

TO: Members of City of Dubuque Investment Oversight Advisory Commission

FROM: Paul Lassance, Investment Oversight Advisory Commission
Jean Nachtman, Finance Director

RE: Un-approved Minutes of the July 26, 2018, Meeting of the Investment Oversight Advisory Commission and Chairman's Quarterly Report

DATE: July 26, 2018

Commission members; Paul Lassance, Franz Becker, Gary Ruden, Steve Reisdorf and City staff, Jean Nachtman, Finance Director; Tami Lansing, Assistant Finance Director.

1. The meeting was called to order at 3:03 p.m. in Conference Room A in City Hall by Chairperson Paul Lassance. Finance Director Jean Nachtman, certified that the meeting was in compliance with the Iowa open meetings law.
2. Franz Becker moved that the minutes of the April 25, 2018, meeting be approved. The motion was seconded by Paul Lassance and approved unanimously.
3. The oath of office was administered to reappointed commission member Franz Becker.
4. Gary Ruden nominated Paul Lassance to continue as Chairperson of the commission and Steve Reisdorf seconded. Motion carried unanimously.
5. Paul Lassance nominated Franz Becker as Vice Chairperson of the commission and Steve Reisdorf seconded. Motion carried unanimously.
6. Paul Kronlage and John J. Gonner, CFA, Senior Vice President attended for First Community Trust. A handout was provided with information on 2018 returns, annual account review and other information.

John Gonner reviewed the state of the economy, as that is the driving factor for interest rates. Job Openings and Labor Turnover Survey (JOLTS) shows more job openings than workers available and the quits rate (voluntary terminations -indication of market confidence) is at a 17year high. The Duke/CFO Magazine Business Outlook showed hiring plans are at a 14-year high. However, wage inflation is not reflecting current conditions. The theory is more higher earning, older employees are leaving the workforce and being replaced by younger lower paid employees. Second quarter GDP is expected to exceed 4%. However, without an increase in the work force, the increase in GDP cannot be sustain. Expectation will be lower for future quarters.

The yield curve continues flat. Although Fed has raised rates for two quarters, the longer-term bonds rates are not reflecting the change. If lower term rates continue to climb, as expected, and longer-term rates remain stagnate, the curve will eventually invert. An inverted yield curve usually proceeds a recession. Economists are talking about the recession of 2020. The city's portfolio has no equity exposure in a recession. The international appeal of long term US Treasuries and the Federal Reserves large portfolio acquired during quantitative easing, though tapering, may still be exerting pressure to keep long term rates lower. In the last two years the yield curve has increased 200%, from less than 50 basis points to just under 300 basis points.

The economy is now in the 2nd longest economic expansion (108 months) in history and appears on track to beat the longest (120 months) that ended in March 2001. Although the growth in this expansion is modest in terms prior expansions, that could be why it has continued so long. It is easier to walk long distances than to run. The economy is riding the wave of tax cuts and other economic stimuluses that are usually implemented in weaker economies.

The City's current portfolio is made up of 80% bullet agency with 2-3 year maturities, lessening the City's exposure to a drop in value due to increasing interest rates. Only 8% of the portfolio is in callable bonds. The remaining is in non-callable securities. As bonds mature the proceeds are reinvested in high income bonds. The average duration is 1.915 years, average maturity is 2.109 years. Current yield is 1.64% and yield to maturity is 2.55%. The City's portfolio outperformed the benchmark 80% of the time in negative earnings periods. This is indicative of the safety of the portfolio. The portfolio also out performed the benchmark 50% of the time in positive earnings periods.

John confirmed that the investments are in compliance with the City investment policy.

7. Jean reported on current cash standings. The City continues to ladder CD maturities to meet operations. Vibrant Community Credit Union has requested to be added as a bidder for CD's. The depository resolution will be updated at the August 6, 2018 City Council Meeting.
8. The Commission reviewed the June 2018 quarterly investment reports.
9. There was no communication from the public, commission or staff to report according to Jean.
10. The next meeting of the Commission is scheduled for Wednesday, October 24, 2018 at 3:00 p.m. A representative from DANA will be invited to the meeting.
11. Gary Ruden moved that the meeting adjourn. The motion was seconded by Franz Becker and approved unanimously. The meeting adjourned at 3:57 p.m.