

ALL ROADS LEAD HERE

LGIP and Public Sector General Fund Investing: The Advantages of Portals and Risk Analytics

The challenge that seems to exist for all public sector investors is finding enough time and resources to do their jobs well. Public sector investors typically not only have to concentrate on investing but also on forecasting and handling cash flows, reporting, banking relations, collections, audits, accounting, securities lending and many other programs associated with running a large government.

Now, as the market struggles during the credit and liquidity crisis, it becomes even more essential that the investor understand the inherent risk of their portfolio as a whole and how each security affects their portfolio. Without analytics, it is next to impossible for investors to know what they own, how each investment is priced in the market daily, and how it affects their portfolio's risk and performance.

At the same time, it has become essential for governments to do more with less and ensure they can easily measure and monitor the safety and liquidity of the money they are trusted to manage — a service that some are looking to online investments portals to provide, preferably ones coupled with risk-based analytics.

History has a way of teaching investors valuable lessons. As a Local Government Investment Pool (LGIP) portfolio manager back in the early 1990s, I witnessed (thankfully, from afar) the collapse of Orange County's investment pool. Over the past year we have witnessed other issues with some LGIPs that have experienced similar difficulties. I truly believe that the lesson we need to take away this time is that portfolio managers need to understand the underlying risk in the securities that are being purchased in these portfolios. Knowing your portfolio risks and having the ability to monitor these risks frequently will help to avoid future problems.

Once you determine that you should be doing more to measure and monitor your portfolio's risk, where do you turn? [Risk-based analytics](#) have for years been used to measure portfolio risk in pension funds and hedge funds but have been overlooked by investors in the short-term fixed-income market. Historical events, including the recent credit crisis, should be the lesson needed to change that.

Monitoring and measuring risk is typically a difficult and complex task for most government investors. Adding to the complexity, local government investment pools and the general funds for large public entities, such as state governments, have for years had the ability to manage money in a variety of ways, usually following strict state statutes.

- Some entities manage all of the funds internally.
 - They buy and sell securities ranging from treasuries to mortgages.
- Others use outside managers such as a bank or investment firm.
 - They manage assets that follow customized investment guidelines.
 - Institutional money market funds are also a preferred investment.
- Typically entities use a combination of these investment options.

The challenge is capturing this data for all of these different investments as the information typically comes from multiple sources in different formats and at different times.

This is where the use of a [money market portal](#) coupled with [risk-analytics](#) can add value. Most portals provide services for the investor that save time and provide the analysis of the funds they need to make the appropriate investment decisions.

Most portals give you instant access to money fund data such as:

- Daily balances
- Total assets per fund
- Percentage of the fund that you own
- Daily rates and mill rates
- Daily interest accruals, as well as monthly accruals not yet paid
- Research tools that enable you to monitor and evaluate additional funds
- 360/365 calculators to fairly compare fund yields versus various security yields

Most portals also help to simplify the investing and auditing process by providing:

- The ability to send only one wire for all purchases made across multiple fund families
- A single statement for all fund families
- Daily on-line statements for reconciliation
- Instant printable trade confirmations

Portals that are coupled with risk-based analytics take everything to the next level. Analytics packages that provide duration calculations, Value at Risk (VaR) calculations, interest rate stress-testing and compliance reporting are becoming more important when deciding what securities to buy and sell. This portfolio transparency gives the investor the tools to make important decisions but also gives the underlying investors of an LGIP the reassurance that their preservation of principal and liquidity is being measured and monitored on a daily basis. The portal can enable the investor to offset the price of the analytics and simplify and fulfill reporting requirements.

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