



Effective Communication of your Agency's Investment Results to Stakeholders

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For Today's Discussion

- Communicating Investment Results
 - The right information...
 - In the right amount...
 - For the right audience...
 - With the right message...
- Resulting in the right outcome!



Don't Let This Be You!

WebDonuts.com



Very impressive Randall. We'd still like to see the financial report.



What's At Stake?

- Policymakers make policy based on your reports
- Reports may end up in the press
- Reputational risks may increase
- Audits review reports



Today's Agenda

- Reporting duties under the law
- Types and format of reports
- Difficult concepts to convey
- Reports appropriate for the appropriate audience
- Key rules of thumb
- Real-life samples



What Does Code Require?

Reporting Duties Under the Law



California Code Speaks

- Some duties are optional and others required
- California Law addressed reporting last time in 2008
- SB 1124:
 - Repealed requirements to provide CDIAC annual investment policy statements.
 - Made quarterly investment reports optional.



California Code Today

Required:

California Government Code 53607

“...shall make a monthly report of those (sic) transactions to the legislative body.”

- What transactions?
- Monthly?

Optional:

California Government Code 53646

“...may render a quarterly report...”

- 30 days following quarter end
- State compliance
- Denote ability to meet expenditures
- Contain type of investment, issuer, maturity, par, and dollar amount



What Will My Communications Look Like?

Types and Format of Reports



Reports—Financial

- Financial reports
 - Security descriptions
 - Coupon, yield, maturity dates
 - Purchases, sales, maturities
 - Accruals
 - Purchases and sales of accrual
 - Amortization
 - Income earned/Interest payments and dividends
 - Par, book, and market values
- Everything you need to book your holdings and earnings.



Reports—Stakeholders

- Stakeholder reports
 - Purchases, sales, maturities
 - Par, book, and market values
 - Holdings and maturities
 - History of balances and/or yields
 - Statements of compliance and liquidity
 - Commentary on earnings, yields, and/or the economy
- Everything anyone need to understand the investment program from a 40K foot view.



Reports—Sources

- Financial reports
 - Custodian reports
 - Trade tickets
 - Broker trade confirmations
 - Full package investment reporting if using an investment adviser
- Stakeholder reports
 - Every manner of financial report data that has been processed and condensed into a digestible format—**KISS!**



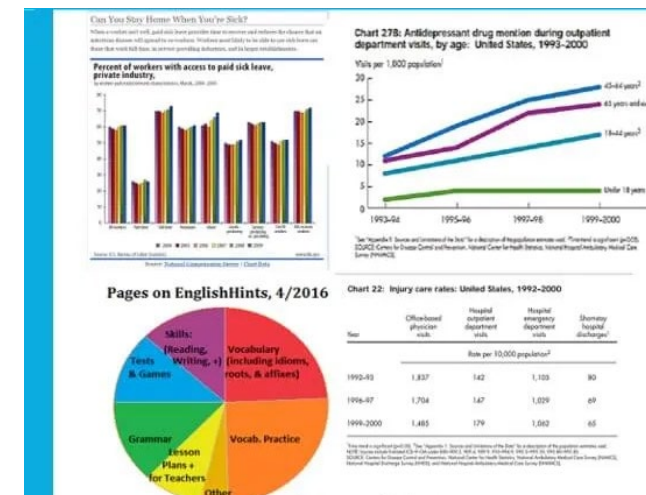
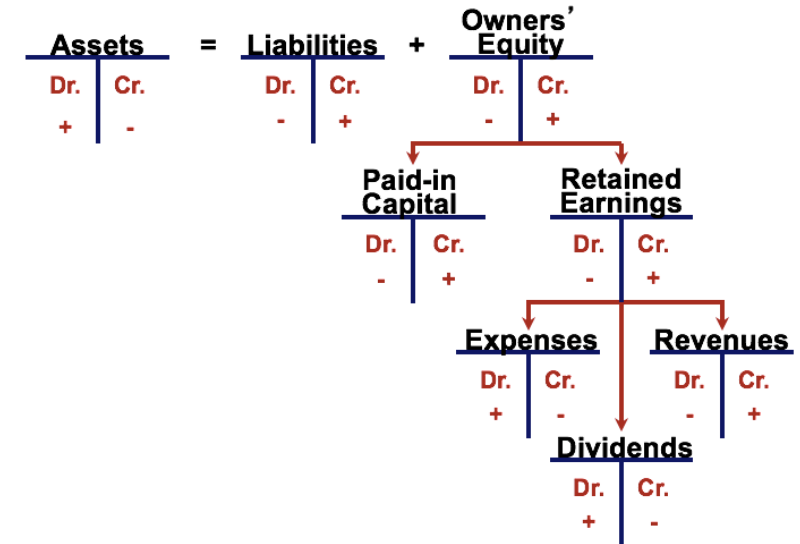
Reports—Formats

- Financial reports

- Anything to make it easy to track holdings and earnings:
 - Spreadsheets
 - Dashboards
 - T-accounts
 - Accrual calculations on excel
 - Amortization/Accretion calculations on excel

- Stakeholder reports

- Charts and tables showing percent in sectors or maturity ranges
- Listing of transactions
- Narratives



Reports—Frequency

- Financial reports
 - Most calculations and earnings are performed and booked on a monthly basis.
 - Some local governments handle this quarterly
 - We **DO NOT** recommend waiting to the end of the fiscal year to get it done.
- Stakeholder reports
 - Most are presented quarterly
 - Some local governments do an annual review
 - “Monthly transactions” open to interpretation



It's All Greek to Me

Difficult Concepts to Convey



Investment Concepts: Some Easier Than Others

- Your communications will involve lots of information
- Most not familiar to stakeholders
- Best to have answers down pat
- Same terms seem to pop up every time



Investment Concepts: Par, Market, Cost, and Book

- Par Value: What you get back at maturity; basis for interest calculation
- Market Value: What someone is willing to pay for the bonds
- Cost: What you originally paid for the security
- Book Value: Carrying value—can be cost, or amortized cost



Investment Concepts: Duration and WAM

- Weighted Average Maturity—average time to maturity
 - Important in pool settings
- Duration
 - Duration is a direct measure of exposure to market risk in a fixed maturity bond
 - Similar to term-to-maturity, but it is a better measure of the sensitivity to changes in interest rates.
 - It is a close approximation of the percent change in the price of a bond for a given change in yield.



Investment Concepts: Duration

$$Duration = \sum_{t=1}^n t \left(\frac{\frac{C_t}{(1+k)^t}}{B_0} \right) + n \left(\frac{\frac{M}{(1+k)^n}}{B_0} \right)$$



Investment Concepts: Duration

n	Years to Maturity	10 years
C	Coupon Payment	\$50
k	Market Rate of Interest (YTM)	7%
M	Maturity (Par) Value	\$1,000
B ₀	Bond Price (PV of Bond)	\$859.53

Year	Cash Flow	PV of CF	PV/B ₀	Year*(PV/B ₀)
1	\$50	\$46.73	0.0544	0.0544
2	\$50	\$43.67	0.0508	0.1016
3	\$50	\$40.81	0.0475	0.1425
4	\$50	\$38.14	0.0444	0.1775
5	\$50	\$35.65	0.0415	0.2074
6	\$50	\$33.32	0.0388	0.2326
7	\$50	\$31.14	0.0362	0.2536
8	\$50	\$29.10	0.0339	0.2709
9	\$50	\$27.20	0.0316	0.2848
10	\$50	\$25.42	0.0296	0.2957
10	\$1,000	\$508.35	0.5914	5.9143
		$\Sigma = \$859.53$	$\Sigma = 7.9351 \text{ Years}$	

Duration = 7.9351 Years



Investment Concepts: Yield and Return

- Yield: Annual rate at which you are expected to earn interest income assuming same rate reinvestment
- Return: Rate you actually earned for a specific holding period
 - Total Return = Interest Income + Realized Gains/Losses + Unrealized Gains/Losses
 - Book Return = Interest Income + Realized Gains/Losses ONLY (no marking to market)



Investment Concepts: Investment Return Impacts

- Income: Budget and year-end reports
- Fair Value Change: year-end reports only

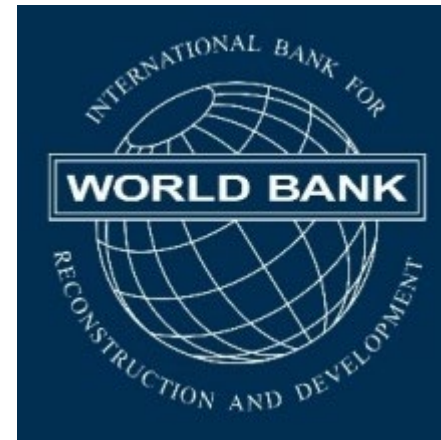
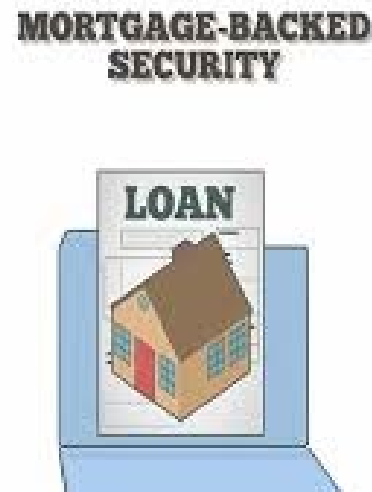
PROFIT AND LOSS BY MONTH January 1 - May 21, 2019						
	JAN 2019	FEB 2019	MAR 2019	APR 2019	MAY 1-21, 2019	TOTAL
Income	\$391.25	\$521.00	\$1,917.00	\$7,371.52	\$0.00	\$10,200.77
Cost of Goods Sold	\$0.00	\$0.00	\$0.00	\$405.00	\$0.00	\$405.00
GROSS PROFIT	\$391.25	\$521.00	\$1,917.00	\$6,966.52	\$0.00	\$9,795.77
Expenses	\$0.00	\$408.08	\$511.68	\$3,921.16	\$96.39	\$4,937.31
NET OPERATING INCOME	\$391.25	\$112.92	\$1,405.32	\$3,045.36	\$-96.39	\$4,858.46
Other Expenses	\$0.00	\$0.00	\$250.00	\$2,666.00	\$0.00	\$2,916.00
NET OTHER INCOME	\$0.00	\$0.00	\$-250.00	\$-2,666.00	\$0.00	\$-2,916.00
NET INCOME	\$391.25	\$112.92	\$1,155.32	\$379.36	\$-96.39	\$1,942.46

	FY 2017 Total Activity	FY 2018 Total Activity	FY 2019 Amended Budget	FY 2020 Proposed Budget
REVENUES				
Taxes				
Property Taxes	\$ 3,523,943	\$ 14,971,071	\$ 16,745,358	\$ 16,735,220
Sales & Use	12,025,807	15,852,753	15,740,000	16,090,000
Taxes	2,963,708	3,207,190	3,195,138	3,364,000
Business & Other Taxes	616,148	628,090	650,832	614,650
Licenses & Permits	561,373	773,062	1,355,819	805,528
Intergovernmental Revenues	2,846,330	2,718,438	2,632,681	2,420,920
Charges for Services	494,891	422,670	364,825	380,000
Fines & Forfeitures	127,672	506,452	966,136	701,000
Investment Income	40,281	47,363	38,331	17,000
Contributions & Donations	190,689	164,808	204,921	108,726
Miscellaneous Revenue	\$ 23,390,841	\$ 39,291,896	\$ 41,894,041	\$ 41,237,044
subtotal				
Other Financing Sources	\$ 13,079	\$ 31,240	\$ 164,500	\$ 10,000
Proceeds From Sale Of	25,376,842	-	19,106,563	-
Assets Bond Proceeds	4,942,408	3,416,353	9,043,255	5,057,611
Interfund Transfers In	-	-	38,946,888	1,742,496
Budgeted Fund Balance	\$ 30,332,329	\$ 3,447,593	\$ 67,261,006	\$ 6,810,107
subtotal				
TOTAL REVENUES	\$ 53,723,169	\$ 42,739,489	\$ 109,155,047	\$ 48,047,151
EXPENDITURES (by Function)				
General Government	\$ 9,284,620	\$ 4,134,131	\$ 21,243,262	\$ 4,807,700
Judicial	279,811	411,698	463,582	470,202
Public Safety	11,782,028	12,509,445	19,294,736	14,826,023
Public Works	3,034,654	6,290,486	24,465,749	12,772,762
Culture & Recreation	1,896,271	7,187,011	29,594,099	3,092,515
Housing & Development	1,233,965	1,441,510	2,488,554	1,733,317
Debt Service	1,208,834	1,584,128	2,561,811	2,891,076
Contingency	-	-	-	411,898
Initiatives	-	-	-	1,875,827
subtotal	\$ 28,520,183	\$ 33,558,409	\$ 100,111,792	\$ 42,881,320
Other Financing Uses				
Interfund Transfers Out	\$ 4,942,408	\$ 3,416,353	\$ 9,043,255	\$ 5,057,611
Restricted Fund Balance	-	-	-	108,220
subtotal	\$ 4,942,408	\$ 3,416,353	\$ 9,043,255	\$ 5,165,831
TOTAL EXPENDITURES	\$ 33,462,591	\$ 36,974,762	\$ 109,155,047	\$ 48,047,151



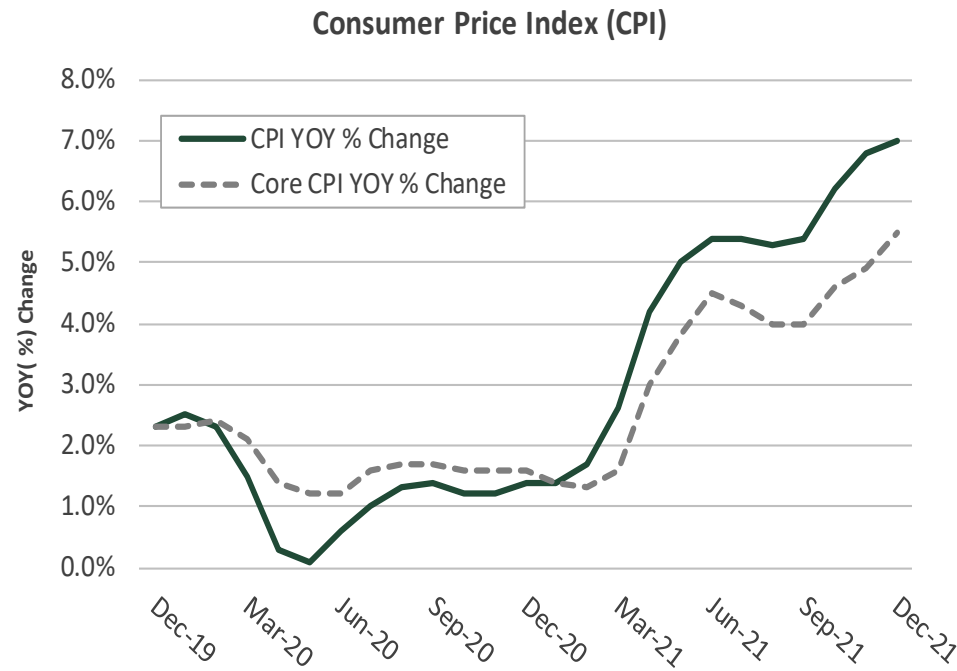
Investment Concepts: Explaining Different Asset Types

- You know Treasuries and Agencies, but can you explain:
 - ABS & MBS: Securitization of receivables!
 - Supranationals: World Bank Debt

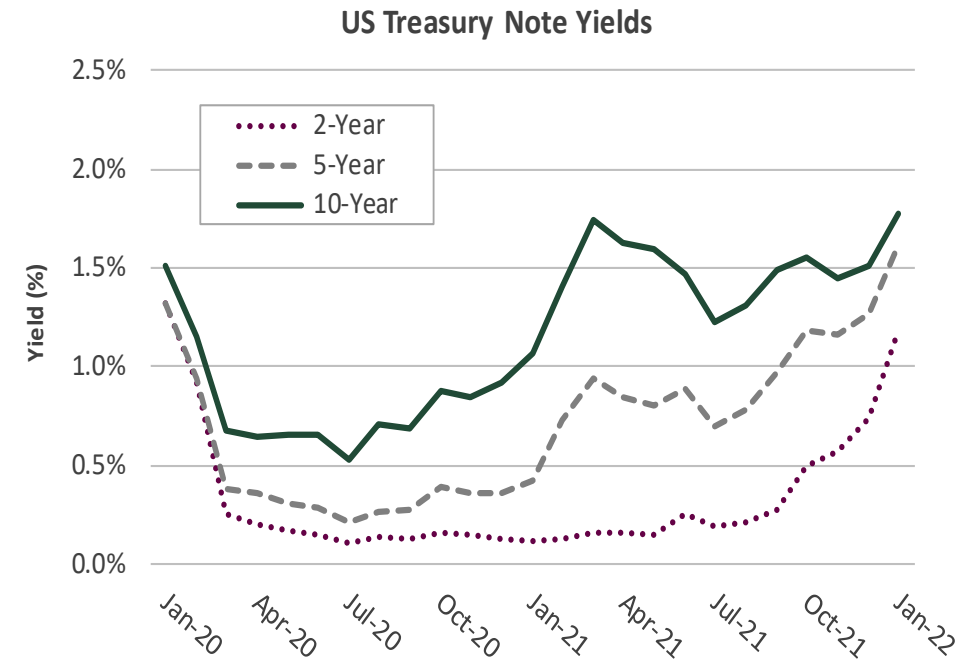


Investment Concepts: Recent Events

- If asked, can you explain the recent rise in rates?



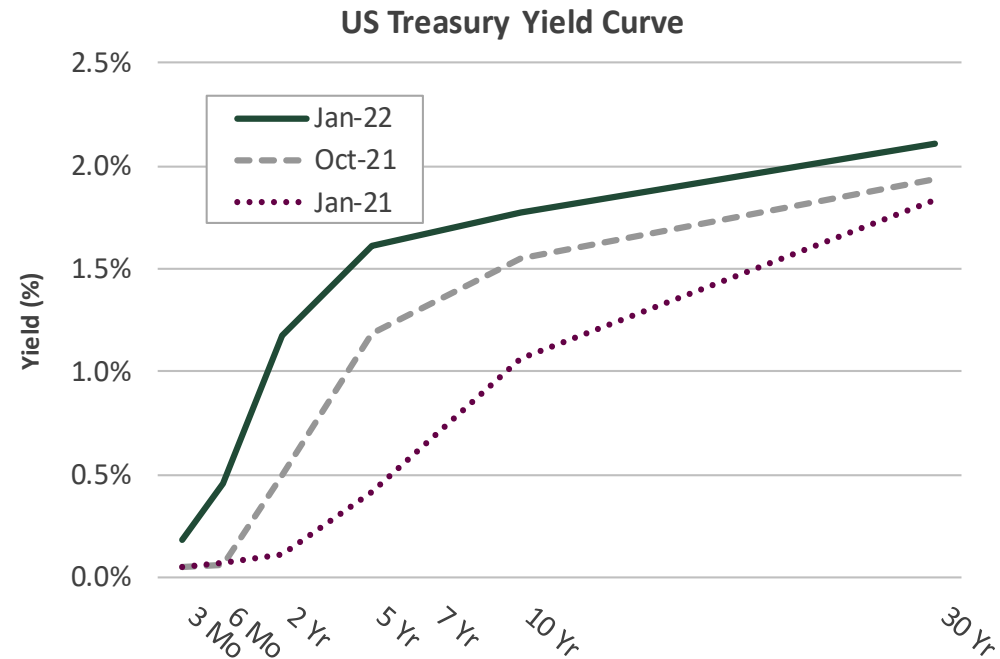
Source: Bloomberg



Investment Concepts: Recent Events

- And more importantly, can you explain the rise in rates' impact to your investment program?

- Fed Policy
- Flattening Yield Curve
- Spread Widening



Source: Bloomberg



But I Wanted to See It All!

Reports Appropriate for the Appropriate Audience



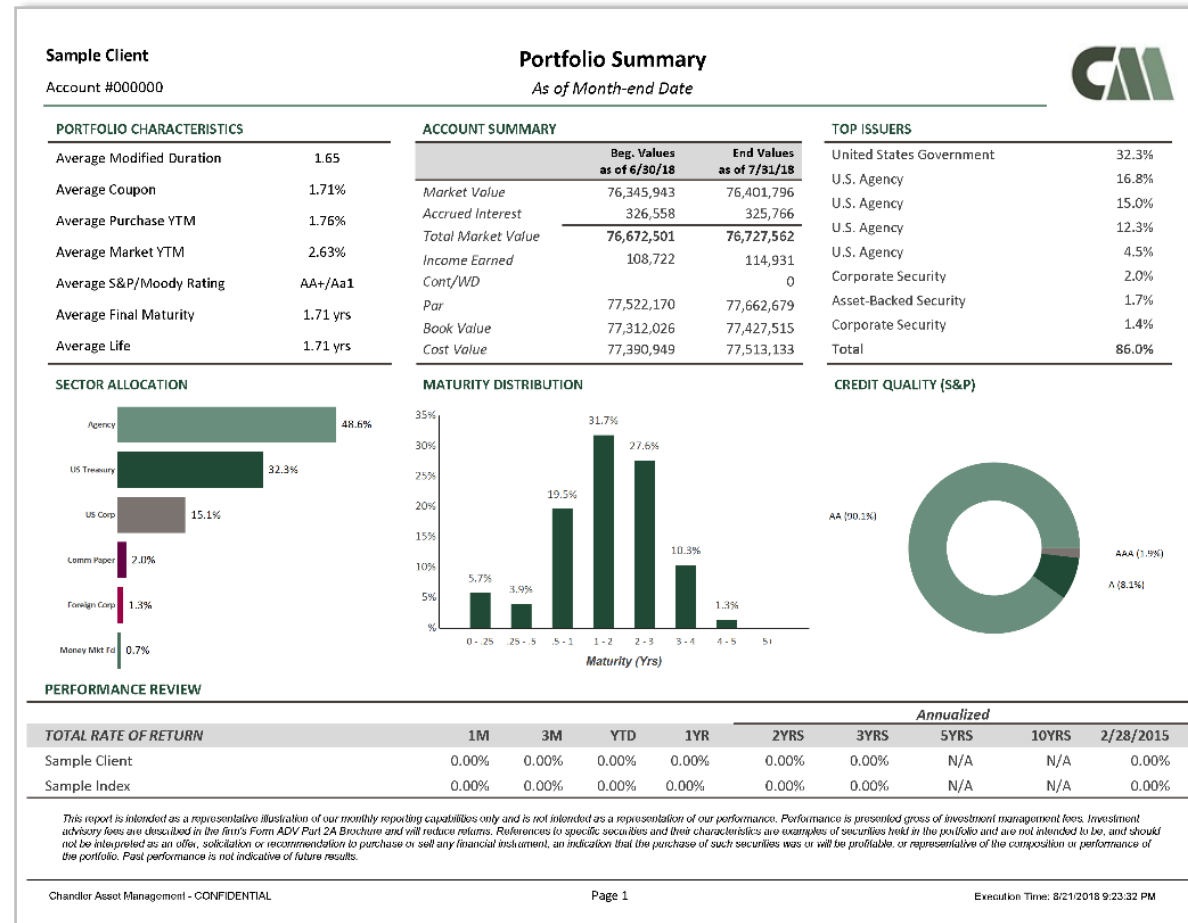
Know Your Audience

- Policymakers are tasked with high-level decisions
 - Don't overload them with too much information.
- Stakeholders may not be knowledgeable about investing
 - Don't overload them with complex data.
- Internal staff has limited time to devote to investments
 - Make sure staff members have the report necessary for them to complete their job efficiently.



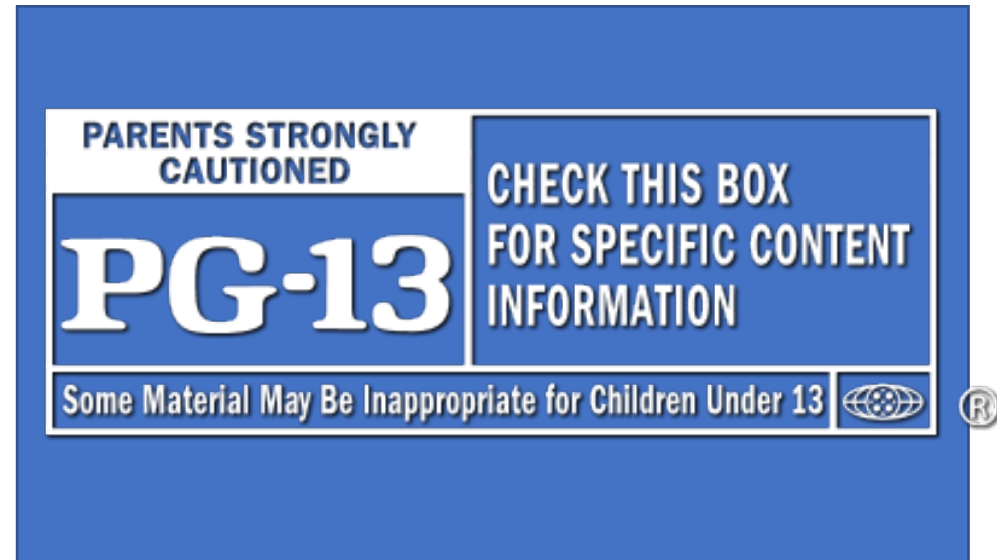
Reports—Stakeholders

- Thoroughness!
- Succinctness!
- Transparency!



Reports—Financial

- Financial reports really suited for internal distribution to staff.



- **NOT** likely appropriate for policymakers and other stakeholders.



A Guide to Avoiding Foot-in-Mouth Disease

Key Rules of Thumb



Let Them Know:

- **You follow the law!**
 - Compliance with Code and the investment policy
- **You have policies in place!**
 - Decisions are not randomly-arrived at, but rather are guided by the policy
 - Make sure the policy is updated annually



Let Them Know:

- **You have a plan!**
 - It might limit maturities
 - It might target a duration or WAM
 - It might exclude certain asset types
 - It might constrain riskier assets
- **You show how you stuck to the plan!**
 - Through transactions ledgers
 - Through compliance reports
 - Through progress in the investment program



Let Them Know:

- **You have results to show!**

- Earnings vs. earnings targets
- Returns on a percentage basis
- Yields of your program vs. yield of alternatives
- Average credit quality

- **You are consistent in your messaging!**

- Stress what you did to increase safety and maintain liquidity—**ALWAYS!**
- Stress that you have enough liquidity to meet your needs
- Stress that you are managing risks



In Summary

- Be transparent
- Be precise
- Be confident
- Be consistent



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Real Life Sample from a Real Life Finance Director

Please welcome Richard Lee, Finance Director, City of San Mateo

