

Mayor and Council Communication

DATE: 09/22/20

M&C FILE NUMBER: M&C 20-0686

LOG NAME: 13GENERAL PORTFOLIO INVESTMENT POLICY AND STRATEGY 2020

SUBJECT

(ALL) Adopt the Investment Policy and Strategy for the City's General Portfolio

RECOMMENDATION:

It is recommended that the City Council adopt attached amended and revised Investment Policy and Strategy for the City's General Portfolio.

DISCUSSION:

The purpose of this Mayor and Council Communication (M&C) is to adopt an amended and revised investment Policy and Strategy (IPS) for the City's General Portfolio in accordance with the requirements of the Public Funds Investment Act, Texas Local Government Code Chapter 2256 and the Public Funds Collateral Act, Texas Local Government Code Chapter 2257 ("State Law").

State Law requires the Investment Policy and Strategy document be reviewed, at least annually, by the governing body. The IPS was last approved on September 10, 2019 (M&C 19-0144). This policy formalizes the framework for the City's investment activities for all funds, with the exception of funds held in the Fort Worth Permanent Fund and the Fort Worth Other Post-Employment Benefits trusts. Those funds are governed by separate IPS documents.

The proposed policy changes, as described below, are designed to give the Investment Officers the flexibility to effectively manage the General Portfolio based on changing market conditions. Based on recent comments from the Federal Reserve, market expectations are for rates to remain low for the next several years as the economy recovers from the COVID-19 pandemic.

Section V. Strategies

As noted above, the first paragraph of this section was revised to provide flexibility to more appropriately manage the overall portfolio. The objective is to ladder out investments on the longer end of the yield curve when prevailing market conditions offer adequate return for the corresponding interest-rate risk and loss of liquidity.

The first sentence of the second paragraph of this section was revised to better align with the City's investment policy objectives. While achieving the highest rate of return is a strategic goal, the foremost objective of the City's investment program is safety of principal.

VII. Responsibility and Delegation of Authority, B. Investment Officer(s)

A minor revision was made to the wording of the first sentence in the second paragraph. This minor wording revision doesn't affect the substance of this section.

Section XV. Benchmarks

Staff proposes to change the benchmark of the short-term portion of the portfolio from the two-year Treasury Note to the ICE BoAML 0-5 year US Treasury Index and the benchmark for the long-term portion of the portfolio from the seven-year Treasury Note to ICE BoAML 0-10 year US Treasury Index.

Based on a recommendation from the City's Investment Advisory firm, Public Trust Advisors, LLC, staff proposes to change the appropriate benchmark from a "point-in-time" security to an index. Tracking the portfolio to the composition and duration of these indices allows for assessment of the market risk and volatility of the underlying benchmark in addition to gauging investment performance.

The selected indices begin with zero (0) years as it is not a normal business practice to sell securities at a loss. By using an index with a range that begins with zero years, the City's Investment Officers retain the ability to hold securities to maturity without them falling "outside of the index".

The City's Investment Committee recommends the above described changes to the General Portfolio IPS. Other changes include some relatively minor formatting and grammatical clean up.

A redline displaying the substantive proposed changes to the current policy is attached for your convenience.

A Form 1295 is not required because: This M&C does not request approval of a contract with a business entity.

FISCAL INFORMATION / CERTIFICATION:

The Director of Finance certifies that approval of this recommendation will have no material effect on City funds.

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