

CPIM

CENTER FOR PUBLIC INVESTMENT MANAGEMENT



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# INV 161: Effective Investment Policies and Investment Statement Analysis

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# Investment Policy

## ○ Investment Policy

- Important element in investing public funds
- Describes prudent primary objectives
- Identifies eligible investments
- Improves quality of decision making
- Signals to public the entity is well managed and taking steps to safeguard funds

# Elements of Investment Policies

- Clearly describe what funds are covered by which policy
  - Different funds may have different policies (i.e. general, debt proceeds or reserve funds)
- Have clear, concise statement of objectives
  - State objectives: Safety, liquidity and yield
  - Then state how you will achieve objectives

# Elements of Investment Policies

- Standards of Care
  - Who is responsible for program?
  - Refer to prudent investor rule
- Allowable investments
  - Simply follow state law
  - Could be more restrictive
  - Cities could have different language

# Elements of Investment Policies

- Investment language
  - Simply follow state code
  - Itemizing allowable investments leaves little room for misinterpretation, *but* policy may get stale as code changes (and therefore require an update)
- Diversification percentages
  - Entities already limited on investing
  - Arbitrary diversification could limit flexibility in changing markets

# Elements of Investment Policies

- Include collateralization requirements
  - Specify ratios
- Require third-party custody for securities
  - Protects from the bank's credit risk
- Require formal process for selecting financial institutions and brokers
  - How will you choose the investment professionals?

# Elements of Investment Policies

- Address investment reporting
  - How frequently?
  - Who will receive?
  - What do reports contain?
- Should a benchmark be assigned?
  - Be careful here
  - Consider setting different benchmarks for various fund types

# Elements of Investment Policies

- Adopt policy by resolution
  - File with Auditor of State's office
- Authorized financial institutions
  - Must acknowledge policy in writing
  - Auditors will ask for copies
- Review annually
  - Modify as needed

# Elements of Investment Policies

## ○ Sources:

- [gfoa.org/creating-investment-policy](http://gfoa.org/creating-investment-policy)
- [aptusc.org/certifications/investment-policy-certification](http://aptusc.org/certifications/investment-policy-certification)
- *Investing Public Funds*, by Girard Miller

# Investment Procedures

- Document the daily investment process
  - Who will complete which duties?
  - Provides accountability
- Duties can include:
  - Receiving investment information
  - Accounting of transactions
  - Approval
  - Proper payment of investments

# Effective Investment Reporting

- Every entity will be different
- Dual Role
  - Internal investment reports
    - Helps you make informed decisions and think in terms of *overall* portfolio management
  - Board investment reports
    - Condensed version for public
- Facilitates audit questions
- Compliance of investments
- GASB requirements

# Investment Reporting

## Internal investment reports

- Suggestions:

CUSIP	Description of Security	Maturity Date	Purchase Date
Call Date	Ratings	Bank/Broker Purchased From	Yield
Average Maturity/Days to Maturity	Income Payment Dates/Amounts	Cost Basis	Market Value

# Investment Reporting

## Investment reports to Governing Board/Public

- Suggestions:

Description of Security	Purchase Date	Maturity Date	Call Date
Yield	Average Maturity	Diversification of Assets	Comments on Recent Activity
Cost Basis	Market Value	Market Benchmark Rates	Maturity Distribution

# Investment Reporting

- Investment reporting ideas
- Interactive examples