



OCTOBER 5, 2022

# Investing for Small Governments

PRESENTED BY JIM MCCOURT, CFA



MEEDER

# Today's Presenter



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## Jim McCourt

**Director, Advisory Services**

614.923.1151

[jmccourt@meederinvestment.com](mailto:jmccourt@meederinvestment.com)



- Developing an Investment Policy
- Cash Flow Analysis
- Permissible Investments
- Role of Service Providers
- Safekeeping of Investment Securities
- Accounting & Reporting



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# Developing an Investment Policy

# Investment Policy Components

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Scope

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Statement of Objectives

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Ethics

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Authorized Investments

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Maximum Maturities

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Diversification

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Service Providers

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Reporting

## Requirements

- Approved by the Treasurer or Governing Board
- Filed with the Auditor of State
- Signed-off by all Financial Institutions, Broker/Dealers and Investment Advisors

## Limitations if not filed with Auditor of State

- Permitted investments restricted to CDs, Money market funds, STAR Ohio or GIDP

## 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



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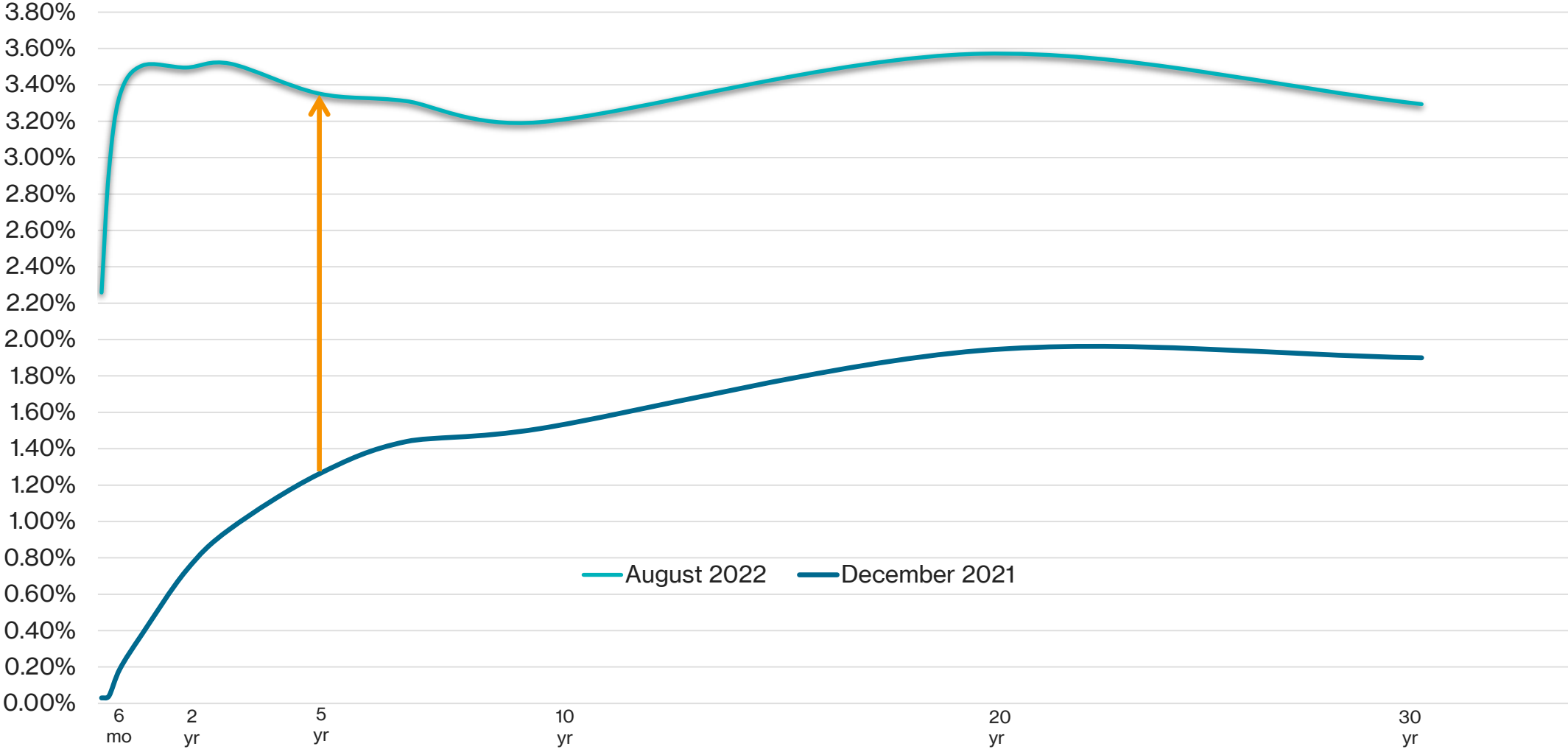
# Cash Flow Analysis

# Cash/Liquidity Investment Options

- Interest-Bearing Checking
- Money Market Accounts
- STAR Ohio
- GIDP
- Earnings Credit Rate

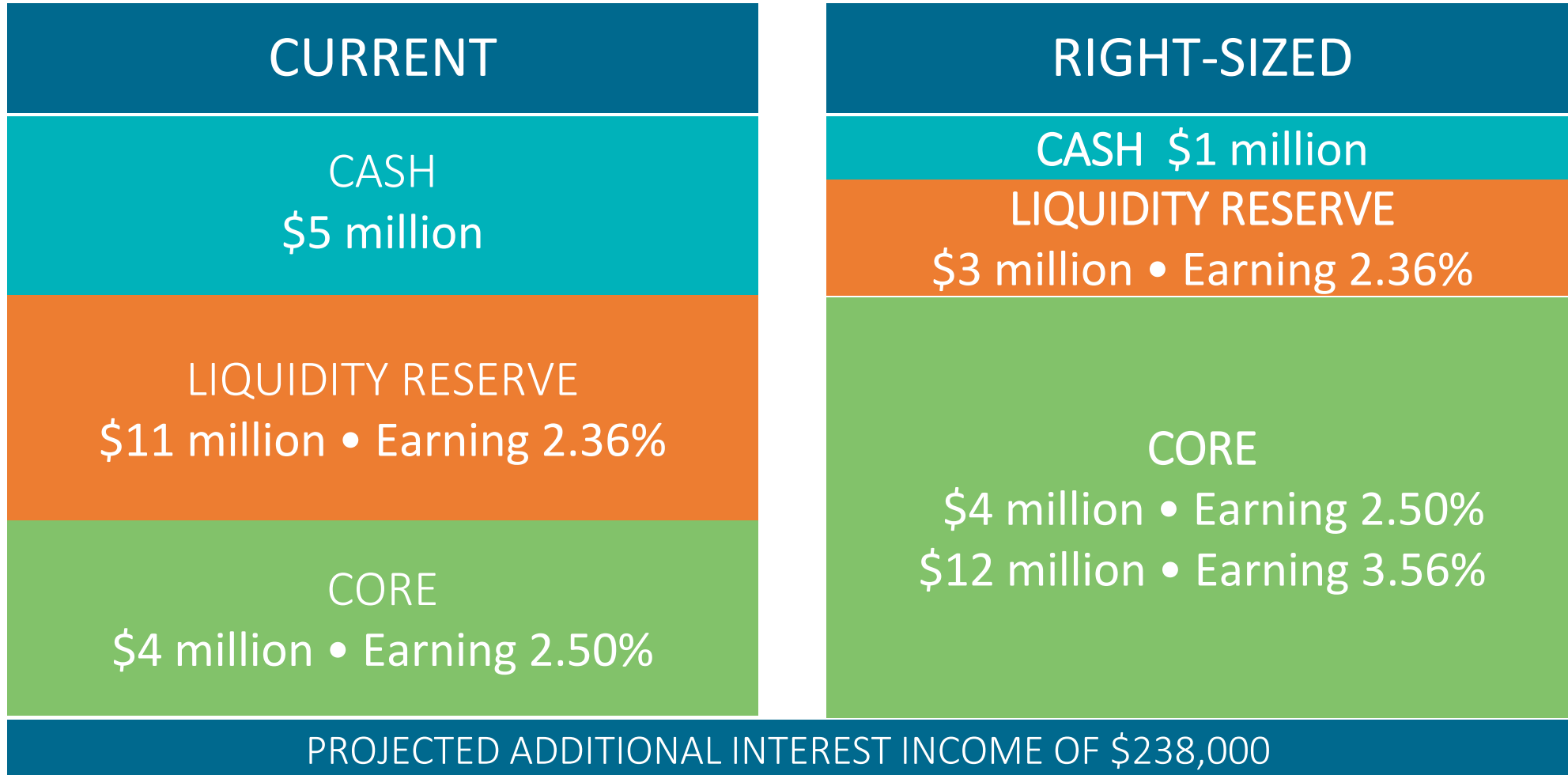


# US Treasury Yield Curves



Source: Bloomberg AS OF 08/31/2022

# Cash Allocation



PORTFOLIO ILLUSTRATION IS HYPOTHETICAL IN NATURE, DOES NOT REFLECT ACTUAL INVESTMENT RESULTS, AND DOES NOT GUARANTEE FUTURE RETURNS.

FOR INFORMATIONAL PURPOSES ONLY. SEE IMPORTANT DISCLOSURES AT THE END OF THE PRESENTATION.



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# Permissible Investments

# Investment Objectives & Goals

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

# Current Ohio Investment Laws

## **ORC 135.14**

- Cities, Villages, Townships, Schools, Libraries

## **ORC 135.35**

- Counties, Regional Transit Authorities or other agencies

## **Charter City exception**

- May elect to not follow state guidelines

# Authorized Investments

- US Treasuries
- US Government Agencies
- Bank Deposits
  - Certificates of deposit
  - CDARS (IntraFi)
  - ICS (IntraFi)
  - GIDP
- Municipal Bonds  
(additional training required)
- Commercial Paper  
(additional training required)
- Commercial Paper  
(additional training required)
- Bankers Acceptances  
(additional training required)
- Repurchase Agreements
- Money Market Mutual Funds
- STAR Ohio/GIDP
- Additional under ORC 135.35
  - Corporate Notes and Bonds
  - Foreign Government Debt

# Government Insured Deposit Program

- Rebranded STAR Plus program
- Convenience of one account and one statement
- All deposits are demand deposits and are 100% FDIC-insured
- Up to \$25 million in deposits per legal entity
- Next day liquidity
- Daily transparency with 24/7 online access to account information



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# Role of Service Providers



# Who Will Help You Invest?

STAR OHIO/ GIDP	BANKS	INVESTMENT ADVISORS	BROKERS
<p>STAR Ohio</p> <ul style="list-style-type: none"><li>• Know the investments of STAR Ohio</li><li>• Look over the annual report</li></ul> <p>GIDP</p> <ul style="list-style-type: none"><li>• Understand how program works</li><li>• Monitor deposit Banks</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>

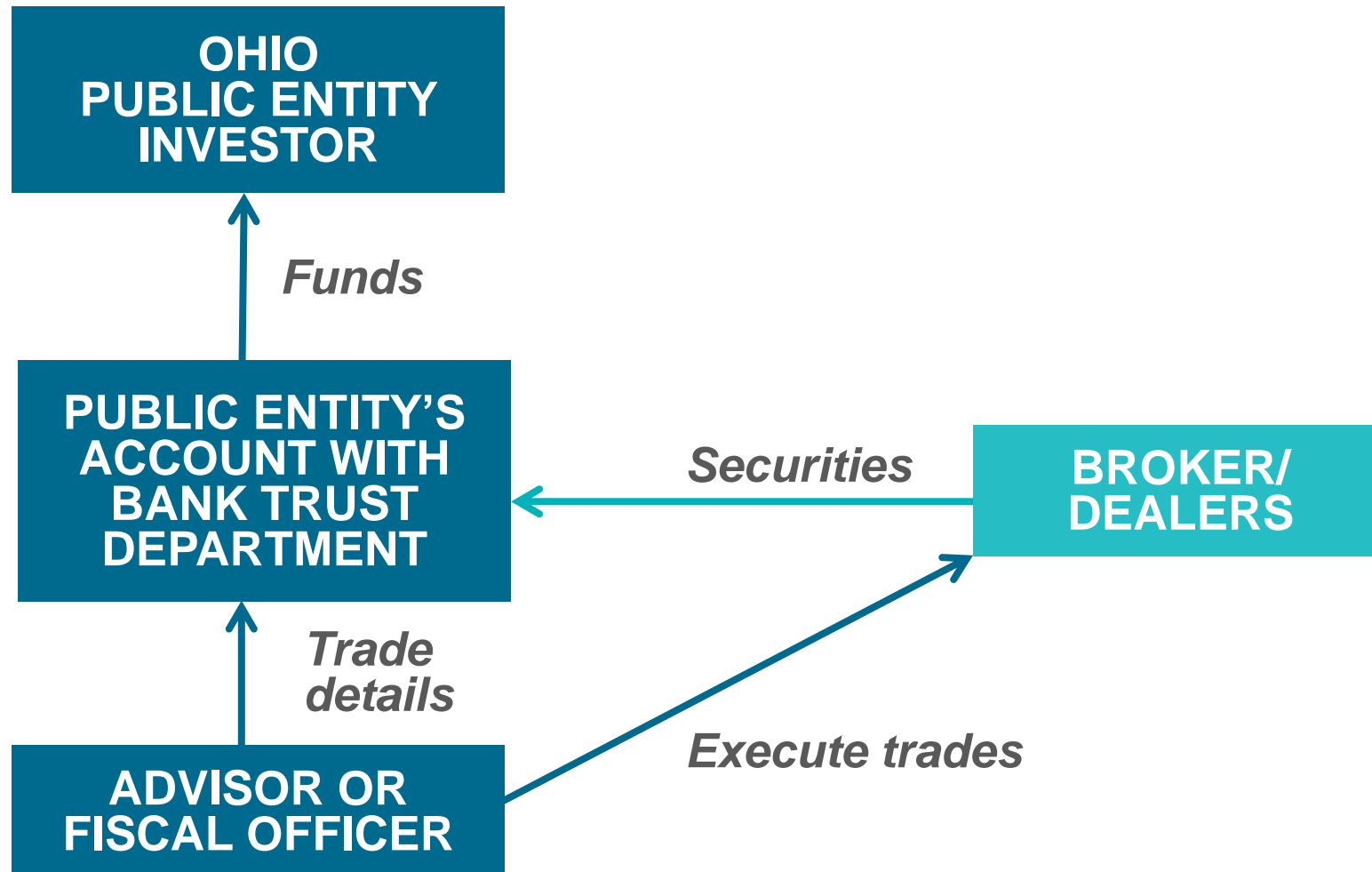


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# Safekeeping of Investment Securities

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>

# Third Party Custodian





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# Accounting & 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

## Current Yield

- Yield of the bond at the current moment
- $\text{Current Yield} = \frac{\text{Annual Interest Payment}}{\text{Current Market Value}}$
- Return an investor would expect to earn on a bond if purchased today and held for a year

## Yield to Maturity (Yield at Cost)

- Established at purchase and reflects the total return realized on the investment if held to maturity
- Total Return includes coupon income received plus effect of discount or premium
- If a bond is purchased at:
  - Discount,  $\text{YTM} > \text{Coupon}$
  - Premium,  $\text{YTM} < \text{Coupon}$
  - Par,  $\text{YTM} = \text{Coupon}$

## 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



# Questions?



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## **Jim McCourt, CFA**

**Director, Advisory Services**

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[jmccourt@meederinvestment.com](mailto:jmccourt@meederinvestment.com)



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**Meeder Investment  
Management**

6125 Memorial Drive  
Dublin, OH 43017

866.633.3371

[MeederInvestment.com](http://MeederInvestment.com)



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