



# Fiduciary Responsibilities In A Rising Rate Environment

*SC GFOA*

April, 30 2018



## SC GFOA Discussion Topics:

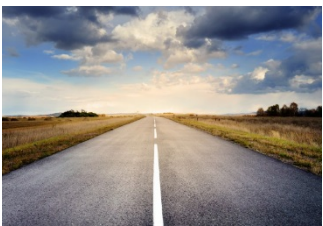
- I. Introduction to FinTrust Capital Partners, LLC
- II. Who is a Fiduciary
- III. Fiduciary Basics – The Prudent Man v. Prudent Expert Rule
- IV. Fiduciary Concepts In S.C. Code
- V. Market Pricing v. Money Markets
- VI. Yield Example
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## Part I:

# Introduction to FinTrust Capital Partners, LLC

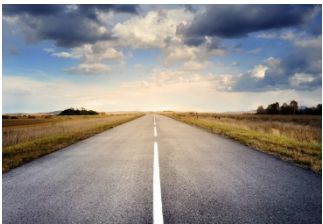


## Introduction to FinTrust Capital Advisors, LLC:

FinTrust Capital Partners, LLC is headquartered in Greenville, SC, has 35 employees, and has a heavily credentialed team including, Accredited Investment Fiduciaries (AIF), Chartered Financial Analysts (CFA), Certified Financial Planners (CFP), Certified Public Accountants (CPA), and investment professionals with decades of experience.

FinTrust Capital Advisors, LLC provides fiduciary investment advisory services including discretionary money management for municipalities' investments and or their bond proceeds.

For those who wish to manage their portfolios internally, FinTrust Brokerage Services, LLC, provides expertise, analytics and insight to help them achieve their investment goals.



## Our Corporate & Institutional Services:

### **INVESTMENT MANAGEMENT**

Tax Efficient Strategies | Custom Portfolios | Income Focused Strategies

### **FIDUCIARY & INSTITUTIONAL CONSULTING**

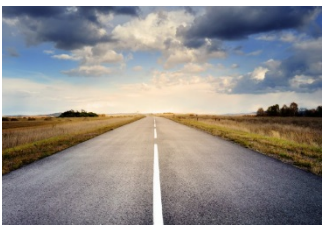
Asset Allocation | Strategy Diversification | Manager Selection | Strategic Planning

### **RETIREMENT PLAN CONSULTING**

Fiduciary Consulting Services 3(38) or 3(21) | Employee Education & Right Path Planning | Online Asset Allocation Planning Tools | Investment Policy Design | Fund Selection & Performance Review | Fee Benchmarking

### **RESEARCH & CAPITAL MARKETS**

Equity Research | Fixed Income Research | Capital Introduction | Cash Equity Trading | Fixed Income Portfolio Optimization | Cash Foreign Exchange | Physical Metals | Securities Lending



## Our Team:

- 20+ professionals with industry leading credentials
  - Accredited Investment Fiduciary®
  - Chartered Financial Analyst®
  - Certified Financial Planner™
  - Certified Behavioral Finance Analyst
  - Certified Public Accountant
- Multiple locations throughout South Carolina and the Southeast



Allen Gillespie, CFA®  
Partner



Chip Hardy, AIF®, CBFA  
Senior Vice President  
Fiduciary Consultant



Scott Soltau  
Senior Vice President  
Capital Markets



Will Kibler  
Vice President  
Investment Advisor

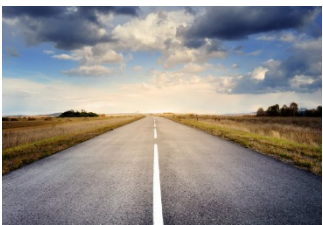
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## Part II:

Who is a Fiduciary?





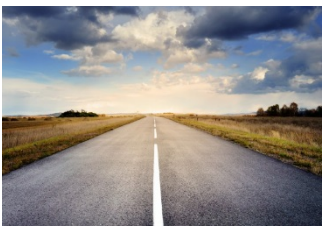
## Who is a Fiduciary?

Someone who is managing the assets of another person and stands in a special relationship of trust, confidence, and/or legal responsibility.

**A fiduciary is a person to whom property or power is entrusted for the benefit of another.**







## How Does One Fulfill a Fiduciary Duty?

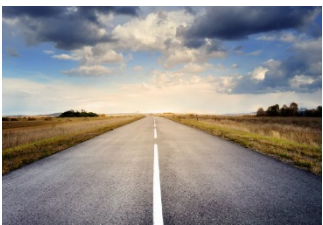
### Process & Documentation

- Duty of Care – “informed business decisions.”
- Duty of Loyalty – “not permitted to use position of trust to further private interests.”
- Duty of Good Faith – “advance the interests of the corporation”
- Duty of Disclosure – “disclose all the materials facts and information.”
- Duty of Prudence – \*\*\*



## Part III:

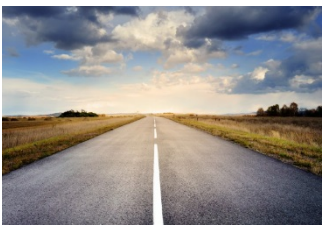
### Fiduciary Basics – The Prudent Man v. Prudent Expert Rule



## Prudent Man/Expert Rule

Dictates that a fiduciary manage a portfolio with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent man acting in a like capacity and **familiar with such matters** would use in the conduct of an enterprise of a like character and with like aims.





## Prudent Man/Expert Rule

The prudent man rule, written by Massachusetts Justice Samuel Putnam (1768-1853), directs trustees

*"to observe how men of prudence, discretion and intelligence manage their own affairs, not in regard to speculation, but in regard to the permanent disposition of their funds, **considering the probable income**, as well as the probable safety of the capital to be invested."*

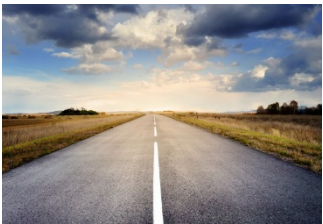


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## Part IV:

# Fiduciary Concepts In S.C. Code



# Summary of Investment Statutes:

## CHAPTER 5

### Investment of Funds by Political Subdivisions

#### SECTION 6-5-10. Authorized investments by political subdivisions.

(a) The governing body of any municipality, county, school district, or other local government unit or political subdivision and county treasurers may invest money subject to their control and jurisdiction in:

(1) Obligations of the United States and its agencies, the principal and interest of which is fully guaranteed by the United States.

(2) Obligations issued by the Federal Financing Bank, Federal Farm Credit Bank, the Bank of Cooperatives, the Federal Intermediate Credit Bank, the Federal Land Banks, the Federal Home Loan Banks, the Federal Home Loan Mortgage Corporation, the Federal National Mortgage Association, the Government National Mortgage Association, the Federal Housing Administration, and the Farmers Home Administration, if, at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(3)(i) General obligations of the State of South Carolina or any of its political units; or (ii) revenue obligations of the State of South Carolina or its political units, if at the time of investment, the obligor has a long-term, unenhanced, unsecured debt rating in one of the top two ratings categories, without regard to a refinement or gradation of rating category by numerical modifier or otherwise, issued by at least two nationally recognized credit rating organizations.

(4) Savings and Loan Associations to the extent that the same are insured by an agency of the federal government.

(5) Certificates of deposit where the certificates are collaterally secured by securities of the type described in (1) and (2) above held by a third party as escrow agent or custodian, of a market value not less than the amount of the certificates of deposit so secured, including interest; provided, however, such collateral shall not be required to the extent the same are insured by an agency of the federal government.

(6) Repurchase agreements when collateralized by securities as set forth in this section.

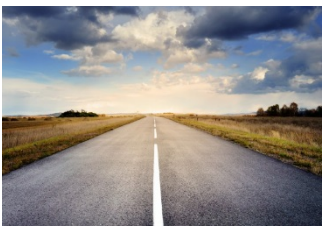
(7) No load open-end or closed-end management type investment companies or investment trusts registered under the Investment Company Act of 1940, as amended, where the investment is made by a bank or trust company or savings and loan association or other financial institution when acting as trustee or agent for a bond or other debt issue of that local government unit, political subdivision, or county treasurer if the particular portfolio of the investment company or investment trust in which the investment is made (i) is limited to obligations described in items (1), (2), (3), and (6) of this subsection, and (ii) has among its objectives the attempt to maintain a constant net asset value of one dollar a share and to that end, value its assets by the amortized cost method.



## Summary of Investment Statutes:

- Federal Treasury Securities
- U.S. Agency Securities
- South Carolina G.O. & Revenue Securities
- S&L Accounts Insured by Federal Government
- Collateralized Certificates of Deposits
- Collateralized REPO
- Government agency money market funds
- LGIP – operated by the State Treasurer





## Statutes Designed to Address Three Key Elements

### Yield

Fiduciary responsibility requires that funds be prudently invested.

### Safety

Statute limits investments to highest credit quality instruments.

### Liquidity

Statue limits investments to funds in excess of operating need.

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## Part V:

# Market Pricing v. Money Markets

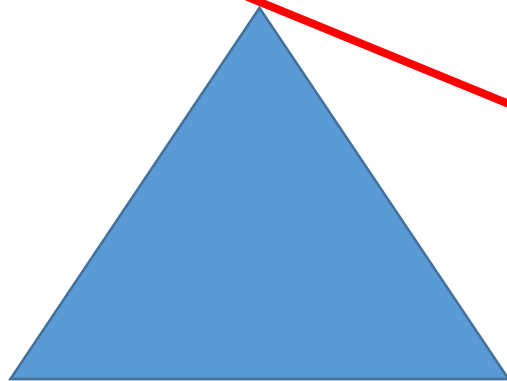
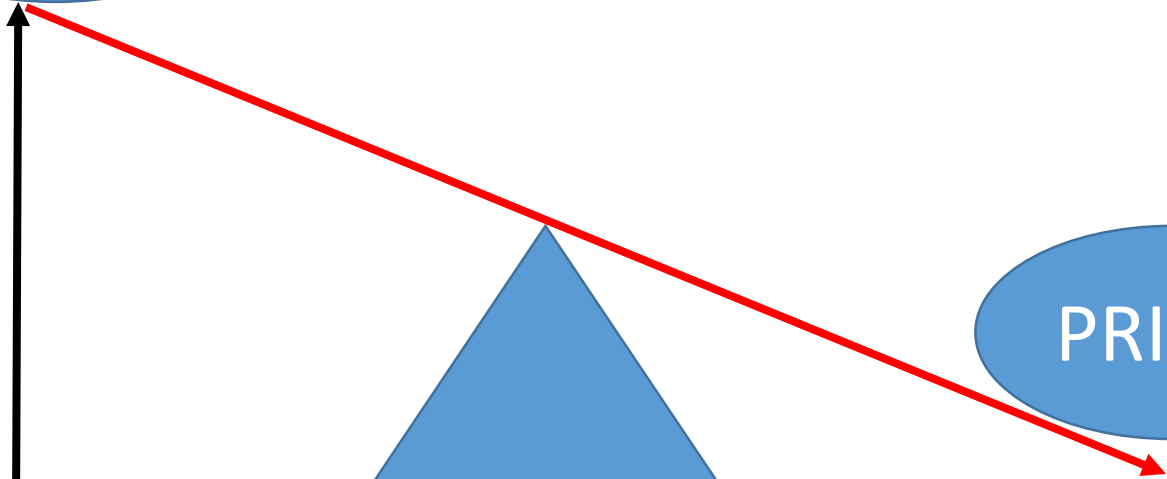
# Fiduciary Prudence in a Rising Rate Environment:

## Yields & Bonds

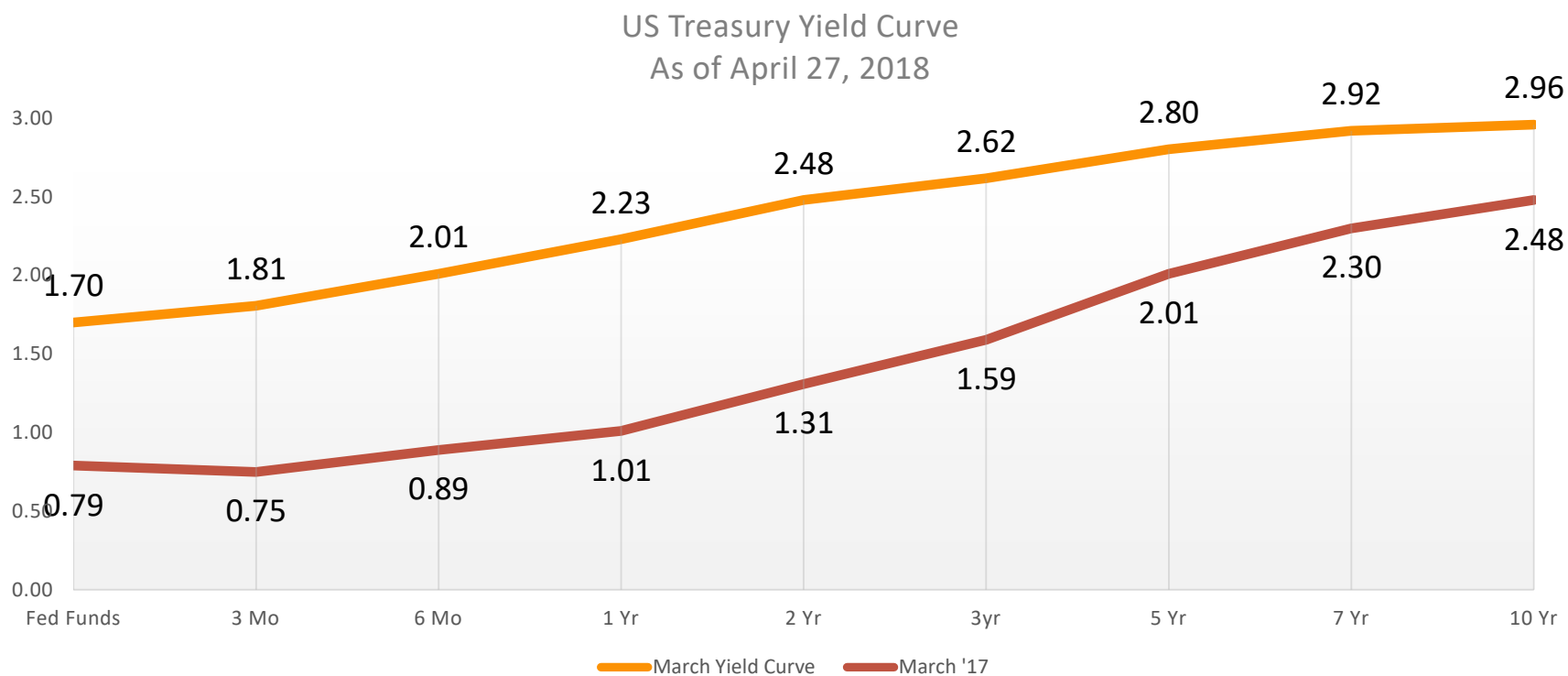
If interest rate yields rates, the price of a bond falls....and vice versa

YIELDS

PRICES



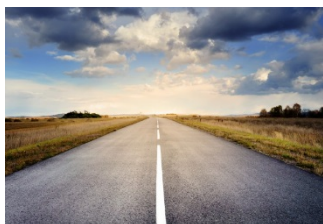
## The curve flattened during 4Q17 as the Fed continues to raise short term rates:



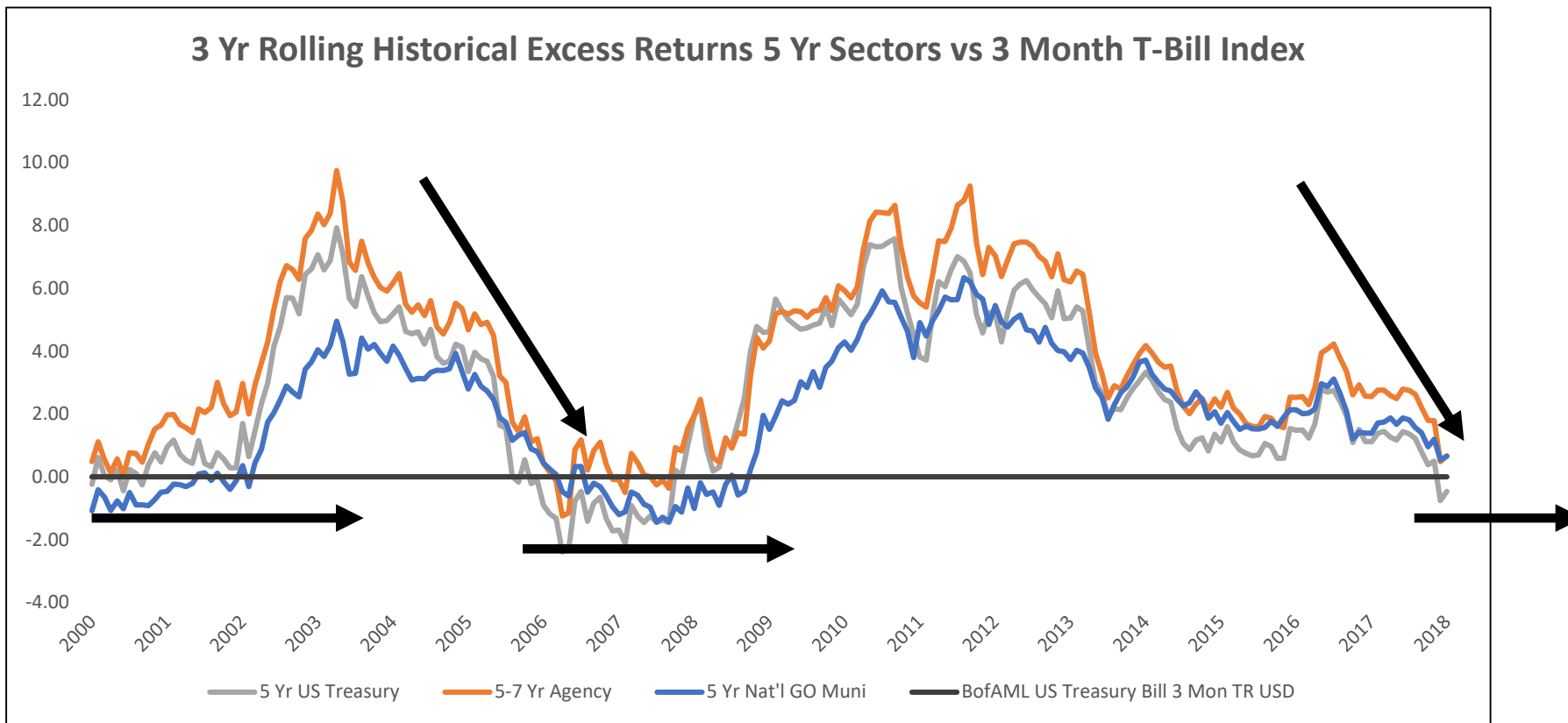
The yield curve has risen 75-100 bps over the last year and remains steep on the front end of the curve as the market prices in Federal Reserve rate hikes. Pooled money market fund accounts generally lag market rates in a rising rate environment.

Source: St. Louis Federal Reserve Economic Data (FRED)

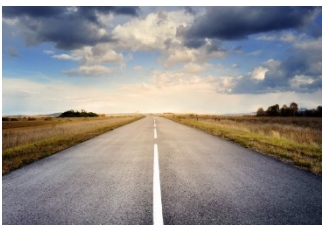
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# 3 Yr Rolling Historical Excess Returns 5 Yr Sectors vs 3 Month T-Bill Index:



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# Portfolio & Performance: Market Rates, March 31, 2018

Tenor	Treasury		Agency		SC Muni	
6 Mo	H15T6M INDEX	1.86%	bvcsug6m index	1.87%	BMSTSC6M index	1.31%
1 Yr	H15T1Y INDEX	2.07%	bvcsug01 index	2.07%	BMSTSC01 index	1.36%
2 Yr	H15T2Y INDEX	2.25%	bvcsug02 index	2.32%	BMSTSC02 index	1.56%
5 Yr	H15T5Y INDEX	2.65%	bvcsug05 index	2.72%	BMSTSC05 index	1.99%
7 Yr	H15T7Y INDEX	2.80%	bvcsug07 index	2.93%	BMSTSC07 index	2.22%
10 Yr	H15T10Y INDEX	2.87%	bvcsug10 index	3.14%	BMSTSC10 index	2.54%

LGIP Rates	2016	2017	2018
January	0.57	0.90	1.35
February	0.63	0.92	1.44
March	0.70	0.97	1.68
April	0.67	1.01	
May	0.69	1.01	
June	0.70	1.07	
July	0.71	1.08	
August	0.70	1.06	
September	0.78	1.08	
October	0.77	1.10	
November	0.78	1.12	
December	0.86	1.24	

Source: Bloomberg & SC Treasurer Website

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## Part VI:

## Yield Example



## FinTrust Capital Advisors Short Treasuries vs LGIP Income Comparison - April 24, 2018:

Maturity	# of Months	Yield*	Wtd Yield	Amount	Annualized Income	Wtd Months	Wtd Amount
Oct-18	6	1.996	0.6653	\$ 10,000,000	\$ 199,600	2.000	0.333
Jan-19	9	2.200	0.7333	\$ 10,000,000	\$ 220,000	3.000	0.333
Apr-19	12	2.276	0.7587	\$ 10,000,000	\$ 227,600	4.000	0.333
Totals				\$ 30,000,000	\$ 647,200		1.000
<b>Total Wtd Averages</b>			<b>2.157</b>			<b>9.00</b>	
Latest LGIP Yield	Mar-18		1.68		\$ 504,000		
Additional Yield in Basis Points			48				
% Yield Pickup			28%				
<b>Additional Annual Income**</b>					<b>\$ 143,200</b>		
<b>Projected 30 Day Income Benefit</b>					<b>\$ 11,933</b>		

\*source Bloomberg L. P. (US)

\*\*assumes static LGIP rate

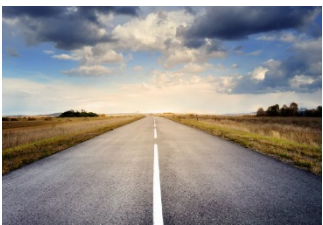
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## Part VII :

### Conclusion / Action Items



## Conclusion & Action Items:

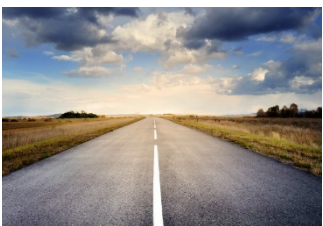
- FinTrust, as both an Investment Advisor and Broker Dealer is able to help with portfolio management as well as the investment of bond proceeds.
- We can demonstrate various income enhancing strategies that didn't exist last year.
- We can review your existing portfolio and make observations on diversification and yield opportunities.
- Analyze your portfolio and consider allowing a money manager to help you better fulfill your fiduciary duty by maximizing yield within your restricted investments.
- This is a conversation we are having with regional municipalities and FA's. We will follow up and see how we can help you.

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**Part VIII :**

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