

City of Franklin Budget and Finance Committee Meeting

September 13, 2018

Presented by:
Government Portfolio Advisors
Deanne Woodring, CFA
President
Government Portfolio Advisors

AGENDA

Investment Market Environment

Portfolio Performance

Strategic Plan for Next Year

Policy Updates



GPA UPDATE

Firm Background: GPA is an *independent* registered investment advisory firm dedicated to acting as a fiduciary in the best interest of every client. We empower local governments with the tools and expertise needed to achieve excellence in cash and investment management strategies.

Strategic Approach: Setting objectives and assessing cash needs *first* is the foundation for optimizing duration, benchmarks and sector allocation.

Personnel: Seven proficient fixed income professionals combine diverse backgrounds to meet and exceed our client's goals.

Investment Philosophy and Process: Invest with a disciplined approach that provides for sufficient liquidity requirements while optimizing returns.

Reporting: Deliver customized reporting to meet the unique requirements of each client to allow for clear articulation of the investment strategy and benefits to various stakeholder groups.

YOUR GPA Team

Susan Munson, Managing Director – Senior Portfolio Advisor

Deanne Woodring, CFA - President, Senior Portfolio Advisor

Chris Bates, Portfolio Advisor - Investment Transactions

Andy VanLaningham - Assistant Portfolio Advisor

Whitney Maher - Client Service Manager

Michael Smith - Operations Manager

MARKET UPDATE

FIXED INCOME MARKET OUTLOOK AND STRATEGIC SUMMARY

AUGUST 2018

Portfolio Duration

Due to the significant increase in yields and relative value GPA is recommending investors continue to weight their portfolio durations in a range of 90% to 100% of benchmark durations. The market has discounted the next fed tightening and 70% of the following expected fed funds increase in December. The front end of the yield curve should trade around current levels until we get through the September FOMC meeting.

Agency Spreads

Agency spreads have been extremely tight for maturities under one year with little or no spread advantages. Maturities longer than one year to five years have spreads that range in the three to nine basis point range.

Corporate Yields

Corporate offerings have been on the historical tight side for AA or better bonds. Household names such as Microsoft and Apple have traded anywhere from 10 to 25 basis points over treasuries for maturities in the one to five year range. We believe that we are close to the end of this credit cycle and that spreads should start to widen in 2019. We are being cautious buying credits longer than 2 to 3 years and are staying with higher quality issues.

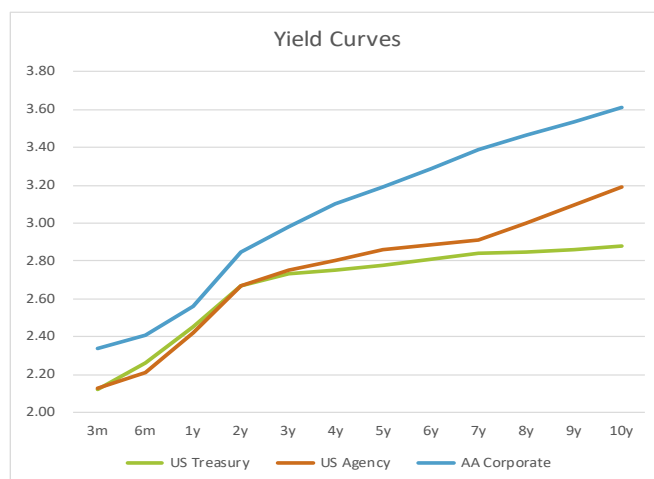
Taxable Municipal Yields

Taxable municipal bonds have been difficult to find in any kind of size over one million. Larger high quality issues have traded between 5 and 15 basis points over treasuries in the one to five year maturity range.

Yield Curve Weighting

The yield curve should continue to flatten with the fed raising rates into strong, but moderating, economic growth. If the current pace of fed fund increases follows the fed's expectations the curve could invert as early as Q2 2019.

US Treasury – US Agency – AA Corporate



Interest Rate Data

	9/30/17	12/31/17	3/31/18	6/30/18
3-month bill	1.05	1.38	1.61	1.92
2- year note	1.49	1.88	2.27	2.53
5 -year note	1.94	2.20	2.56	2.74
10- year note	2.33	2.41	2.74	2.86

Economic Survey For Rate Direction

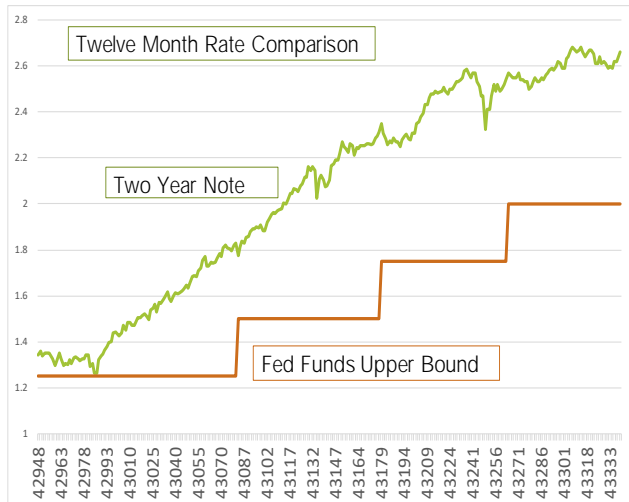
	Q3-18	Q4-18	Q1-19	Q2-19
Fed Funds	2.20	2.40	2.65	2.85
2 Year	2.67	2.79	2.91	2.99
10 year	3.09	3.16	3.26	3.31

Economic Survey Projections

	Q3-18	Q4-18	Q1-19	Q2-19
Real GDP	2.90	2.90	2.90	2.60
CPI (YOY%)	2.80	2.50	2.30	2.30
Unemployment	3.80	3.70	3.70	3.70

Source: Bloomberg 6-30-18

US 2 YR TRSY vs. Fed Funds Rate – Upper Bound

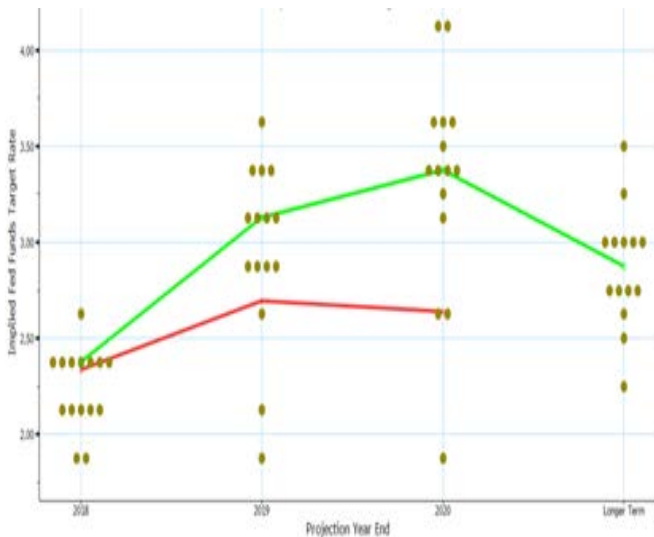


Rates Commentary

- Two-year treasury rates peaked out on July 26 at a yield of 2.68 and tested the 2.60 support level during the middle of August as trade issues became more of a concern.
- During the last few days of August the U.S. reached a trade agreement with Mexico that will rewrite NAFTA leaving Canada in a much weaker negotiating position.
- Equities rallied on this news while fixed income resumed their trends to higher yields.
- The trend upward in interest rates has moderated since the middle of May but could possibly resume the movement higher with positive shifts in trade negotiations.

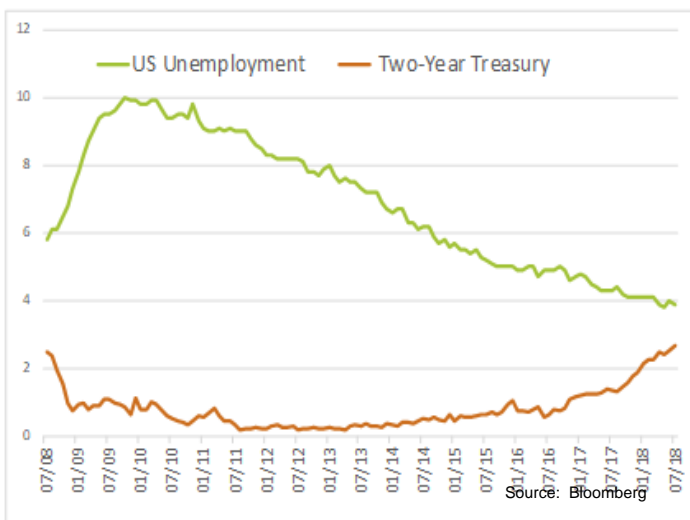
Federal Reserve/Dot Plot Commentary

Implied Fed Funds Target Rate



- The Federal Open Market Committee (FOMC), consists of 12 voting members. Each member provides a forecast of where fed funds should trade over the next few years.
- The forecasted rates by each member are then plotted on a chart which demonstrates where the FOMC collectively predicts future fed funds rates.
- The FOMC predictions are then compared to the current fed funds futures market which has a very high correlation to treasury rates.
- Today the fed funds futures market is predicting a much lower level of fed funds than what is being predicted by the FOMC. In other words, the market is expensive to the expectations of the FOMC.
- The market is expecting fed funds to trade at 2.62 at the end of 2019 while the FOMC is forecasting a fed funds rate of just over 3%.

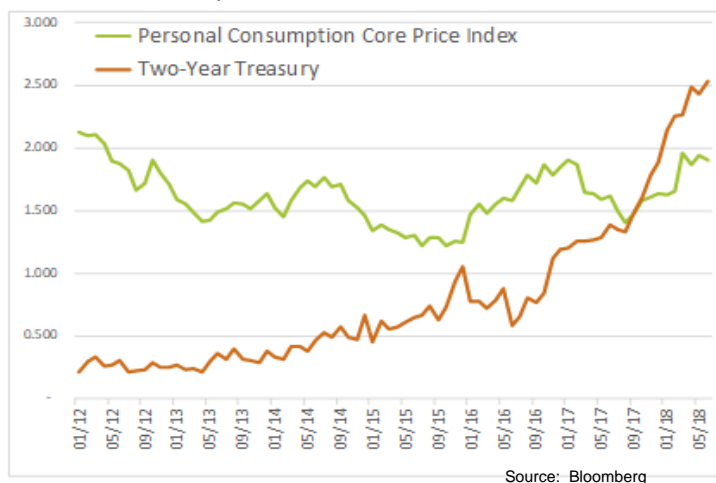
US Unemployment vs. US 2 YR TRSY



Relationship Between US Unemployment and Two Year Treasury Note

- During the January 25, 2012 FOMC meeting the committee declared a 2% target using the Personal Consumption Expenditures (PCE), as the preferred measurement of inflation.
- Since 2012, this measurement of inflation has consistently traded below the 2% target and is just now approaching their target level. Future PCE levels above the target line could push the FOMC to accelerate their well communicated timeline of future fed fund increases.

Personal Consumption Core Price Index vs. US 2 YR TRSY



Relationship between Personal Consumption Core Price Index and Two Year Treasury Note

- The unemployment index has reached a multi-decade low with announced job openings now exceeding job applicants.
- The relationship of more jobs than workers is expected to eventually increase wages which would argue for more spending power, stronger consumptions, and possibly higher inflation.

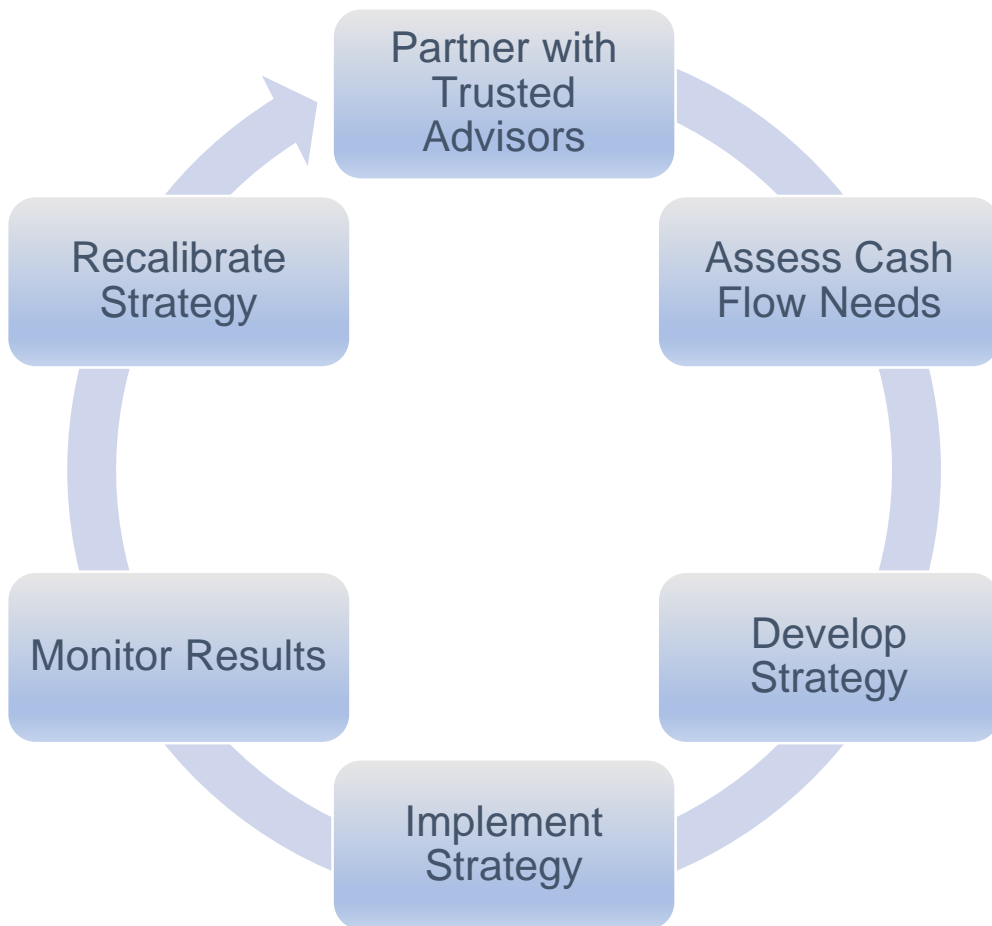
Two Year Treasury Yields Over The Past 10 Years

High 2.60% Low .25%



INVESTMENT PROCESS

Comprehensive and Disciplined Approach



Historical Balances

	Historical Total Balances		
	FY 2017	FY2018	FY 2019
July	\$77,962,337	\$119,296,780	
Aug	\$77,312,954	\$119,370,049	
Sep	\$77,312,954	\$115,694,554	
Oct	\$74,561,119	\$119,296,510	
Nov	\$76,571,417	\$117,026,339	
Dec	\$78,992,568	\$118,883,597	
Jan	\$82,811,081	\$115,884,518	
Feb	\$93,684,214	\$123,168,730	
Mar	\$98,794,015	\$124,215,093	
Apr	\$96,835,976	\$126,189,782	
May	\$96,802,495	\$128,615,401	
Jun	\$124,266,154	\$132,177,613	

ANNUAL HISTORICAL SUMMARY

	FY 2017	FY2018	FY 2019
Average Balance:	\$87,992,274	\$121,651,581	
Maximum Balance:	\$124,266,154	\$132,177,613	
Minimum Balance:	\$74,561,119	\$115,694,554	
Variance in period Maximum/Minimum	\$49,705,035	\$16,483,059	

	Historical Review
Recommended Core Fund Size:	\$95,000,000
Minimum Liquidity Balance :	\$20,694,554
Average Total Fund Balance (LFY):	\$121,651,581

The Portfolio

As of August 27, 2018

INVESTMENT CORE FUND

Par (000)	Identifier	Issuer Name	Quality	Coupon	Maturity	Mkt Val (000)	% Held (MV)	Eff Dur	Yield at Cost	Gain/Loss (000)
102	0000FIFT	FIFTH THIRD BANK DEPOSIT	N/A	1.70	8/29/2018	102	0.11	0.005	1.703	0.00
3,000	313375K4	FEDERAL HOME LOAN BANKS	AA+	2.00	9/14/2018	3,027	3.18	0.048	1.335	-1.13
2,500	3134GAMV	FEDERAL HOME LN MTG CORP	AA+	1.00	9/28/2018	2,508	2.64	0.086	0.984	-2.08
2,500	3135G0E5	FEDERAL NATL MTG ASSN	AA+	1.13	10/19/2018	2,506	2.63	0.142	0.973	-4.19
5,000	3135G0YT	FEDERAL NATL MTG ASSN	AA+	1.63	11/27/2018	5,013	5.27	0.246	1.154	-12.72
4,000	912828N2	UNITED STATES TREAS NTS	AA+	1.25	12/15/2018	3,999	4.20	0.294	1.200	-11.29
3,000	912796QP	UNITED STATES TREAS BILL	AA+	0.00	12/20/2018	2,980	3.13	0.308	2.098	-0.01
3,000	912828RY	UNITED STATES TREAS NTS	AA+	1.38	12/31/2018	2,998	3.15	0.337	1.342	-8.49
2,500	3134GAK7	FEDERAL HOME LN MTG CORP	AA+	1.35	1/25/2019	2,494	2.62	0.388	1.378	-8.72
5,000	912828P5	UNITED STATES TREAS NTS	AA+	0.75	2/15/2019	4,966	5.22	0.460	1.176	-24.84
5,000	912828P5	UNITED STATES TREAS NTS	AA+	0.75	2/15/2019	4,966	5.22	0.460	2.066	-4.28
3,000	3133EDTU	FEDERAL FARM CR BKS	AA+	1.70	3/4/2019	3,015	3.17	0.501	1.392	-14.57
2,500	912828SN	UNITED STATES TREAS NTS	AA+	1.50	3/31/2019	2,504	2.63	0.575	1.300	-14.56
5,000	3137EADZ	FEDERAL HOME LN MTG CORP	AA+	1.13	4/15/2019	4,984	5.24	0.617	1.366	-28.97
3,000	912828XS	UNITED STATES TREAS NTS	AA+	1.25	5/31/2019	2,984	3.14	0.742	2.325	-1.14
2,500	912828TH	UNITED STATES TREAS NTS	AA+	0.88	7/31/2019	2,466	2.59	0.911	1.194	-27.83
4,000	912828D8	UNITED STATES TREAS NTS	AA+	1.63	8/31/2019	3,998	4.2	0.986	2.223	-9.66
2,500	313380FB	FEDERAL HOME LOAN BANKS	AA+	1.38	9/13/2019	2,487	2.61	1.023	2.438	-1.53
2,500	3137EADM	FEDERAL HOME LN MTG CORP	AA+	1.25	10/2/2019	2,475	2.6	1.074	1.329	-35.02
5,000	3130A0JR	FEDERAL HOME LOAN BANKS	AA+	2.38	12/13/2019	5,010	5.27	1.261	1.904	-44.51
2,500	3133EH6L	FEDERAL FARM CR BKS	AA+	1.95	1/10/2020	2,484	2.61	1.34	2.283	-11.03
2,500	3130ADN3	FEDERAL HOME LOAN BANKS	AA+	2.13	2/11/2020	2,484	2.61	1.425	2.529	-3.72
2,500	912828UV	UNITED STATES TREAS NTS	AA+	1.13	3/31/2020	2,454	2.58	1.556	2.288	-12.17
2,500	3130ADXM	FEDERAL HOME LOAN BANKS	AA+	2.38	4/6/2020	2,513	2.64	1.554	2.406	-8.97
2,500	912828X9	UNITED STATES TREAS NTS	AA+	1.50	5/15/2020	2,463	2.59	1.672	2.31	-13.35
2,500	3136G3SK	FEDERAL NATL MTG ASSN	AA+	1.58	6/15/2020	2,462	2.59	1.721	1.587	-45.35
2,500	3133EGLF	FEDERAL FARM CR BKS	AA+	1.29	7/13/2020	2,439	2.56	1.83	2.493	-10.22
2,500	3133EJUM	FEDERAL FARM CR BKS	AA+	2.60	7/16/2020	2,502	2.63	1.823	2.676	-2.22
2,500	9128282Q	UNITED STATES TREAS NTS	AA+	1.50	8/15/2020	2,447	2.57	1.921	2.611	-1.65
2,500	313370US	FEDERAL HOME LOAN BANKS	AA+	2.88	9/11/2020	2,541	2.67	1.946	2.669	-2.61
2,500	9128282V	UNITED STATES TREAS NTS	AA+	1.38	9/15/2020	2,452	2.58	1.993	2.35	-14.71
2,500	912828N8	UNITED STATES TREAS NTS	AA+	1.38	1/31/2021	2,426	2.55	2.367	2.421	-14.91
95,602			AA+	1.46	1/0/1900	95,152	100	0.933	1.809	-396.46

LIQUIDITY FUND

\$34,239,921	Pinnacle Bank
\$2,545,526	Reliant Bank
\$923,379	Certificates of Deposit
\$37,711,827	Total Liquidity

Portfolio Discipline Using a Benchmark As of June 30, 2018

TOTAL RETURN PERFORMANCE	Duration	Quarter to Date	Fiscal Year to Date	Since 12/31/13
Core Portfolio	.93	.35%	.61%	.75%
Benchmark 0-3 ICE BAML TREASURY	1.40	.30%	.47%	.56%

Earnings Yield of Portfolio

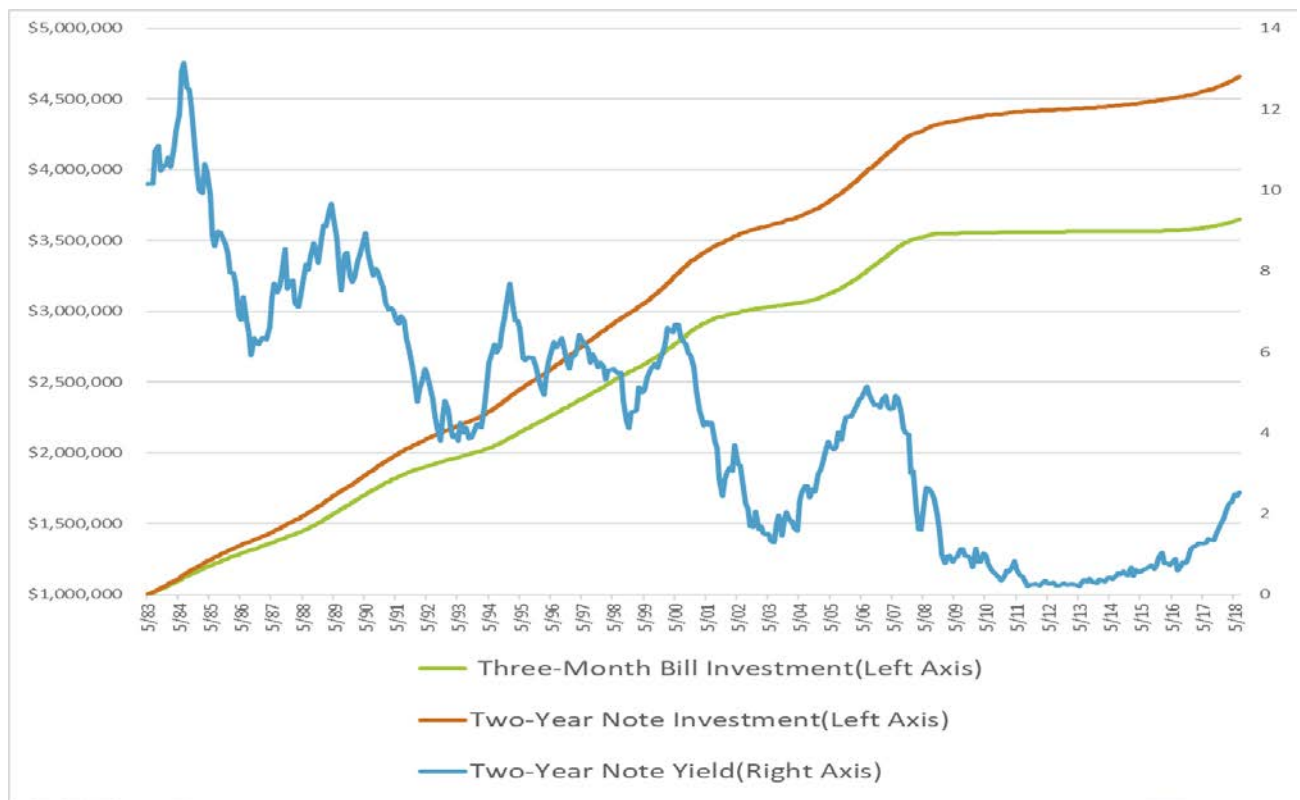
Book Yield	6/30/16	6/30/17	6/30/18	7/31/18
Core Portfolio	.93%	1.10%	1.70%	1.74%

Every 10 Basis points worth another \$100,000 in earnings

WHY MANAGE WITH INTENTION

Long term perspective of the investment program

POWER OF THE DOLLAR – Comparing the growth of \$1,000,000 invested in 3 month bills versus the 2 year note over time.

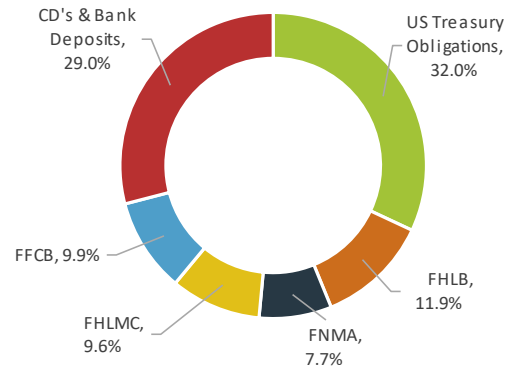


Investment Report

7/31/18

Portfolio Allocation

Issuer	Market Value	% Assets	Policy
US Treasury Obligations	\$ 41,494,036	31.95%	100%
FHLB	\$ 15,418,160	11.87%	100%
FNMA	\$ 9,936,700	7.65%	50%
FHLMC	\$ 12,406,053	9.55%	20%
FFCB	\$ 12,886,662	9.92%	10%
CD's & Bank Deposits	\$ 37,711,827	29.04%	10%
Total Portfolio	\$ 129,853,438	100.00%	



Maturity Distribution

Maturities from 07/31/2018	Market Value	% Assets
Under 1 Mth	\$ 37,665,086	29%
1 Mth - 2 Yrs	\$ 87,337,862	67%
2 Yrs - 4 Yrs	\$ 4,850,490	4%
Total Portfolio	\$ 129,853,438	100.00%

Total Portfolio yield at cost on 07/31/2018 ▲ #NAME?

Market Value on 07/31/2018 \$ 129,853,438

Activity & Performance Summary

Activity Summary	This Month	Fiscal YTD
Beginning Amortized Cost	\$ 132,601,318	\$ 132,601,318
Investment purchases	\$ 2,500,696	\$ 2,500,696
Investment maturities and sales	\$ (2,500,000)	\$ (2,500,000)
Amortization	\$ 26,592	\$ 26,592
Net cash deposit (withdrawals)	\$ (2,322,235)	\$ (2,322,235)
Realized Gain/Loss	\$ -	\$ -
Ending Amortized Costs	\$ 130,306,371	\$ 130,306,371

Performance Summary	This Month	Fiscal YTD
Amortization	\$ 26,592	\$ 26,592
Interest income	\$ 173,853	\$ 173,853
Realized gain (loss)	\$ -	\$ -
Total Income	\$ 200,444	\$ 200,444
Average portfolio balance	\$ 132,501,603	\$ 132,501,603

Strategic Plan for the Next Year

1. Continue to manage to the expected cash flows.
2. Earnings Yield will increase as new securities are purchased at yields at rates between 2.5% and 2.8%.
3. Continue to maintain a shorter duration to the benchmark but stay invested.
4. Watch liquidity needs closely to ensure dollars are available for payments.

We appreciate the opportunity to be your partner.

Disclaimer: This material is based on information obtained from multiple sources generally believed to be reliable; however, GPA cannot guarantee its accuracy, completeness, or suitability. The analysis was prepared for the purposes of observations and oversight and should be reviewed in a broader context based on your overall investment strategy. Past performance does not necessarily reflect and is not a guaranty of future results. This information is not an offer to purchase or sell any securities or engage in any investment strategy. Backup data and analysis is available upon request.