What should public agencies understand about their liquidity options?

California public agencies have a variety of options when it comes to managing their liquidity, ranging from *pooled* investments like CAMP, County Treasury pools, LAIF, and registered money market funds to *individual* investments such as commercial paper, Treasury bills and federal agency discount notes.

Today, I'm going to focus on important characteristics of pooled investments you should be aware of when making decisions for investing your agencies' funds needed for liquidity.

1. Weighted average maturity,
2. Net asset value,
3. Whether the pool or fund follows GASB standards, and in particular GASB 79,
4. Credit quality, and the
5. Frequency of dividend payments

A pool's **weighted average maturity or WAM** is the average maturity of all underlying investments and tells us how quickly they will turn over and be replaced, and how much interest rate changes may affect the overall value of the pool. For instance, a short WAM is designed to protect the pool's value and allows a pool to turn over more quickly and, if rates are rising, incorporate higher yields. Conversely, a longer WAM slows the turnover and therefore slows the decline of the pool's yield when rates fall, but could negatively impact the net asset value since the value of the underlying investments falls when rates rise.

The **net asset value or NAV** of a pool is the price per share. Pools that maintain a stable NAV manage various elements of the pool's portfolio to do so. As an investor in this type of pool, you're typically looking for principal protection and interest income. Floating NAV pools have share prices that float, meaning you as the investor are looking for share price appreciation. LAIF and some other pools don't necessarily manage their portfolios to maintain a stable NAV, as CAMP does, but generally pay dividends as if they were. Because of this, they should offer a market value factor for adjusting the value of your investment at fiscal year-end.

Some pools, like CAMP, follow the **GASB 79** standard, which means public agency investors may treat their share balance as the value of their pooled investment. Following GASB 79 means the pool is managing weekly and monthly liquidity buckets, investing in certain tiers of high-quality securities, and limiting the maximum WAM to no more than 60 days.

Credit quality refers to two things:

1. First, it refers to the quality of the investments in the portfolio. In California, pools generally follow the requirements of California Government Code Section 53601, with some differences for counties and LAIF having its own section of Code.
2. Second, it also refers to the overall credit quality as assigned by a credit rating agency. For example, CAMP is rated AAAm* by Standard & Poor's. You should ask yourself, is the Pool rated and is the fact sheet from the rating agency available for your review.

Lastly, when investing, we are told about the magic effect of compounding. This is why we care about the **frequency of dividend payments**. Most pools pay dividends either monthly, like CAMP, or quarterly. The sooner your dividend is reinvested, the sooner your agency begins earning interest on its interest. Therefore, when considering the benefits and characteristics of pools, the more frequent the dividend the better.

I hope that as you assess your agency's liquidity options this information will be helpful in reviewing the characteristics of pooled investments available to you as a California public agency investor.

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