



# Received Bond Funds – Now What?

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# TCG Overview



## TCG Mission Statement:

We deliver long-term investment solutions that provide peace of mind.



# Our Services



## Retirement Plan Administration

- 400+ plans, 450,000+ participants
- Fee-only, low-cost programs
- Administration of 403(b), 457(b), 401(a), 401(k), and 457(f) plans



## Investment Management

- \$1.7 Billion in assets under management
- Solutions for
  - individuals
  - retirement plans
  - school district funds
  - other institutional needs



## Financial Planning

- Fee-only solutions
- Wealth management
- Asset management
- Fiduciary support
- Goals-based strategies and planning

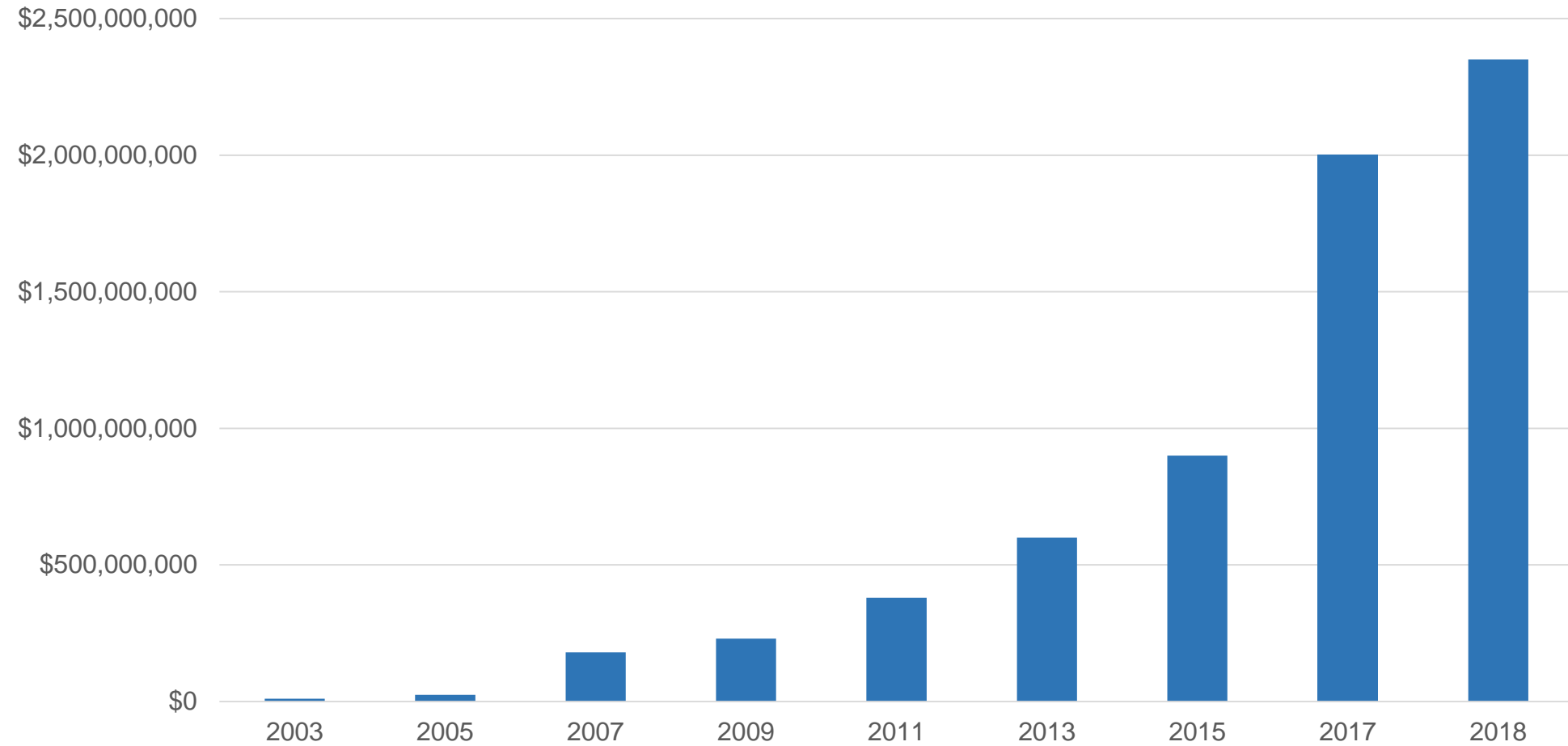


## Consulting Solutions

- Investments
- Compensation
- Benefits
- Employee contracts
- Enterprise cybersecurity

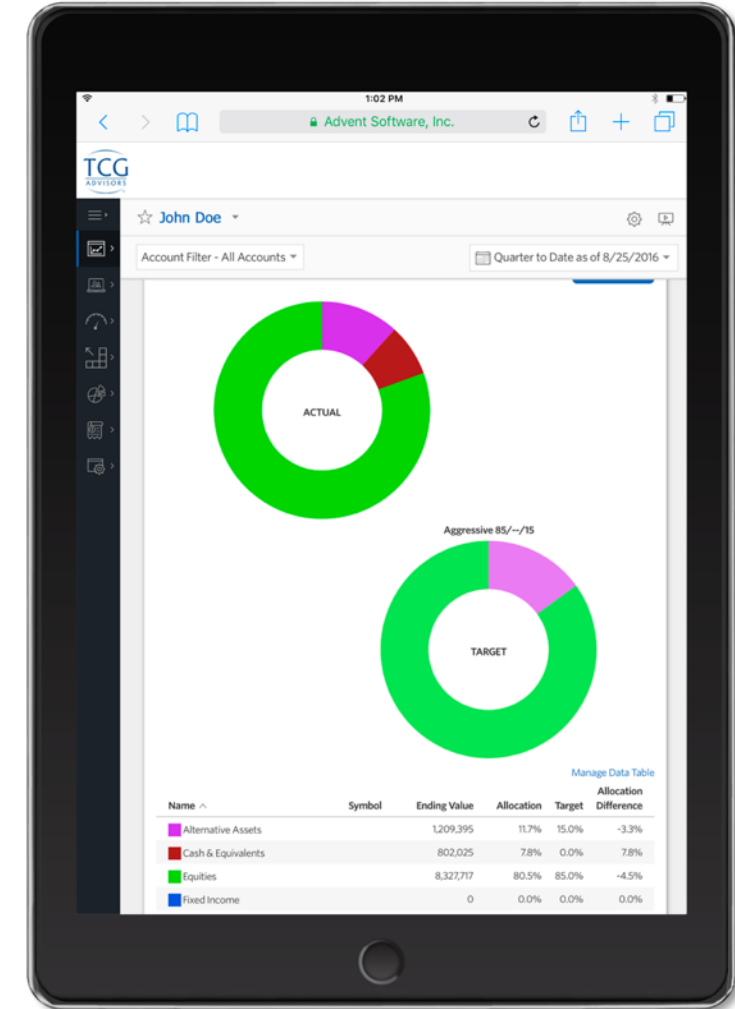
For over 18 years, TCG Advisors has provided an elite customer service experience to clients all around the country. Everything we do is accomplished in-house by a team of professionals dedicated on delivering excellent solutions for each client.

# TCG Advisors Assets Under Management



# Value Proposition

- We offer a team-based, institutional approach to school district portfolio management and review
- We are committed to providing full fiduciary transparency
- We provide investment solutions that are practical and effective
- We offer expertise at every level of the investment process



# Successful Bond Issuance – Now What?

The funds have been received...



The construction schedule is complete...



NOW WHAT?

## Variables to consider once you have received your bond proceeds:

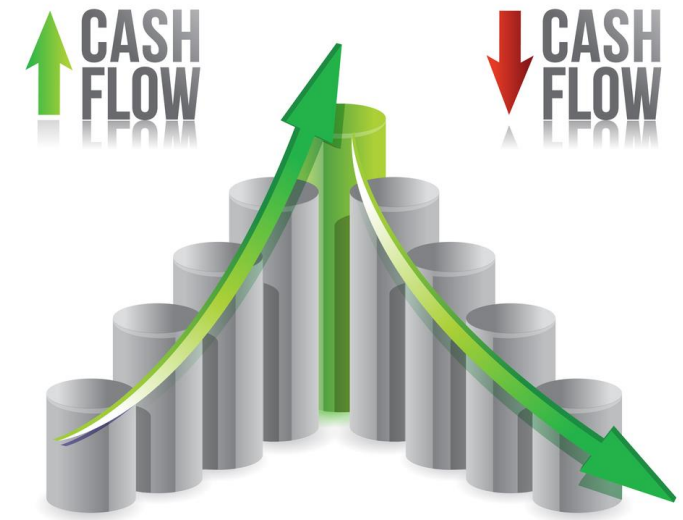
- ☐ Construction schedule / Spend down rate
- ☐ Investment policy and PFIA requirements
- ☐ Arbitrage requirements
- ☐ Investing the proceeds from the bond





## Construction schedule/spend down rate considerations:

- ☐ Rarely does the construction & cash flow schedule developed at the onset of the project perfectly match the actual cash flows
- ☐ What happens if you spend faster than expected?
- ☐ What happens if you spend slower than expected?



## Variables to consider once you have received your bond proceeds:

- ☒ Construction schedule / Spend down rate
- ☐ Investment policy and PFIA requirements
- ☐ Arbitrage requirements
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## Investment policy and PFIA considerations:

- ☐ Does your District's current investment policy allow for the flexibility needed to maximize bond funds?
- ☐ Maximum allowable maturity? What if bond project is medium/long term 2-5 years?
- ☐ What securities are allowed per local policy versus the PFIA? Do those securities allow enough flexibility to properly invest?



## Variables to consider once you have received your bond proceeds:

- ☒ Construction schedule / Spend down rate
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- ☐ Arbitrage requirements
- ☐ Investing the proceeds from the bond



## Arbitrage requirements:

- ☐ Simple version: Earn as much as you can up to the yield of the issued bond
- ☐ Requirement developed to remove negative incentives (issue more bonds than necessary, issue bonds early, leave bond funds unspent)
- ☐ Consult arbitrage compliance expert



## Variables to consider once you have received your bond proceeds:

- ☒ Construction schedule / Spend down rate
- ☒ Investment policy and PFIA requirements
- ☒ Arbitrage requirements
- ☐ Investing the proceeds from the bond



How do you manage funds to maximize value to the District while meeting objectives of the bond funds?

- ☒ Investment Pools Only?
- ☒ Short Term Investments Only?
- ☒ Investment Pools + Short Term Investments!



# Investing the Bond Proceeds

The combination of short term liquid investments (pools) + longer term investments (bonds, commercial paper, CDs) allows you to:

- ☐ Meet cash flow needs on both a short term and long term basis
- ☐ Maximize returns while complying with IPS and PFIA
- ☐ Ensure arbitrage thresholds are not exceeded





## How do you build this portfolio?

- ☐ Build a cushion of daily accessible cash - ensure the funds are available when you need them
- ☐ Ladder investment maturities to ensure more cash than necessary is maturing at any given point in the construction schedule
- ☐ When those bonds mature, reevaluate whether to reinvest any excess funds or place into pools



# Sample Drawdown/Portfolio

Bond Proceeds \$10,000,000  
Expected Project Life 2 years

INITIAL SPEND PROJECTION		INITIAL INVESTMENT PROPOSAL			EXCESS CASH
Date of Expected Expenditure	Cash Needed	Date of Investment Maturity	Investment	Amount	(Cash minus Expected Spend to Date)
January 1, 2019	\$1,000,000	December 1, 2018	Pool	\$1,500,000	\$500,000
March 1, 2019	\$1,000,000	February 1, 2019	Commercial Paper	\$2,000,000	\$1,500,000
June 1, 2019	\$2,000,000	May 1, 2019	Commercial Paper	\$2,500,000	\$2,000,000
December 1, 2019	\$1,000,000	November 1, 2019	Bond	\$1,000,000	\$2,000,000
March 1, 2020	\$2,000,000	February 1, 2020	Bond	\$1,000,000	\$1,000,000
September 1, 2020	\$1,000,000	August 1, 2020	Bond	\$1,000,000	\$1,000,000
December 1, 2020	\$2,000,000	November 1, 2020	Bond	\$1,000,000	\$0
	\$10,000,000			\$10,000,000	

← At any point with excess cash you can evaluate updated spending needs and invest accordingly

## Variables to consider once you have received your bond proceeds:

- ✓ Construction schedule / Spend down rate
- ✓ Investment policy and PFIA requirements
- ✓ Arbitrage requirements
- ✓ Investing the proceeds from the bond



# Financial Market Update

S&P 500 over 10 years: Since bottom in March 2009, 400% Total Return, 18.2% Annual



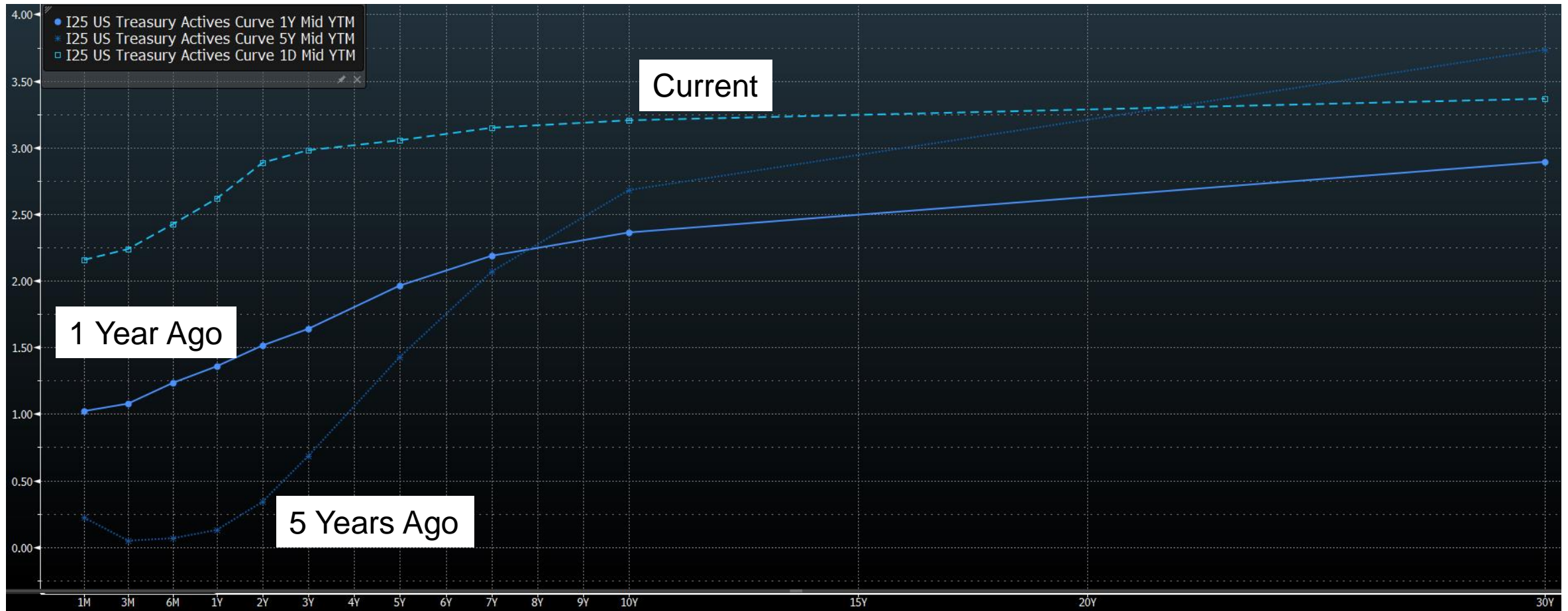
# Financial Market Update

US has outperformed both international developed markets and emerging markets over the past year



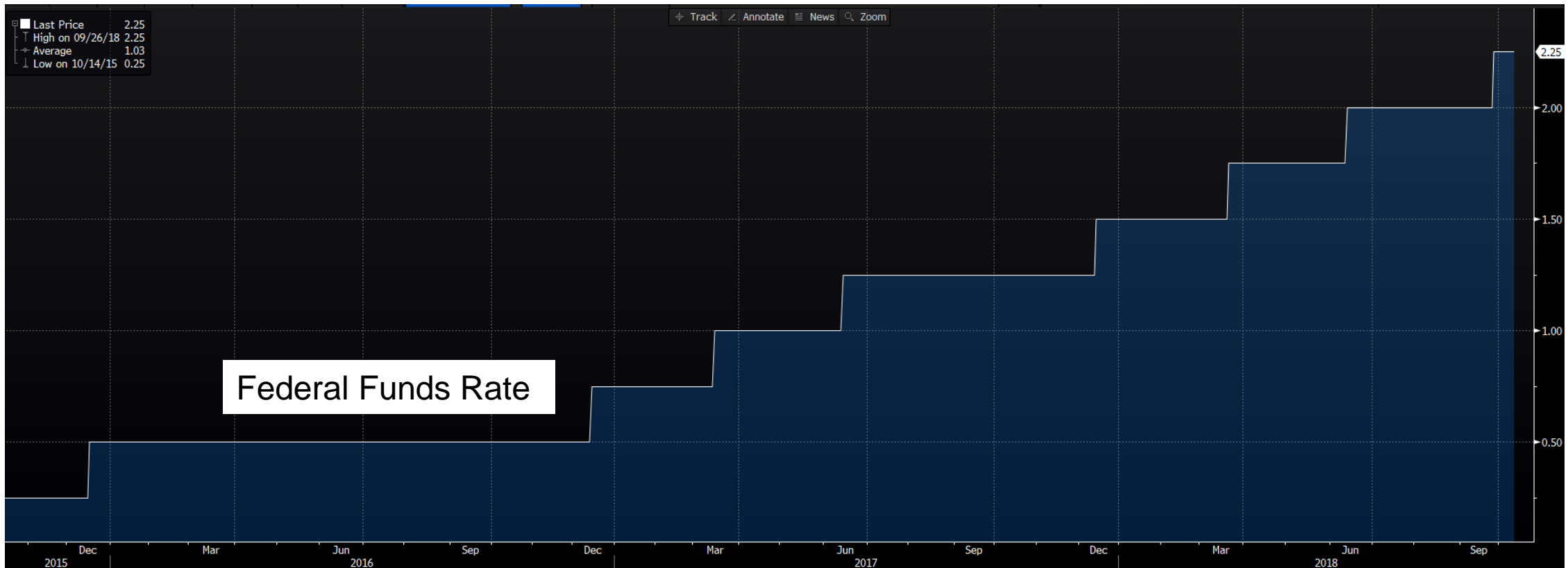
# Financial Market Update

The yield curve has flattened considerably over the past 1 year, 5 years



# Financial Market Update

The Federal Reserve has raised interest rates 8 times over 24 months



# Financial Market Update

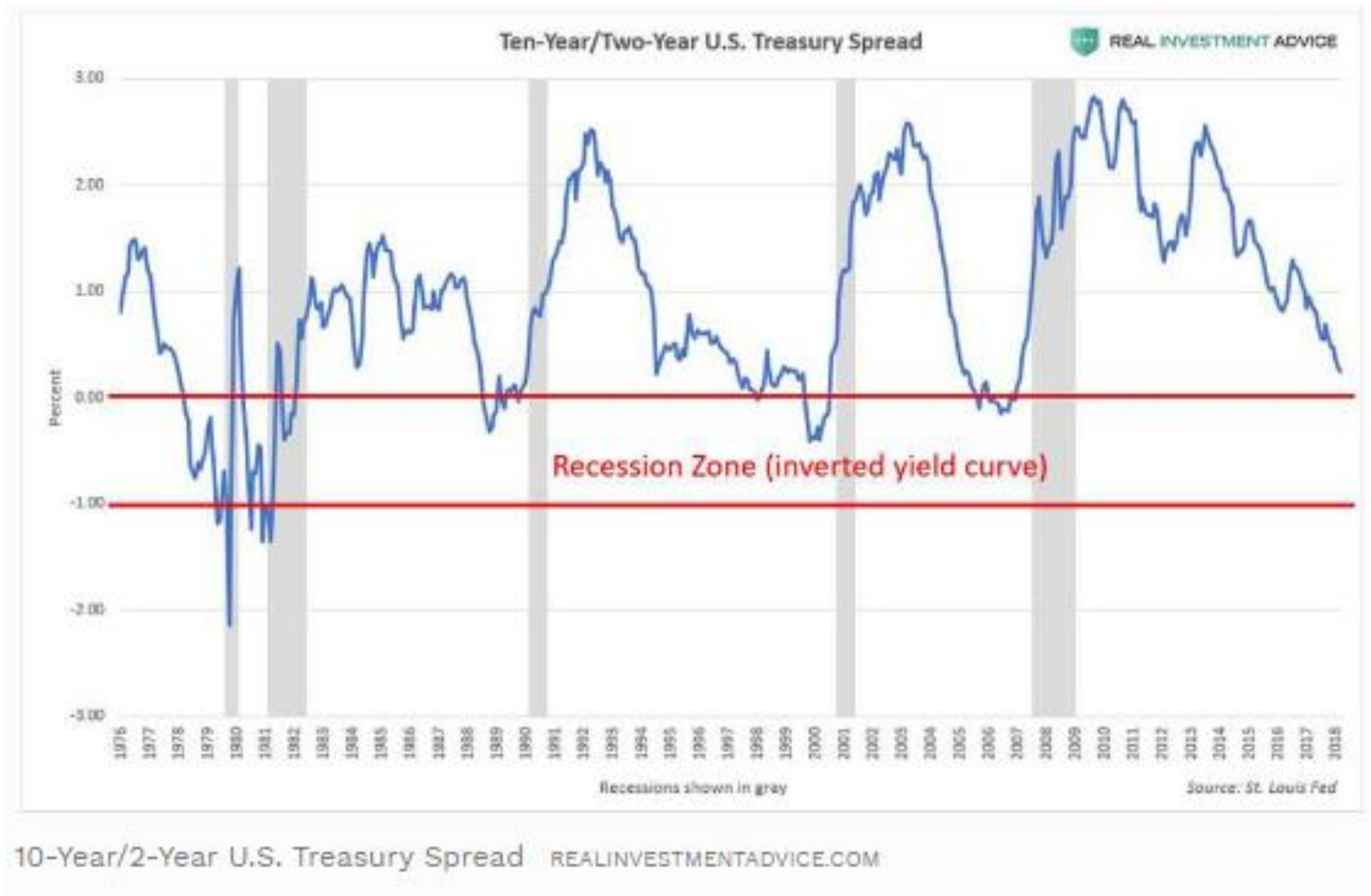
Treasury curve over 10 years – 10y rate minus 2y rate: Will the curve invert?





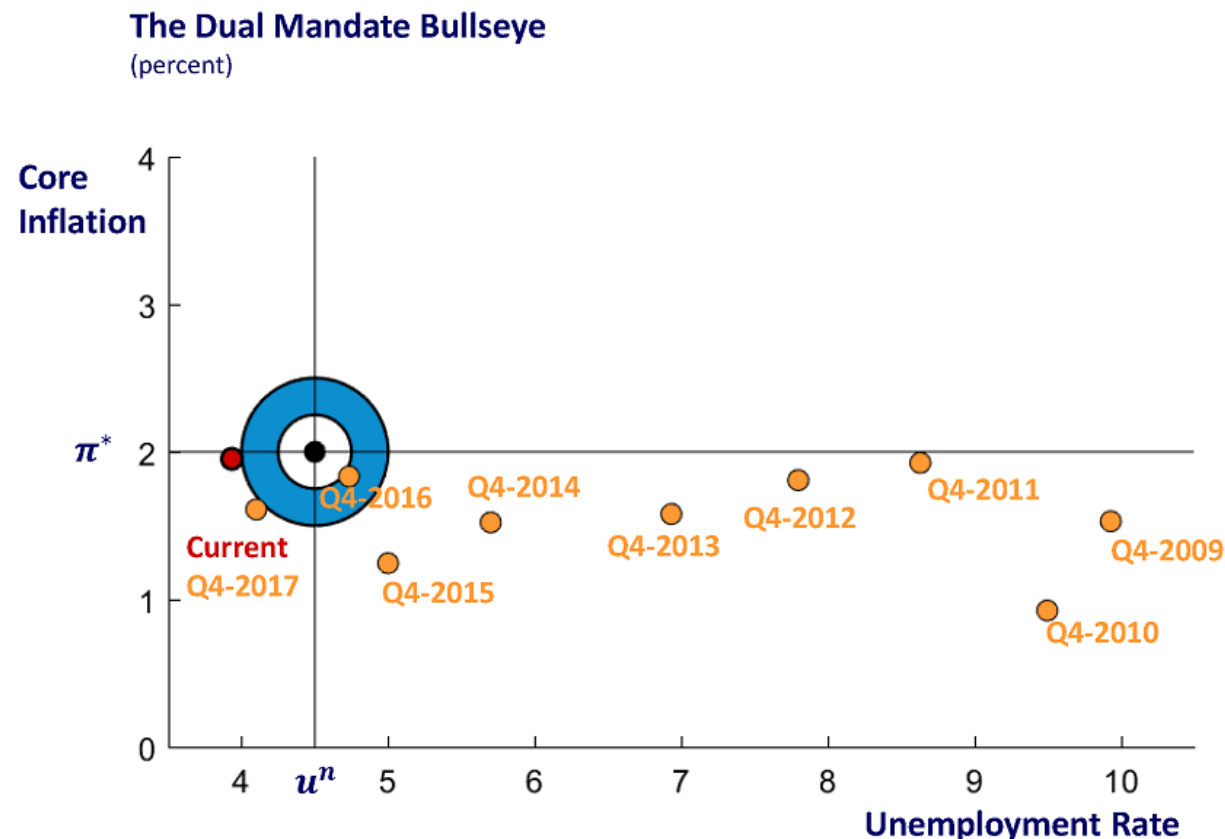
# Financial Market Update

Gray areas = recession



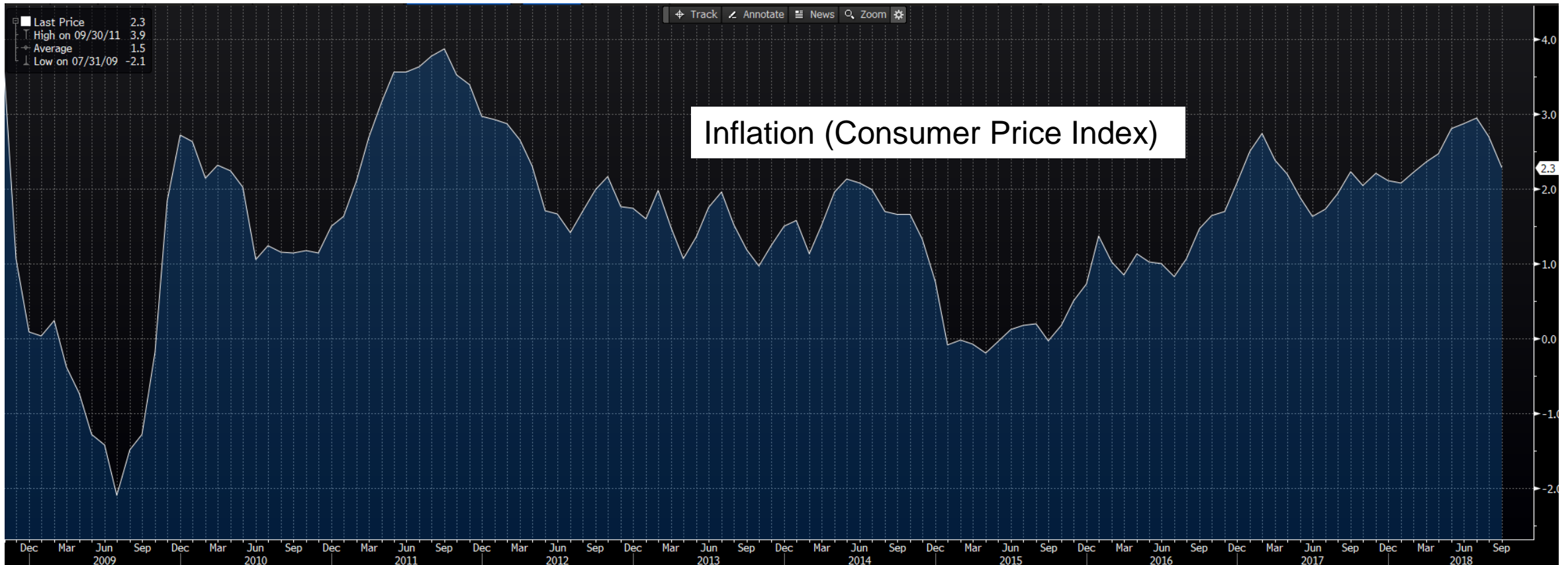
# What Is The Fed Looking At?

Federal Reserve Open Market Committee: ‘Our two goals of price stability and maximum sustainable employment are known collectively as the "dual mandate."’



# What Is The Fed Looking At?

Inflation over 10 years has been well contained



# What Is The Fed Looking At?

Overall unemployment rate & 'underemployment rate' over 20 years



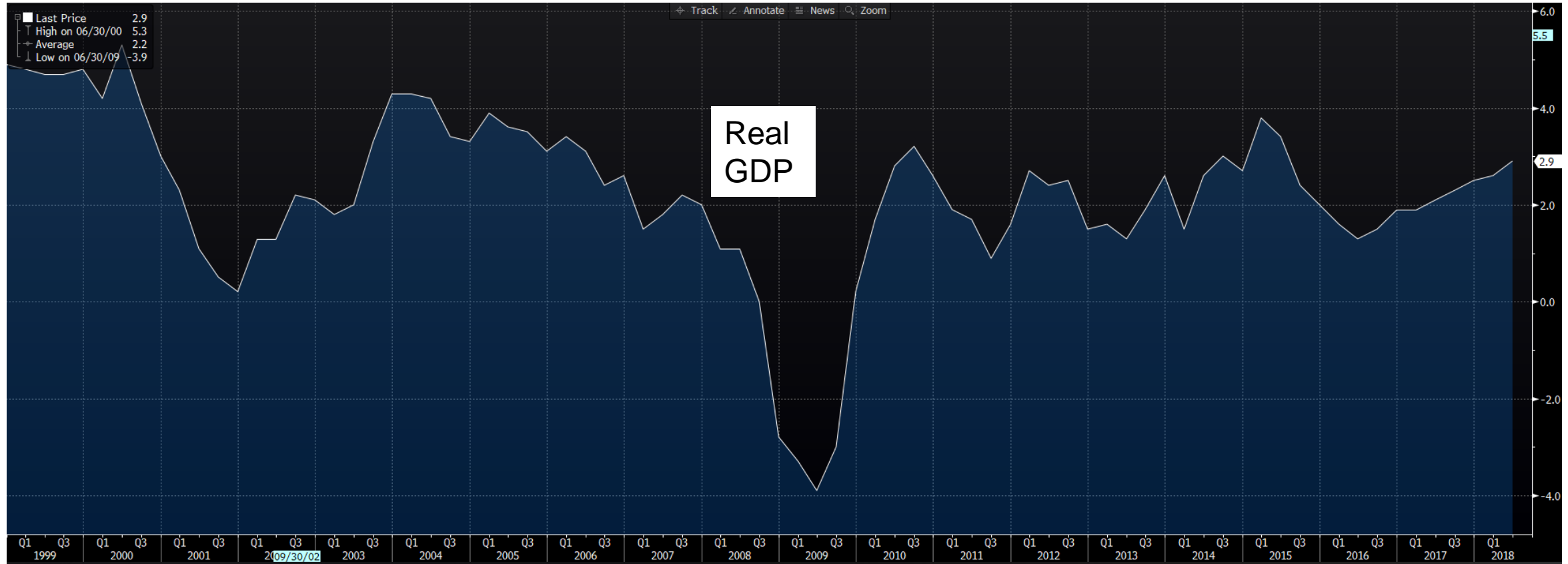
# What Is The Fed Looking At?

The concern: Labor force participation rate over 20 years - where did 3-4% of us disappear to?



# What Is The Fed Looking At?

Real GDP has bounced off recession lows to more normal long term levels



# What Is The Fed Looking At?

Dollar vs international currencies over 10 years: contained for now... strong dollar hurts our exporters, helps inflation



# Will Rate Increases Continue?

- Though the Fed would undoubtedly like to see a higher participation rate, interest rates do not control that directly (employee technology retraining, work incentives, etc...)
- Relatively robust GDP + Headline Unemployment + Inflation = the Fed is likely to continue raising rates into 2019, per the market and Fed projections
- Inflation hovering around 2% plus Fed Funds rate/short term rates around the same level = ZERO PERCENT REAL YIELDS
- The Fed would like to have positive real interest rates to both normalize Fed policy post financial crisis and have a lever to pull when/if the next downturn in the economy comes
- The concerns: dollar strength hurting exporters, trade wars, labor force participation rate, under employment, yield curve, low inflation expectations





- We anticipate short term yields will continue to increase, thereby increasing your total returns in the short/medium term
- A laddered portfolio that allows for regular reinvestments is a practical strategy in this environment and has proven effective over the past couple years of rate hikes
- If your current portfolio YTM is currently less than the pools, do not fear, as you likely outperformed the Pools during the prior months and will be reinvesting at rates higher than the pools as maturities roll off – look at your TOTAL returns!

# Important Disclosures



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# Important Disclosures (continued)



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# Thank You



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