



REDTREE
INVESTMENT GROUP

OHIO AUDITOR OF STATE
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Best Practices of Investment Governance: Policies, Procedures and Advisory Boards

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Conversation Items



- ✓ Review of Eligible Investment Options
- ✓ Investment Policies and Procedures
- ✓ Investment Providers
- ✓ Communication to Governing Boards



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Permitted Investments under ORC

- **ORC 135.14:** Schools, Townships, Cities, etc.
- **ORC 135.35:** Counties or other agencies
- **Charter City:** Can write own investment guidelines, generally follows closely to ORC 135.14

<p>Local Bank Products Checking accounts, sweep accounts, demand deposits</p> <p>Certificates of Deposit Term deposits, CDAR's</p> <p>STAR Ohio/Eligible Money Markets Money market programs</p> <p>US Treasury Securities Fixed income obligations issued by US Government</p>	<p>US Government Agency Securities Fixed income obligations issued by FHLB, FNMA, Freddie Mac</p> <p>Municipal Bonds* Obligations of Ohio public entities. Ratings and other parameters may need to be met.</p> <p>Commercial Paper* Short-term debt obligations of public companies. 270-day maturity. Can own up to 40% of funds with 5% limitation per issuer. Credit ratings must be met.</p> <p>Corporate Bonds Only eligible under 135.35 with certain parameters</p>
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Maximum maturity is 5 years on any investment, the exception is municipal bonds which is 10 years

*additional one-time investment training required



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Best Practices when Investing Funds

- ✓ Establish investment objectives and procedures
- ✓ Understand what you are purchasing
- ✓ Know the risks and diversify
- ✓ Ask for help
- ✓ Stay informed and monitor investments
- ✓ Reporting: Transparency and Accountability



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Common Investment Terms

- **Basis point**
 - 1/100th of %
 - i.e., 100 basis points is 1%
- **CUSIP**
 - Identifier number for a security
- **Yield**
 - YTM – Yield to maturity
 - YTC – Yield to call
- **Coupon**
 - Set interest rate for security
- **Accrued interest**
 - Interest accrued daily – paid at next scheduled interest payment date
- **Par value of bond**
 - Par = \$100
- **WAM**
 - Weighted average maturity
- **Yield Curve**
 - US Treasury yields from 1 day to 30 years



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Investing Considerations

Starts with the investment policy

Remember the objectives

- Safety of principal
- Liquidity
- Market Rate of Return

Understand cash flows and investment horizons

Know the risks

- Market
- Liquidity
- Credit
- Reinvestment
- Political

Stay informed and monitor investments

Communication and reporting

- Governing Board
- Investment Professionals



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Investment Policy Statement



- Investment Policy Statement (IPS)
 - Your entity's plan for investment-related decision making
- Considers the laws, rules, guidelines, and regulations applicable to the funds
- Summarizes the principles, goals, and strategies for the investment program

<https://www.gfoa.org/materials/investment-policy>



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Components of an Investment Policy

Purpose & Scope	Objectives	Delegation of Authority & Authorized Investments
Diversification Guidelines	Maturity & Duration Limits	Portfolio Management
Key Metrics	Internal Controls & Reporting	Selection of Counterparties



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Investment Policy Requirements

- ✓ Create, adopt, and file with the Auditor of State
- ✓ Not required if annual average portfolio of investments is \$100,000 or less
- ✓ Service providers sign-off
- ✓ If no policy on file, the entity may only invest in interim deposits, STAR OHIO, or no-load money market mutual funds
- ✓ Entities must upload the most recent IPS to the AOS: **eServices account – look under document manager**



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Internal Controls and Due Diligence

Proper Administrative Systems

- Identify potential weaknesses in investment functions

Procedures to Select Financial Institutions

- Checklist for choosing outside investment professionals

Organizational Structures

- Who performs specific investment functions?

Training Programs

- Does each employee receive annual training?

Periodic Internal Audits

- Check procedures of outside investment professionals



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Importance of Staying Informed and Engaged



- What is the latest with the economy, Federal Reserve, and Interest Rates?
- Do the current investments reflect market sentiment?
- Have cash flow expectations changed?
- Is liquidity adequate?
- Do the investments comply with the investment policy?



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Who are the Investment Providers?



- Local Banks
- Brokers
- Investment Advisors

What to Ask Yourself?

- Time/resources
- Risk tolerance
- Composition of funds
- Do you like investing?
- What are the steps to protect monies?



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Authority and Legal Guidelines of the Providers

Authority

Discretionary	<ul style="list-style-type: none"> Can make decisions on behalf of the client without prior approval Manage portfolio based on agreed investment objectives
Non-Discretionary	<ul style="list-style-type: none"> Offers guidance and recommendations but requires client approvals Final decision remains with client

Legal Guidelines and Standards

Fiduciary	<ul style="list-style-type: none"> Requires to act in the best interest of client and provide best possible investment option Applies to Investment Advisors
Suitability	<ul style="list-style-type: none"> Requires recommendations that are suitable to the investment objectives Applies to Brokers

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A Look at the Investment Providers

	Banks	Investment Advisors	Brokers
Authority	Work with banks you know and trust	Serve as a fiduciary in the client's best interest	Follows suitability standards
Inquire	Make sure they understand the requirements of collateral	Ask who they work with?	Who do they sell securities to?
Questions	Do they assist other public entities?	What are their credentials?	Do they have experience in public fund investing?
Compensation	Understand fee structure	How are they compensated?	What is their compensation on trades?
Find more info	Visit www.fdic.gov for more information on bank	Visit www.investor.gov for more information on firm	Visit www.finra.org for more information on broker

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Investment Reporting



Timing of Reports



Cost basis/Market value



Help with Balancing – understand investment reporting (Interest payments, accrued interest & premiums)



Appropriate measurements



Information to Board/Council/Committees

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