



**pfm**

# Diversify Your Portfolio Now For Higher Yields

**April 22, 2021**

**Presented By:  
PFM Asset Management, LLC**

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## Presenters



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## Agenda

- ◆ Investment Options for Illinois Community College
- ◆ Optimizing Your Investment Program Through Cash Flow Analysis
- ◆ Why a Diversified Portfolio?
- ◆ Why a Diversified Portfolio Now?

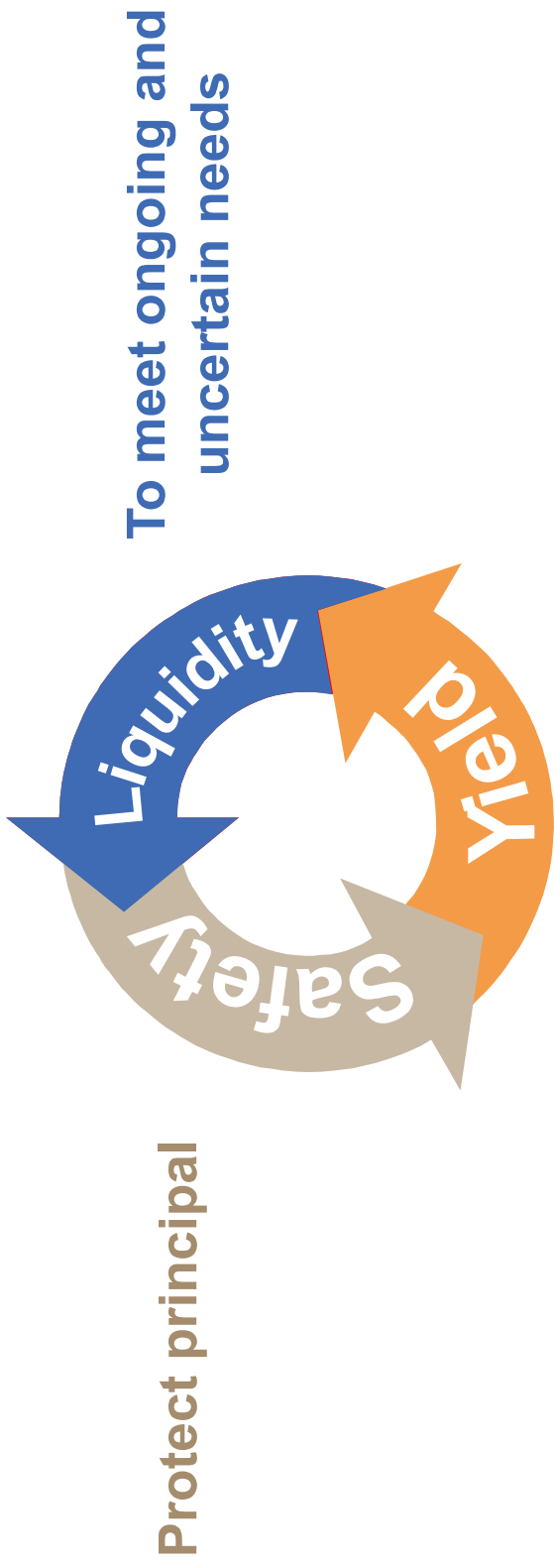


# **Investment Options for Illinois Community Colleges**



## Define Investment Objectives

**For general operating, reserves, and bond proceeds:**



**Maximize earnings**  
**While simultaneously providing safety and liquidity**



## Investment Options for Illinois Community Colleges

Sector	Allowed By IL Statutes
Money Market Funds / LGIP	Yes ✓
U.S. Treasuries	Yes ✓
Federal Agencies	Yes ✓
Certificates of Deposit	Yes ✓
Supranational Securities	Yes ✓
Municipal Bonds	Yes ✓
Agency Mortgage-Backed Securities	Yes ✓
Commercial Paper	Yes ✓
Corporate Notes	Yes ✓
Corporate Bond Fund	Yes ✓

Source: (30 ILCS 235/) Public Funds Investment Act.



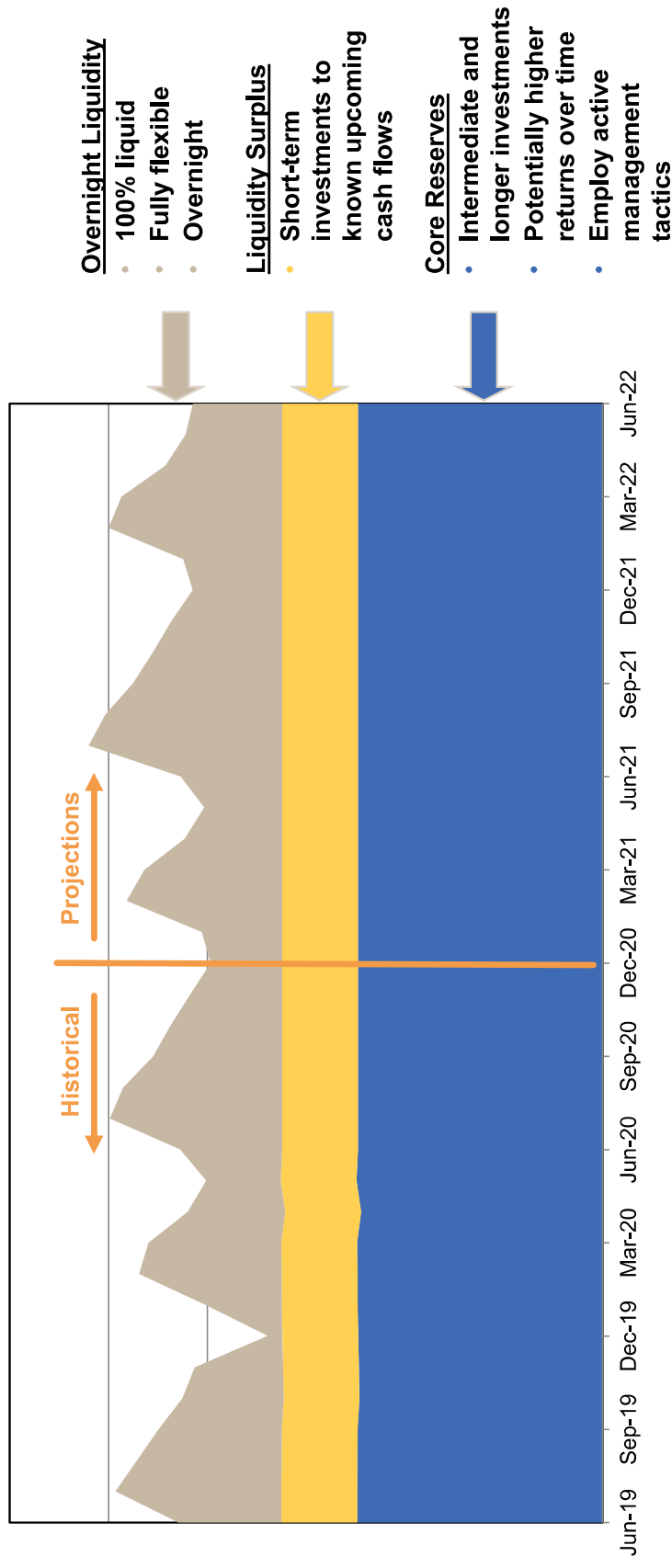
# Optimizing Your Portfolio Through Cash Flow Analysis



## Cash Flow Analysis Leads to Prudent Investment Decisions

- Excess liquidity in an investment management program can be an opportunity cost
- Detailed cash flow analysis can help prudently define fund balances that can be invested in intermediate – to longer-term investments at potentially higher yields.

Sample Cash Flow Analysis



*For Illustrative purposes only*





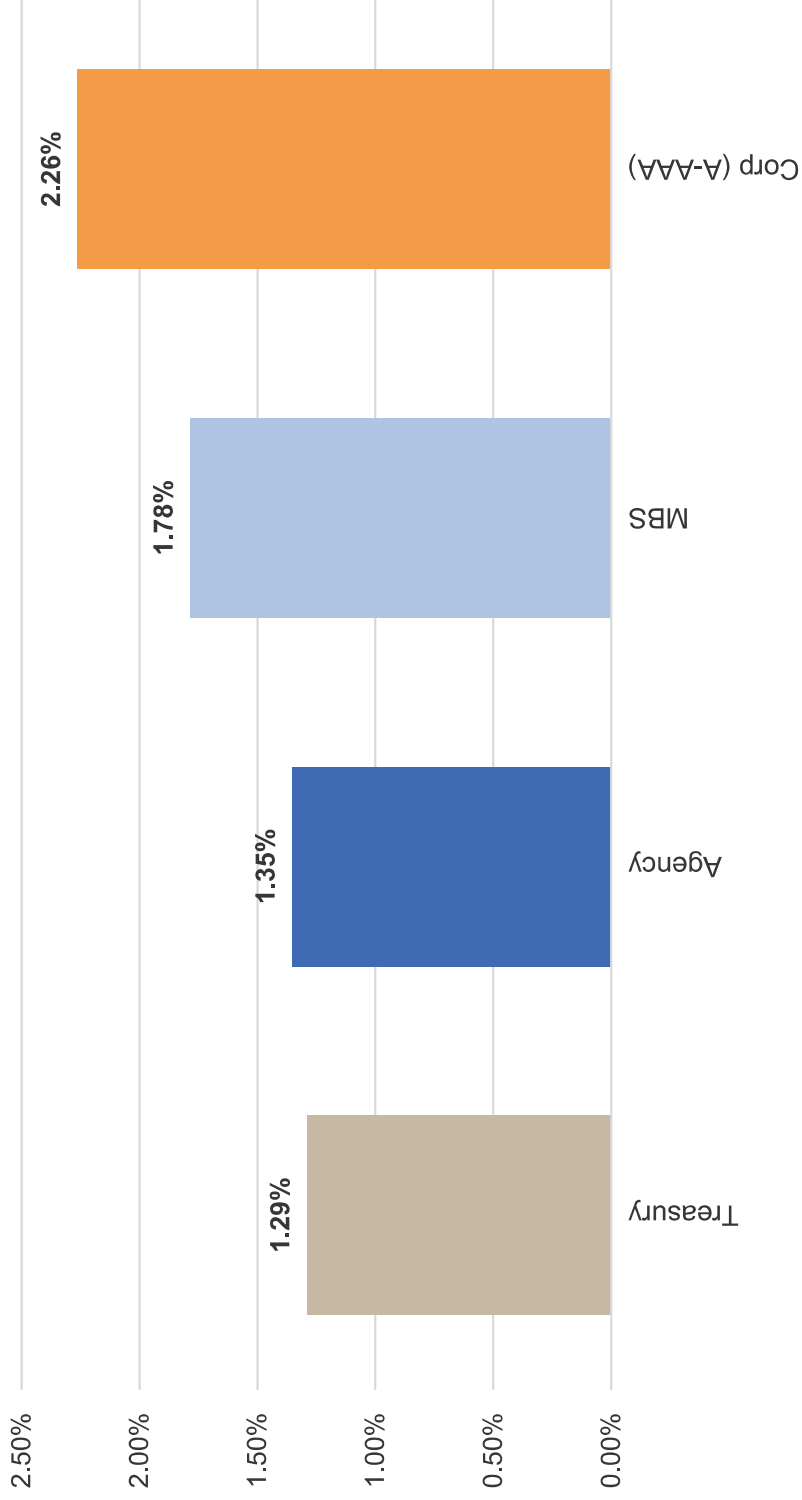
## **WHY a Diversified Portfolio ?**

- increase long term investment returns**
- increase portfolio yield**
- outperform benchmarks**



# Corporate Obligations Outperforms Governments Over the Last Decade

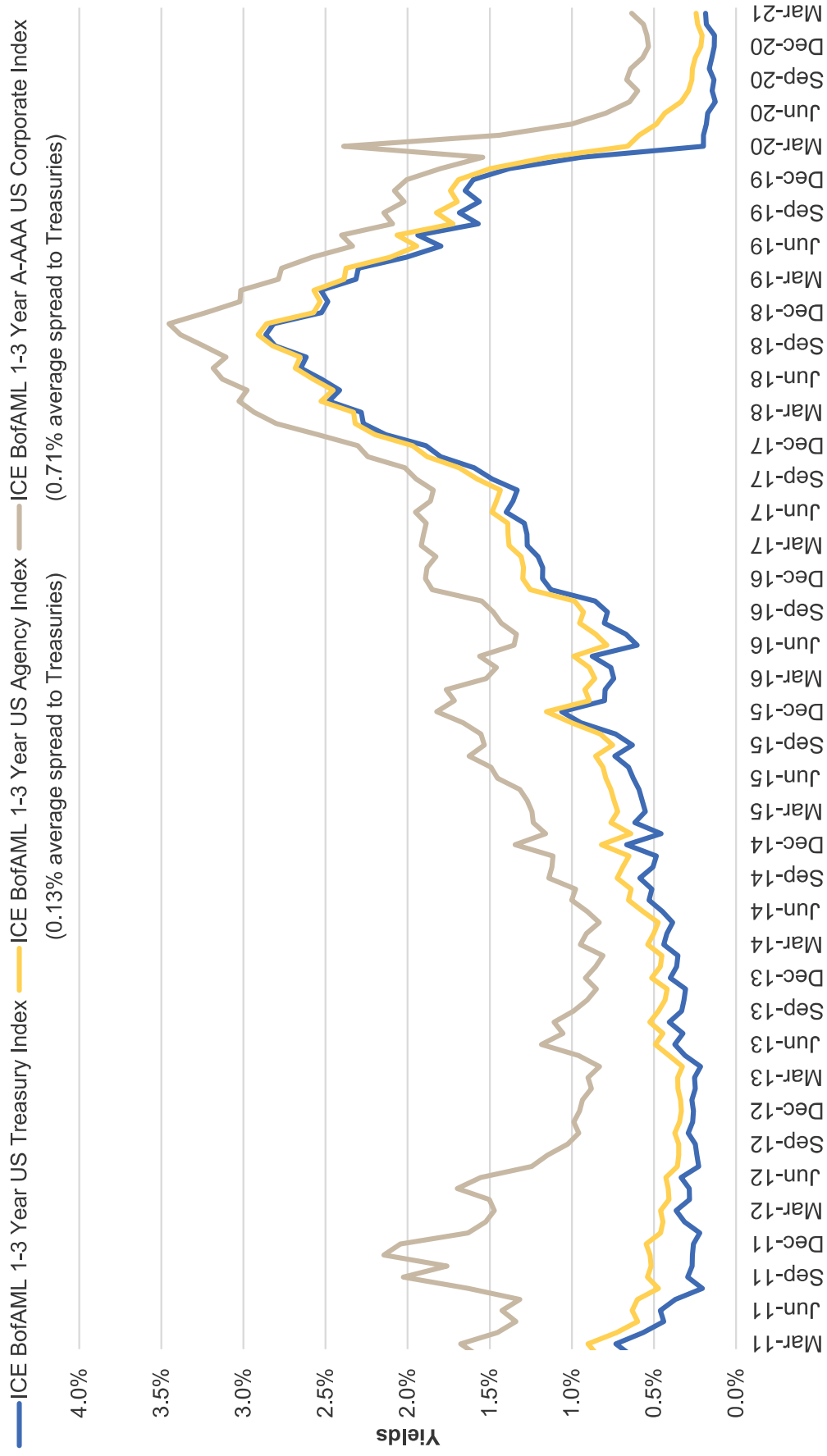
### 1-3 Year Sector Returns (10 Years annualized)



Source: ICE BofAML Indices. MBS indices are 0-3, based on weighted average life. As of 3/31/2021.



## Historical Yields



Source: Bloomberg, ICE BofA Merrill Lynch Indices. Yields as of March 31, 2021.



## Yield Environment as of March 31, 2021

Maturity	Treasury	Federal Agency	AA Corporate	A Corporate
3-Month	0.02%	0.06%	0.16%	0.20%
1-Year	0.06%	0.11%	0.23%	0.28%
2-Year	0.16%	0.18%	0.31%	0.41%
3-Year	0.35%	0.37%	0.54%	0.66%
5-Year	0.94%	0.92%	1.19%	1.33%
10-Year	1.74%	1.81%	2.29%	2.47%

+23 bps

+29 bps

Source: Bloomberg BVAL yield curves for Treasury, Agency, and Corporate. 3-month corporate yields from commercial paper; A-1+ for AA and A-1 for A. Yields are for indicative purposes only; actual yields may vary by issue.



## Investment Opportunities in Longer Maturities

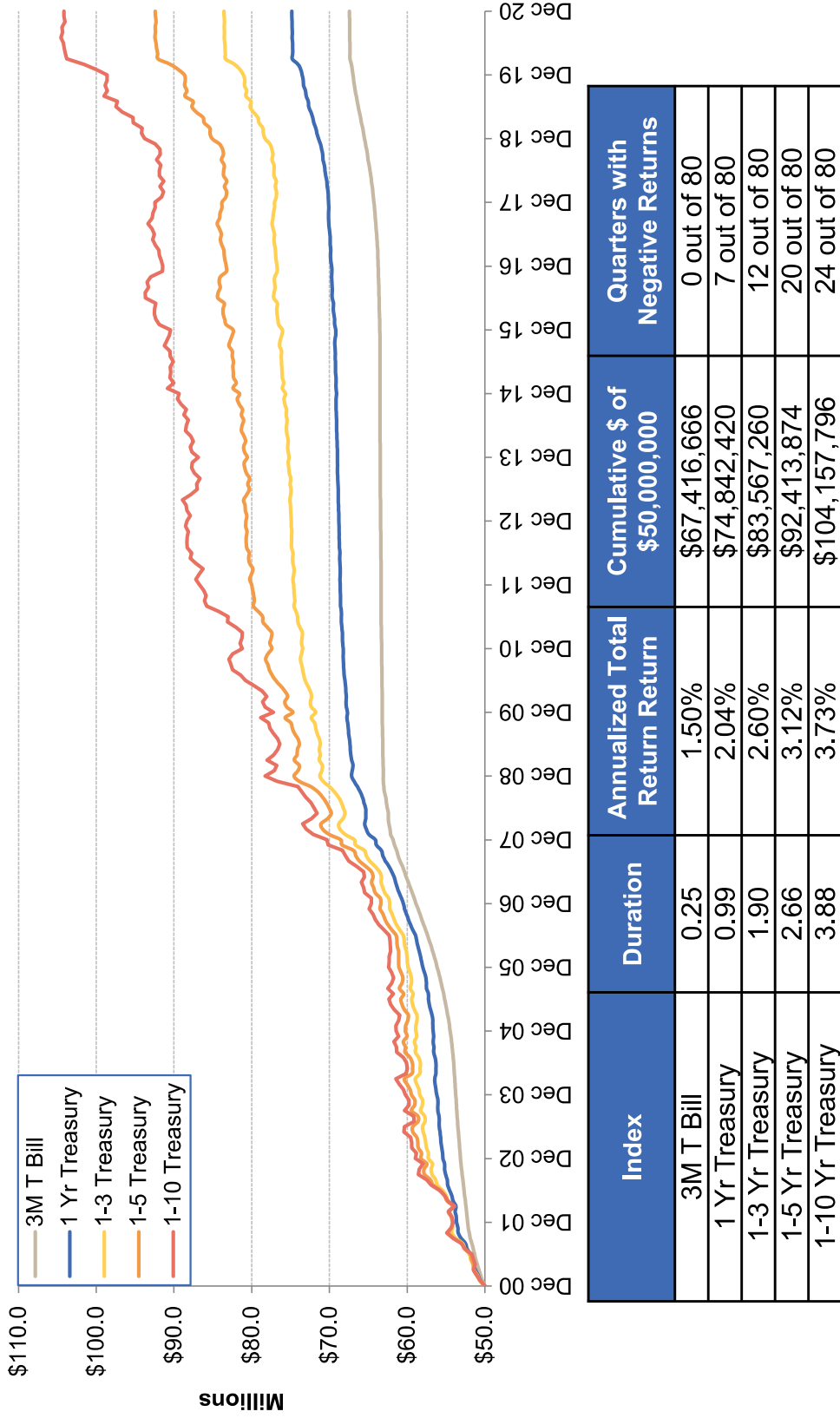
- Longer strategies can increase earnings potential, however they also come with increased risk

Risk/Return of Various Investment Strategies 20 Years Ended December 31, 2020					
Bank of America Merrill Lynch Treasury Index	Duration (years)	Annualized Total Return	Cumulative Value of \$50 Million	Quarters With Negative Return	
3M T Bill	0.25	1.50%	\$67,416,666	0 out of 80	
1 Yr Treasury	0.99	2.04%	\$74,842,420	7 out of 80	
1-3 Treasury	1.90	2.60%	\$83,567,260	12 out of 80	
1-5 Treasury	2.66	3.12%	\$92,413,874	20 out of 80	
1-10 Treasury	3.88	3.73%	\$104,157,796	24 out of 80	

Source: Bloomberg, Bank of America / Merrill Lynch Global Indices; based on historical results – future results may vary. As of December 31, 2020.



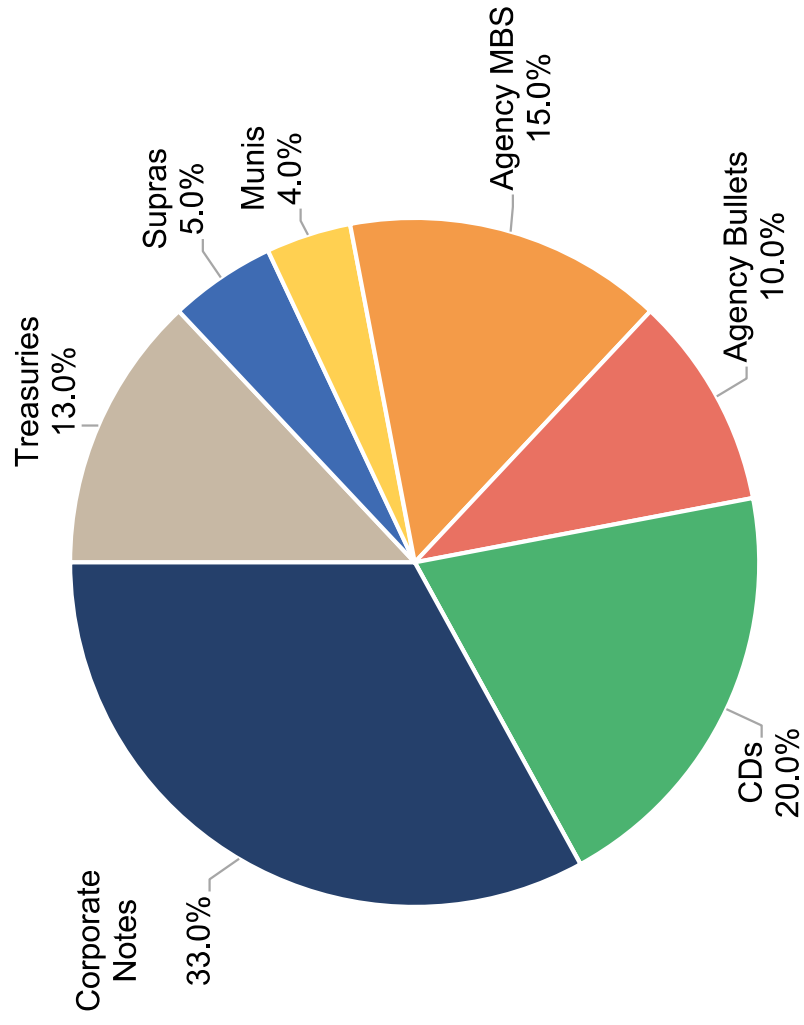
## Risk vs Reward: 20-Year Growth of a Dollar



Source: Bloomberg, Bank of America / Merrill Lynch Global Indices; based on historical results – future results may vary. As of December 31, 2020.



## Strategy Consideration: Sample Diversified, Core Portfolio





## **Why a Diversified Portfolio NOW ?**

- cash rates expected to remain low through 2023**
- yield curve has steepened so better yields are available with longer term investments**





## “We are strongly committed . . . As long as it takes”

March

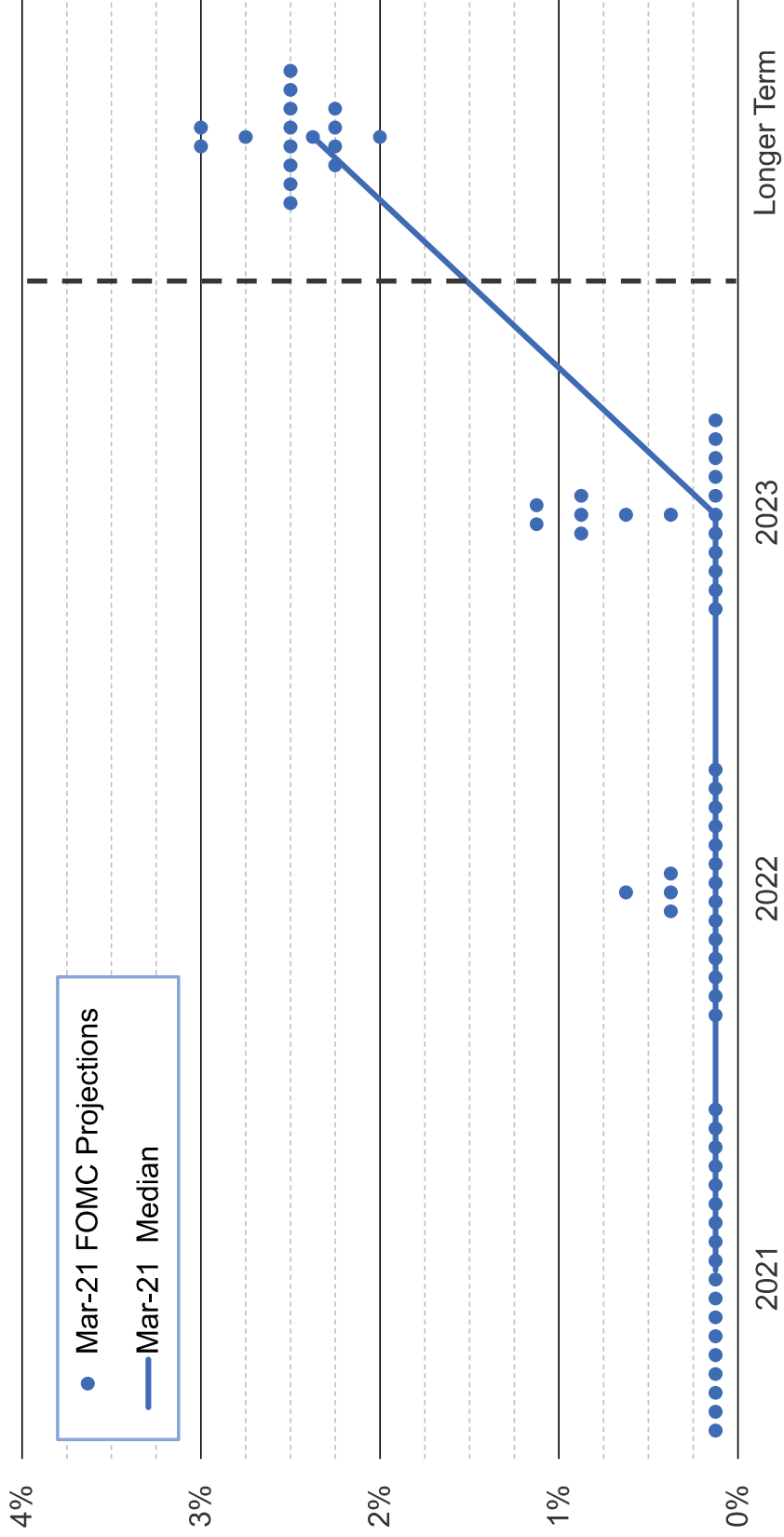
17

- Following a moderation in the pace of the recovery, **economic activity and employment have turned up recently**, although the sectors most adversely affected by the pandemic remain weak.
- **Inflation continues to run below 2 percent**. Overall financial conditions remain accommodative, in part reflecting policy measures to support the economy and the flow of credit to U.S. households and businesses.
- The path of the economy **will depend significantly on the course of the virus, including progress on vaccinations**. The ongoing public health crisis continues to weigh on economic activity, employment, and inflation, and poses **considerable risks to the economic outlook**.
- With inflation running persistently below this longer-run goal, the Committee will aim to achieve inflation moderately above 2 percent for some time so that inflation averages 2 percent over time and longer-term inflation expectations remain well anchored at 2 percent. **The Committee expects to maintain an accommodative stance of monetary policy until these outcomes are achieved**. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent.
- In addition, the Federal Reserve will **continue** to increase its holdings of **Treasury securities by at least \$80 billion per month and of agency mortgage-backed securities by at least \$40 billion per month** until substantial further progress has been made toward the Committee's maximum employment and price stability goals.



# Federal Reserve Anticipates Near-Zero Rates Through 2023

## Fed Participants' Assessments of 'Appropriate' Monetary Policy

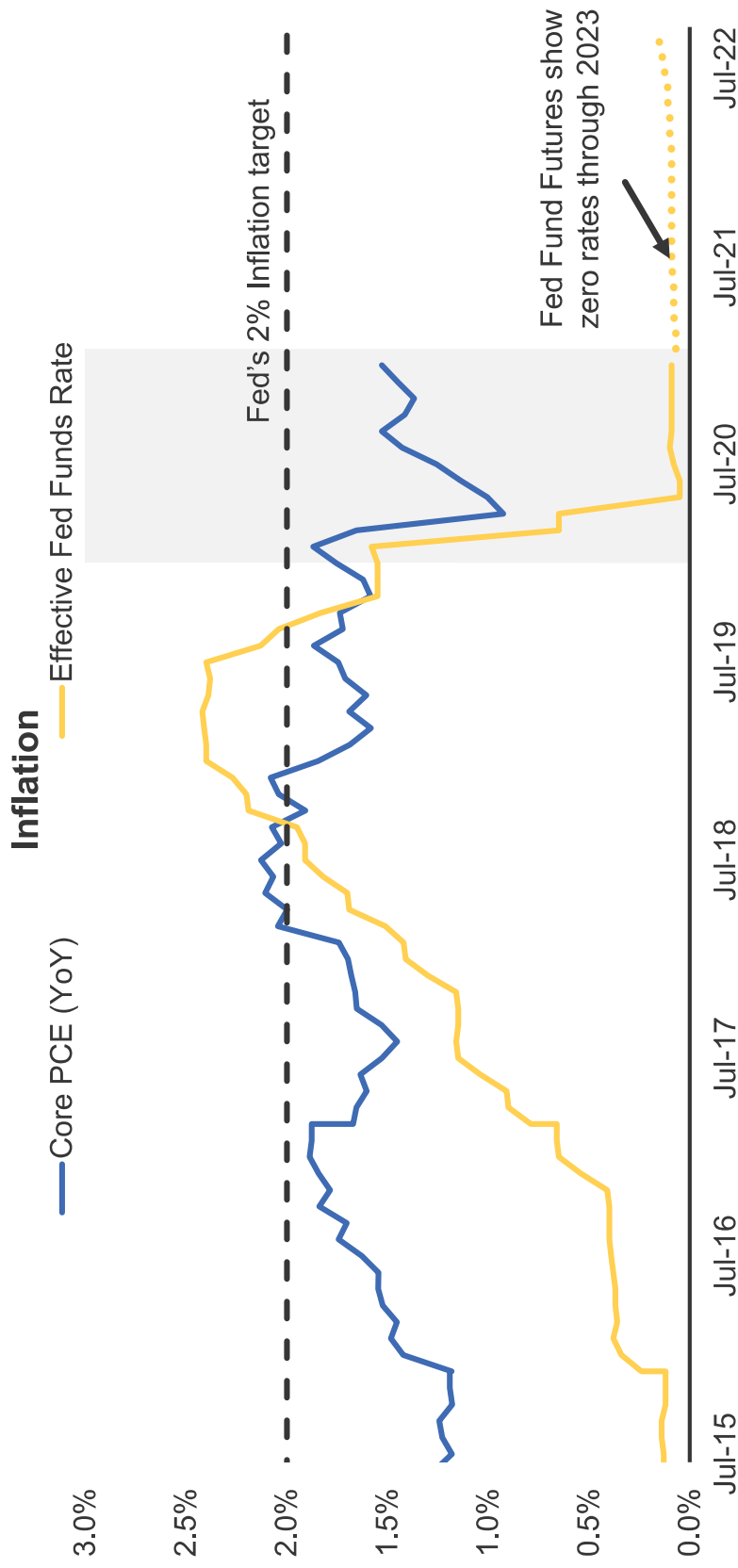


Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgment of the midpoint of the appropriate target range for the federal funds rate at each year-end. Fed funds futures as of 3/18/21.



## Federal Reserve's New Inflation Policy Means Rates May Be Lower for Longer

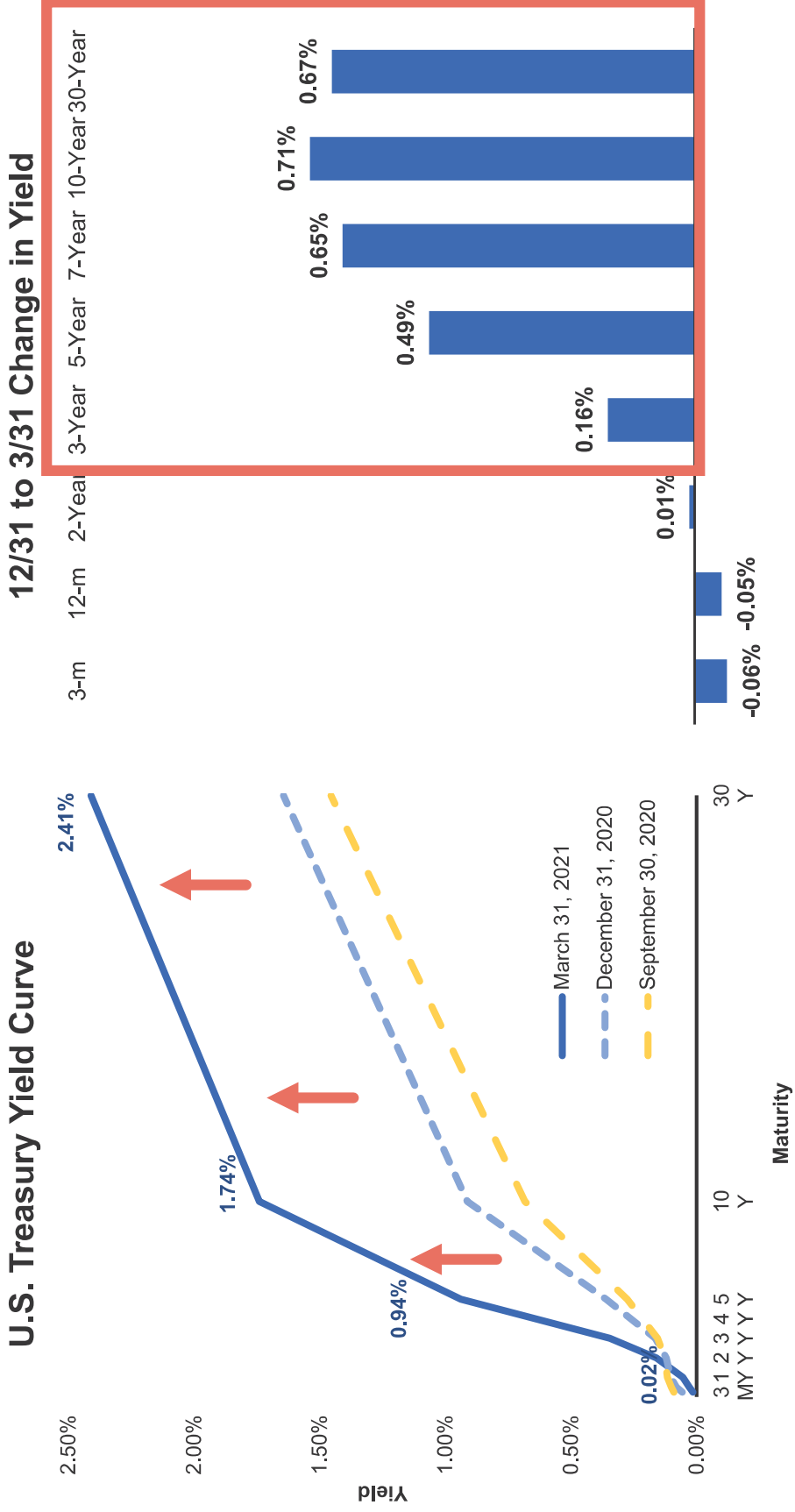
*“...the Committee seeks to achieve inflation that averages 2 percent over time... following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.”*



Source: Federal Reserve, as of 2/28/2021 (quote); Bloomberg, as of 2/28/2021 (chart). Fed Funds Futures projections as of 2/28/2021.



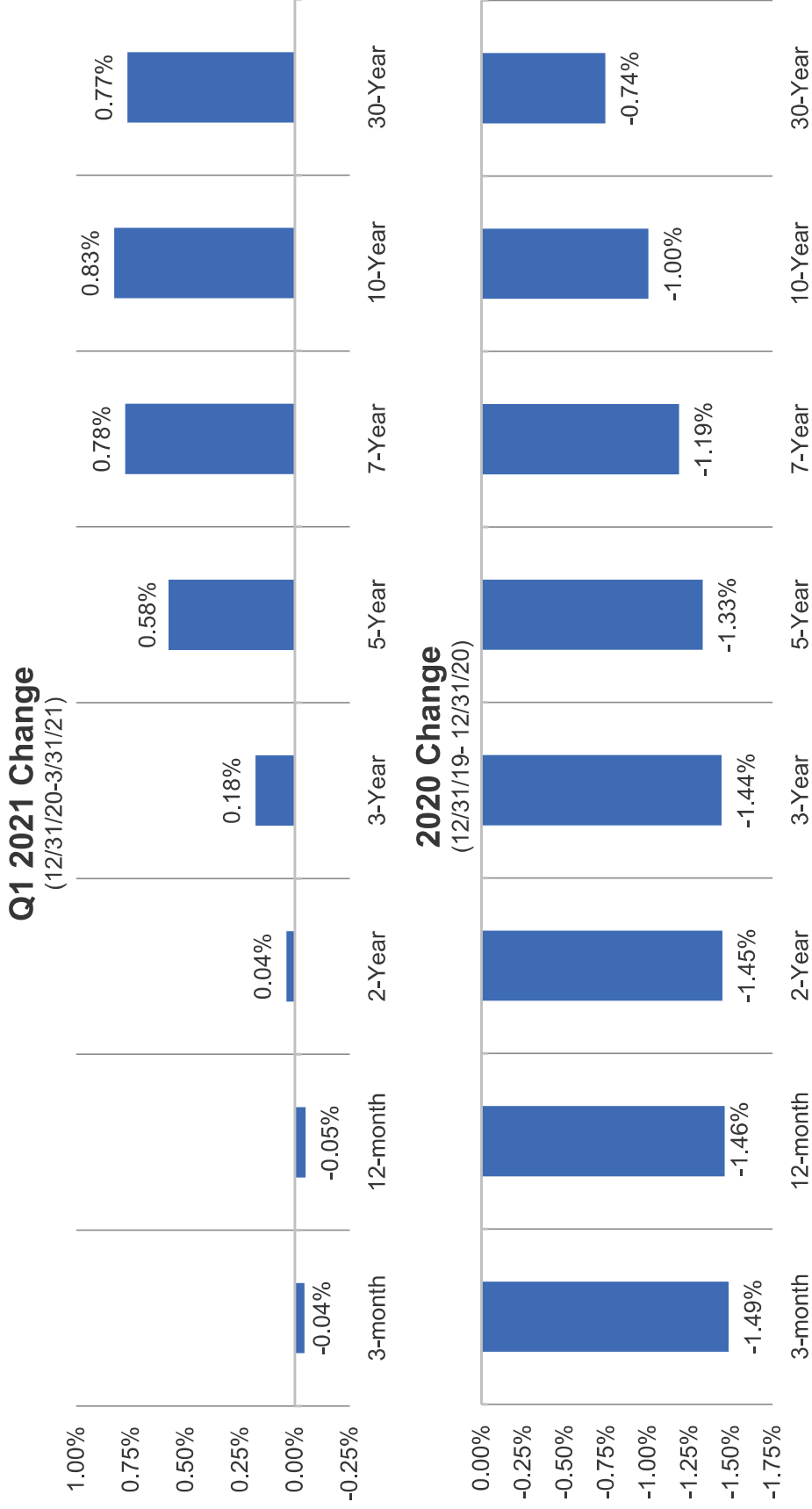
# Most Significant Fixed Income Story of the Quarter



Source: Bloomberg, as of 3/31/2021.



## Longer-Dated Treasury Yields Continue to Move Higher



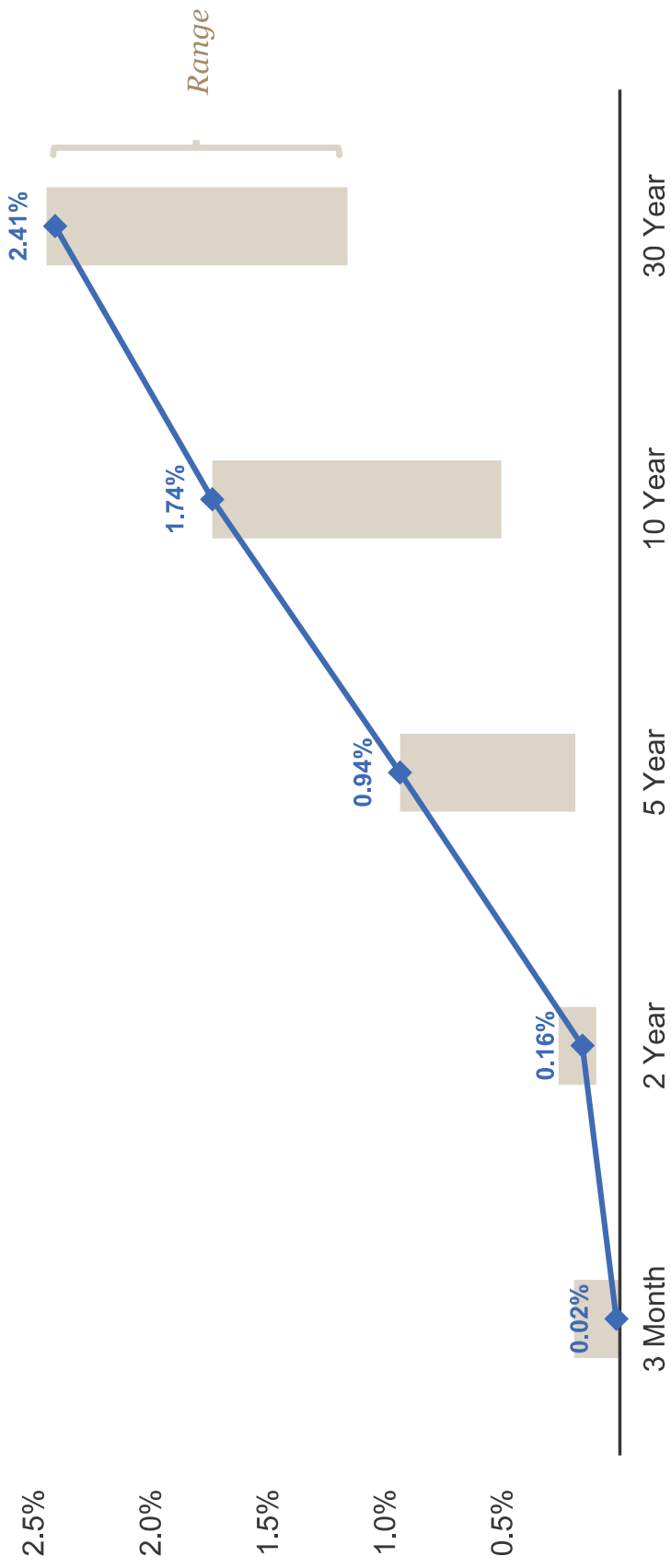
Source: Bloomberg, as of 3/31/2021.



# Long-Dated Treasury Yields Near Their Highest Levels Since Last March

## U.S. Treasury Yields (3/31/20 – 3/31/21)

— Treasury Curve (03/31/2021)



Source: Bloomberg, as of 3/31/2021.



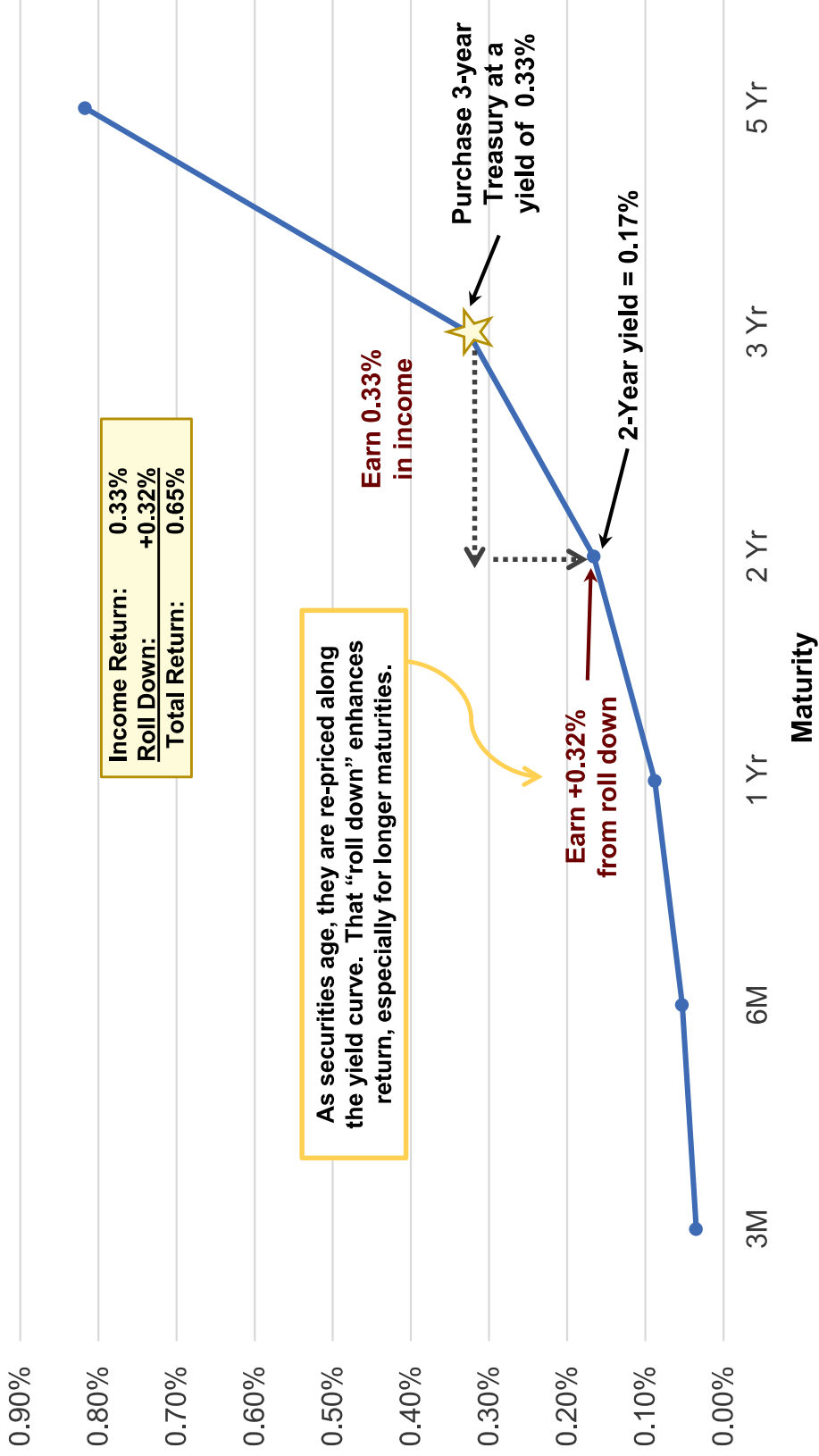
## What is Rolling Down the Yield Curve?

- "Rolling down the yield curve" involves selling bonds before they come due at a higher price than what they're worth at maturity.
- Such strategies can be effective when investing in environments marked by low interest rates, and an upwardly sloped yield curve.
- As securities age, they are re-priced along the yield curve. That "roll down" enhances return, especially for longer maturities.



# Active Management Strategy – Rolling Down the Yield Curve

U.S. Treasury Yield Curve  
March 9, 2021



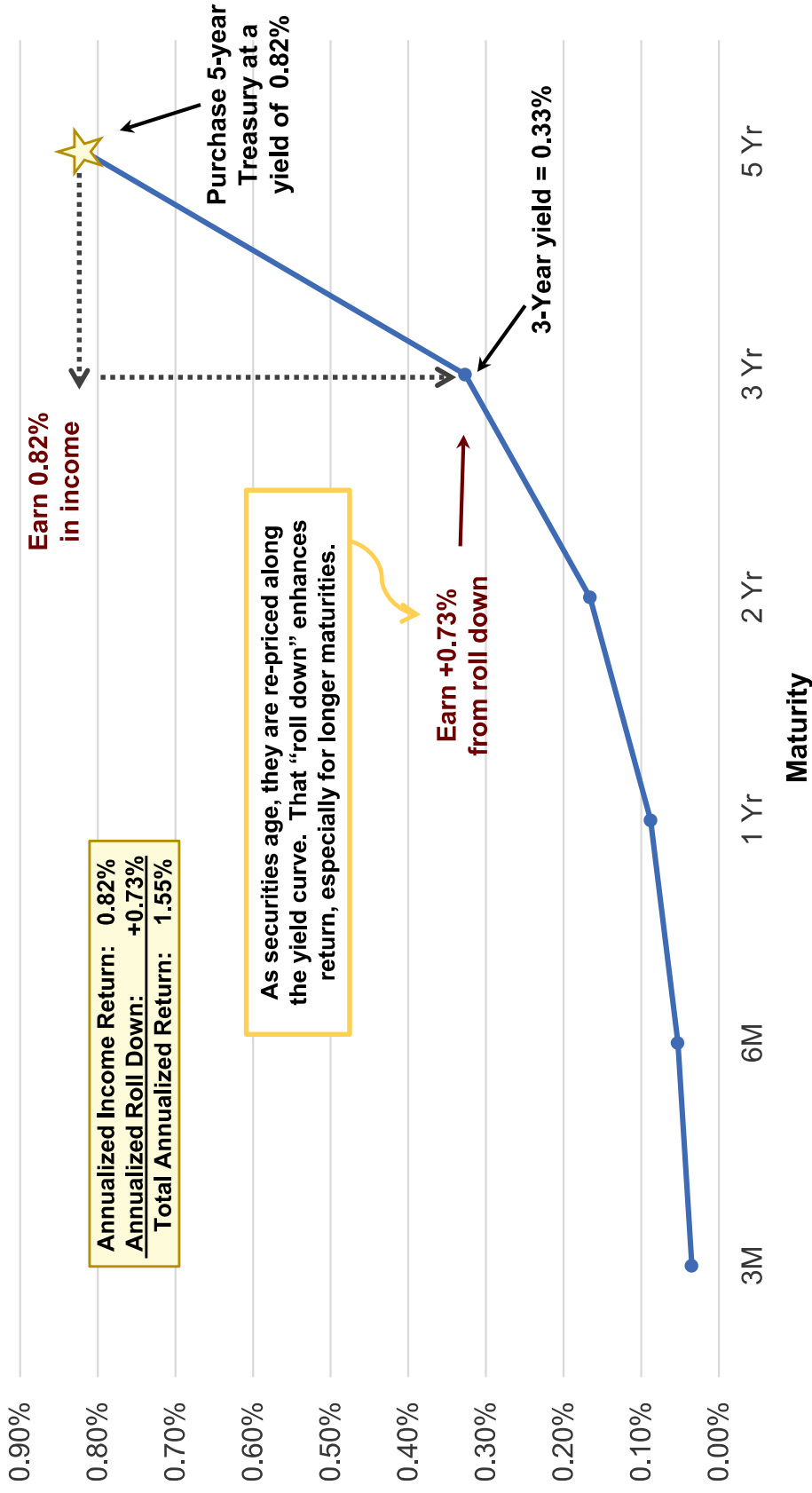
Source: Bloomberg. Assumes positively sloped, static yield curve





# Active Management Strategy – Rolling Down the Yield Curve

U.S. Treasury Yield Curve  
March 9, 2021



Source: Bloomberg. Assumes positively sloped, static yield curve



## Investment Strategy Considerations for ARP Funds

Strategy	Time Horizon	Pros	Cons
Liquidity Vehicles (LGIPs, Money Market Funds, Bank Balances, etc.)	0-6 months	<ul style="list-style-type: none"> <li>• Simple</li> <li>• Highly Liquid</li> <li>• Stable NAV</li> </ul>	<ul style="list-style-type: none"> <li>• Limited income potential</li> </ul>
Laddered Portfolio of Securities	1-3 Years	<ul style="list-style-type: none"> <li>• Separate tracking</li> <li>• Customized to meet anticipated draws</li> <li>• Can be restructured as cashflow needs change</li> <li>• Captures additional income</li> </ul>	<ul style="list-style-type: none"> <li>• Additional Accounting and Reporting</li> <li>• Modest Market Value Volatility</li> <li>• Potential Credit Risk</li> </ul>
Integrated into Core Operating Portfolio	Varies	<ul style="list-style-type: none"> <li>• Merged into existing portfolio</li> <li>• Little or no onboarding or extra reporting</li> <li>• Allows for maximum flexibility and diversification</li> </ul>	<ul style="list-style-type: none"> <li>• Complexity of integration</li> <li>• Greater Market Value Volatility</li> <li>• Potential Credit Risk</li> </ul>

Strategy Considerations are for illustrative purposes only, are subject to changes in the market environment, and may vary based on an entity's particular circumstances.



## Disclosures

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**Thank You**