

CPIM

CENTER FOR PUBLIC INVESTMENT MANAGEMENT



A PROGRAM BROUGHT TO YOU BY:

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INV 210: Investing for Small Governments

Agenda for Today

- Investment Policy Statement
- Permissible Investments
- Developing Your Strategy
- Executing Your Strategy
- Opportunities To Invest

Investment Policy Statement

Investment Policy

- Scope
- Objectives
- Permissible Investments
- Maturities
- Diversification
- Authorized Dealers
- Reporting

*The investment policy provides **GUIDELINES** for investing and **PROTECTION** for you!*

Investment Policy

Create, adopt, and file with Auditor of State

- Service providers must sign off
- Review IPS annually
- As the economic environment continuously changes, your investment perspective should evolve
- Stay up to date on Ohio Revised Code amendments – SB 287 changes

Permissible Investments

Senate Bill 287

- Sections 135.14, 135.142, 135.143 and 135.35.
- Introduced in Senate on 2/25/2014 by primary sponsor Senator Jim Hughes
- Unanimously passed by Senate on 5/14/2014
- Unanimously passed by House of Representatives on 5/28/2014
- Signed by the Governor on 6/5/2014
- **Effective on 9/3/2014**

Bank Deposits

- Savings and money market savings accounts
- CDs
- Know the requirements for protection
 - FDIC insurance
 - Collateral

Treasury Securities

- Full faith and credit of the U.S. government
- Most liquid type of security
- Purchase directly from U.S. Treasury or through a broker/dealer

The screenshot shows the TreasuryDirect website interface. At the top, there is a navigation bar with the TreasuryDirect logo and a search bar. Below the navigation bar, there are three main tabs: "Individuals", "Financial Institutions", and "Government". The "Individuals" tab is currently selected. Below the tabs, there is a section titled "See below for shortcuts to popular pages" which contains three columns of links. The "Individuals" column includes links for Treasury Bills, Notes, Bonds, and TIPS; how to purchase Treasury Securities; TreasuryDirect payroll savings; EE/IE Savings Bonds - fixed interest rate; I Savings Bonds - inflation adjusted bond; Savings Bonds as gifts; Are your Treasury Securities still earning interest?; Treasury Hunt - see if you own matured Savings Bonds; and More ... The "Financial Institutions" column includes links for Treasury securities Overview; How Treasury auctions work; Treasury Securities Auctions Calendar; Auction Announcements and Results; Record setting auction data; Historical Auction Results; Data and resources for economic research; Resources for employers; Resources for financial institutions; Statutes and regulations; and More ... The "Government" column includes links for Public Debt Reports; Monthly Statement of the Public Debt; Federal Investments program; State/local government series (SLGS) securities; Agency borrowings; Liquidate your agency's securities; Interest Rate Data; FAQs on the Debt; How to Make a Contribution to Reduce the Debt; and More ... On the right side of the page, there is an "Account Login" section with a "Select an Application" dropdown menu set to "TreasuryDirect" and a "LOGIN" button. Below that is a "Special Announcements" section with links for "Elimination of Unused or Little Used Web Resources (Direct Access)", "State and Local Government Securities Sales Resume", and "Changes to Announcements and Results HTML themes". At the bottom right, there is a "WHAT IS YOUR SAVINGS STORY?" section with icons for a power button, a dollar sign, and a person, and the text "ready.save.grow."

Government Securities

- Full faith and credit or implied backing by U.S. government
- Customized structures – call types and steps
- Things to Consider
 - Compare bond with other dealers
 - Know the difference between the yield and coupon rate!

Commercial Paper

- Need additional training approved by TOS
- Max of 25% (ORC 135.35) or 40% (ORC 135.14) portfolio allocation
- Max maturity restriction of 270 days
- Highest rating category from two rating agencies (Moody's, S&P, Fitch)
- Maximum of 5% of total portfolio in any issuer at time of purchase (ORC 135.14)

Corporate Securities

- ORC 135.35 permits up to 15% of interim funds in corporate securities.
- Must be rated AA or better and have a two year maturity.
- Know what you are buying and the risk associated.
 - Credit risk
 - Liquidity risk

Municipal Securities

- Permits entities to purchase general obligations of the State or political subdivisions of the State (20% max under ORC 135.14)
- Must be rated in three highest categories (ORC 135.14)
- Cannot be the sole owner of an entire issue (ORC 135.14)
- Charter Cities could have specific language for purchasing municipals
- Must complete training with TOS

Repurchase Agreements

- Term loan with collateral in the form of securities
- Master Repurchase Agreement outlines procedures
- Reverse repo enables investment officer to leverage the portfolio – **PROHIBITED**

Bankers Acceptances

- Need additional training approved by TOS
- Less than 25% portfolio allocation
- Maturity restriction of 180 days

STAR Ohio

- AAAm rated by Standard and Poor's (highest)
- Similar to money market fund
- Daily interest income
- Daily liquidity (within guidelines)
- State administered



STAR Plus

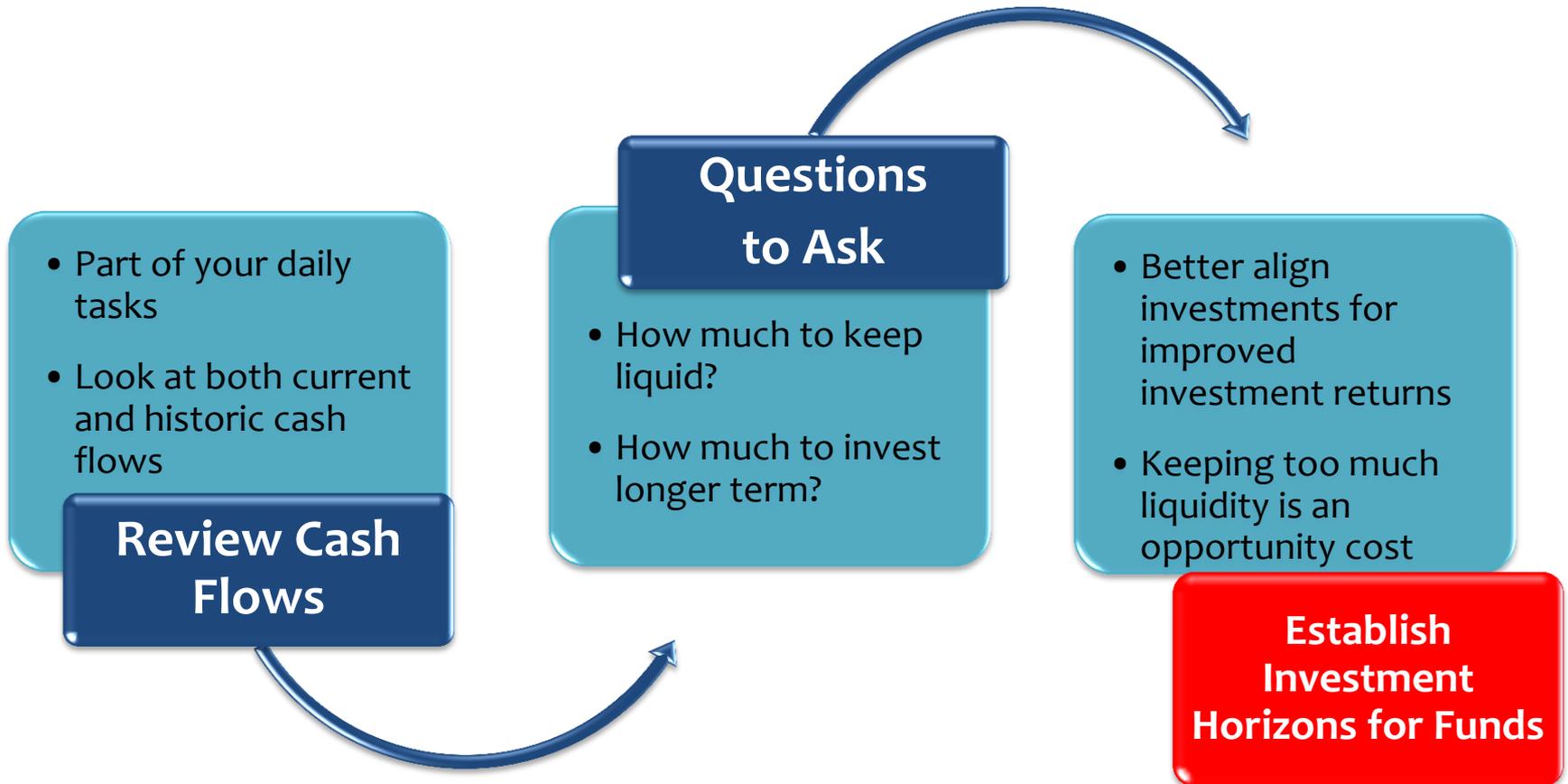
- Convenience of one account and one statement
- All deposits are demand deposits and are 100% FDIC-insured
- Up to \$25 million in deposits per legal entity
- Twice weekly withdrawal and daily deposit capability
- Daily transparency with 24/7 online access to account information



Developing Your Investment Program

Identify Your Core Portfolio

Cash Forecast & Investment Horizon



Identify Your Core Portfolio

Cash vs. Core

Cash Management – “**Cash**” Portfolio

- Operating needs for current year
- Funds with uncertain time horizon

Investment Management – “**Core**” Portfolio

- Cash balance with time horizon greater than once a year
- Apply investment strategy to maximize earnings

Establish Investment Outlook

- Identify major forces and factors that influence the markets
 - What is the macroeconomic situation?
- Understand current economic status and trends
 - Economic indicators
 - Market commentaries
- Identify future scenarios and their investment implications
 - What are the economists saying?
- Identify factors that signal a change in the current economic environment
 - Become an economist

Performing basic economic analysis will produce prudent investment results

Executing Your Investment Program

Who Will Help You?

STAR Ohio/Plus

- **STAR Ohio**
 - Know the investments of STAR Ohio
 - Look over the annual report
- **Plus**
 - Understand how program works
 - Monitor deposit Banks

Banks

- Make sure they understand nuances of public entities
- Work with banks you know and trust

Investment Advisors

- Acts as a fiduciary in the client's best interest
- Who do they work with?
- What are their credentials?
- Check them out: www.advisor.sec.gov

Brokers

- Recommends suitable investments
- Who do they work with?
- What do they do and how much do they charge?
- Check them out: www.finra.org

***Perform the Due Diligence
Before Investing***

External Managers – Advisor

- Provides investment advice
- Fiduciary responsibility
- May or may not have direct control (discretionary vs. non-discretionary)
- Executes purchases/sales
- Manages or provides advice on overall portfolio
- May coordinate safekeeping (3rd party custodian)

Definition of “Fiduciary” - fi·du·cia·ry - noun

- In law, a person in a position of authority whom the law obligates to act solely on behalf of the person he or she represents and in good faith.

Source: Merriam-Webster

External Managers – Broker/Dealer

- Provides investment advice
- No fiduciary responsibility
- Does not have direct control
- Acts as a broker when executing orders on behalf of clients
- Acts as a dealer when trading from its own account
- May provide safekeeping

Benefits of Using External Managers

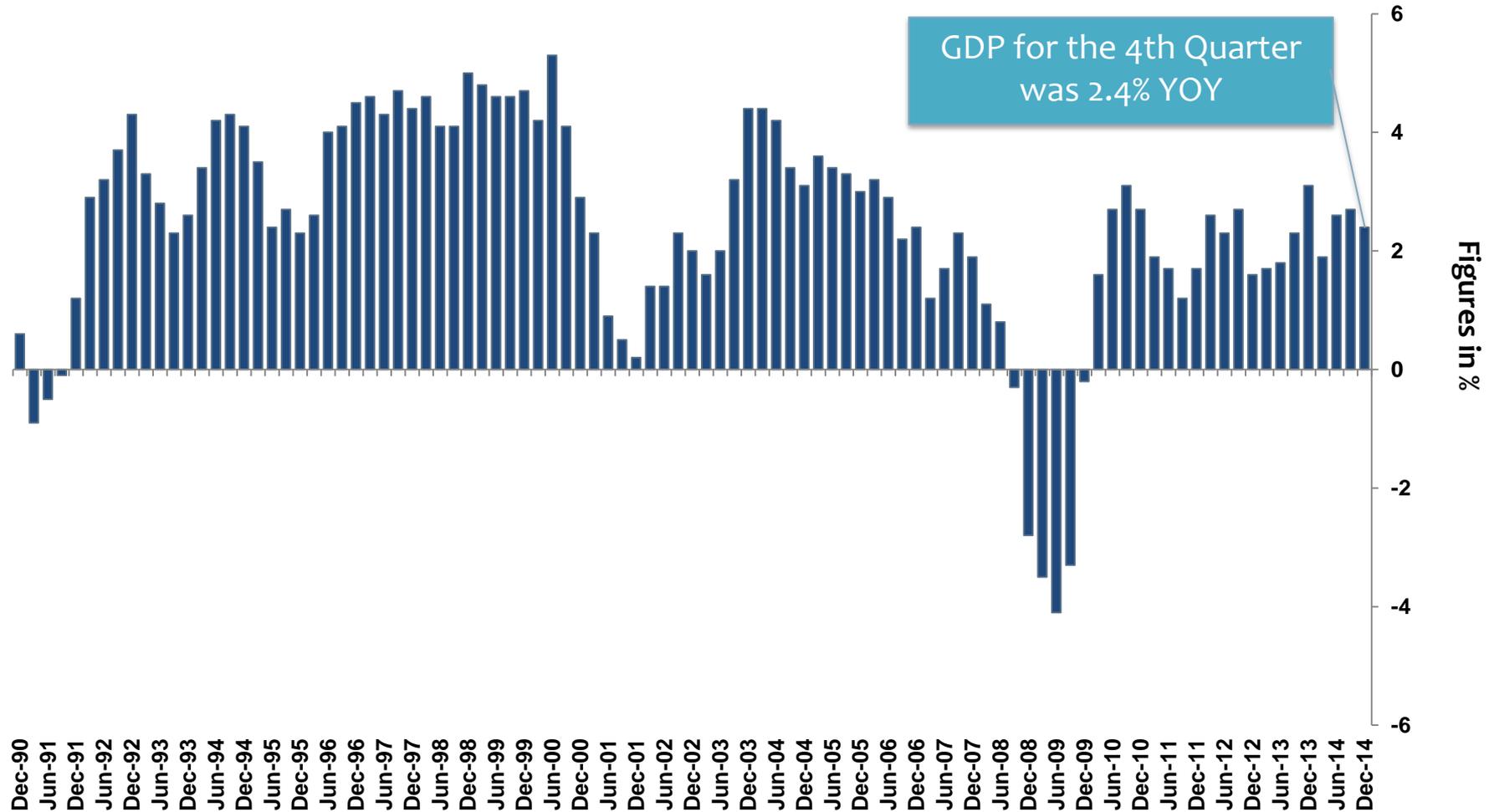
- Professional manager – that is their business
- Greater access to investment markets/information
- Broker network – potentially more sources to receive best price execution of trades
- Enhanced credit research available for unsecured investments (i.e., commercial paper)
- Can complement internal resources or personnel
- Could increase internal control and “separation of duties”
- Be careful and know what role the provider is playing

Economic Environment

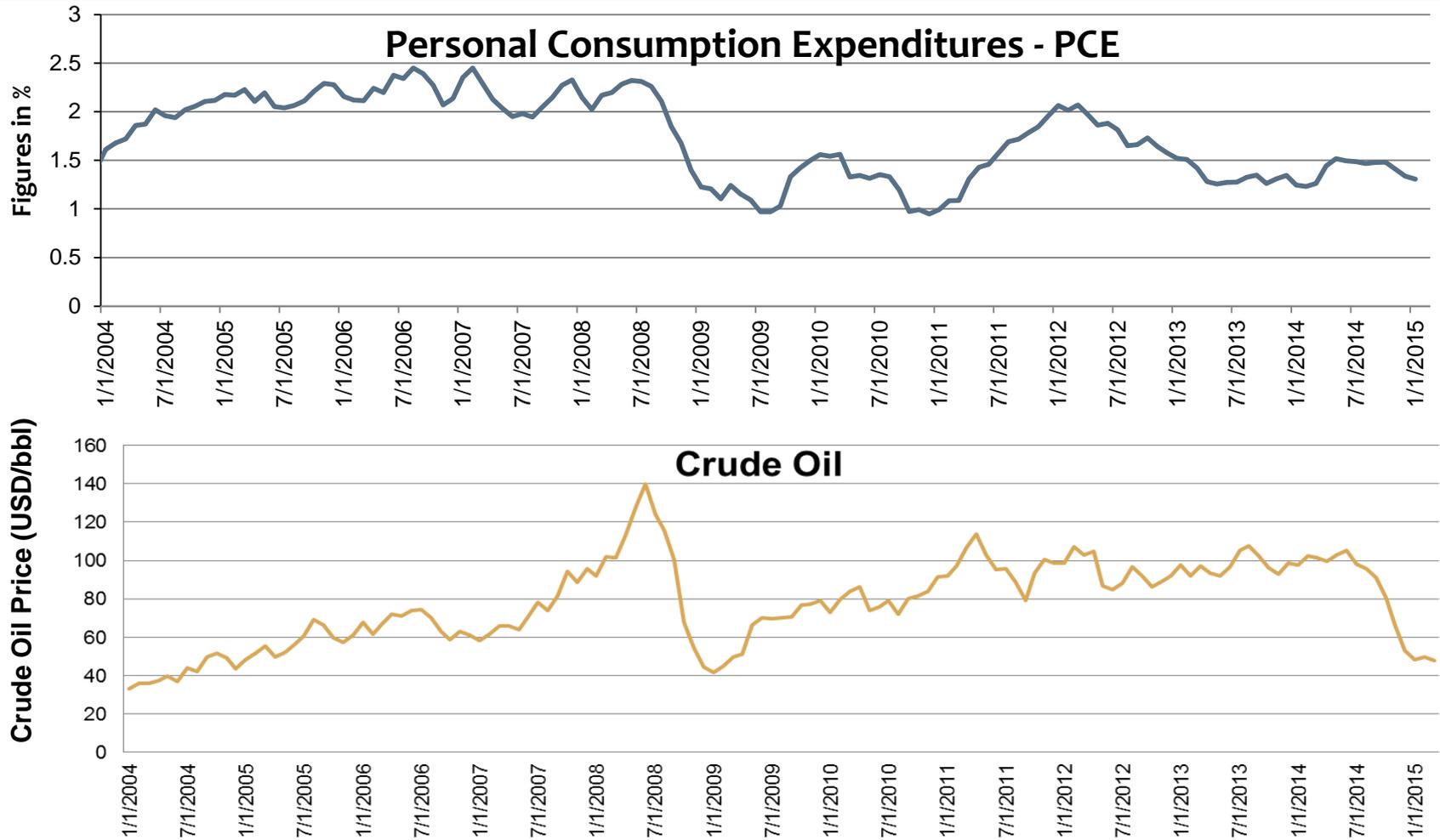
Market Environment

- The Federal Open Market Committee (FOMC) reaffirmed its current 0% to .25% target range for the federal funds rate. Members have opposing views as to how quickly rate increases should begin.
- The European Central Bank continued purchasing asset-back securities in its attempt to provide stability to the struggling European economies. Overnight rates remain at 0% to .05%.
- Oil prices have hit 5 year lows sinking below \$50 per barrel from their highs of over \$105 this summer.

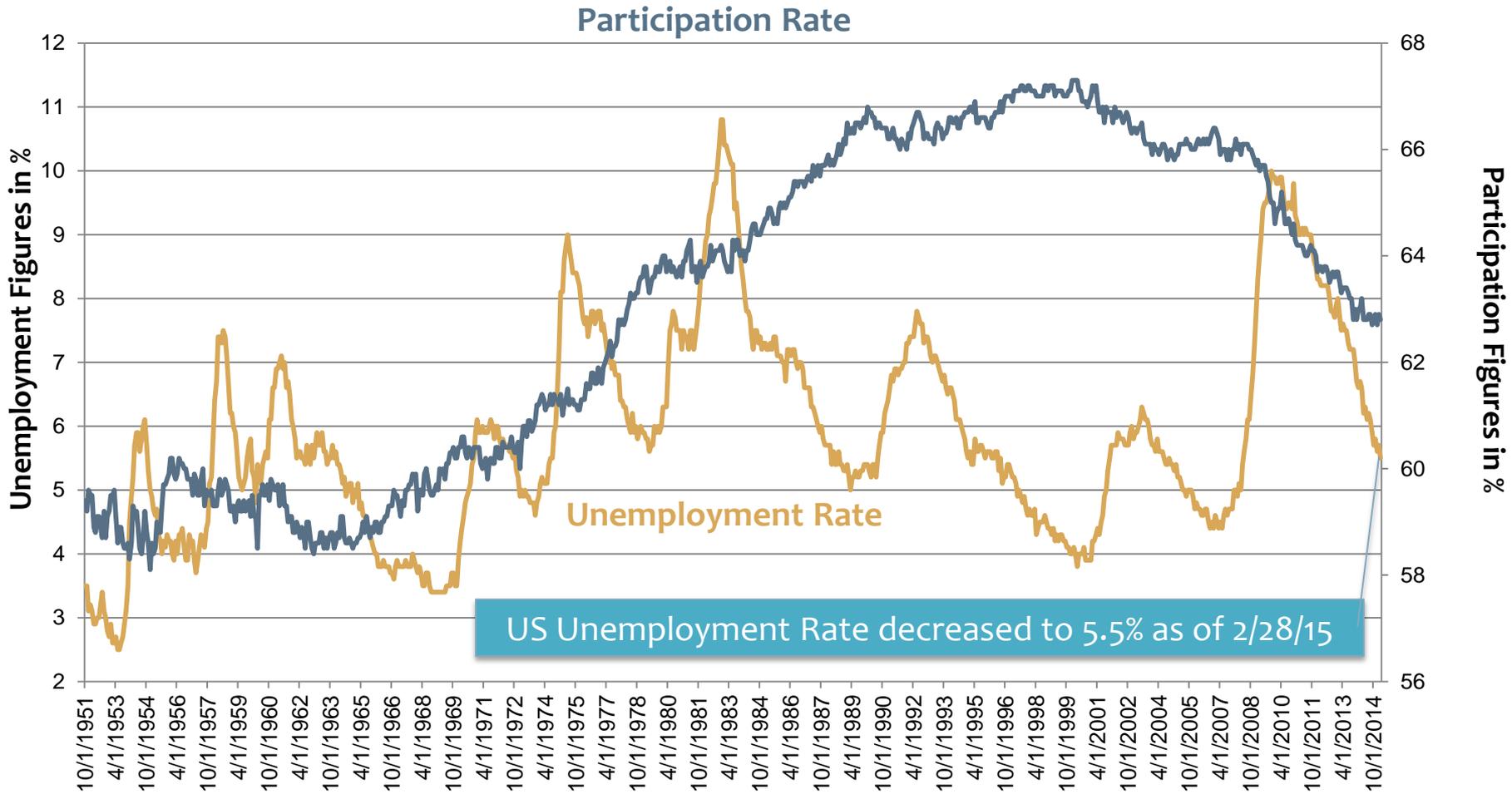
Gross Domestic Product (GDP)



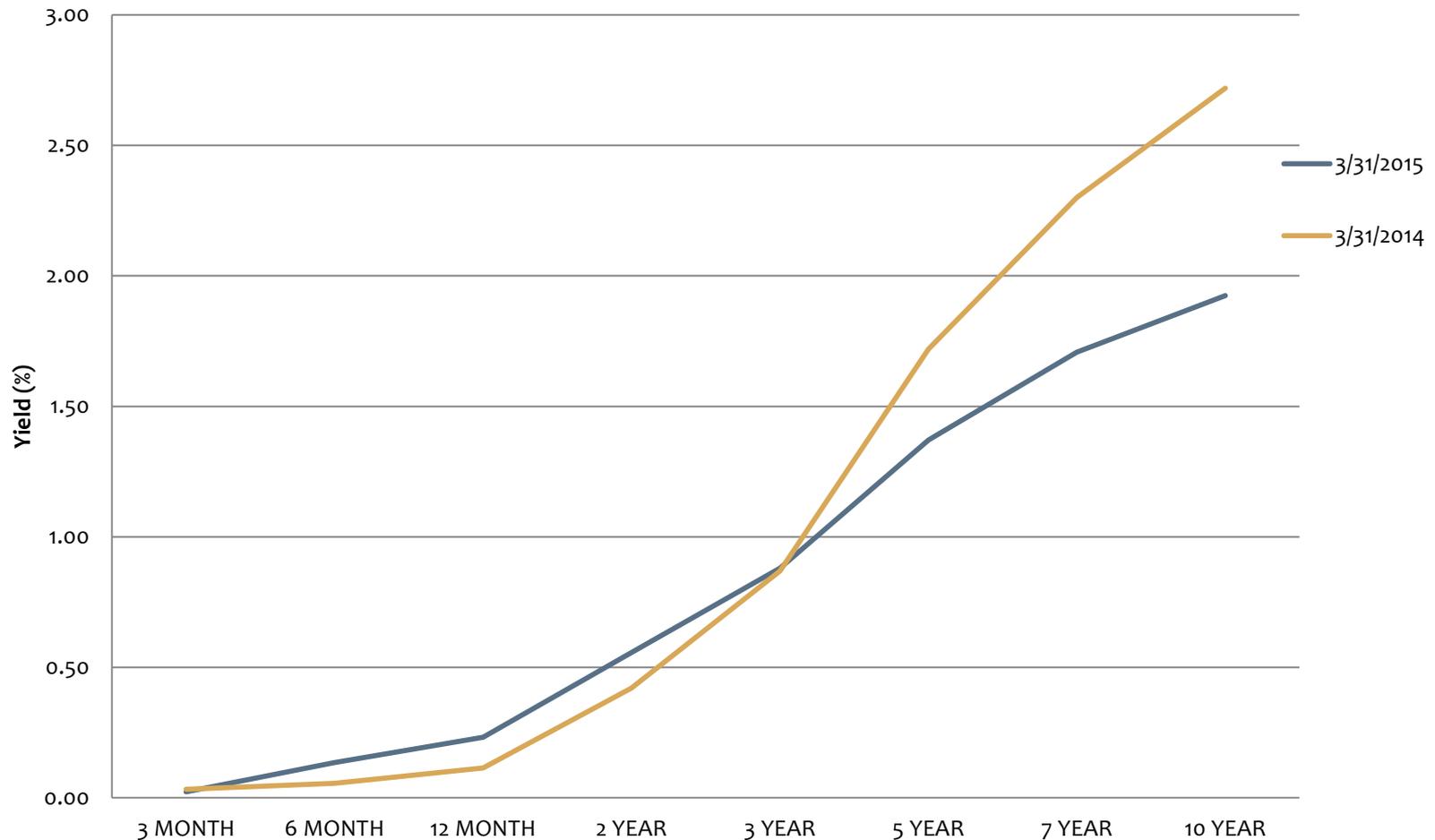
Inflation



Unemployment



U.S. Treasury Yield Curve



Summary

- Ask questions
- Know the details
- Protect yourself – follow the law
- Seek help when appropriate

- **ULTIMATELY IT IS YOUR RESPONSIBILITY!**

Questions?

Thank you.