



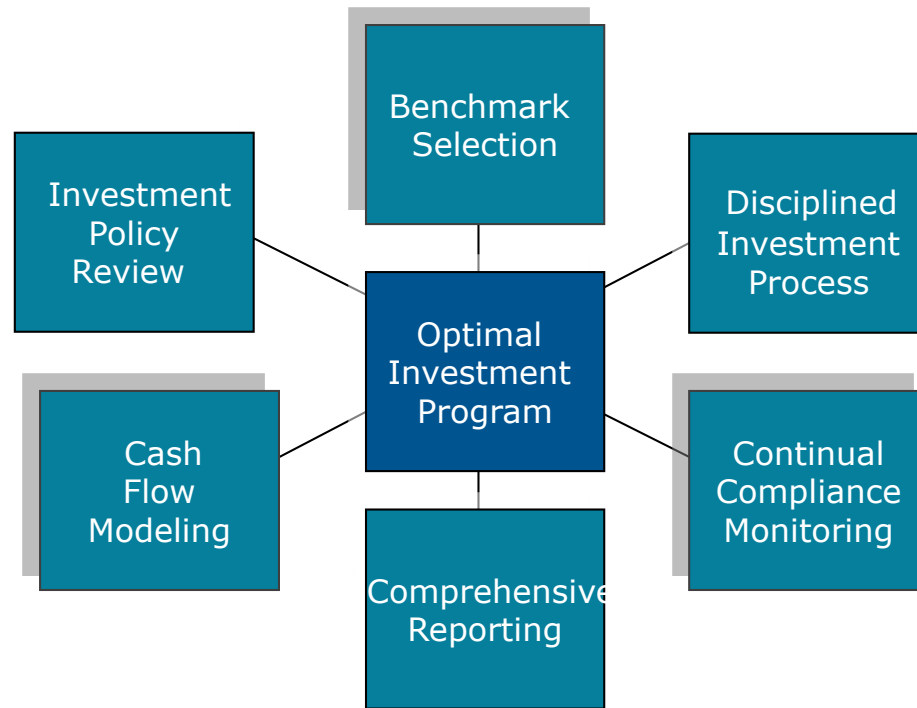
The Day to Day Management of Public Funds

CDIAC/CMTA January 24, 2019 Session 5
Riverside California

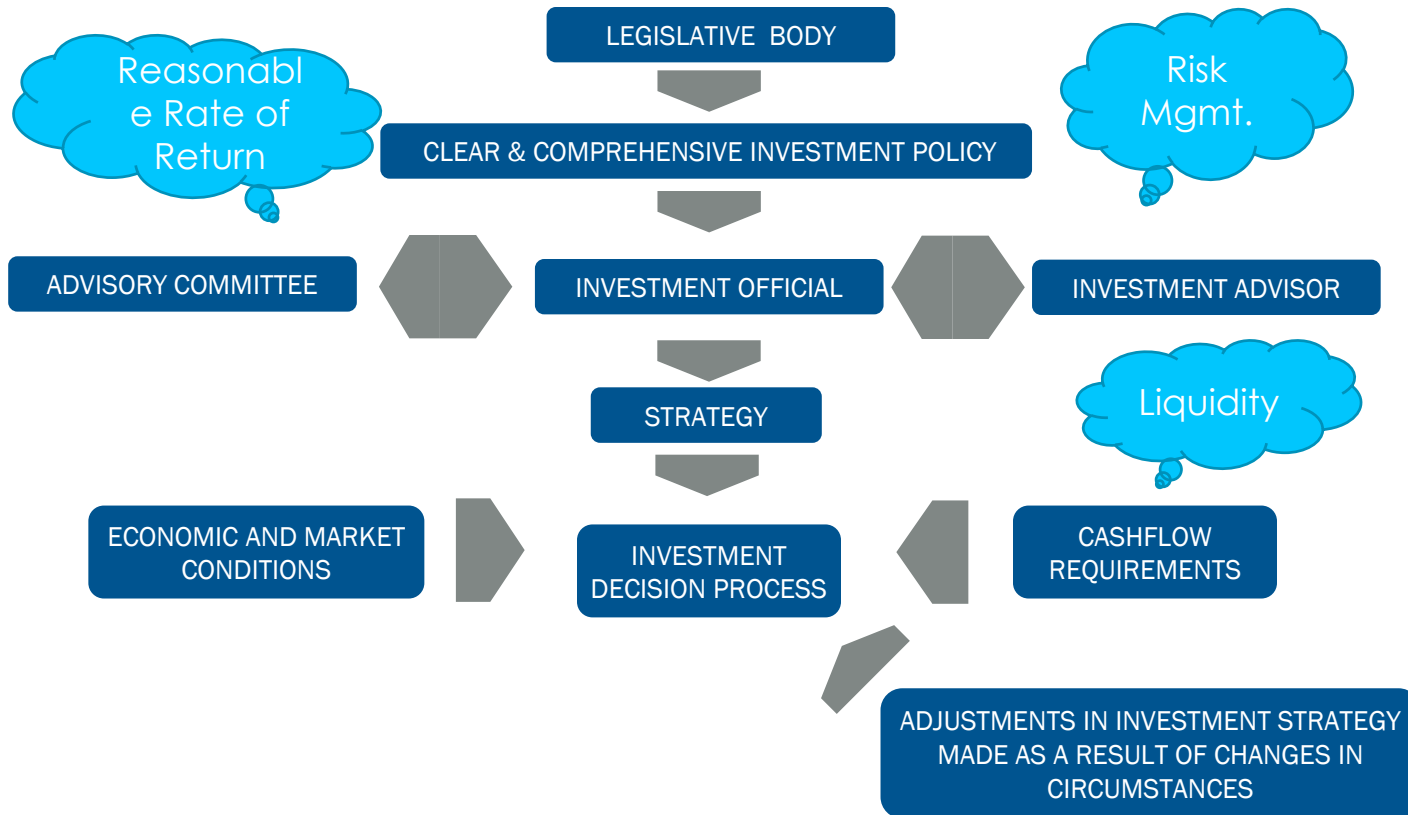
Moderator: Rick Phillips, FTN Main Street Advisors

Panelists: Dan Matusiewicz, City of Newport Beach
Richard Kinsley, County of San Diego

Comprehensive Investment Program



PRUDENT INVESTMENT CONSIDERATIONS



Overwhelmed by a Comprehensive Investment Program?

Argument:

- ❑ I don't have the staff and resources
- ❑ Cash flow needs are uncertain
- ❑ Our portfolio is too small
- ❑ Can't afford an investment advisor

Resulting Decision:

- ❑ Leave excessive amounts in Demand Deposit Accounts
- ❑ Only participate in Local Government Investment Pool (State, County or JPA)
- ❑ Relying solely on broker advice without getting separate quotes

California Government Code, Section 53600.5

California Government Code, Section 53600.5

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be:

- Safeguard the principal of the funds under its control.
- The secondary objective shall be to meet the liquidity needs of the depositor.
- The third objective shall be to achieve a return on the funds under its control.

CA Government Code 53600.3 Prudence

...local agencies investing public funds pursuant to this chapter are trustees and therefore fiduciaries subject to the prudent investor standard.

When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, **trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims,** to safeguard the principal and maintain the liquidity needs of the agency.

Small Agency Approach

Demand Deposit Accounts

Money Market Accounts

Direct Purchase FDIC Insured CDs

Placement Service CDs (CDARS and others)

LAIF, County Pools, Joint Powers Authority Pools (CAMP or CalTrust)
or other Local Government Investment Pool

Work directly with Dealer Broker Dealer without an investment advisor
(Should get 3 comparable quotes from other Broker Dealers)

- Remember Brokers Dealers don't have a fiduciary responsibility to act in your best interest.

REASONS TO CONSIDER A REGISTERED INVESTMENT ADVISOR

- Lack of adequate staffing
- Lack of internal technical training and resources
- Lack of market information systems, such as Bloomberg
- Additional Board confidence in a trained professional
- Increased access to broker offerings
- Save the public agency time and safeguard the agency's funds
- Greater return potential available from full-time expert management of the investment program



Minimum Portfolio Size and Fee Statistics

Range of Responses from select Investment Advisors:

Minimum Portfolio Size: \$10 - \$25 million, depending on the investment advisor

Range of Fees: 5 to 12 Basis Points (BPS) of Assets Under Management (AUM)
Usually Tiered Pricing based on AUM (\$10-\$12 thousand min annual fee)

1 BPS = .01% or .0001 in decimal form

So What does Newport Beach Do?



Establishing a Liquidity Target for the Portfolio



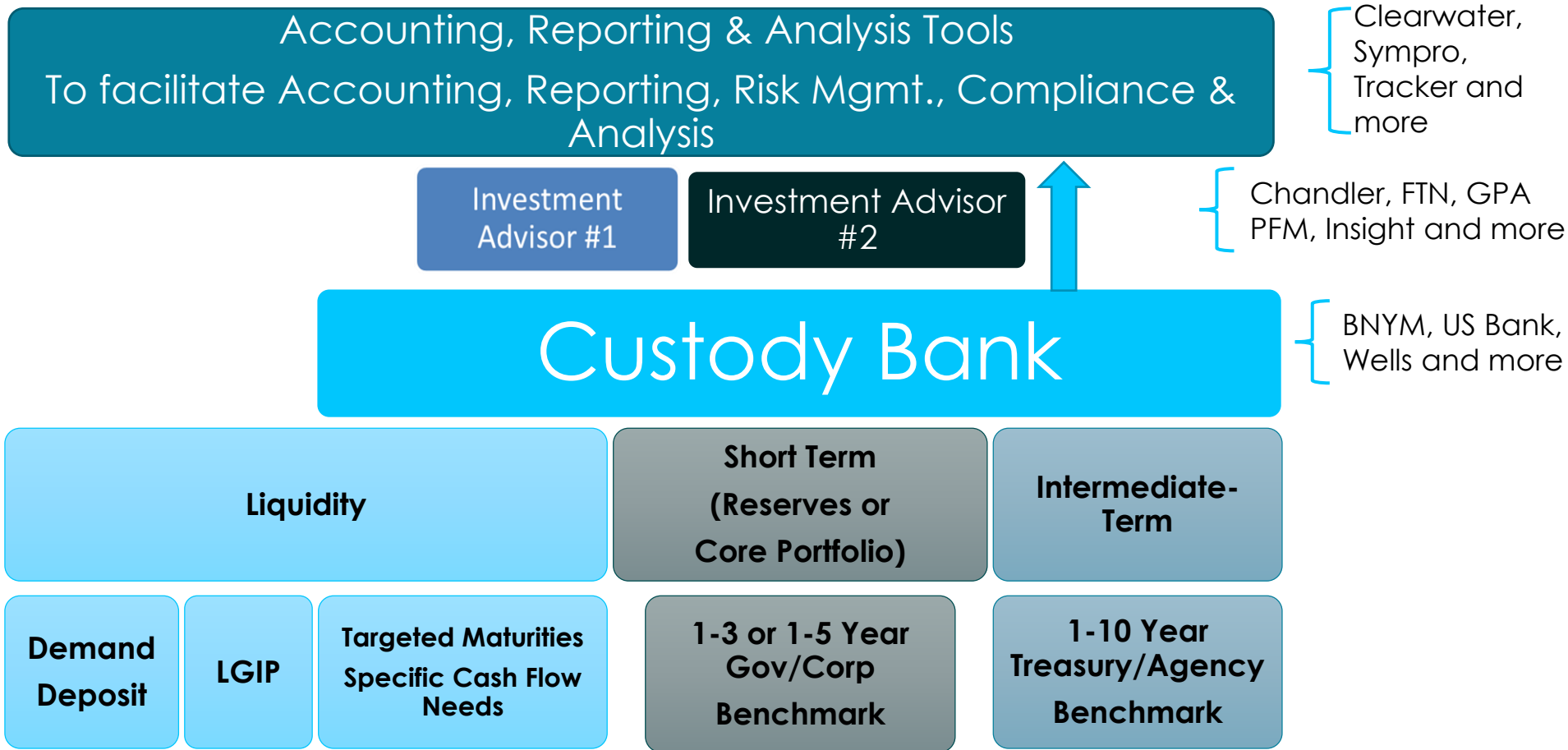
Liquidity Component

- Meets specific liquidity needs
- Invests in short-term securities
- Average maturity short
- Very low volatility
- Cash flow matching

Reserve Component

- Targeted to highest suitable duration
- Longer-term securities
- Normally not used for liquidity, but invested in highly-marketable securities
- Greater volatility
- More stable income stream

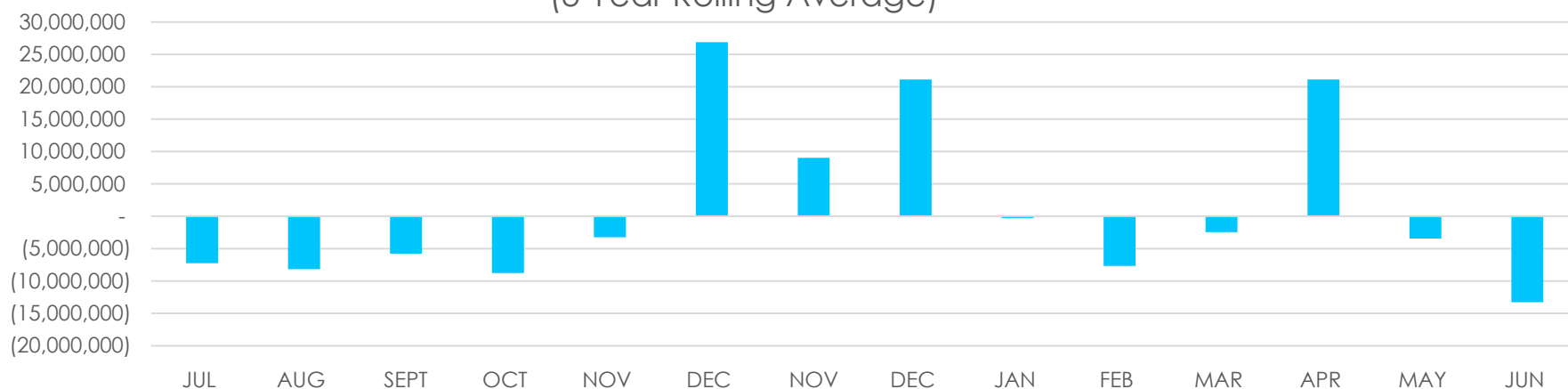
EXAMPLE TACTICAL APPROACH



Less than 1 Full time equivalent staff member assigned to treasury under this model.

Cash Flow Forecasts Are Important

High Level Seasonal Cash Flow (3 Year Rolling Average)



	JUL	AUG	SEPT	OCT	NOV	DEC	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN
ESTIMATED INFLOWS	17,430,000	16,330,000	18,730,000	15,730,000	24,430,000	53,730,000	33,158,029	47,830,000	24,030,000	16,630,000	21,830,000	45,430,000	24,030,000	16,830,000
ESTIMATED OUTFLOWS	24,675,848	24,496,600	24,496,600	24,496,600	27,676,600	26,845,722	24,133,438	26,701,920	24,304,848	24,296,600	24,296,600	24,296,600	27,476,600	30,106,920
ESTIMATED NET CASH FLOW	(7,245,848)	(8,166,600)	(5,766,600)	(8,766,600)	(3,246,600)	26,884,278	9,024,591	21,128,080	(274,848)	(7,666,600)	(2,466,600)	21,133,400	(3,446,600)	(13,276,920)

Daily Cash Needs – Sample Worksheet

Step 1 - Identify New Activity In Process

New Day's Activity In Process		1/3/2019
Source:	OUTSTANDING BALANCE FROM PRIOR DAY	5,888,864
A/P	Warrant Batch	
Cindy	Payroll	41,382.35
A/P	Direct Deposits	2,348,951.01
Cindy	Payroll AP	
	PAYROLL MUNIS CHECKS	12,454.13
	CALPERS UAL PYMNT payroll	
Bryan	Coins Ordered	
Katie	AdminSure Transfer	31,940.65
A/P	PERS HEALTH PREMIUM	
A/P	Revenue Refunds	
Statement	Returned Items	402.34
Dan/A/P/Katie	Xtrnl Withdrawals	160,898.31
Various	Wires & Other Transfers (out)	716,490.76
	Voids	
Katie	Pre-Fund Ext. W/D Epayables	300,000.00
Katie	Direct Deposit Rejects	
Various	Other Adjustments	986.51
Online Banking	Cleared Bank Prior Day	(476,016)
Adjustments to YB: Debit to Daily Cash		9,026,354
Adjustments not posted		
		<u>9,026,353.94</u>

Step 2 - Updated List of Outstanding Activity (Waiting to Clear Bank)

Updated Outstanding Activity		1/4/2019
MUNIS OUTSTANDING PAYROLL		5,931.13
	DD dated 12/24/2018	107,446.54
	DD dated 12/24/2018	88,968.45
	DD dated 12/31/2018	41,382.35
	MyCalPERS Emp.Health (HR)	
	PORAC TRUST	8,816.56
	ICMA/Payroll	69,879.01
	ICMA/Retiree-Month End	
	AdminSure Transf.	
	Move Funds to Ext.Withdrawal	
	Outgoing Wires that have not left yet	
	CKS THAT HAVE NOT BEEN PRINTED YET	12,454.13
CALPERS UAL PAYMENT WIRE		
	CALPERS UAL PYMNT payroll	
	CALPERS UAL PYMNT HR	
	Murphy wire has not gone out yet 1/2/19	10,000.00
	HUD PAYMNT	
	Wire to Empower has not left the bank	160,898.31
	Bank of America CC's & Epayables	300,000.00
	Payroll Taxes will clear on Friday	637,795.19
	Payroll Direct Deposit will clear Friday	2,348,951.01
MUNIS OUTSTANDING GENERAL		5,233,831.26
		<u>\$9,026,353.94</u>

Step 3 - Cash to be Transferred In/Out

Determine whether to Transfer funds In/Out

Current Available Bank Balance	\$ (5,429,584.25)	
Current outstanding AP & Pay checks	\$ 5,239,762.39	
Direct Deposits	3,303,239.11	
Estimated Payroll		
OUTGOING WIRES	\$ 10,000.00	
Deferred Compensation	\$ 160,898.31	
TO CALPERS	\$ -	
Epayables		
monthly cc's	\$ 300,000.00	
MISC	12,454.13	
		9,026,353.94
AP Estimate		
Wire to (from) LAIF	\$ (5,000,000.00)	
Adjusted Book Balance	<u>\$ (1,403,230.31)</u>	



Our Goal is to keep less than \$2 Million in our demand deposit account

ACCOUNTING, REPORTING & PERFORMANCE BENCHMARKING

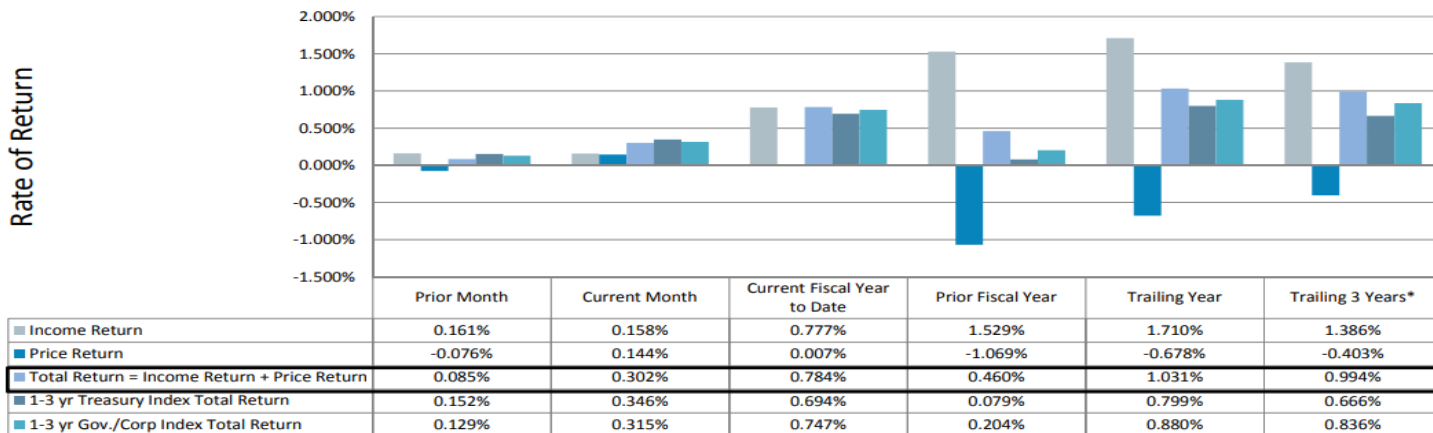


Short-Term Portfolio by Security Type
for the Month Ended

November 30, 2018

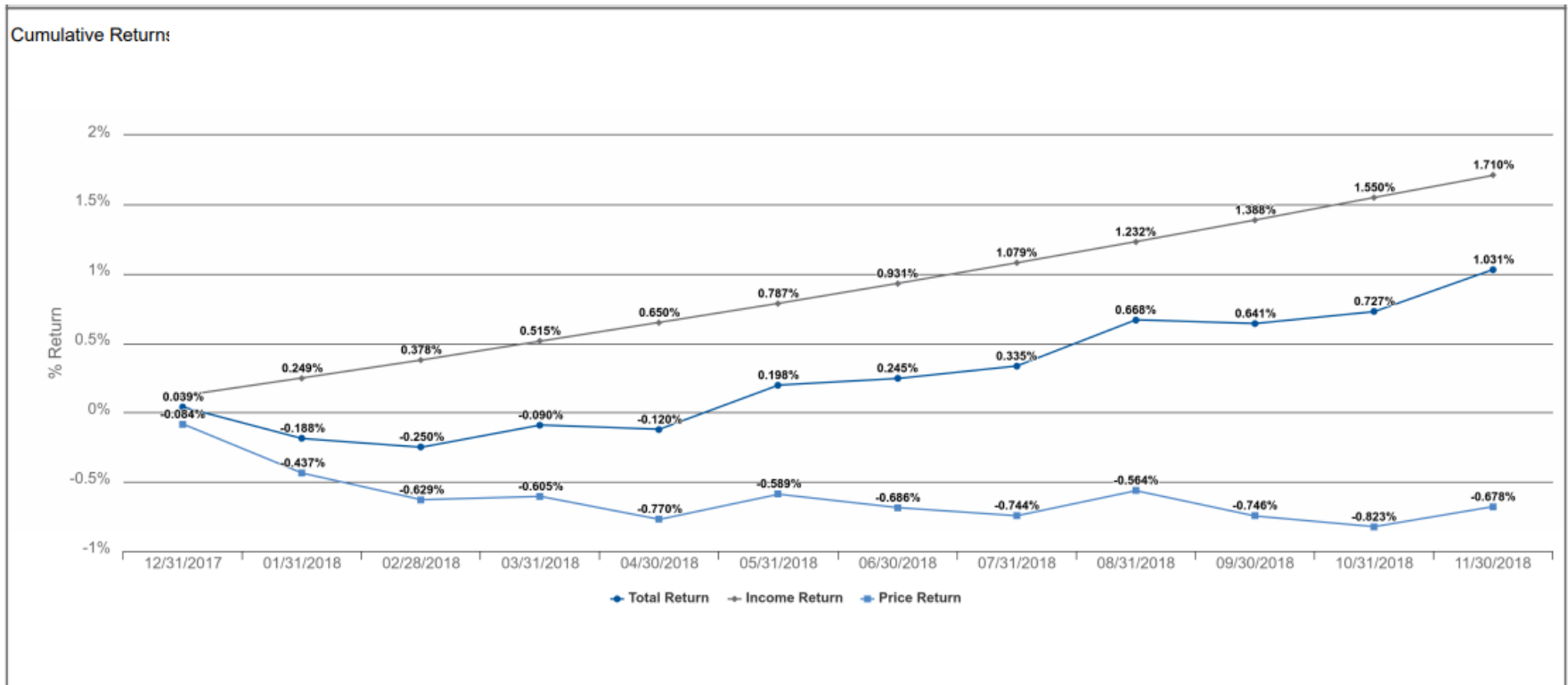
Security Type	Par Value	Original Cost	Amortized Cost	Unrealized Gain/(Loss)	Market Value	Accrued Interest	Market Value Plus Accrued	% of Portfolio	YTM @ Cost	YTM @ Market
Cash Equivalents	-	121,501	121,501	-	121,501	-	121,501	0.06%	2.05%	2.05%
Marketable Securities										
Asset-Backed Securities	11,926,497	11,916,041	11,920,270	(82,483)	11,837,787	9,716	11,847,503	6.06%	2.09%	2.96%
Agency	78,660,000	78,514,306	78,554,702	(824,944)	77,729,758	372,828	78,102,586	39.78%	1.64%	2.74%
Certificates of Deposit	9,990,000	9,989,327	9,989,775	(32,399)	9,957,376	38,489	9,995,865	5.10%	2.11%	2.78%
Corporate Notes	46,670,000	46,567,481	46,486,059	(549,163)	45,936,896	282,705	46,219,601	23.51%	2.47%	3.25%
Supranational	8,000,000	8,006,363	8,003,206	(132,614)	7,870,592	29,535	7,900,126	4.03%	1.89%	2.90%
U.S. Government	43,145,000	42,504,970	42,648,460	(680,484)	41,967,976	150,158	42,118,133	21.48%	1.89%	2.79%
Total Marketable Securities	198,391,497	197,498,489	197,602,471	(2,302,087)	195,300,385	883,430	196,183,815	99.94%	1.95%	2.89%
GRAND TOTAL (MIP)	198,391,497	197,619,990	197,723,972	(2,302,087)	195,421,885	883,430	196,305,315	100.00%	1.95%	2.89%

Performance History



*Periods greater than one year are annualized

Visual Aids help tell the story to governing body



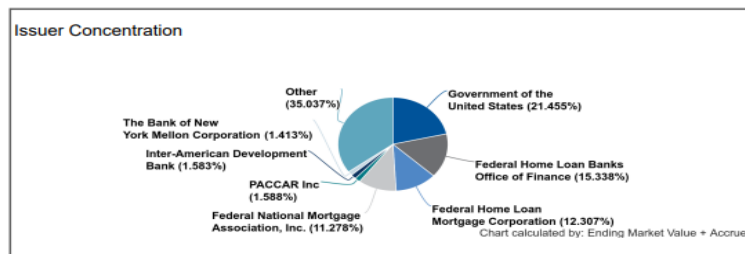
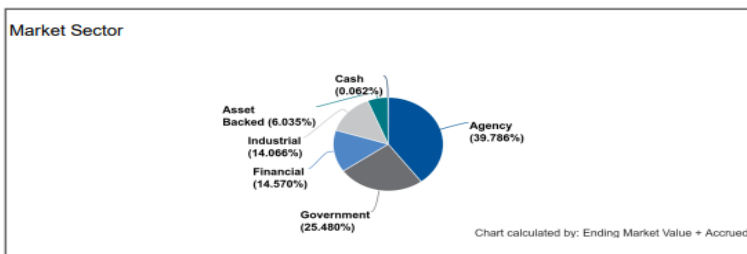
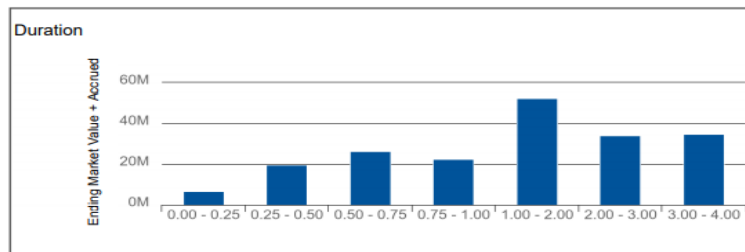
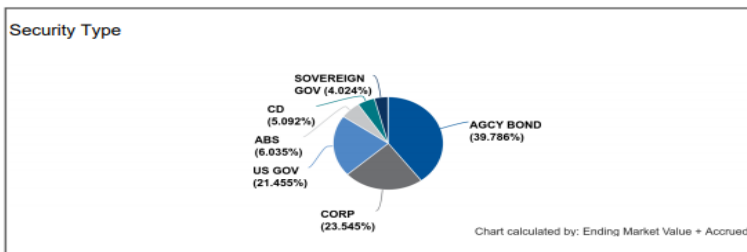
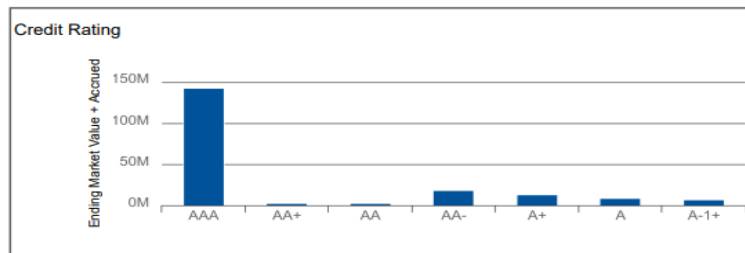


RISK SUMMARY

Risk Summary of Short-Term Portfolio

11/01/2018 - 11/30/2018

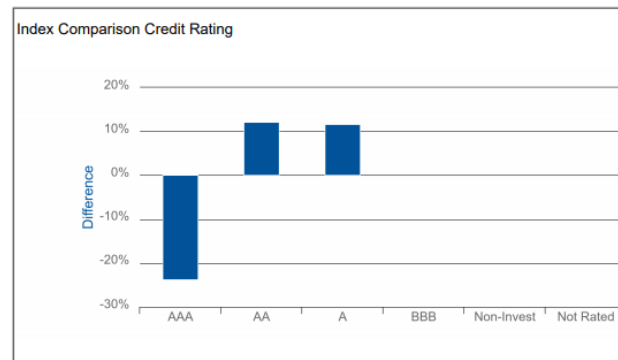
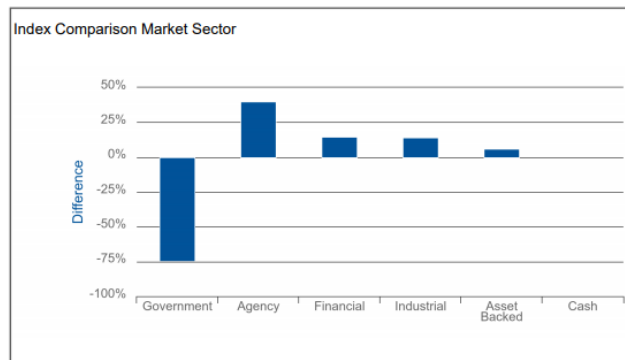
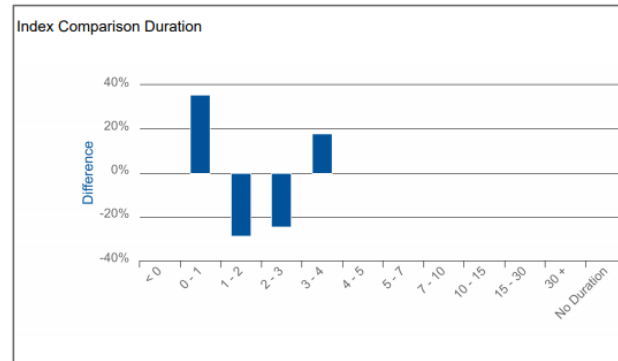
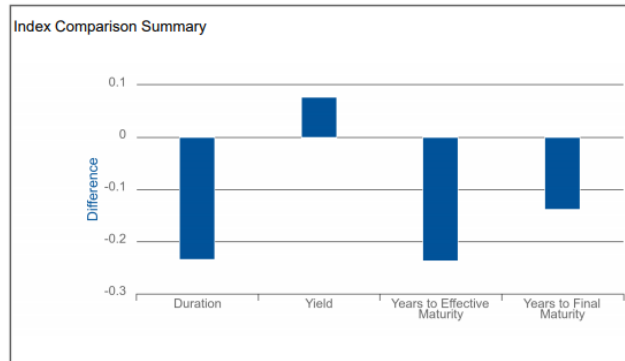
Summary	
Risk Metric	Value
Cash	2,124.88
MMFund	119,375.64
Fixed Income	196,183,814.55
Duration	1.654
Convexity	0.047
WAL	1.727
Years to Final Maturity	1.824
Years to Effective Maturity	1.725
Yield	2.893
Book Yield	1.950
Avg Credit Rating	AA/Aa2/AA



Benchmark Comparisons

Comparison of Short-Term Portfolio with 1-3 Year U.S. Treasuries Index

11/01/2018 - 11/30/2018



Index: ICE BofAML U.S. Treasuries 1-3 Yrs.

Policy Compliance

CITY OF
Newport Beach



Short-Term & Targeted-Maturities Portfolios Compliance Status
for the Month Ended

November 30, 2018

Status	Policy Name	Rules	Compliant Rules	Violating Rules
Compliant	Statement of Investment Policy	29	29	0
Status	Rule Basis	Rule Requirements	Rule Limit	Actual
Compliant	Concentration	Bankers Acceptance Concentration	40.00%	0.00%
Compliant	Concentration	Bankers Acceptances Rated Below (LT) A / A2 (ST) A-1/P-1	0.00%	0.00%
Compliant	Concentration	CD	30.00%	6.10%
Compliant	Concentration	Commercial Paper	25.00%	2.90%
Compliant	Concentration	Corp Rated Below A- / A3	0.00%	0.00%
Compliant	Concentration	CP and CDs Rated Below A/A2 or A1/P1	0.00%	0.00%
Compliant	Concentration	Issuer Concentration Except for Agency, Repo, FDIC	5.00%	2.24%
Compliant	Concentration	Max Concentration of Corps (%)	30.00%	22.54%
Compliant	Concentration	Max Concentration of Funds Assets	10.00%	0.01%
Compliant	Concentration	Max Concentration of MBS and ABS	20.00%	5.78%
Compliant	Concentration	Max Concentration of MMF	20.00%	0.19%
Compliant	Concentration	Max Concentration of Munis (%)	30.00%	0.00%
Compliant	Concentration	Max Concentration of Supranationals	20.00%	3.85%
Compliant	Concentration	Max Issuer Concentration of Corporate Bonds (%)	5.00%	1.52%
Compliant	Concentration	Max Issuer Concentration of Supranationals	10.00%	1.52%
Compliant	Concentration	Minimum Credit Rating for MBS of AAA	0.00%	0.00%
Compliant	Concentration	Minimum Issuer Size for CD's - In Billions	10	Unavailable ⁽¹⁾
Compliant	Concentration	Minimum Issuer Size for CP's - In Millions	500	Unavailable ⁽¹⁾
Compliant	Concentration	Minimum Rating for Supranational Securities AA	0.00%	0.00%
Compliant	Concentration	Munis Rated Below A/A2	0.00%	0.00%
Compliant	Concentration	Repos	10.00%	0.00%
Compliant	Concentration	Supranational is in USD	0.00%	0.00%
Compliant	Maturity	Max Effective Maturity for Repos (in Years)	0.08	---
Compliant	Maturity	Max Final Maturity (from Settle) for Munis	5.00	---
Compliant	Maturity	Max Final Maturity for CP (in Years)	0.74	0.661
Compliant	Maturity	Max Final Maturity From Settle Date (in Years)	5.00	4.721
Compliant	Maturity	Max Final Maturity From Settle for Corp Excl CD	5.00	4.450
Compliant	Maturity	Max Maturity CD	2.00	2.000
Compliant	Maturity	Max Maturity of Bankers Acceptances	0.49	---

So What does San Diego County Do?



SAN DIEGO COUNTY INVESTMENT POOL

- Invests the funds of over 210 public entities, including the County, 42 K-12 school districts, 5 community colleges, and over 160 other agencies
- Assets under management peaked at \$11.6 billion in 2018
- Locally managed by full-time, in-house investment team of 4 and overseen by Oversight Committee made up of 10 public and private members
- AAA rated for the last 19 years

Indicates highest underlying credit quality and very low sensitivity to market risk.



Daily Process

- Determine opening cash position
 - Current Bank Balance(s)
 - Investment Maturities/Purchases
 - Actual Deposits and Disbursements eg:
 - State Apportionment Receipts, Bond Payments
- Account for additional transactions yet to occur
 - Wires out & Controlled Disbursements
 - Expected Deposits
- Daily Liquidity ~\$275 million dollars
 - \$200 million in overnight purchases (rate driven CP/MMF)
 - \$75 million in MMF (2pm availability)
 - \$500 thousand in Bank – Sweep MMF/ECR
 - ~\$20 million across 2 banks during transition
- Invest remaining available funds

Cashflow Forecast

	A	HK	HL	HM	HN
1	Today's Date	0	1	2	3
2	1/22/2019	Tue	Wed	Thu	Payroll
3	Cash Flow:	22-Jan-19	23-Jan-19	24-Jan-19	25-Jan-19
4	Beginning Cash	0	-7,800	221,169	225,246
6	INFLOWS:				
7	Maturities	50,000	25,000		135,000
11	Sales				
12	O/N Liquidity	200,000	230,000		
13	Interest	100	200	200	400
14	Taxes - JPM				
15	Taxes - 8364	10,000	9,000	8,000	8,000
16	Schools		2,000	8,000	3,500
17	County	4,000	3,000	9,000	50,000
18	Retirement				
19	Other Voluntaries				
20	Mat / Sales Outside Pool				
21		264,100	269,200	25,200	196,900
22					
23	OUTFLOWS:				
24	School Warrants	9,000	7,000	6,000	4,000
25	County Warrants	5,000	7,000	2,000	2,000
26	Welfare Warrants	500	500	750	500
27	School Other	4,000	1,406	3,000	3,000
28	County Other	3,000	10,000	2,000	35,000
29	Retirement	0	0	0	0
30	Voluntaries		7,000	7,373	13,000
31	Apportionment	0	0	0	140,317
32	O/N Investment	230,000			
33	Pool Purchases > 90D	20,400	7,325		20,000
34	Pool Purchases < 91D				
35	Purch / Wires Outside Pool				
36		271,900	40,231	21,123	217,817
37					
38	Total Net Cash Flow	-7,800	228,969	4,077	-20,917
39	Net Cash Only	-7,400	-18,706	4,077	-135,317
40					
41	Anticipated Ending O/N	-7,800	221,169	225,246	204,329
42	Actual Ending Position	-7,800	221,169	225,246	204,329

Systems, Programs and Applications

- Excel
 - Cashflow actual and forecast
 - Modeling
- Bloomberg
 - AIM – Portfolio Management and Compliance
 - Market Monitoring
 - Communication with Broker/Dealers
- Sympro
 - Investment Accounting Software
- Online Access
 - Bank Accounts – Balance Reports
 - Money Market Funds – Trade Execution

Takeaways

- Fiduciary Duty requires a Comprehensive Investment Program
 - Well Written and Comprehensive Investment Policy
 - Regular Investment Policy Review
 - Benchmark Selection
 - Disciplined Investment Process
 - Cash Flow Modeling
 - Compliance Monitoring
 - Comprehensive Reporting



www.newportbeachca.gov/treasury

Takeaways - Continued



- Risk Management is an integral component of a Comprehensive Investment Program
 - Market, Credit, Liquidity, Reinvestment & Event
 - Diversify to reduce exposure to risks
- Measure Performance against Benchmarks
 - Important to manage expectations and communicate strategy
- Make use of analysis tools and resources at your disposal
- Review Policy with oversight board frequently
- Consider Investment Certification Program – CMTA, APT or Others
- Cash flow forecasts are imperative to Comprehensive Investment Program
- Opportunity cost of remaining too liquid or waiting for market changes

Questions? - *Here are a few to get you started:*

1. Many cities don't have the manpower to run a comprehensive investment program and therefore leave their treasury in LGIP. What are some options they should consider?
2. Is there a minimum portfolio size that makes sense for an Investment Advisor to manage?
3. What are some best practices in broker selection?

