greater flexibility in all market environments, particularly the ability to preserve interest income in declining rate environments
  - As a result, the portfolio’s WAM as of March 31, 2023 was **650 days**, compared to 251 days a year ago, and to 432 days the previous quarter



# Highlights of Year-to-Year Operating Portfolio Performance



# Outline Next Steps



- Provide Quarterly Investment Report to GPFM Committee
- Seek GPFM Committee and City Council approval of City's Investment Policy annually





**City of Dallas**

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