City of Aurora

Investment management quarterly report

September 30, 2022

Insight INVESTMENT

BNY MELLON | INVESTMENT MANAGEMENT

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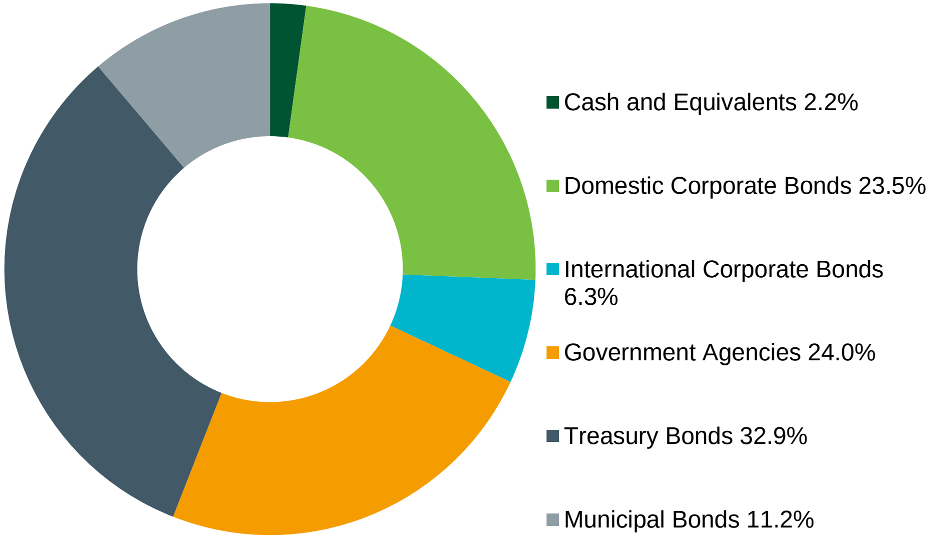
Q3 2022 summary

- **Rates to be higher for longer:** The Jackson Hole speech made it clear that further policy tightening lies ahead, with rates to be maintained at restrictive levels. We believe any pivot from the Fed will be to a less hawkish rather than dovish tone, with rates to plateau through 2023 and cuts unlikely before 2024.
- **The Treasury curve moved upwards and steepened:** A hawkish Fed and concerns about inflation continued to keep upward pressure on yields. The 2-year maturity Treasury yield increased by 132bp to 4.28%, the 10-year maturity Treasury yield increased by 81bp to 3.83% and the 30-year maturity Treasury yield increased by 60bp to 3.78%.
- **Credit spreads widened:** Aggregate US corporate spreads ended the quarter 4bp higher. Spreads in the intermediate area of the curve were unchanged, and at the long end of the credit curves widened by 12bp. Lower rated credits underperformed, with the spreads of long maturity BBB rated issues widening by 11bp. High yield credit also experienced a small loss, helped by the shorter duration of the asset class. Spreads are now at historically attractive levels, although there appear to be few potential catalysts to drive spreads tighter in the short-term.
- **The ESG debate is becoming increasingly polarized:** There appears to be confusion across the investment community regarding the use of ESG in investment decision making. We believe that focusing on ESG factors as financial risks is consistent with prudent investment standards, as ESG controversies can cause the sudden, unexpected deterioration of an issuer’s credit quality. At the other end of the spectrum, the pursuit of positive ESG outcomes is more controversial and agreement of common goals appears unlikely.
- **The S&P 500 Index declined:** US equity markets moved lower over the quarter, with the S&P 500 Index declining by 4.9% and taking its year-to-date loss to -24%. Various surveys of investment sentiment suggest historically extreme levels of pessimism.
- **Risks include:**
  - A policy mistake could raise the risks of domestic recession
  - The strong US Dollar is an increasing headwind to global growth
  - Events in Europe spiral, causing market dislocations around the world
  - Elevated food and energy prices could increase geopolitical uncertainty

Portfolio structure and composition

Asset allocation

Investment Type	Par Value	Final Maturity Years	Allocation
Cash and Equivalents	20,279,957	0.00	2.2%
Domestic Corporate Bonds	218,597,000	1.74	23.5%
International Corporate Bonds	58,985,000	1.50	6.3%
Government Agencies	223,284,000	1.53	24.0%
Treasury Bonds	306,000,000	1.94	32.9%
Municipal Bonds	104,345,000	1.33	11.2%
Total	**931,490,957**	**1.65**	**100.0%**



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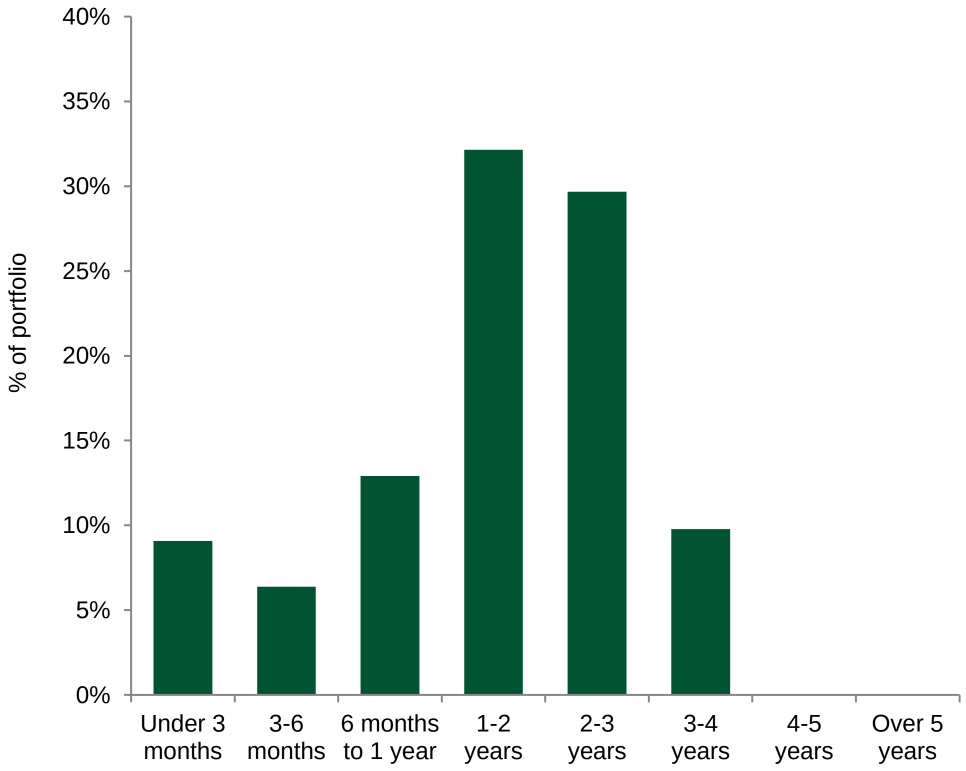
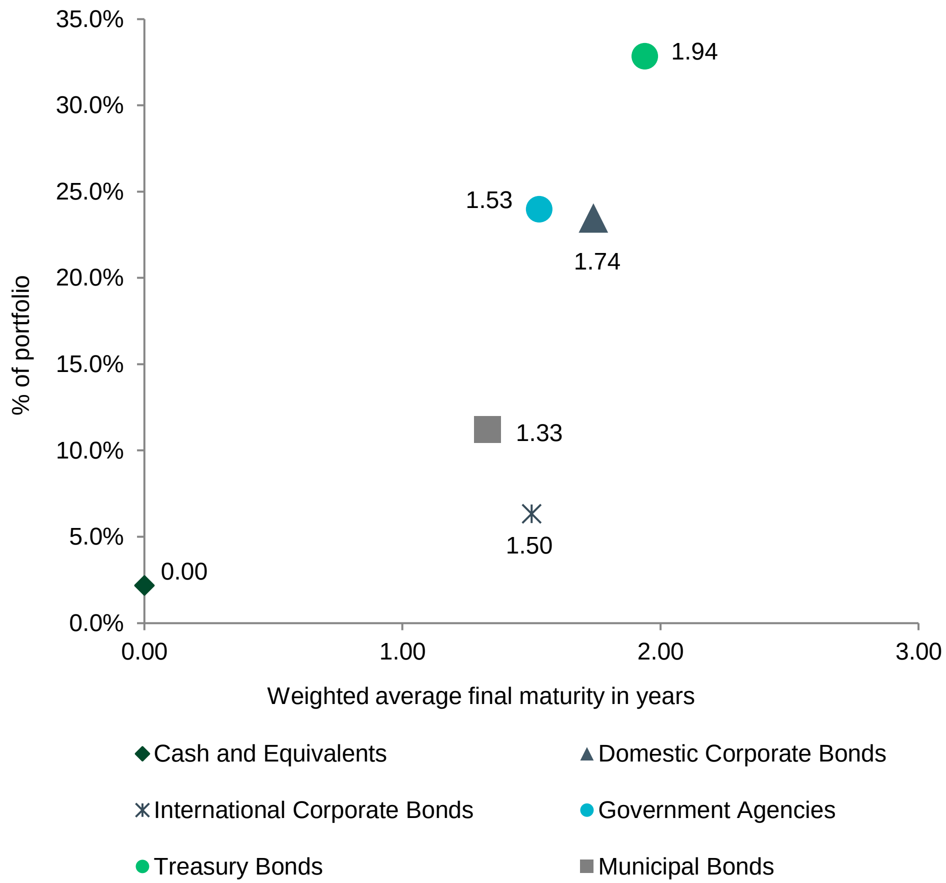
Portfolio structure and composition

Maturity distribution



Maturity allocation map



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