



INVESTMENT TIPS & HOT TOPICS

2019 Auditor of State, Local Government
Officials Conference

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AGENDA

- Cash Flow Planning
- Earnings Credit Rates
- Collateralization of Public Deposits
- Permissible Investments
- Safekeeping of Investment Securities
- Economic Outlook



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Cash Flow
Planning

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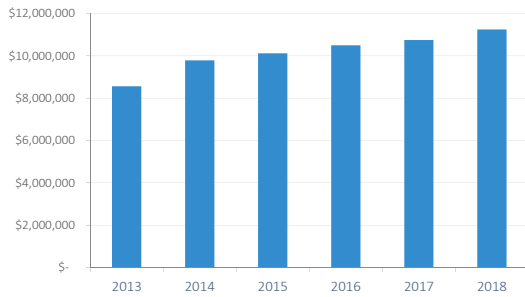
OBJECTIVES OF CASH FLOW PLANNING

- Cash Management – “Cash” Portfolio
 - Regular operating needs
 - Funds with uncertain time horizon
 - Compensating balance to cover bank service charges
- Investment Management – “Core” Portfolio
 - Cash balance with time horizon typically greater than 6-12 months
 - Apply investment strategy to maximize earnings

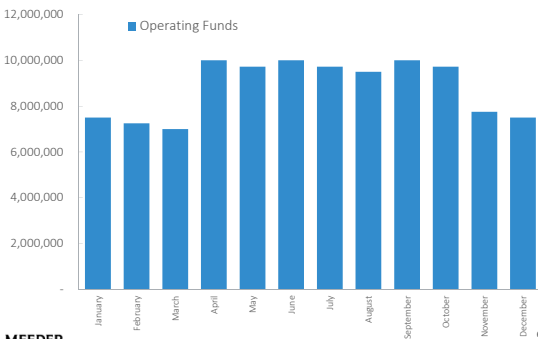


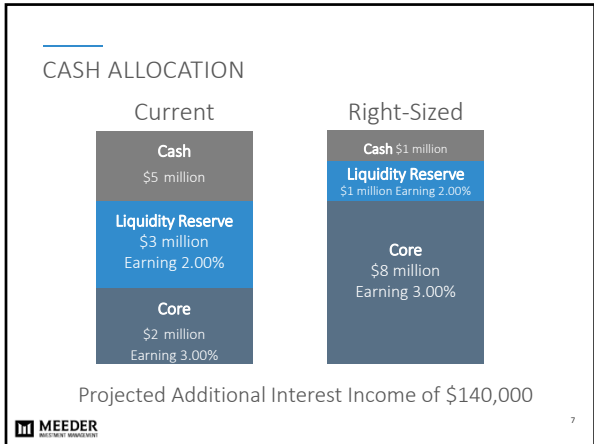
HISTORICAL CASH

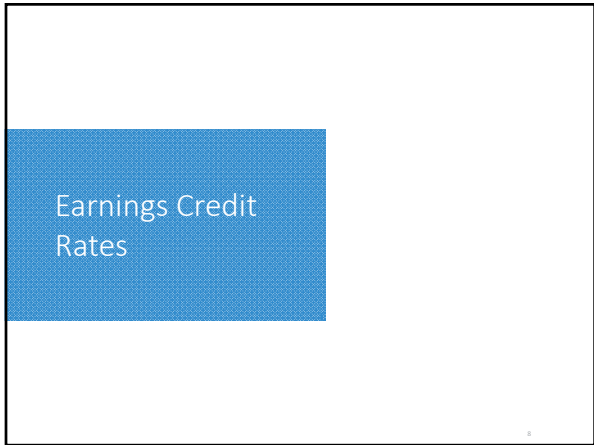
Year-end Balances

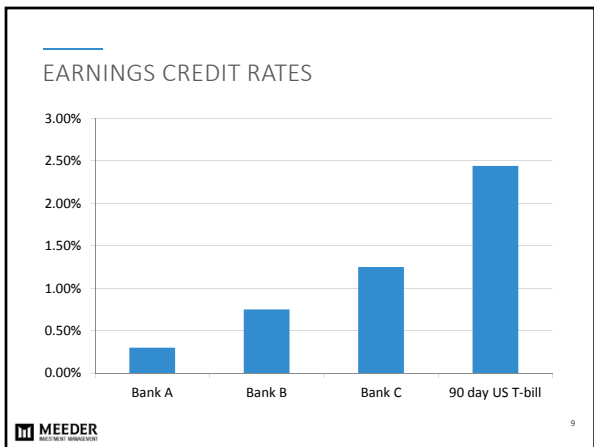


HISTORICAL CASH





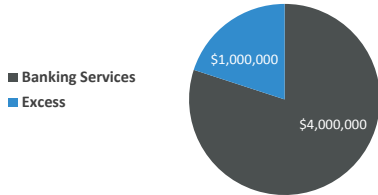




BANK A – EARNINGS CREDIT RATE 0.30%

Public Entity Depositor

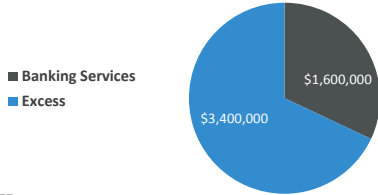
Cost of Banking Services per month \$1,000.00
Bank Balance \$5,000,000



BANK B – EARNINGS CREDIT RATE 0.75%

Public Entity Depositor

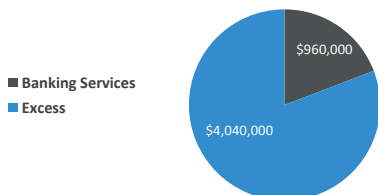
Cost of Banking Services per month \$1,000.00
Bank Balance \$5,000,000



BANK C – EARNINGS CREDIT RATE 1.25%

Public Entity Depositor

Cost of Banking Services per month \$1,000.00
Bank Balance \$5,000,000



BENEFITS OF INVESTING EXCESS BALANCE

	Bank A	Bank B	Bank C
Earnings Credit Rate	0.30%	0.75%	1.25%
Balance to Cover Banking Services	\$4,000,000	\$1,600,000	\$960,000
Excess Balance	\$1,000,000	\$3,400,000	\$4,040,000
Additional Interest Income at 3.00%	\$30,000	\$102,000	\$121,200

Collateralization of Public Deposits

COLLATERAL OF PUBLIC DEPOSITS

- Ohio public depositories must provide collateral comprised of securities, bonds or letter of credit
- Methods of collateralization
 - Specific
 - Pooled
- Bank must select one method of collateralization for all public depositories

SPECIFIC COLLATERAL

Ohio Revised Code 135.18

- Collateral held in separate account for each public depositor
- Market value of collateral equal to or greater than 105% of uninsured public deposit
- Public depositor responsible for monitoring

OHIO POOLED COLLATERAL PROGRAM

Ohio Revised Code 135.182

- **Effective July 1, 2017**
- Lien perfection required
- Ohio Pooled Collateral System (OPCS)
 - TOS sole regulator and monitor of program
 - Market value of collateral equal to or greater than
 - 102% of uninsured public deposits , or
 - Amount determined by rules adopted by TOS
 - Website access for reporting of collateral to public depositor

Permissible
Investments

INVESTMENT OBJECTIVES & GOALS

- Legal** • Legal may not be suitable
- Safety** • Preservation of principal
- Liquidity** • What are your liquidity needs?
- Yield** • Does the investment have a competitive yield?

OHIO REVISED CODE

- US Treasuries
- US Government Agencies
- Bank Deposits
- Municipal Bonds
- Commercial Paper
- Bankers Acceptances
- Repurchase Agreements
- Money Market Mutual Funds
- Local Government Investment Pools

SECURITY MARKETS

Primary (New Issue)

- Auction
- Negotiated
- Generally issued at par

Secondary

- Owned by a prior investor
- Accrued interest may be a factor
- Price based on market rates
 - Par, premium or discount

SECURITY STRUCTURE

Maturity

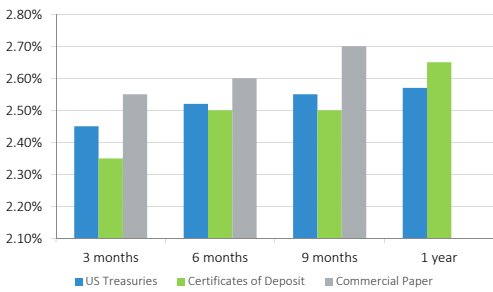
- Bullet
- Callable
 - Issuer redeems at par based on call frequency
 - Continuous, monthly, quarterly, one-time
 - May be a partial call

Coupon

- Fixed
- Floating
- Step-up

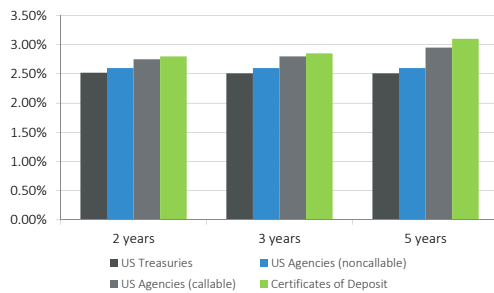
AUTHORIZED INVESTMENTS – SHORT TERM

Market Indications as of 2/21/19



AUTHORIZED INVESTMENTS – LONG TERM

Market Indications as of 2/21/19



Safekeeping of Investment Securities

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SAFEKEEPING OPTIONS

Safekeeping provided by broker or bank acting as a broker

- Securities held in brokerage account
- Broker controls account
- Securities not held in public entity's name
- Safekeeping cost bundled with other services

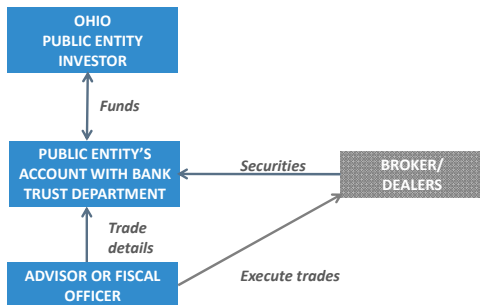
Third party custodian

- Securities held in public entity's account at bank trust department
- Public entity controls account
- Securities held in public entity's name
- Written custodial agreement
- GFOA best practice

 MEEDER
MUNICIPAL MANAGEMENT

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THIRD PARTY CUSTODIAN



 MEEDER
MUNICIPAL MANAGEMENT

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Economic Outlook

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For the fourth time this year, the Committee voted to raise the fed funds target range to 2.25%-2.50%

The decision to raise at the December meeting was a unanimous decision in favor of the rate hike

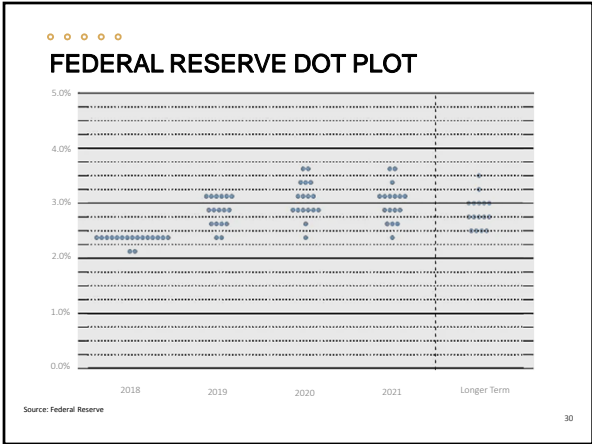
Inflation remains near 2 percent while longer-term inflation expectations are little changed

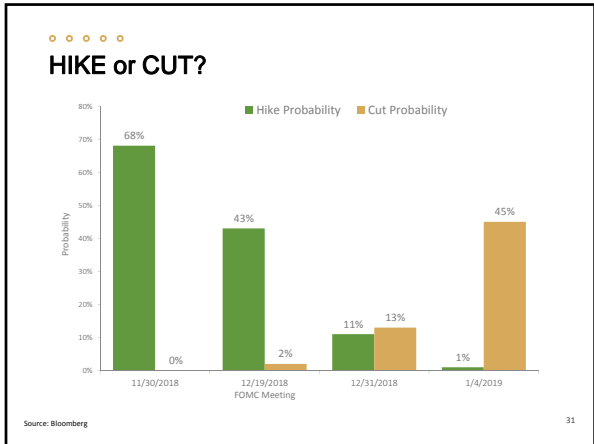
"labor market conditions have continued to strengthen and economic activity has been rising at a strong rate, with the unemployment rate remaining low"

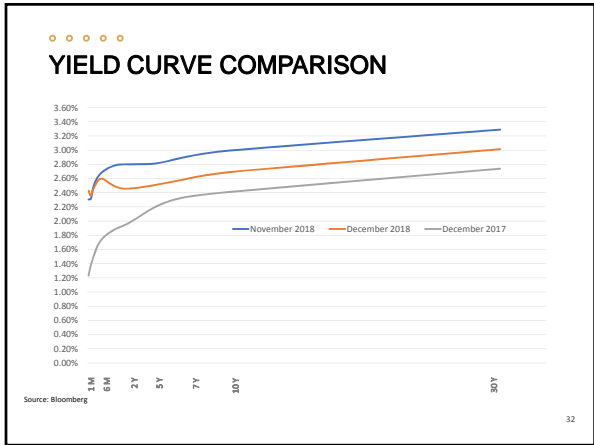
The Fed's statement was dovish, and it appears FOMC members are anticipating two rate hikes in 2019, down from the previous dot-plot projection of three rate hikes

"The Committee judges that risks to the economic outlook are roughly balanced, but will continue to monitor global economic and financial developments"

FOMC STATEMENT HIGHLIGHTS December 2018





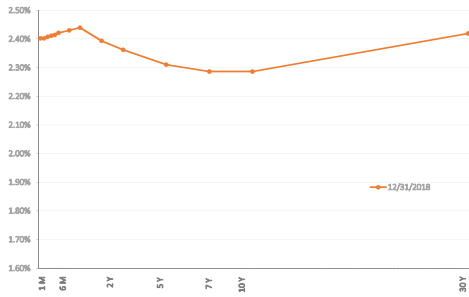






INTEREST RATE OUTLOOK

US Overnight Interest Rate Swaps



Source: Bloomberg

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