

**Caribbean Centre for Monetary Studies: 9th Annual Senior Level Policy
Seminar**

*“Liquidity Management and Business Opportunities in the CSME
and Beyond”*

**Asset/Liability Management and Investment Vehicles
for Surplus Cash in the Caribbean**

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NB: Past performance is no guarantee of future results. This presentation is for illustration purposes only and is not to be construed as a solicitation or offer to invest.

Overview

- ◆ Asset/Liability Management
- ◆ Liquidity Analysis and Management Framework
- ◆ Traditional vehicles used in the region
- ◆ GCA vehicles and approaches available for surplus cash
- ◆ Specific cases – closer look at two options for institutional investors
- ◆ Q&A

Asset/Liability Management

- ◆ ALM defined
- ◆ Central function
- ◆ Dynamic process
- ◆ Positive net worth is not enough
 - Timing and nature of obligations
 - Liquidity management is critical

Liquidity Analysis and Management (1)

- ◆ Traditional approaches to the liquidity management challenge
- ◆ Spectrum from tight liquidity management to excess
 - Internal vs. external sources of liquidity
 - Liquidity and return tradeoff
 - Liquidity and volatility tradeoff
 - Regulatory constraints
- ◆ Matter of choice - Risk Tolerance
 - No right answer!

Liquidity Analysis and Management (2)

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- ◆ Conduct a liquidity analysis as part of our operational review of institutional investors
 - Identify liquidity needs
 - Include in overall investment objectives and constraints
 - ◆ Process for allocating assets to discreet portfolios to meet specific objectives
 - ◆ Reflects the tradeoff between liquidity and returns
 - ◆ Involves four tranching decision steps
 - ◆ Liquidity vs. Investment Tranche
 - Direct and/or Indirect Method
 - ◆ Working Capital vs. Liquid Assets Tranche
 - ◆ Investment Tranche – further subdivision along various categories.

Traditional Investment Vehicles (1)

- ◆ Domestic and regional securities
 - Money markets
 - Capital markets
- ◆ International money and capital markets
 - Direct investments
 - Managed Accounts – via a manager selection process
 - Some portfolio investments
- ◆ Is developing external asset management programs a good option?
 - It depends on the structure and approach

Traditional Investment Vehicles (2)

- ◆ Size of external investment programs make structure and approach inefficient
 - Instrument specific risk parameters
 - Low attention to portfolio – Junior Staff
 - Inconsistent performance due to less robust risk mgt.
 - Strategy drift
 - Unmanaged asset allocation mix
 - Low level of portfolio diversification
 - One size fits all approach
 - Others...

GCA Investment Vehicles

- ◆ Multi-Strategy Fund of Funds Portfolios (targets +8% to +15%)
- ◆ Principal Protected Note linked to Alternative Fund of Funds Portfolio (targets +12% to +15%)
- ◆ Index Plus Strategies – Global Fixed and UST (targets +6% to +8%)
- ◆ Absolute Return Strategies – ESIPS and GOF (targets +15% to +18%)
- ◆ Others – solution oriented – currency risk mgt, disaster risk mgt, pension shortfall risk mgt.

GCA Approach

- ◆ Portfolio level risk parameters
- ◆ Use of commingled investment vehicles
 - institutional mutual funds and private investment funds
- ◆ 24 hour access to funds
- ◆ Strategic and dynamic asset allocation
- ◆ Best in class – top quartile strategies
- ◆ Thorough due diligence
- ◆ Pay for performance fee structure
- ◆ All strategies are tailored to client circumstances

Case Studies

- ◆ Option #1
- ◆ Multi-Strategy FOF portfolio for a commercial bank client allowed us to generate annualized +12% in 2004 using an all fixed income portfolio.
 - low volatility in returns
- ◆ Portfolio level risk parameters
 - Investment Horizon
 - Liquidity
 - Asset Quality
 - Interest Rate Risk
 - Currency Risk
 - Diversification/Concentration Risk
 - Geographic Exposure
 - Other

Case Studies

- ◆ Option #2
- ◆ Principal Protected Note used by a central bank client allowed uncorrelated access to enhanced return opportunities, while protecting capital at an AA credit quality.
- ◆ Government invests Sinking Fund set asides to generate returns sufficient to reimburse the debt P&I under capital protection at term
- ◆ Pension assets gain exposure to absolute return strategies with principal protection

Recap

- ◆ Asset Liability Management
- ◆ Liquidity Management Framework
- ◆ Traditional vehicles and approaches – not efficient
- ◆ GCA and others offer alternatives – more efficient and better results
- ◆ Specific cases – Multi-Strategy FOF portfolios and Principal Protected Notes
- ◆ Q&A
- ◆ Thank You