



APPLYING BEST PRACTICES WHEN MAKING INVESTMENT DECISIONS

PRESENTED BY

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APPLYING BEST PRACTICES

AGENDA

- Investment Objectives & Permissible Investments
- Setting Interest Rate Expectations
- Investment Opportunities
- Other Factors to Consider
- Review



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APPLYING BEST PRACTICES

TODAY'S PRESENTERS



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INVESTMENT OBJECTIVES & PERMISSIBLE INVESTMENTS

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APPLYING BEST PRACTICES

INVESTMENT OBJECTIVES

LEGAL	Legal may not be suitable
SAFETY	Preservation of principal
LIQUIDITY	What are your liquidity needs?
YIELD	Does the investment have a competitive yield?



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CURRENT OHIO INVESTMENT LAWS

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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APPLYING BEST PRACTICES

CASH/LIQUIDITY INVESTMENTS

- Interest-Bearing Checking
- Money Market Accounts
- STAR Ohio
- Government Insured Deposit Program (GIDP)



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APPLYING BEST PRACTICES

CORE INVESTMENTS

- US Treasuries
 - US Government Agencies (GSE)
 - Certificates of Deposit
 - FDIC Insured
 - Collateralized
- Additional Training Required
- Commercial Paper
 - Bankers Acceptances
 - Municipal Securities
- Authorized under ORC 135.35
- Corporate notes and bonds
 - Foreign government debt



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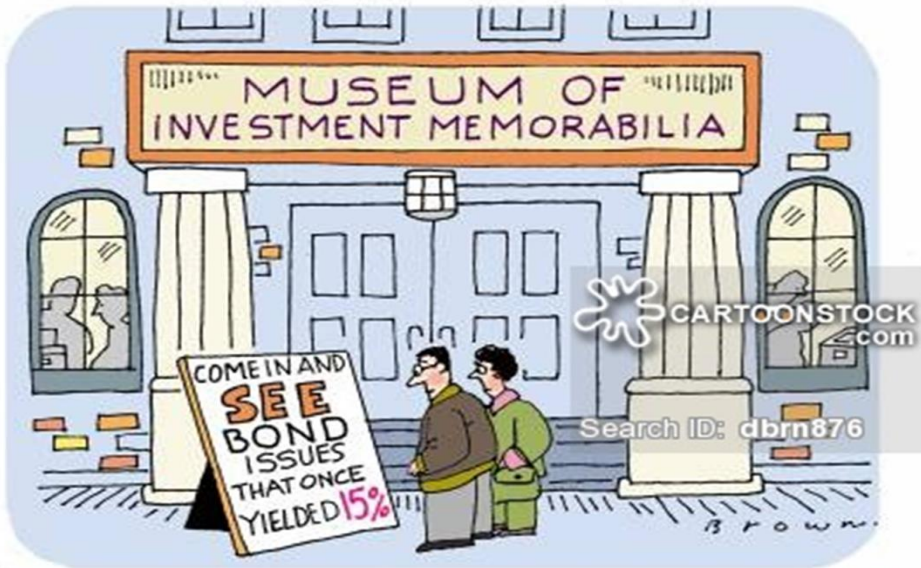
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SETTING INTEREST RATE EXPECTATIONS

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APPLYING BEST PRACTICES

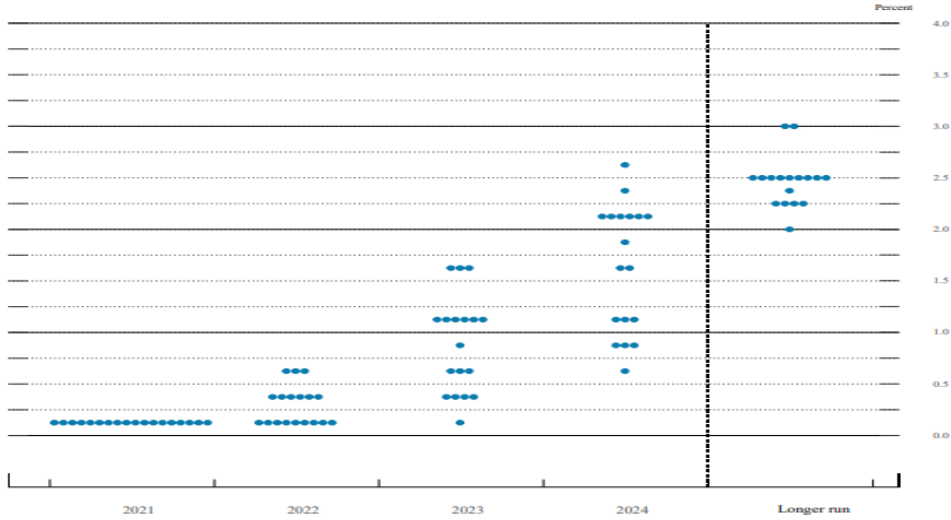


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APPLYING BEST PRACTICES

DOT PLOT



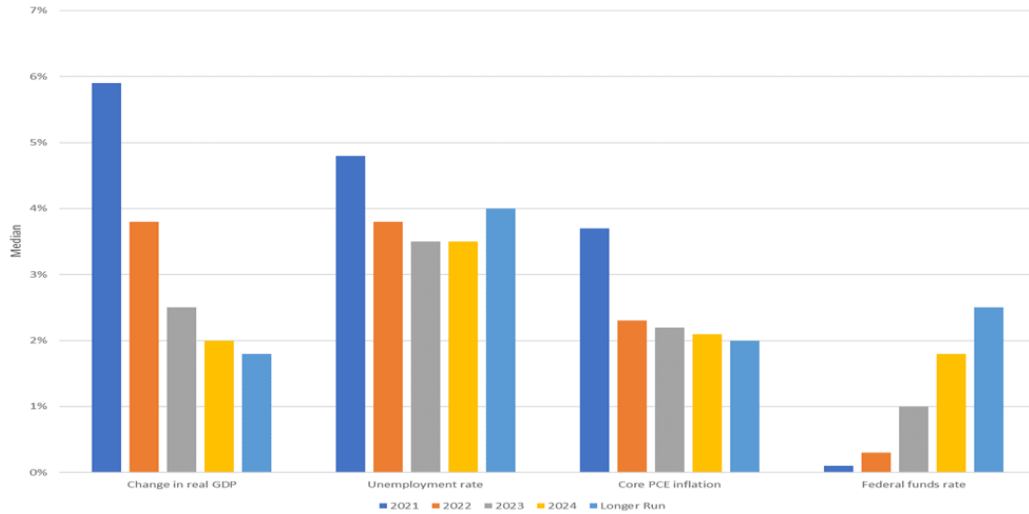
Source: Federal Reserve Summary of Economic Projections as of 9/23/2021

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APPLYING BEST PRACTICES

FEDERAL RESERVE OUTLOOK



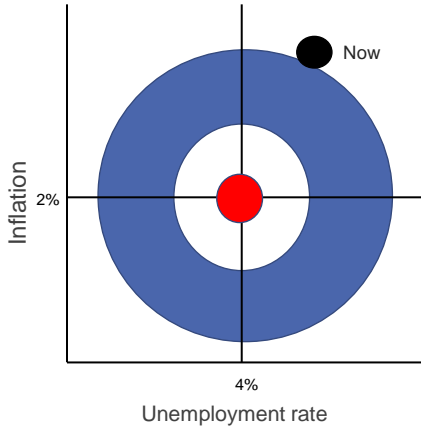
Source: Federal Reserve Summary of Economic Projections as of 9/23/2021

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APPLYING BEST PRACTICES

DUAL MANDATE BULLSEYE



Factors the FED is Considering

- US Economic conditions
- International conditions
- Impact of Fiscal stimulus
- Path of the virus



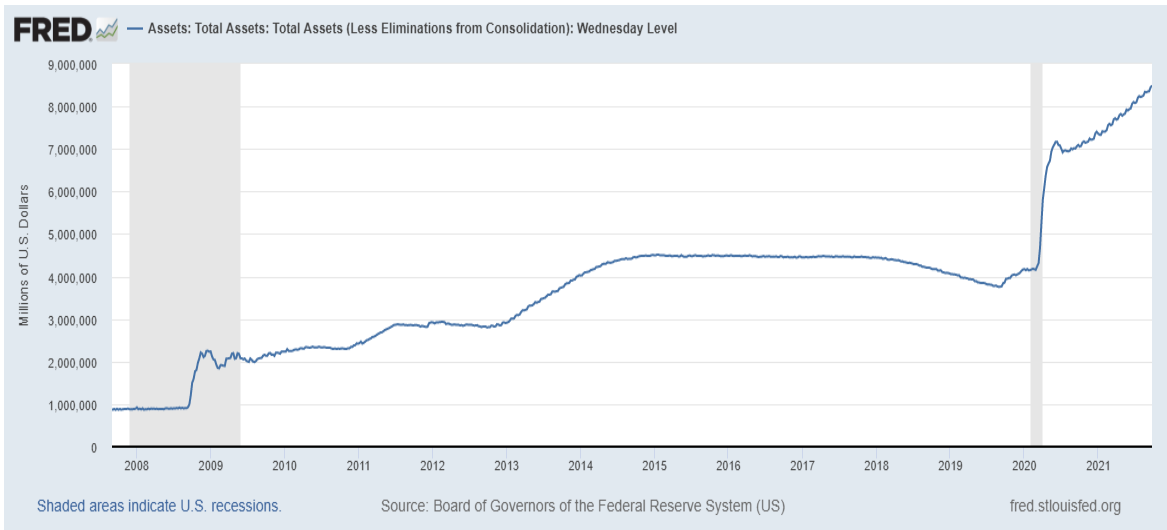
Source: Federal Reserve Summary of Economic Projections as of 9/23/2021

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APPLYING BEST PRACTICES

FED BALANCE SHEET



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APPLYING BEST PRACTICES

INTEREST RATE OUTLOOK

UNCERTAIN

- Maintain average maturity
- Diversification across security types

RISING RATES

- Reduce average maturity
- Frequent short-term maturities

FALLING RATES

- Lengthen average maturity
- Lock-in current rates with longer maturities

THE MARKETS CHANGE AND YOUR INVESTMENT STRATEGY SHOULD TOO



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INVESTMENT OPPORTUNITIES

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ARE THERE OTHER SHORT-TERM OPPORTUNITIES OTHER THAN MY BANK OR STAROHIO?

USING COMMERCIAL PAPER IN YOUR PORTFOLIO

Asset-Liability Method

- Short-Term Cash Flow Management

Liquidity Percentage Method

- To provide liquidity for daily operations

“Laddered” or “barbell” portfolio

May be used for diversification in your “core” investment portfolio to balance longer maturities

APPLYING BEST PRACTICES

TYPES OF COMMERCIAL PAPER

CP in the United States is issued pursuant to the exemption from registration under various sections of the Securities Act of 1933:

Section 3(a)3	Section 3(a)2	Section 4(a)2/ 144A Private Placement
Most Common in Market	Available for Bank obligations both direct and via Letter of Credit (LOC)	Exempt from registration
Issued 270 days or less	Issued 270 days or less	No limit on issuing terms; however, generally programs are limited to one year
Used for current transactions only	Issuer can gain improved rating through Bank LOC	No limit on use of proceeds
	The Obligation of the LOC Bank to investor is irrevocable and unconditional	Can be issued as asset backed or floating rate note



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APPLYING BEST PRACTICES

SEC RULES AND COMMERCIAL PAPER

• INVESTOR SOPHISTICATION TESTS

ACCREDITED INVESTOR

- Client investments \$5 million or more
- If client investments less than \$5 million, then permissible types of commercial paper exclude 4(a)2 (private placements)

QUALIFIED INSTITUTIONAL BUYER (QIB)

- Client investments \$100 million or more
- No limitation on permissible types of commercial paper

RULE APPLIES TO THE INVESTOR NOT THE INVESTMENT ADVISOR



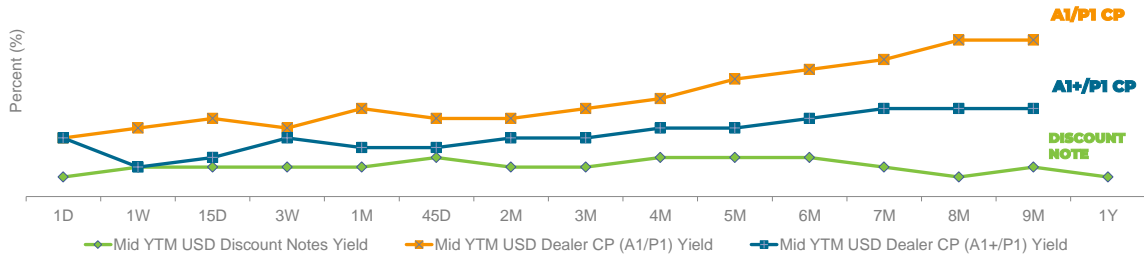
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APPLYING BEST PRACTICES

YIELD SPREADS

- Always evaluate Yields to determine quality of asset type versus risk premium being placed
- Liquidity can play a role in certain assets offering higher yields across different environments and scenarios



Source: Bloomberg. Yield spreads shown are for illustrative purposes only.



APPLYING BEST PRACTICES

WITH RATES SO LOW, IS IT EVEN WORTH MY TIME TO INVEST?



APPLYING BEST PRACTICES

WITH RATES SO LOW, IS IT EVEN WORTH MY TIME TO INVEST?

INVESTMENT OPTIONS	
OPTION A	Invest funds overnight
OPTION B	Build a laddered portfolio



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APPLYING BEST PRACTICES

COMPARISON

OPTION A – Daily Liquidity			OPTION B – Laddered Portfolio		
Maturity	Amount	STAR Ohio	Maturity	Amount	US Treasury Rates
Overnight	\$10,000,000	0.08%			
Year 1	\$0		Year 1	\$2,000,000	0.09%
Year 2	\$0		Year 2	\$2,000,000	0.31%
Year 3	\$0		Year 3	\$2,000,000	0.55%
Year 4	\$0		Year 4	\$2,000,000	0.78%
Year 5	\$0		Year 5	\$2,000,000	1.02%
	\$10,000,000	0.08%		\$10,000,000	0.55%



Source: starohio.tos.ohio.gov and treasury.gov as of 9/28/2021

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APPLYING BEST PRACTICES

IF INTEREST RATES ARE GOING TO RISE, WHY WOULD I WANT TO INVEST IN LONG MATURITIES NOW?



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APPLYING BEST PRACTICES

IF INTEREST RATES ARE GOING TO RISE, WHY WOULD I WANT TO INVEST IN LONG MATURITIES NOW?

INVESTMENT OPTIONS

OPTION A	Purchase a 5 year US Treasury and hold to maturity
OPTION B	Purchase a 2.5 year US Treasury and reinvest it in another 2.5 year US Treasury at maturity



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APPLYING BEST PRACTICES

COMPARISON

OPTION A - 5 year US Treasury at 1.02%

Maturity	Amount	Interest Earned
Year 1	\$0	\$102,000
Year 2	\$0	\$102,000
Year 3	\$0	\$102,000
Year 4	\$0	\$102,000
Year 5	\$10,000,000	\$102,000
TOTAL	\$10,000,000	\$510,000

OPTION B – 2.5 year US Treasury at 0.43%

Maturity	Amount	Interest Earned
Year 1	\$0	\$43,000
Year 2	\$0	\$43,000
Year 3	\$10,000,000	\$21,500
Year 4	\$0	?
Year 5	\$0	?
	\$10,000,000	\$107,500



Source: starohio.tos.ohio.gov and treasury.gov as of 9/28/2021

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APPLYING BEST PRACTICES

WHERE WOULD THE 2.5 YEAR US TREASURY RATE HAVE TO BE 2.5 YEARS FROM NOW IN ORDER TO EARN THE SAME AMOUNT OF INTEREST AS BUYING A 5 YEAR US TREASURY TODAY?



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APPLYING BEST PRACTICES

ANSWER: 1.61%

	Bond 1 (0.43%) Interest Earned	Bond 2 (1.32%) Interest Earned	Total
Year 1	\$43,000	\$0	\$43,000
Year 2	\$43,000	\$0	\$43,000
Year 3	\$21,500	\$80,500	\$102,000
Year 4	\$0	\$161,000	\$161,000
Year 5	\$0	\$161,000	\$161,000
TOTAL	\$107,500	\$402,500	\$510,000



Source: starohio.tos.ohio.gov and treasury.gov as of 9/28/2021

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APPLYING BEST PRACTICES

ARE MULTI-STEP CALLABLE AGENCIES A GOOD INVESTMENT?



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APPLYING BEST PRACTICES

MULTI-STEP CALLABLE AGENCY COMPARISON

INVESTMENT OPTIONS	
OPTION A	Purchase a straight callable
OPTION B	Purchase a multi-step callable



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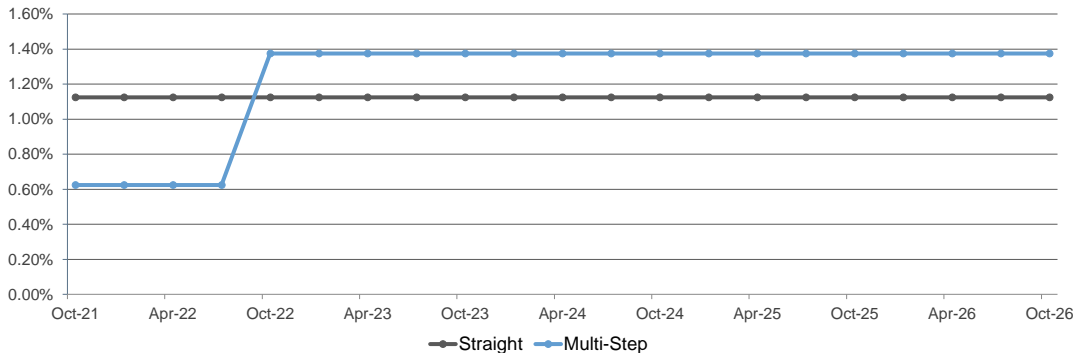
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APPLYING BEST PRACTICES

MULTI-STEP CALLABLE AGENCY COMPARISON

Straight Callable – 3130APCH6 FHLB 1.125% 9/29/2026

Multi-Step – 3130APCE3 FHLB 0.625% 10/14/2026



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APPLYING BEST PRACTICES

CUMMULATIVE INTEREST

Assume \$10 million investment in each security
Interest paid semiannually

	Straight Callable	Multi-Step Callable	Difference
6 months	\$56,250	\$31,250	\$25,000
1 year	\$112,500	\$62,500	\$50,000
2 years	\$225,000	\$200,000	\$25,000
3 years	\$337,500	\$337,500	\$0
4 years	\$450,000	\$475,000	(\$25,000)
5 years	\$562,500	\$612,500	(\$50,000)



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APPLYING BEST PRACTICES

WHAT IF I WANT TO TAKE ADVANTAGE OF CURRENT OPPORTUNITIES BUT HAVE NO UPCOMING MATURITIES OR NEW CASH?

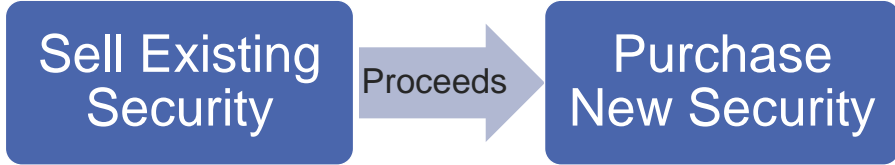


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APPLYING BEST PRACTICES

SECURITY SWAP



REASONS TO SWAP SECURITIES

Adjust portfolio duration	Increase portfolio earnings
Realize capital gains	Purchase additional future value



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OTHER FACTORS TO CONSIDER

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APPLYING BEST PRACTICES

“RIGHT SIZING” YOUR PORTFOLIO

CURRENT EXPENSES



EXCESS CASH

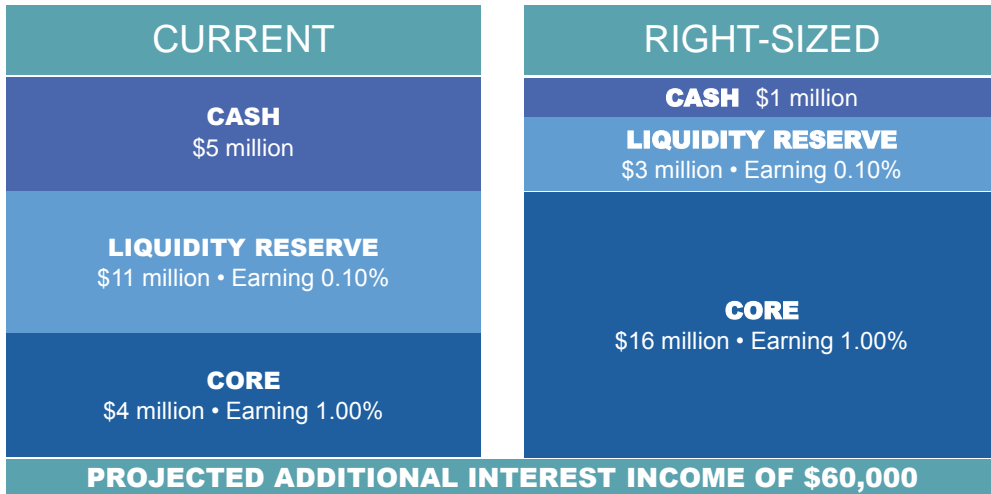


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APPLYING BEST PRACTICES

CASH ALLOCATION



For illustrative purposes only.

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SAFEKEEPING OPTIONS

Third-Party Custodian

- Securities held in public entity's account at bank trust department
- Public entity controls account
- Securities held in public entity's name
- Written custodial agreement
- **GFOA best practice**

Broker or Bank acting as Broker

- Securities held in brokerage account
- Broker controls account
- Securities not held in public entity's name
- Safekeeping cost bundled with other services



REVIEW

APPLYING BEST PRACTICES

REVIEW

- Have the ability to use all permissible investments available under state law
- Have an outlook for interest rates to guide your investment strategy
- Have a process to identify and assess investment opportunities
- Don't forget about your cash flow needs



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APPLYING BEST PRACTICES

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