



PUBLIC FUNDS ADVISORY

# Investment Strategy Update

PREPARED FOR THE CITY OF WACO

BUDGET AND AUDIT COMMITTEE

PRESENTED BY LINDA PATTERSON  
OCTOBER 12, 2021



**PATTERSON  
& ASSOCIATES**

A MEEDER INVESTMENT MANAGEMENT COMPANY

WITH YOU. FOR YOU.

# Our Agenda

Patterson & Associates a Meeder Company

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1

ECONOMIC OVERVIEW

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2

THE CITY'S PORTFOLIO

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3

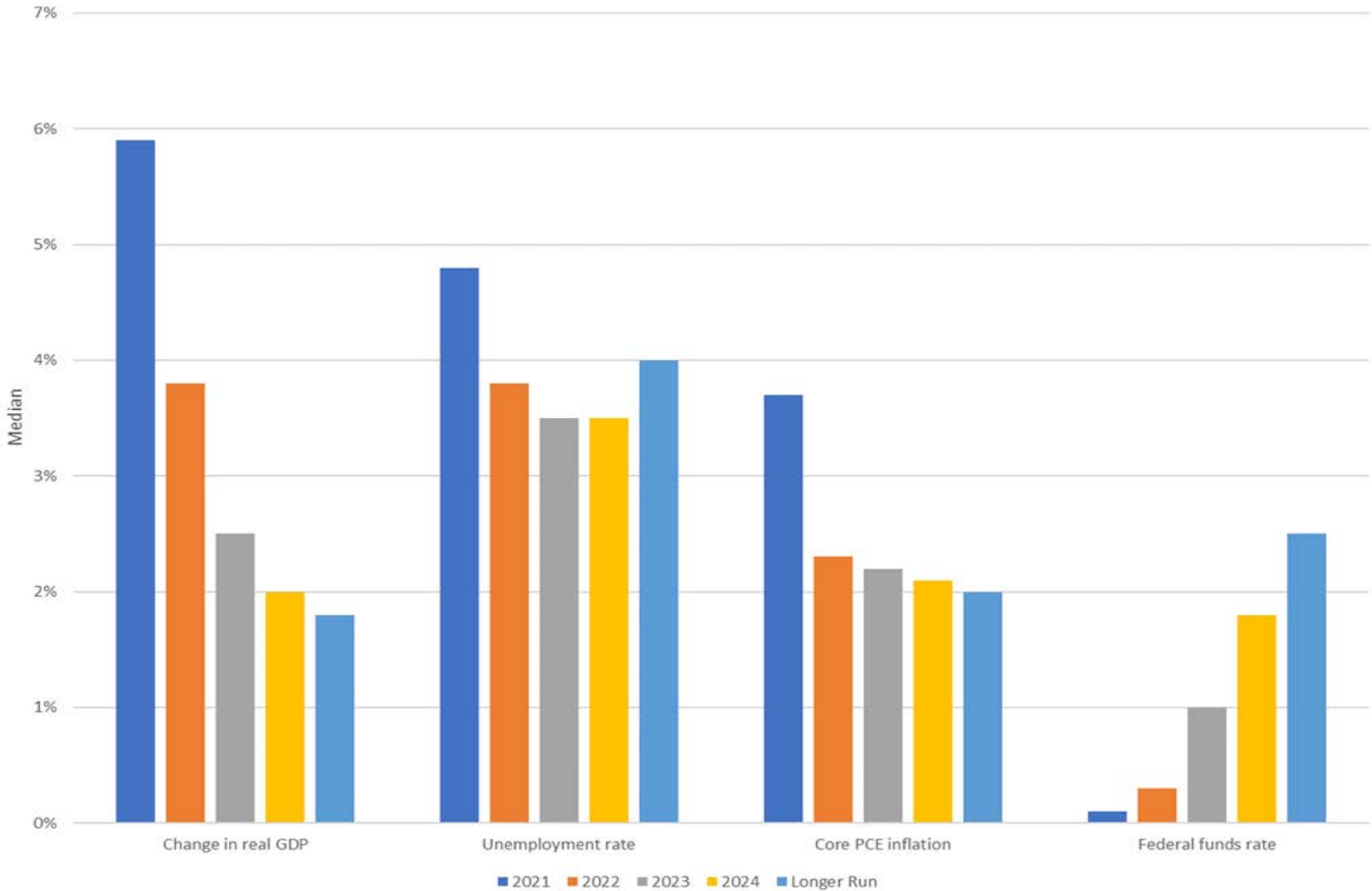
STRATEGY GOING FORWARD

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# FEDERAL RESERVE OUTLOOK

Forward guidance opens door to liftoff in 2022



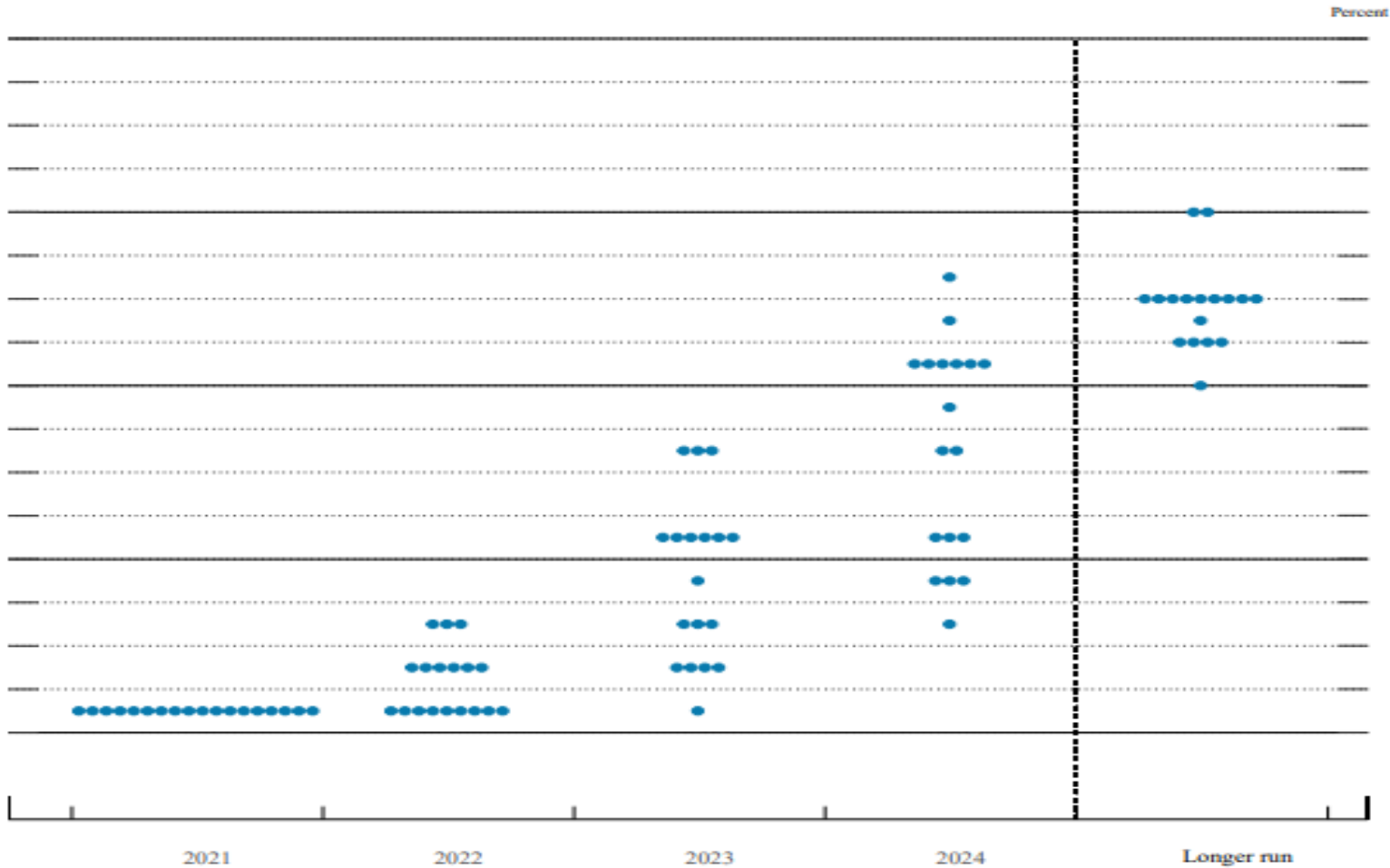
## FEDERAL RESERVE STATEMENT HIGHLIGHTS

- Economic activity and employment have strengthened due to progress on vaccinations and strong policy support
- Inflation has risen, largely reflecting transitory factors
- Aim to achieve inflation moderately above 2% for some time so that inflation averages 2% over time

SOURCE: FEDERAL RESERVE PRESS RELEASE AND SUMMARY OF ECONOMIC PROJECTIONS AS OF 9/23/2021

# FEDERAL RESERVE OUTLOOK

Forward guidance opens door to liftoff in 2022

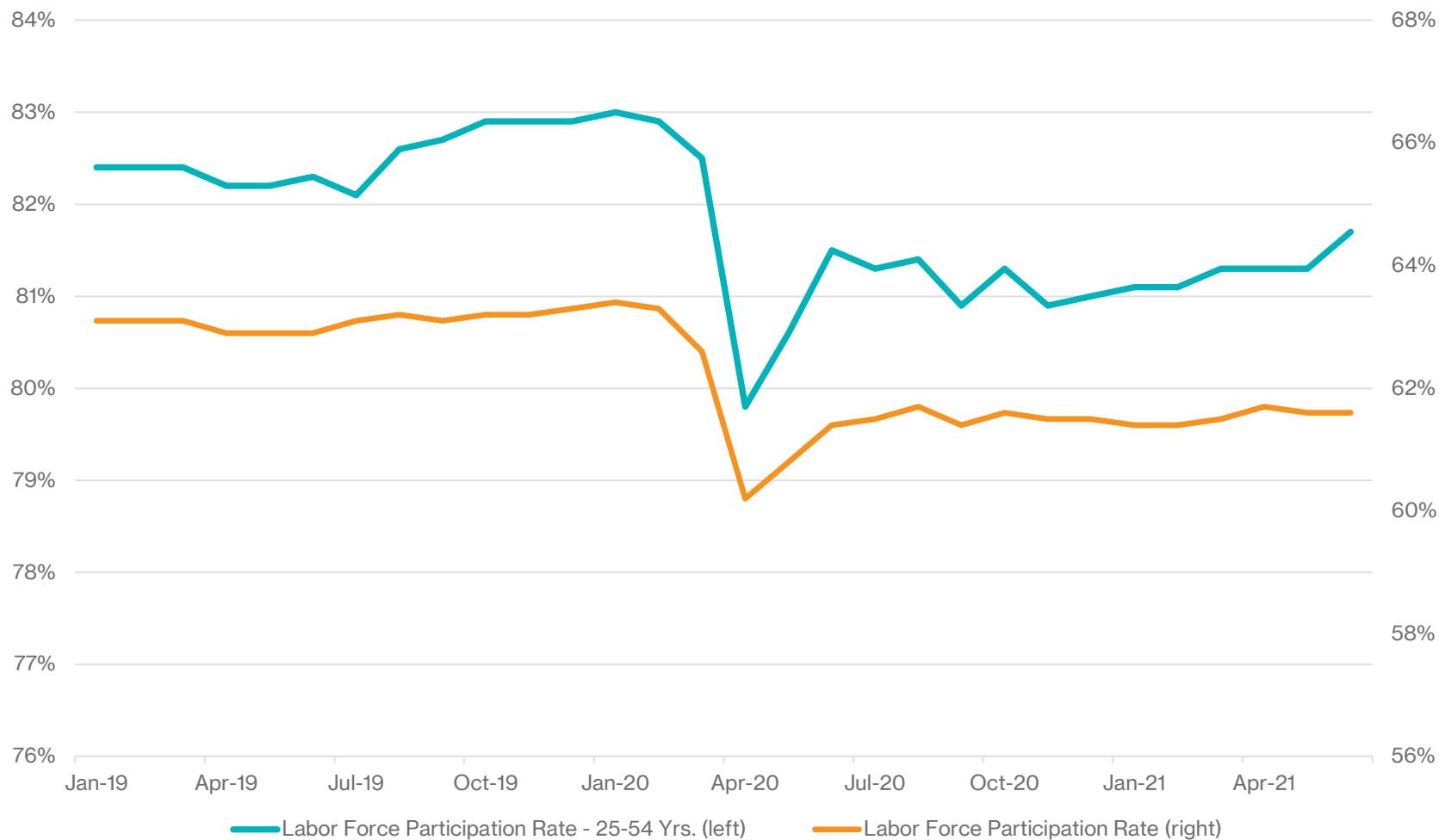


- Disparity amongst officials has created uncertainty surrounding upcoming rate hikes
- Committee judges that a moderation in the pace of asset purchases may soon be warranted
- While “substantial further progress” is being made, the Fed will continue to maintain accommodative monetary policy stance until mandates are achieved

SOURCE: FEDERAL RESERVE PRESS RELEASE AND SUMMARY OF ECONOMIC PROJECTIONS AS OF 9/23/2021

# Labor Force Participation

Those aged 25-54 fueling the recent recovery

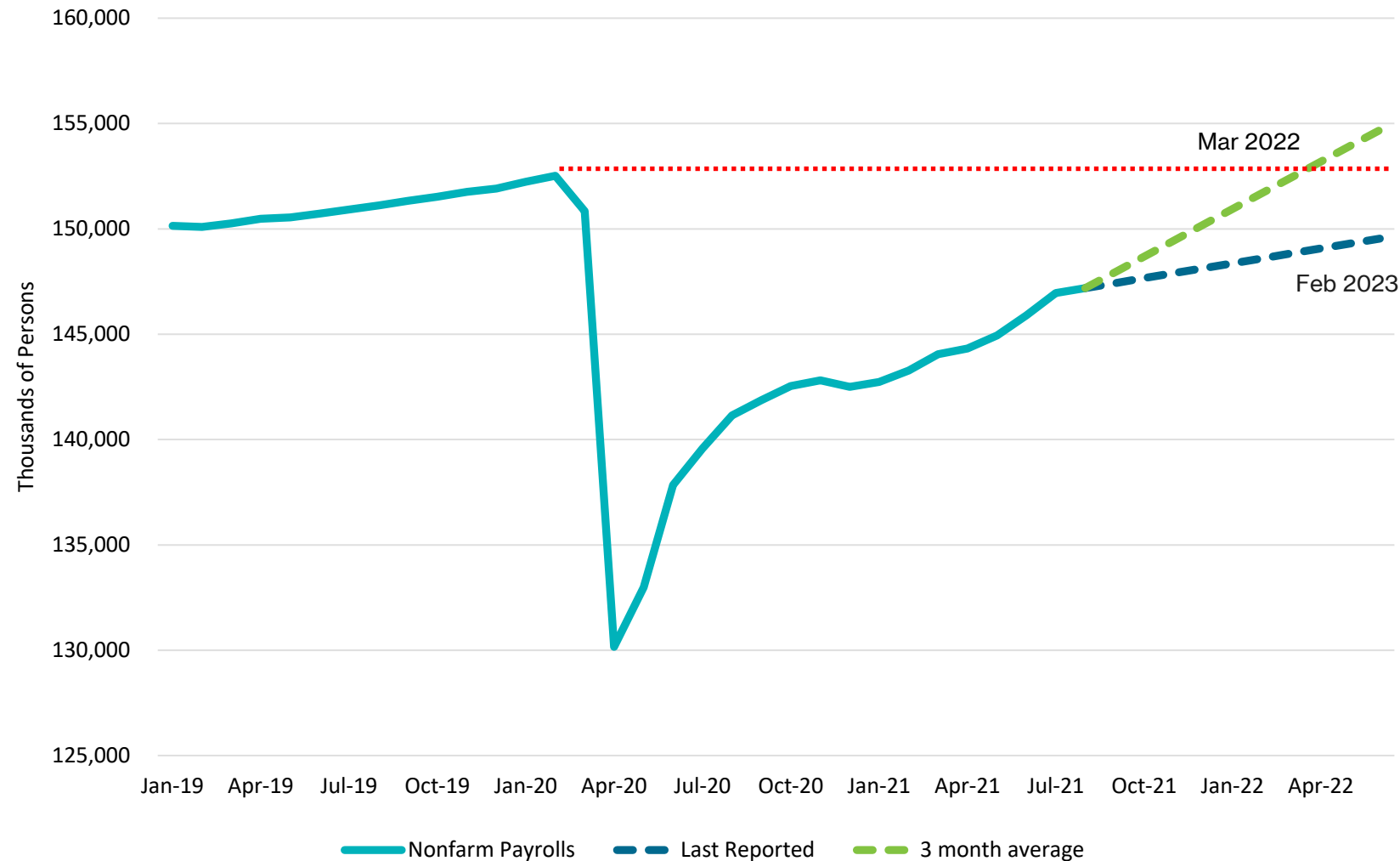


- Labor force participation rate flat at 61.6%
- Participation for ages 25-54 increased to 81.7%
- Percentage of US population retired approaching 20%

Source: Bureau of Labor Statistics as of 7/2/2021

# NONFARM PAYROLLS

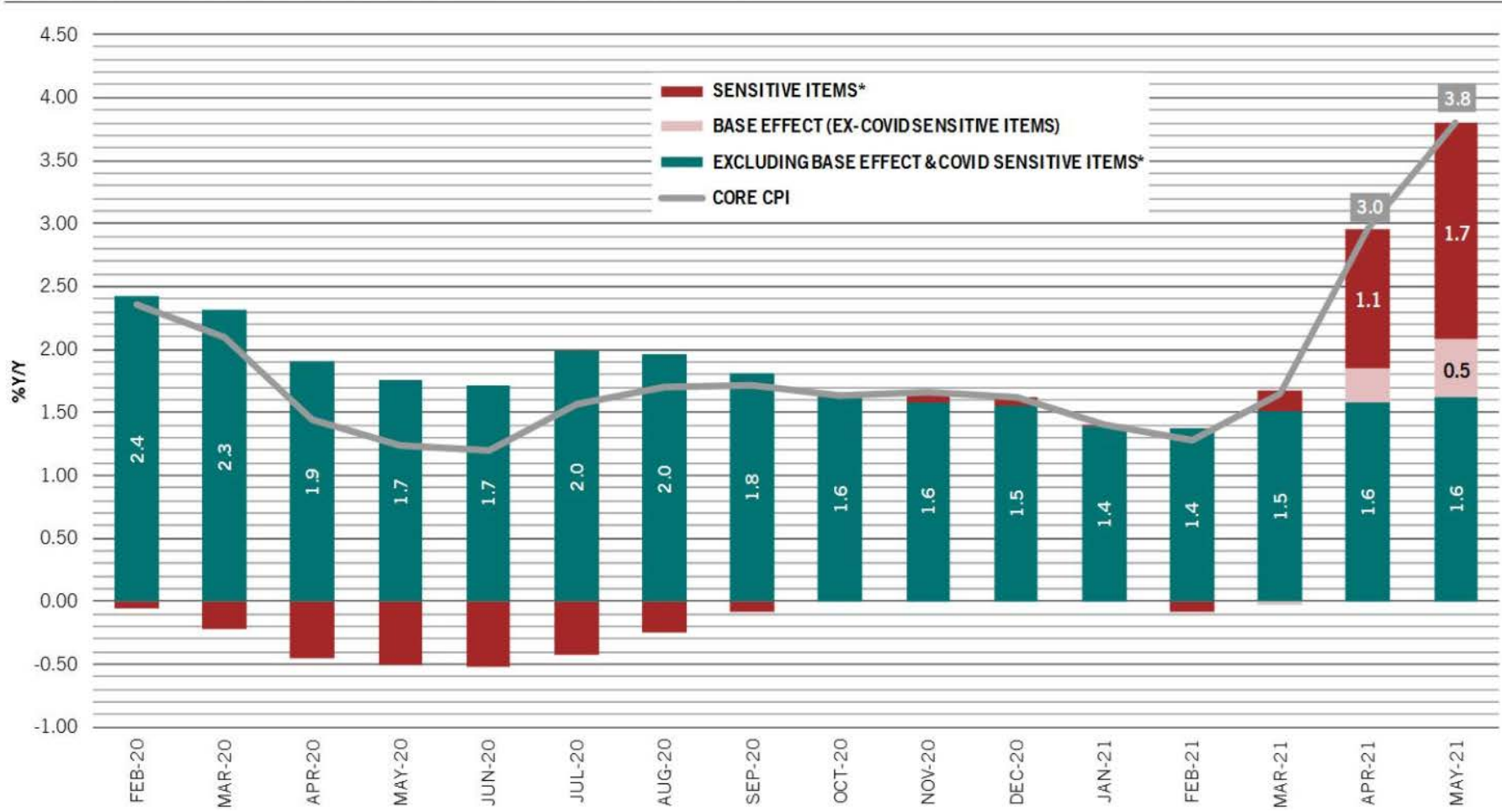
Strong pace of job creation needed to return to pre-pandemic levels



- August unemployment rate decreased to 5.2%
- Total nonfarm payroll employment rose by 235,000 in August this pace would put us at pre-pandemic numbers in July of 2023
- The 3-month average increase of nonfarm payroll employment stands at 750,000 and at this rate we would be back to pre-pandemic numbers by March of 2022

# Contributions to Inflation

## COVID Sensitive Items having a profound effect on inflation



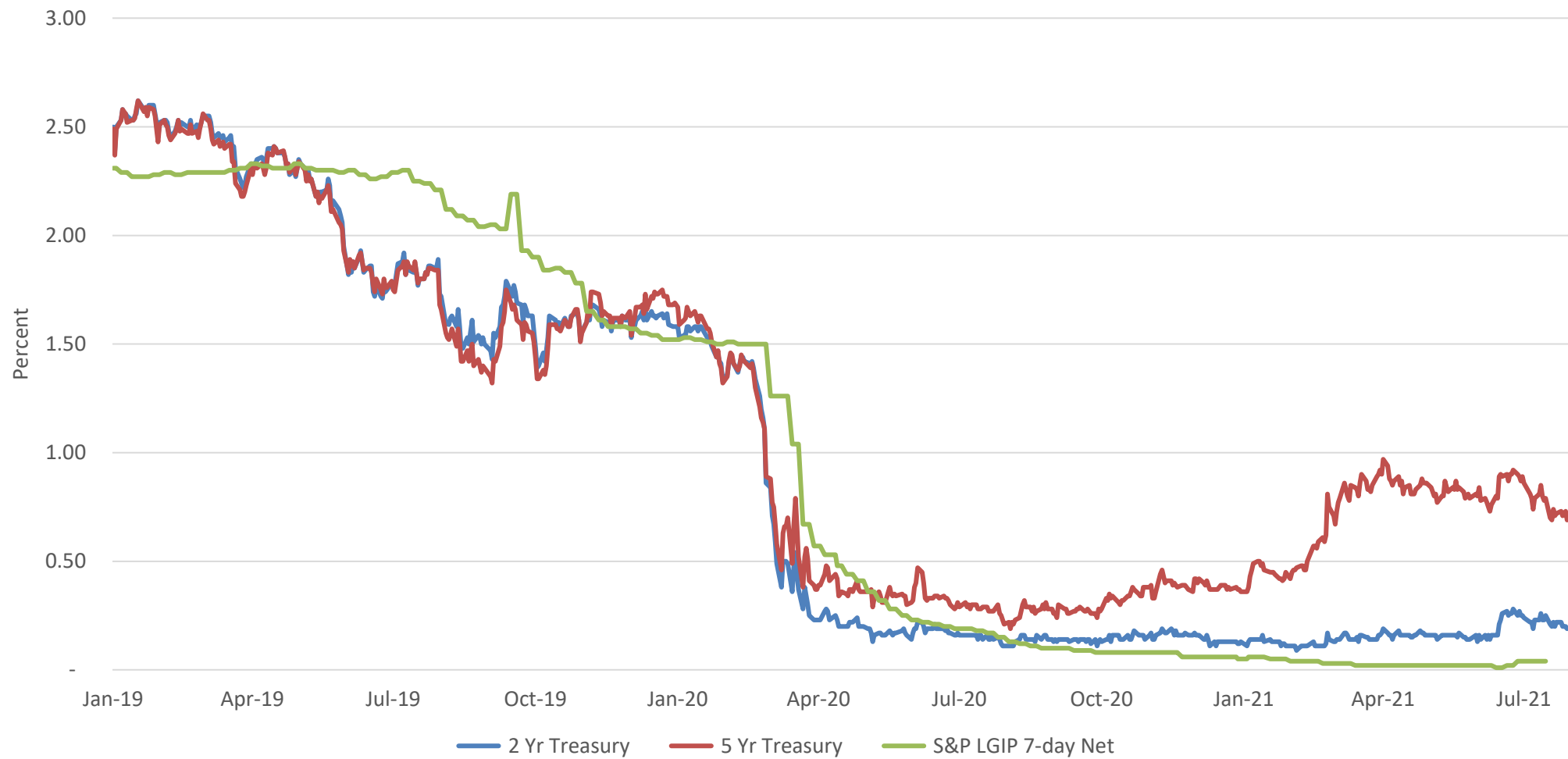
### SENSITIVE ITEMS

- Lodging away from home
- Used cars
- Car rentals
- Airline fares
- Televisions
- Toys
- Personal computers

Source: Pictet Asset Management

# Historical Yields

LGIP rates remain anchored to Fed policy



Source: Bloomberg 8/6/21





# Review and Recommendations

ANALYSIS SPECIFIC TO YOU



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# Current Total Portfolio

## City of Waco portfolio as of 9/30/2021

### Your Portfolio

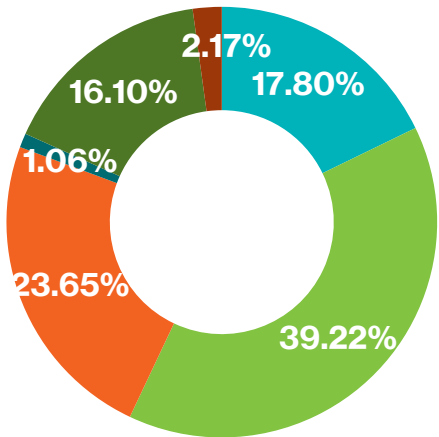
Cash	\$229,592,159
Securities	\$304,606,004
Total Portfolio	\$534,198,163

Weighted Average Maturity	0.83 years
Weighted Average Yield	0.247%

### Your Securities

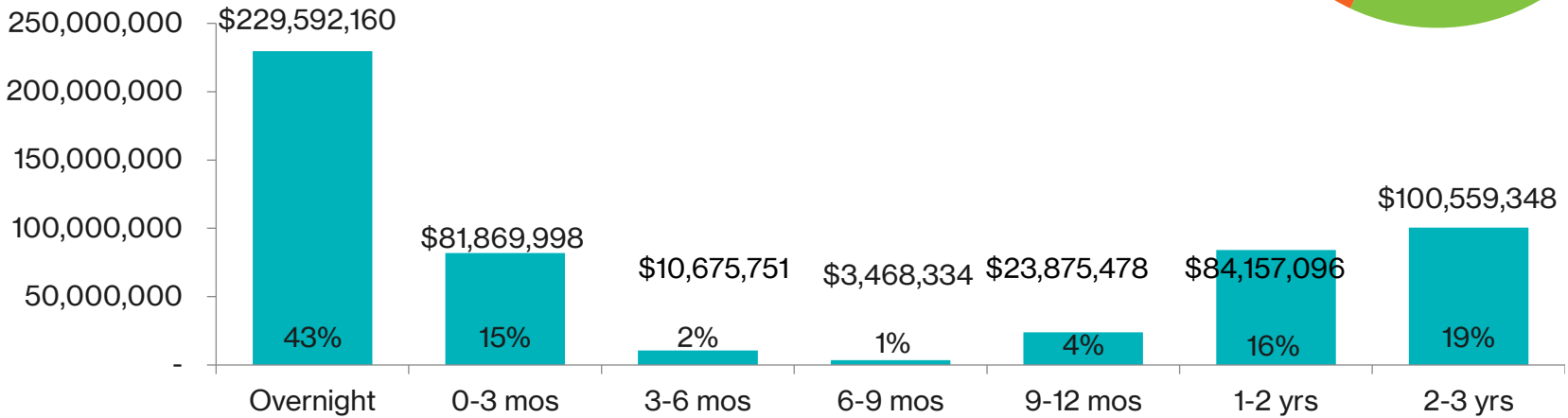
Weighted Average Yield	0.333%
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### Your Asset Allocation



- Agency Callables
- Municipals
- Wells Fargo
- Texstar
- Texpool
- First United

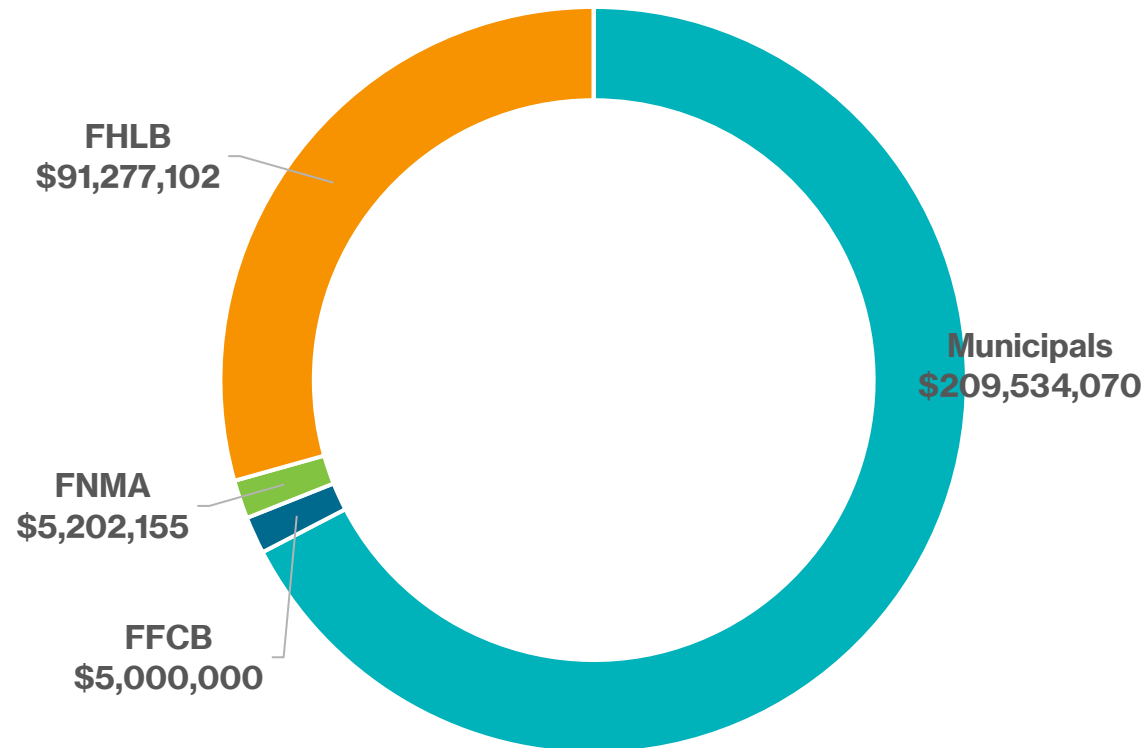
### Your Maturity Distribution



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# Diversification by Issuer

As of September 30, 2021



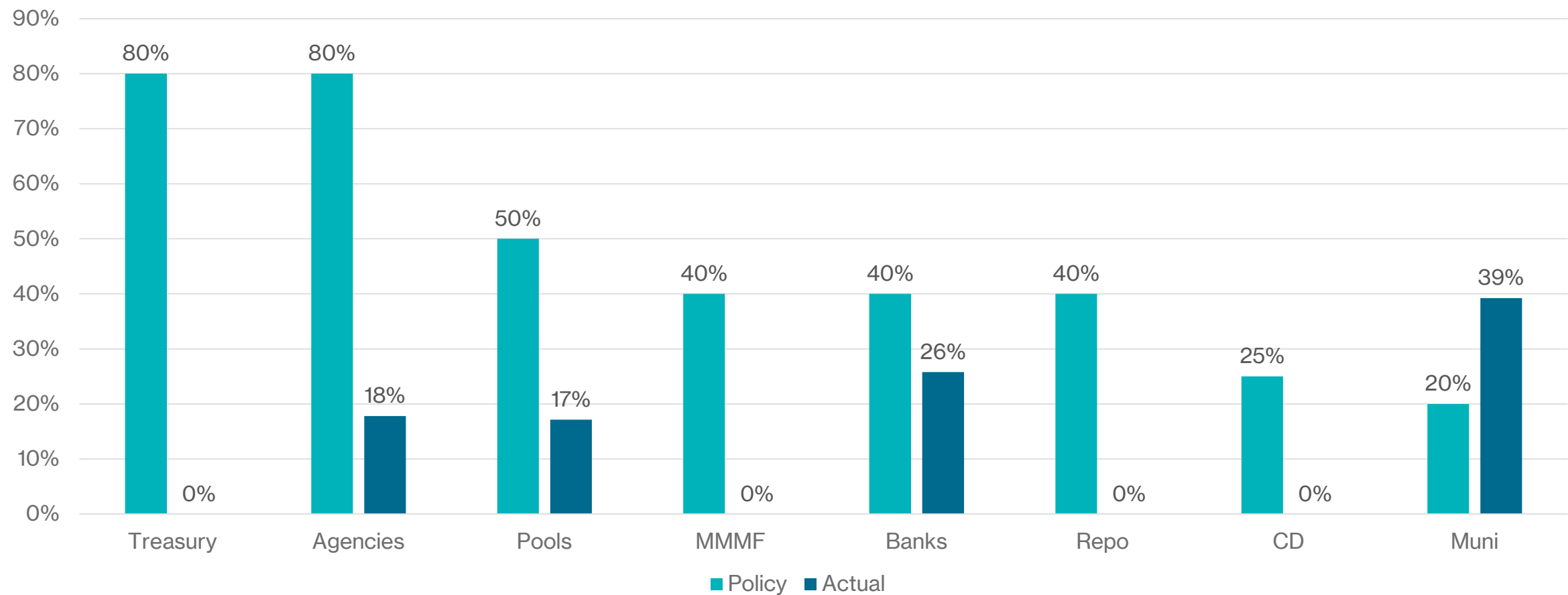
Municipals represent:

- 15 states
  - NY
  - TX
  - CT
  - NJ
  - AL
  - Hawaii
  - IL
  - KS
  - Maine
  - Mass
  - MI
  - OK
  - SD
  - VA
- \$70.613 MM Ed. (12)
- \$16.892 MM State bonds (4)
- \$72.163 MM City (12)
- \$49.797 MM Counties (8)

# Policy Diversification Guidance Compliance

As of September 30, 2021

*Diversification compliance is monitored and measured at time of purchase.*



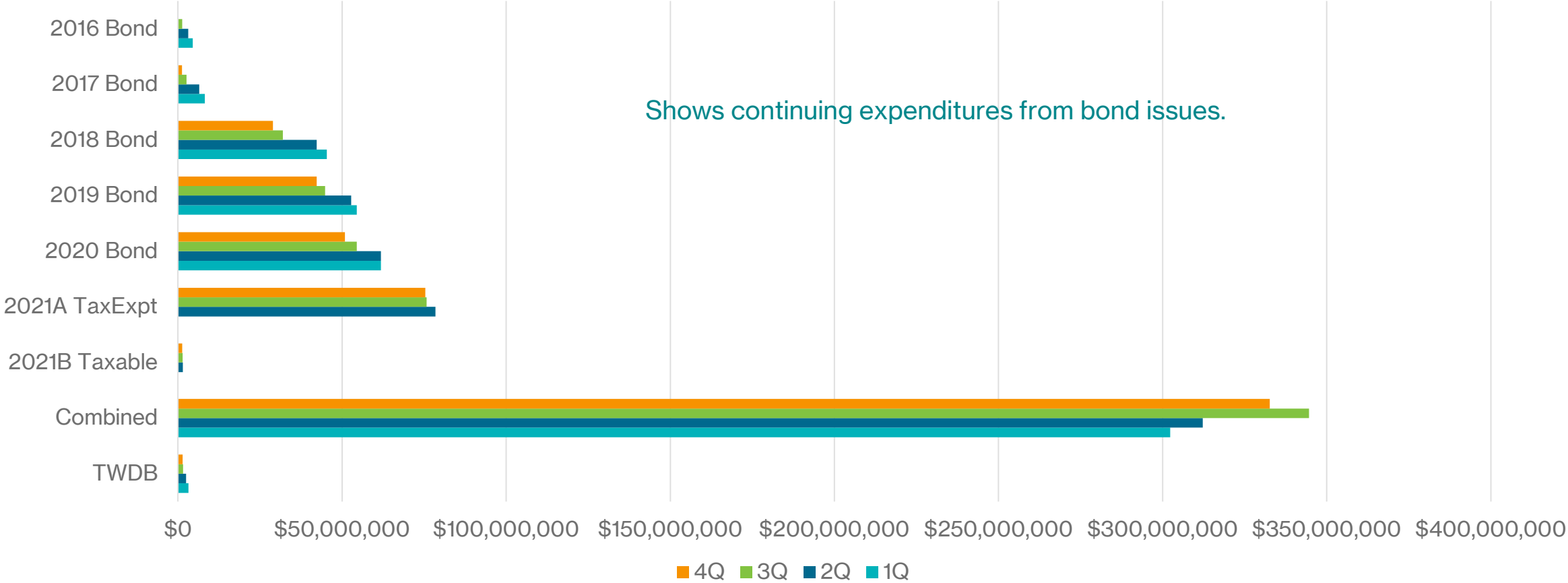
SOURCE: CITY OF WACO POLICY 2020 AND JUNE MONTHLY REPORT

# Total City Portfolio's Sub-Portfolios

- **Combined Funds**
  - Encompasses all operating funds and debt service funds., tax increment funds, economic incentive funds and fiduciary funds.
- **Bond Fund Issues**
  - Each bond issuance's proceeds are invested as separate sub-portfolios.
- **TWDB Escrow**– Texas Water Development Board
  - Proceeds from a 2016 TWDB Swift Loan for the \$12 million Automated Metering Infrastructure Project (AMI).

# Relative Size of City Sub-portfolios

As of September 30, 2021



SOURCE: QUARTERLY REPORTS CITY OF WACO

# Quarterly City Portfolio Summary

Fiscal Year '2020-2021 By Quarter

	4Q'2020-2021	3Q '2020-2021	2Q '2020-2021	1Q '2020-2021
Market Value	\$ 534,061,538	\$ 558,564,781	\$ 561,211,550	\$ 480,082,020
Portfolio Avg. Yield	0.247 %	0.205 %	0.235 %	0.269 %
Securities Avg Yield	0.333 %	0.320 %	0.330 %	0.460 %
City Policy Benchmark– 6mo T-Bill	0.050 %	0.040 %	0.070 %	0.100 %
WAM	304 Days	184 days	130 days	186 days
Earnings	\$ 307,605	\$ 280,833	\$ 280,659	\$ 316,884

# Portfolio Strategy Going Forward

- Fed funds are anticipated to stay at 0% through at least the fall of 2022
- Fed Reserve is anticipated to reduce accommodative buying in early 2022
- Covid variants and supply chains are anticipated to continue throttling growth
  
- Extensions are necessary to capture yield – necessitating 2-3 year maturities
- The flat front end curve continues to offer little yield
- Municipal debt will continue to be used for value
- Effort will continue to reduce liquid, lowest yielding, investments



# Additional Policy Recommendations

- Some additional recommendations to the authorized investment types in the City policy would include:
- **Increase in diversification guideline for municipals to 40% from 20%**
- **Extension is the maximum maturity to five years from three years**
- **Extension of the maximum weighted average maturity of the portfolio to 2 years from 1 year**
- **Addition in municipals to include revenue bonds as well as general obligations bonds**
- **Addition of A1/P1 commercial paper as an authorized investment**
- All these additions would focus on safety and be for flexibility to address market conditions and would always be guided by the City's cash flow needs

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