



Outsourcing Treasury Management Investment Services

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Reserve Assets: In-House vs. Outsourced Investment Management

- Identify time, tools, talent
- What is the job of a Finance Director or CFO?
- Identify various costs
- Investment options available
- Political considerations of responsibility
- How to hire and fire investment service providers



Time, Tools, and Talent

- Understand cash flow needs
- Identify liquidity needs and create “investment buckets”
- Who can manage the Operating Reserves?
- Manage risk with professionals (internal or external)



What is the Investment Role of the Finance Department?

- Manage the investment pools
- Utilize professionals and products for portfolio management
- ...and everything else you can think of



The Approach to Investment Management for a sample School District

Case Study

District of XYZ– Investment Overview

The District invests all idle monies with an emphasis on safety, liquidity, and lastly, yield. Safety is the preservation of capital and protection of principal. Liquidity means ensuring there is always sufficient cash on hand to meet current needs. Yield means maximizing returns and preserving purchasing power.

Investments are made in fashion consistent with the District's investment policy (Resolution Number #, as amended) and Florida Statutes. The District employs external professionals (money managers) to manage the District's investment portfolio. Additionally, the District employs other external professionals (independent investment advisors) to oversee the money managers. To further protect District funds all of the District's investments are held in a trust by a third-party trustee. Finally, the District's Finance Director (Chief Financial Officer) oversees the entire program.

District investments include U.S. Treasury securities, investment grade corporate bonds, and, to a lesser extent, money market mutual funds. Investment in a number of higher risk financial assets, including equities (stocks) and leveraged instruments, are specifically prohibited.

Over the last 5 years (FY 2010 to FY 2014) the Barclay's 1-3 year government/credit index, the index by which the District's investment program is measured, experienced total returns of 1.45%. The District's investment program returns (net of fees) totaled 2.33% or an 0.88% greater return on investment. During this period the District's managed investment program returned an extra \$4.1 million to District coffers above the indexed amounts. Clearly a worthwhile endeavor.

The District's investment program is low risk focusing on treasuries and high quality corporate bonds, has always met the District's liquidity needs, yet still produces returns exceeding yield benchmarks. A successful program by any standard.

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What Does It Cost to Properly Manage a Portfolio Internally?



- Dedicated personnel
- Trading Execution Costs (Institutional trading platform vs. retail)
- Data, trading, and information (Bloomberg terminal \$24,000 per year)
- Risk management software (BondEdge \$80,000 per year)
- Credit research (not provided by bond sales personnel)

Investment Options Held at Your Custodian

- Individual Bonds
- Mutual Funds
- Pooled Accounts
- Commingles Funds
- Separate Accounts



Scripophily.com

What About Investment Pools?

- Multiple levels of cost
- Utilize outside investment managers
- Not guaranteed by the State of Florida
- May not conform to Investment Policy Statements



Outsourcing Investment Management

- Use of an investment consultant to monitor your manager(s)?
- Hire one or more managers for specific investment “buckets”
- Fiduciary responsibility of the manager(s)
- The RFP process

Outsourced Manager Should Provide:

- Liquidity
- Fiduciary responsibility, extension of staff
- Daily investment management of your portfolio
- Portfolios conforming to your investment policy
- GASB reports
- Performance Reports
- You can hire and fire your manager to fit your changing needs