

# Investing For Uncertain Times

## – Managing All Of Your Risk For A Safer Portfolio And Better Returns

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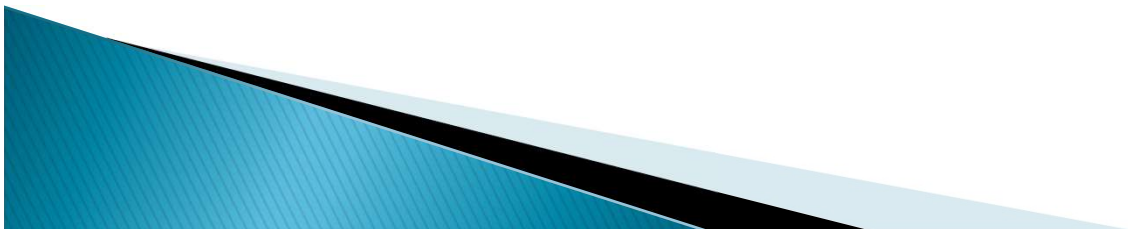
August 28<sup>th</sup>, 2020



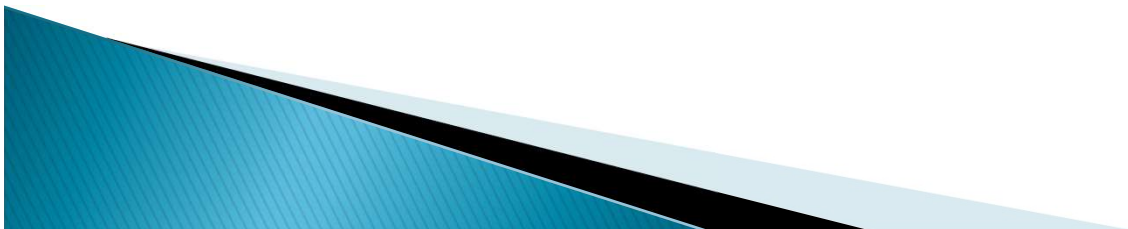
Office of Stacy M. Butterfield, CPA  
Polk County Clerk of Circuit Court & Comptroller  
[www.PolkCountyClerk.net](http://www.PolkCountyClerk.net)

# Experience & Practice

- ▶ FL Trust
- ▶ Hernando County
- ▶ Pasco County
- ▶ Polk County



- ▶ Fear of Risk; 1 Dimensional
- ▶ Reconcile Risk
- ▶ Why can't the public sector perform just as well as the private sector, if not better – for less?

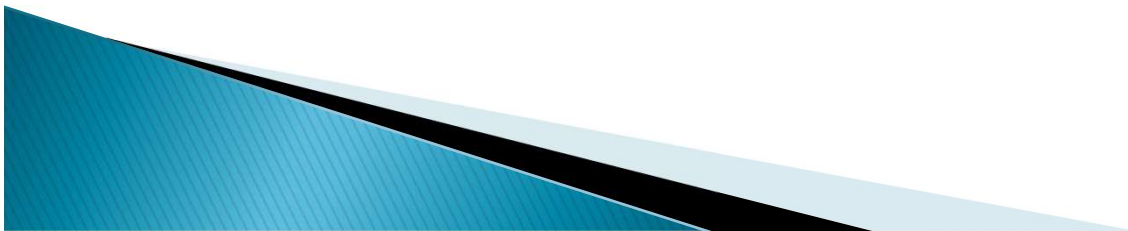




"I am an old man and have known a great many troubles, but most of them have never happened." – *Mark Twain*

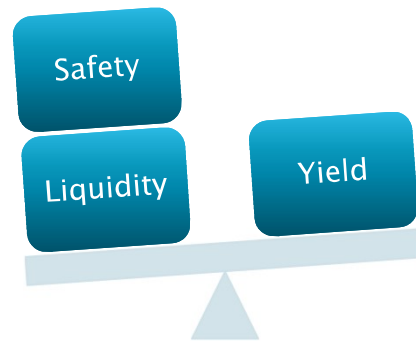
"Rationalization is a process of not perceiving reality, but of attempting to make reality fit one's emotions." – *Ayn Rand*

- ▶ “One of the most dangerous phrases in our language is “We’ve always done it this way”. – *Grace Hopper*



# KOBAYASHI MARU

## “NO-WIN” SCENARIO



# Risk Has Many Faces





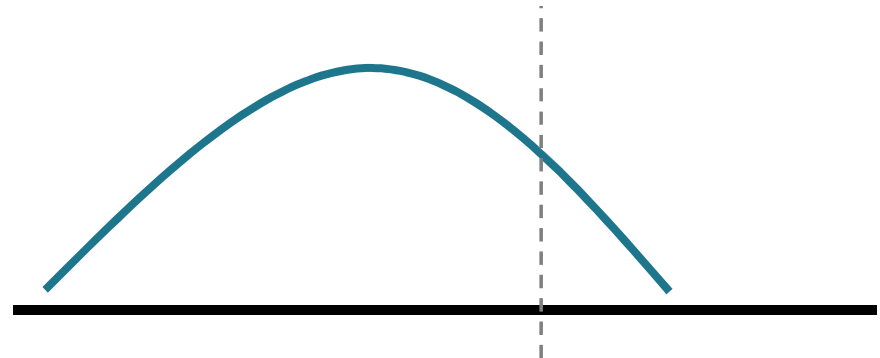
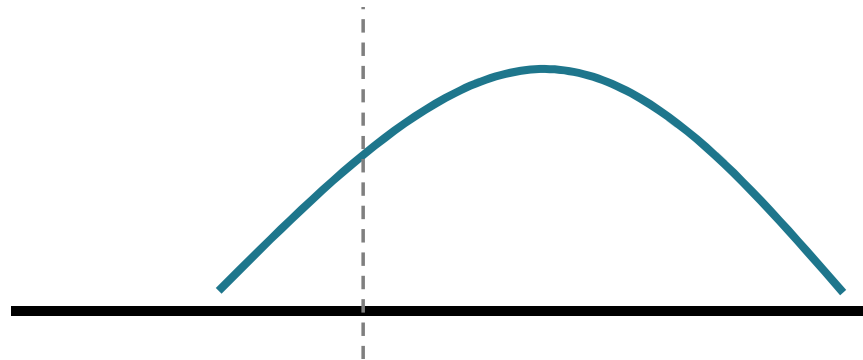
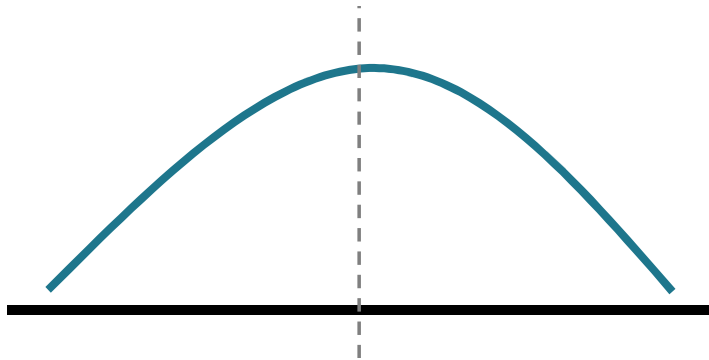
# IN OMNIA PARATUS

- ▶ Be Ready For Anything – Even When You Don't Expect It.
- ▶ Part Of Your Portfolio Will “Win” In Any Given Situation





# Probability



# Proactive



“The best time to make friends is before you need them”.

– *Ethel Barrymore*

“It wasn’t raining when Noah built the ark...”.

– *Howard Ruff*

# Pliable

- ▶ More Options
- ▶ Less Constraints



Stacy M. Butterfield, CPA  
Clerk of Courts & Comptroller

# Positions

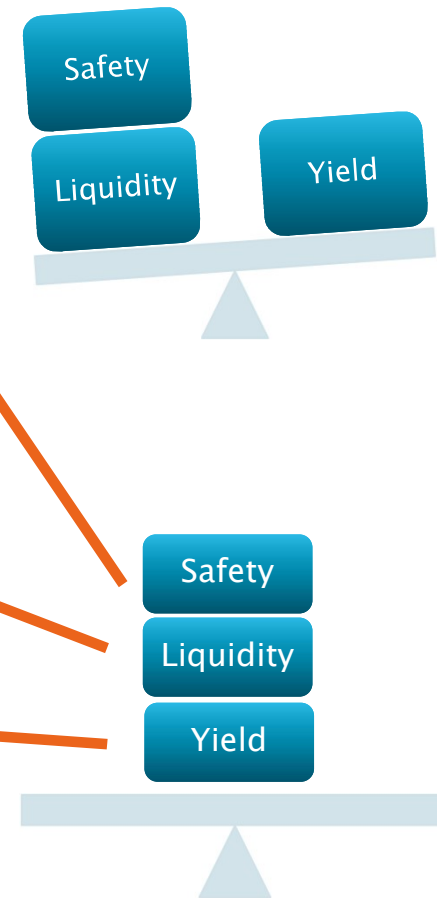
- ▶ Commercial Paper [A-2 / P-2]
- ▶ Corporates [BBB / Baa]
- ▶ Asset Backed Securities [AAA]
- ▶ Mortgage Backed Securities
- ▶ Collateralized Mortgage Obligations
- ▶ Taxable Municipals (G.O. & W & S) [A- / A3]
- ▶ Supranationals [AAA]



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# Prudent Portfolio

- ▶ Protected
  - Insulated From Risk
- ▶ Practical
  - Effective & Efficient
- ▶ Profitable
  - Produces Gains



# Risk Management Exercise

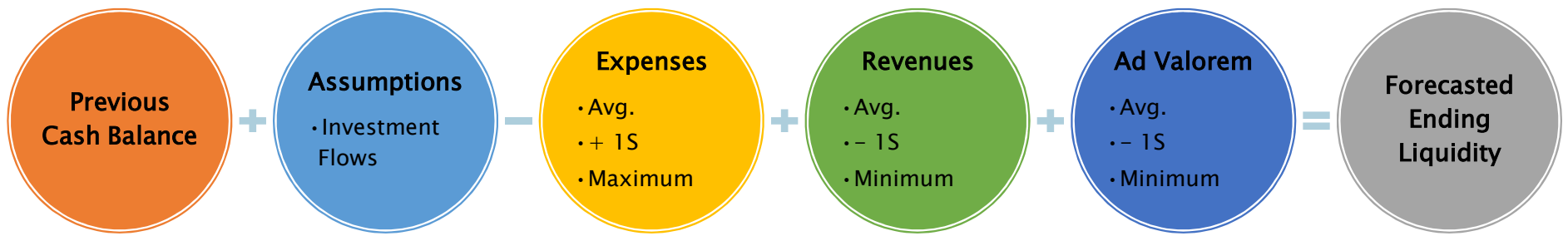


"We've considered every potential risk except  
the risks of avoiding all risks."

Investment Committee Meeting



# Cash Flow Model



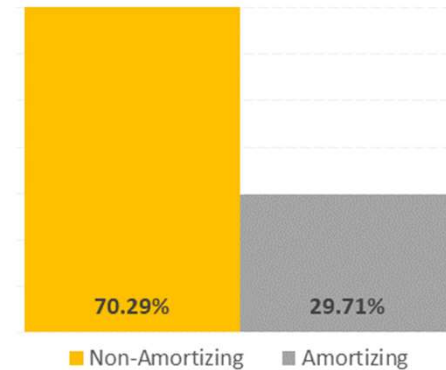
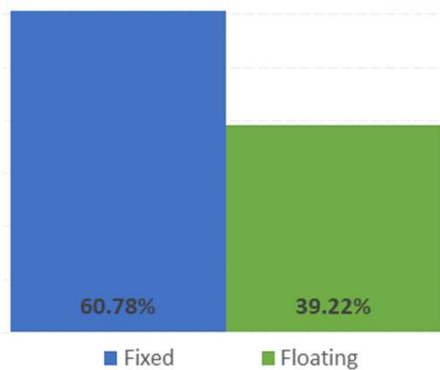
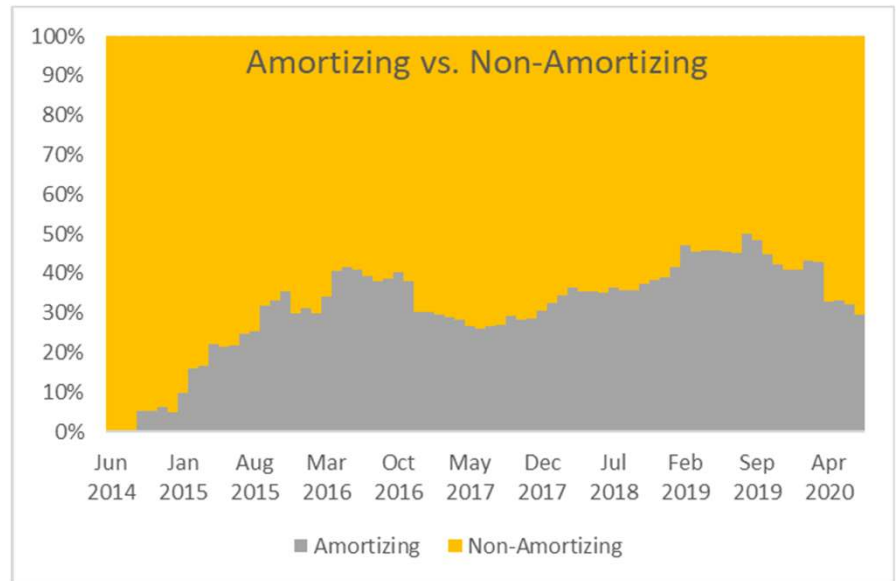
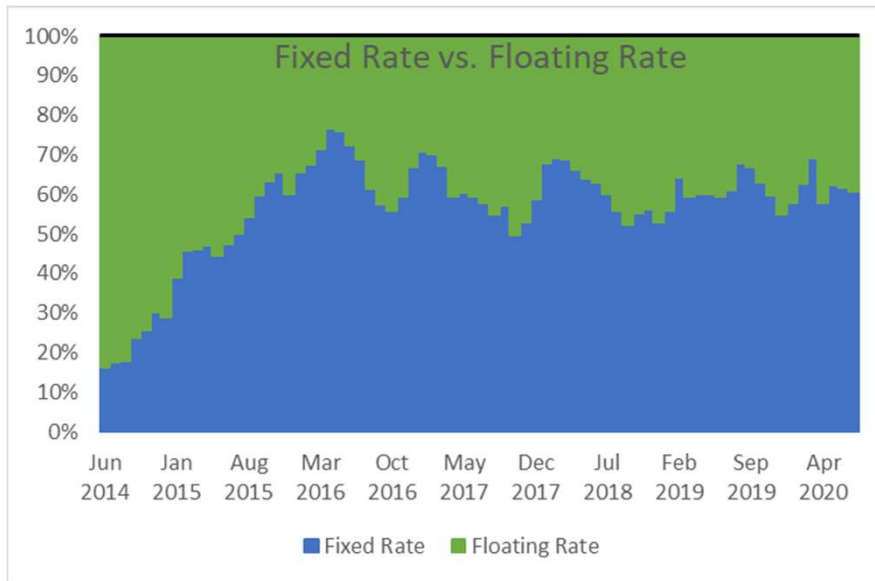


# Current Environment

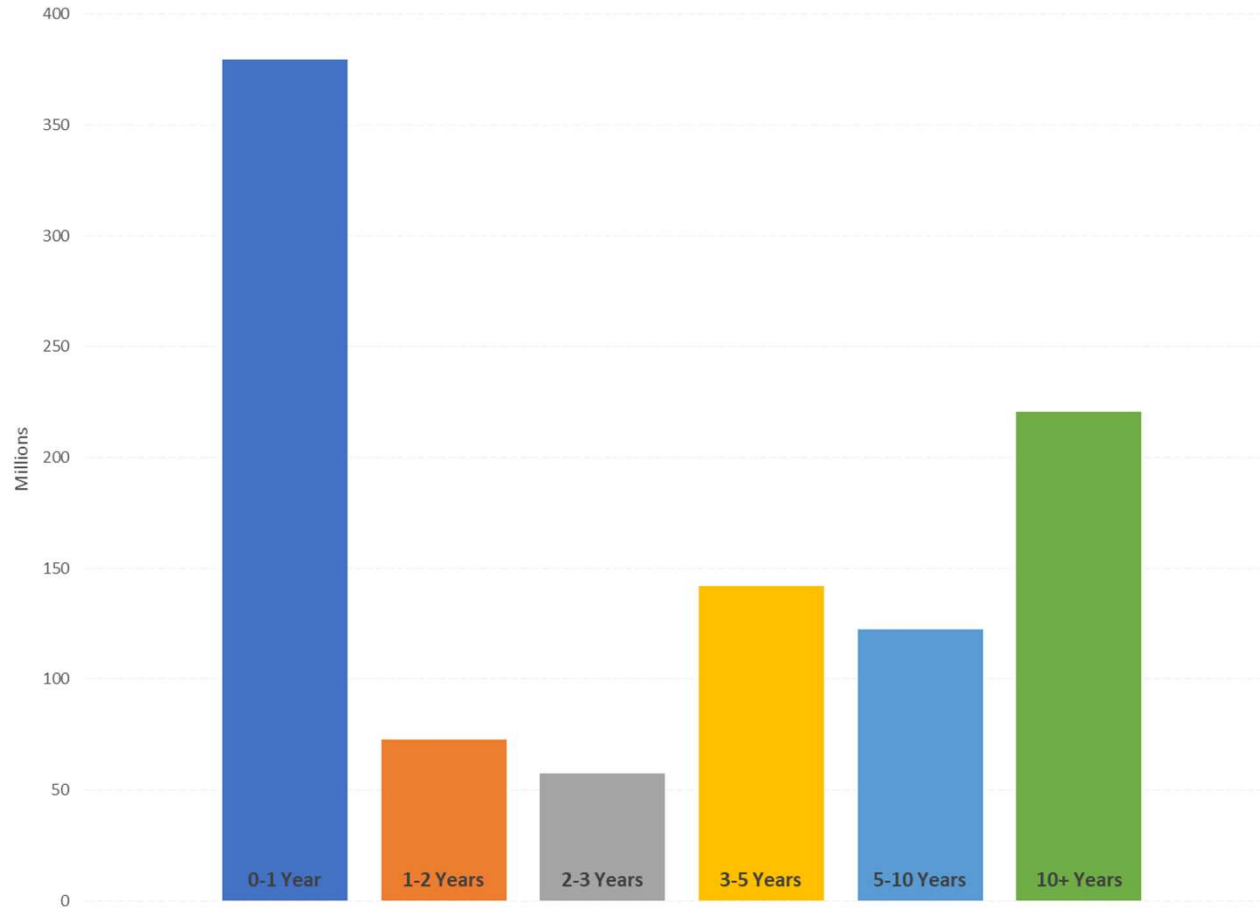
- ▶ Interest Rates
- ▶ Economic Environment
- ▶ Credit Environment
- ▶ FOMC Intervention



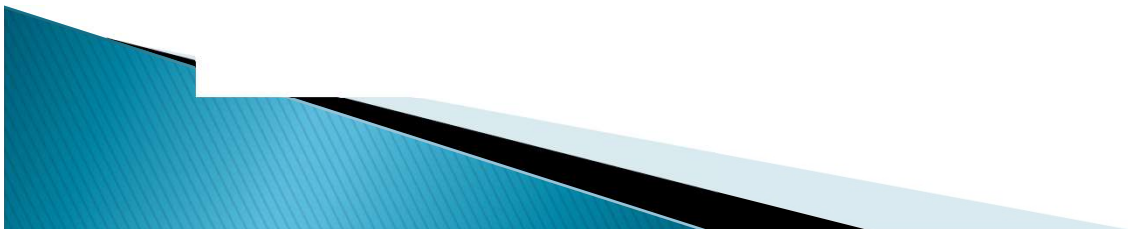
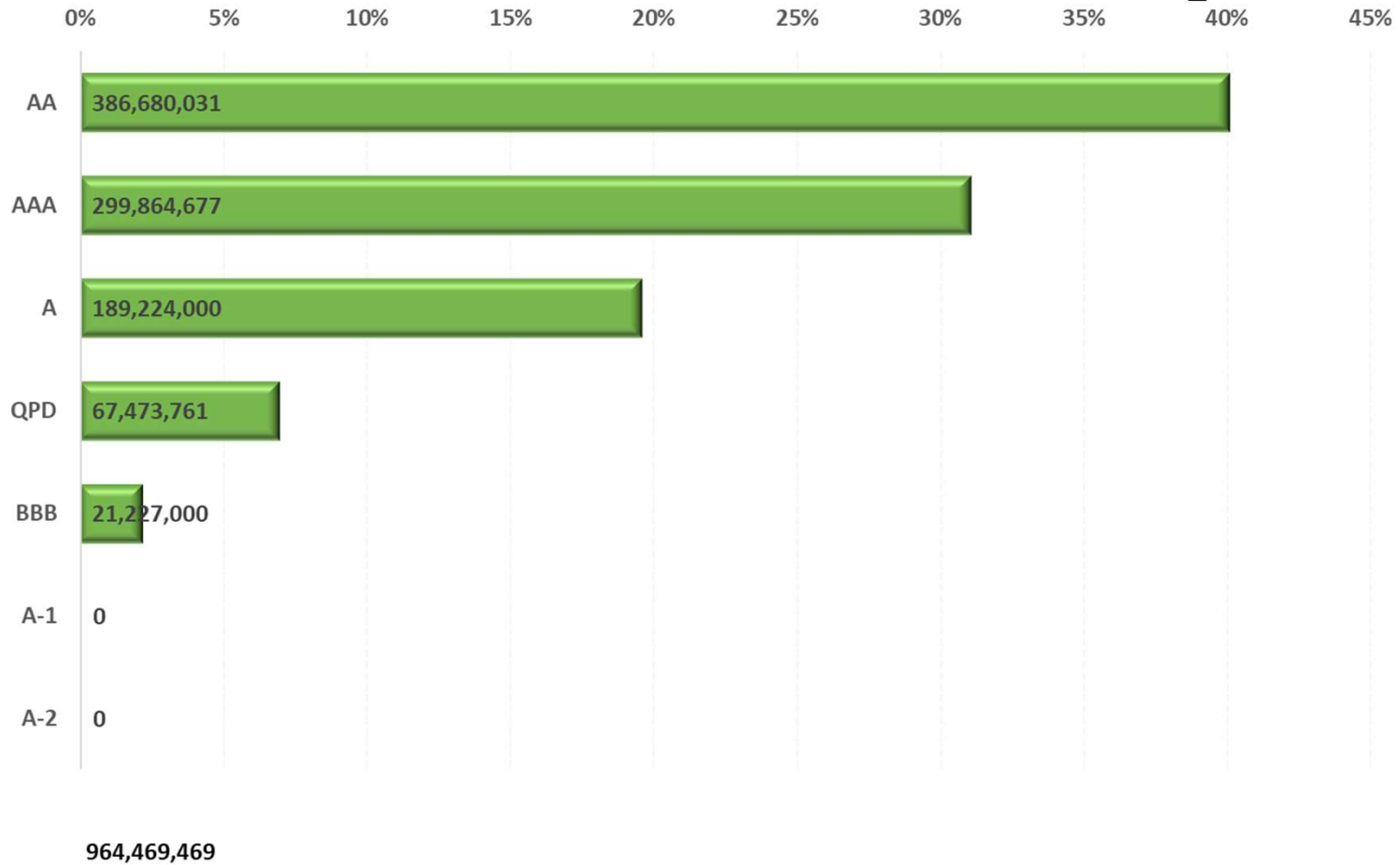
# Portfolio Structure



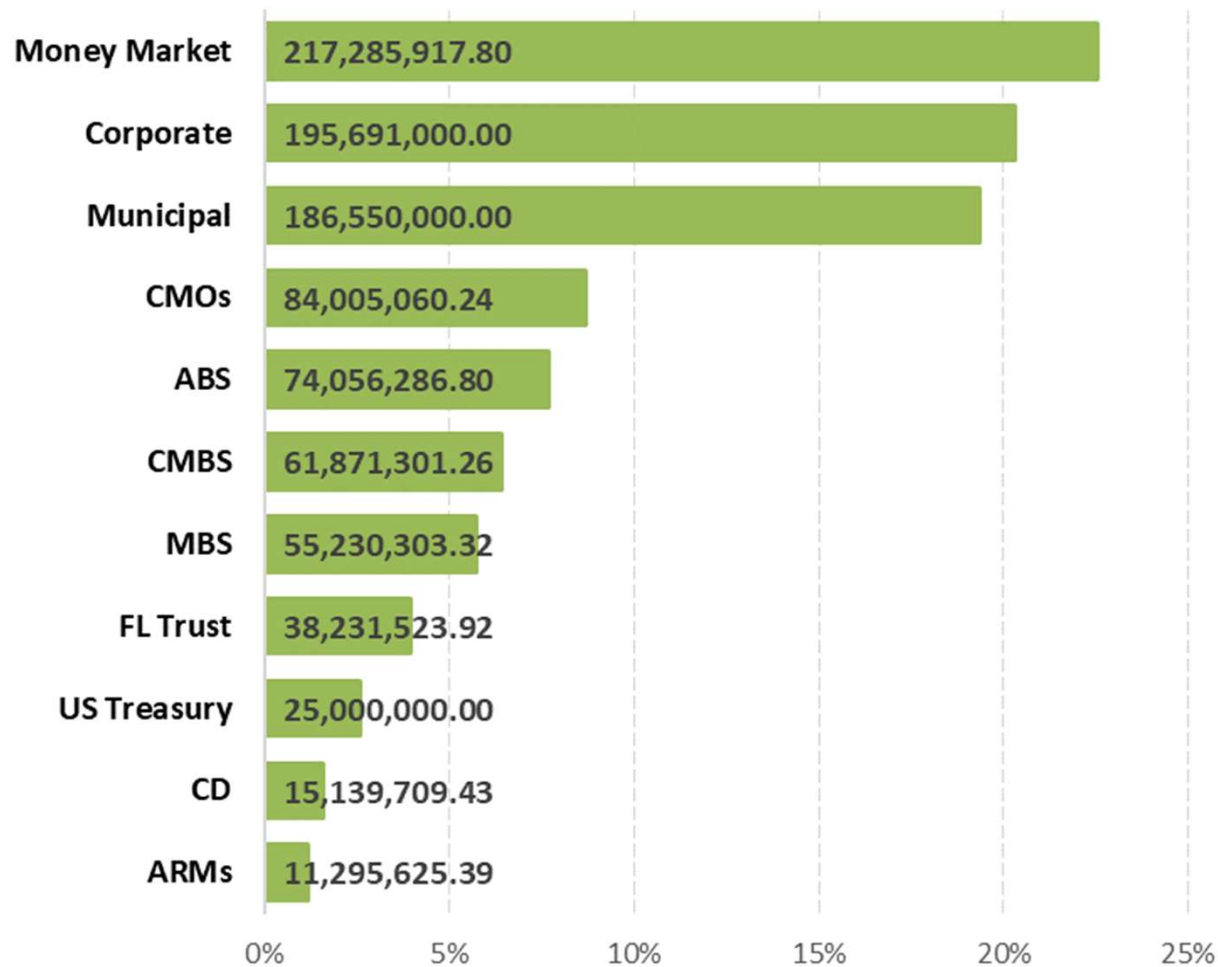
# Maturity Structure



# Credit Quality

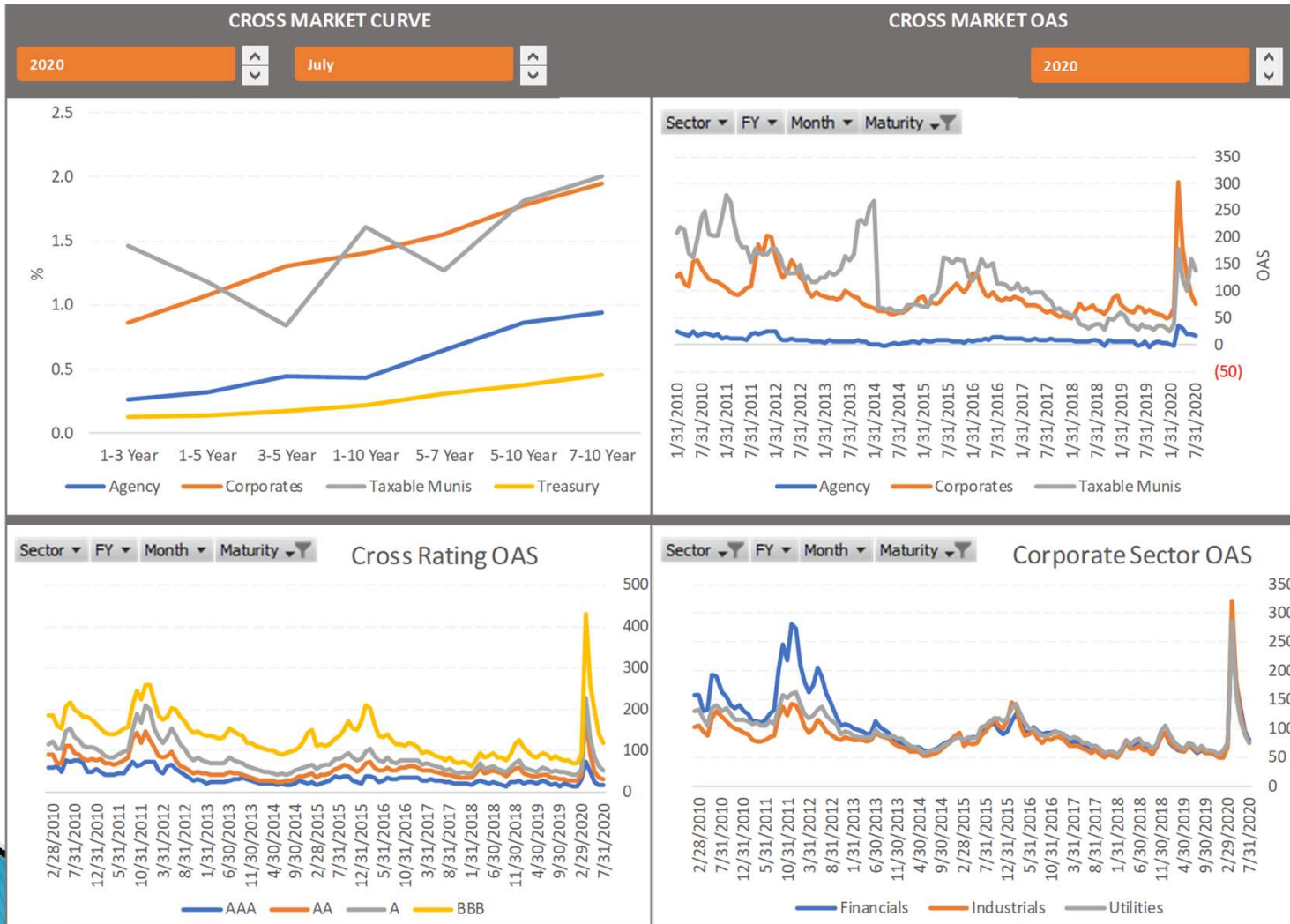


# Portfolio Allocation



# Pursuing Value

## RELATIVE VALUE ANALYSIS



Source: Bloomberg | ICE BofA

OAS Source: Bloomberg | ICE BofA 1 - 3 Year

# Pursuing Value

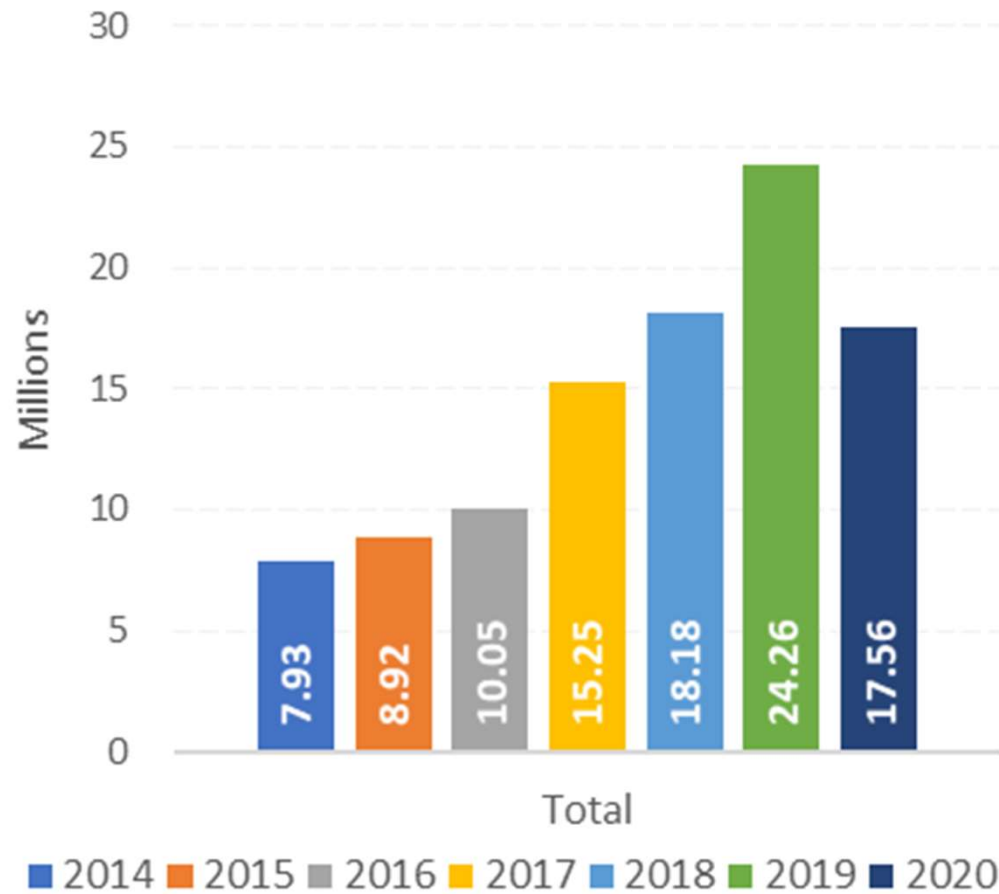
## YIELD PER UNIT OF EFFECTIVE DURATION

Yield	<div>2020</div>	<div>July</div>	Effective Duration	<div>2020</div>	<div>July</div>	
Maturity Bucket	1-3	1-5	3-5	5-7	5-10	7-10
U.S. Treasury	0.0691	0.0532	0.0445	0.0473	0.0676	0.0595
U.S. Agency	0.1585	0.1502	0.1447	0.1074	0.1950	0.1407
Taxable Municipals	0.7565	0.4214	0.2165	0.2142	0.3649	0.3185
Investment Grade Corporate Bonds By Rating						
AAA	0.1605	0.1304	0.1193	0.1086	0.1394	0.1805
AA	0.2010	0.1828	0.1680	0.1310	0.1900	0.1658
A	0.3175	0.2616	0.2322	0.1744	0.2597	0.2125
BBB	0.6720	0.5331	0.4741	0.3067	0.4100	0.3145
Investment Grade Corporate Bonds By Sector						
Financials	0.4684	0.4071	0.3750	0.2508	0.3383	0.2684
Industrials	0.4368	0.3675	0.3342	0.2354	0.3346	0.2639
Utilities	0.4620	0.3686	0.3188	0.2135	0.3148	0.2524

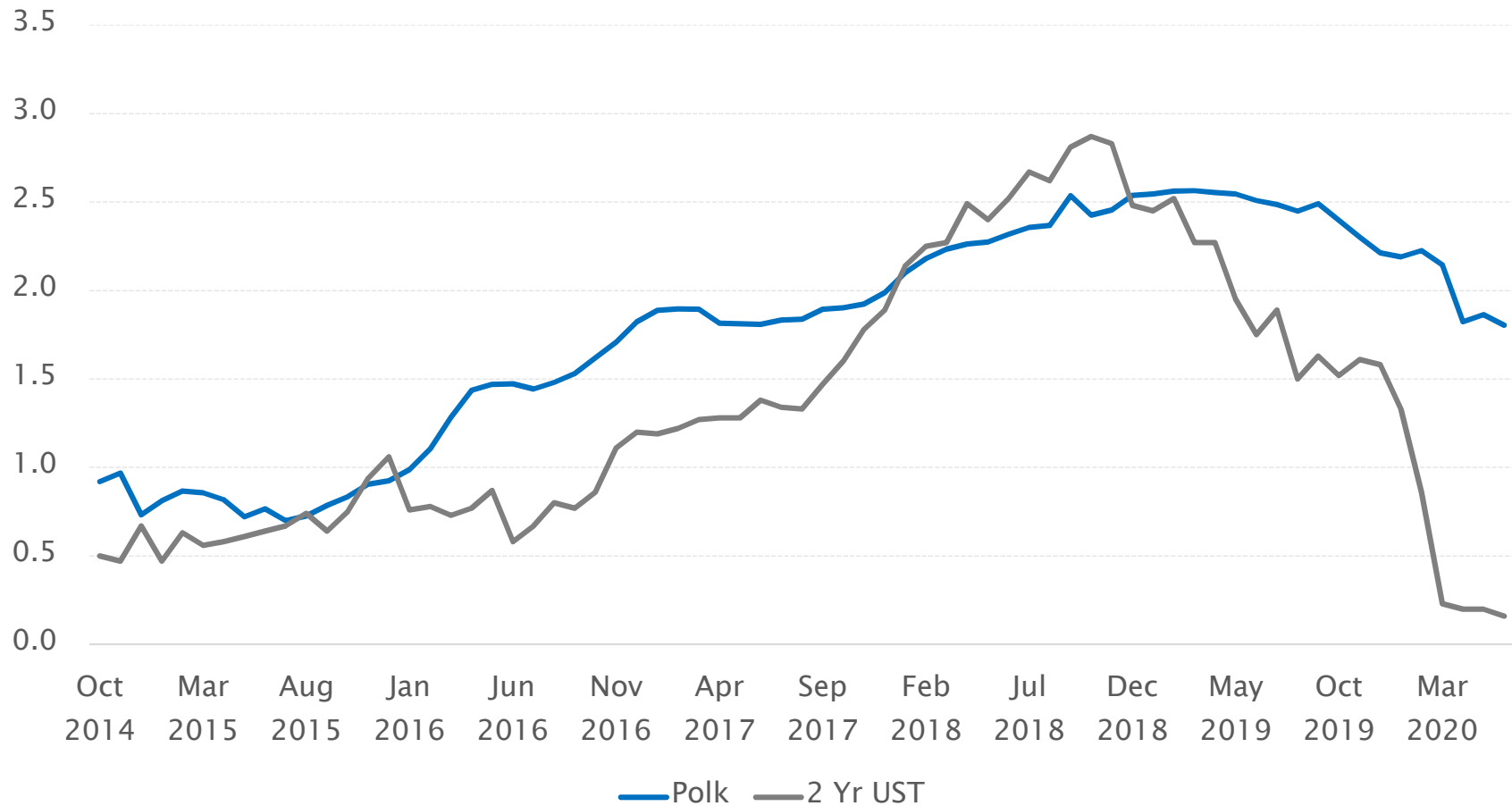
Source: Bloomberg | ICE BofA Indices



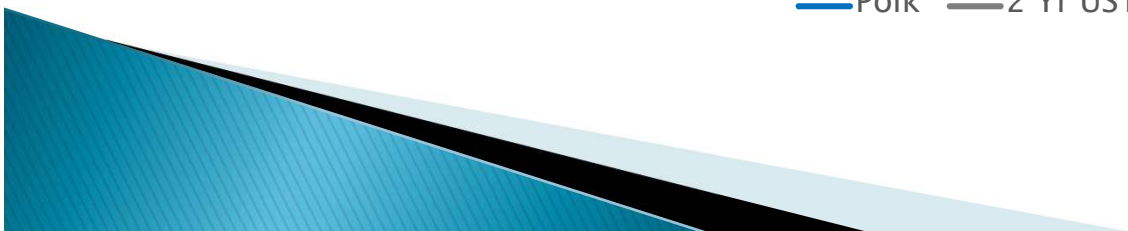
# Producing Earnings



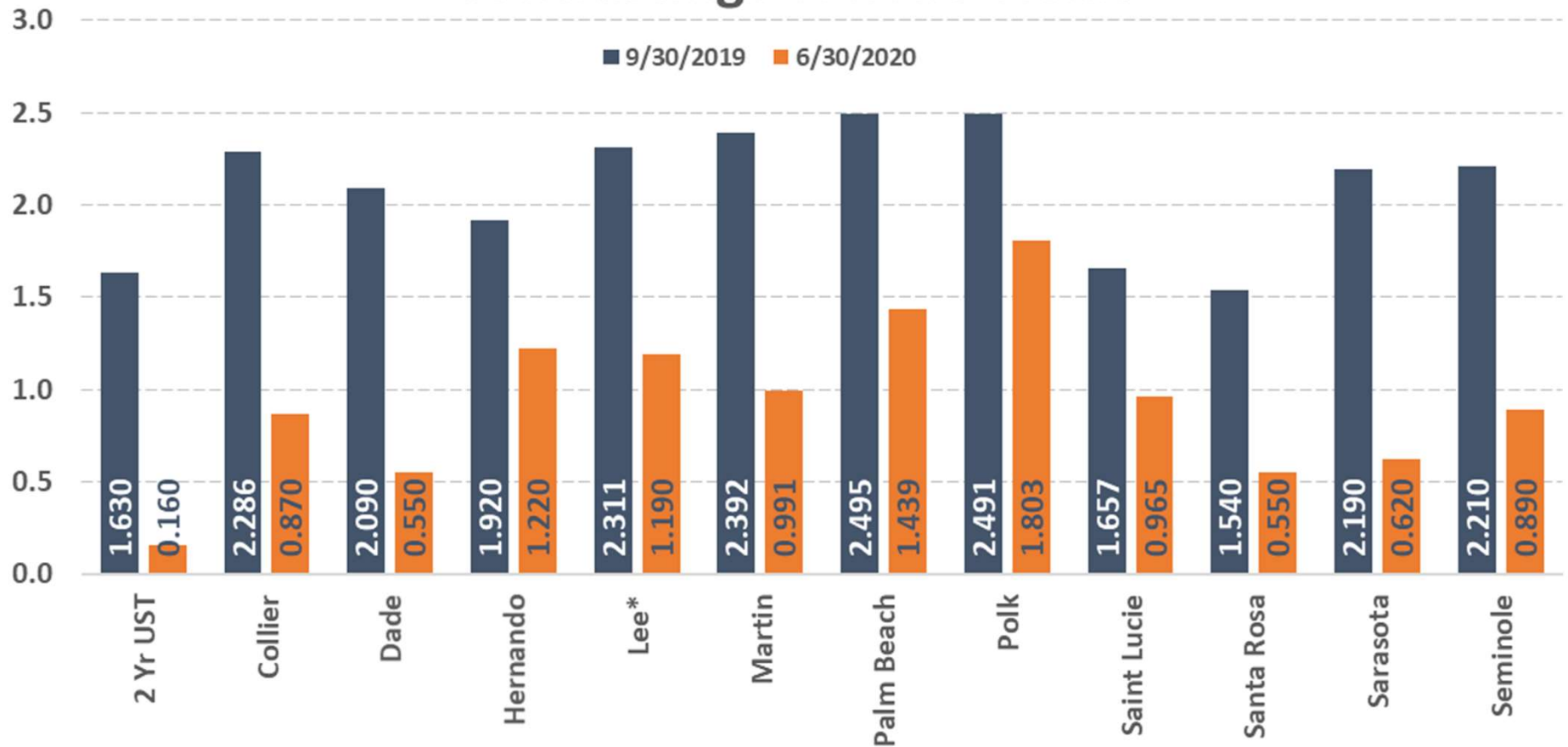
# Producing Yield



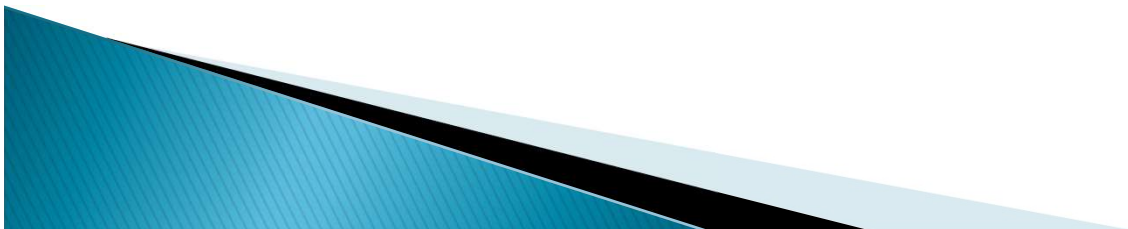
— Polk — 2 Yr UST



## Contrasting Portfolio Yields



\*Lee long term yield last updated 09/30/2019

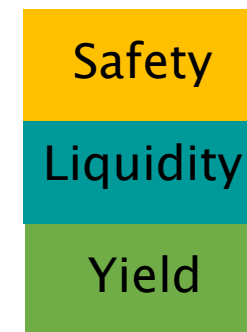


# Producing Value

SHARPE RATIO - RISK ADJUSTED RETURNS (Unit of Excess Return / Unit of Portfolio Variability)						
ICE BofA Benchmark	Treasury	Agency	Treasury / Agency	Corp & Govt.	FL Trust	Polk
1 - 3 Year	13.56	14.23	13.51	20.85	19.67	23.6
1 - 5 Year	14.94	17.76	15.08	21.16	-	23.6
3 - 5 Year	15.26	15.95	15.98	21.09	-	23.6

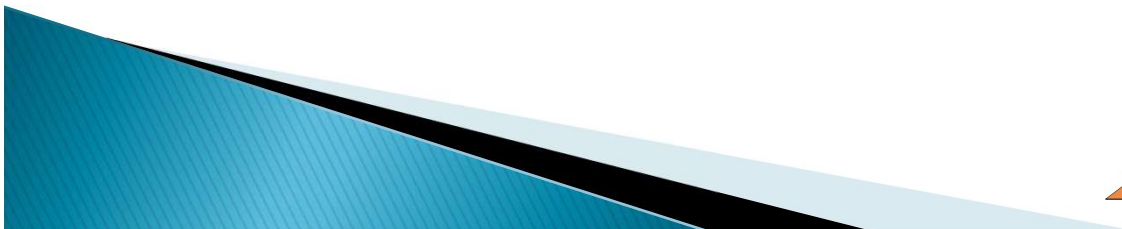
*\*(Portfolio Returns - Risk Free Returns)/Portfolio Standard Deviation*

*\*\*Monthly Data October 2014 - July 2020*

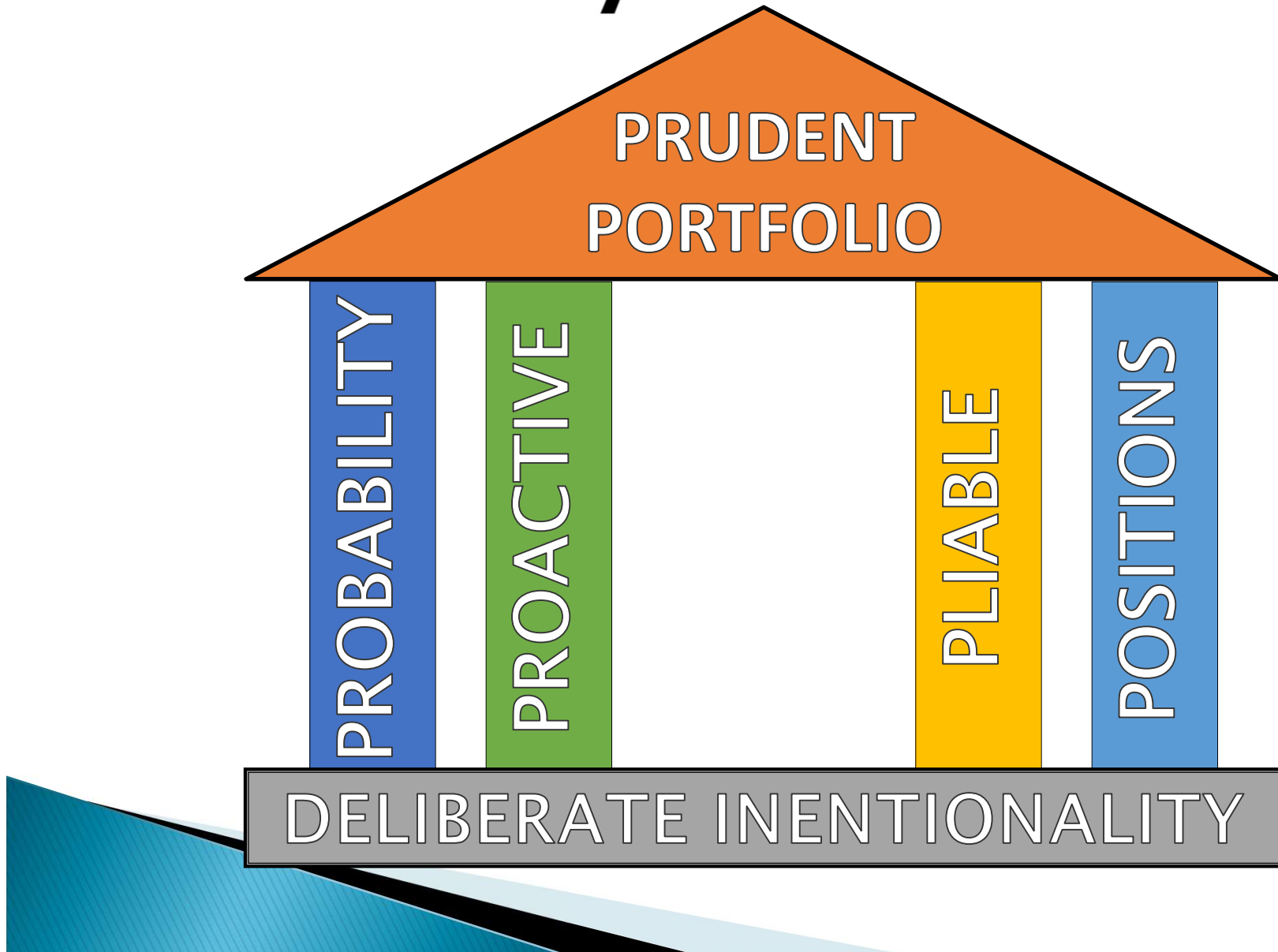


IN OMNIA PARATUS

PRUDENT PORTFOLIO



# Fiduciary Stewardship



# References

- ▶ Alissa Jerud Ph.D. “The Unintended Risk of Playing It Safe”, March 20, 2019. Retrieved from: [www.psychologytoday.com](http://www.psychologytoday.com). [www.psychologytoday.com/intl/blog/the-art-and-science-emotions/201903/the-unintended-risk-playing-it-safe](http://www.psychologytoday.com/intl/blog/the-art-and-science-emotions/201903/the-unintended-risk-playing-it-safe). Accessed: August 1, 2020.
- ▶ Blakey, S.M., Abramowitz, J.S., J.L., Jessup, S.C., Jacoby, R.J., Reuman, L., & Pentel, K.Z. (2019). A randomized controlled trial of the judicious use of safety behaviors during exposure therapy. *Behavior Research and Therapy*, 112, 28–35.

