

Beyond Yield

Understanding the metrics that matter most to public fund investors

Introduction

From an investment perspective, Local Government Investment Pools (LGIPs) are designed to help public entities preserve principal, maintain liquidity, and earn a competitive return. Because yield is the most visible output, it can dominate comparisons. Yet yield does not reveal how much liquidity, duration, credit exposure, concentration, or operational complexity was used to produce it.

A sound evaluation therefore considers four dimensions together: safety, liquidity, yield, and transparency. The central question is not simply “Which pool has the highest yield?” It is “Is the yield competitive, repeatable, transparent, and consistent with the investor’s liquidity and risk objectives?” A pool should not receive credit for yield without also demonstrating the liquidity, diversification, and transparency needed to support that yield through changing conditions.

Developing an approach to evaluating LGIPs through the lens of a public fund investor can be a critical part of the investment process. The four-pillar framework shown below is intended to organize due diligence rather than produce a single mechanical ranking. Each pillar should be reviewed in the context of the public entity’s cash-flow needs, investment policy, statutory authority, and risk tolerance. The strongest LGIP review process connects performance to the portfolio structure that produced it. A modest yield advantage may not be compelling if it is accompanied by lower liquidity, a longer WAM or WAL, greater issuer concentration, higher expenses, or weaker disclosure.

Investors should be aware that SEC-registered money market funds operate within a more standardized federal disclosure framework; LGIP reporting varies by state, governing documents, accounting treatment, and pool practice.

LGIP Due Diligence Metrics

Safety

WAM, WAL, Diversification, Credit Quality, NAV Stability

Liquidity

Daily/Weekly Liquidity, Redemption Activity

Yield

1-Day, 7-Day, 30-Day, Effective Yield

Transparency

Holdings, History, Audits, Fact Sheets, Governance

Safety Metrics

Credit Quality

Concentration analysis should cover at least three dimensions: issuer, sector, and participant. A diversified list of securities may still represent concentrated exposure if multiple holdings rely on the same parent, guarantor, banking group, or collateral channel. Likewise, a sound portfolio can face liquidity pressure if a few participants represent a large share of assets.

Concentration, Credit Quality, and Portfolio Construction

Dimension	What to review	Why it matters
Issuer/parent	Largest exposures; affiliated issuers; guarantors	Limits idiosyncratic credit-event impact.
Sector	Treasuries, agencies, repo, deposits, CP, MMFs	Reduces dependence on one market or funding channel.
Maturity	Overnight, weekly, and longer buckets	Shows when cash becomes available naturally.
Participant	Largest balances and correlated withdrawal needs	Connects portfolio liquidity to redemption risk.
Counterparty/collateral	Repo counterparties, collateral type, custody	Identifies operational and secured-financing dependencies.

WAM and WAL

Weighted average maturity (WAM) and weighted average life (WAL) are complementary measures. WAM focuses on the timing of maturity or rate reset under the applicable methodology. WAL (also known as WAM to Final) focuses on the time until principal is expected to be repaid without treating rate resets as final maturity. Methodologies should be reviewed because instrument eligibility and calculations can differ across frameworks. For LGIPs and money market funds, portfolio managers typically watch both metrics together: WAM controls interest-rate sensitivity and WAL controls credit and liquidity exposure.

WAL measures the average time it takes for a portfolio to receive its principal back, weighted by the amount invested in each security. It is a key measure of credit risk and liquidity risk for money market funds and LGIPs. Consider a floating-rate note:

- Final maturity: 2 years (730 days)
- Interest rate resets every 30 days

For WAM purposes, the maturity may be treated as 30 days because the coupon resets quickly and reduces interest-rate risk. For WAL purposes, the principal still returns in 730 days, so WAL remains much longer. This distinction is why WAL is generally viewed as a measure of credit exposure rather than interest-rate exposure.

How are WAM and WAL Calculated?

The table below shows examples of WAM and WAL calculations. In this example the portfolio holds four securities with varying maturities. Repurchase agreements typically reset rates daily thus only count for a one-day maturity. Treasury bills and commercial paper have fixed maturities of 60 and 90 days respectively. However, the negotiable CD is a floating rate security with a final maturity of 730 days (which counts for the WAL calculation) and a reset time period of 30 days (which counts toward the WAM calculation). The portfolio has a WAM of 42.4 days and a WAL of 77.4 days

Security	Portfolio Weight	Days to Reset	WAM Contribution	Days to Final Maturity	WAL Contribution
Repurchase agreement	40%	1	0.4	1	0.4
Treasury Bill	30%	60	18.0	60	18.0
Commercial Paper	25%	90	22.5	90	22.5
Negotiable CD (floating rate)	5%	30	1.5	730	36.5
Total	100%		42.4		77.4

Strategic Application of WAM and WAL

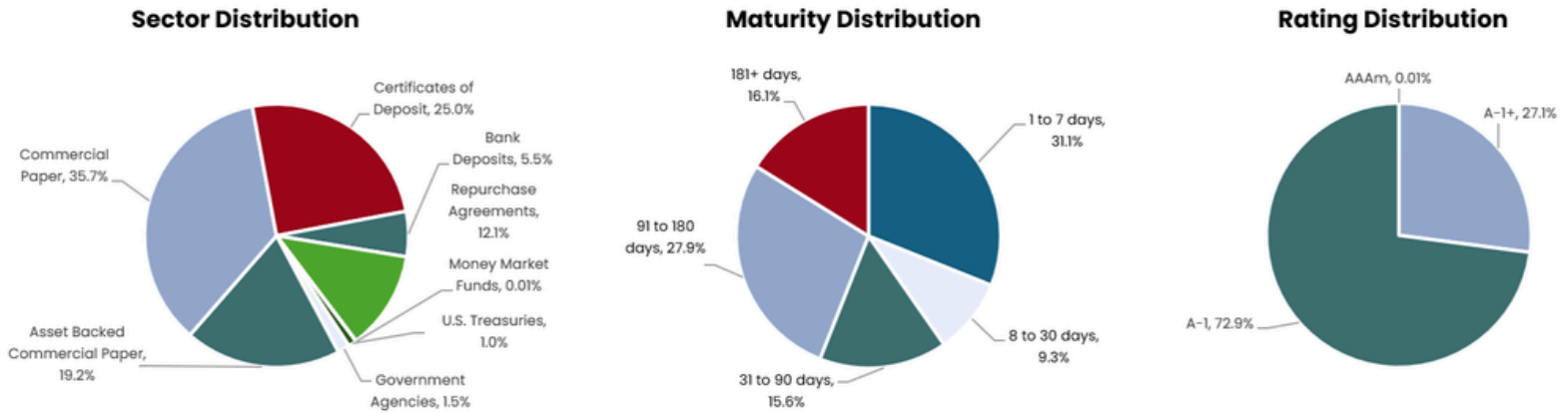
For LGIPs, WAM and WAL are often viewed as the portfolio's interest-rate risk dial and credit/liquidity risk dial. By adjusting these metrics, managers can position the portfolio for changing economic conditions while remaining within policy, liquidity, and regulatory constraints. Rather than simply maximizing yield, the goal is to find the optimal balance among yield, liquidity, principal preservation, and diversification. For an LGIP rated by S&P Global, the maximum WAM is 60 days and the maximum WAL is 90 days.

Because WAM reflects how quickly a portfolio's investments reprice, it is often adjusted based on the portfolio manager's interest-rate outlook. A lower WAM increases liquidity and allows the portfolio to reinvest more quickly if rates rise, while a higher WAM helps lock in yield when rates are expected to fall. WAL measures how long principal is exposed before it is returned. A portfolio with a short WAM but long WAL may be protected from interest-rate movements while still having significant credit exposure. Portfolio managers therefore use WAL to control the amount of longer-dated credit held in the portfolio.

Diversification

Portfolio diversification is a key risk-management tool that helps reduce exposure to any single issuer, sector, counterparty, credit quality, or maturity bucket. In LGIPs, diversification is commonly evaluated through metrics such as issuer concentration, sector allocation, credit allocation, maturity distribution, and counterparty exposure. By maintaining broad diversification, portfolios can improve liquidity, reduce credit and reinvestment risk, and enhance resilience during periods of market stress while preserving capital and meeting liquidity objectives. Key risk management metrics include largest issuer exposure (%), top 10 issuer exposure (%), sector allocation (%), credit allocation (%), maturity bucket distribution (%), counterparty exposure (%), WAM and WAL. Shown below is an example presentation of certain diversification metrics.

Diversification Metrics

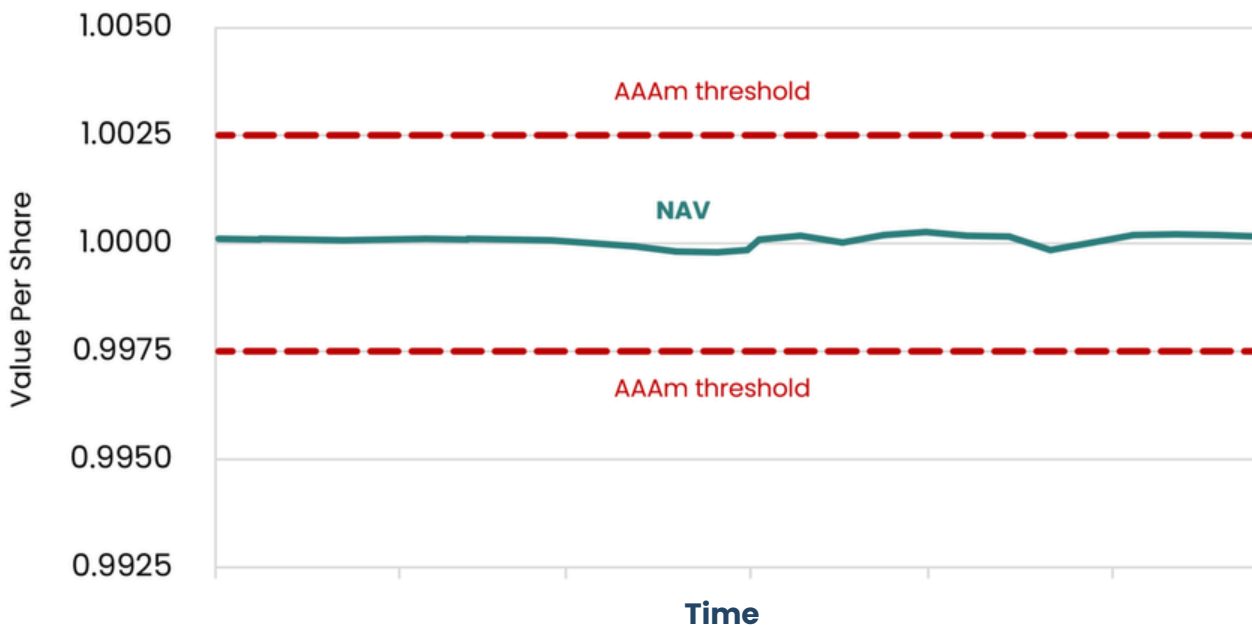


For Illustrative Purposes Only

Net Asset Value

NAV stability is the primary objective of a GASB 79-compliant LGIP. The 10% daily liquidity, 30% weekly liquidity, short maturity limits, high credit quality standards, diversification requirements, and shadow-pricing controls are all designed to support a stable \$1.00 NAV and protect participant principal. GASB 79 requires ongoing monitoring of a pool's market-based value ("shadow price") versus its amortized-cost value. This serves as an early-warning indicator that the stable NAV may be under pressure. The chart below shows an illustrative example of an LGIP's shadow pricing and the credit rating thresholds for a fund rated AAAm.

Net Asset Value



For Illustrative Purposes Only

Yield Metrics

1-Day Yield

The 1-day yield is a near-term indicator of current earnings. In the example below, total assets are comprised of all investment securities and overnight cash. Total liabilities consist of payables for the investment advisory fees, operations, board expenses, audit fees, dividends, custodial fees, and miscellaneous fees. Total net assets equal total assets minus total liabilities. Total revenue reflects the daily earnings in each security on the portfolio. Total expenses include the daily accrued expenses for each of the daily operation costs. In the example below, it is assumed the annualized accrued expenses equal to 13.6 basis points. Total net income is equal to total revenue minus total expenses. The daily net income per share is equal to total net income divided by total net assets. This figure is calculated often calculated to 12 decimal places as this amount is applied to each shareholder balance end of day balance to calculate the daily accrued income for each account. The daily yield is simply the daily net income per share times 365.

The 1-day yield can react quickly when overnight rates change or because of large inflows (subscriptions) or outflows (redemptions). For LGIP investors, the 1-day yield can exhibit volatility during seasonal or monthly payment cycles such as when property tax revenues are deposited or when funds are withdrawn for monthly payments, such as payroll.

Sample Daily Yield Calculation		
	Amount	Notes
Total Assets	\$ 1,000,000,000	Includes securities and cash
Minus Total Liabilities	\$ 240,716	Payables for all fees
= Total Net Assets	\$ 999,759,284	
Total Revenue	\$ 111,137	Accrued interest earnings
Minus Total Expenses	\$ 3,727	Daily accrued expenses @ 13.6 bps
= Total Net Income	\$ 107,410	
Daily Net Income per Share	0.000107435862	Total Net Income / Total Net Assets
1-Day Yield	3.921%	Daily Net Income x 365

For Illustrative Purposes Only

7-Day Yield

The 7-day yield convention for LGIPs stems from SEC's money market funds standardized yield-disclosure rules, which were designed to give investors a consistent and comparable measure of the current income being generated by a money market fund.

LGIPs, like money market funds, hold very short-term securities whose yields change rapidly as securities mature and are reinvested. A 1-day yield would be too volatile, while a 30-day yield would

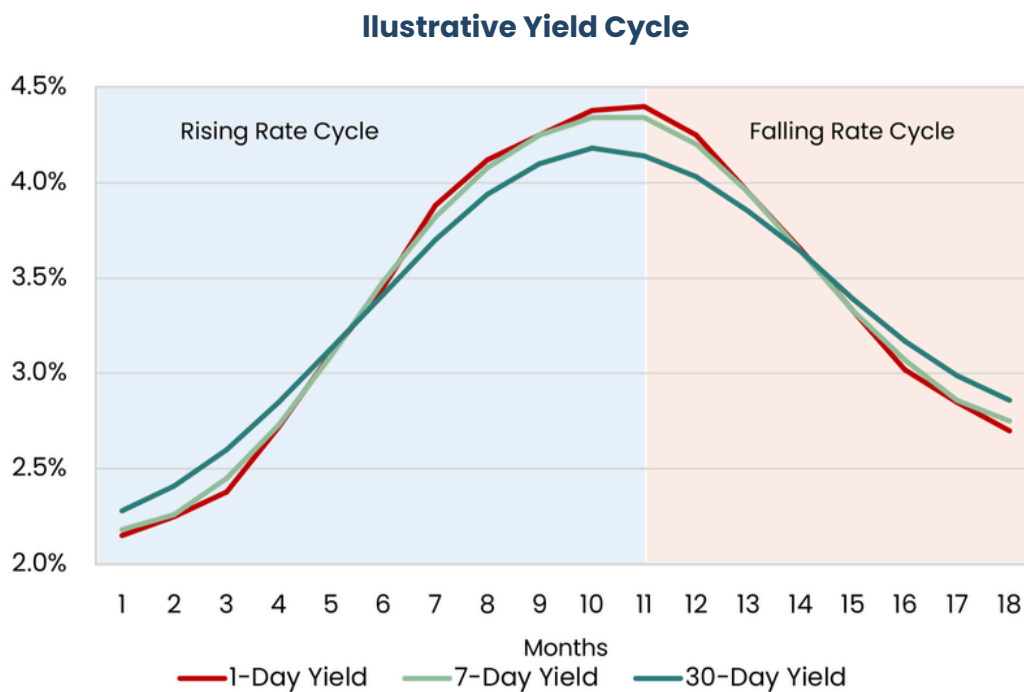
react too slowly to changing interest rates. The SEC selected a 7-day period as a practical compromise that:

- Reflects the fund's current earnings power
- Smooths out daily fluctuations
- Allows meaningful comparisons among funds
- Provides a standardized figure for advertising and disclosure purposes

Many LGIPs adopted the 7-day yield convention because public investors wanted a measure comparable to SEC-regulated money market funds. However, an LGIP's reported 7-day yield is typically a matter of the investment policy or pool disclosure practices rather than a direct SEC requirement. The convention persists because it has become the standard short-term cash benchmark across money funds, LGIPs, and other cash investment pools.

30-Day Yield

A 30-day measure provides context for sustainability. In a rising-rate cycle, shorter measures may move above longer observation windows; in a falling-rate cycle, the ordering may reverse. The pattern helps investors interpret whether reported yield is accelerating, plateauing, or declining. The chart below provides an illustrative example comparing the yield conventions over an interest rate cycle.



Effective Yield

For an LGIP, the effective yield (sometimes called effective annual yield or compound yield) is the yield assuming that dividends earned each day are reinvested and compounded over an entire year. It is generally slightly higher than the standard 7-day yield because of the compounding effect. The effective yield generally provides the best apples-to-apples comparison because many bank products quote yield that incorporates compounding. The standard 7-day yield is better viewed as a measure of the fund's current earnings rate, while effective yield estimates the annual return if current conditions persist and income is reinvested.

Liquidity Metrics

Liquidity metrics should be connected to the pool’s redemption terms and participant behavior. Daily liquidity supports immediate needs; weekly liquidity provides a second layer of protection. Investors should consider both portfolio liquidity and operational access, including cutoff times, settlement conventions, and any stated redemption procedures.

For an LGIP or other qualifying external investment pool, GASB Statement No. 79 incorporates liquidity requirements that are largely modeled after the SEC Rule 2a-7 money market fund framework. A pool must meet these standards to report investments at amortized cost (stable NAV accounting) rather than fair value. A qualifying pool should maintain at least: 10% Daily Liquid Assets and 30% Weekly Liquid Assets.

Why the Liquidity Requirements Matter

The 10%/30% GASB 79 liquidity thresholds are intended to help pools:

- Meet large participant withdrawals without forced sales.
- Maintain a stable \$1.00 transaction value.
- Reduce the risk of liquidity-driven losses during market stress.
- Continue to qualify for amortized-cost accounting under GASB 79.

Transparency Metrics

Transparency is both a governance feature and a risk-management signal. High-quality reporting allows investors to understand what they own, how the portfolio is positioned, and how management decisions change over time. At minimum, reporting should be timely, internally consistent, and sufficiently detailed to reconcile performance with portfolio structure. Much of this information should be available in the fund’s fact sheet. In addition, the fund’s website may have supplemental information that is beneficial to investors.

Transparency Information

Category	Key information
Performance	1-day, 7-day, and 30-day yields; comparable benchmark
Risk	WAM, WAL, daily liquidity, weekly liquidity, NAV or shadow-price information where applicable
Portfolio	Sector mix, maturity distribution, credit-quality profile, largest issuer exposures, holdings access
Operations	AUM, expense ratio, redemption terms, cutoff time, participant servicing contacts
Governance	Investment policy, oversight structure, audited financial statements, rating information
History	Consistent time series for yield, WAM, WAL, liquidity, NAV, and other core metrics

Why Historical Data Matters

Point-in-time metrics can obscure how a manager behaves when rates, flows, or credit conditions change. Historical series make it possible to evaluate responsiveness, consistency, and policy discipline. Investors should focus on relationships among metrics rather than treating each series independently. Yield versus policy rates and peer ranges.

- WAM and WAL through rising- and falling-rate environments.
- Daily and weekly liquidity during seasonal withdrawals or market stress.
- Net asset value, useful during times of market stress
- Sector and issuer exposures as yield opportunities change.
- Expenses, operational terms, and reporting practices over time.

Conclusions

A strong LGIP is not defined by the highest yield on a single date. It is defined by the discipline with which it balances principal preservation, liquidity, and return, and by the clarity with which it explains that balance to participants. The most useful review process begins with 7-day yield, then traces the result back to WAM, WAL, liquidity, concentration, expenses, participant structure, and historical behavior. For boards and public sector finance professionals, the objective is straightforward: determine whether the pool's return is being earned in a manner that is prudent, transparent, and aligned with the entity's cash-flow obligations. That approach moves the conversation beyond yield and toward a fuller assessment of portfolio quality.



Chris Blackwood

Senior Portfolio and Investment Pool Strategist

cblackwood@chandlerasset.com | 720-527-0122

Disclosures

© 2026 Chandler Asset Management, Inc. An independent, SEC-registered investment adviser. This report is provided for informational purposes only and should not be construed as specific investment or legal advice. The information contained herein was obtained from sources believed to be reliable as of the date of publication, but may become outdated or superseded at any time without notice. Any opinions or views expressed are based on current market conditions and are subject to change. This report may contain forecasts and forward-looking statements which are inherently limited and should not be relied upon as an indicator of future results. Past performance is not indicative of future results. This report is not intended to constitute an offer, solicitation, recommendation, or advice regarding any securities or investment strategy and should not be regarded by recipients as a substitute for the exercise of their own judgment. Fixed income investments are subject to interest rate, credit, and market risk. Interest rate risk: The value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low-rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market, in general, could decline due to economic conditions, especially during periods of rising interest rates. This communication relates to the California Fixed Income Trust (CalFIT). Chandler Asset Management, Inc. ("Chandler") serves as investment adviser and portfolio manager to CalFIT. Chandler Distribution Services, LLC ("CDS"), an affiliated broker-dealer under common ownership and control, serves as the marketing and distribution agent for CalFIT. This affiliation creates a conflict of interest because Chandler receives compensation for managing pool assets and therefore benefits from assets introduced through CDS's marketing and distribution activities. Additional information is available in Chandler's Form ADV Part 2A.