



DENVER
THE MILE HIGH CITY

Prepared By:

Cash & Capital
Funding Division

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I. Economic Commentary

Market volatility persisted during the second quarter of 2024 amid geopolitical tensions in the Middle East. U.S. consumer spending remained resilient as global central banks combat persistent inflation. Economic metrics are showing signs of cooling inflation with core indices remaining above the Fed's target. Recent economic indicators suggest positive, but slower growth, fueled by consumer spending. Most economists agree that U.S. monetary policy is sufficiently restrictive and anticipate the Federal Reserve will start reducing interest rates this year.

At the June meeting, the Federal Open Market Committee (FOMC) left the Federal Funds Rate unchanged for the fifth time during this cycle with an upper bound range of 5.25% to 5.50%. The FOMC's latest projections suggest one interest rate cut in 2024 and 4 cuts in 2025.

The Consumer Price Index (CPI) increased 3.3% year-over-year in June, up from a 3.2% year-over-year increase in March. Core CPI (CPI less food and energy) rose 3.4% year-over-year in June, down from 3.8%. Core PCE YoY increased slightly to 2.6% from 2.5%. Core inflation remains elevated above the Fed's 2% target with service-sector inflation as a headwind.

The U.S. economy added 206,000 jobs in June, exceeding consensus expectations of 190,000. The rate of job growth cooled, with the 3-month moving average payrolls at 177,000 and the 6-month moving average at 222,000. The unemployment rate increased slightly to 4.1% in June. The U-6 unemployment rate was little changed at 7.4%. Wage growth decelerated with average hourly earnings rising only 3.9% YoY in June.

Manufacturing data worsened with the ISM Index decreasing to 48.5 in June, down from 50.3 in March. A reading below 50 suggests a contraction in the manufacturing sector.

Total housing starts fell 5.5% MoM in June to 1,352,000 units. The 30-year fixed mortgage rate increased to 6.92% in June, up from 6.79% in March. The Case-Shiller 20-City Home Price Index increased 7.2% YoY in May, up from a 6.59 % YoY increase in January.

Exposure to credit securities remained relatively consistent during the second quarter. Credit spreads tightened while treasury yields fluctuated during the quarter. The City's investment portfolio performed in line with the stated benchmark indices at quarter end on a total return basis.

Portfolios	Market Value
Managed Portfolios	\$7,141,927,266
Special Purpose Portfolios	\$3,269,384
Denver ARPA Escrow Account	\$61,935,900
Finance Administrated	\$7,207,132,550



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Investment Portfolio Performance Report

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II. Consolidated Portfolio

\$6,538,692,996

Total Return			
	1-Month	3-Month	YTD
Total Return	0.64%	0.86%	1.11%
Blended Benchmark (TR)	0.68%	0.91%	1.12%
Excess Return	-0.04%	-0.05%	-0.01%

Current Return			
	1-Month	3-Month	YTD
Current Return	3.50%	3.54%	3.37%
Blended Benchmark (CR)	5.05%	5.02%	4.79%
Excess Return	-1.55%	-1.48%	-1.42%

Year-to-Date earnings on a current return basis for the Consolidated Portfolio were \$106,235,399.

The 1-5 Year Strategy Blended Benchmark consists of 67.50% Intercontinental Exchange (ICE) BofAML 1-5 Year US Treasury & Agency Index, 17.50% ICE BofAML 1-5 Year AAA-A US Corporate Index, 7.50% ICE BofAML AAA US Asset Backed Securities, 5.00% ICE BofAML 0-3 Year US Agency CMOs and 2.50% ICE BofAML 3-5 Year US Mortgage Backed Securities Index. Prior to 1/1/2016 the benchmark was the BofA Merrill Lynch 1-5 Year US Treasury & Agency Index.

The 1-10 Year Strategy Blended Benchmark consists of 65.00% ICE BofAML 1-10 Year US Treasury & Agency Index, 15.00% ICE BofAML 1-5 Year AAA-A US Corporate Index, 5.00% ICE BofAML AAA US Asset Backed Securities, 7.50% ICE BofAML 0-10 Year US Agency CMOs and 7.50% ICE BofAML 0-10 Year US Mortgage Backed Securities Index. Prior to 1/1/2016 the benchmark was the BofA Merrill Lynch 1-10 Year US Treasury & Agency Index.

Factors Affecting Performance & Management Strategies

- Chandler's proprietary Horizon Model that the City uses with the intent to meet or outperform the benchmarks over time (the Intercontinental Exchange (ICE) BofAML Treasury/Agency 1-5 year index and the ICE BofAML Treasury/Agency 1-10 year index) is revised on a regular basis, reflecting the volatility of both bond market interest rates and interest rate curve movements. The City evaluates the portfolios each time a new Horizon Model is received. The key variables subject to potential revision as a result of Horizon Model changes include duration, composition, and structure.
- The portfolio was modestly short benchmark duration in the 1-5 year strategy while 1-10 year strategy was modestly long the benchmark. We expect duration to move closer to the benchmark as additional allocation of longer duration securities are added to the portfolio. Safety of principal is paramount in investing the City's funds.
- Corporate Bonds, Collateralized Mortgage Obligations, Mortgage-Backed Securities, and Asset-Backed Securities are asset classes approved by voters for implementation in 2014 by an amendment to the City Charter. Purchases of the new asset classes increased as a percentage of total composition due to asset purchases outpacing maturities. Purchases in the voter approved asset classes increased during the quarter due to increased issuance by approved credit issuers primarily in the Asset-Backed Securities asset class.
- The Consolidated Portfolio benchmarking indices are comprised of five ICE BofAML indices, creating a static weighted blended benchmark. A total of two blended benchmarks are used for the 1-5 year and 1-10 year strategies to closely reflect the portfolio duration and asset allocation constraints.



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Consolidated Portfolio Composition

Characteristics		Credit Quality (S&P)
Average Duration	2.34	
Average Coupon	2.78%	
Average Yield to Maturity	4.78%	
Average Rating (S&P)	AA+	
Average Life	2.61yrs	

Asset Allocation	Maturity Distribution

- The Consolidated Portfolio's net assets increased by approximately \$286 million during the second quarter of 2024. On June 30th, 2024, net assets were \$6.54 billion, compared to \$6.25 billion on March 31st, 2024.
- The weighted average maturity (WAM), an aggregate portfolio measure of total years remaining until the maturity of all underlying holdings, ended higher in the second quarter. The WAM increased due to increased exposure to longer term assets. The portfolio is modestly long to benchmark duration, our rebalancing and securities purchase activity in the intermediate strategies extended duration. The model continues to remain modestly short of benchmark duration.



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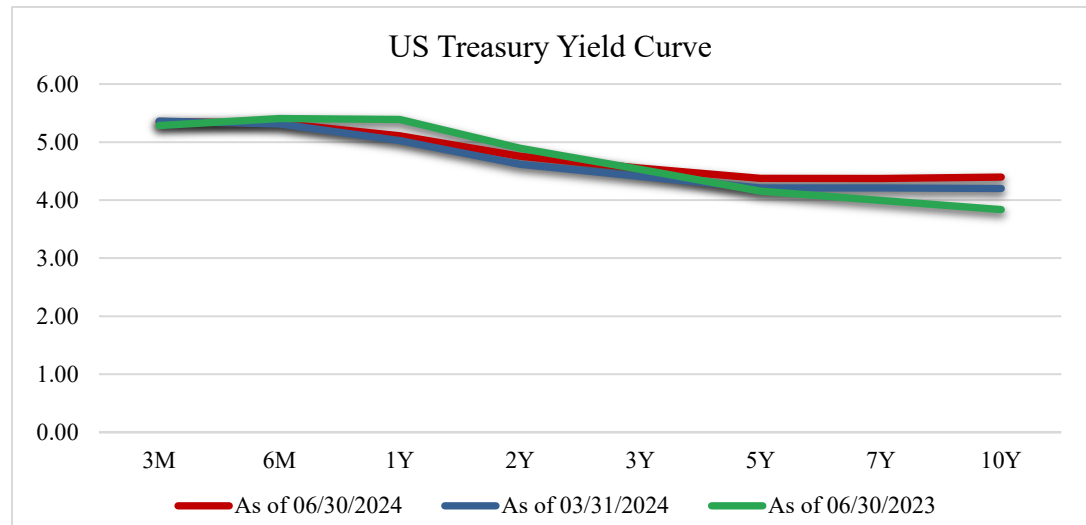
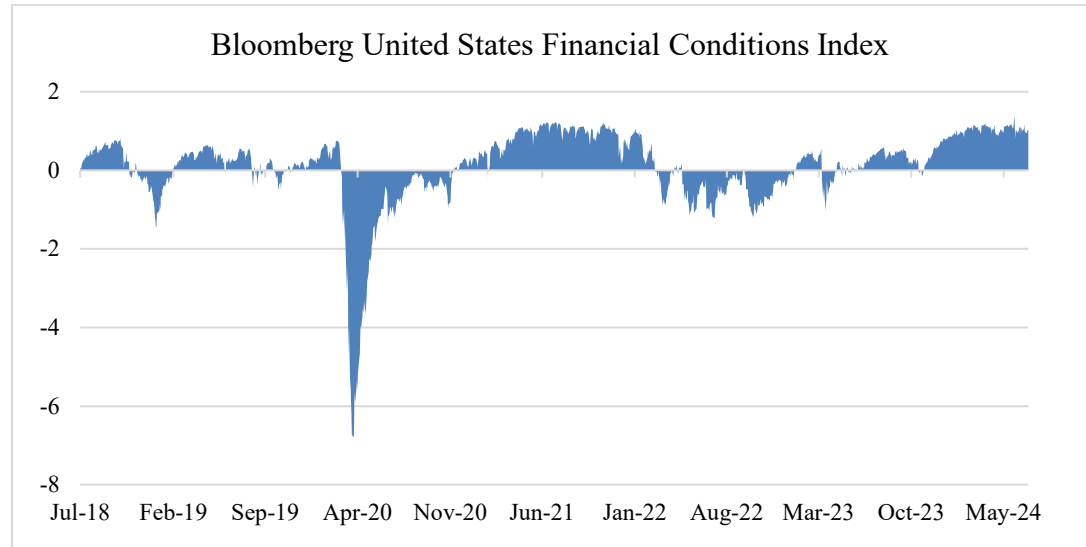
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Portfolio Management Environment



- The Federal Reserve remained on hold and the Fed funds rate was in the range of 5.50%-5.25% at the end of the second quarter of 2024. The Fed signaled that they would continue to monitor economic indicators to decide the next rate movement.
- The United States SOFR rate was 5.33% as of June 30th, 2024; unchanged since September 30th 2023.
- As of June 30th, 2024, the yield of the two-year Treasury index was 4.75%, and the five-year Treasury index was 4.38%. A year earlier, as of June 30th, 2023, the yield of the two-year Treasury index was 4.90%, and the five-year Treasury index was yielding 4.16%.
- Volatility in rates of the yield curve increased for both short-term and long-term yields. At the end of the second quarter, the two-year, five-year, and ten-year were at 4.75%, 4.38%, and 4.40%, respectively.

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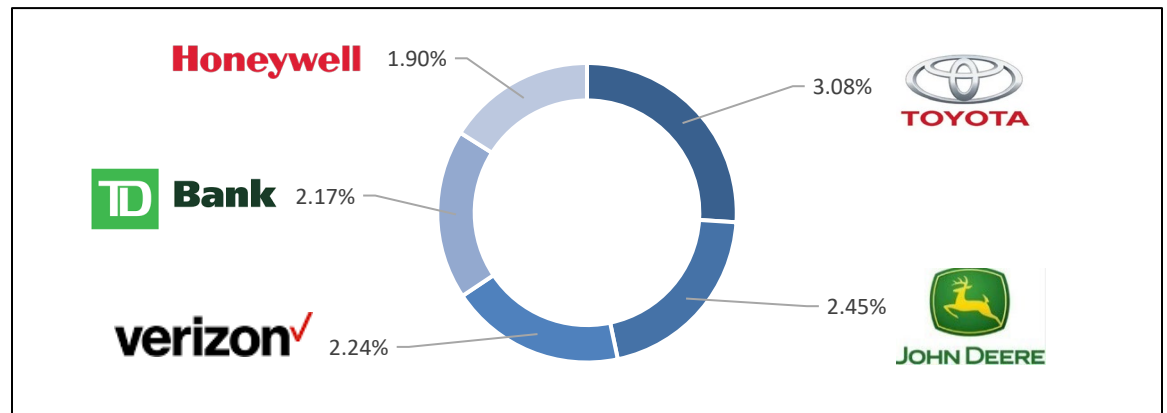
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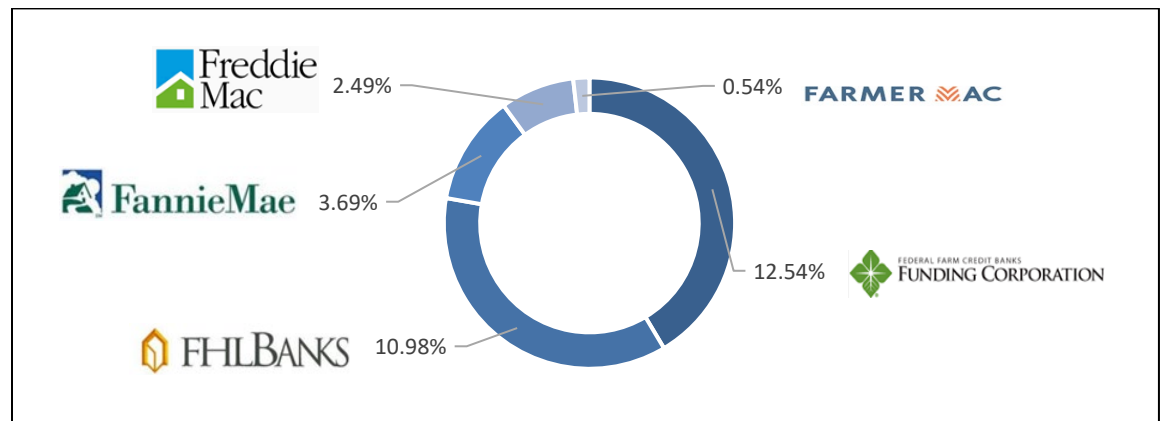
Consolidated Top Holdings

Top 5 Credit Holdings			
Issuer	Market Value	% Of Portfolio	Industry
Toyota Motor Corp	222,327,501	3.08%	Consumer Discretionary
Deere & Company	176,728,522	2.45%	Industrials
Verizon Communications	161,759,376	2.24%	Communications
Toronto Dominion	156,703,035	2.17%	Financials
Honeywell Corp	136,997,376	1.90%	Industrials
Total	854,515,810	11.84%	

*Credit holdings include commercial paper, asset-backed securities, and corporate bonds.



Top 5 Agency Holdings		
Issuer	Market Value	% Of Portfolio
FFCB	911,252,928	12.54%
FHLB	796,209,097	10.98%
FNMA	266,949,858	3.69%
FHLMC	180,086,173	2.49%
FAMCA	39,347,919	0.54%
Total	2,193,845,975	30.24%





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III. Airport Reserve Portfolio

\$569,749,951

Total Return			
	1-Month	3-Month	YTD
Total Return	0.75%	0.63%	0.66%
Blended Benchmark (TR)	0.84%	0.68%	0.54%
Excess Return	-0.09%	-0.05%	0.12%

Current Return			
	1-Month	3-Month	YTD
Current Return	3.08%	3.05%	3.01%
Blended Benchmark (CR)	4.94%	4.93%	4.53%
Excess Return	-1.86%	-1.88%	-1.52%

Year-to-Date earnings on a current return basis for the Reserve Portfolio were \$8,463,090.

The 1-5 Year Strategy Blended Benchmark consists of 67.50% ICE BofAML 1-5 Year US Treasury & Agency Index, 17.50% ICE BofAML 1-5 Year AAA-A US Corporate Index, 7.50% ICE BofAML AAA US Asset Backed Securities, 5.00% ICE BofAML 0-3 Year US Agency CMOs and 2.50% ICE BofAML 3-5 Year US Mortgage Backed Securities Index. Prior to 1/1/2016 the benchmark was the BofA Merrill Lynch 1-5 Year US Treasury & Agency Index.

The 1-10 Year Strategy Blended Benchmark consists of 65.00% ICE BofAML 1-10 Year US Treasury & Agency Index, 15.00% ICE BofAML 1-5 Year AAA-A US Corporate Index, 5.00% ICE BofAML AAA US Asset Backed Securities, 7.50% ICE BofAML 0-10 Year US Agency CMOs and 7.50% ICE BofAML 0-10 Year US Mortgage Backed Securities Index. Prior to 1/1/2016 the benchmark was the BofA Merrill Lynch 1-10 Year US Treasury & Agency Index.

- The Airport Bond Reserve portfolio has a maximum maturity constraint of 10 years. On an ongoing basis, liquidity is generated from income received from the portfolio holdings, as well as from periodic bond calls of Agency securities. All income received during the year is transferred out of this portfolio into the Airport Operating funds contained in the Consolidated Portfolio (subject to ongoing adjustments to the required portfolio balance stated in the bond indenture).
- The Airport Reserve Portfolio benchmarking indices are comprised of five ICE BofAML indices, creating a static weighted blended benchmark. A total of one blended benchmark is utilized for the 1-10 year strategy to closely reflect the portfolio duration and asset allocation constraints.



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Airport Reserve Portfolio Composition

Characteristics		Credit Quality (S&P)
Average Duration	3.46	
Average Coupon	2.89%	
Average Yield to Maturity	4.77%	
Average Rating (S&P)	AA+	
Average Life	3.95yrs	

Asset Allocation	Maturity Distribution



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IV. Workers Compensation Portfolio Composition

\$33,484,319

Characteristics		Credit Quality (S&P)
Average Duration	3.86	
Average Coupon	3.71%	
Average Yield to Maturity	4.90%	
Average Rating (S&P)	AA+	
Average Life	4.89yrs	

Asset Allocation	Maturity Distribution

- WC liabilities have a much longer term expected average duration than most other funds managed by the City. For this reason, management has determined that it is prudent to extend the duration of the invested assets associated with these obligations.
- A combination of cash and securities were transferred from the Consolidated Portfolio to the newly established WC portfolio in August 2009. An allocation to cash equivalents appropriate to fund the liquidity needs of the unit was set aside (and is monitored and adjusted monthly), and the balance of the funds were invested in treasury, corporate, agency, municipal, and structured fixed income securities. The annualized current return for the second quarter of 2024 was 3.56%.
- Year-to-Date earnings on a current return basis for the Worker's Compensation were \$558,441.



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V. Special Purpose Portfolio

\$3,269,384

In addition to the actively managed investments, the Cash & Capital Funding Division manages one additional portfolio. The Denver Cableland Trust portfolio was established to fund the annual maintenance expenses for Cableland, a facility donated to the City. The portfolio is authorized by the Investment Policy to contain longer term securities and higher per issuer constraints within the Consolidated and Reserve portfolios. Most of the investments in these portfolios were purchased in market environments that featured much higher interest rates than those currently available. The investment income and principal of the portfolio is pledged for specific purposes.

	Market Value	2024 Current Return	2024 Earnings
Denver Cableland Trust	\$3,269,384	4.62%	\$73,664

Escrows

Cash & Capital Funding Division also manages certain investments held in an escrow account at external financial institutions on behalf of Denver International Airport. As of June 30th, 2024, there was an outstanding balance of \$61,935,900 in one escrow account.

Investment Policy

The City operates under a written Investment Policy, a copy of which can be obtained on the City's website (www.denvergov.org) or by contacting the Cash & Capital Funding Division at 720-913-3091.

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