Minutes (Draft) of the
Cash Management Advisory Board
January 28, 2015
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
Paul Coudert, Investment Officer, STIF
Marc Gagnon, Securities Analyst, STIF
Peter Gajowiak, Securities Analyst, STIF

Minutes:

Assistant Treasurer Lawrence Wilson called the meeting to order at 10:01 a.m., and asked if there were any comments regarding the minutes of the October 2014 Cash Management Advisory Board meeting. Without any objections, the minutes were approved.

Mr. Terry stated that since the last meeting, the price of oil had dropped significantly while inflation expectations were virtually zero. A discussion regarding the global economic outlook and its impact upon interest rates began. Mr. Terry believes the Federal Reserve could move interest rates higher at its June or July meetings and that in anticipation of higher rates, we have reduced STIF's average life by putting cash into 1-month LIBOR based floating rate securities.

Mr. Terry stated that STIF is approaching the current limit per our strategy document of twenty percent of assets in floating rate securities. Mr. Desautelle asked about Standard & Poor's maximum percentage to floaters. Mr. Coudert stated that S&P does not have a percentage limit, but rather, floaters are limited by having a maximum portfolio average life of 120 days which includes booking these types of securities to their maturity date rather than their reset date. Mr. Terry added that S&P differentiates between agency and corporate floaters. For portfolios with all agency floaters, the cap is 120 days and portfolios with all corporate floaters, the cap is 90 days. If the portfolio has both, then the average life will be weighted by the two and fall somewhere between 90 and 120 days. Mr. Terry continued by stating that S&P's maximum exposure to each agency is thirty-three percent while STIF's current strategy limits the exposure to fifteen percent.

Mr. Terry stated that STIF had looked at TIPS since the last quarterly meeting and found that currently the yield they provide is not competitive with other investments available to STIF.

Mr. Desautelle stated that he was concerned that the size of the fund has decreased and did not want to be in a position of having to liquidate securities because it could increase the exposure to Floaters by reducing the cash. Mr. Terry stated that the cash portion of the fund is high and that inflows should begin with tax season. In addition, the floaters' maturities are spread out and not consolidated in the two-year area.

Mr. Coudert reviewed the performance of STIF. Mr. Coudert reported that for the quarter ending December 31, 2014, STIF earned an average annualized yield of 15 basis points, while our benchmark earned 2 basis points. Mr. Coudert continued, saying that for the one-year period ending December 31, 2014, STIF returned 15 basis points, outperforming our benchmark by 13 basis points. Mr. Coudert indicated that STIF's current yield was 16 basis points and that its weighted average maturity was 40 days. Mr. Coudert 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. Coudert discussed the current composition of STIF, indicating that one-day liquidity was approximately $2.4 billion, or 60 percent of STIF assets, and that 62 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 what other funds are paying. Mr. Coudert stated that many other funds average two basis points. Mr. Desautelle asked about Western Asset Management. Mr. Terry stated that WAMCO is the third largest fixed income manager and is owned by Legg Mason. Mr. Wilson added that the state's cash position is relatively low, but there should be an inflow of cash with the proceeds of a bond sale in March as well as tax receipts arriving in April.

Mr. Desautelle stated that with the world exporting deflation to the United States as well as the dollar climbing, he does not believe the Fed will raise interest rates anytime soon.

With no further business, Mr. Wilson adjourned the meeting at 10:29 a.m.