



## **Board of Directors Meeting**

**October 8, 2009**

### **Approval of JWB Investment Strategy**

#### **Item IV.B.**

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**Recommended Action:** **Authorize staff to change the investment strategy with Regions Morgan-Keegan Trust.**

**Issue:** **Banking Investments**

**Program:** **JWB Administration**

**Budget Impact:** **None**

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**Background:** Last October, the Board approved the recommendation of the Finance Committee to invest JWB revenues in excess of what is needed to meet monthly expenses in three investment categories. Currently, the amount remaining each month is divided equally among the Local Government Investment Pool (LGIP), the Regions Operating Account, and the Morgan-Keegan Trust for investment income.

Over the last year, the LGIP, formerly the State Board of Administration (SBA), has maintained the highest yield return (.41% as of 8/31/09) of the three accounts. The Regions Operating Account maintains the Federal Funds rate. However, with the contract extension last February, Regions agreed to pay a rate of .25% to JWB. The third investment account resides with Regions Morgan-Keegan Trust (RMKT). The current funds are invested in a Treasury Only account which currently is a yield of (.10% as of 8/31/09).

A discussion with the RMKT Assistant Vice-President, Cynthia Farrow, staff and subsequent discussion with Mr. Sayler resulted in several options for consideration in order to achieve a higher yield rate. They are as follows:

1. Change money market funds: The Fidelity Institutional Money Market Fund's yield was higher than the current JWB investment in the Treasury Only Fund and would slightly increase annual income. After review, it was felt that the composition of the Fund's investments were not appropriate for JWB at this time.
2. Morgan Asset Management Enhanced Cash Strategy: This is an actively managed individual bond portfolio comprised of US Treasury bonds, government agency bonds and corporate bonds. A summary was provided to show yield and total return information, as well as the strategy's maturity, sector distribution and quality makeup. The enhanced cash strategy is a riskier alternative to a money market strategy. The

objective of the enhanced cash strategy is principal preservation and to generate returns greater than standard money market funds. There is also Government Only Enhanced Cash Strategy which invests only in U.S. Treasury bonds, government agencies and mortgages. Rather than the Strategy fund, it was felt that Individual Corporate and Agency bonds may be a more attractive option for JWB.

3. A Certificate of Deposit portfolio with varied or laddered maturity dates to match cash flows, with a \$7.5MM cap: Before investing, a list of the banks from which the CD's would be purchased (each at \$250,000) would be sent to JWB to verify that each dollar is insured by FDIC. This offers a conservative, but attractive investment option for JWB.
4. A US Treasury or Government Agency portfolio can be created with laddered maturities to match cash flow needs: Investments in US Treasury notes must be longer than two months in order to exceed the current money market rate. However, the US Treasury short-term yields are very low and probably unattractive for this purpose.

This is clearly an environment, in the short term, where conservative investing is a priority rather than yield. However, a "no risk" objective can still yield higher income with careful consideration of maturity dates and investment amounts. Staff and Mr. Sayler recommend that the JWB range of investments include: 1) A Treasury Only Money Market account, 2) A Laddered CD portfolio and 3) Individual Corporate or Agency Bonds.

Once the Board approves this range of options, Regions will establish a recommendation of the investment amount built around JWB's cash flow requirements. The Program Stabilization Reserve amount will be utilized as a base level of investment. It will be structured with maturities to occur at strategic times for October and November cash flow needs.

Under the RMKT plan, the amount invested will be either one or a combination of the three recommended options. The Regions Operating Account will still be utilized for monthly cash flow operations. The SBA account will contain only the amount remaining in the Fund B account, which is approximately \$483,000. It is anticipated this strategy will lead to JWB meeting or slightly exceeding the investment income projection of \$150,000. Staff will continue to report on revenues generated from investment income on a monthly basis.

	<b>Current%</b>	<b>Recommended%</b>
<b>SBA</b>	<b>.37</b>	<b>-0-</b>
<b>US Treasury Only Money Market Fund</b>	<b>.10</b>	<b>.10</b>
<b>Operating – Fed. Funds Rate</b>	<b>.25</b>	<b>.25</b>
<b>Laddered CDs 1 yr.</b>		<b>1.49</b>
<b>Individual Agency Bonds 1 yr.</b>		<b>.42</b>
<b>Individual Corporate Bonds 1 yr.</b>		<b>.70</b>