

Investment Pools: The sum of the parts

Laura B. Glenn, CFA
State of Georgia
Office of Treasury

The four most expensive words
in the English language are 'This
time it's different.'

Sir John Templeton



The current crisis has been characterized by a lack of DUE DILIGENCE on the part of mortgage brokers, lenders, and investors, a lack of oversight by banks and credit-rating agencies, and a lack of regulation and enforcement by government agencies.

Bruce I. Jacobs
Jacobs Levy Equity Management

Due Diligence

- ❑ The term first came into common use as a result of the Securities Act of 1933.
 - ❑ The U.S. Securities Act included a defense referred to in the Act as the “Due Diligence” defense which could be used by broker-dealers when accused of inadequate disclosure to investors of material information with respect to the purchase of securities.
-

Before you invest, investigate.

Credit Criteria in our Investment Policies

- When it comes to credit quality, most states' investment policies simply state that the security must carry a rating of 'A-1/P-1 or better' at the time of purchase to be considered an eligible investment.
-

Ratings: What Makes The Security A-1/P-1 or Better?

- We have all learned that we cannot rely solely on the credit rating agencies for our credit analysis.
 - Use the rating as a starting point.
 - Have your own credit team evaluate the creditworthiness of a name.
-

More not Less

- Although investors reportedly are relying on ratings less and doing more of their own due diligence, there is an increased use of third-party analytics for due diligence.
- With respect to structured products, investors are seeking a greater understanding of the underlying loans wrapped into the package, sometimes on a loan-by-loan basis.

- Kevin Cuervorst, CFA

The investor community uses market pricing as additional data points to double-check credit ratings and individual perceptions. If inconsistencies appear, more due diligence is required.

Kevin Ceurvorst, CFA

Credit and risk manager in the fixed-income unit of the Florida State Board of Administration

Risk in investment is not
knowing what you are doing.

Warren Buffett

The only time to buy that which
you don't understand, is on the
day with no "y" in it.

Warren Buffett

Counterparty Risk

- How financially sound are your counterparties?
 - Due diligence of your counterparty as a credit
 - Is your counterparty worthy of their rating
 - If a counterparty defaults, what is the course of action?
-

Participants in the Pool

- What information is required to become an investor in your pool?
 - For example, to participate in either Georgia Fund 1 or the Georgia Extended Asset Pool, investors must complete a resolution authorizing investment that is signed by the head of the governing authority.
 - What information is disclosed to your participants?
 - The Georgia Fund 1 resolution states that Georgia Fund 1 deposits are not guaranteed or insured by any bank, the Federal Deposit Insurance Corporation, the Federal Reserve Board, the State of Georgia or any other agency.
-

Variable Net Asset Value (NAV) Funds

- Is this pool an appropriate investment for a potential investor?
 - What is their risk appetite?
 - Do they understand the risks of the fund?
 - What is the source of their funds?
 - Do they have adequate operating funds in another investment vehicle to meet their cash flow needs over the next year?
-

Outsourcing for Due Diligence: Just Say No

- ❑ You can't outsource due diligence!
 - ❑ If you have money outsourced with an investment manager, you need to understand what you are invested in.
 - The board and your constituents are going to ultimately come back to you!
 - The manager loses the account, you lose the job!
-

The real discipline comes in
saying no to the wrong
opportunities.

Peter Drucker

whiterabbitcult.com



Federal Deposit Insurance Corporation SUPER COUPON SAVINGS



CLIP
AND
SAVE

BUY A TOASTER AND GET A FREE BANK!

CLIP
AND
SAVE

\$19.99 Each
Your Choice



\$19.99 Each
Your Choice

Coupon Expires 12/31/08



Limit One Per Customer

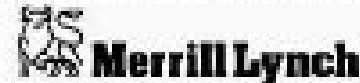
Coupon Expires 12/31/08

BEAR
STEARNS



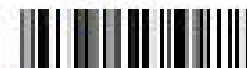
Limit One Per Customer

Coupon Expires 12/31/08



Limit One Per Customer

Coupon Expires 12/31/08



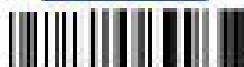
Limit One Per Customer

Coupon Expires 12/31/08



Limit One Per Customer

Coupon Expires 12/31/08



Limit One Per Customer

Coupon Expires 12/31/08



Limit One Per Customer

Coupon Expires 12/31/08



Limit One Per Customer

Coupon Expires 12/31/08



Limit One Per Customer

Coupon Expires 12/31/08



Limit One Per Customer

Coupon Expires 12/31/08



Limit One Per Customer

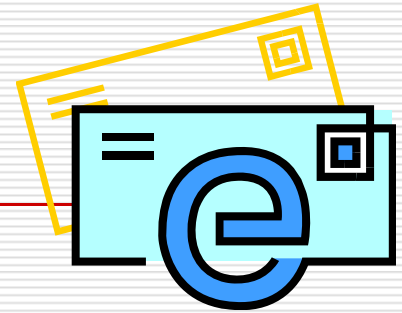
Coupon Expires 12/31/08



Limit One Per Customer

“May we learn from their errors and again reaffirm our commitment to risk management, diversification, fiduciary standards of care, and sound analytical *due diligence*.” The world will little note nor long remember what we say here, but it should never forget what has happened here.”

Alan Meader, CFA
CFA Institute Board of Governors
Senior VP, Duff & Phelps Investment Management



Contact Information:
State of Georgia
Office of Treasury & Fiscal Services
Laura B. Glenn
(404) 656-2995
lglenn@otfs.ga.gov

www.otfs.ga.gov
