



City of Shakopee

Quarterly Portfolio Report as of December 31, 2018

4Q
2018



Performance Summary





Portfolio Composition

Portfolio Activity

	Amount	Market Value
Beginning Market Value		\$46,003,422
Income Received (net of expenses)	\$266,025	
Market Appreciation	527,115	
Net Additions/Withdrawals	0	
Realized Gain/Loss	-65,115	
Amortization/Accretion	241	
Total Changes	\$728,266	\$728,266

Total Market Value **\$46,731,688**

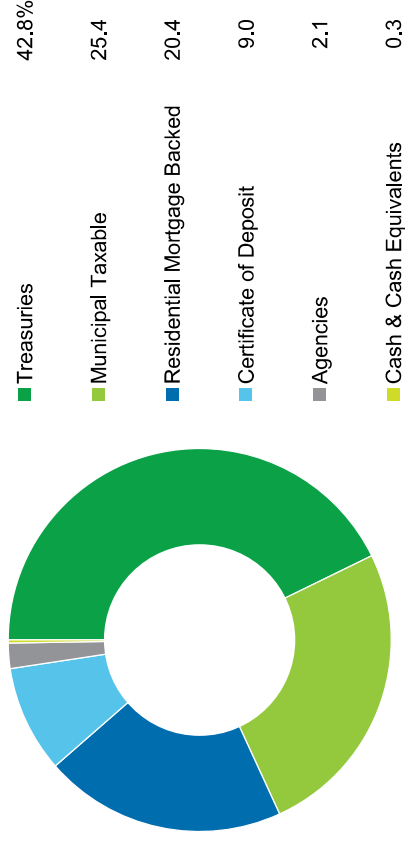
Portfolio Composition

Asset Type	Market Value	% of Portfolio
Cash	\$123,815	0.26%
Fixed Income	46,395,787	99.28
Accrued Income	212,087	0.45
Open Income Receivables	0	0.00
Total Market Value	\$46,731,688	100.00%

Slight discrepancies may appear due to rounding.

† Total Market Value includes accrued interest.

Asset Allocation





Portfolio Composition (continued)

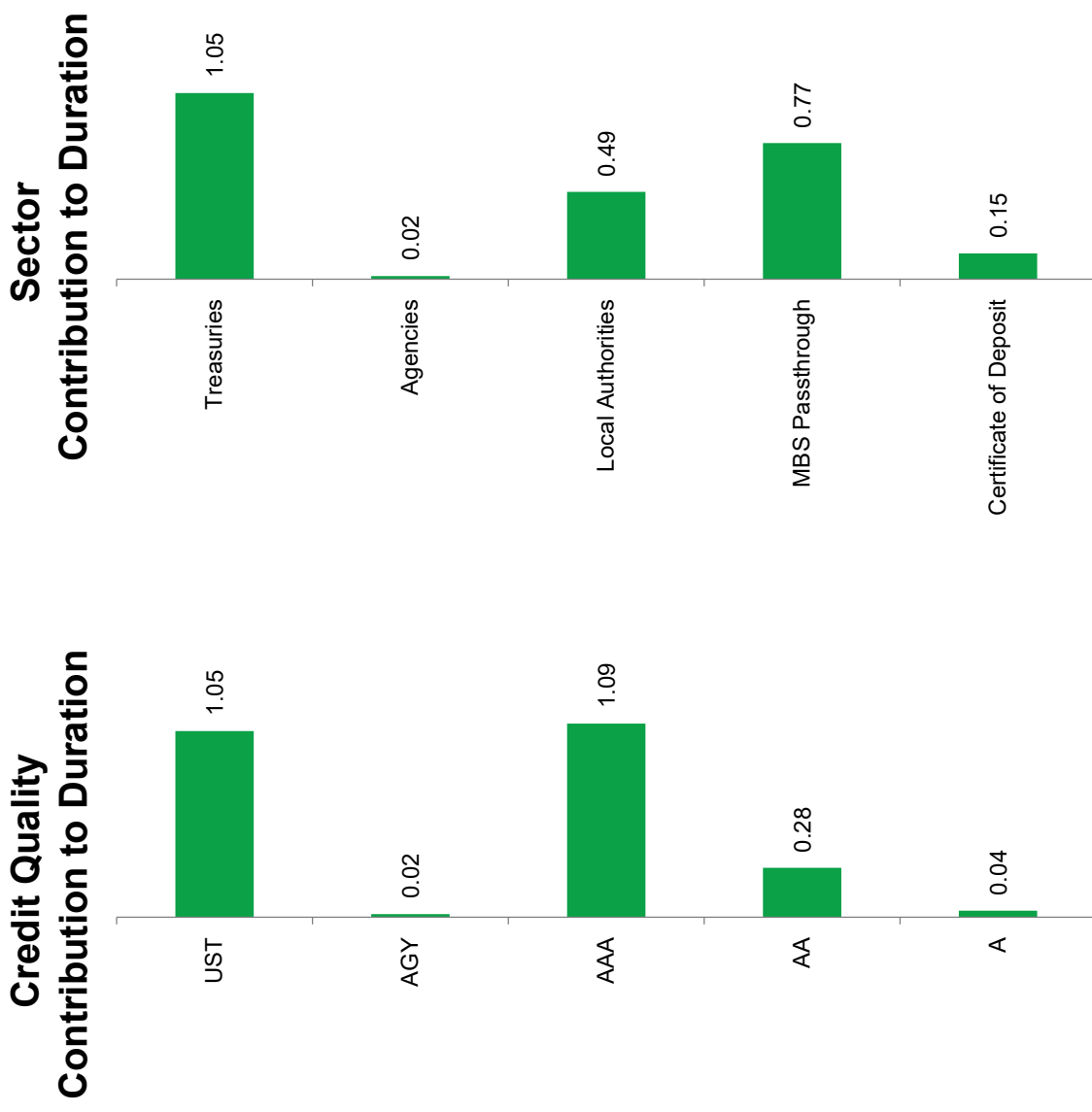
Characteristics

	Portfolio	Benchmark
Effective Duration	2.47	2.80
Convexity	-0.12	0.03
Average Quality	AAA	AAA
Acquisition Yield	2.34%	N/A
Yield to Maturity	2.75%	2.60%
Modified Duration	2.58	2.82

Duration Distribution

Duration	Portfolio	Benchmark
Less than 2	38.28%	28.57%
2-4	50.69	52.52
4-6	10.79	18.91
6-8	0.23	0.00
8-10	0.00	0.00
10+	0.00	0.00

Benchmark = 80% Bloomberg Barclays 1-5 Yr Treasury 20% MBS 15 Yr Index
Slight discrepancies may appear due to rounding.





Top 10 Holdings

Number of Securities:

107

CUSIP	Issue Name	Maturity Date	Coupon	Par Value	Market Value	% of Portfolio	Moody's	S&P	Fitch
31418CVF8	FN MA3313	11/25/2032	3.500%	\$1,355,884	\$1,372,454	2.95%	Aaa*	Aa+*	AAA*
912828U65	United States Treasury Note/Bond	11/30/2021	1.750	1,250,000	1,224,805	2.63	Aaa	Aa+*	AAA*
3128MMTW3	FG G18564	03/15/2030	2.500	1,202,444	1,175,826	2.53	Aaa*	Aa+*	AAA*
912828XW5	United States Treasury Note/Bond	06/30/2022	1.750	1,200,000	1,170,938	2.52	Aaa	Aa+*	AAA*
912828V23	United States Treasury Note/Bond	12/31/2023	2.250	1,125,000	1,110,762	2.39	Aaa	Aa+*	AAA*
912828N48	United States Treasury Note/Bond	12/31/2020	1.750	1,100,000	1,084,316	2.33	Aaa	Aa+*	AAA*
31418C5V2	FN MA3559	11/25/2033	3.500	1,000,000	1,012,221	2.18	Aaa*	Aa+*	AAA*
29270CL52	Energy Northwest	07/01/2020	2.117	1,000,000	989,280	2.13	Aa1	Aa-	AA
912828W89	United States Treasury Note/Bond	03/31/2022	1.875	1,000,000	981,250	2.11	Aaa	Aa+*	AAA*
912828J43	United States Treasury Note/Bond	02/28/2022	1.750	1,000,000	978,203	2.10	Aaa	Aa+*	AAA*

* Ratings provided for this security are the ratings assigned to the Issuer (or guarantor) of the security.



Transaction Summary

Purchases

	Par Value	Principal	Acq Yield*	Accrued Interest
Current Quarter	\$6,461,304	\$6,459,131	3.27%	\$8,306
2018 YTD	22,552,831	22,180,239	2.77	58,646
2017	24,918,000	24,921,363	1.37	27,526
2016	30,641,119	30,683,752	1.26	55,107

Sales

	Par Value	Principal	Market Yield*	Accrued Interest
Current Quarter	\$5,000,000	\$4,815,969	2.82%	\$16,356
2018 YTD	16,150,000	15,864,487	2.42	51,479
2017	13,050,000	13,051,705	1.29	43,461
2016	23,430,000	23,511,622	0.92	74,163

Other Disposals - Current Quarter

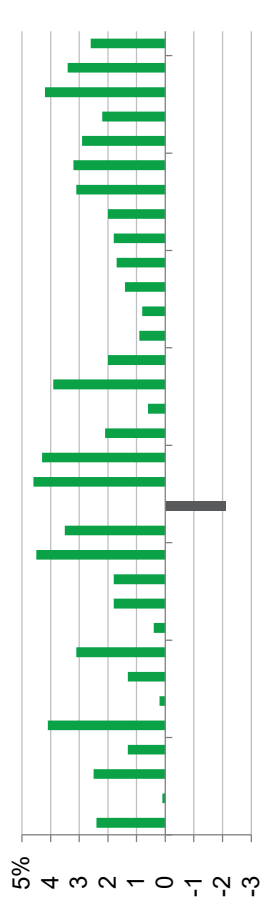
	Par Value	Principal	Market Yield*	Accrued Interest
Called	\$425,000	\$425,000	2.70%	\$3,902
Matured	750,000	750,000	1.80	0

* Weighted average.

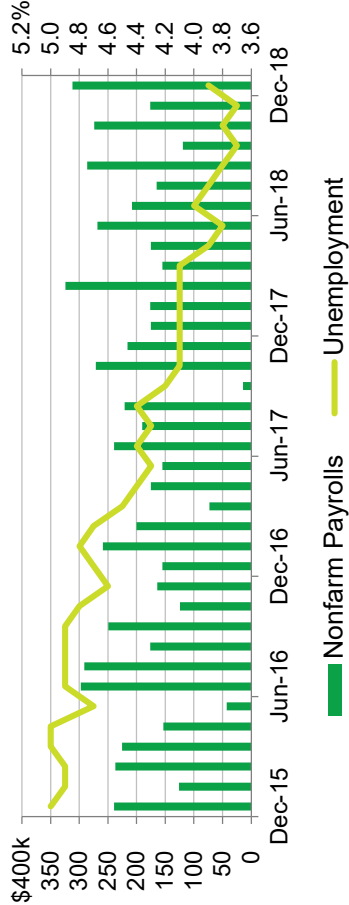


Economic Overview

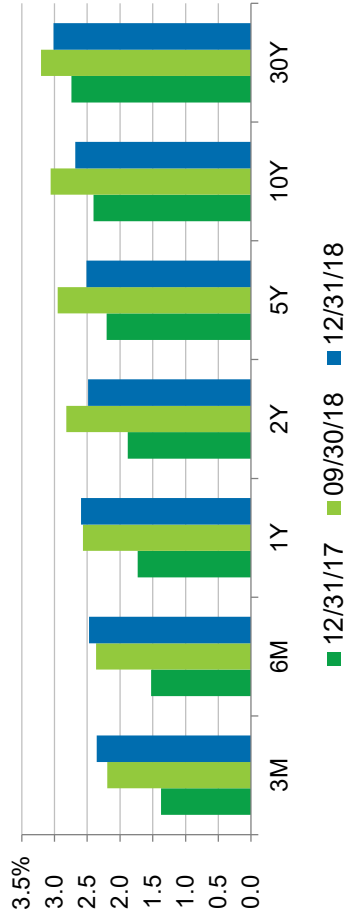
GDP Growth (YoY)



Employment



Yield Curve





Performance and Strategy Commentary

Characteristic

Portfolio Performance

Attribution

Strategy

- The portfolio underperformed in December "net of fees" returning +0.94% versus the benchmark return of +1.16%.
- The portfolio outperformed the benchmark for 2018 returning +1.59% (net of fees) versus the benchmark return of +1.41%.

- The portfolio had 88% of the benchmark duration at year-end- down modestly since September.
- The 5-year treasury hit 3.09% in November but fell to 2.51% by year-end as the massive volatility in stocks caused market participants to start pricing in the potential of a recession and Fed rate cuts- not hikes.

- The extreme volatility in the stock market fuelled a flight to quality causing yields of Treasury securities to plummet and spreads on non-Treasury sectors to widen.

- We intend to be cautious in the current market but will look for opportunities to add to the agency mortgage exposure.

- The portfolio's modest underweight to duration and overweight to mortgages and municipal notes caused the shortfall.

- The income return was 2.16%. I would note that this is somewhat understated because it does not include income accretion from discounted securities (CP, T-bills; Agency discount notes).

Sector Performance

	Portfolio	Benchmark
CD:	+0.55%	N/A
Agency:	+0.76%	N/A
Municipal:	+1.56%	N/A
Mortgage:	+1.75%	+1.82%
Treasury:	+1.71%	+1.75%



Market Update and Outlook

Market Update

Early indications show fourth quarter growth was strong, but slower. The robust U.S. economy exhibited signs of fatigue after coming off the third quarter's exceptionally strong 3.5 percent growth rate. A slowdown in the housing market, lower oil prices, higher costs and trade concerns combined to dampen the exceptionally strong growth we experienced through third quarter.

While the economy is slowing, its foundation remains strong. Unemployment remains at record lows. More than 312,000 jobs were added in December, the most since February. The unemployment rate rose to 3.9 percent as the robust jobs market pulled more people into the workforce. Better pay and greater job security kept consumer confidence and spending high. Holiday sales appear on track to exceed expectations.

Despite strong U.S. growth, cracks in global economic momentum and tighter financial conditions spooked the markets in the fourth quarter, sparking a flight to quality. The S&P 500 gave back its strong return through September, declining almost 14 percent in the quarter to finish with a 4.4 percent loss for the year, its first down year since 2008. A partial government shutdown has added more uncertainty as we go into the new year.

Despite expectations for strong fourth quarter growth, the market is pricing in muted inflation as evidenced by a breakeven of 1.76 percent on 10-year TIPS (Treasury Inflation-Protected Securities), as of January 4, 2019.

While the Federal Reserve's approach to raising rates created concern in 2018, the Fed may be shifting its stance. In December, the Fed appeared to adopt a more dovish view, announcing rates were close to neutral, neither stimulating nor slowing the economy.

Credit markets had a very tough quarter. High yield bonds produced a negative total return of over 4.5 percent during the quarter, finishing the year down 2 percent; while investment grade bonds produced a negative excess return of over 3 percent for both the fourth quarter and the year. Treasuries became a safe haven in the fourth quarter, returning over 2.5 percent. Investors are nervous enough to make quality their top priority.

Outlook

The interest rate yield curve reflects rising concern over future economic growth, with the gap between long- and short-term interest rates flattening. Many analysts view an inverted yield curve, in which long-term rates fall below short-term rates, as a predictor of a future recession. For now, the 10-year yield remains higher than the three-month.

In December, the Fed had projected two increases in 2019 (down from the four it made in 2018). But futures markets now think the Fed may not raise rates at all in 2019, and are putting the chance of a rate cut at 50/50. Uncertainty over the economy's direction means the Fed will depend heavily on economic data in future decisions.

The markets are clearly rattled as we enter 2019. Higher volatility is intensifying the tightening of financial conditions and risks to growth are to the downside. Lower market liquidity and global growth slowing faster than expected is amplifying the deceleration already in place. Concerns of recession and the continued worries about trade and tighter credit could prompt companies and consumers to pull back, creating the downturn they fear.

In spite of the obstacles it faces, we believe the economy will continue to expand through 2019. The ingredients for a slowdown exist, but we don't think the conditions for a recession are in place. Employment is too robust and consumer spending too strong for the economy to contract in the next several quarters.