

**Minutes (Draft) of the
Cash Management Advisory Board
January 29, 2019
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
Leonora Gjonbalaj, Investment Technician II, STIF

Minutes:

Assistant Treasurer Lawrence Wilson called the meeting to order at 1:04 p.m.

The minutes of the October 31, 2018 meeting were approved unanimously.

Mr. Terry discussed the market environment specifically the fact that for the first time in awhile market participants are not expecting a hike in the Fed Funds rate. In fact, according to Mr. Terry Eurodollar futures are predicting a fifty percent chance of a rate cut in the next year. Mr. Terry stated that the fund is managing its investments based on market expectations of future interest rate moves, as well as internal market expectations. Mr. Terry added that STIF is using its contacts to try to source the few available agency securities offered in the nine to twelve month area.

Mr. Desautelle stated that he believes the Treasury market is predicting an economic slow-down and believes STIF is doing the right thing by extending duration. Mr. Thompson asked what the yield comparison between agency and treasury securities is in the one-year period. Mr. Terry replied that the spread had been as wide as 10 basis points between treasuries and agencies but continued to decline particularly when looking at off the run treasury coupon securities.

Mr. Coudert stated that for the quarter ending December 31, 2018, STIF earned an average annualized yield of 2.28 percent versus 2.11 percent for the iMoneyNet benchmark. For the one year period ending December 31, 2018, STIF earned 1.89 percent while the benchmark earned 1.77 percent. According to Mr. Coudert, STIF's current yield is 2.45 percent with a weighted average maturity of 38 days and a weighted average life of 75 days. Mr. Terry added that the current rate of 2.45 percent includes a 10 basis point charge to the reserve.

Mr. Coudert stated that STIF had contributed to the reserve almost continuously since the board last met in October. According to Mr. Coudert, STIF reserves total nearly \$65 million with approximately \$3.5 million having been added in the 2019 fiscal year. According to Mr. Coudert, daily liquidity is approximately \$2.8 billion or 37 percent of the fund. In addition, 33 percent of the portfolio is invested in securities with some sort of government support such as government backed repurchase agreements, agency securities, and deposits backed by Federal Home Loan Bank letters of credit.

Mr. Thompson asked about the prospect of reprivatizing Fannie Mae/ Freddie Mac and how that would impact credit quality. Mr. Terry replied that a plan is expected in the next few weeks but he expects current issues to be grandfathered in with the same implied government guarantee.

Mr. Coudert stated that the Extended Investment portfolio has assets of \$1.5 billion earning 2.59 percent with an average life of 45 days.

Mr. Terry stated that STIF looks at credit from both a fixed-income and equity perspective. At the moment Johnson & Johnson has been taken off the approved list, not necessarily because of credit deterioration but because the additional yield does not offset the risks of having the issue in the portfolio given recent negative news.

Mr. Gagnon stated that STIF added both Berkshire Bank and Santander Bank to the approved list. Each bank is supported by letters of credit issued by a FHLB. According to Mr. Gagnon, adding these banks has allowed STIF to reduce exposure to other banks in the STIF portfolio.

Mr. Wilson stated that additional members will be added to the board over the coming months.

With no further business, Mr. Wilson adjourned the meeting at 1:36 p.m.