

A Native American dancer in traditional regalia, including a large feathered headdress and a red tunic, is shown in profile against a background of a mountain range under a blue sky. The dancer is wearing a large, multi-colored feathered headdress with a prominent red band. The dancer's tunic is red with intricate patterns and fringes. The background shows a hazy mountain range under a clear blue sky.

Diversification: Turning a Buzzword Into A Strategic Plan

Moderated by:

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Presented by:

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Terminology

- There are two types of investing Tribes may be considering:

Investing in the financial market

- Public investment securities
- Stocks and bonds

Investing in economic development

- Private capital investments
- Residential and commercial properties

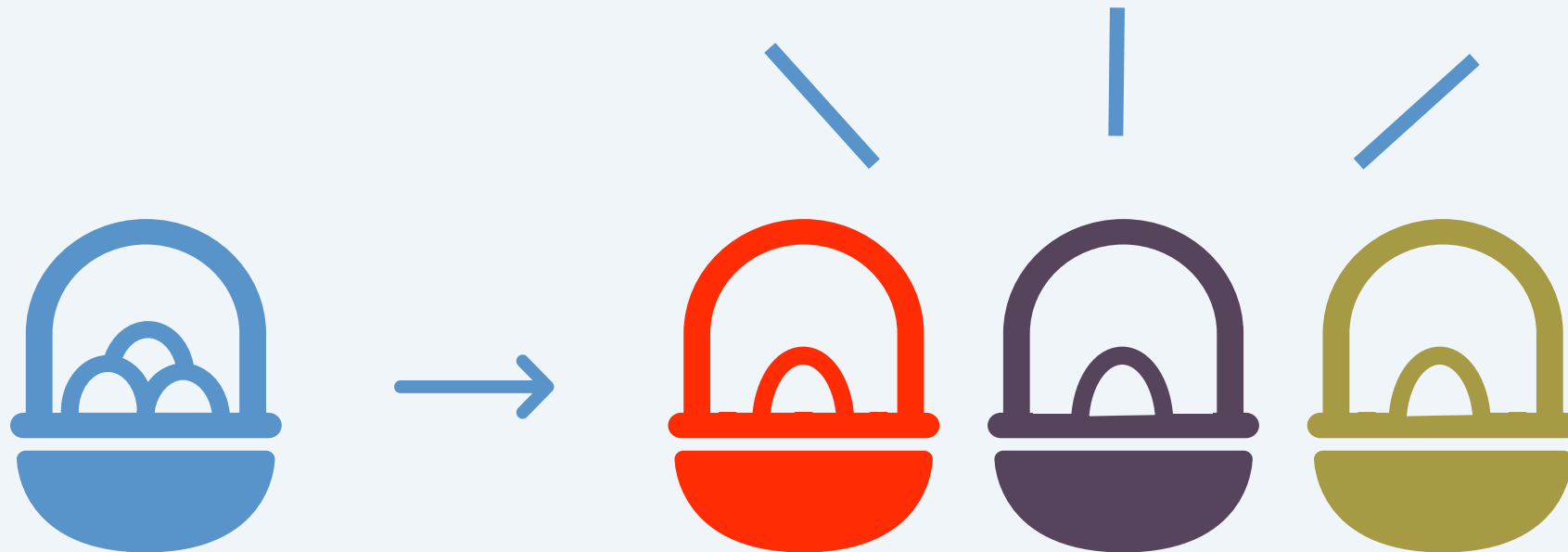


PFM Asset Management LLC (PFMAM)

PFMAM is an SEC-registered investment advisor with a history dating back more than 40 years. The firm is dedicated to helping governments and institutions invest in fixed income, equity, and alternative securities.

As of June 30, 2021, PFMAM had \$170.3 billion in total assets, including \$125.9 billion in discretionary assets under management and \$44.4 billion in non-discretionary assets under advisement.

What is Diversification?



Purpose of Diversification

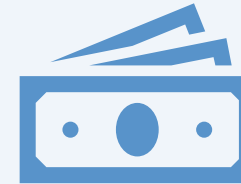
Safety



Mitigates risk and reduces volatility, allowing more consistent performance under wide range economic conditions



Return



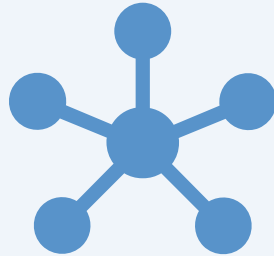
Exposes portfolio to more investment opportunities for potentially enhanced returns

Ways To Diversify

Strategy



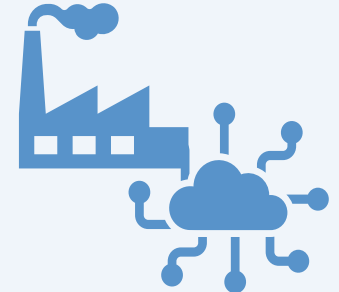
Asset Class



Region



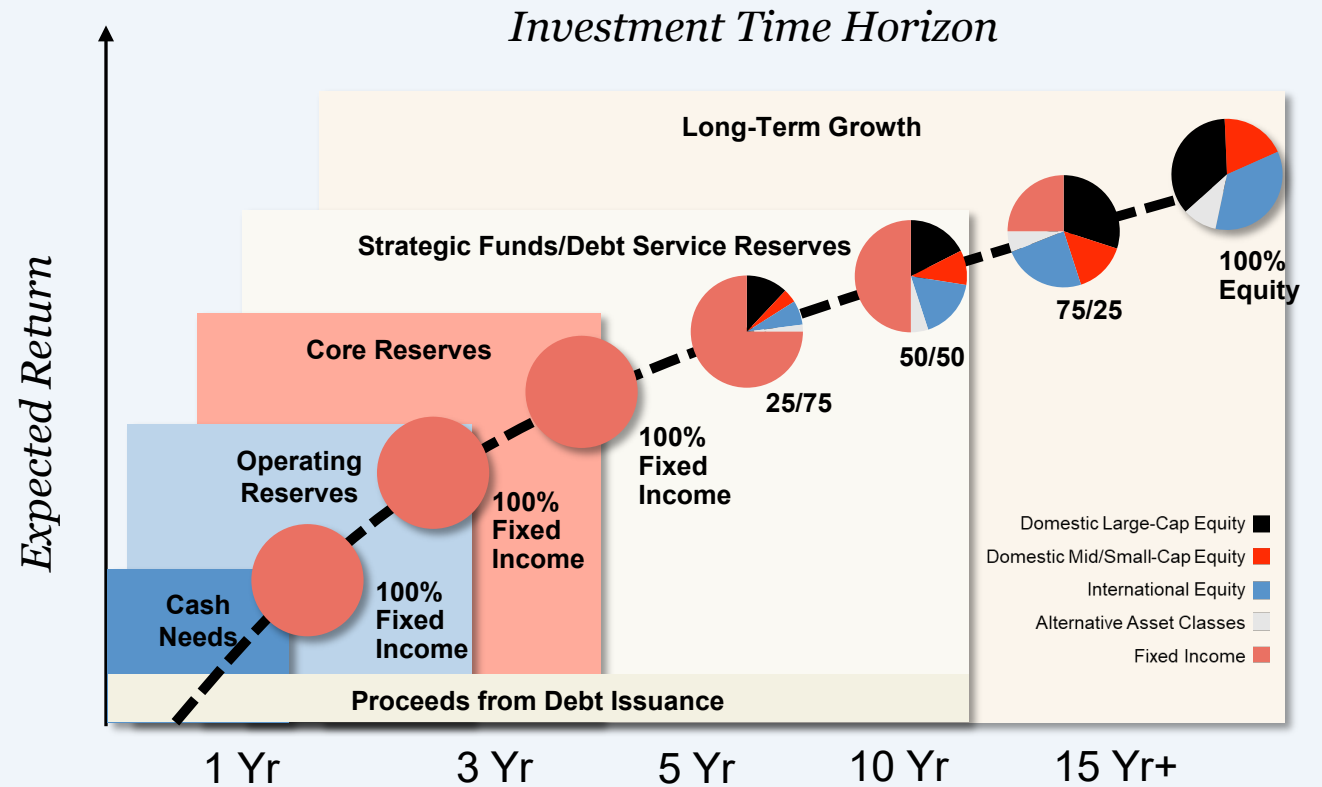
Industry



Getting Started

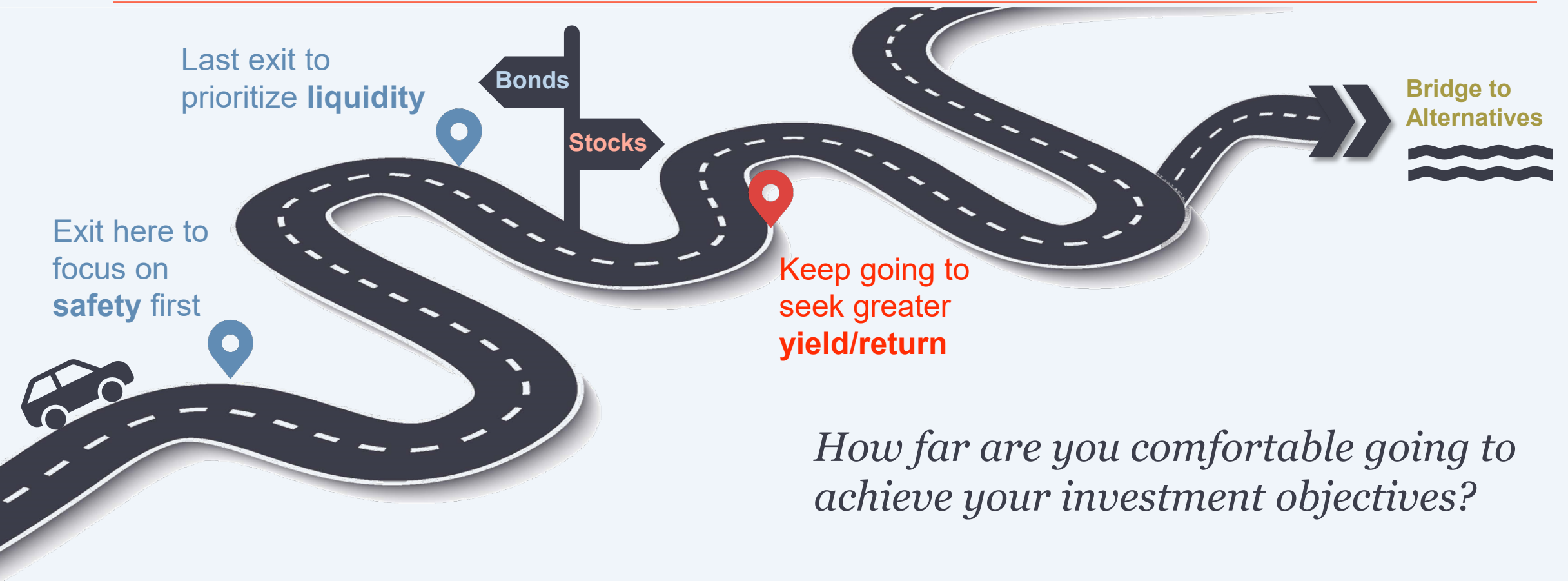
Consider:

- **Source of funds** – Are they restricted? For example, are they BIA funds, ARPA funds, grants, or gaming revenue?
- **Use of funds** – How soon will you need them? For example, essential services vs. scholarships.
- **Your risk tolerance** – How comfortable are you with volatility?



**For illustrative purposes.*

The Road to Diversification



How far are you comfortable going to achieve your investment objectives?

Ideal Options for Cash and Operating Reserves

Bank Deposits

Pooled Investments

- Local government investment pool (LGIPs)
- Money market funds
- Short-term fixed income mutual funds

Customized Fixed Income Portfolio

PRIMARY INVESTMENT OBJECTIVES:

Liquidity

Safety
(Principal Preservation)

For pooled investments, there are important differences between structures including:

- Regulatory framework
- Investment objectives
- Investment strategy
- Fees

Fixed Income Bonds

Shorter-Term Cash Needs		Operating and Core Reserves		
Treasury Bills	Agency Discount Notes	U.S. Treasuries	Federal Agencies	Investment-Grade Corporates
Commercial Paper		Negotiable CDs	Asset-Backed Securities	Agency Mortgage-Backed Securities
Bankers' Acceptances	Certificates of Deposit (CDs)			

Diversification Across Fixed Income

Index	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD
1-5 Year Treasury	5.85%	1.24%	3.79%	1.52%	2.19%	2.24%	1.84%	6.33%	4.38%	0.59%
1-5 Year Agency	3.16%	1.14%	2.12%	1.20%	1.70%	1.62%	1.83%	5.83%	4.25%	0.30%
1-5 Year Corporate AAA-A	2.45%	0.47%	1.49%	1.12%	1.24%	1.46%	1.79%	4.59%	3.64%	0.29%
0-5 Year AAA US Fixed Rate ABS Index	1.97%	0.40%	1.30%	0.98%	1.12%	1.40%	1.71%	4.20%	3.35%	0.17%
0-5 Year MBS	1.63%	0.06%	1.30%	0.97%	1.12%	1.29%	1.52%	3.80%	3.22%	0.06%
1-5 Year AAA-AA Supranational	1.38%	0.03%	1.24%	0.93%	1.09%	0.86%	1.16%	3.78%	3.03%	-0.13%
1-5 Year Municipal	0.91%	-0.19%	0.95%	0.89%	0.16%	0.65%	0.82%	3.65%	2.76%	-0.77%

Source: Bloomberg. Annual returns of 1-5 Year ICE BofAML Indices unless specified otherwise. Returns as of 8/31/2021.

Strategic Reserves for Long-Term Growth

Broader Fixed Income

Equities

- Domestic (Small, Mid, Large Cap)
- International

Alternatives

- Commodities
- Hedge Funds
- Private Equity
- Real Estate

PRIMARY INVESTMENT OBJECTIVES:

Growth of
Principal and Surplus

Maximize Risk-Adjusted
Return

Manage Volatility

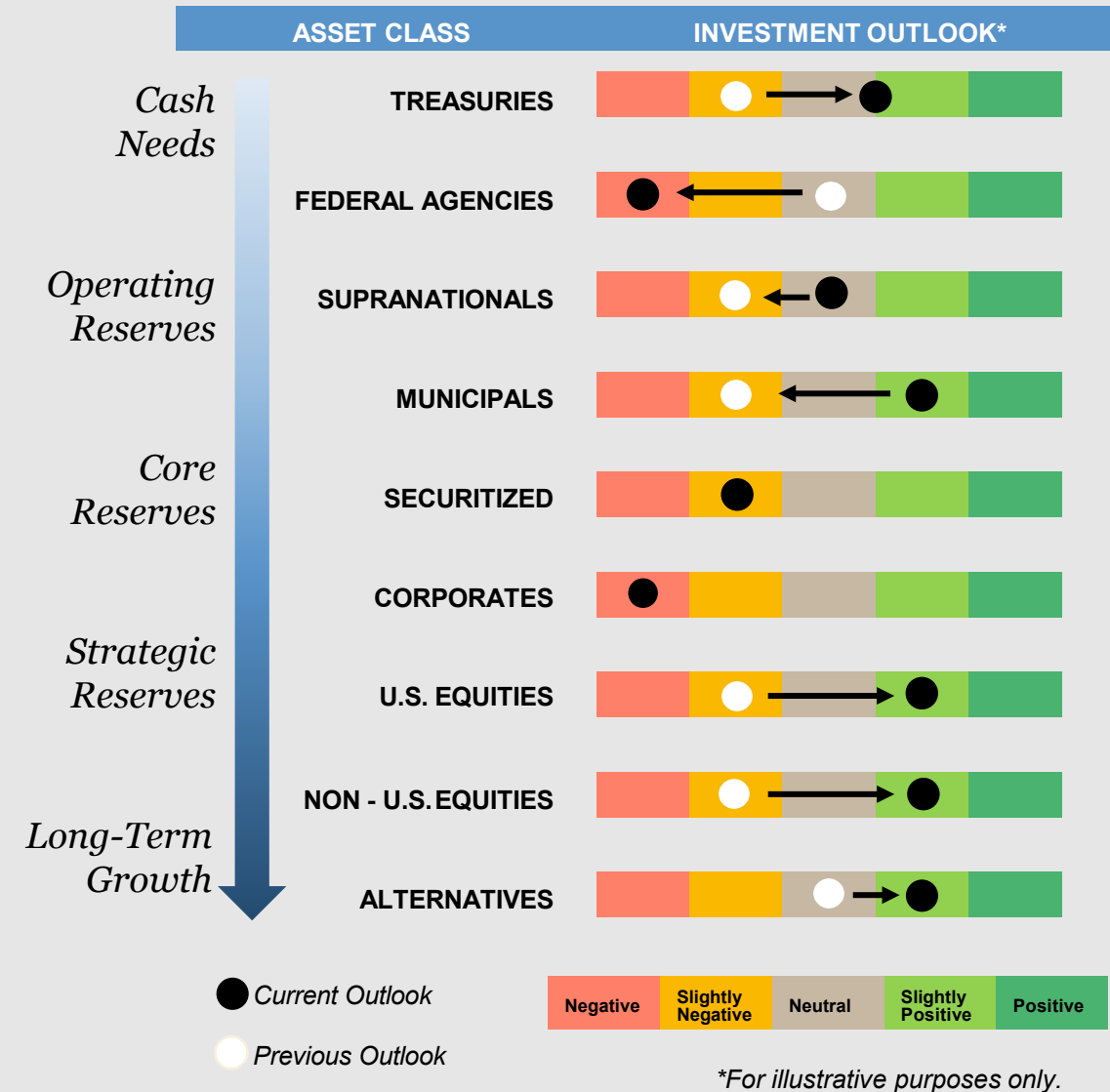
Diversification Across the Capital Markets

Index	2012	2013	2014	2015	2016	2017	2018	2019	2020	YTD
Broad Fixed Income	18.23%	38.82%	30.14%	3.20%	21.31%	37.28%	0.01%	31.49%	19.96%	30.17%
Large Cap	18.06%	34.76%	13.69%	1.38%	13.80%	25.03%	-4.38%	30.54%	18.40%	21.58%
Mid Cap	17.32%	32.39%	13.22%	0.55%	11.96%	21.83%	-4.62%	26.00%	18.31%	20.11%
Small Cap	17.28%	22.78%	5.97%	-0.81%	11.19%	18.52%	-9.06%	25.53%	17.10%	15.82%
Int'l Equity	16.35%	2.47%	4.89%	-2.44%	8.52%	14.65%	-11.01%	22.01%	7.82%	11.58%
EM Equity	16.00%	-2.02%	-2.19%	-4.41%	2.65%	5.23%	-13.79%	18.44%	7.51%	2.84%
REITs	4.21%	-2.60%	-4.90%	-14.92%	1.00%	3.54%	-14.58%	8.72%	-8.00%	-0.69%

Source: Bloomberg. Returns as of 8/31/2021.

Diversification is Dynamic

- Continually analyze the value in your investment choices
- Maintain short-term flexibility (tactical adjustments) within a long-term discipline (overall strategy)



Resources

Association of
Public Treasurers



[https://www.apтусc.org/
investment-policy-
certification](https://www.apтусc.org/investment-policy-certification)

Chartered Financial Analyst
(CFA) Institute



[https://www.cfainstitute.org/-
/media/documents/article/position-
paper/investment-policy-statement-
individual-investors.ashx](https://www.cfainstitute.org/-/media/documents/article/position-paper/investment-policy-statement-individual-investors.ashx)

California Debt and Investment
Advisory Commission



[https://www.treasurer.ca.gov/
cdiac/laig/guideline.pdf](https://www.treasurer.ca.gov/cdiac/laig/guideline.pdf)



Thank You!

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