

CMTA-CDIAC

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Fundamentals of Public Fund Investing

Shaun Farrell, *Treasurer*
City of Galt



Lauren Brant, *Managing Director*
PFM Asset Management LLC



Session Five: Investment Policy and Objectives



Objectives of the Session

- Why Have an Investment Policy?
- Incorporating Best Practices
- Process of Developing a Policy
 - Customizing the Policy to fit your organization
 - Setting realistic investment goals
 - Determining risk tolerance
 - Maintaining an agency's investment objectives
 - Measuring performance against investment objectives
 - Issuing periodic investment reports

New Year = New Opportunities & New Challenges

- Domestic economic recovery
 - Unemployment at 4.6%
 - Steady economic growth
- Additional Fed rate hikes in 2017
 - Possible increase in pace of rate hikes
 - Higher interest rates across the yield curve
- Increased volatility
- Fixed-income bear market



Investment Policy: What & Why?

- A written investment policy is the single most important element in a public funds investment program.
 - Defines primary objectives: safety, liquidity, and yield.
 - Sets forth types and characteristics of eligible instruments, the investment process, and the management of a portfolio.
- Improves the quality of decisions and demonstrates a commitment to the fiduciary care of public funds, with emphasis on balancing safety of principal and liquidity with yield.
- Adherence to an investment policy signals that an entity is well managed and is earning interest income suitable to its situation and economic environment.

-GFOA Creating an Investment Policy Best Practices 2010

Investment Policy Is Foundation for Risk Management

- First line of defense against multiple types of risk related to public funds management

Ideal

GFOA Sample Investment Policy

The purpose of this sample investment policy is to aid the general membership of the Government Finance Officers Association (GFOA) in the preparation of an investment policy. This sample policy is not intended to supplant an existing policy; rather, it is presented as a model to help investing entities customize a policy to fit their particular needs, constraints and capabilities. In order to accommodate the varying needs of government entities and in order to stimulate conversation at the local level, certain sections of the attached policy include examples of alternative language. These alternative examples may be used *in place of or in addition to* the first paragraph presented for that section, depending on the goals and objectives of the particular investing entity.

For additional information, please read Chapter Three of *Investing Public Funds*, second edition, a text authored by Girard Miller, with M. Corinne Larson and W. Paul Zorn, and published by the Government Finance Officers Association of the United States and Canada. You are also invited to contact current staff of the GFOA Standing Committee on Cash Management for assistance in modifying and/or writing your government's investment policy. Governments should obtain counsel to ensure compliance with state and local laws, regulations, and other policies concerning the investment of public funds.

I. Governing Authority

Legality

The investment program shall be operated in conformance with federal, state, and other legal requirements, including *[insert applicable citations governing the investment of public funds]*.

II. Scope

This policy applies to the investment of all funds, excluding the investment of employees' retirement funds. Proceeds from certain bond issues, as well as separate foundation or endowment assets, are covered by a separate policy. *[This section should be modified to specify which assets are excluded from this policy.]*

1. *Pooling of Funds*

Except for cash in certain restricted and special funds, the [entity] will consolidate cash and reserve balances from all funds to maximize investment earnings and to increase efficiencies with regard to investment pricing, safekeeping and administration. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. *[This paragraph refers to the pooling of funds within a single governmental entity and implies no reference to local government investment pools. This GFOA Sample*

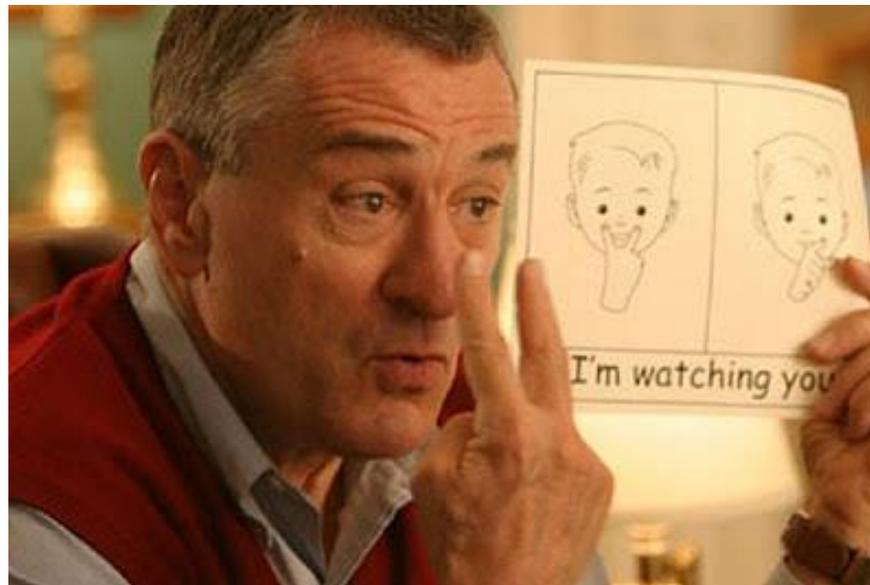
Less Than Ideal

Investment Policy

1. Don't lose the \$.
2. In case of emergency, blame the new guy.

Interested Parties

- Parties, other than finance staff and governing bodies, who take a keen interest in your entity's investment policy:
 - Your Constituents → Protecting their money
 - Rating Agencies → Prudent management
 - Capital Markets → Protection of revenue stream
 - Auditors → Compliance



Creating/Revising Your Policy—Answering the Right Questions

- Who are the **authorized investment officers**?
- What **standard of care** will be established?
- What **instruments will be eligible for investment**?
- How will **diversification** be ensured?
- How will **safekeeping** be handled?
- What is **the maximum term** for any given investment?
- What type of **internal controls** should be in place?
- Who will comprise the **investment committee** (internal/external members), if any?
- What type of investment **reports/performance reports** will be produced?
- What types of **benchmarks** will be used?
- Will an **investment advisor** be used (and to what capacity)?
- How do I select my **financial partners**?

CMTA Investment Policy Accreditation

- CMTA certification process provides professional guidance and assistance in developing and/or improving investment policies for California public entities. Developed with support from CDIAC.
- The Policy areas evaluated are similar to those listed by GFOA best practices:

Scope	Collateralization
Prudence	Safekeeping and Custody
Objective	Diversification
Delegation of Authority	Maximum Maturities
Ethics and Conflicts of Interest	Internal Control
Authorized Financial Dealers and Institutions	Performance Standards
Authorized and Suitable Investments	Reporting
Review of Investment Portfolio	Investment Policy Adoption
Investment Pools/Mutual Funds	Glossary

Source: <http://www.cmta.org/page/InvestmentPolicyCert>

Scope

- To which funds does the policy apply...general funds? Bond proceeds?
- Differentiate between short-term and long-term funds

Example

The investment policy applies to all financial assets of the City, my personal accounts and those of my neighbor.

Better Example

This investment policy applies to all investment activities and financial assets of the County, excluding funds invested in the Health Care Benefits Trust. The funds covered by this policy are accounted for and incorporated in the CAFR and include Governmental Funds (General Fund, Special Revenue Funds, Debt Service Funds, Capital Projects Funds), Proprietary Funds (Enterprise Funds, Internal Service Funds) and Agency Funds.

Standard of Prudence (§53600.3)

- Members of board/council and anyone authorized to make investment decisions are considered trustees and fiduciaries subject to standard of prudence

Example

Make good choices.

Better Example

The standard of prudence to be used by the designated representative shall be the “prudent investor” standard and shall be applied in the context of managing the overall portfolio. The meaning of the standard of prudent investor is explained in California Government Code Section 53600.3, which states that “when investing, reinvesting, purchasing, acquiring, exchanging, selling or managing public funds, a 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.”

Objectives (§53600.5)

- Safeguard principal of funds under control
- Meet liquidity needs of depositor
- Achieve a return on the funds under control

Example

Get the funds invested.

Better Example

The primary objectives, in priority order, shall be:

Safety: Safety of principal is the foremost objective of the investment program. Investments of the District shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. To attain this objective, the District will diversify its investments by investing funds among a variety of securities with independent returns.

Liquidity: The District investment portfolio will remain sufficiently liquid to enable the District to meet all operating requirements which might be reasonably anticipated.

Return on Investments: The District's investment portfolio shall have the objective of attaining a comparative performance measurement or an acceptable rate of return throughout budgetary and economic cycles. These measurements should be commensurate with the District's investment risk constraints identified in the Investment Policy and the cash flow characteristics of the portfolio.

Delegation of Authority (§53607)



- State to whom and how often authority may be delegated
- Must make monthly report of transactions when authority is delegated

Example

The person who has the keys to the vault can invest the funds.

Better Example

The City Council, as permitted under California Government Code 53607 delegates the responsibility to invest or reinvest the funds of the City or to sell or exchange securities so purchased, to the City Treasurer.

Within the Treasurer's Department, the responsibility for the day to day investment of City funds is delegated to the Chief Investment Officer. In the absence of the chief Investment Officer and Investment Officer, the Treasurer shall take responsibility for the daily investments of City funds.

Ethics & Conflict of Interest (§87105, §87200)

- Explicitly prohibits conflicts that impair impartial funds management
- Clear process for reporting and determining conflicts of interest
- Awareness of mandated ethics training for certain officials (§53234 – 53235.2)

Example

Do the right thing.



Better Example

Investment Officials shall refrain from personal business activity that could conflict with proper execution and management of the policy and the investment program, or which could impair their ability to make impartial decisions. Investment officials must provide a public disclosure document by February 1 of each year or when material interest in financial institutions or personal investment positions require it. Furthermore, Investment Officials must refrain from undertaking personal investment transactions with the same individual(s) employed by financial institution with whom business is conducted on behalf of the City.

Authorized Dealers & Institutions (§53601.5)

- Incorporate language to ensure careful selection of financial partners

Example

Use firms starting with A-K for first half of the year and L-Z the latter half of the year.

Better Example

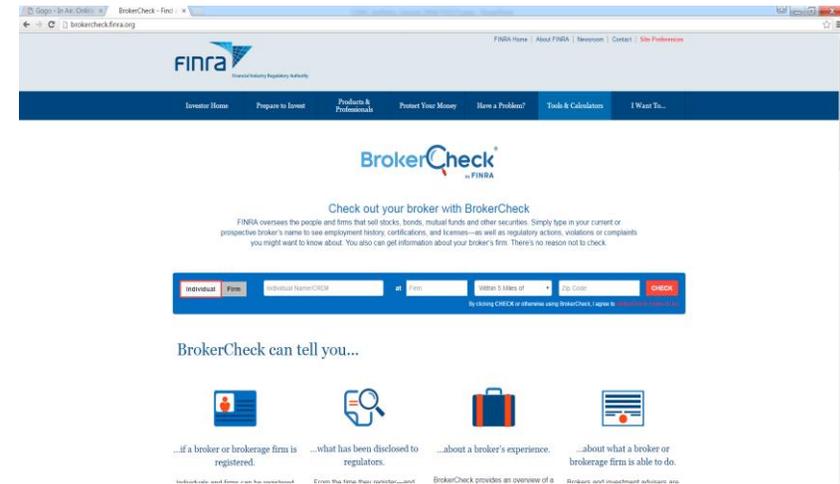
The Finance Director/City Treasurer will establish and maintain a list of the financial institutions and broker/dealers authorized to provide investment and depository services to the District, will perform an annual review of the financial condition and registrations of the qualified institutions, and require annual audited financial statements to be on file for each approved institution. The District shall annually send a copy of their current Investment Policy to all financial institutions and broker/dealers approved to do business with the District. Receipt of the Investment Policy including confirmation that it has been received and reviewed by the person(s) handling the District's account, shall be acknowledged in writing within thirty (30) days.

All brokers and dealers that desire to become qualified bidders for investment transactions with the District must respond to our "Broker Dealer Questionnaire" and submit related documents relative to eligibility. This includes a current audited financial statement, proof of state registration, proof of FINRA registration and a certification they have received and reviewed the District's Investment Policy and agree to comply with the provisions outlined in the Investment Policy. The Finance Director/Treasurer may establish any additional criteria deemed appropriate to evaluate and approve any financial services provider. The selection process for broker-dealers shall be open to both "primary dealers" and "secondary/regional dealers" that qualify under Securities and Exchange Commission Rule 15c3-1 (Uniform Net Capital Rule), and the provider's representative must be experienced in institutional trading practices and familiar with the California Government Code as it relates to investments by a public entity.

If a third party investment advisor is authorized to conduct investment transactions on the District's behalf, the investment advisor may use their own list of approved broker/dealers and financial institutions. The investment advisor's approved list must be made available to the District upon request.

Broker/Dealers

- Registered under Securities Exchange Act of 1934
- Person or firm in the business of buying and selling securities
- Policy sets standards to screen out financially unstable institutions or those whose past trading practices would endanger the safety of public funds
- Broker Check: <http://www.finra.org>



Source: <http://brokercheck.finra.org/>

Broker/Dealer Selection Considerations

Trade/Settlement Process	Staff Qualifications/References
Financial Statement Review	State Registration
Capital Adequacy Standards	Insurance Requirements
Acknowledge receipt of investment policy	Major Business Changes (mergers/layoffs)
History of SEC Complaints or Violations	Questionnaire Responses

Investment Advisors

- Registered under Investment Advisers Act of 1940
- External investment advisors assist in the management of portfolio in a manner consistent with the entity's objectives
- Discretionary and non-discretionary management styles
- Fiduciary

Investment Advisor Selection Considerations

SEC Registered	History of SEC Complaints or Violations
ADV filings	Performance Results
Staff Qualifications/References	Use of 3 rd Party Custodian
State Registration	Major Business Changes (mergers/layoffs)

Banks (§53630 - §53686)

- Evaluating Financial Strength
 - Too big to fail
 - Credit ratings of bank partners and holding companies
 - Rating agency perspective
 - Service and technology considerations
- Securing Deposits
 - FDIC coverage \$250,000
 - Collateralization of public deposits required
 - Periodic evaluation
- Bundling of services: Lower fees and enhanced efficiencies

Authorized and Suitable Investments (§53601)

- Define general universe
- Assess entity's risk tolerance
- Mirror Code as closely as suitable and set specific restrictions—may be more conservative than Code

Example

Gold bullion

Treasury securities issued only in March

Better Example

State specifically securities allowed by California Government Code are permitted

Consider capabilities of investment staff

For each security type, place limits

- Maximum percentage of the security type allowed

- Minimum credit quality allowed

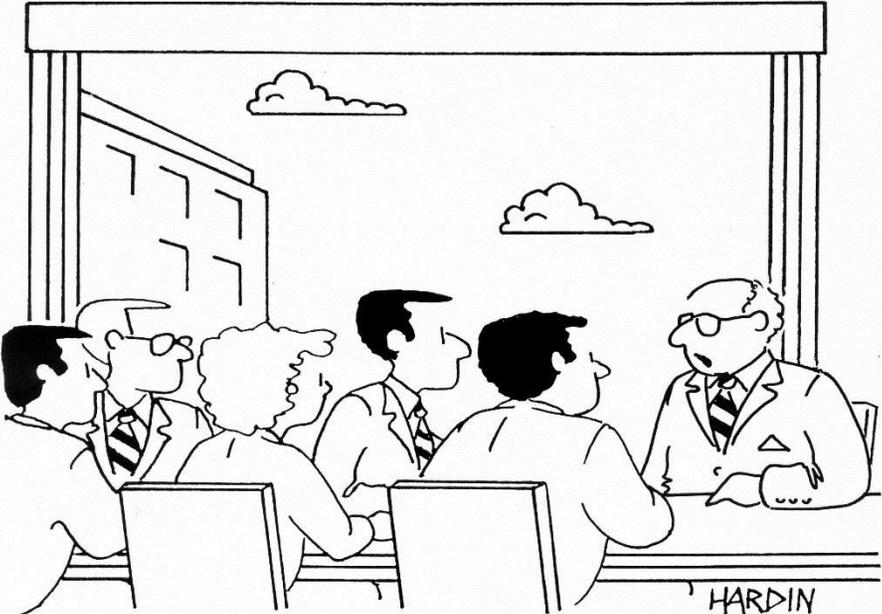
- Maximum allowable term to maturity

- Collateral requirements (if applicable)

Other restrictions

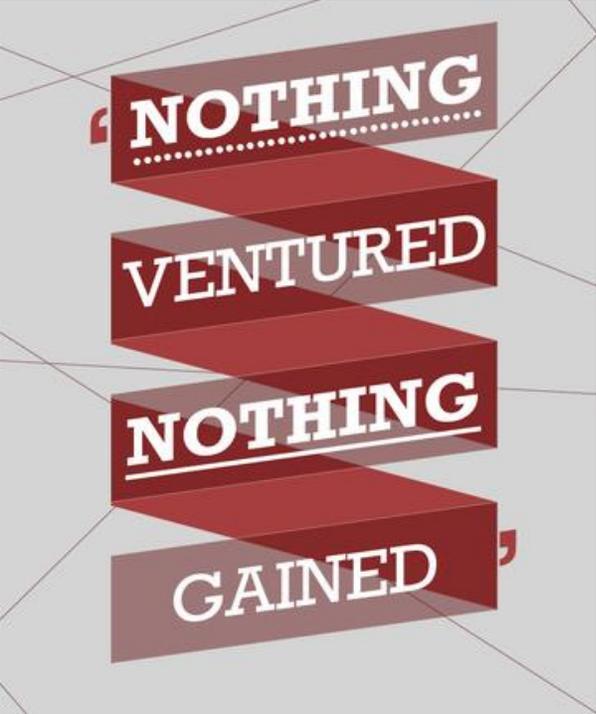
- Maximum percentage allowed by issuer, for the sector and for the portfolio

Risk Tolerances

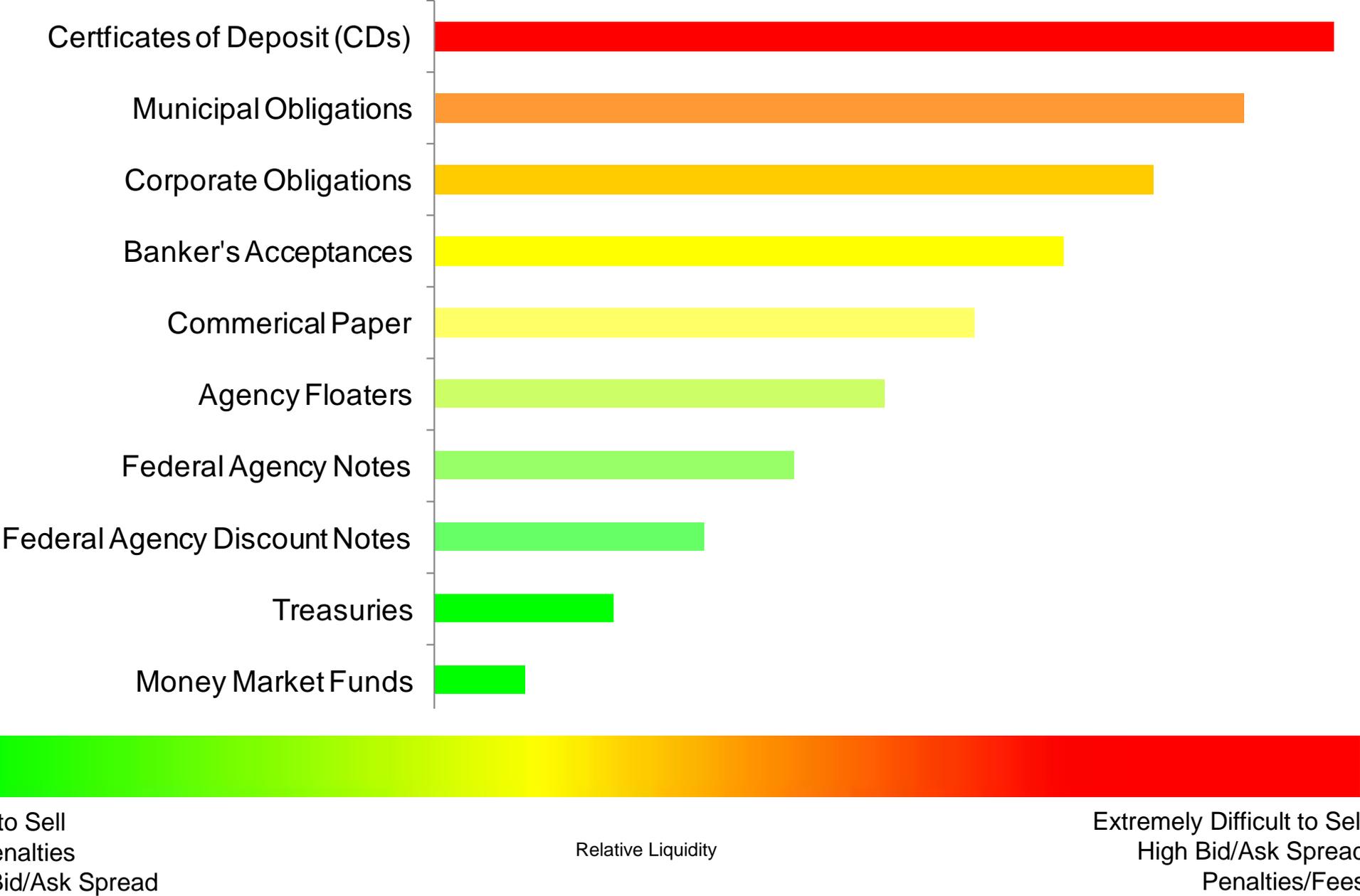


"We've considered every potential risk except the risks of avoiding all risks."

V.S.



General Liquidity Profile of Investments

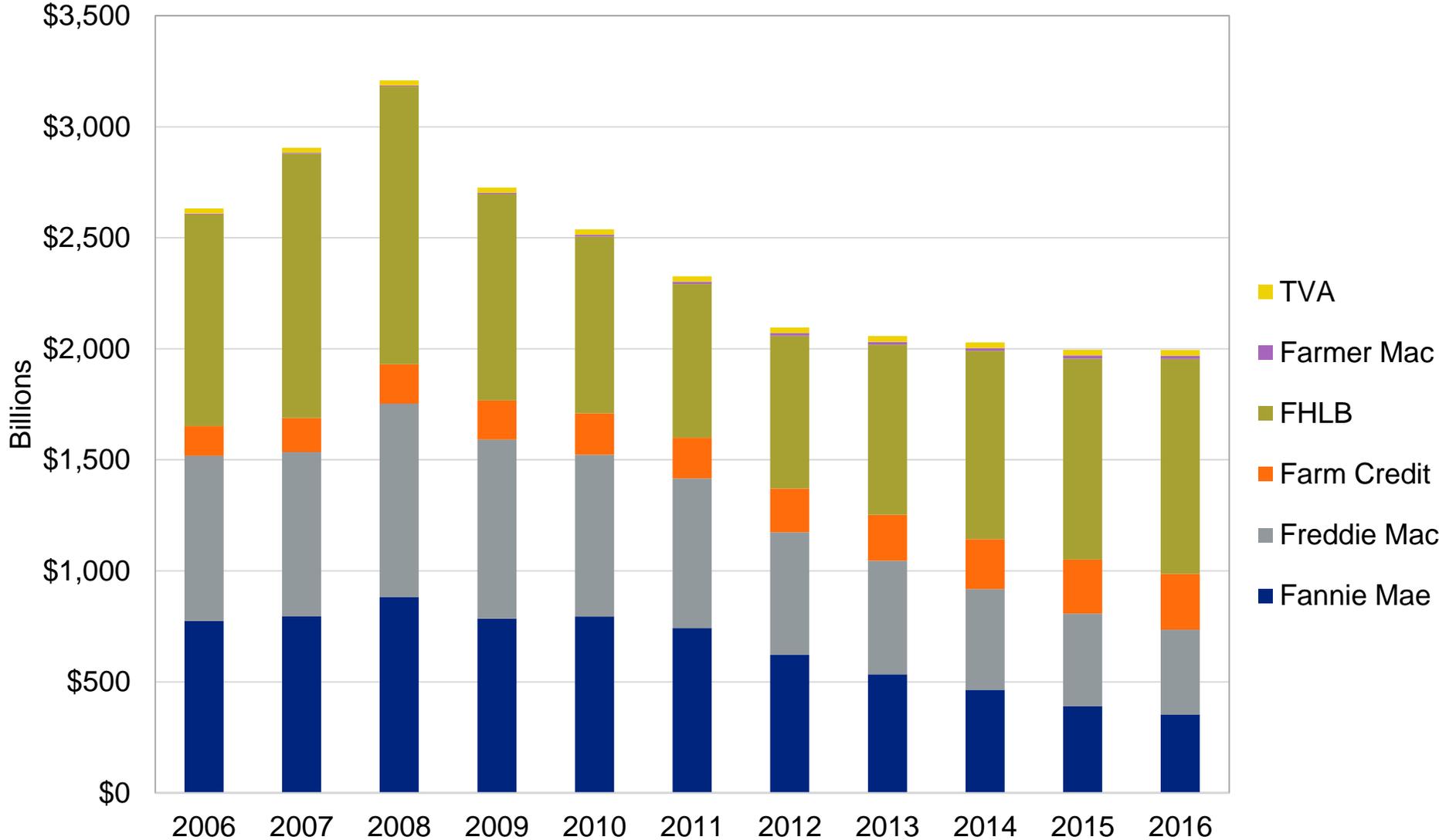


Permitted Investments

- Consider capabilities of investment staff
- Set diversification limits
 - Term
 - Credit Quality
 - Collateral Requirements
 - Illiquid investments
- Restrictive clauses

Sector	Allowed by Code
U.S. Treasuries	100%
Federal Agencies	100%
Supranationals	30%
MBS/ABS	20%
Municipals	100%
Corporate Notes	30%
Negotiable CDs	30%
Commercial Paper	25%
Repurchase Agreements	100%
State Pool (§16429.1)	\$65 Million
Bank Deposits (§53630)	100%

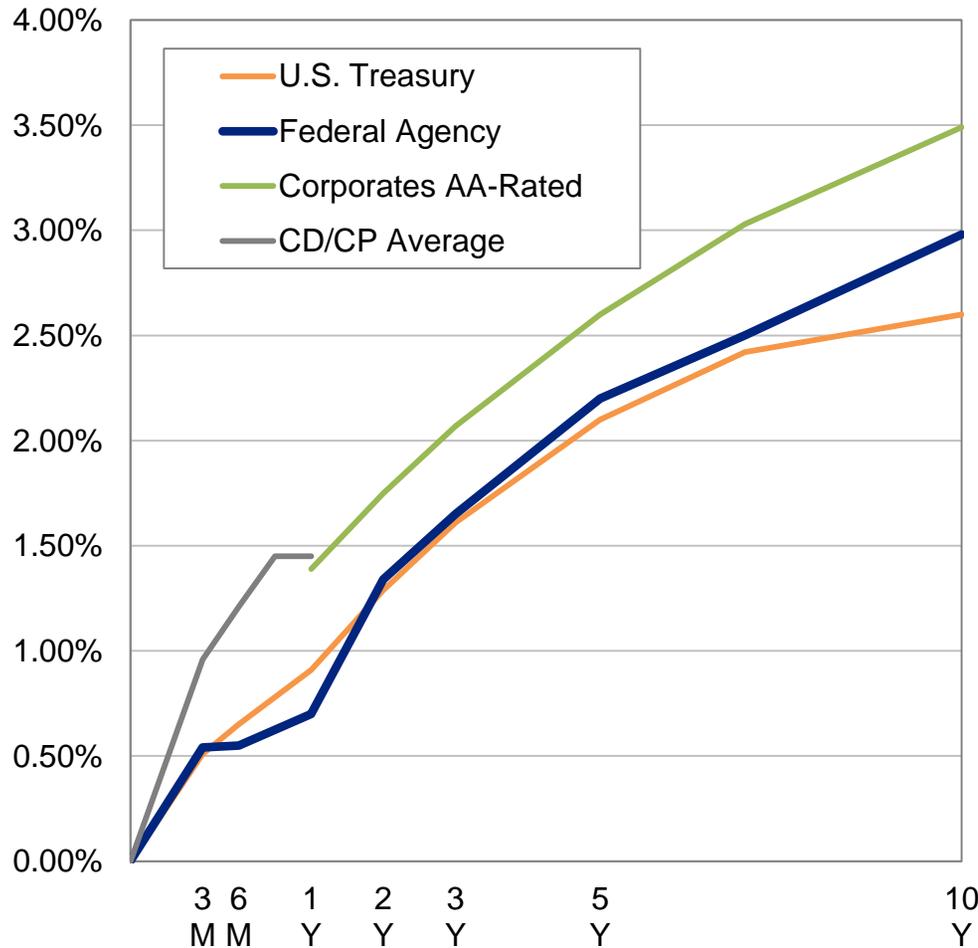
Fixed Income Universe Is Changing



Source: SIFMA. 2016 is YTD as of 9/30/2016.

Risk vs. Return

Yield Curves
As of 12/15/16



	U.S. Treasury	Federal Agency	Corporates AA-Rated	CD/CP Average
3M	0.51%	0.54%		0.96%
6M	0.65%	0.55%		1.21%
1Y	0.91%	0.70%	1.39%	1.45%
2Y	1.29%	1.34%	1.75%	
3Y	1.61%	1.65%	2.07%	
5Y	2.10%	2.20%	2.60%	
7Y	2.42%	2.50%	3.03%	
10Y	2.60%	2.98%	3.49%	

Source: Bloomberg as of 12/15/16, PFMAM Trading Desk

Equally as Important To Know What's Prohibited...

- Inverse floaters
- Range notes
- Mortgage-derived, interest-only strips
- Security that could result in zero interest accrual if held to maturity
- Any security not permitted by Code

Review of Investment Portfolio

Example

Have a member of your immediate family conduct a review of the portfolio within the next five years.

Better Example

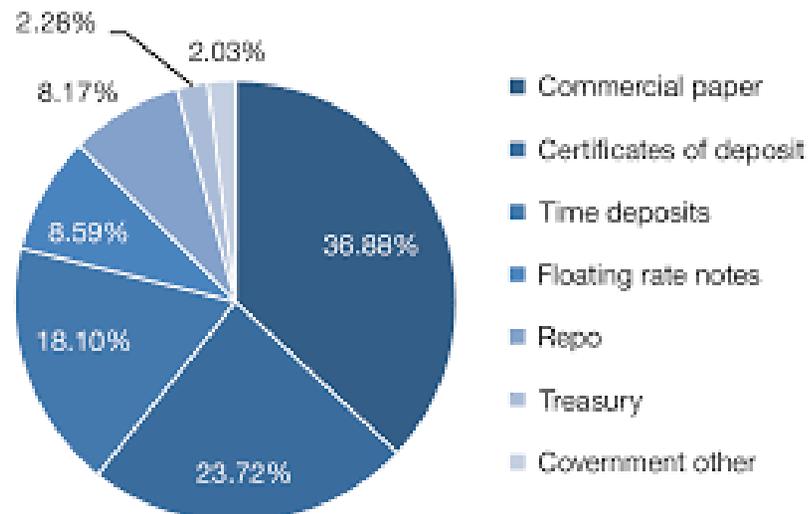
The external auditors shall review the investments and general activities associated with the investment program on an annual basis to ensure compliance with this Investment Policy.

Investment Pools/Mutual Funds

Better Example

A thorough investigation of the pool/fund is required prior to investing, and on a continual basis. The following information should be provided to the Investment Officer: fee schedule, description of the program, investment policy of the fund, transaction restrictions.

Figure 1: average portfolio composition of an IMMFA member's prime money market fund



Source: IMMFA

Investment Pools/Mutual Funds

- Shares of beneficial interest issued by a diversified management company (§53601 (l))
 - Money market mutual funds (l)(2)
 - Mutual funds (l)(1)
- Shares of beneficial interest issued by a joint powers authority (§53601 (p))
 - Local government investment pools (LGIPs)
- State of California's Local Agency Investment Fund (LAIF) (§16429.1)
- County Treasurer's Pool (§53684)

Collateralization (§53601, §53649)

- Requirements for
 - Bank deposits
 - Repurchase Agreements

Better Example

Acceptable collateral for bank deposits and repurchase agreements shall include U.S. Treasury and Federal Agency obligations. Collateral will be held by an independent third party with whom the District has a custodial agreement. A clearly marked evidence of ownership must be supplied to the entity and retained.

Safekeeping & Custody (§53608)

- Who's holding your securities?
- Industry best practices—third party custodian and delivery-versus-payment (DVP)
- Securities held in name of the entity

Better Example

All securities by the City shall be properly designated as an asset of the City and held in third party safekeeping by a bank designated as primary agent. All transactions shall be conducted on a delivery-versus-payment (DVP) basis.



Diversification

- Purpose: to reduce overall risks while attaining a market average rate of return
- Define specific limits—asset classes, holdings of one issuer, concentration in a specific maturity, illiquid investments

Index / Ending Duration	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
U.S. Treasury / 2.69 Years	4.03%	2.52%	5.22%	8.16%	8.73%	25.25%	7.63%	5.10%	7.99%	2.39%	3.90%
Bullet Agencies / 2.46 Years	3.13%	1.86%	4.96%	7.81%	8.63%	14.35%	6.33%	3.74%	6.46%	1.29%	2.19%
Callable Agencies / 1.95 Years	2.22%	1.73%	4.73%	7.30%	7.45%	9.29%	5.81%	3.66%	4.33%	1.24%	2.18%
Corp AAA / 3.00 Years	2.08%	1.65%	4.67%	7.19%	5.65%	6.95%	5.43%	3.36%	2.81%	0.70%	2.06%
Corp AA / 2.80 Years	1.98%	1.52%	4.56%	6.40%	4.84%	5.68%	4.81%	3.36%	2.50%	0.41%	1.92%
Corp A / 2.79 Years	1.90%	1.46%	4.48%	6.00%	4.41%	5.56%	3.61%	2.62%	1.63%	0.03%	1.38%
Corp BBB / 2.76 Years	1.75%	1.39%	4.47%	5.67%	1.06%	2.53%	3.54%	2.59%	1.52%	0.00%	1.30%
MBS 0 - 5 / 3.23 Years	1.71%	1.21%	3.81%	5.00%	-6.04%	2.14%	1.85%	2.32%	0.91%	-0.01%	1.29%
Municipals / 2.57 Years	1.31%	0.77%	3.22%	4.68%	-6.83%	0.23%	1.24%	1.67%	0.85%	-0.19%	1.24%

Source: BofA Merrill Lynch 1-5 and 0-5 Year Bond Indices

Diversification

Example

The District recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary illiquidity. To minimize the District's exposure to these types of risk, the portfolio should be diversified among several types of institutions, instruments and maturities. The Finance Director shall minimize default risk by prudently selecting only instruments and institutions, which at the time of placement have been evaluated for their financial viability and compliance with this policy.

Less than Ideal

Put all of our eggs in one basket.

Maximum Maturities

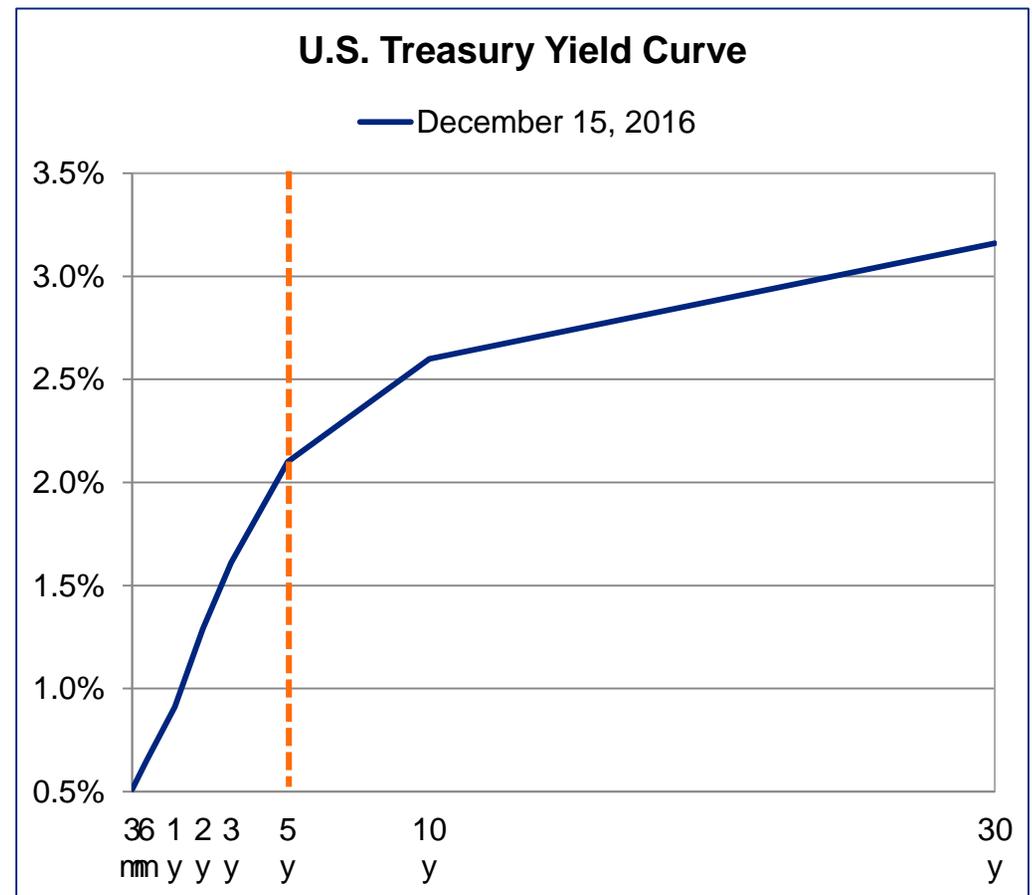
- Government Code specifies max maturity for most types of investments
- When the Government Code does not explicitly list a max maturity, the default is five years, but the governing body may permit longer maturities with prior approval

Example

The City shall invest without consideration for cash flow needs.

Better Example

The City Treasurer shall attempt to match investments with anticipated cash flow requirements. The City shall not invest in securities longer than five years from the date of trade settlement. The duration of the portfolio shall not exceed 2.5 years.



Internal Controls

- Documentation of procedures
- Require a system of internal controls

Better Example

The City Treasurer is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. Accordingly, the City Treasurer shall establish an annual process of independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

Performance Standards

- Outline specifications and conditions for benchmark selection
- Provide clear guidance without hindering benchmark selection or interpretation

Example

Performance measurements shall be utilized which are appropriate to the nature and strategy for the portfolio. The County's investment strategy is passive; therefore, the basis used to determine whether appropriate and suitable market yields are being achieved shall be to identify a comparable benchmark to the portfolio's weighted average maturity.

Benchmarks may change over time based on changes in market conditions or cash flow requirements.

Less than Ideal

The yield of the 1-year Treasury Bill at 12:01am during the last full moon.

Setting an Appropriate Benchmark

- Quantifies performance priorities
- Defines and evaluates a long-term investment strategy
- Independent evaluation measure for portfolio management
- Alert for red flags if performance varies significantly from the benchmark
- Measures and evaluates relative investment performance
- Provides for comparison of risk and return



The benchmark should not lead to taking inappropriate risks to outperform the benchmark.

Common Benchmarks

- A benchmark should:
 - Be an independent representation
 - Reflect asset mix, credit quality, and average maturity or duration of the portfolio
 - Reflect your entity's performance objectives:
 - Budgetary earnings
 - Long-term capital appreciation



Common Total Return Benchmark Indices*

- BofA Merrill Lynch Global Indices
- Barclays Capital Indices
- Citigroup Fixed Income Indices
- Payden & Rygel Global Indices

Common Yield Benchmarks

- S&P LGIP Government Fund Index
- iMoneyNet Government Taxable Index
- Rolling average of 2-year Treasury Yield
- LGIP Yields

**Total return benchmarks are synthetically structured by the firm publishing them (i.e., BofA/Merrill Lynch has an internal group that works on maintaining their benchmarks). Indices are rebalanced periodically (usually monthly) to maintain the appropriate representation of securities and assume no deposits or withdrawals.*

Reporting (§53607 and §53646)

- Define frequency, content, requirements
- Ad hoc reporting for special events (ex. Ratings downgrades, new accounts, personnel changes)

Example

If the Treasurer is in a good mood they may submit a report in their own handwriting to anyone they please.

Better Example

The City Treasurer shall prepare monthly Treasurer's Report that provides a clear picture of the status of the current investments. The Treasurer's Report is prepared in a manner that will allow the City Manager and the City Council to ascertain whether investment activities during the reporting period have deviated from the City's investment policy. The monthly Treasurer's Report will include the City portfolio, Fiscal Agent portfolio and Bond Proceeds portfolio.

The following information shall be required in each monthly investment portfolio report:

- A listing of individual securities held at the end of the reporting period
- Percentage of Portfolio by Investment Type
- Investments Stated Rate and Book Value
- Unrealized gains or losses resulting from appreciation/depreciation by listing the cost and market value of securities over one-year in duration
- Average rate of return on city's investments
- Maturity aging by type of investment
- Market value of Securities

Reporting Requirements

- Quarterly reporting requirements are optional.
- If providing quarterly reports, they must:
 - Be submitted within 30 days after quarter end.
 - Include: Investment type, issuer, maturity date, par amount, purchase price, description of funds being managed by an outside party, market value and source for any securities managed by an outside party that is not a local agency or LAIF.
 - State that the portfolio is in compliance with the Policy or manner in which it is out of compliance.
 - State the ability of the agency to meet its pool's expenditure requirements for the next 6 months or explain why it cannot.

Reporting Requirements



Managed Account Detail of Securities Held

For the Month Ending September 30, 2012

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Security Type Sub-Total		840,000.00					895,084.00	1.21	6,694.26	882,253.79	890,024.80
Federal Agency Bond / Note											
FNMA NOTES DTD 11/01/2010 0.750% 12/18/2013	31398A5W8	295,000.00	AA+	Aaa	06/28/11	06/29/11	294,985.25	0.75	633.02	294,992.78	296,958.51
FHLMC NOTES DTD 11/18/2011 0.625% 12/23/2013	3134G3BF6	435,000.00	AA+	Aaa	12/20/11	12/21/11	436,257.59	0.48	740.10	435,771.22	436,951.41
FHLMC GLOBAL NOTES DTD 06/19/2009 3.000% 07/28/2014	3137EACD9	1,150,000.00	AA+	Aaa	02/01/11	02/04/11	1,208,006.00	1.51	6,037.50	1,180,763.12	1,205,398.95
FHLMC NOTES DTD 06/02/2011 1.000% 07/30/2014	3137EACU1	445,000.00	AA+	Aaa	12/13/11	12/14/11	449,481.15	0.61	754.03	448,129.42	450,762.75
FHLMC NOTES DTD 07/05/2011 1.000% 08/27/2014	3137EACV9	500,000.00	AA+	Aaa	08/15/11	08/15/11	507,140.00	0.52	472.22	504,498.33	507,035.00
FNMA GLOBAL BENCHMARK NOTES DTD 03/30/2005 5.000% 04/15/2015	31359MA45	350,000.00	AA+	Aaa	08/29/11	08/29/11	403,147.50	0.75	8,069.44	387,347.45	390,878.91
FANNIE MAE GLOBAL NOTES DTD 04/19/2012 0.500% 05/27/2015	3135G0KM4	485,000.00	AA+	Aaa	04/17/12	04/19/12	483,598.35	0.59	835.28	483,799.67	486,501.56
FNMA NOTES DTD 06/14/2010 2.375% 07/28/2015	31398AU34	610,000.00	AA+	Aaa	09/01/10	09/07/10	629,678.60	1.69	2,535.31	621,562.37	643,873.30
FNMA NOTES (CALLABLE) DTD 08/07/2012 0.500% 08/07/2015	3135G0NG4	800,000.00	AA+	Aaa	08/02/12	08/07/12	799,920.00	0.50	600.00	799,923.98	799,498.40
FNMA NOTES DTD 09/27/2010 1.625% 10/26/2015	31398A4M1	700,000.00	AA+	Aaa	09/23/11	09/27/11	718,907.00	0.95	4,897.57	714,290.63	725,589.90
FNMA NOTES DTD 03/04/2011 2.375% 04/11/2016	3135G0BA0	410,000.00	AA+	Aaa	07/18/12	07/19/12	437,170.70	0.58	4,598.26	435,729.00	437,053.03
FANNIE MAE NOTES DTD 10/20/2011 1.375% 11/15/2016	3135G0ES8	295,000.00	AA+	Aaa	06/05/12	06/07/12	301,678.80	0.85	1,532.36	301,210.72	304,169.78
FANNIE MAE GLOBAL NOTES DTD 07/20/2012 0.875% 08/28/2017	3135G0M23	520,000.00	AA+	Aaa	09/06/12	09/10/12	521,289.60	0.82	417.08	521,274.76	522,618.72
Security Type Sub-Total		6,995,000.00					7,191,260.54	0.90	32,122.17	7,129,293.45	7,207,290.22

Investment Policy Adoption (§53646, §27133)



- Best practices advocates for annual review and adoption of the Investment Policy
- Policy should be reviewed regularly by investment officials and modified as needed:
 - Changes to Code
 - Opportunity to reassess risk tolerances and other changes impacting the investment program
 - Changes in governance or administration

Example

This investment policy shall be reviewed at the whim of the Finance Director.

Better Example

The City's investment policy shall be adopted by resolution of the City Commission. The policy shall be reviewed annually by the City Treasurer and Finance Director. Any modifications made to the policy must be approved by the City Commission.

Glossary

- Include terminology meaningful to all interested parties
 - Bid
 - Collateral
 - Coupon
 - Duration
 - Federal National Mortgage Association
 - Market Value
 - Money Market
 - Repurchase Agreement
 - Safekeeping
 - Secondary Market
 - Treasury Bills
 - Yield

GLOSSARY

4. A short vowel that ends or itself constitutes by a breve; thus *è-fekt* for effect, *I-mîn* for *occlude*.

Primary () and secondary () accents are short
Unstressed syllables are pronounced as

Primary () and secondary () accents are short
Unstressed syllables are pronounced as

Common Barriers To Effective Policies

- Failure to recognize the relationship between policy, guidelines, and procedures



- Inclusion of too many details and procedures = inflexible
- Lack of any detail and management direction = open to conflicting interpretations of language

Investment Policy Certification

- CMTA investment policy certification program
- Independent certification strengthens policy quality with external parties (rating agencies, capital markets, auditors, elected officials)
- Adherence to best practices
- Reviewed independently by Committee of individuals with extensive public finance experience
- Nominal fee; takes 6 weeks after submission of Policy
- Recommended recertification every 3 years

Summary

- Focus on achieving goals of Safety, Liquidity, and Yield
- Keep it legal
- Incorporate best practices into policy creation
 - Recommended sections
- Customize policy to meet the specific needs of your organization

Questions?



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