

Investment Considerations for Short Term Funds

FGFOA Investment Seminar – Nature Coast Chapter

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About this Session



During this session, we will introduce options for local governments when investing liquid/short term funds, including best practices for understanding current and prospective liquidity vehicles used in investment programs.

When you complete this session, you should be able to:

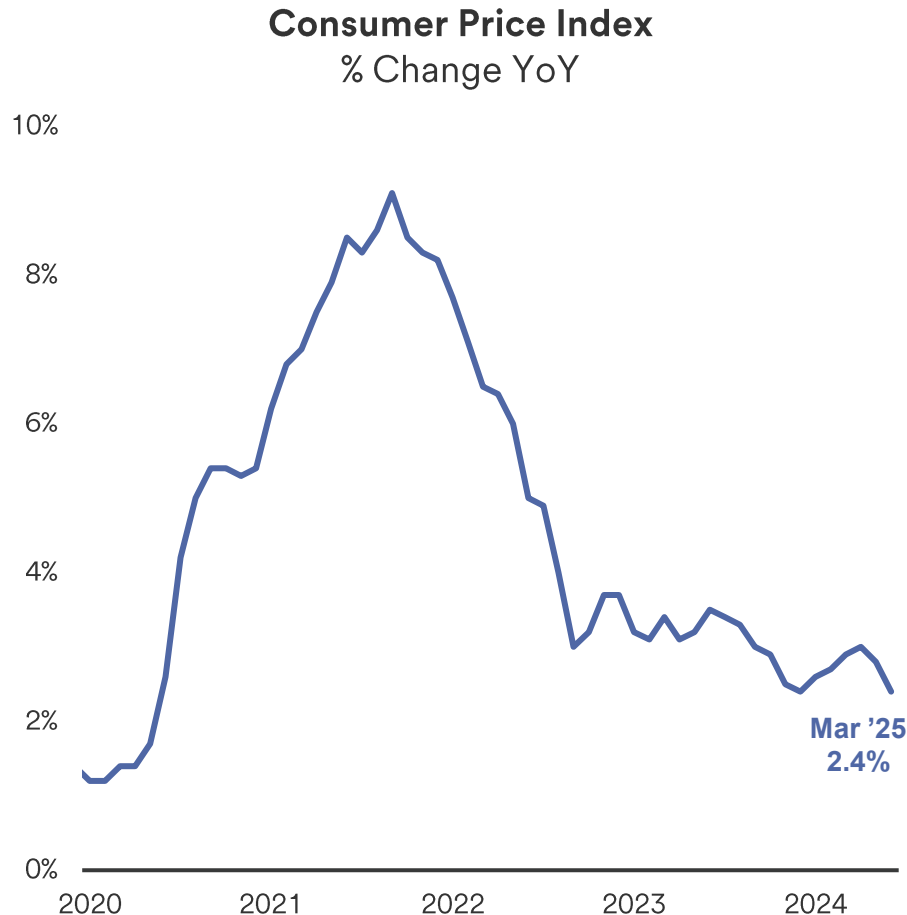
- Recognize and apply best practices when understanding current and prospective liquidity vehicles used in investment programs
- List two differences between liquid portfolios and term portfolios and their investment ratings



Agenda

- **Investment Policy Development**
- **Investment Program Segmentation**
- **Short Term Investment Options**

Purchasing Power Falls as Inflation Rises



\$1 in March 2015

*has the same
purchasing power as*

\$1.35 in March 2025



Careful planning and well-informed stewardship can help minimize inflation's adverse effects on entity finances

Source: Bloomberg Finance L.P., as of March 2025.
U.S. Bureau of Labor Statistics CPI Inflation Calculator.

Investment Policy Development



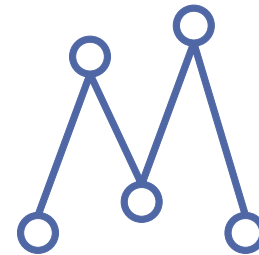
Key Investment Objectives



Safety
of principal



Liquidity
to provide for
upcoming
needs



Yield
for
competitive
returns



Investment Policy Review Framework

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



For illustrative purposes only.

1. <https://aptusc.memberclicks.net/investment-policy-certification>


2. <https://www.gfoa.org/materials/investment-policy>

Section 218.415

Florida Statutes

Requirements

- Scope
- Investment Objectives
- Performance Measurement
- Prudence and Ethical Standards
- Listing of Authorized Investments
- Maturity and Liquidity Requirements
- Portfolio Composition
- Risk and Diversification
- Authorized Investment Institutions and Dealers
- Third-Party Custodial Agreements
- Master Repurchase Agreement
- Bid Requirement
- Internal Controls
- Continuing Education
- Reporting



Not a complete list. Please see statute for all requirements.

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

**Not a complete list.*

Please see Association of Public Treasurers of the United States and Canada (APT US & C) for full investment policy requirements.

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



Sample Investment Policy

Maximum Sector Limit Comparison

Sector	Sample Entity Draft	Peer Entity #1	Peer Entity #2	Peer Entity #3	Peer Entity #4	Peer Entity #5	Peer Entity #6
U.S. Treasuries	100%	100%	100%	100%	100%	100%	100%
Federal Agencies	80%	75%	80%	80%	80%	75%	100%
Supranationals	10%	0%	0%	10%	25%	25%	5%
Corporate Bonds	35%	50%	25%	35%	50%	35%	30%
Municipals	25%	25%	0%	25%	25%	25%	20%
Agency Mortgage-Backed Securities	25%	25%	20%	25%	25%	25%	20%
Asset-Backed Securities	20%	25%	10%	10%	25%	25%	0%
Commercial Paper	35%	50%	35%	35%	50%	35%	50%
Money Market Funds	50%	75%	50%	50%	50%	75%	75%
Local Government Investment Pools	75%	75%	75%	25%	75%	75%	50%
Florida Prime	50%	25%	100%	75%	25%	75%	25%

For illustrative purposes only. Representative peer sample of investment policy permitted investments and sector maximums. Each investment policy contains detailed requirements including, but not limited to, additional permitted investments, issuer maximums, maturity specifications and minimum ratings levels.

Developing a Solid Investment Policy

- The Investment Policy should be structured to place the highest priority on the:
 - Safety of principal
 - Liquidity of funds
- The optimization of returns shall be secondary (yet important—maximize earnings through diversification)
- Compliance with legal restrictions/regulations
- Flexibility/Simplicity
- Provides a roadmap during periods of volatility



Investment Policy Best Practices

- ✓ Update language to meet current industry standards and best practices
- ✓ Update language to conform to current State law requirements
- ✓ Reevaluate use of different investment sectors
- ✓ Reevaluate maturity limits
- ✓ Incorporate diversification and maturity standards
- ✓ Strengthen controls
- ✓ Establish an appropriate benchmark

Investment Program Segmentation



Cash Flow Analysis Basics

Determines your liquidity needs

- Identifies short term vs. long term
- Short-term assets are the primary source of near-term disbursements
- Core assets are designed for long-term growth

Enhances cash management

- Facilitates planning around inflows/outflows
- Reflects seasonality of revenues/expenses
- Forecasts potential deficits

Identifies an optimal allocation of funds to help maximize investment income

- Investment selection
- Diversification



Cash Flow Analysis is Used to Optimize Portfolio Segmentation

Immediate Liquidity

- Tailored to liquidity needs
- Lower risk
- Lower expected earnings
- Cash and equivalents

Short Term Liquidity

- Matched to potential liabilities
- Fixed-rate, fixed-term investments
- Less than 1 year

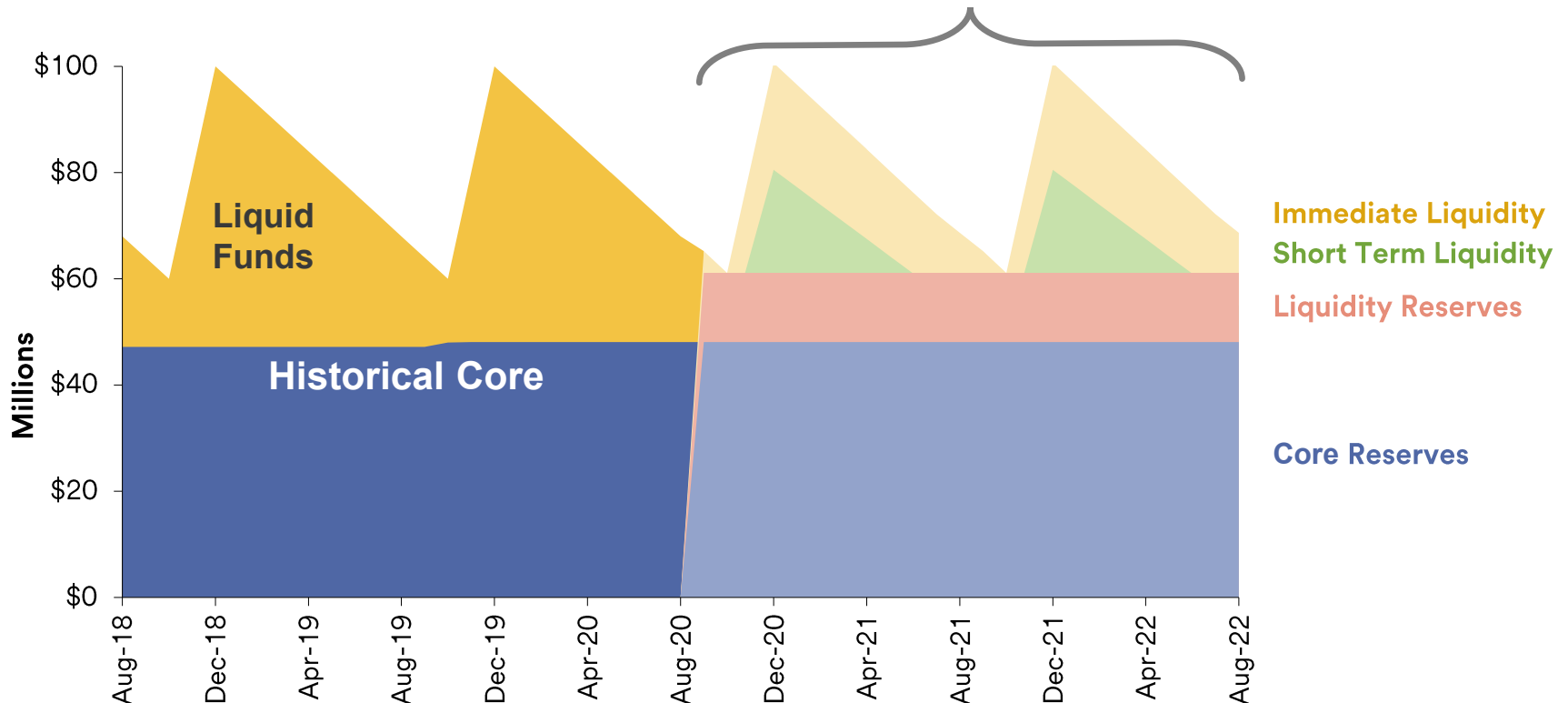
Reserves

- Supplement to liquidity funds
- Highly liquid
- High-quality, intermediate-term fixed income

Core

- Funds not expected to be spent in foreseeable future
- More volatile
- High-quality, longer-term fixed income

Portfolio Structure



For illustrative purposes only.

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

For illustrative purposes only.

Short Term Investment Options



Sector in Focus: Commercial Paper



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 is Commercial Paper?

Short-term, unsecured debt securities issued by corporations and financial institutions, generally for working capital purposes

Maturities typically range from 1 to 270 days

Potential Benefits:

- incremental yield over government securities
- relatively high liquidity
- diversification
- available daily from a wide range of issuers and in a wide range of maturities



Sector in Focus: Certificates of Deposit



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 Negotiable CDs?

Certificates of deposit that are issued by banks and can be bought and sold in a liquid secondary market, unlike typical CDs

Maturities typically are approximately 1 year and under at issuance; occasionally can be found out to 3 years

Potential Benefits:

- incremental yield vs. governmental securities
- diversification
- relatively high liquidity

Sector in Focus: Money Market Funds



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 Money Market Funds?

Funds that invest in cash, cash equivalents, and/or high-quality, short-term debt securities and are intended to offer investors high liquidity with low risk

Managed by registered investment companies and regulated under the Investment Company Act of 1940

Potential Benefits:

- simplicity and flexibility
- competitive rates vs. other short-term investments

Sector in Focus:

Local Government Investment Pools



Government

Treasuries
Federal Agencies
Supranationals
Municipals



Securitized

Agency Mortgage-Backed
Asset-Backed



Credit

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Cash Alternatives

Money Market Funds
**Local Government
Investment Pools**

What are Local Government Investment Pools?

Funds created by pooling the assets of various public entities to benefit from shared liquidity, strategy and economies of scale

Managed by a state/county or professional money manager in accordance with local permitted investment statutes

Potential Benefits:

- simplicity and flexibility
- competitive rates vs. other short-term investments



GASB 79 and Rating Requirements

	GASB 79 ¹	S&P AAAm ²
Liquidity	<p>Daily liquid assets: At least 10% of assets must mature in one day.</p> <p>Weekly liquid assets: At least 30% of assets must mature within five business days.</p>	None
Quality	Denominated in US dollars; in the highest category by NRSRO	>50% must be A-1+ and A-1
Diversification	<5% in one issuer unless backed by US government	<p><5% in one issuer unless backed by US government</p> <p><33% in any one agency (for maturities beyond 30 days)</p>
Shadow Pricing	Monthly	Weekly
Maturity	Max weighted average maturity (WAM) is 60 days; Max weighted average life (WAL) is 120 days; Max maturity is 397 days	<p>Max WAM is 60 days</p> <p>Max WAL is between 90-120 days</p> <p>Max maturity is 397 days</p>
Stress Test	No requirement	Periodic stress tests

See important disclosures at the end of this presentation

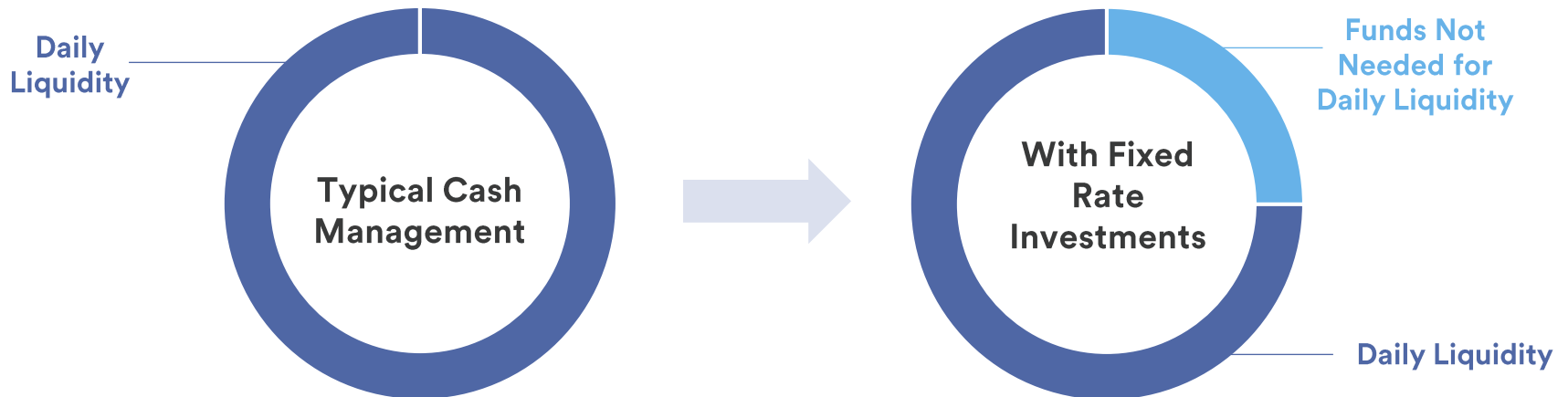
1. <https://www.gasb.org/page/pageContent?pagelD=/standards-guidance/pronouncements/summary--statement-no-79.html>
2. <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourcelD/9217202>

A Deep Dive Into LGIPs: Term Portfolio Investing



TERM Portfolio Investing: Fixed-rate, Fixed-Maturity Shares

What if you could make the most of your cash by matching investment maturities to the timing of expense obligations, and do so at yields competitive to the market?



Adding laddered, fixed-rate investments to your liquid portfolio could provide you with greater earnings potential



What is a TERM Investment?

- A Term Investment offers multiple fixed-rate, fixed-term investment options with maturities usually between 60 and 365 days.
- The objective is to seek optimized interest earnings on excess liquidity by locking in a known, fixed rate over a set time period.

Using longer-maturity investments to complement overnight liquid balances could help:

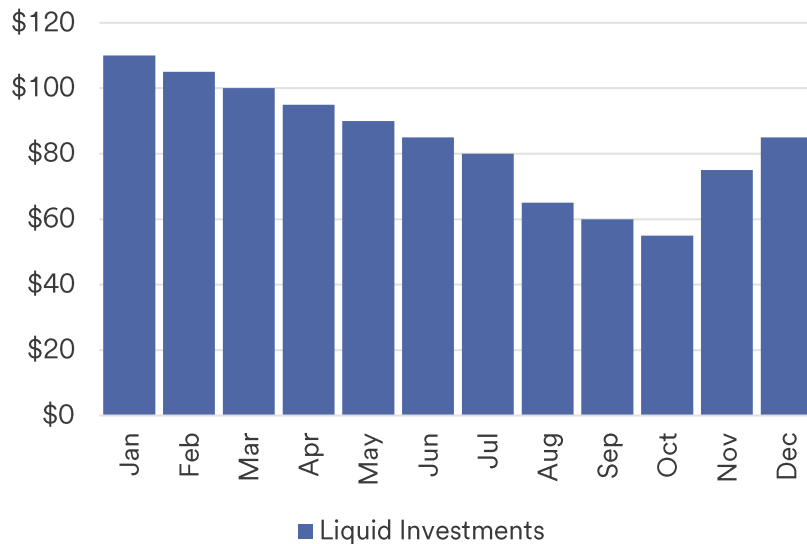
- Increase earnings over time
- Provide budget certainty



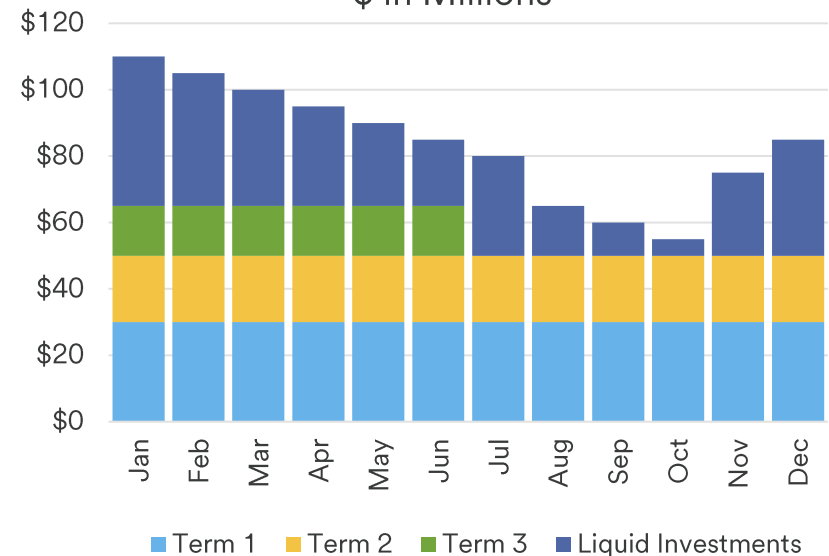
Operating Fund Example

A Term Portfolio may benefit entities with large inflows, like those from ad-valorem tax revenues.

Sample Operating Fund – Investable Balance with Fully Liquid Investments
\$ in Millions



Sample Operating Fund – Laddered Investments with Term
\$ in Millions



What Are Some Potential Risks?

As with any pooled investment, there are several factors that could hurt the portfolio's performance, cause investors to lose money, or cause a portfolio's performance to trail that of other investments.

Risks	Descriptions
Credit Risk	The issuer of a security could fail to pay interest or principal in a timely manner. The credit quality of a portfolio's holdings could change rapidly in certain markets, and the default or decline in credit quality of even a single holding could cause the Portfolio's share price to fall.
Early Redemption Risk	Early redemption penalties charged to a shareholder by a Term Portfolio could reduce or eliminate investment gains and could mean that the amount that the shareholder receives back is less than the initial investment.
Management Risk	Performance could be hurt by decisions made by the Investment Adviser, such as choice of investments or investment maturities or timing of buy/sell decisions.
Interest Rate Risk	Risk in default or decline in security value due to changes in interest rates.

Is there an ideal time to invest in a TERM portfolio?

The top consideration should be your unique cash flow needs.

- More importance should be placed on your liquidity and spending needs within a given time period than on the potential movement of rates.
- Instead of trying to time the market, develop and stick to an investment strategy. This is a prudent method for navigating market cycles.

Liquid Portfolios vs TERM Portfolios

Liquid Portfolio

- Daily liquidity
- Variable rates
- Usually no account minimum
- One-day minimum investment period
- Stable net asset value (NAV) of \$1.00 per share

Term Portfolio

- Investor-selected fixed maturity dates
- Fixed rates
- Usually there are account minimums
- 60 days to 1-year investment period
- NAV may be greater than or less than \$1.00 per share

Liquid and Term portfolios in an LGIP can work in tandem toward the goal of meeting daily liquidity and longer-term cash flow needs.

Thank you!
Questions?

Contact us

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