

# Q1 2018 Earnings Call

*Chicago: Leading the Charge on ESG Investing*

May 22, 2018

City Treasurer Kurt Summers



# AGENDA

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**01** 12:00 - 12:05 PM  
Welcome and Purpose of Call

**02** 12:05 - 12:10 PM  
National Economy

**03** 12:10 - 12:15 PM  
Local Economy

**04** 12:15 - 12:20 PM  
CTO Investment Portfolio Update

**05** 12:20 - 12:30 PM  
Chicago's ESG Investing Initiative

**06** 12:30 - 12:35 PM  
Introducing Dr. Jon Hale

**07** 12:35 - 12:45 PM  
Insights from Dr. Hale

**08** 12:45 - 1:00 PM  
Q&A



# PURPOSE OF CALL

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## Transparency

This is the 13th Quarterly Earnings Call since Treasurer Summers took office. It is open to the public, the City Council, and anyone interested in Chicago's investment portfolio performance.



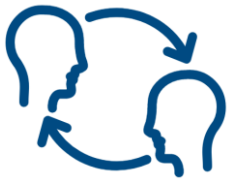
## Outreach & Advocacy

During the Treasurer's 77 visits to Chicago's 77 neighborhoods, residents voiced their need to be regularly engaged in our outreach and advocacy efforts. This is an opportunity to learn about the office's initiatives.



## Best Practices

As the primary investment manager for the City of Chicago, the Treasurer seeks to be held as accountable as any other investment management firm is to their investors. This call is shaped after reporting done by the nation's largest investment managers and public companies.



## Information & Action

This call will provide an overview of the national and local economies, the office's investment portfolio, and more, keeping Chicagoans informed about the economic and financial issues that affect them.



# WELCOME

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## Audio

Participants can hear the call through the computer or over the phone. While you don't have to be on both to hear the presentation, you do need to be registered online to view the webcast.



## Need Help?

If at any time during the call you need assistance, please call **(312) 742-1852** or email **Asher.Mayerson@cityofchicago.org**.



## Questions

Have a question? At any time during the presentation, type in your question on the webcast by clicking "Q&A." You can also email **City.Treasurer@cityofchicago.org**. There will be time allotted for Q&A at the end of the call.



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# NATIONAL ECONOMY

## University of Michigan: Consumer Sentiment (Monthly)

Jan. 2018	Feb. 2018	Mar. 2018
95.7	99.7	101.4

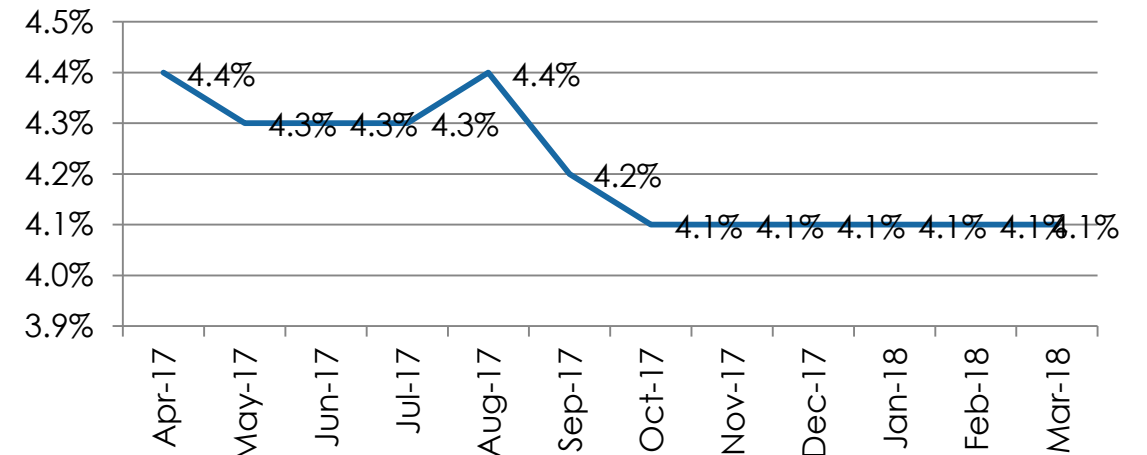
## International Monetary Fund Expected Growth Rates (Annualized)

	Previous 2018 Forecast	Updated 2018 Forecast
Global Economy	3.9%	3.9%
U.S. Economy	2.7%	2.9%
Advanced Econ.	2.3%	2.5%
Emerging/Dev. Econ.	4.9%	4.9%

## Real GDP (% Change, Annualized)

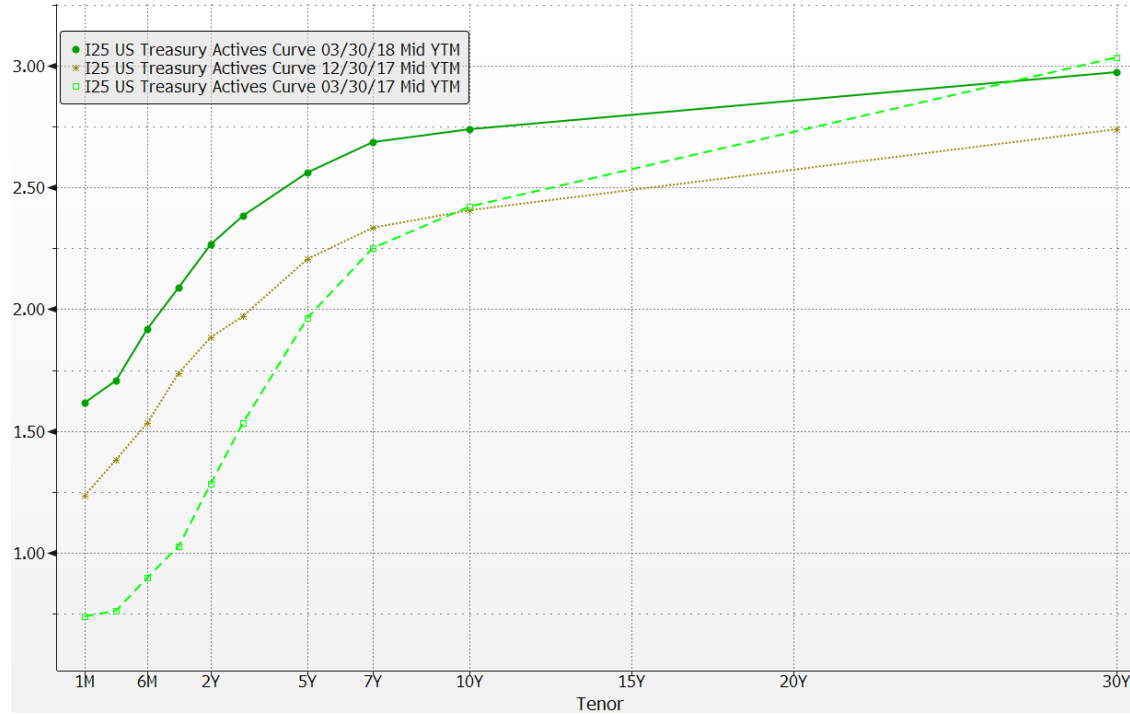
Q3 2017	Q4 2017	Q1 2018
3.2%	2.9%	2.3%

## Unemployment Rate (Seasonally Adjusted, Monthly)

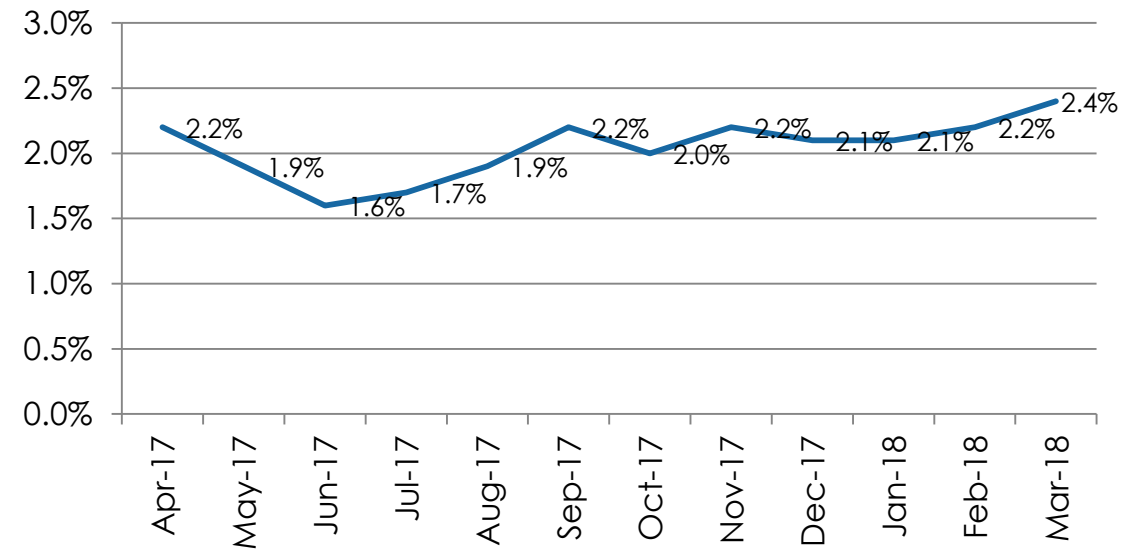


# NATIONAL ECONOMY

## U.S. Treasury Interest Rate Yield Curve



## Consumer Price Index – Urban Consumers (% Change, Annualized, Not Seasonally Adjusted)



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# LOCAL ECONOMY

Unemployment Rate (Not Seasonally Adjusted)			
	Jan. 2018	Feb. 2018	Mar. 2018
Chicago MSA	5.4%	5.2%	4.3%
United States	4.1%	4.1%	4.1%

- Large drop in Chicago-area unemployment rate was driven primarily by job seekers finding work, a positive sign for our local economy

Consumer Price Index – Urban Consumers (% Change, Annualized, Not Seasonally Adjusted)			
	Jan. 2018	Feb. 2018	Mar. 2018
Chicago MSA	1.8%	1.6%	1.8%
United States	2.1%	2.2%	2.4%

- Inflation for Chicago-area continues to be consistently lower than other urban areas throughout the country, indicating that costs are rising less quickly



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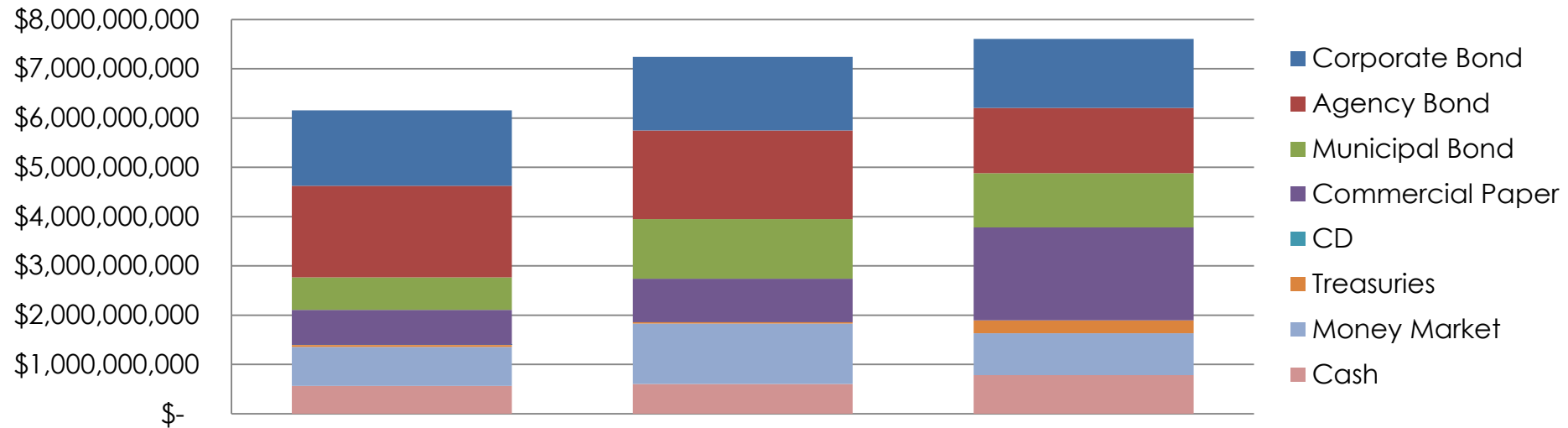
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# CTO INVESTMENT PORTFOLIO UPDATE

## Portfolio Asset Allocation By Par Value



	2016(Q1)		2017(Q1)		2018(Q1)	
Corporate Bond	\$ 1,529,170,000	24.84%	\$ 1,495,266,000	20.65%	\$ 1,402,723,000	18.44%
Agency Bond	\$ 1,858,227,000	30.18%	\$ 1,794,935,000	24.79%	\$ 1,326,115,000	17.43%
Municipal Bond	\$ 661,825,000	10.75%	\$ 1,212,359,000	16.74%	\$ 1,099,446,337	14.45%
Commercial Paper	\$ 708,280,000	11.50%	\$ 882,150,000	12.18%	\$ 1,886,533,000	24.80%
CD	\$ 5,046,633	0.08%	\$ -	0.00%	\$ -	0.00%
Treasuries	\$ 36,804,000	0.60%	\$ 26,000,000	0.36%	\$ 259,500,000	3.41%
Money Market	\$ 794,523,477	12.91%	\$ 1,230,035,974	16.99%	\$ 852,806,146	11.21%
Cash	\$ 562,697,698	9.14%	\$ 600,889,840	8.30%	\$ 781,138,906	10.27%



# CTO INVESTMENT PORTFOLIO UPDATE

Overall Rating	
<b>AA</b>	
Average Modified Duration (Years)	2.23*
Average Effective Duration (Years)	2.09*

Portfolio Statistics (Market Value Weighted)					
Values	Operating	Bond Proceeds	Operating Reserves	Long-Term Reserves	Whole Portfolio
Unique Position Count	59	345	92	41	525
Avg. Current Yield	1.61	1.89	2.97	3.25	2.06
Avg. Yield To Maturity	1.62	1.59	2.17	2.81	1.77
Portfolio Holdings	\$2,496,469,602	\$2,891,533,061	\$1,363,749,138	\$625,611,652	\$7,377,363,453*
Total Earnings	\$8,243,728.98	\$9,302,201.12	\$8,296,054.96	\$5,237,418.21	\$31,079,403.27



\*These numbers are not inclusive of money in depository institutions.

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# CHICAGO'S ESG INVESTING INITIATIVE

New initiative to fully integrate environmental, social, and governance (ESG) considerations into investment decision-making process will solidify Chicago's place as a leader on responsible investment, generating higher risk-adjusted returns and making an impact on Chicago's broader priorities

**100%**

## **Integration:**

Ensure that 100% of investment decisions on corporate securities are analyzed through ESG factors

## **Comprehensive Approach:**

Maintain a minimum ESG portfolio rating of investment grade or higher

## **Commitment to UNPRI:**

Become a signatory to the United Nations-supported Principles for Responsible Investment

## **Commitment to Carbon-Neutrality:**

Achieve a carbon-neutral portfolio from an investment perspective by 2020



# CHICAGO'S ESG INVESTING INITIATIVE

*Chicago to set a number of milestones in the United States and around the world*

Largest city in the country to apply a 100% ESG screen to the operating portfolio

First city in the world to create a minimum ESG portfolio rating standard

Largest city in the world to commit to the UN Principles for Responsible Investment

Largest city in the world to commit to a carbon neutral investment portfolio



Larry Fink

Chairman & CEO  
BlackRock

**“To prosper over time, every company must not only deliver financial performance, but also show how it makes a positive contribution to society.”**



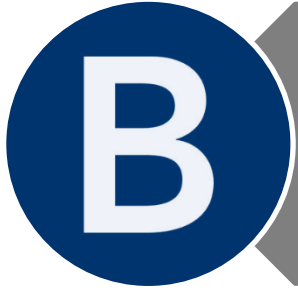
The Forum for Sustainable and Responsible Investment

**More than \$8.72 trillion invested with SRI strategies as of year-end 2015.**



# CHICAGO'S ESG INVESTING INITIATIVE

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## **Governments Push ESG Investment Forward**

*"The move would make Chicago the largest U.S. city to make those shifts. Under the proposal, Chicago also aims to achieve a carbon-neutral investment portfolio by 2020."  
[Bloomberg | March 13, 2018]*



## **City Officials Want Chicago to Become a Responsible Investor**

*"Officials in the nation's third-largest city want to make a company's record on issues such as water usage, labor rights and diversity as important as creditworthiness when deciding how to invest its \$8 billion operating budget." [Wall Street Journal | February 28, 2018]*



## **Chicago treasurer: Use city's investment portfolio to fight climate change, promote social progress**

*"Summers is proposing to overhaul the city's investment strategy to ensure taxpayer dollars are directed to financially sound companies that make it a priority to protect the environment, encourage gender and racial diversity, uphold labor standards and operate ethically." [Chicago Tribune | February 28, 2018]*





# CHICAGO'S ESG INVESTING INITIATIVE

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## Impact Umbrella

Chicago  
Community  
Catalyst Fund

\$20 Million Deposit  
in Illinois Service  
Federal

Chicago's ESG  
Investing Initiative

Local  
Commercial and  
Residential Real  
Estate  
Opportunities



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# INTRODUCING DR. JON HALE

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- Leads sustainable investing at Morningstar, a Chicago-based investment firm with over \$220 billion in AUM
- Launched the Morningstar Sustainability Ratings for funds, helping set a global standard for sustainable investing
- Runs “The ESG Advisor,” a sustainable investing blog on Medium



**Dr. Jon Hale**

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*Director of Sustainable Investing Research  
Morningstar Research Services LLC*



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# INSIGHTS FROM DR. HALE

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## Morningstar Sustainable Investing Initiative



- Sustainability Ratings
- Carbon Metrics
- ESG Funds Database
- Product Involvement
- Sustainability Indexes
- ESG Select Lists
- ESG Funds of Funds Investment Portfolios
- Advisor Education Program w/MMI



# INSIGHTS FROM DR. HALE

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## Why ESG/Sustainable Investing?



- **Sustainability** is a decision-making perspective that takes into account a broad array of stakeholders and systems, present and future. Sustainable decisions aim not only to meet present needs, but to strengthen social, environmental, and economic systems, while preserving the ability of future generations to make decisions that meet their own needs.
- **Sustainable investing** incorporates ESG considerations into the investment process with the recognition that the broader context within which an investment exists can affect its risk and return, and that investments themselves can have broader social, environmental, and economic impacts beyond their financial return.



# INSIGHTS FROM DR. HALE

## ESG in Fixed-Income Investing: Key Findings



Incorporating ESG factors  
does not mean having to sacrifice return



ESG factors are material  
credit risk

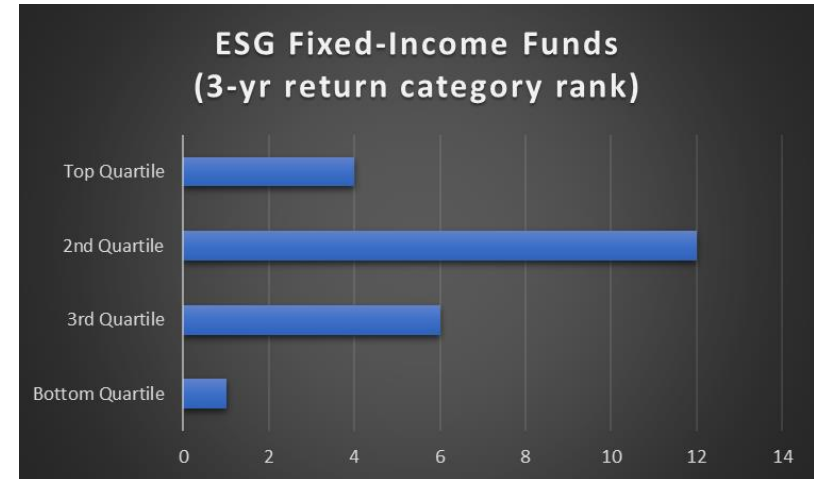
- **Performance:** High ESG → Better Performance (Barclays 2016)
  - High-ESG portfolio outperformed Low-ESG portfolio by cumulative 2% over seven years
- **Credit Risk:** Low ESG → Wider CDS Spreads (Hermes 2017)
  - Low-ESG-rated companies in four CDS indices had wider spreads than the High-ESG-rated companies in the indices



# INSIGHTS FROM DR. HALE

## ESG in Fixed-Income Investing: Fund Performance

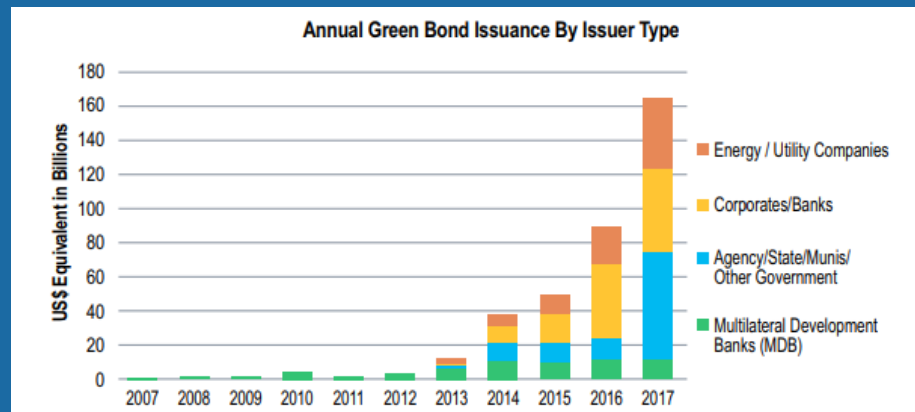
Funds that have been around for a decade perform on par with peers



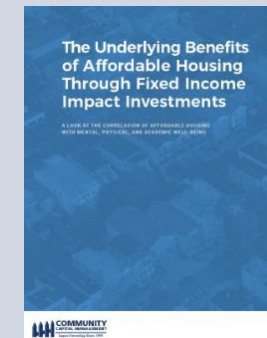


# INSIGHTS FROM DR. HALE

## ESG in Fixed-Income Investing: Achieving Impact



- Affordable Housing
- Corporate Engagement
- Community / Economic Development
- Natural Resources
- Renewable Energy & Climate Change



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# QUESTIONS?



# DEBRIEF AND CLOSING

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**THANK YOU FOR JOINING**



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