



DENVER
THE MILE HIGH CITY

City and County of Denver

Investment Portfolio Performance Report

Quarter Ended

9/30/2020

Prepared By:

Cash, Risk &
Capital Funding
Division

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I. Economic Commentary

Capital markets reached new highs despite a pandemic as investor optimism for more fiscal stimulus and a vaccine outweighed economic concerns. The S&P 500 reached record highs and the Dow Industrial average fell just short of its record set in February 2020. Yields along the short end of the U.S. Treasury yield curve fell while the longer end finished higher for the third quarter. Yields remained at historically low levels across the curve. COVID-19 cases and hospitalizations started to increase near the end of the quarter as signs of a second wave began to surface across Europe and parts of the United States.

The Federal Open Market Committee (FOMC) held short term rates near zero, with the Federal funds rate remaining in the range of 0.00% to 0.25%. The Federal Reserve tools to support households, businesses, and the U.S. economy remained relatively unchanged during the third quarter. The Federal Reserve's Main Street Lending program faltered in its success. The \$600 billion facility so far only purchased \$1.6 billion in loans. The Federal Reserve's balance sheet remained at \$7.1 trillion during the third quarter. Federal Reserve messaging continued to indicate rates remaining low for some time and the central bank's policy remaining accommodative.

Payrolls increased, below expectations, 661,000 in September. The monthly unemployment rate improved to 7.9% in September from 8.4% in August. The

improvement in the unemployment rate is primarily attributed to a drop in the labor participation rate to 61.4% in September down from 61.7% in August. The U-6, a broader measure of unemployment eased slightly to 12.8% in September down from 14.2% in August.

Manufacturing data improved with the ISM Index rising to a value of 55.4 by quarter end. An index level above 50 suggests the manufacturing sector is expanding again. The housing sector saw home prices increase 3.9% year over year in July. Housing starts rose with single-family starts up 4.1% in July, but multi-family starts declined 22.7% in the same month. The trend suggests that low inventory and low mortgage rates are driving single-family housing activity.

Exposure to credit securities in the portfolios increased slightly in the third quarter. Credit spreads tightened closer to pre-pandemic levels partially due to Federal Reserve purchasing credit asset classes and high demand. Treasury yields remained at historically low levels during the quarter. Volatility in fixed income markets modestly affected portfolio performance for the quarter. The City's investment portfolio underperformed the stated benchmark indices by 0.04% year to date on a total return basis.

Portfolios	Market Value
Managed Portfolios	\$5,043,499,144
Special Purpose Portfolios	\$55,395,383
Denver CARES Escrow Account	\$269,073,999
Finance Administrated	\$5,367,968,526



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II. Consolidated Portfolio

\$4,470,646,051

Total Return			
	1-Month	3-Month	YTD
Total Return	0.04%	0.29%	4.13%
Blended Benchmark (TR)	0.01%	0.24%	4.17%
Excess Return	0.03%	0.05%	-0.04%

Current Return			
	1-Month	3-Month	YTD
Current Return	2.80%	2.47%	2.37%
Blended Benchmark (CR)	0.38%	0.39%	0.84%
Excess Return	2.42%	2.08%	1.53%

Year-to-Date earnings on a current return basis for the Consolidated Portfolio were \$83,005,440.

The 1-5 Year Strategy Blended Benchmark consists of 67.50% Intercontinental Exchange (ICE) BofAML 1-5 Year US Treasury & Agency Index, 17.50% ICE BofAML 1-5 Year AAA-A US Corporate Index, 7.50% ICE BofAML AAA US Asset Backed Securities, 5.00% ICE BofAML 0-3 Year US Agency CMOs and 2.50% ICE BofAML 3-5 Year US Mortgage Backed Securities Index. Prior to 1/1/2016 the benchmark was the BofA Merrill Lynch 1-5 Year US Treasury & Agency Index.

The 1-10 Year Strategy Blended Benchmark consists of 65.00% ICE BofAML 1-10 Year US Treasury & Agency Index, 15.00% ICE BofAML 1-5 Year AAA-A US Corporate Index, 5.00% ICE BofAML AAA US Asset Backed Securities, 7.50% ICE BofAML 0-10 Year US Agency CMOs and 7.50% ICE BofAML 0-10 Year US Mortgage Backed Securities Index. Prior to 1/1/2016 the benchmark was the BofA Merrill Lynch 1-10 Year US Treasury & Agency Index.

Factors Affecting Performance & Management Strategies

- Chandler's proprietary Horizon Model that the City uses with the intent to meet or outperform the benchmarks over time (the Intercontinental Exchange (ICE) BofAML Treasury/Agency 1-5 year index and the ICE BofAML Treasury/Agency 1-10 year index) are revised on a regular basis, reflecting the volatility of both bond market interest rates and interest rate curve movements. The City evaluates the portfolios each time a new Horizon Model is received. The key variables subject to potential revision as a result of Horizon Model changes include duration, composition and structure.
- The portfolios have been allocated towards a modestly shorter benchmark duration within the 1-5 and 1-10 year strategies. We expect duration will draw closer to the benchmark as additional allocation of longer dated securities are added to the portfolio. Safety of principal is paramount in investing the City's funds.
- Corporate Bonds, Collateralized Mortgage Obligations, Mortgage-Backed Securities, and Asset-Backed Securities are new asset classes approved by voters for implementation in 2014 by an amendment to the City Charter. Purchases of the new asset classes increased as a percentage of total composition at the beginning of the third quarter of 2020; but purchases remained slow during the quarter due to market uncertainty caused by COVID-19 pandemic.
- The Consolidated Portfolio benchmarking indices are comprised of five ICE BofAML indices, creating a static weighted blended benchmark. A total of two blended benchmarks are used for the 1-5 year and 1-10 year strategies to closely reflect the portfolio duration and asset allocation constraints.



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Consolidated Portfolio Composition

Characteristics		Credit Quality (S&P)
Average Duration	2.70	
Average Coupon	2.28%	
Average Yield to Maturity	0.34%	
Average Rating (S&P)	AA+	
Average Life	2.83yrs	

Asset Allocation	Maturity Distribution

- The Consolidated Portfolio's net assets decreased by approximately \$822 million during the third quarter of 2020. On September 30th, 2020, net assets were \$4.47 billion, compared to \$5.29 billion on June 30th, 2020, as expenditures exceeded inflows. The increase in expenditures was due to historic cyclical outflows and increased expansion project expenses related to the Denver International Airport. A large portion of outflows for the City occur during the second half of the year; meanwhile, inflows were less than prior years due to the economic downturn caused by the COVID-19 pandemic.
- The weighted average maturity (WAM), an aggregate portfolio measure of total years remaining until the maturity of all underlying holdings, ended higher during the third quarter. The WAM increased at end of the quarter, due to increased exposure to longer term assets. While modestly short benchmark duration, rebalancing and securities purchase activity in the intermediate strategies during the third quarter extended duration more closely with the model and benchmark. The model continues to remain short of benchmark duration.



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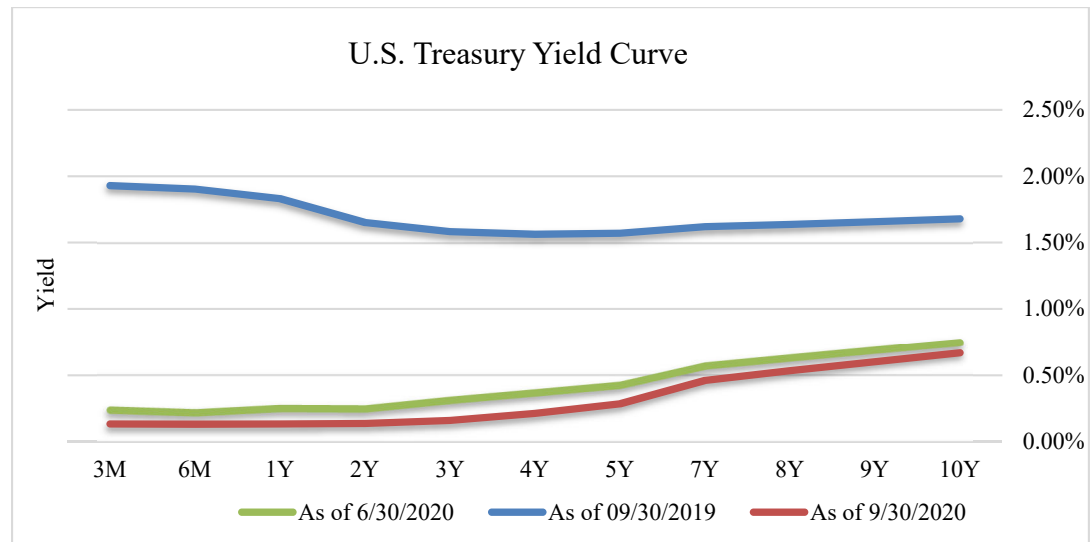
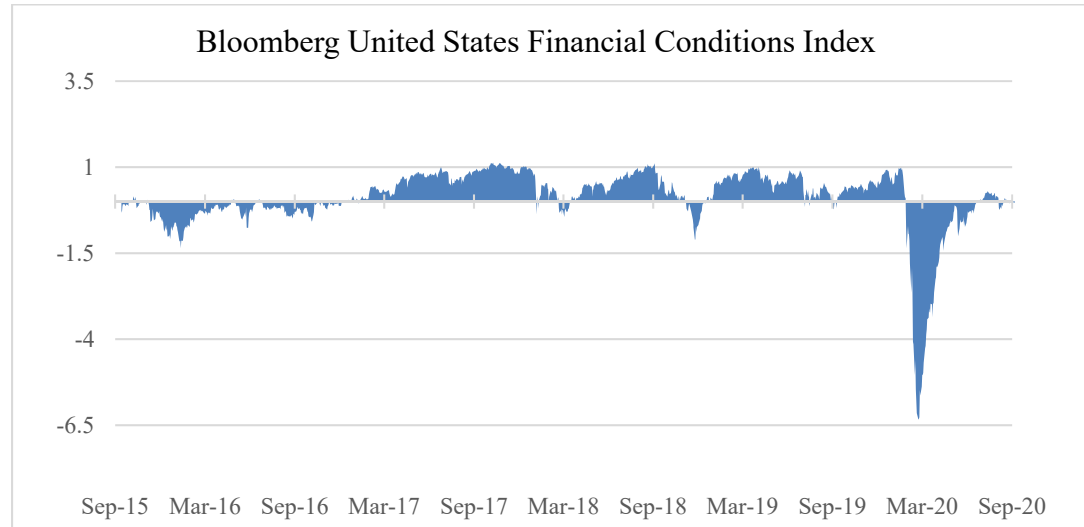
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Portfolio Management Environment



- The Federal Reserve maintained the Fed funds rate to a range of 0.00%-0.25% during the third quarter of 2020. The Fed signaled rates will stay near zero for the foreseeable future
- The one-month LIBOR rate was 0.15% as of September 30th, 2020; a decrease of less than 2 basis points from June 30th, 2020.
- As of September 30th, 2020, the yield of the two-year Treasury index was 0.13%, and the five-year Treasury index was yielding 0.28%. A year earlier, as of September 30th, 2019, the yield of the two-year Treasury index was 1.62%, and the five-year Treasury index was yielding 1.54%.
- The median of economists' forecast is for a .30% two-year Treasury yield at the end of the of the year 2020.
- Movement in rates of the yield curve were modest in the third quarter with yields slightly declining across the curve. At the end of the third quarter, the two-year, five-year, and ten-year were at 0.13%, 0.28%, and 0.68%, respectively.



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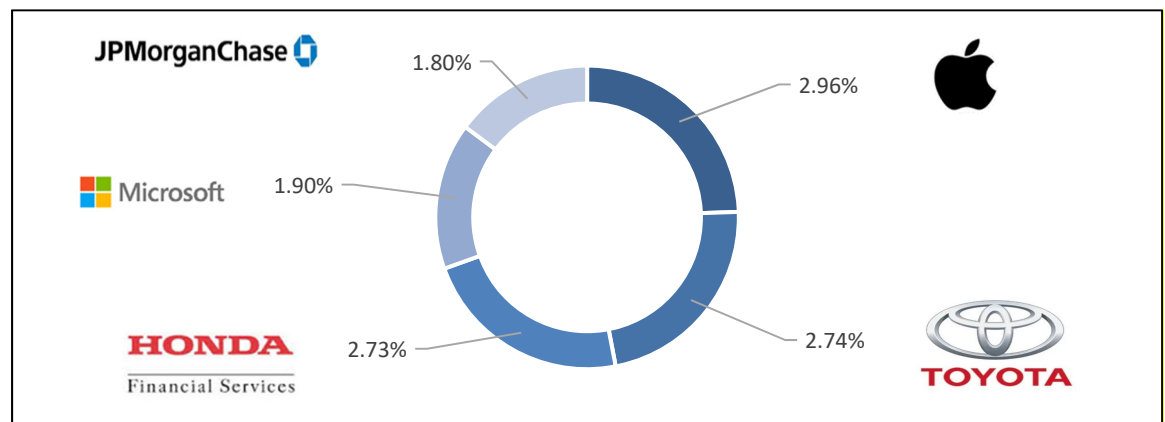
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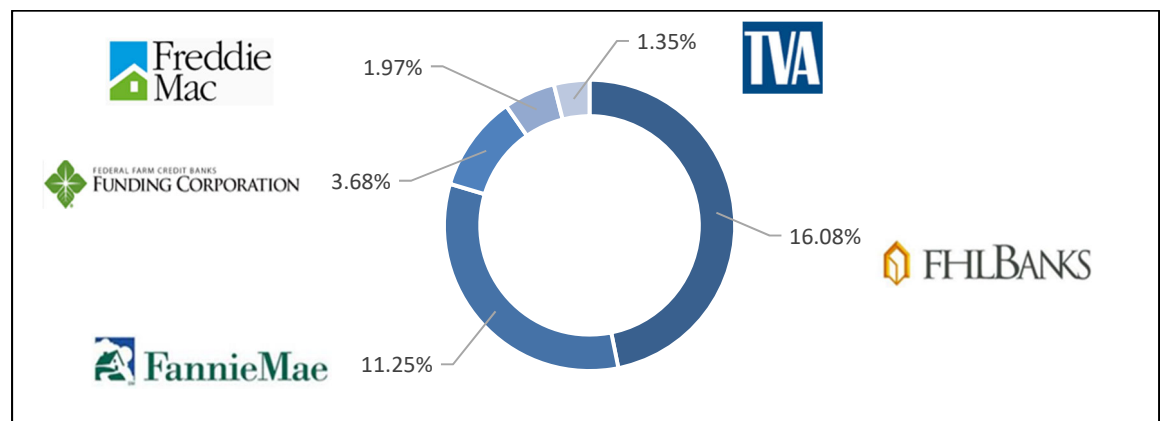
Consolidated Top Holdings

Top 5 Credit Holdings			
Issuer	Market Value	% of Portfolio	Industry
Apple, Inc.	131,075,664	2.96%	Technology
Toyota Motor Credit Corp	121,081,802	2.74%	Automobiles
American Honda Finance	120,958,606	2.73%	Automobiles
Microsoft Corp	84,018,156	1.90%	Technology
JP Morgan Chase & Co	79,629,908	1.80%	Financials
Total	\$536,764,136	12.13%	

*Credit holdings include commercial paper, asset-backed securities, and corporate bonds.



Top 5 Agency Holdings		
Issuer	Market Value	% of Portfolio
FHLB	711,404,811	16.08%
FNMA	497,995,997	11.25%
FFCB	162,618,485	3.68%
FHLMC	87,375,909	1.97%
TVA	59,916,742	1.35%
Total	\$1,519,311,944	34.33%





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III. Airport Reserve Portfolio

\$531,169,168

Total Return			
	1-Month	3-Month	YTD
Total Return	0.08%	0.39%	5.43%
Blended Benchmark (TR)	0.03%	0.30%	5.45%
Excess Return	0.05%	0.09%	-0.02%

Current Return			
	1-Month	3-Month	YTD
Current Return	2.47%	2.49%	2.60%
Blended Benchmark (CR)	0.48%	0.49%	0.93%
Excess Return	1.99%	2.00%	1.67%

Year-to-Date earnings on a current return basis for the Reserve Portfolio were \$9,692,819.

The 1-5 Year Strategy Blended Benchmark consists of 67.50% ICE BofAML 1-5 Year US Treasury & Agency Index, 17.50% ICE BofAML 1-5 Year AAA-A US Corporate Index, 7.50% ICE BofAML AAA US Asset Backed Securities, 5.00% ICE BofAML 0-3 Year US Agency CMOs and 2.50% ICE BofAML 3-5 Year US Mortgage Backed Securities Index. Prior to 1/1/2016 the benchmark was the BofA Merrill Lynch 1-5 Year US Treasury & Agency Index.

The 1-10 Year Strategy Blended Benchmark consists of 65.00% ICE BofAML 1-10 Year US Treasury & Agency Index, 15.00% ICE BofAML 1-5 Year AAA-A US Corporate Index, 5.00% ICE BofAML AAA US Asset Backed Securities, 7.50% ICE BofAML 0-10 Year US Agency CMOs and 7.50% ICE BofAML 0-10 Year US Mortgage Backed Securities Index. Prior to 1/1/2016 the benchmark was the BofA Merrill Lynch 1-10 Year US Treasury & Agency Index.

- The Airport Bond Reserve portfolio has a maximum maturity constraint of 10 years. On an ongoing basis, liquidity is generated from income received from the portfolio holdings, as well as from periodic bond calls of Agency securities. All income received during the year is transferred out of this portfolio into the Airport Operating funds contained in the Consolidated Portfolio (subject to ongoing adjustments to the required portfolio balance stated in the bond indenture).
- The Airport Reserve Portfolio benchmarking indices are comprised of five ICE BofAML indices, creating a static weighted blended benchmark. A total of one blended benchmark is utilized for the 1-10 year strategy to closely reflect the portfolio duration and asset allocation constraints.



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Airport Reserve Portfolio Composition

Characteristics		Credit Quality (S&P)
Average Duration	3.45	
Average Coupon	2.45%	
Average Yield to Maturity	0.40%	
Average Rating (S&P)	AA+	
Average Life	3.66 yrs	

Asset Allocation	Maturity Distribution



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IV. Workers Compensation Portfolio Composition

\$41,683,925

Characteristics		Credit Quality (S&P)
Average Duration	3.97	
Average Coupon	2.89%	
Average Yield to Maturity	1.02%	
Average Rating (S&P)	AA+	
Average Life	5.13 yrs	

Asset Allocation	Maturity Distribution

- WC liabilities have a much longer term expected average duration than most other funds managed by the City. For this reason, management has determined that it is prudent to extend the duration of the invested assets associated with these obligations.
- A combination of cash and securities were transferred from the Consolidated Portfolio to the newly established WC portfolio in August 2009. An allocation to cash equivalents appropriate to fund the liquidity needs of the unit was set aside (and is monitored and adjusted monthly), and the balance of the funds were invested in treasury, corporate, agency, municipal, and structured fixed income securities. The annualized current return for the third quarter of 2020 was 2.69%.
- Year-to-Date earnings on a current return basis for the Worker's Compensation were \$853,953.



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V. Special Purpose Portfolios

\$55,395,383

In addition to the actively managed investments, the Cash, Risk & Capital Funding Division manage three additional portfolios. The FAA (Federal Aviation Administration) Escrow Defeasance portfolio was established to economically defease outstanding airport bonds. The Denver Cableland Trust portfolio was established to fund the annual maintenance expenses for Cableland, a facility donated to the City. These portfolios are authorized by the Investment Policy to contain longer term securities and higher per issuer constraints within the Consolidated and Reserve portfolios. The majority of the investments in these portfolios were purchased in market environments that featured much higher interest rates than those currently available. The investment income and principal of the three portfolios are pledged for specific purposes.

	Market Value	2020 YTD Current Return	2020 YTD Earnings
FAA Escrow Account	\$51,251,192	6.54%	\$1,937,748
Denver Cableland Trust	\$4,144,191	3.38%	\$96,713

Escrows

Cash, Risk & Capital Funding Division also manages certain investments held in escrow accounts at external financial institutions on behalf of Denver International Airport. As of September 30th, 2020, there was an outstanding balance of \$269,073,999.

Investment Policy

The City operates under a written Investment Policy, a copy of which can be obtained on the City's website (www.denvergov.org) or by contacting the Cash, Risk & Capital Funding Division at 720-913-3091.

Caroline Hendrickson
Director of Cash & Investments

Gregory T. King
Portfolio Administrator

STATEMENT OF REVIEW OF PORTFOLIO PERFORMANCE

Chandler Asset Management, a Registered Investment Advisor with the Securities and Exchange Commission and noticed filed in the State of Colorado, as Independent Consultant to the City and County of Denver, periodically reviews the City's Investment portfolio and represents the following:

1. The investments, as of September 30, 2020, are authorized by the Denver City Charter and are in compliance with the City's Investment Policy;
2. Upon review of the City's Investment Portfolio Performance Report, and relying on the independent market pricing provided by Interactive Data Corporation, the City's securities appear to be priced accurately. Chandler Asset Management has performed no independent verification of the securities pricing provided herein; and
3. Investment performance as reported in the City's attached Investment Portfolio Performance Report, for the period ending September 30, 2020, appears to be accurately reflected.

Signed this 16th day of October 2020



Nicole Dragoo
COO, Chief Compliance Officer