



**DENVER**  
THE MILE HIGH CITY

# City and County of Denver

## Investment Portfolio Performance Report

Quarter Ended

03/31/2023

Prepared By:

Cash & Capital  
Funding Division

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### I. Economic Commentary

Market volatility continued to intensify in the first quarter of 2023 as global central banks pursued monetary policies to combat persistent inflation. Although the pace of job growth is moderating, the strength of the labor market sustained economic growth. Inflation metrics are trending downward but remain higher than the Fed's target. Most market participants expect the Federal Reserve to slow the pace of the rate hike and will hold rates at restrictive level for some time until inflationary pressures subside and remain in the Fed's target range.

The Federal Open Market Committee (FOMC) increased short term rates by 0.25%, to the target range of 4.75% to 5.00%. Fed Chairman Powell continued to message that the Federal Reserve is committed to its 2% long-term inflation target, however, the committee softened language about "ongoing increases" in rates in the prior statement to "some additional policy firming may be appropriate". The statement also emphasized that the U.S. banking system is "sound and resilient" and acknowledged the tightening of financial conditions.

The Consumer Price Index (CPI) increased 5.0% year-over-year in March, down from a 6.5% year-over-year increase in December 2022. Core CPI (CPI less food and energy) rose 5.6% year-over-year in March, down from 5.7% at the end of 2022. Shelter costs were the primary

factor in the headline CPI number, representing 70% of the increase. Used car prices plunged 13.6% compared to a year ago, the largest decline since 1960. Core PCE YoY dropped to 4.59%.

U.S. nonfarm payrolls increased 236,000 in March. Trends in employment remain strong, with the three-month moving average payroll at 345,000. The monthly unemployment rate dipped to 3.5%, returning to its pre-pandemic level. The U-6, a broader measure of unemployment fell to 6.7% from 6.8% in February. Wage growth eased in March, with average hourly earnings rising 4.2% YoY, down from 4.6% in December 2022.

Manufacturing data weakened with the ISM Index decreasing to 46.3 in March. The index at below 50 suggests a contraction in the manufacturing sector.

Total housing starts fell 0.8% in March to 1,420,000 units. The 30-year fixed rate mortgage fell to 6.24%, down from a peak of 7.08% in October, but up from 4.67% from a year ago. The Case-Shiller 20-City Home Price Index continued its decline to -1.15% YoY in March, down from 21.23% YoY at the peak in April 2022.

Exposure to credit securities in the portfolios increased in the first quarter. Credit spreads slightly widened while treasury yields fluctuated during the quarter. The City's investment portfolio outperformed the stated benchmark indices by 0.01% at quarter end on a total return basis.

Portfolios	Market Value
Managed Portfolios	\$7,238,389,523
Special Purpose Portfolios	\$3,325,328
Denver ARPA Escrow Account	\$155,486,768
<b>Finance Administrated</b>	<b>\$7,397,201,619</b>



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## II. Consolidated Portfolio

**\$6,639,689,039**

Total Return			
	1-Month	3-Month	YTD
Total Return	1.51%	1.58%	1.58%
Blended Benchmark (TR)	1.41%	1.58%	1.58%
<b>Excess Return</b>	<b>0.10%</b>	<b>0.00%</b>	<b>0.00%</b>

Current Return			
	1-Month	3-Month	YTD
Current Return	3.31%	3.15%	3.15%
Blended Benchmark (CR)	4.81%	4.55%	4.55%
<b>Excess Return</b>	<b>-1.50%</b>	<b>-1.40%</b>	<b>-1.40%</b>

Year-to-Date earnings on a current return basis for the Consolidated Portfolio were \$52,744,819.

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) is 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 portfolio was modestly short benchmark duration in the 1-5 year strategy while 1-10 year strategy was in line with the benchmark. We expect duration to move closer to the benchmark as additional allocation of longer duration 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 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 due to asset purchases outpacing maturities. Purchases in the voter approved asset classes increased during the quarter due to increased issuance by approved credit issuers primarily in the Asset-Backed Securities asset class.
- 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	2.11	
Average Coupon	3.00%	
Average Yield to Maturity	4.40%	
Average Rating (S&P)	AA+	
Average Life	2.27yrs	

Asset Allocation	Maturity Distribution

- The Consolidated Portfolio's net assets increased by approximately \$180 million during the first quarter of 2023. On March 31st, 2023, net assets were \$6.64 billion, compared to \$6.46 billion on December 31st, 2022, as inflows exceeded outflows
- The weighted average maturity (WAM), an aggregate portfolio measure of total years remaining until the maturity of all underlying holdings, ended higher in the first quarter. The WAM increased due to increased exposure to longer term assets. While modestly short to benchmark duration, rebalancing and securities purchase activity in the intermediate strategies extended duration more closely with the model and benchmark. The model continues to remain modestly short of benchmark duration.



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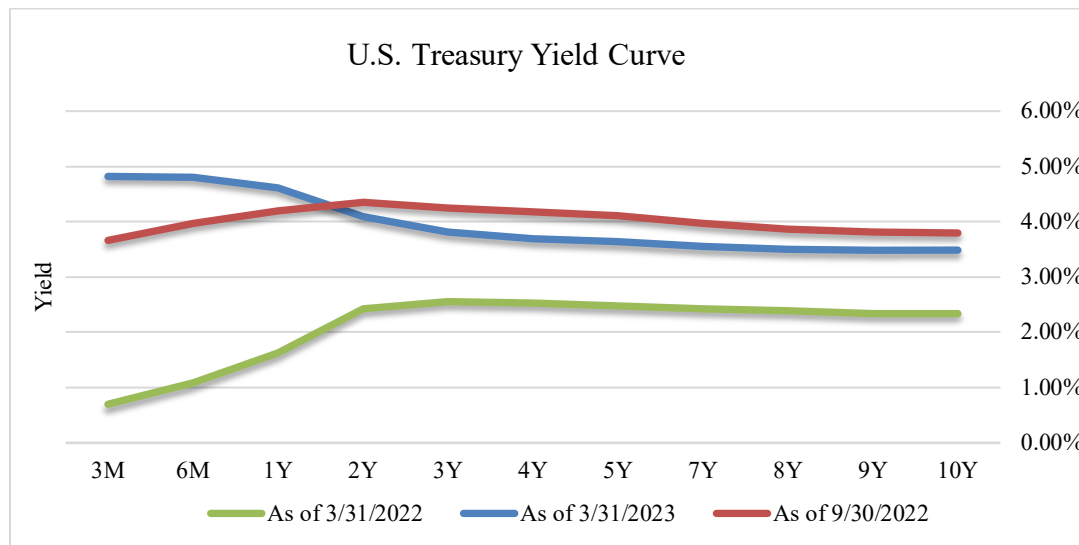
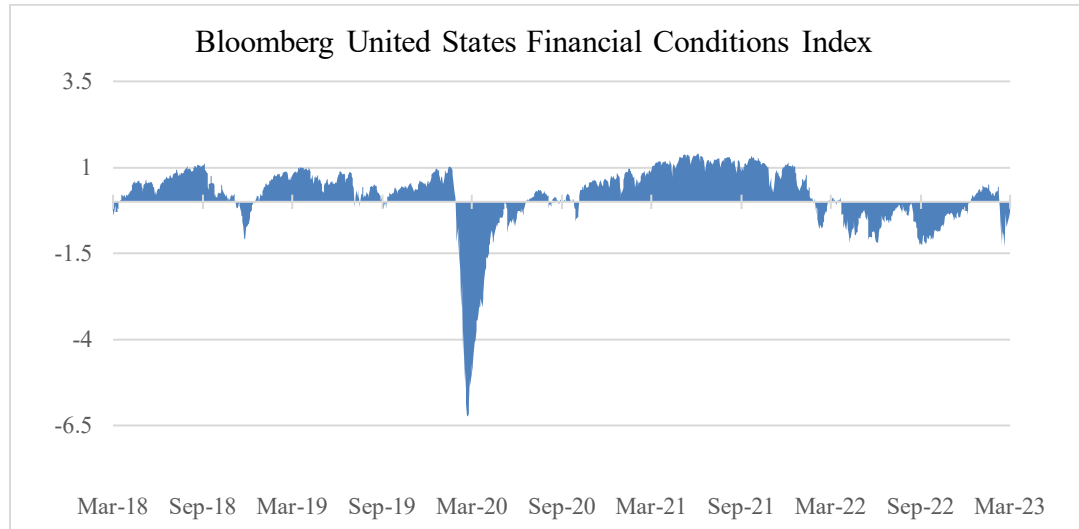
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### Portfolio Management Environment



- The Federal Reserve increased the Fed funds rate to a range of 4.75%-5.00% at the end of the first quarter of 2023. The Fed signaled that they would continue to monitor economic indicators to decide the next rate movement.
- The United States SOFR rate was 4.80% as of March 31st, 2023; an increase of 50 basis points from December 31, 2022.
- As of March 31st, 2023, the yield of the two-year Treasury index was 4.02%, and the five-year Treasury index was yielding 3.57%. A year earlier, as of March 31st, 2022, the yield of the two-year Treasury index was 2.33%, and the five-year Treasury index was yielding 2.46%.
- The median of economists' forecast is for a 3.37% ten-year Treasury yield at the end of the year 2023.
- Volatility in rates of the yield curve increased for both short-term and long-term yields. At the end of the first quarter, the two-year, five-year, and ten-year were at 4.02%, 3.57%, and 3.46%, respectively.

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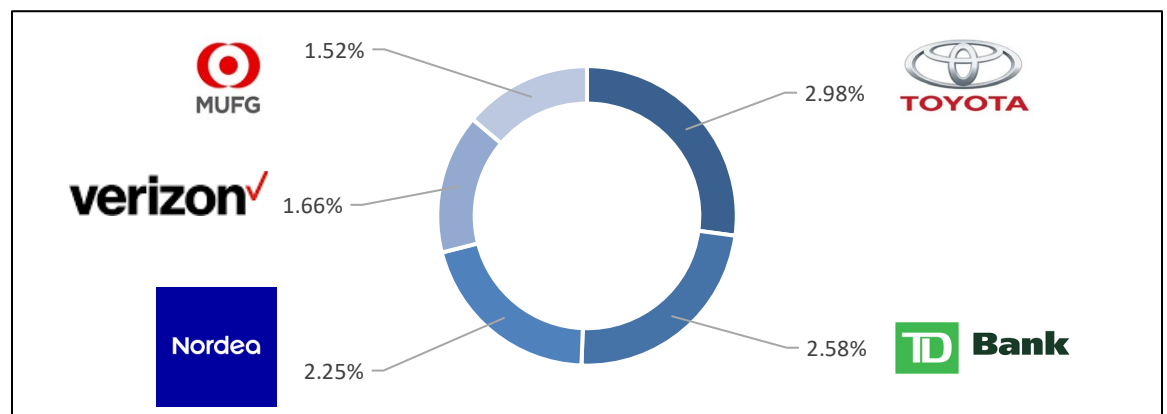
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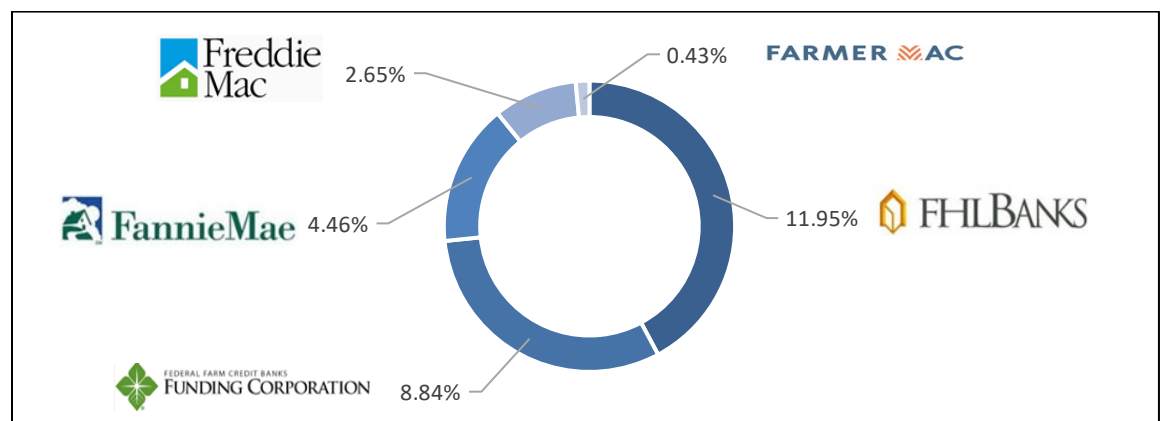
### Consolidated Top Holdings

Top 5 Credit Holdings			
Issuer	Market Value	% Of Portfolio	Industry
Toyota Motor Credit Corp.	197,820,229	2.98%	Automobiles
Toronto Dominion	171,251,111	2.58%	Financials
Nordea Bank	149,496,730	2.25%	Financials
Verizon	110,432,078	1.66%	Communication
MUFG Bank Ltd./NY	101,239,127	1.52%	Financials
<b>Total</b>	<b>\$730,239,275</b>	<b>10.99%</b>	

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



Top 5 Agency Holdings		
Issuer	Market Value	% Of Portfolio
FHLB	793,696,760	11.95%
FFCB	586,829,284	8.84%
FNMA	295,915,017	4.46%
FHLMC	176,072,192	2.65%
FAMCA	28,684,195	0.43%
	<b>\$1,881,197,448</b>	<b>28.33%</b>





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### III. Airport Reserve Portfolio

**\$559,558,321**

Total Return			
	1-Month	3-Month	YTD
Total Return	2.15%	2.19%	2.19%
Blended Benchmark (TR)	2.14%	2.19%	2.19%
<b>Excess Return</b>	<b>0.01%</b>	<b>0.00%</b>	<b>0.00%</b>

Current Return			
	1-Month	3-Month	YTD
Current Return	2.57%	2.61%	2.61%
Blended Benchmark (CR)	4.72%	4.48%	4.48%
<b>Excess Return</b>	<b>-2.15%</b>	<b>-1.87%</b>	<b>-1.87%</b>

Year-to-Date earnings on a current return basis for the Reserve Portfolio were \$3,736,337.

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	3.53	
Average Coupon	2.47%	
Average Yield to Maturity	4.18%	
Average Rating (S&P)	AA+	
Average Life	3.93yrs	

Asset Allocation	Maturity Distribution



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### IV. Workers Compensation Portfolio Composition

**\$39,142,163**

Characteristics		Credit Quality (S&P)
Average Duration	2.92	
Average Coupon	3.22%	
Average Yield to Maturity	4.38%	
Average Rating (S&P)	AA+	
Average Life	3.83yrs	

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 first quarter of 2023 was 2.98%.
- Year-to-Date earnings on a current return basis for the Worker's Compensation were \$273,874.





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### V. Special Purpose Portfolio

**\$3,325,328**

In addition to the actively managed investments, the Cash & Capital Funding Division manages one additional portfolio. The Denver Cableland Trust portfolio was established to fund the annual maintenance expenses for Cableland, a facility donated to the City. The portfolio is authorized by the Investment Policy to contain longer term securities and higher per issuer constraints within the Consolidated and Reserve portfolios. Most 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 portfolio is pledged for specific purposes.

	Market Value	2023 Current Return	2023 Earnings
Denver Cableland Trust	\$3,325,328	4.46%	\$35,677

### Escrows

Cash & Capital Funding Division also manages certain investments held in an escrow account at external financial institutions on behalf of Denver International Airport. As of March 31st, 2023, there was an outstanding balance of \$155,486,768 in one escrow account.

### 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](http://www.denvergov.org)) or by contacting the Cash & Capital Funding Division at 720-913-3091.

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