



Investing 201

ICCCFO Spring 2019 Conference

May 1, 2019

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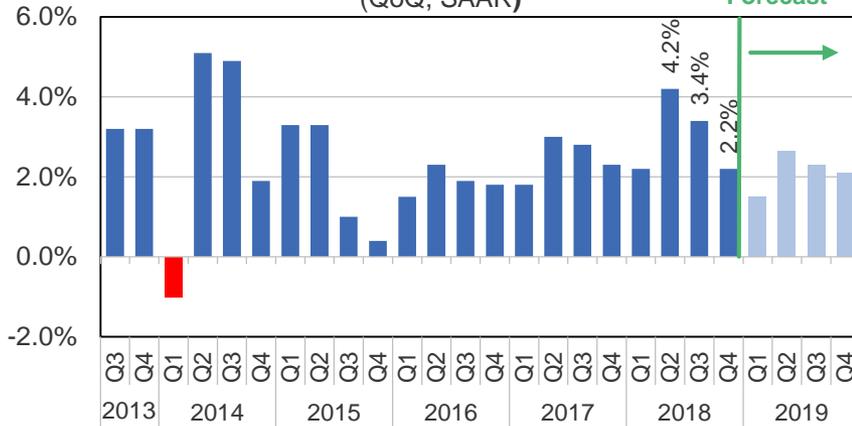
Agenda

- ◆ Market Update
- ◆ Utilizing Corporate Notes
- ◆ Ideas to Expand Investment Statutes
- ◆ Investing Foundation Funds

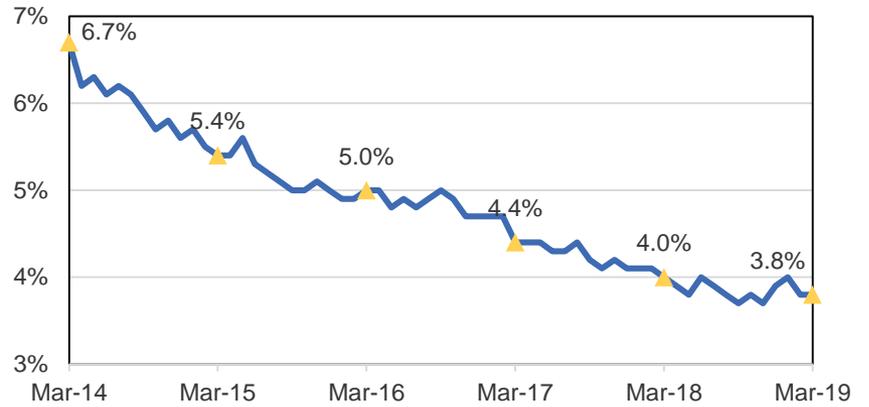


U.S. Economic Conditions

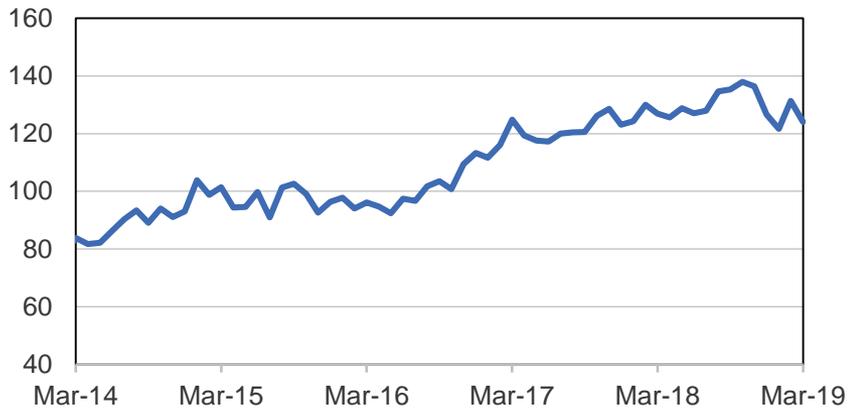
U.S. Real GDP
(QoQ, SAAR)



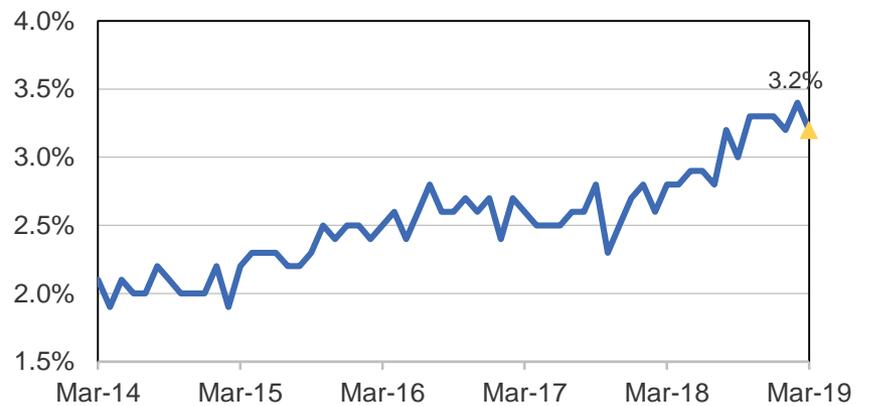
Unemployment Rate



Consumer Confidence



Average Hourly Earnings (YoY)

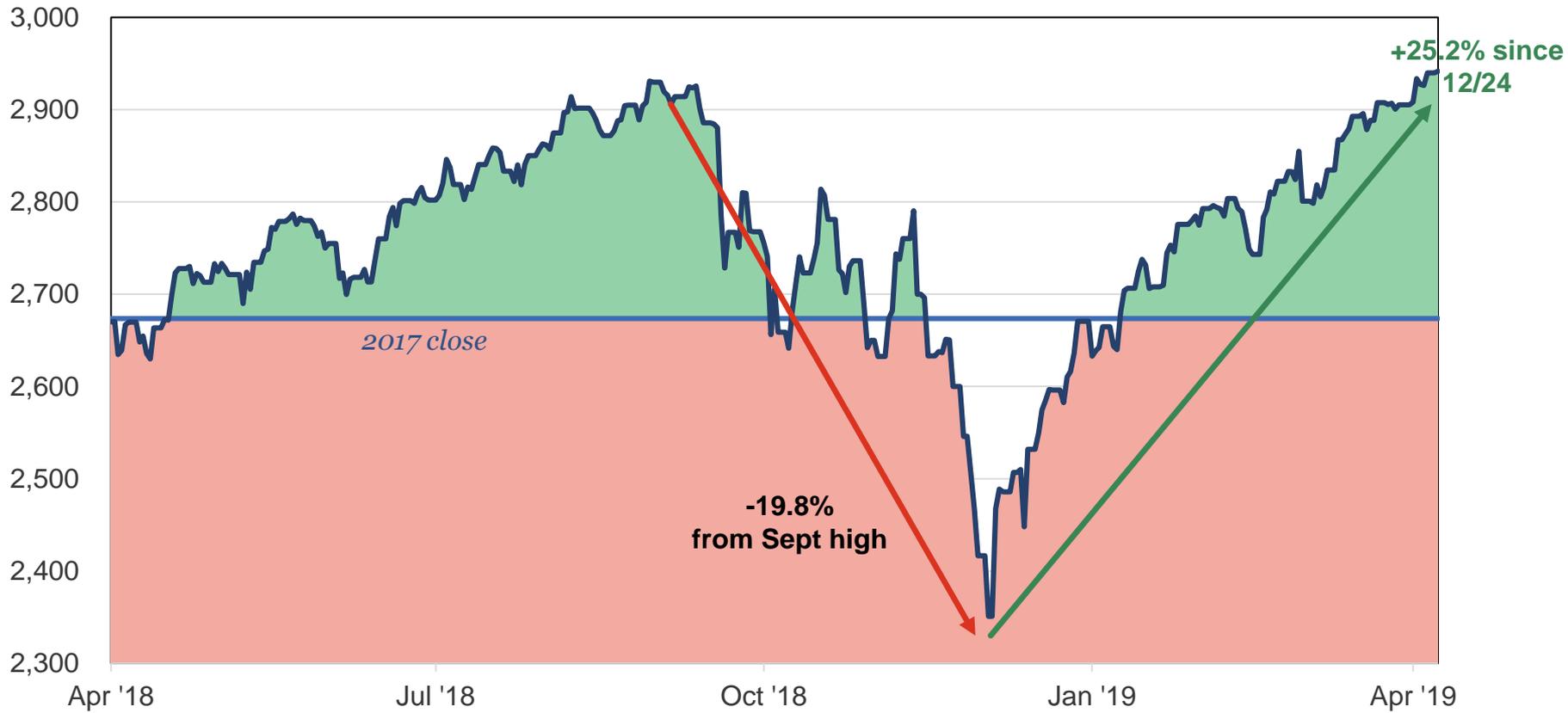


Source: Bloomberg, latest data available as of 3/31/19. SAAR is seasonally adjusted annualized rate.



Stock Market Climbs to New Record Highs

S&P Price Change

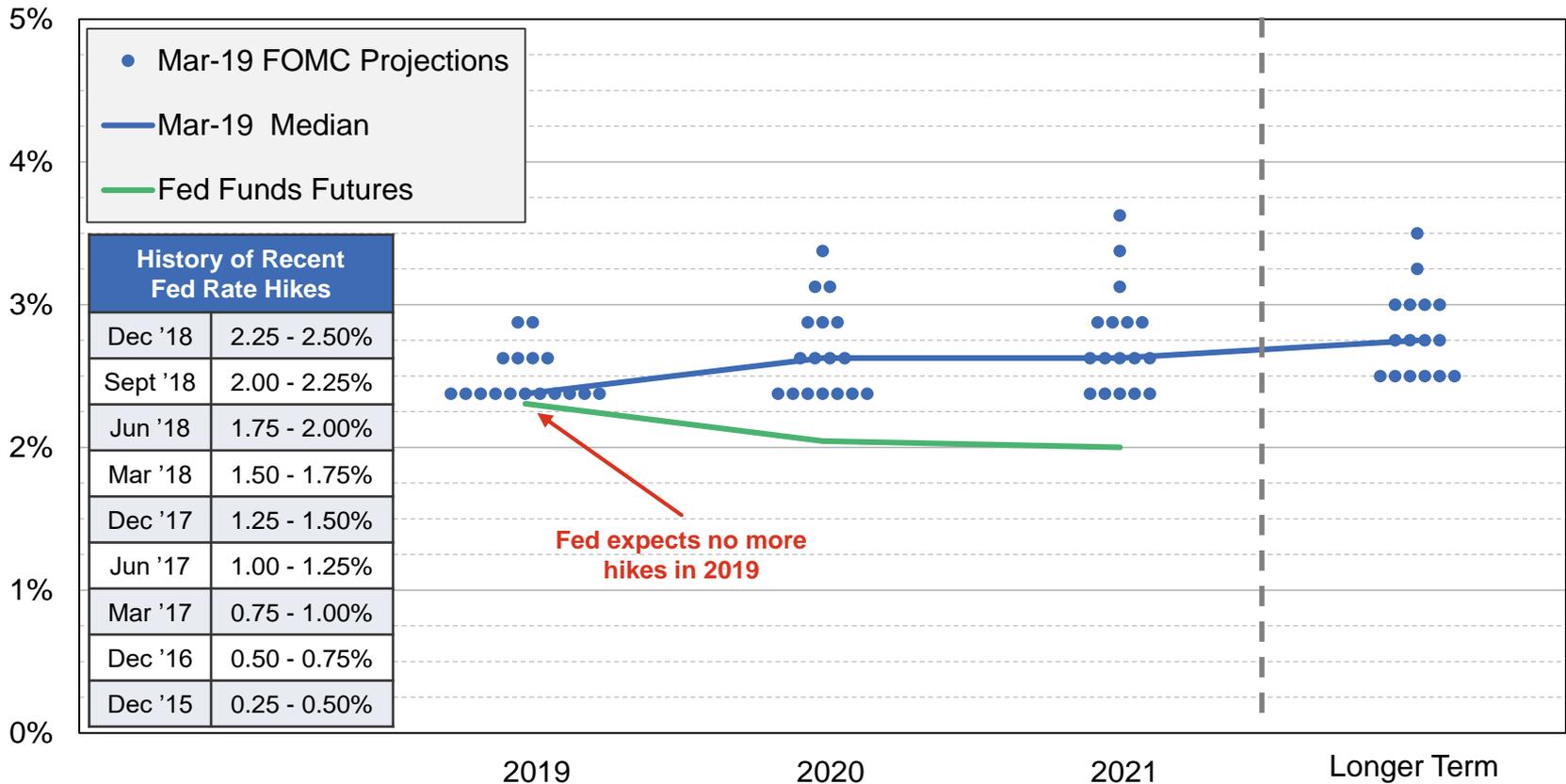


Source: Bloomberg, as of 04/29/2019.



Fed Expects No Rate Hikes in 2019

Fed Participants' Assessments of 'Appropriate' Monetary Policy

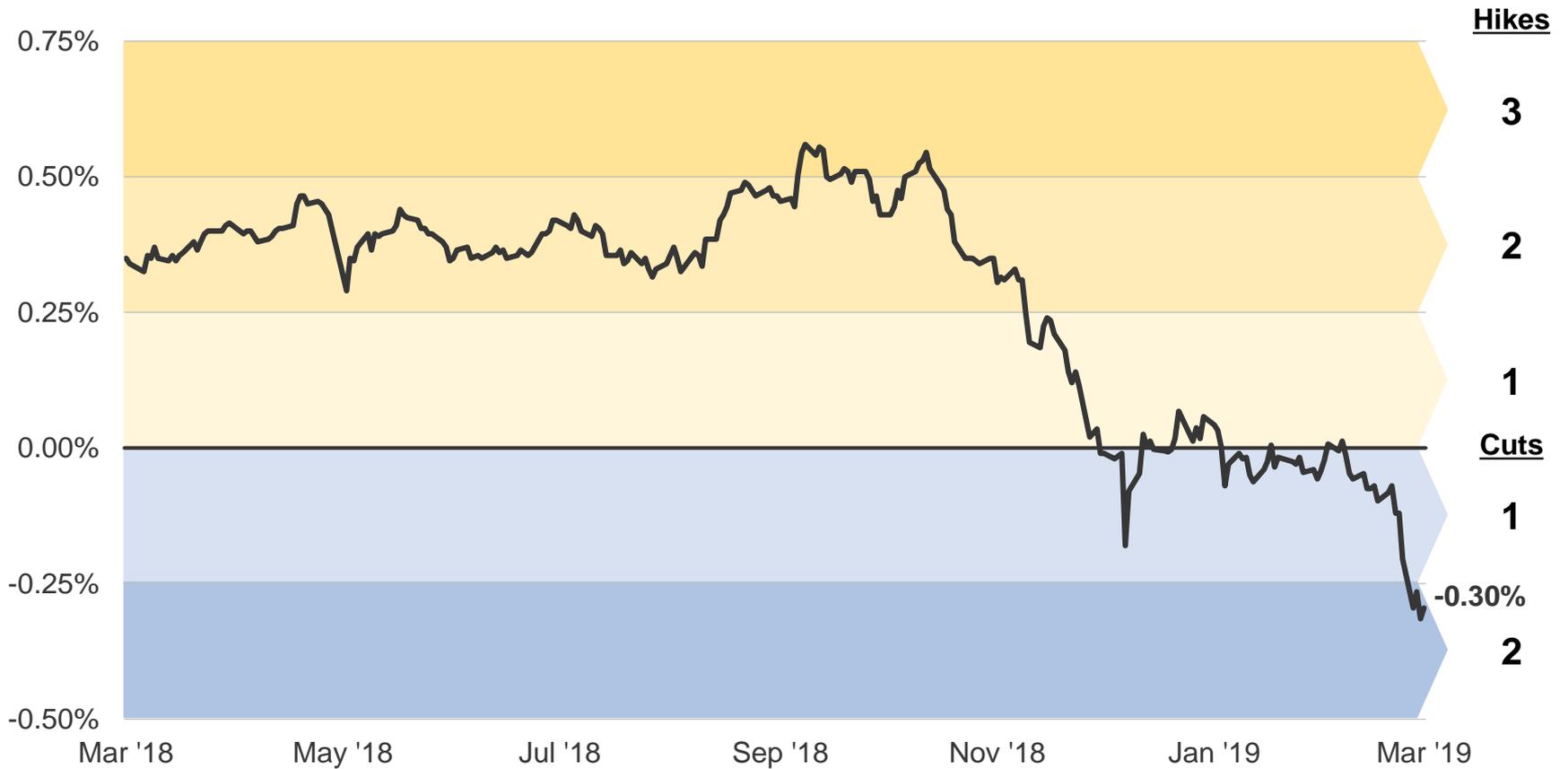


Source: Federal Reserve and Bloomberg. Individual dots represent each Fed members' judgement of the midpoint of the appropriate target range for the Federal Funds rate at each year-end. Fed Funds futures as of 3/20/19.



But, the Market Expects a Rate Cut by Year End

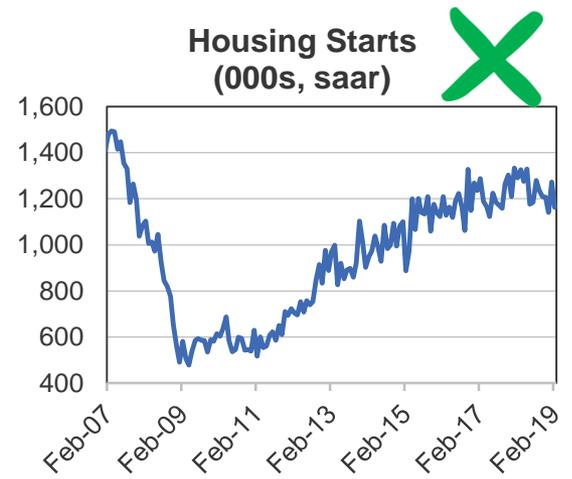
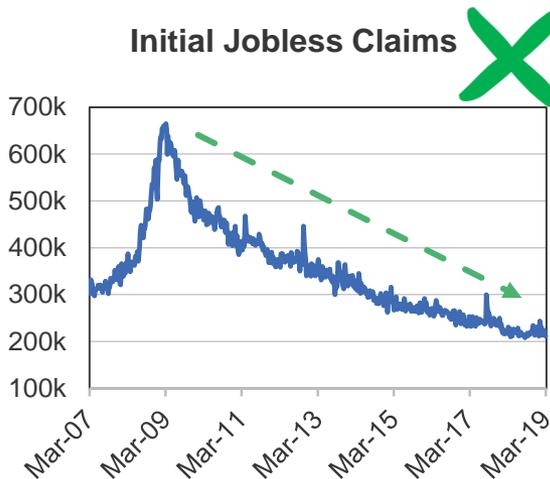
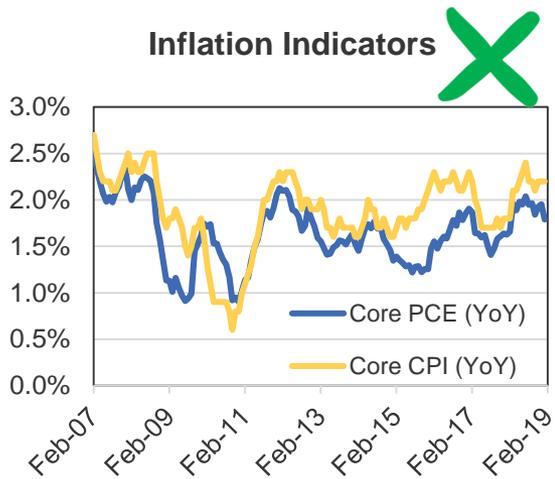
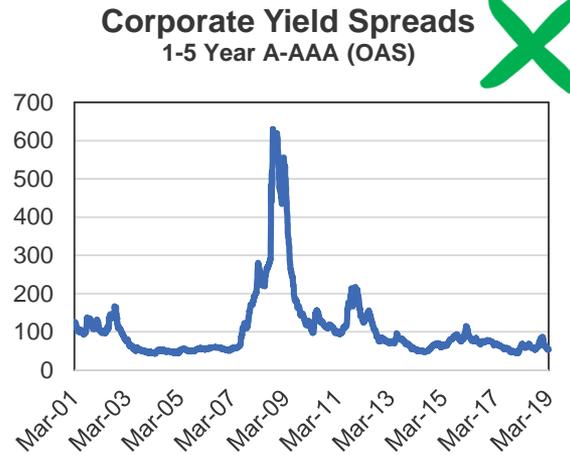
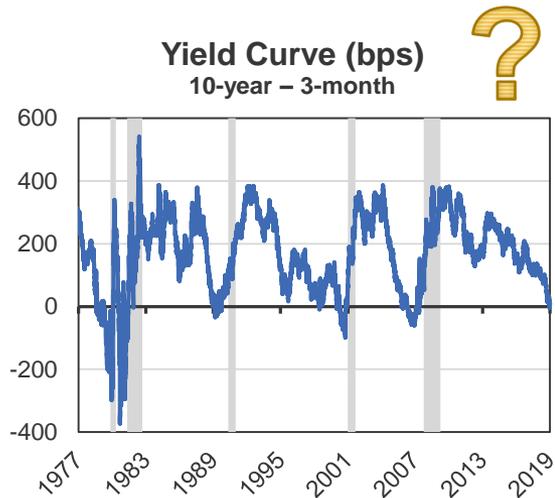
2019 Rate Moves
Priced into the Futures Market



Source: Bloomberg, as of 3/28/2019.



Market Indicators Not Pointing to an Imminent Recession



Source: Bloomberg, as of 3/31/2019.



U.S. Government Yield Curve is Flat / Inverted

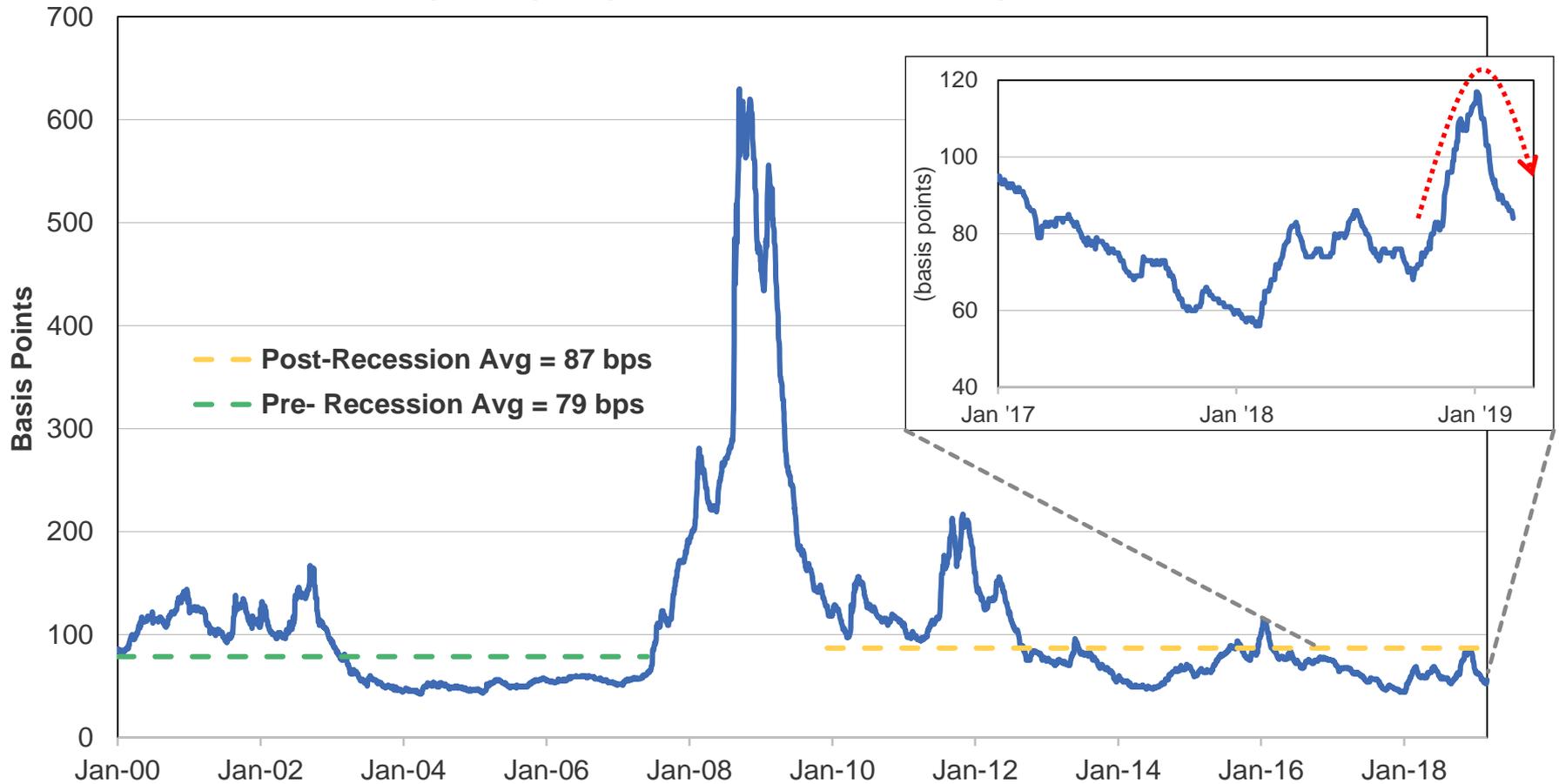
Maturity	Treasury	Federal Agency	AA Corporate	A Corporate
3-Month	2.41%	2.43%	2.55%	2.67%
1-Year	2.40%	2.40%	2.60%	2.68%
2-Year	2.29%	2.33%	2.57%	2.70%
3-Year	2.27%	2.31%	2.60%	2.76%
5-Year	2.31%	2.37%	2.75%	2.94%
10-Year	2.53%	2.76%	3.25%	3.51%

Source: Bloomberg BVAL yield curves for Treasury and Corporate. TradeWeb for Federal Agency yields. 3-month corporate yields from commercial paper; A-1+ for AA and A-1 for A. Yields are for indicative purposes only; actual yields may vary by issue. Yield environment as of April 29, 2019.



Corporate Credit Spreads Return to Close to Historical Averages

Yield Spread (OAS) of 1 – 5 Year A-AAA Corporate Index



Source: Bloomberg, ICE BofAML Indices. OAS is option adjusted spread. As of 03/31/19.



Managing Risks

We have to understand risks before we can manage them...
don't be a raccoon riding on the back of an alligator

- ◆ **Interest Rate Risk:** changing values due to interest rate moves
- ◆ **Credit Risk:** risk of default or decline in value, related to issuer
- ◆ **Purchasing Power Risk:** loss of purchasing power due to inflation
- ◆ **Liquidity Risk:** inability to sell at competitive price
- ◆ **Reinvestment Risk:** investing cash flows at lower rates





Pop Quiz!

- Which of the current issuers hold “AAA” long-term ratings by S&P?
(as of March 31, 2019)

3M

Goldman Sachs

Nestle

Walt Disney

Coca-Cola

Bank of America

Chevron

Pepsi

**Exxon
Mobil**

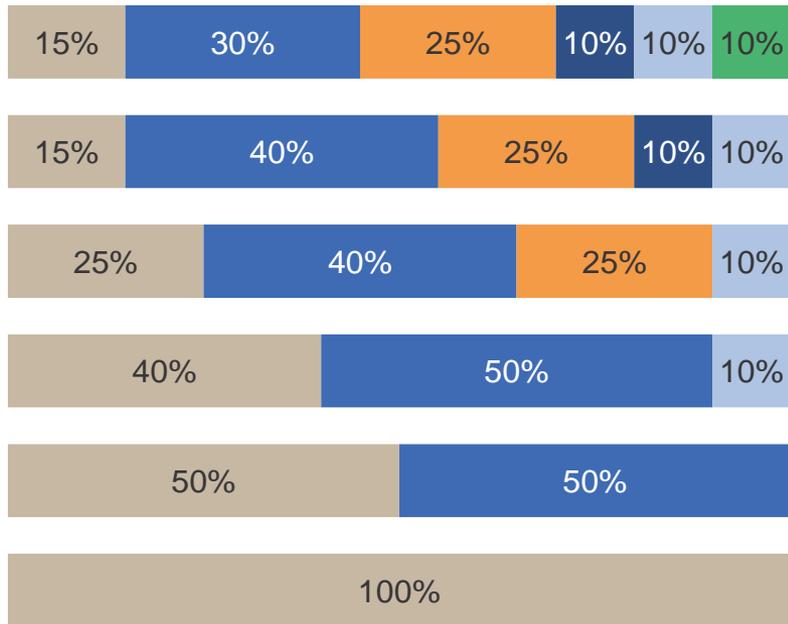
Johnson & Johnson

Walmart

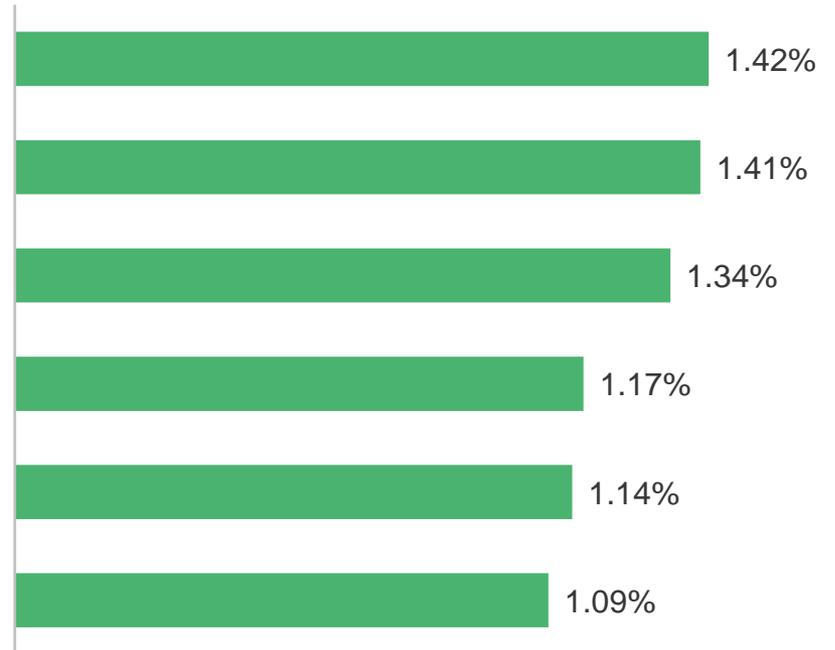


Return Benefits of Diversification

Example 1 – 5 Year Portfolio Sector Allocation



5-Year Portfolio Return



Treasury
 Agency
 Corp A-AAA
 Agency MBS
 Supranationals
 Municipals

Example portfolio returns are based on the ICE BofAML 1 – 5 Year indices for all sectors except for mortgage-backed which use the 0 – 5 Year indices. 5-year returns are for 2013 – 2018.



Permitted Investments – Operating Funds

- ◆ Define general universe
- ◆ Bound by the Illinois Public Funds Investment Act (30 ILCS 235)
 - 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	✓
Corporate Notes	✓
Short-Term Corporate Bond Funds	✓
Mutual Funds (Equity)	NO



Request for Input – Illinois Public Funds Investment Act

Option A:

(k-new) A community college district may invest **non-public funds**, including tuition and fee revenue, **in any publicly traded mutual fund**, so long as the mutual fund has assets of at least \$100 million at the time of purchase. The investments shall be subject to approval by the local community college board of trustees. Each community college board of trustees shall develop a policy regarding the investment of non-public funds.

OR

Option B:

(j-revised) ...Additionally, a community college district may re-invest the **interest earned on public funds**, including interest earned on working cash funds, **in any publicly traded mutual fund**, so long as the mutual fund has assets of at least \$100 million at the time of purchase. The investments shall be subject to approval by the local community college board of trustees. Each community college board of trustees shall develop a policy regarding the investment of public funds and the re-investment of interest earned on public funds.



Key Considerations

- ◆ The language “in any publicly traded mutual fund” would allow for investing in the stock (equity) market
- ◆ Investing in the stock market carries a high level of risk in that prices can fluctuate widely
- ◆ Prudent investment principles recommend that only funds which can be held for the long term (5 – 10 years) should be invested in the stock market
- ◆ Most community colleges plan to spend the majority of their revenues, including tuition, fees and interest income throughout the year
- ◆ Even if some reserve balances build up, they are often planned in to future capital spending or educational program enhancement
- ◆ Stakeholders, taxpayers, and other revenue sources (state and federal) might question endowment-styled investments



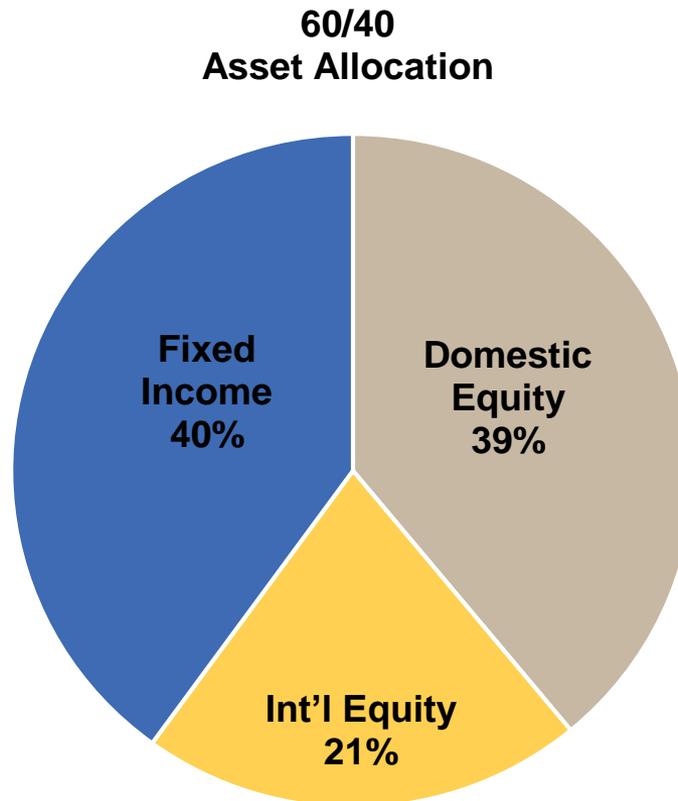
Other Possible Changes to State Statutes (Avoiding Unnecessary Policy Constraints)

Policy Constraint		Suggested Change
Max Maturity		Extend the corporate note maximum maturity limit from 3 to 5 years
Corporate Note Limit		Remove 1/3 limit on corporate note obligations
Inability to purchase asset backed securities		Permit the purchase of high-quality ("AAA"-rated) asset-backed securities
No exposure to foreign issuers		Allow for the investment in CDs and corporates of foreign issuers



Permitted Investments – Foundation Funds

- ◆ **Not** bound by the Illinois Public Funds Investment Act (30 ILCS 235)

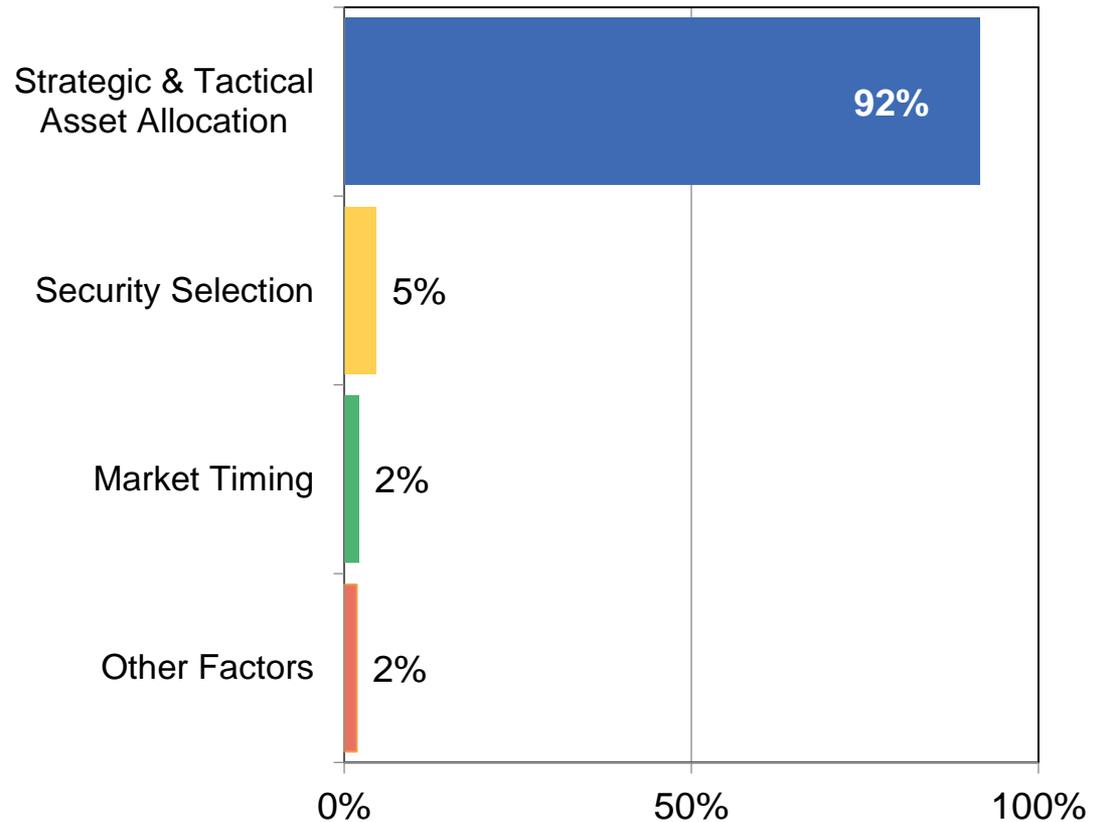




Revisit Your Asset Allocation

Focus on Asset Allocation to Help Achieve Your Long-Term Return Goals

Determinants of Portfolio Performance Variation

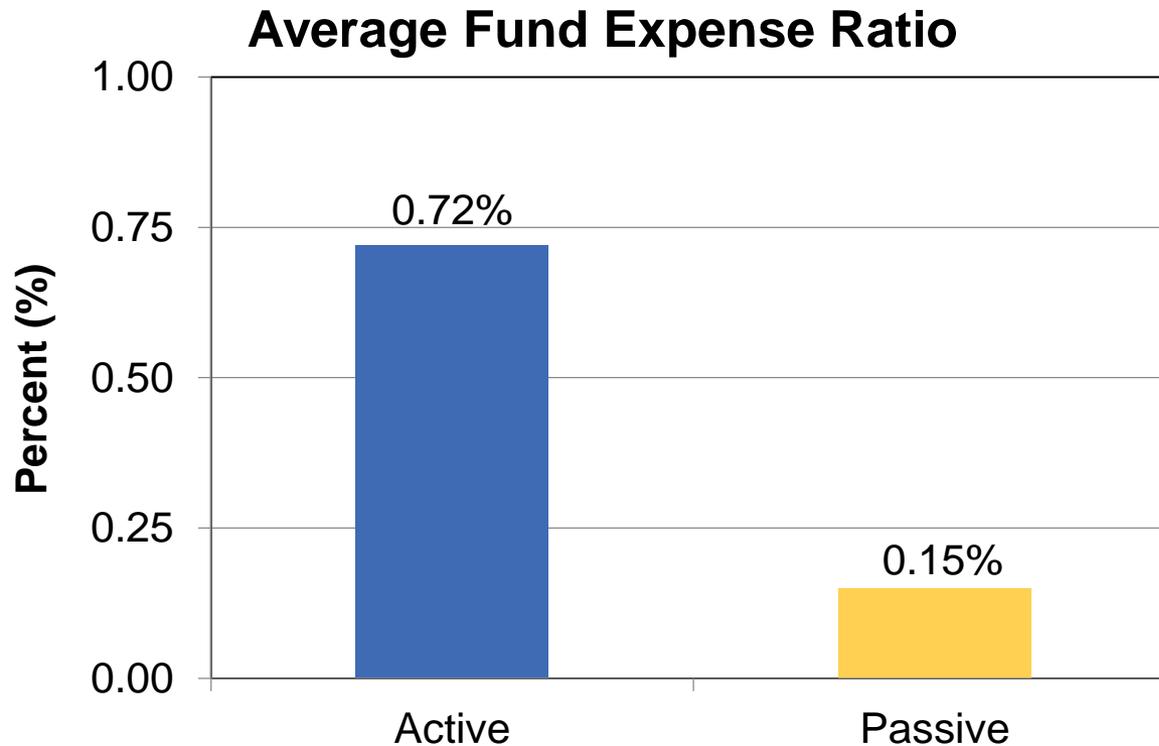


Source: Gary Brinson, "Determinants of Portfolio Performance II." *Financial Analyst Journal*, May-June 1991. The chart shows factors which explain variations in portfolio returns.



Keep Costs in Check

- Passive index strategies may help reduce costs over the long-term



Source: Morningstar Inc. U.S Fund Fee Study, published 2018



What Does it Mean to be a Fiduciary?

- Oversee the investments as a prudent person acting in the best interests of the fund and its beneficiaries
- Exercising duty of care
- Monitoring expenses
- Portfolio diversification
- Consider the risk of loss versus the opportunity for gain





Important Disclosures

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Thank You!



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