Liquidity Policy
Turkish Grameen Microfinance Program (TGMP)

Investment committee of the Turkish Grameen Microfinance Program (TGMP) considered the following components while formulating the liquidity policy:

- **Total Portfolio Value-at-Risk (VaR):**

VaR is important to the TGMP because it helps determine the probability of and potential loss of asset values over a set period of time. It is important to use a form of drawdown risk as a risk measure instead of the more commonly used standard deviation.

- **Investment Committee's Resources:**

When considering illiquid investment strategies, it is important to realize the much heavier dosage of due diligence required of the investment committee. Compared to public markets, illiquid investments require significant oversight mainly stemming from the lack of transparency within these strategies and the markets in which they invest. The inefficiency in terms of information flow generates both opportunity and risk in terms of a manager's performance relative to a stated benchmark. The dispersion of returns generated by the universe of private investment managers will be significantly wider than that of a universe of managers in the public markets. This significantly increases the complexities involved in managing these investments and committees need to have a solid understanding of the requirements of their time and focus. Investment committees who dedicate focus or delegate the due diligence function to a partner in these important areas can reap substantial benefits.

- **Operating Reserves of the Turkish Grameen Microfinance Program:**

Maintain cash balances or lines of credit to cover new loan demand and potential cash losses from delinquency. Maintain operating reserves equal to 2 to 3 months of operating expenses.

The Benefits in Implementing a Formal Liquidity Policy

The benefits of a formal liquidity policy are:

- **Increased Diversification:** The nature of these strategies exhibits a performance record and expectation that will have low or negative correlations to other more traditional components of the portfolio. These strategies will help to improve the overall risk/return profile and could increase the consistency of the returns being generated.

- **Return Enhancement:** In theory, investors could be compensated for accepting illiquidity by garnering a premium over a similar strategy in the public markets. Accessing these areas of the market where information flow is not quite efficient may allow managers to better seize opportunities and could produce higher returns. One example of an illiquid asset class where this applies is private equity, where investors would be looking to return a premium over the S&P 500 Index over time

- **Inflation Protection:** Many of the strategies more recently being implemented in the natural resource area such as timber, energy, and farmland have significant benefits in terms of protection from inflation. Inflation is a key focus for nonprofits because its movements are closely aligned with the preservation of purchasing power over time. These strategies exhibit positive correlations to inflation and should provide more efficient protection from inflation than traditional investment strategies.

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