



# Illinois Metropolitan Investment Fund

## Chairman Christy Powell Welcome Speech at Twenty-Third Annual Meeting of IMET Participants, March 19, 2019

Good morning. Thank you for coming out this morning for this - the 23rd annual participants' meeting.

I would like to give you an overview of 2018 and share the Board's perspective on IMET's future. We continue to overcome challenges as new ones emerge.

IMET continues to provide Illinois municipalities with two investment strategies – the IMET 1-3 Year Series which is for funds not needed for daily liquidity. The IMET 1-3 Year Series is unique in Illinois – there are no other pools available to Illinois governmental entities that invest in maturities in the 1 to 3-year range. Over periods of time, longer-term maturities tend to outperform shorter maturity investments. Our other fund is the IMET Convenience Series which is a liquidity option.

Our goal in both funds is to be competitive on a risk-adjusted basis to alternatives available in the state. As I reiterate every year when I come before you, what this means is that IMET will never seek to hit home runs but singles and doubles, confident that slow and steady always wins the race.

For fiscal 2018, the IMET 1-3 Year Series had a total return of 0.33% gross of fees – this compares to a loss of 1 basis point for its benchmark, the Bloomberg Barclay's 1-3 Year Government Total Return Index. We understand that simply beating the benchmark as the IMET 1-3 Year Series continues to achieve is not good enough. It is not good enough for me as your Chairman to come and say, "The benchmark had a loss, and the IMET 1-3 Year Series did not have a loss."

The Board of Trustees – your representatives – understands this. To this end, we undertook meaningful changes in 2018. First, we completed the RFP process for investment management of the IMET 1-3 Year Series that we had briefly mentioned during last year's annual meeting when we were in the midst of it. This is a GFOA Best Practice. As many of you know, our Executive Director, Sofia comes from the GFOA and values such competitive procurements. This project was on the front burner of her agenda when joining IMET. But not only were we motivated by this GFOA Best Practice, the Board wanted to make sure IMET was doing everything it could and that its investment strategy was still relevant in today's market. After casting a wide-ranging net, 14 firms were invited to participate, 9 submitted strong proposals, three reached the finalist level and I am happy to report that **Meeder Public Funds** was selected. The folks from Meeder are joining us today and I am happy to tell you about Meeder.

Meeder Public Funds is a division of Meeder Investment Management. Meeder has been advising the public sector for almost 30 years, has over \$25 billion assets under management, advisement, and administration, including those of Star Ohio, the Ohio state LGIP. In Meeder, we have found a firm that knows when investing public funds, **return of capital always comes before return on capital**. Meeder shares our Midwest sensibilities that **slow and steady wins the race**. And yet, we have a partner that understands we need to provide our participants with attractive risk-adjusted returns, with real value, that simply beating the benchmark may not be good enough.

Already, Meeder has made numerous productive recommendations for the Board's consideration. To protect on the downside, Meeder suggested we broaden the duration band to allow for duration up to 50% below that of the benchmark as a defensive measure. What this modification allows is to shorten the duration in times where interest rates are increasing. This protects against principal loss. This is a major risk in fixed income where bond prices and values tend to fall when interest rates rise. The past dozen or so years have presented uncharted territory. However, the Board understands attempting to forecast interest rate is a losers game. It is the Board's intention to stay close to the benchmark duration regardless of the flexibility the band allows.



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Another modification was the introduction of commercial paper. Given the market movements over 2018, the value in commercial paper cannot be denied. At September 30, 2018, the cp allocation was about 10%.

These two tweaks to investment strategy allow the IMET 1-3 Year Series to continue to enjoy Moody's highest rating for such funds, AAA/bf.

The IMET Convenience Fund annualized yield was 1.93% at September 30, 2018. This compares to a target Federal Funds Rate range of 1.00 to 2.25% over the 2018 fiscal year. The IMET Convenience Series is primarily pegged to the target Federal Funds Rate. While the FFR has increased, so has the rate Convenience Series.

However, in rising interest rate environments, rates on bank products, which comprise the primary allocation of the IMET Convenience Series, tend to lag the rates on money market instruments, such as treasuries, agencies, and commercial paper. Worth noting, the portfolios of two competitive liquidity funds in the state, are comprised of 60% plus repurchase agreements and/or commercial paper. The Convenience Series contains no commercial paper. The Convenience Series was originally created as an alternative to bank product for participants of the IMET 1-3 Year Series. Given the changing market conditions, should the IMET Convenience Series continue to be positioned as a bank alternative or should its profile adjust and it become more money market fund like? The Board weighs such questions. We want your perspective. Please feel free to contact Sofia by phone or email or reach out to me after today's meeting.

Assets remained relatively flat at the end of fiscal year 2018 at approximately \$684 million for both Series combined, compared to \$671 million for both funds at the end of the previous fiscal year. We had two distributions primarily from proceeds of the settlement between IMET and the other investors with Pennant and its carriers, and proceeds from the settlement between IMET and its fidelity bond provider.

We continue to look for ways to add value for our participants. Quick reminder - Our Arbitrage Rebate Calculation Services are provided by BNY Mellon Arbitrage Compliance Group and are offered at discounted and sometimes free pricing for IMET participants. Participants continue to make use of the IMET cash flow forecast modeling. Municast recently tweaked the model and we are excited about that. Again, a quick reminder – the model is available to participants on a no cost basis.

We are also excited to announce we have engaged SpinuTech to update the IMET website, after a comprehensive search. We look forward to embracing progressive web solutions to give participants access to IMET online.

Our goals continue to be to help Illinois participants. By pooling funds together, IMET participants can enjoy:

- expanded investment options (especially for smaller investors)
- portfolio diversification
- enhanced safety and liquidity
- improved convenience, and
- add-on services such as arbitrage rebate calculation services and cash flow modeling offered at very attractive pricing.

On behalf of the IMET Board and staff, we look forward to continuing to work with participants for your long-term success and consequently the long-term success of IMET. Your continued participation and support are welcome and appreciated.

IMET is committed to being your steward – earning your trust and deserving your confidence!