

ICMA 401 Plan Quarterly Newsletter

Burgess Chambers & Associates (BCA)

BCA is the City of Hialeah Defined Contribution Plan Consultant and Investment Performance Monitor

BCA Market Perspective ©

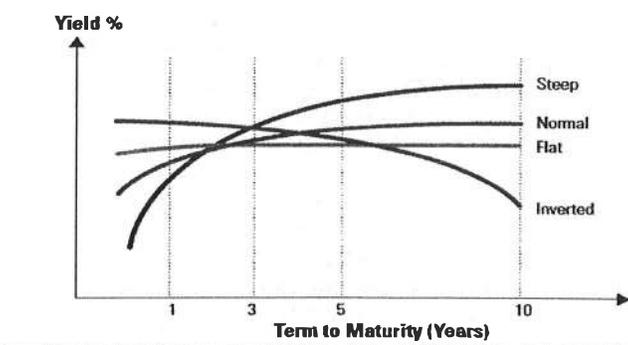
Interest Rates and Banks

Burgess Chambers and Larry Cole

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One of the most volatile sectors in our economy over the past several years has been the financial sector led by the major banks. Much of this volatility has been due to historically low interest rates and speculation on when the Fed would begin raising rates. As noted in a Wall Street Journal article (9/21/15), this unusually long period of low rates has compressed earnings margins at banks by more than 27% since 2010. Low interest rates can be both positive and negative for banks. On the positive side, it allows the banks to pay much less to their customers for their deposits. On the negative side, the banks get paid a lower rate on their loans. In simple terms, banks make money on the difference (or spread) between the rate they pay on deposits and the rate they receive from loans. Typically, banks can make a larger spread in a higher rate environment. And if longer term (lending) rates increase faster than shorter term (deposit rates), the banks should have an even wider spread.

However, rising rates are not automatically good for banks. As mentioned above, banks normally pay their customers based on short term rates and lend the money at longer term rates. If short term rates rise significantly more than long term rates, you would see a flattening of the yield curve and pressure on the spread. A "steep" yield curve is when short term rates are significantly lower than long term rates. This is an attractive environment for banks. But rising short term rates with little or no rise in longer term rates could result in lower spreads and banks less willing to lend.



Complicating this simple analysis of bank profitability is the fact that many larger banks rely less on the loan spread as a source of revenue than they have in the past. They have numerous sources of revenue, many of which are not sensitive to interest rate movements. Knowing how each bank is impacted in various interest rate scenarios will make stock selection critical in this significant sector of the market.

Disclosure: All expressions of opinion reflect the judgment of the author as of the date of publication and are subject to change. Content should not be regarded as a complete analysis of the subjects discussed or as personalized investment advice. All investment strategies have the potential for profit or loss. References to market performance in publications do not represent the returns achieved by Burgess Chambers & Associates or any of its advisory clients.

ICMA PERFORMANCE SUMMARY

Below you will find information relating to funds in the Hialeah Defined Contribution Plan that have been placed on a watch list by our consultant, BCA. This is not a recommendation to buy or sell any funds, but an indication that BCA has identified these funds as those that are not meeting their specific performance expectations over the last 3 to 5 years, and/or experienced material management changes. This performance information shows the returns versus a benchmark index as well as a ranking against similarly managed funds. The City will continue to monitor these funds closely and will consider changes to the managers or adding additional fund options as recommended by BCA and ICMA. For information on all of the available investment options plus additional information on your Plan, please contact **Terry Toledo-Ferguson, ICMA Retirement Plans Specialist. Phone: (866) 630-3041 or email: tferguson@icmarc.org.**

BCA would recommend consulting with a personal advisor before making any investment decisions or you are encouraged to schedule an appointment with your ICMA Retirement Plan Specialist when they visit the various locations. In addition, the City encourages your attendance at any of the numerous City sponsored educational and retirement planning sessions held throughout the year.

Group/Investment	Quarter		1 Year		3 Years		5 Years	
	Return	Rank	Return	Rank	Return	Rank	Return	Rank
Portfolio Holdings								
US OE Large Growth								
Vantagepoint Growth Investor	-3.54	67	-2.16	50	10.80	59	9.31	67
Benchmark 1: Russell 1000 Growth TR	0.74		2.52		13.61		12.38	
US OE Large Value								
AllianzGI NFJ Dividend Value A	2.76	24	-4.43	66	6.49	83	7.83	74
Vantagepoint Equity Income Investor	3.41	18	-4.53	67	6.84	78	7.61	78
Benchmark 1: Russell 1000 Value TR L	1.64		-1.54		9.38		10.25	
US OE Mid-Cap Growth								
Harbor Mid-Cap Growth Inv	-6.12	92	-10.33	75	-7.39	66	6.22	74
Vantagepoint Aggressive Opp Inv	0.00	27	-7.27	44	7.98	59	6.84	64
Benchmark 1: Russell Mid Cap Growth	0.58		-4.75		10.99		9.99	
US OE Mid-Cap Value								
Goldman Sachs Mid Cap Value A	-0.67	94	-11.70	89	6.18	81	7.06	76
Vantagepoint Select Value Investor	1.46	68	-7.93	76	6.06	83	7.98	58
Benchmark 1: Russell Mid Cap Value T	3.92		-3.39		9.88		10.52	
US OE Small Blend								
Vantagepoint Discovery Investor	-1.83	76	-12.80	90	6.06	67	6.52	64
Benchmark 1: Russell 2000 TR USD	-1.52		-9.76		6.84		7.20	
US OE Moderate Allocation								
Vantagepoint Model-Port Tradtnl Gr Inv	1.05	42	-3.20	64	4.73	65	5.37	65
Benchmark 1: US OE Moderate Allocat	0.89		-2.86		4.76		5.45	

*Yellow highlights are for underperformance in the 3 & 5 Year periods.

FREQUENTLY ASKED INVESTMENT QUESTIONS

Q: What is dividend yield?

A: Dividend yield is a ratio that indicates how much a company pays out in dividends per year relative to the price of its stock. This can also be applied to how much an investment, like an ETF or Mutual Fund pays out in income annually. The ratio is expressed as a percentage by dividing the dollar value of dividends paid in a given year per share of stock owned by the dollar value of one share of stock. For example, if an ETF pays out dividends totaling \$5 in a given year, and the price of that ETF is \$100, the dividend yield for this particular ETF would be 5% (Annual Dividends Per Share/Price Per Share = \$5/\$100 = 5%).

Q: What is market capitalization?

A: Market capitalization is a measurement investors use to determine a company's size. A company's "market cap" is calculated using the current market price of one share of stock to determine the total dollar market value of all the company's outstanding shares. Investors use "market cap" to categorize stocks into size classes. The largest stocks are categorized as "large cap" stocks, followed by "mid cap" stocks, and then "small cap" stocks. Currently Apple is considered the largest company in the US stock market, with a market capitalization of over \$520 billion.

HIALEAH FINANCIAL PLANNING EDUCATION PROGRAM

The City offers an expanded financial planning education program for new member enrollment and ongoing participant education as part of Hialeah's Financial Planning initiatives. The City schedules quarterly meetings, group classes, individual counseling, and online webinars. Please visit the Employees tab on the City's website (www.hialeahfl.gov).

Please note that the ICMA 401 Defined Contribution plan is a participant-directed plan that provides for the allocation of investment responsibilities to the participants or beneficiaries. For assistance with your retirement account, please contact please contact **Terry Toledo-Ferguson, ICMA Retirement Plans Specialist. Phone: (866) 630-3041 or email: tferguson@icmarc.org.**