



# Public Funds Investing 101

2026 Minnesota Public Finance Seminar

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# Today's Objectives

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Your Role



Investment  
Basics



Investment  
Policies



Common  
Investment  
Options



Public Funds Investing 101

# **YOUR ROLE**

# Rules of Prudence & Standards of Care

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Investments shall be made with judgment and care under circumstances prevailing which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

*- GFOA Financial Policies, Shayne C. Kavanagh*

# Your Primary Responsibilities

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Understand  
applicable state  
statutes & internal  
policies

Determine who will  
be responsible for  
the investment  
program

Assemble &  
oversee portfolio  
management team  
(internal, external  
or combined)



Public Funds Investing 101

# INVESTMENT BASICS

# Investment Basics

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## Basic Terms

- Good to know before you buy

## Common Market Players

- Where do you purchase investments?

## Custody/Safekeeping

- Where you hold Investments

## Cash Management

- Which funds are available to invest?

# Liquidity

The background of the slide is a close-up photograph of water ripples. Several concentric circles of varying sizes are visible, created by droplets falling into a body of water. The water is a clear, light blue color, and the ripples create a textured, shimmering effect across the entire frame.

The ease with which an investment can be bought or sold at stated market value and considering transaction costs

# CUSIP

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- Committee on Uniform Securities Identification Procedures
- Nine-character Identification method for most registered securities



# Par Value

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**Principal or Face Amount:**  
The stated value of an investment (AKA par)



# Maturity

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The stated date upon which the issuer must pay the principal balance to security holders

- Bullet
- Periodic



# Optional Redemption

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## “Call” Date:

- Issuers may retain right to pay off bonds – at face or premium value – PRIOR to stated maturity
- Some securities require issuer make bondholders “whole” if exercising optional redemption
  - ✓ Pay bondholders present value of remaining interest

Call Date:  
July 1, 2026

Present value of foregone interest & principal

Maturity Date:  
July 1, 2028

# Coupon & Yield

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**Coupon:** The stated interest rate issuers pay bondholders

Fixed  
Variable



**Yield:** The measure of investor return considering all net cash flows while holding security

May or may not be guaranteed  
Yield **MAY NOT** equal coupon

# Discount vs. Premium

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## Discount

- Amount paid for a security below face or par value

## Premium



- Amount paid for a security in excess of face or par value



# Credit Rating

- Risk rating applied to securities
- Moody's and S&P are most common in Minnesota

## Credit Ratings Scale

MOODY'S	S&P	FITCH	DESCRIPTIONS	GRADE
Aaa	AAA	AAA	Highest credit quality, minimum credit risk	 INVESTMENT
Aa	AA	AA	Very high credit quality, very low credit risk	
A	A	A	High credit quality, low credit risk	
Baa	BBB	BBB	Good credit quality, moderate credit risk	
Ba	BB	BB	Issuer faces adverse conditions and uncertainty, substantial credit risk	 HIGH YIELD (or "Junk")
B	B	B	High credit risk, issuer able to meet financial commitments	
Caa	CCC	CCC	Vulnerable and default likely	
Ca	CC	CC	Issuer is highly vulnerable or near default	
C	C	C	Lower ratings, issuer in default	
	D	RD	Lower ratings, issuer in default	
		D	Lower ratings, issuer in default	

# Putting it all Together

91282CDZ1 T UNITED STATES TREASURY NOTES ... 1.500% 02/15/25 TREA

Ratings: Aaa/-      Next Call: NC      Cpn Type: Fixed      Issued (MM): 80,248.1  
 Min/Den: 0/0      Cpn Freq: Semi-Annual      Outstnd (MM): 80,247.9

Attributes:      Cpn Detail:

## Ticket Details

Trader ▼

Side	Sell ▼
Quantity (000s)	100 ↕
Price	96.648658 ↕
Concession (Add)	0 ↕
Fee	0 ↕
Yield	4.84 ↕
Settlement	01/31/24 📅

## Worksheet

Price	\$96.648658
Principal	\$96,648.66
Accrued (169 Days)	\$688.86
Net Money	\$97,337.52
Fee	\$0.00
Total Money	\$97,337.52
Ttl Sales Credit	\$0.00

## Characteristics

%Yield

Tax Equiv.

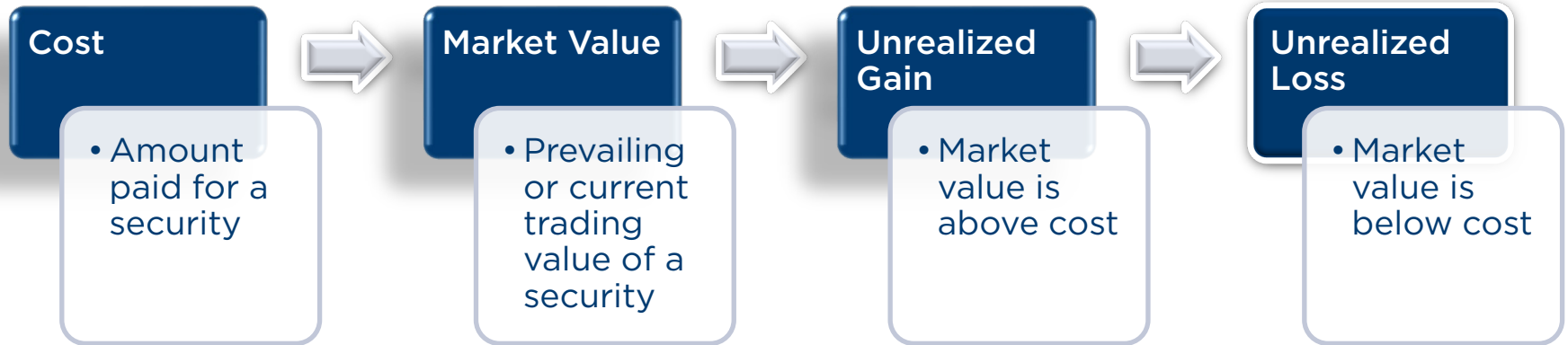
Price To	Maturity	02/15/25
YTW	4.840	3.049
YTM	4.840	3.049
Tax Rate	37 ↕	

# Putting it all Together

91282CDZ1 T UNITED STATES TREASURY NOTES		1.500%	02/15/25	TREA	
<b>Details</b>		<b>Call Schedule</b>		<b>Ratings</b>	
CUSIP	91282CDZ1	Callable	No	Moody's / S & P	Aaa -
Form	Book Entry	Par Call		Underlying	
Cpn Freq	Semi-Ann	Sinkable	No	Short Term	
Cpn Type	Fixed	Coupon Dates	Yes		
Benchmark		Make Whole Call	No		
Cpn Detail				<b>Issuance</b>	
Day Count	ACT/ACT			Issue Date	02/15/2022
				Dated Date	02/15/2022
<b>Attributes</b>				Orig. Settle	02/15/2022
Sinker	No			First Cpn	08/15/2022
				Int Acc Date	02/15/2022
				Issue Price	99.731530
				Issue Yield	1.594
				Amt Issued	80,248,121,000
				Outstanding Size	80,247,913,900

# Unrealized Gain or Loss

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**Unrealized gain/loss only realized if security sold prior to maturity. If held to maturity date, face value received.**

# Fixed Rate vs. Variable Rate

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## Variable Rate

- Rate (& value in some cases) may fluctuate
- More difficult to predict income for budget



## Fixed Rate

- Predictable income
- Corresponding maturity schedule for budget



# Key Investment Risks

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## Liquidity Risk:

- The risk, or inability, to convert an asset into cash quickly with minimal impact on open market price received

## Credit Risk:

- The risk that an issuer or other counterparty to an investment will not fulfill obligation

## Market/Interest Rate Risk:

- The risk that changes in interest rates will adversely affect fair value of an investment

# Common Market Players: Broker-Dealer

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Not a fiduciary to you

Acts as Broker when executing trades between customers

Acts as Dealer when trading from own inventory

May provide safekeeping account

You generally pay for each transaction

Best Practice to obtain multiple quotes

You are responsible to ensure purchases are appropriate & competitive-  
be aware of callable securities.

# Common Market Players: Investment Adviser

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Acts as a  
fiduciary to you

Professional  
portfolio  
management

Large broker  
network

May be  
discretionary or  
non-discretionary

Facilitates  
investment  
transactions on  
your behalf

Seeks best  
pricing execution  
& competitive  
bids on  
purchases

Fees generally  
based on average  
monthly balances

**Manages and advises the purchase of appropriate investments at a competitive market rate on your behalf = saves you time**

# 3<sup>rd</sup> Party Custody: Brokerage

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- Cash & securities held FBO client
- Referred to as “street name”
- Broker/dealer can lend client securities
- Your assets considered their assets, subject to creditor claims
- SIPC insured up to \$500,000, covers face value
- Likely no fees assessed
- May be able to trade with any broker-dealer

# 3<sup>rd</sup> Party Custody: Bank

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- Cash & securities held in your name
- Your assets, not likely subject to bank's creditors
- Can authorize lending, be compensated
- Can trade with any broker/dealer
- Investment adviser may receive limited authority to transact on your behalf
- Fee-based relationship

# Cash Management

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## Liquidity = actual cash or near liquid balances

- Funds can be invested: use LGIP, money market, or other 30/60day investments

## Core = longer term general funds, reserve funds

- Funds should be invested with maturities to match anticipated project or major operational expenditures
- Potentially longer term, based on duration or maturity targets, investment policy

## Project funds based on draw schedule

- Invest debt proceeds based upon project timeline

# Cash Flow Forecasting

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Identifies liquidity needs in operational or project cash balances



Uncovers cash shortfalls or irregularities. Minimizes borrowing needs or liquidation of longer-term investments



Optimizes investment opportunities. Put idle cash to work!

# Keys to Investment Strategy Development

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- Cash Flow Analysis
  - ✓ What funds are needed for daily liquidity
  - ✓ Strategic portfolio segmentation
- Diversification
  - ✓ Building a diversified portfolio of investments permitted by M.S. 118A.04
- Asset-liability matching
  - ✓ Investing in assets with the same duration as liabilities

# Portfolio Segmentation Example

Portfolio Segment	Portfolio Strategy	Potential Investment Options
<b>Daily Liquidity</b>	Used to fund known short-term cash flow needs and daily operations	<ul style="list-style-type: none"><li>• Bank accounts</li><li>• Money Market Mutual Funds</li><li>• Local Government Investment Pools (LGIPs)</li></ul>
<b>Enhanced Cash</b>	3-12-month investments used to match known cash flow needs within a 1-year time period	<ul style="list-style-type: none"><li>• Treasury bills</li><li>• Bullet Federal Agencies</li><li>• Taxable municipal bonds</li><li>• Commercial paper</li></ul>
<b>Core Investment Portfolio</b>	Longer-duration target looking to maximize investment earnings	<ul style="list-style-type: none"><li>• Diversified investment mix across permissible asset classes</li><li>• Greater focus on income generation over liquidity profile</li></ul>



Section 3:

# INVESTMENT POLICIES

# Your Road Map to Prudent Investing

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Scope

Objectives

Pooling of  
Funds

Standards of  
Care

Investment  
Portfolio

Safekeeping  
& Custody

Reporting

# Investment Policy: Scope & Objectives

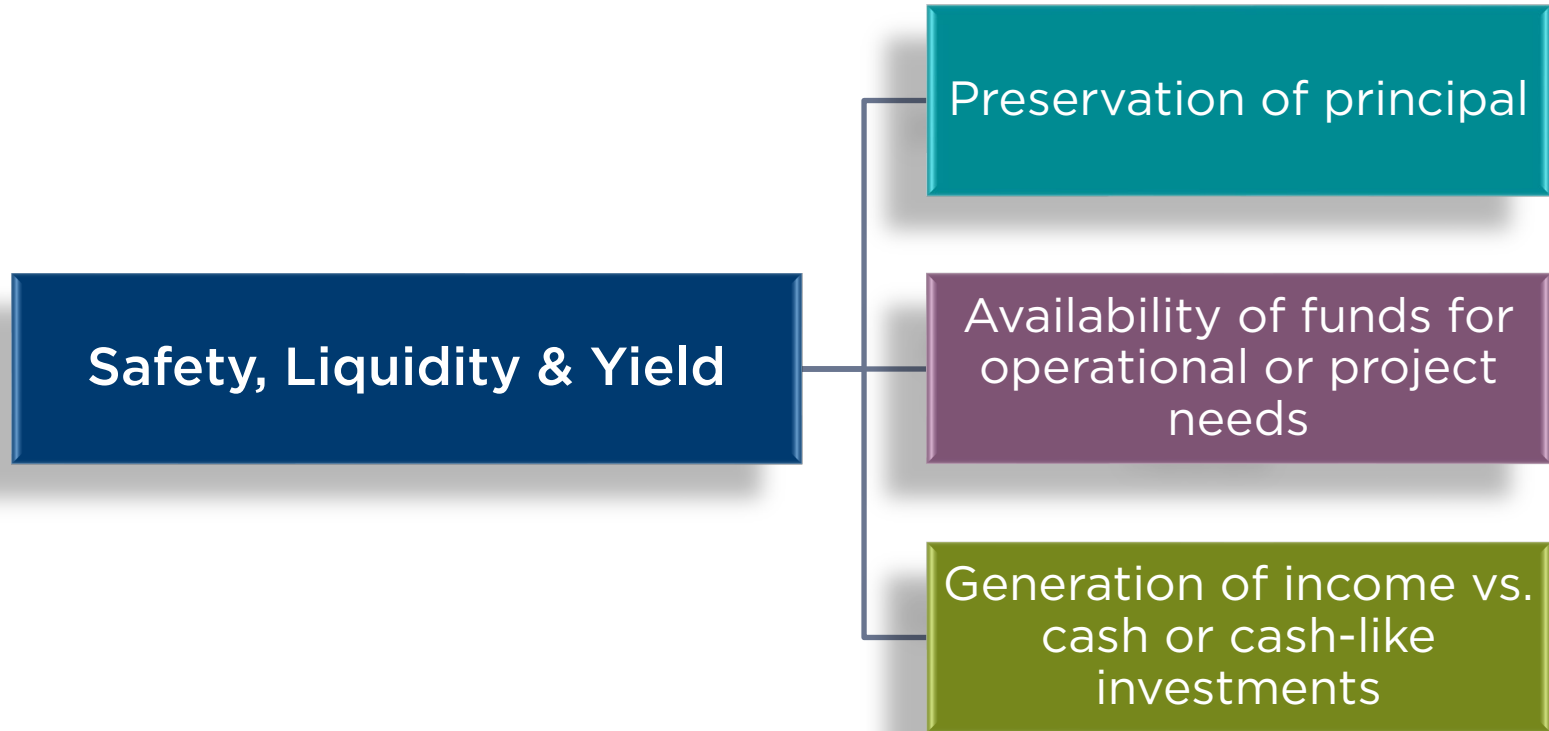
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- Funds to govern:
  - ✓ General
  - ✓ Enterprise
  - ✓ Internal service
  - ✓ Bond funds
  - ✓ Others?



# Objectives

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# Pooling of Funds

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- Organize by type of funds or objective:
  - ✓ Operational
    - match anticipated cash flow to investment maturities
  - ✓ Projects/Debt Proceeds
    - Generate predictable income
    - Match investment maturities to project schedules
- Allocate income & fees
- Check with auditors to confirm preferences- often policies may define which funds can or should be pooled

# Standards of Care

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# Investment Portfolio

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- Authorized Investments
- Prohibited Investments
- Diversification
- Maturities
- Competitive Bidding

# Investment Policy: Authorized Institutions

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- Who can hold your assets?
  - ✓ Collateralization requirements
- With whom can you transact?
- Due diligence?
- Delegation of authority?



# Internal Controls

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- System seeking to prevent loss due to fraud, employee error, or imprudent actions
- Checks & balances to confirm compliance
- Actual control procedures should be in a separate document



# Reporting

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- Frequency
- Format
- Performance Targets



Section 4:

# COMMON INVESTMENT OPTIONS

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# Permissible Investments

MN. Statute 118A.04

- **United States Securities:**
  - Governmental bonds, notes, bills, mortgages (excluding high-risk mortgage-backed securities), that are direct obligations or guaranteed by the United States, or its agencies or instrumentalities
- **State and local securities (municipal bonds):**
  - General obligations of any state or local government with a rating of “A” or better by a national bond rating service
  - Revenue obligations of any state or local government with a rating of “AA” or better by a national bond rating service

# Permissible Investments

MN. Statutes 118A.04

- **Time Deposits:**
  - Need to be fully insured by the Federal Deposit Insurance Corporation (FDIC), the National Credit Union Administration (NCUA), or bankers acceptances of United States banks
- **Commercial Paper:**
  - Issued by United States corporations or Canadian subsidiaries rated in the highest credit category by at least two nationally recognized rating agencies with maturities less than 270 days
- **Minnesota Joint Powers Investment Trusts:**
  - Includes Local Government Investment Pools (LGIPs)

# Permissible Investments

MN. Statutes 118A.05

- **Money Market Funds:**
  - Registered under the Federal Investment Company act of 1940 and meets the conditions of rule 2a-7 of the Securities and Exchange Commission (SEC)
  - Rated in the highest rating category by at least one nationally recognized rating organization
- **Repurchase Agreements**
  - Consisting of collateral allowable by Minnesota Statute 118A.04
- **Guaranteed Investment Contracts (GICs)**
  - Must meet provider eligibility & other requirements

# Remember to...

- Know your responsibilities, limitations, & key investment terms
- Use policies to guide your decisions
- Select investments appropriate for your situation and experience level
  - ✓ Cash forecasts
  - ✓ Be mindful of your peaks & valleys
- Follow state statutes & your own policies
- Leverage industry resources & professionals





# Download the Presentation

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# Your Presenters

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