



# City of Aurora

## Investment management quarterly report

March 2016

➤ A BNY MELLON COMPANY<sup>SM</sup>



# Table of contents

---

- 1. Market environment and strategies**
- 2. Important disclosures**

# US Fixed Income commentary

## First quarter 2017

---



This quarter the Federal Open Market Committee (FOMC) increased the Federal Funds target rate corridor by 25bp to 0.75% to 1.00%, reflecting the ongoing strength of the US economy and also their improved confidence in its ability to withstand external shocks. US growth momentum strengthened in the second half of 2016 on the back of private consumption and we expect that the economy can maintain this pace with improved investment spending into 2017. Policy support from the Trump administration could provide an additional growth driver, but we have seen limited policy progress to date.

Elsewhere, GDP growth rates in Europe, the UK and China are likely to moderate somewhat after a strong outturn in 2016. The Dutch elections produced a victory for the moderate incumbents and presidential candidate Emmanuel Macron's position in France as the favorite has strengthened. We expect the ECB to remain accommodative and look past increases in headline inflation where possible, particularly as oil prices have recently weakened. In the United Kingdom, "Brexit" negotiations for leaving the block are also set to formally start by April 30 as Article 50 has been triggered. Improvements in Asian trade have been supported by a return to investment-led growth by China, as it has tilted fiscal spending again towards infrastructure and property developments in lower-tier cities.

US Treasury yields barely changed for the quarter despite the stability in global growth and in spite of the Federal Reserve (Fed) raising overnight interest rates at the March meeting. Ten-year US Treasury notes finished the quarter 6bp lower at 2.39% and five-year US Treasury notes finished less than 1bp lower at 1.92%. With ongoing secular headwinds from an aging population, developed market central banks can afford to be more dovish and even "behind the curve." That said, Fed Chair Yellen's recent speeches reiterated that there are also risks to moving too cautiously,

requiring more drastic measures later in order to contain inflation dynamics. The treasury market is perhaps failing to appreciate this last point and is underestimating the Fed's willingness to realize another two projected rate hikes in 2017. Alternatively and at least in the near term, the muted reaction in treasury yields might be attributed to the lack of progress on the flagship Trump policies of healthcare or tax reform.

Non-treasury fixed income sectors performed well during the first quarter. Investment grade credit added 47bp of excess returns versus treasury securities. The high yield and asset backed Bloomberg-Barclays sectors added 214bp and 22bp of excess returns respectively. Ironically and despite the aforementioned stability in treasury yields, the more "rate-sensitive" non-treasury sectors lagged. The utility sector within investment grade lagged by 4bp and the agency mortgage-backed sector gave up 17bp year-to-date.

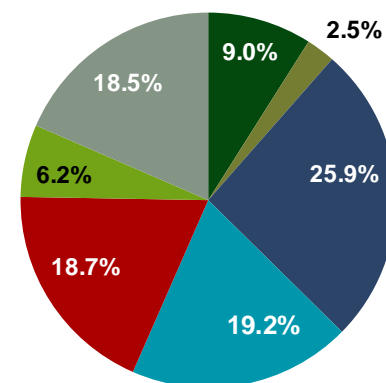
In short, the Fed's updated summary of economic projections still suggests three hikes for 2017, with Yellen confirming in the press conference that a hike per quarter could also still be described as gradual. The main real-economy factors worth watching remain consumption and housing. If these factors and broader economic conditions continue their trends, it seems reasonable that the Fed will make good on their forecasts and treasury yields could finally respond.

As of March 31, 2017.

# Market environment and strategies

## Asset allocation

Investment Type	Allocation	Maturity (days)
Cash and Equivalents	9.0%	1
Commercial Paper	2.5%	75
Domestic Corporate Bonds	25.9%	615
International Corporate Bonds	19.2%	554
Government Agencies	18.7%	734
Treasury Bonds	6.2%	1,145
Municipal Bonds	18.5%	521
<b>Total</b>	<b>100.0%</b>	<b>572</b>

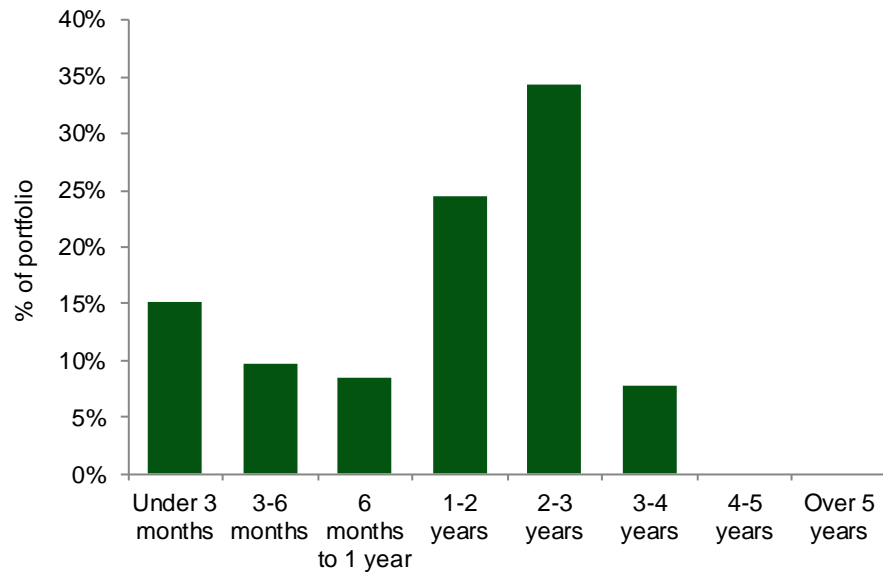


- Cash and Equivalents
- Commercial Paper
- Domestic Corporate Bonds
- International Corporate Bonds
- Government Agencies
- Treasury Bonds
- Municipal Bonds

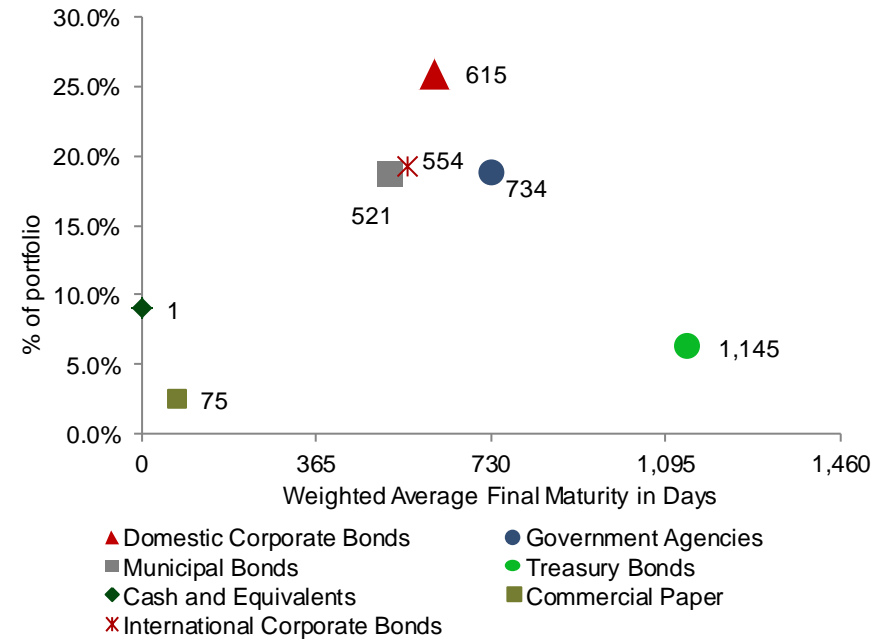
As of March 31, 2017. Asset allocations are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations. Please refer to the important disclosures at the back of this presentation

# Market environment and strategies

## Maturity distribution



## Maturity allocation map



As of March 31, 2017. Maturity allocations are subject to change without notice, may not represent current or future decisions and should not be construed as investment recommendations. Please refer to the important disclosures at the back of this presentation



## Important disclosures

---



## Important disclosures

---

**Past performance is not a guide to future performance.** The value of investments and any income from them will fluctuate and is not guaranteed (this may partly be due to exchange rate changes) and investors may not get back the amount invested. Transactions in foreign securities may be executed and settled in local markets. Performance comparisons will be affected by changes in interest rates. Investment returns fluctuate due to changes in market conditions. Investment involves risk, including the possible loss of principal. No assurance can be given that the performance objectives of a given strategy will be achieved. The information contained herein is being provided in response to your specific request and has been obtained from sources believed to be reliable; however, no representation is made regarding its accuracy or completeness. This document should not be duplicated, amended, or forwarded to a third party without consent from Insight.

Investment advisory services in North America are provided through four different investment advisers registered with the Securities and Exchange Commission (SEC), using the brand Insight Investment: Cutwater Asset Management Corp. (CAMC), Cutwater Investor Services Corp. (CISC), Insight North America LLC (INA) and Pareto Investment Management Limited (PIML). The North American investment advisers are associated with other global investment managers that also (individually and collectively) use the corporate brand Insight Investment and may be referred to as "Insight" or "Insight Investment".

The investment adviser providing these advisory services is Cutwater Investor Services Corp. (CISC), an investment adviser registered with the SEC, under the Investment Advisers Act of 1940, as amended, and is also registered with the Commodity Futures Trading Commission (CFTC) as a Commodity Trading Advisor and Commodity Pool Operator. Registration with either the SEC or the CFTC does not imply a certain level of skill or training. You may request, without charge, additional information about Insight. Moreover, specific information relating to Insight's strategies, including investment advisory fees, may be obtained from CISC's Form ADV Part 2A, which is available without charge upon request.

Unless otherwise stated, the source of information is Insight. Any forecasts or opinions are Insight's own at the date of this document (or as otherwise specified) and may change. Material in this publication is for general information only and is not advice, investment advice, or the recommendation of any purchase or sale of any security. Insight makes no implied or expressed recommendations concerning the manner in which an account should or would be handled, as appropriate investment strategies depend upon specific investment guidelines and objectives and should not be construed to be an assurance that any particular security in a strategy will remain in any fund, account, or strategy, or that a previously held security will not be repurchased. It should not be assumed that any of the security transactions or holdings referenced herein have been or will prove to be profitable or that future investment decisions will be profitable or will equal or exceed the past investment performance of the securities listed.

Insight does not provide tax or legal advice to its clients and all investors are strongly urged to consult their tax and legal advisors regarding any potential strategy or investment.

Insight and MBSC Securities Corporation are subsidiaries of BNY Mellon. MBSC is a registered broker and FINRA member. BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation and may also be used as a generic term to reference the Corporation as a whole or its various subsidiaries generally. Products and services may be provided under various brand names and in various countries by subsidiaries, affiliates and joint ventures of The Bank of New York Mellon Corporation where authorized and regulated as required within each jurisdiction. Unless you are notified to the contrary, the products and services mentioned are not insured by the FDIC (or by any governmental entity) and are not guaranteed by or obligations of The Bank of New York Mellon Corporation or any of its affiliates. The Bank of New York Mellon Corporation assumes no responsibility for the accuracy or completeness of the above data and disclaims all expressed or implied warranties in connection therewith.

© 2017 Insight Investment. All rights reserved.

