

AGENDA

**City of Arlington, Texas
Investment Committee
Tuesday, November 15, 2016
11:00 a.m.**

- 1. Approval of August 22, 2016 Minutes**
- 2. Economic Indicators**
- 3. Portfolio Review**
- 4. Consideration of Investment Strategy**
- 5. Bonwick Capital Broker/Dealer Disclosure Event**
- 6. Broker/Dealer Request for Information (RFI) frequency**
- 7. Annual Review of Investment Policy**
- 8. Other Business**
- 9. Review of Quarterly Report for Mayor and City Council**

Investment Committee Item No. 1

Minutes for August 22, 2016

REGULAR MEETING INVESTMENT COMMITTEE

Members Present: Gilbert Perales, Deputy City Manager
Mike Finley, Director of Finance
Keith Brooks, Assistant Director/Engineering & Construction Public Works
Darryl Westbrook, Assistant Director Water Utilities

Absent: Erin Roseman, Assistant Director Fiscal Policy
Mark Wisness, Director Arlington Convention Center

Also present: Ethan Klos, Treasurer
Mark Davies, Cash and Debt Administrator

The meeting was called to order at 1:10 p.m.

1. Consideration of the April 29, 2016 minutes

A motion was made, seconded and carried by unanimous vote to approve the April 29, 2016 minutes.

2. Economic Indicators

Mark Davies presented a variety of economic indicators including CPI, Unemployment, Historical Treasury Rates, and the Yield Curve.

3. Portfolio Review

Mark Davies gave an overview of the investment reports for the quarter ending June 30, 2016. The operating portfolio as of June 30, 2016 had a weighted average maturity of 349 days; down from 405 days on March 31, 2016.

4. Consideration of Investment Strategy

Due to the large amount of Capital projects, the recommended investment strategy for the next three months was to maintain the range for Operating Funds in the portfolio WAM between 300 and 500 days. Treasury will seek to hold \$50M to \$80M in cash/investment pools in anticipation of increased capital expenditures and Texas Live monthly payments. When investing, the focus for the next quarter will be placed on targeting maturities in Q1 – Q3 of FY19. Sectors that will be utilized are anticipated to be Agencies, Municipals, and Treasuries. Additionally, Treasury will continue to maintain a cash balance of approximately \$30M to earn enough interest to offset bank fees. A motion was made, seconded and carried by unanimous vote to approve the recommended investment strategy.

5. Broker/Dealer Request for Information (RFI) frequency

Mark Davies discussed the current practice of the RFI process asking interested brokers to fill out a questionnaire, send resumes and company informational packets and any other supplemental materials they desire on a yearly basis. He recommended pushing this practice out to every 3 years as the process is cumbersome and time consuming when there is little change from year to year and a quantifiable competitive edge amongst brokers is very minimal. He expressed that there is value in working with brokers at length as they become more familiar with our business and portfolio needs. Brokers would continue to be evaluated by the service they provide on a daily basis. If any of the current brokers do not perform to expectations, then staff will recommend dropping the broker to the investment committee. If 3 or more brokers have been dropped, or staff believes that they need additional/replacement coverage, they will conduct an RFI prior to the 3 year mark. All brokers are checked in the Financial Industry Regulatory Authority (FINRA) for issues on an annual basis.

The issue was discussed and Mike Finley proposed to table the request to the 4th Quarter Investment Committee meeting in November. A motion was made, seconded and carried by unanimous vote to table the request and discuss at the next committee meeting.

6. Other Business

None

7. Review of Quarterly Report for Mayor and City Council

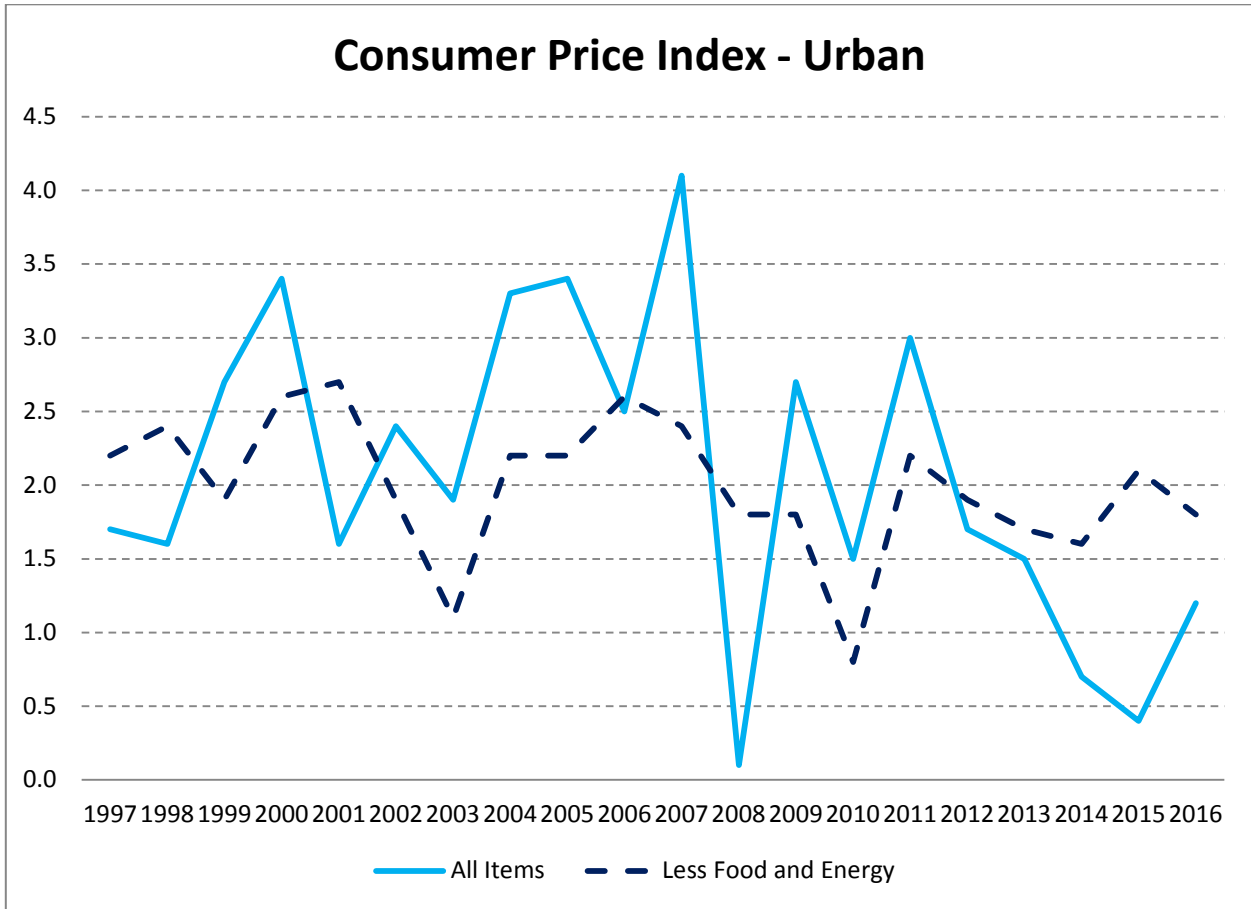
The Committee reviewed the quarterly report that is to be presented to the Mayor and City Council.

There being no further business, the meeting was adjourned at 1:28 p.m.

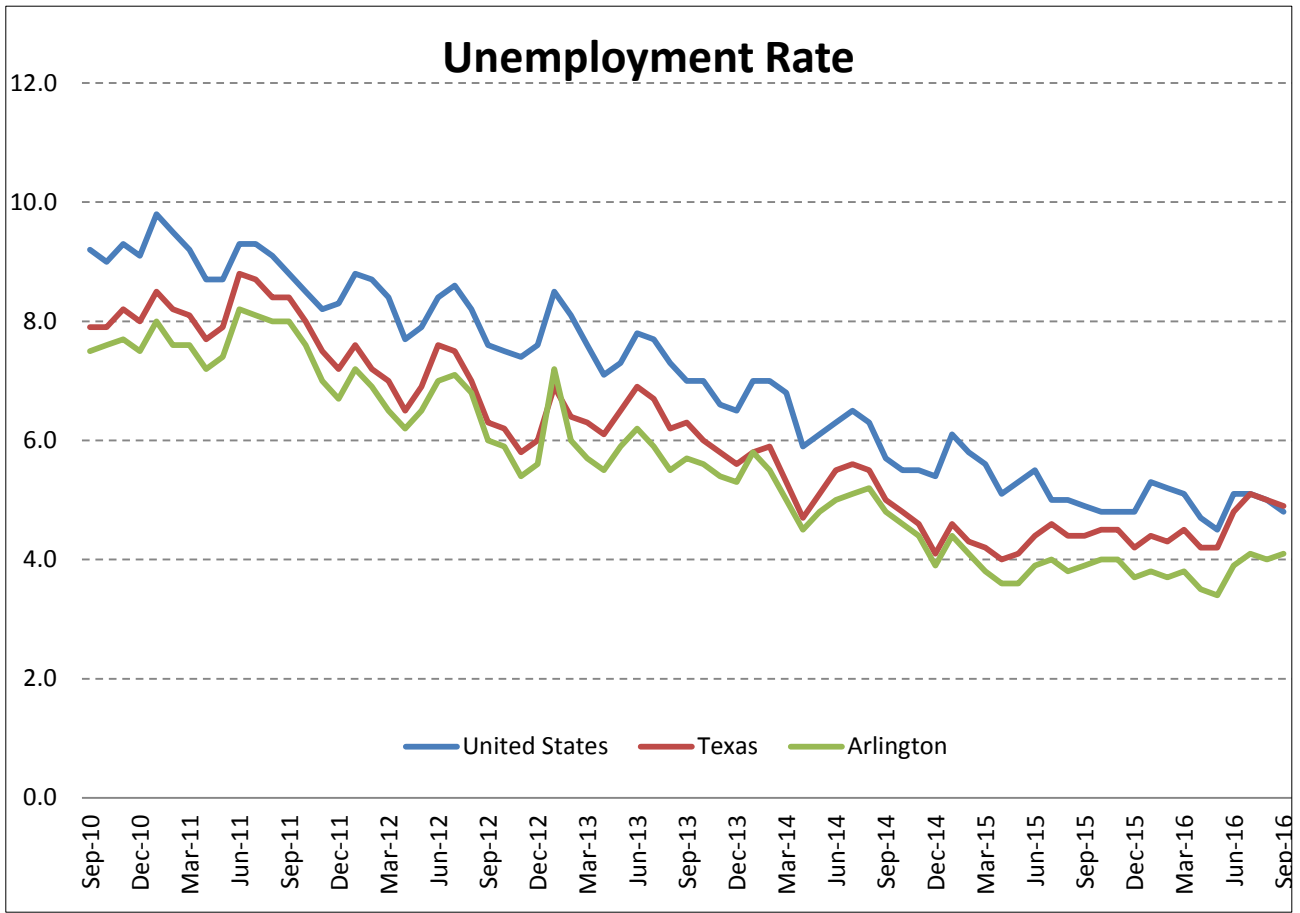
APPROVED:

Gilbert Perales, Deputy City Manager

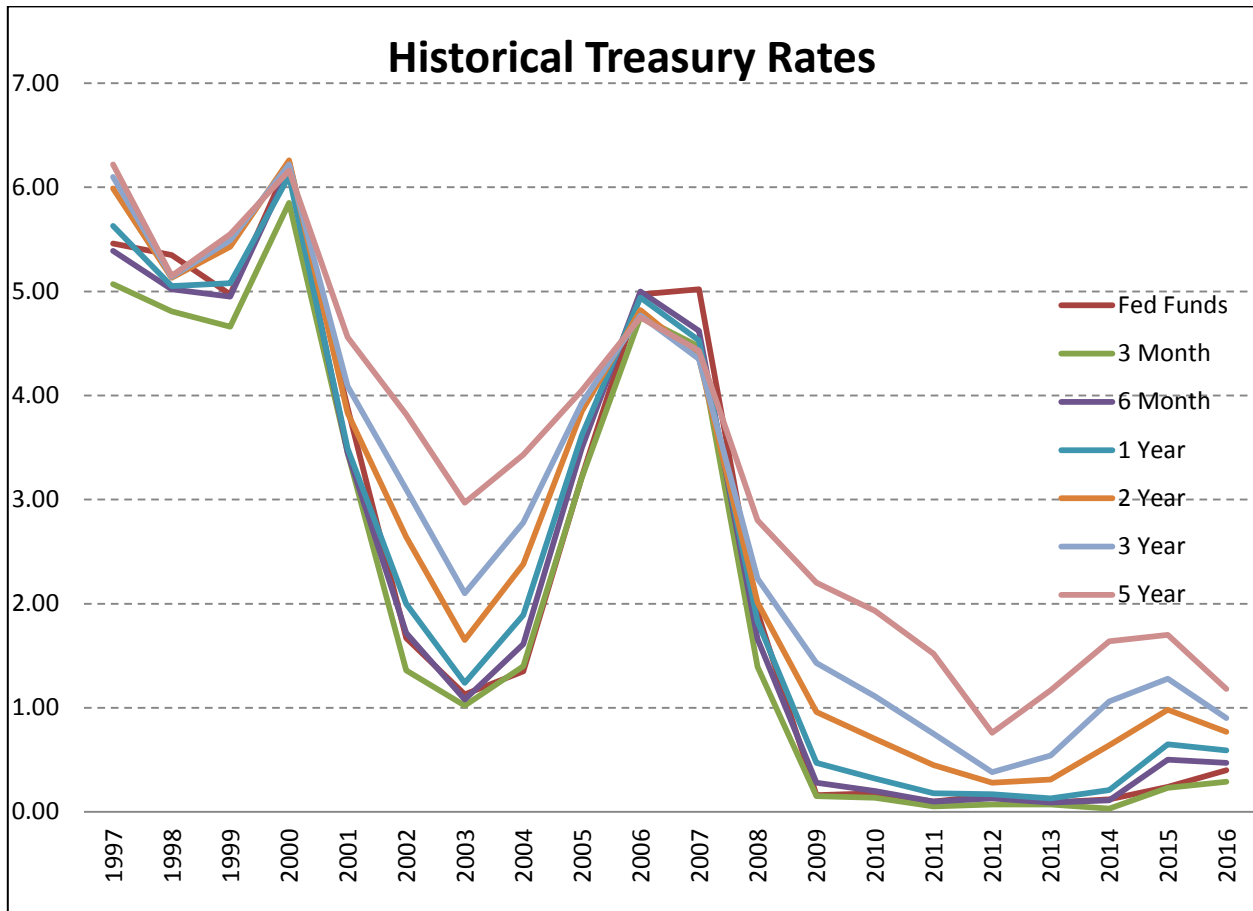
Investment Committee Item No. 2 Economic Indicators



The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. The U.S. Bureau of Labor Statistics (BLS) publishes CPIs for two population groups: (1) The CPI for Urban Wage Earners and Clerical Workers (CPI-W), which covers households of wage earners and clerical workers that comprise approximately 28 percent of the total population and (2) the CPI for All Urban Consumers (CPI-U) and the Chained CPI for All Urban Consumers (CCPI-U), which cover approximately 88 percent of the total population and include, in addition to wage earner and clerical worker households, groups such as professional, managerial, and technical workers, the self-employed, short-term workers, the unemployed, and retirees and others not in the labor force. The CPIs are based on prices of food, clothing, shelter, and fuels, transportation fares, charges for doctors' and dentists' services, drugs, and other goods and services that people buy for day-to-day living. Prices are collected each month in 87 urban areas across the country from about 4,000 housing units and approximately 26,000 retail establishments—department stores, supermarkets, hospitals, filling stations, and other types of stores and service establishments. All taxes directly associated with the purchase and use of items are included in the index. Prices of fuels and a few other items are obtained every month in all 87 locations. Prices of most other commodities and services are collected every month in the three largest geographic areas and every other month in other areas. Prices of most goods and services are obtained through personal visits or telephone calls by BLS trained representatives.



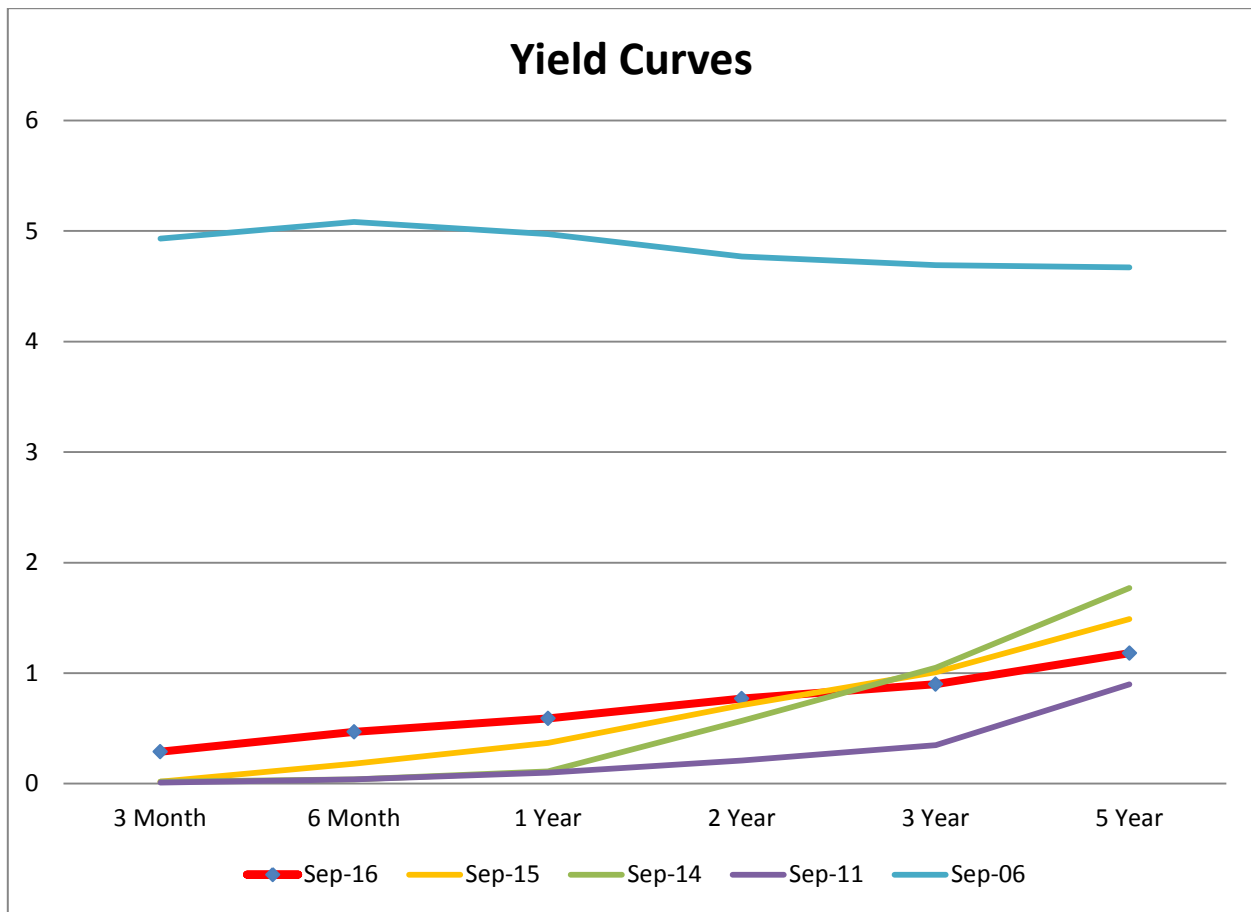
The unemployment rate represents the number of unemployed as a percentage of the labor force. Labor force data are restricted to people 16 years of age and older, who currently reside in 1 of the 50 states or the District of Columbia, who do not reside in institutions (e.g., penal and mental facilities, homes for the aged), and who are not on active duty in the Armed Forces.



The Federal Funds rate (Fed Funds) is the interest rate at which depository institutions lend balances at the Federal Reserve to other depository institutions overnight.

A Treasury Bill is a short-term debt obligation backed by the U.S. government with a maturity of less than one year. T-bills are sold in denominations of \$1,000 up to a maximum purchase of \$5 million and commonly have maturities of one month (four weeks), three months (13 weeks) or six months (26 weeks).

A Treasury Note is a debt obligation backed by the U.S. government with a maturity between two and ten years. T-bills are sold in denominations of \$1,000. The 10-year Treasury note has become the security most frequently quoted when discussing the performance of the U.S. government bond market and is used to convey the market's take on longer-term macroeconomic expectations.



The Yield Curve plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. This yield curve is used as a benchmark for other debt in the market, such as mortgage rates or bank lending rates. The curve is also used to predict changes in economic output and growth. The shape of the yield curve is closely scrutinized because it helps to give an idea of future interest rate change and economic activity. There are three main types of yield curve shapes: normal, inverted and flat (or humped). A normal yield curve is one in which longer maturity bonds have a higher yield compared to shorter-term bonds due to the risks associated with time. An inverted yield curve is one in which the shorter-term yields are higher than the longer-term yields, which can be a sign of upcoming recession. A flat (or humped) yield curve is one in which the shorter- and longer-term yields are very close to each other, which is also a predictor of an economic transition. The slope of the yield curve is also seen as important: the greater the slope, the greater the gap between short- and long-term rates.

**Investment Committee Item No. 3
Portfolio Review**

**Investment Report
Quarter Ended 09/30/16**

Investment Earnings

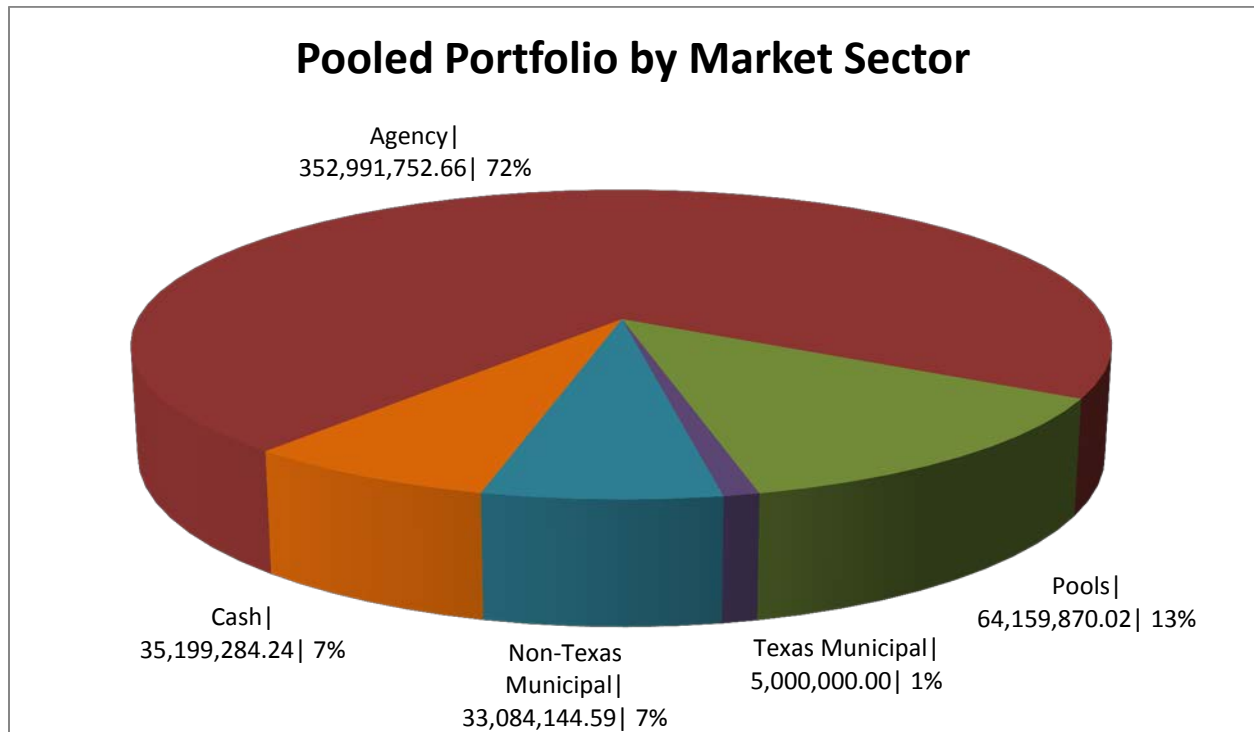
	<u>Curr. Quarter</u>	<u>Year to Date</u>	<u>YTD Prior FY</u>	<u>% Change</u>
Pooled Funds	\$ 959,000	\$ 3,154,708	\$ 1,612,918	95.6%
General Fund Reserve	548	1,675	300	458.3%
Water Debt Reserve	20,457	73,671	38,532	91.2%
Stadium Complex	26,920	498,101	744,370	(33.1%)
	<hr/>	<hr/>	<hr/>	
	\$ 1,006,925	\$ 3,728,155	\$ 2,396,119	55.6%

Investment Performance

	<u>YTD Yield FY 16</u>	<u>YTD Yield FY 15</u>
City Portfolio	0.73%	0.44%
Stadium Complex	1.48%	2.22%
Rolling 12 month Treasury	0.59%	0.37%

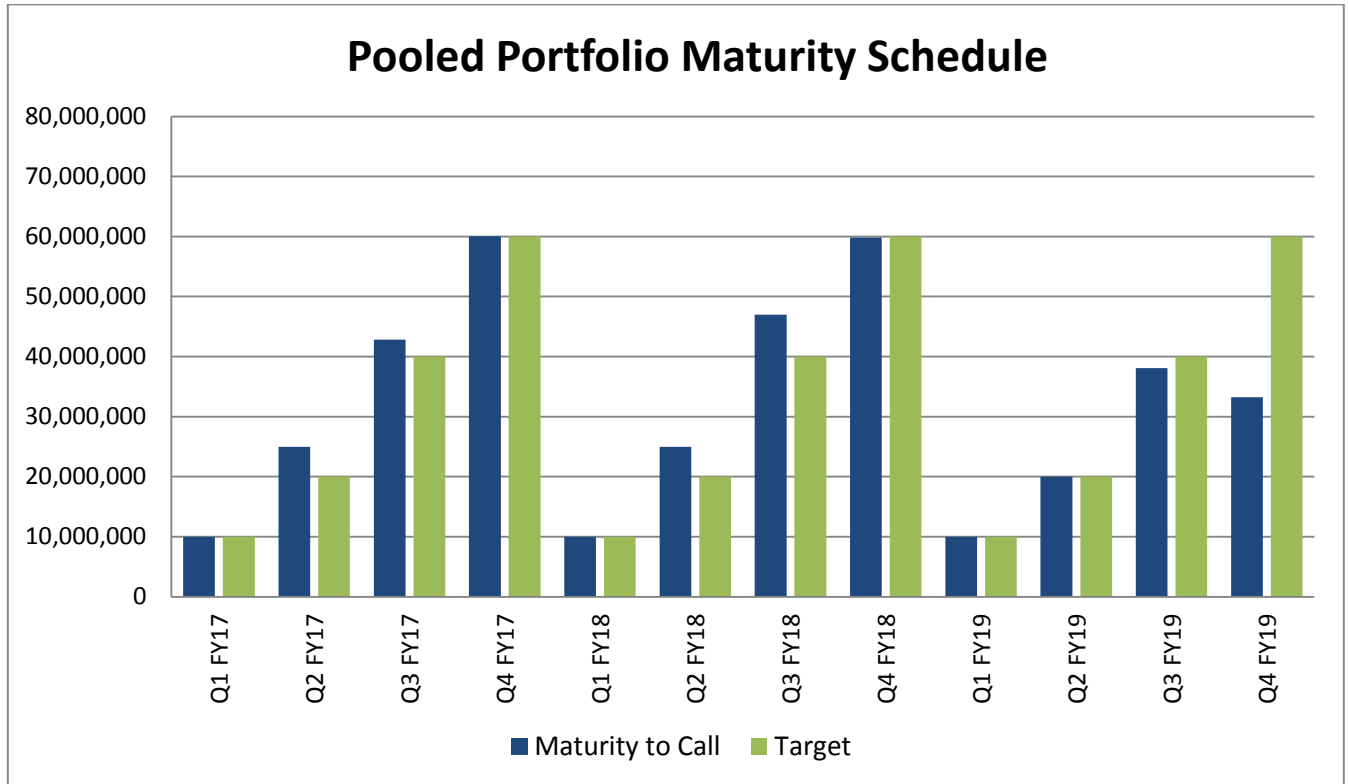
PORTFOLIO BY SECTOR

Portfolio Investment Limitations	Policy % Limit	% of Portfolio
Cash	none	7.18%
Treasury Securities	100%	0.00%
TxPool	25% of City Port / 2% of Pool Port	4.98 - .18%
Texas Daily	25% of City Port / 2% of Pool Port	3.70% - .74%
TxStar	25% of City Port / 2% of Pool Port	4.40% - .41%
Texas Investment Pools	100%	13.08%
Certificates of Deposit	50%	0.00%
Texas and its agencies, cities, counties (AA)	10%-2%/Issuer	1.02% - 1.02%
Municipal Bonds (AA)	10%-2%/Issuer	6.75% - 1.26%
Farmer Mac	35%	8.26%
Federal Farm Credit Bank	35%	25.71%
Federal Home Loan Bank	35%	26.32%
Federal Home Loan Mortgage Corp.	35%	9.63%
Federal National Mortgage Assoc.	35%	2.06%
World Bank	35%	0.00%
FDIC Insured	30%	0.00%
Government National Mortgage Assoc.	35%	0.00%
Repurchase Agreements	15%	0.00%
Commercial Paper (A-1+,P-1)	20% - 5%/Issuer	0.00%
Money Market Funds (AAA)	15%/Issuer	0.00%

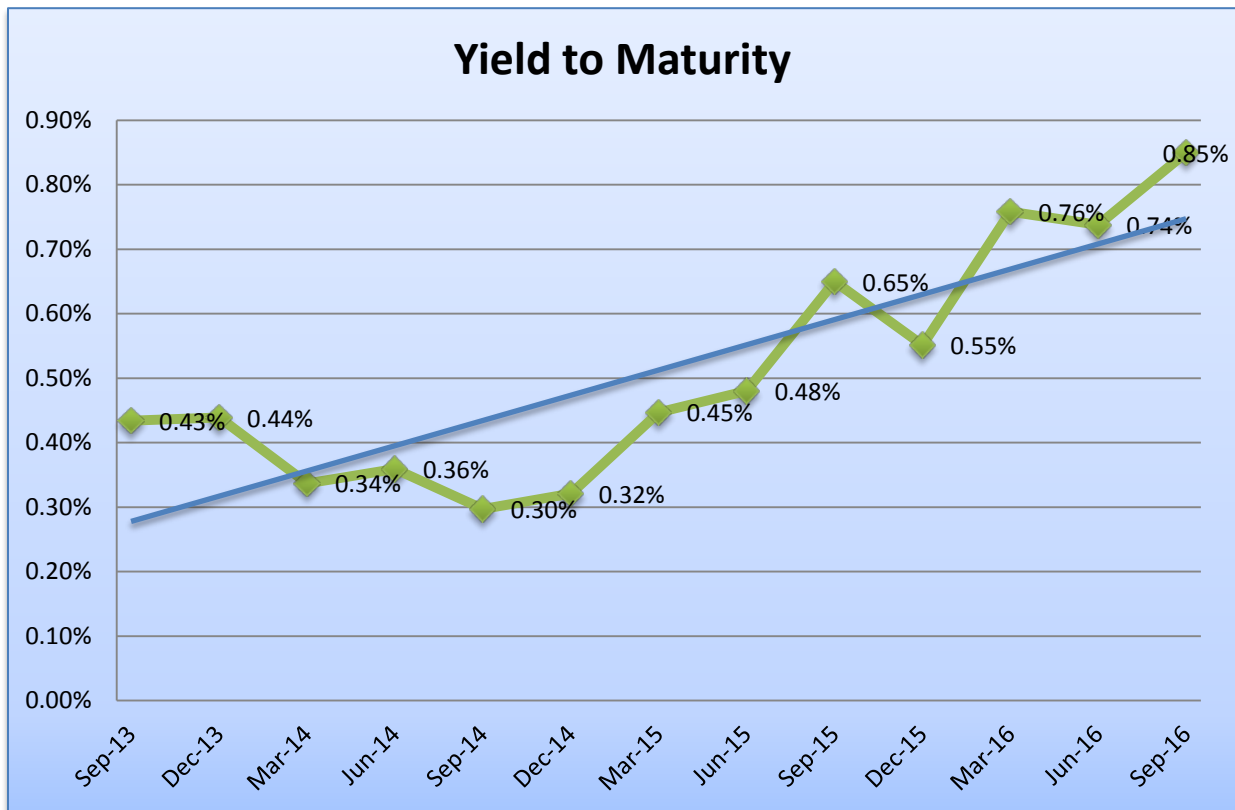
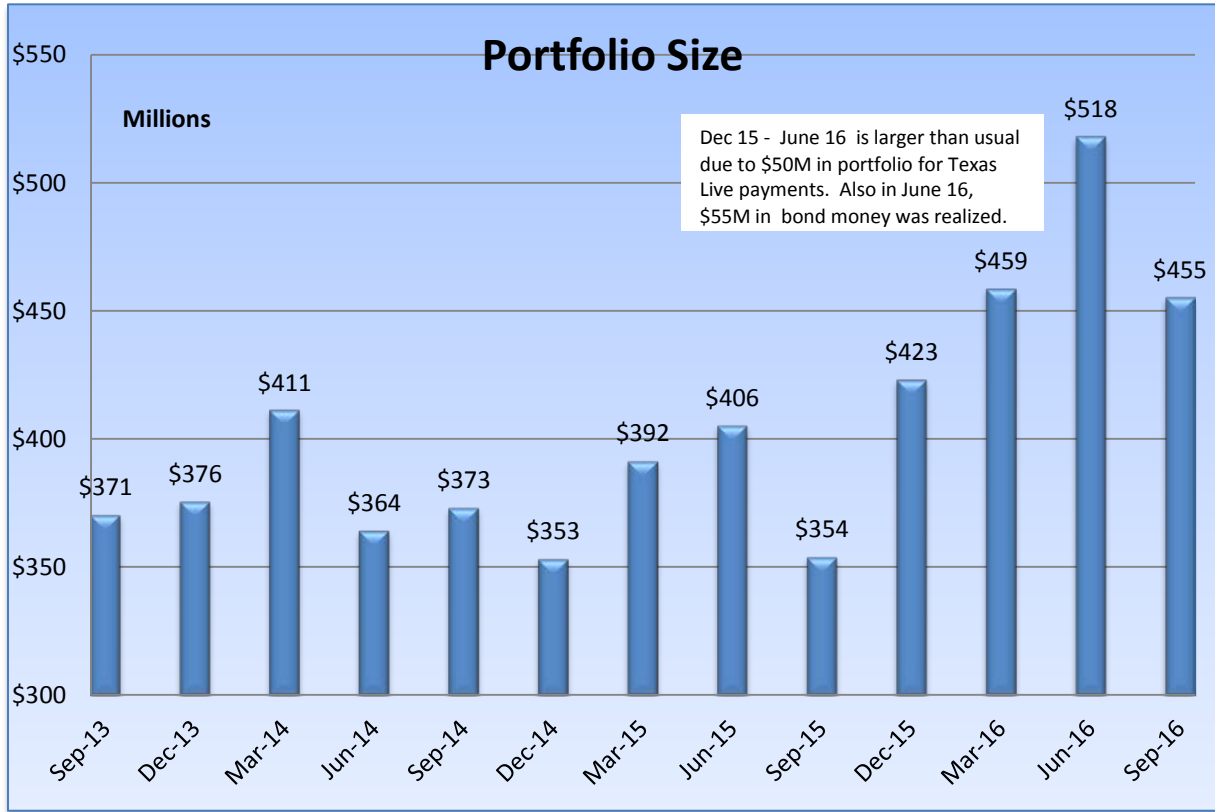


PORTFOLIO BY MATURITY

Portfolio Area (Funds)	Policy Limits		Actual	
	Maturity	WAM	Maturity	WAM (days)
Operating Funds	3 (1,096)	1.5 (547)	1,077	483
Water Debt Reserve	5 (1,825)	4 (1,460)	996	488
Cowboys Debt Service Reserve	7 (2,555)	7 (2,555)	0	1



PORTFOLIO HISTORY



Investment Committee Item No. 4

Consideration of Investment Strategy

At the end of September, \$91.5M of Capital projects had been encumbered. An additional \$138.9M of Capital projects had cash available, but had not been spent or encumbered. The cash/pool balance was approximately \$99.4M as of September 30, 2016.

Due to the large amount of Capital projects, the recommended investment strategy for the next three months is to maintain the range for Operating Funds in the portfolio WAM between 300 and 500 days. Additionally maintain \$60M to \$90M in cash/investment pools in anticipation of increased capital expenditures and Texas Live monthly payments. (\$6.25M monthly over 8 months)

When investing, the focus for the next quarter will be placed on targeting maturities and filling out the ladder for Q3 and Q4 of FY19. Sectors that will be utilized are anticipated to be Agencies, Municipals, and Treasuries.

Investment Committee Item No. 5

Bonwick Capital Broker/Dealer Disclosure Event

The Financial Industry Regulatory Authority (FINRA) sanctioned Bonwick Capital. The Sanction details are as follows:

RESPONDENT BONWICK CAPITAL PARTNERS, LLC FAILED TO FILE ITS 2015 ANNUAL AUDIT REPORT WITHIN 21 DAYS AFTER SERVICE OF THE NOTICE OF SUSPENSION DATED MARCH 17, 2016.

PURSUANT TO FINRA RULE 9552, RESPONDENT BONWICK CAPITAL PARTNERS, LLC'S FINRA MEMBERSHIP WAS SUSPENDED AS OF THE CLOSE OF BUSINESS ON JULY 13, 2016. ON APRIL 8, 2016, THE FIRM FILED A REQUEST FOR HEARING WITH RESPECT TO THE NOTICE OF SUSPENSION. BY ORDER DATED JULY 12, 2016, FINRA CONCLUDED THAT THE FIRM HAD ABANDONED ITS DEFENSE AND WAS IN DEFAULT. ACCORDINGLY, IT IS ORDERED THAT FINRA'S MARCH 17, 2016 NOTICE OF SUSPENSION SHALL BE DEEMED FINRA'S FINAL ACTION AS OF THE CLOSE OF BUSINESS ON JULY 13, 2016. IF THE FIRM FAILS TO REQUEST TERMINATION OF THE SUSPENSION WITHIN THREE MONTHS, IT WILL BE AUTOMATICALLY EXPELLED. SUSPENSION WAS LIFTED ON 10/13/2016.

The individual broker/dealer that Treasury had been working with at Bonwick Capital has had a very good working relationship with the City for over 10 years. She moved to Multi-Bank Securities prior to the FINRA event. It is recommended to continue working with this individual per the approval of the investment committee.

Recommendation:

Drop Bonwick Capital (MWBE) as a certified broker/dealer with the City and add Multi-Bank Securities (MWBE).

Investment Committee Item No. 6

Broker/Dealer Request for Information (RFI) frequency

State law requires that the Investment Committee annually adopt an authorized broker/dealer list. The current approved Broker Dealer list is as follows.

	Company
1	Coastal Securities Inc.
2	Hilltop Securities, Inc. (was First Southwest)
3	Jefferies & Company, Inc.
4	Mutual Securities
5	Piper Jaffray
6	Bonwick Capital* (MWBE)
7	Samco Capital Markets (MWBE)
8	Wells Fargo Institutional Brokerage

* Multit-Bank Securities (MWBE) to possibly replace Bonwick per committee approval

The practice has been to go through an RFI process asking interested brokers to fill out a questionnaire, send resumes and company informational packets and any other supplemental materials they desire on a yearly basis. It is recommended to push this practice out to every 3 years as the process is cumbersome and time consuming when there is little change from year to year and a quantifiable competitive edge amongst brokers is very minimal. There is value in working with brokers at length as they become more familiar with our business and portfolio needs. This takes time in working with 8 brokers as we average only about 5 trades a month.

Brokers will continue to be evaluated by the service they provide on a daily basis. If any of the current brokers do not perform to expectations, then staff will recommend dropping the broker to the investment committee. If 3 or more brokers have been dropped, or staff believes that they need additional/replacement coverage, they will conduct an RFI prior to the 3 year mark. All brokers are checked in the Financial Industry Regulatory Authority (FINRA) for issues on an annual basis.

Investment Committee Item No. 7

Annual Review of the Investment Policy

Every year the Investment Policy is to be approved by the Mayor and City Council. There are no requested updates to the Investment Policy.

Expected calendar of events:

- Dec 13 – Take Investment Policy to Fiscal Policy Committee for approval and City Council that evening

Investment Committee Item No. 8

Other Business

Investment Committee Item No. 9

Quarterly Council Reports

The latest quarterly report to the Mayor and City Council is presented in draft form for the committee's review and comment.

City of Arlington
Quarterly Investment Report
Ending September 30, 2016



December 13, 2016

To The Honorable Mayor Jeff Williams,
Members of the City Council,
and City Manager,
City of Arlington

The attached information comprises the quarterly investment report for the City of Arlington, Texas for the quarter ended September 30, 2016. The undersigned acknowledge that the City's investment portfolio has been, and is in compliance with the policies and strategies as contained in the City's Investment Policy as adopted by Resolution 15-303, for the City of Arlington, and also in compliance with the Public Funds Investment Act of the State of Texas.

Mike Finley, Director of Finance

Ethan Klos, Treasurer

Mark Davies, Cash and Debt Administrator

Trina Taylor, Senior Budget Analyst

Lisa Williams, Treasury Analyst



MEMORANDUM

TO: Mayor and City Council

FROM: Mike Finley, Director of Finance

SUBJECT: Quarterly Investment Report

DATE: December 13, 2016

The quarterly investment report has been prepared for the Mayor and City Council as required by Section 2256.023 Internal Management Reports of the Public Funds Investment Act.

The quarterly report includes an investment portfolio summary, and several pages presenting individual investment securities as required by the Act. The report covers all investments of the City and the Stadium. Below are the September 30, 2016 ending values.

	Par <u>Value</u>	Book <u>Value</u>	Market <u>Value</u>	QTY Interest <u>Earnings</u>
City Total	\$454,204,870	\$455,235,767	\$455,664,646	\$980,005
Stadium Total	<u>\$18,319,259</u>	<u>\$18,319,259</u>	<u>\$18,319,259</u>	<u>\$26,920</u>
Grand Total	\$472,524,129	\$473,555,026	\$473,983,905	\$1,006,925

The ending book value for the City Total does not include \$35.19mil in collateralized cash balances at the depository bank (JPMorgan). The cash balance provides an earnings credit in lieu of interest and is used to offset bank fees while giving the City a better return than other liquid assets. At this rate, the City yields more value in offsetting bank fees than in interest earnings.

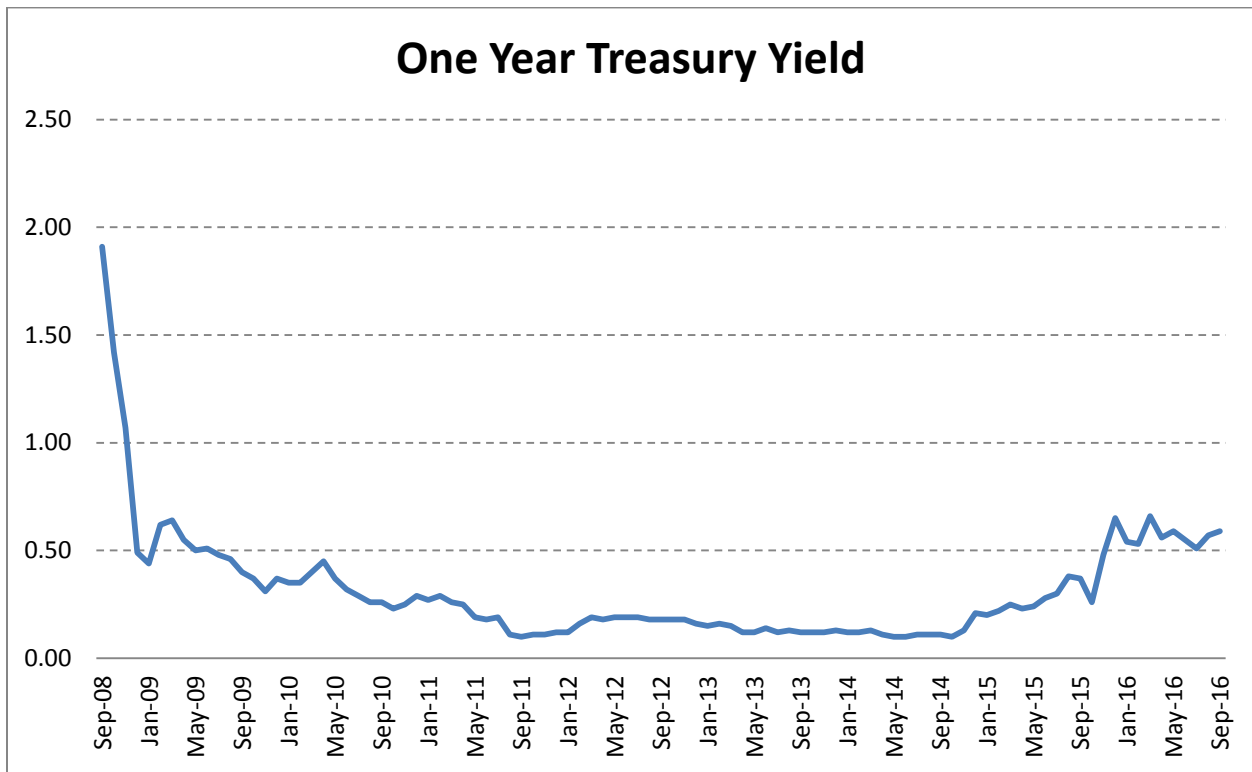
The yield for the quarter and fiscal year to date on the main portfolio is as follows:

	<u>Qtr. Yield</u>	<u>FY to Date Yield</u>
City Portfolio	0.83%	0.73%

Investment Performance

	<u>YTD Yield FY 16</u>	<u>YTD Yield FY 15</u>
City Portfolio	0.73%	0.44%
Stadium Complex	1.48%	2.22%
Rolling 12 month Treasury	0.59%	0.37%

The one-year treasury is considered to be the safest and most liquid investment and provides a good measure of market yields.



All supplementary/detail reports are available at the City Secretary’s office. Please contact me with any questions you have at 817-459-6345 (Mike.Finley@arlingtontx.gov).

cc: Trey Yelverton, City Manager
Gilbert Perales, Deputy City Manager

City of Arlington Investment Portfolio Summary as of 9/30/2016

<u>Fund Type</u>		<u>Par Value</u>	<u>Book Value</u>	<u>Market Value</u>	<u>Qtr Interest Earnings</u>
<u>(City Portfolio)</u>					
General Operating	Value at 6/30/2016	510,170,763	510,696,034	511,746,957	871,942
	Net Change	(64,965,893)	(64,491,266)	(65,142,337)	87,606
	Value at 9/30/2016	445,204,870	446,204,769	446,604,620	959,548
Water Debt Service	Value at 6/30/2016	7,400,000	7,405,842	7,450,049	18,665
Reserve	Net Change	1,600,000	1,625,156	1,609,977	1,792
	Value at 9/30/2016	9,000,000	9,030,999	9,060,026	20,457
City Total	Value at 6/30/2016	517,570,763	518,101,877	519,197,006	890,607
	Net Change	(63,365,893)	(62,866,109)	(63,532,360)	89,398
	Value at 9/30/2016	454,204,870	455,235,767	455,664,646	980,005

<u>(Stadium Portfolio)</u>					
Debt Service	Value at 6/30/2016	36,549,909	36,549,909	36,549,909	94,140
	Net Change	(18,230,649)	(18,230,649)	(18,230,649)	(67,220)
	Value at 9/30/2016	18,319,259	18,319,259	18,319,259	26,920
Proceeds	Value at 6/30/2016	-	-	-	
	Net Change	-	-	-	
	Value at 9/30/2016	-	-	-	
Stadium Total	Value at 6/30/2016	36,549,909	36,549,909	36,549,909	94,140
	Net Change	(18,230,649)	(18,230,649)	(18,230,649)	(67,220)
	Value at 9/30/2016	18,319,259	18,319,259	18,319,259	26,920

Financial Terms

Par Value – Face Value of the Bonds, Principal which will pay at maturity

Book Value – The Value at which a debt security is shown on the holder's balance sheet. Book Value is often acquisition cost +/- amortization/accretion, which may differ markedly from market value. (Book Value is updated monthly by accounting)

Market Value - The price at which a security is trading and could presumably be purchased or sold. (Market value is updated at the end of each month through Interactive Data Corporation)

The General Operating Portfolio includes all City funds except the following:

- Arlington Tomorrow Foundation (ATF) Corpus
- Stadium

Supplementary Detail Reports