

## **Item 23-0678: Michael Maloney, Portfolio Manager, U.S. Bank Institutional Asset Management presentation of investment performance**

**Finance Committee**

Mon, Jun 12, 2023, 5:30PM

### **Aldersperson Brad Firkus (District 3) 01:02**

There is one public hearing slash appearance tonight, 23-0678 Michael Maloney Portfolio Manager US Bank Institution Asset Management presentation of investment performance. So, floor is yours.

### **Michael Maloney (Portfolio Manager, US Bank) 01:18**

Thank you. I'm going to pass these out these booklets, so everyone has a visual.

### **Aldersperson Sheri Hartzheim (District 13) 01:34**

Thank you.

### **Michael Maloney (Portfolio Manager, US Bank) 02:04**

Good evening. I'm Mike Maloney US Bank. I'm the portfolio manager, and I manage bonds for city of Appleton. What I'd like to do is review the performance for the city of Appleton. And I did it a couple of different ways. I looked at it as year-end (performance at year end) and as of April 30.

### **Michael Maloney (Portfolio Manager, US Bank) 02:25**

So, if we open up to page two—and these performance numbers are as of 12/31/2022 year-end. And 2022 was a unique year in the aspect of Federal Reserve was acted extremely aggressively in raising rates trying to fight inflation.

### **Michael Maloney (Portfolio Manager, US Bank) 02:49**

The Federal Reserve pretty much got themselves in a pickle. CPI was inflation—as we all know, inflation was getting pretty hot. The CPI printed 9%, and the Fed had to raise rates aggressively to fight inflation. The result of that, result of the Fed raising rates, is when interest rates go higher, bond prices go down. I mean, every bond portfolio in the country has experienced this and along with the city of Appleton.

### **Michael Maloney (Portfolio Manager, US Bank) 03:23**

And if we look at the numbers across the board, the three-month numbers up a percent, the year to date for the full year 2022 was down 7.73%. The three year down 1.57%. And Inception to Date, down 65 basis points. Now 7 percent seems like a lot; however, the way we invest, we invest in a ladder, set maturities that will mature every year. So, these the down 7% is just a temporary thing. It's un—it's something called unrealized losses. Everything will actually come back to par mathematical certainty, and these, these returns will reverse themselves. And you could see that happening on the next page.

City of Appleton Aggregate (\*\*\*\*83110)  
 Selected Period Performance

Period Ending: 12/31/2022

Selected Period Performance

	Market Value	1 Month	3 Months	Year to Date (1 Year)	1 Year	3 Years	5 Years	Inception to Date 06/01/2012
Total Portfolio Gross of Fees	76,596,527	-.20	1.07	-7.73	-7.73	-1.57	.25	.65
Total Portfolio Net of Fees	76,596,527	-.21	1.05	-7.82	-7.82	-1.67	.16	.55
<b>Total Fixed Income</b>	<b>76,028,448</b>	<b>-.20</b>	<b>1.06</b>	<b>-7.80</b>	<b>-7.80</b>	<b>-1.56</b>	<b>.26</b>	<b>.66</b>
Gov/Agency Bonds	75,635,909	-.20	1.06	-7.82	-7.82	-1.57	.26	.51
MBS/ABS/CMO/CMBS	392,538	-.56	1.75	-5.27	-5.27	-.98	.41	1.17
BBARC 1-3 Year US Government Bond Index		.18	.73	-3.81	-3.81	-.46	.74	.65
BBARC 1-5 Year US Government Bond Index		.03	.93	-5.46	-5.46	-.85	.62	.69
BBARC Intermediate US Government Bond Index		-.24	1.01	-7.73	-7.73	-1.38	.46	.70
ICE BofAML 1-Year US Treasury Note Index		.39	.76	-1.02	-1.02	.23	1.09	.71
<b>Total Cash and Equivalents</b>	<b>568,079</b>	<b>.30</b>	<b>.73</b>	<b>1.21</b>	<b>1.21</b>	<b>.48</b>	<b>.90</b>	<b>.47</b>
Lipper US Government Money Market Index		.31	.78	1.28	1.28	.51	.93	.47
Pending Cash	0	.00	.00	.00	.00	.00	.00	.00

**Michael Maloney (Portfolio Manager, US Bank) 04:13**

And this is as of 4/30. The bond market re—recovered somewhat, you know, in the first four months of the year. Year to date, up 2.68, one year up 45 basis points, three years still down 1.95. But a lot of that is coming back. And what happens with bond prices as they go down, they have to mature at par. So, it may go down, but they come back up over time. You know, and that's just the way the math works.

City of Appleton Aggregate (\*\*\*\*83110)  
 Selected Period Performance

Period Ending: 04/30/2023

Selected Period Performance

	Market Value	1 Month	3 Months	Year to Date (4 Months)	1 Year	3 Years	5 Years	Inception to Date 06/01/2012
Total Portfolio Gross of Fees	78,622,572	.55	1.13	2.68	.45	-1.95	.92	.87
Total Portfolio Net of Fees	78,622,572	.54	1.10	2.64	.35	-2.05	.82	.78
<b>Total Fixed Income</b>	<b>77,586,702</b>	<b>.55</b>	<b>1.13</b>	<b>2.69</b>	<b>.43</b>	<b>-1.97</b>	<b>.93</b>	<b>.88</b>
Gov/Agency Bonds	77,240,510	.56	1.13	2.69	.43	-1.98	.94	.74
MBS/ABS/CMO/CMBS	346,193	.26	.47	2.38	1.08	-.95	.94	1.35
BBARC 1-3 Year US Government Bond Index		.27	1.12	1.86	.98	-.79	1.18	.80
BBARC 1-5 Year US Government Bond Index		.42	1.18	2.29	.93	-1.38	1.23	.88
BBARC Intermediate US Government Bond Index		.54	1.19	2.81	.61	-2.22	1.28	.94
ICE BofAML 1-Year US Treasury Note Index		.18	1.07	1.42	1.39	.15	1.32	.82
<b>Total Cash and Equivalents</b>	<b>1,035,870</b>	<b>.36</b>	<b>1.02</b>	<b>1.35</b>	<b>2.57</b>	<b>.85</b>	<b>1.10</b>	<b>.58</b>
Lipper US Government Money Market Index		.36	1.04	1.38	2.67	.89	1.14	.59
Pending Cash	0	.00	.00	.00	.00	.00	.00	.00

**Michael Maloney (Portfolio Manager, US Bank) 04:44**

We look at the next page. This is just more of the numbers behind the percentages. And if you look at the consolidated at the far left hand, you know over the last five years you have your contributions, withdrawals, income earned, and gain loss. We roughly have 9 million in income earned over the period, and 5.8 million of unrealized loss that over time will eventually go to zero, or very close to zero. As these bonds mature at par over the next couple, three years that eventually accretes to par. So, there's, yes, in the interim, it looks a little a little tough, but that that will go away.

City of Appleton Aggregate (\*\*\*\*83110)  
 History of Asset Growth Graphs

Period Ending: 04/30/2023

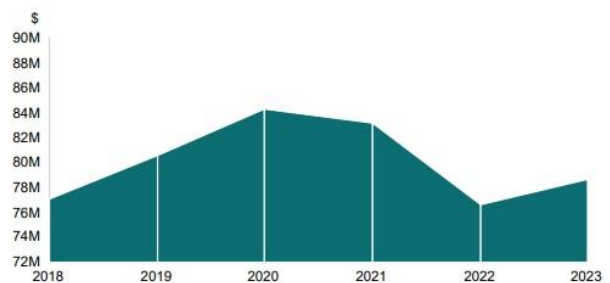
Annual Portfolio Values

	Consolidated	Jan 2018- Dec 2018	Jan 2019- Dec 2019	Jan 2020- Dec 2020	Jan 2021- Dec 2021	Jan 2022- Dec 2022	Jan 2023- Apr 2023
<b>Beginning Portfolio Value</b>	<b>60,890,833</b>	<b>60,890,833</b>	<b>77,061,013</b>	<b>80,554,764</b>	<b>84,322,767</b>	<b>83,098,631</b>	<b>76,596,527</b>
Contributions	19,438,874	15,082,032	452,096	2,601,800	416,575	885,362	1,009
Withdrawals	-4,850,570	-149,901	-529,899	-2,682,849	-499,192	-963,339	-25,391
Income Earned	8,960,370	1,608,831	1,816,300	1,869,114	1,704,231	1,460,710	501,184
Gain/Loss	-5,816,935	-370,783	1,755,255	1,979,938	-2,845,751	-7,884,837	1,549,244
<b>Ending Portfolio Value</b>	<b>78,622,572</b>	<b>77,061,013</b>	<b>80,554,764</b>	<b>84,322,767</b>	<b>83,098,631</b>	<b>76,596,527</b>	<b>78,622,572</b>
<b>Total Return</b>	<b>.74</b>	<b>1.50</b>	<b>4.64</b>	<b>4.78</b>	<b>-1.35</b>	<b>-7.73</b>	<b>2.68</b>
Principal	-1.39	-.70	2.33	2.44	-3.45	-9.47	2.00
Income	2.13	2.20	2.31	2.34	2.10	1.74	.68

Allocation Over Time



Ending Market Values Over Time



For performance and rate of return methodologies, as well as other important information, please refer to the Appendix/Disclosures provided.

Investment products and services are:  
 NOT A DEPOSIT • NOT FDIC INSURED • MAY LOSE VALUE • NOT BANK GUARANTEED • NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY



**Michael Maloney (Portfolio Manager, US Bank) 05:29**

Now, if we look at the next page, on page six—er on page five. As you can see, these bonds are maturing, and they'll mature at par. We have half the portfolio coming due within the next three years. So, over the next three years, all of those will mature at par. And then the good news is this: and it's interest rates are really high. We can get a 5% and a six-month T bill. So as rates—rates were at zero for a long time. And as rates—as these bonds mature, I will be investing them at higher and higher and higher rates. So, the interest income on this portfolio will explode over the next several years. And so, I'd like to open it up for questions, or if there's any questions or concerns or...?



CITY OF APPLETON AGGREGATE

Bond Detail

Account: CITY\_OF\_APPLETON\_AGGREGATE

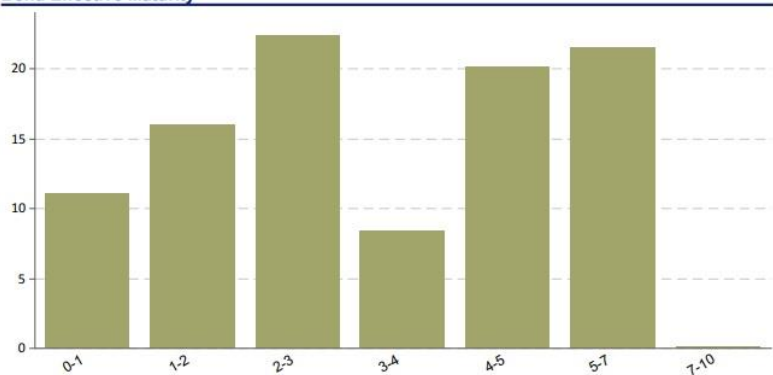
Holdings Method: Direct

Report Date: 04/28/2023

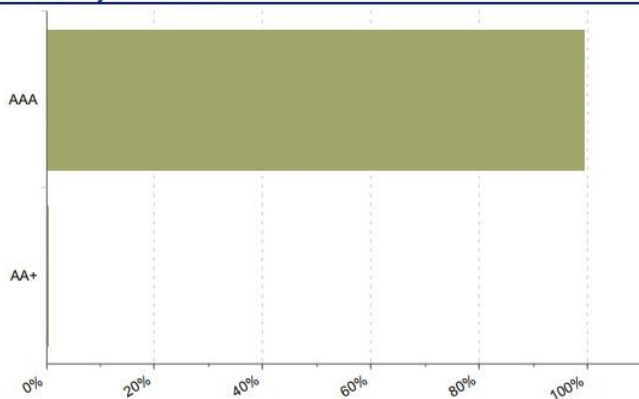
Bond Characteristics

	Portfolio	% Avail
Avg. Coupon (%)	1.82	100
Current Yield	1.92	100
Yield to Maturity (%)	3.98	100
Yield to Worst (%)	3.98	100
Effective Maturity	3.35	100
Effective Duration	3.18	100
Avg. Quality	AA+	52
# of Securities	138	100

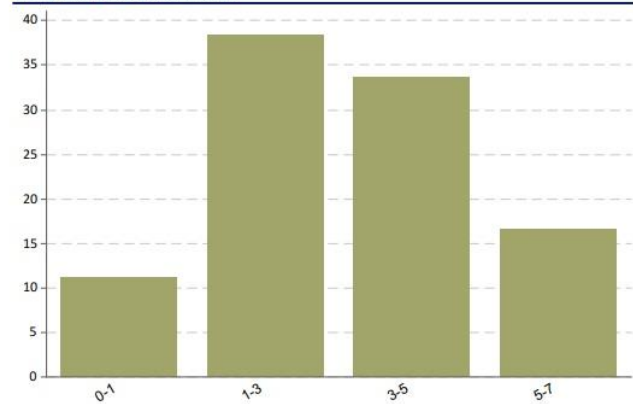
Bond Effective Maturity



Bond Quality Distribution



Bond Duration Distribution



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 Not A Deposit | Not FDIC Insured | May Lose Value | Not Bank Guaranteed | Not Insured By Any Federal Government Agency  
 Material is based on data from sources deemed to be reliable, accuracy/completeness is not guaranteed.

Holdings Date: 4/28/2023  
 5

**Alderson Brad Firkus (District 3) 06:23**  
 Alder van Zeeland?

**Alderson Katie Van Zeeland (District 5) 06:25**

Thank you, chair. It's my understanding that we have to guarantee the unrealized losses with assets. Is that correct?

**Michael Maloney (Portfolio Manager, US Bank) 06:35**  
 Guarantee? I'm not familiar with that.

**Alderson Katie Van Zeeland (District 5) 06:38**

When I spoke with the mayor about this, there was some understanding that we have to guarantee or, I guess, the other word that he used was—it's not collateral, but some something along those lines. Maybe Director Ohman could address?

**Alderson Brad Firkus (District 3) 06:55**  
 Microphone number, please? District Four. Okay.

**Director Jeri Ohman (Finance) 07:01**

So, I'm not sure exactly what he was referring to. When it comes to our bank accounts, we have collateralized or pledges for those. So, anything over the FDIC amounts, we do have—the bank provides assets to back those in case anything happened with that. It's not the same with the investments.

**Director Jeri Ohman (Finance) 07:25**

With these investments, basically, what's happening is, when we see the financial statements for 2022, we're going to show a negative interest income amount. That is mainly due, or it's completely due, to the unrealized loss that we have to show according to accounting standards. So, we have an unrealized loss now because the interest rates that we're receiving on the bonds are lower than what the current market is. So, if we had to go out and cash out any of those securities right now, we would have that loss. We're not in a position where we need to do that. So, these will be held until maturity, at which time we will have the interest rate that we originally purchased the bond with.

**Aldersperson Katie Van Zeeland (District 5) 08:09**

Because we show the unrealized loss, does that mean that we have to show in our books that we have the loss money set aside somewhere?

**Director Jeri Ohman (Finance) 08:20**

So, when we show the unrealized loss, in the end, it's going to show as—the bottom line, the revenue expense figure is going to show a loss. We still have the fund balance to cover that. So even though we have this loss amount showing on our income statements, we still have the fund balance that covers it.

**Aldersperson Katie Van Zeeland (District 5) 08:46**

And but the money is not actually moving anywhere. It's just showing that it's available.

**Director Jeri Ohman (Finance) 08:52**

On a piece of paper

**Michael Maloney (Portfolio Manager, US Bank) 08:52**

There's accounting entries, and it reverses the following year, where you'll show the realized...

**Aldersperson Katie Van Zeeland (District 5) 08:56**

Okay, so okay, that makes more sense. I was just trying to understand how if the money goes nowhere, and we'll get to par, we have to set money aside. That makes sense. Thank you.

**Director Jeri Ohman (Finance) 09:05**

Yep.

**Michael Maloney (Portfolio Manager, US Bank) 09:05**

Yeah. And if you look at page five, again, too, and way this is structured, we have bonds maturing every year, you know, and that's for liquidity reasons. So, there's really no need—there will be no need to have to sell something, you know, those because we do have bonds coming due. And every municipality—I deal with a lot of municipalities. Everyone's in the same boat here. You know, it's...

**Aldersperson Katie Van Zeeland (District 5) 09:30**

That was gonna be my next question.

**Michael Maloney (Portfolio Manager, US Bank) 09:32**

It's, uh, you know, and yes—and I was talking to another council. They're worried about when they have to book gains the following year, that they will try to spend the money, you know, because it was just reverting back, you know, so it's all it is it's just a book entry. Just a book entry thing. It's an accounting issue.

**Michael Maloney (Portfolio Manager, US Bank) 09:54**

And actually, you know, banks have this issue too where they're, they'll buy—but banks don't have to mark them down. They mark them held to maturity. They got a loophole.

**Aldersperson Katie Van Zeeland (District 5) 10:05**

Yeah, that was gonna be my question is it's a government accounting type thing for transparency purposes.

**Michael Maloney (Portfolio Manager, US Bank) 10:12**

Absolutely.

**Aldersperson Katie Van Zeeland (District 5) 10:13**

Okay.

**Michael Maloney (Portfolio Manager, US Bank) 10:14**

Because US—all banks (because banks buy bonds, right? I mean) have the same issue, but they aren't under the requirements you guys are. They aren't as strict. So, they're able to...

**Aldersperson Katie Van Zeeland (District 5) 10:30**

Thank you both very much. I appreciate it.

**Michael Maloney (Portfolio Manager, US Bank) 10:33**

Thank you.

**Aldersperson Brad Firkus (District 3) 10:34**

All right. Anyone else? Alder Croatt?

**Aldersperson Chris Croatt (District 14) 10:37**

Thank you, chair. Could you further explain or define what you meant by exploding interest income?

**Michael Maloney (Portfolio Manager, US Bank) 10:44**

Yes. Because if you look at on page six, your average coupon—I'm sorry, page five. I need new glasses. The average coupon is 1.82. On page five, the upper left-hand corner 1.82. But I'm buying bonds now. I'm buying bonds with 4 and 5% coupons. So as these mature, I'm replacing these low coupon bonds with high coupons, higher interest bonds. That's why it'll really start kicking up.

**Aldersperson Chris Croatt (District 14) 11:20**

Okay, thank you.

**Michael Maloney (Portfolio Manager, US Bank) 11:22**

Yes, ma'am.

**Aldersperson Brad Firkus (District 3) 11:23**

Microphone number? 12? Alright.

**Alderson Kristin Alfheim (District 11) 11:29**

And with the increased coupons available, are you still maintaining the same ladder tenure. So, no matter the number, you're still maintaining the same staggering of them?

**Michael Maloney (Portfolio Manager, US Bank) 11:37**

Yeah, the seven-year ladder—because of the yield curve is shaped, the way the curve is shaped, one year in are yielding quite a bit more than five, six years. So, what I'll probably end up doing is buying some in that one-year area just to take advantage of the big coupon. But I will still—the overall ladder will still be intact.

**Alderson Kristin Alfheim (District 11) 12:00**

Thank you.

**Alderson Brad Firkus (District 3) 12:02**

All right. Anyone else? All right. If you—do you have anything more for us, then?

**Michael Maloney (Portfolio Manager, US Bank) 12:10**

No. Any questions or any concerns or anything?

**Alderson Brad Firkus (District 3) 12:15**

All right, seeing none. Thank you.

**Michael Maloney (Portfolio Manager, US Bank) 12:18**

Just one quick side note. On—you know, we've read about these banking crises. The banking—what's happened is that they have demand deposits, and they invested out 10 years. Right? So, when people want their money, they are forced to sell stuff. So, people didn't get it right in the banking industry, but city of Appleton, we're fine. We got the liquidity we need. We're matched liabilities to asset. So, there won't be a liquidity issue is what I'm trying to say.

**Alderson Brad Firkus (District 3) 12:54**

Good to hear. Thank you.

**Alderson Denise Fenton (District 6) 12:55**

That's what happened to those banks in California.