Minutes of the
Cash Management Advisory Board
July 27, 2011
Via Telephone Conference Call

Attendees:

William Desautelle, CMAB Member
J. Victor Thompson, CMAB Member
Lawrence Wilson, Assistant Treasurer, Cash Management
Paul Coudert, Investment Officer, STIF
Peter Gajowiak, Securities Analyst, STIF
Marc Gagnon, Securities Analyst, STIF
Michael Rancourt, Summer Intern, Cash Management

Minutes:

Assistant Treasurer Lawrence Wilson called the meeting to order at 10:01 a.m., thanked the members for their time, and asked the board members if there were any comments regarding the April 26, 2011 Cash Management Advisory Board minutes. With no comments, the minutes were adopted.

Mr. Coudert reviewed the performance of the Short-Term Investment Fund (STIF). Mr. Coudert stated that for the quarter-year ending June 30, 2011, STIF earned an annualized yield of 21 basis points, outperforming its benchmark by 17 basis points, and for the fiscal year ending June 30, 2011, STIF returned 23 basis points, outperforming the bench mark by 15 basis points.

Mr. Coudert discussed the current composition of STIF. Mr. Coudert indicated that STIF's daily liquidity was approximately $3 billion, or 65 percent of fund assets. Mr. Coudert continued by saying that 35 percent of the portfolio was invested in securities with some type of government guarantee, such as agency collateralized repurchase agreements, agency securities, or FDIC insured securities. Mr. Coudert stated that the remainder of the portfolio was in certificates of deposit or commercial paper, all with daily put options. Mr. Coudert noted that the weighted-average maturity was 27 days while the weighted-average life was 96 days.

Mr. Desautelle asked if Standard and Poor's would require STIF to sell out of our U.S. government securities in the event these securities were downgraded below AAA. Mr. Wilson stated that S&P places emphasis on the short-term ratings of these securities. Mr. Wilson continued by saying that these securities need to be rated A-1 or A-1+ by S&P

and the long-term rating would have to come down quite a few notches for it to affect the short-term rating.

Mr. Thompson asked if there were any discussions regarding the potential impact of a U.S. government default on the agency securities within STIF. Mr. Wilson responded by saying that the government has an implied guarantee on these securities, and thus, a default may have very little practical short-term impact. Mr. Coudert stated that the risk to these securities is the potential market value decline. Mr. Coudert continued by saying that he had performed stress tests on the STIF portfolio using a 300 basis point interest rate swing and the Net Asset Value remained above par due to STIF's high liquidity amount and its reserves.

Mr. Coudert updated the board regarding the Gryphon Funding note. Mr. Coudert explained that Gryphon's current exposure was $25 million, taking into account the $24 million reserve adjustment. Mr. Coudert continued by saying that the market value of the underlying assets as of June 30, 2011 was approximately $29 million as provided by the Bank of New York.

Mr. Desautelle made a motion at 10:15 a.m., seconded by Mr. Thompson, to enter into executive session in order to discuss an issue exempt from disclosure under the Freedom of Information Act. Mr. Desautelle, Mr. Thompson, Mr. Wilson, Mr. Coudert, Mr. Gagnon, Mr. Gajowiak, and Mr. Rancourt participated in the executive session. No votes were taken during the executive session. At 10:26 a.m. the executive session adjourned and the meeting went back into regular session.

Mr. Coudert stated that the Extended Investment Portfolio's (EIP) current size was $225 million, and that it was earning approximately 22 basis points. Mr. Coudert continued by saying that the portfolio was a place where State cash could be deposited, earning more than if it had been invested in STIF.

Mr. Coudert reported that the STIF Plus Fund had an asset size of $21 million, with 72 percent of assets in corporate notes and 28 percent in asset-backed securities. Mr. Coudert indicated that the $6 million of asset–backed securities continued to be distressed, with market values running approximately $1.5 million below amortized costs. Mr. Wilson stated that since inception, STIF Plus and EIP earned approximately $12 million of additional income above STIF, more than offsetting the impact of any potential losses.

Mr. Desautelle asked how revenues had been flowing into the State. Mr. Wilson stated that cash flows had improved relative to projections, noting that the State's surplus projection had recently been revised upwards. Mr. Wilson continued, saying that the State had $2 billion of cash on hand which should be sufficient to cover potential reductions in federal payments in case of a failure to increase the debt ceiling.

With no further business, Mr. Wilson adjourned the meeting at 10:35 a.m.