

Levy County 2022

Investment Update

Objectives for Public Investment

1. Safety
2. Liquidity
3. Yield

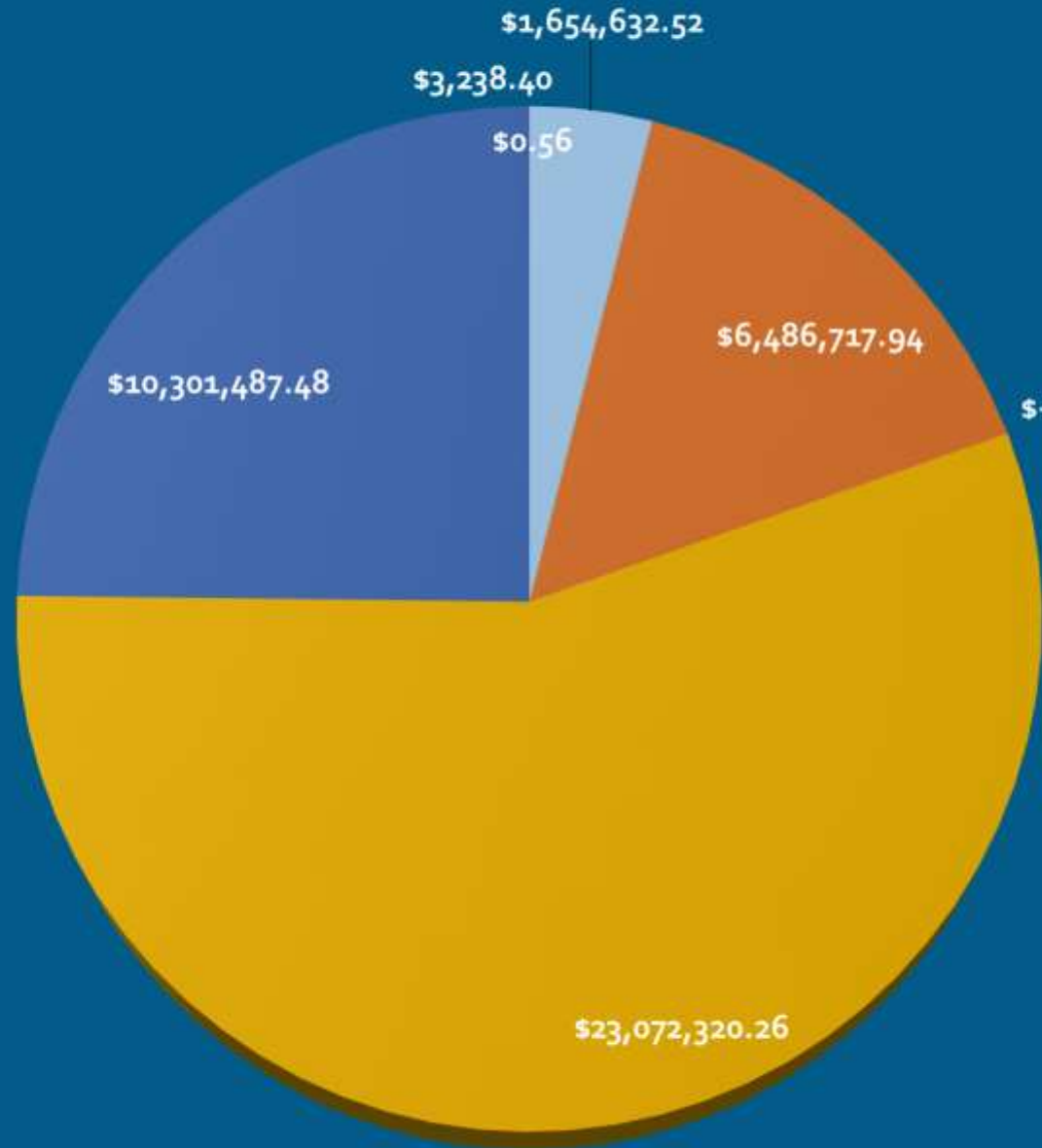
Reporting and Policy Implementation Update

1. In 2020 we started reporting as required by FS 218.415, despite not having, at that time, a compliant policy.
2. In summer of 2021 the Board approved a policy that will allow us to comply with Statute and diversify our investments, and improve yield.
3. In 2022 we worked out terms with PFM Asset Management to serve as the County's Investment Advisor, and have signed an agreement with them to allow us to get the most out of our policy framework.
4. We anticipate being able to start funding our portfolio under PFM's direction within the next few weeks.

Reporting and Policy Implementation Update (continued)

5. In the meantime, despite a terrible bond market in 2022, and very low rates until the 2nd half, we've had reasonable success with our limited options and more passive approach.
6. As expected, some months of pain in the Short-Term Bond Fund are turning into much more rapid earnings results due to a combination of higher rates and some relief in bond prices as expectations for the rapid rate increases we've seen start to cool a little.

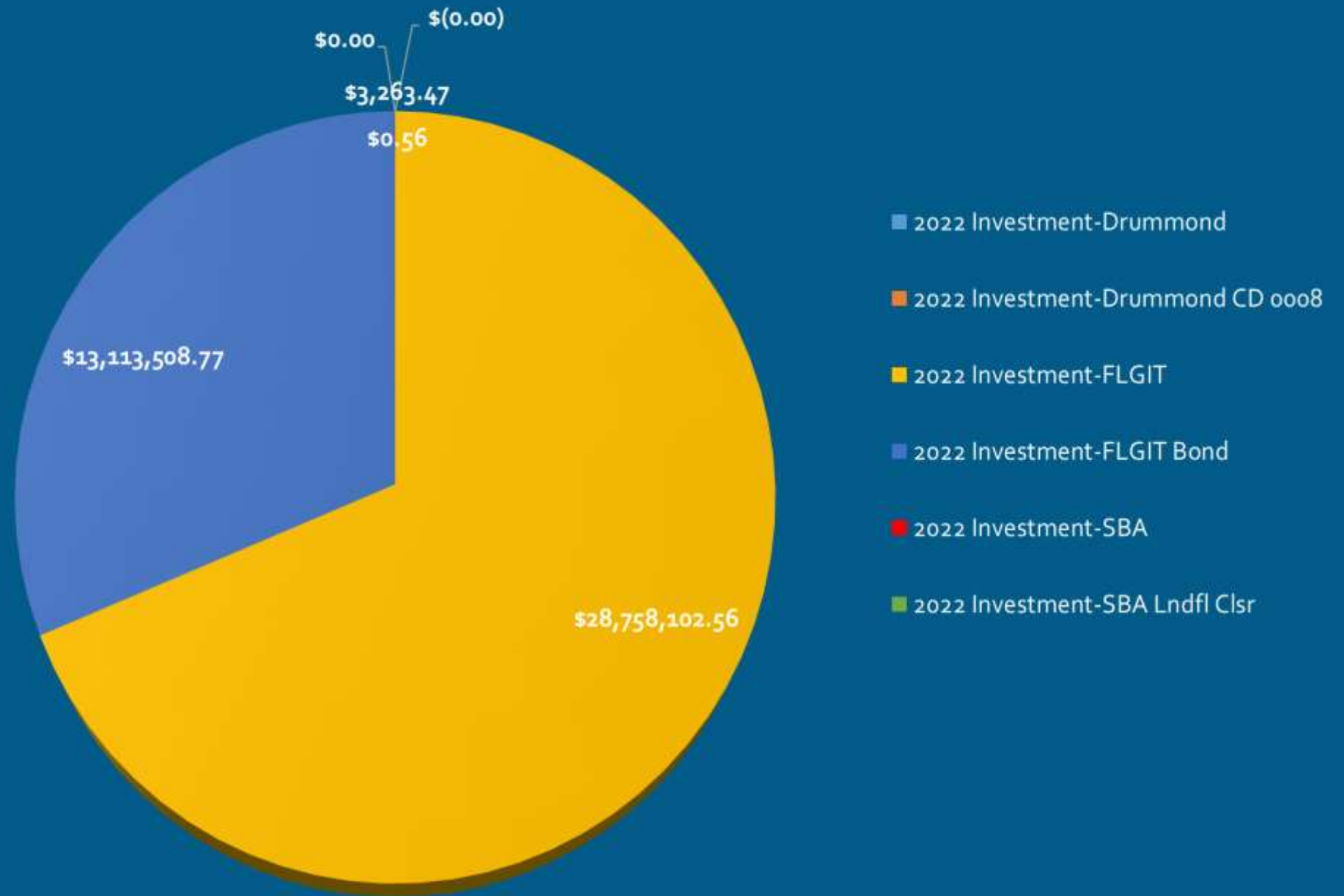
03/31/22 Investment Mix



- 2022 Investment-Drummond
- 2022 Investment-Drummond CD 0008
- 2022 Investment-Drummond CD 0009
- 2022 Investment-FLGIT
- 2022 Investment-FLGIT Bond
- 2022 Investment-SBA
- 2022 Investment-SBA Lndfl Clsr

Total Investments -
\$41,518,397

09/30/22 Investment Mix



Discussion of Return Trends and Plans

- There have been significant market headwinds, particularly Fed policy headwinds, against the investments legally available to us in the absence of a compliant policy. This has made for cheap debt, but also very low rates of return.
- We hedged ourselves somewhat against the downturn in rates with locked-in 18-month and 36-month CDs right before rates went into their lowest trough.
- We started planning to expand our ability to diversify our holdings (via a compliant policy) before the CD's matured, since we knew those rates wouldn't hold, and in the meantime hedged ourselves with the Florida Local Government Investment Trust (FLGIT) Day to Day and Bond Fund purchases.
- Then the Fed started tightening rates up to tame inflation. The impact on Bonds was...

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Jared Blanton ▼

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It's the Worst Bond Market Since 1842. That's the Good News.

The four-decade-long bull market in bonds is over, but that doesn't mean you should dump them



ILLUSTRATION: ALEX NABAUM

By [Jason Zweig](#) [Follow](#)

May 6, 2022 11:03 am ET



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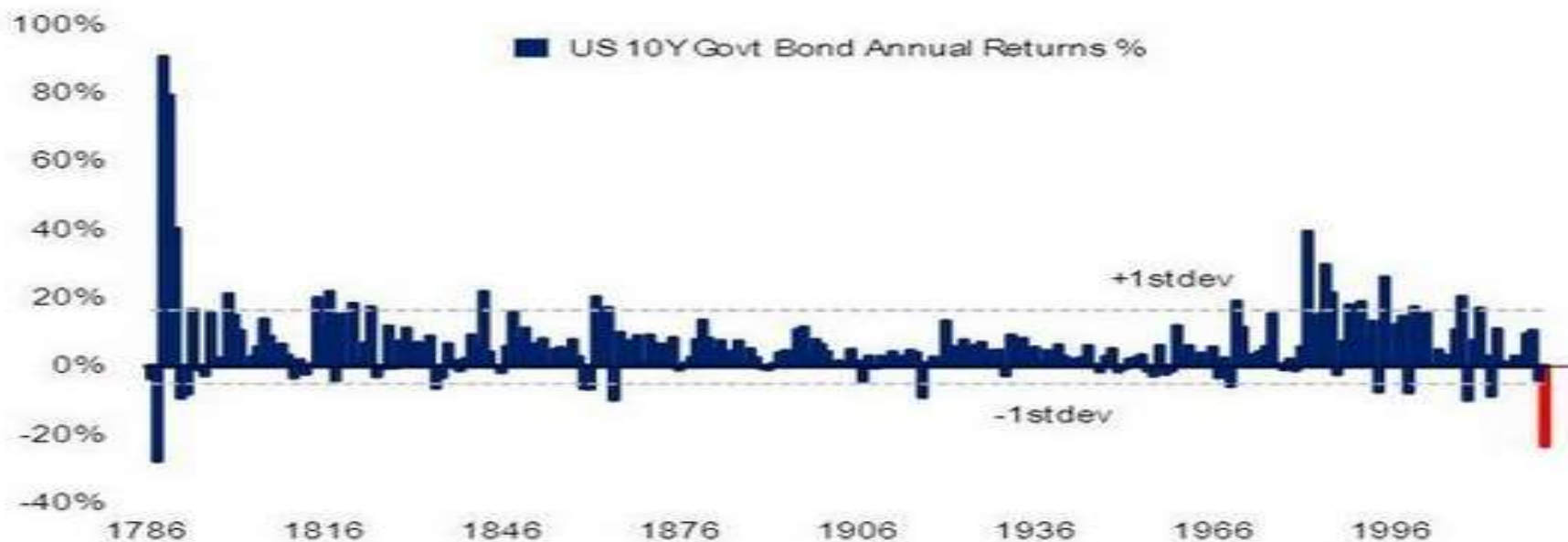
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Oct 28, 2022 at 10:21 am ET ★

What's next for bonds after 10-year Treasury note's worst performance since 1788?

By [Barbara Kollmeyer](#)

■ US 10yr Government Bond Annual Returns %



Discussion of Return Trends and Plans (2)

- In an environment where rates are rapidly rising (and 2022 was rapid), bond yields rise but the face coupon rate of existing bonds has already been set and therefore, to achieve market yield, the price of the asset declines (read: market value declines).
- The FLGIT Bond Fund's Holdings were significantly impacted, of course, so the underlying value of our holding units in that fund went negative.
- The temptation in this time is to sell as we see values of the assets declining

Discussion of Return Trends & Plans (3) - Unrealized Gains & Losses

- While there is a time wherein you sell to cut losses, if you are relatively confident in the value of the asset at the time of purchase, you'd typically want to avoid a panic sell in a time of decline.
- We increased our holdings a bit during this time, instead, to lower our dollar cost average and improve future returns.
- While the earlier "worst since 1788" article mentioned a 23% loss on 10-year treasuries, we were down 3.02%* in October. That was cut in half back to 1.55% on Jan 10th, 2023.
- *% decline in value is just for STBF holdings, if applied to all holdings it was roughly 0.8% instead of 3.02%

Discussion of Return Trends & Plans (4) - Unrealized Gains & Losses

- During this time, the rates of interest on the STBF (as well as in our other Day to Day holdings) are increasing, so as our unit prices drop our income is increasing.
- As the newer, higher rate, holdings increase as proportional shares of the fund, and income increases, the STBF value increases, and takes our unit prices with it.
- An illustration that maybe helpful is to consider the holding as a rental property of some sort...

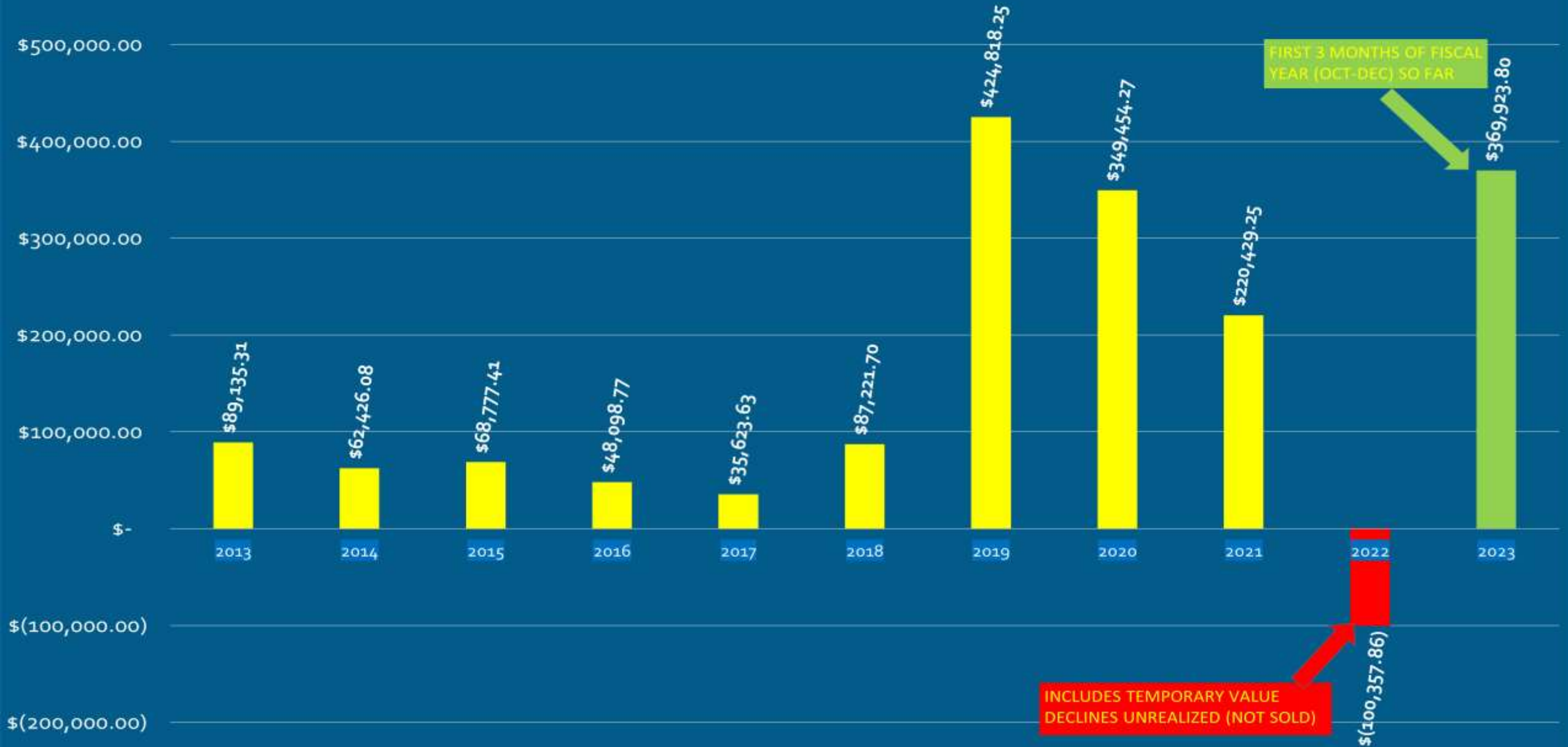
Discussion of Return Trends & Plans (5) - Illustration

- Imagine you're holding a number of properties you expect to someday use or sell for another purpose, but in the meantime each have a billboard on them getting 1% income. \$100K per property, \$1,000 per year income per lot.
- Recession hits, some of your advertisers go out of business, you're now averaging \$250 per year.
- The market value of the property drops 3% to \$97K for each lot. You don't see better opportunities in the market, and you don't need the cash. You hold these.
- New regulations on expanding billboards by a busy highway start creating an environment where you can suddenly charge \$2K on new leases, 3 months later you can charge \$4k per year.
- Your income improves, and your property value goes back to \$100K per lot.

So, our first look at our actual results would include netting our income against our unrealized fluctuations in value:

Total Investment Earnings and Unrealized Gains/Losses

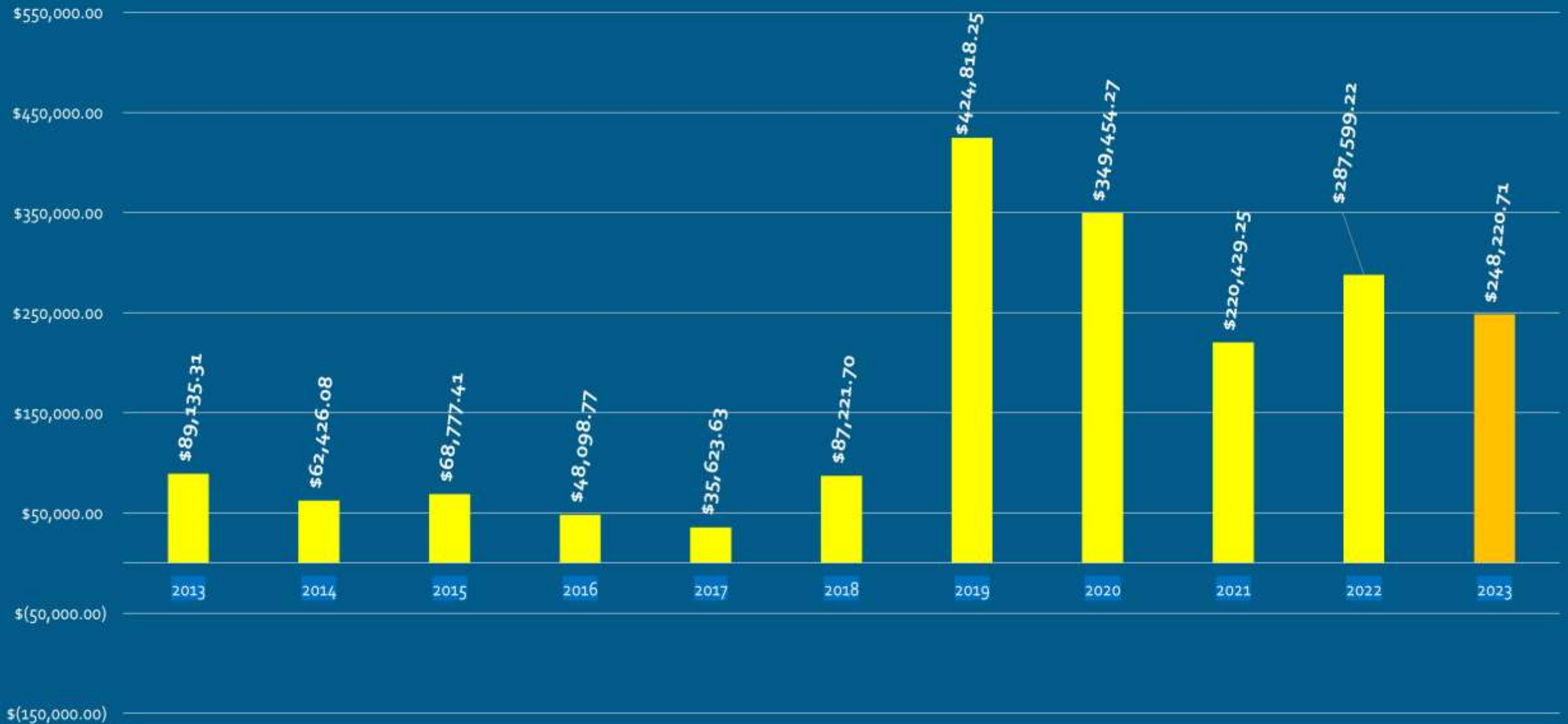
Total Investment Earnings & Unrealized Gains/Losses- Last Decade



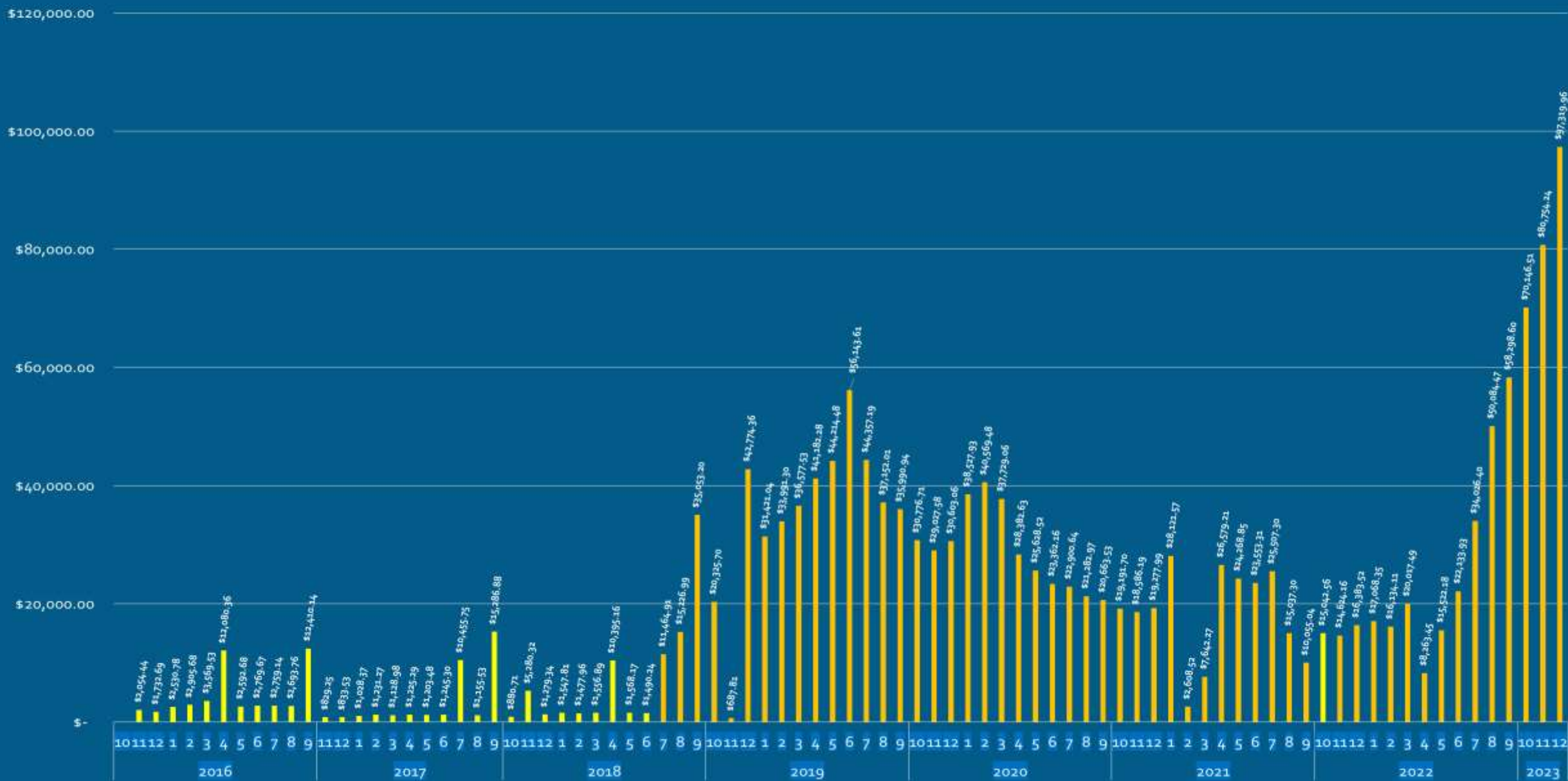
Our next look at our actual results would include just simple dividend and interest revenue (no value fluctuations):

Total Interest and Dividend Revenue

Total Interest, Dividend and Investment Revenue - Last Decade (Only 3 months of 2023)



Total Monthly Interest & Dividend Revenue - Last 7+ years



Annual Interest and Dividend Revenue – Last 10 Years

YEAR	Sum of Income Amount
2013	\$ 89,135.31
2014	\$ 62,426.08
2015	\$ 68,777.41
2016	\$ 48,098.77
2017	\$ 35,623.63
2018	\$ 87,221.70
2019	\$ 424,818.25
2020	\$ 349,454.27
2021	\$ 220,429.25
2022	\$ 287,599.22
2023	\$ 248,220.71

* Only First Quarter of FY 2023

Annual Investment Revenue Net Against Value Fluctuations – Last 10 Years

YEAR	Sum of Income Amount
2013	\$ 89,135.31
2014	\$ 62,426.08
2015	\$ 68,777.41
2016	\$ 48,098.77
2017	\$ 35,623.63
2018	\$ 87,221.70
2019	\$ 424,818.25
2020	\$ 349,454.27
2021	\$ 220,429.25
2022	\$ (100,357.86)
2023	\$ 369,923.80

* Only First Quarter of FY 2023

Discussion of Return Trends and Plans (6)

- The improving results over the last few months are encouraging, but we're not out of the woods, yet.
- I do expect the higher rates to generally benefit returns this year.
- We've seen the swing in these numbers, but I anticipate fully integrating with PFM and further diversifying our holdings within the bounds of policy and law will add yet more improvement beyond the asset management expense we'll incur.

Discussion of Return Trends and Plans (7)

- The potential returns in this sort of environment speak much to the general thesis of keeping Reserves healthy. Not only do they provide you additional flexibility, but also income opportunities.
- This concludes the annual report and update. We will keep the Board informed going forward, whether by consultant or staff presentation.