

FGFOA Webinar: A Roadmap for Uncertain Times

Creating Better Investment Policies

December 14, 2023

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NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE

Creating Better Investment Policies



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Session Description:

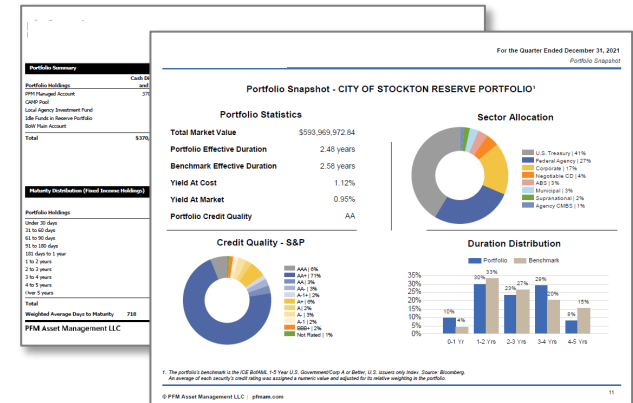
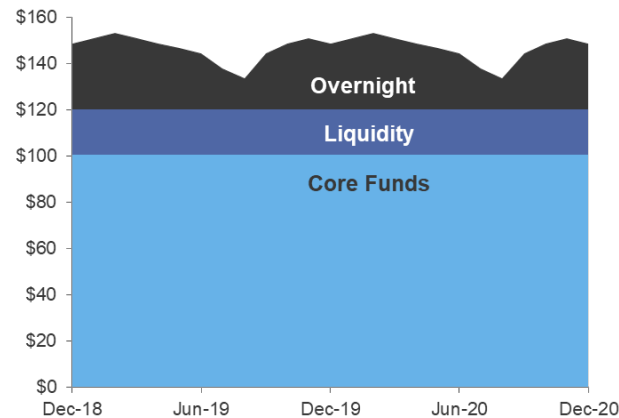
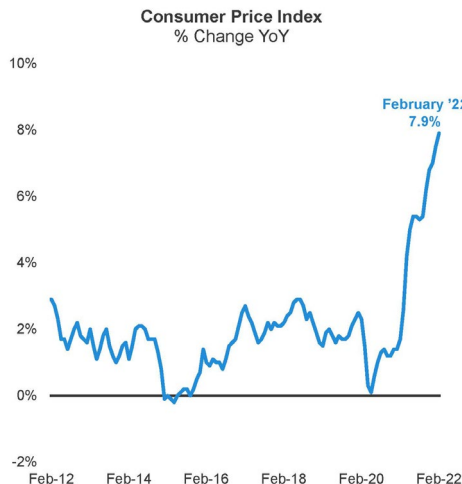
Florida local governments are required to adhere to state statutes that lay the basis for a safe, best practice investment program. This session will provide a detailed look at Florida's investment statutes and how they have functioned through volatile markets. This session will incorporate the historical lessons learned to construct an investment policy using Florida's investment statutes.

Challenges in Designing an Investment Program

Changing Markets

Optimizing Liquidity

Communicating With Stakeholders



A well-designed investment program lays the foundation for a successful investment program.

- ▶ 5 U.S. economic recessions (1980, 1981-2, 1990-1, 2001, 2007-9, 2020)
- ▶ 7 presidential administrations (4 Democrat, 3 Republican)
- ▶ 5 Federal Reserve Chairs
- ▶ 13 U.S. Treasury Secretaries
- ▶ U.S. Military operations (Libya, Grenada, Panama, Kuwait, Somalia, Bosnia, Kosovo, Afghanistan, Iraq)
- ▶ Many periods of geopolitical turmoil
- ▶ Stock Market crashes of 1987, 1997, 2000-1 and 2008-9
- ▶ 1980's Farm Credit System crisis
- ▶ 1982-84 Failure of Drysdale Lombard-Wall and Lion's Capital
- ▶ 1983 FNMA issues 1st CMO
- ▶ 1980-90's Savings and Loan crisis
- ▶ 1986 Tax Reform Act
- ▶ 1990 Bankruptcy of Drexel Burnham Lambert & Michael Milken conviction
- ▶ 1991 Bankruptcy of Pan Am/Eastern
- ▶ 1994 Orange County CA bankruptcy
- ▶ 1995 Barings Bank trading collapse
- ▶ 1997 Asian financial Crisis
- ▶ 1998 Russian financial crisis/default
- ▶ 1998 Failure of Long-Term Capital Mgmt.
- ▶ 1999 Introduction of the Euro
- ▶ 2000 Bursting of the dot-com bubble
- ▶ 2001 California energy crisis and bankruptcy of PG&E
- ▶ 2001 September 11 terrorist attacks
- ▶ 2001 Enron fraud and bankruptcy
- ▶ 2002 WorldCom bankruptcy
- ▶ 2005 Hurricane Katrina
- ▶ 2006 Collapse of Amaranth hedge fund
- ▶ 2007 Freezing of asset-backed CP mkt
- ▶ 2007 Florida SBA Pool freezes
- ▶ 2007-9 Sub-prime mortgage crisis and housing bubble
- ▶ 2008 Collapse of Bear Stearns
- ▶ 2008 Failure of Lehman Brothers, Washington Mutual and IndyMac Bank
- ▶ 2008 Primary Reserve money market fund "breaks the buck"
- ▶ 2008 Iceland systemic banking collapse
- ▶ 2008 Conservatorship of Fannie Mae and Freddie Mac
- ▶ 2008 LIBOR manipulation scandal
- ▶ 2008-12 TARP, TAF, TSLF, PDCF, IOER, AMLF, CPFF, TLGP, TAG
- ▶ 2008-14 Federal Reserve "quantitative easing" (QE)
- ▶ 2008 Bernie Madoff Ponzi scheme
- ▶ 2008-12 European banking & sovereign debt
- ▶ 2009-13 ECB's LTRO, EFSF
- ▶ 2009 Stanford Financial Ponzi scheme
- ▶ 2009 Bankruptcies of GM & Chrysler
- ▶ 2010 U.S. stock market Flash Crash
- ▶ 2010 Dodd-Frank Wall Street Reform Act
- ▶ Basel Bank accords of 1988, 2004-9, & 2010-13
- ▶ 2011 Fukushima nuclear disaster
- ▶ 2011 S&P's downgrade of U.S. Gov't.
- ▶ 2011 Collapse of MF Global
- ▶ 2011 Jefferson County AL bankruptcy
- ▶ 2012 Hurricane Sandy
- ▶ 2013 City of Detroit bankruptcy
- ▶ 2013 U.S. Government Shutdown
- ▶ 2014 Russian annexation of Crimea
- ▶ 2014 Russian financial & currency crisis
- ▶ 2015 Greece default on IMF loan
- ▶ 2015 Puerto Rico debt default
- ▶ 2015-16 Oil price collapse
- ▶ 2016 Brexit
- ▶ 2018-19 Chinese bond market deleveraging
- ▶ 2020 Coronavirus Pandemic
- ▶ 2021 Chinese developer Evergrande crisis
- ▶ 2022 US inflation hits 42 year high
- ▶ 2022 Russia Invades Ukraine
- ▶ 2023 SVB, First Republic Mid size bank failures
- ▶ 2023 Hamas Attack on Israel

Investment Policy Design Framework



**PFMAM's Investment Policy Review Framework
consists of three components:**



Section 218.415 Florida Statutes Requirements

1. Scope
2. Investment Objectives
- 3. Performance Measurement**
4. Prudence and Ethical Standards
5. Listing of Authorized Investments
6. Maturity and Liquidity Requirements
7. Portfolio Composition
8. Risk and Diversification
9. Authorized Investment Institutions and Dealers
10. Third-Party Custodial Agreements
11. Master Repurchase Agreement
12. Bid Requirement
13. Internal Controls
- 14. Continuing Education**
- 15. Reporting**

Existing Investment Policy should elaborate on Performance Measurement, include the continuing education requirement and consistent reporting as per Section 218.415, Florida Statutes

APT US & C* Investment Policy Requirements

- Policy/Purpose
- Scope
- Prudence
- Objective (Safety, Liquidity, Yield)
- Delegation of Authority
- Ethics and Conflict of Interest
- Authorized Financial Dealers and Institutions
- Authorized & Suitable Investments
- **Investment Pools/Mutual Fund Questionnaire**
- Collateralization
- Safekeeping and Custody
- Diversification
- Maximum Maturities
- Internal Control
- Performance Standards
- Reporting
- Investment Policy Adoption
- **Glossary**

Based on PFMAM's review, the existing Investment Policy is missing two of the sections necessary to be certified by the APT US & C

GFOA Investment Policy Best Practices

- ▶ Scope and investment objectives
- ▶ Roles, responsibilities, and standards of care
- ▶ Suitable and authorized investments
- ▶ Investment diversification
- ▶ Safekeeping, custody, and internal controls
- ▶ Authorized financial institutions, depositories, and broker/dealers
- ▶ Risk and performance standards
- ▶ Reporting and disclosure standards

Existing Investment Policy contains all of the GFOA's best practice recommendations

Poll Question

Why Do Local Governments Need an Investment Statute?

A) Promotes Best Practices

B) Encourages Strong, Written Policy

C) Promotes Transparency

D) All of the Above



Chapter 218.415, Florida Statute



Poll Question

What is covered by the policy?

A) Operating Funds

B) Bond Proceeds

C) Pension Funds

D) Trust Funds



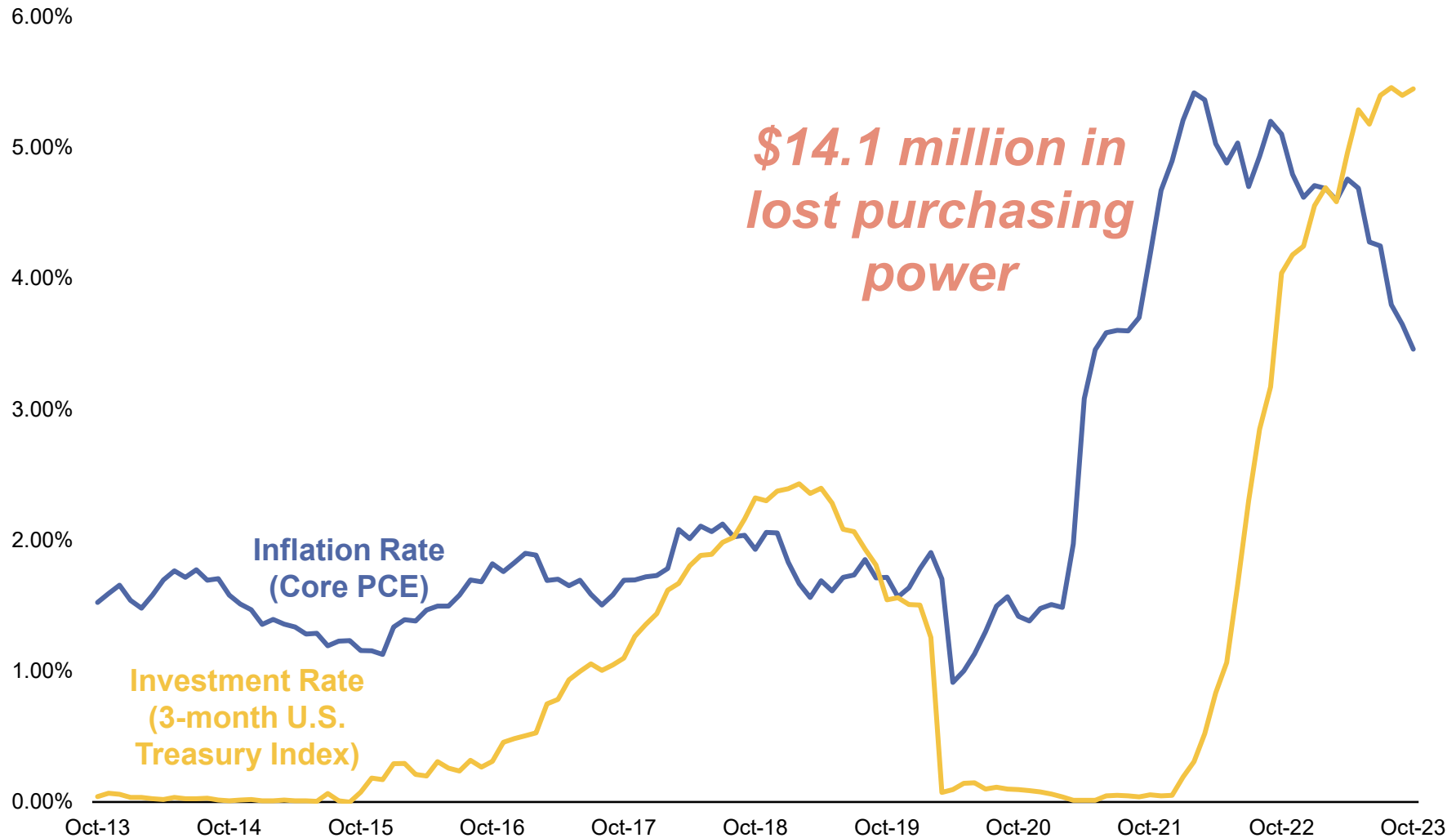
(1) SCOPE

The investment policy shall apply to funds under the control of the unit of local government in excess of those required to meet current expenses. The investment policy shall not apply to pension funds, including those funds in chapters 175 and 185, or funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds.

(2) Investment Objectives

The investment policy shall describe the investment objectives of the unit of local government. Investment objectives shall include safety of capital, liquidity of funds, and investment income, in that order.

Erosion of Principal Purchasing Power Over 10 Years



Source: Bloomberg, as of 10/31/2023. Loss calculation is based on a starting portfolio size of \$100,000,000 and a starting date of 10/31/2013.

(3) Performance Measurement

The investment policy shall specify performance measures as are appropriate for the nature and size of the public funds within the custody of the unit of local government.

Performance Measurement

CFA Institute's Benchmark Characteristics

- ▶ **Identification and Explanation**
 - ▶ Benchmark is identified and agreed upon before implementing proposed portfolio strategy
- ▶ **Appropriate**
 - ▶ Consistent with the portfolio's style
- ▶ **Measurable**
 - ▶ Return is readily calculable
- ▶ **Unambiguous**
 - ▶ Names and weights of assets are identifiable
- ▶ **Reflective of current investment options**
 - ▶ Close comparability between portfolio and selected benchmark
- ▶ **Accountable**
 - ▶ Manager agrees that benchmark is appropriate
- ▶ **Investable**
 - ▶ Possible to hold the benchmark

Poll Question

**Which of the following
is a characteristic of
an appropriate
benchmark?**

A) Measurable

B) Ambiguous

C) Investable

D) Only A & C



The Government Finance Officers Association recommends that government investors assess their investment portfolio for performance and risk by comparing the total return of the portfolio to carefully selected benchmarks.

Total return provides a complete snapshot of the outcomes resulting from investment decisions since it measures the percent change in the value of a portfolio over a defined historical period.

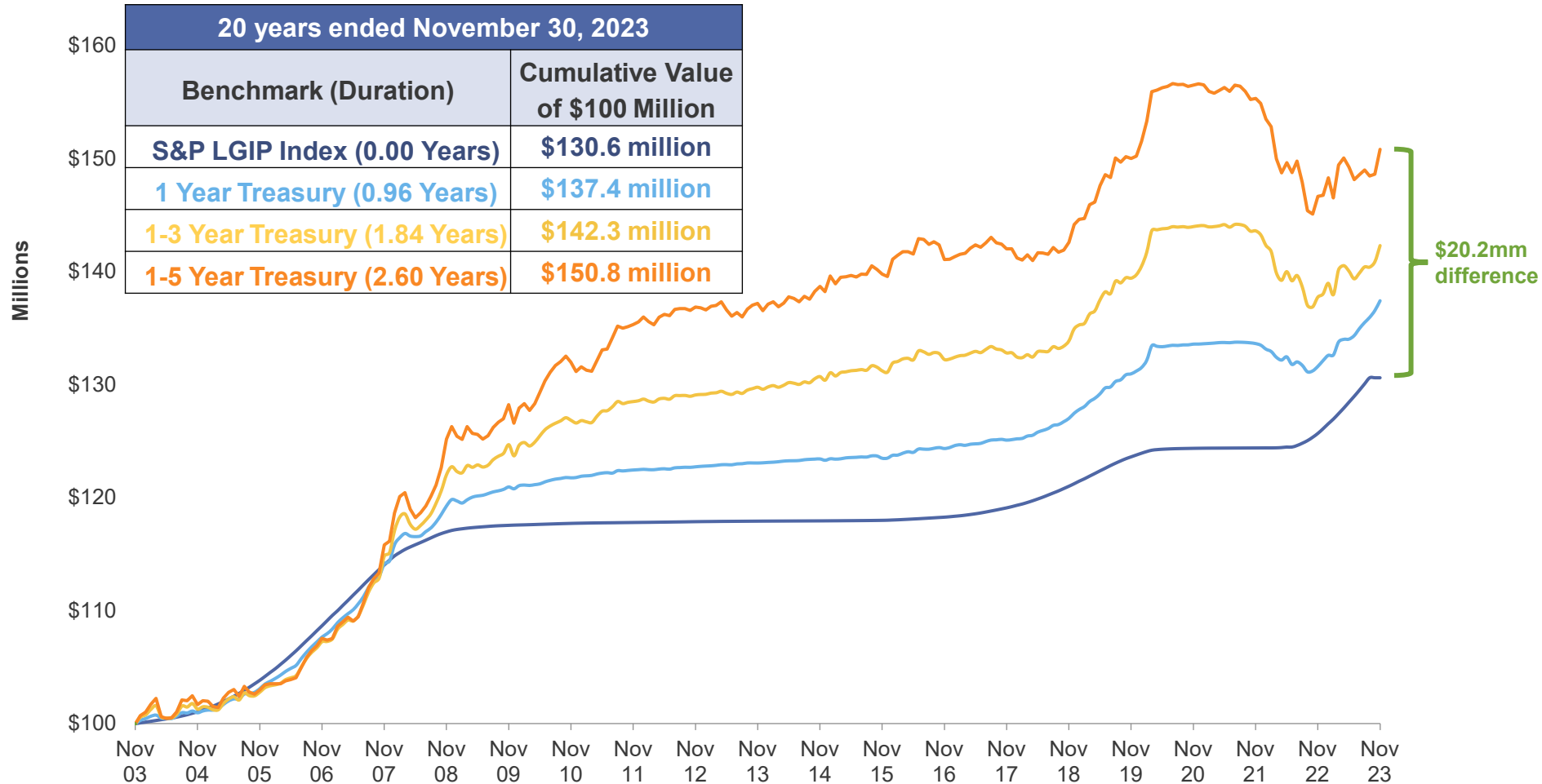
Benchmark Examples

Category	Short-Term Benchmark ¹	Long-Term Benchmark ²
Name	Standard & Poor's LGIP All Gross Yield	ICE BofAML US 1-3 Treasury
Definition	Short-Term index that tracks the performance of AAAM and AAM Local Government Investment Pools (LGIPS).	Intermediate term index that tracks sovereign debt securities publicly issued by the United States Government carrying maturities between 1 and 3 years.
Number of Constituents	60 Pools	94 Issues
Assets Represented	\$247.7 billion	\$4.7 trillion
Weighted Average Maturity/Duration	33 days (reset)	1.80 years

Source: 1. Bloomberg and Standard & Poor's, data as of the Week of 4/8/2022. Average Yield shown Gross of Fees per City's Investment Policy Benchmark. 20
 Additional information can be found at <https://www.spglobal.com/ratings/en/products-benefits/products/local-government-investment-pools>
 2. Bloomberg and Ice Bank of America Merrill Lynch 1-3 U.S. Treasury Index Fact Sheet. Data as of 3/31/2022.

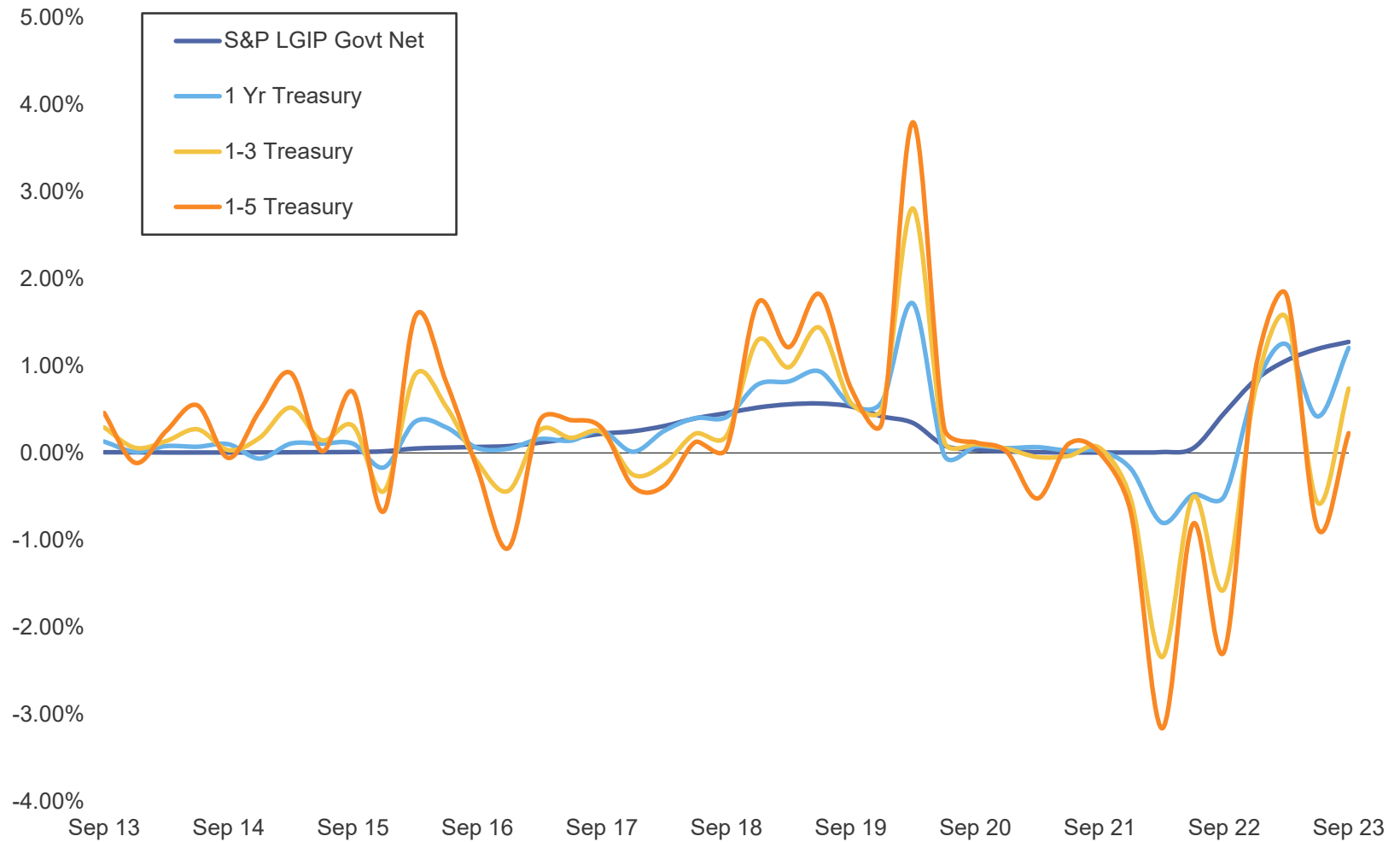
Historical Benefit of Increased Duration

Growth of \$100,000,000 Invested 20 Years Prior



Source: Bloomberg, as of 11/30/2023.

Benchmark Duration's Impact on Periodic Performance



Source: Bloomberg, as of 9/30/2023. Based on quarterly returns.

(4) Prudence and Ethical Standards

The investment policy shall describe the level of prudence and ethical standards to be followed by the unit of local government in carrying out its investment activities with respect to funds described in this section. The unit of local government shall adopt the Prudent Person Rule, which states that:

"Investments should be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment."

(5) Listing of Authorized Investments

The investment policy shall list investments authorized by the governing body of the unit of local government, subject to the provisions of subsection (16). Investments not listed in the investment policy are prohibited. If the policy authorizes investments in derivative products, the policy must require that the unit of local government's officials responsible for making investment decisions or chief financial officer have developed sufficient understanding of the derivative products and have the expertise to manage them. For purposes of this subsection, a "derivative" is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or index or asset values. If the policy authorizes investments in reverse repurchase agreements or other forms of leverage, the policy must limit the investments to transactions in which the proceeds are intended to provide liquidity and for which the unit of local government has sufficient resources and expertise.

What Investments are Allowed for Local Governments?

Security Type	Section 218.415 (16) With Investment Policy	Section 218.415 (17) Without Investment Policy
Local Government Investment Pool	✓	✓
SEC Registered Money Market Funds	✓	✓
Deposits Accounts / Certificates of Deposit with QPDs	✓	✓
US Treasury Obligations	✓	✓
Federal Agencies & Instrumentalities	✓	
Government of Israel Obligations	✓	
US Government Bond Mutual Funds	✓	
Investments Approved by Governing Body	✓	

Investment Policy

Maximum Sector Limit Comparison

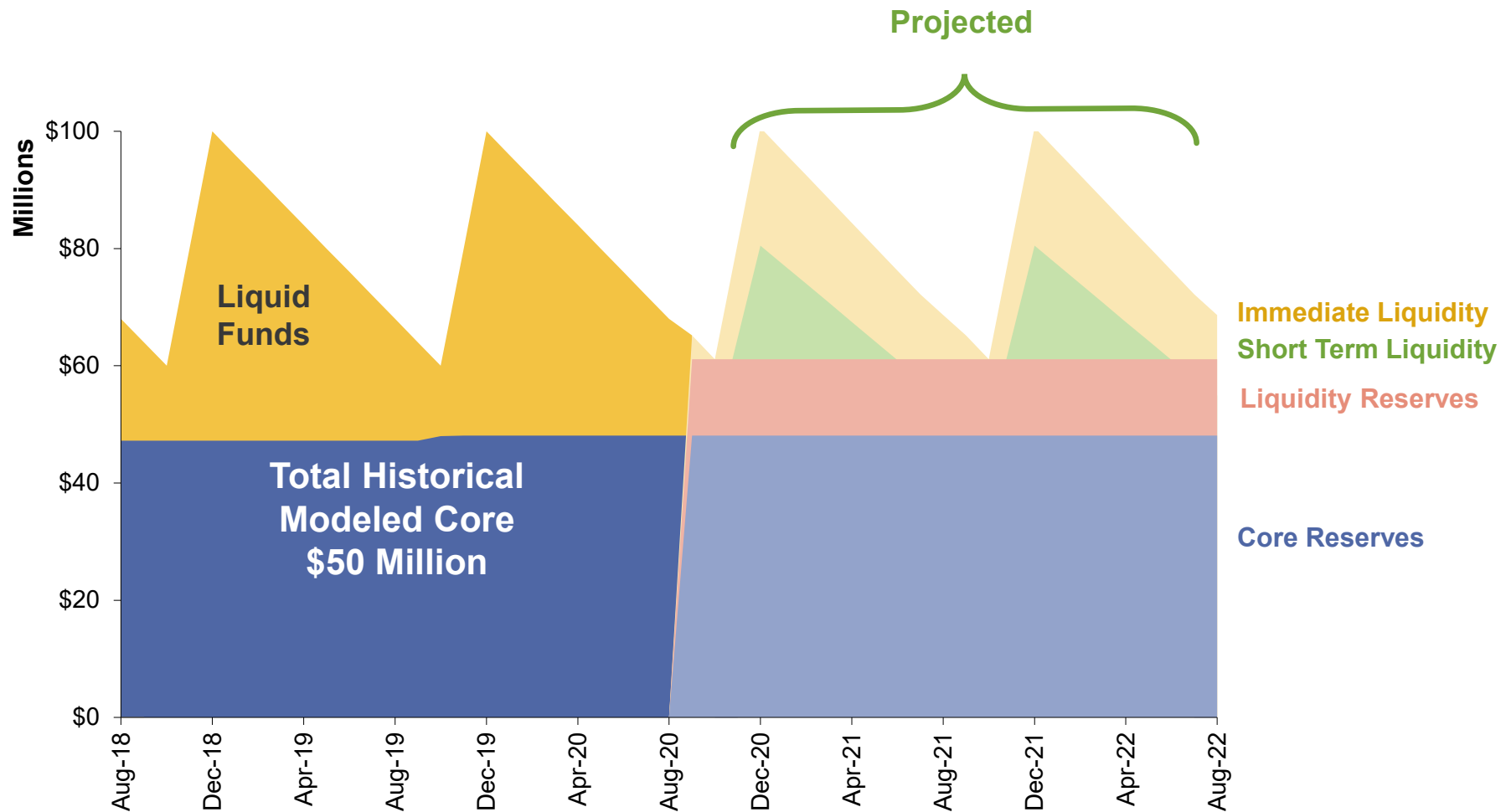
Sector	Current Policy	New Draft Policy	Peer 1	Peer 2	Peer 3	Peer 4	Peer 5
U.S. Treasuries	100%	100%	100%	100%	100%	100%	75%
Federal Agencies	100%	75%	75%	80%	75%	80%	50%
Supranationals	0%	10%	15%	0%	10%	25%	25%
Certificates of Deposit	100%	60%	50%	50%	50%	50%	40%
Commercial Paper	0%	50%	50%	25%	25%	50%	25%
Corporates	0%	50%	50%	25%	50%	50%	25%
Asset Backed Securities	0%	25%	25%	0%	25%	25%	10%
Agency Mortgage - Backed Securities	100%	25%	25%	20%	25%	25%	0%
Municipals	100%	25%	25%	25%	25%	25%	0%
Money Market Funds	100%	50%	50%	50%	50%	50%	80%
Local Government Investment Pools	100%	100%	50%	50%	75%	50%	40%

For illustrative purposes only.

(6) Maturity and Liquidity Requirements

The investment policy shall require that the investment portfolio is structured in such manner as to provide sufficient liquidity to pay obligations as they come due. To that end, the investment policy should direct that, to the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash-flow requirements.

Cash Flow Analysis is Used to Optimize Portfolio Segmentation



Portfolio Segmentation and Strategy Considerations

Portfolio Segment	Strategy Consideration	Potential Characteristics
Immediate Liquidity	Daily Liquidity	<ul style="list-style-type: none"> • Bank operating cash • Money Market Funds • Local Government Investment Pools (LGIPs)
Short Term Liquidity	Up to 1 Year Laddered Maturities	<ul style="list-style-type: none"> • Short-term fixed rate investments • Commercial Paper • LGIP Term Investments • Certificate of Deposits
Liquidity Reserves	Short Duration Target (6 Months-2 Year Duration)	<ul style="list-style-type: none"> • Highly liquid securities <ul style="list-style-type: none"> - Securities/sectors with active secondary markets - Limited structure/optionality risk • Allocation to high-quality, diversified credit securities to maximize the income potential of short duration needs • Commercial paper, ABS, corporate notes
Core Reserves	Longer Duration Target (1-3, 1-5 years)	<ul style="list-style-type: none"> • Diversified across high-quality asset classes • Realize the benefits of a positively sloped yield curve • Greater focus on income generation (lower liquidity profile) <ul style="list-style-type: none"> - Corporate notes, MBS, federal agencies

Poll Question

**Investment maturities
should be matched
with which of the
following?**

A) Known Cash Needs

B) Anticipated, but Uncertain Needs

C) Both A & B

D) None of the Above



(7) Portfolio Composition

The investment policy shall establish guidelines for investments and limits on security issues, issuers, and maturities. Such guidelines shall be commensurate with the nature and size of the public funds within the custody of the unit of local government.

Table of Permitted Investments

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement	Maximum Maturity
U.S. Treasury	100%	100%	N/A	5.5 years
GNMA		40%		
Other U.S. Government Guaranteed (e.g. AID, GTC)		10%		
Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB	75%	40%	N/A	5.5 Years
Federal Agency/GSE other than those above		10%		
Supranationals where U.S. is a shareholder and voting member	10%	5%	AAA	5.5 Years
Corporates	30%	5%	A-	5.5 Years
Municipals	25%	5%	A-	5.5 Years
Agency Mortgage-Backed Securities (MBS)	25%	40%	N/A	5.5 Years
Asset-Backed Securities (ABS)	25%	5%	AAA	5.5 Years

For illustrative purposes only.

Table of Permitted Investments

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement	Maximum Maturity
Non-Negotiable Certificate of Deposits and Savings Accounts	50%	None, if fully collateralized	None, if fully collateralized.	2 Years
Commercial Paper (CP)	30%	5%	A-1	270 Days
Repurchase Agreements (Repo or RP)	40%	20%	A-1	90 Days
Money Market Funds (MMFs)	100%	25%	AAAm	N/A
Local Government Investment Pools	50%	25%	AAAm	N/A

For illustrative purposes only.

(8) Risk and Diversification

The investment policy shall provide for appropriate diversification of the investment portfolio. Investments held should be diversified to the extent practicable to control the risk of loss resulting from overconcentration of assets in a specific maturity, issuer, instrument, dealer, or bank through which financial instruments are bought and sold. Diversification strategies within the established guidelines shall be reviewed and revised periodically, as deemed necessary by the appropriate management staff.

Annual Return BofA Merrill Lynch 1-5 Year Indices

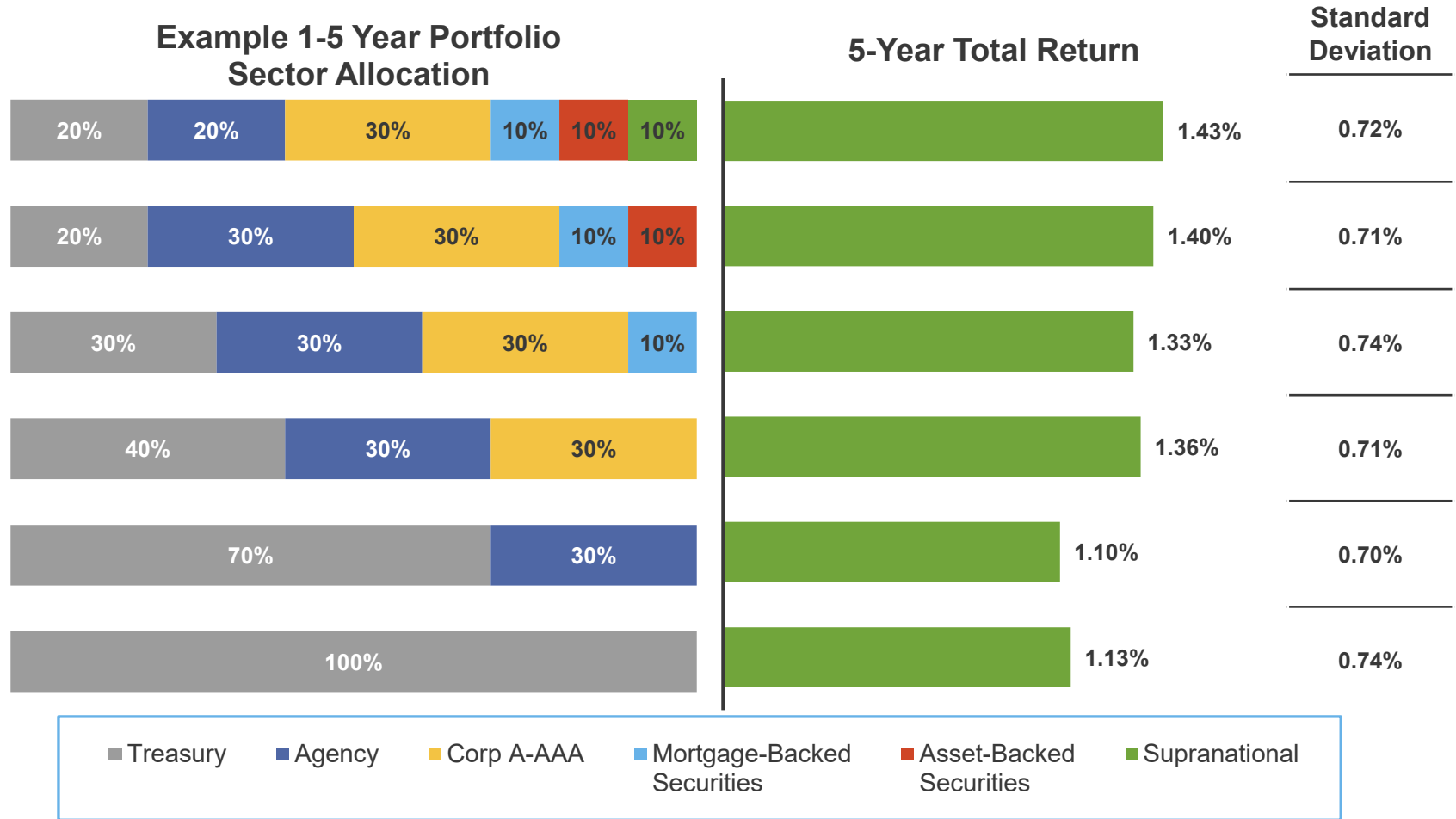
2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
8.73%	11.66%	5.81%	5.10%	5.85%	1.24%	3.79%	1.52%	2.19%	2.24%	1.84%	6.33%	5.41%	0.34%
8.63%	6.95%	5.43%	3.66%	3.16%	1.14%	2.12%	1.20%	1.70%	1.62%	1.83%	5.83%	4.38%	-0.18%
7.45%	5.68%	4.17%	3.36%	2.45%	0.47%	1.49%	1.12%	1.24%	1.46%	1.79%	4.59%	4.25%	-0.64%
6.81%	5.56%	3.61%	3.36%	1.97%	0.40%	1.30%	0.98%	1.12%	1.40%	1.71%	4.20%	3.64%	-0.86%
5.65%	5.00%	3.54%	2.89%	1.63%	0.06%	1.30%	0.97%	1.12%	1.29%	1.52%	3.80%	3.35%	-0.88%
4.41%	2.53%	3.27%	2.62%	1.38%	0.03%	1.24%	0.93%	1.09%	0.86%	1.16%	3.78%	3.22%	-1.10%
-1.94%	0.23%	1.85%	1.92%	0.91%	-0.19%	0.95%	0.89%	0.16%	0.65%	0.82%	3.65%	2.76%	-1.56%

U.S. Treasury	Federal Agency	Corporate AAA-A	Municipal	Supranational AAA-AA	MBS	U.S. ABS Index AAA
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Source: Bloomberg. Annual returns of 1-5 Year ICE BofAML Indices except for the MBS and ABS indices which are 0-5 Year.

Potential Benefits of Diversification: Increased Expected Return and Decreased Risk

Diversification



Source: Bloomberg, as of 11/30/2023. Sample portfolio returns are based on the ICE BAML 1-5 Year Indices. Agency Index is the 1-5 Yr. Non-Callable Agency. MBS and ABS are 0-5 year, based on weighted average life. Total return and standard deviation are annualized.

(9) Authorized Investment Institutions and Dealers

The investment policy should specify the authorized securities dealers, issuers, and banks from whom the unit of local government may purchase securities.

24

Primary Dealers for
the New York
Federal Reserve
Bank

117

Qualified Public
Depositories in
Florida

3,378

FINRA Registered
Securities Firms

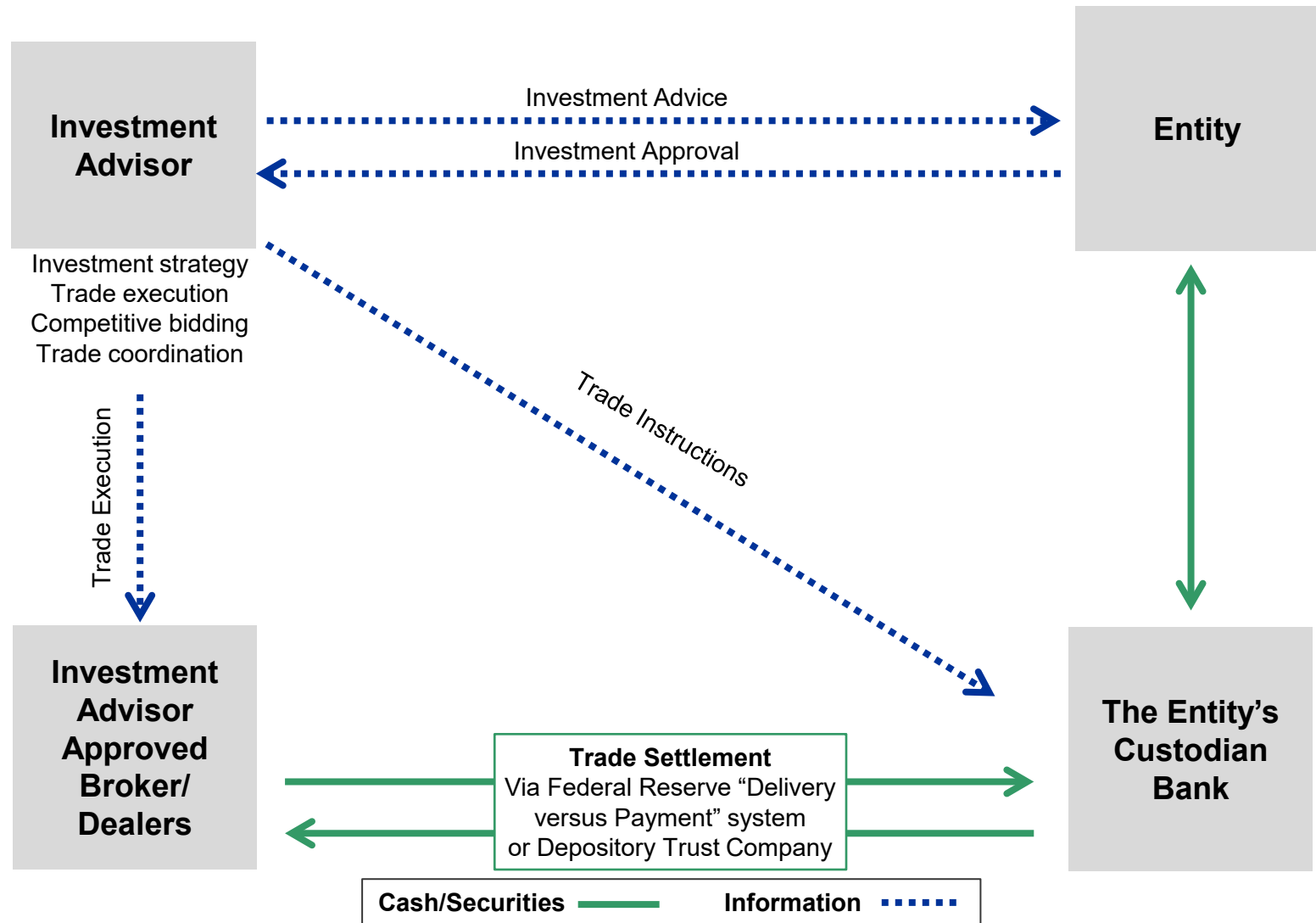
(10) Third Party Custodial Agreements

The investment policy shall provide appropriate arrangements for the holding of assets of the unit of local government.

Securities should be held with a third party; and all securities purchased by, and all collateral obtained by, the unit of local government should be properly designated as an asset of the unit of local government. No withdrawal of securities, in whole or in part, shall be made from safekeeping, except by an authorized staff member of the unit of local government.

Securities transactions between a broker-dealer and the custodian involving purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction.

Using a Third-Party Custodian



(11) Master Repurchase Agreement

The investment policy shall require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Master Repurchase Agreement. All repurchase agreement transactions shall adhere to the requirements of the Master Repurchase Agreement.

(12) Bid Requirement

The investment policy shall require that the unit of local government's staff determine the approximate maturity date based on cash-flow needs and market conditions, analyze and select one or more optimal types of investment, and competitively bid the security in question when feasible and appropriate. Except as otherwise required by law, the bid deemed to best meet the investment objectives specified in subsection (2) must be selected.

(13) Internal Controls

The investment policy shall provide for a system of internal controls and operational procedures. The unit of local government's officials responsible for making investment decisions or chief financial officer shall establish a system of internal controls which shall be in writing and made a part of the governmental entity's operational procedures. The investment policy shall provide for review of such controls by independent auditors as part of any financial audit periodically required of the unit of local government. The internal controls should be designed to prevent losses of funds which might arise from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees of the unit of local government.

Job Duties

Summary Responsibilities	External Investment Manager	City Manager	Chief Financial Officer	Finance Director (Investment Officer)	Deputy Finance Director	Treasurer	Chief Accountant
Strategies and policies	Recommends investment strategies & changes to policy	N/A	Reviews and approves strategies as part of Investment Committee	Reviews and approves strategies	Reviews and approves strategies as part of Investment Policy	Designs strategies and policies	N/A
Supervision	N/A	N/A	N/A	Responsible for overall supervision of strategies, external reporting & internal controls	Approves purchases and sales of investments, outgoing wires and internal reports	Reviews and approves transactions for Deputy Finance Director	N/A
Forecasting	Advises and informs investment officer(s) relative to economic conditions and trends	N/A	Conducts Periodic Reviews	Evaluates current economic conditions, relative to interest rate levels and the general direction of interest rates	Reviews and Approves economic reports relative to general direction of interest rate movements	Forecasts expected cash outflows and inflows to meet investment strategies and ongoing cash flow needs	N/A
Reporting	Prepares monthly, quarterly investment reports	Reviews reports prior to City Commission meetings	Reviews investment reports <ul style="list-style-type: none"> • Monthly • Quarterly 	Reviews reports from external Investment Manager. Reviews specialized monthly internal reports	Reviews reports from external Investment Manager . Quarterly reports are submitted to the Investment Committee.	Prepares specialized internal monthly reports	Reviews specialized monthly internal reports
Compliance	Includes compliance with investment policy as part of reports Reports non-compliance to Finance Director and Deputy Finance Director	N/A	Report items concerning compliance as related to the investment policy	Reviews external and internal reports & documents to ensure compliance Approves quarterly and annual investment report Reports non-compliance to City Investment Committee and City Commission as deemed necessary	Reviews external and internal reports & documents to ensure compliance Certifies quarterly investment report Reports non-compliance to Director	Reviews reports, documents and investment policy Prepares quarterly investment report	N/A

Sample summary of responsibilities. For illustrative purposes only.

(14) Continuing Education

The investment policy shall provide for the continuing education of the unit of local government's officials responsible for making investment decisions or chief financial officer. Such officials must annually complete 8 hours of continuing education in subjects or courses of study related to investment practices and products.

- ▶ GFOA
- ▶ FGFOA
- ▶ CFA Institute
- ▶ Association for Financial Professionals
- ▶ Investment Advisers

**PFM's 21st Annual (Virtual)
Investment Training Seminar
Bond Proceeds Investing
& Arbitrage Rebate**

April 22, 2021 | 1:00-3:00pm ET

Learning Objectives: When you complete this session, you should be able to:
 • Identify the types of risk to manage in bond portfolio management.
 • Apply the rules for spending exceptions.
 • Explain the two types of IRS regulations that apply to bond portfolios.
 (Finance – 1 CPE, Taxes – 1 CPE)

Session Description: In a rising interest rate environment, it is important to recognize the tax implications associated with the investment of tax-exempt bond proceeds. This session will cover basic arbitrage rebate and yield restriction compliance concepts and apply them to investment strategies for project reserve, debt service, and other bond proceeds accounts in order to maximize your retainable investment income and implement strategies to enhance your investment program.

**PFM's 21st Annual (Virtual)
Investment Training Seminar
Internal Controls &
Flow Forecasting**

April 27, 2021 | 1:00-3:00

Learning Objectives: When you complete this course, you will be able to identify the elements of internal control, explain the internal control environment, and describe the controls utilized to construct and maintain an internal control system (Finance – 2 CPE)

Session Description: In addition to a solid investment strategy, Cash Flow Forecasting is essential to ensure an investment portfolio performs well while increasing the transparency of the organization's internal controls. This session will discuss a sample internal control system for an organization with investment activities.

**PFM's 21st Annual (Virtual)
Investment Training Seminar
A Tale of Two Curves:
Investments & Portfol**

April 29, 2021 | 1:00-3:00p

Learning Objectives: When you complete this section, you should be able to apply investment strategies to different asset classes that are appropriate for your client. You should also be able to discuss the relationship between risk and return and identify investment opportunities.

Session Description: The myriad of economic and financial forces that are influencing the money market curve (underlying the balance of the curve) and the impact on short and long term investment strategies for portfolio managers.

Wednesday, April 27, 2022	
1:00pm - 2:00pm (Economic - 1 CPE)	<p>Economic & Market Update</p> <p>Matt Schoepner</p> <p>Senior Economist</p> <p>Investor Relations & Economic Analysis</p> <p>U.S. Bank (PFMAM is a subsidiary of U.S. Bancorp Asset Management, Inc.)</p>
2:10pm - 3:00pm (Finance - 1 CPE)	<p>Managing Fixed-Income Portfolios in a Rising Interest Rate Environment</p> <p>Kyle Jones</p> <p>Managing Director</p> <p>PFM Asset Management LLC</p>

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PFM Asset Management Presents

Annual Economic and Financial Markets Webinar

The Econo

Join PFM Asset Man discussion on

Short Duration Strategies are Worth A Look

Invested 7 July 2021

pfm® asset management

The Federal Reserve (Fed) and the federal government have unleashed massive monetary and fiscal stimuli over the past year, leading to a low rate environment. By extension, this environment caused many investors to ponder ways to generate positive returns, particularly those that operate in the world of fixed income. Below, we discuss the current economic environment and what we believe may be a viable option for some investors.


The Backdrop

The Fed continues to provide unprecedented levels of monetary support. At the same time, the federal government has committed more than \$5 trillion of fiscal stimulus since the spring of 2020 — both in an effort to support economic growth in the aftermath of the COVID-19 induced recession. The absolute levels of yield across the curve remain near historic lows due to the Fed's "fight-to-quality" — a term that describes investor preference for safe-haven investments, which tend to drive highly-volatile bond yields lower — causing many investors to explore strategies that can be implemented to generate positive returns.

The Current Environment and Outlook for Interest Rates

In March 2020, the Fed reduced the overnight lending rate, or Federal Funds rate, to near-zero. This was done to help mitigate the economic damage caused by COVID-19 and, ultimately, led to historically low interest rates in many kinds of money market instruments and cash bonds. This accommodative monetary policy, coupled with the trillions of dollars that the U.S. Congress has committed to stimulate the economy, has led to increased inflation expectations.

Despite the increasingly optimistic outlook shared by economists and strategists and the prospect for elevated inflation rates, the monetary policymaking body remains adamant that a near-zero fed funds rate will be appropriate in the near term. While any sense of false optimism about the Federal Open Market Committee (FOMC) will raise short-term rates in the past couple of Fed officials do not see us are not likely to see a marked rise (not put below). With this guidance, the market's current expectation is that we are and likely will be a marked increase in rates until sometime in 2022 and that "cash rate" interest rates earned on daily liquidity or close to daily liquidity could remain anchored near 0% for another year or two.



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1

Poll Question

How many hours of Continuing Education are required under this section?

A) 6 hours

B) 8 hours

C) 10 hours

D) 12 hours



(15) Reporting

The investment policy shall provide for appropriate annual or more frequent reporting of investment activities. To that end, the governmental entity's officials responsible for making investment decisions or chief financial officer shall prepare periodic reports for submission to the legislative and governing body of the unit of local government, which shall include securities in the portfolio by class or type, book value, income earned, and market value as of the report date. Such reports shall be available to the public.

(24) Investment Decisions

(a) As used in this subsection, the term “pecuniary factor” means a factor that the governing body of the unit of local government, or in the absence of the existence of a governing body, the respective principal officer of the unit of local government, prudently determines is expected to have a material effect on the risk or returns of an investment based on appropriate investment horizons consistent with applicable investment objectives and funding policy. The term does not include the consideration of the furtherance of any social, political, or ideological interests.

(b) Notwithstanding any other law, when deciding whether to invest and when investing public funds pursuant to this section, the unit of local government must make decisions based solely on pecuniary factors and may not subordinate the interests of the people of this state to other objectives, including sacrificing investment return or undertaking additional investment risk to promote any nonpecuniary factor. The weight given to any pecuniary factor must appropriately reflect a prudent assessment of its impact on risk or returns.

Brief Sector Review



Fixed Income Sectors



Government

Treasuries
Federal Agencies
Supranationals
Municipals



Securitized

Agency Mortgage-Backed
Asset-Backed



Credit

Corporate Notes
Commercial Paper
Certificates of Deposit



Cash Alternatives

Money Market Funds
Local Government
Investment Pools

Sector Focus: Treasuries



Government

Treasuries

Federal Agencies
Supranationals
Municipals



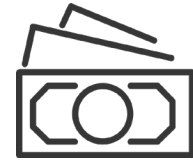
Securitized

Agency Mortgage-Backed
Asset-Backed



Credit

Corporate Notes
Commercial Paper
Certificates of Deposit



Cash Alternatives

Money Market Funds
Local Government
Investment Pools

What are Treasuries?

Securities issued directly by and backed by the full faith and credit of the U.S. Government

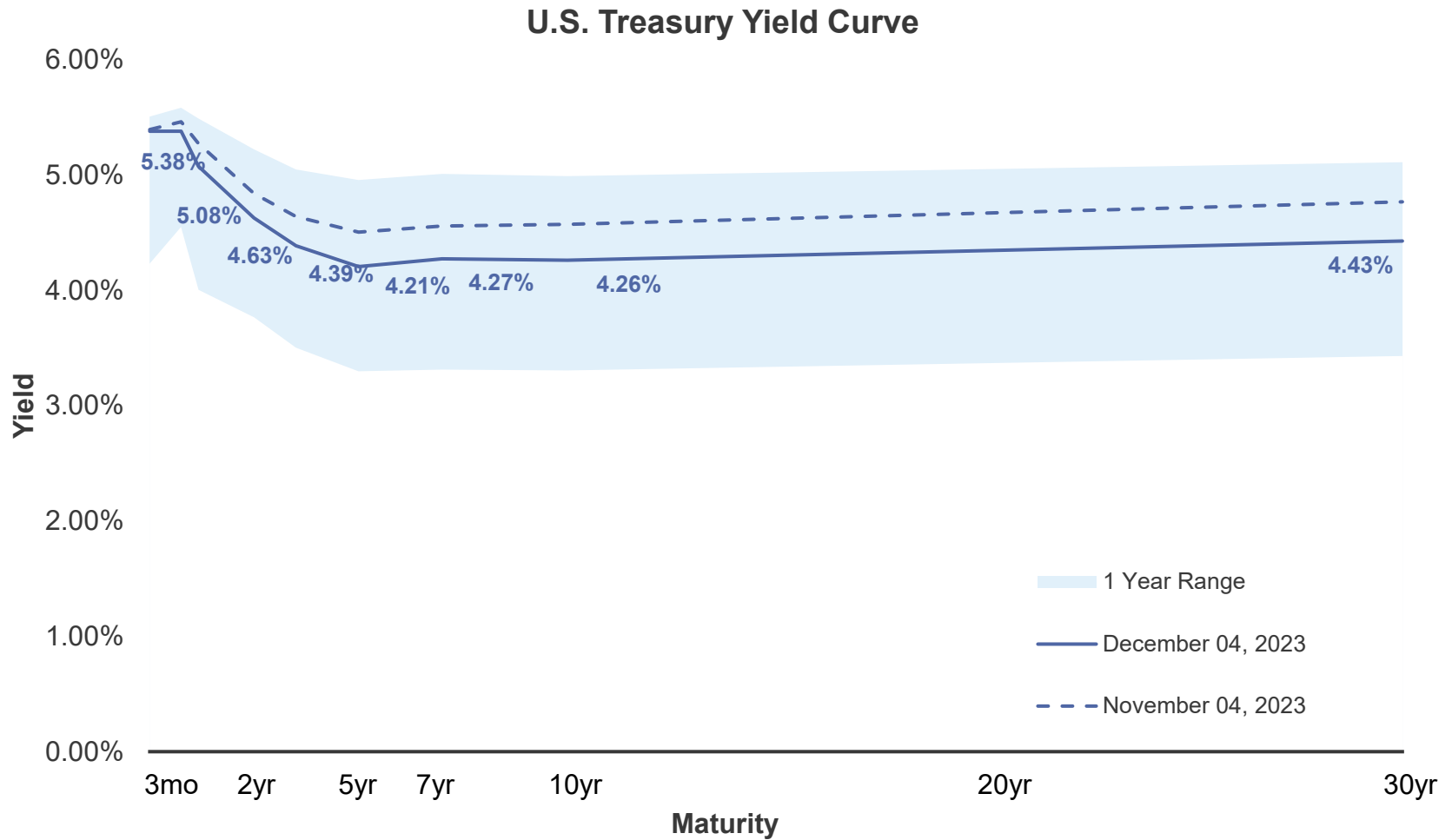
Maturities range from short-term to 30 years

Types: Treasury Bills, Notes, Bonds, floating rate notes, STRIPS, TIPS and SLGS

Potential Benefits:

- ▶ largest segment of the U.S. bond market
- ▶ highest liquidity
- ▶ considered “risk-free”
- ▶ available in large segments

Treasury Yield Curve



Source: Bloomberg, as of 12/4/2023.

Sector Focus: Federal Agencies/GSEs



Government

Treasuries

Federal Agencies

Supranationals

Municipals



Securitized

Agency Mortgage-Backed

Asset-Backed

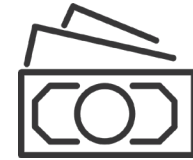


Credit

Corporate Notes

Commercial Paper

Certificates of Deposit



Cash Alternatives

Money Market Funds

Local Government

Investment Pools

What are Federal Agencies?

Securities issued by agencies of the U.S. Government and U.S. Government-Sponsored Enterprises (GSEs), most of which are not explicitly backed by the full faith and credit of the U.S.

Frequent issuers: Fannie Mae, Freddie Mac, Federal Home Loan Banks, Federal Farm Credit Bank

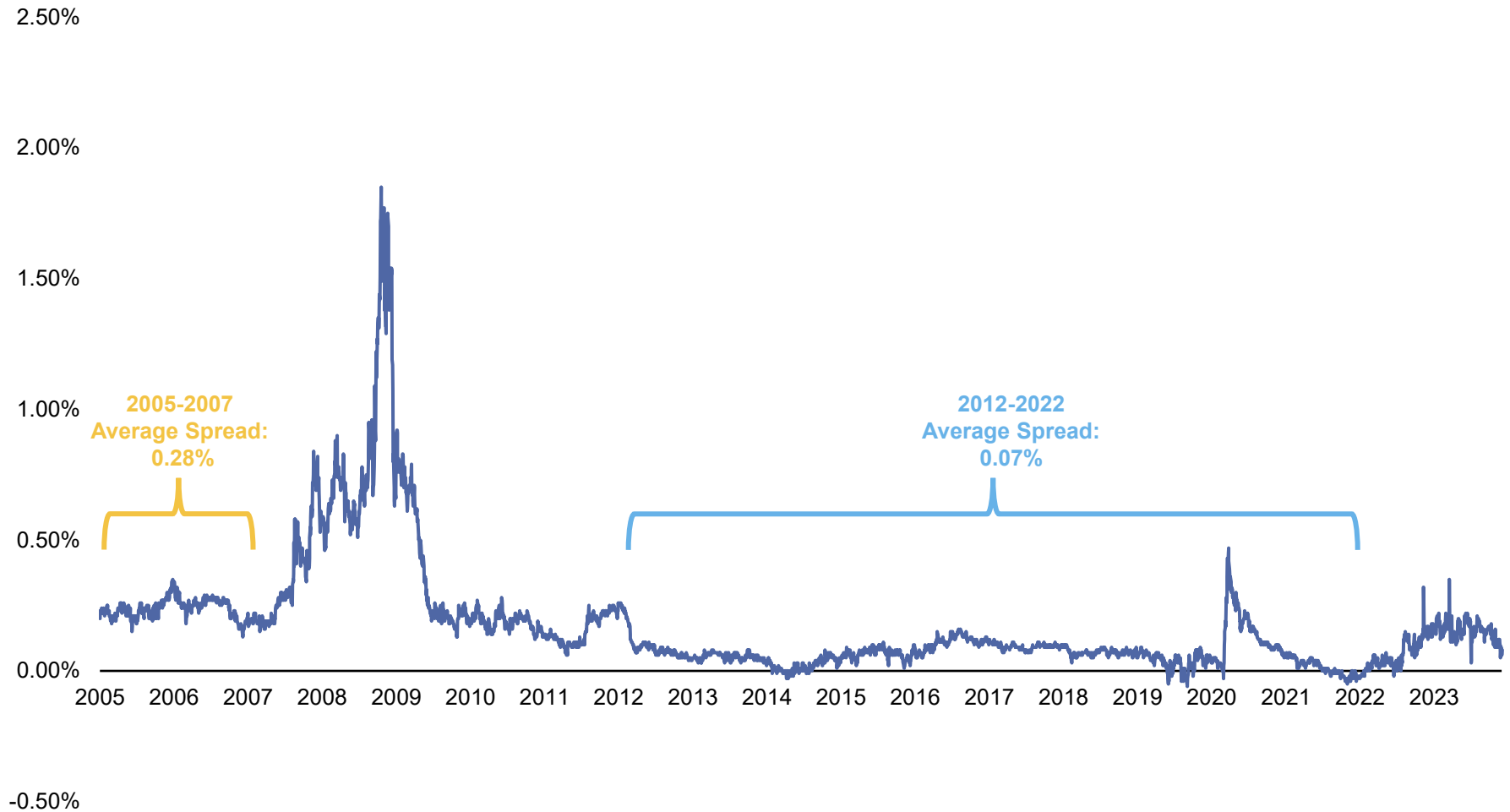
Types: discount notes, coupon notes/bonds, callables and floating rate notes

Potential Benefits:

- incremental yield over Treasury securities
- diversification
- high liquidity
- high credit quality

Federal Agency Debt Market: Historic Spreads vs US Treasuries

1-3 Year Federal Agency vs. U.S. Treasury Spread



Source: Bloomberg, as of 11/30/2023.

Poll Question

**Which sector is
considered
“risk-free”?**

A) Federal Agencies

B) Municipals

C) Local Government Investment Pools

D) U.S. Treasuries

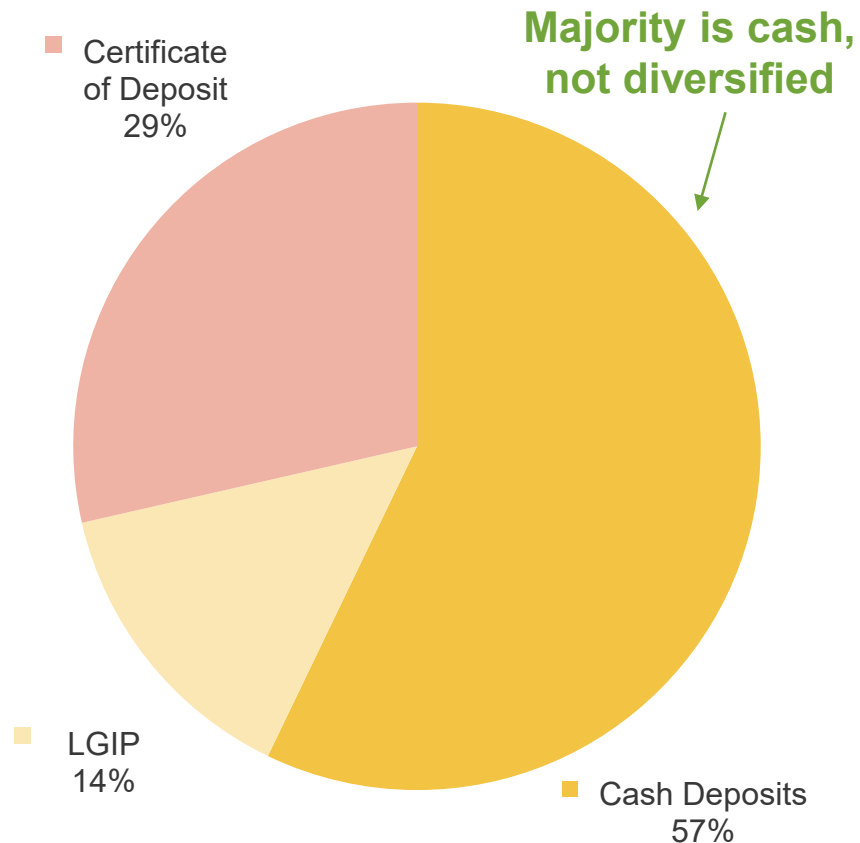


Putting the Policy into Practice



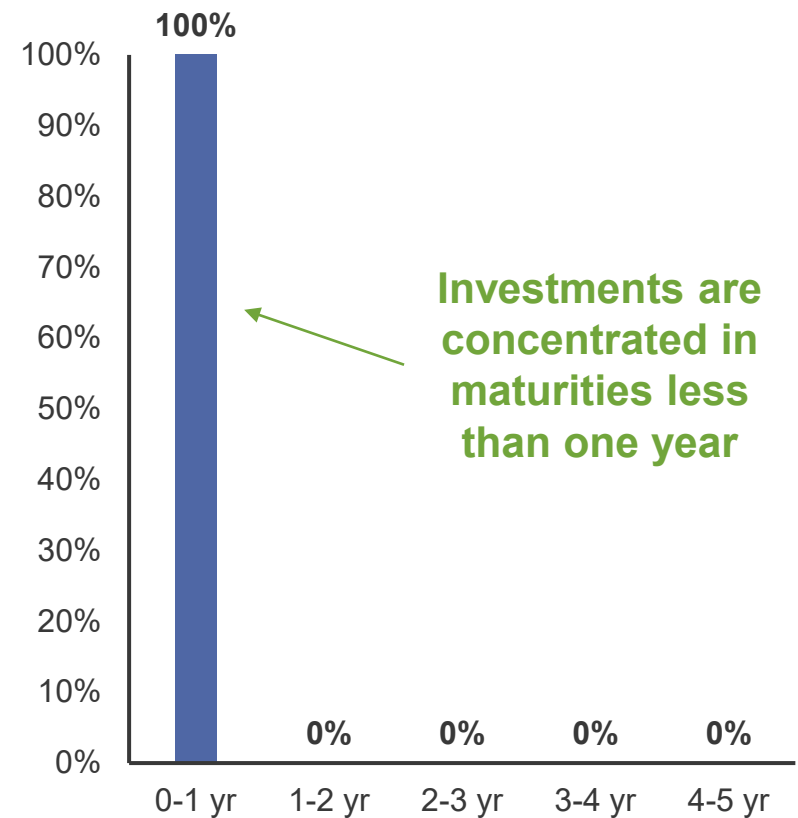
Example: Current Investments

Sector Allocation



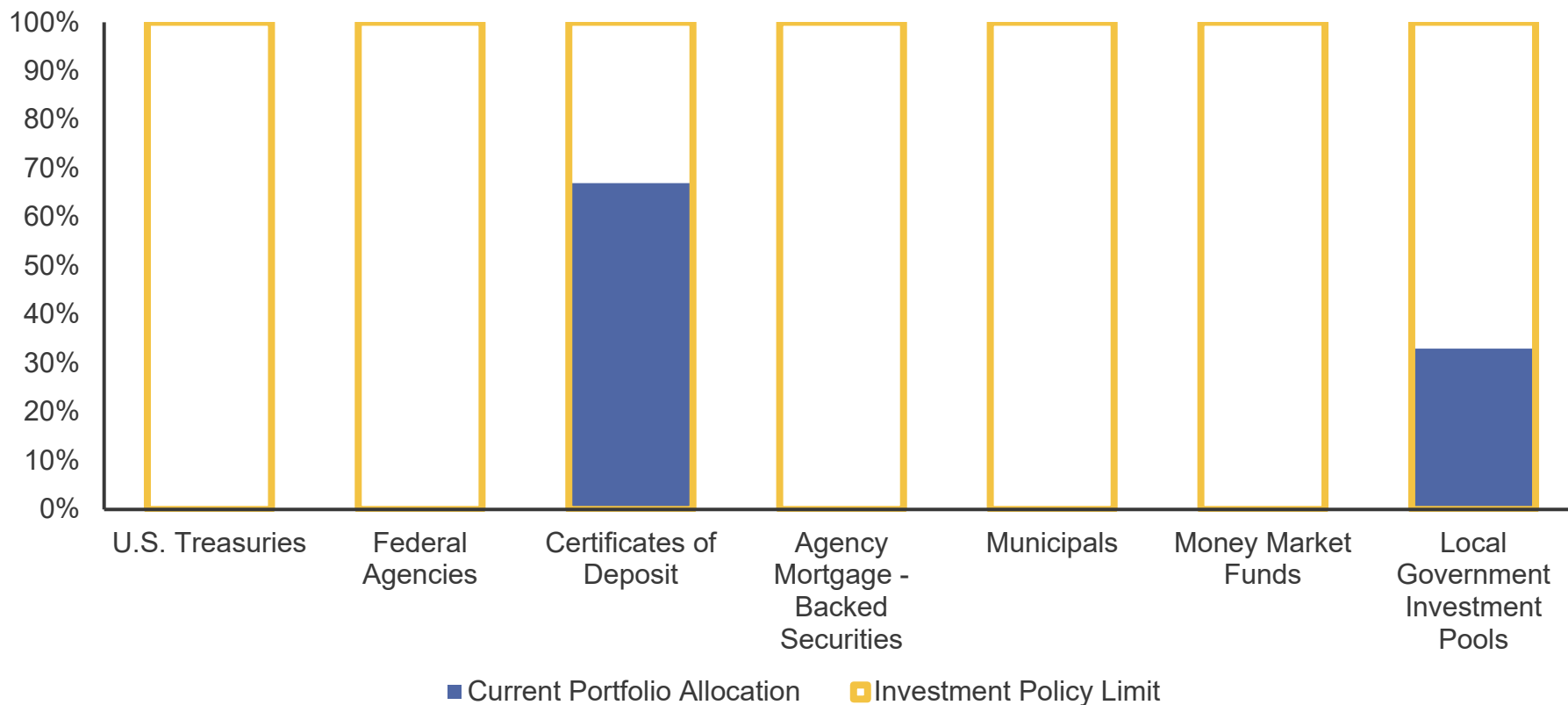
Duration Distribution

Portfolio Duration: 0.30 years



Investment Policy Constraints versus Actual Utilization

Investment policy has additional sectors that are not being utilized



Sample sector allocation. For illustrative purposes only.

Snapshot of Investment Program Goals

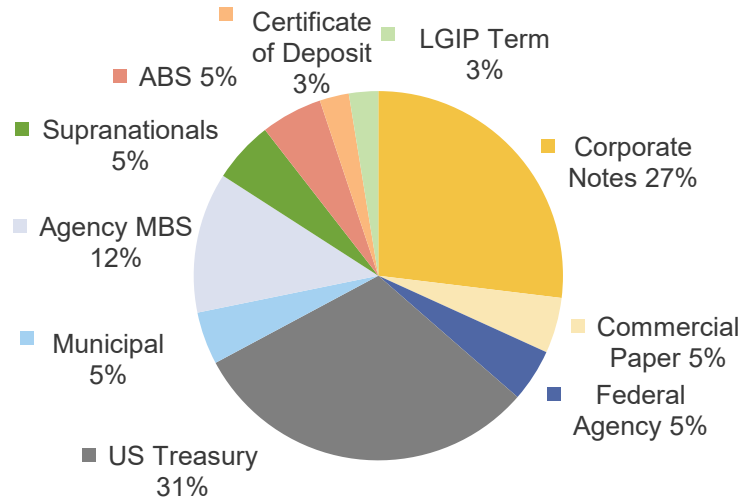
Total Program Characteristics

- High quality
- Well-diversified
- Designed to protect assets
- Designed to maximize income

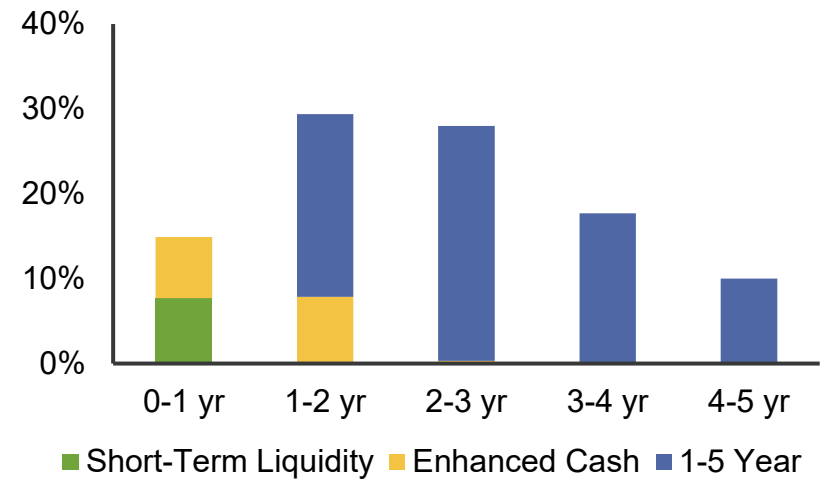
Portfolio Statistics

Duration	1.97 years
Gross Yield	5.47%
Average Credit Quality	AA

Sector Allocation



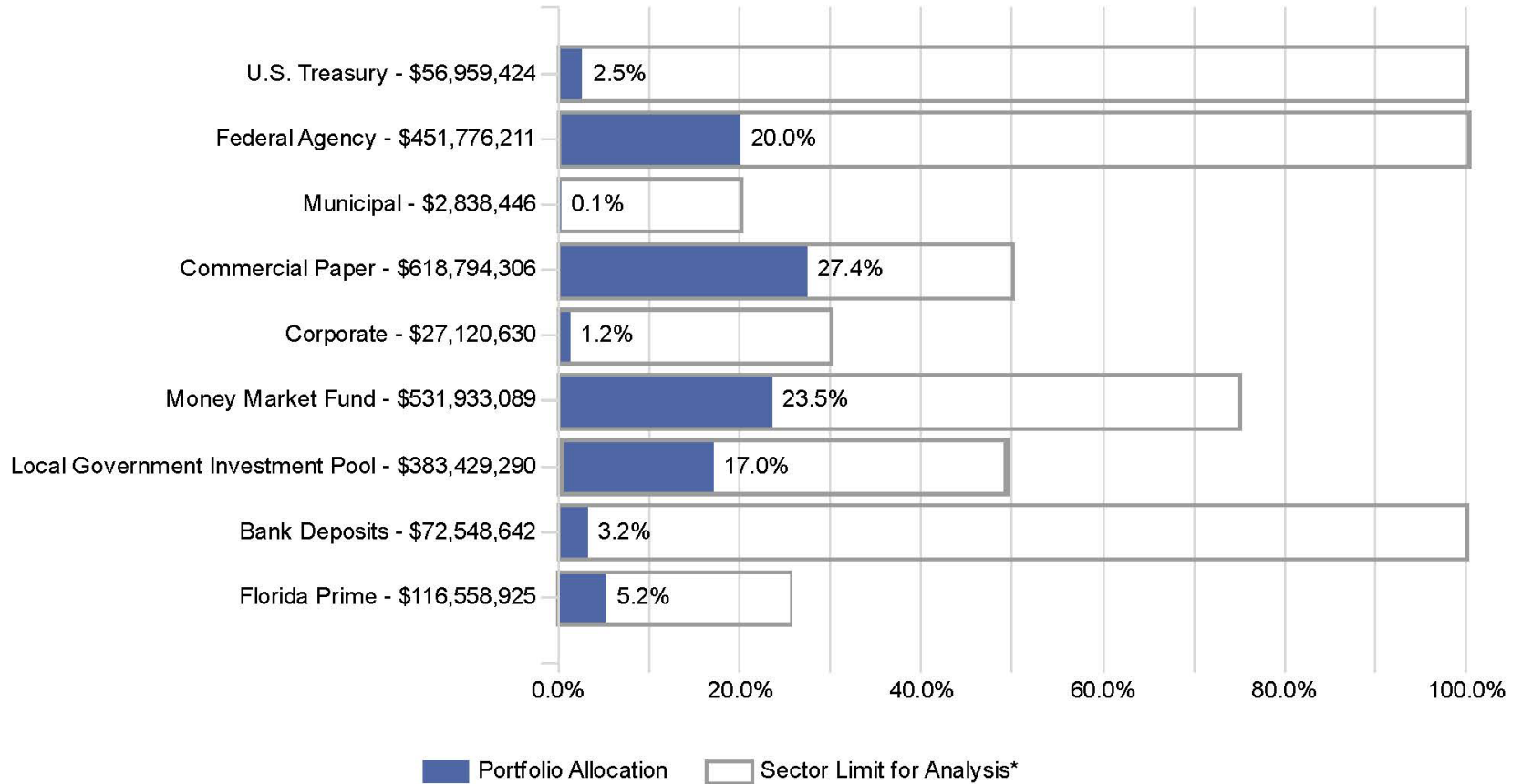
Duration Distribution



For illustrative purposes only. Please see important disclosures at the end of this presentation.
Portfolio statistics are a weighted average of the statistics of short-term liquidity, enhanced cash, and 1-5 year strategies.

Asset Allocation Snapshot

Sector Allocation Analytics



For illustrative purposes only.

Potential Benefits of a Well-Designed Investment Policy & Program

- ▶ An investment policy codifies procedure and allows for better program management and transparency
- ▶ Creating and formally adopting an investment policy allows for greater diversification
- ▶ Regular reviews and updates allows you to maintain a discipline strategy to navigate volatile markets
- ▶ Provides the tools to help optimize your long and short-term investments while maintaining adequate liquidity
- ▶ Keeps all stakeholders updated and informed about the investment program and the factors that affect it



Thank you!

Important Disclosures

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