

Q2 2018 Earnings Call

*The Catalyst Fund: Investments for Neighborhoods,
Returns for Investors*

August 21, 2018

City Treasurer Kurt Summers



AGENDA

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

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Chicago Community Catalyst Fund

06 12:30 - 12:35 PM
Introducing Kweku Obed
(Marquette Associates)

07 12:35 - 12:45 PM
Briefing from Marquette
Associates

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



PURPOSE OF CALL



Transparency

This is the 14th 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.



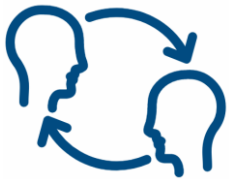
Outreach & Advocacy

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 fiscal issues that affect them.



WELCOME



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.



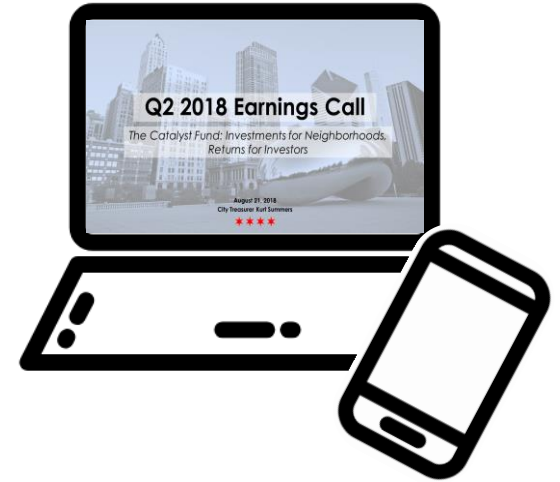
Need Help?

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)

Apr. 2018	May 2018	Jun. 2018
98.8	98.0	98.2

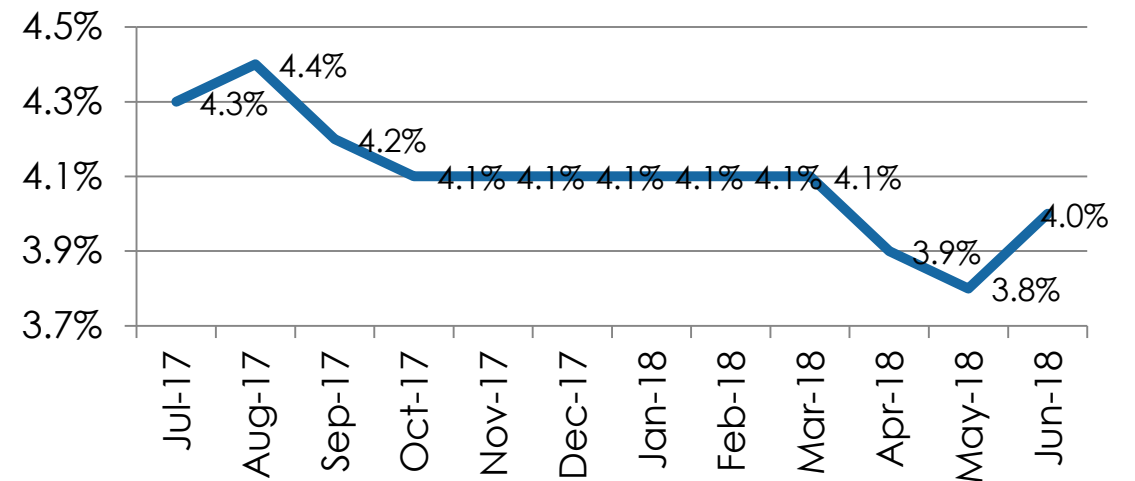
International Monetary Fund Expected Growth Rates (Annualized)

	Previous 2018 Forecast	Updated 2018 Forecast
Global Economy	3.9%	3.9%
U.S. Economy	2.9%	2.9%
Advanced Econ.	2.5%	2.4%
Emerging/Dev. Econ.	4.9%	4.9%

Real GDP (% Change, Annualized)

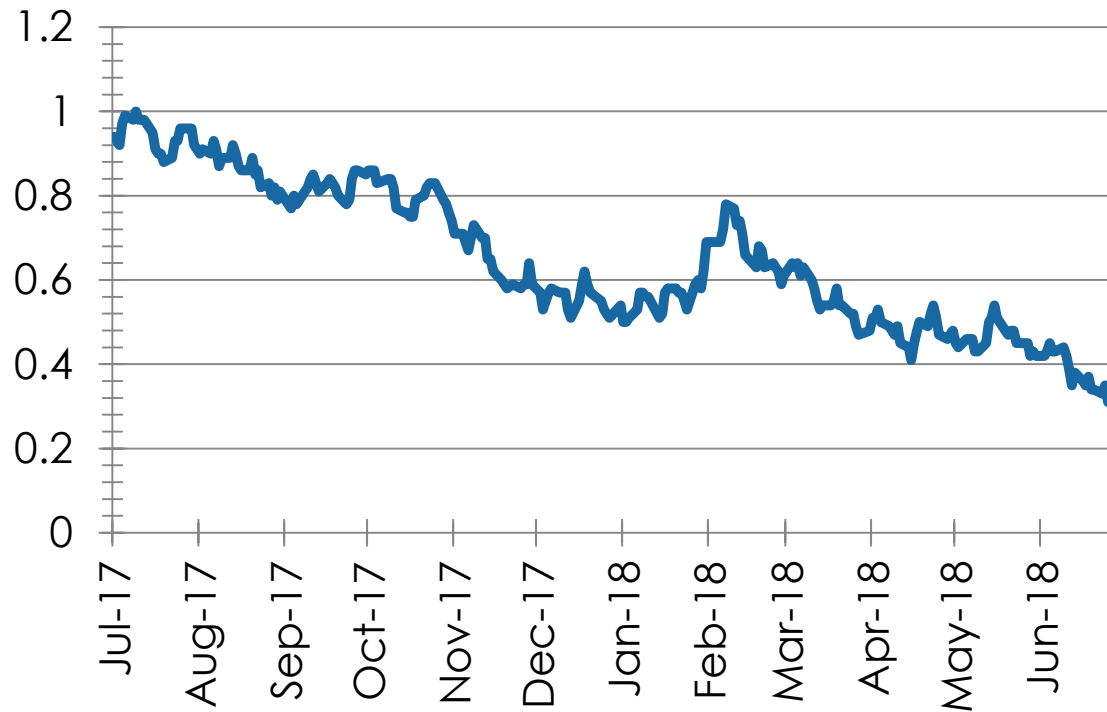
Q4 2017	Q1 2018	Q2 2018
2.9%	2.0%	4.1%

Unemployment Rate (Seasonally Adjusted, Monthly)

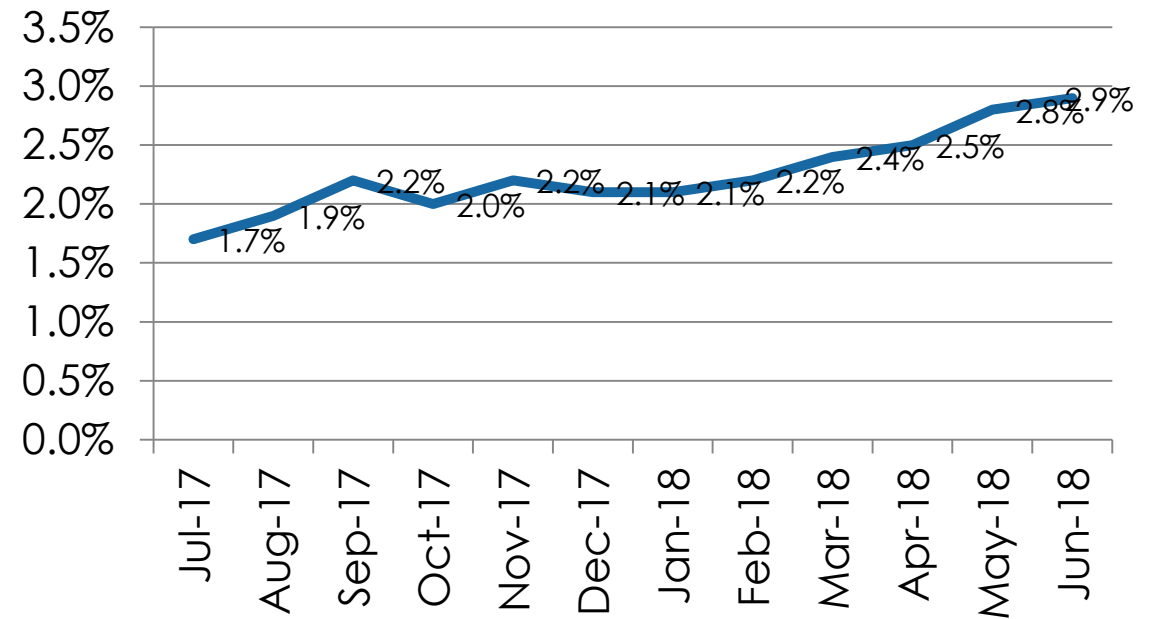


NATIONAL ECONOMY

Spread Between 10-Year and 2-Year Treasury



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



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LOCAL ECONOMY

Unemployment Rate (Not Seasonally Adjusted)

	Apr. 2018	May. 2018	Jun. 2018
Chicago MSA	3.6%	3.4%	4.4%
United States	3.7%	3.6%	4.2%

- The local unemployment rate dipped in April and May but ticked back up in June, leading to a minimal change from last quarter (which ended at 4.3%)

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

	Apr. 2018	May. 2018	Jun. 2018
Chicago MSA	2.1%	2.3%	2.2%
United States	2.5%	2.8%	2.9%

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



LOCAL ECONOMY

Since 2010, Chicago has outpaced its peers in MOIC, leading to more and more venture capital investment

Urban Areas Ranked by Multiple on Invested Capital (MOIC) from 2010-2017

Ranking	Location	MOIC
1	Chicago-Naperville-Elgin	8.5x
2	Seattle-Tacoma-Bellevue	5.9x
3	New York-Newark-Jersey City	4.8x
.....		
6	San Francisco-Oakland-Hayward	4.6x
7	Atlanta-Sandy Springs-Roswell	4.4x

Urban Areas Ranked by Venture Capital Invested from 2010-2017

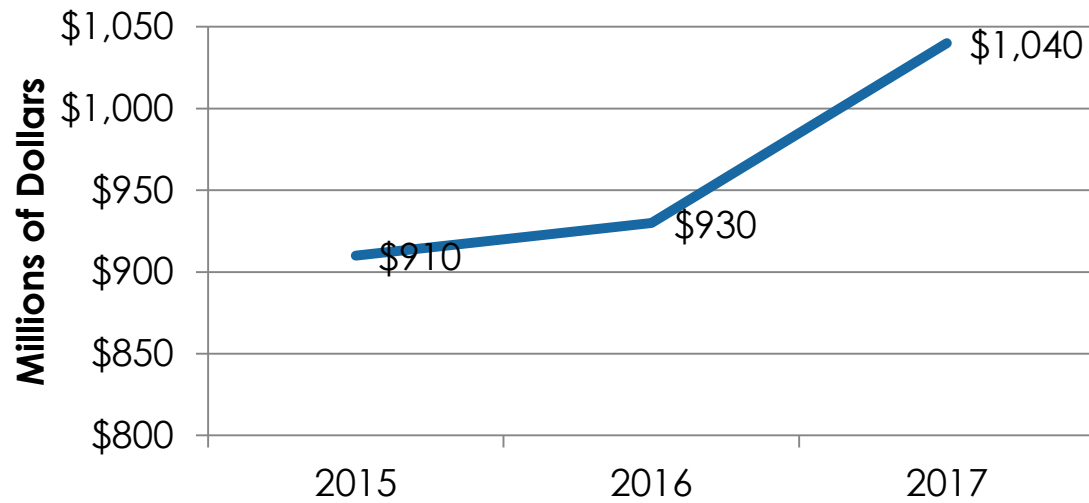
Ranking	Location
1	San Francisco-Oakland-Hayward
2	New York-Newark-Jersey City
.....	
8	Chicago-Naperville-Elgin
9	Washington-Arlington-Alexandria
10	Austin-Round Rock



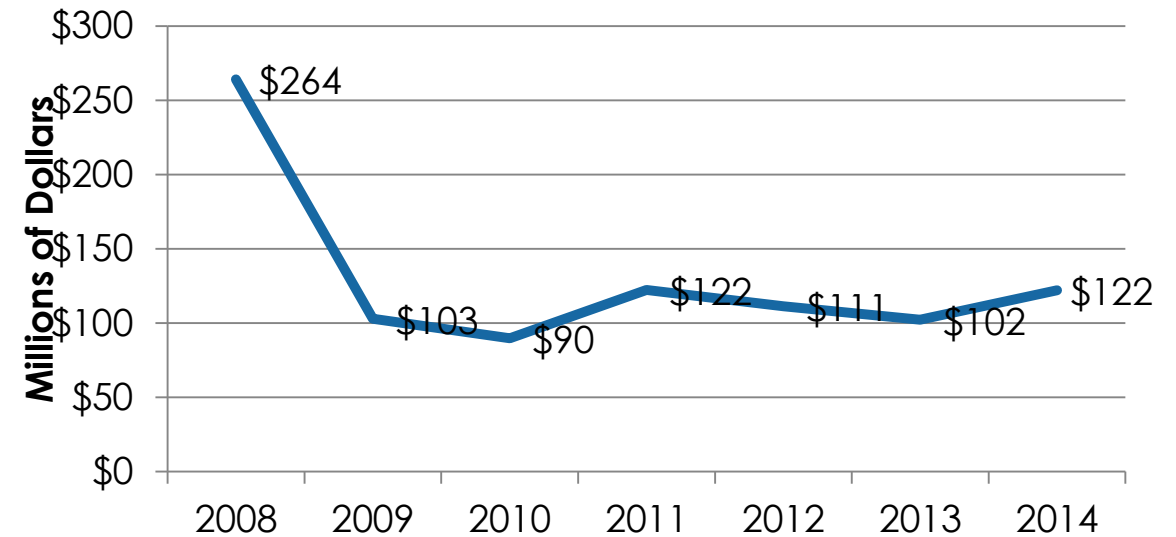
LOCAL ECONOMY

But while venture capital investors have caught on to the value proposition of Chicago and generated higher returns than anywhere else, traditional lenders are lagging behind with small business lending

Venture Capital Funds Raised by Chicago Tech Companies¹



Small Biz Loans Under \$100K from CRA-Reporting Institutions in Chicago Area²



¹ "The Bay Area & beyond: Ranking US metro areas by VC invested and returns," Pitchbook, March 19, 2018.

² "Patterns of Disparity: Small Business Lending in the Chicago and Los Angeles-San Diego Regions," Woodstock Institute, January 2017.

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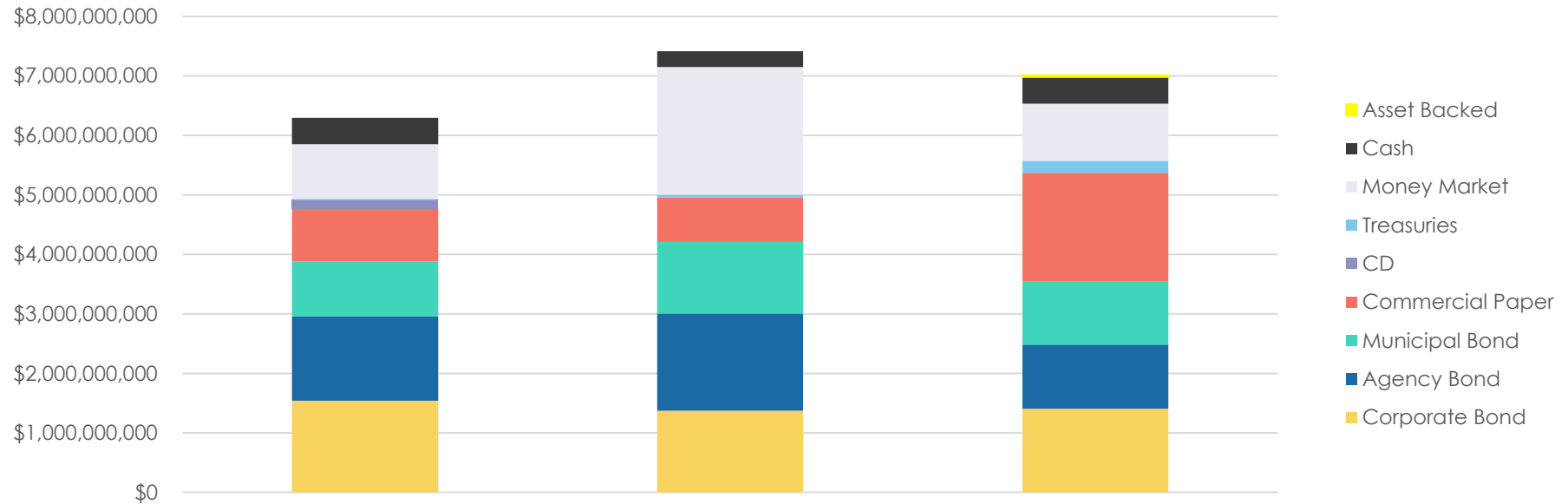
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CTO INVESTMENT PORTFOLIO UPDATE



	2016(Q2)		2017(Q2)		2018(Q2)	
Corporate Bond	\$ 1,541,891,000	24.49%	\$ 1,374,528,258	18.54%	\$ 1,406,492,000	20.06%
Agency Bond	\$ 1,414,335,000	22.47%	\$ 1,632,210,689	22.01%	\$ 1,077,755,000	15.37%
Municipal Bond	\$ 925,724,000	14.70%	\$ 1,201,452,338	16.20%	\$ 1,059,308,435	15.11%
Commercial Paper	\$ 881,614,000	14.00%	\$ 746,729,278	10.07%	\$ 1,829,499,000	26.09%
CD	\$ 150,000,000	2.38%	\$ -	0.00%	\$ -	0.00%
Treasuries	\$ 20,000,000	0.32%	\$ 45,816,290	0.62%	\$ 200,500,000	2.86%
Money Market	\$ 917,372,116	14.57%	\$ 2,150,300,265	29.00%	\$ 960,110,855	13.69%
Cash	\$ 444,734,956	7.06%	\$ 264,557,679	3.57%	\$ 448,008,735	6.39%
Asset Backed	\$ -	0.00%	\$ -	0.00%	\$ 30,000,000	0.43%



CTO INVESTMENT PORTFOLIO UPDATE

Overall Rating	
AA	
Average Modified Duration (Years)	2.37*
Average Effective Duration (Years)	2.25*

Portfolio Statistics (Market Value Weighted)					
Values	Operating	Bond Proceeds	Operating Reserves	Long-Term Reserves	Whole Portfolio
Unique Position Count	55	316	95	50	497
Avg. Coupon	1.06	1.09	2.36	2.96	1.47
Avg. Current Yield	1.87	2.21	3.11	3.39	2.33
Avg. Yield To Maturity	1.91	1.84	2.24	2.92	1.99
Portfolio Holdings	\$2,309,793,330	\$2,587,883,341	\$1,368,782,298	\$655,198,839	\$6,921,657,808*
Total Earnings	\$19,199,800.41	\$16,976,049.47	\$16,068,873.82	\$9,924,730.94	\$62,169,454.64



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

CTO INVESTMENT PORTFOLIO UPDATE

In addition to maximizing risk-adjusted returns, the City Treasurer's Office has also sought to invest for impact

- Model to **integrate environmental, social, and governance (ESG) considerations** into 100% of investment decisions on corporate bonds is in place, making Chicago the largest city in the country to take this step
- Initiative to **invest opportunistically in securities with positive local impact** is ongoing, which has the potential to deploy additional capital to underserved neighborhoods



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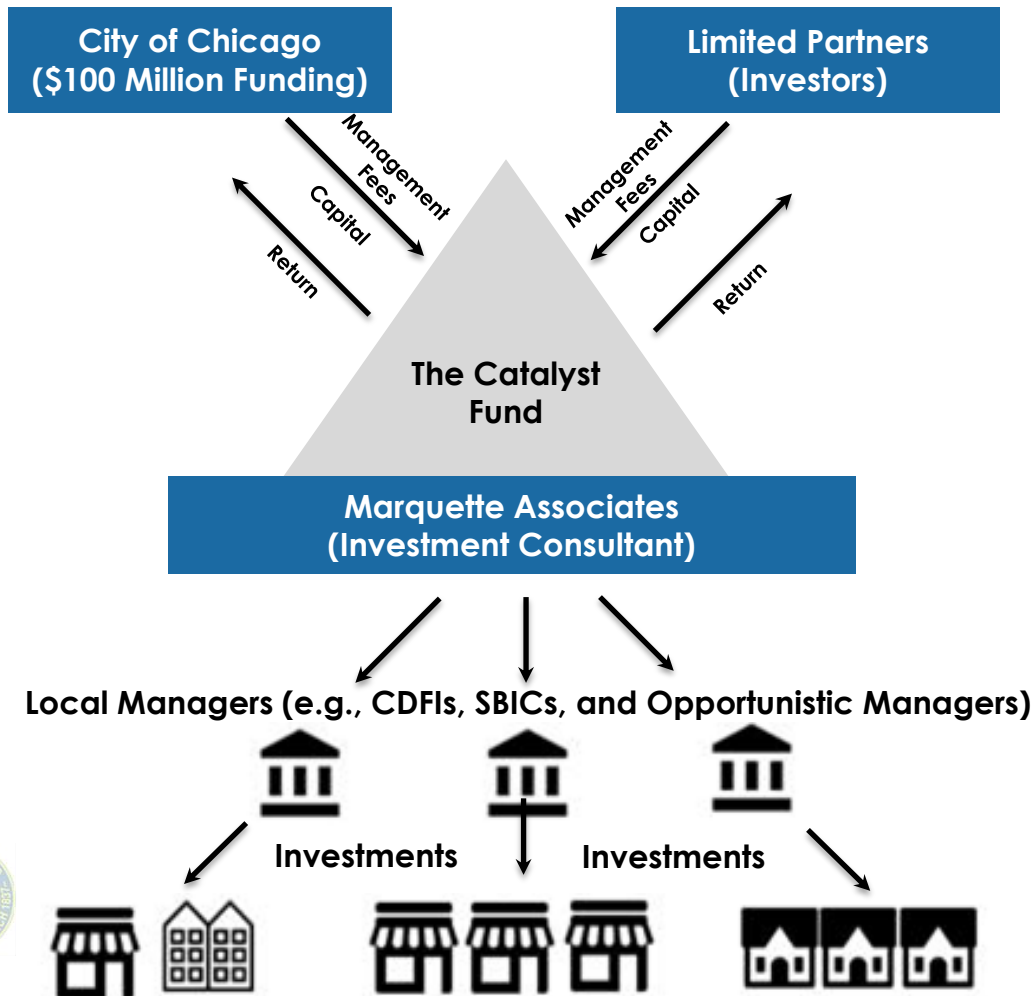
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THE CATALYST FUND

The Chicago Community Catalyst Fund is our effort to address the gap in a distinctive, innovative, and impactful way



Strategy

- **Neighborhood-focused manager-of-managers fund** to make targeted investments with qualified managers
- Seeded with **\$100 million from the City of Chicago**

Investment Approach

- **Flexible approach to investment** across capital structure, with debt, mezzanine, and equity investments in both small business and real estate opportunities

Structure

- **Mandates a ceiling** on the percentage of funds with a single partner or percentage of funds with a single deal
- Allows for **most efficient investment structure** and increases quality of pipeline



THE CATALYST FUND

Investment Policy Highlights



- Goal of commensurate market returns
- Cap on fees
- No more than 20% can be allocated to a specific investment vehicle
- No more than 20% can be allocated to a specific project
- Specific projects to be funded include small business lending, growth equity, real estate gap financing, mezzanine investments, infrastructure improvements, and commercial developments

Economic Development Objectives



- Catalyze commercial, residential, and industrial development in economically underserved areas
- Increase attractiveness for job creation and retention
- Support improvements to public infrastructure
- Increase capital funding accessibility and support local economic growth



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INTRODUCING KWEKU OBED

Decades of Investment Experience

- Marquette Associates (2014-Present)
- Mercer Investment Consulting (2007-2014)
- Merrill Lynch Investment Managers (2001-2007)

Recognition and Accreditation

- B.S. with honors in economics from Queen Mary College, University of London
- M.S. in development economics from SOAS, University of London
- CFA Charterholder
- Chartered Alternative Investment Analyst

Significant Community Engagement

- Serves on the board of trustees for *Everyone Reading Illinois*
- Sits on the investment committee for the *Plan Sponsor Council of America*
- Member of the *Economic Club of Chicago*



Kweku Obed

*Managing Partner
Marquette Associates*



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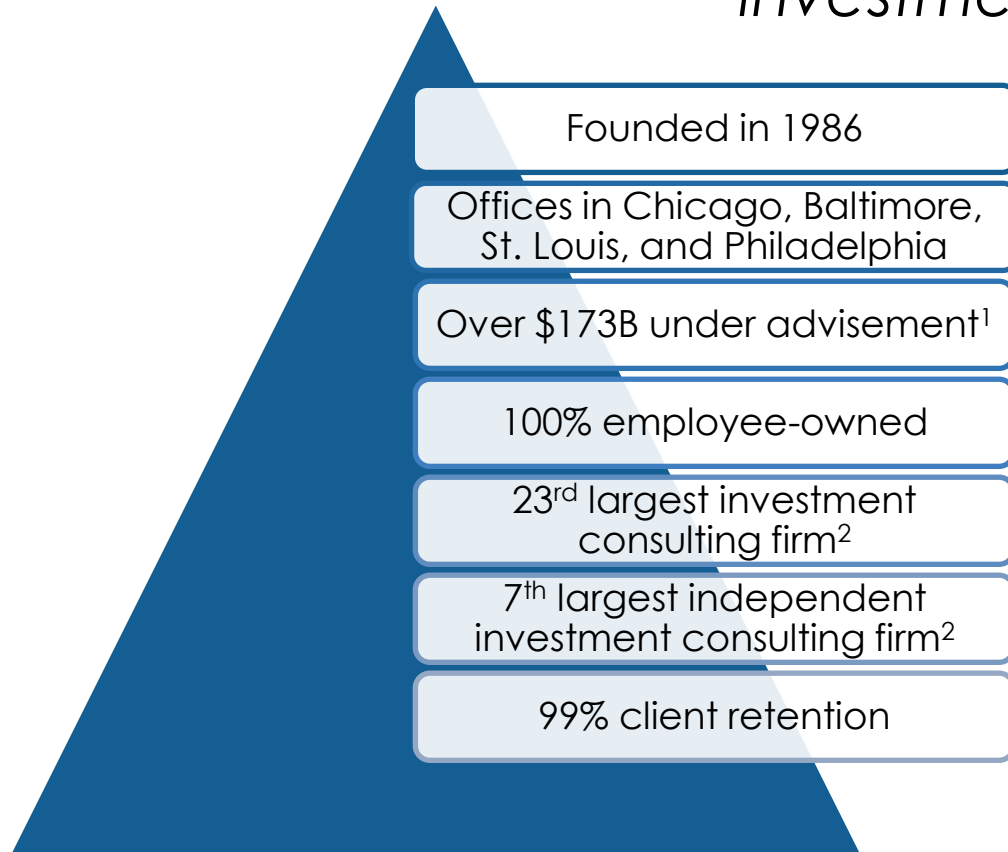
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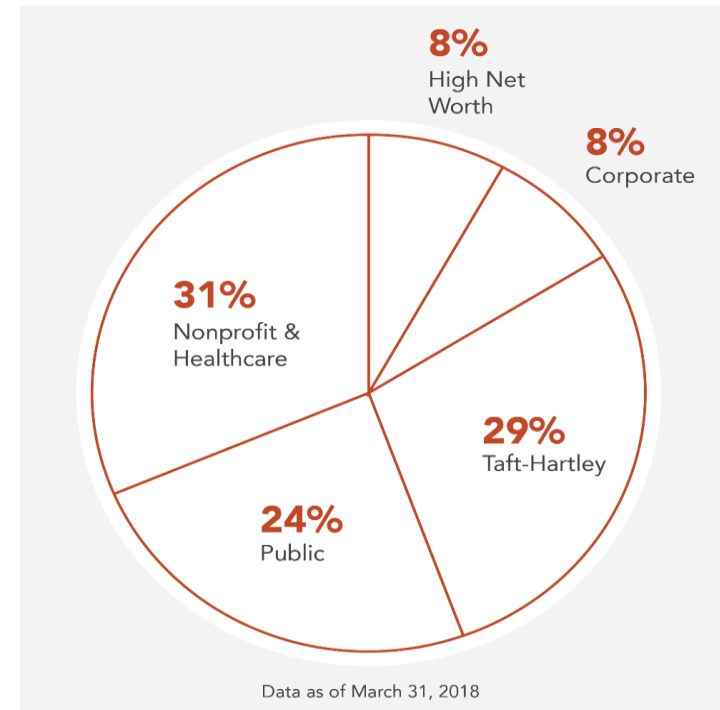


BRIEFING FROM MARQUETTE ASSOCIATES

An overview of Marquette Associates, the Catalyst Fund's expert investment consultant



Client breakdown by quantity



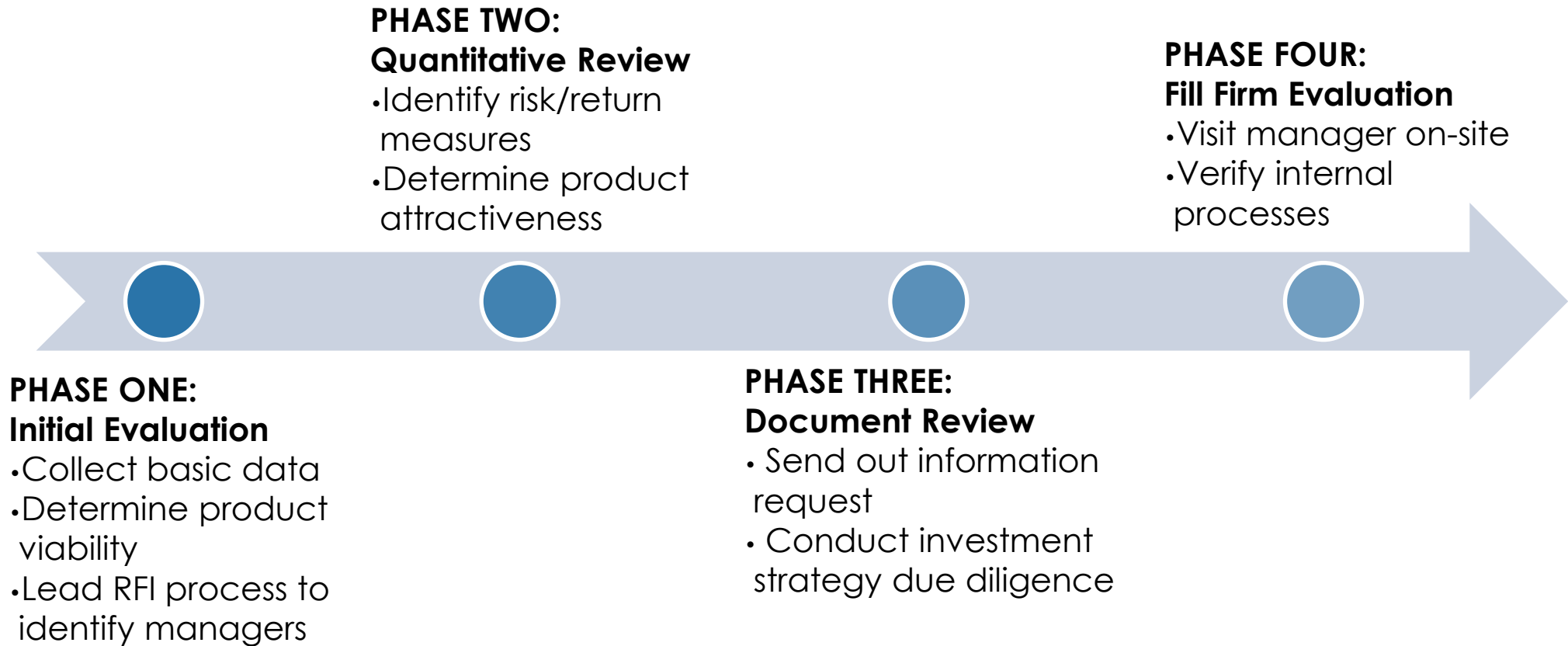
¹ As of March 31, 2018.

² As of June 30, 2017, according to *Pensions & Investments*.



BRIEFING FROM MARQUETTE ASSOCIATES

Marquette Associates to lead a comprehensive process for the Fund



BRIEFING FROM MARQUETTE ASSOCIATES

Strong value proposition for full range of stakeholders

Strong & Growing Local Economy of Chicago at \$609 billion

Significant Market Opportunity to address the local gap in capital access

Institutional Quality in a private, small investment vehicle

\$100M Seed Investment from the City of Chicago

Opportunistic Vehicle allows for flexible capital investment to meet market demand

CRA and Opportunity Zone Incentives

Modest Fee Structure aligns interests with LPs

Board Opportunity for up to six founding investors



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QUESTIONS?



DEBRIEF AND CLOSING



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FEEDBACK

Let us know what you thought of our call by emailing **City.Treasurer@cityofchicago.org**.





THANK YOU FOR JOINING



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With respect to any bonds, notes, or other debt issued by the City of Chicago, please refer for information only to the City's disclosure documents and continuing disclosure filings for such bonds, notes, or other debt obligations.

