Managing Liquidity in the Face of Headline Risk

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Headline Risk: Threat to Your Portfolio

Detroit Recovery Plan Threatens Muni-Market Underpinnings

How do you manage threats with unknown consequences?

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Managing Headline Risk

• Definition
• Types
• Process for Proactive Approach
• Process Application
• Conclusion
Definition of Headline Risk

Risk that a news story will adversely affect a security’s price or the performance of the market as a whole.
<table>
<thead>
<tr>
<th>Company</th>
<th>Sector</th>
<th>Region</th>
<th>Regulatory</th>
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Managing Headline Risk: A Proactive Approach

Success factors
- Established, defined process
- Ongoing, formal communication
- Clear roles and responsibilities
Monitor Headline Risk

Objective: Identify early signs, red flags or threats to portfolio

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Assess Headline Risk

Objective: Recommend action to address portfolio threat

Determine Relevance
- Scope
- Source
- Magnitude
- Persistence
- Security provisions/credit structure

Evaluate Impact
- Scope
- Magnitude
- Persistence

Develop Plan
- Action plan
- Contingencies
- Communication strategy

Recommend Action
- Buy/sell/hold security
- Shift asset allocation
- Change investment approach
- Adjust investment policy statement
- Do nothing/wait and see

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Impact of Headline Risk

<table>
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<th>Long Term</th>
<th>Short Term</th>
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<tr>
<td>Positive</td>
<td>Positive</td>
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<tr>
<td>Negative</td>
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Act on Headline Risk

Objective: Carry out plan to manage headline risk

Success factors
• Regular, formal access to approval committee
• Ongoing monitoring for new developments

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Process Application: Known Risk

Example: Fed Tapering

Success factors

• Access to experts and decision makers
• Coherent, event-based triggers
• Planned communication strategy
Process Application: Unknown Risk

Example: Geopolitical

Key to success:
Ability to tap into established, defined process quickly and efficiently
Conclusion

• Managing headline risk  \rightarrow  \text{Managing the unknown}

• Establish a process  \rightarrow  \text{Monitor, assess and act}

• Proactive approach  \rightarrow  \text{Best chance of successful outcome}