



CDIAC

CALIFORNIA
DEBT AND
INVESTMENT
ADVISORY
COMMISSION

ADVANCED PUBLIC FUNDS INVESTING IMPLEMENTING A STRATEGY OVERVIEW

Jeff Probst, CFA, VP, Portfolio Manager, Chandler Asset Management

Ned Connolly, Senior Vice President, Chandler Asset Management

Bill Blackwill, Managing Director, Stifel

January 28, 2016

Importance of a Strategy

2

- Provides discipline in managing risk
- Helps manage return expectations
- Establishes accountability
- Promotes communication

Portfolio Management Considerations

3

- What are the objectives of the investment program
- What are the investment constraints
 - Government Code
 - Investment Policy
 - Agency risk tolerances
 - Investment staff experience
- What strategies can be implemented that achieve stated objectives and are compliant with constraints

Segmenting the Portfolio

4

1. Cash flow analysis
 - a. Identifies near-term (6-12 months) funding needs, trends for high and low balances and seasonal patterns
2. Liquidity portfolio
 - a. Often expressed as percentage (e.g. 10-20%) of total portfolio
 - b. Typically invested in:
 - I. Liquidity accounts: LGIPs, MMMFs, Bank Accounts
 - II. Money market instruments: T-Bills, Discount Notes, Commercial Paper
3. Core/Reserve portfolio(s)
 - a. Invested longer-term and more diversified for potential for higher earnings and principal growth

Determining Appropriate Strategies

5

1. Passive or Active
2. Interest rate exposure
 - a. Maximum maturity
 - b. Weighted average maturity
 - c. Weighted average duration
3. Credit exposure (asset classes)
 - a. Treasuries, agencies, corporate securities, municipal securities, etc.
4. Benchmark selection
 - a. Total return market benchmarks
 - b. Similar risk profile to investment style selected

Managing Risk

6

1. Interest rate/market risk

- a. Portfolio duration
 - i. Equal to; longer than; shorter than the benchmark duration
- b. Maturity structure
 - i. Ladder; Barbell; Bullet

2. Credit risk

- a. Allocation limits to asset classes and issuers
- b. Minimum credit ratings
- c. Ongoing credit analysis and monitoring

External Factors

7

1. Economic environment

- a. Expanding/contracting
- b. Employment
- c. Inflation
- d. Monetary Policy
- e. Fiscal Policy

2. Market environment

- a. Shape of yield curve
- b. Interest rate expectations
- c. Spread analysis

3. Global environment

- a. Economic
- b. Markets
- c. Geo-political

Oversight, Evaluation, Rebalancing

8

1. Ongoing compliance monitoring
2. Reporting
 - a. Monthly accounting for investments
 - b. Performance
 - i. Weighted average yield
 - ii. Total return
 - iii. Comparison to benchmark total return
3. Rebalancing
 - a. Bring back in line with duration target
 - b. Reallocate sector percentages

Biographies

9



Jeff Probst, CFA

Vice President, Portfolio Manager

Jeff Probst joined Chandler Asset Management in 2012 and is currently a Vice President and Portfolio Manager. Jeff works with the portfolio managers performing portfolio and fixed income research, and transacting securities.

Prior to joining Chandler, Jeff worked at BOFI Federal Bank in San Diego as an Investment Analyst where he analyzed mortgage backed securities and structured debt. He started his career at Western Asset Management as a mutual fund treasury administrator in their proprietary funds division.

Jeff earned his B.S. in managerial economics, as well as his M.S. in agricultural and resource economics, from the University of California, Davis. He holds the designation of Chartered Financial Analyst.



Ned Connolly

Senior Vice President, Relationship Manager

Ned Connolly is Senior Vice President of client service. He is a member of the firm's Client Service team which develops client relationships and coordinates the delivery of services related to the review and implementation of recommended practices. Ned works with public agencies in writing and revising investment policies and procedures, developing cash flow projections and providing investment education for finance staff.

Ned joined the firm in 2004. He has 33 years of experience in the investment industry in the areas of institutional fixed-income investing and portfolio management. Ned has been a member of the Government Finance Officers Association's (GFOA) Committee on Treasury and Investment Management. He has spoken on a variety of investment topics before numerous regional and national organizations.

Ned received his B.A. from Boston College and holds the designation of permanent Certified Cash Manager (CCM) through the Association for Financial Professionals.

Biographies (Bill's)

10

William C. (Bill) Blackwill*Stifel Nicolaus & Co Inc.*

Bill Blackwill has been an institutional fixed income specialist since 1987. He spent 3 years with Westpac Pollock GSI and 24 years with Smith Barney and its parent company Citigroup Global Markets Inc. He has been a managing director at Stifel Nicolaus & Co, Inc. since July of 2014. Bill specializes in covering Public Agencies and in assisting them in meeting their goals for safety, liquidity and return.

He has worked extensively with CMTA and CDIAC for many years in their efforts to educate public investment personnel. He also served on the Investment Advisory Committee at the City of San Clemente, an experience that has given him excellent insight into the issues a public agency faces with its investment program.

Disclosure

The information herein is provided for informational purposes only and should not be construed as a recommendation of any security, strategy or investment product, nor as an offer or solicitation for the purchase or sale of any financial instrument. Any information or data used in the presentation was obtained from sources we believe to be reliable, but we do not guarantee its accuracy. This presentation contains current opinions of the author, which are subject to change without notice. Any statements concerning financial market trends or future forecasts are based on current market conditions, which will fluctuate. Past performance is not indicative of future results. Unless otherwise noted, Chandler is the source of performance data and characteristics contained in this presentation.

For Institutional Account Use Only

Trading desk material is NOT a research report and is NOT a product of a research department (fixed income or otherwise) of Stifel, Nicolaus & Company Incorporated or any of its affiliates (collectively, "Stifel"). Analysis and materials are being provided to you for informational purposes only without regard to your particular circumstances, and any decision to purchase or sell a security is made by you independently, without reliance on us. Any analysis or material that is produced by a trading desk has been prepared by a member of the trading desk who supports trading activities. Trading desk material is provided for informational purposes only and is not an offer or a solicitation for the purchase or sale of any financial instrument. Prices shown in this communication are indicative and Stifel is not offering to buy or sell, nor is it soliciting offers to buy or sell any financial instrument. The information contained in this communication has been obtained from sources that Stifel believes to be reliable but it does not represent or warrant that such information is accurate or complete and Stifel makes no undertaking to update the material if facts change. Any discussion of past performance should not be taken as an indication of future results, and no representation, express or implied, is made regarding future results.