

SESSION FOUR

Investment Options: Liquidity Funds



WILL GOLDTHWAIT
Client Portfolio Manager
State Street Global Advisors

MATT PAULIN
Finance Director & Treasurer
City of Elk Grove



Session Details

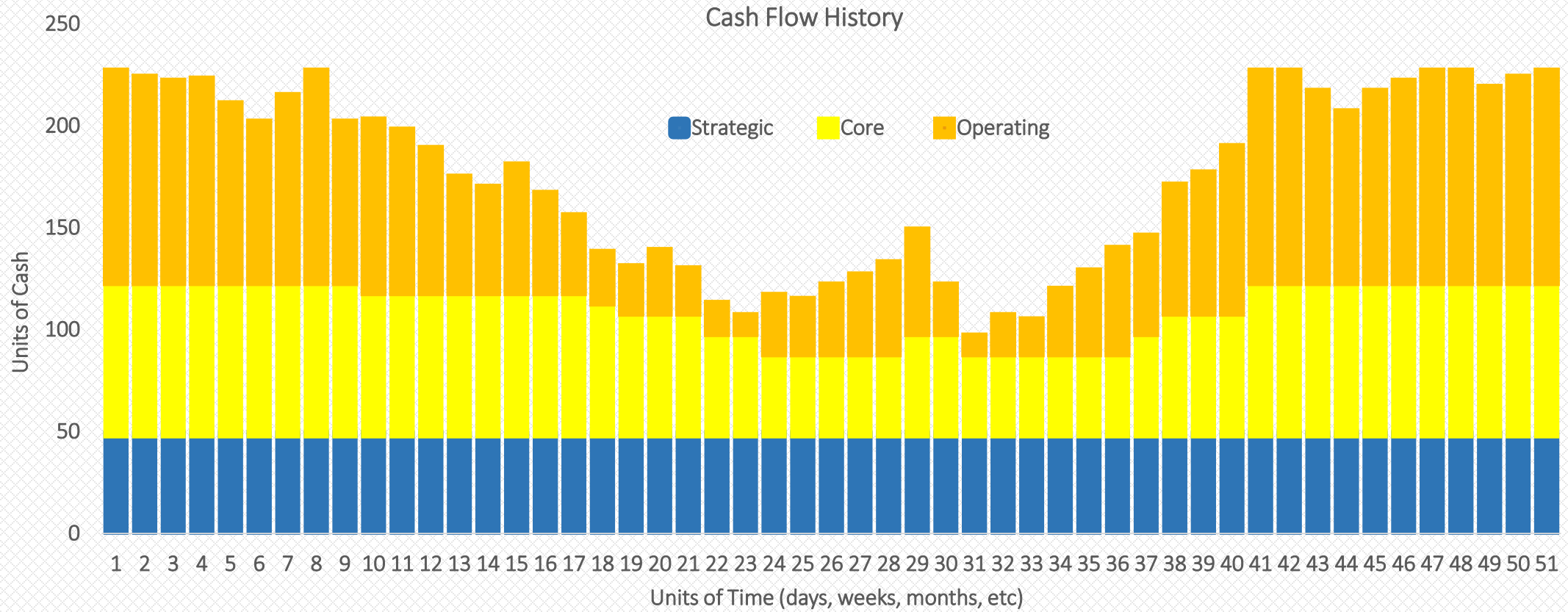
This session will include a detailed analysis of investment options considered to be liquid, such as pooled money accounts, money market funds, and California's Local Agency Investment Fund (LAIF). The speakers will include discussion of fund and risk attributes and accounting practices used in these vehicles.

Additionally, there will be discussion of how your liquidity vehicle could perform through various economic and market cycles.

Goals of the Presentation

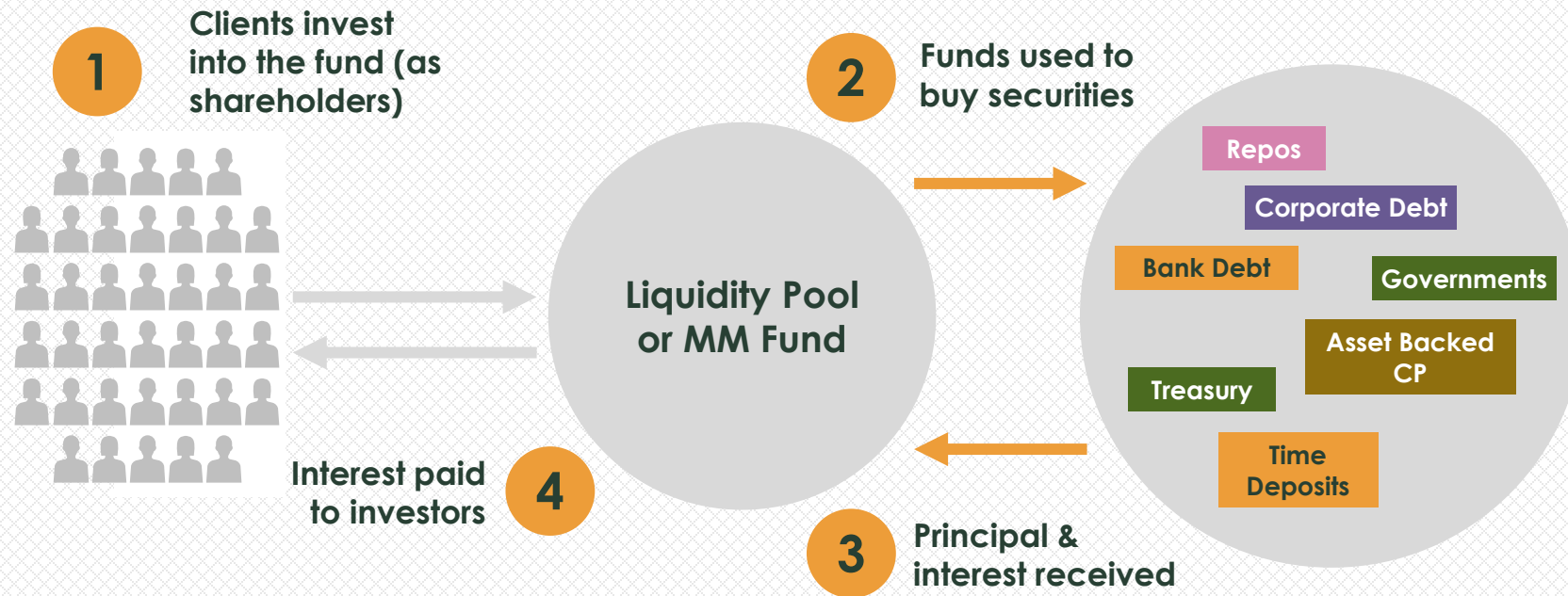
- Recognize the type of liquidity needed to accomplish the three primary objectives for a public agency portfolio
- Understand the tension and tradeoffs of investing for higher liquidity vs. higher yield
- Identify the advantages and disadvantages of the different types of structures that offer more or less liquidity
- Analyze the key strategy attributes to avoid challenges through various market environments and support an agency's cash flow needs

Cash Flows



For illustrative purpose only

How Does a Liquidity Pool or Money Market Fund Work?



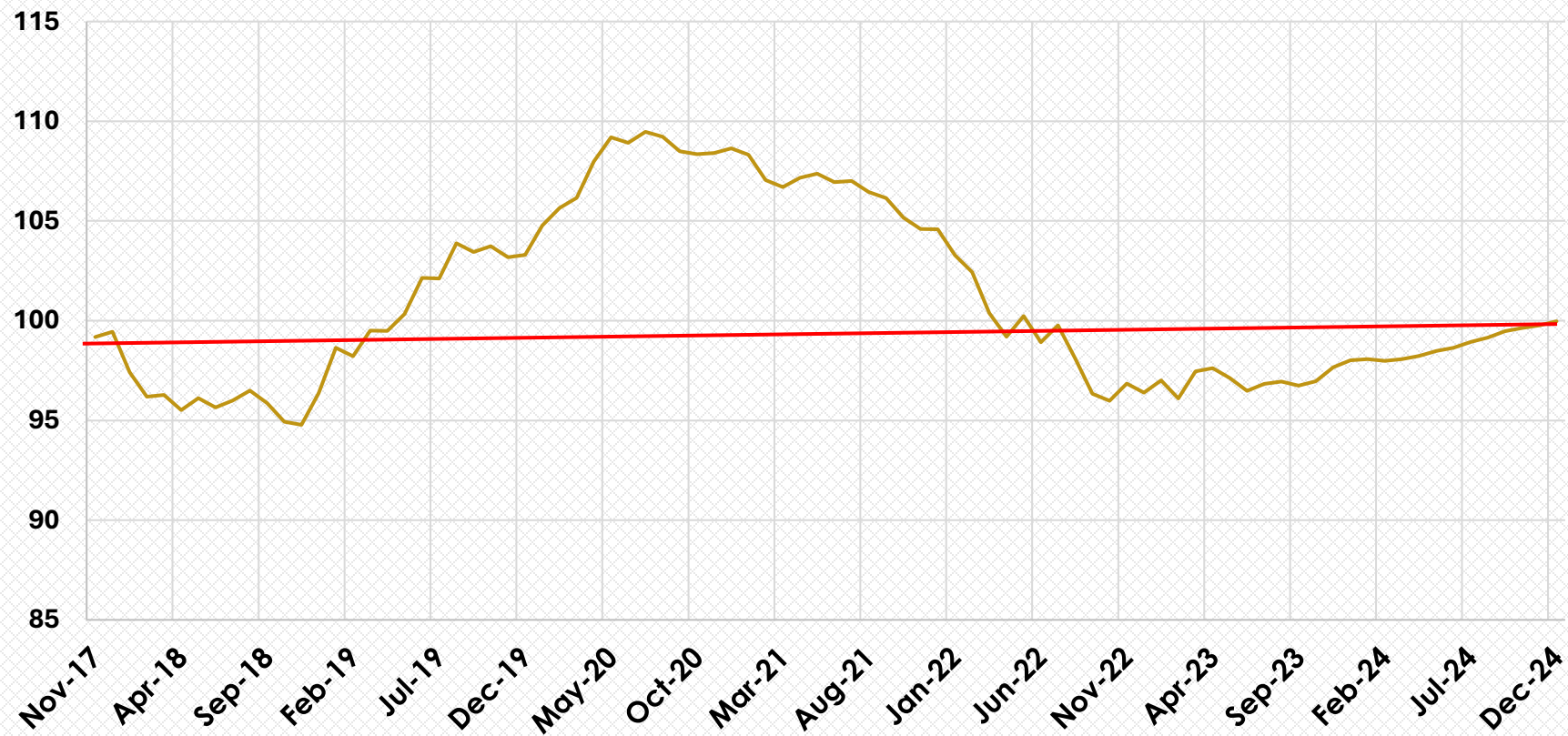
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What Can They Invest In?

- US Treasury Debt
- Government Agency Debt
- Commercial Paper (corporate, bank, asset-backed)
- Certificates of Deposit (bank)
- Debentures and Medium-Term Notes (corporate, bank)
- Repurchase Agreements (Reverse Repurchase Agreements)

Fixed Rate or Floating Rate – Discounted or Interest Bearing

Amortized Cost Accounting



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Attributes – What To Look For

- Weighted Average Maturity (WAM)
- Weighted Average Life (WAL)
- Legal Final Maturity
- Concentration and Diversification
- Liquidity Levels – Daily, Weekly, Monthly, Quarterly –
What Counts Towards Liquidity
- Market Rate of Return – 1-day, 7-day, 30-day Yield

Rules: Is There a Standard?

- Weighted Average Maturity – 60 days
- Weighted Average Life – 120 days
- Legal Final Maturity – 397 days
- Concentration and Diversification – 5% per name
- Liquidity Levels – Daily, Weekly, Monthly, Quarterly –
What Counts Towards Liquidity – 10%, 25%, 30%, 50%

Operations

- How to access the fund – direct or portal, manually or electronically
- When does the fund close
- Are there any limits on redemptions – we don't like limits
- **Is the process easy? We like easy**

Disclosures and Transparency

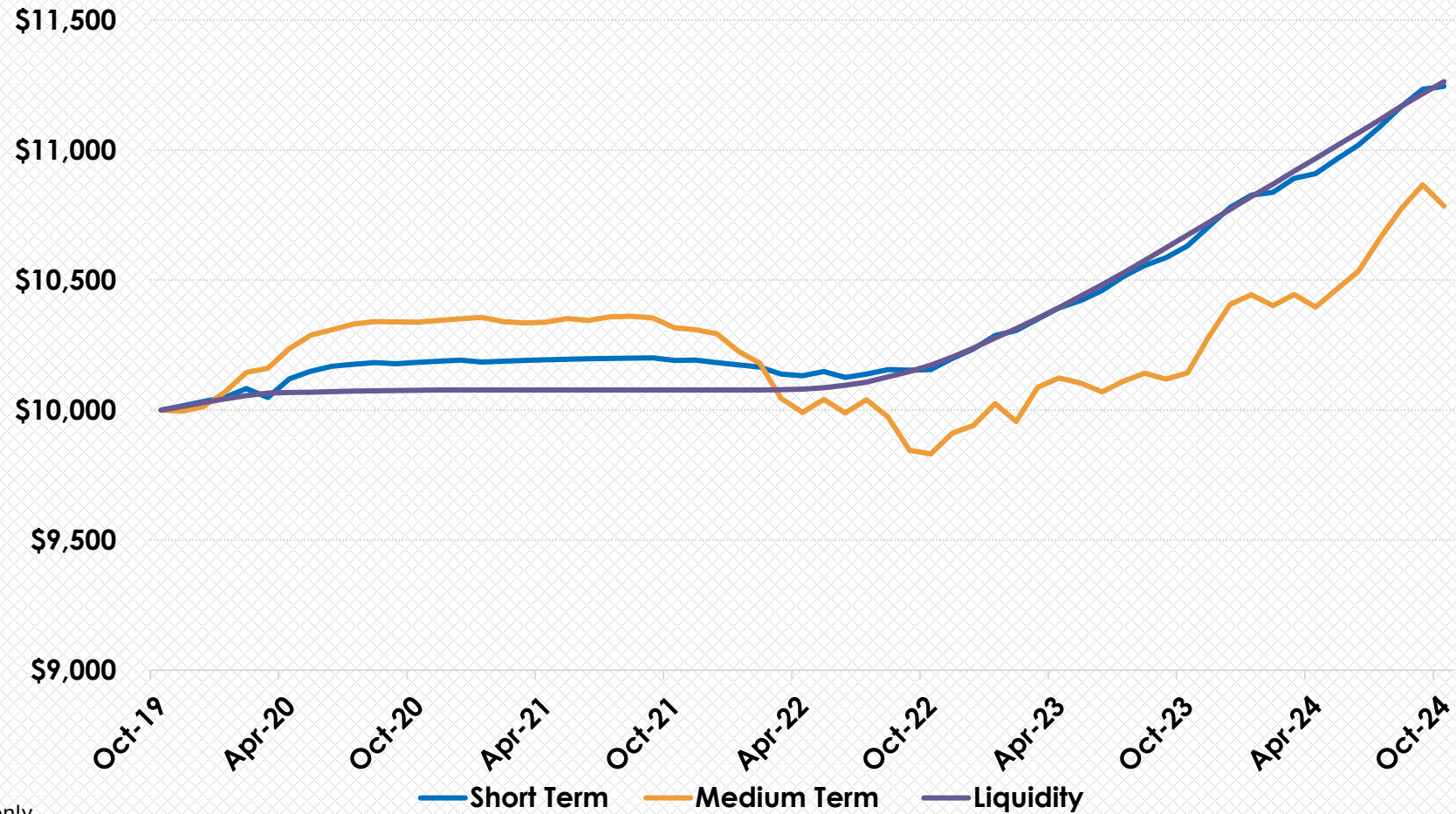
- Website Disclosure
- Regulatory Disclosure
- Yield, WAM, WAL, Liquidity, Shareholder Activity
- Holdings

Ask Questions!

Credit Ratings

- Why do funds or pools have ratings?
- How are funds rated AAA when all the assets are not?
- Are all credit rating agencies the same?

Yield vs. Total Return



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What Are Some of The Biggest Risks

- Default or impairment – delay of repayment
- Duration – interest rate shock
- Banking Crisis (2008)
- Liquidity Crisis (2020)
- Single Name (2023)

Summary

- ✓ Understand a money market fund and liquidity pool
- ✓ Understand how to evaluate your investment options
- ✓ Knowing what is owned
- ✓ And what the risks are
- ✓ Holding the manager accountable

QUESTIONS?



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