



# A CASE STUDY IN MEETING INVESTMENT OBJECTIVES

**BRIAN HEXTELL**  
Senior Vice President  
Prudent Man Advisors, Inc.  
PMA Securities, Inc.

**TOM LANZARA**  
Associate Vice President—  
Investment Services  
PMA Financial Network, Inc.  
PMA Securities, Inc.

October 19, 2017

## 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**
  - Determine your objectives
  - Assess your expertise
  - Consider your time
  - Utilize investment professionals

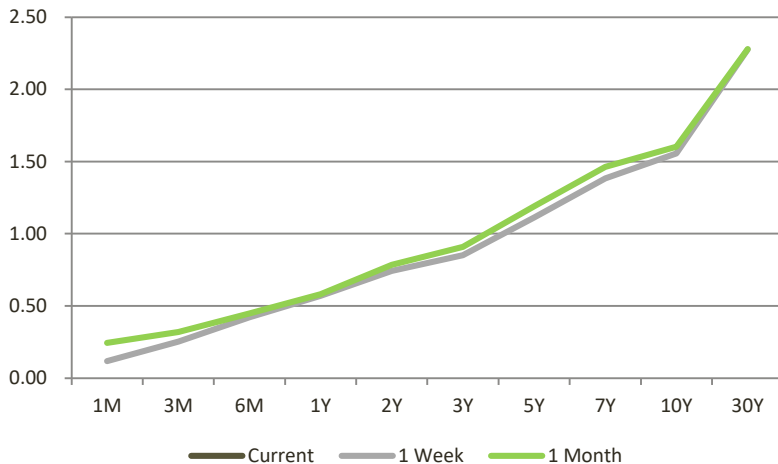
# A SUCCESSFUL INVESTMENT PLAN ALIGNS STRATEGY TO PURPOSE

- **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

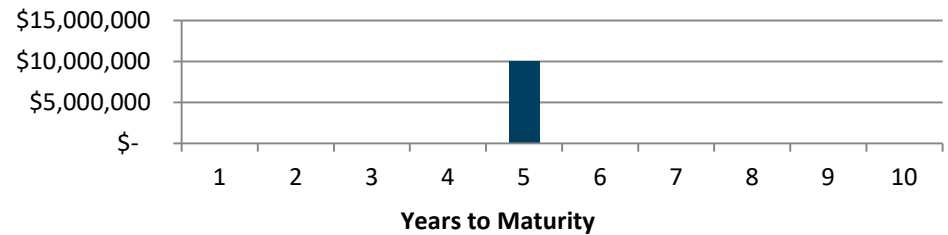
# YIELD CURVE STRATEGIES

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

## U.S. TREASURY YIELD CURVE



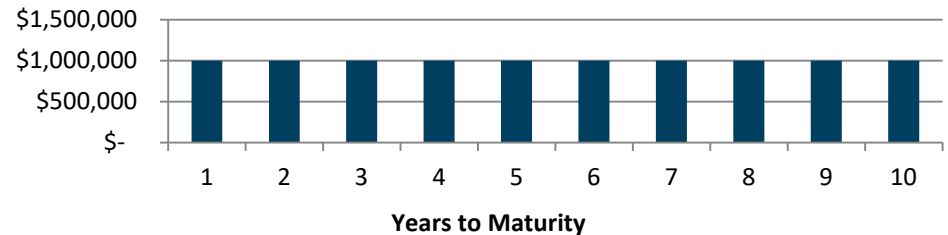
## BULLET



## BARBELL



## LADDER



# YIELD CURVE STRATEGIES

## 1. Power of a Ladder

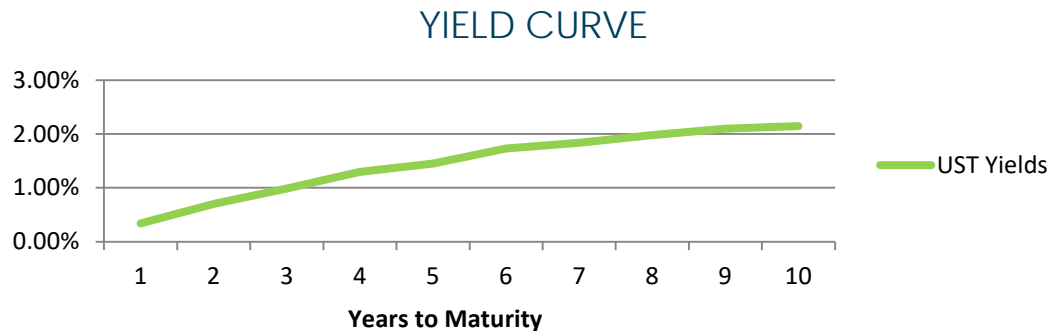
- Reinvest over time
- Similar to dollar cost averaging in stocks
- Works in all rate environments
  - Rates Fall: Locked in higher yields in longer maturities
  - Rates Stable: Longer maturities will enhance yield
  - Rates Rise: Reinvest at higher yields as bonds mature



# YIELD CURVE STRATEGIES

## 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



# 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 or
  - Investment companies

## LET'S MAKE IT SIMPLER

- **Broker-Dealer – Self-directed investments**
  - You make all investment decisions
  - Sell investment products (Treasuries, Agencies, Municipal)
- **Investment Advisor – Investment management**
  - Discretionary or Non-discretionary management
  - Separately managed accounts
  - Investment funds/pools

# COMPARISON OF BROKER-DEALERS AND INVESTMENT ADVISORS

	BROKER-DEALERS	INVESTMENT ADVISORS
FEES	<ul style="list-style-type: none"><li>• Transaction fee, mark-up or commission</li></ul>	<ul style="list-style-type: none"><li>• Fee based on assets under management</li></ul>
TRANSACTING	<ul style="list-style-type: none"><li>• Self-Directed</li></ul>	<ul style="list-style-type: none"><li>• Managed Accounts</li></ul>
RESPONSIBILITY	<ul style="list-style-type: none"><li>• Suitability</li><li>• Fiduciary Duty for Municipal Advisors on investment of bond proceeds</li></ul>	<ul style="list-style-type: none"><li>• Fiduciary Duty</li></ul>

# COMPARISON OF BROKER-DEALERS AND INVESTMENT ADVISORS

	BROKER-DEALERS	INVESTMENT ADVISORS
NATIONAL REGULATORS	<ul style="list-style-type: none"> <li>• <u>SEC</u> - Securities and Exchange Commission</li> <li>• <u>FINRA</u> - Financial Industry Regulatory Authority</li> <li>• <u>MSRB</u> - Municipal Securities Rulemaking Board</li> </ul>	<ul style="list-style-type: none"> <li>• <u>SEC</u> - Securities and Exchange Commission</li> </ul>
STATE REGULATORS	<ul style="list-style-type: none"> <li>• Applicable State Regulators</li> </ul>	<ul style="list-style-type: none"> <li>• Applicable State Regulators</li> </ul>

# CASE STUDY



## INVESTMENT STRATEGY OVERVIEW

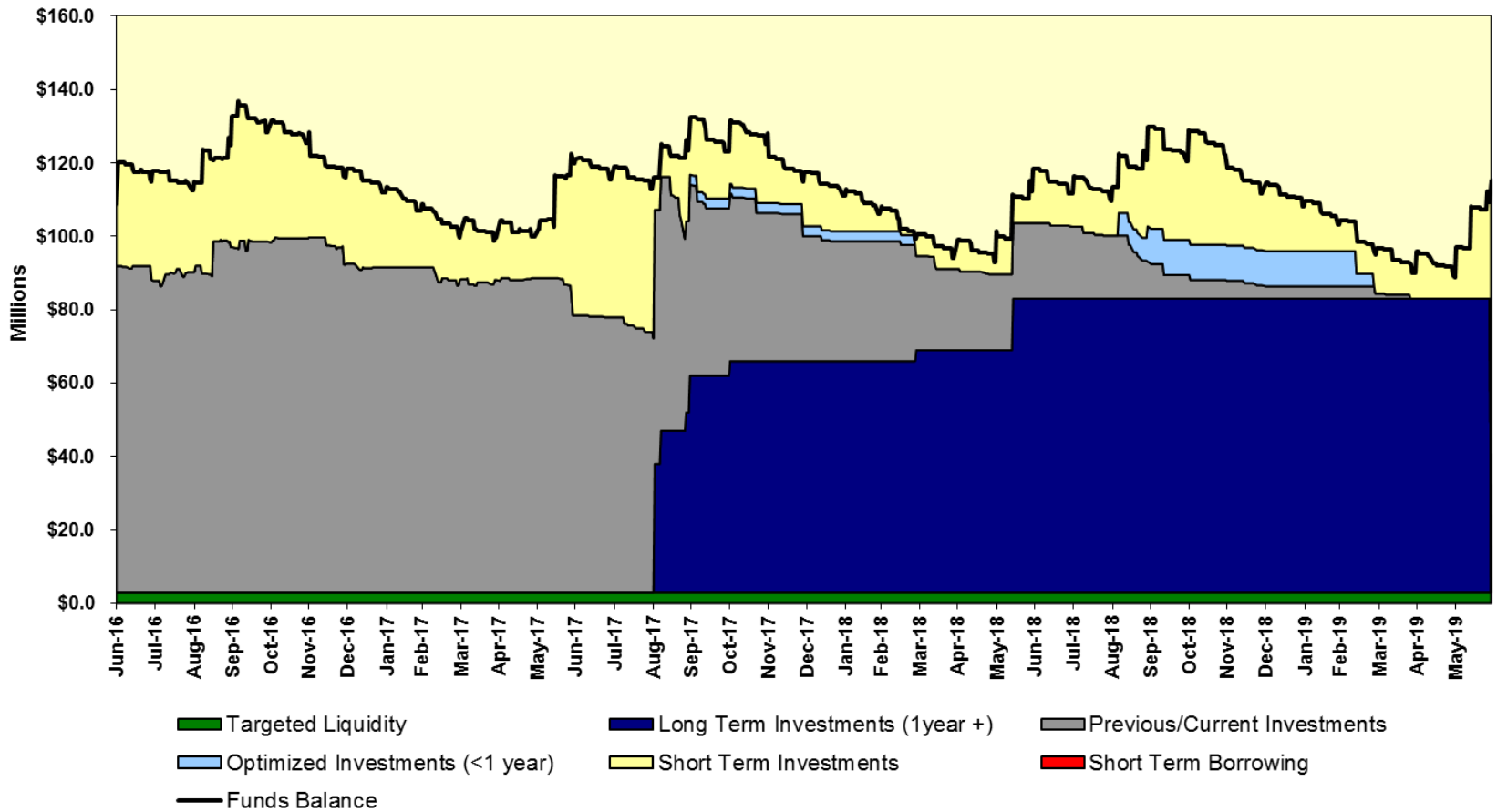
- Operating Funds invested on a Self-Directed basis by the College
- Reserves managed by a Registered Investment Advisor

## 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)



# CASH FLOW SCHEDULE

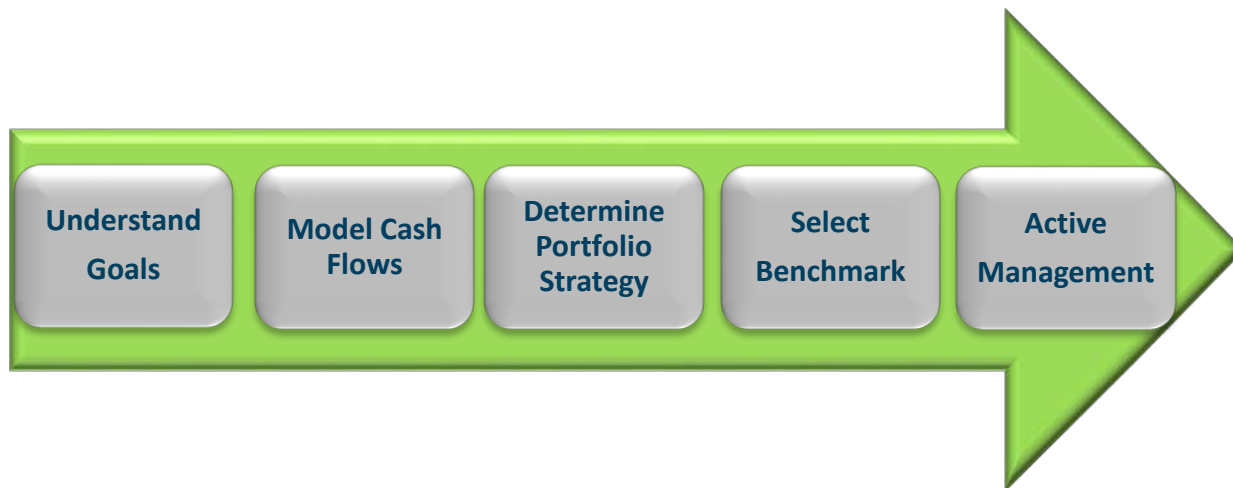
Cash Flow Schedule - November 2017										
Date	Day	Revenues			Expenditures			Maturities	Investments	Money Mkt Funds
		Taxes	GSA	Other	Payables	Payroll	Other			
										<i>Opening Balance</i>
										\$3,033,993
2	Thu				\$444,690			\$1,000,000		\$3,589,303
9	Thu				\$444,690					\$3,144,612
13	Mon					\$2,222,000		\$2,550,000		\$3,472,613
16	Thu				\$444,690					\$3,027,923
21	Tue							\$4,000,000		\$7,027,923
22	Wed				\$444,690					\$6,583,233
28	Tue					\$2,222,000				\$4,361,233
29	Wed									\$4,361,233
30	Thu			\$3,164,423	\$444,690				\$3,100,000	\$3,980,966
<b>Total</b>				\$3,164,423	\$2,223,451	\$4,443,999		\$7,550,000	\$3,100,000	\$3,980,966

# PROPOSED INVESTMENTS

Proposed Investments							
ID #	Investment Date		Maturity Date	# of Days	Amount		Investment Type
	Proposed	Actual			Proposed	Actual	
7	29-Sep-17		01-Dec-17	63	\$5,400,000		
8	29-Sep-17		13-Dec-17	75	\$3,100,000		
9	29-Sep-17		27-Dec-17	89	\$900,000		
10	29-Sep-17		27-Mar-18	179	\$2,700,000		
<b>11</b>	<b>29-Sep-17</b>		<b>28-Jun-19</b>	<b>637</b>	<b>\$10,000,000</b>		
12	31-Oct-17		27-Dec-17	57	\$2,400,000		
13	31-Oct-17		10-Jan-18	71	\$2,500,000		
<b>14</b>	<b>31-Oct-17</b>		<b>28-Jun-19</b>	<b>605</b>	<b>\$4,000,000</b>		
15	30-Nov-17		10-Jan-18	41	\$200,000		
16	30-Nov-17		29-Jan-18	60	\$2,900,000		
17	28-Dec-17		29-Jan-18	32	\$100,000		
18	28-Dec-17		13-Feb-18	47	\$3,300,000		
19	28-Dec-17		26-Feb-18	60	\$2,600,000		
20	29-Dec-17		26-Feb-18	59	\$600,000		

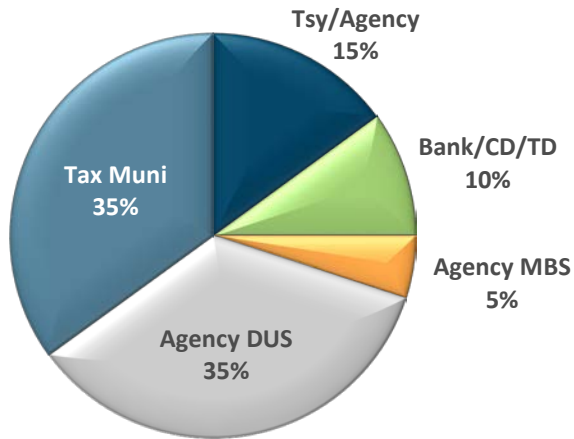
## INVESTING LONG-TERM RESERVES

- 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



# LONG-TERM PORTFOLIO | 1-5 Year Benchmark

## PROPOSED PORTFOLIO



PORTFOLIO CHARACTERISTICS	PORTFOLIO	BENCHMARK
Duration	2.50	2.62
Yield	1.81	1.63
Quality	AA	AA+

- 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

## SUMMARY

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





## DISCLAIMER

Prudent Man Advisors, Inc. ("Prudent Man") is an investment adviser registered with the U.S. Securities and Exchange Commission. The information presented herein is for general information purposes only and is not a specific/buy sell recommendation. The analysis or information presented in this presentation is based upon hypothetical projections and/or past performance that may have certain limitations and is solely intended to suggest/discuss potentially applicable financing applications or investment strategies with you. Any terms discussed herein are preliminary until confirmed in a definitive written agreement.

Investment in securities involves risks, including the possible loss of the amount invested. In addition, past performance is no indication of future performance and the price or value of investments may fluctuate. Asset allocation does not assure or guarantee better performance and cannot eliminate the risk of investment losses.

You should consider certain economic risks (and other legal, tax, and accounting consequences) prior to entering into any type of transaction with Prudent Man Advisors, Inc. Prudent Man and its employees do not offer tax or legal advice. You should consult with your tax and/or legal advisors before making any tax or legal related investment decisions.

Securities, public finance and institutional brokerage services are offered through PMA Securities, Inc. PMA Securities, Inc. is a broker-dealer and municipal advisor registered with the SEC and MSRB, and is a member of FINRA and SIPC. Prudent Man Advisors, Inc., an SEC registered investment adviser, provides investment advisory services to separately managed accounts and local government investment pools. All other products and services are provided by PMA Financial Network, Inc. PMA Financial Network, Inc., PMA Securities, Inc. and Prudent Man Advisors (collectively "PMA") are under common ownership. Securities and public finance services offered through PMA Securities, Inc. are available in CA, CO, FL, GA, IL, IN, IA, KS, MI, MN, MO, NE, OH, OK, PA, SD, TX and WI. This document is not an offer of services available in any state other than those listed above, has been prepared for informational and educational purposes and does not constitute a solicitation to purchase or sell securities, which may be done only after client suitability is reviewed and determined.