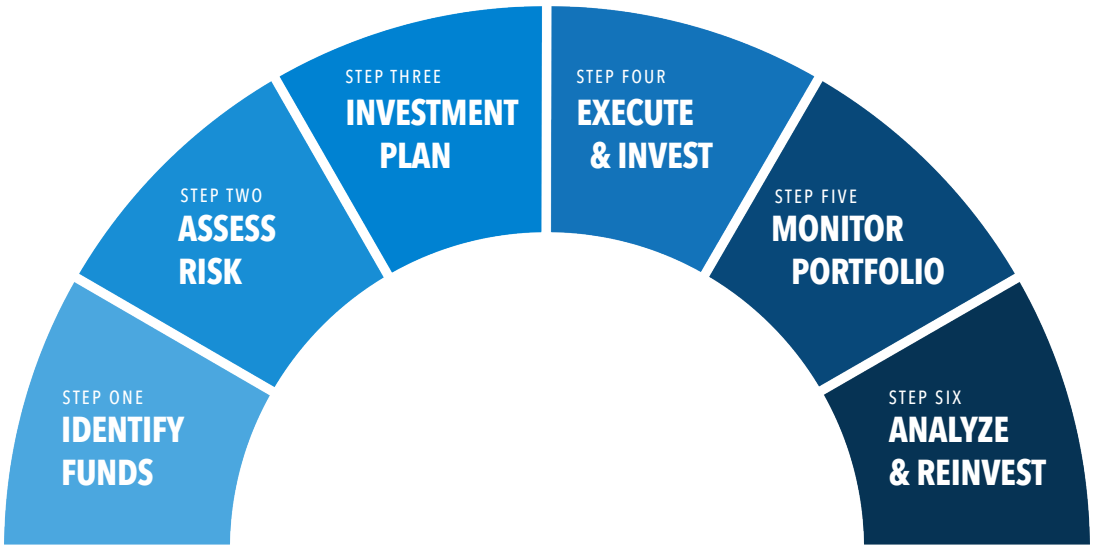
TCG
TRUSTED CAPITAL GROUP

SIX HELPFUL STEPS

Assessing Risk During the COVID-19 Crisis



Fixed income markets and economic conditions have changed drastically over the last two months prompting many public funds managers to reevaluate their investment strategy. With increased economic uncertainty and the possibility of budget cuts around the corner, lower rates could not have come at a worse time.

In these uncertain times, managers of public funds must be vigilant to ensure their investment plan is not only current but also maximizes yield without taking unwanted risk. TCG has created a process to help managers assess their risk and develop an investment plan. The following is an overview of the entire process. In future installments, TCG will explore these steps in more detail.

STEP #1: Identify Funds

- ☐ Identify cash flow needs for standard time periods (e.g. 3 month, 6 month, 1 year, 2 year, etc.)
- ☐ Determine appropriate allowable maturities to ensure seamless access to funds when necessary.

STEP #2: Assess Risk

- ☐ Determine the permitted investments under your local policy and the Public Funds Investment Act.
  - ✓ Investment Pools
  - ✓ Commercial Paper
  - ✓ U.S. Treasuries
  - ✓ Money Market Funds
  - ✓ Agencies
  - ✓ Bank CDs
  - ✓ Bank Savings Accounts
- ☐ Review each available investment type to determine if it still meets your risk and yield objectives. Some PFIA permitted investments might be more attractive in the current interest rate environment.
- ☐ Identify risk characteristics for different investment types and maturities.
- ☐ Determine what types of internal controls are in place to limit risk.

STEP #3: Investment Plan

- ☐ Define appropriate allowable interest rate and credit risk.
- ☐ Revise local policy, if necessary, to allow for more diversification and longer maturities.
- ☐ Determine allocation to different investments (as identified in Step 2) to best meet your risk and yield objectives. Ideally the portfolio should contain a diversified mix of fixed and variable rate investments.
- ☐ Project cash flows and estimated performance.
- ☐ Consult a professional for best practices if necessary.

STEP #4: Execute & Invest

- ☐ Finalize investments decisions from Step 3.
- ☐ Establish compliant safekeeping accounts.
- ☐ Work with approved broker/dealers to ensure best execution.

STEP #5: Monitor Portfolio

- ☐ Determine appropriate benchmarks to measure performance for each investment.
- ☐ Monitor the portfolio on an ongoing basis to ensure that cash flow needs and investment objectives are being met.
- ☐ Ensure interest rate exposure and credit exposure are within defined limits.
- ☐ Create watchlist to monitor credit risk for any investments with increasing credit risk.
- ☐ Review trades to ensure best execution.
- ☐ Maintain awareness of the overall interest rate market, potential risks, etc.

STEP #6: Analyze & Reinvest

- ☐ Establish investment committee to review performance and risk.
- ☐ Revisit investment plan and local policy to ensure they still meet your objectives.
- ☐ Evaluate safekeeping accounts and broker/dealers. Make changes if necessary.
- ☐ As the portfolio investments begin to mature, determine the appropriate reinvestment option. Fixed income markets change quickly and investments that previously met your risk and return objectives might not be ideal 6 months later.

How is your organization mitigating financial risk through COVID-19?

We can help evaluate your organization's investment strategy and readiness for today's financial shock.

Schedule a virtual consultation at www.tcgservices.com/gpittman.

TCG ADVISORS™