



Investment Allocation
Strategies in a Hard Market

September 12, 2023



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3 Topics We Will Cover Today

1. What is the one question pools should be asking about their portfolio right now?
2. Are significant changes in portfolio strategy warranted?
3. What sectors of the market are attractive?

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Key Question: What is the liquidity position of the portfolio?

- Ensure there is enough cash held aside – limit the risk of forced sales
- Avoid allowing large unrealized losses to be realized

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- If you need to sell securities, consider paring risk assets
 - Many pools' equity portfolios have embedded gains that can offset bond losses
- Letter of credit with a bank for short term cash needs
- Portfolio structure: duration target
- Establish a liquidity portfolio

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- Key considerations for a short term/liquidity portfolio
 - Cash planning
 - Frequent maturities
 - Highly liquid investments – often T-Bills
- We have used this strategy periodically for 3 years with clients
 - For one client, we recently built a portfolio of monthly T-Bills yielding 5.4%

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2nd Question: Any Changes to Make in the Portfolio Strategy?

Maturity	Treasury Yields (%)
6 months	5.48
1 year	5.35
2 year	4.93
3 year	4.64
5 year	4.38
10 year	4.25
30 year	4.37

As of 8/18/23

- It is tempting to buy all short bonds
- Expected yield of five 1-year bonds = yield of a 5 year bullet
- Any deviation from your duration target should be based on your liabilities

The biggest risk for investment grade bonds is interest rate risk

remain disciplined

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Recession or no recession?

We like

- Agency Mortgage Backed Securities
- AA/AAA Rated Taxable Municipals
- High quality corporate bonds
- Asset Backed Securities

We are cautious on

- Commercial Mortgage Backed Securities (CMBS)
- Certain sectors of the corporate bond market
- Highly callable bonds

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Away From the Bond Portfolio

- Risk assets have had a tremendous year
S&P 500: +15%, NASDAQ: +27.7%; high yield bonds: +5.8%*
- Maintain targets
 - In 2022, most sector allocations did not change much
 - This year, risk assets have outperformed bonds
- If there is no asset allocation target, this is a good time to set one

*Source: Bloomberg. High yield measured using the Bloomberg US Corporate High Yield Bond Index. As of 8/18/2023

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The End!

Thank you!

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