

Strategies For Public Investments

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What we will cover in this presentation



01

Create Strategies That Take Into Account Both the Safety of the Funds and Potential Return.

02

Pros and Cons of Different Investing Structures

03

Best Practices with Investment with Public Funds

04

Creating a Risk Assessment Plan

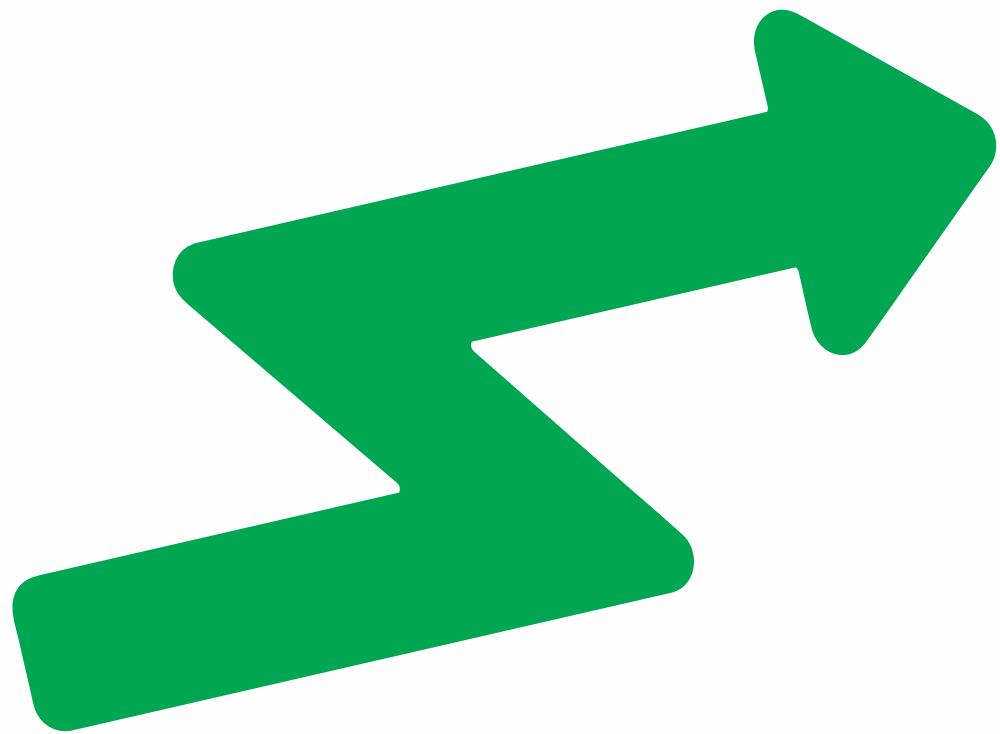
05

Laddering Investment Strategies

06

Baldwin County Examples

Recommended Strategies for Investing Public funds



01

Diversification: Spread investment across different asset classes to mitigate risk

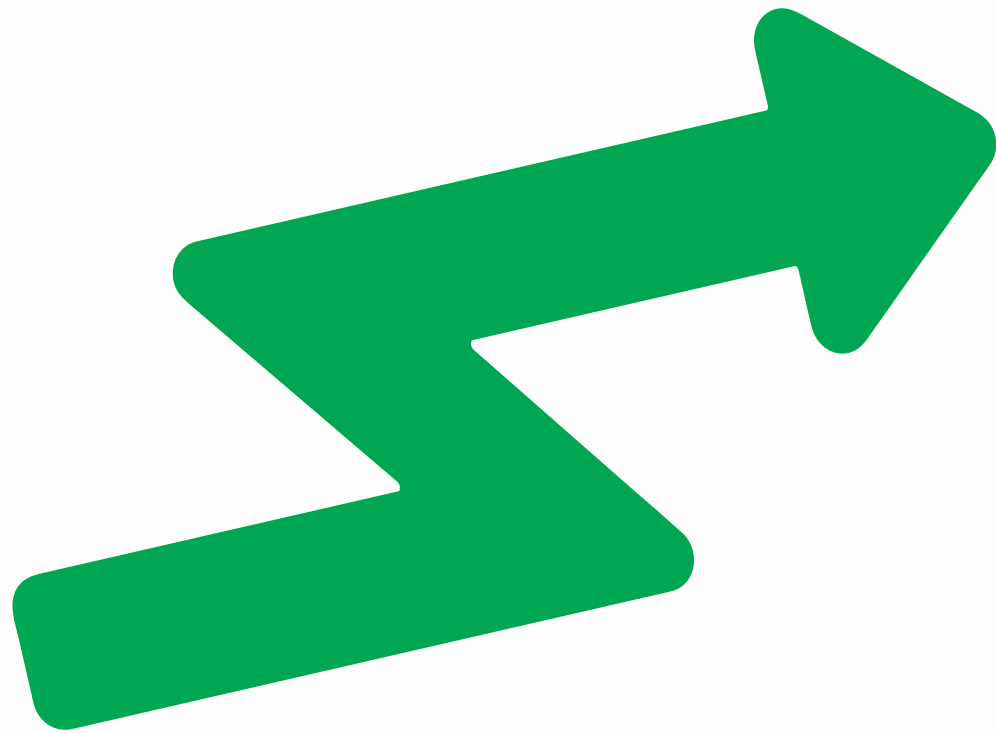
02

Liquidity Management: Maintain a portion of the portfolio in highly liquid assets to meet operational and emergency needs.

03

Safety of Principal: Prioritize investments that offer capital protection, like treasury securities and insured CDs.

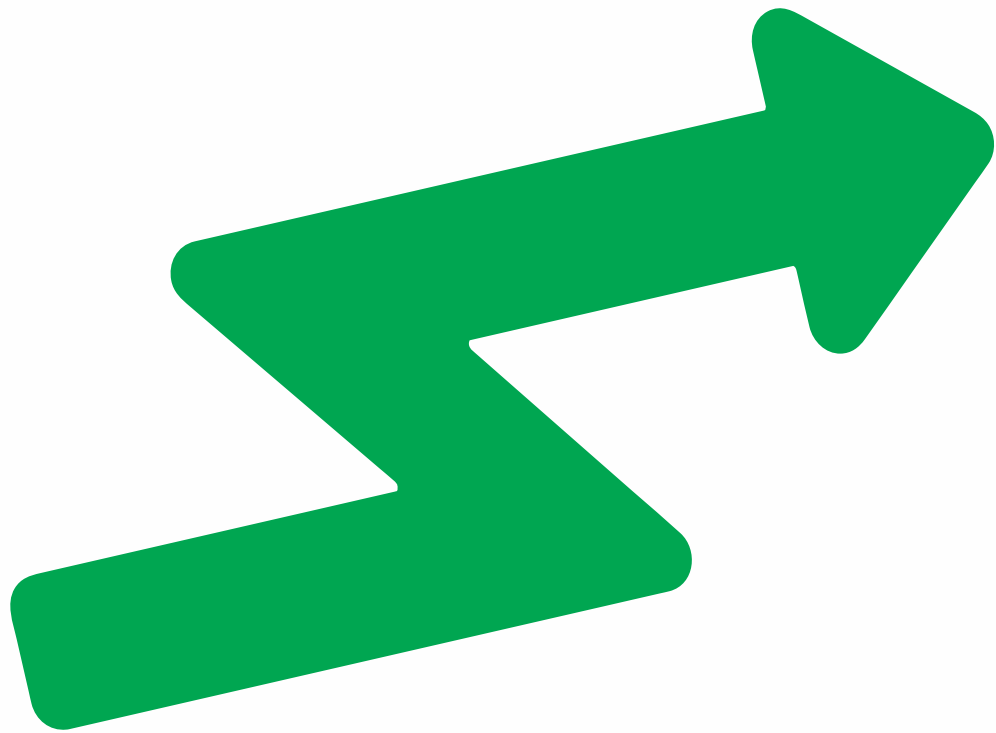
Recommended Strategies for Investing Public funds



- 04** **Align with Policy:** Ensure all investments comply with local and state policies, and federal laws.
- 05** **Strategic Laddering:** Employ a bond ladder strategy to manage interest rate risk and provide steady cash flow.
- 06** **Safety of Principal:** Prioritize investments that offer capital protection, like treasury securities and insured CDs.

Recommended Strategies for Investing Public funds

- 07 Monitor and Rebalance:** Regularly review the portfolio to adjust strategies as per changing financial environments.





Pros and Cons Based on Investment Structure

Liquidity vs Rate of Return

Pros

Highly liquidity investment allow for easy access to funds, which is crucial for public entities to meet short-term needs.

Cons

Investments with higher liquidity typically offer lower returns.





Pros and Cons Based on Investment Structure

Different Maturity Dates

Pros

A laddering strategy with different maturity dates reduces reinvestment risk and provides flexibility.

Cons

Managing an extensive portfolio of securities with varying maturities can be complex and time-consuming.





Pros and Cons Based on Investment Structure

CDs

Pros

CDs offer higher interest rates than savings accounts and are FDIC insured, proving a safe investment option.

Cons

Early withdrawal penalties may apply, which could impact liquidity.



Pros and Cons Based on Investment Structure

Treasuries (T-Bills, T-Notes, T-Bonds)

Pros

U.S. Treasury securities are backed by the full faith and credit of the federal government, offering high safety.

Cons

Lower yield compared to other investments and may be outpaced by inflation.

5 Best Practices for Investing in Public Funds

01

Risk Assessment

Conduct a thorough risk assessment to understand the district's risk tolerance.





02

Policy Development

- Develop and adhere to a comprehensive investment policy statement.

03

Transparency and Reporting

Ensure transparency in reporting and communicate investment strategies and outcomes to stakeholders.

04

Professional Management

- Consider using professional financial advisors or managers to navigate complex investment decisions.

05

Peer Benchmarking

- Benchmark your district's performance and strategies against similar districts within Alabama and across the nation.



9 Examples of Risk Considerations that a School District Should Incorporate into its Risk Assessment Plan



Interest Rate Risk

- **Definition:** The risk that changes in interest rates will negatively affect the value of investments, particularly those in fixed-income securities.
- **Mitigation Strategy:** Consider a laddering strategy for bond investments to spread out maturity dates, which can help manage fluctuation in interest rates over time.

02

Credit Risk

- **Definition:** The risk that an issuer of a bond or fixed-income security will be unable to make timely principal and interest payments, which could lead to default.
- **Mitigation Strategy:** Invest in high-grade securities, such as U.S. Treasury bonds or highly rated municipal bonds, and diversify investment holdings to spread this risk.

03

Liquidity Risk

- **Definition:** The risk that the district will not be able to quickly convert investments into cash without significant loss in value, particularly in times of financial market stress.
- **Mitigation Strategy:** Maintain a sufficient portion of the portfolio in highly liquid assets.

04

Market Risk (Systemic Risk)

- **Definition:** The risk of losses in investments due to factors that affect the overall performance of the financial markets.
- **Mitigation Strategy:** Diversify investments across different asset classes and sectors to minimize the impact of market volatility.

05

Reinvestment Risk

- **Definition:** The risk of having to reinvest returns or principal at a lower interest rate than the original investment.
- **Mitigation Strategy:** Use a laddering approach for fixed-income investments to ensure ongoing investment in different interest rate environments.

06

Inflation Risk

- **Definition:** The risk that inflation will erode the purchasing power of the money from investment returns.
- **Mitigation Strategy:** IF possible, include assets in the portfolio that typically outpace inflation over time while being mindful of the overall risk profile.

07

Regulatory/Legal Risk

- **Definition:** The risk of loss due to changes in laws or regulations, including investment restrictions.
- **Mitigation Strategy:** Stay informed about and ensure compliance with applicable laws and regulations; consult with legal and financial advisors.

08

Operational Risk

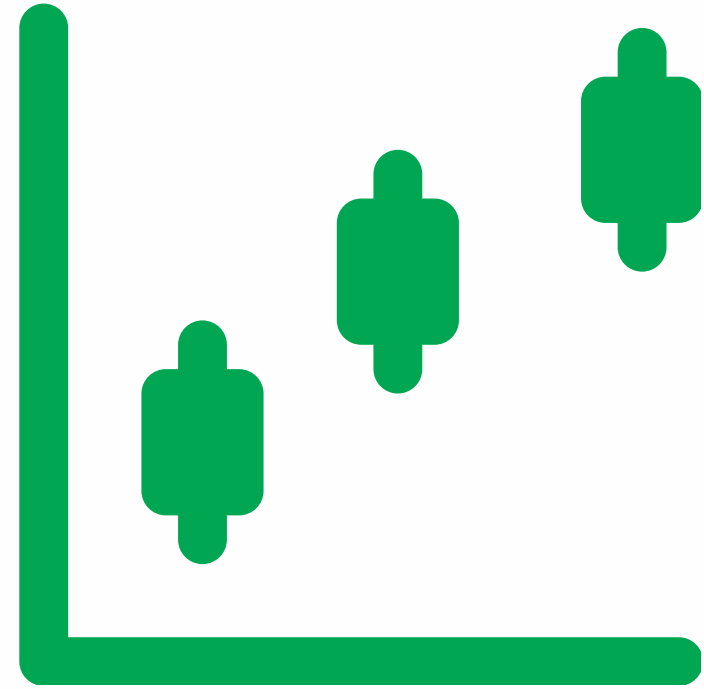
- **Definition:** The risk of loss resulting from inadequate or failed internal processes, people, and systems, or from external events.
- **Mitigation Strategy:** Implement strong internal controls, conduct regular audits, and ensure proper training for staff handling investments.

09

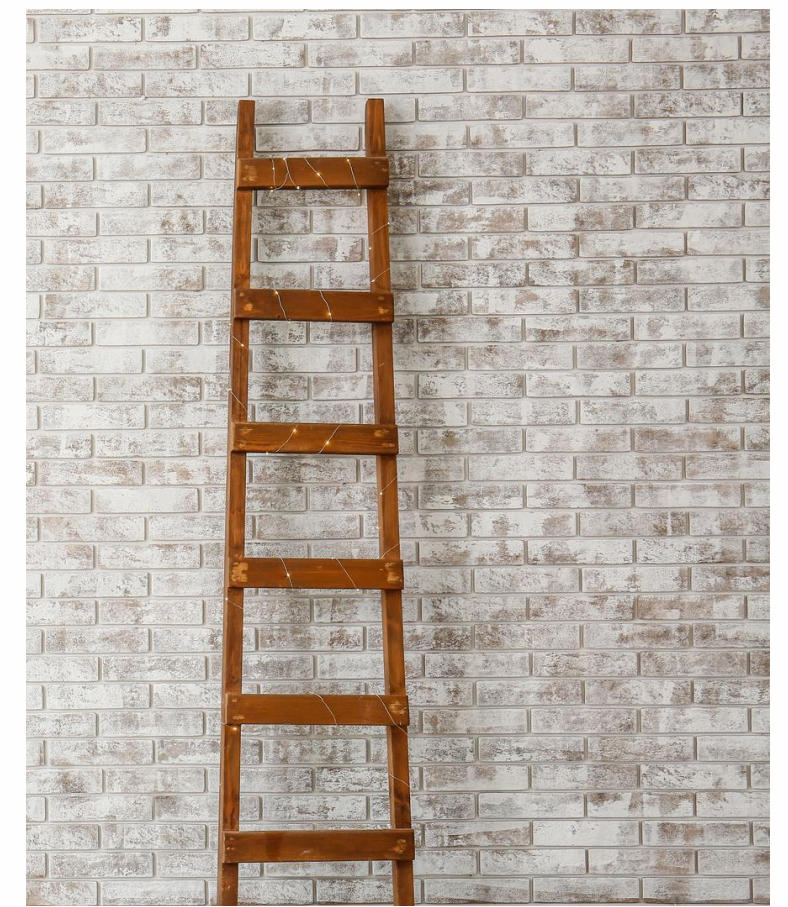
Geopolitical Risk

- **Definition:** The risk of loss from political instability or changes in government policies that could affect investments, particularly those in international markets.
- **Mitigation Strategy:** Limit exposure to international markets (not applicable to school districts).





How Strategic Laddering Works



Purchase of Securities at Different Maturities

•In a ladder strategy, the investor divides the total investment amount into parts and invests each part in securities with different maturity dates. For example, if you have \$100,000 to invest, you could buy \$20,000 in bonds or CDs maturing in one year, another \$20,000 maturing in two years, and so on, up to five years.

Reinvestment of Matured Securities :

•As each "rung" of the ladder (i.e., each security) reaches maturity, you reinvest the principal from the matured security into a new security at the long end of the ladder, maintaining the ladder's structure. If the original ladder was set up with investments maturing each year over five years, when the first investment matures at the end of year one, it would be reinvested in a new five-year security.

Benefits of Strategic Laddering for Public funds



Interest Rate Risk Mgmt

Laddering helps mitigate the risk of fluctuating interest rates. When interest rates rise, only a portion of the portfolio is affected (the securities nearing maturity), while the rest of the portfolio continues to earn at the previously higher rates. Conversely, when rates fall, you're not fully locked into lower-earning investments since you will have investments maturing that can be potentially reinvested at higher rates if interest rates rebound.

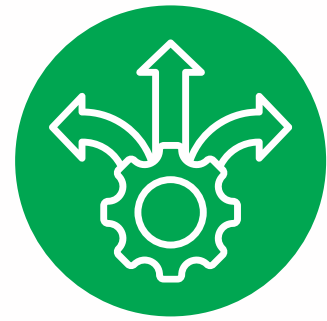
Benefits of Strategic Laddering for Public funds



Cash Flow Management

By having investments mature at regular intervals, a school district can better match its investment strategy with its cash flow needs. Matured investments can be used to cover expenses without having to sell other investments prematurely.

Benefits of Strategic Laddering for Public funds



Flexibility

The laddering strategy provides flexibility to respond to changes in interest rates and financial needs. As securities mature annually (or at another predetermined interval), the district has the option to reinvest in the same type of instrument or choose a different investment, depending on current financial goals and market conditions.

Benefits of Strategic Laddering for Public funds



Reduced Reinvestment Risk

The risk of having to reinvest a large sum of money at once, at potentially lower interest rates, is spread out over time. This can be particularly important for public entities that need to manage their funds conservatively.

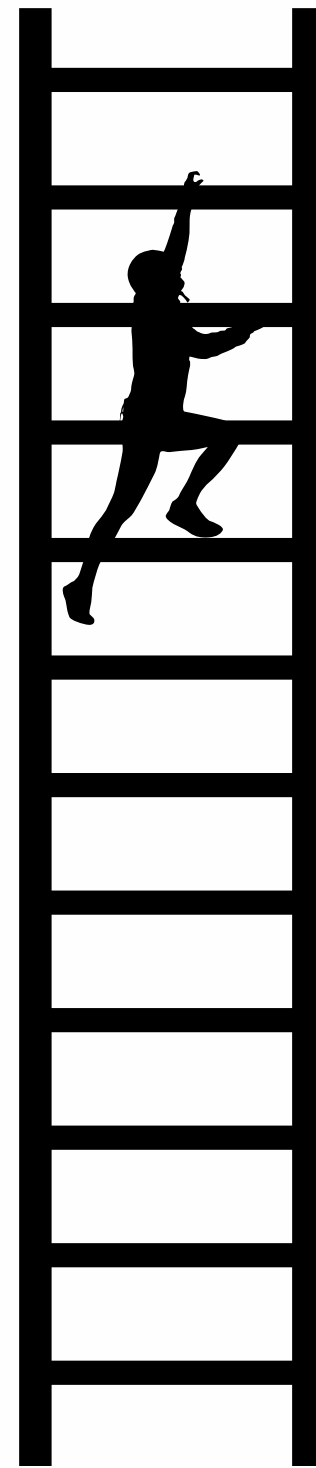
Baldwin County Example

- Baldwin has a one-month reserve balance of roughly \$30 million.
- Due to the volatile nature of our main revenue source (Sales Taxes), we have generated a healthy 3-month reserve balance.
- I wanted to lock down \$30 million at a higher rate of return than I was getting on the depositary side.
- To avoid politics, I need to create a bid structure to ensure no one could complain about not having a chance.



Baldwin County Example

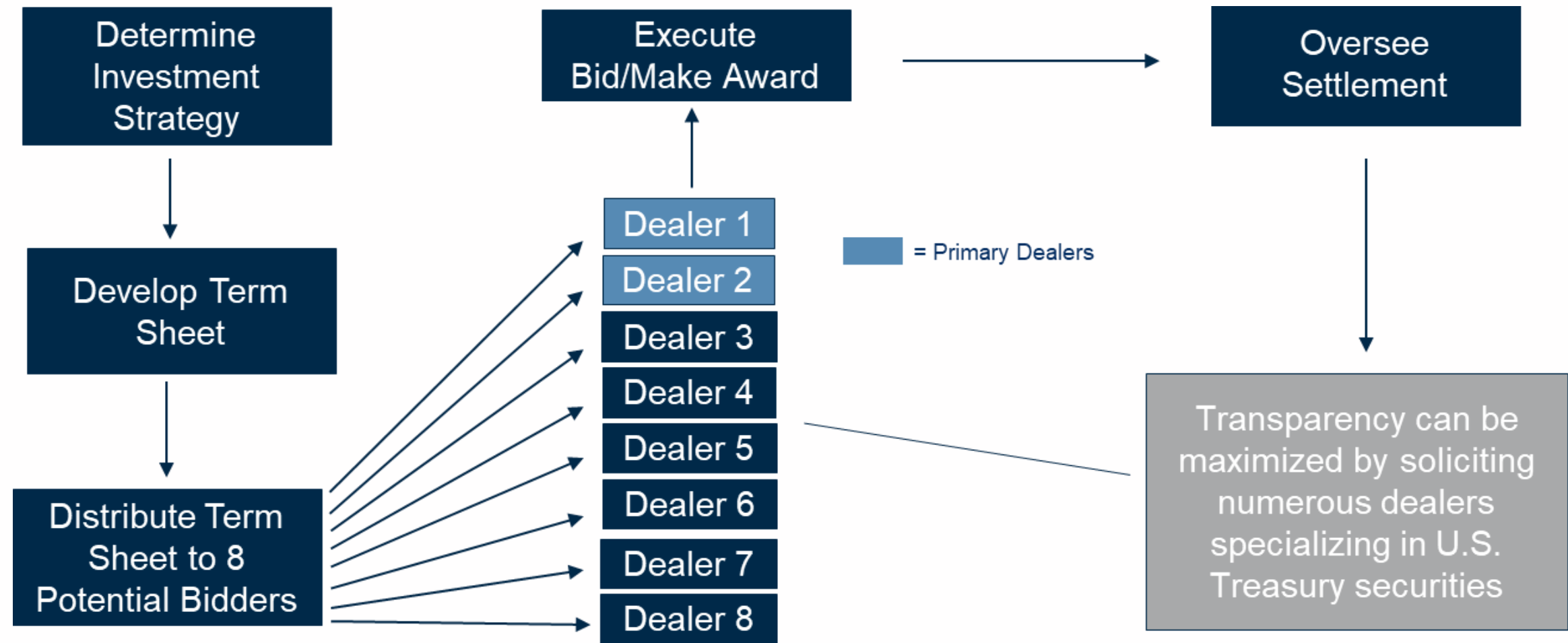
Created a \$30 million,
18-month investment
program.



- \$18 million at an 18-month maturity
- \$7 million at a 12-month maturity
- \$5 million at a 6-month maturity

A Competitive Bid Process for Market Transparency

- ▶ The County can benefit from a competitive “hard” bid for the portfolios as compared to taking an unsolicited offering from a bank or random securities dealer
- ▶ Unsolicited offerings have no price controls and are difficult to assess if reasonable or not
- ▶ Executing a “hard” bid means running a bid amongst up to 8 dealers on the same day/time
- ▶ The firm offering the portfolio at the lowest cost/highest yield would be deemed the winner
- ▶ Executing the bid at a singular point in time a) forces the dealers to work for as little profit as possible to still win and b) maximizes the transparency all around from County’s perspective



Baldwin County Board of Education

Operating Fund Investment

Summary of Offers:

1:30 PM ET

4/24/2024

Provider	Offer Price	Yield*	Time of Bid**	Valid Bid?
PNC	\$29,955,709.29	5.0471%	1:29 PM	Yes
StoneX	\$29,957,659.25	5.0414%	1:29 PM	Yes
BOK Financial	\$29,957,700.38	5.0413%	1:28 PM	Yes
Dinogroup	\$29,958,697.70	5.0384%	1:29 PM	Yes
Loop Capital	\$29,964,911.59	5.0204%	1:18 PM	Yes
Wells Fargo	\$30,296,993.72	4.0642%	1:29 PM	Yes
US Bank	\$29,957,324.41	5.0424%	1:31 PM	Late
Mesirow	N/A	N/A	N/A	Pass
Cantor Fitzgerald	N/A	N/A	N/A	Pass

*Yields are reflected to disbursement dates for comparative purposes.

**All times are in Eastern Time

Operation Of Operating Fund

Date	Principal	Rate	Interest	Receipts	Disbursements	Cash Balance
04/26/2024	-	-	-	685.60	-	685.60
04/30/2024	-	-	680,641.26	680,641.26	-	681,326.86
10/31/2024	4,909,000.00	4.375%	680,641.26	5,589,641.26	-	6,270,968.12
11/01/2024	-	-	-	-	6,270,000.00	968.12
04/30/2025	6,941,000.00	3.875%	573,256.88	7,514,256.88	-	7,515,225.00
05/01/2025	-	-	-	-	7,515,000.00	225.00
10/31/2025	17,551,000.00	5.000%	438,775.00	17,989,775.00	-	17,990,000.00
11/01/2025	-	-	-	-	17,990,000.00	-
Total	\$29,401,000.00	-	\$2,373,314.40	\$31,775,000.00	\$31,775,000.00	-

Investment Parameters

Investment Model [PV, GIC, or Securities]	Securities
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Default investment yield target	Unrestricted
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Cash Deposit	685.60
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Cost of Investments	29,955,023.70
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Total Cost of Investments	\$29,955,709.30
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Yield to Receipt	5.0491056%
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\$1.77 Million Return on Investment



**Thank You For Your
Time**



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Pre-Conference Workshops



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School Business Officials