Minutes (Draft) of the
Cash Management Advisory Board
April 29, 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 10:04 a.m., and asked if there were any comments regarding the minutes of the January 2015 Cash Management Advisory Board meeting. Without any objections, the minutes were approved.

Mr. Terry stated that GDP data reported earlier in the morning was weak and followed weak employment and manufacturing statistics. Mr. Terry added that the current data has pushed back the expected increase in the federal funds rate from June until September or October. As a result of the weaker data, there has been a back-up in the one-year agency allowing STIF to purchase fixed rate bullets above 30 basis points. Mr. Terry went on to say that there was no value in the short end of the market with 3-month T-bills trading near zero and 1-month T-bills trading with negative yield. Mr. Terry continued by stating that the scramble for short dated government debt was a combination a decrease in debt issuance as well as increase demand created by 2a7 reform.

Mr. Terry stated that the Extended Investment Portfolio was been funded to ensure investors can maximize income during the volatile cash flow period of income tax season. Mr. Wilson added that by allowing the state to move assets from STIF to EIP, STIF stays out of a reserve position which allows investors to earn a higher yield.

Mr. Desautelle asked how much influence international arbitrage has on the treasury market. Mr. Terry replied that the opportunity is there but is limited due to currency volatility and therefore does not believe it to be having much effect on our markets.

Mr. Terry stated that the amount of capital banks are required to maintain makes doing repo uneconomic for them. As a result, banks are reducing their balance sheets which in turn reduces their repo books. For example, Bank of America reduced the repo line STIF maintains with them from $1 billion down to $450 million. Mr. Desautelle asked if the reduction has hampering liquidity. Mr. Terry replied that for STIF it was more of a shift in liquidity because of the ability to source alternatives to repo. Mr. Terry added that STIF continues to look at other counterparties, but the process has been slow due the sovereign immunity of the state. Fortunately, according to Mr. Terry, our General Counsel has been able to make the counterparties more comfortable with our language. Mr. Desautelle stated that he is concerned about liquidity in the market in general.. Mr. Terry replied that non-bank financial firms have been stepping up to provide liquidity.

Mr. Coudert reviewed the performance of STIF. Mr. Coudert stated that for the quarter ending March 31, 2015, STIF earned an average annualized yield of 16 basis points, while our benchmark averaged 3 basis points. Mr. Coudert continued, saying that for the one year period ending March 31, 2015, STIF returned 15 basis points, outperforming our benchmark by 13 basis points. Mr. Coudert indicated that STIF's current yield was 15 basis points and that its weighted average maturity was 36 days. Mr. Coudert added that STIF currently is not contributing to its $50.4 million reserves but had contributed for two days during the prior week.

Mr. Coudert discussed the current composition of STIF, indicating that one-day liquidity was approximately $3.2 billion, or 64 percent of STIF assets, and that 68 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, repurchase agreements backed by such securities and government money funds.

Mr. Coudert stated that the Extended Investment Portfolio (EIP) was funded with $425 million and earning approximately .075 basis points.

Mr. Wilson stated that the .075 basis points earned in EIP is higher than what STIF's rate would have been had it contributed to the reserve. The math, according to Mr. Wilson, works for the benefit of everyone.

Mr. Wilson stated that the annual conference was held in March and was attended by approximately 180 investors, presenters, and vendors. The conference made a surplus which will be carried over to next years meeting.

With no further business, Mr. Wilson adjourned the meeting at 10:24 a.m.