



WEDNESDAY'S
News You Can Use

Income is Back – Investment Strategies for the Long-Term

Presented by



BUCKHEAD
CAPITAL
MANAGEMENT



Carl Vinson
Institute of Government
UNIVERSITY OF GEORGIA



Presenters

Firm Description:

Buckhead Capital Management is a 100% employee-owned registered investment advisor (RIA) founded in 1994 and based in Atlanta. Members of the Fixed Income Team average over 30 years of industry experience and manage over \$3.2 billion in AUM, 90% of which is for public fund/hospital clients.



[Matthew R. Boden, CFA](#)

Matt serves as a Portfolio Manager for Fixed Income Portfolios. Prior to joining Buckhead, he was Portfolio Manager with StableRiver Capital Management, where he was responsible for managing \$2 billion in fixed income assets for institutional clients. Prior to StableRiver, he worked for both ValuBond Securities and JP Morgan. Matt received a B.S. in MSIS from Penn State and an M.B.A. in Finance from Georgia State University. He is a CFA charterholder, a member of the CFA Institute, and the CFA Atlanta Society of Financial Analysts.



[Harold F. \(Rick\) Nelson](#)

Rick serves as a Portfolio Manager for Fixed Income Portfolios. Prior to joining Buckhead, he was the CEO/CIO for StableRiver Capital Management, a fixed income boutique with \$9 billion in assets under management. Prior to StableRiver, Rick was a Senior Vice President of Fixed Income at Wachovia Asset Management. Rick earned a B.S. degree in Business Management from St. Francis College and his MBA in Finance from Mercer University.

Session Description

Turmoil in the markets usually comes from something no one expects. From the great financial crisis through the pandemic to the recent stress in the banking system, how the government responds to these events can have long-lasting impacts on your portfolio.

In this session, we will discuss what happens when markets become extremely volatile, how the government has responded to these events in the past and why, how you can be prepared with your portfolio, and why now might be the best time to consider lengthening the duration of a part of your portfolio.

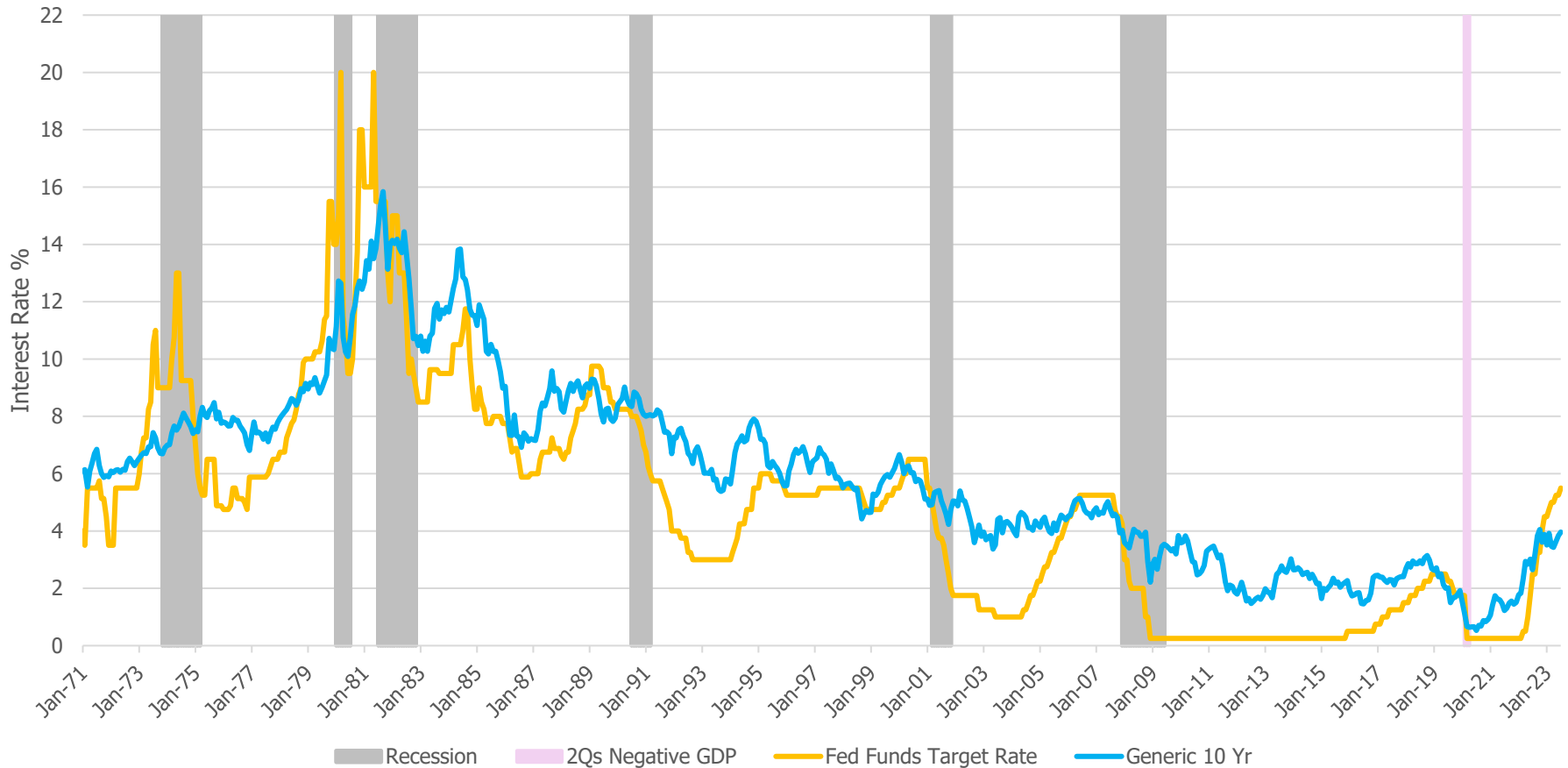
Learning Objectives

Following the session, participants will be able to:

- Recall what happens to the financial markets during periods of stress,
- Discuss programs the government has implemented to help markets during times of stress including some of the intended and unintended consequences,
- Recite what governmental entities do to protect themselves from volatility and strategies that work best through a full market cycle,
- State the advantages and risks of the various investment strategies that are allowable under Georgia law, and
- Understand why now might be a good time to lock in the higher yields the fixed income market is offering.

A Historical Perspective

FED FUNDS TARGET RATE VS 10YR



Source: Bloomberg and Federal Reserve

Knowledge Check

Of the nine times since 1961 that the Fed has tightened monetary policy, how many times have they caused an official recession?

- a) 9
- b) 2
- c) 8
- d) 5

What are the Roles of the United States Treasury and the Federal Reserve?

- Department of the Treasury:
 - Production of coin and currency
 - Revenue collection (IRS)
 - Borrowing of funds necessary to run the Federal Government
 - Economic advisor to the President of the United States
- Federal Reserve:
 - Macroeconomic stability
 - Financial stability

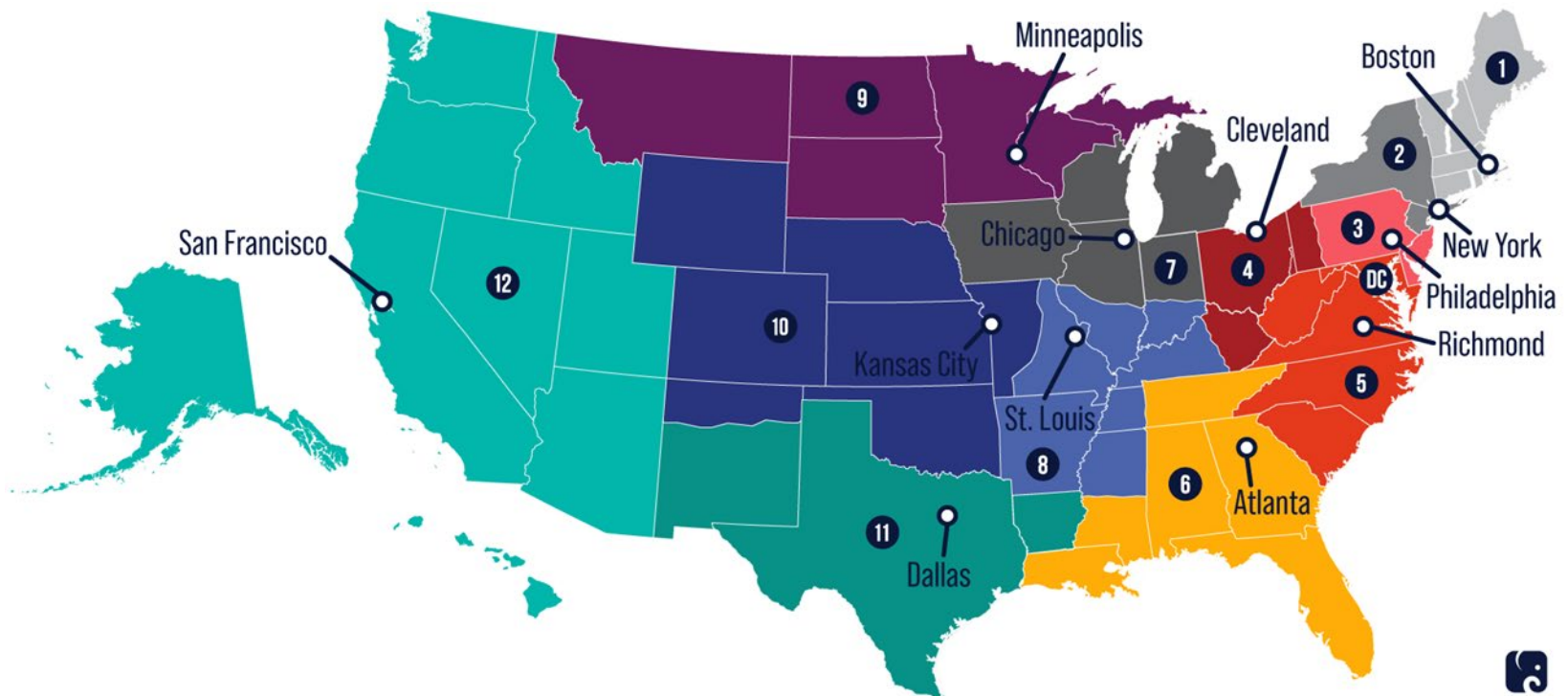
How Do the Fed and the Treasury Work Together?

- The Fed and the Treasury work together to provide a stable economy and borrow money when the government needs to raise funds.
- The two are instrumental in fighting recessions and bailing out institutions when necessary.

Establishment of the Federal Reserve

In November 1910, six men met at the Jekyll Island Club to write a plan to reform the nation's banking system. The plan written on Jekyll Island laid a foundation for what would eventually be the Federal Reserve System.

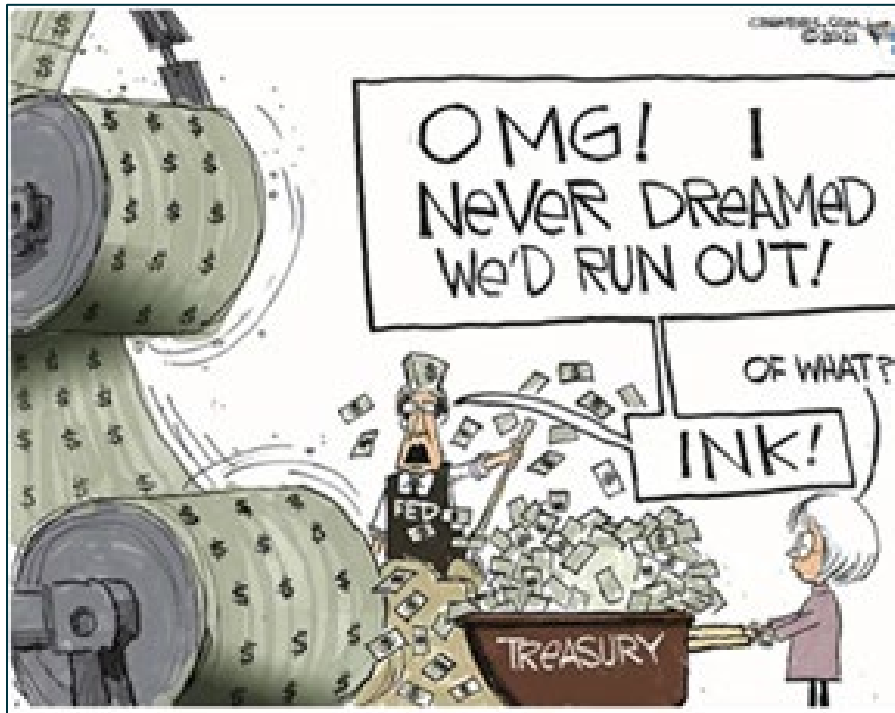
In 1913, Congress gave all regions of the country a voice in Fed policy by establishing Federal Reserve System with banks across the country, and a Board of Governors in Washington, D.C.



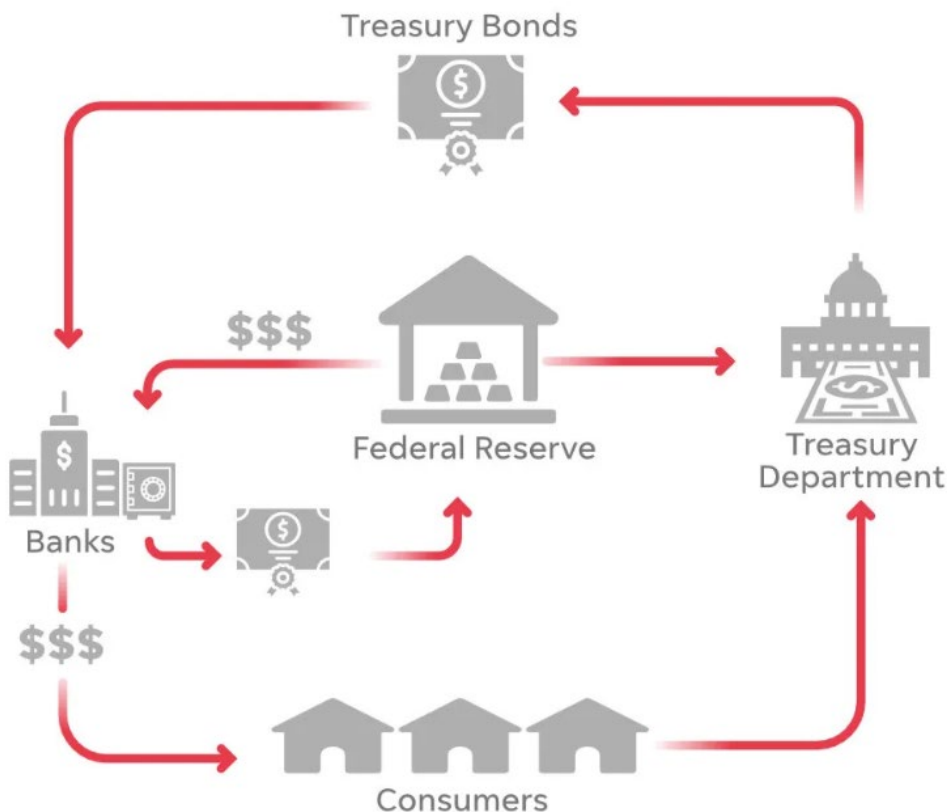
The Policy Tools of Central Banks

- Monetary Policy
 - For macroeconomic stability: In normal times, central banks adjust the level of short-term interest rates to influence spending, production, employment, and inflation.
- Provision of Liquidity
 - For financial stability: Central banks provide liquidity (short-term loans) to financial institutions or markets to help calm financial panics, serving as the “lender of last resort.”

How Do the Fed and the Treasury Operate During Crises?



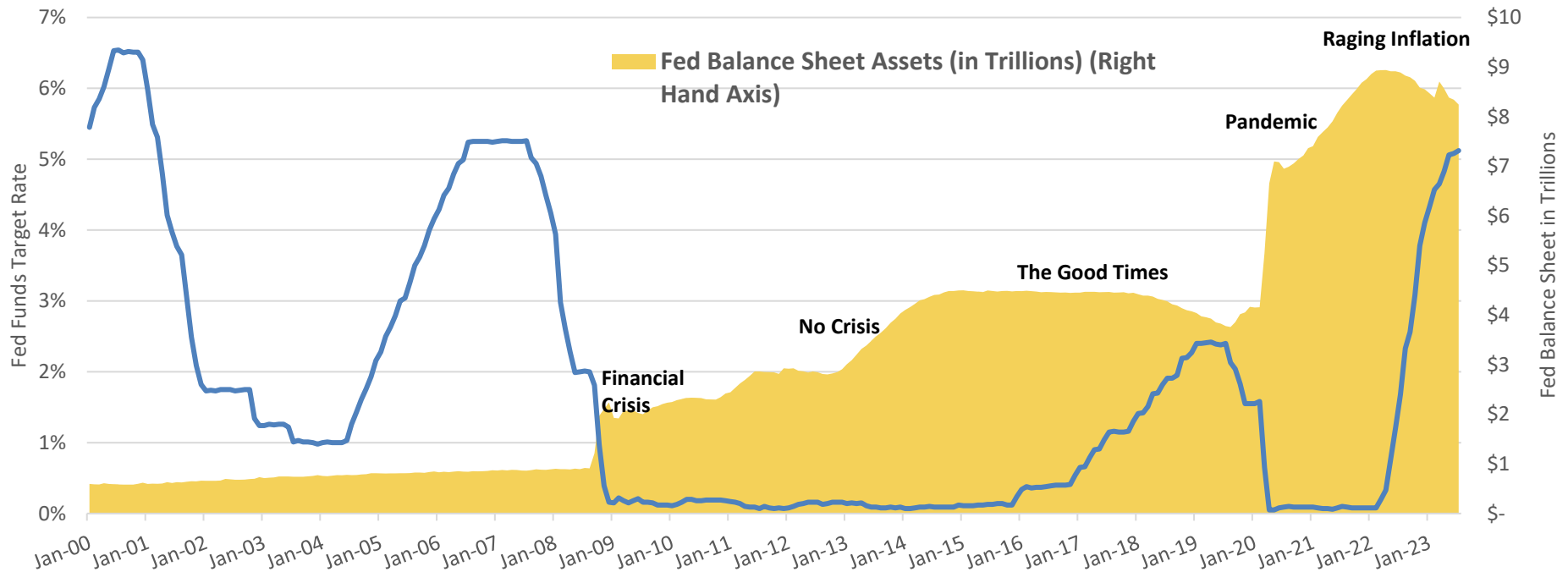
How Does Money Get Into the System?



- Bills and notes are issued by the Treasury and auctioned to buyers by the Fed.
- The Fed impacts the money supply by purchasing or selling securities on the open market, which thereby increases or decreases the reserves of commercial banks.
- The Fed also impacts the money supply via short term loans collateralized by securities (discount window) and reverse repo transactions.

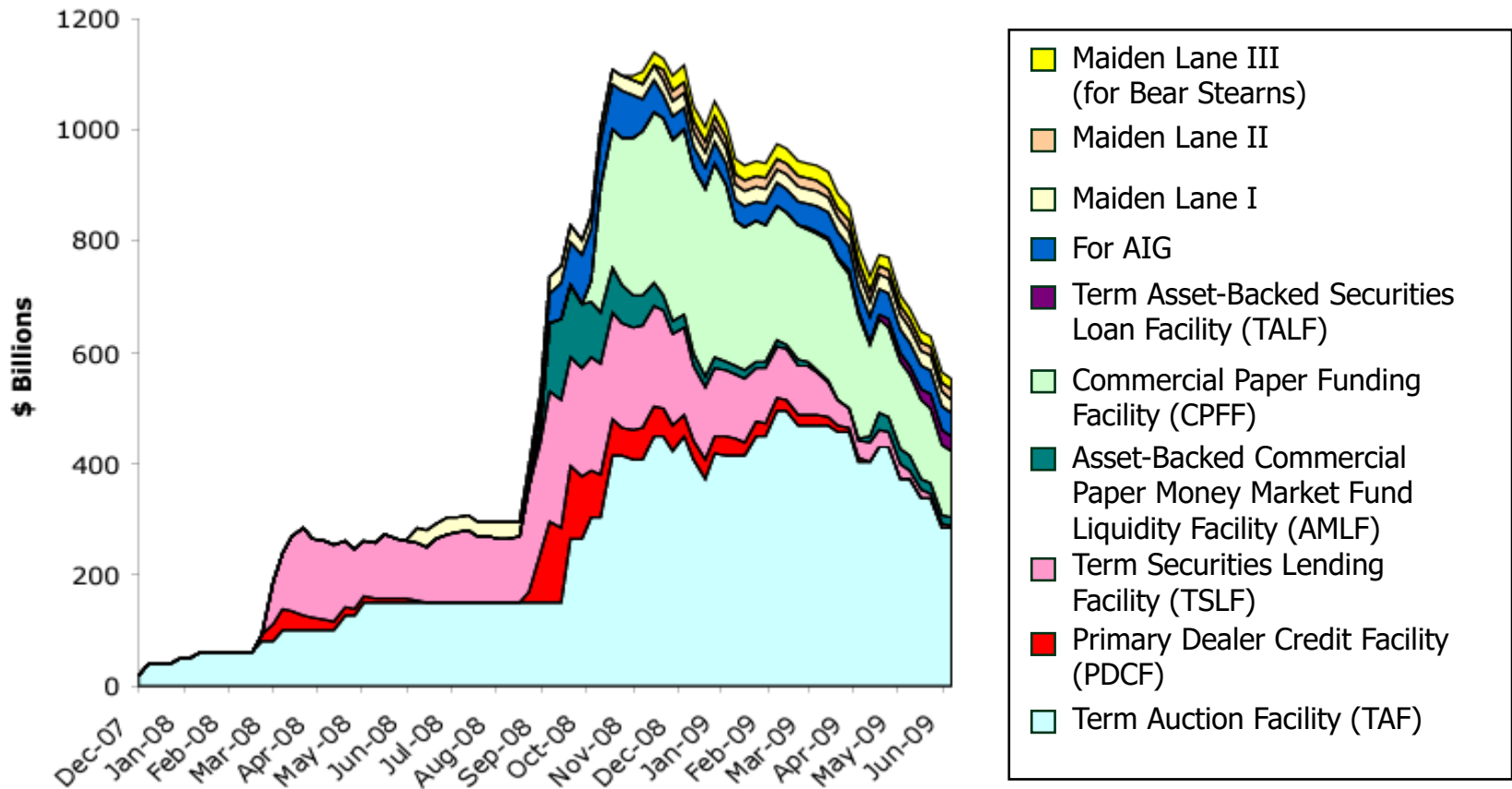
The Fed's Playbook: The Fed's Balance Sheet

Fed's Total Assets, From Crisis to Crisis



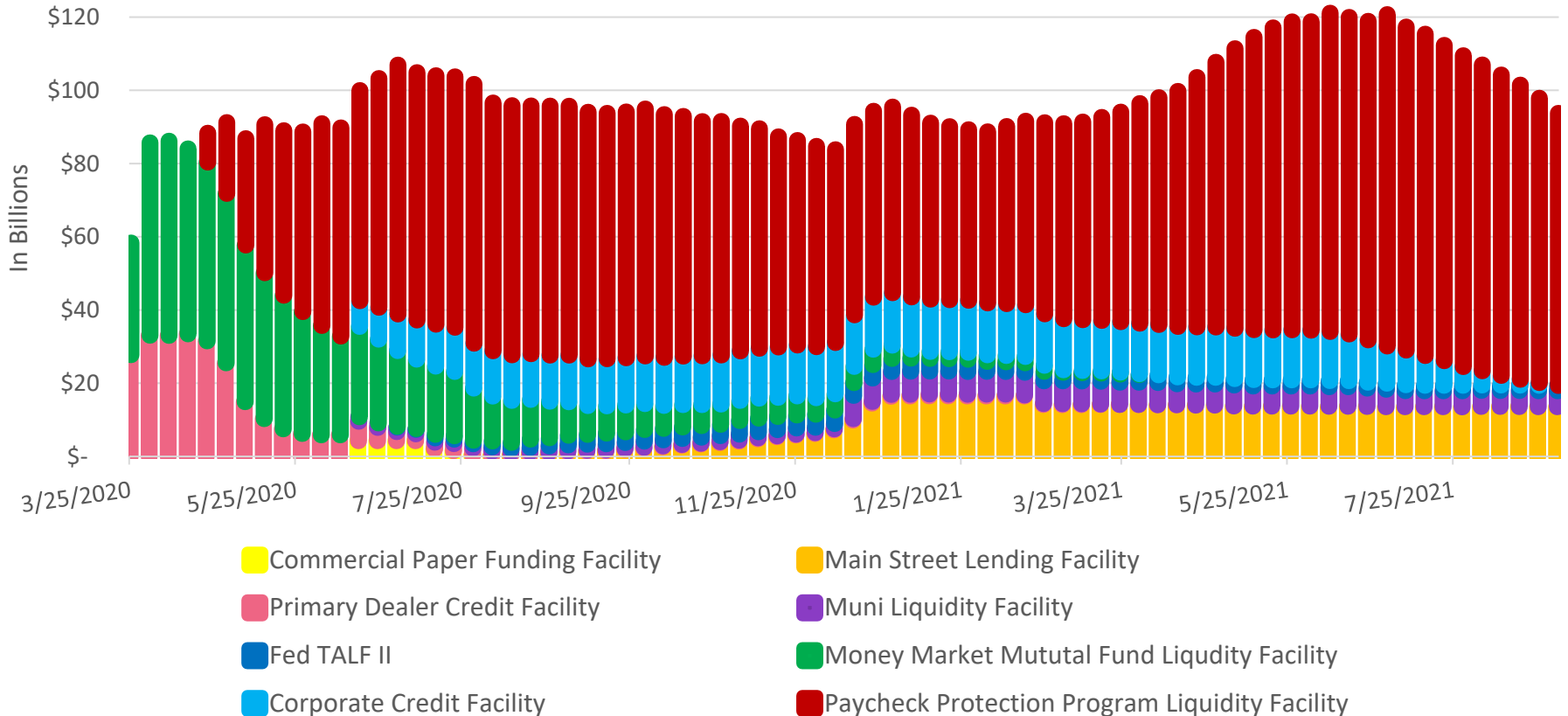
Source: Bloomberg and Federal Reserve

The Great Financial Crisis = Alphabet Soup



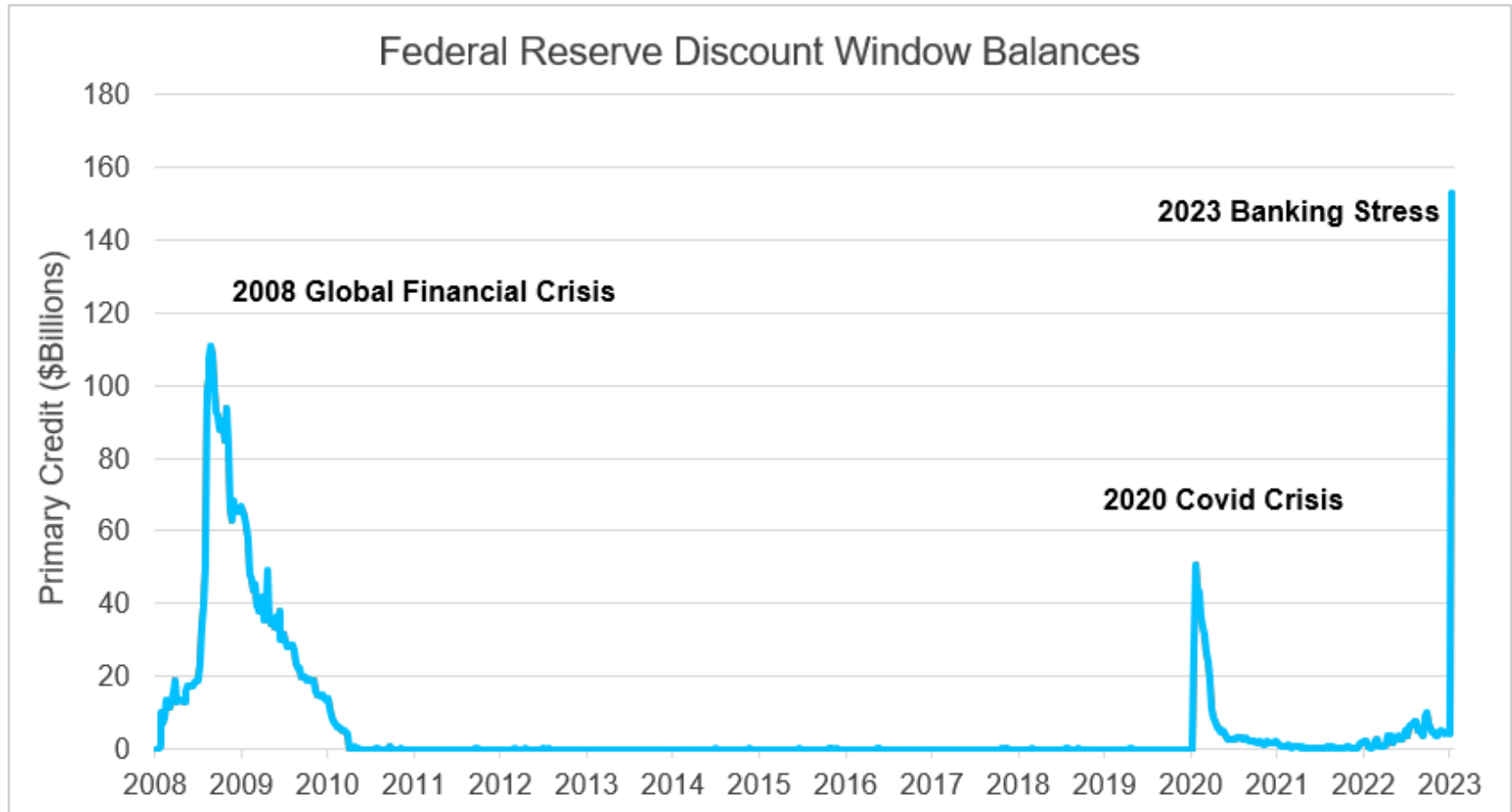
Source: Center for Economic and Policy Research, : Federal Reserve Statistical Release, H.4.1 Factors Affecting Reserve Balances

The COVID Pandemic Emergency Facilities



Source: Bianco Research, LLC. All Rights Reserved

The 2023 Banking Crisis



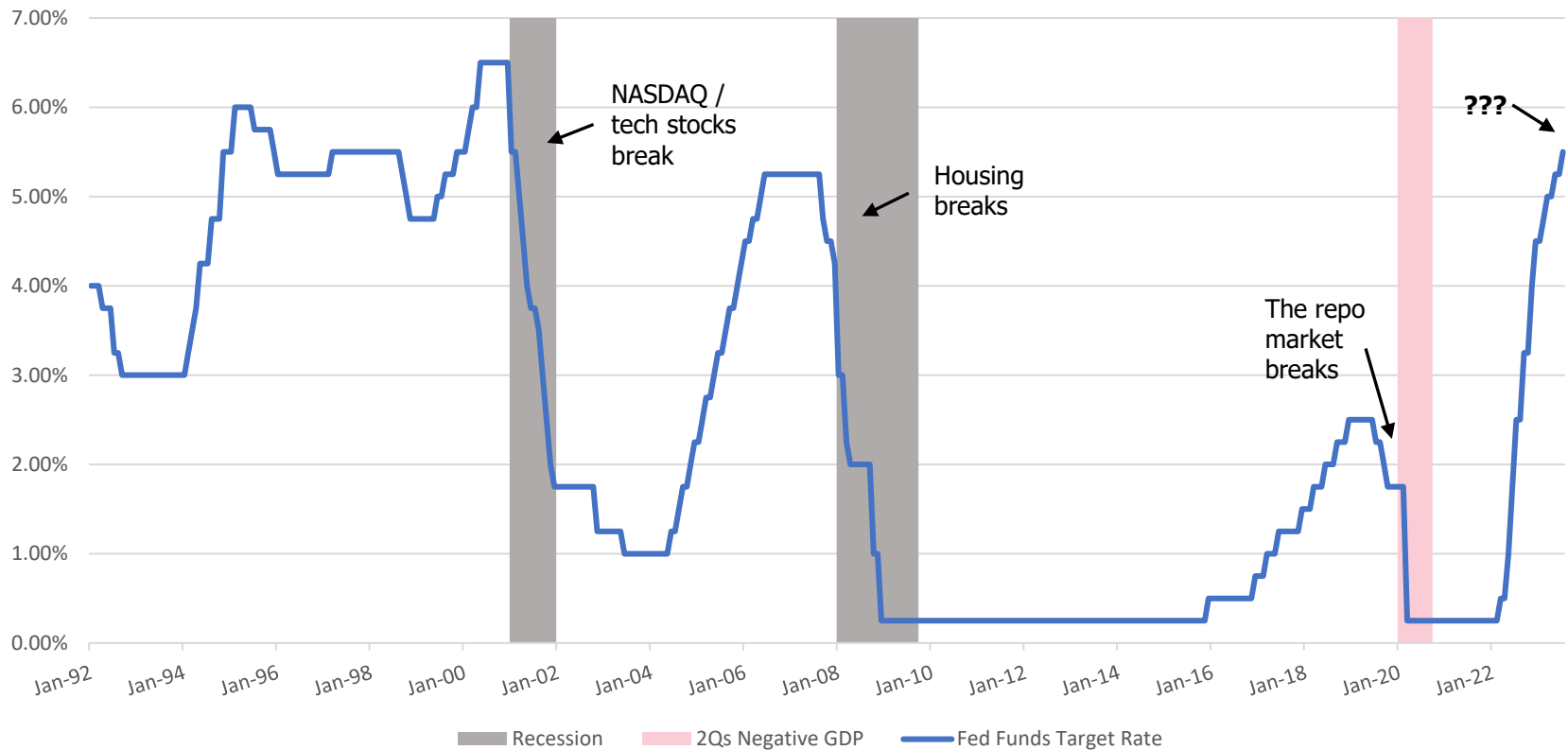
Source: Bloomberg, Federal Reserve

The Rhetoric of the Fed – (Recent Comments)

Here are some key points from Federal Reserve Chair Jerome Powell's November 9, 2023 speech:

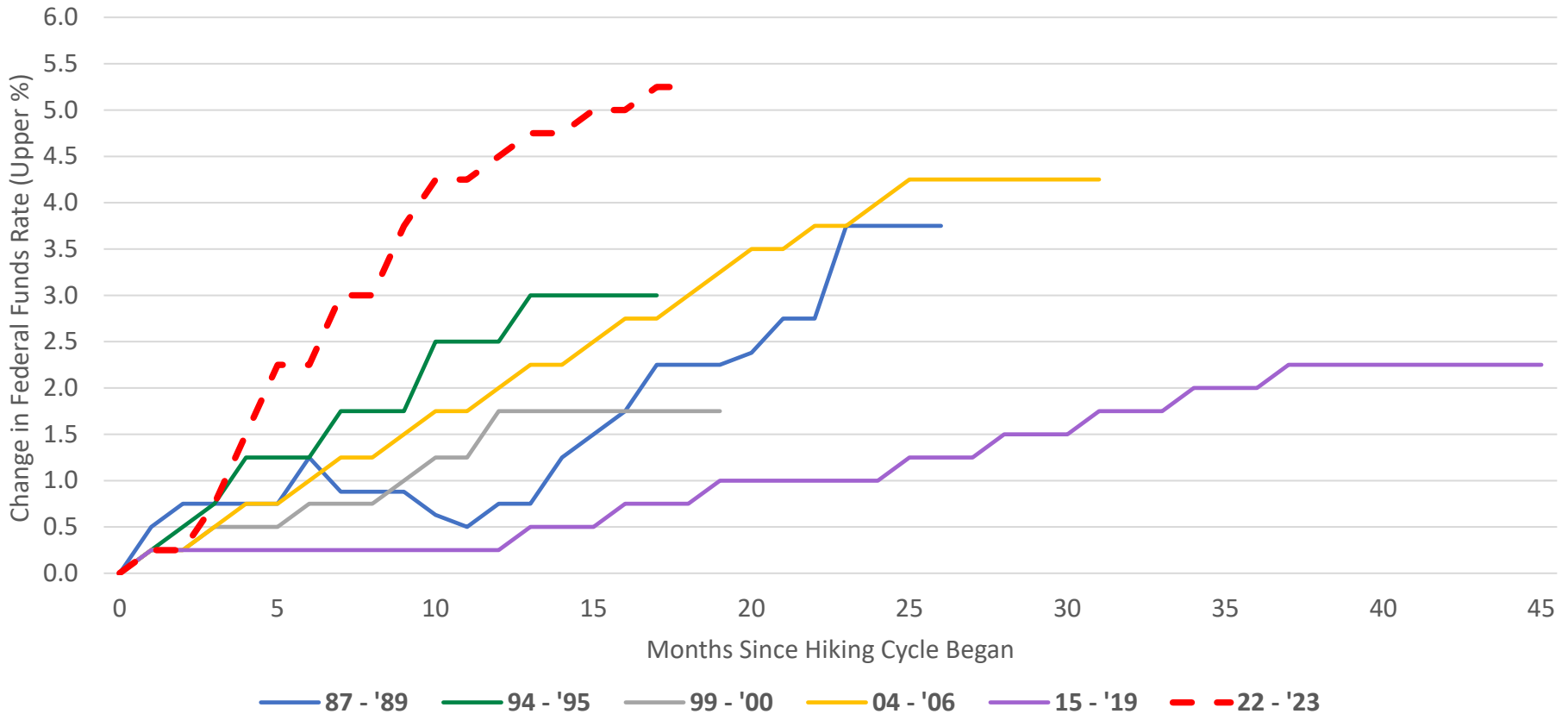
- The Federal Reserve is committed to bringing inflation down to its 2% goal.
- Powell said that inflation is “well above” where the Fed would like to see it.
- Powell said that the process of getting inflation sustainably down to 2 percent has a long way to go.
- Powell said that the Fed is "not confident" that it has done enough to bring inflation down.
- Powell said that the Fed is "committed to achieving a stance of monetary policy that is sufficiently restrictive to bring inflation down to 2% over time".
- Powell said that more rate increases are still a possibility.
- Powell said that the Fed is "attentive to the risk that stronger growth could undermine further progress" in rebalancing the labor market and slowing inflation.

The Fed Hikes Until Something Breaks



Source: Bianco Research, LLC. All Rights Reserved

Fastest Rate Hike in Modern History



Source: Bloomberg

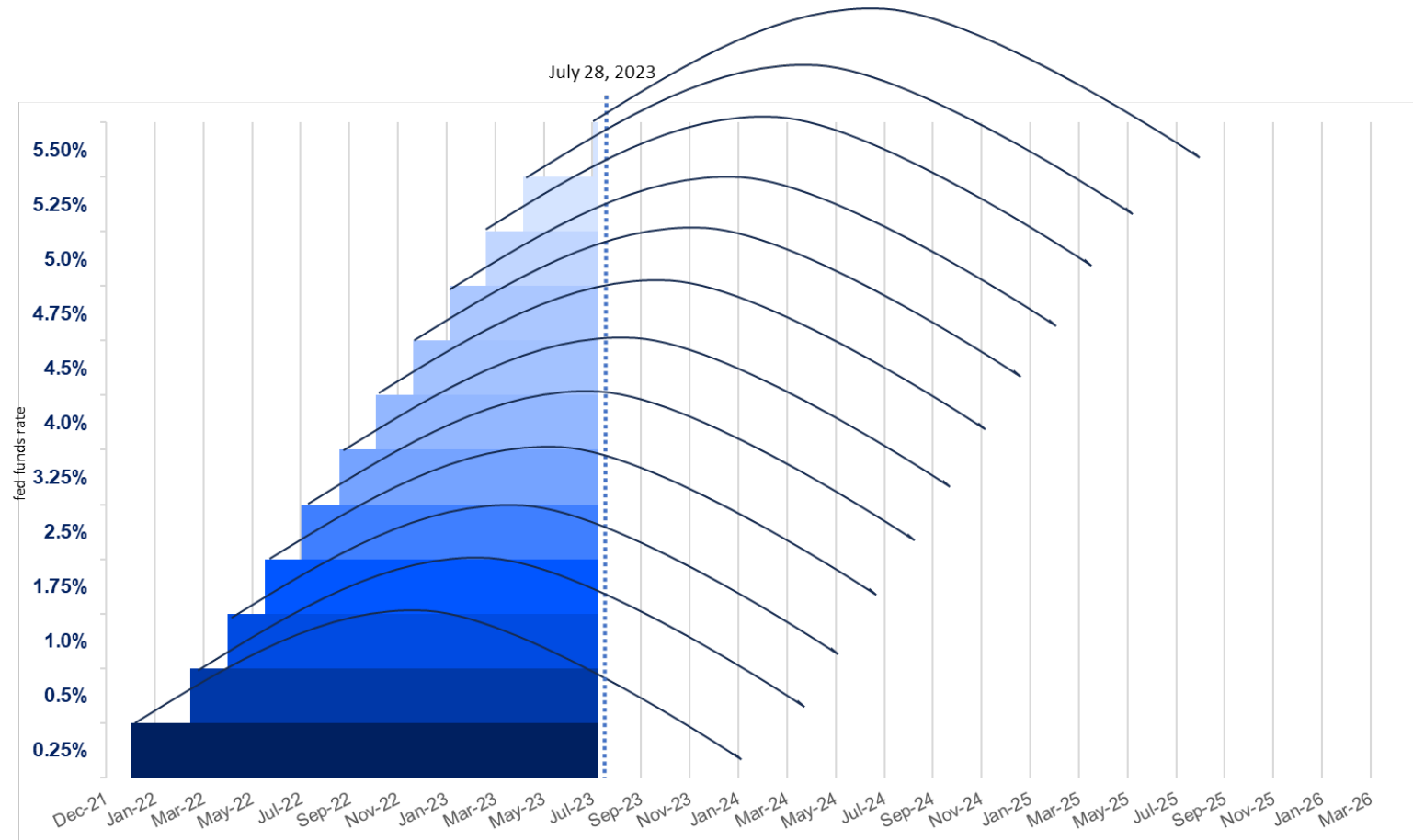
Knowledge Check

How many times has the Federal Reserve raised the Fed Funds rate since March 2022?

- a) 11
- b) 8
- c) 10
- d) 14

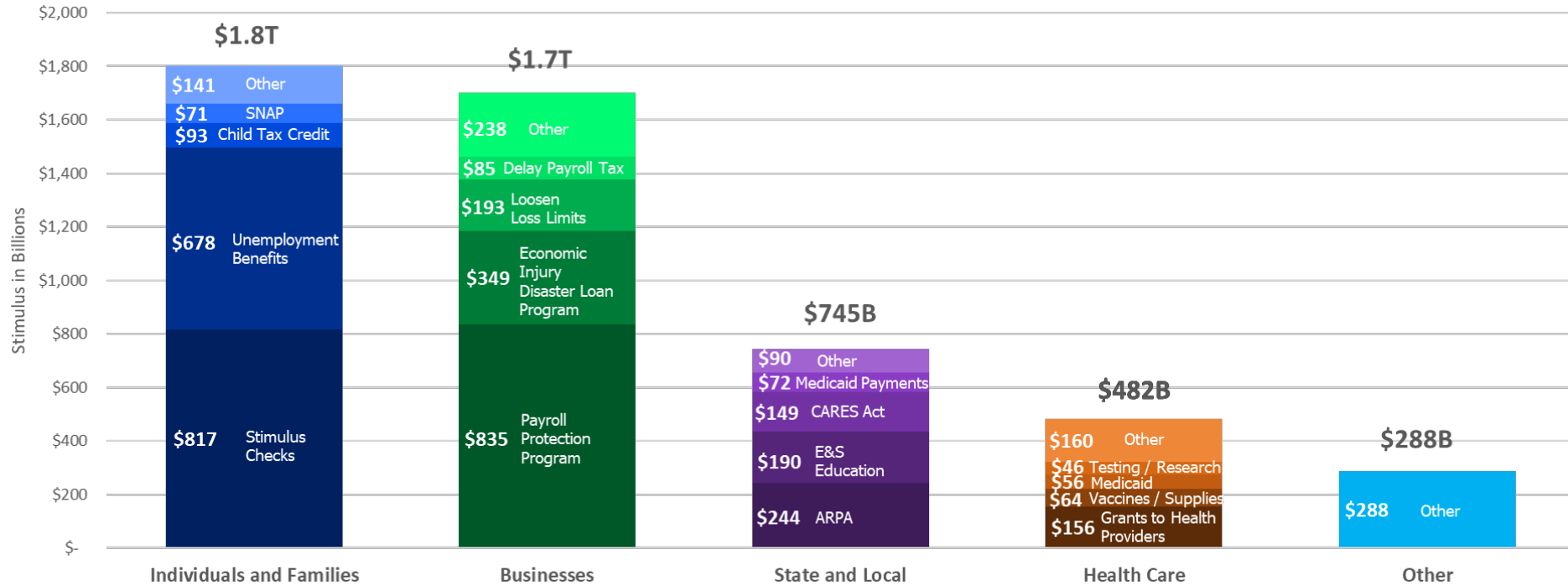
The Fed Usually Overstays Their "Welcome"

Fed Rate Hikes and Lagging Economic Impact: Economists estimate that rate hikes work with an economic lag effect of up to 24 months. The line graphs represent an estimated total impact period of 24 months (curve length) for each rate hike, with the peak impact occurring 12 months after the rate hike (curve apex).



Source: Bloomberg

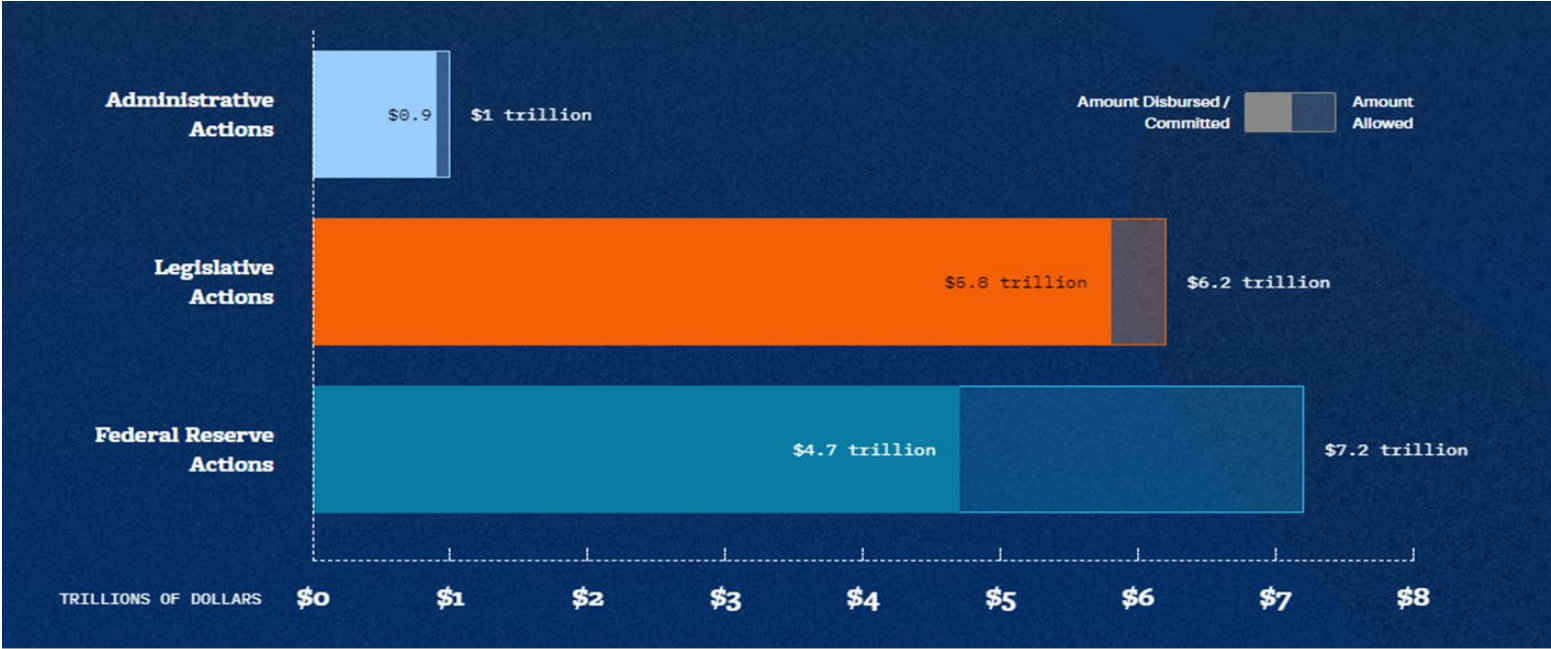
Where Did the First \$5 Trillion in Stimulus Money Go?



Source: The New York Times. March 11, 2022

Stimulus Spending to-date and Remaining Allowance

\$11.4T in Stimulus Spending Through September 2023

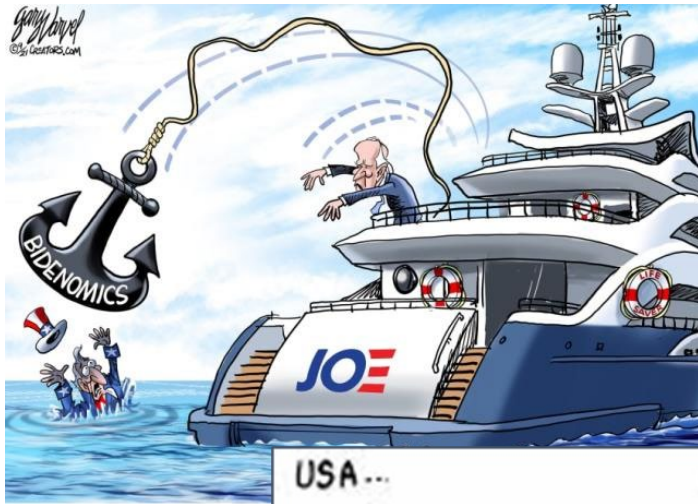


Breakdown of Disbursed / Committed Stimulus

Legislative		Federal Reserve		Administrative	
Business Support	\$1.4 Trillion	Asset Purchases	\$4 Trillion	Tax Policies	\$502 Billion
Income Support	\$955 Billion	Liquidity Measures	\$447 Billion	Income Support	\$256 Billion
State and Local Funding	\$865 Billion	Loan Programs	\$110 Billion	Health Spending	\$111 Billion
Direct Payments	\$859 Billion	Lending Facilities	\$88 Billion	Disaster Declaration	\$4.5 Billion
Other	\$1.7 Trillion	Other	\$ 5 Billion	Other	\$26.5 Billion
Totals	\$5.8 Trillion		\$4.7 Trillion		\$875 Billion

Source: Committee for a Responsible Federal Budget. Updated October 10, 2023

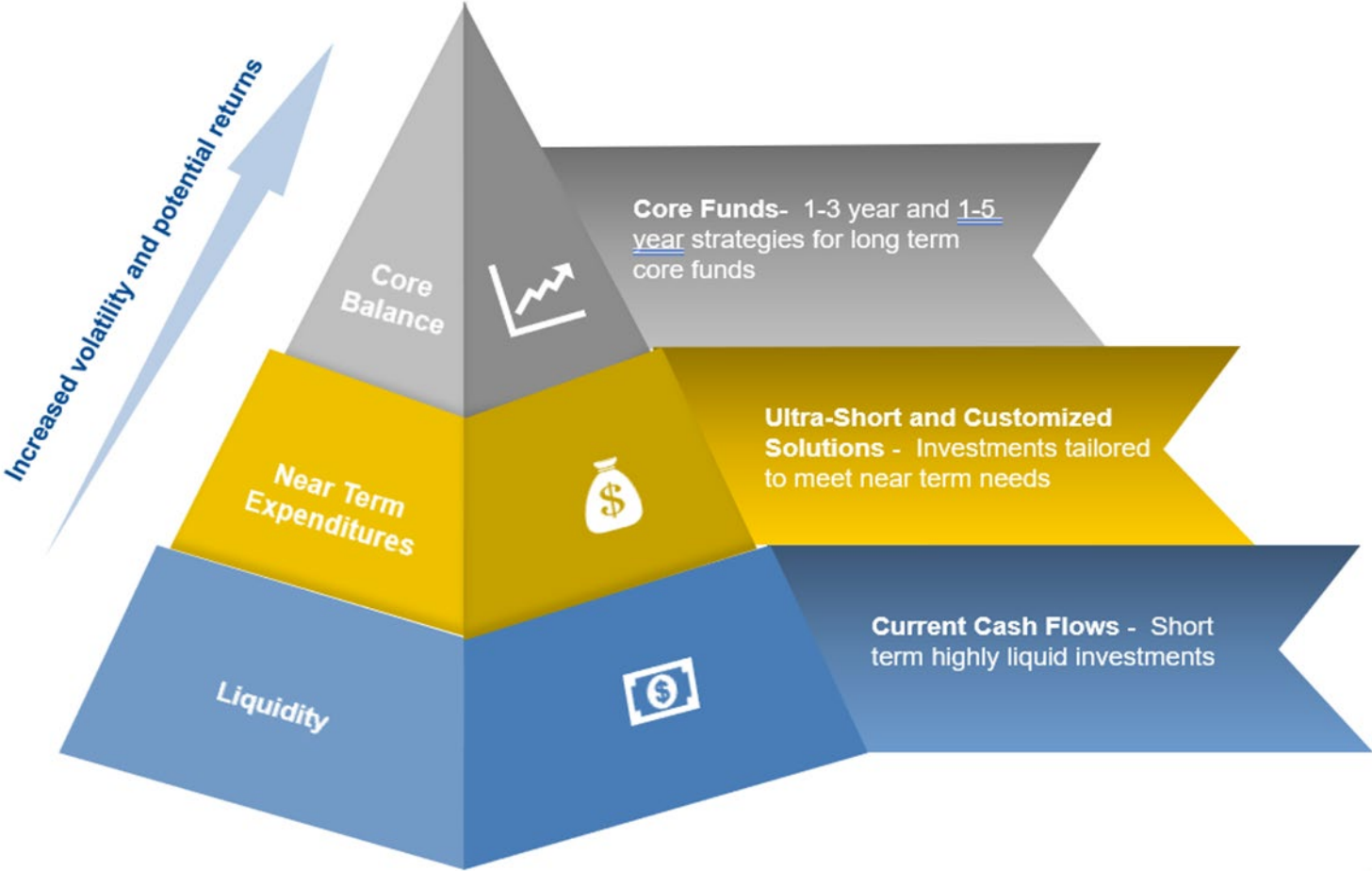
Monetary Restraint vs. Fiscal Stimulus



As a Fiscal Officer, What Should I Do With the Money Entrusted to Me?

- The primary objectives of managing taxpayers' money are:
 - Preserve principle
 - Provide sufficient liquidity
 - Generate return on investment
- But what does that mean?
 - Preserve principle: Protect against loss? What about inflation?
 - Provide sufficient liquidity: What does sufficient mean? Is it the same for everyone?
 - Generate return on investment: Is this really important?
 - O.C.G.A. 36-83-4 (2010) (c): In selecting among avenues of investment or among institutional bids for deposits, the highest rate of return shall be the objective, given equivalent conditions of safety and liquidity.

Cash Management Pyramid



What is a Bond?

- Bonds are like loans: The issuer is the borrower and the holder is the lender.
- Bonds will have specific characteristics, which include:
 - Principal: The dollar amount of the loan
 - Maturity: Date when the loan is due to be repaid
 - Coupon Rate: The specified rate of interest to be paid by the borrower to the lender
- Because bonds have a fixed stream of income, defined by the coupon rate, for a specified period of time, to the maturity, they are also called “Fixed Income” securities.
- Bonds provide the borrower external funds to finance long-term investments or current expenditures.

Georgia Code § 36-83-4 - Authorized Investments

O.C.G.A. 36-83-4 (2010) (a)(1)

(A) Obligations of this state or of other states

(H) Obligations of other political subdivisions of this state

Municipals Bonds

- Issued by state and local governments
- Can be issued as taxable or tax-exempt from federal and state taxes
- GA code only allows for state issued bonds of other states
- Section (H) allows for bonds issued by local Georgia governments

(B) Obligations issued by the United States government

US Treasury Bonds

- Backed by the full faith and credit of the US government
- Considered a “risk-free” investment (then why is it rated less than AAA?)

Georgia Code § 36-83-4 - Authorized Investments

O.C.G.A. 36-83-4 (2010) (a)(1)

(C) Obligations fully insured or guaranteed by the United States government or a United States government agency

(D) Obligations of any corporation of the United States government

Agency Bonds

- Some Agencies carry the explicit (e.g. FDIC, GNMA) guarantee of the government, but most have an implicit guarantee (e.g. FNMA, FHLMC, FHLB, TVA).
- Agencies issue lots of different types of “structures”
 - Debentures – Bonds with fixed rates of interest and maturity dates
 - Floating Rate – Bonds whose interest rates change based on the movement in a benchmark index rate
 - Callable Securities – Bonds with a fixed interest rate, but the “maturity” can change
 - Mortgage-Backed Securities – Backed by loans on single or multi-family housing
 - Asset/Loan-Backed Securities – Backed by government guaranteed loans (e.g. Small Business Association)
- The benefit to these structures is they allow investors to find securities with cash flows that match their specific needs, often with higher yields.

FDIC Insured Bank CDs

- Negotiable and non-negotiable certificates of deposit at banks up to the \$250,000 FDIC insurance limit.

Georgia Code § 36-83-4 - Authorized Investments

O.C.G.A. 36-83-4 (2010) (a)(1)

(E) Prime bankers' acceptances

Bankers Acceptances (BAs)

- Not a current/common form of investment

(F) The local government investment pool established by Code Section 36-83-8
GF1

- Georgia law allows the State Treasurer to invest in a broader range of investments categories/sectors (e.g. corporates, asset-backed, and mortgage-backed securities).
- Can offer a yield advantage over many other investment options due to exposure to higher-yielding sectors.
- Provides daily liquidity
- Single maturity profile for all investors

(G) Repurchase Agreements

Repo

- The borrower temporarily lends securities to the lender for cash, with an agreement to buy it back at a pre-determined date and price.

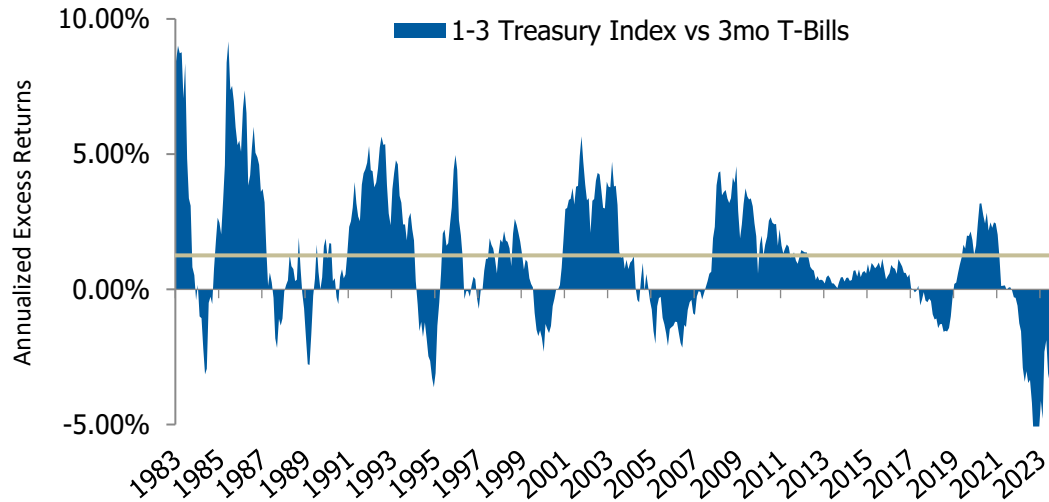
Different Strategies for Different Needs

Fixed Income Sectors	Liquidity Portfolio	Debt Service / Projects Portfolio	Core Portfolio	Bond Proceeds Portfolio
Municipals (State or GA Local)	3.00%	10.00%	10.00%	10.00%
U.S. Treasuries	23.50%	33.00%	27.30%	27.50%
U.S. Agencies	4.50%	6.00%	5.00%	4.50%
FDIC Insured CD's	9.00%	9.00%	5.70%	7.50%
Agency CMBS	10.00%	28.50%	44.50%	43.50%
Agency RMBS	0.00%	6.00%	7.50%	7.00%
Prime Bankers Acceptances	0.00%	0.00%	0.00%	0.00%
LGIP (GF1)*	50.00%	7.50%	0.00%	0.00%
Repurchase Agreements	0.00%	0.00%	0.00%	0.00%
Average Maturity (years)	0.08	1.61	2.25	1.25
Avg. Maturity Ex. LGIP*	0.26	1.74	N/A	N/A
Effective Duration (years)	0.08	1.47	2.01	1.15
Avg. Duration Ex. LGIP*	0.16	1.59	N/A	N/A
Yield (%)	5.56	5.29	5.23	5.44
Yield Ex. LGIP*	5.74	5.29	N/A	N/A

*LGIP yields based on published yield for the month of October 2023.

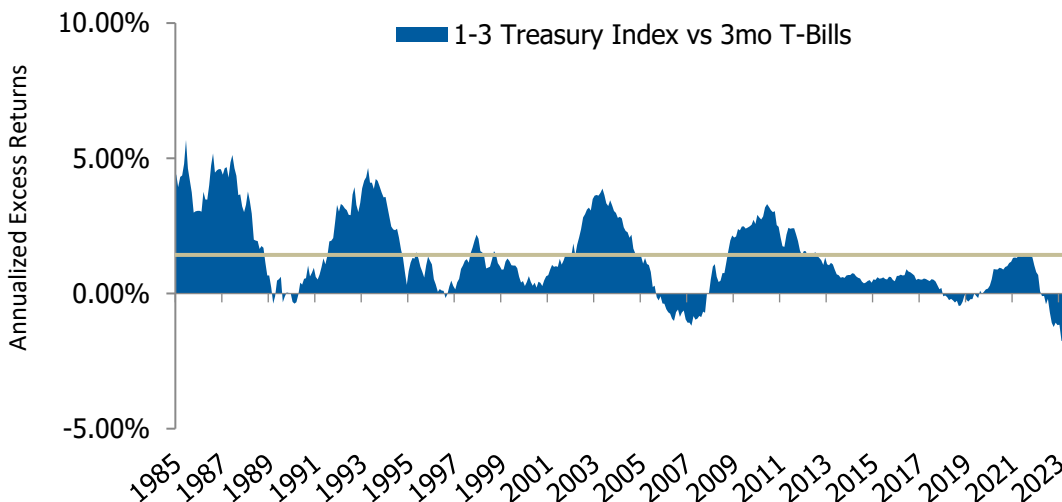
Portfolios shown are models based on market yields, durations, and maturities of actual securities as of 11/20/23. Security characteristics sourced from Bloomberg. Model portfolios are representative of the investment style of Buckhead Capital Management, but actual client portfolios are tailored to the individual needs of each client.

The Advantage of Owning Short-Term Bonds



Conclusion:

- 503 Rolling 12-Month Periods
- 71.8% Short-Term Bonds outperformed 71.8% of the time when compared to cash (T-bills)
- +126bp Average outperformance margin**
- 95.0% Short Term Bonds had positive returns over 95.0% of the time periods



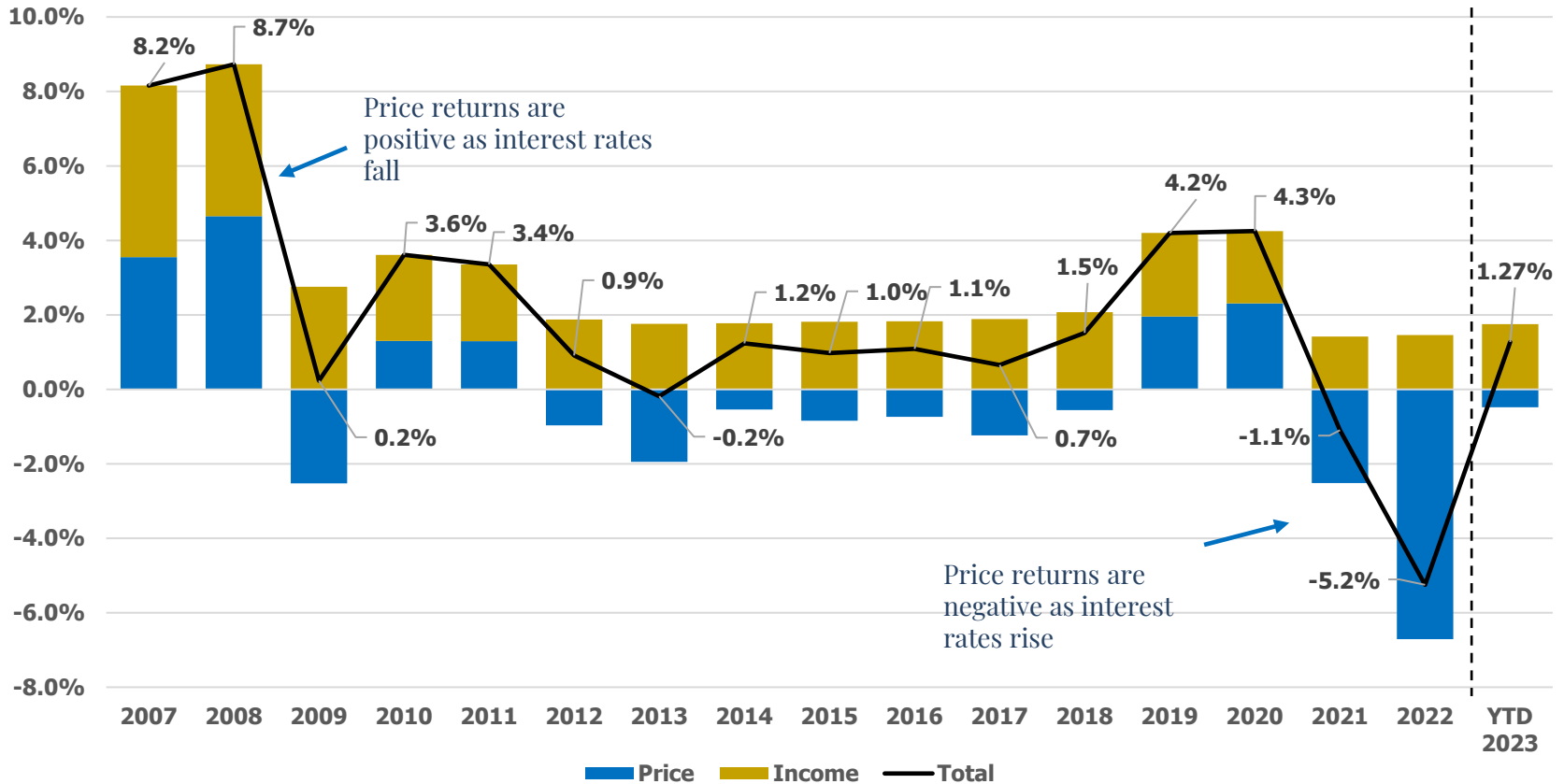
Conclusion:

- 479 Rolling 36-Month Periods
- 83.9% Short-Term Bonds outperformed 84.5% of the time when compared to cash (T-bills)
- +143bp Average outperformance margin**
- 97% Short Term Bonds had positive returns over 97% of 3-year time periods

Sources: Bloomberg; Intercontinental Exchange. Comparison between gross annualized returns of ICE BofA 1-3 year treasury index and ICE BofA 3 month T-bill index. Data through October 31, 2023.

Components of Total Return

In periods of extreme interest rate volatility and price instability in the bond market, coupon income is the primary driver of total return. Therefore, investors should take a cautious but opportunistic approach to obtain income while mitigating interest rate risk.



Source: Bloomberg, ICE BofAML 1-5 Year U.S. Treasury Index through September 30, 2023.

Knowledge Check

Until 2022, what had historically been the primary source of fixed income returns?

- a) Market Timing
- b) Income
- c) Change in Market Values/Prices
- d) Luck

Four Components of Portfolio Management



- **Multi-faceted** process focuses on each of the four components of fixed income portfolio construction.
- **Disciplined approach** to control risk in each phase of the process.
- **Goal is to generate superior risk-adjusted returns** over time.

Sample Portfolio

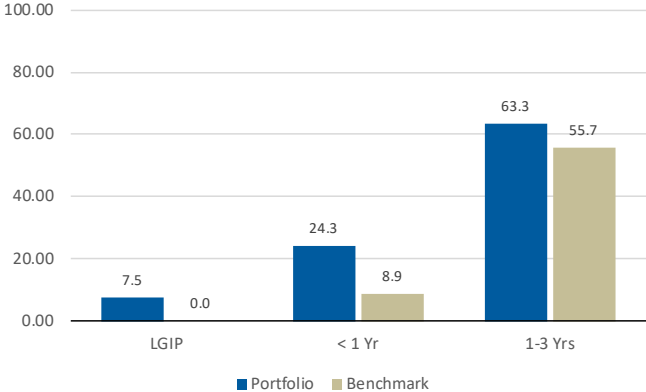
Portfolio Characteristics*

	Portfolio	Benchmark
Market Value	\$56,893,939.94	
Accrued Interest	\$171,786.99	
Total Market Value	\$57,065,726.92	
Average Coupon	2.61	2.32
Est Annual Income	\$3,011,295.73	
# of Securities	52	98
Average Life	1.61	1.85
Effective Duration	1.47	1.76
Yield to Worst	5.29	4.97
Average Rating	AA+	AA+

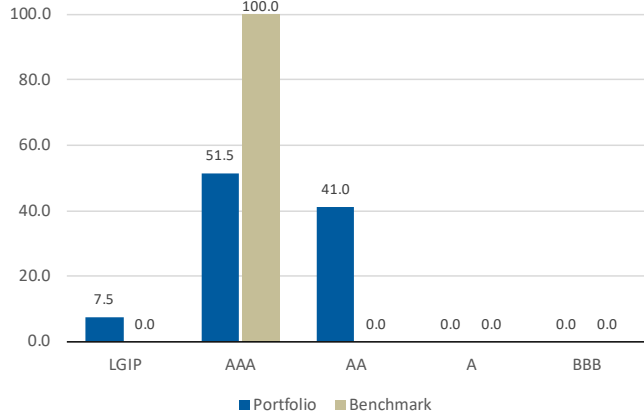
Distribution by Market Sector

	Portfolio	Benchmark
LGIP	0.00	
Treasury	33.00	100.00
Agency	6.00	
Agency CMBS	28.50	
Certificate of Deposit	9.00	
Munis	10.00	
Agency RMBS	6.00	

Distribution by Effective Duration



Distribution by Quality



This portfolio is benchmarked against the ICE BofA 1-3 Year Treasury and Agency Index.

LGIP yields based on published yield for the month of October 2023.

Portfolios shown are models based on market yields, durations, and maturities of actual securities as of 11/20/23. Security characteristics sourced from Bloomberg. Model portfolios are representative of the investment style of Buckhead Capital Management, but actual client portfolios are tailored to the individual needs of each client.

QUESTIONS?



Thank You!



Carl Vinson
Institute of Government
UNIVERSITY OF GEORGIA

Since 1927, the Carl Vinson Institute of Government has been an integral part of the University of Georgia. A public service and outreach unit of the university, the Institute of Government is the largest and most comprehensive university-based organization serving governments in the United States through research services, customized assistance, training and development, and the application of technology.



The mission of the Georgia Government Finance Officers Association is to promote and foster excellence in governmental financial management through programs that enhance the abilities, knowledge and influence of the government finance professional.



The University of Georgia, Carl Vinson Institute of Government is registered with the National Association of State Boards of Accountancy (NASBA) as a sponsor of continuing professional education on the National Registry of CPE Sponsors. State boards of accountancy have final authority on the acceptance of individual courses for CPE credit. Complaints regarding registered sponsors may be submitted to the National Registry of CPE Sponsors through its website: www.NASBARegistry.org.

Connect With Us!



**facebook.com
/VinsonInstitute**

**facebook.com
/GGFOA**



**Carl Vinson
Institute of Government**

**Government Finance
Officers Association**



@CVIOG_UGA

@GGFOA