

# Q3 2018 Earnings Call

*Reviewing Quarterly Earnings,  
Previewing End-of-Term Priorities*

November 28, 2018

City Treasurer Kurt Summers



# AGENDA

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**01** 12:00 - 12:05 PM  
Welcome

**02** 12:05 - 12:10 PM  
National Economy

**03** 12:10 - 12:15 PM  
Local Economy

**04** 12:15 - 12:25 PM  
CTO Investment Portfolio Update

**05** 12:25 - 12:40 PM  
Previewing End-of-Term Priorities

**06** 12:40 - 12:55 PM  
Q&A

**07** 12:55 - 1:00 PM  
Debrief and Closing



# WELCOME

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## Audio and Webcast

If you are registered for the call, then you can listen to the call on a computer or a phone—but you can only watch the webcast on a computer.



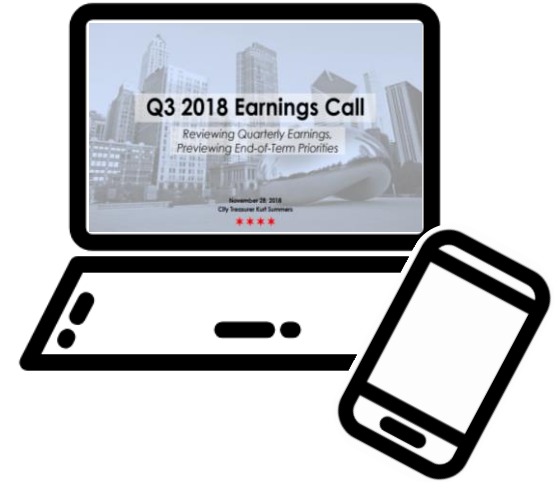
## Need Help?

If you need assistance at any time during the webcast, please call (312) 742-1852 or email [Asher.Mayerson@cityofchicago.org](mailto:Asher.Mayerson@cityofchicago.org).



## Have a Question?

If you have a question at any time during the webcast, please type in your question on the webcast by clicking “Q&A” or email your question to [Asher.Mayerson@cityofchicago.org](mailto:Asher.Mayerson@cityofchicago.org). There will be time allotted for Q&A at the end of the call.



# WELCOME

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## Transparency

This is the 15th Quarterly Earnings Call hosted since Treasurer Summers took office. These first-in-the-nation calls are open to the public, the City Council, and anyone interested in Chicago's investment portfolio performance.



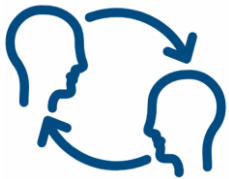
## Outreach & Advocacy

During the Treasurer's 77 visits to Chicago's 77 neighborhoods in late 2014 and early 2015, residents voiced their need to be regularly engaged in our outreach and advocacy efforts. These calls are opportunities to learn about those efforts, and about how Chicagoans get involved.



## Best Practices

As the primary investment manager for the City of Chicago, the Treasurer seeks to be held as accountable as any other investment management firm is to their investors. These calls have been shaped by established best practices from other investment managers.



## Information & Action

These calls provide an overview of the national and local economies, the office's investment portfolio, and more, keeping Chicagoans informed about the economic and fiscal issues that affect them—and empowering them to take action.



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# NATIONAL ECONOMY

## University of Michigan: Consumer Sentiment (Monthly)

July 2018	Aug. 2018	Sept. 2018
97.9	96.2	100.1

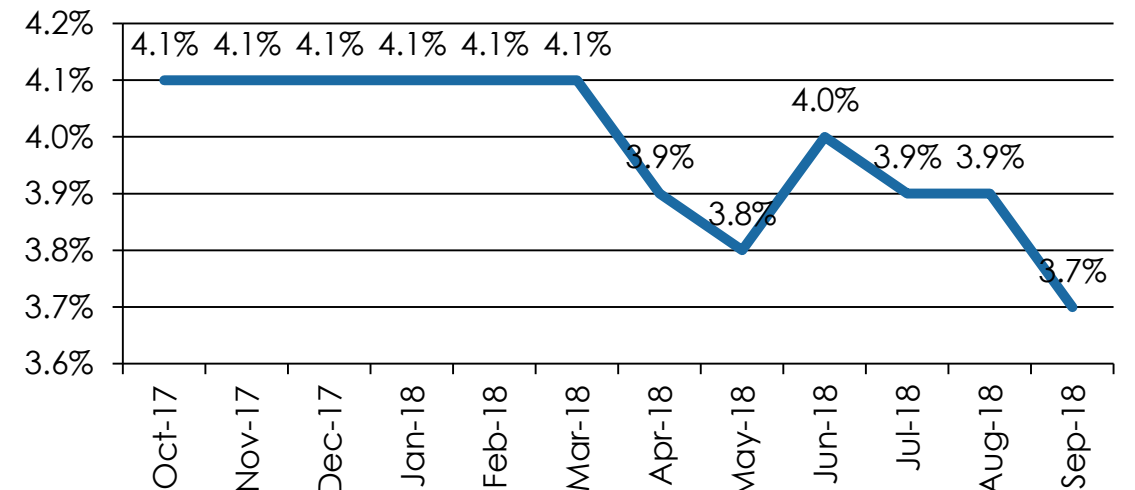
## International Monetary Fund Expected Growth Rates (Annualized)

	Previous 2018 Forecast	Updated 2018 Forecast
Global Economy	3.9%	3.7%
U.S. Economy	2.9%	2.9%
Advanced Econ.	2.4%	2.4%
Emerging/Dev. Econ.	4.9%	4.7%

## Real GDP (% Change, Annualized)

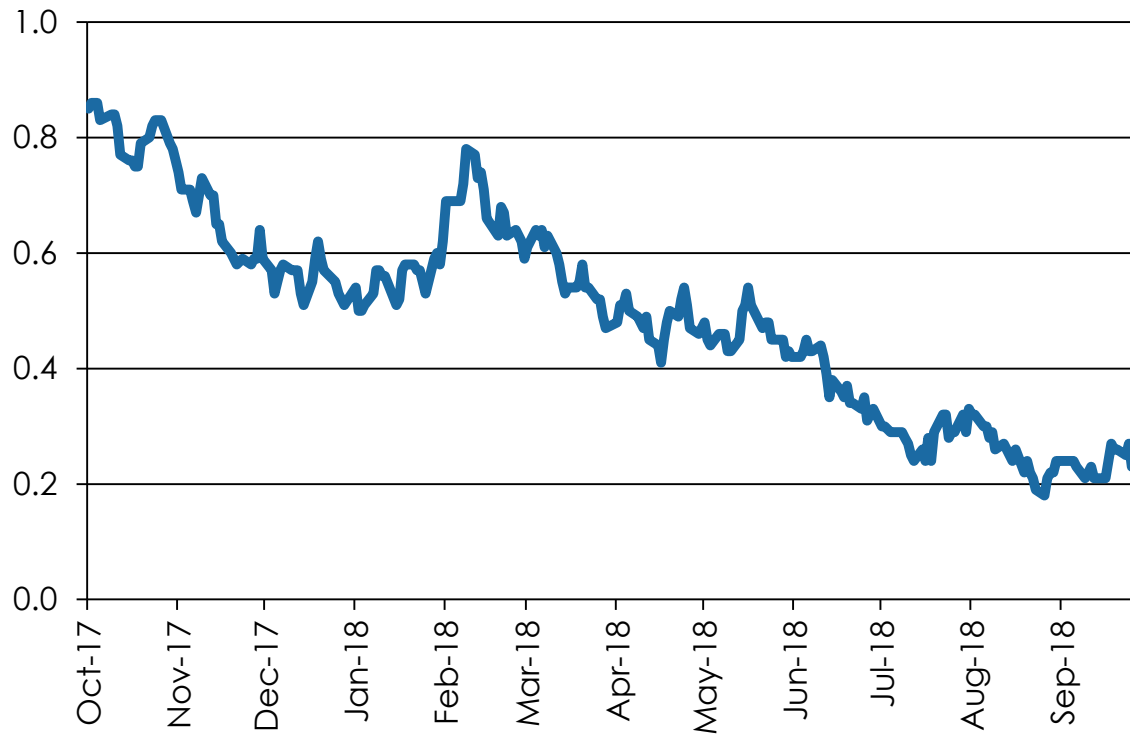
Q1 2018	Q2 2018	Q3 2018
2.2%	4.2%	3.5%

## Unemployment Rate (Seasonally Adjusted, Monthly)

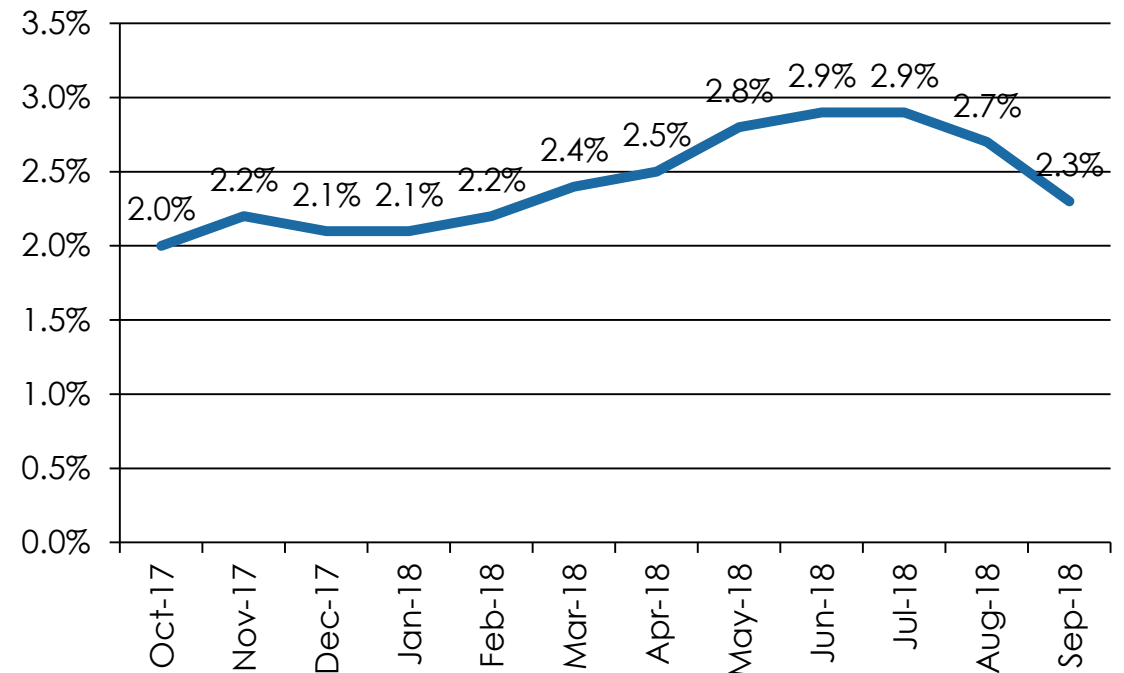


# NATIONAL ECONOMY

## Spread Between 10-Year and 2-Year Treasury



## Consumer Price Index – Urban Consumers (% Change, Annualized, Not Seasonally Adjusted)



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# LOCAL ECONOMY

## Unemployment Rate (Not Seasonally Adjusted)

	July 2018	Aug. 2018	Sept. 2018
Chicago MSA	4.1%	3.8%	3.6%
United States	4.1%	3.9%	3.6%

- The local unemployment rate dropped throughout the quarter, mirroring national trends
- The gap in unemployment rate, which had been present during much of the recovery from the Great Recession, has now closed

## Consumer Price Index – Urban Consumers (% Change, Annualized, Not Seasonally Adjusted)

	July 2018	Aug. 2018	Sept. 2018
Chicago MSA	1.9%	1.7%	1.6%
United States	2.9%	2.7%	2.3%

- Inflation for the Chicago area continues to be consistently lower than other urban areas throughout the country, indicating that costs are rising less quickly in our region



# LOCAL ECONOMY

*But Chicagoans are increasingly looking behind those numbers, talking about how segregation and inequality hold back our local economy.*



- In May 2018, MPC released "Our Equitable Future: A Roadmap for the Chicago Region," following a prior report about how segregation makes Chicago suffer lost income, lost lives, and lost potential
- The report details how investment decisions have driven segregation, income and educational disparities, and high crime rates in under-resourced communities
- To break the cycle of segregation, MPC recommends that policymakers focus on advancing equity and inclusion across the region



- In October 2018, CMAP released "On to 2050," a thirty-year plan for policymakers to ensure that Chicago is a place where opportunity is open to all
- The plan details how economic outcomes in the region have been heavily correlated with race, as residents of color often experience significantly lower levels of income and higher levels of unemployment
- With research showing how these racial disparities hold back regional economic growth, CMAP suggests that policymakers focus on three core principles: inclusive growth, resilience, and prioritized investment



# LOCAL ECONOMY

*These reports provide recommendations related to our office's work, and we plan to act on many of them over the next six months.*



- Target economic development and inclusive growth**
  - Invest equitably across the region
  - Prioritize and measure economic growth that creates opportunities for everyone
- Create jobs and build wealth**
- Build inclusive housing and neighborhoods**

- Community**
  - Invest in disinvested areas
- Environment**
  - Intensify climate mitigation efforts
- Prosperity**
  - Prioritize pathways for upward economic mobility
- Governance**
  - Base investment decisions on data and performance
  - Improve access to public information through technology and transparency



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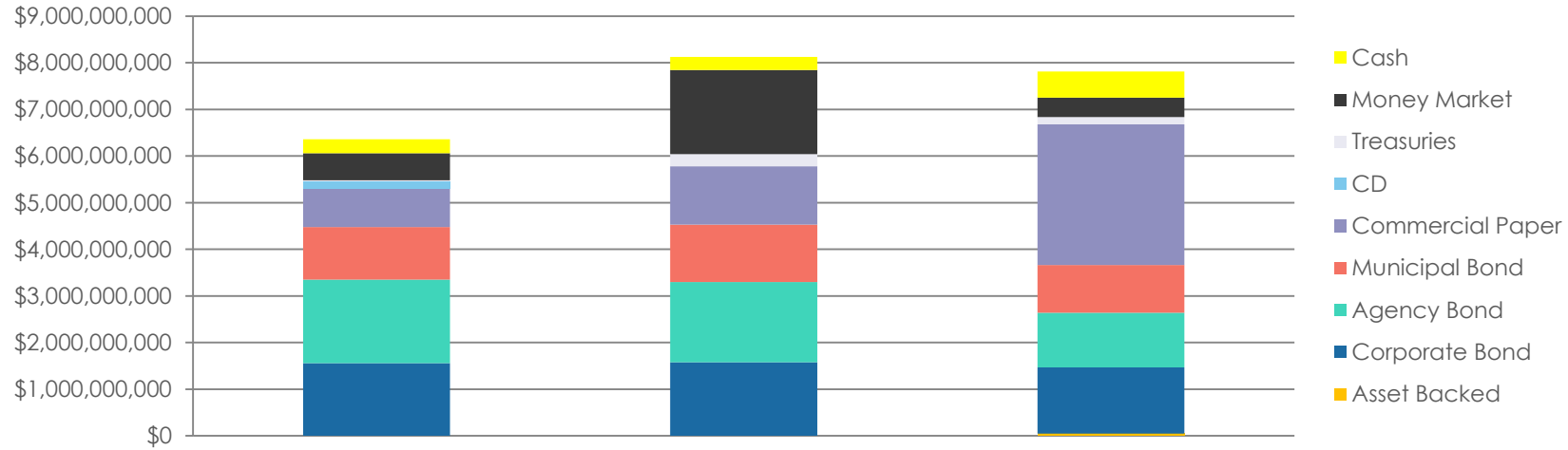
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# CTO INVESTMENT PORTFOLIO UPDATE



	2016(Q3)		2017(Q3)		2018(Q3)	
Asset Backed	\$ -	0.00%	\$ -	0.00%	\$ 46,691,685	0.61%
Corporate Bond	\$ 1,556,864,000	24.48%	\$ 1,575,727,000	19.39%	\$ 1,417,887,000	18.55%
Agency Bond	\$ 1,793,100,000	28.19%	\$ 1,721,505,000	21.18%	\$ 1,172,330,000	15.34%
Municipal Bond	\$ 1,125,629,000	17.70%	\$ 1,234,035,337	15.18%	\$ 1,025,298,435	13.41%
Commercial Paper	\$ 836,874,000	13.16%	\$ 1,251,197,000	15.39%	\$ 3,015,555,000	39.45%
CD	\$ 150,000,000	2.36%	\$ -	0.00%	\$ -	0.00%
Treasuries	\$ 20,000,000	0.31%	\$ 258,900,000	3.19%	\$ 160,000,000	2.09%
Money Market	\$ 577,979,655	9.09%	\$ 1,804,701,385	22.20%	\$ 414,314,347	5.42%
Cash	\$ 299,278,245	4.71%	\$ 281,694,352	3.47%	\$ 557,786,740	5.14%



# CTO INVESTMENT PORTFOLIO UPDATE

Overall Rating	
<b>AA</b>	
Average Modified Duration (Years)	2.13*
Average Effective Duration (Years)	2.05*

Portfolio Statistics (Market Value Weighted)					
Values	Operating	Bond Proceeds	Operating Reserves	Long-Term Reserves	Whole Portfolio
Unique Position Count	128	301	93	57	551
Avg. Coupon	0.66	1.13	2.03	3.34	1.27
Avg. Current Yield	2.27	2.39	3.06	3.80	2.53
Avg. Yield To Maturity	2.26	1.99	2.23	3.22	2.20
Portfolio Holdings	\$2,970,573,530	\$2,538,982,279	\$1,374,836,841	\$652,860,595	\$7,537,253,247*
Total Earnings	\$34,116,609.64	\$35,808,127.31	\$24,207,326.13	\$15,535,849.27	\$109,667,912.35

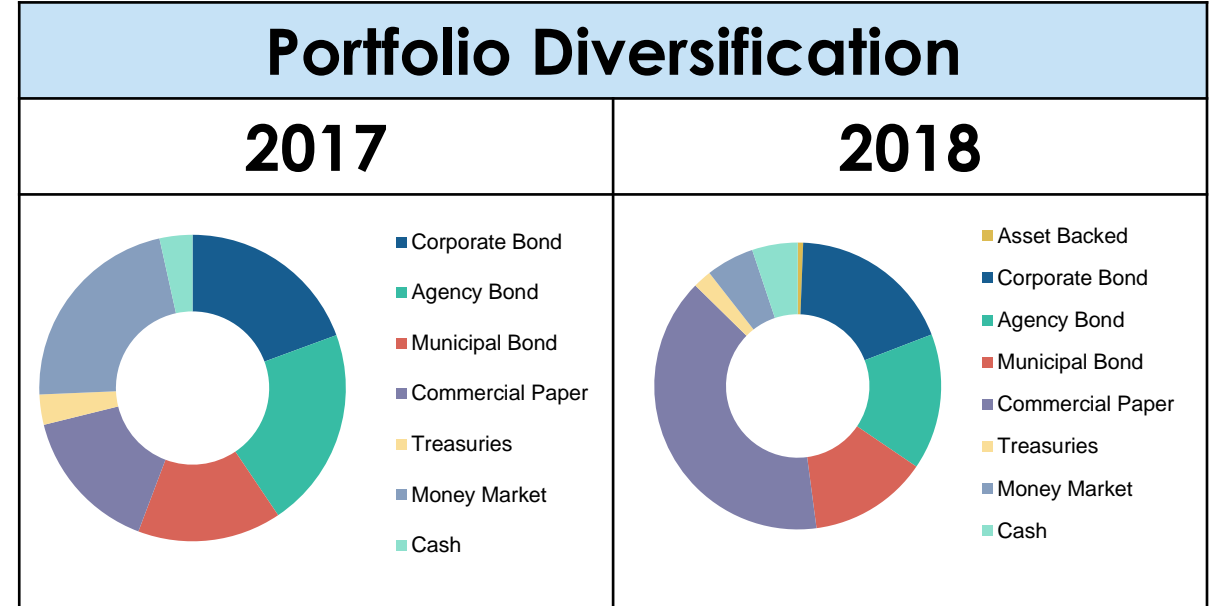


\*These numbers are not inclusive of money in depository institutions.

# CTO INVESTMENT PORTFOLIO UPDATE

Duration / Yield		
	2017	2018
Q1	2.83yrs / 1.53%	2.09yrs / 2.06%
Q2	2.55yrs / 1.46%	2.25yrs / 2.33%
Q3	2.54yrs / 1.63%	2.05yrs / 2.53%
Q4	2.51yrs / 1.71%	N/A / N/A

- Decline in effective duration was in part due to purchases of floating rate securities in Q2 2018, as well as targeting shorter term investments in Q4 2018



- Broadening our scope has allowed us to diversify the portfolio and mitigate risk
- Our recent performance, which includes lower duration and a higher yielding portfolio, speaks to the positive impacts of this strategy



# CTO INVESTMENT PORTFOLIO UPDATE

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*Using a variety of investment strategies, we have managed to generate meaningful returns—even as a conservative investor.*

- Portfolio has an average current yield of 2.53%, driven in part by mid-year shifts in investment strategy
  - ESG Integration
  - Commercial Paper Diversification
- Yet, rising rates in Q3 2018 and long-duration legacy investments have impacted portfolio performance



## 2018 CTO Portfolio

- Total Return: 2.5
- Yield: 2.53





# CTO INVESTMENT PORTFOLIO UPDATE

## Overall ESG Portfolio Score

6.5

- Overall ESG portfolio score of 6.5 out of a possible 8.2, while the overall investable universe averages 5.6
- Our score reflects intentional investments in securities with higher environmental, social, and governance scores



### Environmental

- \$85 million invested in green bonds issued by the State of Massachusetts and African Development Bank, both of which finance environmentally-friendly projects to reduce or offset carbon emissions



### Social

- \$64 million invested in GNMA securities, which will support access to housing and nursing care facilities in underserved communities in Chicago (e.g., Bronzeville Associates Senior Apartments and 2101 South Michigan Apartments)



### Governance

- \$23 million invested in Corporates that have governance scores greater than 7



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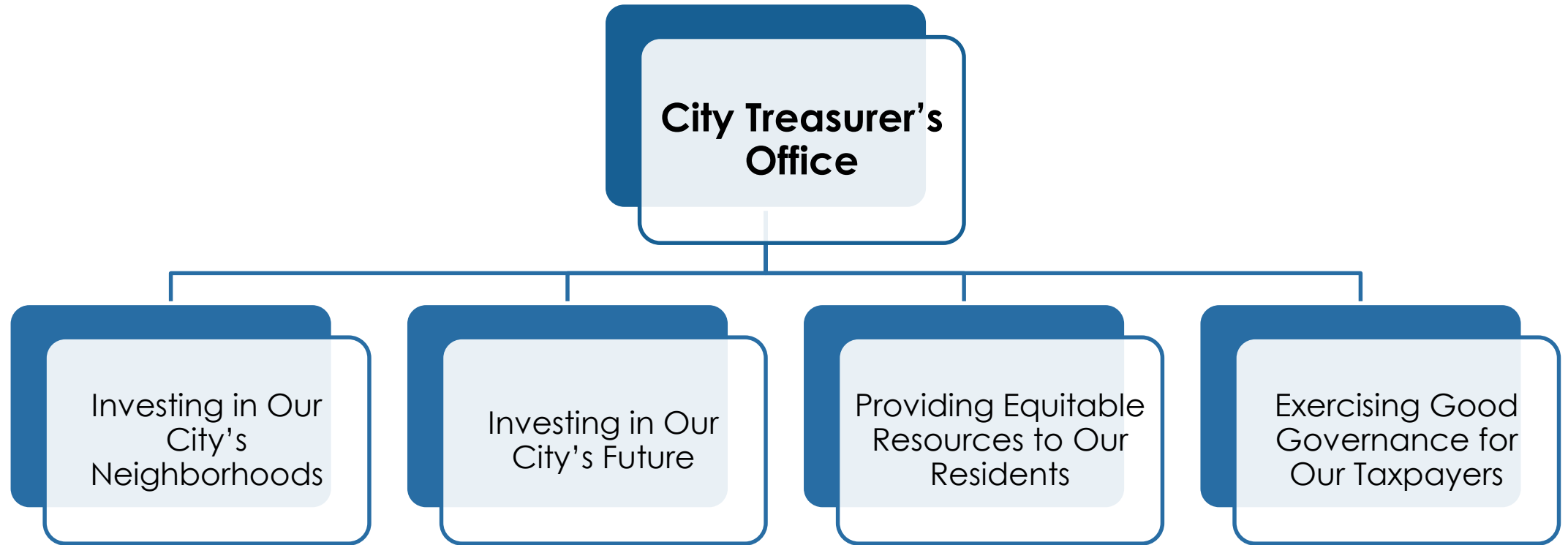
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# PREVIEWING END-OF-TERM PRIORITIES

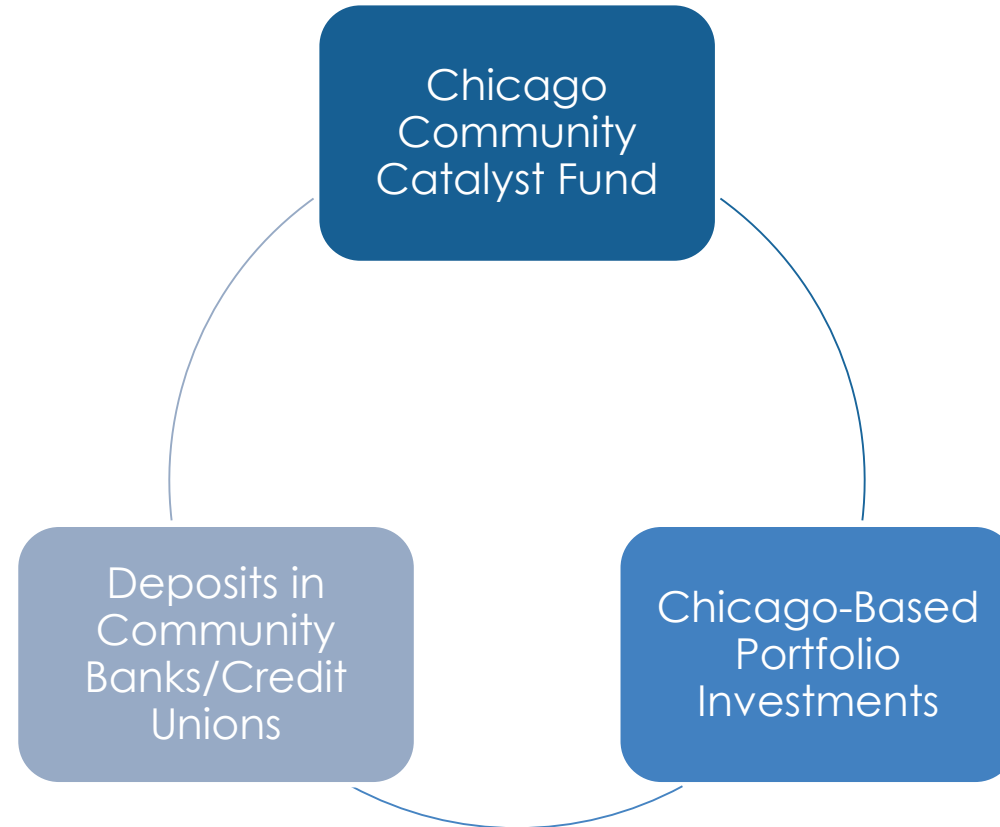
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*Over the next six months, we will make progress on key priorities and create structures that make those priorities self-sustaining, driving lasting impact along four key themes.*



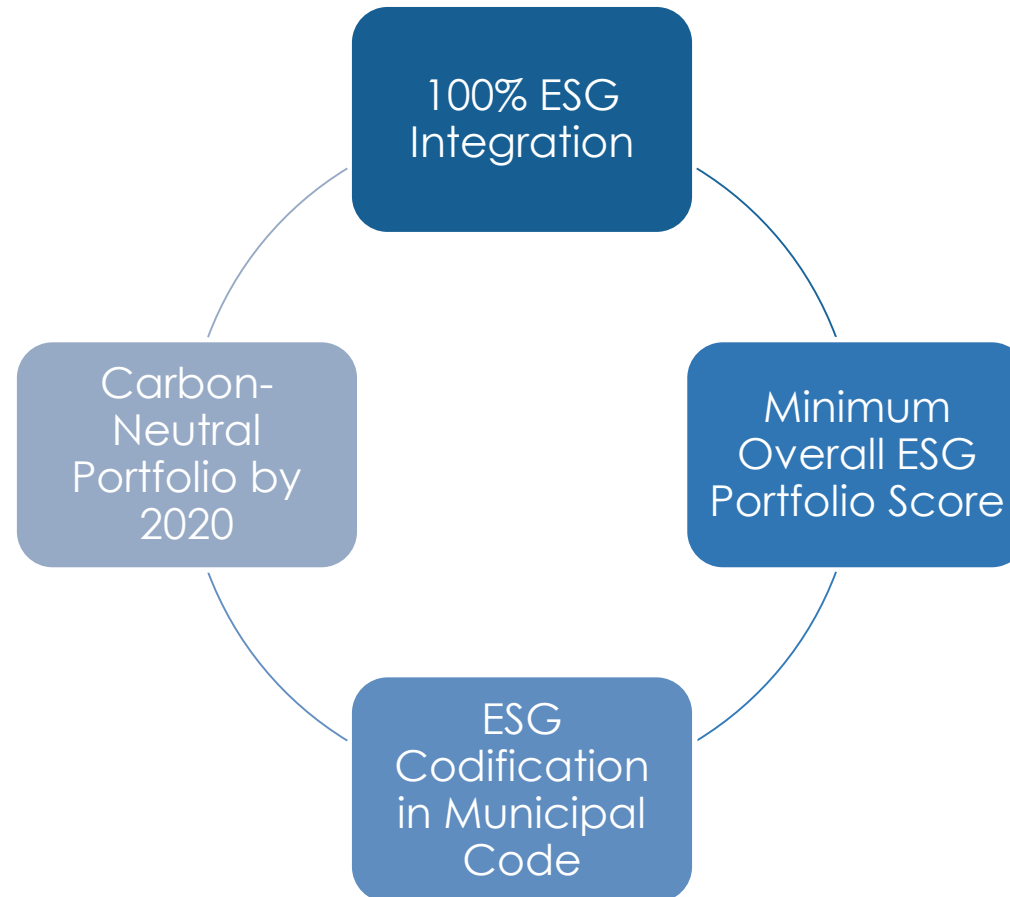
# PREVIEWING END-OF-TERM PRIORITIES

## INVESTING IN OUR CITY'S NEIGHBORHOODS



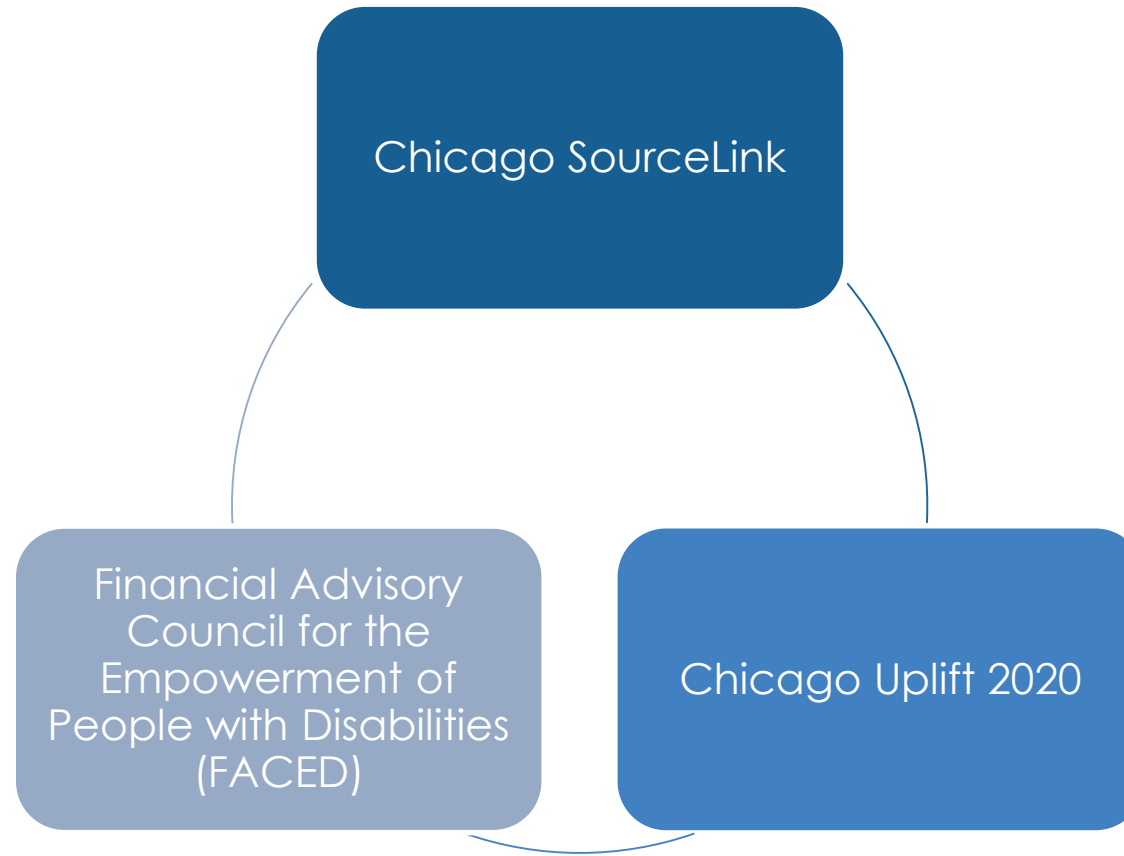
# PREVIEWING END-OF-TERM PRIORITIES

## INVESTING IN OUR CITY'S FUTURE



# PREVIEWING END-OF-TERM PRIORITIES

## PROVIDING EQUITABLE RESOURCES TO OUR RESIDENTS



# PREVIEWING END-OF-TERM PRIORITIES

## EXERCISING GOOD GOVERNANCE FOR OUR TAXPAYERS

Thought Leadership on  
Fiscal Issues

Innovate and Institutionalize



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# QUESTIONS?



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# DEBRIEF AND CLOSING

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