

# Florida Association of Special Districts

Investing in Public Funds –  
Options and an SBA Update



June 9, 2010  
St. Petersburg, Florida



**RAYMOND JAMES**

# Introduction

---

**John Forney**, CFA

Managing Director, Public Finance

**Raymond James & Associates, Inc.**



- Provides investment advisory services for public entities with assets totaling over \$20 billion

# Hurricane Prediction

---

Which hurricane  
prediction will be  
more reliable?  
Mine...  
or NOAA's?



# Presentation Outline

---

- Section I**            **The Big Picture**
- Section II**          **Public Fund Investing is Easy**
- Section III**        **Is the SBA Back?**

---

# Section I

## The Big Picture

# The Big Picture

---

- **The recession is over, but housing and employment remain weak, interest rates are low and have been falling over the past year, oil is spilling into the Gulf of Mexico, the two Koreas are at the brink of war, the U.S. is mired in two wars with no end in sight, and the European Union appears to becoming unraveled.....**

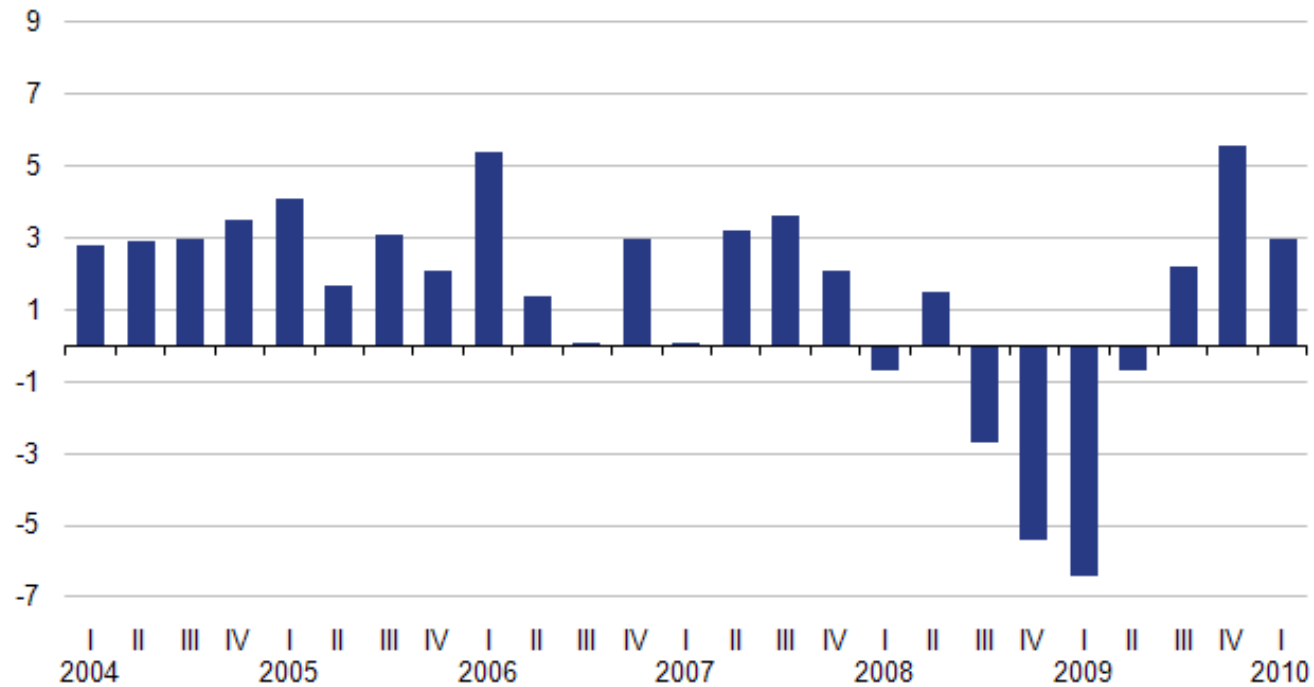
**all systems go**

# The Recession is Over.....Really!

---

## Real Gross Domestic Product

*(Percent change, seasonally adjusted annual rate)*

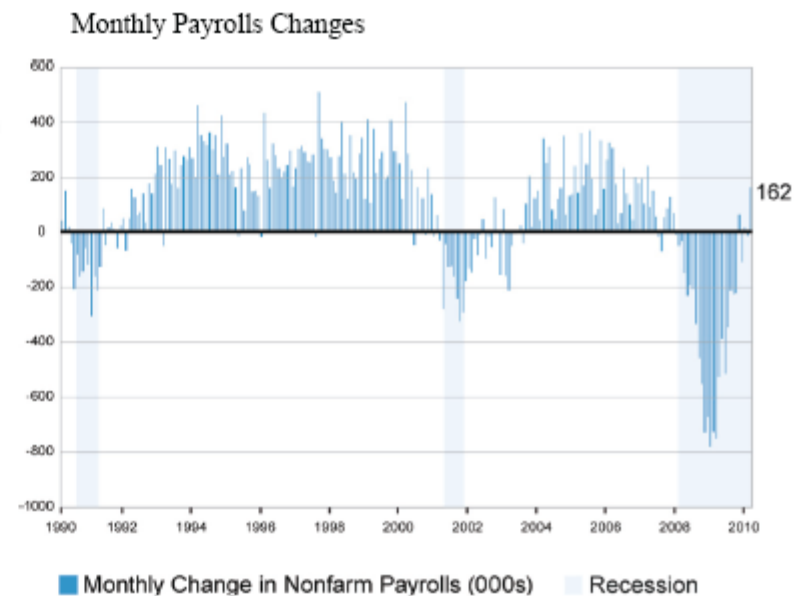
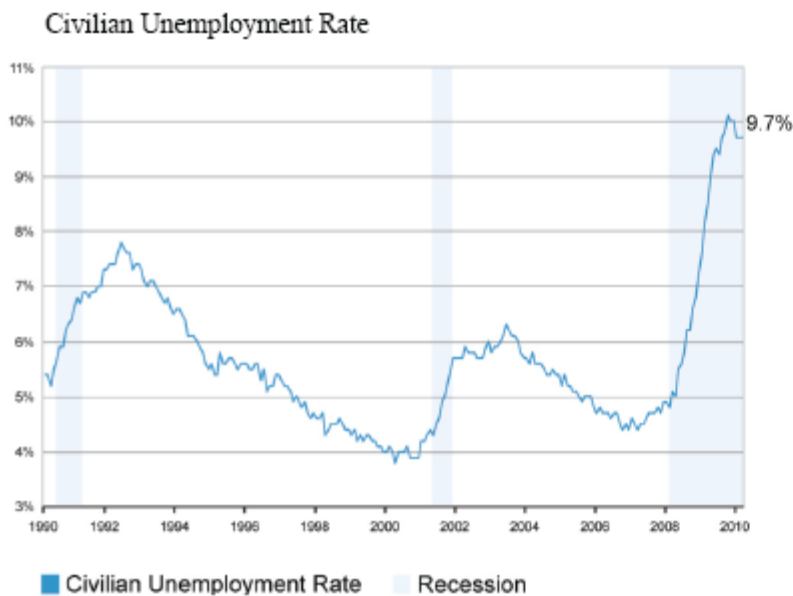


Note. Real GDP growth is measured at seasonally adjusted annual rates.

## EMPLOYMENT

Economic Review

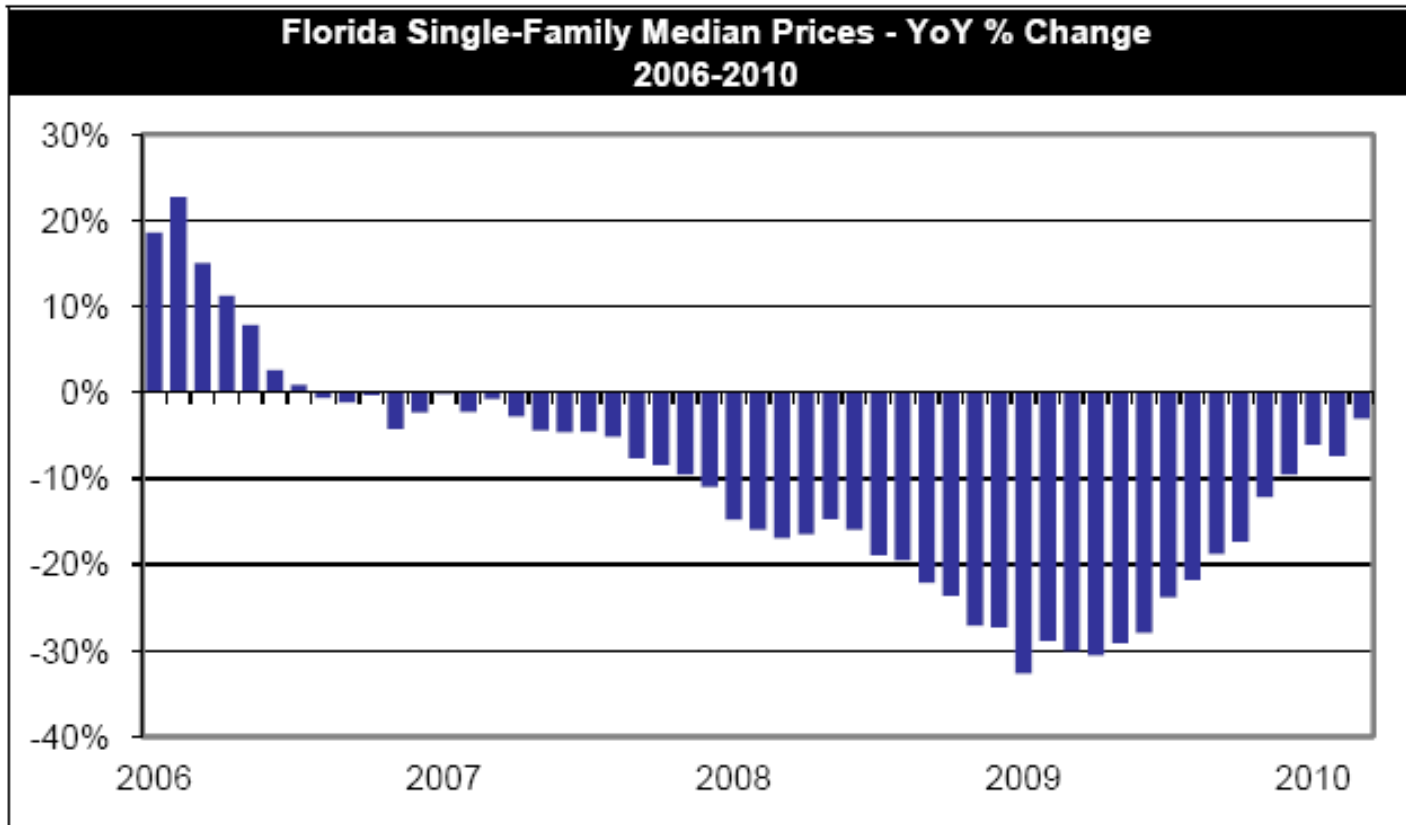
*Unemployment stayed level at 9.7% as job creation began to catch up with job losses.*



Source: FactSet and Bureau of Labor Statistics, as of 3/31/10

# Florida Housing is Still Bad

---



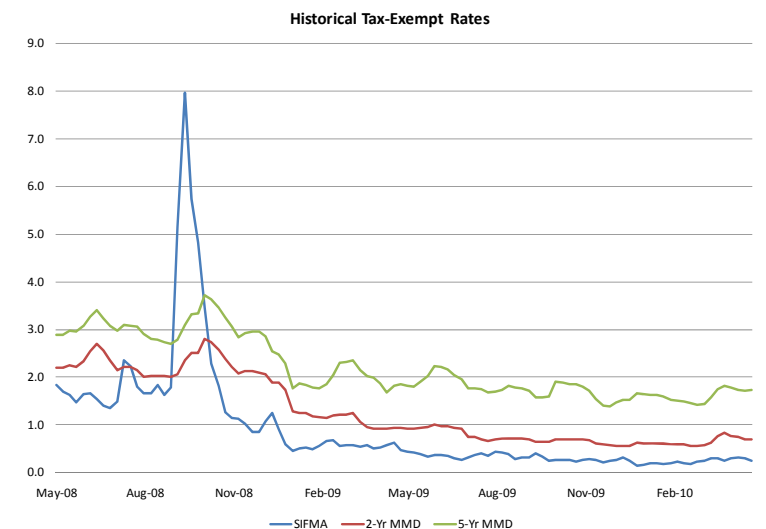
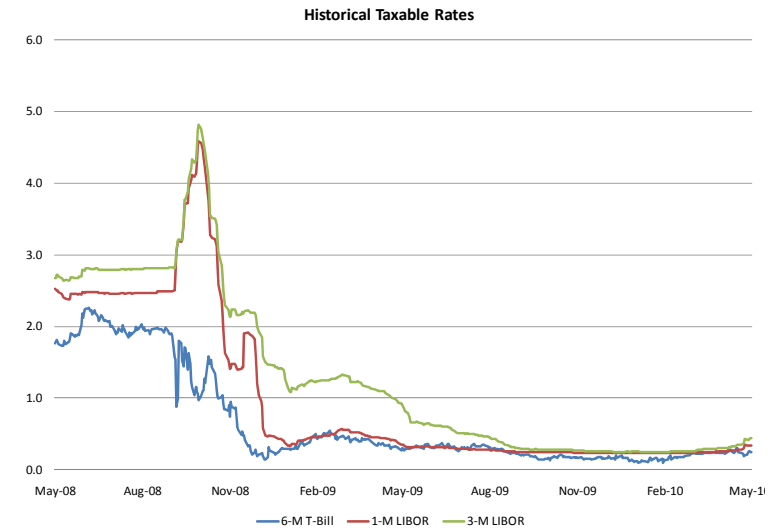
Source: Florida Association of Realtors and Raymond James.

# Market Interest Rates are Still Very Low

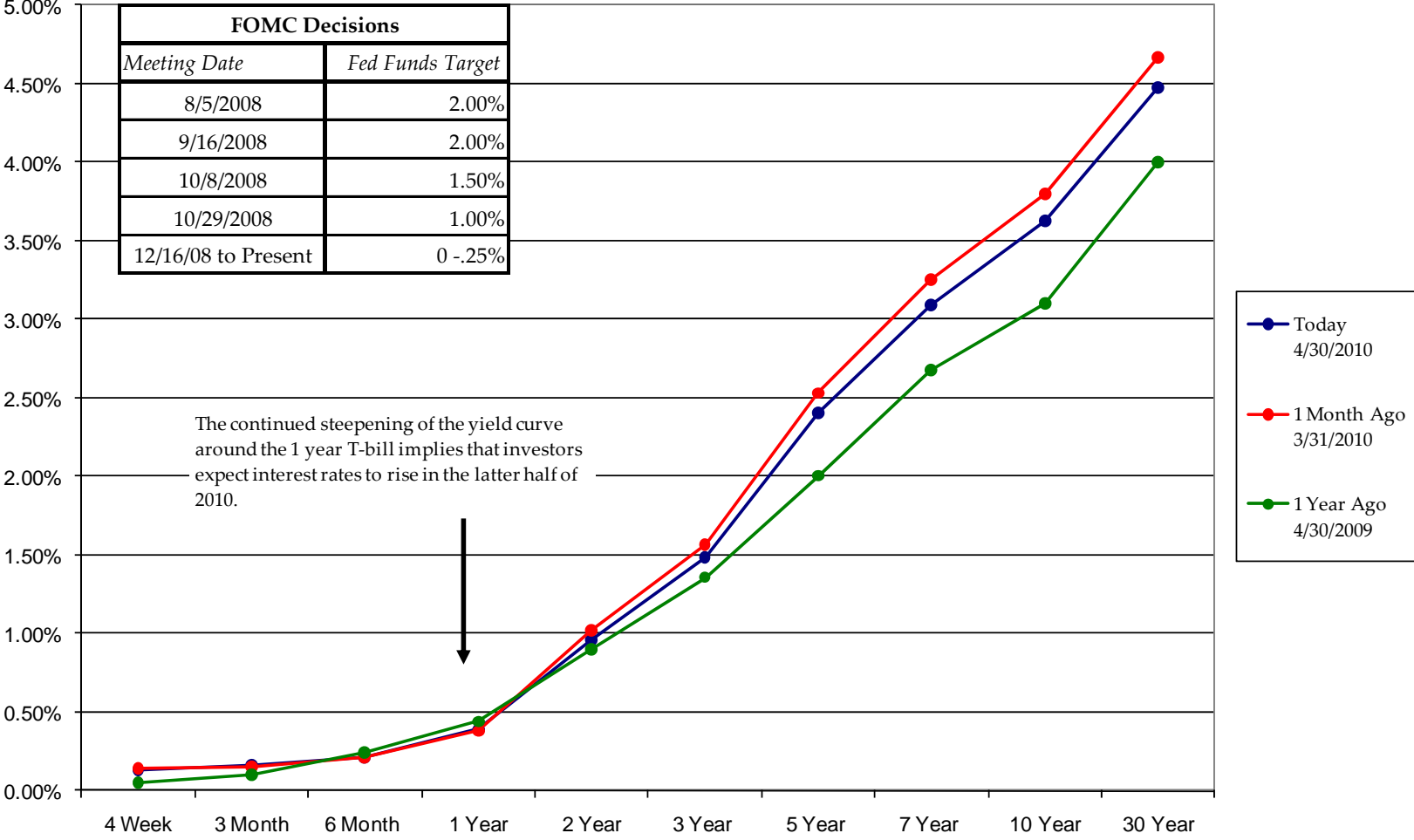
Taxable Interest Rates	Current (06.08.10)	1-Month Prior	1-Year Prior	1-Month Change
1-M LIBOR	0.35%	0.34%	0.34%	0.01%
3-M LIBOR	0.53%	0.45%	0.88%	0.08%
3-M Treasury	0.10%	0.18%	0.20%	-0.18%
1-Yr Treasury	0.31%	0.40%	0.51%	-0.09%
2-Yr Treasury		0.85%	0.87%	
Crane 100 MF Index	0.07%	0.06%	0.33%	0.01%

Anything but .01%!!!

Tax-Exempt Interest Rates	Current (06.08.10)	1-Month Prior	1-Year Prior	1-Month Change
SIFMA	0.26%	0.30%	0.44%	-0.04%
1-Yr MMD	0.28%	0.36%	0.43%	-0.08%
2-Yr MMD	0.55%	0.68%	0.92%	-0.13%
3-Yr MMD	0.91%	1.02%	1.22%	-0.11%
4-Yr MMD	1.26%	1.38%	1.45%	-0.12%
5-Yr MMD	1.59%	1.74%	1.82%	-0.15%
Crane Tax-Exempt MF Index	0.04%	0.04%	0.28%	0.00%



# The Yield Curve is Very Steep



# So....Where Do You Put Your \$\$\$\$?

## ASSET CLASS RETURNS

Capital Markets

*U.S. equities led most markets in Q1, in part, due to a stronger dollar.*

2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Q1 2010
Commodities 31.8%	Fixed Income 8.4%	Commodities 25.9%	Real Estate 40.7%	Real Estate 38.0%	Commodities 21.4%	Real Estate 42.3%	Commodities 16.2%	Fixed Income 5.2%	Real Estate 38.3%	U.S. Equity 5.95%
Real Estate 13.8%	Cash and Equivalents 4.1%	Fixed Income 10.3%	Non-U.S. Equity 40.0%	Non-U.S. Equity 20.8%	Real Estate 15.4%	Non-U.S. Equity 26.2%	Non-U.S. Equity 12.9%	Cash and Equivalents 1.8%	Non-U.S. Equity 34.4%	Real Estate 3.96%
Fixed Income 11.6%	Real Estate (3.8%)	Real Estate 2.8%	U.S. Equity 31.1%	U.S. Equity 11.9%	Non-U.S. Equity 15.0%	U.S. Equity 15.7%	Fixed Income 7.0%	Commodities (35.6%)	U.S. Equity 27.6%	Fixed Income 1.78%
Cash and Equivalents 6.0%	U.S. Equity (11.5%)	Cash and Equivalents 1.7%	Commodities 23.9%	Commodities 9.1%	U.S. Equity 6.1%	Cash and Equivalents 4.8%	U.S. Equity 5.1%	U.S. Equity (37.3%)	Commodities 18.9%	Non-U.S. Equity 1.42%
U.S. Equity (7.5%)	Commodities (19.5%)	Non-U.S. Equity (15.5%)	Fixed Income 4.1%	Fixed Income 4.3%	Cash and Equivalents 3.0%	Fixed Income 4.3%	Cash and Equivalents 4.7%	Non-U.S. Equity (43.2%)	Fixed Income 5.9%	Cash and Equivalents 0.01%
Non-U.S. Equity (13.2%)	Non-U.S. Equity (21.2%)	U.S. Equity (21.5%)	Cash and Equivalents 1.1%	Cash and Equivalents 1.2%	Fixed Income 2.4%	Commodities 2.1%	Real Estate (6.9%)	Real Estate (47.7%)	Cash and Equivalents .02%	Commodities -5.06%

# Global Financial Crisis

---

**GLOBAL FINANCIAL CRISIS**

SPECIAL COVERAGE ▶

---

# **Section II**

## **Public Fund Investing is Easy**

# All You Need to Remember

---

- **The Big Three:**

1. **Safety**
2. **Liquidity**
3. **Return**

# Public Funds Investing – Steps for Success

---

- Have a written investment policy
- Follow the policy
- Revise the policy as needed
- Don't get too cute

# GFOA Best Practices – Excerpts

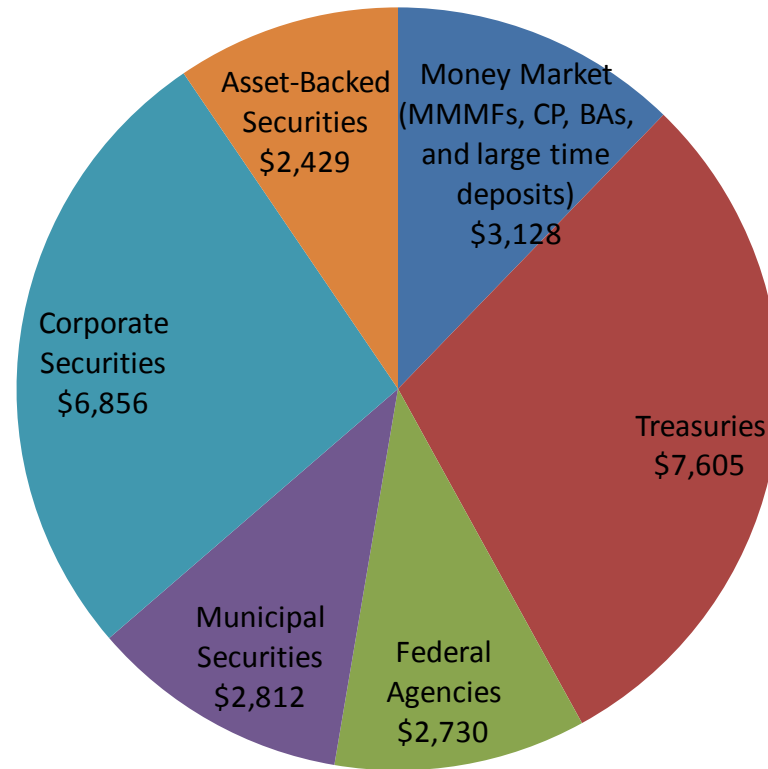
---

- Develop and update cash flow projections to determine:
  - a) the dollar amount of the portfolio that needs to remain liquid (liquidity buffer) to meet disbursement obligations within a six-month period (short-term)
  - b) what dollar amount is required within the next 6 – 12 month period, and
  - c) whether there is a ‘core’ of funds available for longer-term investing.
  
- Structure the portfolio to provide sufficient liquidity for anticipated cash flow requirements by continuously investing a portion of the portfolio in money market type investments such as local government investment pools, money market mutual funds, overnight repurchase agreements and money market securities
  
- Adopt weighted average maturity limitations and/or weighted average duration targets, consistent with the government’s investment objectives, constraints, cash flow needs and risk tolerances
  
- Do not directly invest in securities with maturities greater than the limits imposed by investment policy

# Fixed Income Universe

---

## Securities Outstanding (\$B)



Sources: U.S. Department of Treasury, Federal Reserve System, Federal Agencies, Dealogic, Thomson Financial, Bloomberg, Loan Performance, Florida State Board of Administration, and SIFMA. All data as of Q409.

# Common Investments for Florida Public Funds

---

- Basic Fixed-Income Investments
  - SBA (Florida PRIME)
  - SPIA
  - Money market mutual funds
  - Treasuries
  - Federal agencies
  - Negotiable and non-negotiable CDs
  - Bankers' acceptances
  - Commercial paper / Asset-backed commercial paper
  - Municipal securities
  - Corporate fixed income securities
  - CDARs
  - Time deposits or savings accounts in Qualified Public Depositories ("QPDs")

# Florida LGIPs Investment Options

Name of Fund	Sponsor Name(s)	S&P Rating	Assets Under Management (\$MM)	Net Rate of Return	Average Maturity
Florida PRIME	SBA	AAAm	\$5,347	0.29%	53 days
SPIA	Florida Treasury	N/A	N/A	2.04%	N/A
Florida Local Government Investment Trust	Florida Association of Court Clerks and Comptrollers and the Florida Association of Counties	AAAf/S1	\$559	1.27%	1.94 years
Florida Municipal Investment Trust 0-2 Year High Quality Bond Fund	Florida League of Cities	AAAf/S1	\$212	0.40%	1 year
Florida Surplus Asset Fund Trust	Davidson Fixed Income Management	AAAm	\$196	0.18%	48 days
Florida Trust Day to Day Fund	Florida Association of Court Clerks and Comptrollers and the Florida Association of Counties	AAAm	\$584	0.16%	46 days

# Florida LGIPs Investment Options

---

- **Florida PRIME (“AAAm”)**
  - \$5.347 billion under management and a 30-day net yield of 0.29% with an average maturity of 53 days
  - Invests exclusively in short-term, high-quality fixed income securities rated in the highest short-term rating category by one or more nationally recognized statistical rating organizations, or of comparable quality
- **SPIA**
  - SPIA funds are invested in the same portfolio as Treasury funds and are invested in a combination of short-term liquid instruments and intermediate term fixed income securities
  - 30-day net yield of 2.04%
- **Florida Local Government Investment Trust (“AAAf”)**
  - \$559 million under management for 30 local governmental entities at a price per share of \$22.9008 and a 30-day net yield of 1.27% with an average maturity of 1.94 years
  - This short-term bond fund invests in U.S. Treasuries and Agency Securities, Mortgages, Commercial Paper, Asset-Backed Securities, and “A” rated Corporate Securities with effective maturities of less than 5 years

# Florida LGIPs Investment Options

---

- **Florida Municipal Investment Trust 0-2 Year High Quality Bond Fund (“AAAf”)**
  - \$212 million under management with a quarterly net yield of 0.40%
  - Invests in government and high quality securities while maintaining an average maturity of approximately 1 year
- **Florida Surplus Asset Fund Trust (“AAAm”)**
  - Formed in December 2007 and is a privately run local government investment pool for Florida local governments. It is authorized to invest in U.S. Treasury and Agency securities, Primary Dealer Repurchase Agreements, highly rated Commercial Paper, “AAAm” rated Money Market Funds and Florida Depositories in which the deposits are collateralized
  - \$199 million under management with a 30-day net yield of 0.18% and weighted average maturity of 48 days
- **Florida Trust Day to Day Fund (“AAAm”)**
  - \$584 million under management with a 30-day net yield of 0.16% and weighted average maturity of 46 days
  - A money market product created in January 2009 for Florida local governments with a majority of the investments in U.S. Government Securities (US Treasuries, agencies, and repos) with the remainder in short term corporate bonds, commercial paper, and certificates of deposit

---

# **Section III**

## **Is the SBA Back?**

# Florida PRIME Overview

---

- The Florida PRIME is one of two open-pool investment funds operated by the SBA and has three layers of oversight: Board of Trustees, Participant Local Government Advisory Council and Investment Advisory Council
- Both funds operate in essentially the same fashion as mutual funds and are open to non-pension assets of all Florida governmental entities
- Federated Investors, Inc. (Federated) is currently the investment manager for the Florida PRIME, and has served in that capacity since March 3, 2008
  - Federated is one of the largest institutional money market fund managers in the United States
- Florida PRIME is rated AAAM by S&P and will buy only top-tier, money-market assets of the highest quality (at least 50% A-1+ and no more than 50% A-1)
- Florida PRIME is structured as a '2a-7 like' fund with an objective to pool investments from participants in a portfolio of eligible securities that principally provides liquidity while preserving capital and secondarily provides competitive yields net of fees
  - The objective to preserve capital is consistent with the intent to maintain a \$1.00 NAV
  - The weighted average maturity for PRIME is managed to be 60 days or less

# Florida PRIME Investment Policy

---

- The LGIP's assets will be invested in short-term, high-quality fixed income securities. To be considered high-quality, a security must be rated in the highest short-term rating category by one or more nationally recognized statistical rating organizations ("NRSRO")
- Duration
  - Maximum dollar-weighted average maturity of 60 days or less and a spread WAM of 120 days or less (a spread WAM uses the stated final maturity in its calculation)
  - The remaining maturity of securities shall not exceed 762 days for government floating rate notes/variable rate notes and will not exceed 397 days for other securities
- Diversification
  - No more than 25% of the LGIP's assets in a single industry sector, except for the financial services industry sector, which is permitted to be more than 25%. Government securities are not considered to be an industry
  - Exposure to any single non-governmental issuer will not exceed 5% and exposure to any single money market mutual fund will not exceed 10% of the LGIP assets

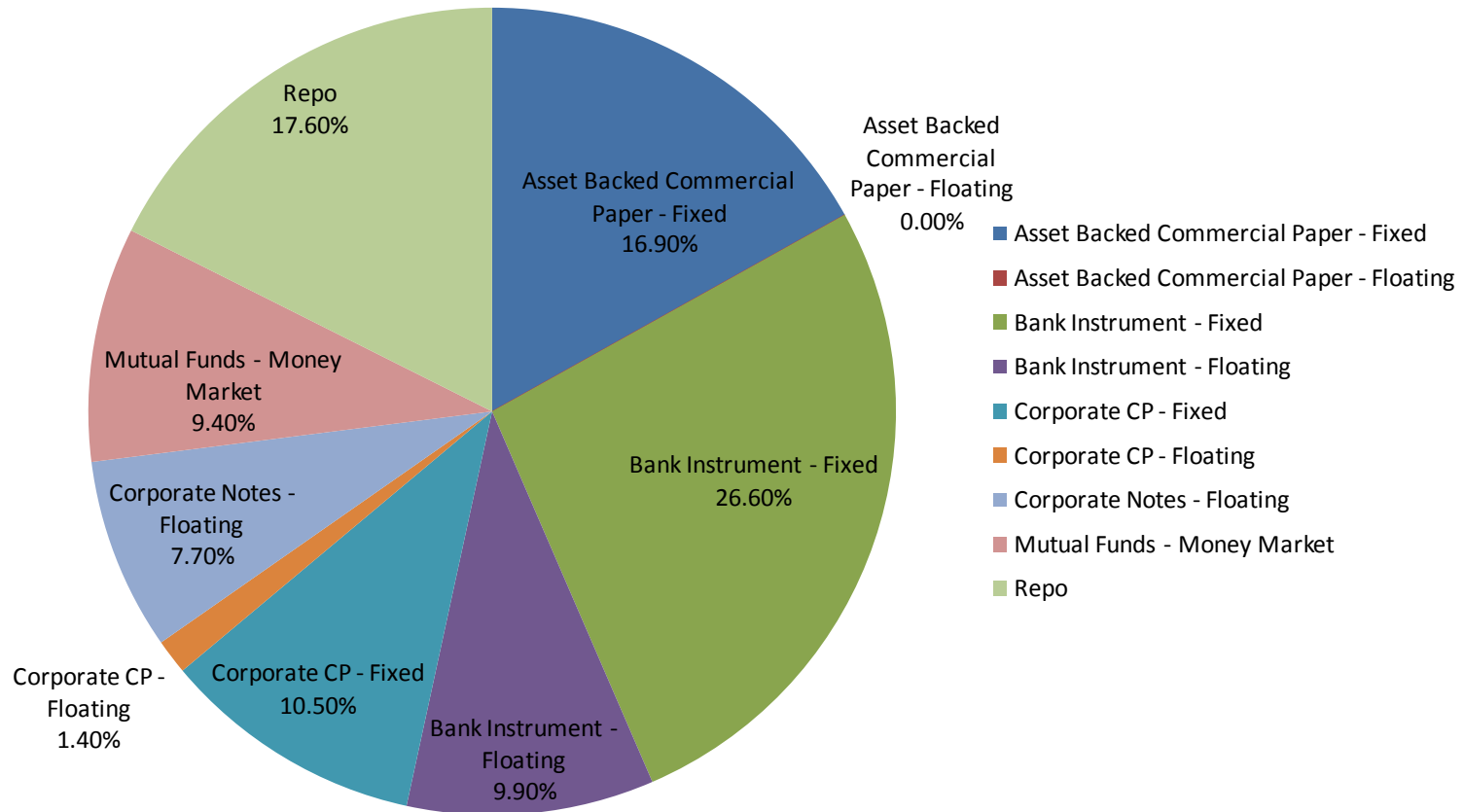
# Florida PRIME Investment Policy

---

- Liquidity
  - At least 5% of the LGIP assets in securities will be accessible within 1 day and at least 20% of the LGIP assets in securities will be accessible within 7 days
  - May invest up to 10% of the LGIP assets in securities that are illiquid or of limited liquidity, as defined by the NRSRO that rates the LGIP
  
- Credit Quality
  - At least 50% of the LGIP assets will be invested in securities rated “A-1+” or those deemed to be of comparable credit quality thereto by the Investment Manager
  
- Permitted Investments
  - Corporate debt securities, bank instruments, asset backed securities, U.S. Treasury securities, U.S. government agency securities, insurance contracts, municipal securities, foreign securities, mortgage backed securities, repurchase agreements, delayed delivery transactions, and shares of money market mutual funds

# Florida PRIME Composition

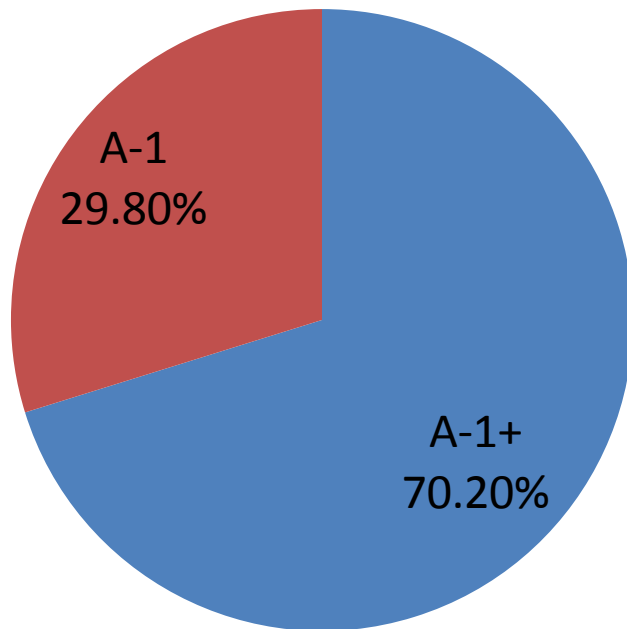
Florida PRIME Portfolio Composition



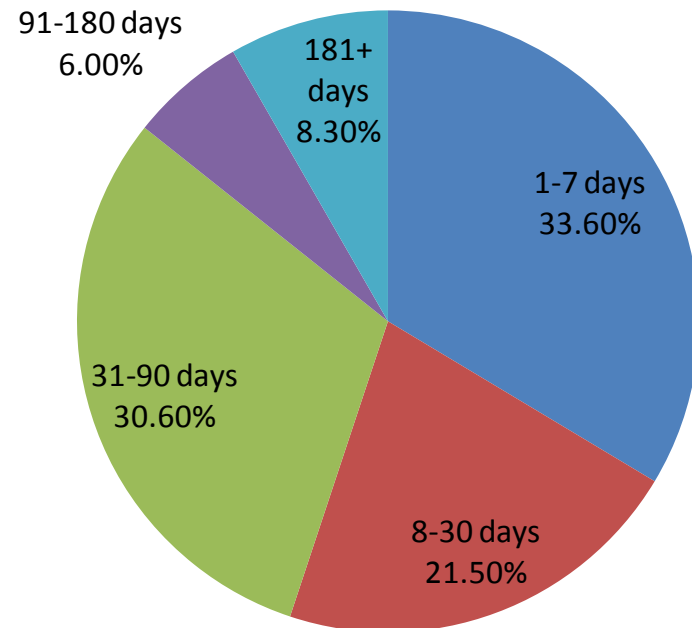
# Florida PRIME Composition

---

Florida PRIME S&P Credit Quality Composition



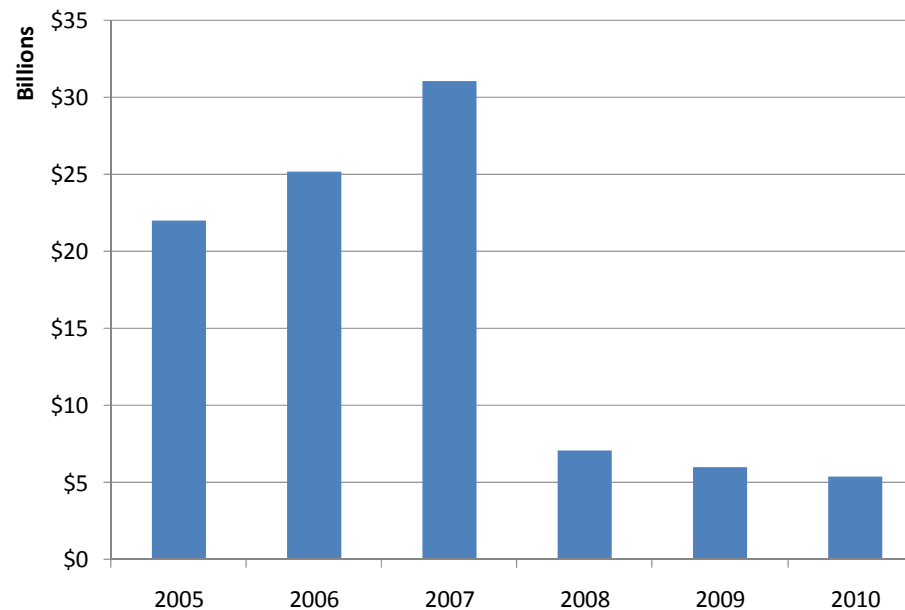
Florida PRIME Effective Maturity Composition



# Florida PRIME Historical Performance

Time Period	Net Participant Yield	S&P AAA/AA Rated GIP All 30-Day Net Index	Above (Below) Benchmark
1 month	0.23%	0.16%	0.07%
3 months	0.20%	0.15%	0.05%
12 months	0.36%	0.27%	0.09%
3 years	2.15%	2.13%	0.02%
5 years	3.17%	3.04%	0.13%
10 years	3.02%	2.80%	0.22%

**Assets Under Management**



# Plan B Overview

---

- Fund B's primary objective is to maximize the present value of distributions from the Fund
- Fund B principally consists of securities originally purchased for the LGIP that:
  - (1) defaulted in the payment of principal and interest;
  - (2) were extended;
  - (3) were restructured or otherwise subject to workout;
  - (4) experienced elevated market illiquidity; or
  - (5) did not meet the criteria of the nationally recognized statistical rating organization (NRSRO) that provides Florida PRIME's AAAM rating
- The securities remaining in Fund B are legacy items from the four issuers whose financial circumstances gave rise to the November 2007 run (Florida East and West – restructured from KKR, Florida Funding I – restructured from Ottimo, and Axon)
  - As of April 30, 2010, their amortized cost value was \$619.8 million, or 39.8% more than remaining participant positions in Fund B
- All cash from paydowns on securities in Fund B are invested in overnight securities, repurchase agreements, overnight time deposits or commercial paper pending monthly distribution to participant accounts in the LGIP