Agency Profile on the Day-to-Day Investment of Public Funds

Dan Matusiewicz
Former Finance Director and Treasurer | City of Newport Beach

January 19, 2021
SESSION OVERVIEW

This session will introduce many of the issues considered relevant to constructing a public fund portfolio and provides a framework for building either a book yield or a total return portfolio.

- Elements of a Comprehensive Investment Program
- Fiduciary Considerations
- Tactical Approaches
- Takeaways
Comprehensive Investment Program

Optimal Investment Program

- Benchmark Selection
- Disciplined Investment Process
- Continual Compliance Monitoring
- Comprehensive Reporting
- Cash Flow Modeling
- Investment Policy Review
Prudent Investment Considerations

Reasonable Rate of Return

ECONOMIC AND MARKET CONDITIONS

LEGISLATIVE BODY

CLEAR & COMPREHENSIVE INVESTMENT POLICY

INVESTMENT OFFICIAL

INVESTMENT ADVISOR

STRATEGY

INVESTMENT DECISION PROCESS

CASHFLOW REQUIREMENTS

ADJUSTMENTS IN INVESTMENT STRATEGY MADE AS A RESULT OF CHANGES IN CIRCUMSTANCES

Risk Mgmt.

Liquidity

Prudent Investment Considerations

Reasonable Rate of Return

ECONOMIC AND MARKET CONDITIONS

LEGISLATIVE BODY

CLEAR & COMPREHENSIVE INVESTMENT POLICY

INVESTMENT OFFICIAL

INVESTMENT ADVISOR

STRATEGY

INVESTMENT DECISION PROCESS

CASHFLOW REQUIREMENTS

ADJUSTMENTS IN INVESTMENT STRATEGY MADE AS A RESULT OF CHANGES IN CIRCUMSTANCES

Risk Mgmt.

Liquidity

Prudent Investment Considerations

Reasonable Rate of Return

ECONOMIC AND MARKET CONDITIONS

LEGISLATIVE BODY

CLEAR & COMPREHENSIVE INVESTMENT POLICY

INVESTMENT OFFICIAL

INVESTMENT ADVISOR

STRATEGY

INVESTMENT DECISION PROCESS

CASHFLOW REQUIREMENTS

ADJUSTMENTS IN INVESTMENT STRATEGY MADE AS A RESULT OF CHANGES IN CIRCUMSTANCES

Risk Mgmt.

Liquidity

Prudent Investment Considerations

Reasonable Rate of Return

ECONOMIC AND MARKET CONDITIONS

LEGISLATIVE BODY

CLEAR & COMPREHENSIVE INVESTMENT POLICY

INVESTMENT OFFICIAL

INVESTMENT ADVISOR

STRATEGY

INVESTMENT DECISION PROCESS

CASHFLOW REQUIREMENTS

ADJUSTMENTS IN INVESTMENT STRATEGY MADE AS A RESULT OF CHANGES IN CIRCUMSTANCES

Risk Mgmt.

Liquidity

Prudent Investment Considerations

Reasonable Rate of Return

ECONOMIC AND MARKET CONDITIONS

LEGISLATIVE BODY

CLEAR & COMPREHENSIVE INVESTMENT POLICY

INVESTMENT OFFICIAL

INVESTMENT ADVISOR

STRATEGY

INVESTMENT DECISION PROCESS

CASHFLOW REQUIREMENTS

ADJUSTMENTS IN INVESTMENT STRATEGY MADE AS A RESULT OF CHANGES IN CIRCUMSTANCES

Risk Mgmt.

Liquidity

Prudent Investment Considerations

Reasonable Rate of Return

ECONOMIC AND MARKET CONDITIONS

LEGISLATIVE BODY

CLEAR & COMPREHENSIVE INVESTMENT POLICY

INVESTMENT OFFICIAL

INVESTMENT ADVISOR

STRATEGY

INVESTMENT DECISION PROCESS

CASHFLOW REQUIREMENTS

ADJUSTMENTS IN INVESTMENT STRATEGY MADE AS A RESULT OF CHANGES IN CIRCUMSTANCES

Risk Mgmt.

Liquidity

Prudent Investment Considerations

Reasonable Rate of Return

ECONOMIC AND MARKET CONDITIONS

LEGISLATIVE BODY

CLEAR & COMPREHENSIVE INVESTMENT POLICY

INVESTMENT OFFICIAL

INVESTMENT ADVISOR

STRATEGY

INVESTMENT DECISION PROCESS

CASHFLOW REQUIREMENTS

ADJUSTMENTS IN INVESTMENT STRATEGY MADE AS A RESULT OF CHANGES IN CIRCUMSTANCES

Risk Mgmt.

Liquidity
Overwhelmed by a Comprehensive Investment Program?

I don’t have enough staff
Cash flow needs are uncertain
Our portfolio is too small
Can’t afford an investment advisor

RESULTING DECISIONS

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

Sacrifice market rate of return and or take on risk
When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, the primary objective of a trustee shall be:

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

California Government Code, Section 53600.5
Prudent Investor & Fiduciary Duty

CA Government Code 53600.

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

Often works directly with a dealer broker* (Not a Fiduciary) without an investment advisor (Fiduciary)

*Since broker dealers do not have a fiduciary responsibility to act in your agency’s best interest, it is a good practice to obtain competing quotes.

- Demand Deposit Accounts
- Money Market Accounts
- Direct Purchase of 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 (LGIP)
- US Treasuries and Agencies
Reasons to Consider a Registered Investment Advisor

**Registered Investment Advisory Firms** offer a full suite of services to achieve a comprehensive investment program that most agencies are not staffed sufficiently to achieve.

- **Staffing**
  - Lack of adequate staffing
  - Lack of technical training

- **Market Information**
  - Lack of market information systems, such as Bloomberg.

- **Dedicated Team**
  - Full-time team of trained professionals
  - Increased access to broker offerings
  - Compliance Officer
  - Credit Committee
  - Added Credibility
  - Redundancy

- **Money**
  - Cost savings due to economies of scale
  - Investment performance
  - Staff time savings
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
Establishing a Liquidity Target for the Portfolio(s)

**Total Portfolio**

**Liquidity**
- 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
Cash Flow Forecasts Are Important

High Level Seasonal Cash Flow
(3 Year Rolling Average)
### Daily Cash Needs Sample Worksheet

#### Step 1 - Identify New Activity In Process

<table>
<thead>
<tr>
<th>Source:</th>
<th>New Day’s Activity in Process</th>
<th>1/3/2019</th>
</tr>
</thead>
<tbody>
<tr>
<td>OUTSTANDING BALANCE FROM PRIOR DAY</td>
<td>5,888,864</td>
<td></td>
</tr>
<tr>
<td>A/P</td>
<td>Warrant Batch</td>
<td>41,382.35</td>
</tr>
<tr>
<td>Cindy</td>
<td>Payroll</td>
<td>2,348,951.01</td>
</tr>
<tr>
<td>Cindy</td>
<td>Payroll AP</td>
<td>12,454.13</td>
</tr>
<tr>
<td></td>
<td>PAYROLL MUNIS CHECKS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>CALPERS UAL PYMNT payroll</td>
<td></td>
</tr>
<tr>
<td>Bryan</td>
<td>Coins Ordered</td>
<td>31,040.65</td>
</tr>
<tr>
<td>Katie</td>
<td>AdminSure Transfer</td>
<td></td>
</tr>
<tr>
<td>A/P</td>
<td>PERS HEALTH PREMIUM</td>
<td></td>
</tr>
<tr>
<td>A/P</td>
<td>Revenue Refunds</td>
<td></td>
</tr>
<tr>
<td>Statement</td>
<td>Returned Items</td>
<td>402.34</td>
</tr>
<tr>
<td>Dan/A/P/Katie</td>
<td>Xtnl Withdrawals</td>
<td>160,898.31</td>
</tr>
<tr>
<td>Various</td>
<td>Wires &amp; Other Transfers (out)</td>
<td>716,490.76</td>
</tr>
<tr>
<td></td>
<td>Voids</td>
<td></td>
</tr>
<tr>
<td>Katie</td>
<td>Pre-Fund Ext. W/D Epayables</td>
<td>300,000.00</td>
</tr>
<tr>
<td>Katie</td>
<td>Direct Deposit Rejects</td>
<td></td>
</tr>
<tr>
<td>Various</td>
<td>Other Adjustments</td>
<td>986.51</td>
</tr>
<tr>
<td>Online Banking</td>
<td>Cleared Bank Prior Day</td>
<td>(476,016)</td>
</tr>
<tr>
<td></td>
<td>Adjustments to YB: Debit to Daily Cash</td>
<td>9,026,354</td>
</tr>
<tr>
<td></td>
<td>Adjustments not posted</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>9,026,353.94</td>
</tr>
</tbody>
</table>

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

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

#### Step 3 - Cash to be Transferred In/Out

<table>
<thead>
<tr>
<th>Determine whether to Transfer funds In/Out</th>
<th>Adjusted Book Balance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current Available Bank Balance</td>
<td>($5,429,584.25)</td>
</tr>
<tr>
<td>Current outstanding AP &amp; Pay checks</td>
<td>$5,239,762.39</td>
</tr>
<tr>
<td>Direct Deposits</td>
<td>$3,303,239.11</td>
</tr>
<tr>
<td>Est. Payroll</td>
<td>$10,000.00</td>
</tr>
<tr>
<td>Deferred Compensation</td>
<td>$160,898.31</td>
</tr>
<tr>
<td>TO CALPERS</td>
<td>-</td>
</tr>
<tr>
<td>Epayables</td>
<td></td>
</tr>
<tr>
<td>monthly cc’s</td>
<td>$300,000.00</td>
</tr>
<tr>
<td>MISC</td>
<td>12,454.13</td>
</tr>
<tr>
<td>Adjusted Book Balance</td>
<td>($1,403,230.31)</td>
</tr>
</tbody>
</table>

---

Our Goal is to keep less than $2 Million in our demand deposit account.
Example Tactical Approach

Accounting, Reporting & Analysis Tools
To facilitate Accounting, Reporting, Risk Mgmt., Compliance & Analysis

Investment Advisor #1
Investment Advisor #2

Custody Bank

Liquidity
- Demand Deposit
- LGIP
- Targeted Maturities
  - Specific Cash Flow Needs

Short Term
- (Reserves or Core Portfolio)
  - 1-3 or 1-5 Year
    - Gov/Corp
    - Benchmark

Intermediate-Term
- 1-10 Year
  - Treasury/Agency
  - Benchmark

Clearwater, Sympro, Tracker and more
Chandler, FTN, GPA
PFM, Insight and more
BNYM, US Bank, Wells and more

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

FIDUCIARY DUTY REQUIRES A COMPREHENSIVE INVESTMENT PROGRAM:

- Well Written & Comprehensive Investment Policy
- Regular Investment Policy Review
- Benchmark Selection
- Disciplined Investment Process
- Cash Flow Modeling
- Compliance Monitoring
- Comprehensive Reporting

RISK MANAGEMENT IS AN INTEGRAL COMPONENT OF A COMPREHENSIVE INVESTMENT PROGRAM:

- Liquidity
- Market Risk
- Credit Risk
- Reinvestment Risk
- Event Risk
- Diversify to reduce exposure to risks

MEASURE PERFORMANCE AGAINST BENCHMARKS:

Important to manage expectations and communicate strategy

MISCELLANEOUS:

- 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
THANK YOU

We look forward to your participation in the next webinar in this series, Benchmarking.