City of Salem, Oregon

September 23, 2019 Finance Committee Meeting
Item 5.b. Long Term Investment Strategy

The City of Salem's Investment Program

Managed by City Staff			Managed by PFM		
U.S. Bank		**LGIP**	**GO Bond Portfolios**	**Short-Term Portfolio**	**Long-Term Portfolio**
* High degree of liquidity		* High degree of liquidity	* Bond Proceeds from: 2018 Library Project, 2017 Police Facility, and Salem Streets & Bridges	* Complement to LGIP and U.S. Bank balances	* "Core" portfolio whose assets may be invested to take advantage of longer maturity securities at potentially higher yields
* Competitive yield		* Competitive yield	* Invested to meet draw scheduled needs of CIP	* Targets cash needs up to 12 months	
* Suitable for operational cash needs		*Suitable for operational cash needs	* Reasonable level of liquidity	* Capitalizes on yields in money market sector	
No Benchmark		No Benchmark	Matched to Project Needs	Benchmark: Oregon LGIP	Benchmark: Bank of America/Merrill Lynch 1-3 Year US Treasury Index
Balances as of:	**/**	**Total market value**			
May 31, 2019	**/**	**$343,273,190**			
$21,180,359		$82,109,694	$61,903,325	$50,919,341	$127,160,471
6.2%		*23.9%*	*18.0%*	*14.8%*	*37.0%*
June 30, 2019	**/**	**$341,493,364**			
$27,144,258		$76,057,469	$59,635,431	$50,952,712	$127,703,494
7.9%		*22.3%*	*17.5%*	*14.9%*	*37.4%*
August 31, 2019	**/**	**$327,604,516**			
$18,420,826		$86,925,864	$56,852,152	$38,579,451	$126,826,223
5.6%		*26.5%*	*17.4%*	*11.8%*	*38.7%*

Recommended change in Long-Term Portfolio Strategy from 1-3 years to 1-5 years

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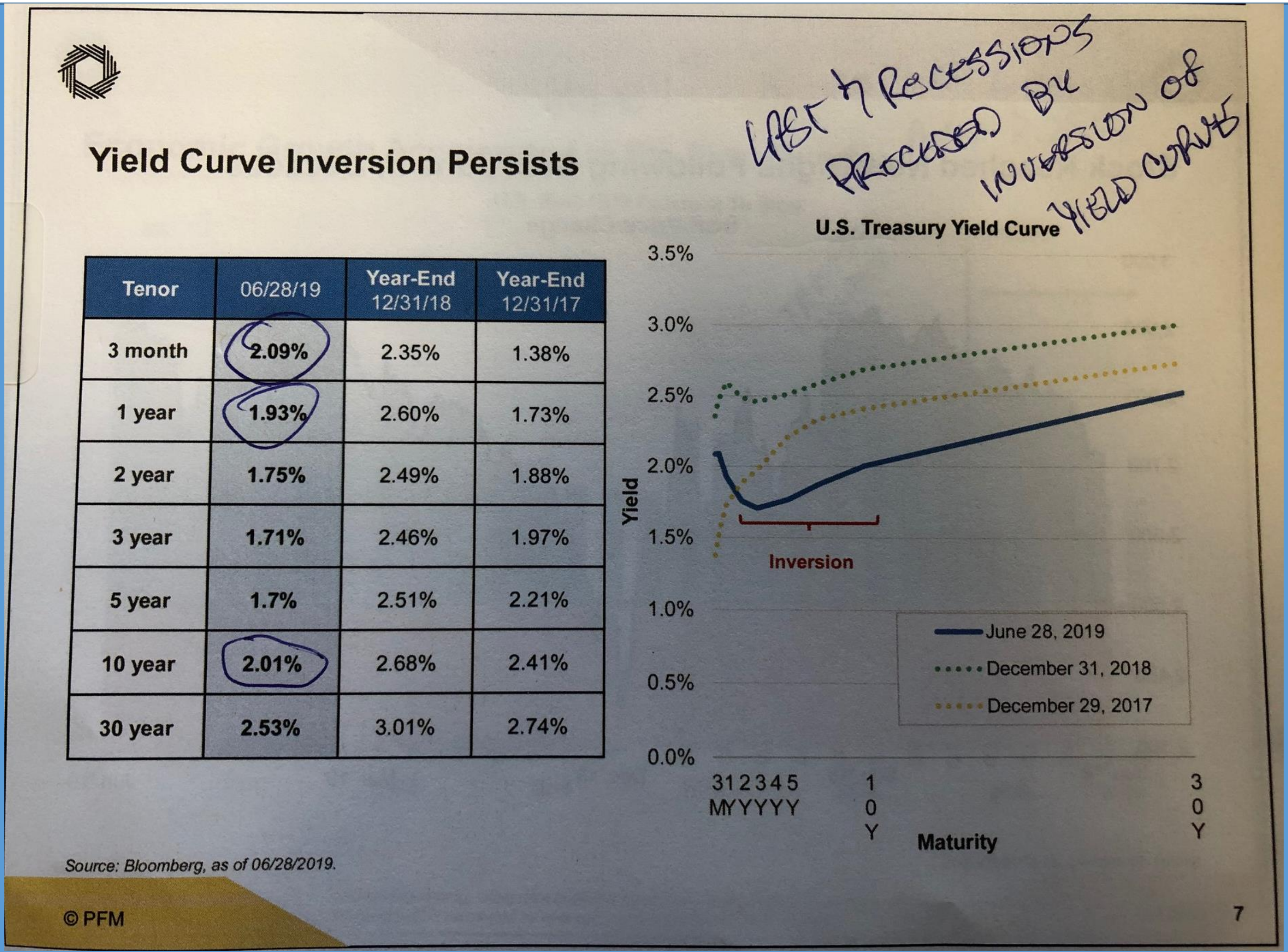
PFM's $40M of recommended trades would increase the Long-Term portfolio's WAM by one year, while the entire portfolio remains in compliance with Investment policy

		Weighted Average Maturity (WAM) - Entire Portfolio Policy is less than 2.5 years			
		8/31/2019	Current (09/17/19)	After Trade	Change from Current
(Years)	Long Term Portfolio	1.57	1.53	2.60	1.07
	Entire Portfolio	0.75	0.74	1.15	0.41
(Months)	Long Term Portfolio	18.84	18.36	31.20	12.84
	Entire Portfolio	9.04	8.88	13.80	4.92
(Days)	Long Term Portfolio	573.05	558.45	949.00	390.55
	Entire Portfolio	274.85	270.10	419.75	149.65

U.S. Yield Curve is Inverted (long-term yields have fallen below short-term yields)

Presented by: Kyle Jones, Managing Director PFM's Portfolio Strategies Group – July 10, 2019 Portland, Oregon



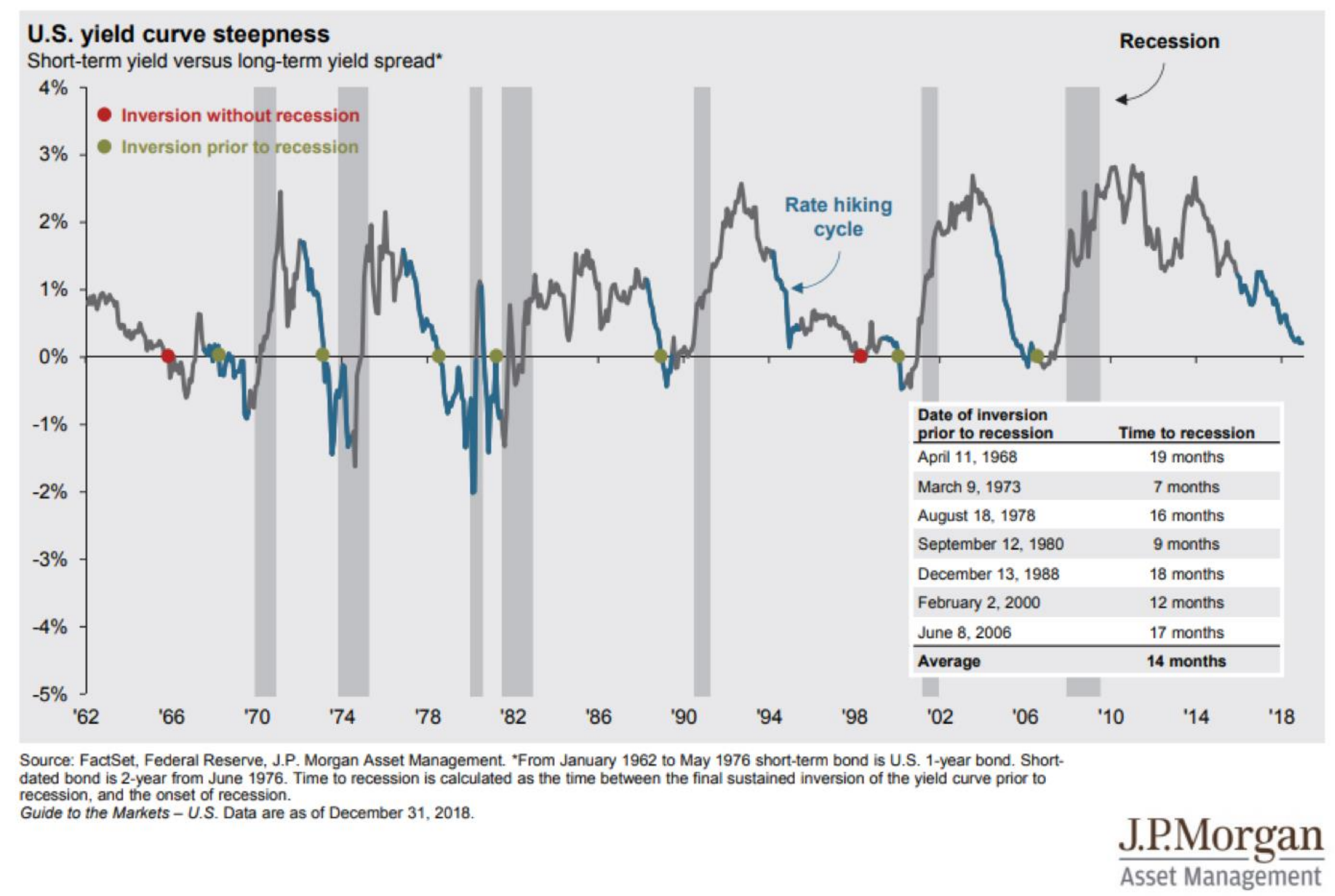
Yield Curve Inversion Persists

LAST 7 RECESSIONS PROCEDED BY INVERSION OF YIELD CURVE

Tenor	06/28/19	Year-End 12/31/18	Year-End 12/31/17
3 month	2.09%	2.35%	1.38%
1 year	1.93%	2.60%	1.73%
2 year	1.75%	2.49%	1.88%
3 year	1.71%	2.46%	1.97%
5 year	1.7%	2.51%	2.21%
10 year	2.01%	2.68%	2.41%
30 year	2.53%	3.01%	2.74%

Source: Bloomberg, as of 06/28/2019.

U.S. Yield Curve Inversions have Preceded Last Seven Recessions

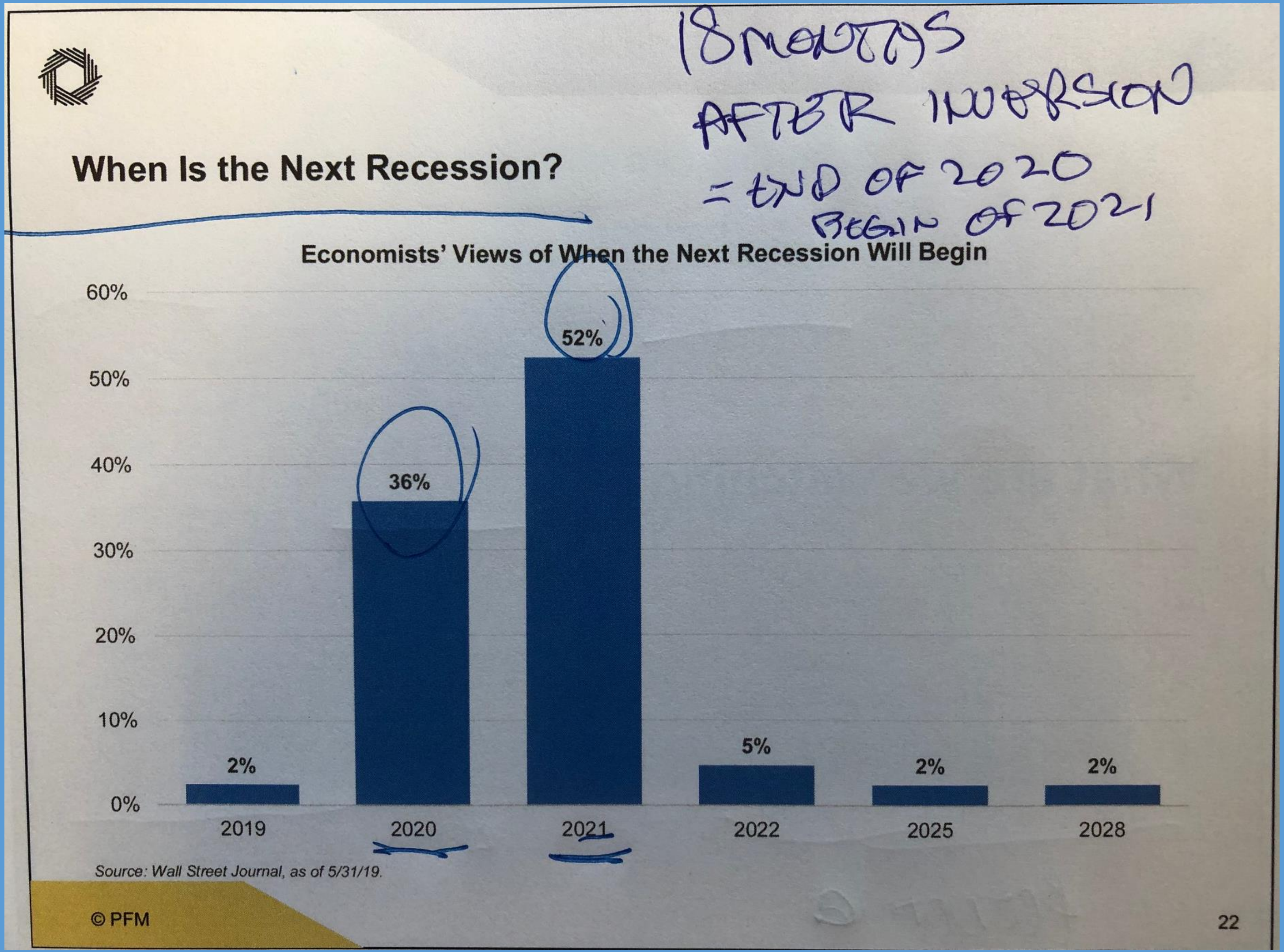


Professional forecasters predict a 30% probability of a 2020 recession, “Coordinated Pessimism”

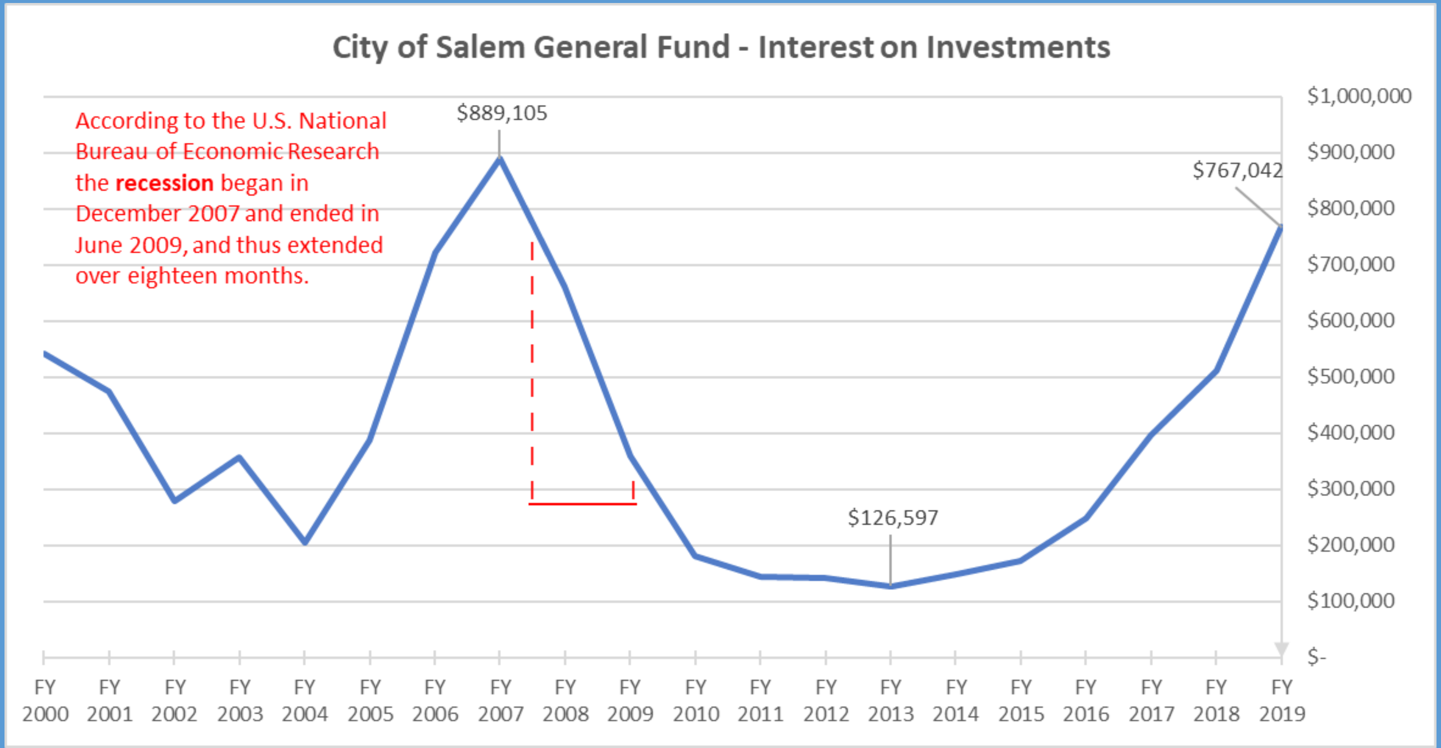
Presented by: Mark McMullen, Oregon State Economist – July 10, 2019 Portland, Oregon

36% of Economists Predict Recession Beginning in 2020 and 52% in 2021

Presented by: Kyle Jones, Managing Director PFM's Portfolio Strategies Group – July 10, 2019 Portland, Oregon



What Happens to the City's General Fund Investment Income During a Recession?



Chief Financial Officer’s Recommendation

- To NOT proceed with the PFM recommended trades prior to maturity ($100,000 mark-to-market loss); however,
- To change the Long-Term portfolio strategy from 1-3 years to 1-5 years along with the corresponding benchmark, and
- Make purchases with the November influx of money that achieves an increased duration in the Long-Term portfolio