



# HOW TO: BUILD A SUCCESSFUL INVESTMENT PROGRAM

PRESENTED BY

**EILEEN STANIC, CTP**  
SENIOR PUBLIC FUNDS ADVISOR  
DIRECTOR OF ADVISORY SERVICES PUBLIC FUNDS

**SCOTT GRUBER, CMT**  
CLIENT PORTFOLIO MANAGER

**NICK VACARRI, CFIP**  
PUBLIC FUNDS ADVISOR

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## NATIONAL AVERAGE DEPOSIT RATE



Source: FDIC



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# WHAT CAN YOU DO?

**HAVE A PLAN.**



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## AGENDA

- Investment Policy
- Cash Analysis and Planning
- Core Portfolio Strategies
- Service Providers
- Safekeeping of Investment Securities
- Accounting and Reporting



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# INVESTMENT POLICY

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## CURRENT OHIO INVESTMENT LAWS

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### **ORC 135.14**

- Cities, Villages, Townships, Schools, Libraries

### **ORC 135.143**

- State

### **ORC 135.35**

- Counties, Regional Transit Authorities or other agencies

### **Charter City exception**

- May elect to not follow state guidelines

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# INVESTMENT POLICY OBJECTIVES

- Plan for investment-related decision making
- Incorporate the laws, rules, guidelines and regulations applicable to the accounts, funds, plans or programs that are managed
- Summarize principles, goals and strategies for the investment program
- Review annually
- Update when state law changes



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# INVESTMENT POLICY COMPONENTS

- Scope
- Statement of Objectives
- Ethics
- Authorized Investments
- Maximum Maturities
- Diversification
- Service Providers
- Reporting



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# AUTHORIZED INVESTMENTS

- Bank Deposits
- US Treasuries
- US Government Agencies
- Municipal Notes and Bonds (additional training required)
- Commercial Paper (additional training required)
- Bankers Acceptances (additional training required)
- Repurchase Agreements
- Money Market Mutual Funds
- STAR Ohio
- Additional under ORC135.35
  - Corporate Notes and Bonds
  - Foreign Government Debt

# INVESTMENT POLICY

## Requirements

- Approved by the Treasurer or Governing Board
- Filed with the Auditor of State
  - [ohioauditor.gov/resources/AOSNotifications](https://ohioauditor.gov/resources/AOSNotifications)
- Signed-off by all Financial Institutions, Broker/Dealers and Investment Advisors

## Limitations if not filed with Auditor of State

- Permitted investments restricted to bank deposits, Money market funds, STAR Ohio

## Exceptions when Investment Portfolio less than \$100,000

- Treasurer or Governing Board certifies to Auditor of State will comply and is in compliance with Ohio Revised Code 135.01 through 135.21

# CASH FLOW ANALYSIS & PLANNING

## “RIGHT SIZING” YOUR PORTFOLIO THROUGH CASH FLOW ANALYSIS

### CURRENT EXPENSES

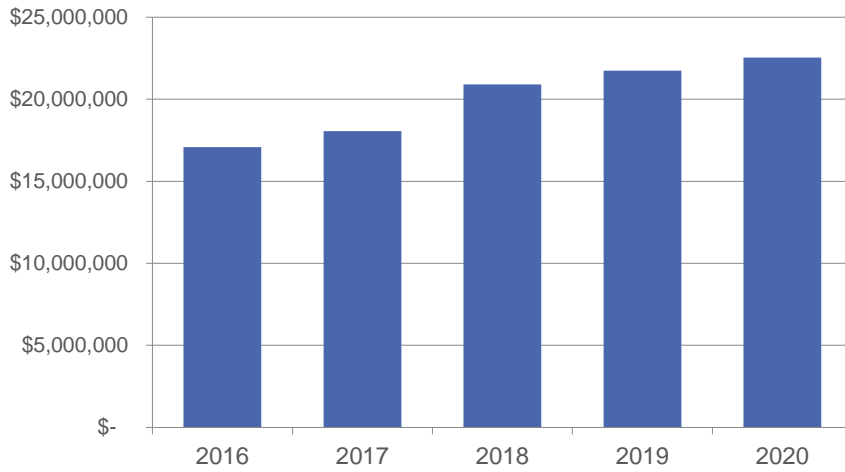


### EXCESS CASH



# HISTORICAL CASH

### Year-end Balances

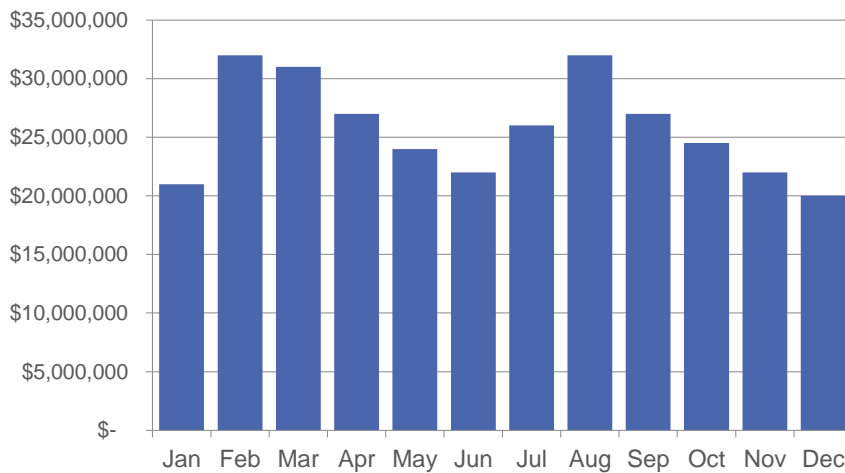


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# HISTORICAL CASH

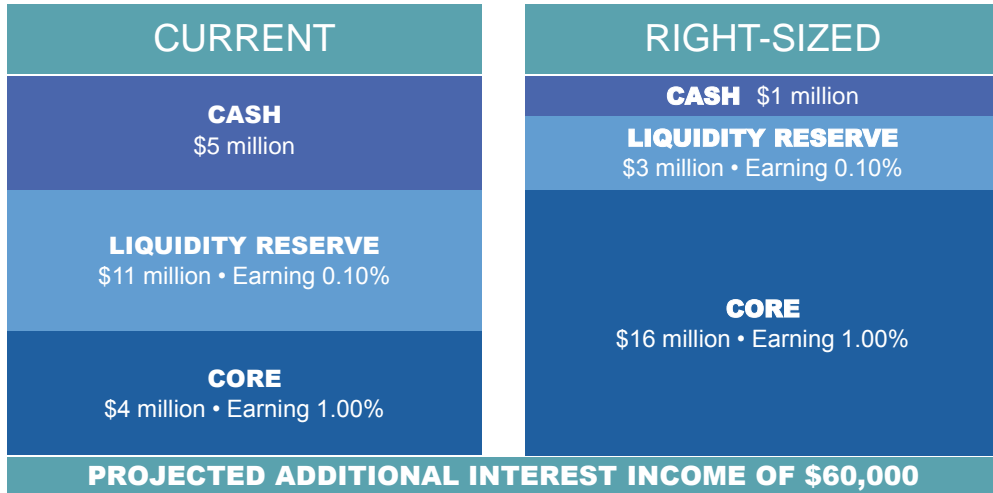
### Month-end Balances



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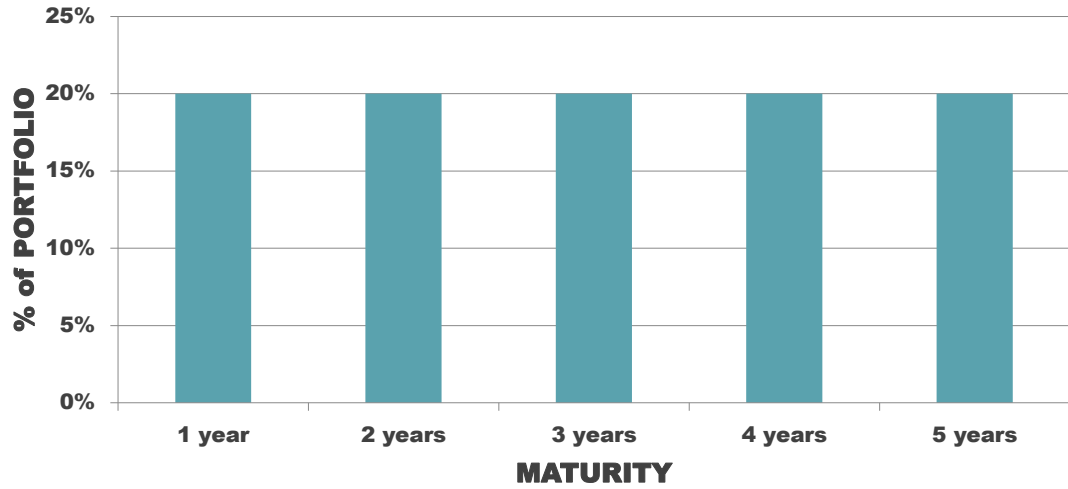
# CASH ALLOCATION



## CORE PORTFOLIO STRATEGIES



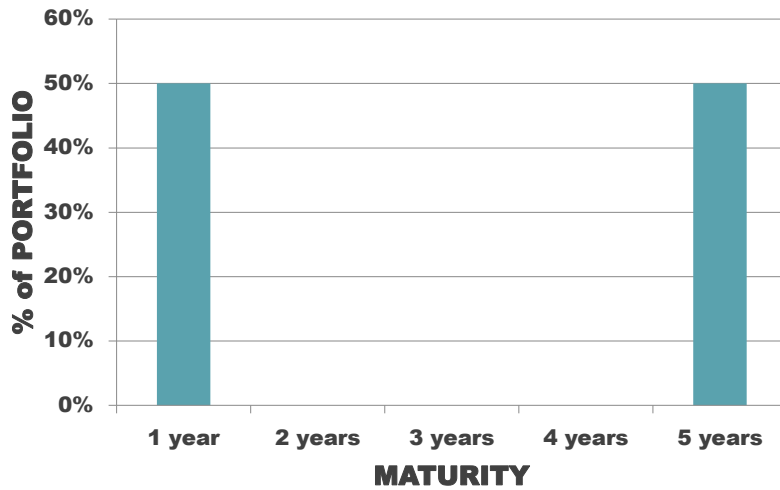
# LADDERED PORTFOLIO



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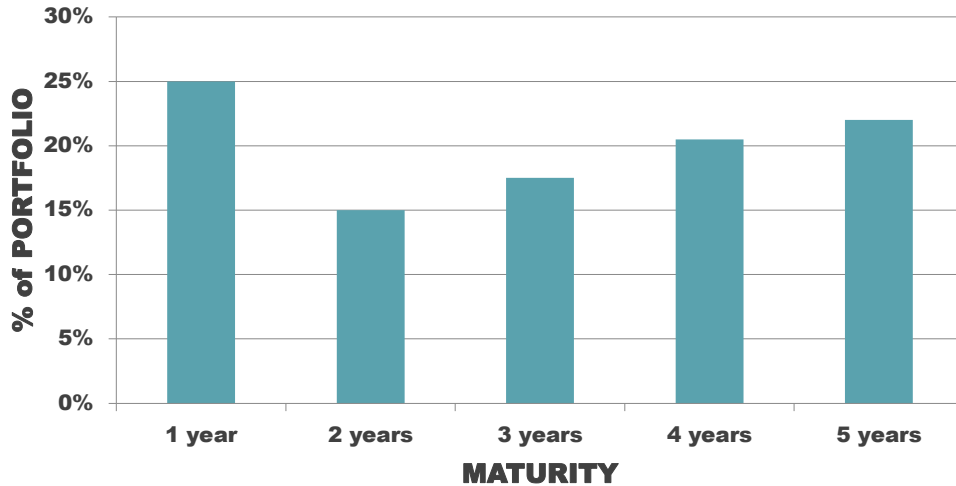
# BARBELL PORTFOLIO



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# STRATEGIC PORTFOLIO



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# INTEREST RATE OUTLOOK

UNCERTAIN	RISING RATES	FALLING RATES
<ul style="list-style-type: none"> <li>• Maintain average maturity</li> <li>• Diversification across security types</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce average maturity</li> <li>• Frequent short-term maturities</li> </ul>	<ul style="list-style-type: none"> <li>• Lengthen average maturity</li> <li>• Lock-in current rates with longer maturities</li> </ul>

THE MARKETS CHANGE AND YOUR INVESTMENT STRATEGY SHOULD TOO



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# ROLE OF SERVICE PROVIDERS

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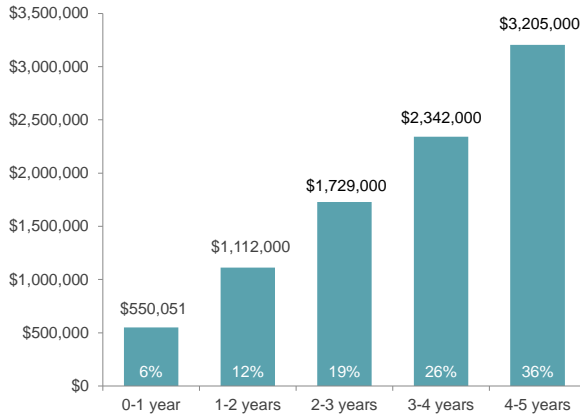
## WHO WILL HELP YOU INVEST?

KNOW THE TYPES OF SERVICE PROVIDERS			
STAR OHIO	BANKS	INVESTMENT ADVISORS	BROKERS
STAR Ohio <ul style="list-style-type: none"> <li>• Know the investments of STAR Ohio</li> <li>• Look over the annual report</li> </ul>	<ul style="list-style-type: none"> <li>• Make sure they understand nuances of public entities</li> <li>• Work with banks you know and trust</li> </ul>	<ul style="list-style-type: none"> <li>• Acts as a fiduciary in the client's best interest</li> <li>• Who do they work with?</li> <li>• What are their credentials?</li> <li>• Check them out: <a href="http://www.investor.gov">www.investor.gov</a></li> </ul>	<ul style="list-style-type: none"> <li>• Recommends suitable investments</li> <li>• Who do they work with?</li> <li>• What do they do and how much do they charge?</li> <li>• Check them out: <a href="http://www.finra.org">www.finra.org</a></li> </ul>
PERFORM THE DUE DILIGENCE BEFORE INVESTING			

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# HOW DID IT GET HERE?



**\$17,000+ in commissions**

What if you need cash?

- New project
- Negotiations
- Funding change



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# MAYBE I SHOULD HAVE SOMEONE ELSE TAKE A LOOK AT THIS...

Hi,  
 We have some maturities in your portfolio this week. Similar to what we've done in the past, I would like to reinvest these in A1/P1 commercial paper to yield 2.15%.  
 Thanks,

### Questions

- What are my other alternatives?
- What issuers would be purchased?
- Would I remain in compliance?
- What rates are available elsewhere?



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## PREVIOUS EXECUTION

- 2 purchases of commercial paper
- Both were for 150-day maturity
- Both were sold to yield 2.30%
- These same issuers were shown by other brokers that day to yield 2.76%
- **\$1,916.67 in commission per million**

### Issuers purchased:



- 4(a)2 commercial paper



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## SUITABILITY VS. FIDUCIARY

“People may confuse the terms suitability and fiduciary. Both seek to protect the investor from foreseeable harm or excessive risk. However, the standards of investor care are different. An investment fiduciary is any person who has the legal responsibility for managing someone else’s money. Investment advisors, who are usually fee-based, are bound to fiduciary standards. Broker-dealers, customarily compensated by commission, generally have to fulfill only a suitability obligation.”

Source: Investopedia



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# SAFEKEEPING OF INVESTMENT SECURITIES

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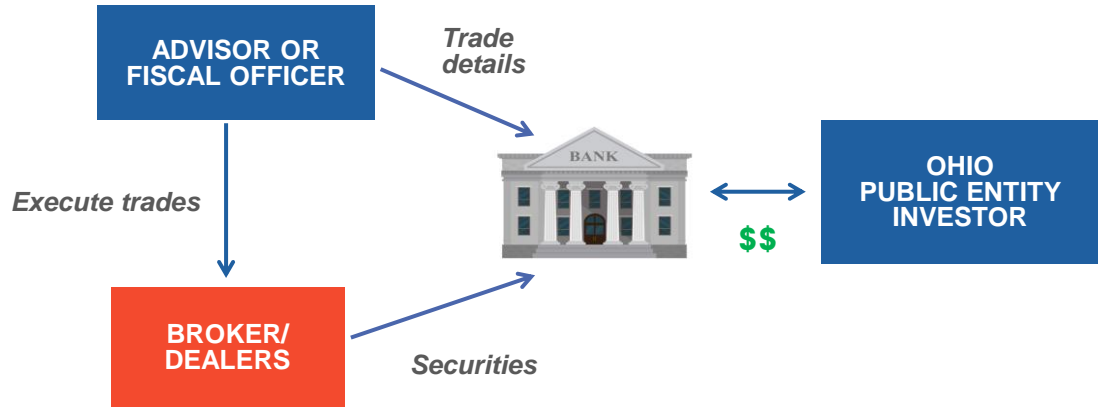
## SAFEKEEPING OPTIONS

THIRD PARTY CUSTODIAN	BROKER OR BANK ACTING AS BROKER
<ul style="list-style-type: none"> <li>• Securities held in public entity's account at bank trust department</li> <li>• Public entity controls account</li> <li>• Securities held in public entity's name</li> <li>• Written custodial agreement</li> <li>• <b>Best practice</b></li> </ul>	<ul style="list-style-type: none"> <li>• Securities held in brokerage account</li> <li>• Broker controls account</li> <li>• Securities not held in public entity's name</li> <li>• Safekeeping cost bundled with other services</li> </ul>

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# THIRD PARTY CUSTODIAN



## ACCOUNTING & REPORTING

# ACCOUNTING

## SAMPLE MONTHLY RECONCILIATION

Beginning Cost Basis	\$5,025,625.20
Interest received	\$10,222.26
Gain/Loss on securities	\$105.48
Investment fee	(\$377.00)
Custody fee	(\$41.88)
Ending Cost Basis	\$5,035,534.06



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# INVESTMENT REPORTING

- Monthly reconciliation
- Inventory of holdings
  - Purchases, Sales, Calls, Maturities
- Income received during the period
  - Investment Income = Proceeds – Cost
  - Includes Interest Received and Realized Capital Gains/Losses
- Portfolio metrics
  - Weighted yield to maturity
  - Weighted days to maturity
  - Maturity distribution
  - Asset Allocation



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# A SUCCESSFUL INVESTMENT PROGRAM

- Investment policy statement
- Always work to improve
- Use a holistic approach
- Customize your portfolio for your goals
- Have a plan for when your strategy stops working



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# QUESTIONS?



**EILEEN STANIC, CTP**  
 440.662.8268  
 estanic@meederinvestment.com



**SCOTT GRUBER, CMT**  
 614.760.2156  
 sgruber@meederinvestment.com



**NICK VACCARI, CFIP**  
 614.923.1152  
 nvaccari@meederinvestment.com



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Meeder Investment Management  
6125 Memorial Drive, Dublin, OH 43017  
Phone: 866.633.3371  
[www.meederinvestment.com](http://www.meederinvestment.com)



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