

Town of Paradise Valley

Investment Policy Updates

January 26, 2023



Cash Balances

September 30, 2022



Cash Account	Amount
Wells Fargo - Checking	\$35.4 M
State Treasurer - LGIP*	\$10.2 M
Wells Fargo - Security	\$15.7 M
Chase - Money Market	\$ 5.0 M
US Bank/PFM	\$24.8 M

* Local Government Investment Pool

Town of Paradise Valley

Investment Strategy Discussion

Paulina Woo, Managing Director

Luke Schneider, Managing Director, CFA

Annette Gaston, Senior Managing Consultant

January 12, 2022

415.470.7815 | pfmam.com

PFM Asset Management LLC

NOT FDIC INSURED : NO BANK GUARANTEE : MAY LOSE VALUE

PFM Asset Management LLC

42 years *of* experience

245 professionals

- ▶ Specialist in customized, investment-grade fixed income and Multi-Asset portfolios
- ▶ Fixed income strategies include:
 - ▶ Liquidity management
 - ▶ Enhanced cash
 - ▶ 1–3, 1–5, and 1–10 year mandates
- ▶ Outsourced Chief Investment Officer (OCIO) builds Multi-Asset portfolios based on client's risk/return objectives

\$186.0b

Total assets nationwide

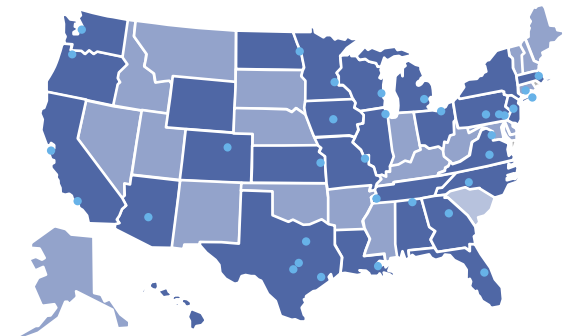
\$140.3b

Discretionary assets under management

\$45.7b

Assets under advisement

**National Reach:
PFMAM Offices**



As of September 30, 2022.

PFMAM's Strong Commitment to Arizona Public Entities

Arizona Cities and Towns

- Buckeye
- Casa Grande
- Chandler
- Coolidge
- Cottonwood
- Eloy
- Flagstaff
- Florence
- Fountain Hills
- Gilbert
- Goodyear
- Marana
- Maricopa
- Mesa
- Nogales
- Oro Valley
- Paradise Valley
- Peoria
- Scottsdale
- Tempe
- Tolleson
- Tucson

Arizona Counties

- Coconino County
- La Paz County
- Mohave County

Other Arizona Entities

- Arizona Municipal Risk Retention Pool
- RTA of Pima County
- University of Arizona
- Valley Metro RTA



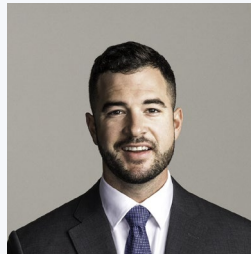
Town's Arizona Investment Professionals



Paulina Woo

Managing Director
Co-Engagement
Manager

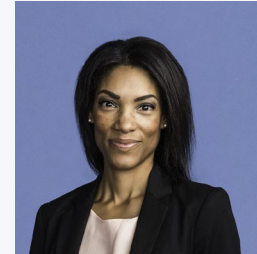
16 years in the
industry/PFMAM



Luke Schneider, CFA

Managing Director
Co-Engagement
Manager

16/9 years in the
industry/PFMAM



Annette Gaston

Senior Managing
Consultant
Relationship Manager

9/4 years in the
industry/PFMAM

Town's Investment Objectives

- **Compliance with the Town Code and with all applicable Arizona statutes and Federal regulations**
- **Safety of Principal:** Preservation of capital and protection of investment principal
- **Diversification:** Avoid incurring unreasonable market risks
- **Liquidity:** Maintain sufficient liquidity to meet anticipated cash flows
- **Yield:** Attain market rate of return



Town's Permitted Investments Strictly Controlled by Arizona Law

	Security Type	Arizona Revised Statutes 35-323
"Conventional" Fixed-Income	U.S. Treasuries	<i>Permitted</i>
	Federal Agencies/Instrumentalities	<i>Permitted</i>
	Municipal Securities	<i>Permitted</i>
	Local Government Investment Pools	<i>Permitted</i>
	Commercial Paper	<i>Permitted</i>
	Corporate Bonds	<i>Permitted</i>
	Bankers' Acceptances	<i>Permitted</i>
	Certificates of Deposit	<i>Permitted</i>
	Repurchase Agreements	<i>Permitted</i>
	Investment Contracts	<i>Permitted</i>
	Asset-Backed Securities (ABS)	<i>Permitted</i>
	Mutual Funds/Money Market Funds	<i>Permitted</i>
	Negotiable Certificates of Deposit	<i>Permitted</i>
Broader Fixed-Income	High-Yield	<i>Prohibited</i>
	Private Placements	<i>Prohibited</i>
	Convertibles	<i>Prohibited</i>
	Emerging Markets Debt	<i>Prohibited</i>
Equities	Domestic Small/Mid Cap	<i>Prohibited</i>
	Domestic Large Cap	<i>Prohibited</i>
	Domestic Value/Growth	<i>Prohibited</i>
	International Small/Mid Cap	<i>Prohibited</i>
	International Large Cap	<i>Prohibited</i>
	Emerging Markets	<i>Prohibited</i>
Alternatives	Commodities	<i>Prohibited</i>
	Real Estate	<i>Prohibited</i>
	Hedge Funds	<i>Prohibited</i>
	Private Equity	<i>Prohibited</i>
	Venture Capital	<i>Prohibited</i>
	Tangible Assets	<i>Prohibited</i>

An investment of public operating fund monies shall not be invested for a maturity of longer than five years.

Cash Flow Analysis Overview

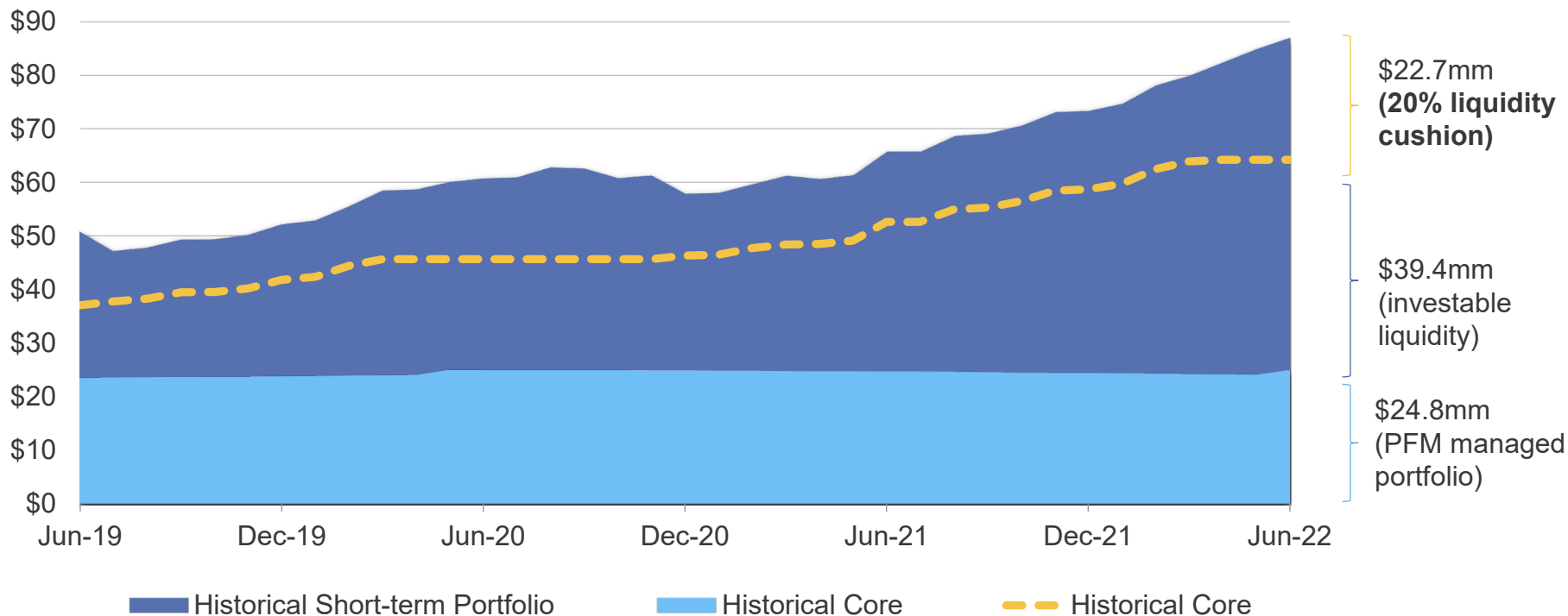
- ▶ Analyzes historical portfolio balances
- ▶ Determines “seasonality” and historical seasonal factors
- ▶ The cash flow model helps identify an appropriate allocation between assets invested short term (“liquidity”) to meet cash needs and assets that can be invested longer-term

Portfolio Type	Strategy Components	Uses
Liquidity/Short-term	Overnight to 12 months	• Highly Liquid for daily needs and unforeseen expenditures • Funds are meant to cover specific, predictable cash flows (payrolls, debt service) • Can be lower during periods of net cash inflow • Comprised of short-term money market instruments, e.g., bank deposits, money market mutual funds, and LGIP
Core	Longer Duration Strategy	• Funds that are not expected to be spent—may be disbursed in extraordinary circumstances • Can be invested in longer-term securities

Historical Analysis of Core Portfolio

- ▶ Liquidity = Wells Fargo + Wells Fargo Securities + Chase + LGIP
- ▶ Core = Managed investments
- ▶ As of June 30, 2022, the Town had a core portfolio balance of \$24.8 million and \$62.1 million in liquidity, which equates to 71.5% in current liquidity.

**Town of Paradise Valley
Historical Analysis of Core Portfolio**



Historical Core includes the Town's managed portfolio holdings as of June 30, 2022.

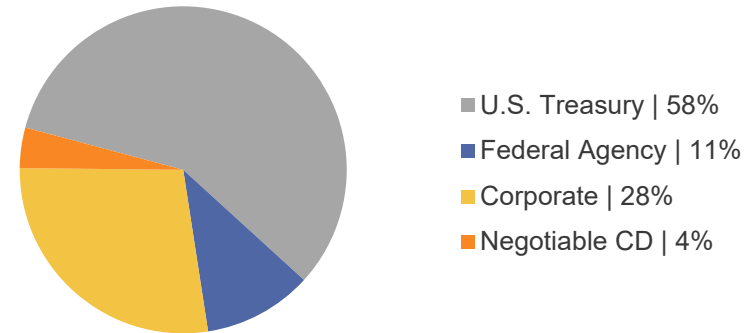
**Based on an assumed 20% liquidity cushion

PFMAM Managed Portfolio Characteristics

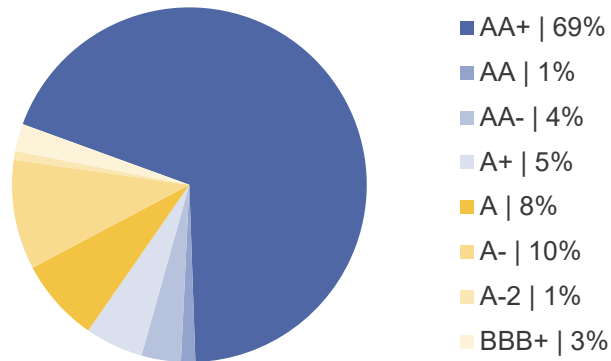
Portfolio Statistics

Total Market Value	\$23,762,553
Duration	1.63 years
Yield At Cost	1.65%
Yield At Market	4.65%
Portfolio Credit Quality	AA

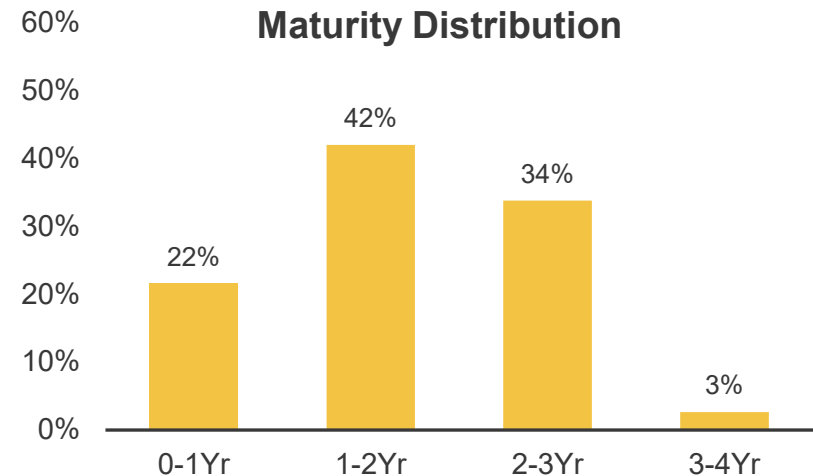
Sector Allocation



Credit Quality (S&P)



Maturity Distribution



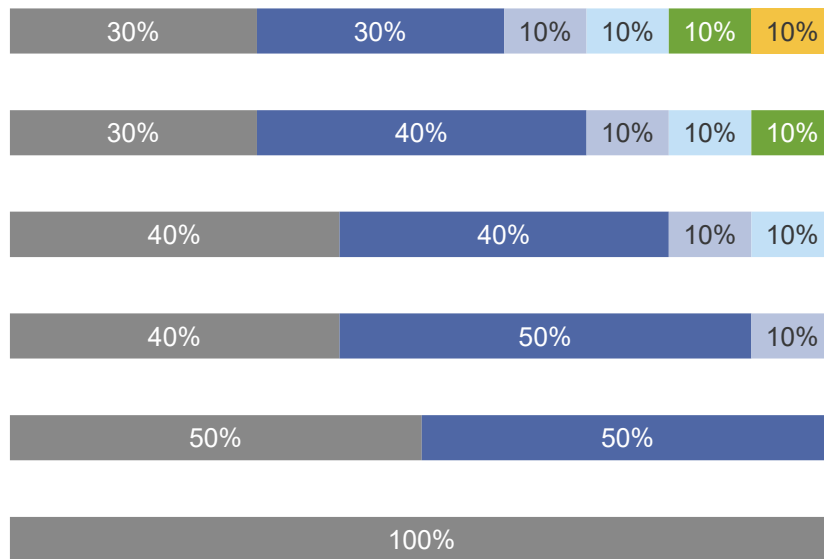
As of December 31, 2022

Yield and duration calculations exclude cash and cash equivalents.

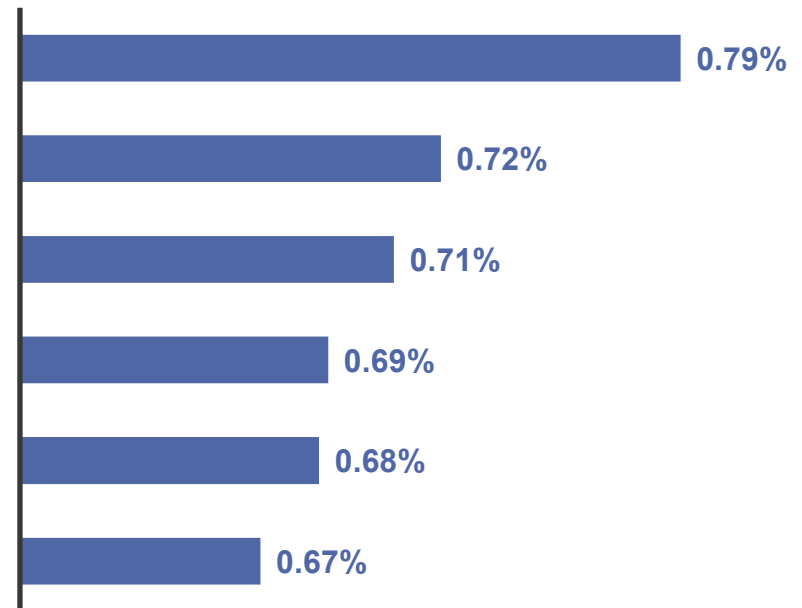
An average of each security's credit rating was assigned a numeric value and adjusted for its relative weighting in the portfolio.

Return Benefits of Diversification (1-3 Year)

Example 1-3 Year Portfolio Sector Allocation



10-Year Total Return Period Ending December 31, 2022



■ 1-3 Year Treasury

■ 1-3 Year Agency

■ 0-3 Year MBS

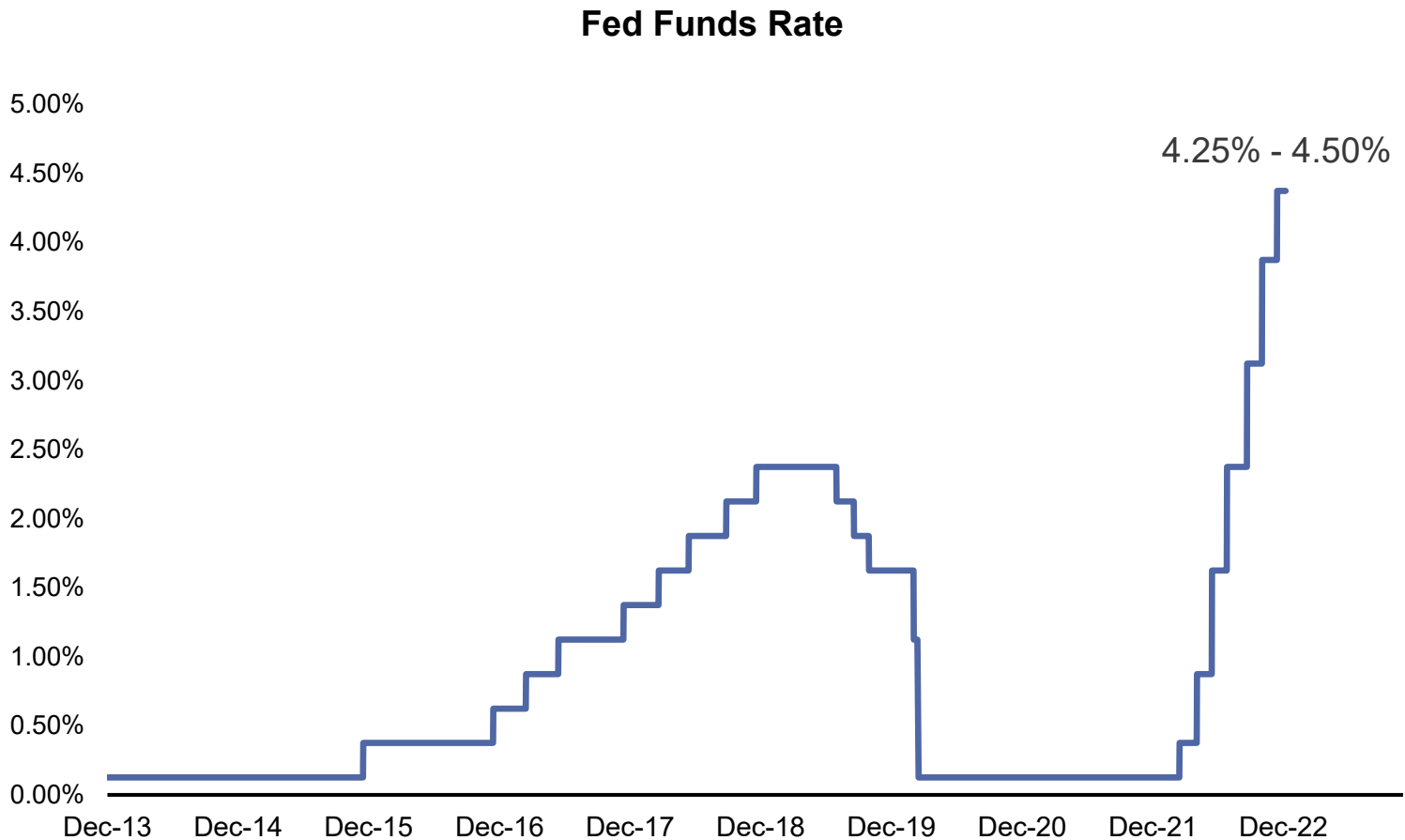
■ 1-3 Year Municipal

■ 1-3 Year AAA Supranational

■ 1-3 Year Corporate AAA-A

Example portfolio returns are based on the ICE BofAML 1-3 Year indices for all sectors except for Mortgage-Backed Securities which use 0-3 Year indices and are annualized for trailing periods longer than one year. Source: Bloomberg.

Historical Fed Funds Rate



Economic Outlook and Investment Strategies

Outlook

- Aggressive Fed action to control inflation (rising interest rate environment)
- Shallow/flat domestic growth
- Increased market volatility
 - Uncertain economic data
 - Impact of mid-term elections
 - Geopolitical events



Portfolio Management Strategies

- Focus on safety and diversification of the Town's funds
- Review investment policy and consider adding additional asset classes
- Monitor the portfolio's cash flow needs
- Position the portfolio to perform well in a rising rate environment
- Capitalize on credit sectors to add value
- Monitor economic data, Fed policy, and sector relationships to identify market opportunities



Disclaimer

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5-Year Earnings Projection as of December 2022

Town of Paradise Valley Portfolio			
Fiscal Year End	Earnings Rate ¹	Earnings ^{2,4}	Reinvestment Rate Assumption ³
June-23	1.49%	\$251,518	4.15%
June-24	2.32%	\$578,361	3.61%
June-25	3.34%	\$829,622	3.29%
June-26	3.32%	\$824,672	3.23%
June-27	3.25%	\$807,342	3.29%
5-Year Total		\$3,291,514	

1. Earnings rates calculated based on the yield to maturity at cost of each portfolio as of December 2022 and the assumed reinvestment rates of maturities for each period thereafter.
2. Portfolio earnings assume constant rebalancing and maintaining a consistent portfolio balance relative to the December 31, 2022, total par value of the Operating Fund.
3. Reinvestment rates of the Operating Fund based on the interpolated 1.5-year U.S. Treasury Forward Rate Curve as of January 11, 2022.
4. Earnings assume no sales or realized gains/losses for periods after December 2022.

Opportunities

Consolidate balances for operational efficiencies

Monitor and manage cash flows to optimize returns

Refresh investment strategy including sector allocation and duration

Cash Balances Recommendation



Cash Account

Amount

Wells Fargo - Checking

\$ 2.0 M

Wells Fargo - Nightly Sweep

\$10.0 M

State Treasurer - LGIP*

\$10.2 M

~~Wells Fargo - Security~~

\$ 0 M

~~Chase - Money Market~~

\$ 0 M

US Bank/PFM

\$68.9 M

* Local Government Investment Pool



Questions?