

AFP® Annual Conference



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INFORMATION



A Postmodern Paradigm for Corporate Cash Management

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The Liquidity Market: A Money Fund Manager's Perspective

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Looking Back

- 2007 – Market focus on liquidity
- 2008 – Market focus on credit
- 2009 – Market focus on low yields
- 2010 – Reversal of quantitative easing

Quantitative Easing: Are We Done Yet?

- Discount rate raised from 0.50% to 0.75% on 2/19/10
- Completion of Fed purchase programs
- FRBNY Reverse Repo with Primary Dealers
- FRBNY Reverse Repo with Non-Traditional Counterparts – i.e., Money Market Funds

New World, New Oversight

- FRBNY Tri-Party Repo Working Group
- Liquidity Exchange Bank
- Rule 2a-7 reviewed and reworked

Changes to Rule 2a-7

Portfolio Quality	New or existing	Can money market funds implement immediately?
Second Tier ≤ 3%	Enhancement of existing requirement	Yes
Designated NRSROs	New	Yes Board approval required

Changes to Rule 2a-7

Portfolio Maturity	New or existing	Can money market funds implement immediately?
WAM Max 60 Days	Enhancement of existing requirement	Yes
WAL Max 120 Days	New	Yes

Changes to Rule 2a-7

Portfolio Liquidity	New or existing	Can money market funds implement immediately?
Illiquid Securities ≤ 5%	Enhancement of existing requirement	Yes
Minimum Daily Liquidity 10%	New (taxable funds)	Yes
Minimum Weekly Liquidity 30%	New	Yes
Know Your Client Procedures	New	Yes

Changes to Rule 2a-7

Stress Testing	New or existing	Can money market funds implement immediately?
Stress: <ul style="list-style-type: none">– Interest rates– Cash flow– Downgrade or default– Spreads	New	Yes Board reporting required

Changes to Rule 2a-7

Improve Operations	New or existing	Can money market funds implement immediately?
Fund Liquidation: Board permitted suspension of redemptions if liquidating	Revision of existing authority	No
Ability to process transactions at price other than \$1	New	Yes
Exemption for Affiliate Purchases – SEC notice, not permitted	Enhancement of existing practices	Yes

Adoption of New 2a-7 Rules: What To Expect When

- **5/5/10** - Overall rule effective date
- **5/28/10** - Compliance required for quality, individual security maturity, liquidity and repo changes
- **6/30/10** - Compliance required for weighted average maturity and weighted average life changes
- **10/7/10** - Compliance required for monthly portfolio Web site disclosures
- **12/7/10** - Compliance required for monthly reporting to SEC of mark-to-market NAV and other portfolio details (to be published by the SEC on a 60-day lag)
- **12/31/10** - Compliance required for NRSRO disclosure
- **10/31/11** - Compliance required for processing transactions at other than \$1 NAV

Looking Ahead

- Further steepening of the yield curve anticipated
- Rates have bottomed
- Money market fund yields lag
- Reversal of quantitative easing continues
- Actual fed tightening begins
- Economic slow-growth allowing for slow and steady rate increases

**Money Funds in Corporate Cash Management:
*Do they – can they – work together?***

Tales from the Front Lines:

Nancy L. Edwards, CTP
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Kathleen Clune
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A Look Back

- Prior to the fall of 2008
 - Is my fund rated?
 - Government and Treasury funds
 - “All fund managers are professionals”
 - Some funds better than others?

My Awakening

- Fall 2008 through 2009
 - Reserve Fund “broke the buck”
 - Am I earning any interest? (and how I found out)
 - Attended the Crane Money Fund Symposium
 - Fund Managers are professionals
 - Money Funds are a BIG deal

New World, More Due Diligence

- Match investment policy
 - Verify by reviewing fund holdings
- Verify ratings on funds
- Closer look at yields
- Review fund managers – not all are created equal

Our Outlook Today...and Down the Road

- Increased awareness of the relationships between security issuers, fund managers, fund purchasers
- Theme at Crane Symposium 2010
 - Funds' supply problems
- Watching discussion on floating NAV

Past Practice

- Selected funds based on relationships
- Used rated prime funds only
- Daily investments based on rate of return
- No caps on level of investment

Reality Strikes Back (and Hard)

- Watched a hybrid institutional liquidity fund collapse
- Queried by senior management and board of directors on stability of vehicles
- Conference calls with all investment managers
- Cash became King!

Current Issues We Face

- Diversification in and out of funds
- Importance of fund as an investment vehicle
- Floating NAV – My opposition
- Liquidity is King!

Moving Forward

- More independent research
- Quality reviews
- Due diligence at portfolio level of funds
- Cap in funds
- Smaller stable of investable funds