A CASE STUDY IN MEETING INVESTMENT OBJECTIVES

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PRESENTATION OBJECTIVES

• Learn about investment strategies

• Better understand investment providers

• Gain insight into maximizing returns while seeking safety of principal and sufficient liquidity
INVESTMENT STRATEGIES AND EXECUTION
INVESTMENT DECISIONS

- Periodically Review & Update Your Investment Policy
  - Authorized investments
  - Diversification
  - Maturity
  - Asset class
INVESTMENT DECISIONS

• Assess Your Needs
  o Determine your objectives
  o Assess your expertise
  o Consider your time
  o Utilize investment professionals
A SUCCESSFUL INVESTMENT PLAN ALIGNS STRATEGY TO PURPOSE

- Operating Funds: <12 months
  - T-bills
  - Agency Discount Notes
  - CD’s
  - LGIPs

- Reserves: 1-5 Years
  - Treasury Notes
  - Agency Notes
  - Taxable Municipal Bonds
  - Agency Mortgage-Backed Securities
YIELD CURVE STRATEGIES

- $10 Million Portfolio
- Average Maturity: 5 Years
- Portfolio Yield:
  - Bullet: 1.45%
  - Barbell: 1.24%
  - Ladder: 1.46%

U.S. TREASURY YIELD CURVE

- Current
- 1 Week
- 1 Month
YIELD CURVE STRATEGIES

1. Power of a Ladder
   • Reinvest over time
   • Similar to dollar cost averaging in stocks
   • Works in all rate environments
     o Rates Fall: Locked in higher yields in longer maturities
     o Rates Stable: Longer maturities will enhance yield
     o Rates Rise: Reinvest at higher yields as bonds mature
2. Rolling Down the Yield Curve

- In a positively sloped yield curve environment, as the bond ages, it will be re-priced at a lower yield which leads to a higher price.
- This enhances the price component of return leading to a total return that is greater than the purchase yield.
  - Example: 5-year UST yield 1.45% Price: 99.68
  - Next year this bond will be a 4-year yielding 1.30% Price: 100.29
  - Price change: +.61 Total return: +1.98%
- Find the steepest part of the yield curve to maximize the roll-down strategy.

YIELD CURVE STRATEGIES

YIELD CURVE

- Plot of UST Yields vs. Years to Maturity
INVESTMENT PROVIDERS
WHAT IS AN INVESTMENT ADVISOR?

- As defined by the Investment Advisors Act of 1940:
  - a "person or firm that, for compensation, is engaged in the act of providing advice, making recommendations, issuing reports or furnishing analyses on securities, either directly or through publications."

- The "anti-fraud" provision of the Investment Advisers Act of 1940 imposes a fiduciary duty on Investment Advisers:
  - Unlawful for an investment adviser to engage in fraudulent, deceptive, or manipulative conduct
WHAT IS A BROKER-DEALER?

- As defined by FINRA (Financial Industry Regulatory Authority):
  - “a person or company that is in the business of buying and selling securities—stocks, bonds, mutual funds, and certain other investment products—on behalf of its customers (as broker), for its own account (as dealer), or both”

- Although many broker-dealers are "independent" firms solely involved in broker-dealer services, many others are business units or subsidiaries of:
  - Commercial banks
  - Investment banks
  - Investment companies
LET'S MAKE IT SIMPLER

• Broker-Dealer – Self-directed investments
  o You make all investment decisions
  o Sell investment products (Treasuries, Agencies, Municipal)

• Investment Advisor – Investment management
  o Discretionary or Non-discretionary management
  o Separately managed accounts
  o Investment funds/pools
# Comparison of Broker-Dealers and Investment Advisors

<table>
<thead>
<tr>
<th></th>
<th>Broker-Dealers</th>
<th>Investment Advisors</th>
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</thead>
<tbody>
<tr>
<td><strong>FEES</strong></td>
<td>• Transaction fee, mark-up or commission</td>
<td>• Fee based on assets under management</td>
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<tr>
<td><strong>TRANSACTING</strong></td>
<td>• Self-Directed</td>
<td>• Managed Accounts</td>
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<td><strong>RESPONSIBILITY</strong></td>
<td>• Suitability</td>
<td>• Fiduciary Duty</td>
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<tr>
<td></td>
<td>• Fiduciary Duty for Municipal Advisors on investment of bond proceeds</td>
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## Comparison of Broker-Dealers and Investment Advisors

<table>
<thead>
<tr>
<th></th>
<th>Broker-Dealers</th>
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<tbody>
<tr>
<td><strong>National Regulators</strong></td>
<td>• SEC - Securities and Exchange Commission</td>
<td>• SEC - Securities and Exchange Commission</td>
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<td>• FINRA - Financial Industry Regulatory Authority</td>
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<td></td>
<td>• MSRB - Municipal Securities Rulemaking Board</td>
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<td><strong>State Regulators</strong></td>
<td>• Applicable State Regulators</td>
<td>• Applicable State Regulators</td>
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INVESTMENT STRATEGY OVERVIEW

• Operating Funds invested on a Self-Directed basis by the College

• Reserves managed by a Registered Investment Advisor
CASH FLOW INVESTING

- Match all liabilities with an investment maturity
- Extend investments to benefit from higher rates
- Plan for cash shortfalls
- Identify long-term investment potential
- Maximize interest income
- Don’t pay for liquidity you don’t need
CASH FLOW ANALYSIS

Total Funds Balance (excluding Capital Projects)

- Targeted Liquidity
- Long Term Investments (1 year +)
- Optimized Investments (<1 year)
- Previous/Current Investments
- Short Term Investments
- Short Term Borrowing

Millions

- June 16
- July 16
- August 16
- September 16
- October 16
- November 16
- December 16
- January 17
- February 17
- March 17
- April 17
- May 17
- June 17
- July 17
- August 17
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- May 19
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## Proposed Investments

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INVESTING LONG-TERM RESERVES

- Strategically diversify across allowable fixed income sectors
- Maintain high quality portfolio aligned with State Statute, Investment Policy and portfolio goals & objectives
- Do not time the market
Strategically Diversify into High Quality Income Producing Sectors Allowable by IL State Statute

Portfolio Duration Aligned with Benchmark and Based Analysis of the College’s Cash flow

Portfolio Yield of 1.81% with Potential for Higher Total Return

High-quality portfolio maintained with AA average quality. Capital Preservation is Critical

Actively Manage Portfolio to Meet Investment Goals and the College’s Evolving Needs

<table>
<thead>
<tr>
<th>PORTFOLIO CHARACTERISTICS</th>
<th>PORTFOLIO</th>
<th>BENCHMARK</th>
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<tbody>
<tr>
<td>Duration</td>
<td>2.50</td>
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<td>Yield</td>
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<td>Quality</td>
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<td>AA+</td>
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LONG-TERM PORTFOLIO | 1-5 Year Benchmark

PROPOSED PORTFOLIO

- Tax Muni 35%
- Agency DUS 35%
- Tsy/Agency 15%
- Bank/CD/TD 10%
- Agency MBS 5%
SUMMARY

• Safety, liquidity and then yield
• Invest with a plan
• Do your due diligence
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