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## Advanced Money Market Fund Due Diligence for Effective Enterprise Risk Management

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# Money Fund Selection with Limited Treasury Resources

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# Akamai Makes the Internet Better for Business

Deliver on the Internet's promise:

- Reach a broader audience anywhere, anytime, on any device, on any network, wired or wireless
- Support globalized business applications
- Enable new business channels and models



Faster.

More Reliable.

More Scalable.

More Secure.

More Intelligent.

# The Akamai Global Network

The world's largest on-demand, distributed computing platform delivers all forms of Web content and applications for over 3,400 customers and 130,000 domains

89,000+  
Servers

3,000+  
Locations

950+  
Networks

650+  
Cities

70+  
Countries

Resulting in daily traffic of:

4000+ Gbps  
300+ billion hits  
10+ million concurrent streams  
30,000+ terabytes  
15 - 30%+ of all Web Traffic



# Akamai and Market Leaders

- One-third of the Global 500
- 29 of the top 30 global M&E companies
- All 20 top global eCommerce sites
- 90 of top 100 U.S. retailers
- All of the top anti-virus companies
- All major U.S. sports leagues
- All branches of U.S. military
- All of the top Internet portals
- 9 of the top 10 largest newspapers
- 8 of top 10 online publishers
- 9 out of 10 top social media sites
- 3 of the top 5 semiconductor companies
- 6 of the top 10 global banks
- 5 of the top 10 online brokerages
- 9 of the top 10 global Pharmaceutical companies
- 13 of the top 15 automakers
- 4 of the top 5 accounting firms



# Serving the World's Leading Businesses

Media & Entertainment



High-Tech



Commerce



Enterprise



Public Sector



# Financial Highlights

- ~\$1B 2010 Revenue
- ~\$5B Market Cap
- \$1.3B Cash Q2 '11
- Debt free
- FCF \$346M 2010
- Sales outside North America
- ~30% of total revenue

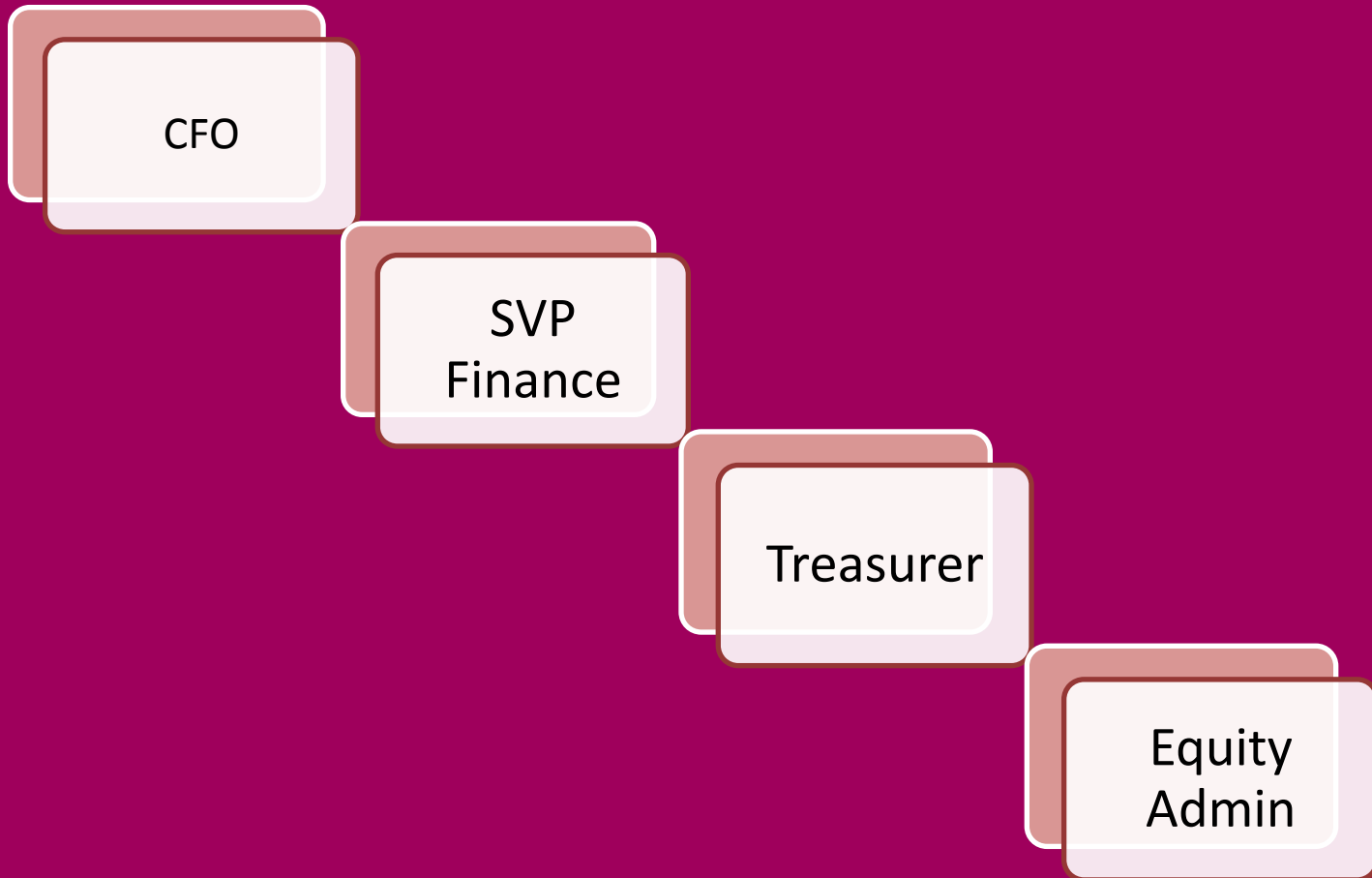
## Portfolio Strategy Overview

- Strategic Cash - \$900 million
- Operating Cash - \$200 million
- Offshore Cash - \$70 million
- Failed ASR - \$130 million



\$1B invested in ST and LT investments using two investment managers

# Treasury Organization





# Money Market Fund Selection: Problem Statement

- Objective
  - Minimizing risk and preserving principal is the highest priority as stated in Investment Policy
  - Risk should be viewed by individual fund and across funds
  - Given low yield environment, cost management is critical

How to minimize risk across portfolio given limited internal resources?

- Maximize access to information
  - Leverage outside resources as much as possible
  - Choose advisers and portals that provide quality data and analysis
  - Distribute funds among advisers to solicit a variety of viewpoints
  - Find the right people and keep them engaged

# Money Market Fund Selection: Considerations

- Iterative Process
  - Internal changes can lead to change in policy
  - External changes can create or highlight risks and opportunities
  - Portfolio and tools should be flexible enough to move on opportunities/away from risks as soon as they are identified
- Investment Policy Compliance
  - Asset Selection
  - Credit Quality
  - Tenor & Liquidity
  - Concentration Issues
- Regulatory Changes
  - New rules authorize fund's Board to suspend redemptions; formerly required an SEC order
  - Shadow NAV disclosure may not be actionable – half of portfolio is likely to have matured by the time of disclosure to the investors

# Money Market Fund Selection: Fund Evaluation

- Initial Screen
  - High-level sponsor review
  - High-level review of holdings
  - Fund size
  - Management
  - Relationship with channel
  - Yield outliers
- Deeper Dive
  - Credit review of holdings
  - Cross-holdings review
  - WAM/SWAM
  - Deep sponsor review
  - Shareholder risk

# Advanced Money Market Fund Due Diligence for Effective Enterprise Risk Management

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# About Capital Advisors Group

- Founded in 1991, Capital Advisors Group is an SEC-registered investment advisor based in Newton, MA
- CAG provides fee-based, separate account cash investment management for corporate treasury functions and other institutional accounts
- Approximately \$7 billion assets under management and 217 institutional clients nationwide

\* Client statistics as of 7/31/11

# A Fresh Perspective on Money Funds

- An investment pool exposed to credit and liquidity uncertainties
  - Risk opacity
- A vehicle for maturity and credit transformation
  - Susceptibility to confidence
- Promise of fixed net asset value (NAV) and penalty-free redemption
  - Conflicting objectives (rational irrationality)
- A deposit substitute without FDIC insurance
  - Competitive obstacles

# Fundamental Risks of Money Funds

## Credit Risk: Fund Price < \$1.00/share

- Rising interest rates
- Credit losses
- Expenses exceed income
- Large redemptions/runs

## Liquidity Risk: Halted Redemption

- Cash-outs > Cash-ins
- Net cash-outs > Available cash
- Can't sell assets to satisfy shortfalls in time without losses



# Recent Challenges - Regulatory

## Revised Rule 2a-7

- Daily/weekly liquidity, WAM, WAL, repo collateral, disclosures, etc.
- De-risking resulted in lower yield potential

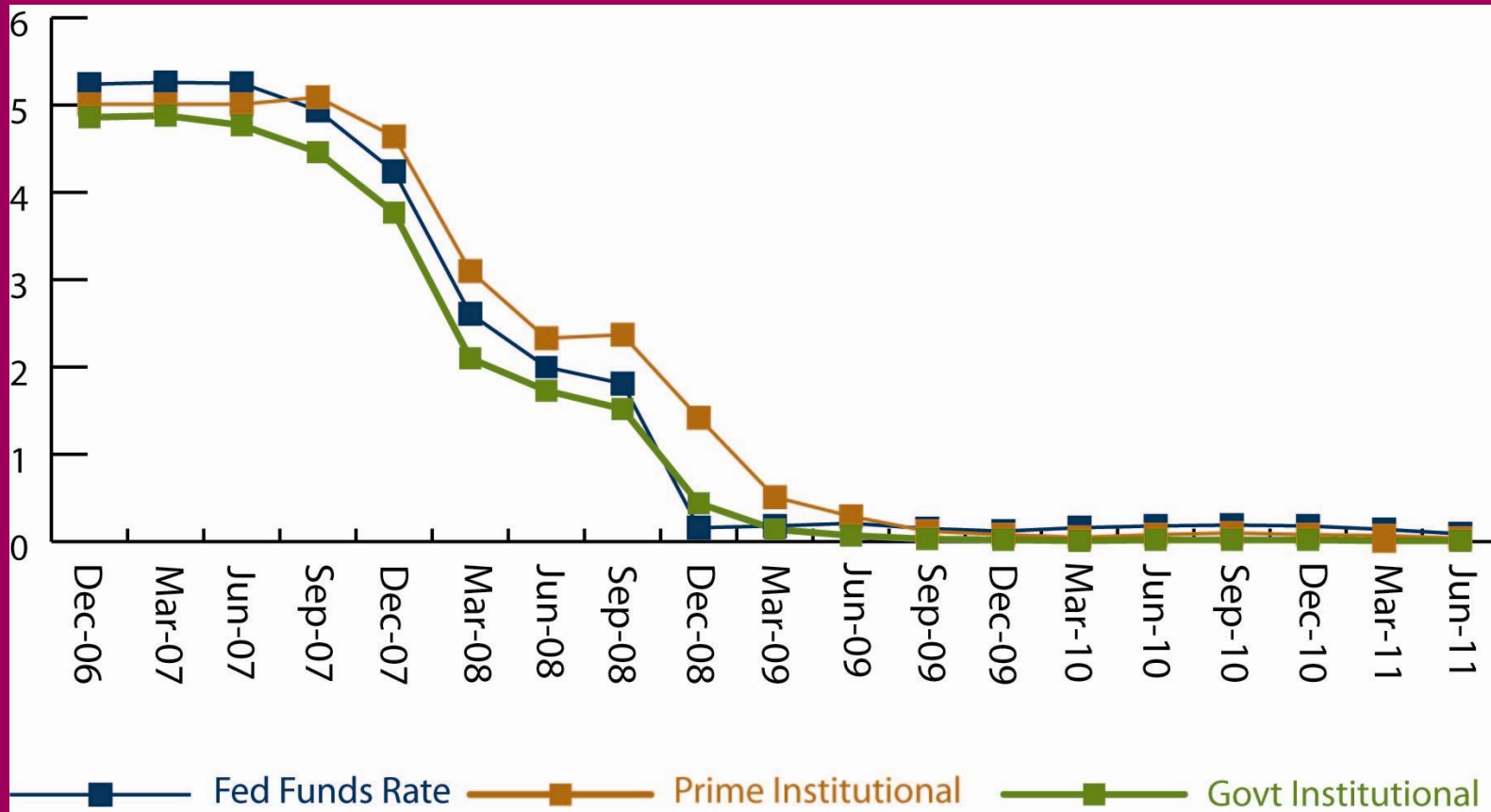
## Dodd-Frank Act and Basel III Accord

- Funding gap, interest on DDAs, FDIC insurance, higher bank capital/liquidity costs, potential SIFI designation
- De-risking results in lower yield potential

## PWG/FSOC Proposal

- Floating NAV – fundamental threat to business model
- Capital/reserve buffer – reduced investor/sponsor incentive
- Redemption fees/restrictions – reduced investor incentive
- De-risking may result in still lower yield potential

# Recent Challenges – Low Yield



Data source: iMoneyNet, Bloomberg

# Recent Challenges – Euro Debt Crisis

Top 10 Holdings of FundIQ® Prime Institutional MMF Peer Group \*

12/31/2009

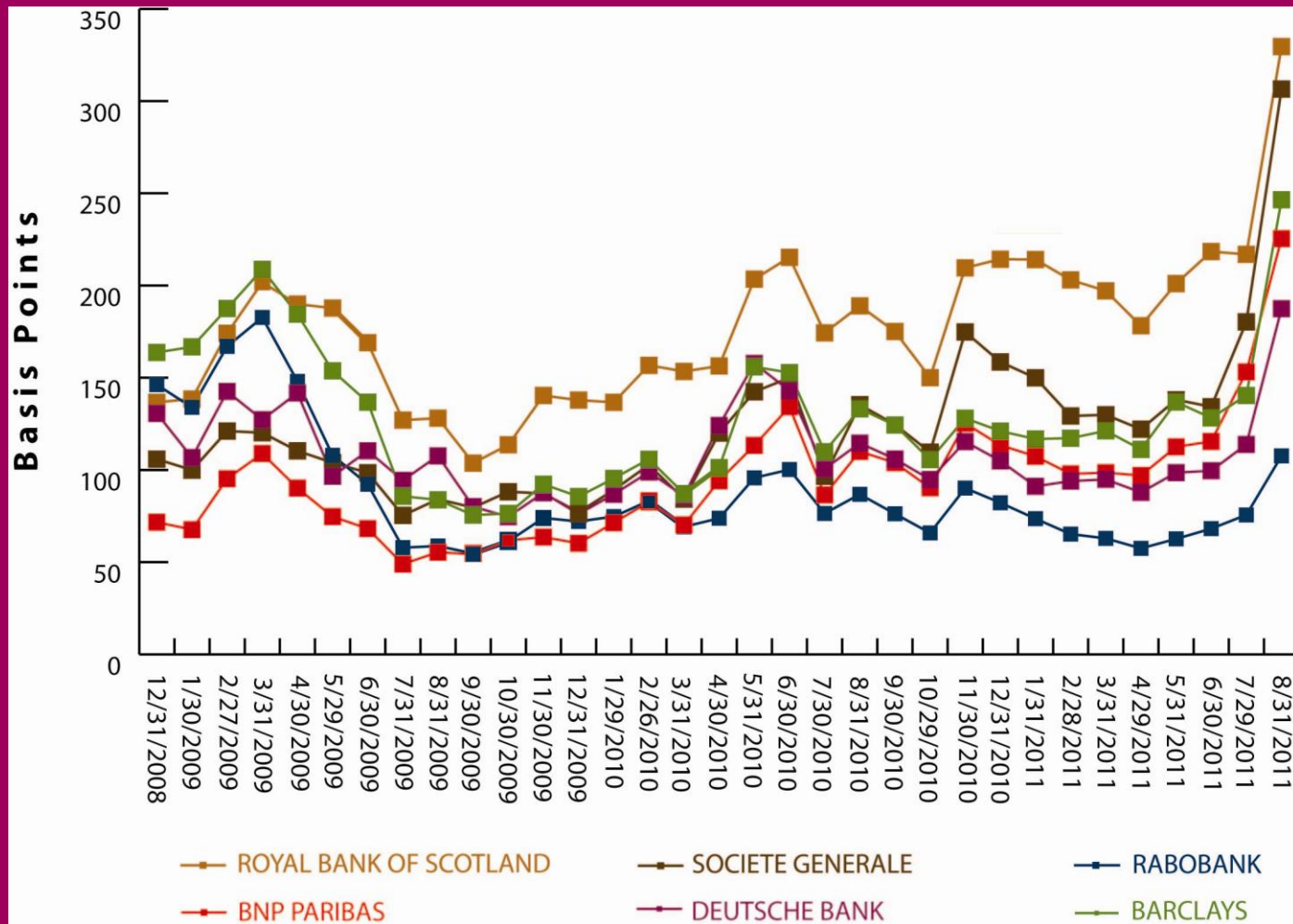
12/31/2010

7/31/2011

| I_TICKER    | Total  | I_TICKER    | Total  | I_TICKER    | Total  |
|-------------|--------|-------------|--------|-------------|--------|
| BNP         | 4.39%  | UST         | 4.23%  | BARC        | 5.09%  |
| RBS         | 3.89%  | RABO        | 3.81%  | DB          | 4.86%  |
| BANK        | 3.60%  | BARC        | 3.72%  | BNP         | 4.80%  |
| SG          | 3.56%  | ACAFP       | 3.70%  | UST         | 4.35%  |
| FHLB        | 3.53%  | BNP         | 3.66%  | RABO        | 4.15%  |
| ACAFP       | 3.52%  | DB          | 3.64%  | SG          | 4.04%  |
| RABO        | 3.50%  | BAC         | 3.45%  | RBS         | 3.77%  |
| BAC         | 3.49%  | SG          | 3.37%  | BAC         | 2.98%  |
| BARC        | 3.42%  | LLOYDS      | 2.99%  | JPM         | 2.80%  |
| LLOYDS      | 3.26%  | RBS         | 2.86%  | CS          | 2.76%  |
| Grand Total | 36.15% | Grand Total | 35.43% | Grand Total | 39.60% |

\* Based on Capital Advisors Group Inc.'s proprietary research. Capital Advisors Group rates 15 of the largest AAA-rated institutional prime money market funds. These funds are not necessarily the largest funds within this category rather they are funds that we believe are representative of the AAA-rated institutional prime fund market. For a description of the FundIQ® peer group, please refer to our website [www.capitaladvisors.com](http://www.capitaladvisors.com).

# Recent Challenges – Euro Debt Crisis



Data source: Bloomberg

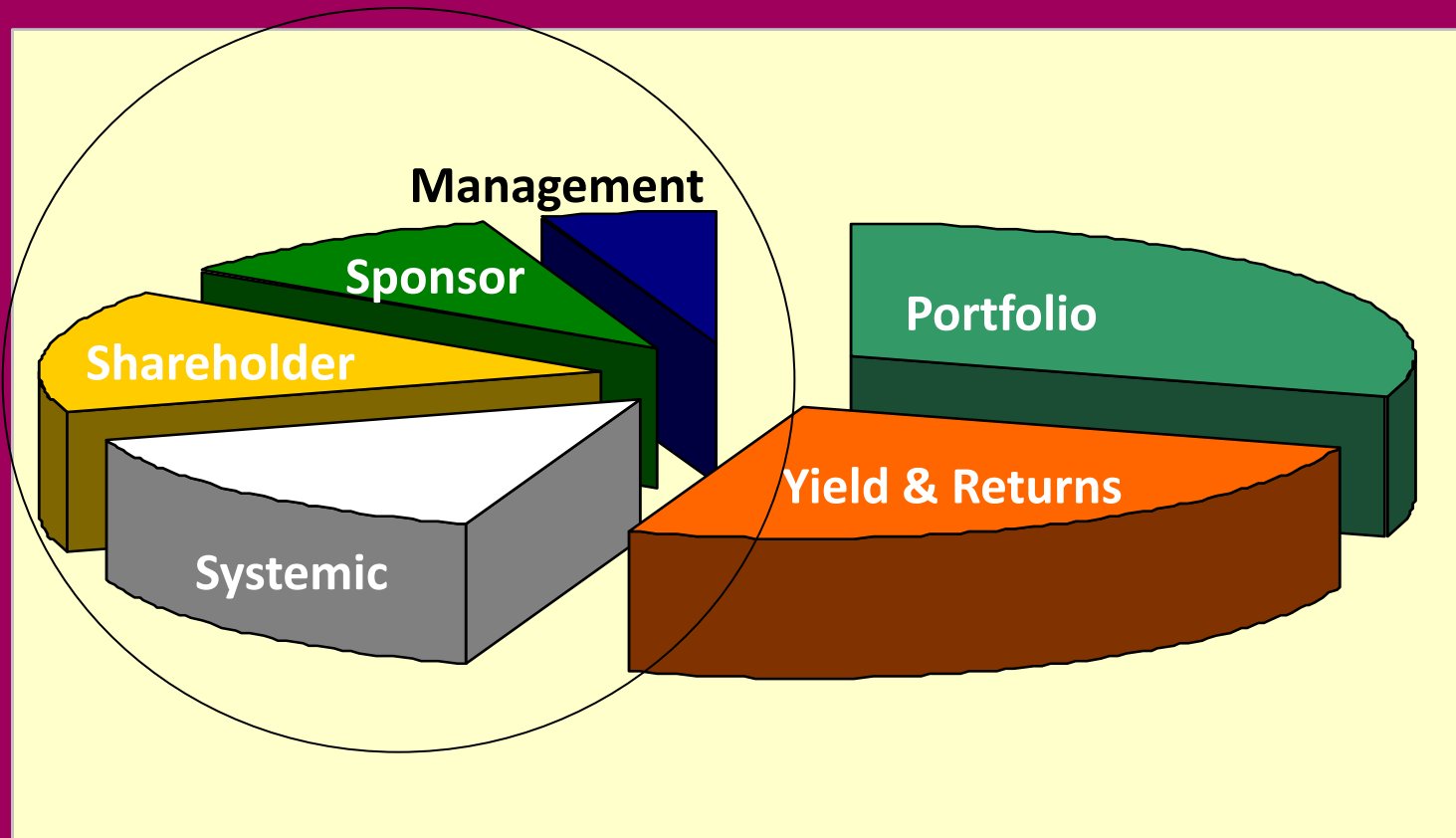
# Credit Ratings Tolerate Significant Dispersion in Fund Styles

Characteristics of 15 of the largest AAA-rated prime institutional money market funds:

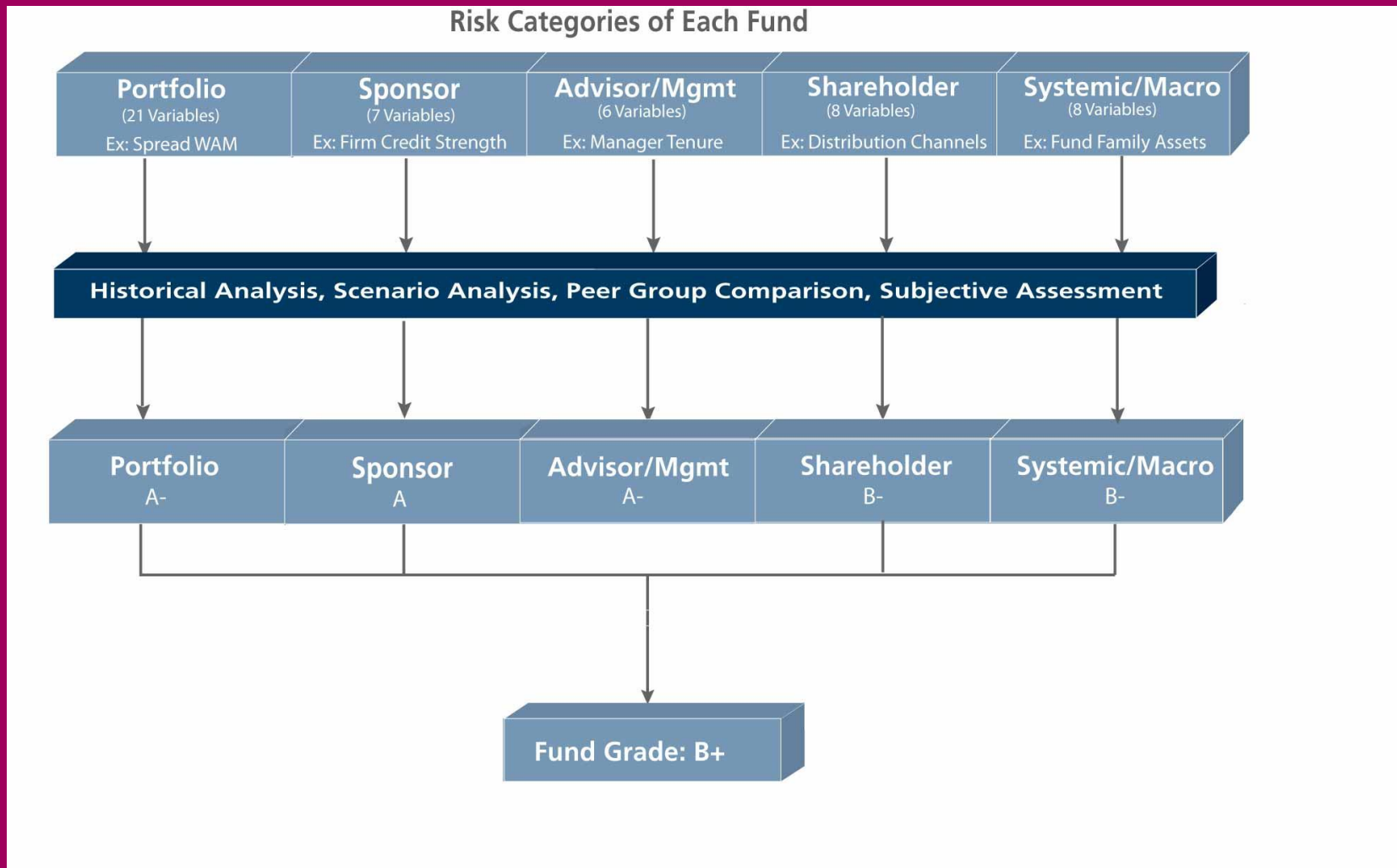
| <b>Portfolio Characteristics</b>       | <b>Low</b> | <b>High</b> |
|--|------------|-------------|
| Weighted Average Maturity              | 9 days     | 49 days     |
| Weighted Average Life                  | 33 days    | 96 days     |
| Overnight Liquidity (% of portfolio)   | 17%        | 47%         |
| 7-day Liquidity (% of portfolio)       | 29%        | 69%         |
| Asset-backed Exposure (% of portfolio) | 0%         | 27%         |
| Floating Rate Notes (% of portfolio)   | 0%         | 43%         |
| Non-traditional Repos (% of portfolio) | 0%         | 21%         |

Data source: Capital Advisors Group proprietary research as of 7/31/2011

# Conventional Due Diligence Overlooks Major Risk Categories



# Scoring Process: How We Do It



# Portfolio – Maturity/Liquidity

| <u>Challenge</u>          | <u>Solution</u>          |
|---------------------------|--------------------------|
| Stated & final maturities | Reset, effective & final |
| Daily/weekly liquidity    | Organic (excl. GSE)      |
| Repo > 7 days = illiquid  | Repo > 1day = illiquid   |
| Time Deposits = illiquid  | TD > 1day = illiquid     |



# Portfolio – Issuer Concentration

| <u>Challenge</u>   | <u>Solution</u> |
|--------------------|-----------------|
| CP/CD/notes        | Parent          |
| USCP by subs       | Parent Domicile |
| ABCP/SPV           | Parent          |
| Muni LOC           | Liquidity bank  |
| Repo counter-party | Parent          |

# Non-Portfolio Factors

- **Sponsor** – Economic linkage, systemic status, regulatory hurdles
- **Advisor** – Track record, resources
- **Shareholder** - Fund flows, distribution channels, incentive programs
- **Macro** – Regulatory tendencies, investor confidence, risk premium

# Dispersion Revealed by Research

Sample Scores of Large AAA-rated Prime Money Market Funds \*

|                      | Fund A         | Fund B         | Fund C         | Fund D         |
|----------------------|----------------|----------------|----------------|----------------|
| Description          | Bank Sponsored | Bank Sponsored | Bank Sponsored | Bank Sponsored |
| WAL                  | B+             | A-             | A              | A              |
| Repo Risk            | A-             | D              | A-             | A-             |
| Structure            | B+             | B-             | C+             | A-             |
| Management           | A-             | B-             | B+             | B              |
| Shareholder          | B-             | B-             | C+             | A-             |
| <b>Overall Score</b> | <b>B+</b>      | <b>B</b>       | <b>B-</b>      | <b>A-</b>      |

\* For illustration purposes

# Conclusion: Going Beyond Ratings and Due Diligence

- Understand fundamental risks of MMFs
- Understand challenges to MMFs
- Understand the MMF ecosystem and develop a plan accordingly
- Go beyond fund ratings and due diligence

# Q & A

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