



How do you take your liquidity objectives from paper to practice?

GFOA's sample investment policy lists liquidity as the second of three investment objectives (safety being first and yield being last), and states "The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated." With liquidity playing such a vital role in public agency investment portfolios, it's important to consider an approach that can position your agency to handle both known and unknown cash flows – to "reasonably anticipate" and then some. How can you maintain the overall integrity of your investment strategy and avoid situations where liquidity is not fully available when you need it?

We believe it's possible to prioritize liquidity in practice by using a combination of local government investment pools and money market funds that, together, build out a robust liquidity sleeve within an agency's investment portfolio. Cash management vehicles are not all the same. The idea is to strategically allocate funds based on the specific attributes provided by that investment vehicle. Examples of key considerations are:

- What's the pool or fund's investment objective?
- Does it provide a stable or floating net asset value?
- Do you have daily, next day or weekly liquidity?
- Are there withdrawal or deposit limits?
- What is the weighted average maturity?

In combination with a cash flow analysis, the answers to these questions help form the basis of your liquidity strategy. The pool or money market fund should have this information readily available in their information statement or prospectus. Understanding these key differences will allow you to balance the liquidity needs of your agency with the objectives and attributes of each investment vehicle.

The added uncertainty in the economy and fixed income markets has highlighted the importance of public agencies strategically building out a liquidity sleeve in their investment portfolio. We hope that this series helps you understand more about liquidity as a practice and not just an objective. We want all public agencies to have tools that help mitigate the inevitable challenges and constraints in the current environment and beyond.

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