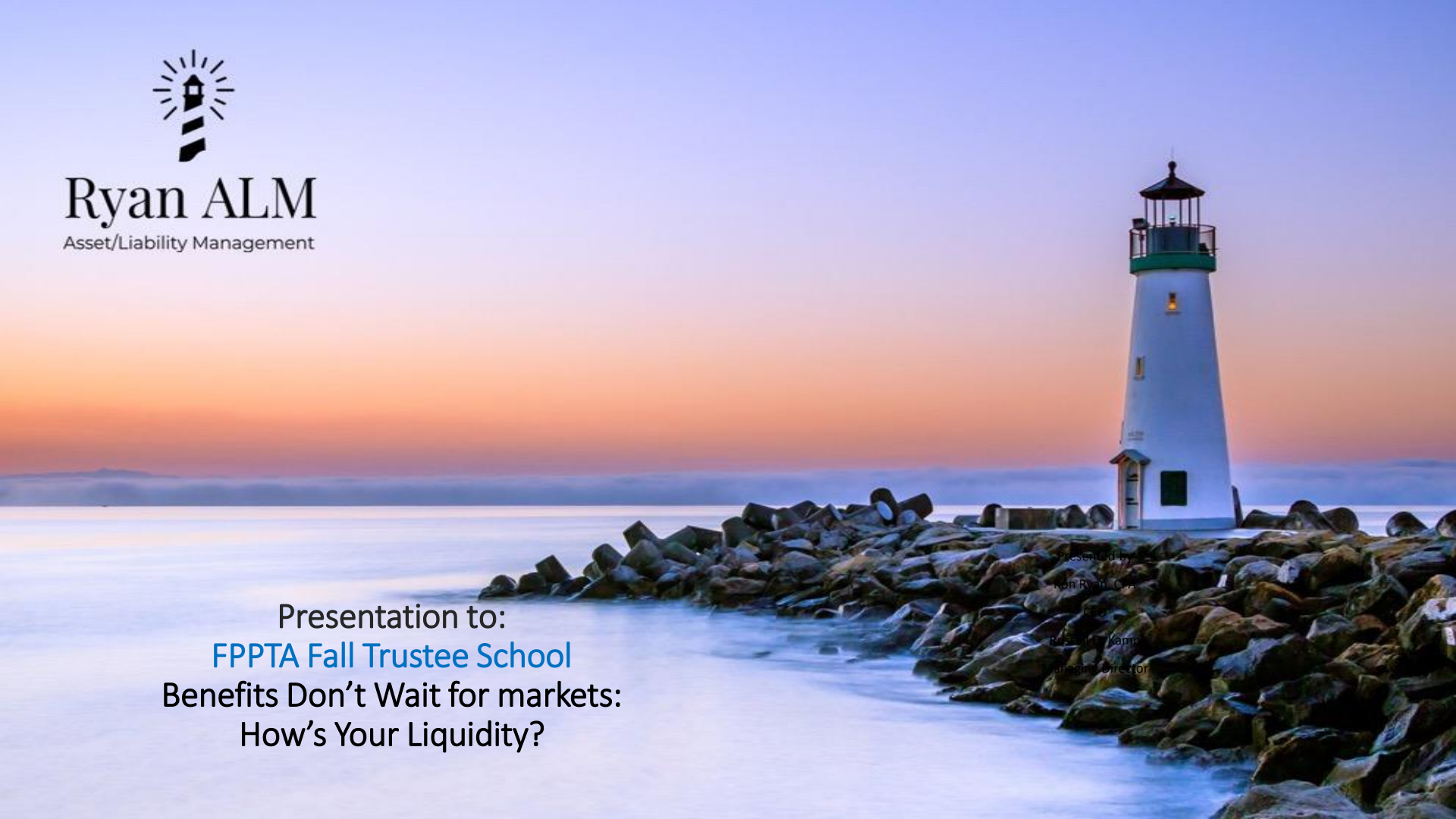

Ryan ALM
Asset/Liability Management
Presentation to:
FPPTA Fall Trustee School
Benefits Don’t Wait for markets:
How’s Your Liquidity?

Benefits Don’t Wait For Markets: How’s Your Liquidity?

Agenda

- Current environment for DB pension plans
- Introduction to various liquidity strategies
- Emphasis on Cash Flow Matching (CFM)
- Summary

Importance of Creating and Securing Liquidity

Managing a DB pension is all about **cash flows**

Asset cash flows should fund Liability cash flows (benefits and expenses)

But current pension practices are impacting the creation of asset cash flows (liquidity)

DB Pensions live under a Cloud of Uncertainty

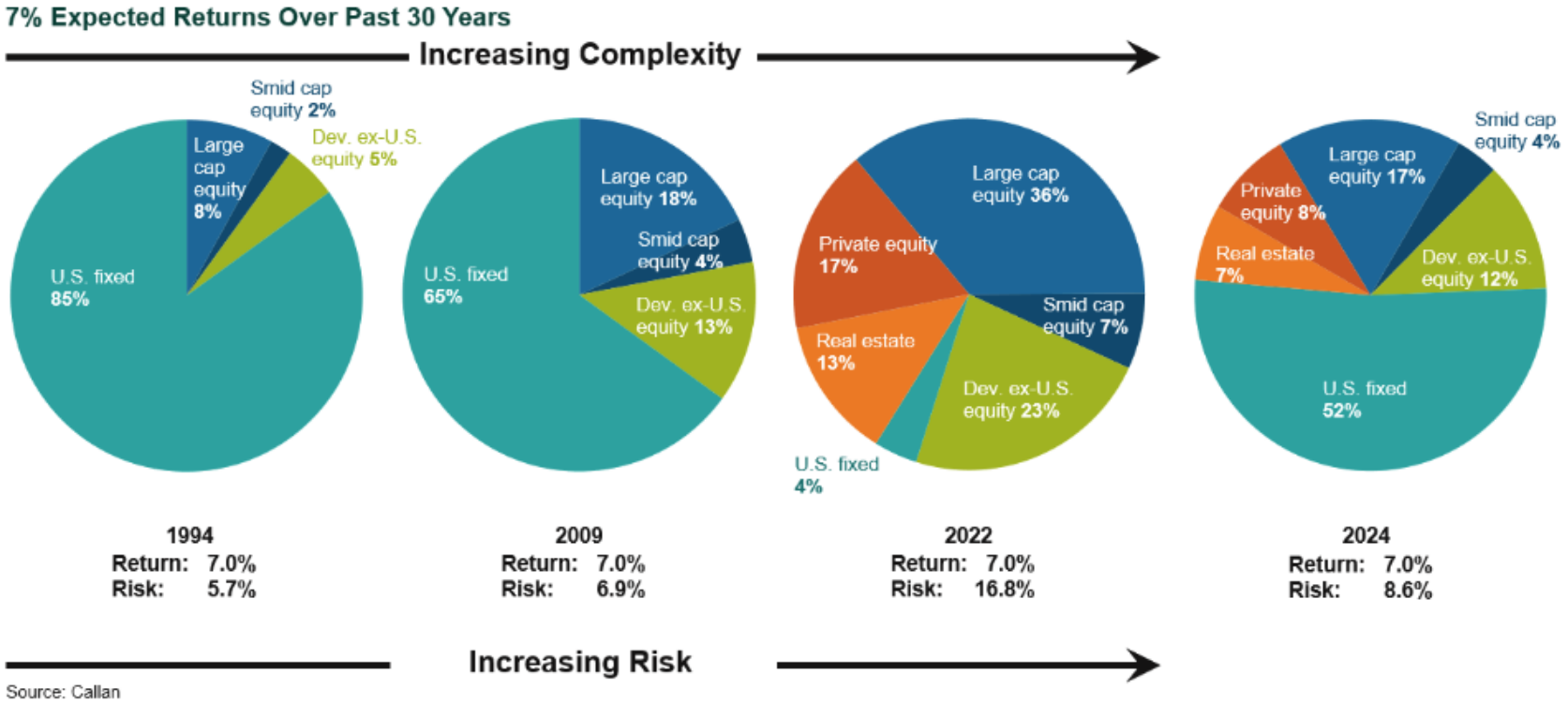


Uncertainty Clouds Judgment

- **Markets:** returns are **uncertain** but benefit payments are not.
- **Rates:** interest rate changes move funded status and can create contribution pressure.
- **Liquidity:** forced selling to meet liquidity needs can turn temporary volatility into permanent funded status damage.

Ryan ALM's response: first fund the liability cash flows then let risky assets grow unencumbered (no cash sweep).

ROA Pursuit Added Risk

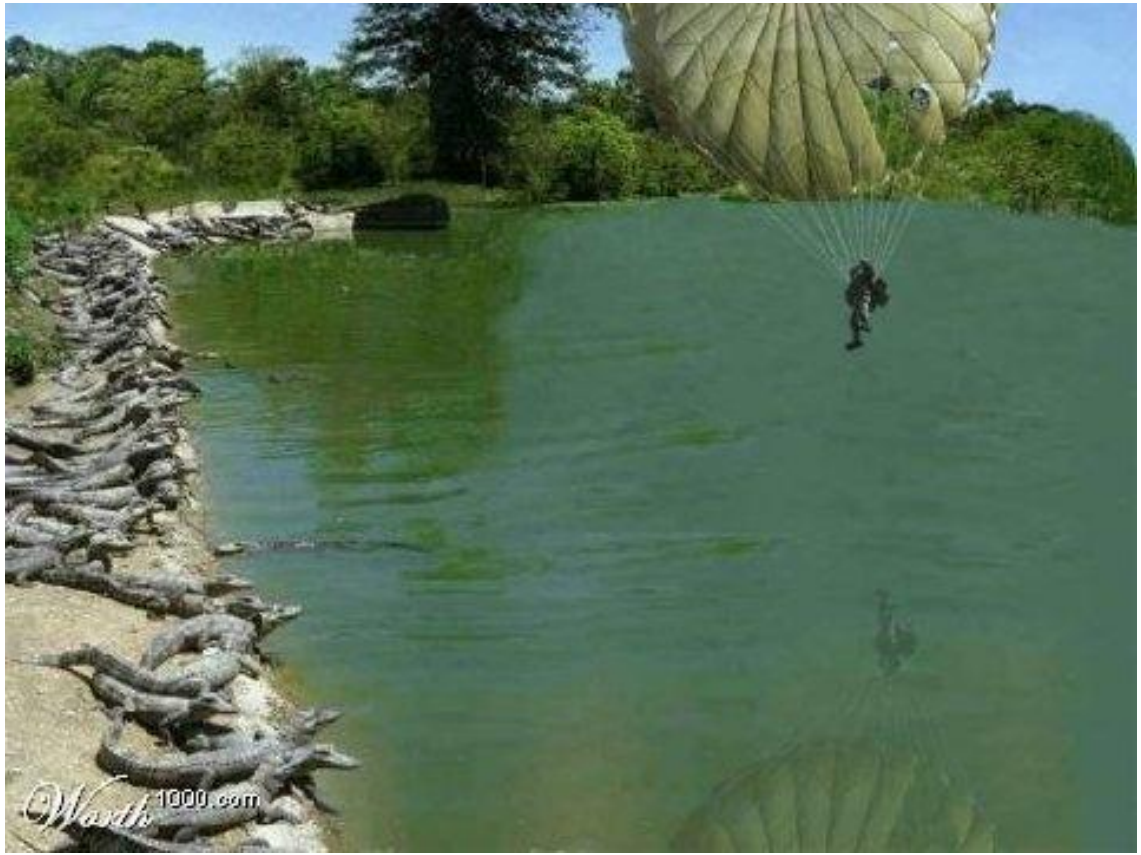


Source: Callan

Volatility of Returns



Risk Alone Cannot Pay Benefits



Less Liquidity Means Less certainty



Pension Objective - Secure Benefits First

Secure and fully fund benefits and expenses (B&E)

Do it chronologically, at low cost, and with prudent risk

Benefits and Expenses = Liability Cash Flows

Proper pension management is not focused on returns

Florida Law and Liquidity

Are you aware of Florida Law sub-section 112.661(6)?

The subsection is titled **“Maturity and Liquidity Requirements.”**

It provides: “The investment policy (IPS) shall require that the investment portfolio be structured in such manner as to provide sufficient liquidity to pay obligations as they come due.”

It then goes a meaningful step further: “To that end, the investment policy should direct that, to the extent possible, an attempt will be made to **match investment maturities** with known **cash needs and anticipated cash-flow requirements.”**

Do You Have a Liquidity Policy?

"…provide sufficient liquidity to pay obligations as they come due."

"…attempt will be made to **MATCH** investment maturities with known cash needs and anticipated cash-flow requirements."

Does your current investment strategy do this?

- Having assets you can sell is liquidity.
- Having cash arrive when benefits are due is liquidity management.

Current liquidity Practices in Florida

Two fundamentally different philosophies:

Asset-driven liquidity

"When we need cash, where can we get it?"

Liability-driven liquidity

"We know when benefits must be paid, so why don't we arrange the assets today to produce the cash when those payments occur?"

Current liquidity Practices in Florida

Liquidity strategy	How it works
1. Cash / money-market reserve	Maintain cash, STIFs or money-market funds for near-term benefit payments
2. Contributions + investment income	Employer/employee contributions, dividends and bond coupons fund benefits
3. Fixed-income liquidity sleeve	Bonds serve as both investment allocation and source of liquidity
4. Rebalancing to fund benefits	Sell overweight asset classes and use proceeds for benefit payments
5. Public-market liquidation	Sell stocks, bonds, ETFs or other liquid assets as cash is needed
6. Distribution harvesting	Use dividends, interest, real estate/private-market distributions
7. Cash-flow matching / bond ladders	Bond coupons and maturities are deliberately aligned with projected benefits

Current liquidity Practices in Florida

Liquidity strategy	Strength
1. Cash / money-market reserve	Very liquid and simple
2. Contributions + investment income	Efficient while cash flows are positive
3. Fixed-income liquidity sleeve	More productive than cash
4. Rebalancing to fund benefits	Disciplined way to generate cash
5. Public-market liquidation	Large pool of readily monetizable assets
6. Distribution harvesting	Avoids some forced selling
7. Cash-flow matching / bond ladders	Converts assets into scheduled liquidity

Current liquidity Practices in Florida

Liquidity strategy	Principal weakness
1. Cash / money-market reserve	Cash drag; doesn't address benefits beyond the immediate horizon
2. Contributions + investment income	Increasingly problematic as plans mature and become cash-flow negative
3. Fixed-income liquidity sleeve	Bonds may have to be sold rather than mature when benefits are due
4. Rebalancing to fund benefits	Liquidity remains dependent upon market values
5. Public-market liquidation	Creates sequencing-of-returns risk during market declines
6. Distribution harvesting	Cash flows are uncertain, particularly from alternatives
7. Cash-flow matching / bond ladders	Requires explicit liability/cash-flow analysis and portfolio construction

Current liquidity Practices - Categorized

Two fundamentally different philosophies:

Asset-driven liquidity

"When we need cash, where can we get it?"

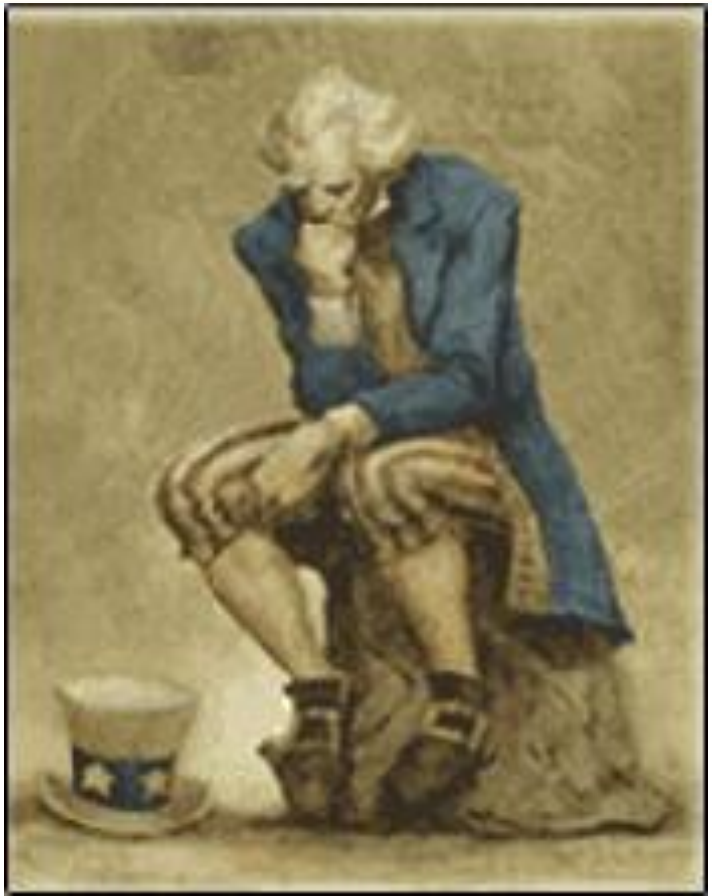
Strategies: Cash reserves, contributions, dividends, bond interest, rebalancing and asset sales all fit into this category (strategies 1-6 on the previous pages).

Liability-driven liquidity

"We know when benefits must be paid, so why don't we arrange the assets today to produce the cash when those payments occur?"

Strategy: Cash Flow Matching (CFM)

Rethink Pension Asset Allocation



Rethinking Pension Asset Allocation

Separate Liquidity and Growth assets

Liquidity (Beta) assets

•Use bond cash flows (principal and interest) to provide near-term certainty.

• Fund benefits and expenses chronologically.

•Buy time for growth assets.

Growth (Alpha) assets

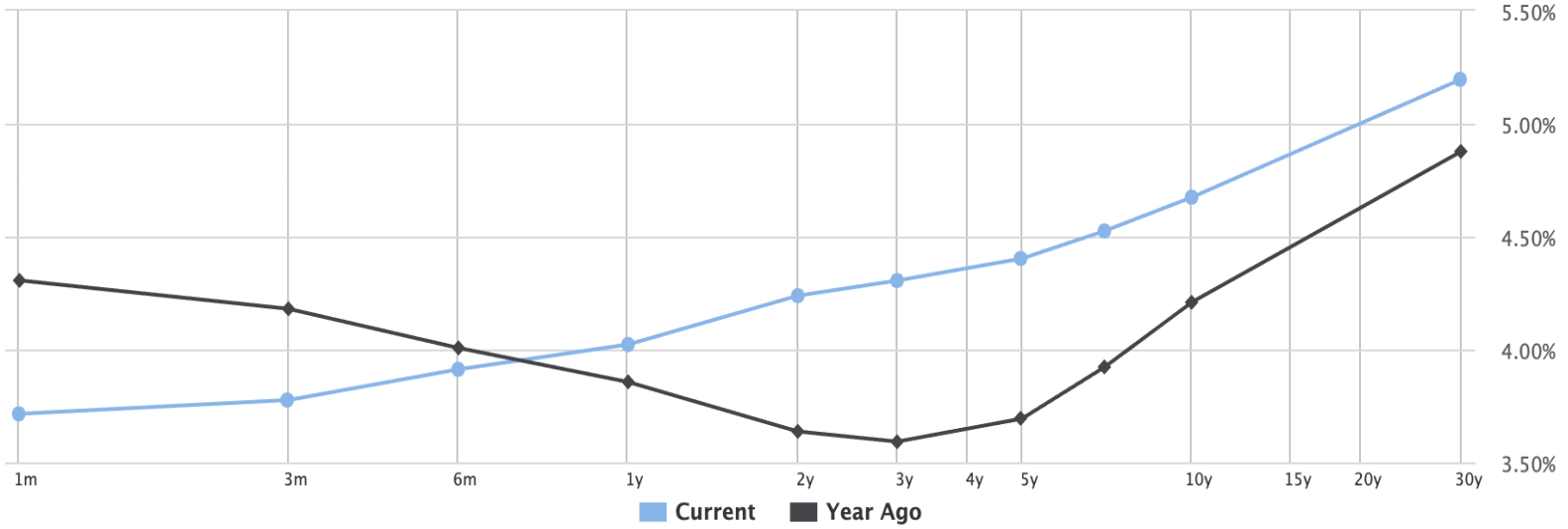
• Grow unencumbered to meet longer-term liabilities.

• Avoid forced sales to fund near-term B&E.

• Can be managed at greater risk levels.

U.S. Treasury Yield Curve

U.S. Yields are providing plan sponsors with a great opportunity to enhance liquidity



WSJ: August 28, 2026

Bonds Create Certain Cash Flow

- A Bond's value comes from its known cash flows.

- Investment-grade bonds can be arranged to fund each monthly benefit through their principal and interest (cash flows).

- The goal is to optimize a bond cash-flow schedule (Cash Flow Matching) that provides timely liquidity while reducing cost. It is not a generic bond sleeve.

- Matching future values eliminates interest-rate risk for the liquidity bucket.

Build the Liquidity Bucket through CFM

Recommend converting plan's core fixed income allocation to a CFM mandate

- Focus on future benefit payments (liability cash flows).
- Carefully map principal and interest to fund monthly benefits and expenses.
- CFM seeks the lowest-cost portfolio that fully funds liability cash flow schedule.

CFM is not a ladder: it is a bond portfolio whose term structure fully funds liability cash flows for the chosen coverage period.

Benefits of Cash Flow Matching

- Secures benefits with high certainty.
- Gives return-seeking assets time to compound unencumbered.
- Reduces the need to sell return-seeking assets in stressed markets.
- Reduces interest-rate risk for the matched portion of the pension plan.
- Strategy that best fits Florida's sub-section 112:661 on liquidity management
- Lowers funding cost of future benefits by optimizing investment-grade bond cash flows.

Volatility of Returns



CFM Smooths the Journey



Key Discussion Points

- Create a liquidity policy that mirrors sub-section 112.661
- Confirm the benefit and expense cash-flow schedule through the **Custom Liability Index**.
- Choose the desired funding horizon for the liquidity bucket. Funded status should guide.
- Use CFM to fund B&E chronologically with investment-grade bonds.
- Let growth assets pursue long-term return objectives without forced sales.
- Extend the liquidity bucket coverage as funding improves.



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