

**Minutes (Draft) of the
Cash Management Advisory Board
July 30, 2014
Via Telephone Conference Call**

Attendees:

William Desautelle, CMAB Member
J. Victor Thompson, CMAB Member
Lawrence Wilson, Assistant Treasurer, Cash Management
Michael Terry, Principal Investment Officer, STIF
Marc Gagnon, Securities Analyst, STIF
Peter Gajowiak, Securities Analyst, STIF

Minutes:

Assistant Treasurer Lawrence Wilson called the meeting to order at 10:02 a.m., and asked if there were any comments regarding the minutes of the April 2014 Cash Management Advisory Board meeting. Without any objections, the minutes were approved.

Mr. Terry stated that the short-term market has not changed significantly since the board met in April. Mr. Terry added that STIF has been able to purchase one year agency securities that earn approximately 18 basis points which is above the net cost basis of the fund. Mr. Terry added that because the market believes the Federal Reserve could begin to lift rates by mid-2015, he was limiting the maturities of fixed rate securities to between nine and twelve months. Mr. Desautelle asked what we thought of Federal Reserve Chairwoman Yellen's recent comments regarding interest rates. Mr. Terry stated that he believes Chairwoman Yellen has been sending mixed messages about the future of short-term interest rates. Mr. Terry believes that she will err on the side of lower rates and catch up with higher interest rates when the economy speeds up.

Mr. Terry stated that STIF has continued to purchase securities with the full faith and credit of the U.S. government, as well as bank deposits. Mr. Thompson asked if a simulation can be made to see how much STIF's rate would lag the fed funds rate assuming a path of incremental raises in interest rates. Mr. Terry stated that scenarios could be modeled using fed funds futures.

Mr. Gagnon reviewed the performance of STIF. Mr. Gagnon stated that for the quarter ending June 30, 2014, STIF earned an average annualized yield of 15 basis points, outperforming our benchmark by 13 basis points. Mr. Gagnon continued, saying that for the one year period ending June 30, 2014, STIF returned 14 basis points, outperforming our benchmark by 12 basis points adding an extra \$5.7 million in interest for STIF investors during the fiscal year. Mr. Gagnon indicated that STIF's current yield was 16 basis points and that its weighted average maturity was 43 days. Mr. Gagnon added that

STIF currently is not contributing to its \$50.3 million reserves and has not contributed since April 30, 2014 due to the aggregate size of the fund.

Mr. Gagnon discussed the current composition of STIF, indicating that STIF's assets total \$3.9 billion with one-day liquidity of approximately \$2.3 billion, or 57 percent of STIF assets, and that 56 percent of the portfolio was invested in securities with some type of federal government support, such as U.S. Treasuries, agency securities, FDIC-insured securities, or repurchase agreements backed by such securities.

Mr. Desautelle asked if STIF management has been following the recent developments regarding 2a-7 reform and the potential move from a fixed \$1 NAV to a fluctuating NAV, and whether or not it would have an impact on STIF. Mr. Terry replied that because the SEC does not have direct oversight over local government investment pools, the ultimate impact could come from GASB. Mr. Wilson added that because of STIF's AAAM rating, Standard & Poor's may weigh in on the decision as well. A discussion of how the fund's reserves would be handled under a fluctuating NAV system ensued. Mr. Desautelle asked if any other states have a reserve. Mr. Terry replied that there was only one that he knew of, but its reserve was created as a remedy for some soured investments.

Mr. Gagnon stated that the Extended Investment Portfolio (EIP) is currently dormant with no assets. Mr. Gagnon added that the portfolio had been opened briefly in April to accommodate incoming taxes but was subsequently closed out in May.

Mr. Gagnon reported that STIF Plus's ABS securities were sold on May 2, 2014 at their approximate amortized cost. Mr. Thompson stated that it made sense to sell the securities. Mr. Terry stated that all portfolios are currently clean of all legacy issues. Mr. Wilson added that at some point STIF Plus could be reopened to both the state as well as municipal investors.

Mr. Desautelle stated that there are some new dealers on the list and wanted to know how they are assessed and placed on an approved broker list. Mr. Terry stated that there several qualification hurdles, and that all trades are done on a delivery versus payment method, reducing actual risk exposure.

With no further business, Mr. Wilson adjourned the meeting at 10:27 a.m.