

# City of Reno

## Monthly Investment Report

February 28, 2023

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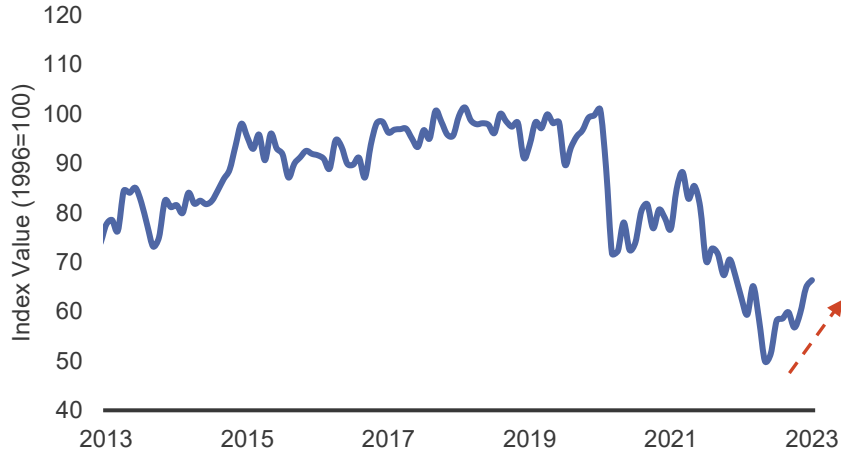
*PFM Asset Management LLC*

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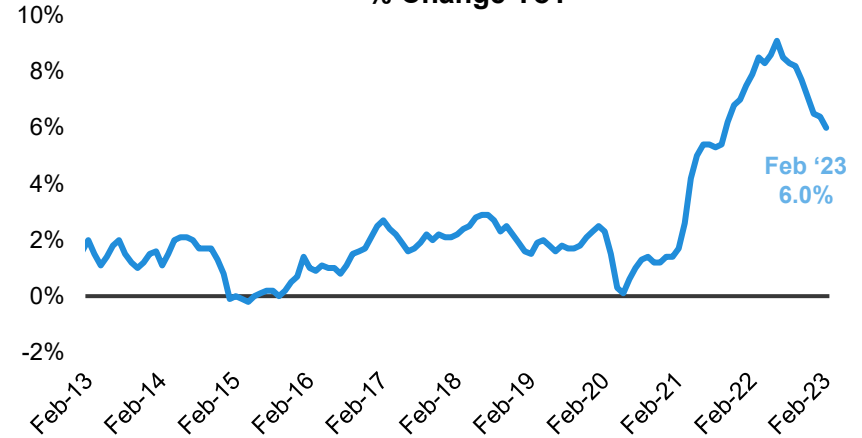
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# Consumer Sentiment Rises, Retail Sales Jump, and Yields Move Higher; Inflation Remains Elevated

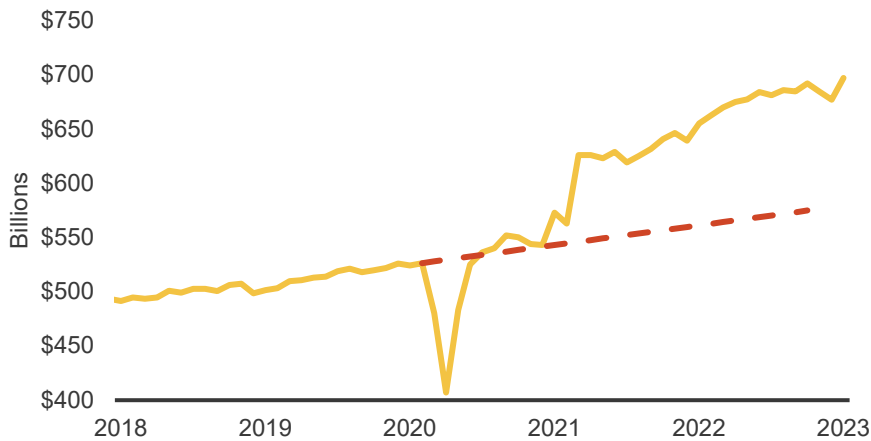
### Consumer Sentiment Index



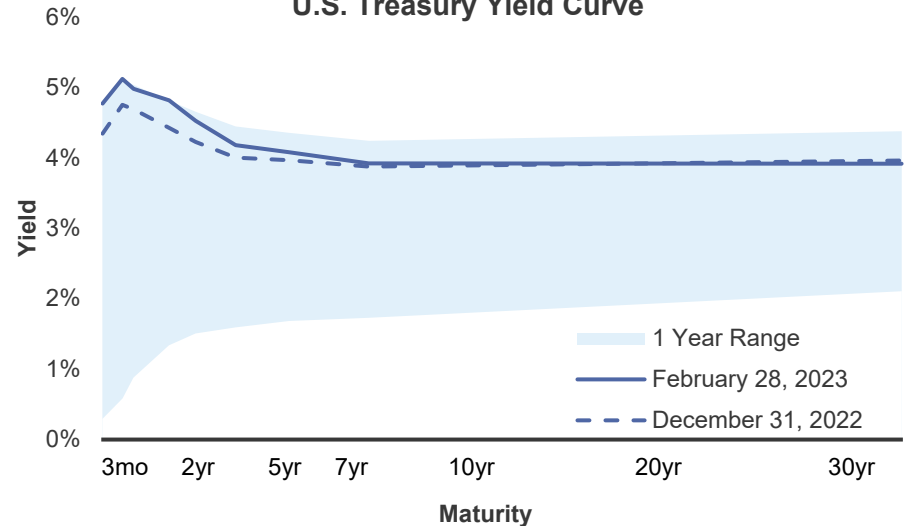
### Consumer Price Index % Change YoY



### Retail Sales (Monthly)



### U.S. Treasury Yield Curve



Source: Bloomberg, University of Michigan Consumer Sentiment, as of February 2023 (top left). Bloomberg as of February 2023 (top right). Bloomberg, as of January 2022 (bottom left). Bloomberg, as of 02/28/2023 (bottom right).

# Current Market Themes

## Economic Highlights

- ▶ Core inflation (CPI) eased for the seventh straight month in January to 6.4% compared to 6.5% in December. However, monthly inflation rose by 0.5%, which was elevated compared to the prior six months, indicating that inflation may still be around for longer. In late-February, PCE Deflator YoY confirmed the 'hot' inflation narrative as the index increased 5.4% outpacing both the survey and the prior release.
- ▶ The federal funds overnight target rate remains at its 4.50% to 4.75% range set on February 1<sup>st</sup>. Market expectations for rate increases are now in line with FOMC projections, after inflation came in higher than expected, with the terminal rate expected to reach 5.63% in 2023. We will receive updated FOMC projections at the Committee's next meeting on March 22nd.
- ▶ Retail sales jumped 3% in January, smashing expectations despite recent inflation increases. Food service and beverage, motor vehicle and parts dealers, and furniture stores led the pack.

## Market Reaction

- ▶ Inflation worries sunk their teeth deeper into fixed income markets through February as the 2-Year U.S. Treasury yield moved above its 2022 high.
- ▶ The benchmark 3-month, 2-year, and 10-year U.S. Treasury yields finished the month at 4.77%, 4.82%, and 3.92%, up 13, 62, and 41 basis points (bps), respectively.
- ▶ The spread between a 2- and 10-year U.S. Treasury note shrank to -90 bps (-0.90%) by month end, the largest level of inversion in over 40 years.
- ▶ Fixed income U.S. Treasury index total returns broadly retreated in February across all maturities greater than one year. The ICE BofA 6-month Treasury index generated a positive return of 0.29%, while the 2-year, 5-year, and 10-year Treasury indexes returned -0.88%, -2.35% and -3.10%, respectively.

# Summary of the City's Funds

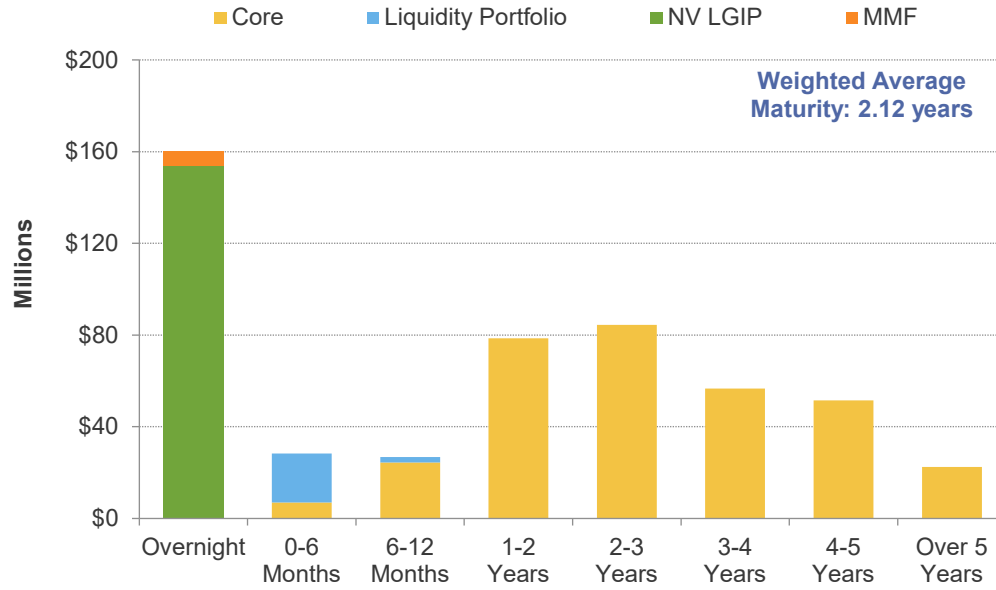
City of Reno as of  
2/28/23

City of Reno Funds	Market Value <sup>1</sup>
Core Portfolio	\$324,710,005
Liquidity Portfolio	\$23,902,921
Liquid Funds	\$160,045,346
<i>Nevada LGIP</i>	<i>\$153,746,199</i>
<i>U.S. Bank</i>	<i>\$2,483,443</i>
<i>Bank of America</i>	<i>\$437,698</i>
<i>Wells Fargo</i>	<i>\$3,378,006</i>
<b>Managed Account Subtotal</b>	<b>\$508,658,272</b>
Reserve Fund Portfolios	\$12,232,580
<b>Total</b>	<b>\$520,890,852</b>

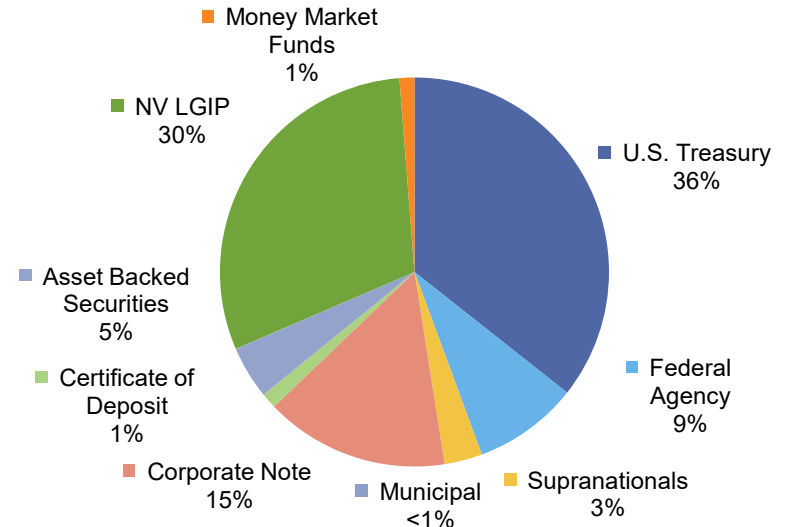
1. Market Values exclude accrued interest

Account Summary	Ending Values as of 1/31/23	Ending Values as of 2/28/23
Market Value	\$519,553,426	\$508,658,272
Book Value	\$535,423,677	\$528,389,809
Unrealized Gain/(Loss)	(\$15,870,251)	(\$19,731,538)
Yield at Market	4.19%	4.68%
Yield at Cost	1.99%	2.02%

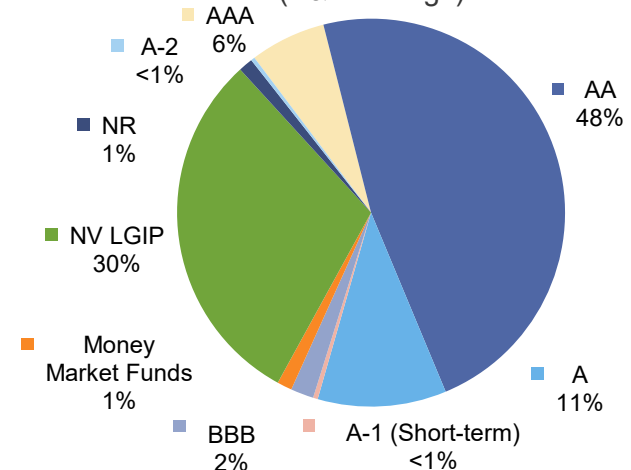
## Maturity Distribution



## Allocation by Security Type



## Credit Quality (S&P Ratings)



- Summary data includes Core Portfolio, Liquidity Portfolio and Liquid Funds, excluding accrued interest; excludes Reserve Fund Portfolios.
- Money Market Funds include the Bank of America, U.S. Bank, and Wells Fargo balances.
- The weighted average yield at market and yield at cost excludes Liquid Funds.

Security Type	Market Value	% of Portfolio	Permitted by Policy
U.S. Treasury	\$181,301,047	35.6%	100%
Federal Agency	\$44,400,021	8.7%	100%
Supranationals	\$16,008,971	3.1%	15%
Corporate Note	\$77,900,607	15.3%	20%
Certificate of Deposit	\$6,627,138	1.3%	30%
Asset Backed Securities	\$22,202,875	4.4%	30%
Municipal	\$172,268	<0.1%	20%
NV LGIP	\$153,746,199	30.2%	100%
Money Market Funds	\$6,299,147	1.2%	100%
<b>Total Market Value</b>	<b>\$508,658,272</b>	<b>100%</b>	

Maturity	Market Value	% of Portfolio	Permitted by Policy
Overnight	\$160,045,346	31.5%	No Limit
0-6 Months	\$28,338,441	5.6%	No Limit
6-12 Months	\$26,744,747	5.3%	No Limit
1-2 Years	\$78,606,300	15.5%	No Limit
2-3 Years	\$84,369,750	16.6%	No Limit
3-4 Years	\$56,681,060	11.1%	No Limit
4-5 Years	\$51,388,310	10.1%	No Limit
Over 5 Years	\$22,484,318	4.4%	No Limit
<b>Total Market Value</b>	<b>\$508,658,272</b>	<b>100.00%</b>	

Accrual Basis Earnings <sup>4</sup>	1/31/23 through 2/28/23
<b>Total Estimated Earnings</b>	<b>\$599,190</b>

1. Data includes Core Portfolio, Liquidity Portfolio and Liquid Funds, excluding accrued interest; excludes Reserve Fund Portfolios.
2. Money Market Funds include the Bank of America, U.S. Bank, and Wells Fargo balances.
3. Investment policy dated December 2022.
4. Excludes earnings on Liquid Funds.

# Issuer Diversification<sup>1,2,3,4</sup>

City of Reno as of  
2/28/23

Issuer	Market Value	% of Portfolio	Permitted by Policy
U.S. Treasury	\$181,301,047	35.6%	100%
Nevada LGIP	\$153,746,199	30.2%	100%
Federal National Mortgage Association	\$26,256,593	5.2%	100%
Federal Home Loan Mortgage Corporation	\$15,655,656	3.1%	100%
Toronto-Dominion Bank	\$6,945,888	1.4%	5%
Money Market Funds	\$6,299,147	1.2%	100%
Inter-American Development Bank	\$6,022,956	1.2%	15%
African Development Bank	\$4,974,587	1.0%	0%
American Express Co	\$4,350,903	0.9%	5%
Mitsubishi Ufj Financial Group Inc	\$2,995,995	0.6%	5%
Comcast Corp	\$2,976,236	0.6%	5%
Skandinaviska Enskilda Banken Ab	\$2,886,012	0.6%	5%
Toyota Motor Corp	\$2,703,347	0.5%	5%
Citigroup Inc	\$2,647,782	0.5%	5%
Intl Bank Of Reconstruction And Dev	\$2,626,329	0.5%	15%
Carmax Auto Owner Trust	\$2,571,763	0.5%	5%
Government National Mortgage Association	\$2,487,771	0.5%	100%
Mercedes-Benz Auto Receivables	\$2,468,586	0.5%	5%
Bmw Financial Services Na Llc	\$2,416,284	0.5%	5%
Westpac Banking Corp	\$2,413,350	0.5%	5%
Asian Development Bank	\$2,385,099	0.5%	0%
Royal Bank Of Canada	\$2,338,083	0.5%	5%
Wal-Mart Stores Inc	\$2,240,200	0.4%	5%
Intel Corporation	\$2,236,302	0.4%	5%
Hyundai Auto Receivables	\$2,211,838	0.4%	5%
National Australia Bank Ltd	\$2,194,384	0.4%	5%
Goldman Sachs Group Inc	\$2,164,320	0.4%	5%
JPMorgan Chase & Co	\$2,161,104	0.4%	5%
Northern Trust Corp	\$2,129,092	0.4%	5%
Caterpillar Inc	\$2,062,069	0.4%	5%
Roche Holdings	\$2,035,001	0.4%	5%
IBM Corp	\$1,930,512	0.4%	5%
Bank Of New York Mellon	\$1,926,590	0.4%	5%
Nordea Bank Ab	\$1,916,920	0.4%	5%
John Deere Owner Trust	\$1,873,754	0.4%	5%
Bank Of Montreal	\$1,862,960	0.4%	5%
Daimler Truck	\$1,669,392	0.3%	5%
Deere & Company	\$1,651,855	0.3%	5%
Credit Suisse Group	\$1,636,604	0.3%	5%
Burlington Northern Santa Fe	\$1,631,164	0.3%	5%
Bank Of America Co	\$1,623,532	0.3%	5%

Issuer	Market Value	% of Portfolio	Permitted by Policy
Discover Financial Services	\$1,593,166	0.3%	5%
Amazon.Com Inc	\$1,424,523	0.3%	5%
AstraZeneca Finance LLC	\$1,420,115	0.3%	5%
Novartis Capital Corp	\$1,407,713	0.3%	5%
Unitedhealth Group Inc	\$1,399,717	0.3%	5%
Bank Of Nova Scotia	\$1,393,380	0.3%	5%
Honeywell International	\$1,390,181	0.3%	5%
Capital One Financial Corp	\$1,337,664	0.3%	5%
Kubota Credit Owners Trust	\$1,336,216	0.3%	5%
The Walt Disney Corporation	\$1,221,299	0.2%	5%
CNH Equipment Trust	\$1,187,367	0.2%	5%
BB&T Corporation	\$1,181,636	0.2%	5%
Wells Fargo & Company	\$1,167,183	0.2%	5%
Morgan Stanley	\$1,103,552	0.2%	5%
American Honda Finance	\$1,052,328	0.2%	5%
Target Corporation	\$1,017,432	0.2%	5%
Sumitomo Mitsui Financial Group Inc	\$996,478	0.2%	5%
Charles Schwab	\$978,748	0.2%	5%
General Dynamics Corp	\$965,809	0.2%	5%
US Bancorp	\$960,528	0.2%	5%
PNC Financial Services Group	\$915,073	0.2%	5%
Apple Inc	\$830,685	0.2%	5%
Gm Financial Securitized Term	\$776,246	0.2%	5%
BMW Financial Services	\$685,103	0.1%	5%
World Omni Auto Rec Trust	\$664,558	0.1%	5%
Unilever Plc	\$477,448	0.1%	5%
Chevron Corporation	\$464,092	0.1%	5%
Verizon Communications	\$443,950	0.1%	5%
National Rural Utilities Co Finance Corp	\$426,329	0.1%	5%
Honda Auto Receivables	\$421,383	0.1%	5%
Truist Financial Corp	\$418,325	0.1%	5%
Verizon Owner Trust	\$251,087	<0.1%	5%
Home Depot Inc	\$228,770	<0.1%	5%
Bristol-Myers Squibb Co	\$219,333	<0.1%	5%
State of Mississippi	\$172,268	<0.1%	5%
Nissan Auto Receivables	\$66,747	<0.1%	5%
Abbott Laboratories	\$29,612	<0.1%	5%
Harley-Davidson Motorcycle Trust	\$5,027	<0.1%	5%
<b>Total Market Value</b>	<b>\$508,658,272</b>	<b>100%</b>	

1. Data includes Core Portfolio, Liquidity Portfolio and Liquid Funds, excluding accrued interest; excludes Reserve Fund Portfolios.

2. Money Market Funds include the Bank of America, U.S. Bank, and Wells Fargo balances.

3. Investment policy dated December 2022.

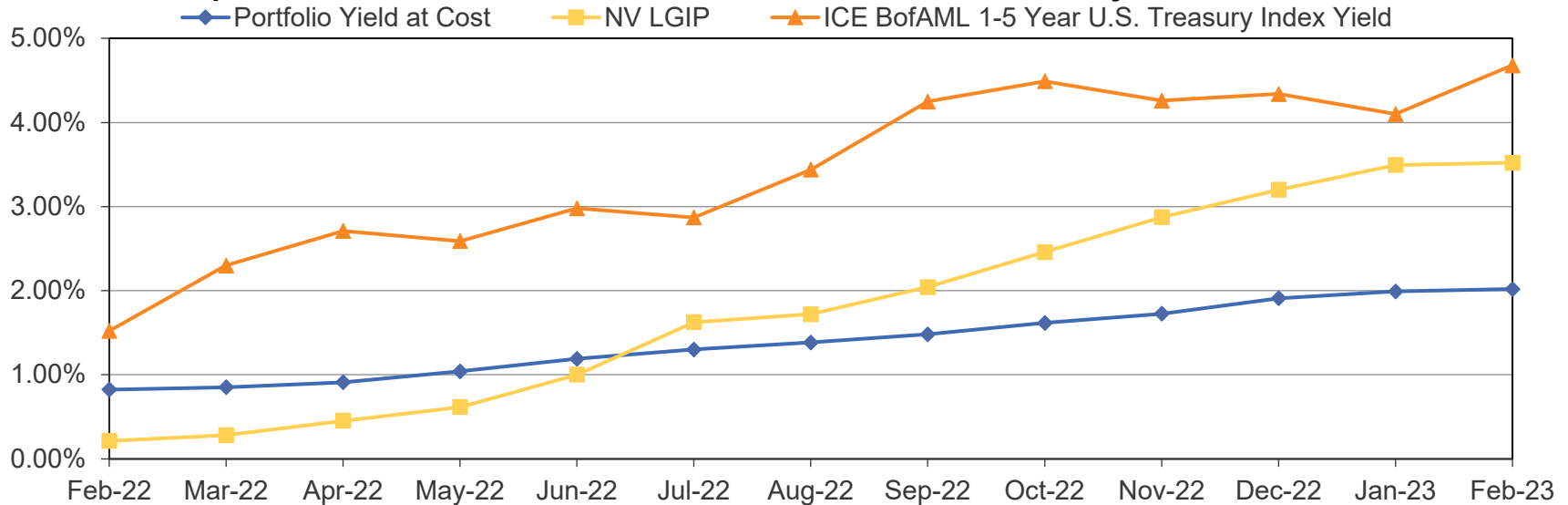
4. Securities issued by Asian Development Bank and the African Development are compliant as they were purchased prior to the City's October 2021 investment policy update.

# Portfolio Yield Summary

City of Reno as of  
2/28/23

Date	Book Value <sup>1</sup>	Portfolio Yield (Cost) <sup>4</sup>	Portfolio Duration <sup>4</sup>	NV LGIP Yield (Monthly) <sup>3</sup>	1-5 Year Treasury Index Yield <sup>2</sup>
Sep-22	552,483,491	1.48%	2.18	2.04%	4.25%
Oct-22	565,395,652	1.62%	2.16	2.46%	4.49%
Nov-22	544,723,364	1.73%	2.15	2.87%	4.26%
Dec-22	524,842,707	1.91%	2.26	3.20%	4.34%
Jan-23	535,423,677	1.99%	2.26	3.50%	4.10%
Feb-23	528,389,809	2.02%	2.19	3.52%	4.68%

## Comparison of Combined Portfolio Yield, BAML 1-5 Year Treasury Index<sup>2</sup>, and NV LGIP<sup>3</sup>



1. Security book values include Core Portfolio, Liquid Portfolio, and Liquid Funds, excluding accrued interest and balances in the reserve funds.
2. Source: ICE Bank of America/Merrill Lynch Global Bond Indices
3. Source: Nevada State Treasurer's website. Monthly net distributed interest rate.
4. The portfolio yield and duration exclude Liquid Funds.



# City's Investment Objectives

- **Investment Objectives:** In accordance with the City's Investment Policy, the City's primary objectives in order of priority are:
  - **Safety** – Safety of principal is the foremost objective of the investment program. Investments for the City will be made in a manner that seeks to ensure the preservation of capital in the overall portfolio.
  - **Liquidity** – The City's investment portfolio will remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated.
  - **Yield** – The City's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints, liquidity needs, and cash flow characteristics of the portfolio.
- ▶ **Certification:** The City has sufficient funds to meet expenditures for the following six-month period.

# Portfolio Information Summary

## Funds Included in Report

- The following report includes the City's funds held in overnight investment vehicles (savings accounts, money market funds, and Nevada Local Government Investment Pool) and portfolios of individual fixed income securities (Core Portfolio and Liquidity Portfolio).

## Portfolio Summary and Characteristics

- Funds are shown on an amortized cost, and market value basis.
  - Amortized Cost Value (Book Value). Represents the original cost of an investment adjusted for amortization of premium or accretion of discount.
  - Market Value. The current price at which that security is trading between buyers and sellers. Valuation is highly dependent on interest rate movements.
- The investment sector, maturity, and credit ratings distribution is shown based on market value basis.
- Demonstrates level of diversification by investment type and credit quality. Additionally, illustrates active management of funds to optimize value in the current market.

## Investment Program Maturity Summary

- The maturity distribution of the City's funds (market value plus accrued interest) from one-day to the ten-year mandated limit.
- Demonstrates level of diversification by maturity date. Shows placement of funds to take advantage of opportunities while ensuring that the City has funds to meet its cash flow needs.

## Portfolio Yield Summary

- The historical yield and duration of the City's funds, monthly net distribution rate for the Nevada Local Government Investment Pool (NV LGIP), and the monthly yield for the Bank of America/Merrill Lynch 1 – 5 year Treasury Index is shown for the trailing six months.
- A historical record of the City's overall fund balance and earnings rates.

# Investment Guidelines

- The City invests in permitted securities consistent with Nevada Revised Statutes (NRS) Chapter 355.170 – 355.200 and the Reno Municipal Code. The City’s Investment Policy includes additional sector allocation and maturity restrictions that reflect the City’s risk tolerances.

Security Type	Nevada Government Code	City’s Investment Policy
U.S. Treasury Notes	✓	✓
Federal Agencies	✓	✓
Supranationals	✓	✓
State and Local Municipal Obligations	✓	✓
Corporate Notes	✓	✓
Mortgage-Backed Securities	✓	✓
Commercial Paper	✓	✓
Time Certificates of Deposit	✓	✓
Negotiable Certificates of Deposit	✓	✓
Bankers’ Acceptances	✓	✓
Repurchase Agreements	✓	✓
Reverse Repurchase Agreements		
Mutual Funds	✓	✓
Money Market Funds	✓	✓
Nevada Local Government Investment Pool (NV LGIP)	✓	✓

# Disclaimer

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