



CITY OF FRANKLIN

COUNCIL INVESTMENT REPORT
SEPTEMBER 12, 2019

GPA Presenter

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TODAY'S AGENDA

- 1) Firm Update
- 2) Investment Environment
- 3) 2018-2019 Highlights
- 4) Portfolio Performance
- 5) Strategic Plan Process
- 6) Expectations for next year



GPA FIRM UPDATE

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.

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

Personnel: Proficient investment professionals with 20 more years of experience combine diverse backgrounds to meet and exceed our client's expectations.

Investment Philosophy and Process: Invest with a disciplined approach to meet 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 fiduciaries including the Council. GPA is committed to leveraging technology to continually enhance reporting options. As such, we have proudly partnered with Clearwater Analytics to deliver best in class investment reporting and accounting. Expanded features will be available this coming year.



AUM and GPA Team

As of June 30, 2019

Firm Assets Under Management: \$11.9BLN

Number of Clients Served: 53

Number of States: 9

Commitment to Public Sector Financial Management: 100%

Your GPA Team

Deanne Woodring, CFA - President, Senior Portfolio Advisor

Dave Westcott, CFA – Chief Investment Officer and COO, Senior Portfolio Advisor

Mike Clark – Senior Portfolio Advisor and Market Specialist

Andy VanLaningham - Assistant Portfolio Advisor

Whitney Maher - Client Service Manager

Ryan Haidar- Operations

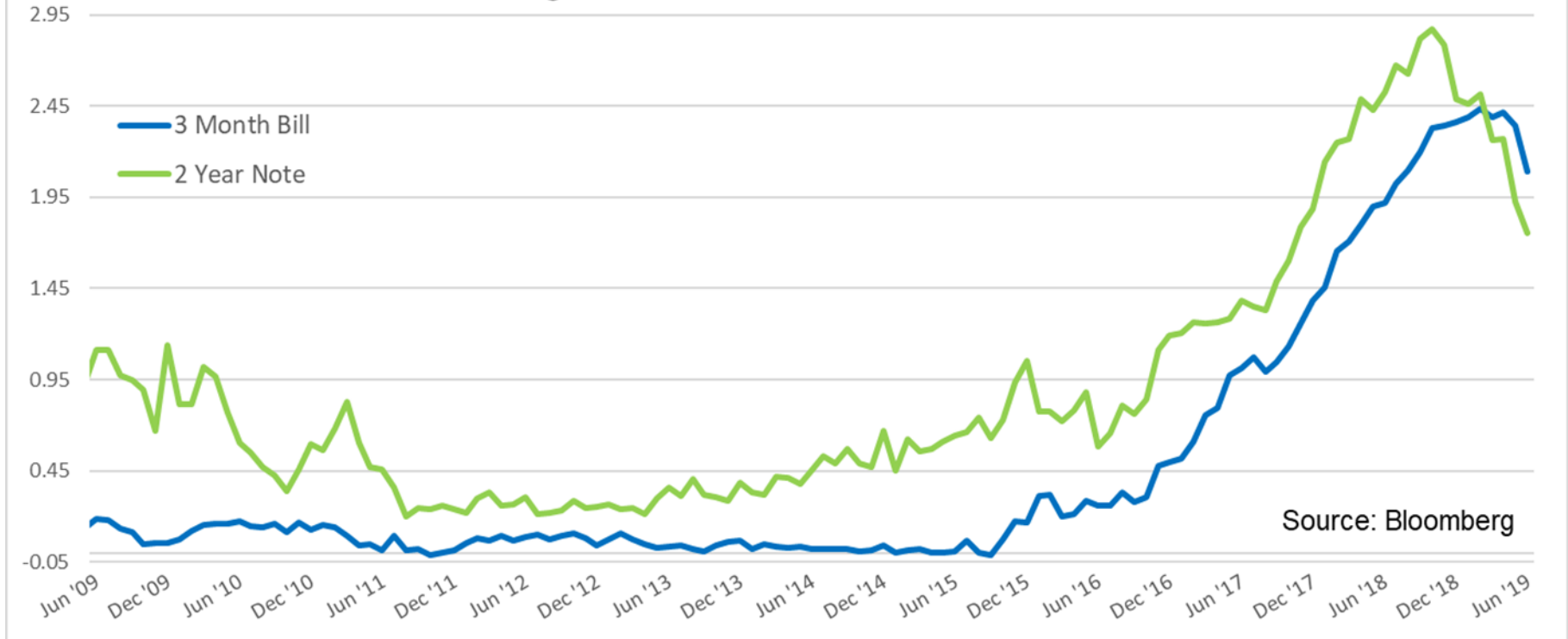


Second Quarter 2019 Market Review

- Interest rates declined during Q2 2019 with the two-year Treasury note falling from a yield of 2.26% to 1.76%. As of June 30, 2019, the consensus expectation by Bloomberg economists is for the two-year note to yield 1.93% at the end of Q3 2019. GPA is forecasting a 1.65% yield for the two-year Treasury at the end of Q3 2019.
- The Fed Funds rate was unchanged during Q2 2019 and held a range of 2.25%-2.50%. The Fed is expected to cut rates to a range of 2.00% to 2.25% at their meeting on July 31. As of June 30, the market is pricing in a 62% probability of another 25-basis point cut at their September 18 meeting to a target range of 1.75% to 2%.
- During Q3 2019, GPA is expecting short duration Treasury notes to trade lower in yield. The next Fed cut in the fed funds rate will signal a new secular market in fixed income, which should lead to lower yields over the next twelve months. We are recommending that portfolios maintain a neutral to overweight duration posture in this environment and manage durations at 100% to 110% of their respective benchmark duration.

Comparing the 2 Year Note yield to the 3 Month Bill

Yield Comparison
Two Year Treasury Note vs. Three Month T-Bill
Trailing Ten Years as of June 30, 2019



What happens after the first Fed cut in rates?

- The Fed has a history of following the first cut with multiple cuts. The five easing periods in the last thirty years have ranged from 75 basis points to 650 basis points.
- The curve will need to steepen and “un-invert” to show the Fed that the market is pricing in the right amount of easing.
- The Fed’s near-term objectives are 1) steepen the curve; 2) narrow the interest rate differential between the U.S. and other developed countries; 3) increase inflation to their target range of 2% in PCE.

99 Export World Interest Rate Probability
 United States Instrument Futures: Fed Funds - Effective Fed Effective Rate 2.12

1) Overview 2) Future Implied Probability

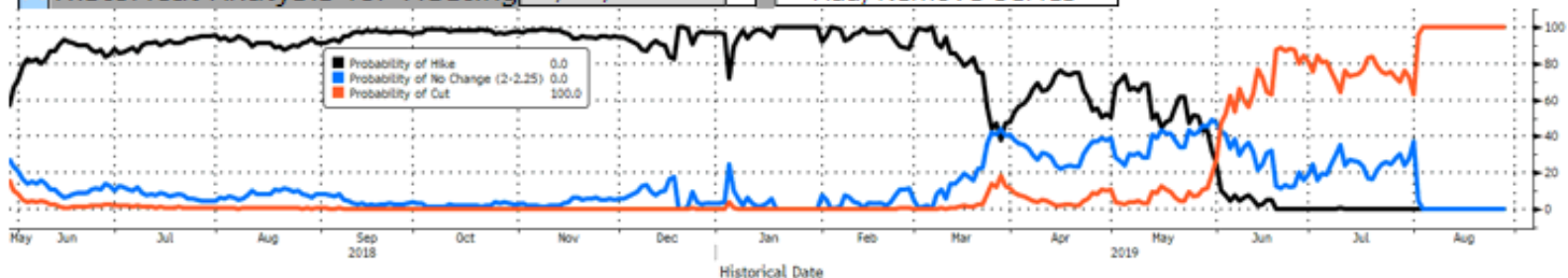
Current Implied Probabilities

Add/Remove Rates

Dates Meeting Calculation Calculated 08/28/2019 Based on rate 2.00-2.25

Meeting	Hike Prob	Cut Prob	0.75-1	1-1.25	1.25-1.5	1.5-1.75	1.75-2	Fwd Rate
09/18/2019	0.0%	100.0%	0.0%	0.0%	0.0%	8.9%	91.1%	1.85
10/30/2019	0.0%	100.0%	0.0%	0.0%	5.4%	58.7%	35.9%	1.70
12/11/2019	0.0%	100.0%	0.0%	3.5%	40.2%	43.8%	12.5%	1.54
01/29/2020	0.0%	100.0%	2.0%	24.7%	42.3%	25.7%	5.3%	1.40
03/18/2020	0.0%	100.0%	10.0%	30.8%	36.5%	18.6%	3.4%	1.31
04/29/2020	0.0%	100.0%	15.2%	32.3%	32.0%	14.8%	2.6%	1.25
06/10/2020	0.0%	100.0%	20.2%	32.2%	27.0%	11.2%	1.8%	1.17
07/29/2020	0.0%	100.0%	22.9%	31.0%	23.4%	9.1%	1.4%	1.11
09/16/2020	0.0%	100.0%	24.7%	29.3%	20.1%	7.3%	1.1%	1.06

Historical Analysis for Meeting 09/18/2019 Add/Remove Series

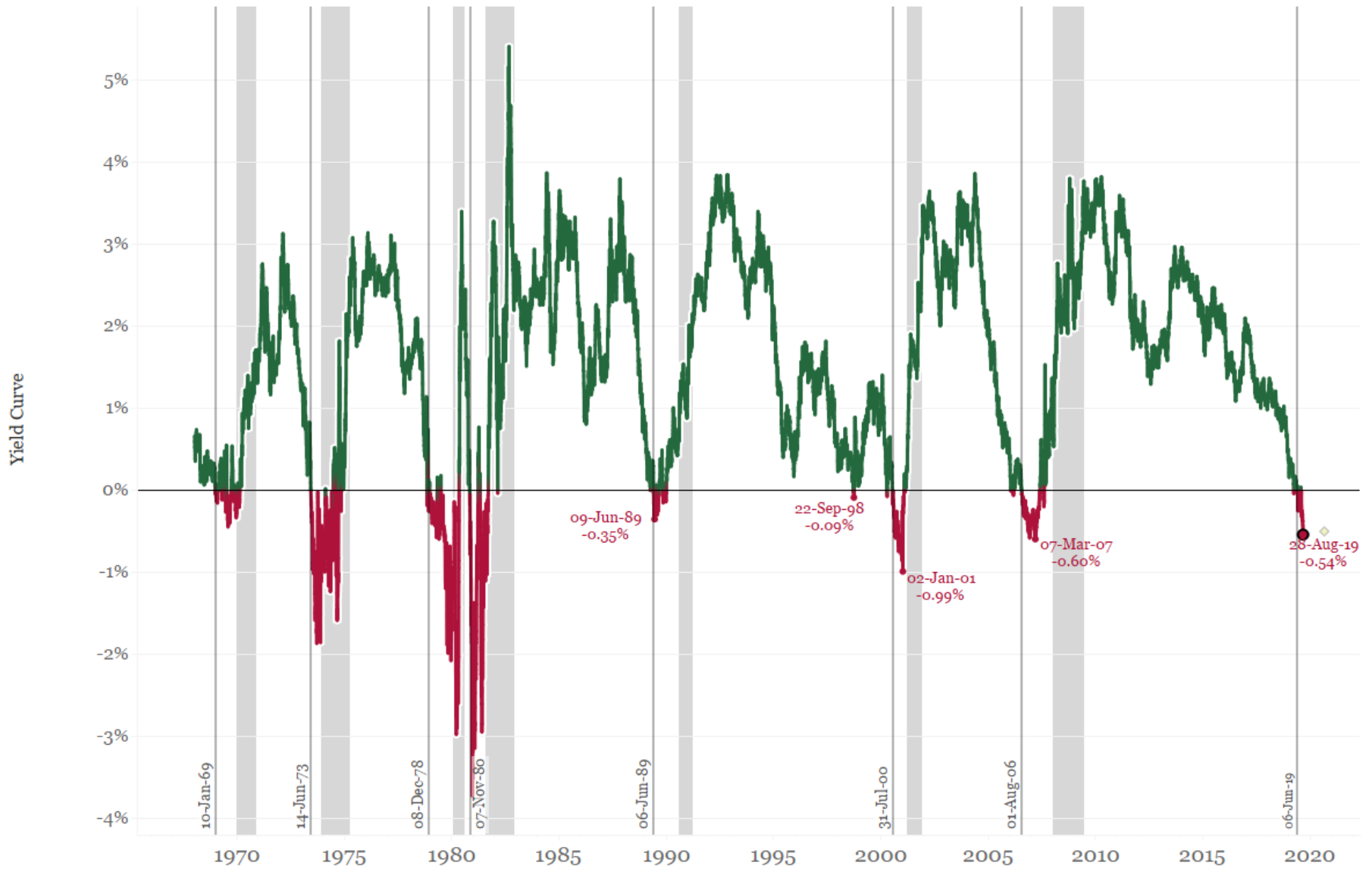


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Yield Curve Inversions Lead Recessions

10-Year less 3-Month Yield Curve



Data Source: Federal Reserve and Bloomberg

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How Long Until the Recession?

When the 3-month to 10-year yield curve inverts for **10 consecutive trading days**

Date of Inversion	Consecutive Trading Days Inverted	Date of Next Recession	Calendar Days to Next Recession
1/10/1969	24	Dec-69	325
6/14/1973	177	Nov-73	140
12/8/1978	91	Jan-80	389
11/7/1980	102	Jul-81	236
6/6/1989	30	Jul-90	390
7/31/2000	135	Mar-01	213
8/1/2006	217	Dec-07	487
6/6/2019	41	????	????
Average	111		311

1/10/1969 = inverted for 24 calendar days, went positive for 33 days, then inverted again for 53 days

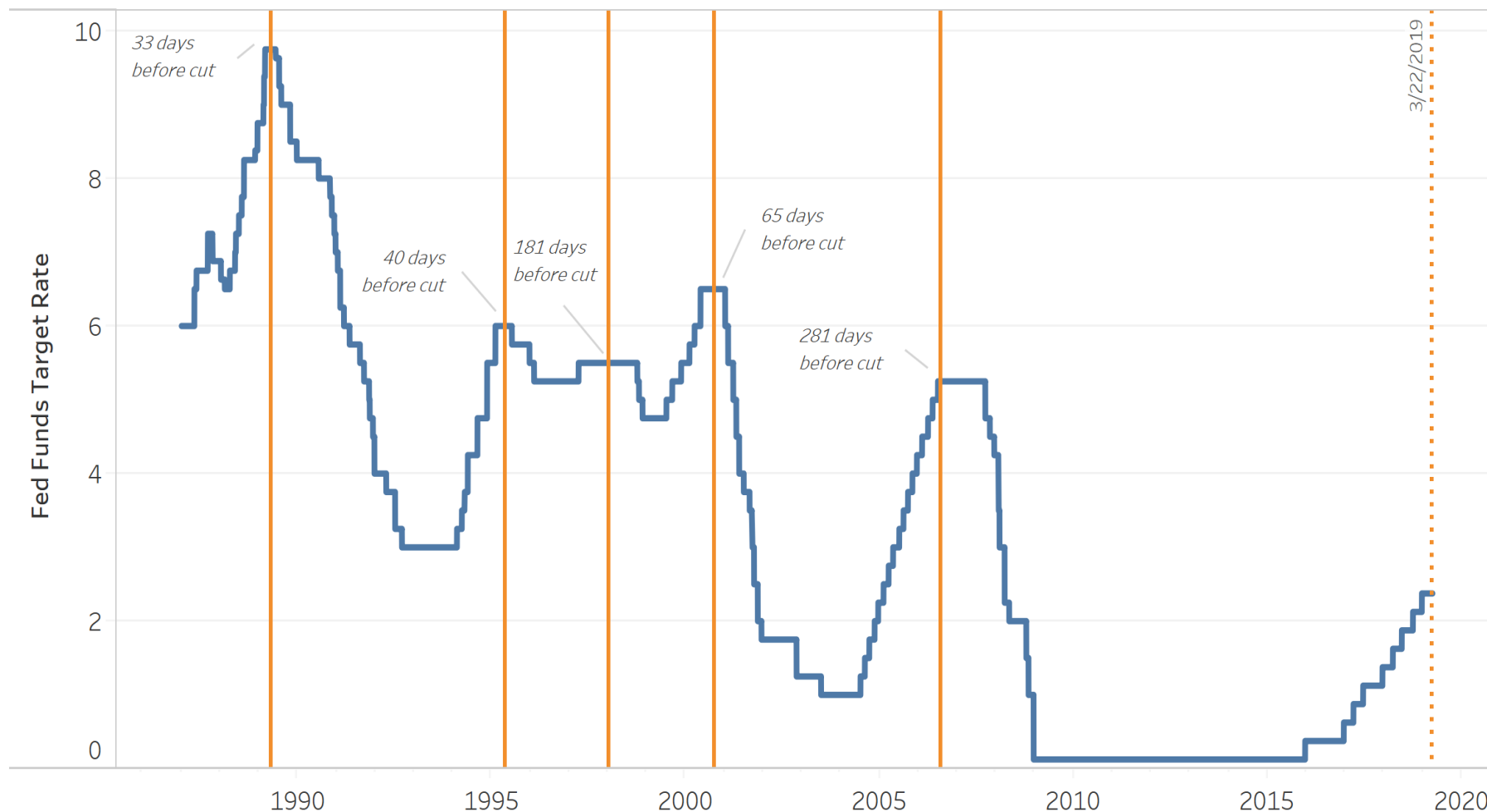
6/6/1989 = inverted for 30 calendar days, went positive for 9 days, inverted again for 26 days

6/6/2019 = As of July 31 the inversion has been 41 consecutive trading days.

Positive for 1 day, inverted since (21 days through August 20)

Markets Have Accurately Priced in Cuts Before Easing Cycles Begin

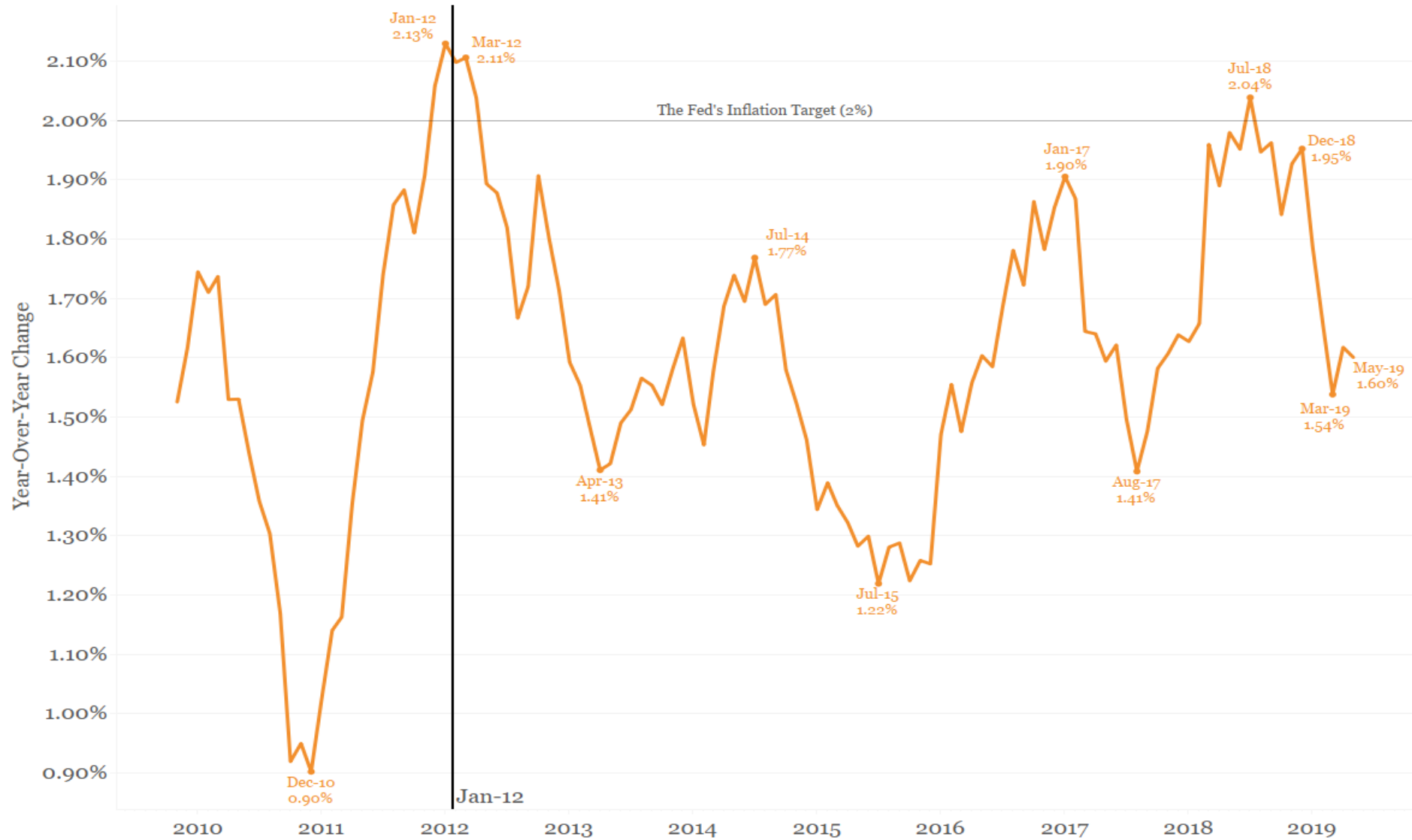
Orange lines mark dates when Fed Funds futures and/or eurodollars priced in cuts



Data Sources: FRED © 2019 Arbor Research & Trading, LLC. All Rights Reserved

datascience.arborresearch.com

PCE and the Fed's Inflation Target



Source: The Bureau of Labor Statistics



Interest Rates in the *Developed* World

As of 8/28/2019

Country	Policy Rate	6-Month	1-Year	2-Year	3-Year	4-Year	5-Year	6-Year	7-Year	8-Year	9-Year	10-Year	15-Year	30-Year
Switzerland	-0.75	-1.21	-1.16	-1.17	-1.19	-1.18	-1.16	-1.13	-1.11	-1.11	-1.13	-1.08	-0.88	-0.61
Germany	-0.40	-0.78	-0.84	-0.90	-0.94	-0.95	-0.90	-0.91	-0.88	-0.84	-0.78	-0.72	-0.58	-0.24
Netherlands	-0.40	-0.83		-0.87	-0.91	-0.89	-0.83	-0.77	-0.74	-0.67	-0.65	-0.58	-0.46	-0.24
Sweden	-0.25	-0.50		-0.66		-0.74	-0.73	-0.66		-0.58	-0.49	-0.38	-0.22	
Denmark	-0.65	-0.78		-0.90	-0.91		-0.91	-0.87		-0.79		-0.69		
Finland	-0.40		-0.77	-0.82	-0.81	-0.80	-0.78	-0.69	-0.65	-0.57	-0.53	-0.46	-0.29	-0.02
Austria	-0.40		-0.72	-0.81	-0.81	-0.79	-0.74	-0.70	-0.62	-0.60	-0.55	-0.47	-0.24	0.10
Japan	-0.10	-0.27	-0.27	-0.31	-0.32	-0.35	-0.35	-0.37	-0.39	-0.38	-0.34	-0.28	-0.09	0.15
France	-0.40	-0.72	-0.75	-0.82	-0.86	-0.84	-0.77	-0.71	-0.65	-0.59	-0.52	-0.45	-0.15	0.37
Belgium	-0.40	-0.79	-0.77	-0.82	-0.82	-0.76	-0.67	-0.64	-0.57	-0.52	-0.45	-0.38	-0.11	0.46
Ireland	-0.40		-0.60		-0.67	-0.65	-0.56	-0.45	-0.37		-0.21	-0.12	0.17	0.68
Spain	-0.40	-0.55	-0.52	-0.57	-0.56	-0.45	-0.39	-0.26	-0.18	-0.11	-0.04	0.05	0.46	0.91
Portugal	-0.40	-0.55	-0.53	-0.63	-0.50	-0.40	-0.35	-0.21	-0.15	-0.09	0.02	0.09	0.44	0.95
Italy	-0.40	-0.29	-0.23	-0.24	0.07	0.20	0.39	0.44	0.66	0.73	0.76	0.99	1.50	2.03
United Kingdom	0.75	0.73	0.40	0.34	0.29	0.30	0.29	0.24	0.27	0.31	0.38	0.46	0.71	1.01
Australia	1.00	0.99	0.87	0.73	0.68	0.68	0.68	0.73	0.78	0.82	0.87	0.89	1.13	1.49
New Zealand	1.00		1.73	0.80			0.85		0.97			1.08	1.25	
Canada	1.75	1.62	1.54	1.33	1.27	1.22	1.17		1.14			1.12		1.38
United States	2.13	1.88	1.74	1.51	1.42		1.37		1.42			1.46		1.92

Concept courtesy of @CharlieBilello

<https://www.biancoresearch.com>

CITY OF FRANKLIN'S INVESTMENTS



2018-2019 HIGHLIGHTS

- ✓ The earnings yield was up from 1.79% on 6/30/18 to 2.36 on 6/30/19, which is an increase of .57 basis points
- ✓ The portfolio has increased from \$132MM to \$169MM and the primary increase was due to the 2019 bond issuance
- ✓ The bond proceed funds were separated into a dedicated account to better manage the cash flow requirements.
- ✓ The Investment fund balance was increased and extended early in the year and benefited from locking in higher interest rates on the investments.

Portfolio Summary

6/30/2018 LAST YEAR

Portfolio Name	Market Value	Unrealized Gain/Loss	Yield At Cost	Eff Dur	Bench Dur	Benchmark
City of Franklin - Core Investment Fund	\$ 92,440,873.58	\$ (424,558.58)	1.7	0.95	1.4	ICE BAML 0-3 Treasury
City of Franklin Liquidity	\$ 39,736,739.85	\$ -	2.01	0.12	0.1	Cash
TOTAL PORTFOLIO	\$ 132,177,613.43	\$ (424,558.58)	1.79	0.7	1.01	

6/30/2019 THIS YEAR

Portfolio Name	Market Value	Unrealized Gain/Loss	Yield At Cost	Eff Dur	Bench Dur	Benchmark
City of Franklin - Core Investment Fund	\$ 114,381,822.23	\$ 955,182.52	2.41	1.2	1.4	ICE BAML 0-3 Treasury
City of Franklin - 2019 Bond Proceeds	\$ 30,458,665.88	\$ 31,739.97	1.93	1.63	1.4	Project Funds - Cash Matched
City of Franklin Liquidity	\$ 24,395,034.79	\$ -	2.63	0.05	0.1	Cash
TOTAL PORTFOLIO	\$ 169,235,522.90	\$ 986,922.49	2.36	1.11	1.21	

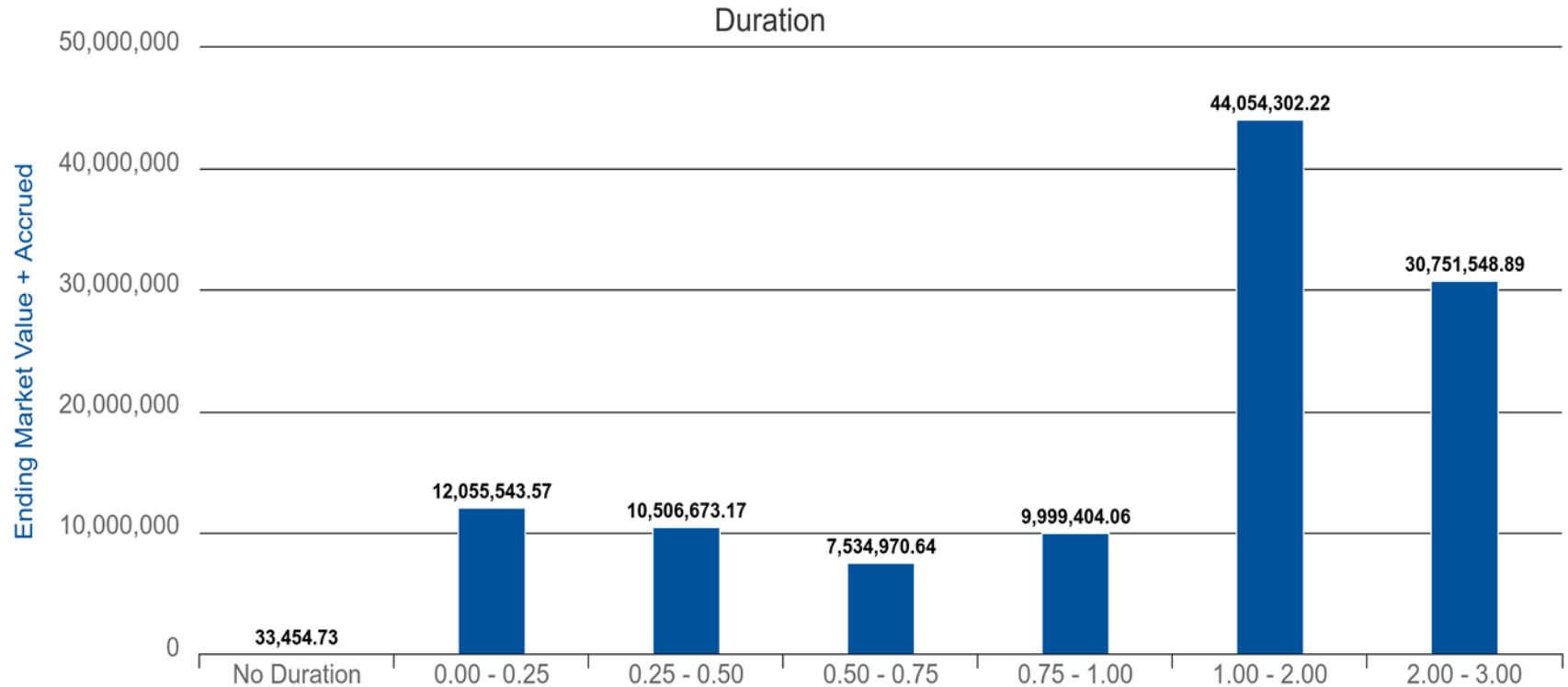
Performance Stats

		2017	2018	2019
Average Balance Invested	\$	85,298,865	\$122,660,279	\$137,971.06
Interest Earnings	\$	753,404	\$ 1,678,257	\$ 3,061,146
Book Yield		0.88%	1.37%	2.22%
Total Return		0.39%	1.13%	3.19%

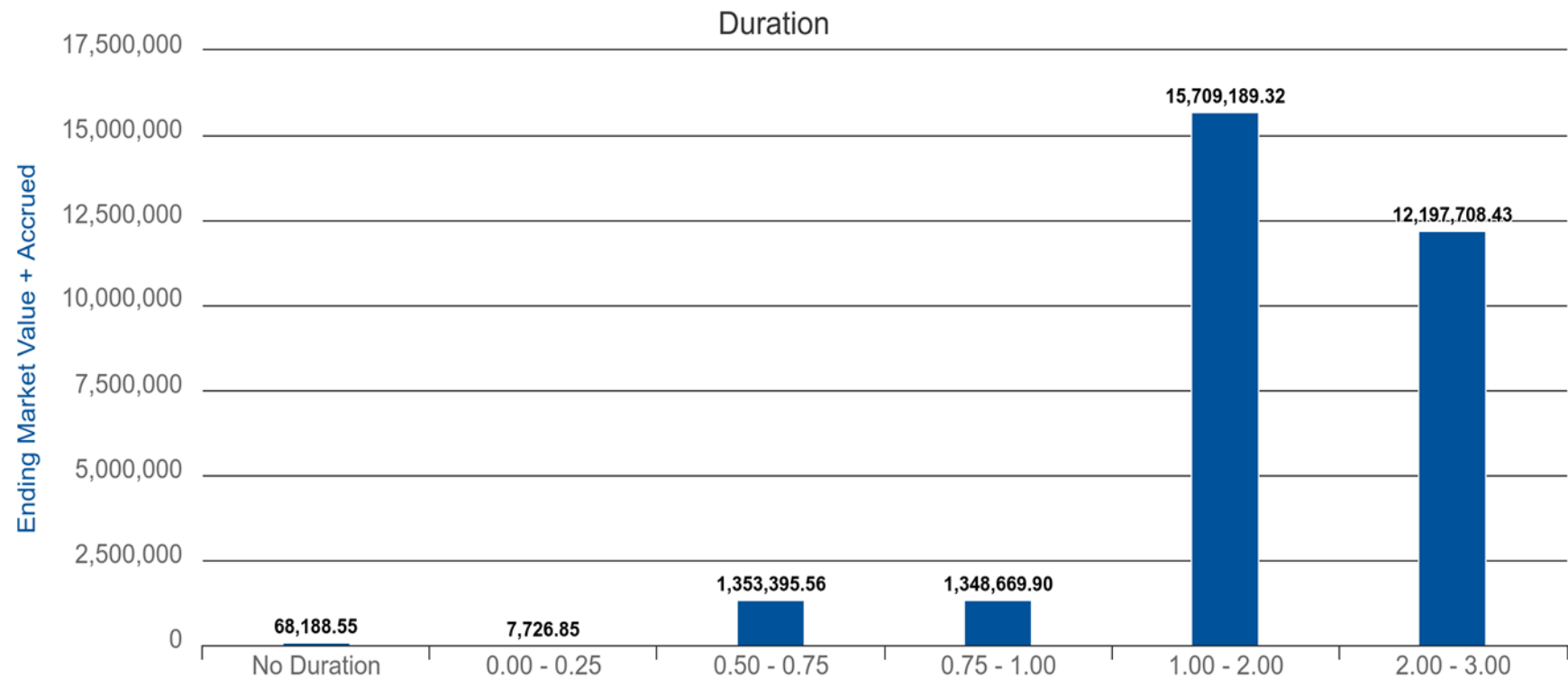
Asset Allocation of Investment Holdings

ISSUER	MARKET VALUE	% HOLDINGS
FEDERAL NATL MTG ASSN	\$ 2,490,367.500	1.5
FEDERAL HOME LOAN BANKS	\$ 61,556,768.690	36.4
FEDERAL FARM CR BKS	\$ 22,747,770.000	13.4
FEDERAL HOME LN MTG CORP	\$ 10,241,736.990	6.1
UNITED STATES TREAS NTS	\$ 47,702,201.650	28.2
FIFTH THIRD BK CINCINNATI STN	\$ 101,643.280	0.1
FIRST TENNESSEE BANK	\$ 5,026.010	0.0
PINNACLE BANK	\$ 21,802,080.970	12.9
RELIANT BANK	\$ 2,587,927.810	1.5
Total	169,235,522.90	100.0

Maturity Structure of the Core Investment Portfolio



Maturity Structure of the Bond Proceeds Account



Strategic Plan for Next Year Involves the Annual Guideline Portfolio Strategy “GPS” Review

- Review and understand expected cash flows
- Maintain duration discipline and investment targets
- Maturity diversification is important due the change in interest rates.



Understanding Cash Flow Patterns

	Historical Total Balances		
	FY 2017	FY2018	FY 2019
July	\$77,962,337	\$119,296,780	\$129,853,438
Aug	\$77,312,954	\$119,370,049	\$128,836,694
Sep	\$77,312,954	\$115,694,554	\$129,076,861
Oct	\$74,561,119	\$119,296,510	\$127,468,749
Nov	\$76,571,417	\$117,026,339	\$130,301,289
Dec	\$78,992,568	\$118,883,597	\$132,911,371
Jan	\$82,811,081	\$115,884,518	\$141,246,606
Feb	\$93,684,214	\$123,168,730	\$138,804,850
Mar	\$98,794,015	\$124,215,093	\$141,537,043
Apr	\$96,835,976	\$126,189,782	\$142,267,189
May	\$96,802,495	\$128,615,401	\$178,795,575
Jun	\$124,266,154	\$132,177,613	\$169,235,523

ANNUAL HISTORICAL SUMMARY

	FY 2017	FY2018	FY 2019
Average Balance:	\$87,992,274	\$121,651,581	\$140,861,266
Maximum Balance:	\$124,266,154	\$132,177,613	\$178,795,575
Minimum Balance:	\$74,561,119	\$115,694,554	\$127,468,749
Variance in period Maximum/Minimum	\$49,705,035	\$16,483,059	\$51,326,826

Strategic Discipline for Core Investment Fund and Liquidity Fund

Strategy Items

CORE FUND COMPONENT

6/30/2019	Current	Minimum	Maximum
Core Investment Fund	\$92,440,873	\$80,000,000	\$120,000,000
Benchmark	Duration	Minimum	Maximum
BAML 0-3 Year	1.45	1.00	1.75
Current Duration of Investments	0.95		

LIQUIDITY FUND COMPONENT

	Range of Total>	Minimum	Maximum
Liquidity Funds		\$20,000,000	\$35,000,000

Compliance Report as of 7/31/19

Maturity Constraints	Policy Requirement	% of Total Accumulated	Portfolio Allocation
Under 30 days	10%	18%	\$ 30,821,571
Under 2 years	50%	74%	\$ 129,843,453
Under 4 years	100%	100%	\$ 174,871,644
Maximum Weighted Average Maturity	3 Years		1.24
Maximum Callable Securities	25%	3%	\$ 4,968,656
Maximum Single Maturity	5 Years		2.87



Compliance Report as of 7/31/19

Asset Allocation Diversification	Maximum Policy Allocation	Issuer Constraint	Percentage of Portfolio	Market Value
US Treasury Obligations	100.0%		24.1%	\$ 42,145,387
US Agencies Primary	100.0%		56.8%	\$ 99,312,927
FHLB		35.0%	35.0%	\$ 61,429,997
FNMA		35.0%	1.4%	\$ 2,489,673
FHLMC		35.0%	5.8%	\$ 10,209,395
FFCB		35.0%	14.4%	\$ 25,183,863
US Agencies Secondary	10.0%	5.0%		
Municipal Debt of the City	10.0%	N/A		
Certificates of Deposit & Bank Deposits	50.0%	50.0%	19.1%	\$ 33,413,330
Commercial Paper	20.0%	5.0%		
Bankers Acceptances	10.0%	5.0%		
Repurchase Agreements	10.0%	N/A		
Local Government Investment Pool	100.0%	100.0%		
Total			100%	\$ 174,871,644



Expectations for next year

- The percentage on earnings will likely be lower given the directional change in interest rates
- Overall investments will be managed with ongoing discipline and teamwork between the City's Finance team and GPA
- The focus continues to be on the City's investment policy objectives of Safety, Liquidity and Return

We Appreciate our Partnership!

Questions Always Welcome!

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