12/7/11 CDIAC Webinar Transcript

Good Morning everyone, we will begin in 10 minutes.

Attendees who are logging on and do not have sound go to the top of your toolbar where the microphone is and make sure it is not marked with a red " x" as this indicates that you are muted and will not be able to hear. In addition, if you still don't have sound you may have to log off the Live Meetings event and log back on. There still seems to be a few participants that have joined the classroom with no sound. Again, check your system and make sure your sound is not muted so that you can hear the presentation we are about to start.

Good morning everyone and welcome to the California Debt and Investment Advisory Commissions webinar. Our webinar programming is one more part of the CDIAC education series on public investments and is part of our continuing education programs.

Today, CDIAC's webinar is focusing on public investment portfolio options using alternative agency securities. The goal of this webinar is to provide you with information on these types of investments and include a state agency perspective of the use of these options in the investment portfolio. We have some several expert speakers for this program who we will introduce.

First, we'd like to welcome you to the program today, and go over a couple housekeeping tips before we begin the webinar. As many of you have joined the session we'd like to show you how to navigate through the webinar. At the top of your system is a toolbar where you will see attendees, then you will see a feedback button? If you hit the arrow keys you can see at any time today you can provide feedback to us. For example if you want us to slow down or if you have a question. The other feature I would like to point out is you have a question and answer tab at the top of the toolbar so at any time if you have a question you can hit the tab and type in your specific question and as we will monitor your questions and can answer them during the presentation. If we do not get to all of your questions throughout the webinar address them at the end of the presentation. That being said, we have a few polling questions that we would like to ask.

Question: Are you a representative of A ?
State, federal, city, county, special district, school or county of education or other municipality.
As you can see we have a majority of the class slightly over 65% coming from cities, and we have about 22% from counties, and we have a few state and federal folks with a few "other types" of agencies with us today.

Question: Can you tell us how many participants are at your location or your computer terminal. Is it just yourself, or if you have a number of other folks participating on this webinar. This way we can get a feel for the size of the classroom.
We can see over 75% are you at your terminal, so we have about 50 folks registered for this class. Great!

Question: Can you tell us if your agency currently utilizes Government-Sponsored Enterprises in your portfolio.
We see about 22 folks currently use GSE's in their portfolio.

Question: Can you share with us your interest in alternative agency security options.

We have almost half of the class interested in hearing presentations on green bonds, supranational's and Farmer Mac., with a great emphasis on Farmer Mac.

Question: Lastly, we would like to know if your agency's investment policy permits the use of Government Sponsored Enterprises.
Answer not provided
.
Thank you for your participation with our polling questions and I would like to introduce you to our moderator that will be facilitating the webinar today along with the presenters.
Mr. Tony Garcia is the Vice President of Fixed-Income Sales at Wells Fargo Securities where he represents the fixed income sales of the Sacramento, California office. During his career, Tony has focused on fixed income sales to public funds and corporate clients. In addition, he has presented a number of education topics at the CMTA, CDIAC & CSFMO conferences, and is a member of the following organizations such as the Chartered Financial Analysts Institute and Securities Analysts of Sacramento, California Municipal Association California, and the California Association of Treasures and Tax Collectors.
Mr. Garcia received his Bachelor of Arts in Business Administration and a Finance degree from the University of Texas, Austin and completed his master degrees in 1990 from the National University. In addition he currently holds the Chartered Financial Analyst (CFA) designation.

Thank you Linda, I appreciate the opportunity to be here today and, I want to thank all the presenters, the state and CDIAC for putting this webinar on today and most of all I want to thank all the participants for being here. Obviously, without your support and participation we couldn't do this.

We have a great panel of presenters set up for you today and I would like to introduce them. First we have Jim De Masi and he will discuss the current state of the Government Sponsored Enterprise Market. Secondly, we have Rich Eisenberg, who will introduce Farmer Mac to those of you who are unfamiliar with Farmer Mac as well as provide an update for us on where the agency is. In addition, we have George Richardson and he is going to be discussing the World Bank Supranationals and Green Bonds, and then lastly, Dan Dowell will discuss the Pooled Money Investment Account (PM IA) and communicate with us the daily challenges of how to manage a portfolio in this environment.
That being said, I would like to formally introduce our presenters and we ask that you ask questions and I would certainly encourage any of you with questions that we don't get to answer, that you reach out to each to the speaker directly as I am sure they would love and be given the opportunity to answer your questions.

The first presenter today will be Mr. Jim De Masi.
Jim currently manages the Fixed Income Research and Strategy Group for Stifel Nicolaus Capital Markets which provides analysis, market insight and portfolio management advice to a wide range of institutional investors. Prior to joining Stifel Nicolaus in 2000, Jim worked for the FDIC in Washington DC. During his 13 years at the FDIC his primary responsibilities included managing the capital markets training program for examiners and assisting bankers in complying with regulatory policies regarding securities and interest-rate risk.
Jim received his Bachelor's degree in Finance from West Virginia University.

The second presenter today will be Mr. Rich Eisenberg who joins us from Farmer Mac where he is the

Assistant Treasurer for Farmer Mac, which is a stockholder, owned federally chartered instrumentality of the United States that provides a secondary market for agricultural real estate and rural utility loans. Prior to joining Farmer Mac in 2009, Mr. Eisenberg was the Corporate Treasurer of the National Rural Utilities Cooperative Finance Corporation in 1995; he also served as the Vice President of Corporate Finance for Fannie Mae from 1982 to 1995.
Rich received a Bachelor of Arts degree in Economics from the University of Michigan and a Master's degree in Economics from Berkeley.

The third presenter today will be Mr. George Richardson who has joined us from the World Bank Treasury and is the head of the Capital Markets Group. The group is responsible for issuing bonds for the World Bank in the Capital Markets. Prior to joining, he was the head of the Goldman Sachs' Sovereign, Supranational, and Agency asset liability management desk at Sovereign, Supranational and Agency treasuries around the world.
George received his Master's degree in Business Administration from Boston University, with a Finance degree from London Business School, and has an Aeronautical Engineering degree from the Ohio State University.

The fourth presenter today will be Mr. Dan Dowell who is joining us from the State Treasurer's Office, and obviously he needs no introduction as I think we all know him very well, is the Director of Investments for the State Treasurer's Office and is responsible for the planning, organization and direction of the $65 billion Pooled Money Investment Account portfolio. In addition, he's also responsible for negotiating the purchase or sale of various securities and sits on various State Boards & Commissions. Mr. Dowell's experience includes work in the Trust, Accounting and Investment Divisions and he's dedicated more than 27 years of service to the State treasurer's Office while serving 8 different treasures.
Dan received his Bachelor of Arts in English Literature at California State University Sacramento.

As you can see by introducing these presenters I think we've got a great panel here with us today, and with that I would like to hand it off to our first presenter Mr. Jim De Masi who will give us an update on where we are in the Agency Market.

Jim De Masi's Presentation

Slide 1:

Thank you, Tony and good morning to everybody. This is Jim De Masi and I am pleased to be part of today's panel discussion on Government Sponsored Enterprises (GSE) debt securities and I'd like to start by thanking CDIAC for inviting me to participate in this webinar today.

Slide 2:

My presentation today is designed to provide an overview of the GSE Debt Market and I am going to briefly comment on the four topics that you see on this slide. First I will identify the major GSE's that issue debt, and I will discuss the primary functions of each agency. Secondly, I will review the prospects for resolving the Fannie Mae, Freddie Mac conservatorship as well as note the key points an investment has to consider in evaluating "trade-offs" that are inherently in securities. Then finally I will discuss the rewards and evaluate the characteristics of GSE instruments.

Slide 3:

On this current slide there are six major GSE’s for the government and these are good debt securities that are listed as GSE's, due to the corporate structure and their government affiliation. The first three agencies listed here are known as the housing GSE’s since they all share a common mission of expanding the availability of reasonably priced mortgage loans. However, while all three do focus on housing there are some important differences between the Home Loan Bank and Fannie Mae & Freddie Mac that all investors should be aware of certainly in terms of their ownership base, their business model and their financial condition. A few of the highlights of the Home Loan Bank system is it consists of 12 regional Home Loan Banks with each regional bank making secure loans to financial institutions within their districts. Each financial institution uses its funds to make residential and commercial loans to borrowers and these loans made by the Home Loan Bank system are funded through debt issuance. In addition, the Home Loan Bank system has a “cooperative” ownership structure where the regional home loan banks are owned by the financial institutions that they lend money too. However, in contrast to Fannie Mae and Freddie Mac the Home Loan Bank system has remained profitable and well capitalized throughout the housing downturn and the economic recession. Furthermore, Fannie and Freddie are very similar companies in that they compete with each other and as they share a common business model, in that both companies buy loans originated by mortgage lenders and, they either maintain the loans or they sell their loans to third-party investors in the form of “mortgage-backed securities”, in exchange for a guarantee fee. Fannie and Freddie assume the credit risk associated with the “mortgage-backed securities” that they sell to investors, and they both issue bonds to fund the mortgage loans that they retain on their balance sheets. Additionally, they were entirely owned by private shareholders until September 2008, when they were determined they did not have sufficient capital to operate in a safe and sound matter and were placed into federal conservatorship. Subsequently, the U.S. Treasury now owns approximately 80% of Fannie and Freddie, and as previously mentioned these two GSE's have operated under federal oversight since September 2008, and to date have suffered well over $150 billion in losses over the past three years.

The Federal Farm Credit System and the Farmer Mac housing GSE's focus on expanding agricultural lending to borrowers through a credit system that makes agricultural loans strictly to qualifying borrowers. Farmer Mac which is a part of Farm Credit promotes the purchasing of long-term obligations. Today we have a representative on the phone from Farmer Mac that will describe his organization in greater detail.

Tennessee Valley Authority (TVA) is unique in a couple ways, first it doesn't have shareholders nor does it have members, as it is a fully owned corporation of the US government. Secondly its mission doesn't involve credit availability at all. Essentially it is a power company that was set up during the 1930’s to reduce flooding in the Tennessee Valley and also creates electricity from water power for economic, and defense purposes. Its operations are partly funded through bond issuance, so I think the key take away for investors, is really the following: When you are considering GSE debt, it's important you understand the business model, and the business condition, since the debt issued by the entities is not backed by the full faith and credit of the US government. Although, the U.S. Treasury has provided extraordinary financial support to Fannie and Freddie over the past three years, and that has effectively protected senior bondholders, I think investors must be cognizant of the fact that the federal government does not have a legal obligation to provide the same type of open-ended assistance should another GSE encounter financial difficulties.

Slide 4:

In addition, and in terms of market size, looking at this slide the GSE market is quite large aside from a few sovereign countries around the world, the GSE's are among the largest debt issuers globally. Each of the three housing GSE's, Fannie Mae, & Freddie Mac alone hold roughly 700,000,000,000 in debt outstanding. In addition, Farm Credit also falls into the larger issuer or category although it's outstanding debts only about 200 billion, which is really a fraction of the total outstanding debt for the housing GSE's it is still a large issuer. On the right side of the slide you will see TVA and Farmer Mac, and that they have much lower borrowing needs as reflected by about $35 billion in outstanding debt between the two agencies, however given the sizable difference between Fannie and Freddie it is very common for GSE investors to have significant exposure to those two agencies. Thus, if you own Fannie or Freddie debt, or if you are considering investing in their securities I think it's very important to keep abreast of the latest developments regarding the conservatorship, and the GSE's reform which we will take a look at that in the next slide.

Slide 5:

Conservatorship dates back to the height of the financial crisis September 2008, Fannie and Freddie were placed under federal control because their regulator determined that they were operating with insufficient capital. Prior to the conservatorship, investors were rapidly losing confidence in the ability of Fannie and Freddie to fulfill their financial obligations and thus driving up their funding costs and placing upward pressure on mortgage rates. With the conservatorship established by the U.S. Treasury, it agreed to buy preferred stock in Fannie and Freddie as necessary to allow the GSE's to maintain a positive net worth and allow them to continue to pay their debts. In exchange for this assistance the treasury was given a 79.9% equity ownership in Fannie and Freddie and in turn, receives a 10% annual dividend on its preferred stock investment. Through the end of 2012, there is no minimum amount that the treasury may invest in Fannie and Freddie, however after 2012, the U.S. Treasury can only invest an additional $125 billion in Fannie and an additional $150 billion in Freddie as stated under the permanent agreement between the treasury and GSE's. Furthermore, it is important to note that although the conservatorship is not intended to be a permanent arrangement, there is no expiration date. Therefore, without a permanent solution being established (and I believe there is not likely to be one established in the future), it could in theory last for many more years. In February 2011, the Treasury Department issued a white paper which discussed three possible options for resolving Fannie and Freddie in addition to the House Republicans introducing about 16 different bills related to GSE reform over this past year. None of which appear to have enough support to be enacted or really even to receive a full vote on the house floor. So while policymakers remain gridlocked over how to move forward with the governments investment in the GSE's the problem continues to grow. You see the two boxes on the right cumulatively now between the treasury and the Federal Reserve the US government's investment is well over $1 trillion.

Slide 6:

As we look at the situation there would appear to be really three possible alternatives for how Fannie and Freddie ultimately get resolved.

One, there would be full nationalization where they're folded into an existing fully-fledged government agency such as the Federal Housing Administration I believe bondholders would tend to favor that type of approach as this would remove any remaining ambiguity regarding the government support for Fannie and Freddie's outstanding debt.

Two: they could be privatized and the government could sell off its stake in Fannie and Freddie to private investors, or they could wind down the GSE's through a receivership and leave the allocation of mortgage credit completely to the private sector.

Three: A hybrid model which would give the use of private sector alternatives, but the US government would retain some support or backing in a meaningful role.
However looking at the potential outcome of this highly contentious political issue it remains very uncertain, and as one that does not lend itself to simple solutions particularly during an election year.

Slide 7:

So the first bullet point here is really a statement of fact and the remaining points on this slide are really our opinion of how this ultimate endgame for the GSE's might play out.
The US government has a benefit for guaranteeing the senior debt and mortgage-backed securities issued by Fannie and Freddie since the conservatorship was established and I see no real conceivable way for that to change given the systemic importance of these two entities in the global financial system. Simply put, these entities are really poster children for the concept of "too big to fail" and in my view have been supported by numerous statements from the Obama administration, and to quote directly from the treasury's white paper "our commitment to ensuring Fannie and Freddie have sufficient capital to honor any guarantees issued now or in the future and meet any of their debt obligations remains unchanged. Ensuring these institutions have the financial capacity to meet their obligations is essential to continued stability and the administration will not waiver from its commitment". Therefore with access to low-cost 30 year fixed-rate mortgages fast becoming a middle-class entitlement in the US (and I doubt that either party has the political will to take away that benefit any time soon), I would not be surprised at all to see the conservatorship remain in place for several more years while the two entities are gradually wound down and replaced by some type of hybrid public-private partnership. However, I think it's going to be very difficult to achieve a political consensus around privatization or nationalization for many reasons. In addition, I think a hybrid approach that slowly weakens the housing market off of the extraordinary government support over a multi-year timeframe would seem to offer the best odds for a political compromise, but probably not until after the 2012 election.

Slide 8:

So, in addition to staying abreast of the latest developments with the conservatorship, I think that GSE investors need to be aware of the potential cognitive changes to the US credit ratings just like when they were downgraded to an AA plus. Similarly, downgraded were the senior debt ratings of Farm Credit, Fannie Mae and Freddie Mac, and given the close relationship between these agencies and the federal government while the US has retained its AAA ratings from Moody's and Fitch at least temporarily, both of these rating agencies have assigned a negative outlook to our sovereign debt. More importantly though, is the bond market ignored the rating agencies actions at least so far and in fact the treasury and the GSE debt yields are actually lower today than prior to the downgrade. There are several reasons for this apparent disconnect between the region rating agency actions and market conditions. One reason is that most of GSE investors are simply not ratings constrained and the largest buyers of GSE securities which include state and local governments derive their ability to invest in these securities through legal statutes which typically do not contain a rating requirement. The second reason being that there is simply no viable substitute for the credit quality and liquidity provided by treasuries in the GSE debt as the US government constitutes a multi-trillion dollar bond market, which continues to be viewed as a safe haven by investors worldwide. Thirdly, the downgrade actually coincided with the intensification of the sovereign debt crisis in Europe so the treasury said GSE securities have benefited from a strong flight to quality given the ongoing turmoil in Europe.

Slide 9:

I would also like to point out on slide 9 that treasuries in the GSE securities with similar durations since late 2009, or early 2010, that the yield between agencies and treasuries has largely converged and generally moved in lock-step with one another. Today they are basically sitting at sub 1% which are historical lows particularly on the front end of the yield curve.

Slide 10:

Likewise, when you look at the total yield performance this takes into account, not just you as the investor, but also price changes in treasuries and agencies and this continues to generate significant positive total returns even after the downgrade on August 5, 2011.
In contrast from the August 6th, through late November as shown here in the US government debt has performed much better than bonds without government backing and you can see a slight negative total return here for investment-grade corporates over that period versus the positive returns for treasuries and agencies.

Slide 11:

Therefore taking a look at the current market and I think the performance of treasuries and agencies has actually been so strong that now yields have dropped to levels that seemed pretty rich in my view. However, we are looking for the Federal Reserve to raise short-term interest rates until the middle of 2014, and as long as the Federal funds rate is being held at near zero, I think short-term government bond yields are likely to remain extremely low by historical standards.

Slide 12:

In terms of relative value, my thoughts are summarized on this last slide it seems that over the last two years to be the richest part of the market given the seemingly insatiable demand for high-quality highly liquid short duration securities. However, there is still a relatively steep yield curve to work with and I think there is much better value in the 3 to 5 year maturity segment compared to the very front end of the curve. At this point in the rate cycle the potential reinvestment risk associated with Agency Bullets would appear to be fairly minimal. If you haven't invested in the smaller GSE’s like Farmer Mac and the Supranationals like the World Bank I would encourage you to consider their securities as a way of diversifying risk exposure and picking up some additional yield. As an example, Farmer Mac bonds and World Bank or both are about 8 basis points in yield wide to Federal Home Loan Bank benchmarks, but I do think investors really need to take a disciplined approach to the pre-purchase analysis before investing in any type of GSE securities by taking into account all of the risk factors as noted in the last bullet. Some of these would include the credit perspective, the huge price tag for Fannie and Freddie, and the prevailing public sentiment against bailouts; I think the federal government may be hesitant to engage in this type of open-ended rescue in the future.

As far as rate sensitivity goes, if you are buying bonds that are callable, or you have coupons linked to market indices you should “stress test” the performance of the bonds across a range of possible rate scenarios. One more risk to consider is liquidity if there's any chance they might have to sell a bond prior to maturity you should have a very good sense of the bid- ask spread in the overall liquidity of the type of security in addition to evaluating each bond on its individual merits, and you should also consider the potential impact of the security on the metrics of the overall investment portfolio.

That concludes my presentation and I am happy to take your questions during the Q&A and happy to turn it over to our next speaker.

Jim, I really appreciate you keeping us on time given all the material we will be covering it like at this point to turn it over to Rich Eisenberg from Farmer Mac.

Rich Eisenberg's Presentation

Thank you very much and I hope everyone can hear me. Today I am going to spend about 15 minutes going over the credit issues from the Farmer Mac prospective and getting into some details on our securities. So again, thank you for allowing me to present today with this group.

Slide Forward Statement & 1:

As you can see we have a forward-looking statement which you can read at your leisure. However, it is a standard document that you should all be familiar with but on page One, I have highlight some of the key features of Farmer Mac.

Slide 1:

Farmer Mac is a government-sponsored enterprise (GSE) as Jim indicated in his presentation and we play a key role in delivering credit for all of America as we basically provide a secondary market for agricultural and rural utility loans since the mid-1980s when we were created by Congress in response to a negative cultural crisis that affected the United States.

Slide 2:

As a GSE, we are initiated by Congress and were chartered in 1987 as an instrumentality of the United States government. We've had two major charter revisions and expansions of our authority since its inception. The most important being in 2008, when Congress saw fit to give us authority to buy rural electric cooperative loans in the secondary market.

Slide 3:

Here on this slide are the highlights of the agency's characteristics that are attributed to Farmer Mac and I assume that many of you are familiar with these as they are generally common to all of the GSE's, however, I will go through some of them very quickly. We are to utilize the Central Bank of the United Stated, with the Federal Reserve as our book entry system and fiscal agent. Our debt securities are 20% risk weighted and are federally regulated entities, as an instrumentality of the US. The debt securities are legal investments for federally supervised thrift banks and credit unions that make up a significant portion of our investor base. The debt securities are eligible for purchase by the Federal Reserve Banks and their open-market operations, and are eligible collateral for the Federal Reserve Bank advances and discounts. Finally, as in the last bullet on page 3, as exemplifying the safety that the Federal Comptroller of Currency feels is attributable to our securities, the debt is exempt from Securities & Exchange Commission registration requirements under the 1933 SEC Act, however we do file our financials with the SEC on a quarterly basis, and is available on our website. In addition, we have with the filed with the SEC our10-Qs and 10 Ks. One of the questions you may be asking is what are some of the key financial strengths of our company, given some of the problems that the other GSE's have faced?

Slide 4:

Right now the company has a regulatory capital surplus of almost $125 million which is over our minimum requirement and is one of the highest surpluses in the company's history. Furthermore, we have experienced exceptionally low delinquencies in credit losses (and we will be getting into some of those details in future slides), but basically what we do is match fund our portfolio and we do that to minimize interest-rate risk. Typically we will have a duration gap of a few months between the duration of our assets and the duration of our liabilities which is currently approximately about a two-month gap, and as a GSE we have a treasury backstop supporting Farmer Mac that is $1.5 billion. I would also like to point out that although we have never used this line of credit, we have no intention of doing so but for many investors it's nice to know that such a backstop exists.

Slide 5:

On this slide I will get into some of our portfolio credit issues. All of our loans are secured by a "first mortgage" on real estate rural and agricultural land throughout the US, or by the US government guarantee. The delinquency rate on all of our programs is very low, currently at .38% as of September 30, 2011, and that number has actually declined during the recession so, during 2011 that delinquency rate has actually shrunk quite significantly. We have a widely diversified loan portfolio which is geographically dispersed, we also diversify by commodity, and we actually buy loans in every state in the US. We lend to over 130 separate agricultural commodities.

Slide 6:

On this slide we get into some details on our programs, but our core program is what we call Farmer Mac I, and in that program we have about 4.4 billion of these loans. They are all backed by a first mortgage on agricultural real estate and they have a very low loan-to-value or LTV ratio. As of 9/30/11 that LTV ratio was slightly over 50% so it distinguishes us from some of the housing GSE's where the typical LTV's on new loans are 80 or even 90% LTV. In addition, the cumulative credit losses that we have experienced while utilizing this business model for over 20 years is actually 17 basis points. I know that's a number that's hard to fathom these days, but that is the cumulative credit losses on all of our agricultural loans, which is approximately $26,000,000 as of 9/30/2011.
Farmer Mac II is our second program and this is where we buy the USDA government guaranteed loans in the secondary market. As you would expect, we have not had any credit losses or delinquencies in that business in the history of that type of lending.
Our newest program is buying rural utility loans, electric cooperatives. Again we are getting a first mortgage on all assets, future revenues and even after acquired property by these rural electric utilities as they basically have a monopoly franchise in their rural communities. Once again we have been doing this business for over three years and have not suffered any credit losses or delinquencies in that portfolio.

Finally, we have a program that we call our Agvantage Program where we lend directly to large agricultural and rural utility lenders such as companies like Metropolitan Life which is a large agriculture lender in the US, and national rural utilities. Again, because of the structure of this business model, which is basically a covered bond, our portfolio is about $5 billion plus and we have not suffered any credit losses or delinquencies in this portfolio. The collateral on lending must always be kept current, so if for instance MetLife had in their collateral pool a loan that was not current they would have to immediately replace it with one that was.

Slide 7:

On this next slide I will talk a little bit about our regulatory environment.
Farmer Mac is regulated by the Farm Credit Administration often known as FCA which is an independent agency in the executive branch of the US government. Within FCA Farmer Mac actually regulates OSMO also known as the Office of Secondary Market Oversight. Their examiners are in our offices throughout the year and provide a report to the Board of Directors typically in October. The Congress, since they created us also has oversight over Farmer Mac. Congressional committees and that's primarily, the two key committees for Farmer Mac. As I mentioned, we do file our financials with the SEC so we are subject to some of the FCC rules and have been since 1987. Our stock is actually traded on the NYSE, and I was actually on the floor of the exchange yesterday, and we are subject to NYSE rules and regulations.

Slide 8:

On this slide we will discuss our debt management strategy. What we are basically doing is issuing debt from a portfolio of assets that I've described which our Farmer Mac I program is, and our Farmer Mac II and rural utilities programs. We also maintain a liquidity portfolio as required by our regulators in which we make non-program investments in treasuries and agencies and the purpose of the liquidity portfolio is simply to have an insurance policy in effect should we not be able to tap the capital markets at some period of time. In addition, and as I mentioned we also minimize our interest-rate risk by our duration matching strategy and this is generally maintained at a few months between the duration of the assets and the duration of liabilities. Therefore what we believe we have is a flexible issuance through our daily postings on Bloomberg. We also, take reverse inquiries and periodically we will issue strategic benchmark transactions which can be as large as $500 million or more, and we do these perhaps two or three times a year. Finally we have conservatively used derivatives that are largely interest-rate swaps with large money center banks to approve our funding execution and hedge our basis risk.

Slide 9:

Here on this slide and in terms of the absolute amounts outstanding as of September 30th, we had almost $5,000,000,000 of discount notes, we typically issue them on an overnight basis as well as 30, 60, 90 day notes, and sometimes even down to one year. In addition, our medium-term notes are slightly over $1 million as of September 30th, and we also do fixed-rate and callable issues from 1 to 20 years, although we will do floaters periodically and as I mentioned sometimes throughout the year we will issue benchmark notes typically those are $250 million or greater.

Slide 10:

Lastly, I wanted to talk about our liquidity position as I had previously mentioned our regulator does prescribe a methodology and requires us to hold at least 60 days of liquidity as of September 30th, you can see we easily met that requirement of liquidity as of September 30th, at 174 days based on the highly liquid and high credit quality of the instruments in the liquidity portfolio.

Slide 11:

In conclusion we believe we are well-positioned to serve the needs of America's farmers and ranchers, rural utilities and the lenders who serve them. We believe we are servicing a large underserved market and we expect to grow the company as credit demands are made upon us, and as Jim mentioned in the previous presentation we believe we provide an opportunity for investors to diversify their GSE portfolios. So with that I will conclude and be happy to take questions later in the presentation.

Great, Rich. Thank you very much I do appreciate your presentation and it was very informative. I would like to now turn the time over to George Richardson and he will update us on the World Bank.

George Richardson's Presentation:

Slide 1& 2:

There are different types of AAA's. There are the more complicated ones like the mezzanine structures, covered bonds or asset backed securities, or other type's issuance. To be clear Supranationals are not in this category. We are a very conservative living, breathing organization with public mandates and because of this our debt tends to trade better when the market is fragile, which is the same sort of flight to quality effect that Jim was describing earlier on the GSE's. In full disclosure which I have to make, or state that there is an exception to this currently, which has to do with a couple of the European-based Supranationals which we will cover a little bit later.

As you know Europe is in the midst of a sovereign debt crisis and unfortunately that's what kind of a spillover impact will have on the trading performance, and (I will show you which ones in a moment) however, you may also be looking for alternatives to the reduced supply from GSE's and I think it may be worth investigating for that reason. In addition, the public mandate given to Supranationals that is for the purposes of economic development around the world that because of this mandate we are involved in many sectors like supporting the environment, makes is increasingly attractive to a growing number of investors. So, by investigating in Supranationals as an investor you are not only making a financial return, but there's also a social purpose that you are a part of and your investments are a part of a project without really taking on any of the credit risk.

Slide 3:

This page gives you the definition of Supranationals and note that the key features (or the second part here) are just a few of the characteristics. We are already AAA rated with a 0% risk rating, which is important for financial investors as we are both involved in Basel I, and Basel II, so now we have to add Basel III. Additionally, when we talk about the well-being of the Supranationals, it is based more on the "financial strength" which is something that everybody should be looking at particularly in today's market, however the quality of the supranational credit is actually diverse, and what I mean by this is it is sort of like a belt and suspenders approach to credit fundamentals. There isn't one single thing that makes or breaks our credit, rather there is quite a variety of different things. Moreover, and when we speak about the World Bank (which I will discuss in a minute), I will show you actually 10 different fundamentals.

The World Bank is an issuer of US global dollar benchmarks which some of you invest in and, we are issuers of only senior and unsecured debt. We don't issue equity, we don't issue subprime debt, and we do not do anything else other than the “very plain and simple" senior debt. Some of us use other instruments of possible interest to help enhance the yield in your portfolio such as callable securities, different types of exposures such as FRN storefront floaters, but at the moment it's just a couple of us that offer the full range of investment products, although I expect that over the next let's say six months more and more will add this as well just to give you the opportunity to invest in this sector. Finally, all of our benchmark bonds are part of the global indices.

Slide 4:

This map is an illustration of all of the AAA Supranationals. Since we often get asked, and as we have also highlighted in red some Supranationals that have the US as a member country, likewise and as I mentioned before that Supranationals that are European-based and whose lending and work is mostly European are being affected by the dictation of the European sovereign debt crisis. Thus far, The World Bank & the International Bank for Reconstruction and Development is involved in Latin America, the Caribbean and Asian development Bank which is responsible for the Asian region, while African Development Bank is responsible for Africa, and to date none of us have been affected by the sovereign debt crisis.

Slide 5:

On this page I wanted to give you a quick snapshot, particularly of the U. S official sector of the Supranationals that have a US as a member country. As you can see these are done by a percentage of holdings and where we are located.

Slide 6 & 7:

Now on slide 6, you can see the different categories of issuers. You may also hear Supranationals get placed into a group called SSA's which are known as Sovereign Supranational Agency or SAS, and here are the three components of it. Obviously, the Supranationals that we just spoke about and located in the middle section here, are basically the full faith and credit issuers, now on the one hand that makes it easier for people to understand because of the full faith and credit being backed by that government, however you really just need to know about the fundamentals of that country. On the other hand, it does expose them to that singular component of their credit which is what I was speaking about before. So, for example if you are a European Developing Country (EDC) everything is great right now because Kennedy is actually doing really well, but since Germany was put on a negative credit watch yesterday by S&P that is not the case. The third category which is the “implied guarantee” is a little bit harder to understand as these are all credits, but they don't have guarantees as they may be partly owned or they may be fully owned, and they may have different levels of sponsorship by their own government. So this category takes more resources and time for us to evaluate. Furthermore, it should be noted that the take away from this slide is although Supranationals are sometimes a part of popular issuers as with here in the US, and may be big enough to care about as a group, we are not able to replace the GSE's, but we are certainly something that can be invested in as a potentially good diversification source.

Slide 8:

This page here is just a high level overview on the basic differences between the GSE’s and Supranationals, and their mission. Fannie and Freddie, known as GSE’s are the US mortgage market and Supranationals are in national or international markets, which is more of a conceptual difference as national organizations have diverse portfolios, depending where they are located around the world regionally, such as the African bank will be focused on Africa. In addition, leverage is another important factor with the exception of the European Investment Bank all Supranationals are capped by capital requirements which consist 1 x their total capital. In some cases when you study some of the regional Supranationals, they will not lend higher than a certain percentage or lower than 1 x their leverage, so I hope that gives you an overview on the differences.

Slide 9:

Now I want to give you some specifics about us. The World Bank was created following World War II. The international communities got together and created two organizations. First the IMF, which is known as the International Monetary Fund which is getting a lot of headlines now and their job, is to solve or at least try to solve the short-term balance of payment problems with very large loans, which are the funded with either subscriptions payments, or direct lending that they get and lend it to other countries. Currently the World Bank is trying to help with the European sovereign debt crisis. The second organization is called the International Bank for Reconstruction and Development (IBRD) Our job at the World Bank, even back at the beginning was for longer-term reconstruction or economic development. Obviously, we first started in Europe due to the reconstruction in Europe after World War II, but then the focus it moved to emerging markets around the world, and here are some facts on this page that you can look at later.

Slide 10:

All of our lending is for the purpose of economic development and they must fall into one or more of these millennium development goal categories. You can see the sectorial approach that we have to our lending and particularly if you look at number seven, which we will talk about later in the environment sector, is really one of the foundations of our Green Bond Program which I will talk about later.

Slide 11:

This is a quick picture of the diversity of our lending portfolio. It is multi-sectorial and we have got different regions around the world.

Slide 12:

Now, we're going to talk a little bit about the credit fundamentals because that is a very topical subject nowadays and much more so than in the typical credit or issuers that you might see. I want to cover some of the fundamentals things that we, the World Bank have behind our credit.

Slide 13:

Our buy policy is we can take any currency or interest-rate risk on our balance sheet so we swap everything out and match everything up. That is number one.

Slide 14:

Number two, is obviously the shareholder support before return, and about being dependent on one country, one sovereign Supranationals depend on many more as we have 187 different shareholders and down at the bottom of the slide you have the top shareholders.

Slide 15:

Number three, also an important one is even though we have a total capital part of the equation and it is paid in, we have already that in-house and we have our built-up reserves, that is only part that we use for risk management and we don't include the part that is still owed to us by our sovereign shareholders which in this case we actually really needed it, but we don't use that coverage as risk managers as we are actually very conservative on that front.

This is number four again we talk about total capital. We will not lend beyond our total capital's reserves and at the moment we are 60%, and on top of that we have limits on each lender or each borrower so there's a limit to how much we can become exposed to by any one particular borrower.

Slide 16:

We have what we call the preferred creditor status that is a lender of last resort's type of effect. If a borrower that we have a loan with goes to spend one of the loans we immediately stop this person and the loans, so does the IMF and if the IMF and the World Bank are not lending to you, then in all probability nobody in the world will be. So there is an incentive for people to pay back our lending first and if you look at this group of top exposures they are all pretty good credit quality. Emerging markets have actually been doing really well over the last couple years, so add that to the list of credit fundamentals. However, all of our lending is suffering and there is no private sector exposure on our end.

Slide 17:

Again, we talked about that concentration a little so we have found we have limits then finally we come back here to our liquidity. We are managing tons of liquidity and if you look historically we have as a minimum the highest six months of debt service and for the FY 2012, prudential minimum liquidity level has been set at US $21 billion. So, at the moment we can stay out of the market 70 months without interruption of our lending activities.

Slide 18:

This slide is a picture of our funding program and as you can see over the years it's kind of been roughly stable. We are larger when the emerging markets needed more money from us and smaller when markets are better.

Slide 19:

This page gives a snapshot of currencies that we issue as World Bank probably is one of the most diversified funds in the world and we are continually trying to diversify further. However, you see that the US dollar is a big component of our funding and that is because the US dollar ends up and it is our home currency and we depend on it to the biggest extent.

Slide 20:

This page gives you a description of the global bonds. This is the plain-vanilla kind of issuance. We do different currencies by e-mail to be interested in that dollar.

Slide 21:

Again all of our issuance are part of the major performance indices and show the type of discount notes and dealers that are on the discount programs. We also post daily rates on WBBM on Bloomberg and usually maturity is around two or three months but we could go out to a year and a short as overnight.

Slide 22:

Now, the green bonds, as I mentioned before are sectorial focused on our lending and a few years ago there was a growing interest from investors to buy our bonds but we had to ensure that the investing would only go to investment projects and so we took some time and created the Green Bond Program, which issues bonds that are exactly the same as any other World Bank bond. The only difference is the use of proceeds, for green bonds we refund the money that comes in from the bond issue and we use that to fund the green bond projects which have a pre-stated set of criteria which is on our website.

Slide 23:

The next pages are the list of select investors. Note that one of the things that are unique is the investors that want to be known as having supported in one of the first issues is the California State Treasury. With their support we were able to upgrade to a second bond issue that happened just a few days ago, and that is basically a summary of the World Bank.

I would be happy to answer any questions now or in the future. Our contact details are here on this presentation as well.

Great, thank you George. That was wonderful and enlightening.

Connection lost due to technical difficulties, so just bear with us for a little bit while we get our systems working again and are able to get the presentation up we will be able to proceed and finish up our piece here. I hope everybody's been enjoying that so far we've had some very informative presenters.

Hopefully everyone can hear us now and once again we do apologize for our technical difficulties. Now I am going to hand it off to Dan Dowell and he will give us an update on what he's seen in the markets.

Good morning everyone, and a quick thanks to CDI AC for this opportunity.

Dan Dowell’s Presentation:

Slide 1:

My name is Dan Dowell and I'm the director of the Pooled Money Investment Account portfolio which is a $65 billion commingled government- sponsored external pool. The main participants in the pool are the State's General Fund, approximately 1300 other state funds or accounts, and more than 2700 cities, counties and special districts.

Slide 2:

Over the next few minutes I'd like to take a look at how we address the primary directive of managing cash flows using agencies while also addressing the secondary responsibility of establishing an investment portfolio with longer term stability and prudent returns.

As far as operating as a cash management tool we will show you how we use the discount note programs to even out cash flow and to fund specific known short-term cash needs. In doing so, we will note the reasons for going with agency paper over the various other money market securities that are available to us on a daily basis.

Slide 3:

We will look at the need to maintain longer-term safety and diversification in the portfolio for the benefit of those other state fund or account participants have been either elected to invest in a pool or who are required by law to invest in the pool. We will look at how we determine our asset allocations, why we select a particular agency, how we view credit concerns and finally since not a single dollar in our public portfolio was initially appropriated or collected for the sole purpose of investment the pool, we will address the ongoing need for liquidity as well as identify the longer-term core deposits that may be dedicated to current Treasurer initiatives. We will look at the agencies that we use to address these initiatives.

Slide 4:

Finally, we will take a look at the portfolio asset allocation and its inclusion of agency and supranational paper as it has evolved over the past 5 years – and keep in mind when we do so that this evolution was one of necessity rather than convention. By that I mean the portfolio as it appears today is far from the conventional asset allocation I have become used to in my 38 years with the Treasurer's Office.

Slide 5:

Government Code Sections 1 6430 and 6480 list all authorized investments for the pool. Specifically items, b,e,I,j,k, and I establish our authority for agencies and Supranationals.

The reason for so many subsets is that the Government Code authority recognizes agencies for the United States for which the full faith and credit of the government is pledged, such as the Small Business Administration, Federal Housing Administration, and the Government National Mortgage Association; separately, the code recognizes government-sponsored enterprises that were created and chartered by Congress to support a number of areas vital to the economy such as Fannie Mae and Freddie Mac, the Home Loan Banks, Farmer Mac and the Farm Credit Banks which carry an implied guarantee. The code separates Supranational agencies which act on behalf of member national governments or central governments that have the power to print money to pay their debts and control the money supply and currency of their country, such as the International Bank for Reconstruction and Development and the World Bank.

I would like to make something clear here, and is very important, is the composition of this portfolio as of September 30, 2011, is not our normal historical asset allocation and here is why. With ample liquidity and net positive cash flow ongoing, as well as large compensating balances for banking services, we opted to place a greater amount of daily cash into the Treasury Bill and Note Markets.

With the economy far from out of the woods, and the Fed's comments that rates will remain somewhat where they are for the next several months, and considering the ongoing downward spiral of credit ratings for financial institutions and other money market issuers, we opted to secure our idle cash for greater safety and liquidity in the treasury markets. That means that we are not accessing the daily short-term market such as CD's, commercial paper, or even short agencies as often as we would normally do. Consequently, as you can see here the treasury holdings are more than 52% of the total assets. You will have a greater appreciation for this defensive allocation when I bring up a comparative chart in a few moments but for now you will note that as of September 30, 2011 we had roughly 10% of our portfolio and agency securities. This percentage represented about $6.55billion in agency paper direct obligation, Governmental Sponsored Enterprises and Supranationals, about 4.4 billion wasn't discount notes, Freddie, Fannie World Bank and Home Loan and closer to $1.9 billion of our agencies were in medium term notes, Home Loan, SBA, World Bank Fannie Freddie and Farm Credits.
By far the largest agency concentration is in discount notes since both Fannie and Freddie are in conservatorship, essentially holding these notes as far as safety is concerned is on par with the credit of treasuries. However, because liquidity isn't quite on par with treasuries, and spreads between discount notes and comparable maturity treasuries at times doesn't reflect this lower liquidity, we prefer placing our idle cash in the bill markets at this time.

The one exception to this investment preference is the fact that discount notes give us the benefit of determining our end date, which isn't an option with treasuries. This option is what motivated us to move away from treasuries and into the discount notes on a couple of occasions this past year. Specifically, when we have a rather large issuance of a Revenue Anticipation Note, or RAN, we are immediately hit with the need to cover the payback date, so for this we generally turn to discount notes. Not only do we have the flexibility of requesting the payback date of the RAN as the final maturity of the discount notes, but we found the agencies very accommodative of the size required to meet the payback demands with very few exceptions. Fannie and Freddie are both extremely accommodating and can handle our large appetite for time to time. Farmer Mac for our purposes, at times has a small appetite for cash and maybe a limited time frame that they are willing to write to. Farm credit is extremely limited and the World Bank, with this short horizon at times, is not in play as often as we would like for one year discount paper. However, the World Bank discount notes we currently hold are generally lucky finds that are shown to us by a selling member. Home Loan usually is limited in the size available, and any deviation from what they are posting requires that they show it to all member banks before anyone bank can agree to request.

These deviations occur when an investor, such as the Pool, approaches the agency discount window with a request other than the posted offerings of the agency. This approach is called a" reverse inquiry" and is made to one of the selling syndicate members, who are dealers that may cover our account. I'd like to mention what we consider an ancillary benefit of the agency discount note programs. The issuing agencies select the eligible selling syndicate members for their agencies and have made concerted efforts to include targeted firms in these syndicates, because each selling syndicate member has the exact same access, at the exact same rates as all other members large or small, we prefer to do a majority of our discount note investments through these targeted firms. We are able to distribute business volume, knowing that the trade maximizes our opportunity for return while we have the added comfort of knowing that the syndicate member has been thoroughly vetted by the issuing agency. Regarding the medium term notes, these securities add diversification and yield for the portfolio as well as in some cases directly addressing special initiatives supported by this office, like Cal-Vest and the double bottom line. The $531 million in SBA's represent an ongoing program since the early 1990s that supports economic growth within our state. When the military bases began to close which had a negative effect on an already weak California economy, we sought areas where under the then-current

investment authority we could create opportunity. We requested the SBA poolers to sweep lenders for California only small business loans with less than one year's seasoning. We further defined our interest a couple of years later by requesting a “best efforts” basis that the loans reflect either a business or a borrower from an identifiable underserved area of California with the CRA-eligible geocoding.
The $300 million in World Bank bonds is the first ever dollar denominated Green Bond. Working with the World Bank through the SE Banken, a Swedish Bank, we constructed a three-year floating rate note whose proceeds supported projects designed to mitigate climate change, and help countries adapt to those efforts. We are pleased with the opportunity to add both value and a socioeconomic impact to our portfolio. We partnered with one of the few remaining AAA credits in the world, and were able to invest in the Supranationals without new legislation, and ultimately we were able support the Treasurer’s Green efforts through a safe, secure and profitable investment. I also wanted to emphasize <u>safe and secure</u> because other local agencies have commented recently that they are not staffed to monitor the risk of a foreign project of the risk of the developing countries in which the project might be located. That assumption of risk is a misconception. The risk lies directly with the World Bank itself and the abilities of the national governments to make the bank's guarantee. The largest participating national government is the United States.

Regarding the GSE’s in the portfolio, the attractiveness of these issues varies. Some of these issues might be secondary offerings that based on the long-range cash flow forecast, matured coincidental to the projected large cash flow deficit. Others might represent instances where we approached the issuing agency with a request to write a medium term note out beyond the maturity limitations of their discount note postings and still other agency positions may reflect a reverse inquiry. For instance if we were shown a proposed 18 month Home Loan with semi-annual coupons, we might have countered that we would be interested in the issue, but would prefer interest at maturity. The benefit of this structure for us is simple. An interest at maturity, or IAM note, would carry a slightly higher coupon than the semi-annual note, to take in a differential of not compounding the coupons. Since we account for portfolio earnings on accrued rather than cash basis, and since we actually pay out these accruals quarterly to the Pool of participants, whether the cash has been received or not there's really no opportunity for compounding coupons. Therefore, we are able to apportion greater accruals ongoing on an IAM bond. In recent months we have been buying much in agency paper beyond the discount note cash matching for our RAN issuances, or the occasional secondary bond that fills a long term forecast deficit. The economy has made us reluctant to extend to in any degree, and coupled with the early Fannie and Freddie headlines have made us cautious. Buying discount notes inside of the year was one thing, but considering longer agencies wasn't actively pursued, however, I think we are reconsidering that now. Aside from the given liquidity and a few outrageous executive bonuses we see a definite positive restructuring of Fannie and Freddie portfolios, smaller is better in this case, and the talk in Washington about getting both agencies off of the government’s apron strings is ill-timed and seems to be dying down.

<u>Slide 6:</u>

In this slide we have separated treasuries into bills and notes, and have also separated the agencies into Federal Agencies, Agency Discount Notes, and the Supranational World Bank Green Bond.
If we take a look at the effective yield column, we can see that these returns reflect our reasons for current non-traditional asset allocation. Treasury bills, by far the largest single asset type in the portfolio on September 30th, were yielding .225%, while the agency discount notes were yielding slightly below the bills of .209%. So, it made sense for us to direct a greater portion of our available funds to bill markets. For that matter, buying the bills for safety and liquidity also provided us with a return greater than the more traditional money market investments like certificates of deposit and

commercial paper, all without the growing credit risk concerns with short term paper. We were further convinced by the Fed's statement regarding continued rate accommodation, as well as the ongoing world flight to dollar-denominated quality securities. So, looking at the average life column on the far right, we can see that we haven't been in the agency note markets aggressively though that may soon change. Furthermore, in the average life column you'll note that even though the bills outperformed the discount notes, the life of the notes is slightly longer. This is the result of a rather significant position in discount notes taken on to offset a late June 2012, payback of the RAN. Sometimes flexibility trumps yield.

Slide 7:

Because of the short nature of our portfolio, we tend to use duration and average life synonymously. With a total treasury weighted average life just under one year, and considering the stance of the Fed's which is to remain and accommodative for at least that period of time, the return of the blended treasury assets is almost 4 times the return of the benchmark treasury with a comparable maturity. This will be used ongoing to determine how long and how much we rely on treasury investments for cash flow management before we switch back to the more standard and conventional money market and agency securities. Based on this review as we continue to perform, we are currently comfortable with our choices and do not foresee a change in advance of having a clearer global credit picture and a measure of sustainable recovery. However, as I mentioned a moment ago, that portion of our investment program that targets longer-term returns may be poised to re-enter the agency mode arena.

Slide 8:

The historical portfolio structure of the last five years shows that on September 30th 2011, we were either at the peak or close to the peak of our non-traditional asset allocation. Treasuries have stopped out at 52%, while agency debentures, agency discount notes, certificate deposit, and commercial paper have all been noticeably reduced in favor of treasuries. One happy exception to these reductions over time is in the loan section, which has actually shrunk. With project loans now capped at $500 million a General Fund borrowing alleviated by the States, ability to access to credit markets, borrowings are lower.

Slide 9:

It's been said that a picture is worth 1000 words, and based on this comparative chart, I would agree. In late summer 2007, we began to get a scary picture of what was headed our way. The spark of subprime mortgages was thought to be contained in the earlier day's summer but it was more the case that no one really knew how many different ways subprime had been woven into just about every sophisticated economy in the world. By late summer, we decided that we didn't want to believe the attempts to minimize the concern, accept that there was containment of the damage, or see an early recovery in sight. As a result, treasuries grew from 3 1/2% to over 50%. CDs and commercial paper became the staples of our cash management daily investing and were reduced from 38% to 17% and agencies saw a decline from 21% to 9%.

This reallocation was simply a mad dash to quality and also a clearly prudent avoidance of contagion.

Slide 10:

So far today we've seen our historical asset allocation depicted in percentages, yields, average lives and dollars, so finally I like to use a sort of timeline.

As you can see from this chart back in 2005 we were fairly evenly allocated between treasuries, agencies, and agency discount notes. Soon after, the treasury yield curve inverted resulting in lower treasury investments in the Pool. As treasury positions flattened out over the next 2 to 3 years agencies filled the void. Then in the summer of 2008, we made the decision to begin building an extreme liquid portfolio. This decision was helped along with the return of the treasury curve to a positive slope. Discount notes were less attractive than Fannie Mae's inability to deliver audited financial statement which led us to exclude their paper completely. Agency coupons seemed to have spreads that were too rich to justify increased positions, especially in light of our defensive portfolio move. Between 2009 and 2010, we once again accessed the discount note program to cover our RAN redemptions, although over the last year we have found the narrow spreads to bills to be enough to pull back a bit from the discount note markets. Additionally, we saw a drop-off in agency coupons shown to us over the last couple years and only recently have seen an emergence of activity at spreads that look interesting to us. As I mentioned earlier, I suspect that this interest will continue, though the toughest decision will be to determine how far out we feel comfortable going. This comfort level has less to do with the credits or financial conditions of the individual agencies and more to do with how far out accommodation by the Fed’s will reach. In any event, and as I suspect that as the monthly positions in year bills begin to mature, bill yields nudging single digits we will be less inclined to roll into new bills and more inclined to allocate those dollars to agency paper.

Now might be a good time to comment on the structure of the bonds we are willing to consider as I mentioned before that at times we are interested in requesting an IAM or interest at maturity bond, usually in a low interest rate environment where we believe the rates may soon move up, we buy floating rate or adjustable coupon notes. The common index we prefer is the 3 month Libor rate. It is a simple index readily available and the frequency of the reset gives us adequate protection against rising interest rates. We are aware that a more frequent reset may increase the value of the security, as the frequent reset has a shorter time to adjust or approximate interest rates. However, we don't feel that the added oversight and more frequent adjustment efforts give us that much yield benefit. Although we understand and appreciate that issuing agencies have become very flexible and accommodating when they create securities to meet different investor’s needs. We have seen this flexibility in callables for various call features, being discrete, continuous, and one- time. We have seen step- ups both one-way and both ways, some with floors and ceilings and others with one or the other but we prefer a simpler life with the agencies that we purchase, and have honestly had little interest in the less traditional issues. It is a personal portfolio choice and isn't a statement against the creativity of the agencies.

I was asked to give a portfolio manager's perspective regarding the use of agency paper to achieve our investment goals. As you can see, agencies and Supranationals have been a very large part of our investment program and our Treasurer’s and initiative. At times this paper has been the focus of our strategies, while at other times the agency asset classes have taken a secondary role. However, one point is very evident to us; agency paper has always served as a bellwether for us to determine what our short-term and long-term strategies will be. The flexibility of the issuers, the size of that the agencies we can consider from any one investor, the willingness of the individual agencies to entertain reverse inquiries, and the availability of agency representatives to respond to investor questions and concerns have also overwhelmingly built a solid foundation of credibility that any portfolio manager should appreciate.

And with that said I will yield the floor to our moderator. Thank you.

Dan, that was great. Thank you very much. I think everyone appreciated it and. I certainly appreciate your insight and view of where we are at. Today unfortunately we've run over and I apologize for being a little long and I know there are a few questions that have come in, but I don't think we are going to be able to address them. We will get them answered and posted to our website. Also, if you would like, please feel free to reach out to any of the speakers. I'm sure they would be very happy to chat with you and discuss their individual entities and situations. So with that being said, I want to thank everyone, certainly all of the speakers for being here today, taking time out of their day to present this great information and I want to thank all of the attendees as well.

We will send out an electronic survey that you will receive today, please take time to complete this as your comments are very important to us in evaluating our webinar programming for the future., and we are Sorry for the technical difficulties and we look forward to seeing you at our next CDI AC workshop and or webinar.

Thank you.