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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?**

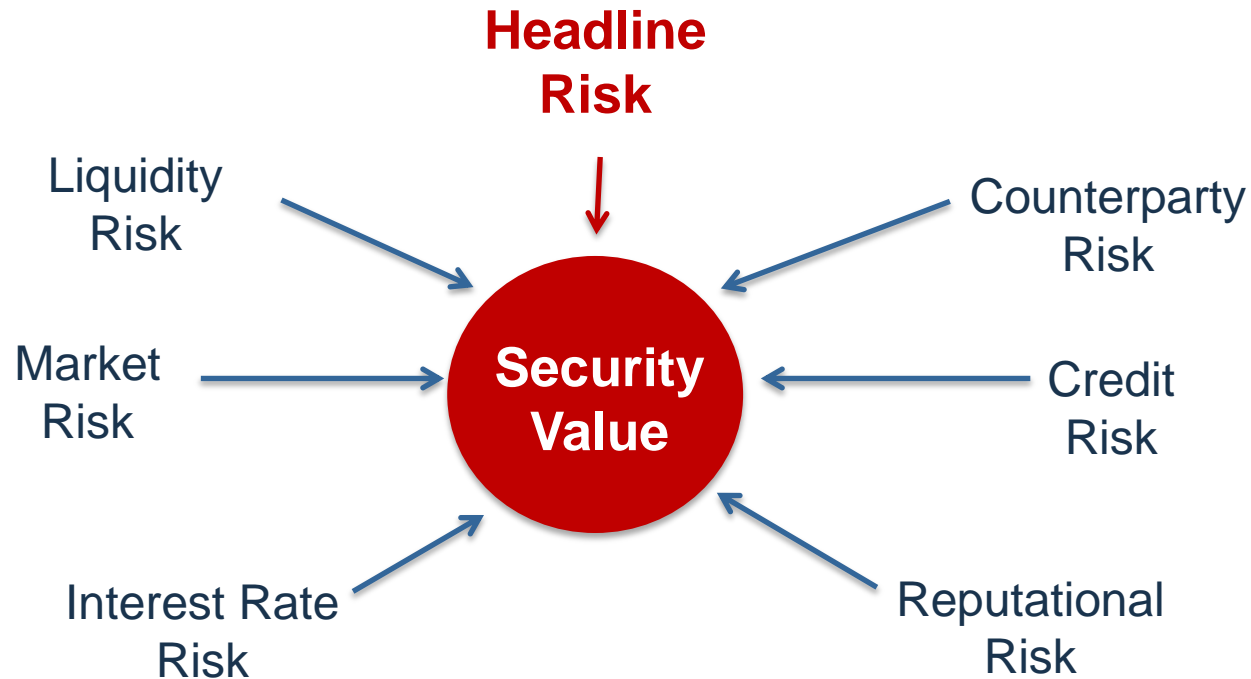
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Managing Headline Risk

- Definition
- Types
- Process for Proactive Approach
- Process Application
- Conclusion

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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.

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Types of Headline Risk

Company



Sector



Region

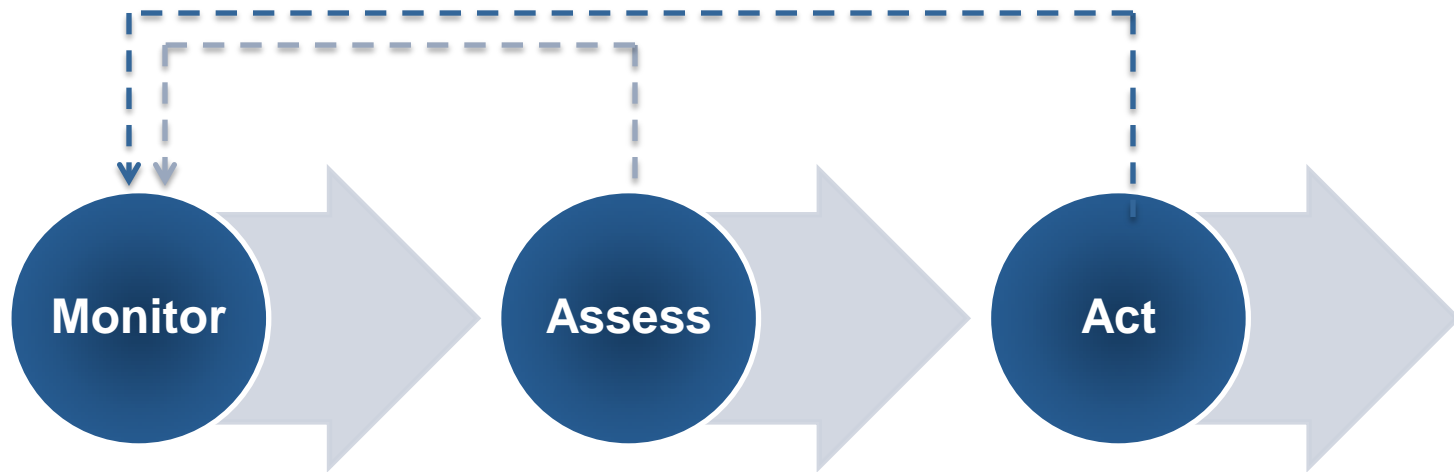


Regulatory



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Managing Headline Risk: A Proactive Approach



Success factors

- Established, defined process
- Ongoing, formal communication
- Clear roles and responsibilities

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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



Scope

Magnitude

Action plan

Buy/sell/hold security

Source

Persistence

Contingencies

Shift asset allocation

Security provisions/
credit structure

Communication strategy

Change investment approach

Adjust investment policy statement

Do nothing/wait and see

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Impact of Headline Risk



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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

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Process Application: Unknown Risk

Example: Geopolitical



Key to success:

**Ability to tap into established, defined process
quickly and efficiently**

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Conclusion

- Managing headline risk → Managing the unknown
- Establish a process → Monitor, assess and act
- Proactive approach → Best chance of successful outcome

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Thank You

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