



INVESTMENT DECISIONS: BEST PRACTICES AND REAL-WORLD CASE STUDIES

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Market Update

US Bank Failures

Signature Bank, Silicon Valley Bank, First Republic Bank

US Tracks shoots down alleged Chinese spy balloon.

UBS acquires Credit Suisse.

Titan Submersible Implodes

Chat GPT and AI take the world by storm.

Federal Reserve Raised the Fed Funds rate 4 times in 2023, bringing the Federal Funds rate to 5.375%.

The 2yr Treasury note yielded **4.43%** in Dec 2022 and ended the year at **4.25%**
The 5yr Treasury note yielded **4.00%** in Dec 2022 and ended 2023 at **3.85%**

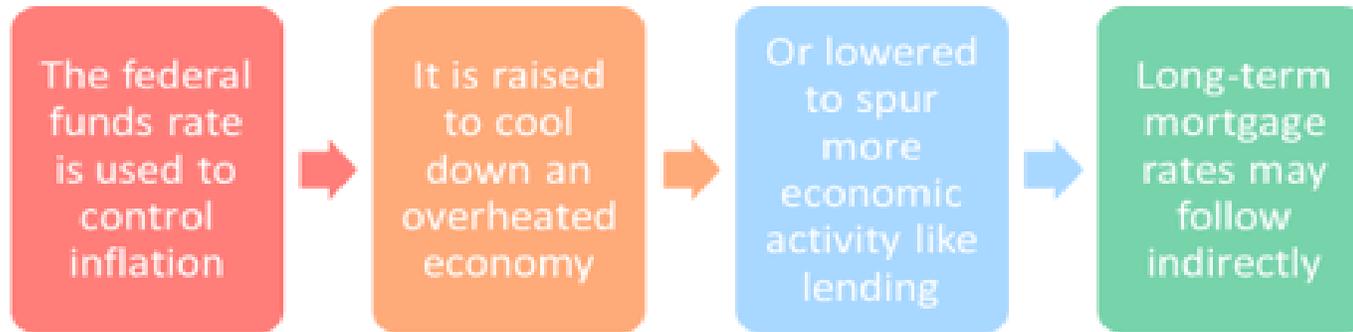
Fitch Downgrades United States Credit Rating to AA on August 1.

OPEC cuts oil supply 4 times in 2023

Israel & Hamas conflict begins October 7th.

The Federal Funds Rate

When was the last time the Fed Funds Rate was above 5%?



The Federal Reserve Reform Act of 1977 and The Full Employment and Balanced Growth Act of 1978

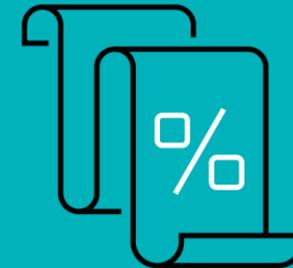
MANDATES



FULL
EMPLOYMENT



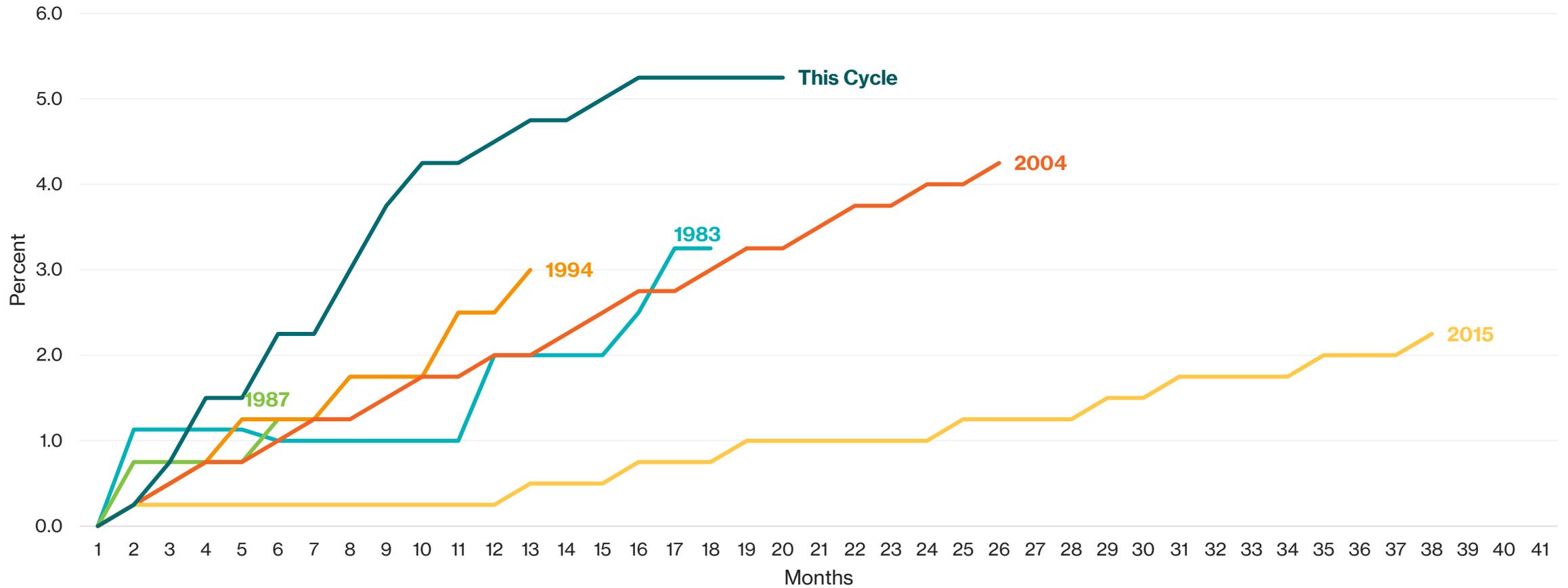
STABLE PRICES



MODERATE
LONG-TERM
INTEREST RATES

Fastest Rate Hiking Cycle

The current hiking cycle has been faster than each of the cycles since 1983

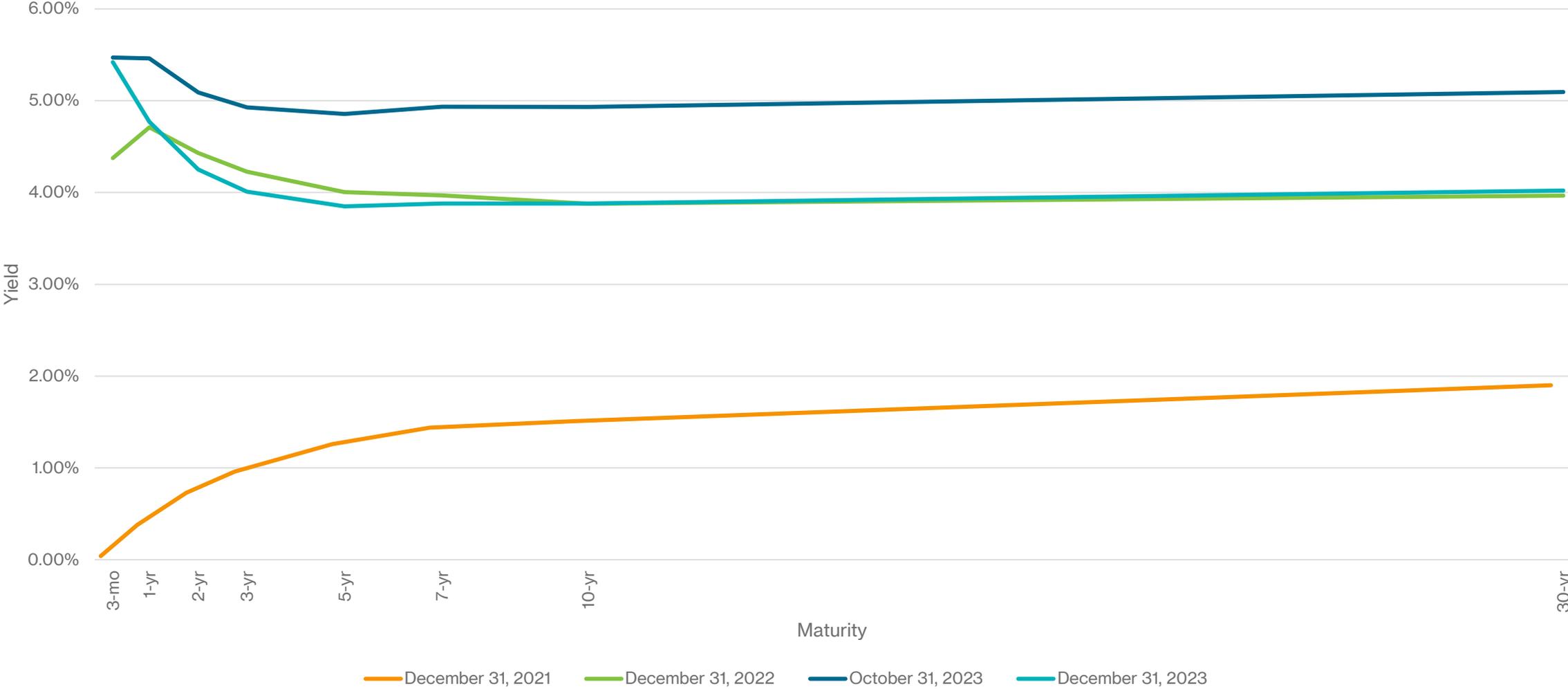


SOURCE: BLOOMBERG

US Treasury Yields

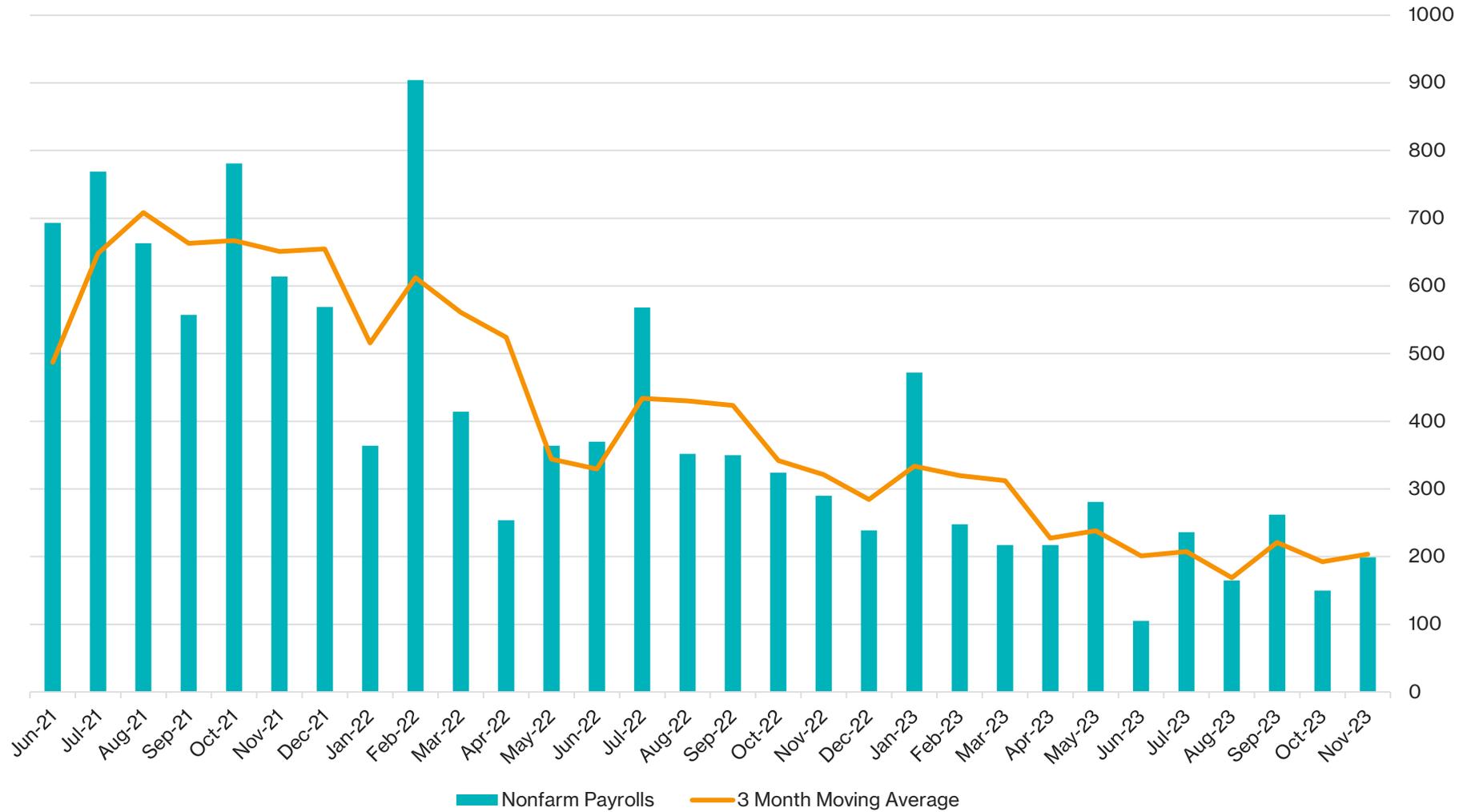


U.S. Treasury Yield Curve



SOURCE: BLOOMBERG

Latest Trends in Labor Market

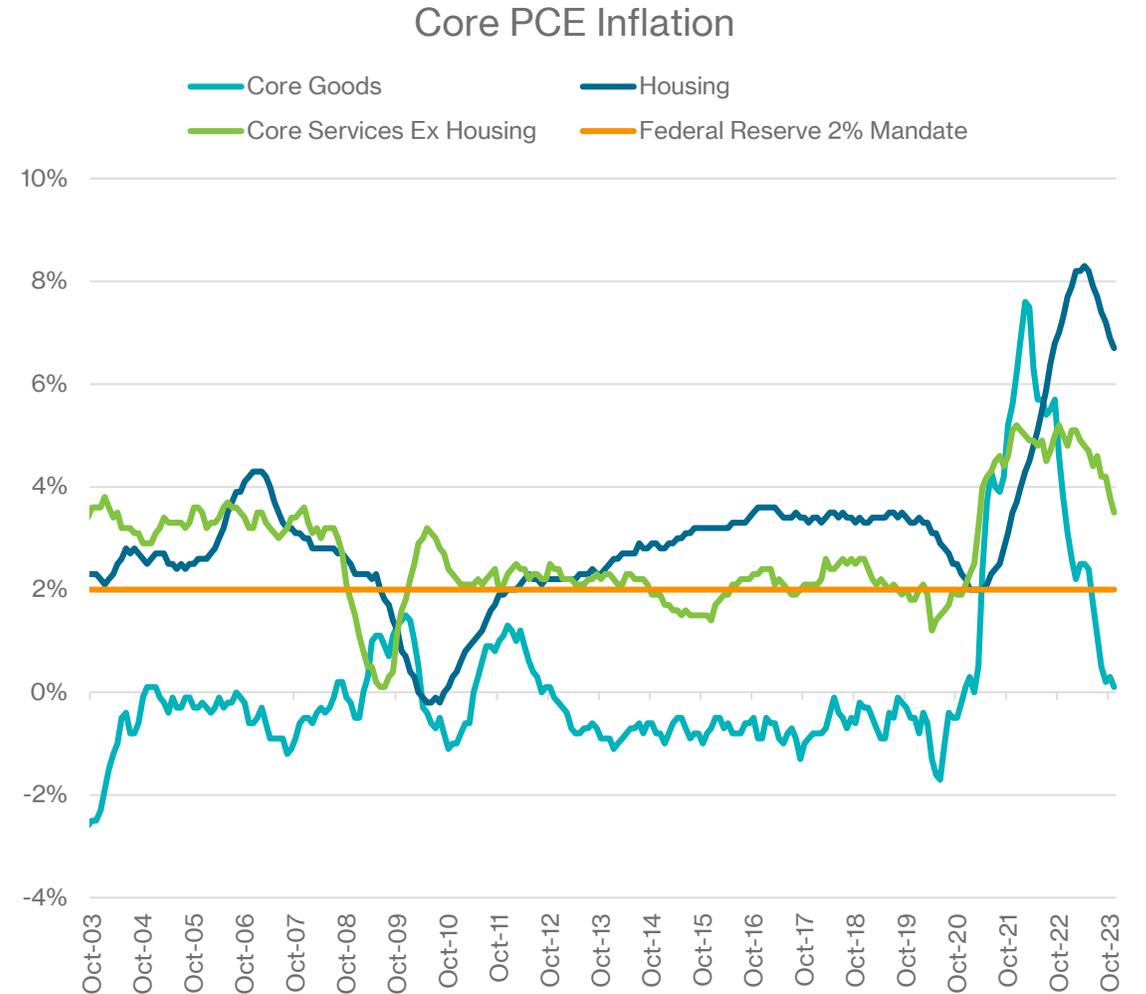
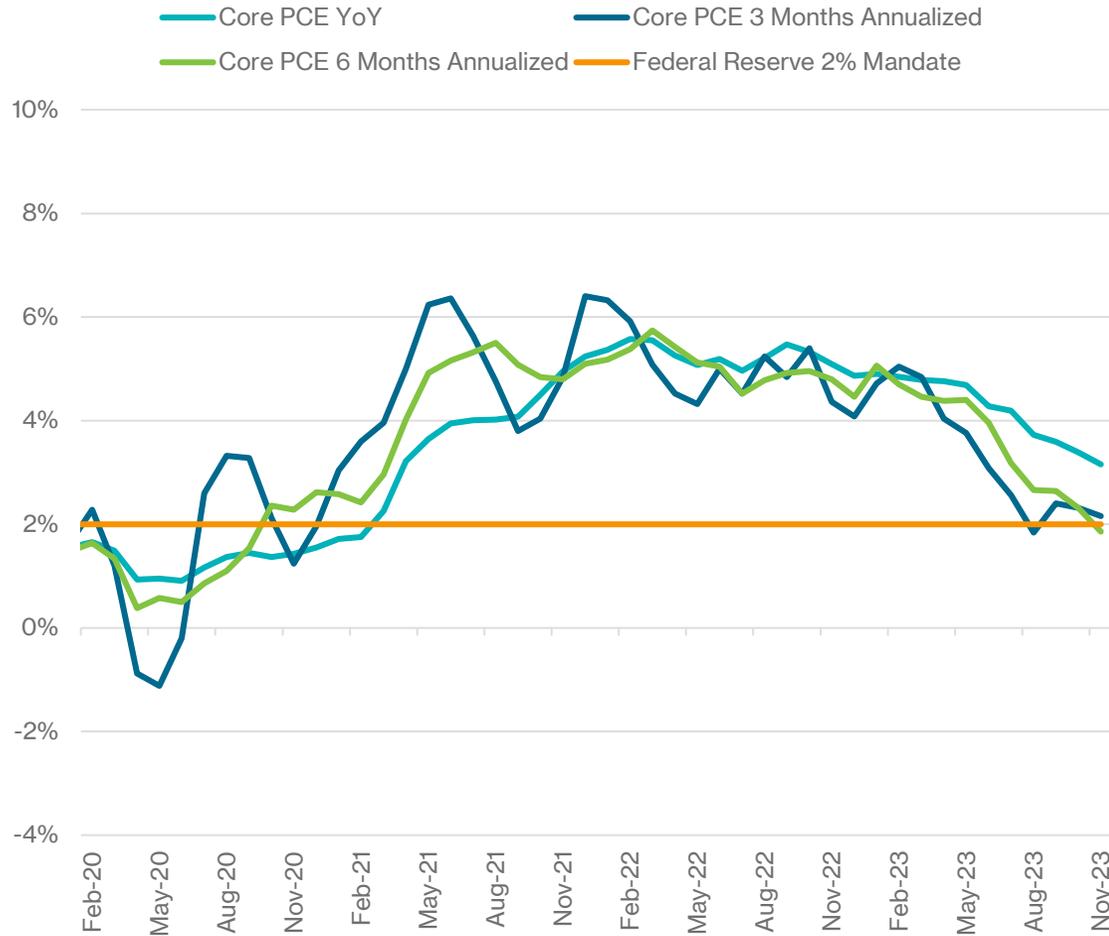


Unemployment Rate	
Current	3.80%
Fed's Projection	
12/31/24	4.10%
12/31/25	4.10%
12/31/26	4.10%

SOURCE: BLOOMBERG

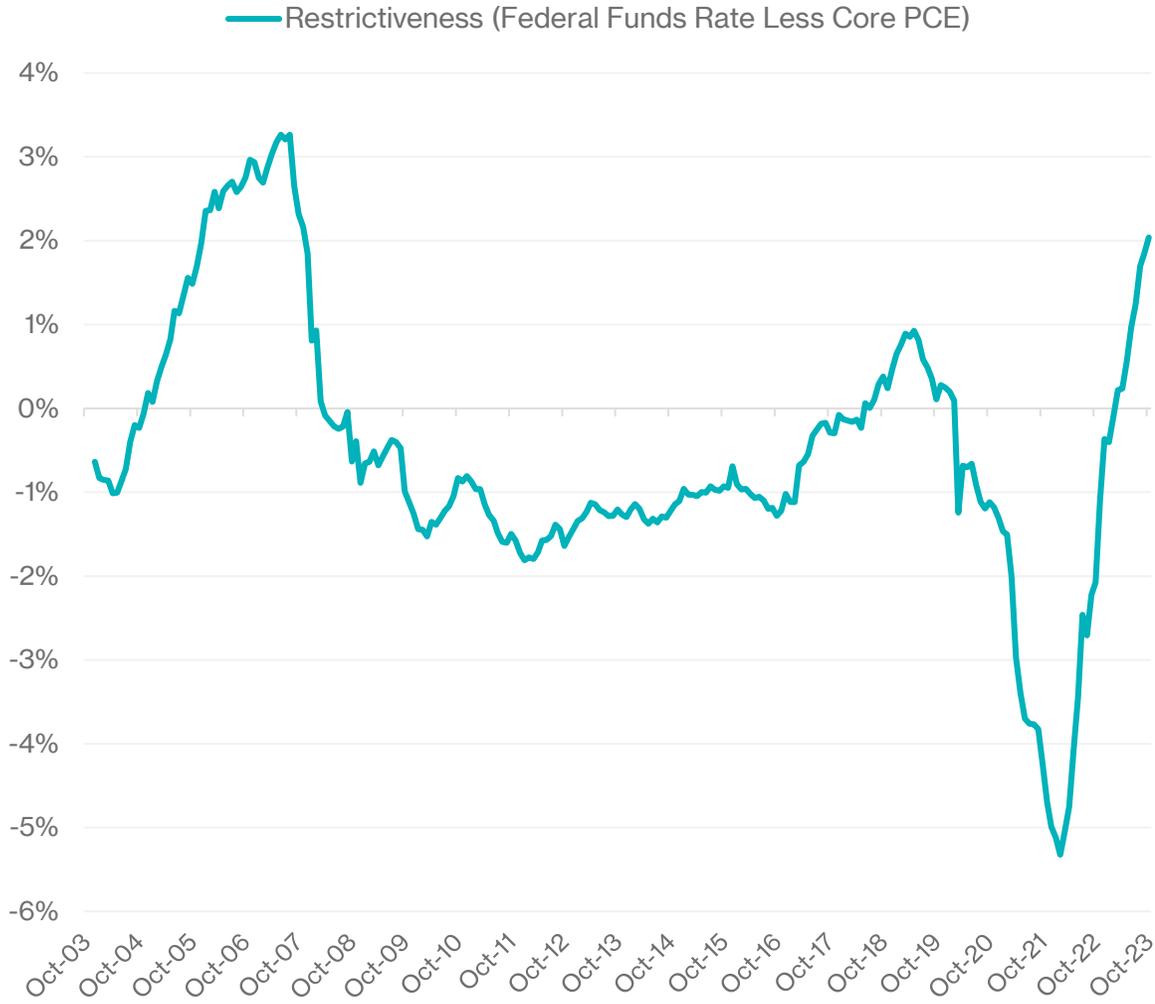
What's Ahead For Inflation

Recent Data Points To Continued Disinflation



Central Banking 101

Keeping Rates Unchanged Will Increase Restrictiveness

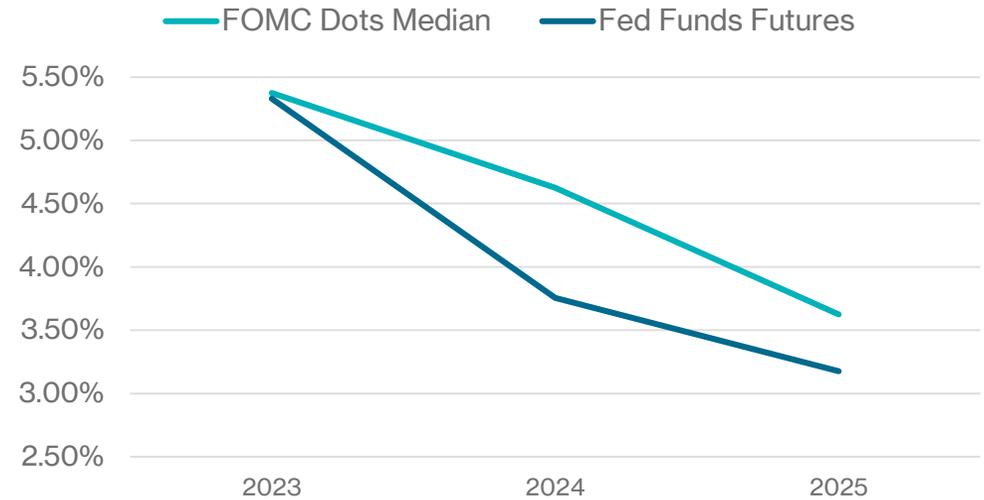
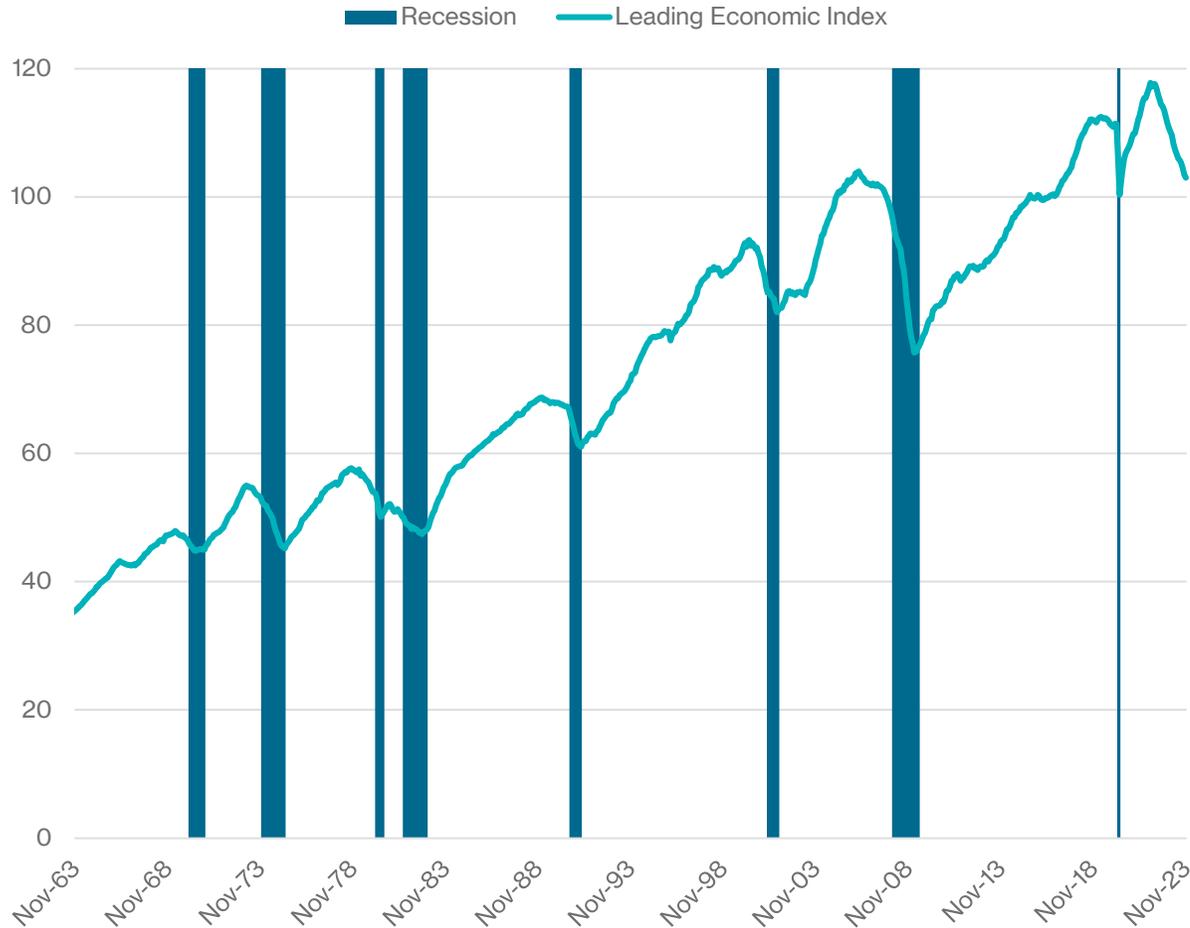


	2023	2024	2025
Federal Funds Rate	5.25% - 5.50%	5.25% - 5.50%	5.25% - 5.50%
Federal Reserve Core PCE Expectations	3.2%	2.4%	2.2%
Implied Restrictiveness	2.15%	2.95%	3.15%

SOURCE: BLOOMBERG, FOMC MEMBER CHRISTOPHER WALLER

Leading Economic Indicators

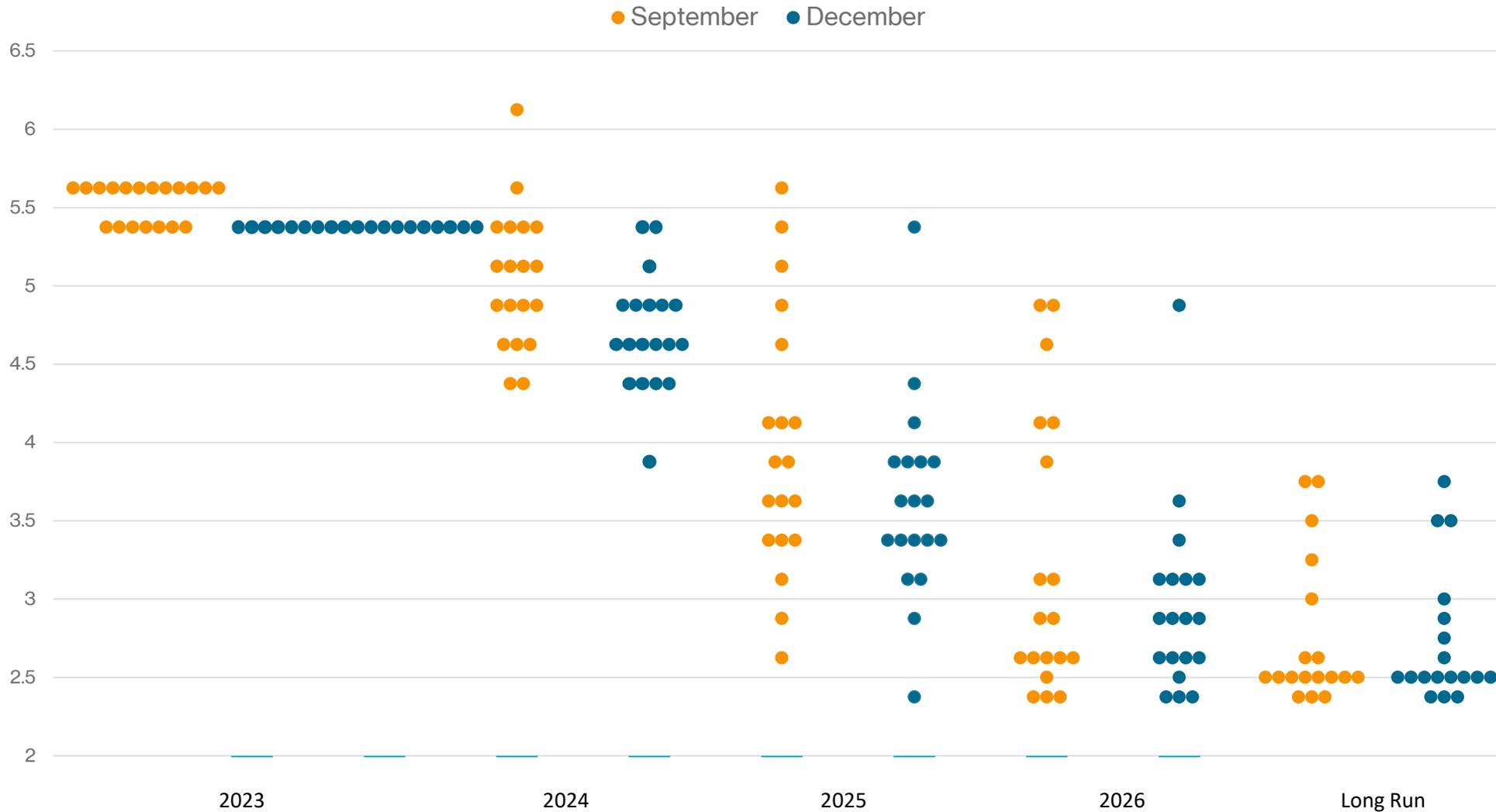
Leading Economic Indicators Have Declined for a Record 20 Months



- Chairman Jerome Powell took every opportunity at the December FOMC meeting to signal rate cuts in 2024
- Since the meeting, several FOMC members have stated they expect rate cuts in 2024

In the five previous hiking cycles since 1990, the Fed paused an average of **10 months** between its last hike and its first cut.

Federal Reserve Dot Plot Comparison



- Each Dot Represents Projected Year End Rate By Each Member Of The FOMC
- FOMC Expecting to Start Cutting Rates in 2024
- Median Dot Indicates FOMC See's Interest Rates Falling by 0.75% in 2024.



Opportunity #1

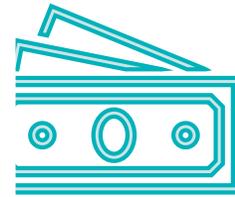
Deposit and Liquidity Options

Cash/Liquidity Investment Options

- **Bank Deposit Accounts**
 - **Earnings Credit Rate**
- **Money Market Funds**
- **LAIF**
- **JPA Investment Pools**

The choice of the methodology is yours

The two methods hinge on current rates – You pay either way!



Compensating Balance Basis

- Traditional for public entities and hides the fees
- You leave money in bank which earns \$\$ at ECR and pays the service bill
- You never see the charge – it looks “free”



Fee Basis

- You pay the fees for the service by debit to the account

Always compare your ECR to outside investment options

A **0.46% ECR** on a \$5 million balance will generate \$1,917/month

If investment rates give you **5.50%** the same balance generates \$22,917/month

Invest the funds, pay \$1,917 directly and **keep \$21,000/mo (\$252,000/yr)**



Opportunity#2

Cash Flow Analysis and Portfolio “Right Sizing”

Portfolio Right-Sizing

CASH

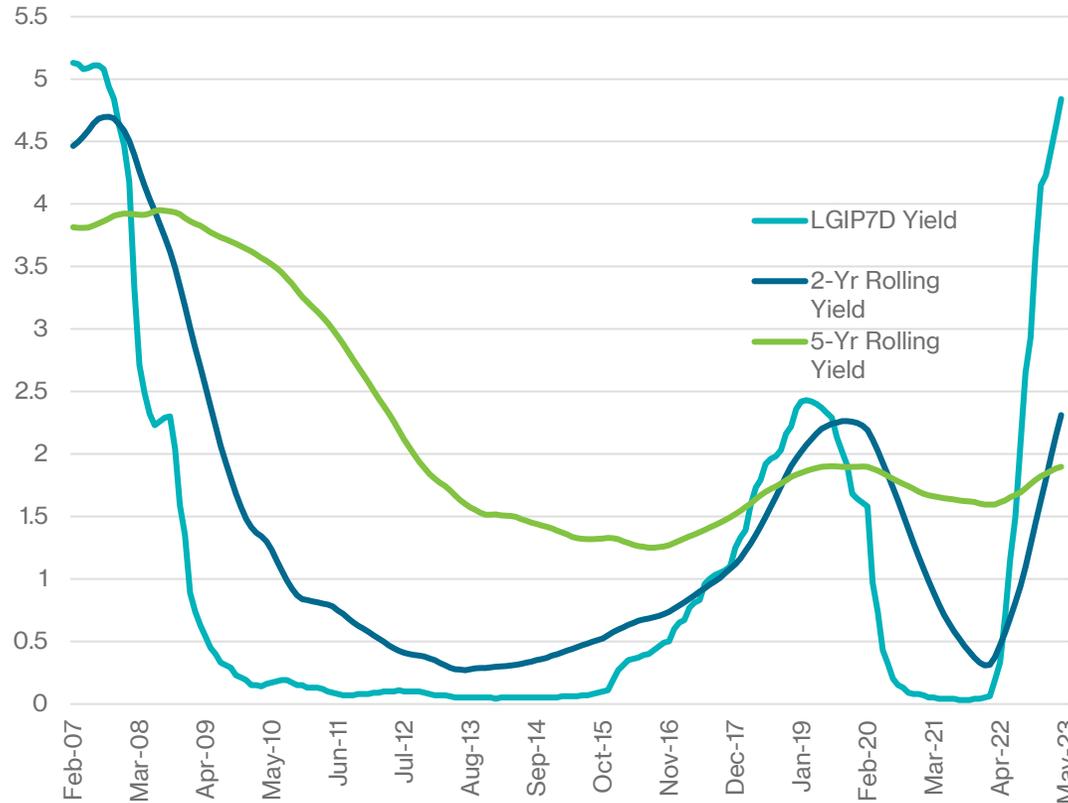
LIQUIDITY RESERVE

CORE INVESTMENT PORTFOLIO

Hypothetical Illustration

Value of a long-term plan

Monthly Yield Comparison



Growth of \$50 million

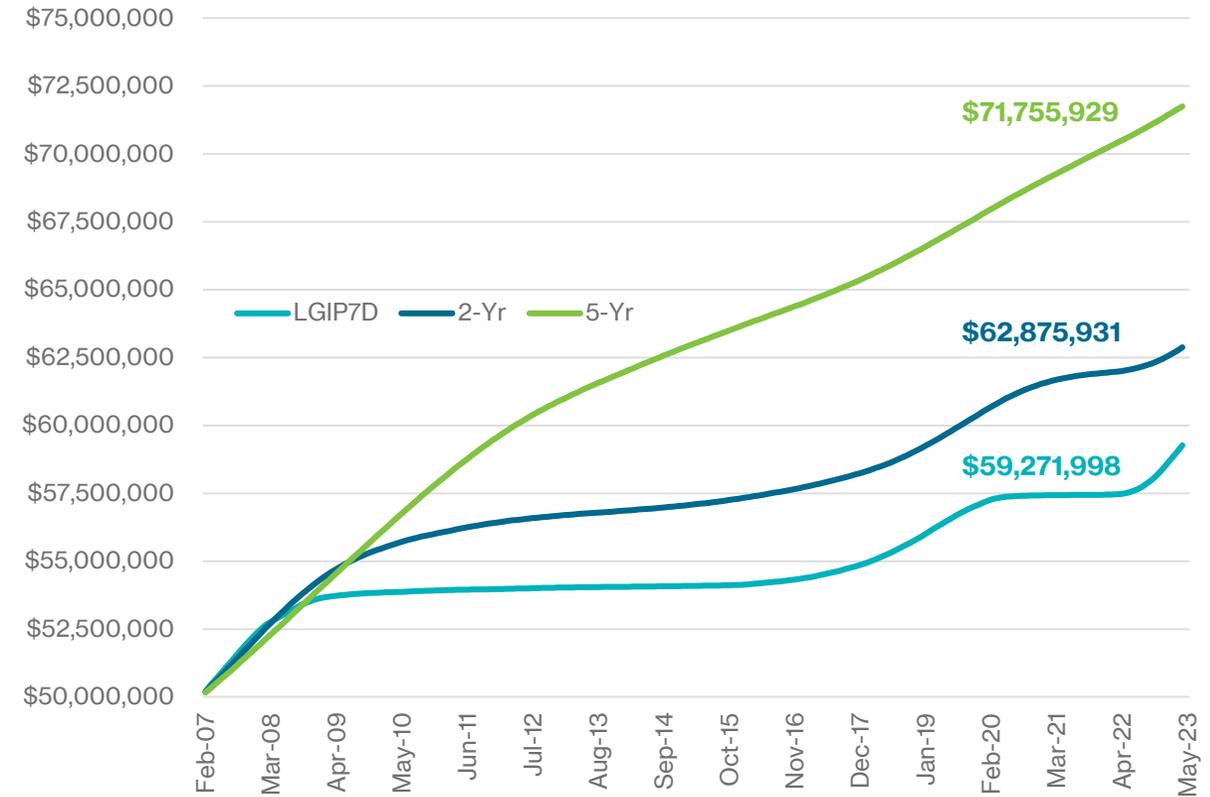
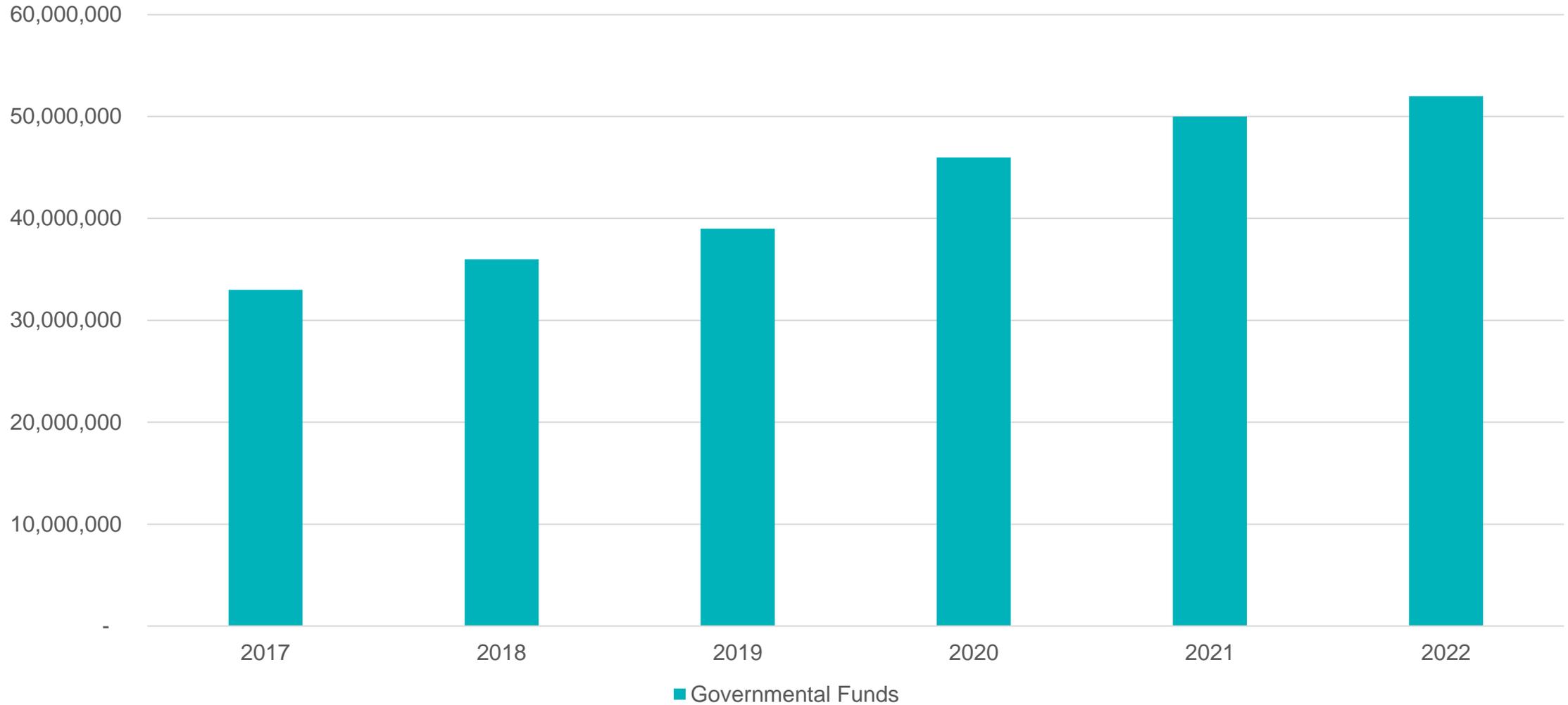


ILLUSTRATION IS HYPOTHETICAL IN NATURE, DOES NOT REFLECT ACTUAL INVESTMENT RESULTS, AND DOES NOT GUARANTEE FUTURE RETURNS. Charts illustrate the yield and related performance of three sample yield curves over time. Growth of \$50 million chart assumes reinvestment of monthly income. LGIP 7D Yield represents the S&P LGIP Index of rated LGIP programs that maintain a stable net asset value of \$1 per share. The 2 Yr and 5 Yr Rolling Yield figures represent the constant maturity yield on Treasury securities at the indicated maturity derived from the daily yield curve for non-inflation indexed Treasury securities

The hypothetical chart does not project investment income from any investment or portfolio and is intended solely to illustrate that portfolios comprised of longer duration securities will produce more income over time than portfolios utilizing shorter durations over the selected period. Yield assumptions were developed with the benefit of hindsight and the securities purchased for such an account may generate more or less than the illustrated yield. Clients cannot invest directly in these indexes and the actual yield for any portfolio invested consistently with the illustration will vary from the hypothetical data shown here. Unmanaged Index returns do not reflect any advisory fees or expenses

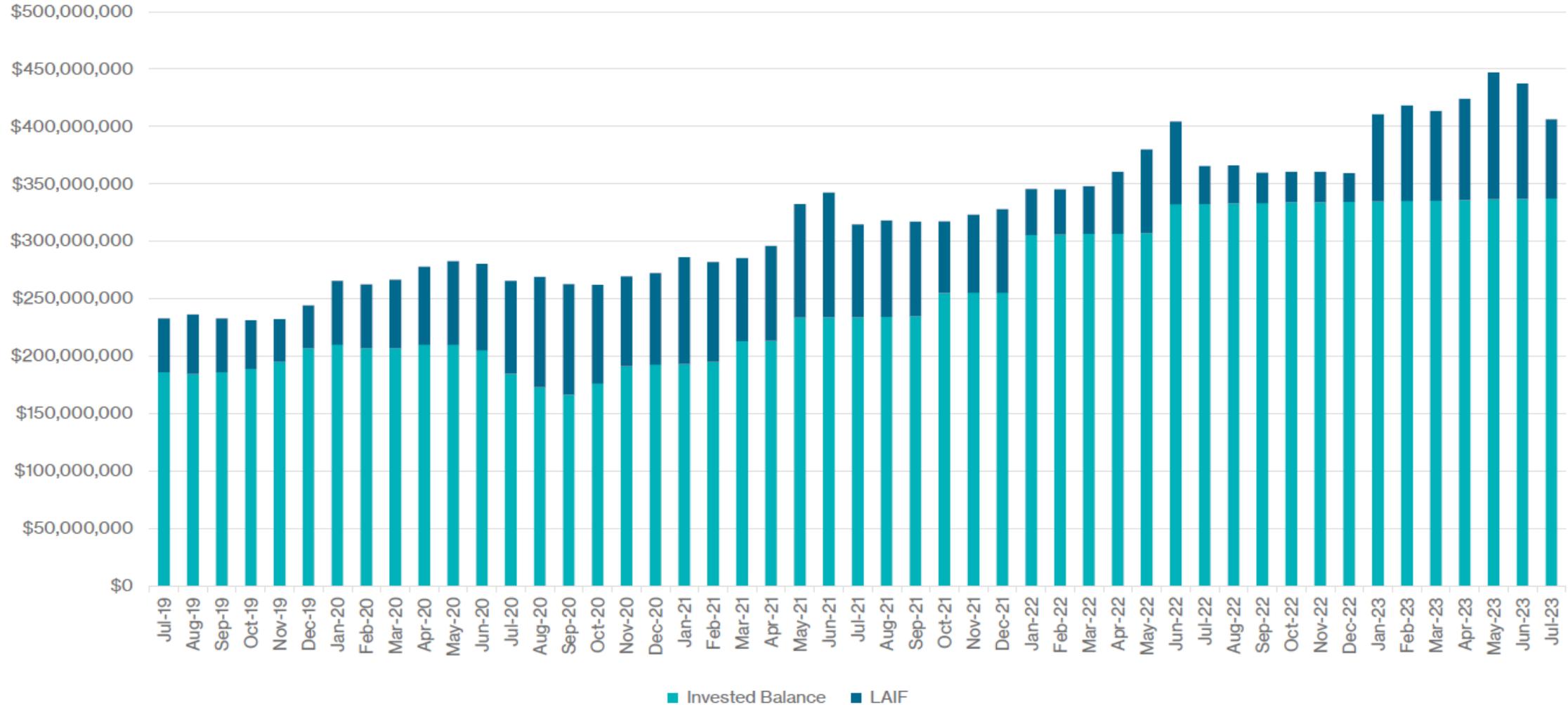
Historical Cash Flows

Annual Balances

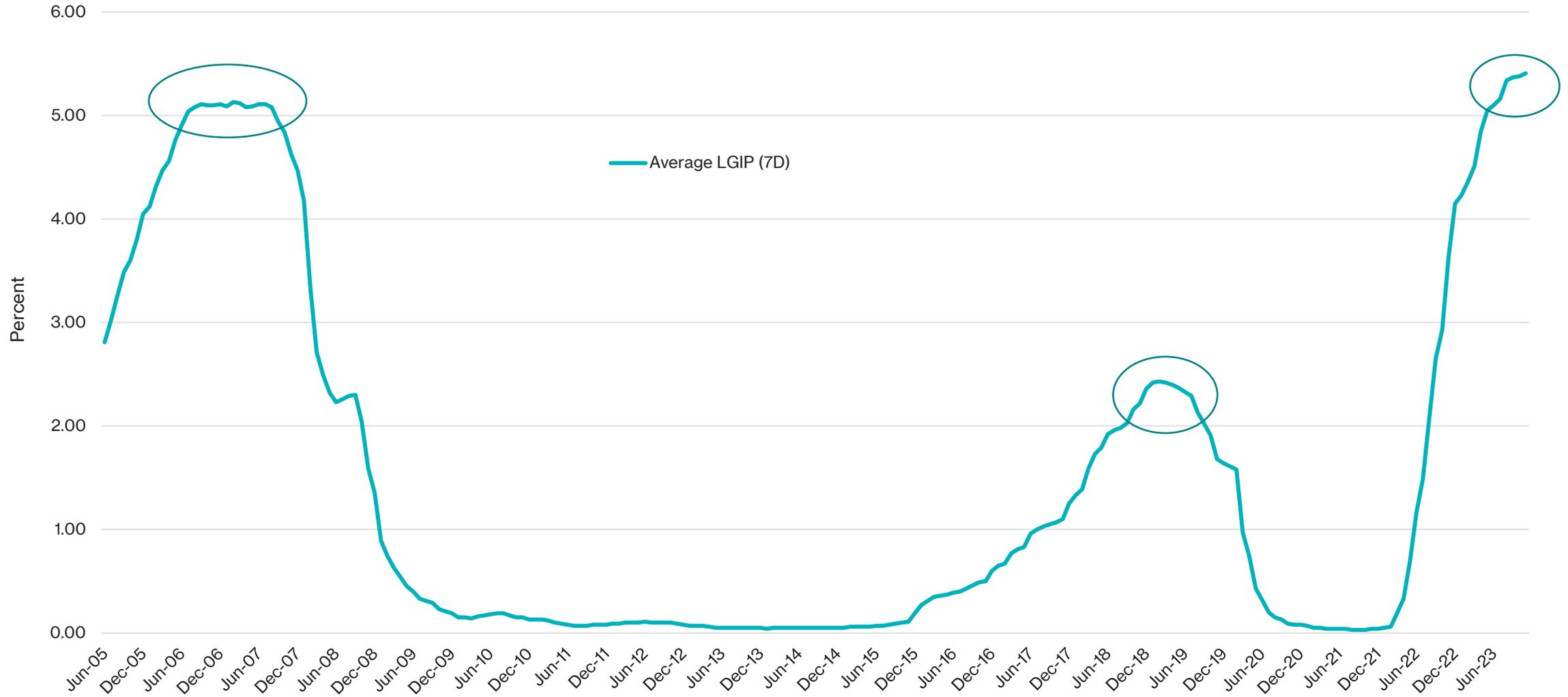


Historical Cash Flows

Monthly Balances

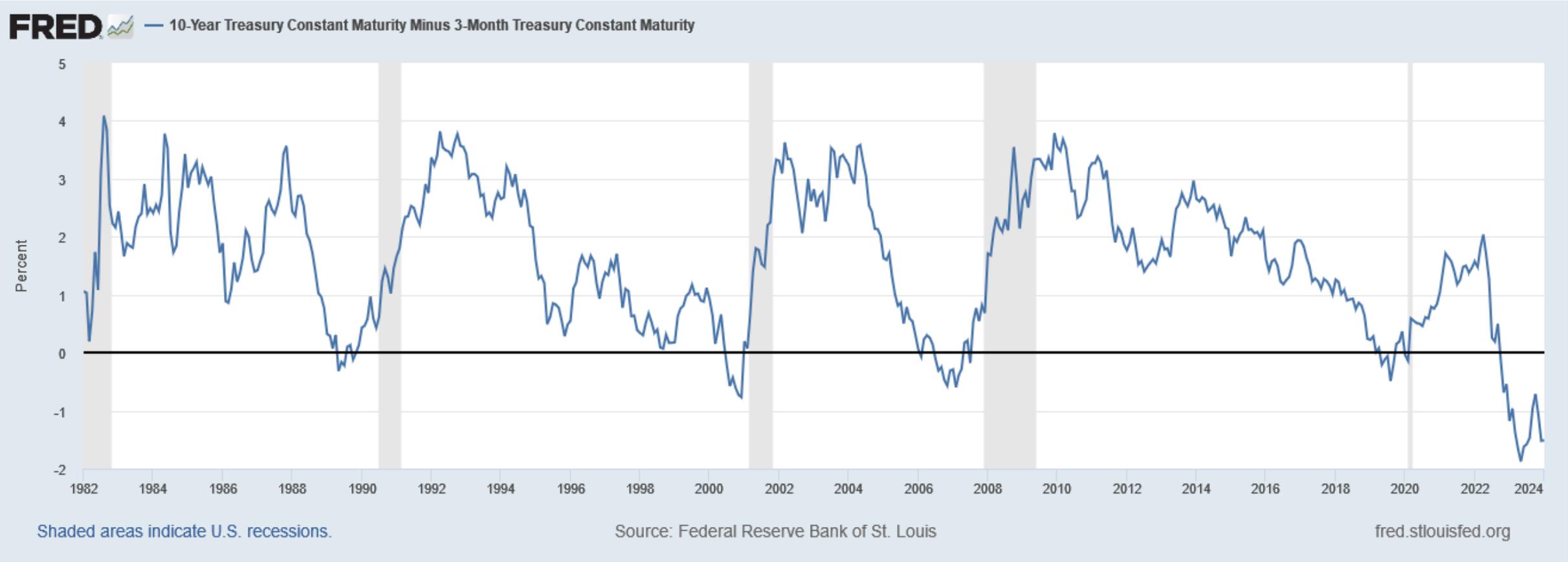


Should I wait for rates to fall before Investing Long Term?



SOURCE: BLOOMBERG, AVERAGE LGIP REPRESENTBY BY LGIP 7 DAY NET INDEX

Historical Yield Curve Inversions



SOURCE: FEDERAL RESERVE BANK OF ST. LOUIS AS OF 1/2/2024

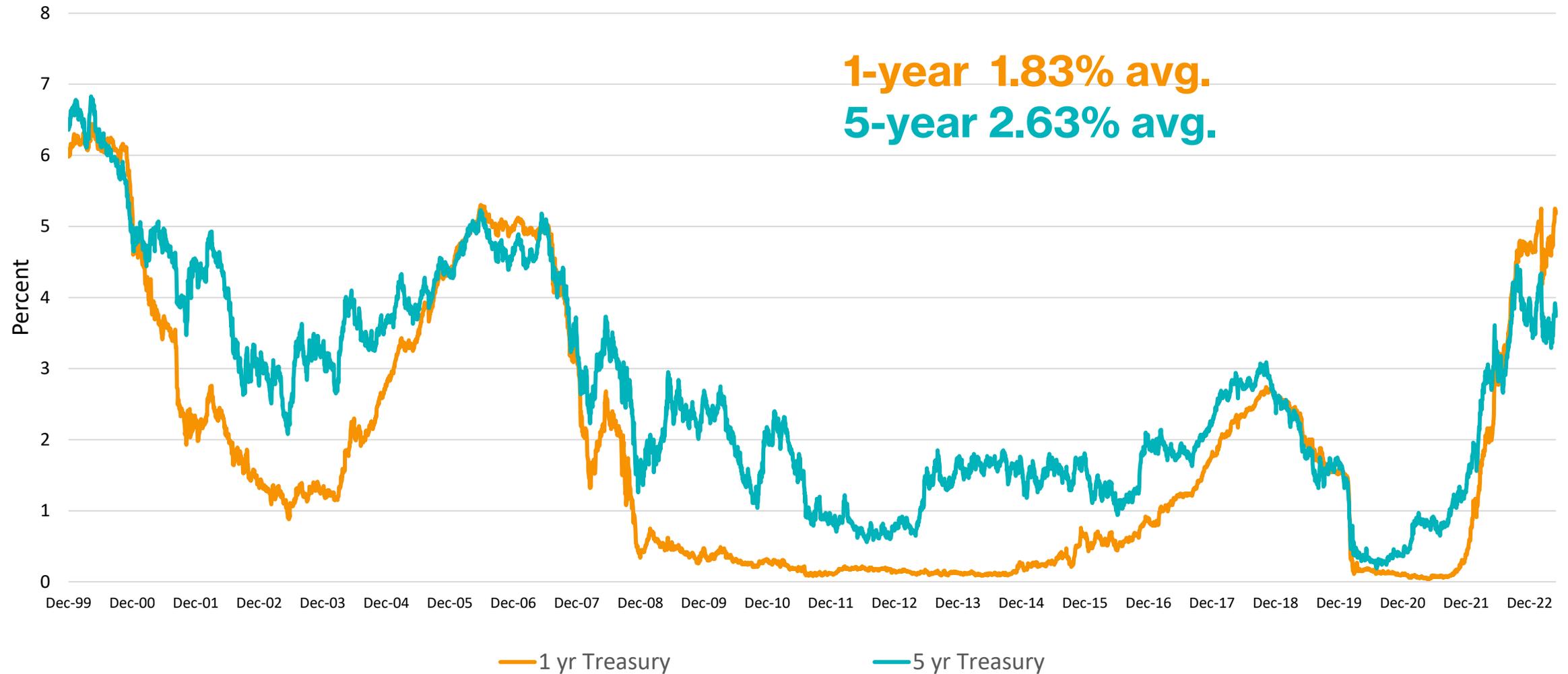
Breakeven Analysis - 5 Year Investment vs 1 Year Investment



5 year US Treasury at 3.95%		
Maturity	Amount	Interest Earned
Year 1	\$0	\$197,500
Year 2	\$0	\$197,500
Year 3	\$0	\$197,500
Year 4	\$0	\$197,500
Year 5	\$5,000,000	\$197,500
TOTAL	\$5,000,000	\$987,500

1 year US Treasury at 4.80%		
Maturity	Amount	Interest Earned
Year 1	\$5,000,000	\$240,000
Year 2	\$0	?
Year 3	\$0	?
Year 4	\$0	?
Year 5	\$0	?
	\$5,000,000	\$240,000

1-year Treasury versus 5-year Treasury



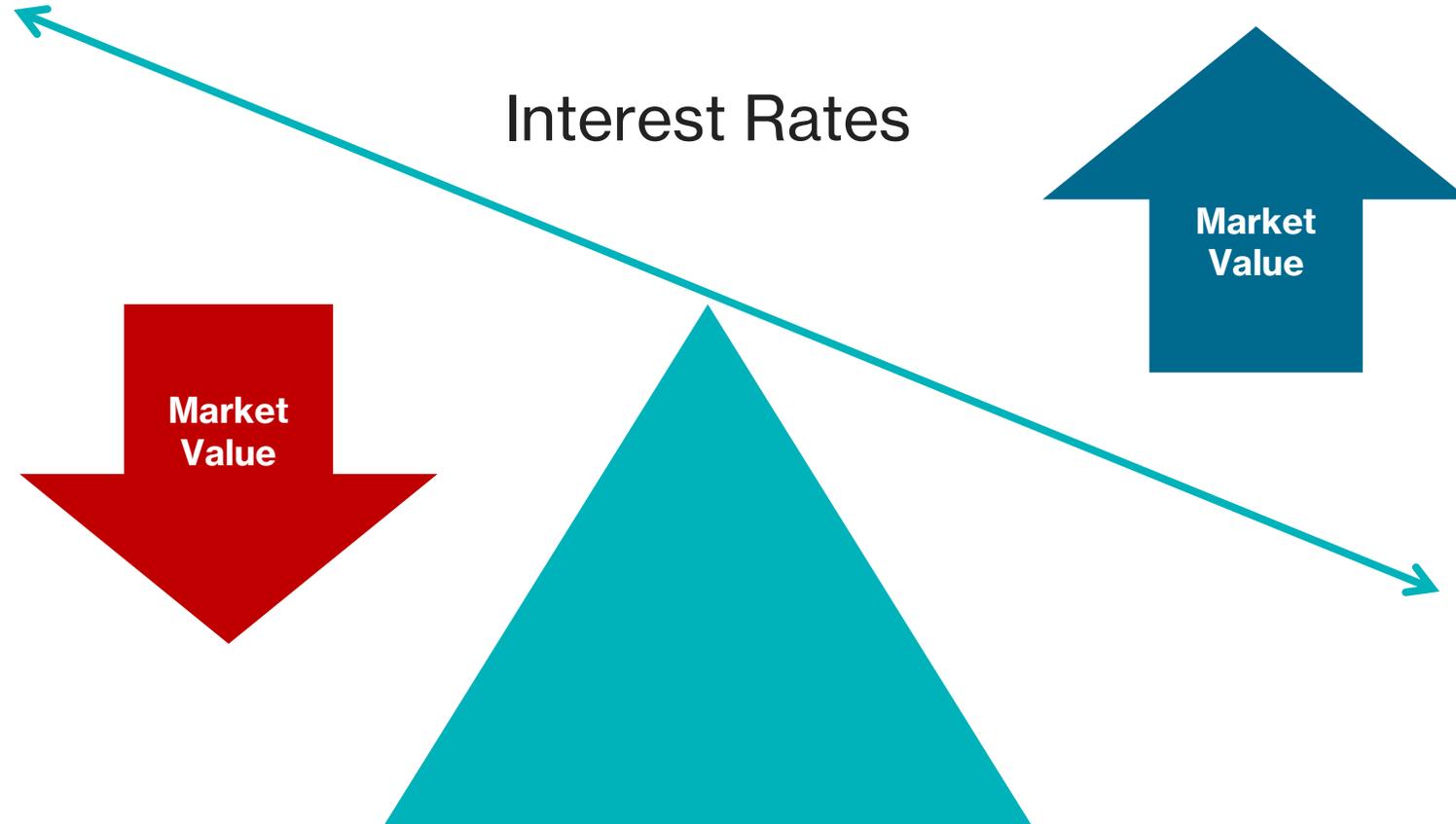
SOURCE: BLOOMBERG



Opportunity#3

**Active Portfolio Management Strategies –
“Should I Stay, or Should I go Now?”**

Inverse Relationship



INVESTMENT OPTIONS

HOLD TO MATURITY

RECEIVE COUPON INCOME and
DISCOUNT

REINVEST AT UNKNOWN RATES
AT MATURITY DATE

SELL PRIOR TO MATURITY

REALIZE THE LOSS

REINVEST AT TODAY'S RATES

Swap Breakeven Analysis

Existing Holding:
\$3 million par value, purchased at a discount, matures in 1 year
Coupon rate 0.30%, unrealized loss \$102,100

Lost Income & Realized Loss on Sale of Security	
Coupon	\$9,000
Discount	\$5,370
Realized Loss	\$102,100
TOTAL TO RECOVER	\$116,470

Reinvestment Rate	Potential Earnings on \$3 million for 1 year
3.00%	\$90,000
3.50%	\$105,000
4.00%	\$120,000
4.50%	\$135,000
5.00%	\$150,000

Who Will Help You Invest?

KNOW THE TYPES OF SERVICE PROVIDERS

LAIF/JPAs	BANKS	INVESTMENT ADVISORS	BROKERS
<ul style="list-style-type: none">• Know the underlying investments in the program• Look over the annual report• Understand how program works	<ul style="list-style-type: none">• Make sure they understand nuances of public entities• Work with banks you know and trust and with strong financials	<ul style="list-style-type: none">• Acts as a fiduciary in the client's best interest• Who do they work with?• What are their credentials?• Check them out: www.investor.gov	<ul style="list-style-type: none">• Recommends suitable investments• Who do they work with?• What do they do and how much do they charge?• Check them out: www.finra.org

PERFORM THE DUE DILIGENCE BEFORE INVESTING

Safekeeping Options

COMPARING THIRD-PARTY CUSTODIAN VERSUS BANK OR BROKER SAFEKEEPING

THIRD-PARTY CUSTODIAN	BANK OR BROKER SAFEKEEPING
<ul style="list-style-type: none">• Securities held in public entity's name in bank trust department• Transparent cost for service• Public entity controls account• Investment assets protected from bank's creditors	<ul style="list-style-type: none">• Securities not held in public entity's name• Cost bundled with other services• Bank or broker controls account• Investment assets may not be protected from bank or broker's creditors

“GFOA recommends that governments use an independent third-party custodial service for safekeeping of investments.”

–Best Practices: Using Safekeeping and Third-Party Custodian Services

**“A plan is what, a schedule is when.
It takes BOTH a plan and a
schedule to get things done.”**

– PETER TURLA

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Past performance does not guarantee future results. Opinions and forecasts are all subject to change at any time, based on market and other conditions, and should not be construed as a recommendation of any specific security. Investing in securities involves inherent risks, including the risk that you can lose the value of your investment. There is no assurance that the investment process will consistently lead to successful results. The investment return and principal value of an investment will fluctuate so an investor's shares or units, when redeemed, may be worth more or less than their original cost.

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