



# Best Practices Debt and Investment Portfolio Management

July 15<sup>th</sup>, 2019

**Presenters:**

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# Introduction – The Baker Group

- Founded in 1979, Dr. Baker wrote the first book on the concept of asset and liability management
- Today, our distribution network extends to over 1,000 financial institutions in the U.S.
- Our Public Finance team works with municipalities across the country, providing a full suite of financial services customized to the unique needs of state and local governments



**40<sup>TH</sup> ANNIVERSARY SEMINAR CELEBRATION 2019**

Join us at our **40th Anniversary** seminar celebration in Scottsdale, AZ, at The Westin Kierland Resort & Spa.

**October 24-25, 2019**  
Scottsdale, Arizona

**Guest Speaker**  
**David Rosenberg**  
Chief Economist/Strategist  
Gluskin Sheff & Associates

**Who Should Attend**  
Financial institutions' CEOs, CFOs, investment officers, board members, and those who are directly or indirectly responsible for financial management functions will benefit from this seminar. *There is no cost for this seminar.*

**For forty years** The Baker Group has been known for its proven software and products, and for helping clients make sound, strategic decisions.

The Baker Group's *Interest Rate Risk and Investment Strategies Seminar* was developed specifically for managers of financial institutions. Designed to meet current financial challenges, it is an in-depth examination of topics including:

- Economic Overview, Market Update, and Fed Policy Outlook
- Interest Rate Cycle Dynamics - Preparing the Balance Sheet for the Next Environment
- Best Practices to Comply with the Latest Liquidity and IRR Regulatory Guidance
- What Should Our Institution Be Buying Today? Seeking the Best Relative Value
- Managing Cashflow Optionality to Protect Against Extension and Contraction Risk
- Protecting Your Portfolio with a Robust Municipal Credit Process

**Thursday**  
Breakfast 7:30 am  
Seminar 8:30 am  
Lunch 12:00 pm  
Adjourn 4:30 pm  
Dinner 7:00 pm

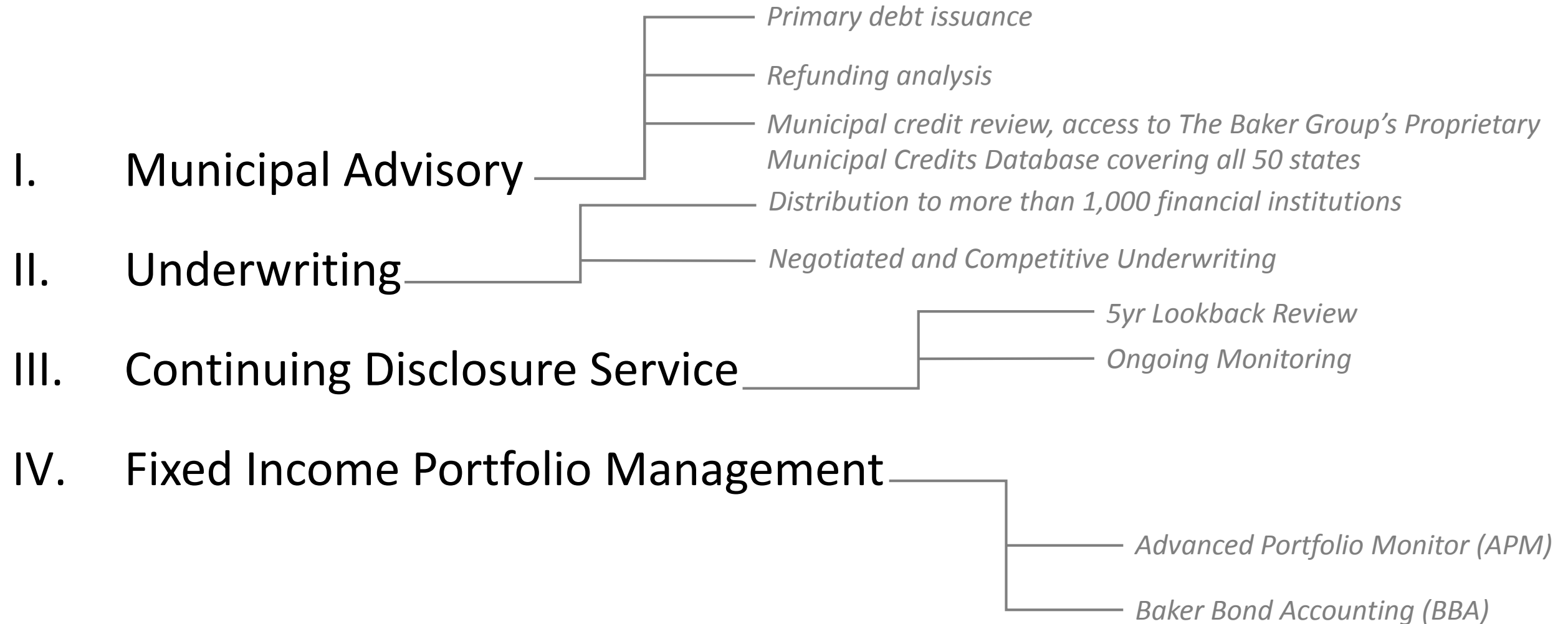
**Friday**  
Breakfast 7:30 am  
Seminar 8:30 am  
Conclusion 11:30 am  
Golf 12:45 pm

**The Westin Kierland Resort**  
6902 E Greenway Pkwy  
Scottsdale, AZ 85254  
480.624.1000

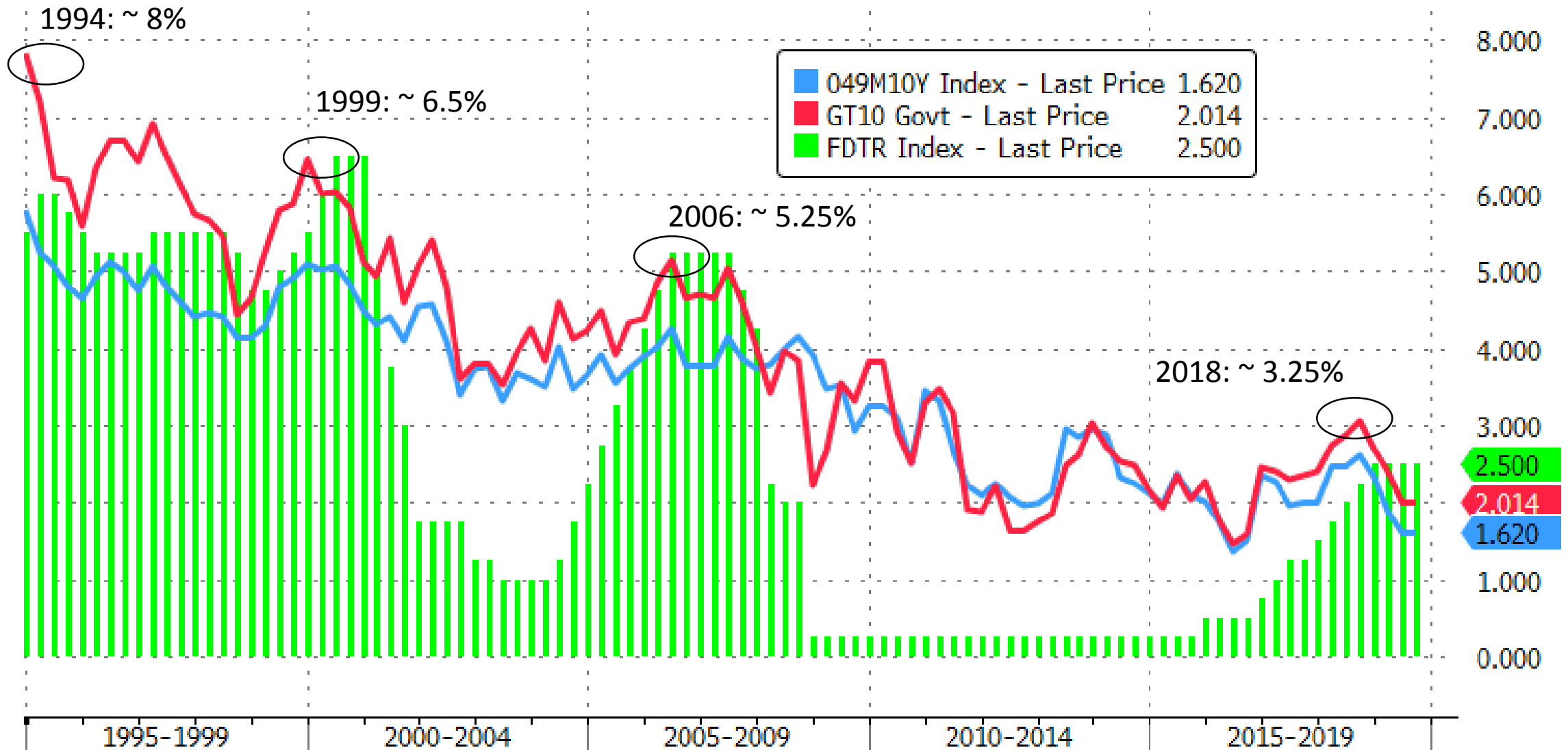
**Westin Kierland Golf Club**  
15636 N Clubgate Dr  
Scottsdale, AZ 85254  
480.922.9283

Register online at [GoBaker.com/arizona](http://GoBaker.com/arizona). For more information call Skoshi Heron at 888.990.0010.

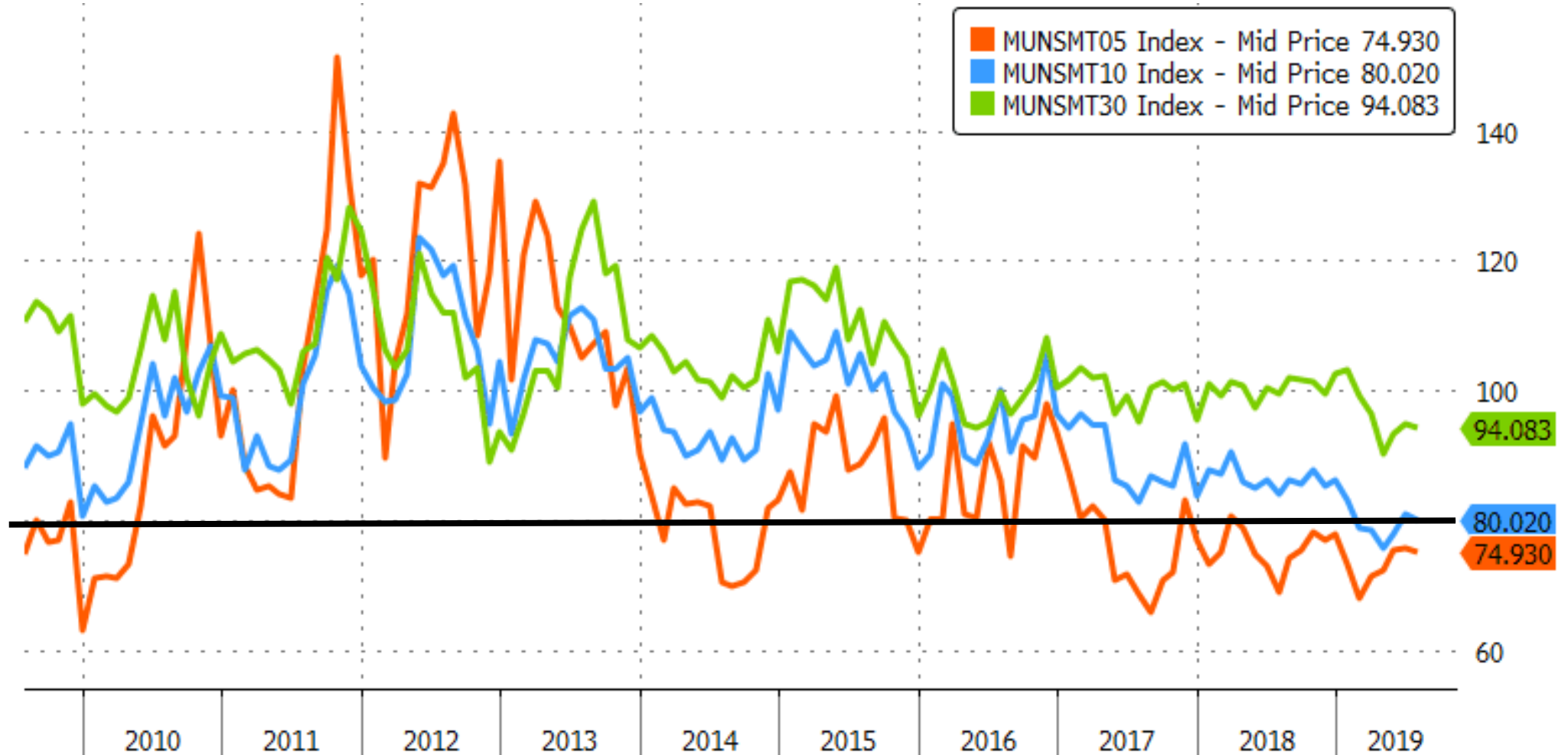
# 4 Pillars of The Baker Group's Public Finance Division



# Bond Yields Peak Before the Last Fed Hike



# Muni/Treasury Ratios - "Rich" to Investors However, demand continues to increase...

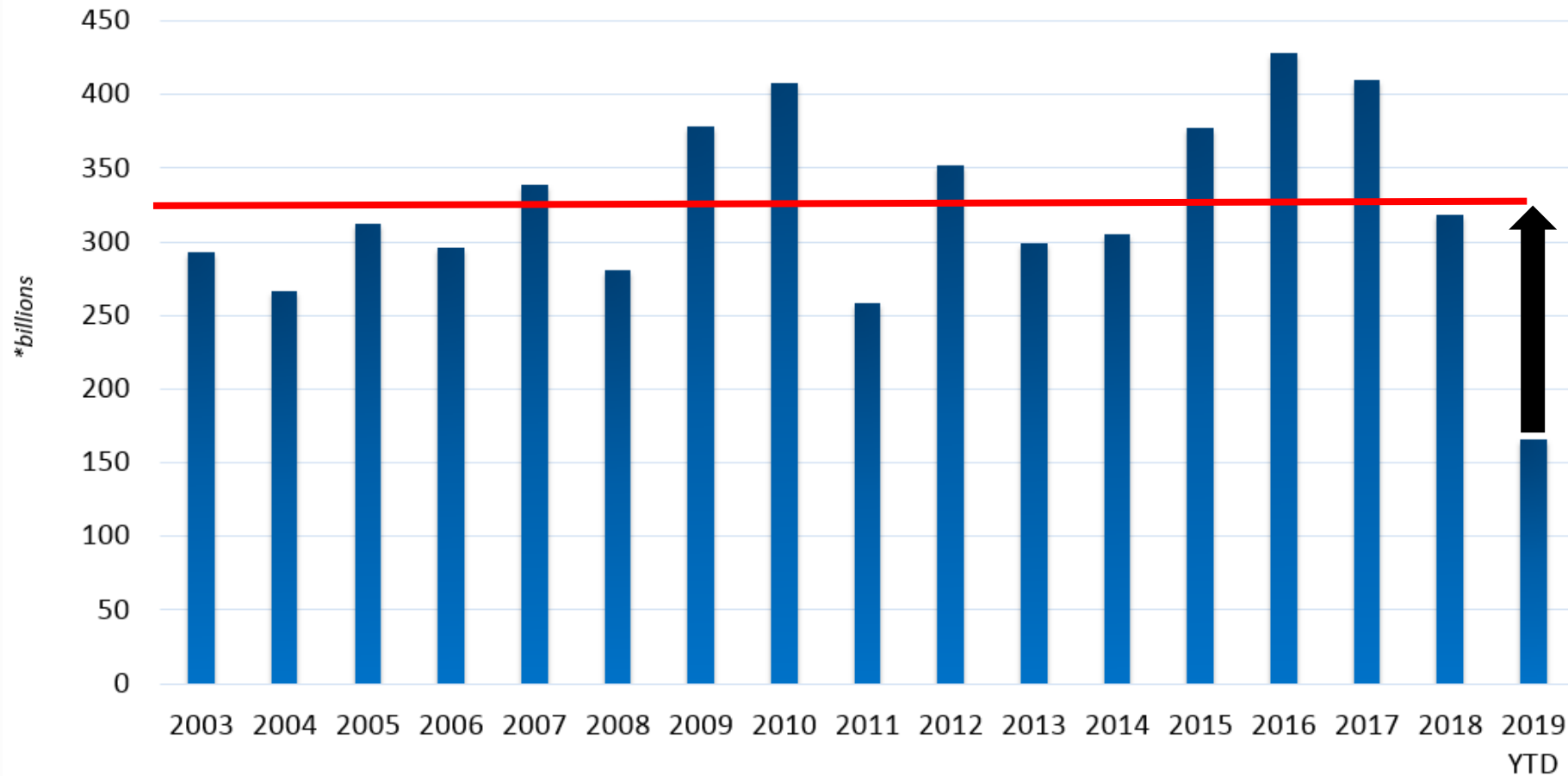


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 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2019 Bloomberg Finance L.P.

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# Municipal Supply - Total

## Historical Municipal Bond Issuance

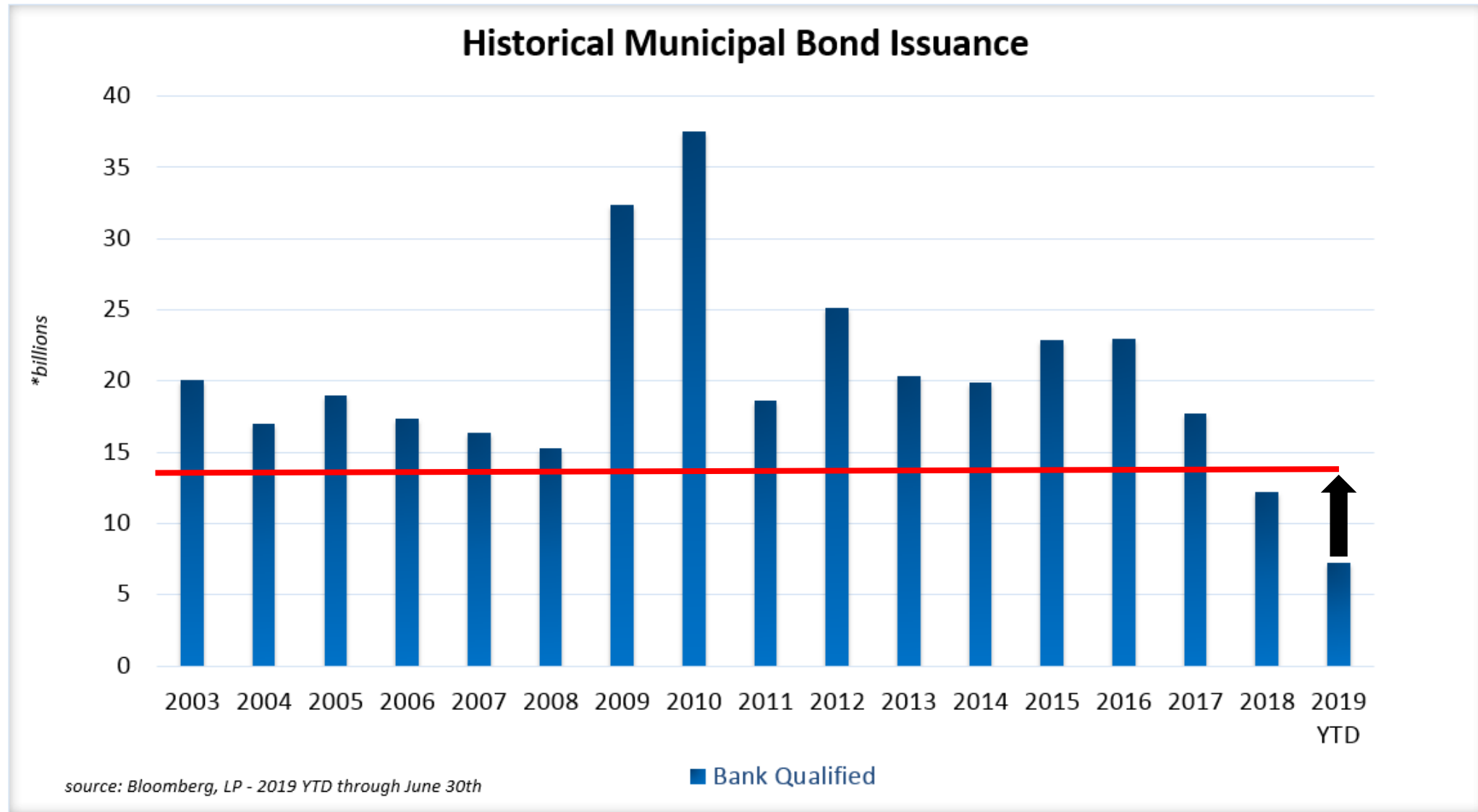


2019 Year-end  
forecast:  
**\$331 billion**

source: Bloomberg, LP - 2019 YTD through June 30th

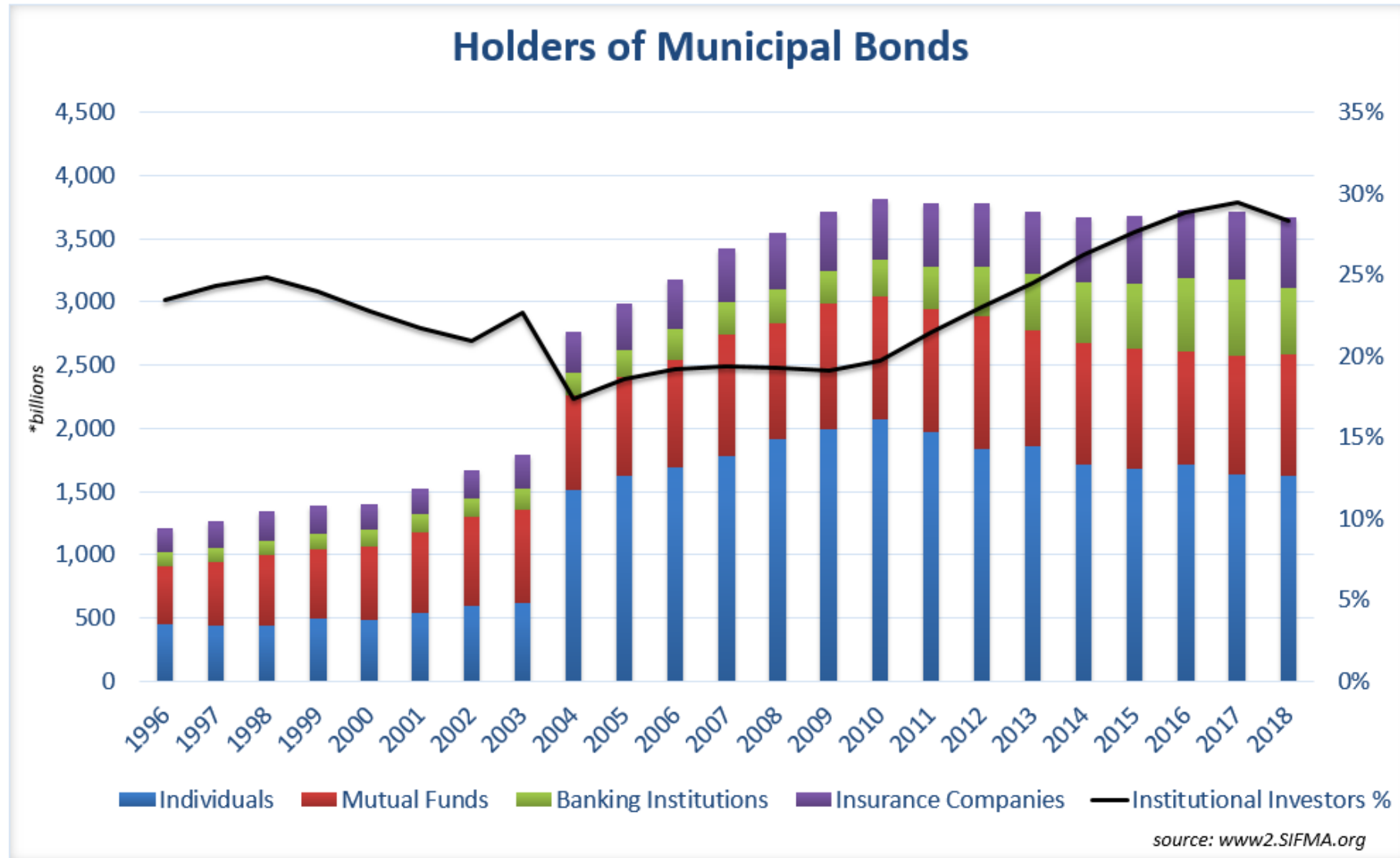
■ TOTAL

# Municipal Supply – Bank Qualified



2019 Year-end  
forecast:  
**\$14 billion**

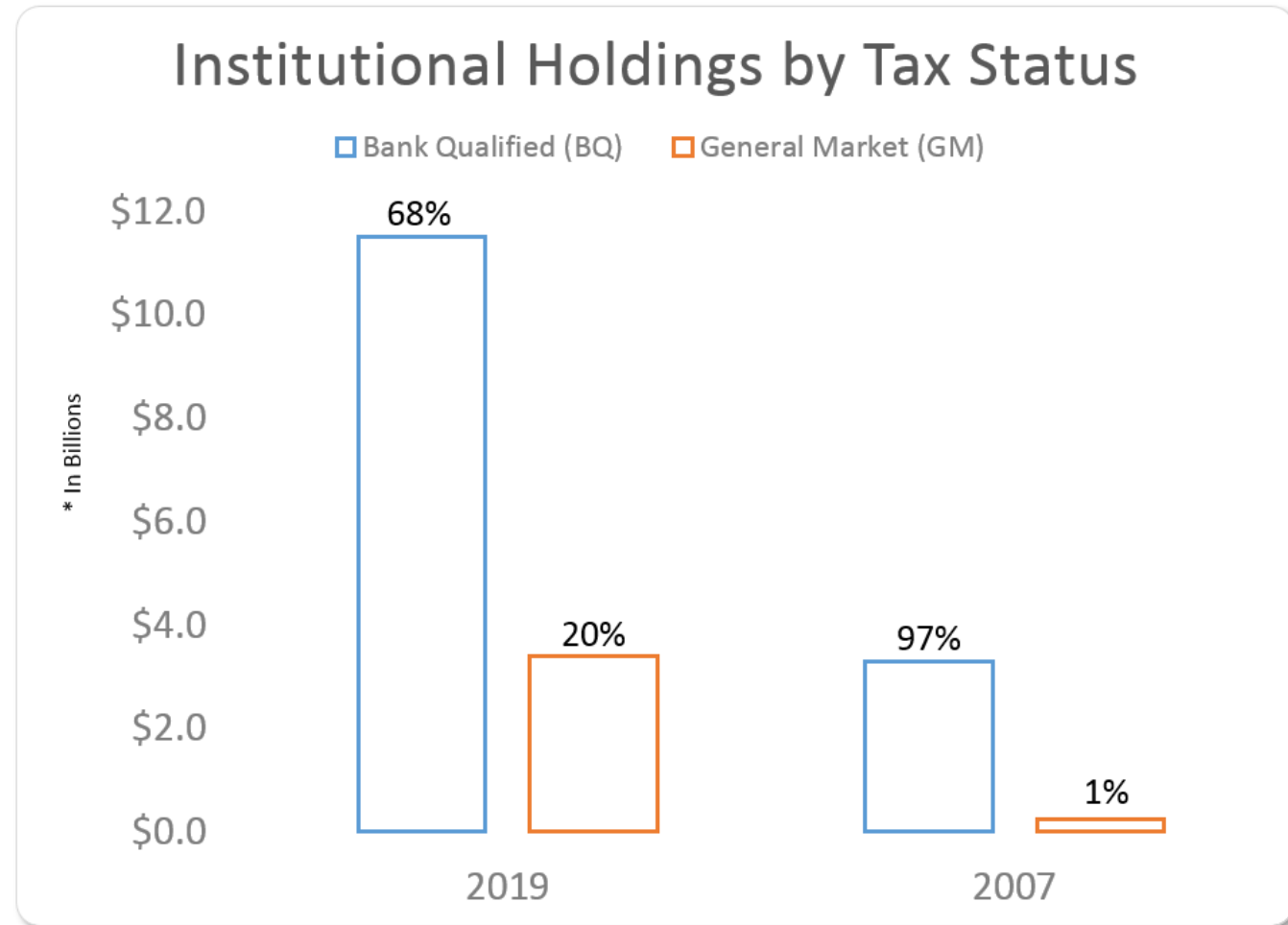
# Institutional Investors Have Nearly Doubled





# Be Sure to Employ BQ Issuance When Possible

- Bank Qualified (BQ) municipals are limited to \$10mm of total issuance in a single year
- Banks gravitate more toward BQ municipals for tax considerations
- Therefore, BQ municipals come to market at lower yields than General Market (GM) municipals, all things equal

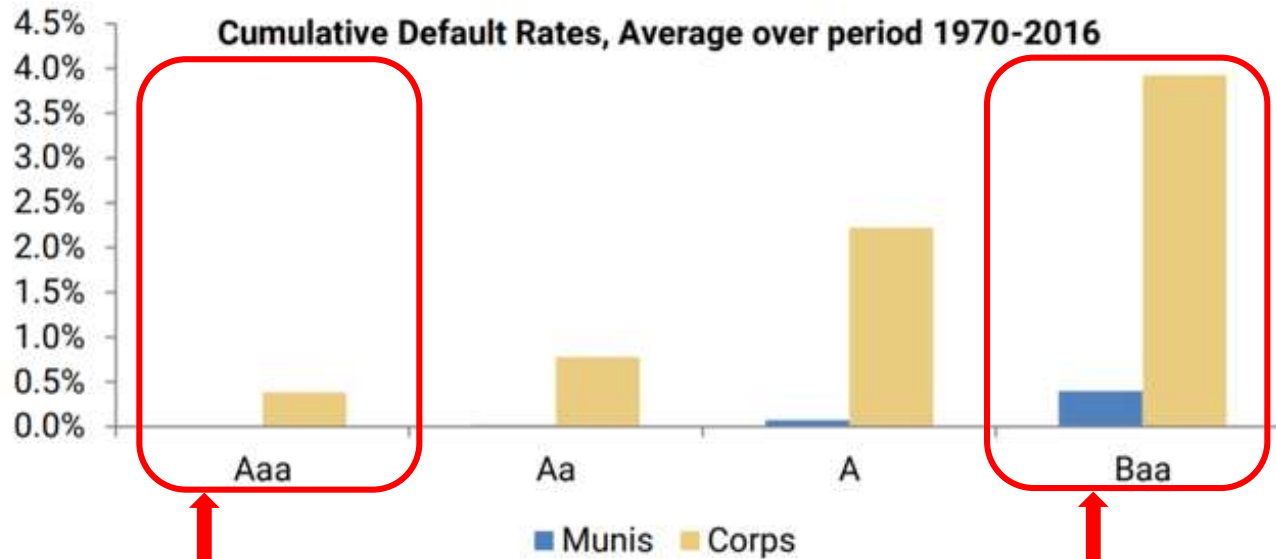


Source: Institutions using Baker Bond Accounting (BBA) as of June 2019, The Baker Group LP

# Municipals – Best Game in Town for Banks

The yield earned on municipal securities for financial institutions is nearly 100bps higher than alternative government backed sectors.

Sector	TEY	Average Life
Treasuries	2.32%	1.67
Agencies	2.27%	2.31
CDs	2.55%	2.16
<b>Tax-Exempt Munis</b>	<b>3.48%</b>	4.54
<b>Taxable Munis</b>	<b>3.45%</b>	3.29
MBS	2.46%	3.87
CMO Fixed	2.50%	3.59
SBA Fixed	2.54%	3.82



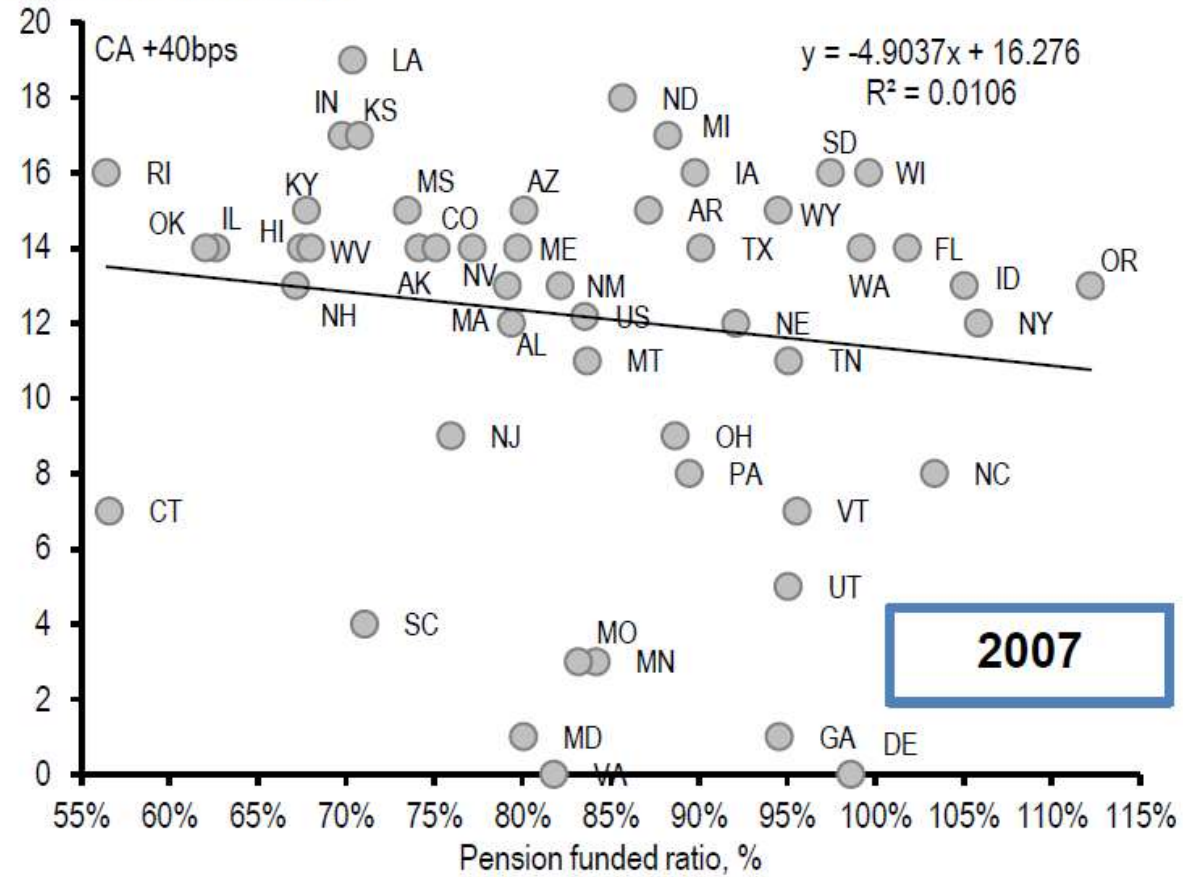
Source: Data on 645 institutions using Baker Bond Accounting (BBA) as of June 2019, The Baker Group LP

Source: Morgan Stanley Research, Moody's Investors Service, "US Municipal Bond Defaults and Recoveries, 1970-2016," Alfred Mediolani et al., June 27, 2017

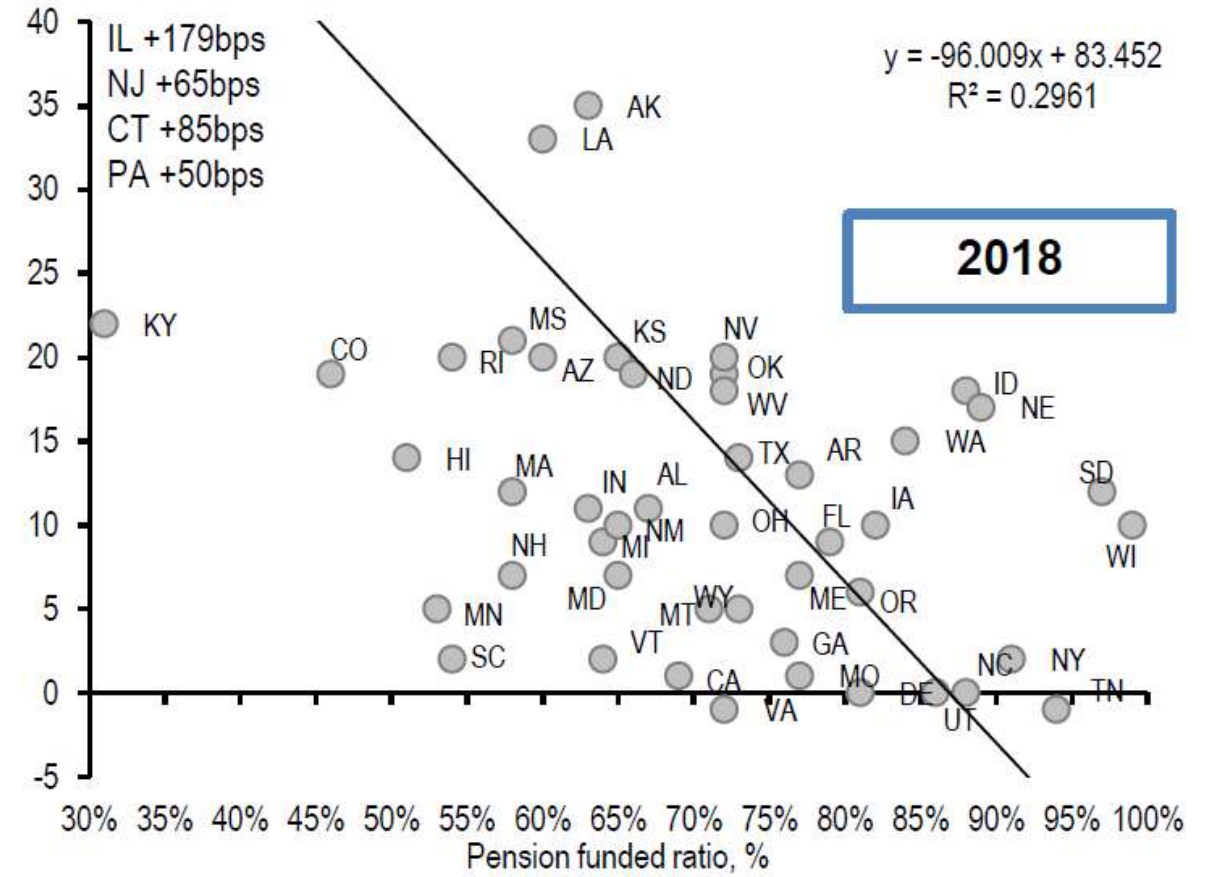
Default rates in the municipal sector are incredibly low. BBB munis default less than AAA corporates.

# Market Pricing vs Pension Funded Ratios

2007 state spreads, bps



2018 state spreads, bps



Source: Pew, Thomson TM3, JPMorgan

# The Baker Group's Municipal Credits Database

Covers 2,837 of the 3,007 Counties in the U.S. Representing 24K+ Unique Obligor

Established in 2008, this database provides financial institutions who invest in municipal bonds with a detailed understanding of the underlying credit profile

Prior to 2008, more than 50% of the muni market was insured with AAA ratings. By 2009, no single insurer held a AAA rating.

In 2011, provisions in the Dodd-Frank Act required financial institutions to have proof of a credit analysis process that could no longer include reference to credit ratings.



# History of the Municipal Securities Market

- The municipal securities market is the one of the largest fixed income sectors in the U.S. at approx. \$3.8 Trillion
- The very first municipal bonds were issued by New York City for a canal project in 1812
- Despite being the oldest capital market sector, the municipal securities market has a poor history of transparency
- The SEC can only enforce actions on municipal issuers pertaining to the anti-fraud provisions of the Securities Act of 1933 and 1934
- However, the compliance burden on municipal issuers is set to dramatically increase

# Baker's Credit Profile Sheet

## Detailed Municipal Credit Data

The information shown is extracted from CAFRs, official statements, and other continuing disclosure documents.

Information pertaining to pension plans is highly demanded following numerous headlines of troubled pensions.

- General Obligation Bonds
  - Tax base information including top taxpayers, tax assessed value, and ad valorem tax levies and collections
  - General fund balance, population, and enrollment trends
- Revenue Bonds
  - Debt coverage ratios showing pledged revenues and related debt service payments
  - Population and enrollment trends

## Municipal Credit Profile

Bond Description		Issuer Description	
Cusip	<a href="#">034789TMS</a>	Description	Angleton, City of (General Obligation Debt)
Security	AD VALOREM PROPERTY TAX	State	TX
Type	GO + REV	County	BRAZORIA
Purpose	PUBLIC IMPS./RECREATIONAL	MUD Date	-
Credit Enhancement	-	<b>Ratings</b>	
Tax Provision	FED BQ		
Maturity Type	AT MATURITY		
Issue Date	02/15/2018	Rating	Moody's: N/A, S&P: AA- 1/12/2018
Maturity Date	02/15/2023	Underlying	Moody's: N/A, S&P: N/A 1/12/2018

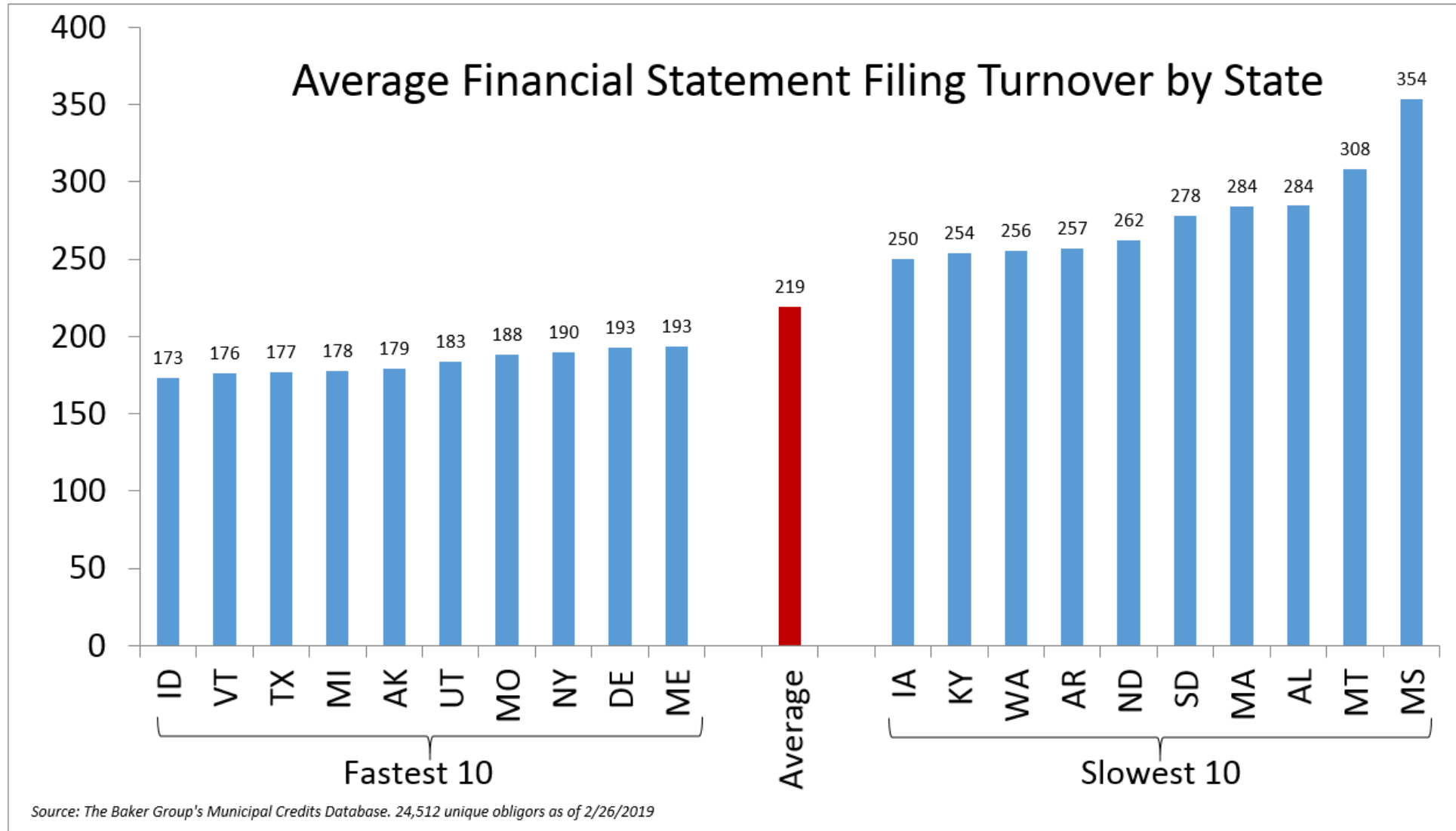
The City is a political subdivision and municipal corporation of the State, duly organized and existing under the laws of the State, including the City's Home Rule Charter. The City was incorporated in 1912, and first adopted its Home Rule Charter on February 17, 1967. The City operates under a City Council/Administrator form of government where the Mayor and five Councilmembers are elected for staggered two year terms. The City Council formulates policy for the City while the City Administrator is the Chief Administrative Officer. The City of Angleton, the county seat of Brazoria County, is approximately 45 miles south of Houston and 17 miles north of Freeport. The City encompasses some ten square miles and has 27.6 square miles within its extra-territorial jurisdiction ("ETJ").

Key Credit Metrics				Pension Data			
	03/29/2019	03/28/2018	02/15/2018		09/30/2018	09/30/2017	09/30/2016
Debt-To-Assessed	2.07%	1.18%	1.28%	<b>Pension Plan Type: BENEFIT</b>			
State Avg DA	3.63%	3.63%	3.63%	ARC/Covered Payroll	12.71%	12.27%	12.05%
Debt Limit	-	-	-	Contr./ARC	100.00%	100.00%	100.00%
DA w/ Overlapping	7.05%	6.46%	7.12%	Funded Ratio	100.00%	82.70%	81.10%
Per Capita	\$1,068	\$583	\$583	NPL/Assets	4.07%	7.37%	7.46%
PC w/ Overlapping	\$3,652	\$3,185	\$3,252	NPL/Covered Payroll	45.69%	69.65%	77.54%
Rate Covenant	-	-	-	<b>OPEB Plan Type: BENEFIT</b>			
Debt Coverage	1.85	1.59	1.26	ARC/Covered Payroll	0.38%	Unknown	Unknown
Levy Collection Rate	99.48%	98.12%	98.12%	NOL/Assets	0.44%	Unknown	Unknown
Top 3 Taxpayers	2.63%	2.66%	2.87%	NOL/Covered Payroll	4.83%	Unknown	Unknown
Intergovernmental Aid	1.08%	1.72%	0.48%	POBs - POBs/Assets	-	-	-
Population	19,491	19,491	19,491				
Enrollment	-	-	-				

Key Values (In Millions)				Financial Statement Highlights (In Millions)			
	03/29/2019	03/28/2018	02/15/2018		09/30/2018	09/30/2017	09/30/2016
Gross Direct Debt	\$22.690	\$24.925	\$24.925	FS Turnover (in Days)	180	179	182
Net Direct Debt	\$20.835	\$11.372	\$11.372	Gov. Fund Revenues	\$31.774	\$21.054	\$17.841
Tax Assessed Value	\$1,008.804	\$961.040	\$890.269	Gov. Fund Expenses	\$20.968	\$22.053	\$16.840
Market Value	\$1,135.334	\$1,090.952	-	Ending Net Assets	\$36.804	\$33.963	\$34.195
Tax Levies	\$6.800	\$6.229	\$6.229	Change in Net Assets	7.78%	(0.68%)	7.48%
Tax Collections	\$6.766	\$6.112	\$6.112	Unrest. Gen Fund Bal	\$3.724	\$2.932	\$3.505
Debt Service	\$1.009	\$0.962	\$2.711	Gen Fund Bal	\$3.737	\$2.949	\$3.517
Overlapping Debt	\$50.356	\$50.724	\$52.026				

# Historical Financial Statement Turnover Rates

Average for the U.S. is 219 days



# The Evolution of SEC Enforcement

- The Tower Amendment prohibits the SEC from regulating municipalities directly unless it pertains to the anti-fraud provisions of the 1933 Securities Act.
- However, the SEC has regulatory authority over broker-dealers that underwrite municipal bonds.
- In 2014, the SEC rolled out the MCDC initiative which imposed sanctions on broker-dealers who underwrite municipal bonds where the issuer failed to comply with their Continuing Disclosure Agreements (CDA).
- With transparency issues persisting today, the SEC is now considering sanctions on municipal issuers directly as **habitual non-compliance could be considered fraudulent activity!**



# The Baker Group's Municipal Underwriting

Broker dealers have to make sure that a municipal bond issuer has been compliant with their CDAs for the past 5 years.

This has caused underwriters to refuse to underwrite bonds for issuers that have not been in compliance with their CDAs.

Unfortunately, this can negatively impact a municipality's cost of funds when bringing bonds to market.

## Competitive Underwriter Rankings - Bank Qualified

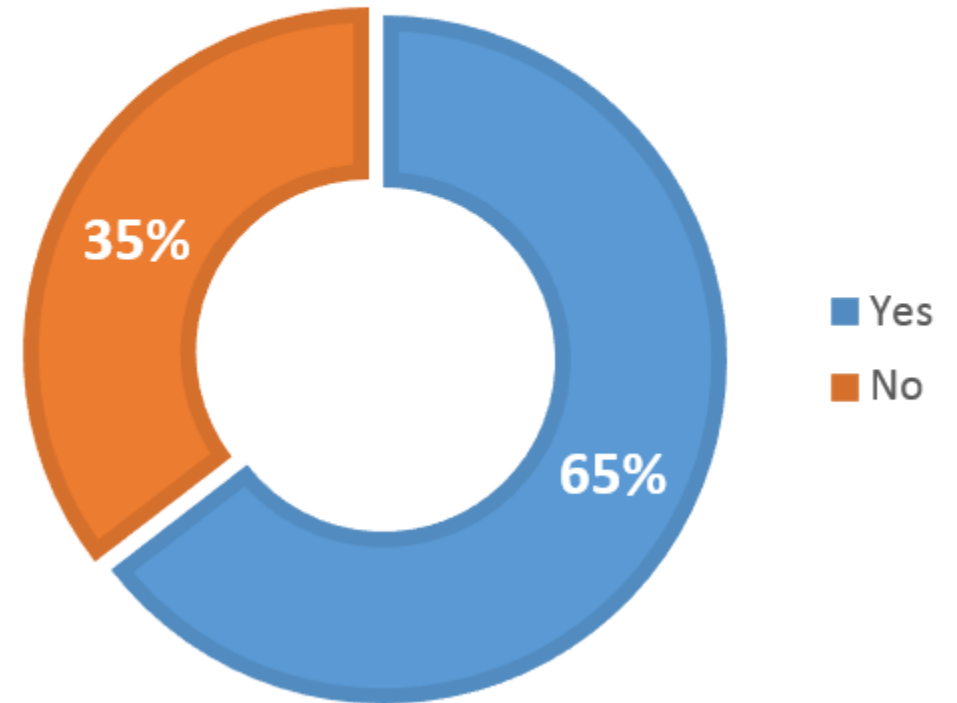
YTD Rank	Manager	Volume (MM USD)	# of Deals
1	Robert W Baird & Co	\$735.30	164
2	The Baker Group LP	\$281.48	82
3	Raymond James	\$261.00	57
4	Janney Montgomery	\$216.22	27
5	Piper Jaffray	\$190.70	28
6	Roosevelt & Cross	\$188.45	46
7	FTN Financial	\$165.78	24
8	Bank of New York Mellon	\$121.14	28
9	Samco Capital Markets	\$108.44	26
10	BOK Financial Corp	\$100.10	48

Source: Bloomberg LP as of June 2019

# Continuing Disclosure Case Study

## CONTINUING DISCLOSURE COMPLIANCE 5-YEAR LOOKBACK REVIEW

- A 2018 review of 189 bond offerings for potential underwriting revealed that 67 failed to comply with their Continuing Disclosure Agreement
- Recent changes to Rule 15c2-12 suggest that the compliance burden on issuers will dramatically increase.



# The Existing and New Continuing Disclosure Rules

## Event Notices

- Principal and interest payment delinquencies
- Non-payment related defaults
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties
- Substitution of credit or liquidity providers, or their failure to perform
- Adverse tax opinions or events affecting the tax-exempt status of the security
- Modifications to rights of security holders
- Bond calls and tender offers
- Defeasances
- Release, substitution or sale of property securing repayment of the securities
- Rating changes
- Bankruptcy, insolvency or receivership
- Merger, acquisition or sale of all issuer assets
- Appointment of successor trustee

**14 Existing  
Material  
Events that  
Require a  
Continuing  
Disclosure  
Filing on  
EMMA**

Effective February 27<sup>th</sup>, 2019:

Two more “events” that require a continuing disclosure filing:

**#15. Incurrence of any financial obligation**

**#16. Changes in the terms of any existing financial obligation**

# What Municipal Issuers Need to Do Next

- Implement policies and procedures that ensure all prior CDAs are in compliance
- Assign responsibilities to monitor all required filings within a timely manner
- Implement a monitoring system that flags any of the 16 events that are deemed material
- Create an open dialogue with your advisor to determine materiality
- Ensure that your monitoring systems are flexible for future municipal employee turnover



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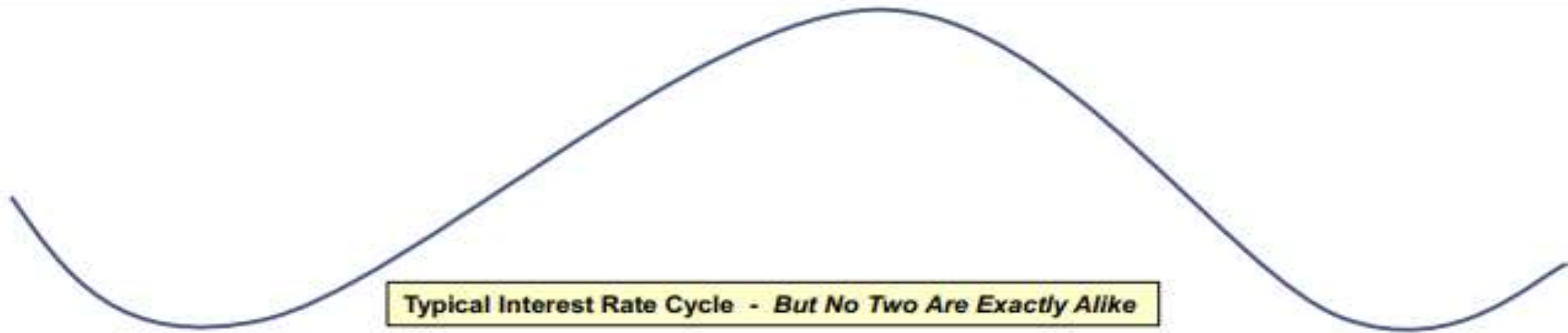
# Today's Agenda

- Current Interest Rate Environment
- Investment Management
- Local Government Investment Pools
- Investment Types & Portfolio Strategy



# Current Interest Rate Environment

# Interest Rate Cycles



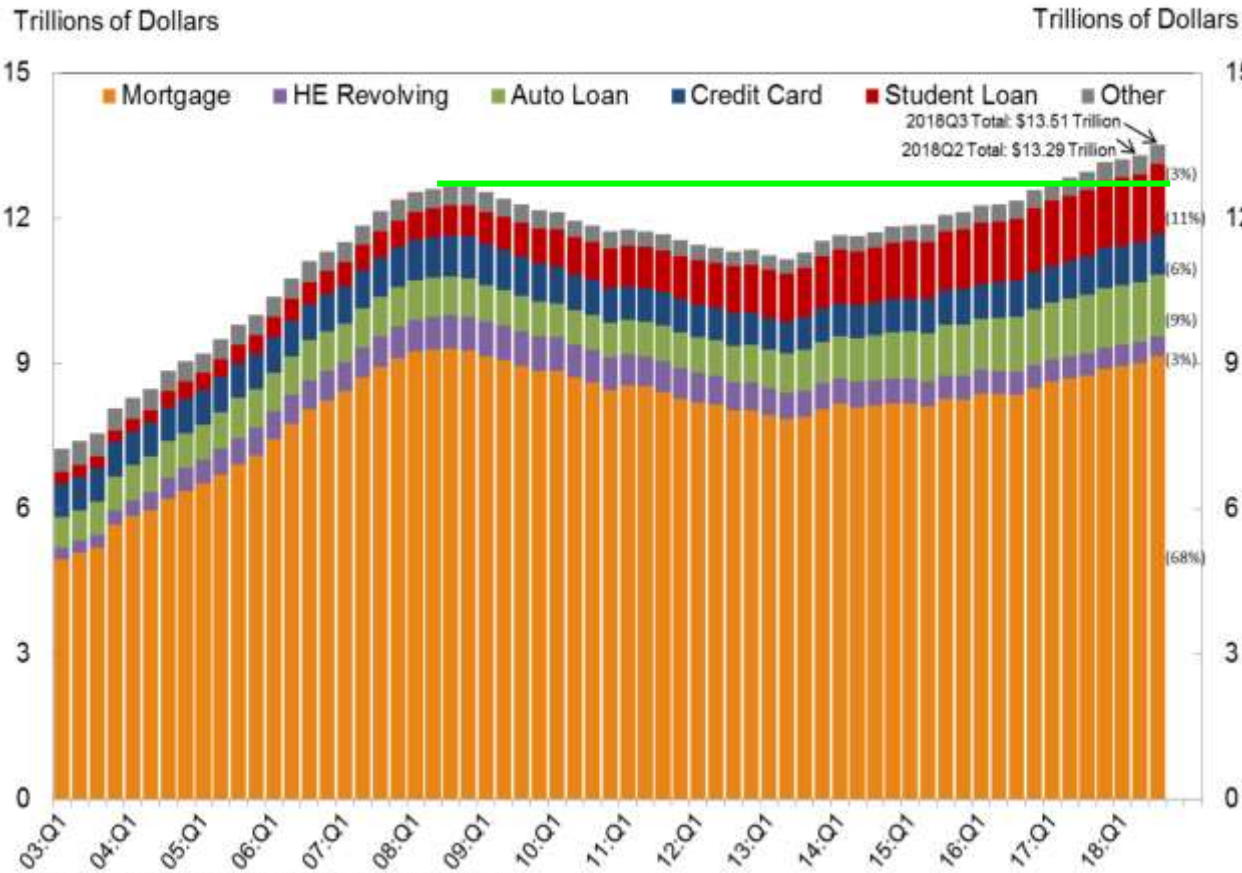
Trough	Rising	Peak	Falling
Weak Economy	Strengthening Economy	Strong Economy	Weakening Economy
Fed Accommodation	Fed Tightening	Fed Restrictive	Fed Easing
Steep Curve	Curve Flattening	Flat (or Inverted) Curve	Curve Steepening
Weak Loan Growth	Strengthening Loan Growth	Strong Loan Growth	Weakening Loan Growth
Ample Liquidity	Reduced Liquidity	Tight Liquidity	Rising Liquidity
High Bond Prices (Low Market Yields)	Falling Bond Prices (Rising Market Yields)	Low Bond Prices (High Market Yields)	Rising Bond Prices (Falling Market Yields)



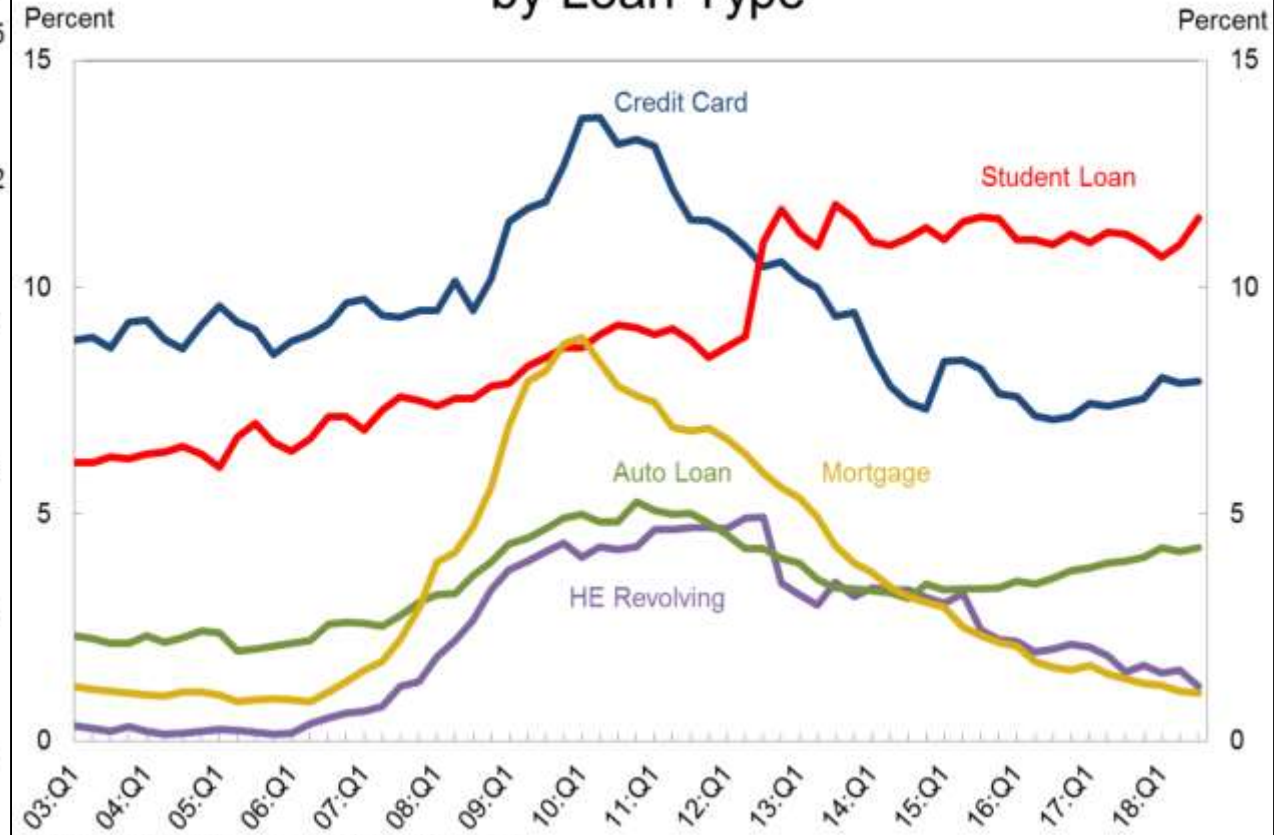


# Household Debt & Delinquencies

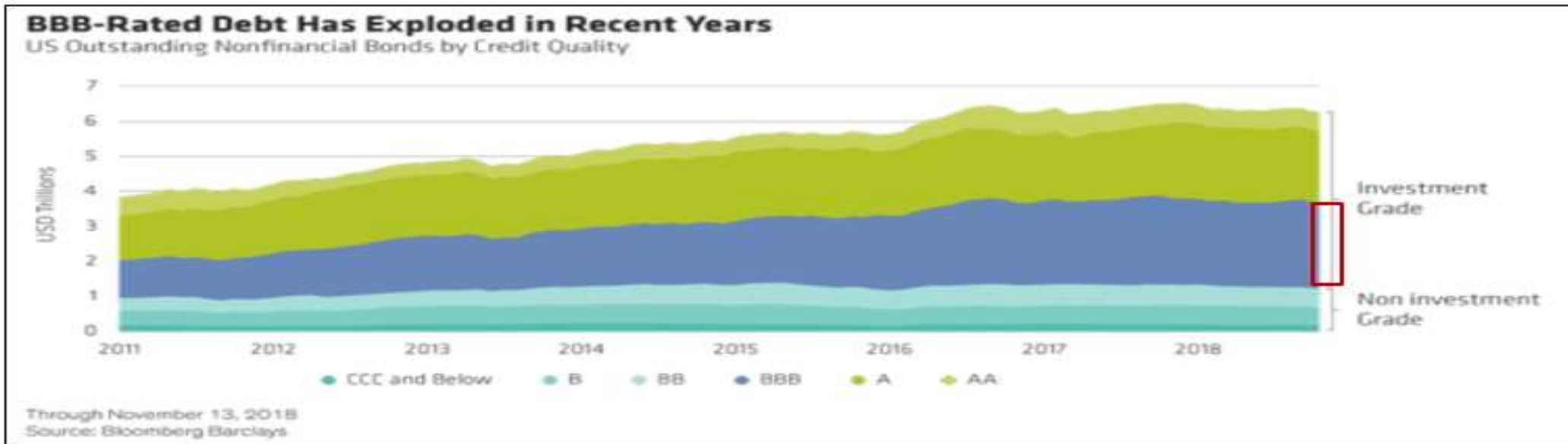
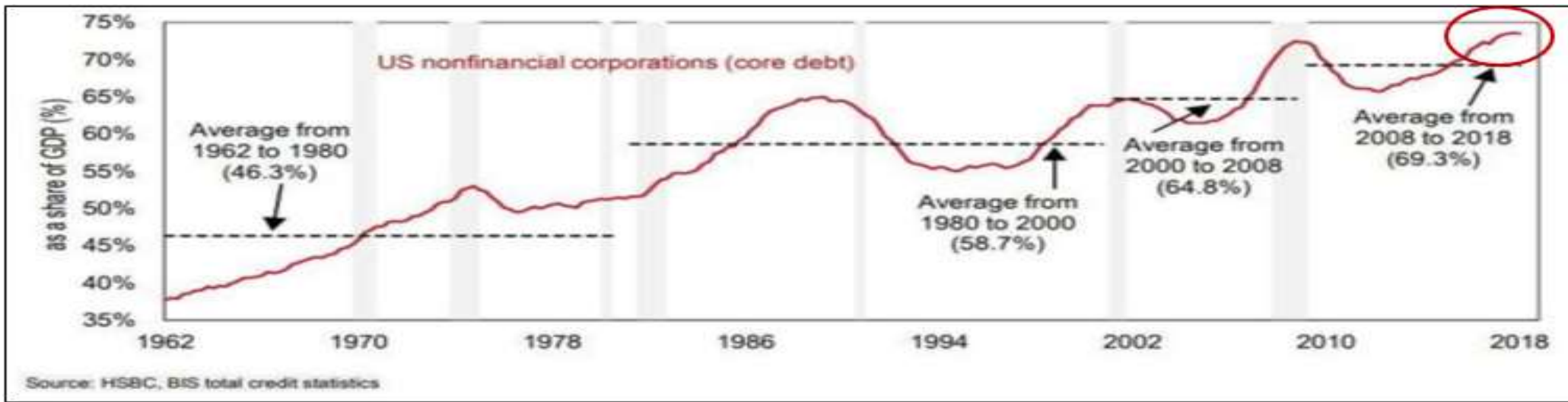
## Total Debt Balance and its Composition



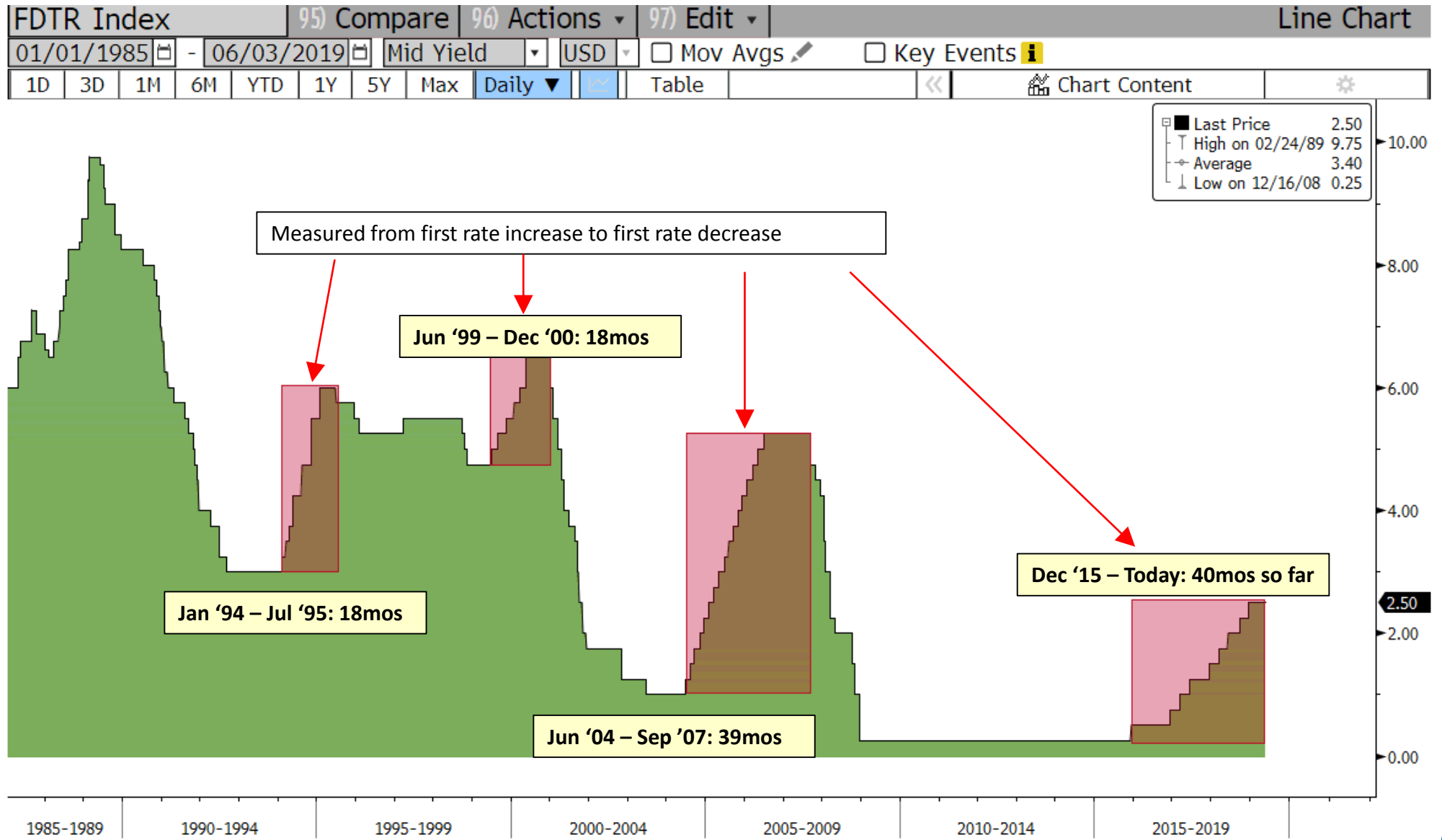
## Percent of Balance 90+ Days Delinquent by Loan Type



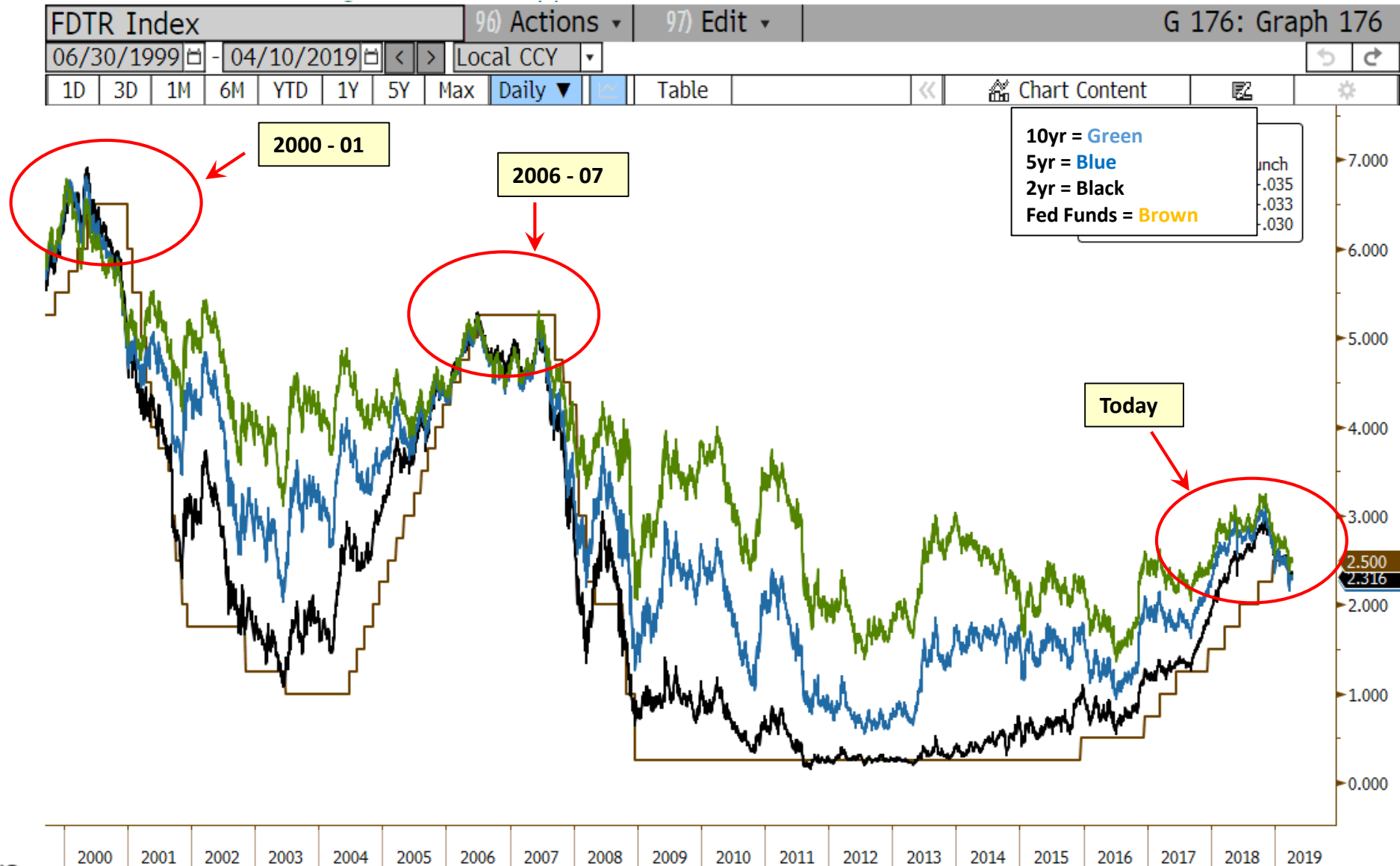
# Corporate Debt – Issuance & Quality Issues?



# Fed Funds Rate: 1985 - Today



# US 2yr, 5yr, & 10yr T-Note Yields: 1999 - Today

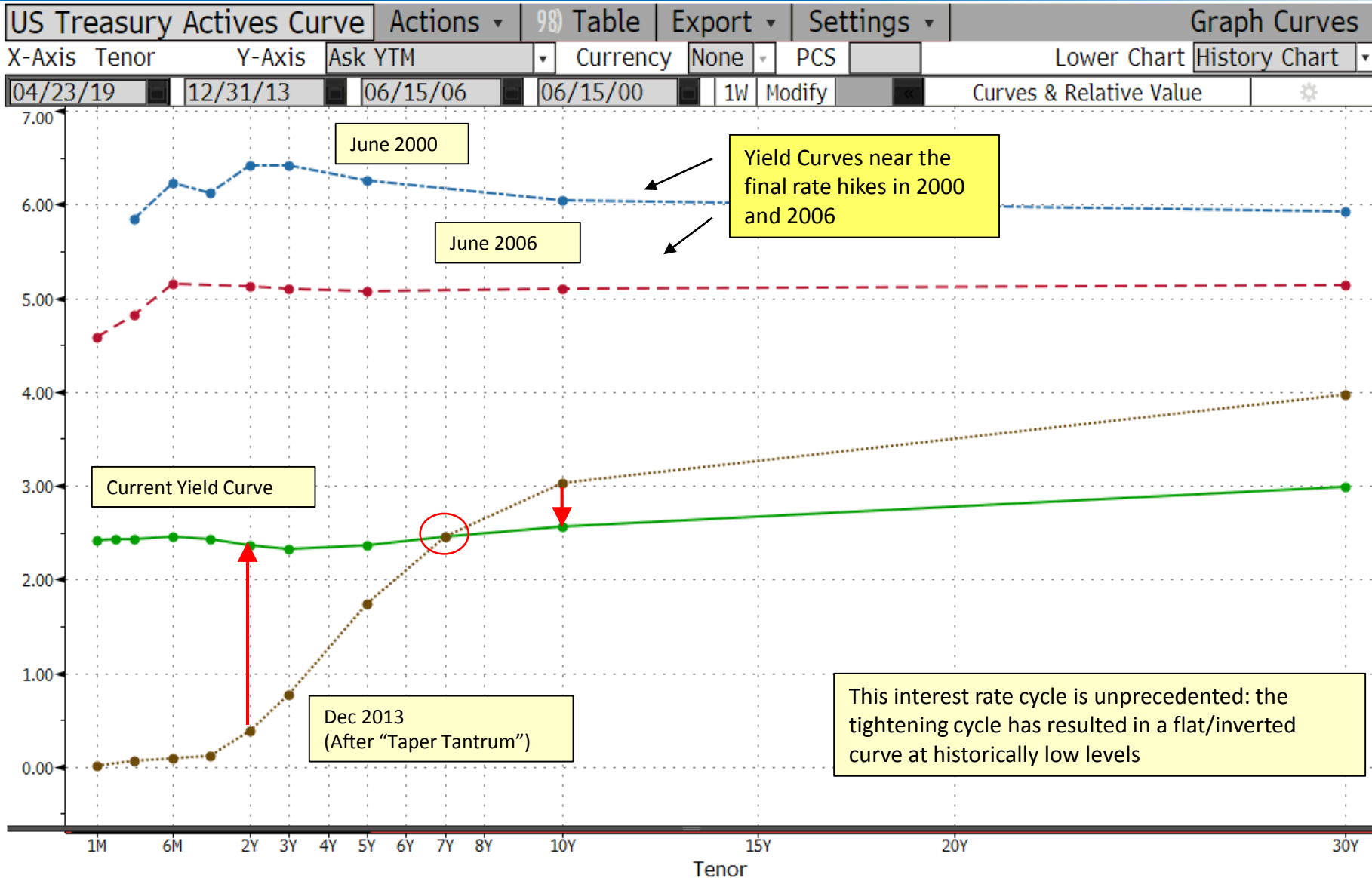


# Fed Funds Rate: Markets Implied Probabilities

Current Implied Probabilities				Add/Remove Rates ▾					
Dates	<input checked="" type="radio"/> Meeting	<input type="radio"/> Calculation		Calculated 07/05/2019			Based on rate 2.25-2.50		
Meeting	Hike Prob	Cut Prob	1.25-1.5	1.5-1.75	1.75-2	2-2.25	2.25-2.5	Fwd Rate	
07/31/2019	0.0%	92.5%	0.0%	0.0%	0.0%	92.5%	7.5%	2.16	
09/18/2019	0.0%	98.1%	0.0%	0.0%	68.5%	29.6%	2.0%	1.97	
10/30/2019	0.0%	98.6%	0.0%	20.5%	56.8%	21.3%	1.4%	1.90	
12/11/2019	0.0%	99.2%	8.5%	35.5%	42.2%	13.1%	0.8%	1.79	
01/29/2020	0.0%	99.4%	16.2%	37.4%	33.8%	9.5%	0.6%	1.72	
03/18/2020	0.0%	99.5%	20.5%	36.7%	28.9%	7.7%	0.5%	1.67	
04/29/2020	0.0%	99.6%	23.1%	35.5%	25.6%	6.6%	0.4%	1.63	
06/10/2020	0.0%	99.7%	25.4%	33.6%	22.0%	5.4%	0.3%	1.59	
07/29/2020	0.0%	99.7%	26.3%	32.3%	20.1%	4.8%	0.3%	1.56	

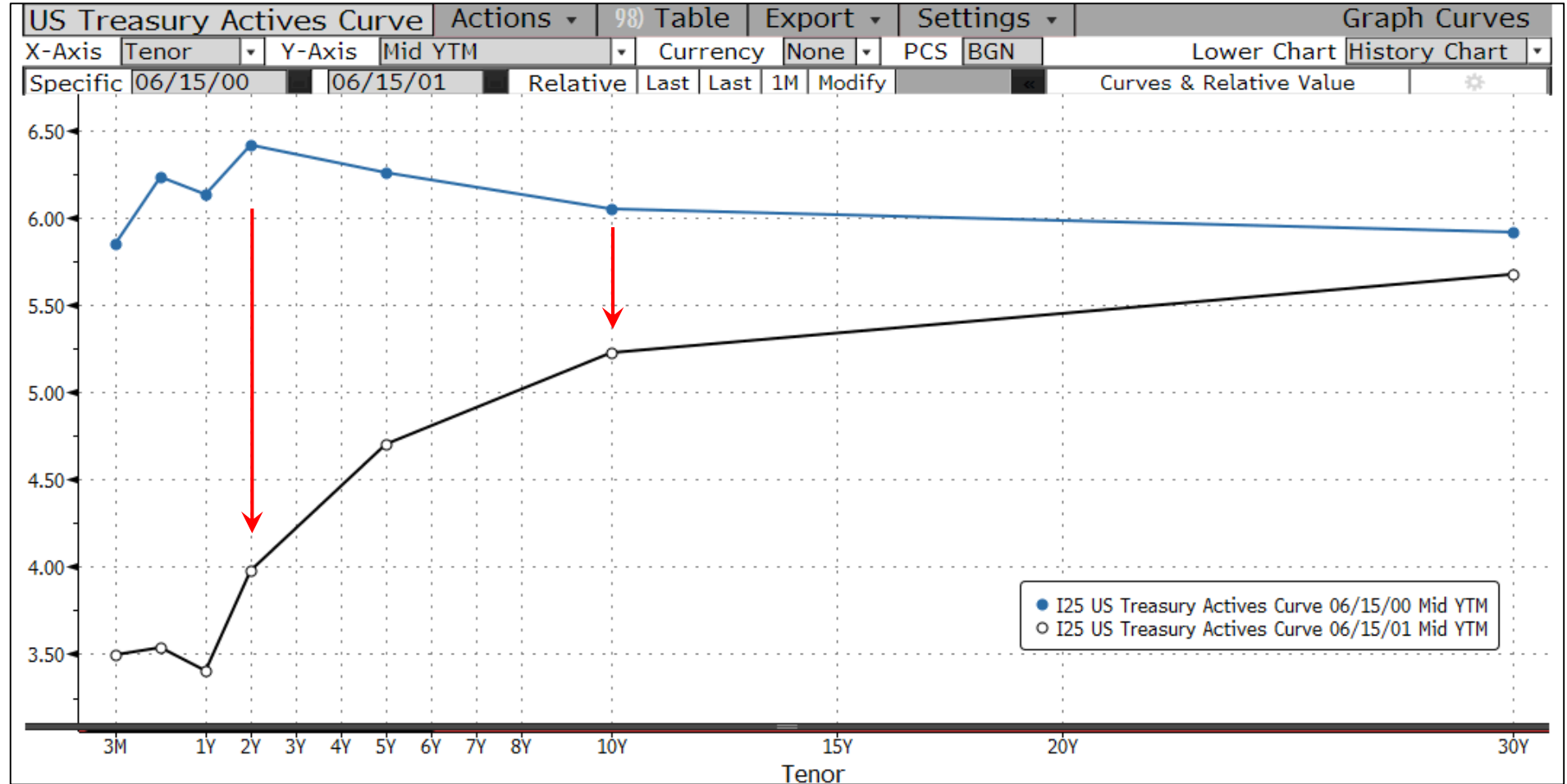


# Yield Curves: 2000, 2006, 2013, Today



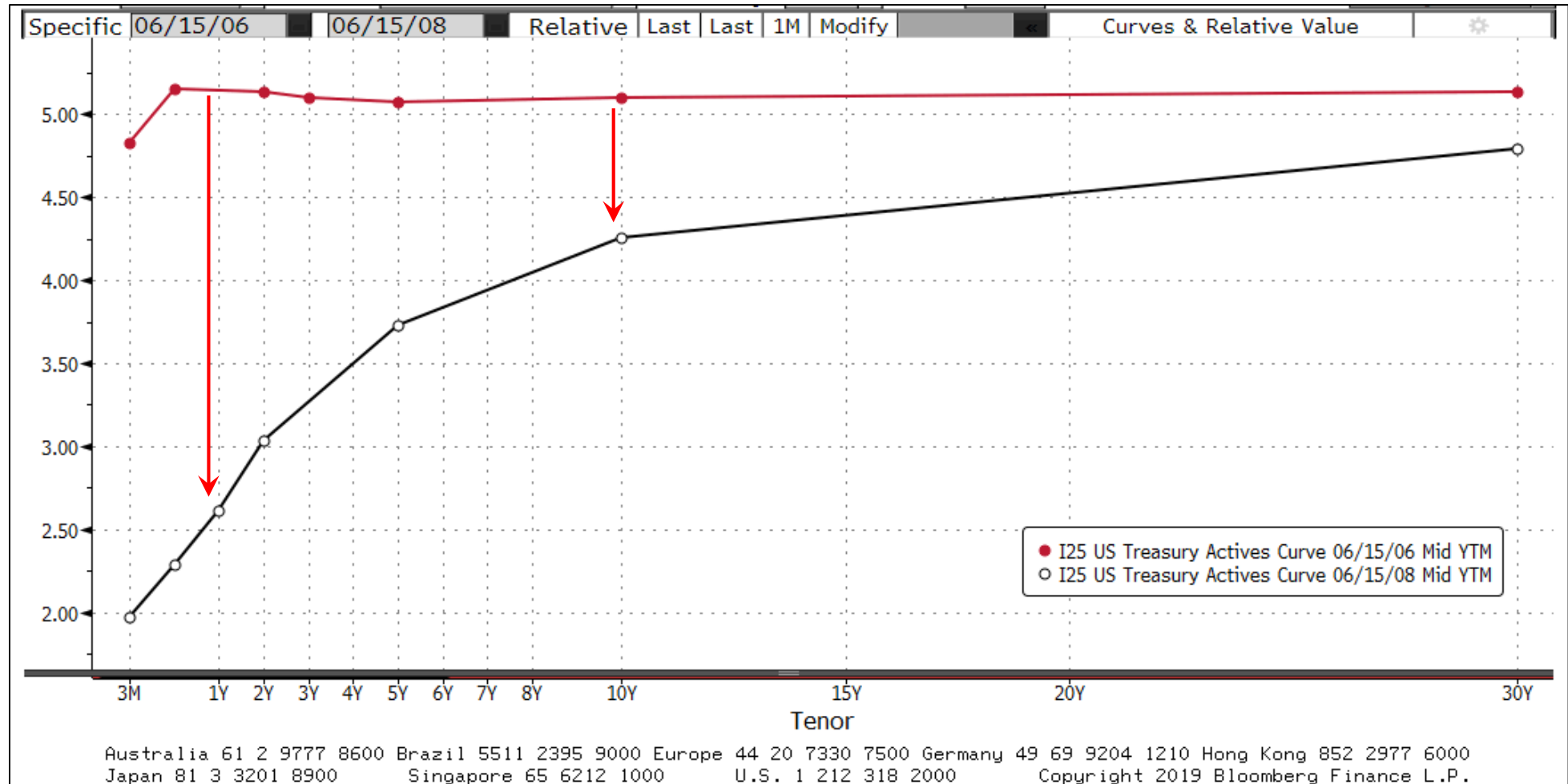
# Yield Curve Inversion Scenario 1: 2000 - 2001

- 2yr TSY fell 244 bps
- 10yr TSY fell 81 bps



# Yield Curve Inversion Scenario 2: 2006 - 2008

- 2yr TSY fell 210 bps
- 10yr TSY fell 84 bps





# Opportunity Cost of Waiting for the Fed

Most municipal portfolios target maturities of 5yrs and in

Since November 2018:

- 1yr treasury is 75bps lower
- 3yr treasury is 121bps lower
- 5yr treasury is 123bps lower

	I25 Ask YTM US Treasury Actives Curve	I25 Ask YTM US Treasury Actives Curve	I25 Ask YTM (Change)
Tenor	07/05/19	11/08/18	07/05/19-11/08/18
1M	2.246	2.194	5.2
2M	2.211	2.271	-6.0
3M	2.220	2.348	-12.8
6M	2.120	2.510	-38.9
1Y	1.979	2.734	-75.4
2Y	1.880	2.965	-108.5
3Y	1.832	3.042	-121.0
5Y	1.859	3.092	-123.3
7Y	1.952	3.168	-121.6
10Y	2.067	3.237	-117.1
30Y	2.571	3.434	-86.2

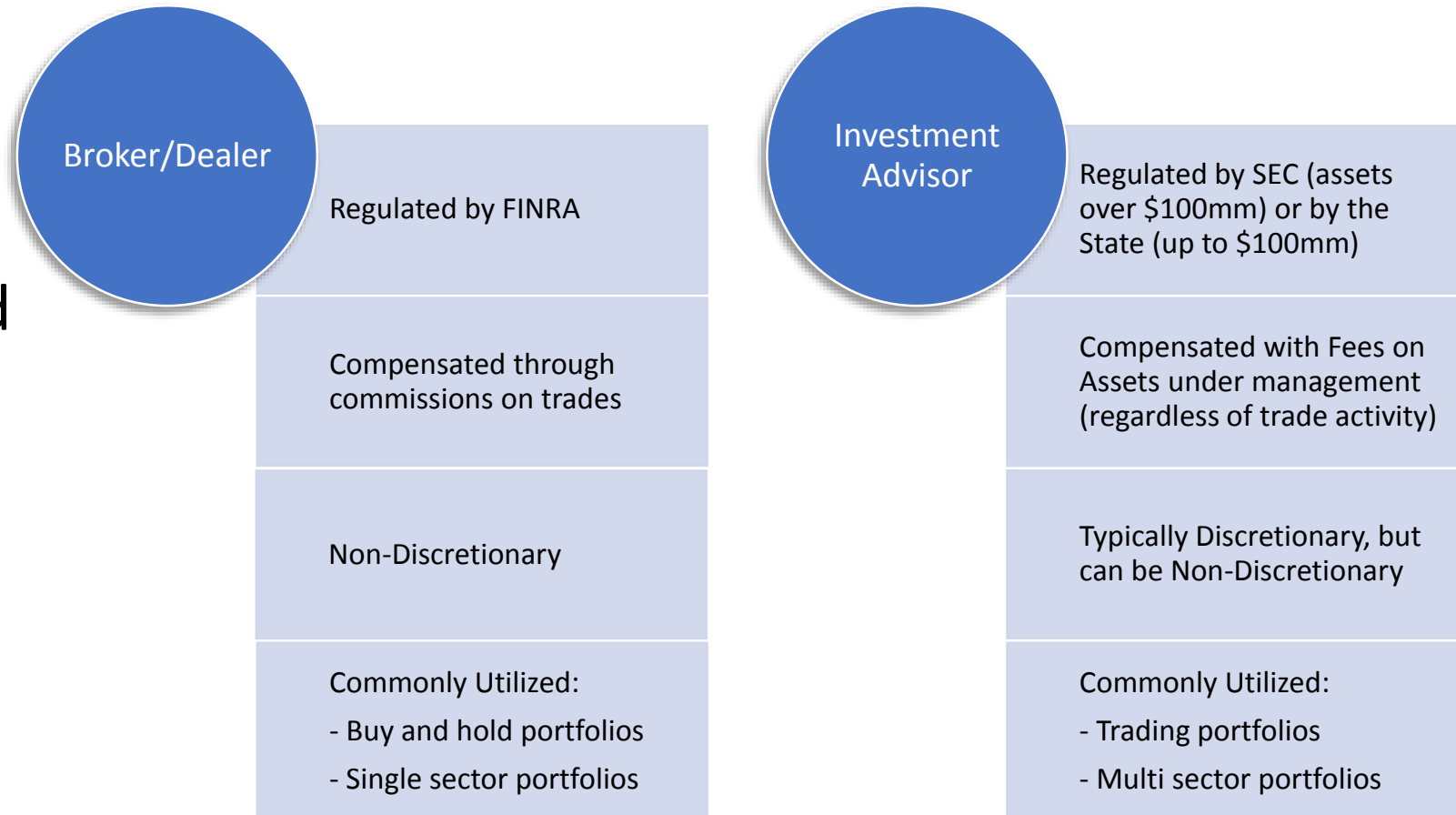


# Investment Management

# Broker Dealers vs. Investment Advisors

Advisors and Broker/Dealers both operate in highly regulated industries.

The advantages and disadvantages come down to the objectives of the municipality.





The GFOA recommends that all municipalities establish a comprehensive written investment policy. This policy should be reviewed and updated annually

- Scope and Investment Objectives
- Roles and Responsibilities
- Suitable and Authorized Investments
- Investment Diversification
- Safekeeping, custody and internal controls
- Authorized financial institutions, depositories and broker/dealers
- Risk and performance standards
- Reporting and disclosure standard



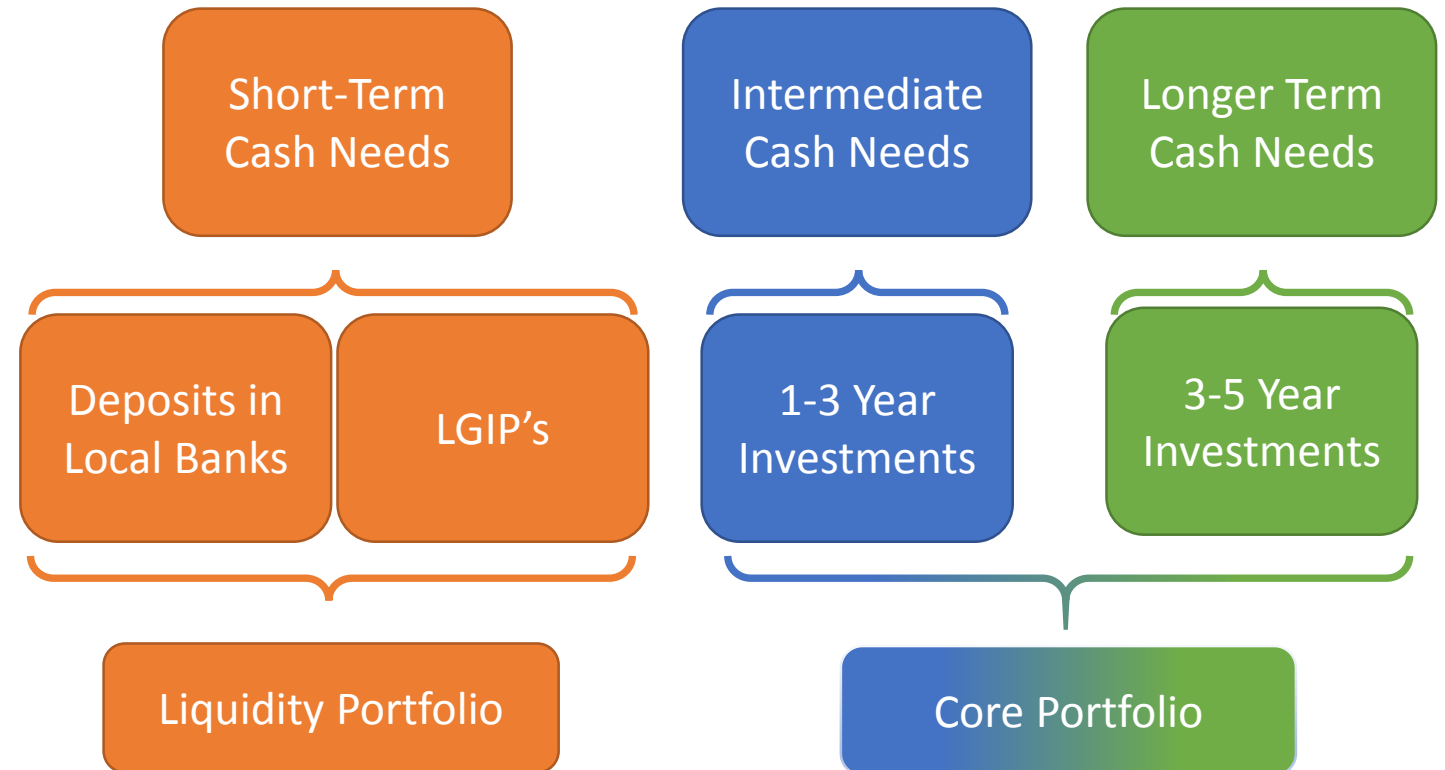
# Investment Policy Primary Objectives



# Liquidity Management

Managing an appropriate level of liquidity requires us to :

1. Identify the municipalities liquidity needs by developing a cash flow forecast
2. Maintain an investment portfolio with short, intermediate, and longer term components
3. Ladder the portfolio to ensure cash is available
4. Maintain a liquidity buffer
5. Invest in high quality securities



Having all funds on either side results in risk to the municipality. Balance and diversification is key.

# Local Government Investment Pools

# Local Government Investment Pools (LGIP's)

- Investment pool established by a state and local government
- Used as an option for investing public funds of participating government entities
- Typically structured as a money market instrument





# GFOA's Recommendations on LGIP's

- Fully understand the investment objectives, legal structure and operating procedures of the LGIP prior to investing
- Evaluate the qualifications and experience of the pools portfolio manager
- Review the historical performance of the investment pool
- Understand procedures for deposits and withdrawals, there may be limits or advance notification needed
- Confirm the LGIP provides regular reporting



## Most Importantly:

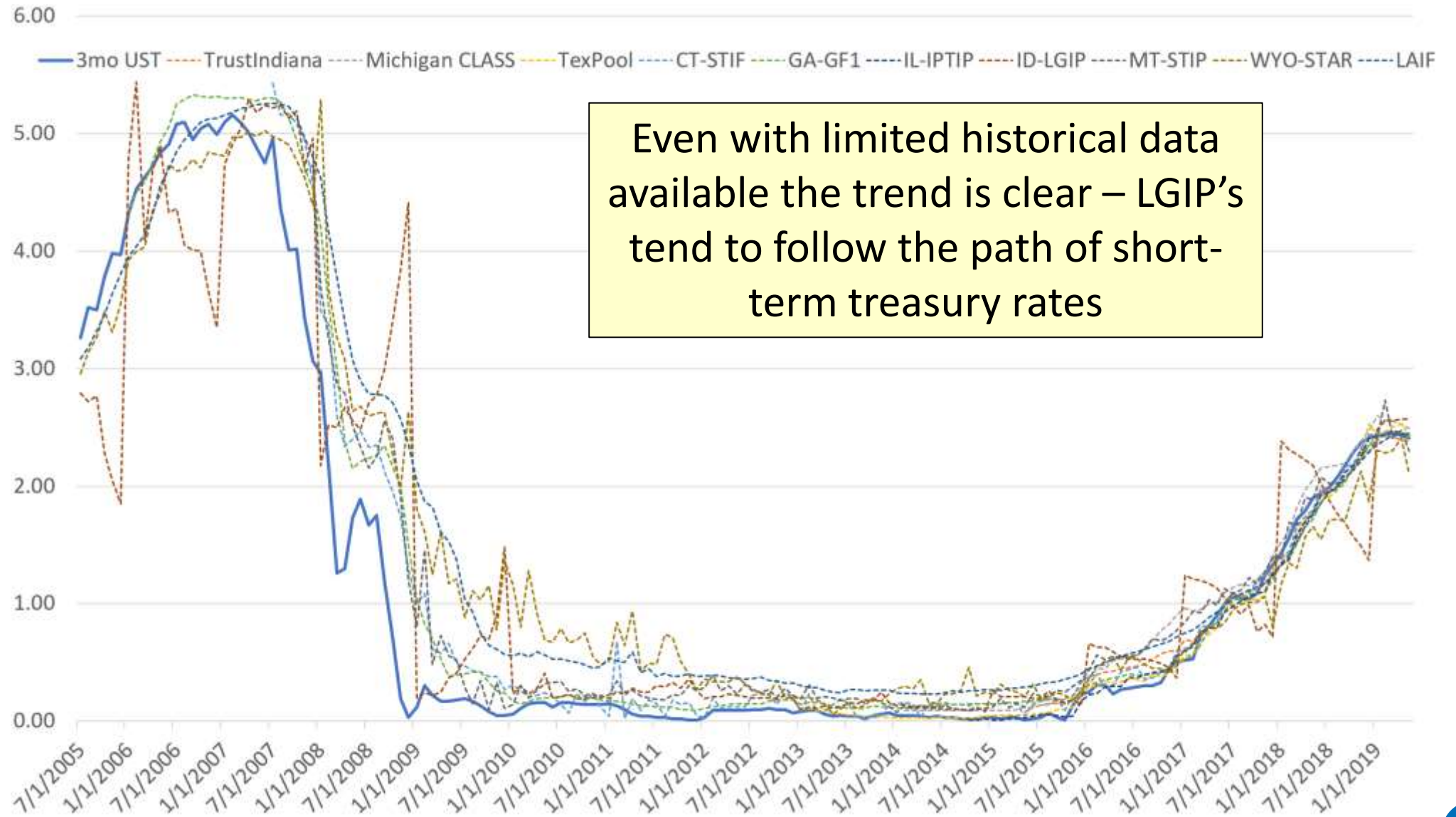
- LGIP's may be a PART of a diversified portfolio, but a portfolio comprised SOLELY of an LGIP may not provide appropriate diversification

- More information can be found at:

<https://www.gfoa.org/local-government-investment-pools>



# LGIP's and Falling Rate Risk



# LGIP's and Falling Rate Risk

## 3-Month Treasury Constant Maturity Rate



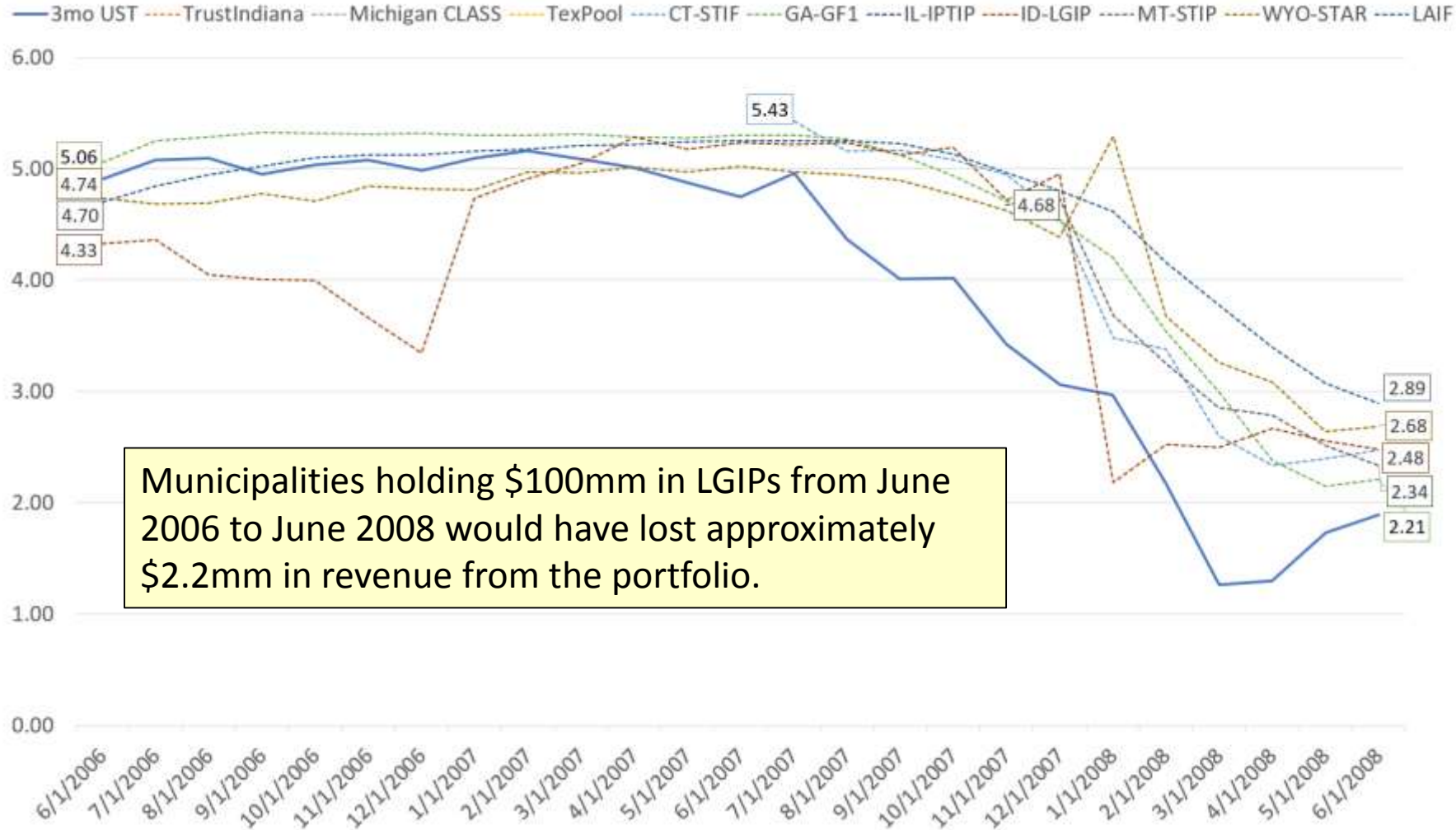
Long-Term trends of LGIP's show the trend still holds. (LAIF used as the example)

In this case the 3-mo UST acts as a leading indicator, moving just before LGIP rates begin to adjust.

Source: Board of Governors of the Federal Reserve System (US)/FRED



# LGIP Performance 2006-2008

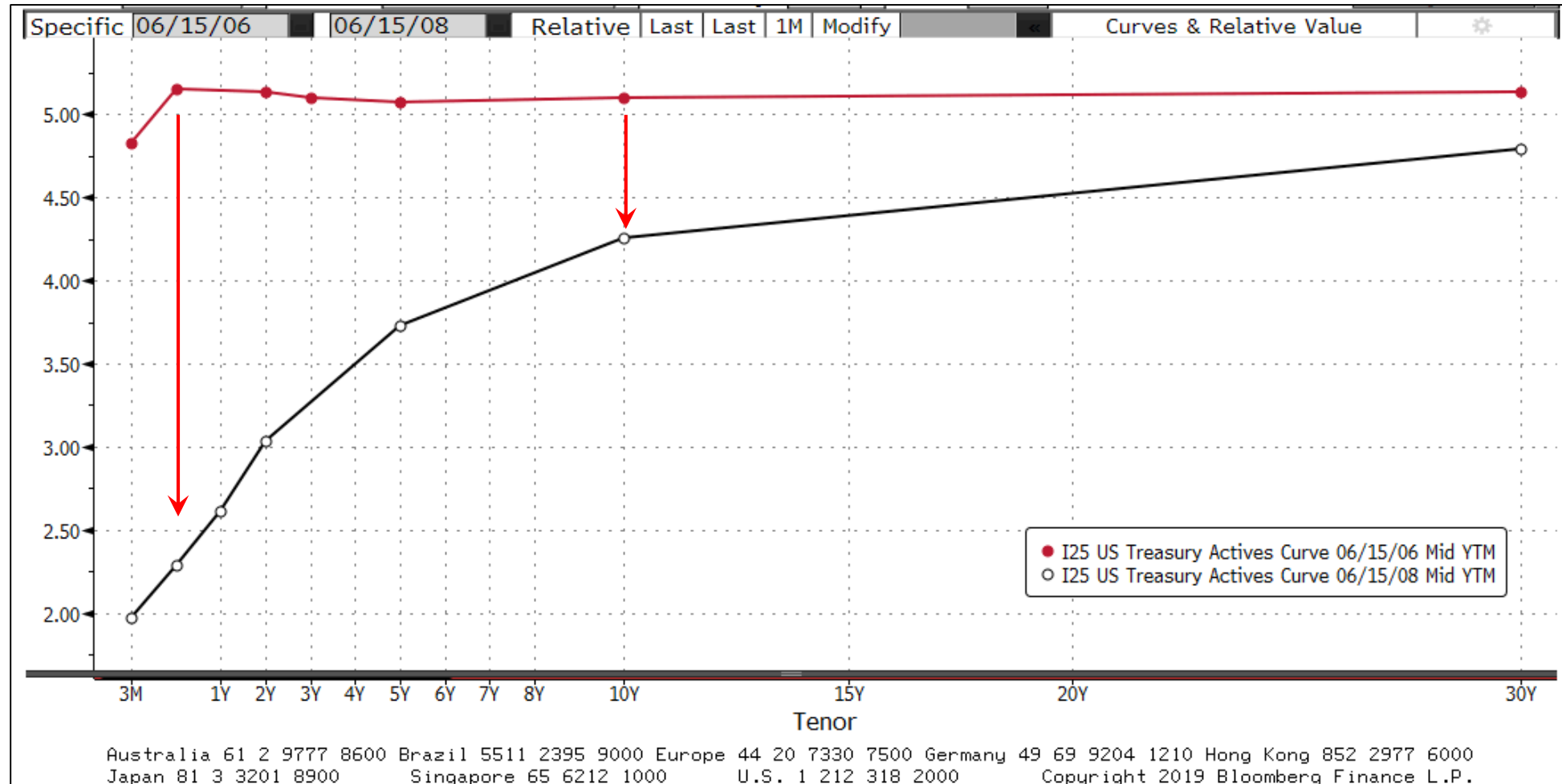


Municipalities holding \$100mm in LGIPs from June 2006 to June 2008 would have lost approximately \$2.2mm in revenue from the portfolio.

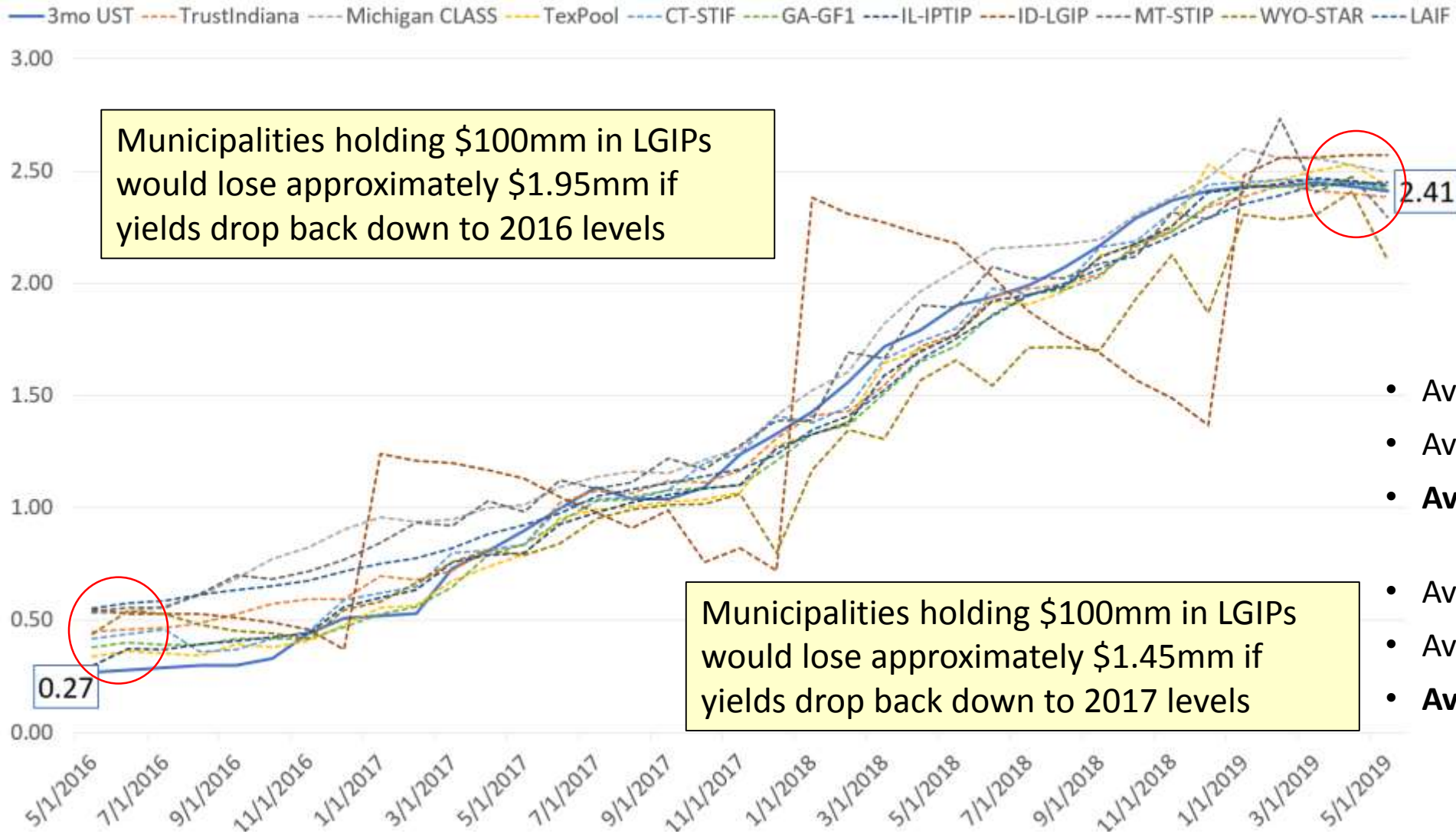
- 3mo TSY fell 302 bps
- 2yr TSY fell 244 bps
- 10yr TSY fell 81 bps
- Average LGIP Rate at Peak: 4.71%
- Average LGIP Rate after Fall: 2.51%
- **Average LGIP Rate fell 219bps**



# Yield Curve Inversion Scenario 2: 2006 - 2008



# LGIP Performance 2019-???



Municipalities holding \$100mm in LGIPs would lose approximately \$1.95mm if yields drop back down to 2016 levels

Municipalities holding \$100mm in LGIPs would lose approximately \$1.45mm if yields drop back down to 2017 levels

- 3 years ago  
3mo TSY was 214 bps lower
- 2 years ago:  
3mo TSY was 151 bps lower
- 1 year ago:  
3mo TSY was 51 bps lower

- Average LGIP 05/19: 2.40%
- Average LGIP 05/16: 0.45%
- **Average LGIP Rate fell 195bps**
- Average LGIP 05/19: 2.40%
- Average LGIP 05/17: 0.90%
- **Average LGIP Rate fell 151bps**



# Investment Types & Portfolio Strategy

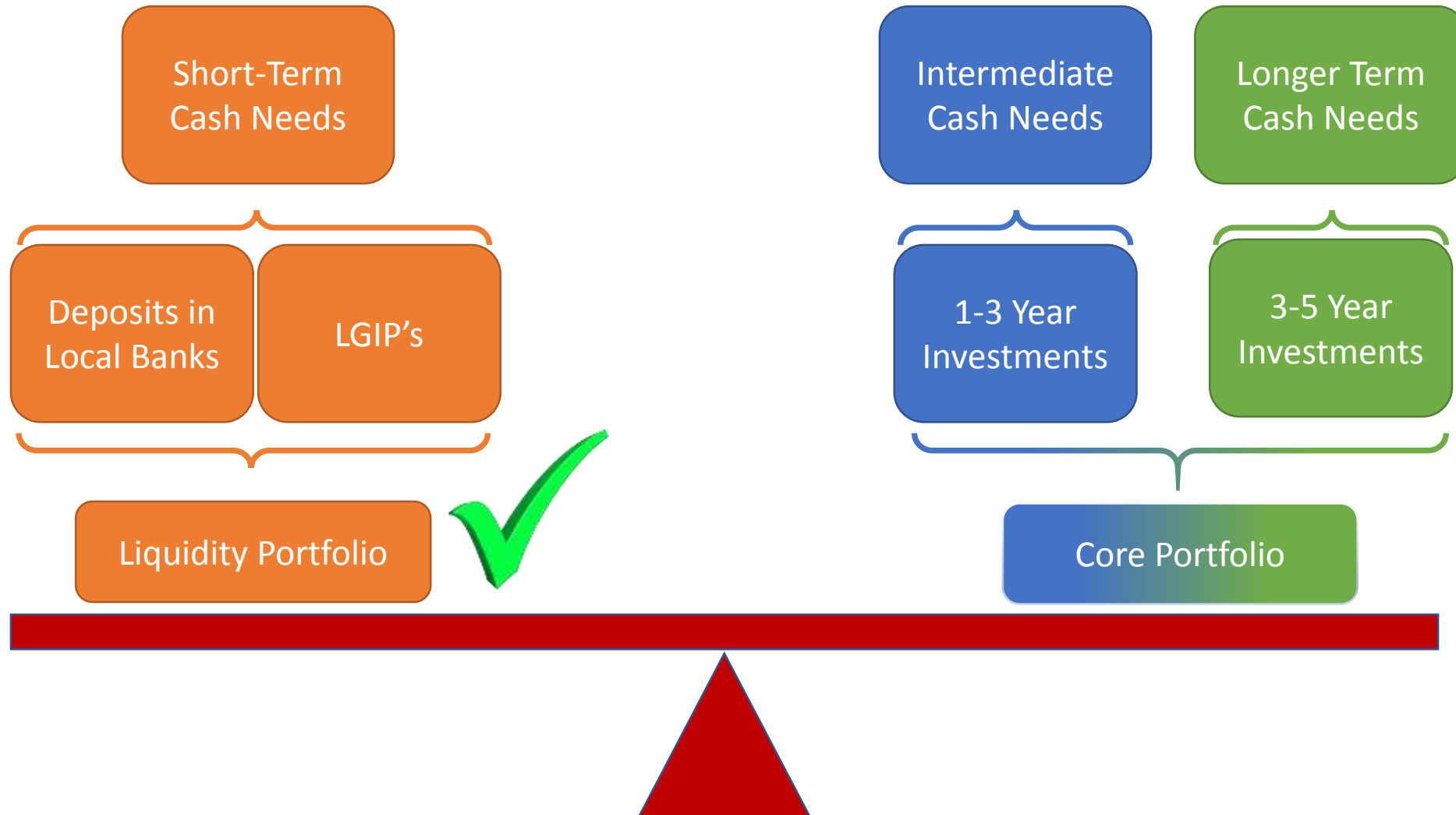


# Investment Strategies Summary

Cycle	Trough	Rising	Peak	Falling
✓ <b>Duration</b>	Minimum Duration	Transition to Neutral	Maximum Duration	Transition to Neutral
<b>Premium/Discount</b>	Premiums	Transition to Discounts	Discounts	Transition to Premiums
✓ <b>Convexity</b>	Negative Convexity OK	Negative Convexity OK	Reduce Negative Convexity	Reduce Negative Convexity
<b>Cashflows</b>	High Cashflow Bonds	Transition to Bullets	Bullets	Transition to Cashflow
<b>Prepay Protection</b>	Important	Less Important	More Important	Critical
<b>Callables</b>	Cushion Callables		Discount Callables	
<b>ARM's/Floaters</b>	Buy ARM's and Floaters	Buy ARM's and Floaters	Sell ARM's & Floaters	Sell ARMs & Floaters
✓ <b>CMBS</b>	Current Pay CMBS	Current Pay CMBS	Lockout CMBS	Lockout CMBS
✓ <b>Agencies</b>	1x Callables	Continuous Calls outperform	Bullets/Callables with Call Protection	Bullets/Callables with Call Protection



# Diversification & Re-Balancing



# Preparing “Core Portfolio” for Falling Rates

- In general we want to add bonds that protect and maintain yields as rates fall
  - Bullet structures that can not be taken away and deeply discounted callable agencies:
    - ✓ Bullet Agencies
    - ✓ Bullet CDs – Negotiable preferred if allowed
    - ✓ Deep Discount Callable Agencies (bullet alternatives)
    - ✓ Non-callable Taxable Munis
    - ✓ Non-callable Corporate Bonds
    - ✓ FNMA DUS Balloons (Delegated Underwriting & Servicing)



# US Agency Debentures

- **Government Sponsored Agencies**
  - Not a direct obligation but implicit
  - Yield Advantage over Treasuries (Spread)
  - Many Options:
    - Bullets vs Callables
    - Structured Notes (Step Ups, Floaters, IANs)

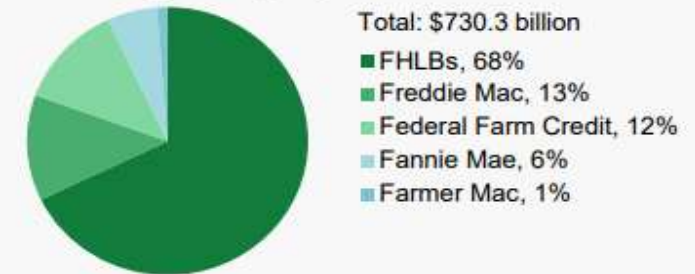
## US Agency / GSE Debt

**Issuance:** \$730 billion issued (down 35%, \$1.1 trillion in 2008)

**Outstanding:** \$1.9 Trillion (down 40% from \$3.2 trillion in 2008)

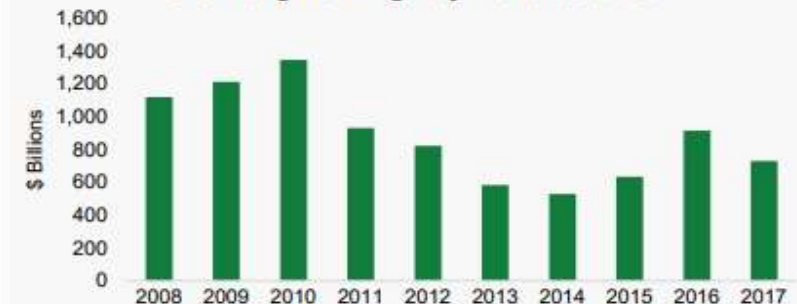
\*Both issuance/outstanding volumes have generally declined over the years due to FNMA/FHLMC's mandate to reduce balance sheet size, as well as their shifting reliance on the credit risk transfer market.

### U.S. Long-Term Agency Bond Issuance - 2017



Sources: US Federal Agencies, Bloomberg, Dealogic, Thomson Reuters

### U.S. Long-Term Agency Bond Issuance



Sources: US Federal Agencies, Bloomberg, Dealogic, Thomson Reuters

# Negotiable Certificates

- Certificates of Deposit from Financial Institutions
- Multiple maturities available (usually 5 years and less)
- Can offer higher yields than similar term government bonds
- Insured up to \$250,000 by the FDIC or NCUA
- Can be issued as bullets, or have call options
- Unlike other CD's, they are considered a security and can be traded in a very active secondary market



# Taxable Municipal Bonds

- Municipal bonds are issued by U.S. state and local governments that need to finance various infrastructure projects, and/or refund existing debt

## Municipal bonds

### GO bonds (general obligation)

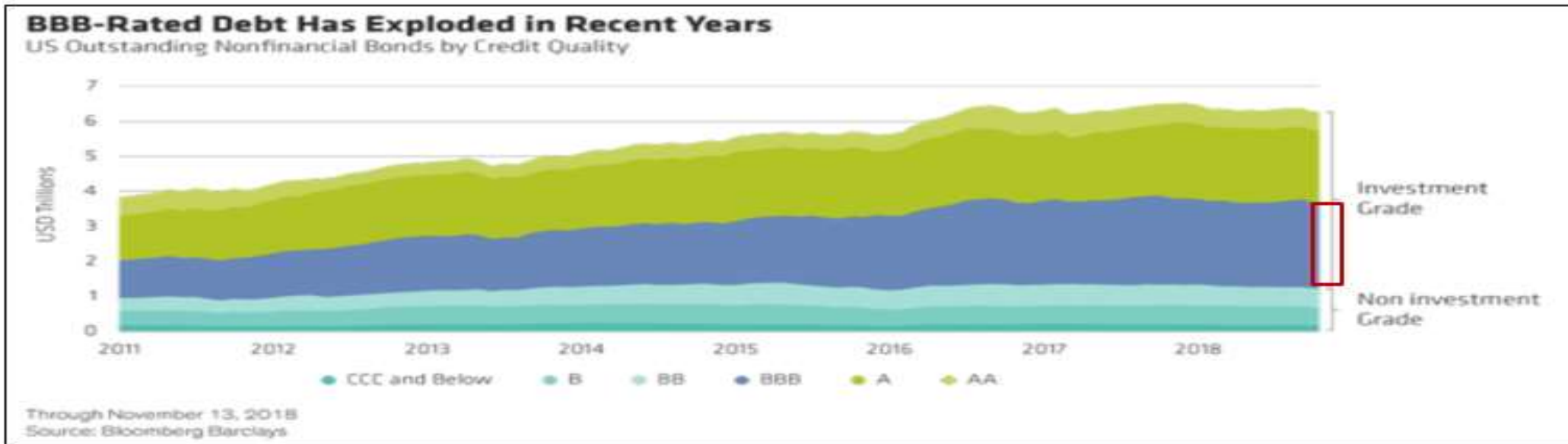
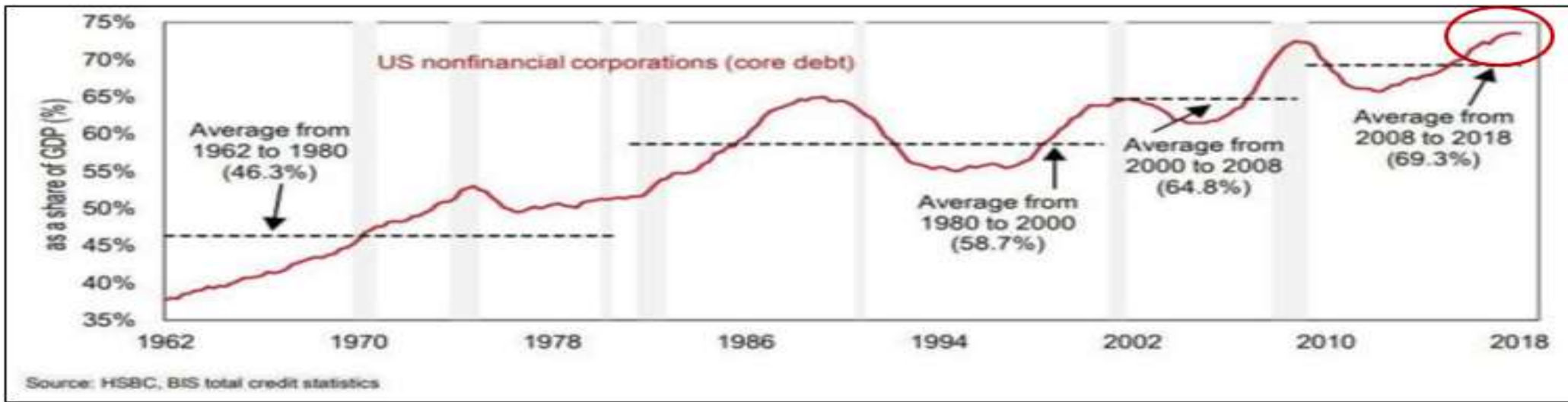
Repayment source	Backed by state or local government's authority to levy taxes
Common issuers	States, cities, counties, Schools districts

### Revenue bonds

Repayment source	Secured by revenue stream of project
Common issuers	Transportation systems, hospitals, power systems, water and sewer



# Corporate Debt – Stick to Known Names & Credits



# FNMA DUS Balloons

- DUS bonds are popular with investors due to:
  - Short & defined maturities
  - Very strong prepayment protection
    - Significant prepayment penalty
    - Majority passed to bond holder
- Fannie Mae guarantee
- Competitive spreads and liquidity
- 30yr amortization with balloon maturities
- Maturities 5yrs and in are typically available

Cashflows

1) Bond Flow    2) Collateral Flow

Orig Bal 7,650,000 USD    Your Orig Bal 1,130,000

Prev Bal 6,777,581    Your Prev Bal 1,001,133

Accrued 0.0615 for 9 days, Start 07/01/19, Delay 24, WAL 3.696

Show precise amount  Annually

	Dates	Balance	Sched	Unsched	Interest	Penalty	Cashflow
Totals			1,001,133	0	91,305	0	1,092,438
1.	07/25/2020	976,998	24,135	0	24,766	0	48,901
2.	07/25/2021	951,712	25,286	0	24,084	0	49,370
3.	07/25/2022	925,342	26,370	0	23,441	0	49,812
4.	05/25/2023	0	925,342	0	19,014	0	944,356





# Summary

1. Ensure that the investment portfolio and rate environment are being reviewed consistently
2. Once near-term liquidity needs are met, focus on building the “core portfolio”
3. Portfolios will differ based on investment policies and state statutes. However, just about every state offers enough flexibility to properly manage liquidity and interest rate risk
4. Education, education, education!

Questions???



# Disclaimer

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