

Q3 2017 Earnings Call

The City of Chicago: Exploring Responsible Investing Solutions

NOVEMBER 14, 2017

City Treasurer Kurt Summers



AGENDA

01 12:00 – 12:05 PM
Introduction, Purpose of Call, Agenda

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BEFORE WE GET STARTED



Audio

Participants can hear the call through the computer or over the phone; you don't have to be on both to hear the presentation. You do need to be registered online to view the webcast.



Need Help?

If at any time during the call you need assistance, please call **312 – 744 – 5800** or email **Konstantinos.Alonistiotis@cityofchicago.org**



Questions

Have a question? At any time during the presentation, type in your question by clicking “Q&A.” There will be time allotted for Q&A at the end of the call.



WELCOME AND PURPOSE



Transparency

This is the 9th Quarterly Earnings Call since Treasurer Summers took office. It is open to the public, the City Council, and anyone interested in Chicago's investment portfolio performance.



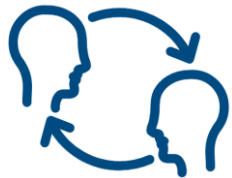
Outreach & Advocacy

During the Treasurer's 77 visits to Chicago's 77 neighborhoods, residents voiced their need to be regularly engaged in our outreach and advocacy efforts. This is an opportunity to learn about our CTO initiatives.



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. This call is shaped after reporting done by the nation's largest investment managers and public companies.



Information & Action

The call will provide an overview of the national economy and Chicago's current fiscal landscape, as well as outline the economic impact of investing in our communities.



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NATIONAL ECONOMY

University of Michigan: Consumer Sentiment (Monthly)

July 2017	August 2017	Sept 2017
93.4	96.8	95.1

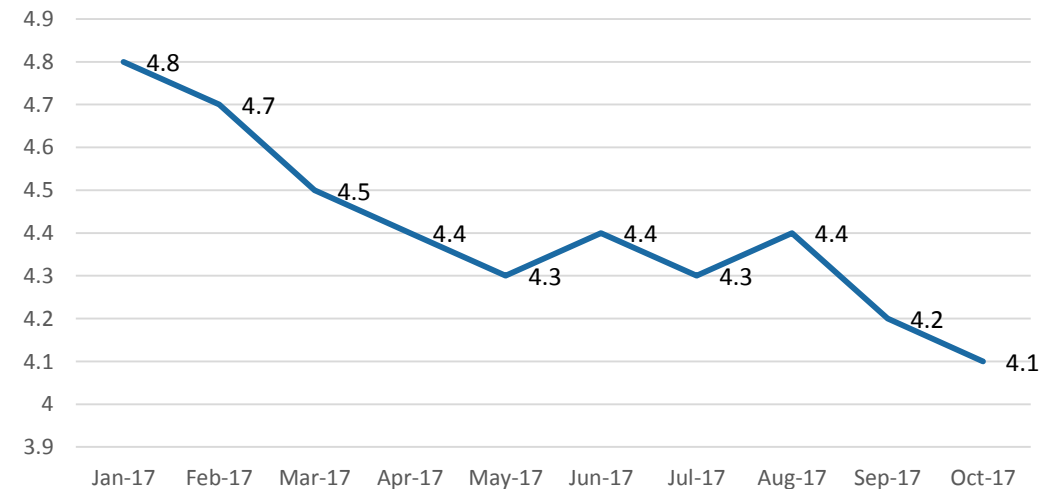
International Monetary Fund Expected Growth Rates (Annual)

	Previous 2017 Forecast	Updated 2017 Forecast
Global Economy	3.5%	3.6%
U.S. Economy	2.1%	2.2%
Advanced Econ.	2.0%	2.2%
Emerging/ Developing Econ.	4.6%	4.6%

Real GDP (% Change, Annualized)*

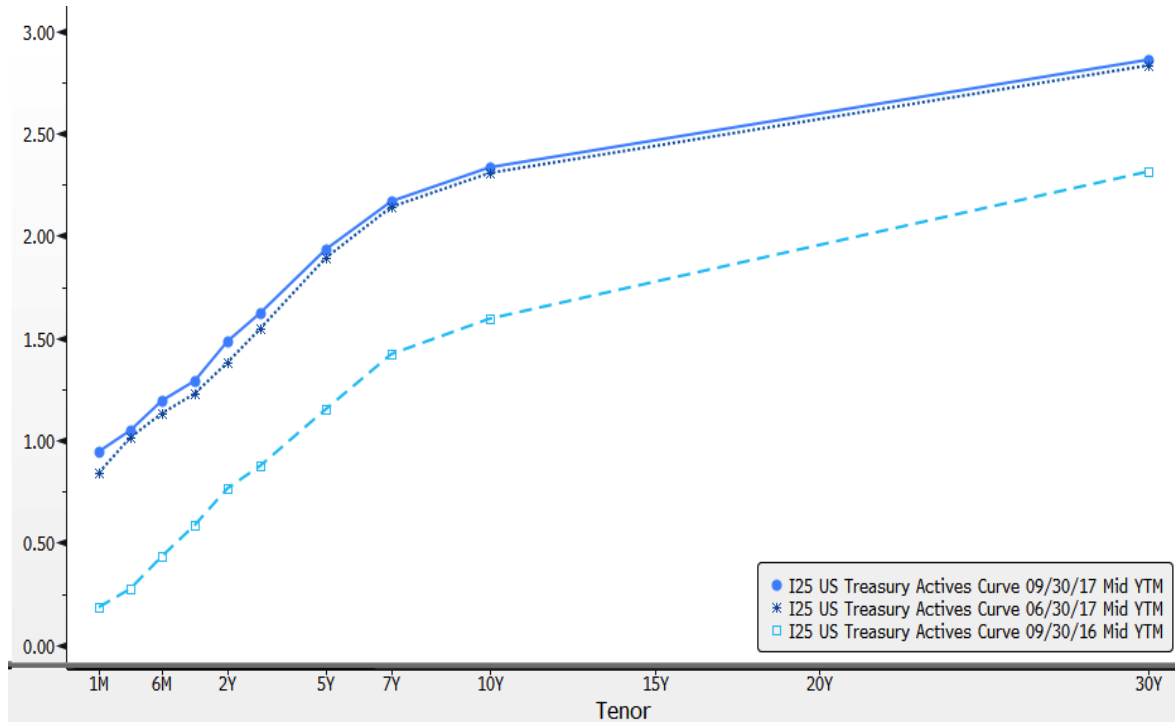
Q1 2017	Q2 2017	Q3 2017
1.2%	3.1%	3.0%

Unemployment Rate (Seasonally Adjusted, Monthly)**



NATIONAL ECONOMY

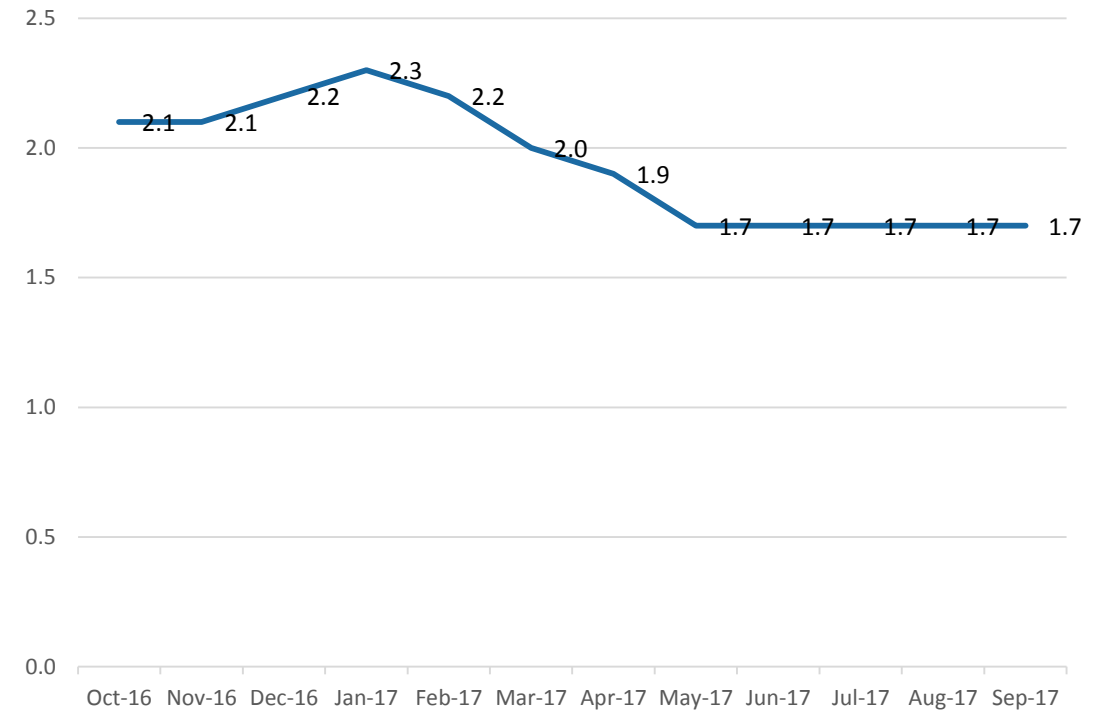
US Treasury Interest Rates



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US Core Inflation (Annualized)*



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CHICAGO ECONOMY

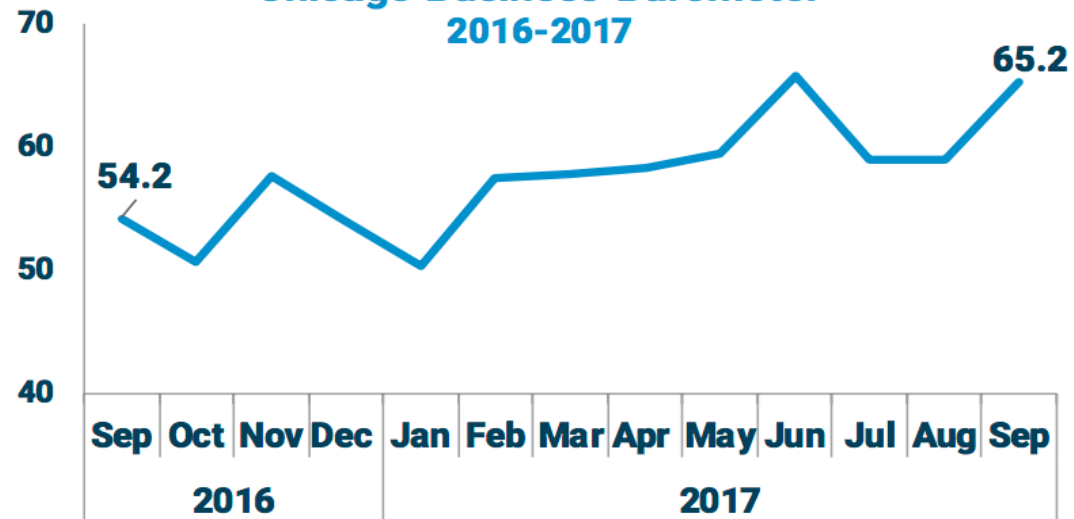
Unemployment Rate (Not Seasonally Adjusted)*

July 2017	August 2017	Sept 2017
4.7%	5.3%	4.7%

Inflation (% Change, Annualized)**

July 2017	August 2017	Sept 2017
1.9%	1.7%	2.3%

Chicago Business Barometer
2016-2017



Sources: *Bureau of Labor Statistics, ** Bureau of Labor Statistics (CPI- All Items included, Not seasonally adjusted), World Business Chicago



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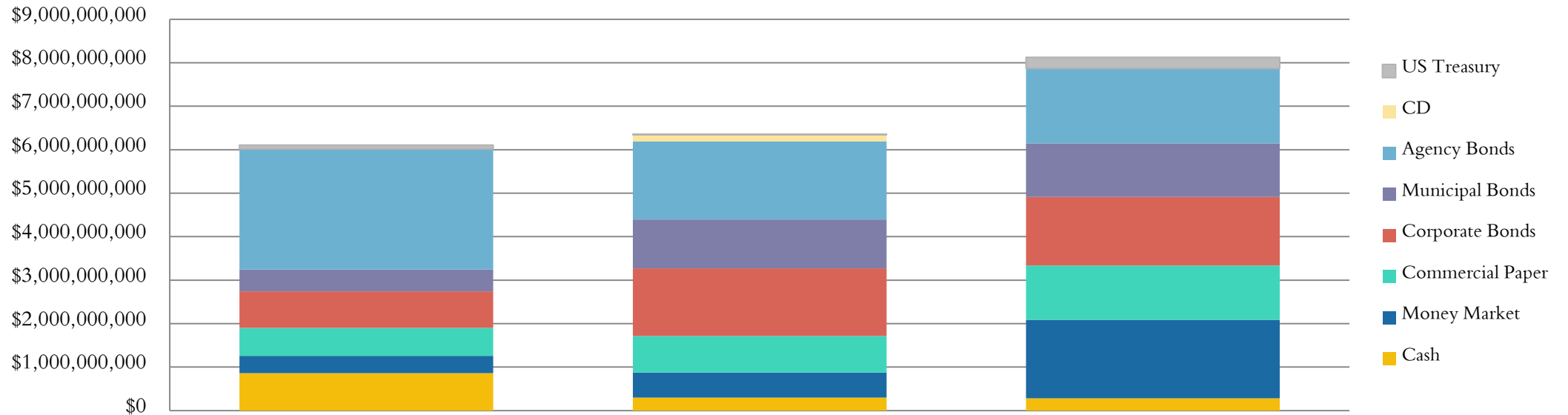
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CTO INVESTMENT PORTFOLIO UPDATE

Portfolio Asset Allocation By Par Value



	2015 (Q3)		2016 (Q3)		2017 (Q3)	
US Treasury	\$ 93,431,854	1.53%	\$ 20,000,000	0.31%	\$ 258,900,000	3.19%
CD	\$ 2,002,960	0.03%	\$ 150,000,000	2.36%	\$ -	0.00%
Agency Bonds	\$ 2,770,326,926	45.36%	\$ 1,793,100,000	28.19%	\$ 1,721,505,000	21.18%
Municipal Bonds	\$ 501,108,482	8.21%	\$ 1,125,629,000	17.70%	\$ 1,234,035,337	15.18%
Corporate Bonds	\$ 838,417,518	13.73%	\$ 1,556,864,000	24.48%	\$ 1,575,727,000	19.39%
Commercial Paper	\$ 644,783,511	10.56%	\$ 836,874,000	13.16%	\$ 1,251,197,000	15.39%
Money Market	\$ 396,060,805	6.49%	\$ 577,979,655	9.09%	\$ 1,804,701,385	22.20%
Cash	\$ 860,923,565	14.10%	\$ 299,278,245	4.71%	\$ 281,694,352	3.47%



CTO INVESTMENT PORTFOLIO UPDATE

Overall Rating	
AA	
Average Modified Duration (Years)	2.68*
Average Effective Duration (Years)	2.54*

Portfolio Statistics (Market Value Weighted)					
Values	Bond Proceeds	Operating Reserves	Operations	Long-Term Reserves	Whole Portfolio
Unique Position Count	435	94	44	47	602
Avg. Current Yield	1.39	2.35	1.22	3.27	1.63
Portfolio Holdings	\$3,353,755,873.67	\$1,491,750,470.88	\$2,278,421,231.43	\$679,893,718.28	\$7,803,821,294.26**
Total Earnings	\$27,504,276.56	\$19,215,898.73	\$26,690,225.26	\$10,370,383.39	\$83,780,783.94

*These numbers include \$281,694,352 in cash or \$1,804,701,385 in money markets.

** Figure does not include cash holdings of \$281,694,352.00.



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WHAT IS RESPONSIBLE INVESTING?

Responsible investment is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and generate sustainable, long-term returns.

Common ESG Considerations:

Environmental (E)

- Carbon Emissions
- Energy Efficiency
- Natural Resource Use
- Waste and Pollution
- Deforestation
- Green Buildings
- Biodiversity

Social (S)

- Working Conditions
- Local Communities
- Health and Safety
- Labor Management
- Diversity and Discrimination
- Human Rights Policy

Governance (G)

- Executive Compensation
- Bribery and Corruption
- Political Lobbying and Donations
- Board & C-Suite Diversity and Structure
- Tax Strategy

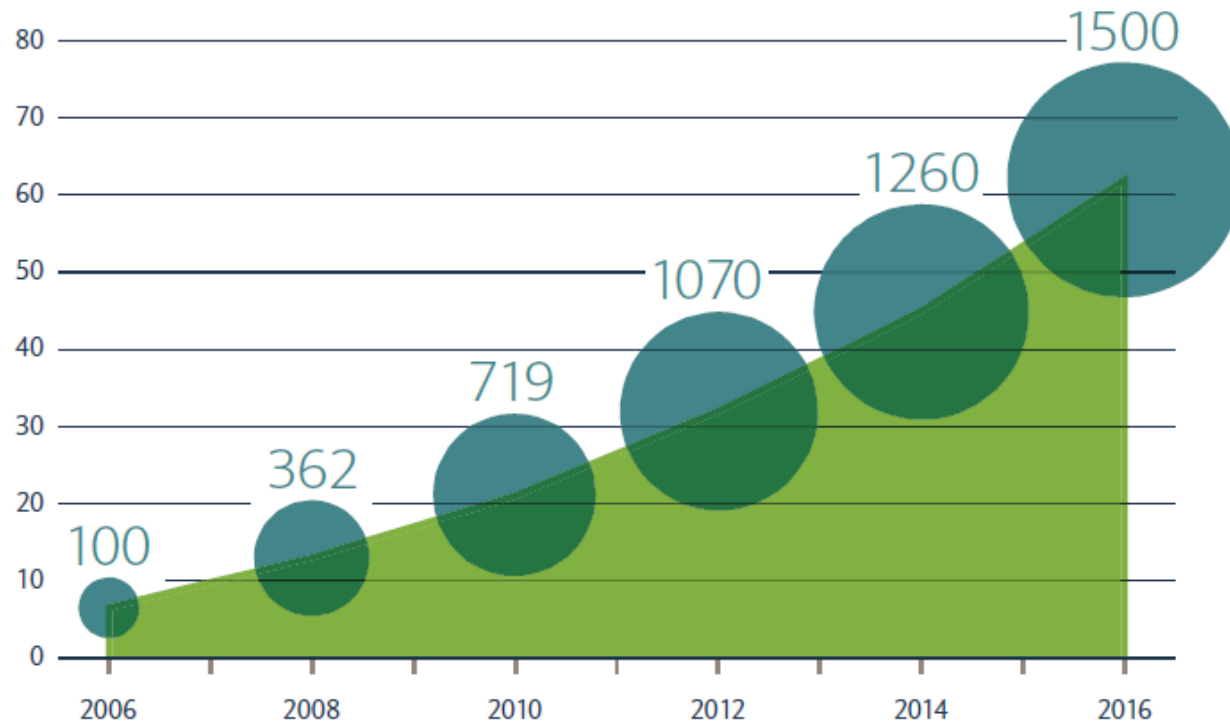


RESPONSIBLE INVESTING: GLOBAL TREND

Number of UN PRI signatories and their total assets under management

● Assets under management (US \$ trillion)

● Number of signatories



Six Principles of UNPRI

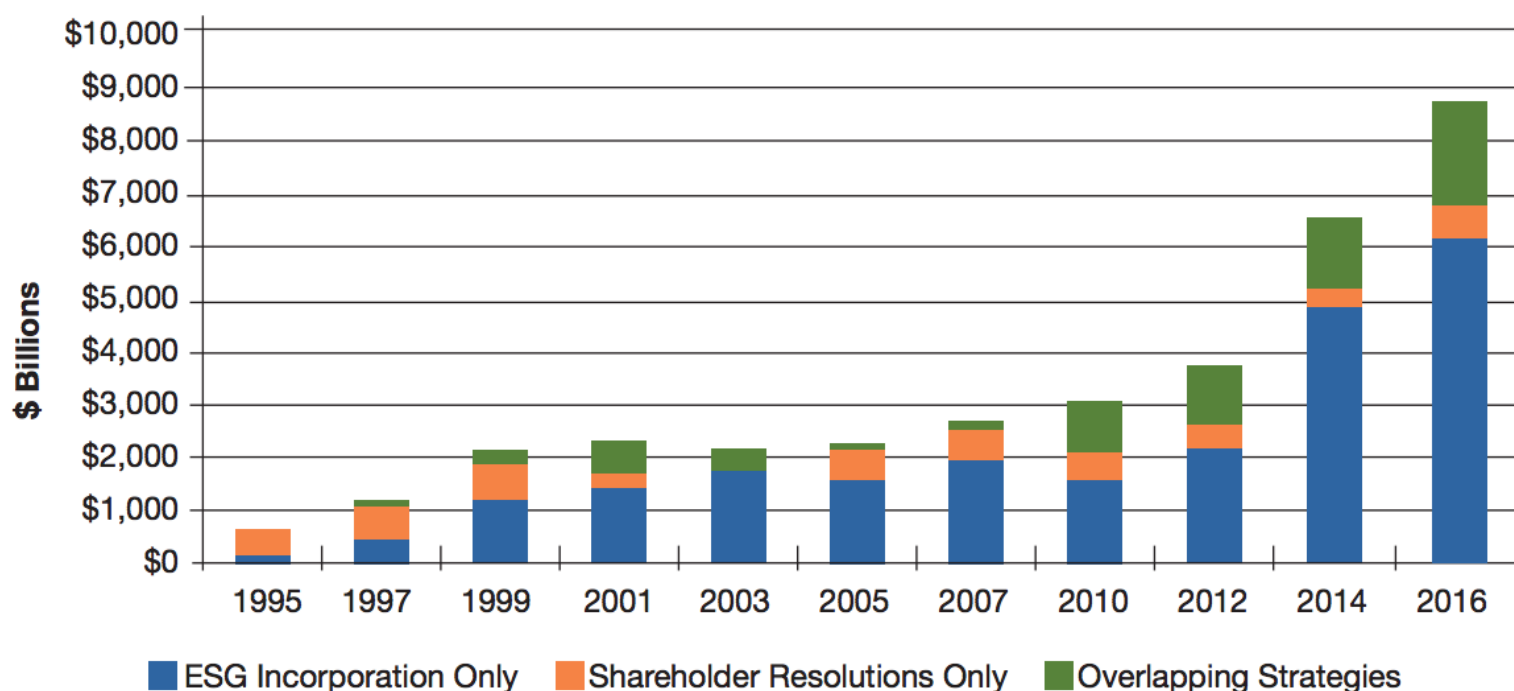
1. Incorporate ESG issues into investment analysis and decision-making processes
2. Be active owners & incorporate ESG issues into ownership policies & practices
3. Seek appropriate disclosure on ESG issues by the entities in which we invest
4. Promote acceptance and implementation of the principles within the investment industry
5. Work together to enhance our effectiveness in implementing the principles
6. Report on our activities and progress towards implementing the principles



RESPONSIBLE INVESTING: U.S. TREND

“The market size of sustainable, responsible and impact investing in the U.S. in 2016 was \$8.72 trillion, or one-fifth of all investment under professional management.”

ESG Investments in United States 1995-2016



ESG AND FIXED INCOME: CREDIT QUALITY

*Credit Analysis of Barclays US Corp Index (August 2009 – April 2016)**

How ESG scores relate to credit spread and credit rating

	Bonds with low ESG scores	Bonds with high ESG scores
Average ESG score (from 0 to 10)	2.6	7.7
Average spread (bp)	172	134
Average credit quality	A3	A2

Source: MSCI ESG Research; Barclays Research

*In April 2016, this index included 5,675 bonds from 761 issuers

- Difference in rating between high and low ESG buckets corresponds to a **one-notch change in credit rating**
- Average spread of high-ESG bonds is **35-38bp lower** than the low ESG portfolio



ESG AND FIXED INCOME: PERFORMANCE

Cumulative return (%) of a portfolio with high ESG rating over a portfolio with low ESG rating (using Sustainalytics ESG scores)



- For this pair of portfolios (high and low ESG) **the cumulative outperformance has been almost 2%** over the past seven years



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ESG DYNAMICS IN INVESTING

- ESG focus: key factors in sustainability of companies and investment
- Responsible investment has grown and evolved over 40 years
- Main ESG considerations
 - Each company or other potential candidate for investment operates within a broader social and environmental context affecting its risks and opportunities
 - Good governance involves accountability to investors, respect for stakeholders, and transparency
 - Earlier “selective investment” focus has given way to more holistic approaches, with emphasis on investor engagement with portfolio companies and impact investing



ESG ENGAGEMENT

- Public funds and other investors have proven effectiveness of engagement to produce change
 - Tools include direct dialog, proxy voting, shareholder proposals
- Corporate governance: the leading focus for engagement
 - Investors do not seek to micromanage, but to have confidence that boards are equipped to do the job, and with accountability to shareowners
- Increasing focus on elements central to value of investments
 - Risks and opportunities related to climate change
 - Effective human capital management: building and sustaining a smart, well-trained, diverse work force
 - Transparency of financial reporting and governance
- Evidence on importance of ESG factors for public companies



IMPACT INVESTING

- Investments in companies and other organizations, and funds, that seek positive social impacts along with financial returns
 - The “double bottom line”
 - Longer-term impact of social context on returns for stock and bond investors
- Wide range of potential impact investments, including public equity, private equity, bonds, loans and guarantees
- Wide range of impact investors, from government investors including pension funds to fund managers to banks to foundations to individuals
- Investing in communities through vehicles such as the Chicago Community Catalyst Fund



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UPDATES FROM THE CTO

- Chicago Community Catalyst Fund (CCCF)
- RFP for Municipal Depositories for City of Chicago
- Launch of SimpleGrowth
- Small Business Saturday – 2017



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QUESTIONS?

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DEBRIEF AND CLOSING



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THANK YOU FOR JOINING



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With respect to any bonds, notes, or other debt issued by the City of Chicago, please refer for information only to the City's disclosure documents and continuing disclosure filings for such bonds, notes, or other debt obligations.

