



# INVESTMENT PLAN AND EXECUTION

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## Successful Investment Plan Aligns Appropriate Strategy for Purpose

- **Immediate Reserves: <12 months**
  - T-bills/Agency discount notes/CD's
  - Commercial Paper
  - Local Government Investment Pools
- **Semi-Permanent Reserves: 1-5 Years**
  - Treasury Notes/Agency Notes
  - Investment Grade Corporate Bonds
  - Taxable Municipal Bonds
  - Agency Mortgage Securities
- **Permanent Reserves: 5+ Years**
  - Investment Grade Corporate Bonds
  - Mortgage Pass Thru Bonds
  - Taxable Municipal Bonds
  - Treasury Notes / Agency Notes
- **Pension / OPEB : Long Horizon**
  - Corporate Bonds
  - Zero Coupon Treasury/Agency Bonds
  - Equities / Stocks

- Periodically Review & Update Your Investment Policy
  - Authorized investments
  - Diversification
  - Maturity
  - Asset class

## EXECUTING INVESTMENT PLAN

- **Broker-Dealer – Self-directed investments**
  - You make all investment decisions
  - Sell investment products (Treasuries, Agencies, Corporates)
- **Investment Advisor – Investment management**
  - Discretionary or Non-discretionary management
  - Separately managed accounts
  - Investment funds/pools

## WHEN TO UTILIZE?

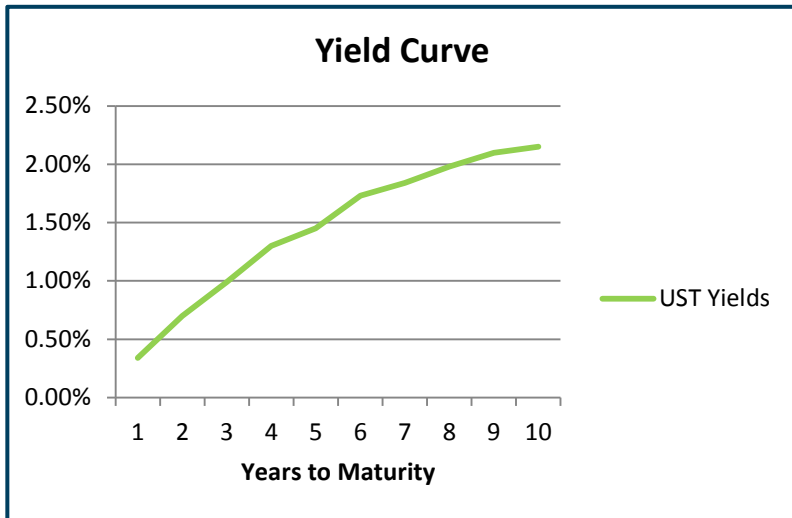
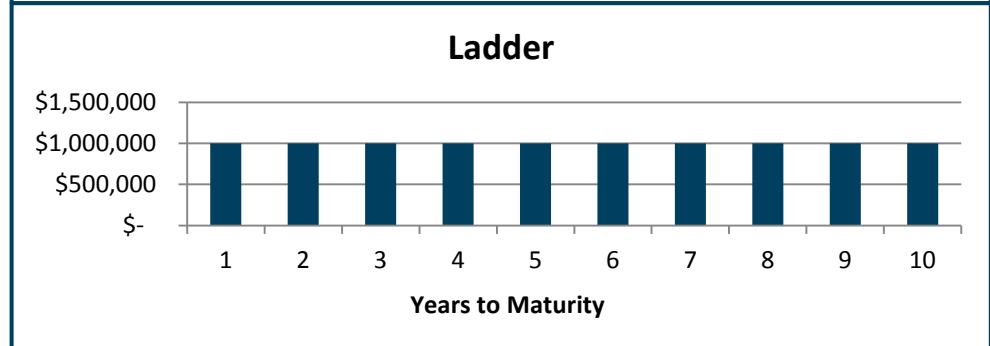
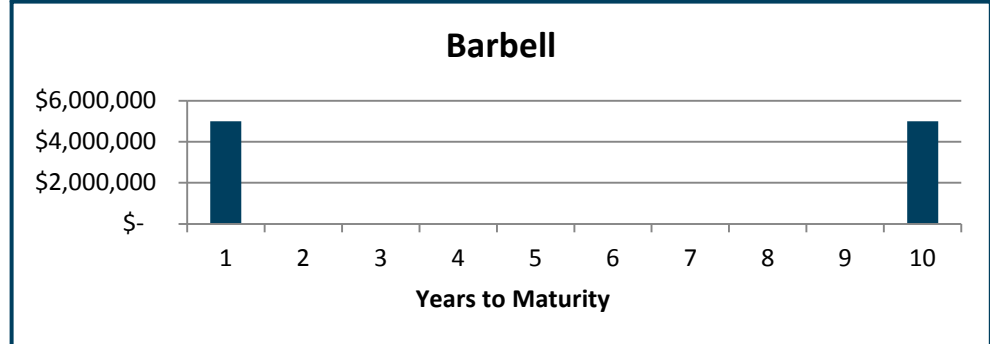
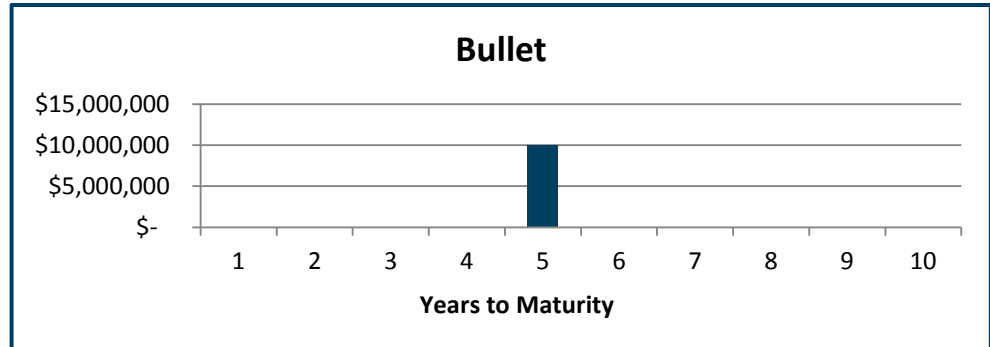
Asset type	LGIP	Broker/Dealer Bank Products	Investment Advisor
Highly Liquid Funds < 9 month	+	+	↔
Medium Term Funds > 1.0 to 2.0 years	↔	+	+
Core Funds > 2.0 years	↔	↔	+
Bond Proceeds (depends on use)		↔	↔
Self Insurance Assets			+
OPEB/Pension Assets			+

## POWER OF A LADDER

- Reinvest over time
- Similar to dollar cost averaging in stocks
- Works in all rate environments
  - Rates Fall: Locked in higher yields in longer maturities
  - Rates Stable: Longer maturities will enhance yield
  - Rates Rise: Reinvest at higher yields as bonds mature

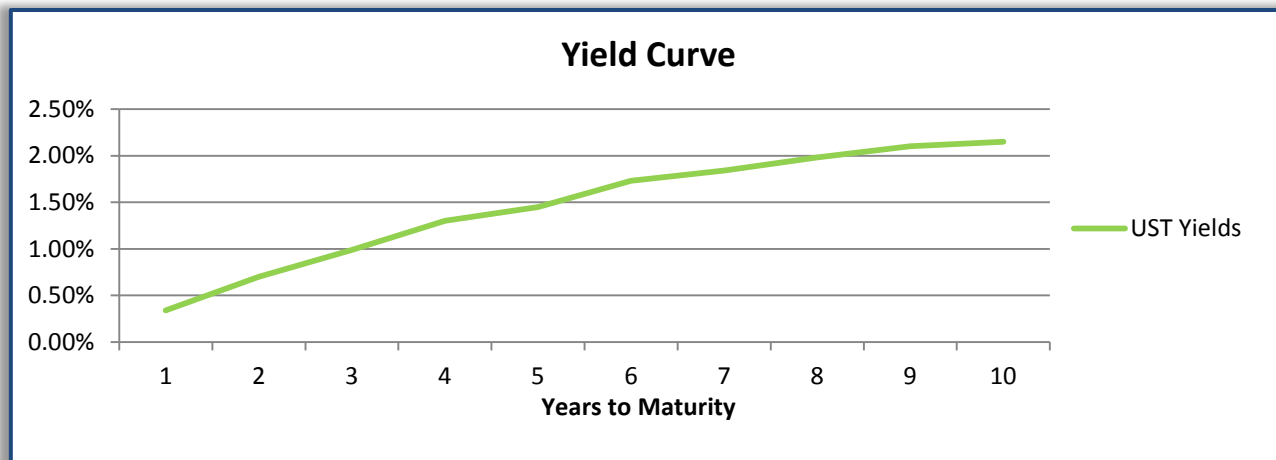
# YIELD CURVE STRATEGIES

- \$10 Million Portfolio
- Average Maturity: 5 Years
- Portfolio Yield:
  - Bullet: 1.45%
  - Barbell: 1.24%
  - Ladder: 1.46%



## ROLLING DOWN THE YIELD

- In a positively sloped yield curve environment, as the bond ages, it will be re-priced at a lower yield which leads to a higher price
- This enhances the price component of return leading to a total return that is greater than the purchase yield
  - Example: 5-year UST yield 1.45% Price: 99.68
  - Next year this bond will be a 4-year yielding 1.30% Price: 100.29
  - Price change: +.61 Total return: +1.98%
- Find the steepest part of the yield curve to maximize the roll-down strategy





## MAINTAIN LIQUIDITY

- Cash flow analysis
  - Keep it simple
  - Be realistic
- Remember unusual expenditures

## GENERATE INCOME

- Understand market realities
  - You can't "beat" the market over time
  - Extending maturity increases yield and interest rate risk
  - Match assets and liabilities to reduce risk and provide efficient investing
  - Remember, the market is efficient
- Seek best execution through competitive bids

## INVESTMENT APPROACH

- *Invest only in allowable investments*
- *Tailor strategy to meet investment goals*
- *Invest with a disciplined investment plan*
- *Thoroughly understand each investment*



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