



Detroit Water and Sewerage Department

Investment Performance Review For the Year Ended June 30, 2022

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Agenda

- Market Update
- Account Summary

Market Update

Inflation & The Fed

- ▶ The focus on inflation remains very high, with the Consumer Price Index increasing 8.5% year-over-year as of July 31, 2022.
- ▶ Due to the surge in inflation, the Federal Reserve has increased the overnight federal funds target rate four times in 2022 (March, May, June and July).
- ▶ The Federal Reserve is expecting to continue to hike interest rates to combat inflation.

Unemployment

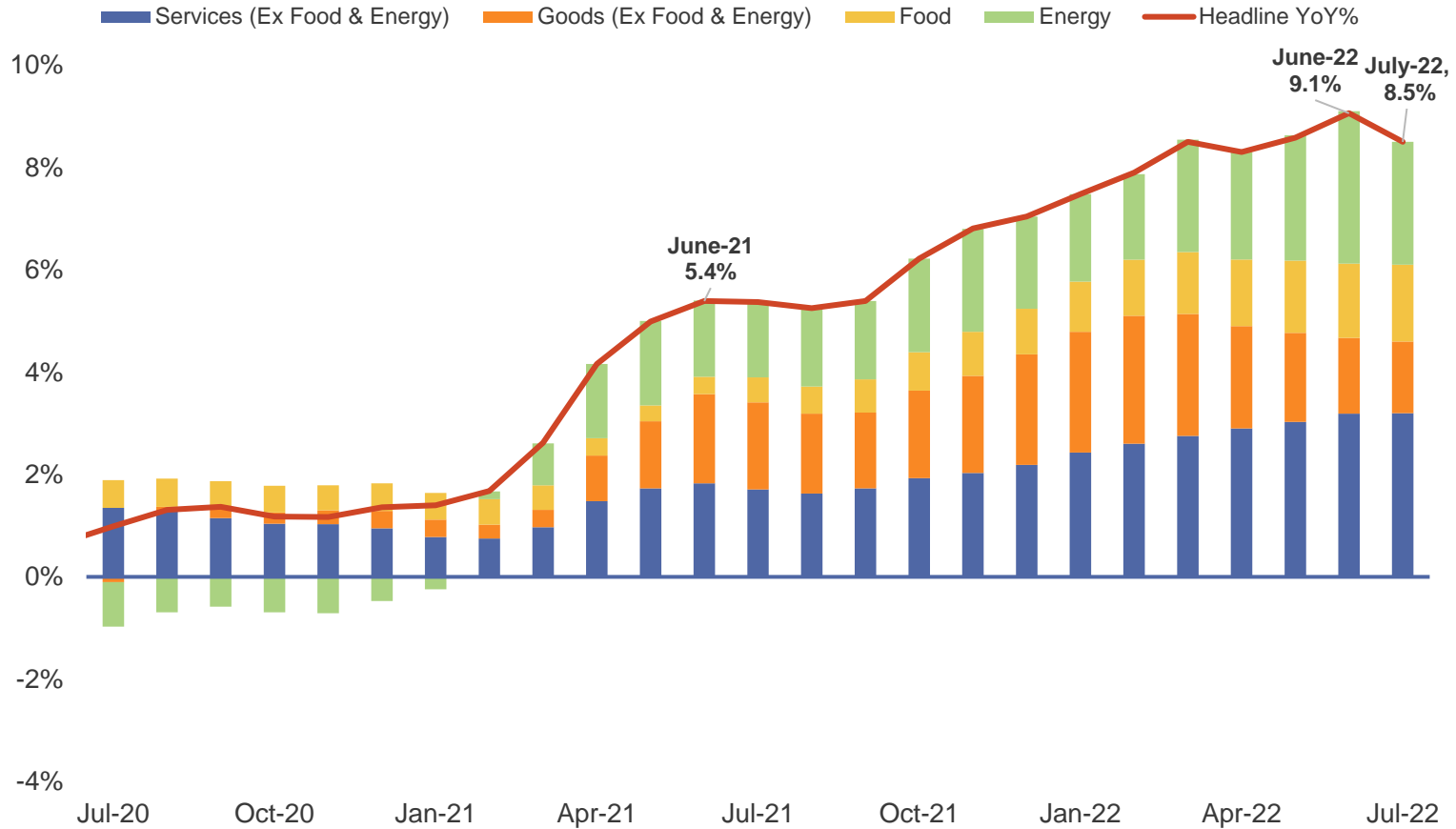
- ▶ The U.S. labor market remains a tailwind as the economy added 2.7 million new jobs this year.
- ▶ Unemployment declined to at 3.5% in July while wage growth remains elevated. Nearly 2 job openings (10.7mm) for every unemployed person (5.7mm).
- ▶ Job gains have begun to moderate, and the level of new weekly jobless claims has increased noticeably. Fed is okay with softer job market to slow inflation.

GDP

- ▶ The economy has downshifted from its torrid pace of 2021 as federal stimulus programs ended and rampant inflation cuts into consumer spending habits and corporate profits.
- ▶ Economists' estimates for the future GDP reflect expectations for growth to normalize in the future.

Consumer Inflation

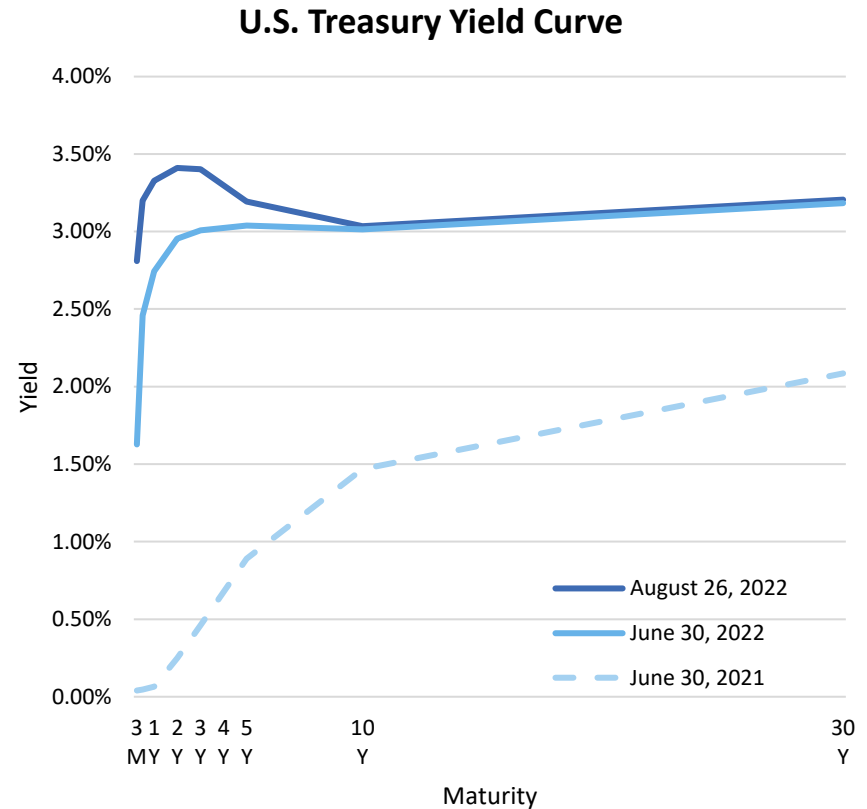
Factors Contributing to the Consumer Price Index (CPI YoY)



Source: Bloomberg, as of July 2022.

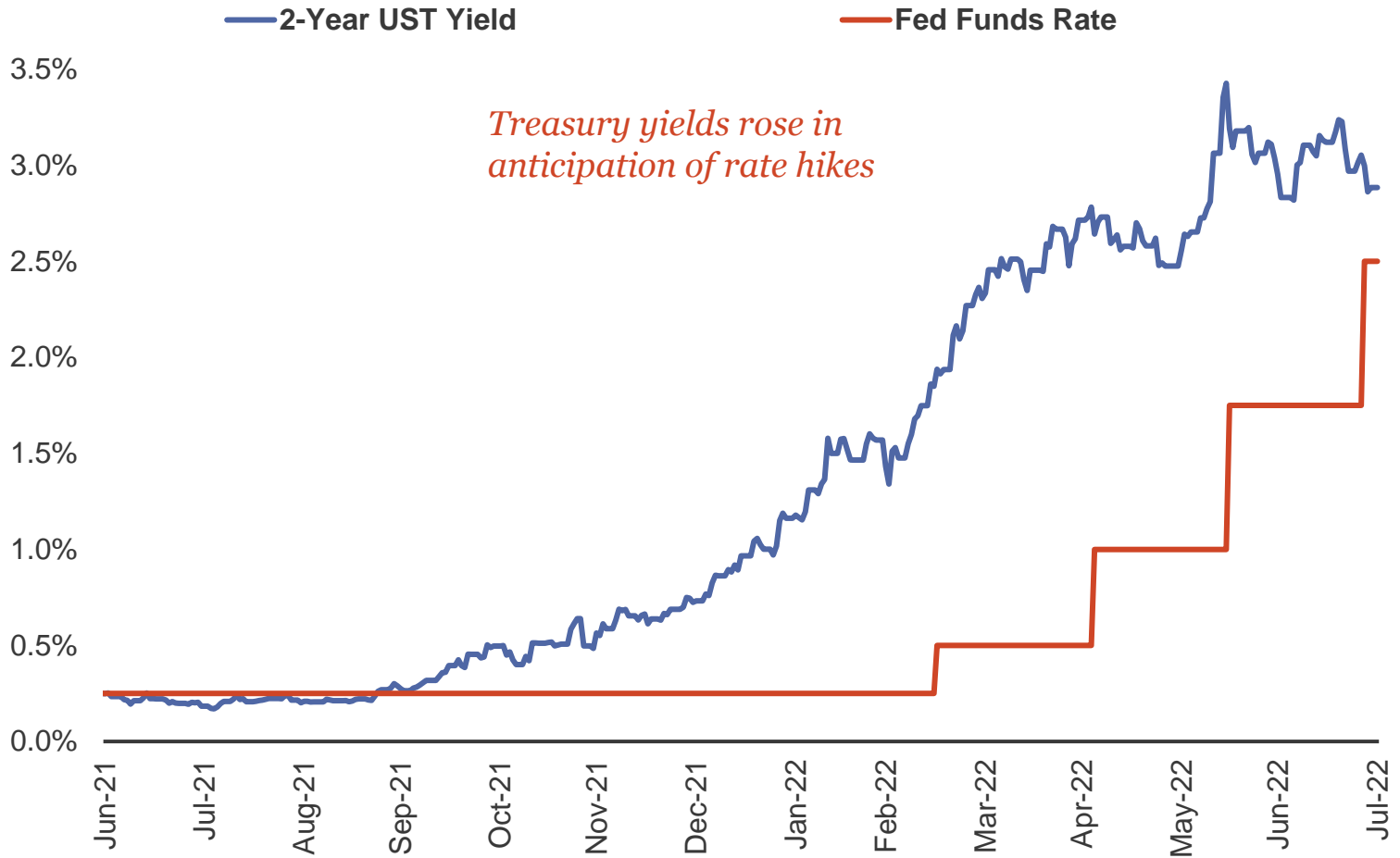
Treasury Yields Move Higher Across the Curve

| | 2Q2022 6/30/22 | 2Q2021 06/30/21 | YoY Change |
|---------|-------------------|--------------------|---------------|
| 3-month | 1.63% | 0.04% | +1.59% |
| 1-year | 2.74% | 0.07% | +2.67% |
| 2-year | 2.95% | 0.25% | +2.70% |
| 3-year | 3.01% | 0.46% | +2.55% |
| 5-year | 3.04% | 0.89% | +2.15% |
| 10-year | 3.01% | 1.47% | +1.54% |
| 30-year | 3.18% | 2.09% | +1.09% |



Source: Bloomberg, as of August 26, 2022.

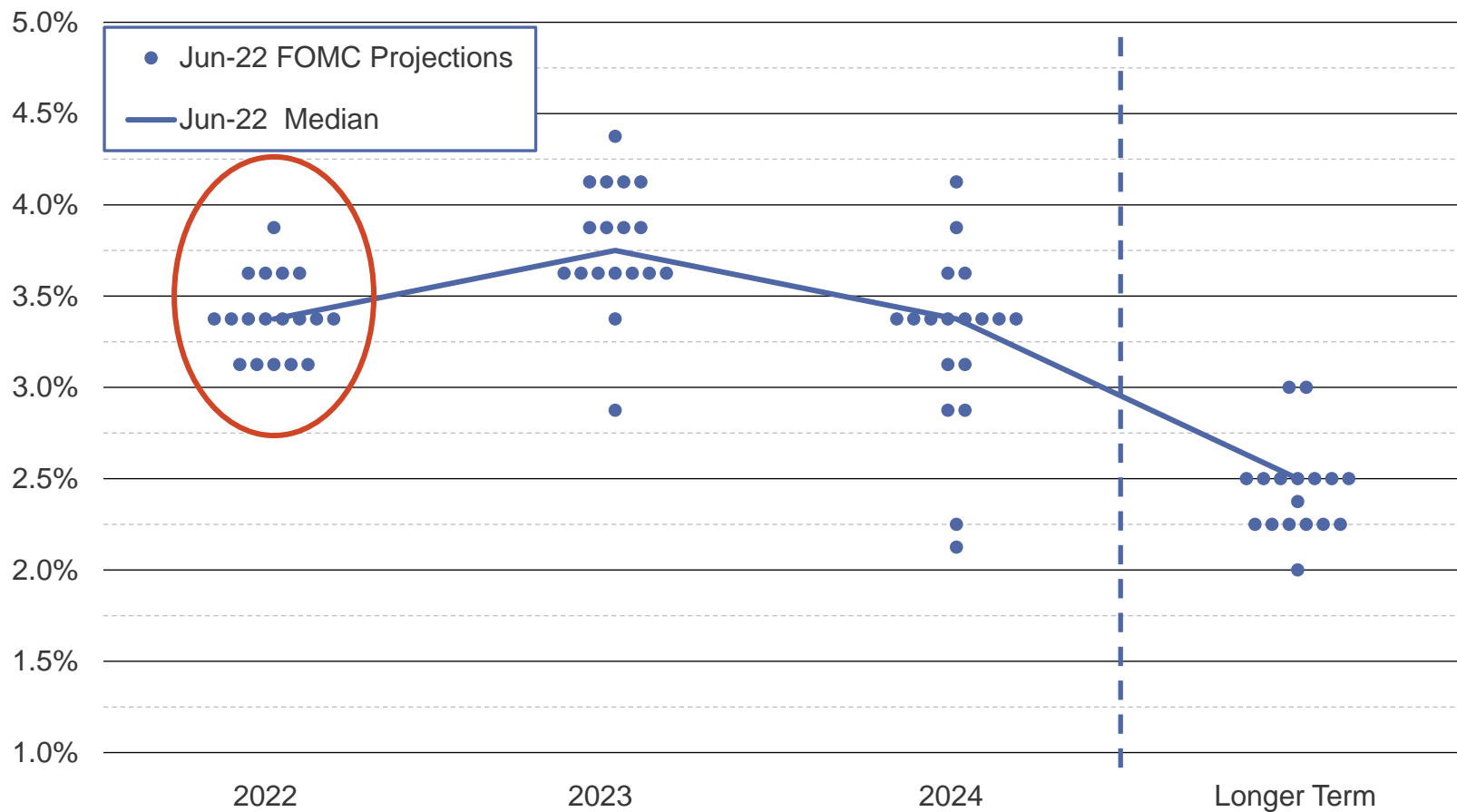
Historical Rate Hikes



Source: Bloomberg, as of 7/31/2022.

Officials Project 1.75% More in Rate Hikes in 2022

Fed Participants' Assessments of 'Appropriate' Monetary Policy



Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the federal funds rate at each year-end.

Fixed-Income Sector Commentary — 2Q 2022

- ▶ **U.S. Treasury** securities posted negative returns for more than two quarters. Yields continued to move higher on surging inflation data and expectations for aggressive Fed rate hikes over the course of 2022.
- ▶ The **Federal Agency** sector generated modest incremental returns over Treasuries in Q2 but continue to offer narrow yield spreads and limited value.
- ▶ **Supranational** spreads are elevated for shorter maturities but remained historically tight further out the curve. Issuance has been relatively light year-to-date which has helped keep downward pressure on yield spreads.
- ▶ Investment grade **Corporates** appear to have priced in a recession on the horizon, however, fundamentals and ratings are expected to stabilize while also carrying a low default rate. Yield spreads have been driven wider to historically attractive levels as uncertainties persist.
- ▶ **Asset-Backed** yield spreads widened after a volatile start to the year. Some measures of collateral performance are trending worse, but overall are in a good position from a historical perspective and remain within rating agency expectations.
- ▶ **Mortgage-Backed Securities** were hampered by soaring mortgage rates and the looming reduction to the Fed's balance sheet. The sector will likely remain under pressure for the foreseeable future as it faces a myriad of headwinds.
- ▶ **Taxable Municipals** were one of the few investment grade sectors that performed well during the quarter. But while issuance has slowed despite appearing at attractive levels, deals remain heavily oversubscribed, pressuring spreads lower.
- ▶ **Commercial Paper and CD** spreads remain elevated and attractive, particularly on maturities near nine months which have heightened value and a steeper curve.

Fixed-Income Sector Outlook – 3Q 2022

| Sector | Our Investment Preferences |
|-------------------------------|----------------------------|
| COMMERCIAL PAPER / CD | |
| TREASURIES | |
| T-Bill | |
| T-Note | |
| FEDERAL AGENCIES | |
| Bullets | |
| Callables | |
| SUPRANATIONALS | |
| CORPORATES | |
| Financials | |
| Industrials | |
| SECURITIZED | |
| Asset-Backed | |
| Agency Mortgage-Backed | |
| Agency CMBS | |
| MUNICIPALS | |



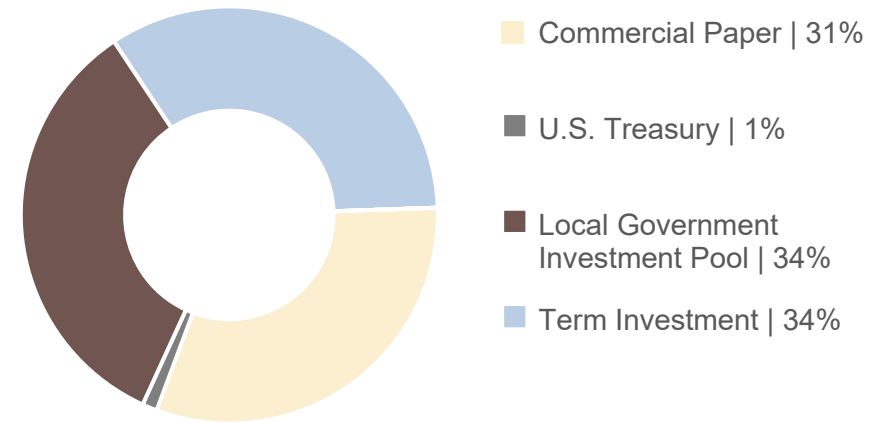
Account Summary

Consolidated Summary

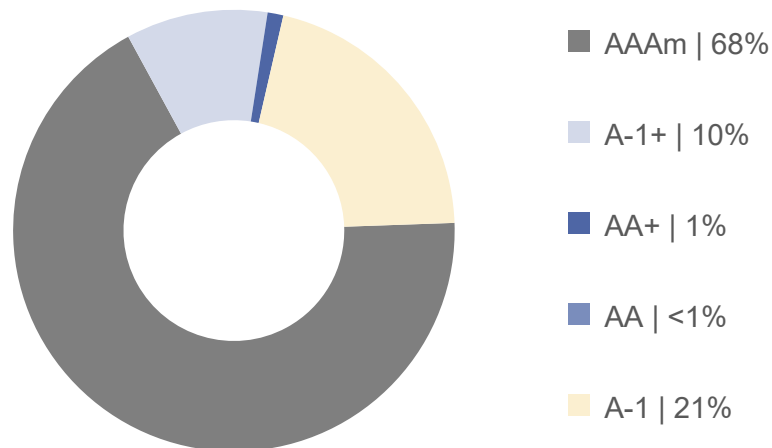
Portfolio Statistics

| | |
|-------------------------------------|------------------|
| Total Market Value | \$178,186,063.17 |
| <i>Securities Sub-Total</i> | \$57,705,887.01 |
| <i>Accrued Interest</i> | \$0 |
| <i>Cash</i> | \$120,480,176.16 |
| Portfolio Effective Duration | 0.32 years |
| Yield At Cost | 1.30% |
| Yield At Market | 2.37% |
| Portfolio Credit Quality | AAAm |

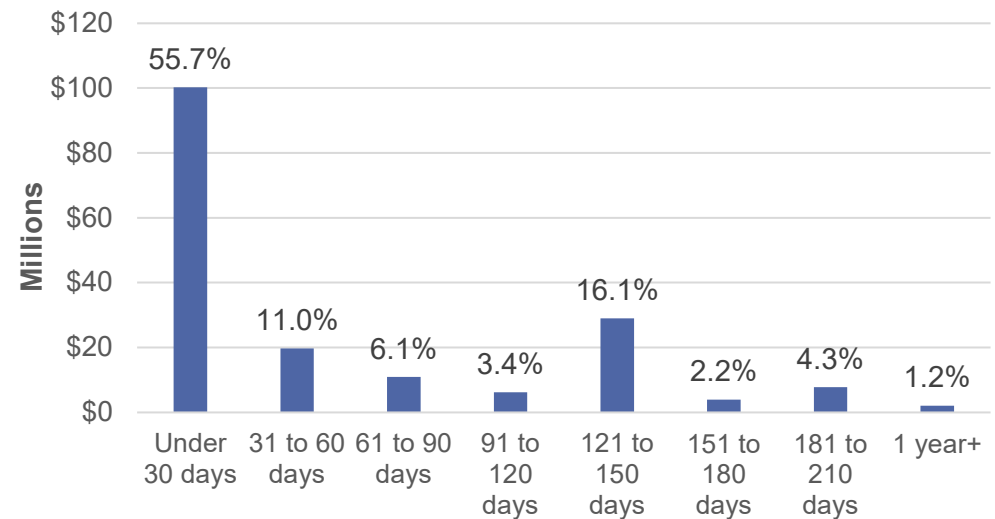
Sector Allocation



Credit Quality - S&P



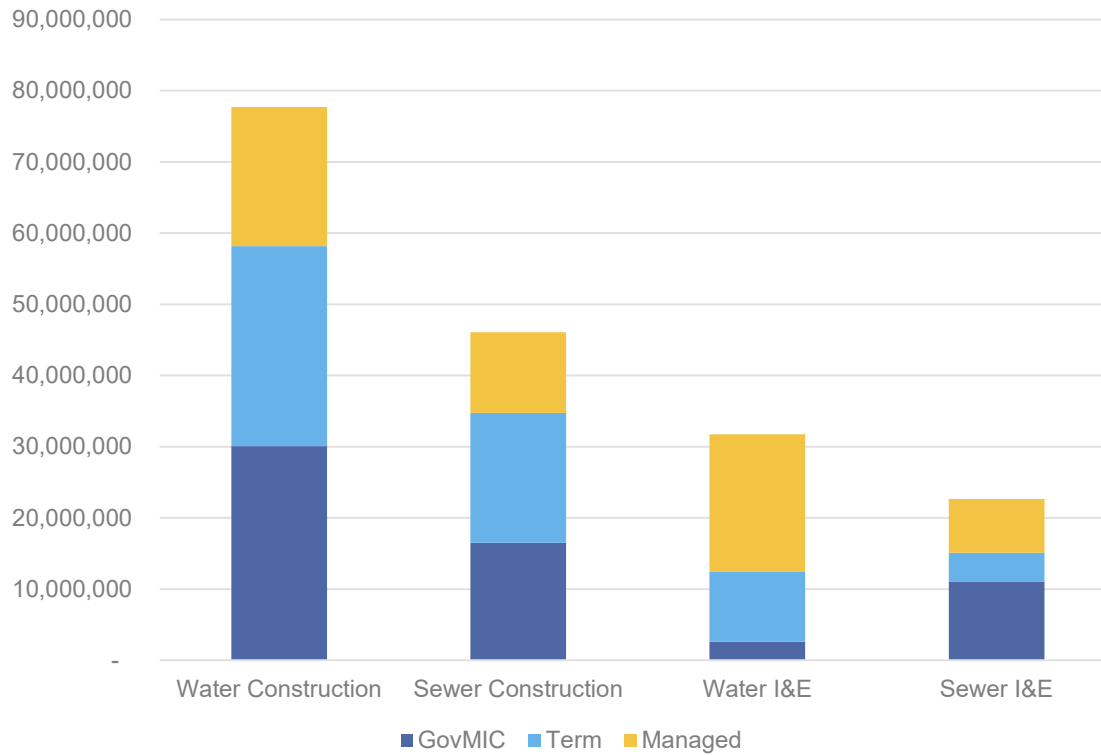
Maturity Distribution



1. Yield excludes cash and cash equivalents. Sector allocation includes market values and accrued interests.
 An average of each security's credit rating was assigned a numeric value and adjusted for its relative weighting in the portfolio.

DWSD Portfolio Summary - Fund

As of June 30, 2022



| Fund | GovMIC | Term | Managed | Total |
|--------------------|---------------|-------------|----------------|--------------|
| Water Construction | 30,096,749 | 28,080,000 | 19,561,672 | 77,738,421 |
| Sewer Construction | 16,513,586 | 18,255,000 | 11,303,719 | 46,072,305 |
| Water I&E | 2,631,685 | 9,775,000 | 19,329,582 | 31,736,267 |
| Sewer I&E | 11,058,156 | 4,070,000 | 7,510,915 | 22,639,071 |
| | 60,300,176 | 60,180,000 | 57,705,887 | 178,186,063 |
| | 34% | 34% | 32% | 100% |

Source: DWSD June 30, 2022 Statement Balances



Investment Rates

As of August 30, 2022

| GovMIC TERM RATES | | |
|-------------------|----------|----------|
| Maturity | Date | Net Rate |
| 60 Days | October | 2.55% |
| 90 Days | November | 2.95% |
| 120 Days | December | 3.05% |
| 150 Days | January | 3.15% |
| 180 Days | February | 3.35% |
| 210 Days | March | 3.35% |
| 240 Days | April | 3.45% |
| 270 Days | May | 3.55% |
| 300 Days | June | 3.16% |
| 330 Days | July | 3.21% |
| 365 Days | August | 3.25% |

| MILAF+ CD PURCHASE PROGRAM | | |
|----------------------------|----------|----------|
| Maturity | Date | Net Rate |
| 180 Days | February | * |
| 270 Days | May | * |
| 365 Days | August | * |
| Current 7 Day Yield | | |
| GovMIC Portfolio | | 2.37% |

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- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Refinitiv, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield-based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

Glossary

- **Accrued Interest:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **Agencies:** Federal agency securities and/or Government-sponsored enterprises.
- **Amortized Cost:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **Asset-Backed Security:** A financial instrument collateralized by an underlying pool of assets – usually ones that generate a cash flow from debt, such as loans, leases, credit card balances, and receivables.
- **Bankers' Acceptance:** A draft or bill of exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **Commercial Paper:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **Contribution to Total Return:** The weight of each individual security multiplied by its return, then summed for each sector to determine how much each sector added or subtracted from the overall portfolio performance.
- **Effective Duration:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **Effective Yield:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **Interest Rate:** Interest per year divided by principal amount and expressed as a percentage.
- **Market Value:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **Maturity:** The date upon which the principal or stated value of an investment becomes due and payable.
- **Negotiable Certificates of Deposit:** A CD with a very large denomination, usually \$1 million or more, that can be traded in secondary markets.
- **Par Value:** The nominal dollar face amount of a security.
- **Pass-through Security:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.

Glossary

- **Repurchase Agreements:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **Settle Date:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- **Supranational:** A multinational union or association in which member countries cede authority and sovereignty on at least some internal matters to the group, whose decisions are binding on its members.
- **Trade Date:** The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- **Unsettled Trade:** A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- **U.S. Treasury:** The department of the U.S. government that issues Treasury securities.
- **Yield:** The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- **YTM at Cost:** The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- **YTM at Market:** The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.