



Best Practices for Overseeing Your Investment Program

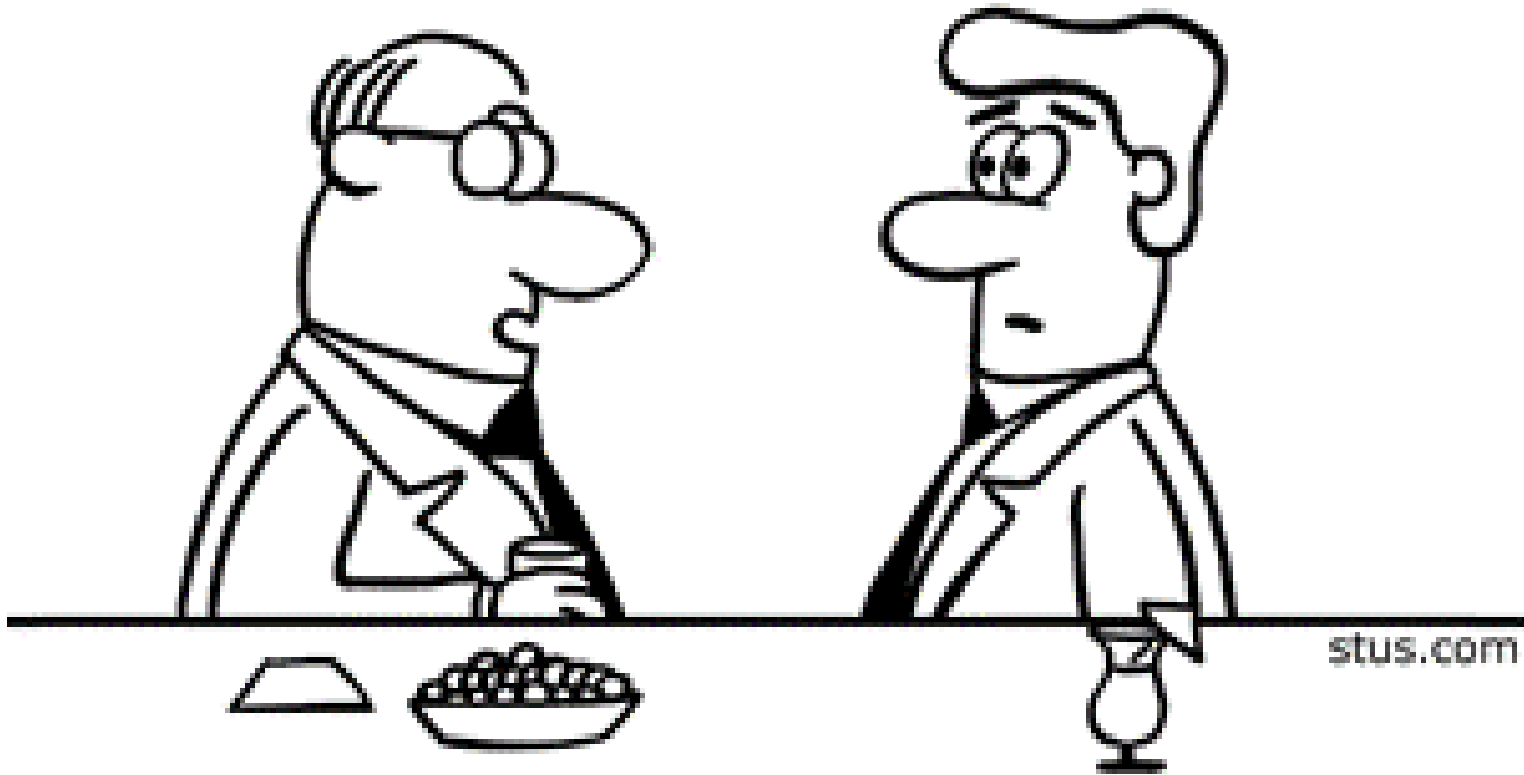
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This "fiduciary" thingy really complicates exploiting my job to get stinking rich.



Investing Public Funds: Recommended Procedures

- ◆ Develop adequate controls and oversight
- ◆ Adopt a written investment policy
- ◆ Match investment maturities with cash flow requirements
- ◆ Diversify investments
- ◆ Know what you are buying and get it in writing

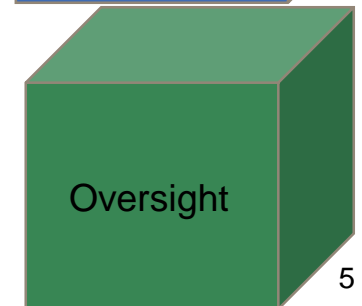
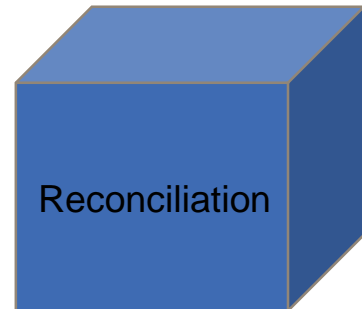
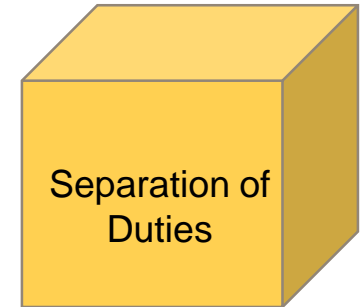
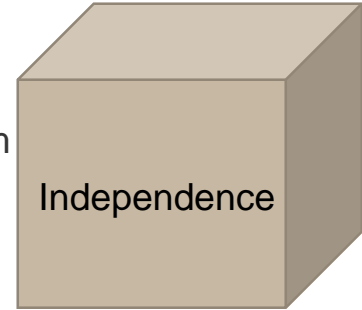


**Develop adequate controls
and oversight**



Why Have Investment Internal Controls?

- One of the weakest links in an investment program is often the management system and internal control procedures
- Internal controls help prevent:
 - Fraud
 - Embezzlement
 - Malfeasance and repeated errors
- Internal controls can help to identify potential problem areas
 - Embezzlement/conversion (cash, securities, deadline with outside parties)
 - Transaction errors (incorrect transaction amounts, wire failures, wrong payees)
 - Judgement errors (security selection, cash flow versus maturity selection)
 - Cover-ups (fraud, delaying bad news, changing numbers)





Documented Investment Procedures

- ◆ Organizational Design
 - Separation of functions
 - Barriers to collusion
 - Checks and balances
- ◆ Supervisory Controls
 - Pre-employment screening
 - Documentation of transactions
- ◆ Custodial Safekeeping
- ◆ Staff and Management Training
- ◆ Reporting Requirements
- ◆ Internal Audit Review



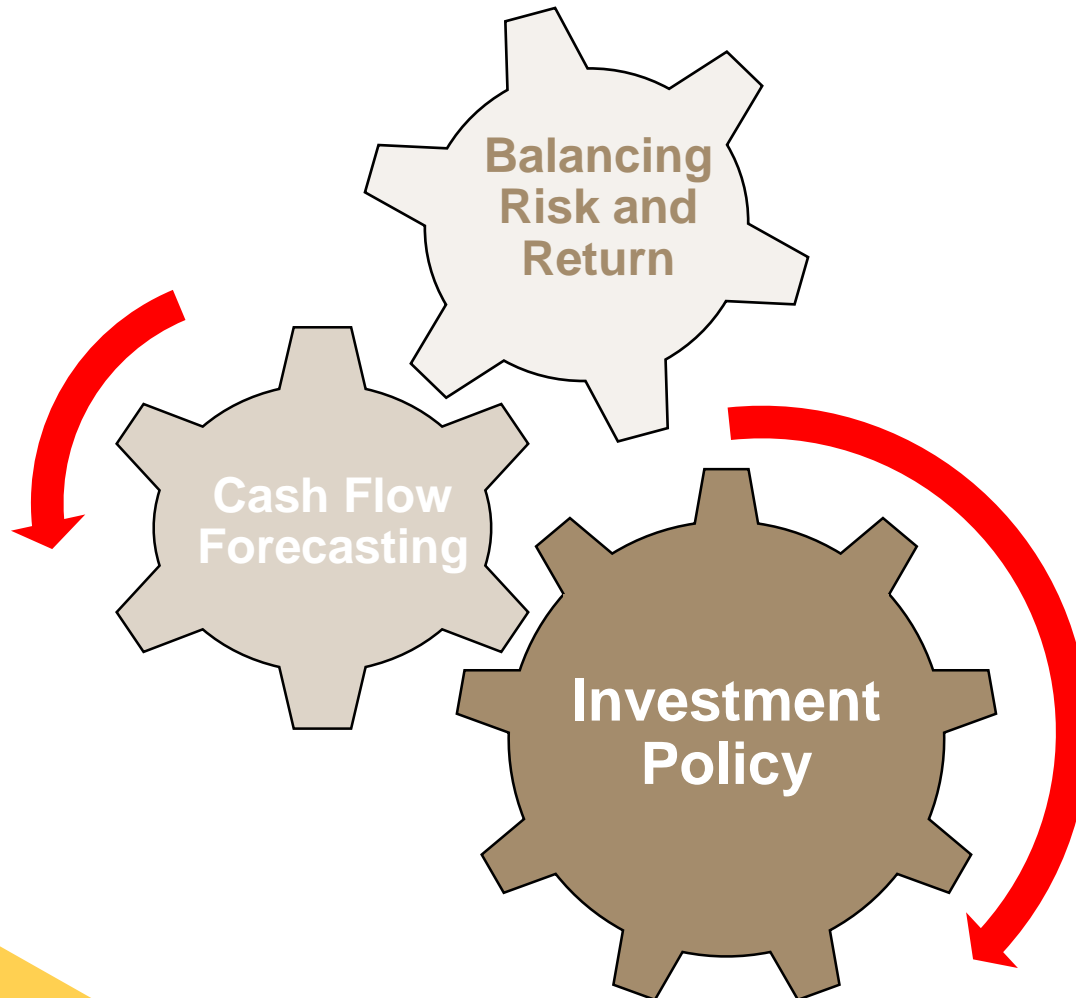


Adopt a written investment policy



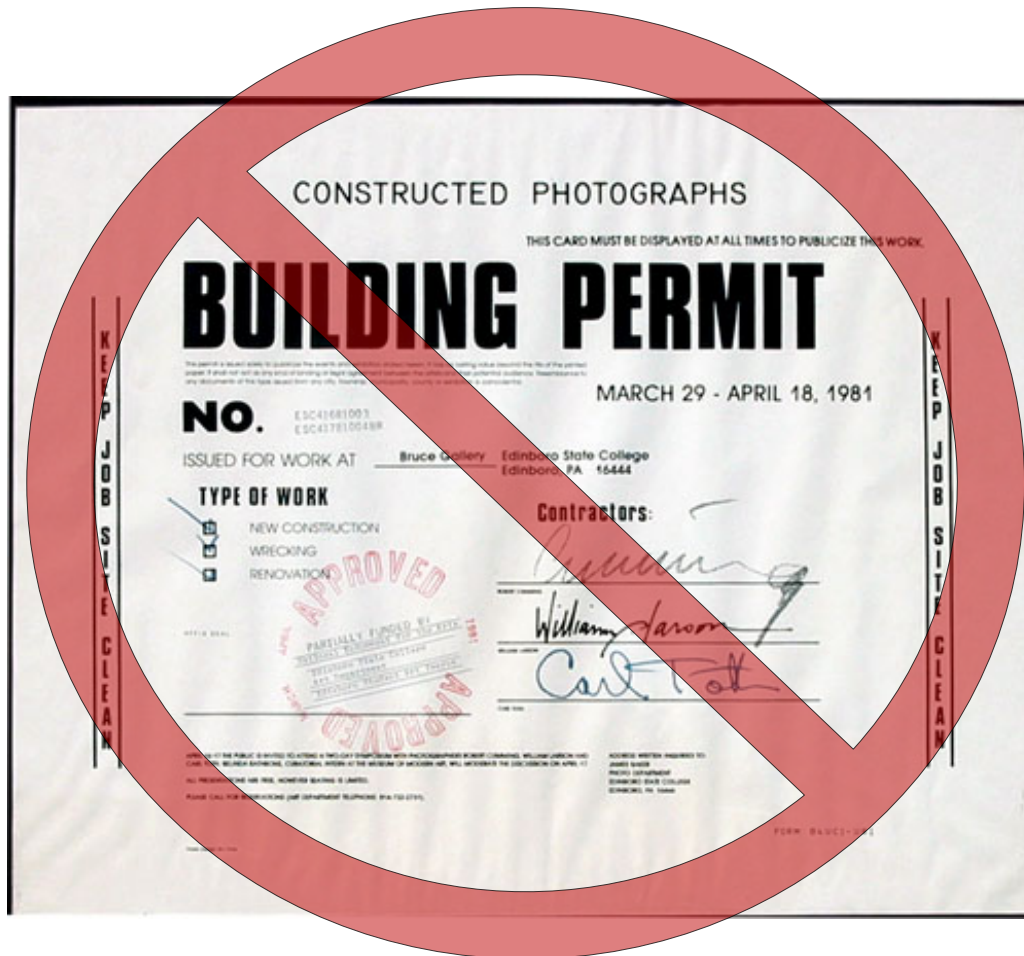
Investment Management: Investment Policy

- ◆ “A written investment policy is the single most important element in a public funds investment program.”
 - *GFOA Best Practice: Creating an Investment Policy (2010)*





An Investment Policy is Akin to a Permit





Why Develop a Formal Investment Policy?

◆ Purpose of an Investment Policy

- Build a framework for investment practices
- Protect assets of the College and the liability of the College's staff
- Communicate the College's investment objectives
- Establish limits
- Delineate staff roles

◆ Target Audience

- Internal finance staff
- College Board of Trustees
- Members of the public
- Investment providers





Define Investment Objectives

For general operating, reserves, and bond proceeds:





Investment Policy Statement Components

◆ Develop, Review, Amend, Improve...Then Review, Amend, and Improve Again

- Objectives
- Standard of Prudence
- Ethics & Conflicts
- Delegation of Authority
- Selection of Brokers / Dealers
- Competitive Selection
- Safekeeping and Custody
- Internal Controls
- Authorized Investments
 - Specifically define
- Belts and Suspenders
 - Diversification
 - Sector
 - Issuer
 - Maximum Maturity
 - Security downgrades
 - What to do?
- Performance and Reporting Standards



**Match investment maturities with
cash flow requirements**



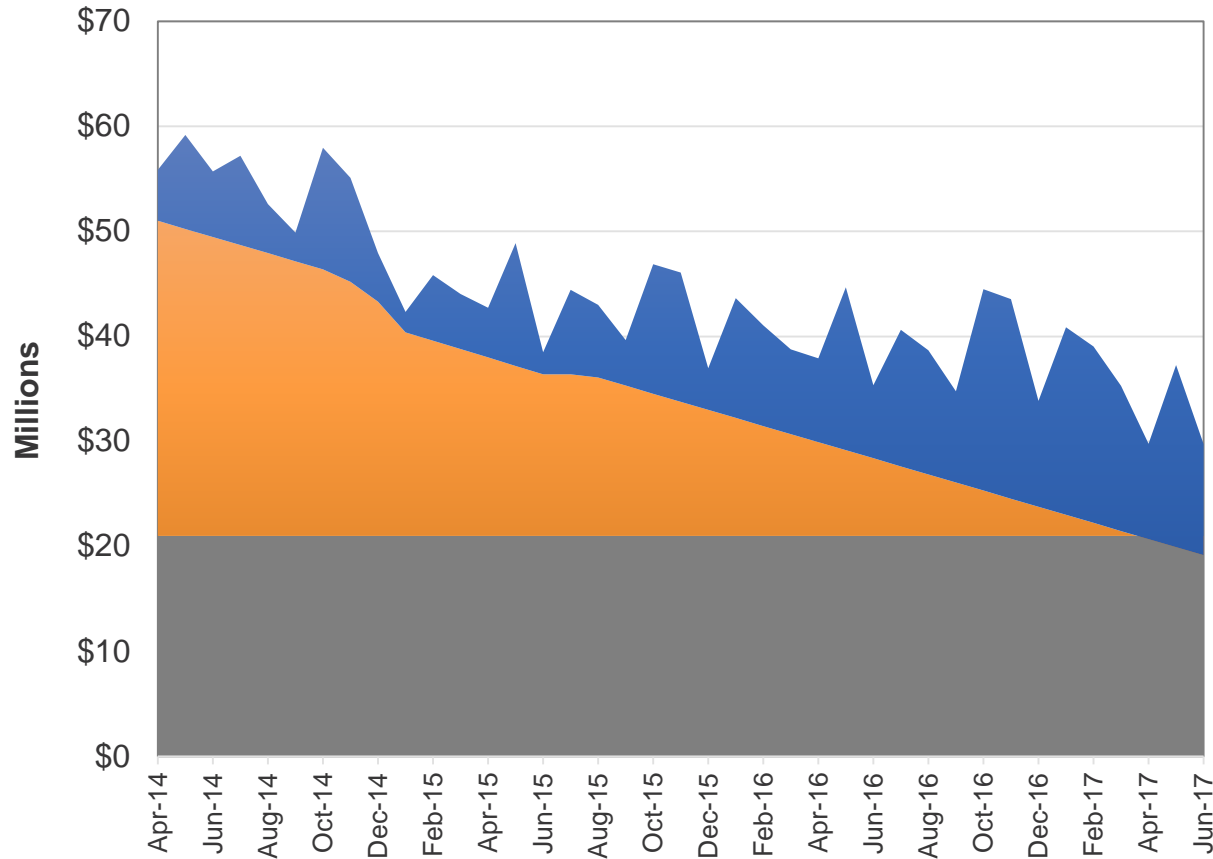
Cash Flow is Key

- ◆ Identifies “core” versus liquid funds
- ◆ Helps ensure adequate liquidity and seeks to enhance cash management techniques
- ◆ Identifies trends in cash balances
- ◆ Can increase investment income
 - Amounts available for investment
 - Period of time to hold the investment
 - Assists with investment strategies
- ◆ Helps forecast potential deficits





Cash Flow Analysis and Forecasting



Liquidity and Operating Funds

- Daily liquidity
- Funds to cover specific, predictable cash flows
- Investment horizon less than twelve months

Bond Proceeds

- Funds dedicated for a specific use
- Investments matched to a particular draw schedule

“Core” Reserves

- Funds with stable balances
- Investment horizon of more than one year

For illustrative purposes only.



Why Prepare a Cash Flow Analysis?

- ◆ There are advantages to keeping money liquid
 - Money is available for unexpected expenses
 - Funds usually earn interest in fully-liquid accounts
- ◆ There are also costs to keeping cash on hand
 - Lost investment income
 - Market risk
 - Potentially bad press
- ◆ Time is Money
 - Many priorities competing for staff time
 - Finding the right mix of investments takes time, continually monitoring of changing market conditions

1.80	\$	29.60	\$	139.73	\$	38.11	\$
22.40	\$	55.00	\$	68.40	\$	32.08	\$
32.10	\$	56.50	\$	42.33	\$	17.48	\$
35.40	\$	62.00	\$	34.23	\$	19.32	\$
37.40	\$	47.50	\$	37.08	\$	31.05	\$
35.00	\$	75.00	\$	57.76	\$	56.81	\$
30.30	\$	73.00	\$	88.63	\$	63.71	\$
29.60	\$	73.00	\$	82	\$	28.75	\$
16.80	\$	37.50	\$		\$		\$
	\$	240.80	\$	509.00	\$		\$
	\$		\$		\$	93.52	\$
	\$		\$		\$	139.73	\$
	\$		\$		\$	115.00	\$
	\$		\$		\$	110.73	\$



Diversify investments



Permitted Investments – Operating Funds

- ◆ Define general universe
- ◆ Bound by the Illinois Public Funds Investment Act (30 ILCS 235)
- ◆ Set diversification limits
 - Term
 - Sector
 - Credit Quality
- ◆ Restrictive clauses

Investment Type	Allowed?
U.S. Treasuries	✓
Federal Agencies	✓
Agency Mortgage-Backed Securities	✓
Government Money Market Funds	✓
Repurchase Agreements	✓
FDIC-Insured Certificates of Deposit	✓
Negotiable Certificates of Deposit	✓
Municipal Bonds	✓
Commercial Paper	✓
Local Government Investment Pools	✓
Short-Term Corporate Bond Funds	✓
Corporate Notes	NO
Mutual Funds (Equity)	NO



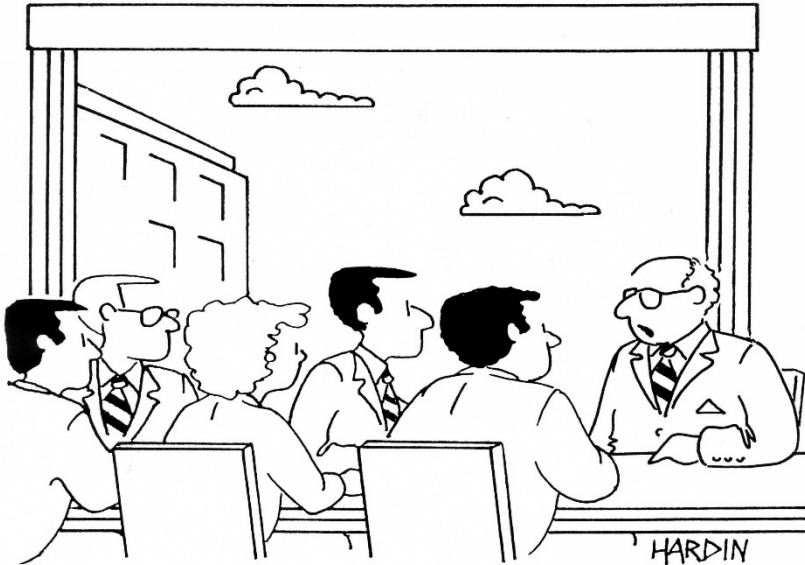
Permitted Investments – Foundation Funds

- ◆ Define general universe
- ◆ **Not** bound by the Illinois Public Funds Investment Act (30 ILCS 235)
- ◆ Set diversification limits
 - Term
 - Sector
 - Credit Quality
- ◆ Restrictive clauses

Investment Type	Allowed?
U.S. Treasuries	✓
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Repurchase Agreements	✓
FDIC-Insured Certificates of Deposit	✓
Negotiable Certificates of Deposit	✓
Municipal Bonds	✓
Commercial Paper	✓
Local Government Investment Pools	✓
Short-Term Corporate Bond Funds	✓
Corporate Notes	✓
Mutual Funds (Equity)	✓



Risk Tolerances



"We've considered every potential risk except the risks of avoiding all risks."

VS.





**Know what you are buying and get it
in writing**



Custodial Reporting

◆ Frequency

- Monthly
- Quarterly
- Annual

◆ Content

- Securities listing
- Allocation by sector
- Book value
- Market value
- Yield and/or return
- Income earned





Best Practice: Document Everything

◆ WHY?

- If a dispute arises, the College may need to defend itself
- ◆ Old lawyer adage: if it was not documented, it does not exist
- ◆ College should document ***everything*** they do to fulfill their fiduciary duties to monitor and oversee investments



**KEEP
CALM
AND
DOCUMENT
EVERYTHING!**



Summary

- ◆ Be proactive with your internal controls
- ◆ Follow your investment policy and review it periodically
- ◆ Devote the time to develop an investment strategy
- ◆ Do not expect higher returns without higher risks
- ◆ Engage your program partners / vendors for support
- ◆ Look to GFOA for best practices and sample documents





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Thank You!



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