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DISCUSSION OF PUBLIC INVESTMENT PRODUCTS CURRENT AND FUTURE: WHAT ARE THEY AND ARE THEY RISKY?

NOVEMBER 6, 2013

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DISCUSSION OF PUBLIC INVESTMENT PRODUCTS CURRENT AND FUTURE: WHAT ARE THEY AND ARE THEY RISKY?

INTRODUCTION: MARK CAMPBELL
EXECUTIVE DIRECTOR
CDIAC

CAPTIONING SERVICES

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DISCUSSION OF PUBLIC INVESTMENT PRODUCTS CURRENT AND FUTURE: WHAT ARE THEY AND ARE THEY RISKY?

MODERATOR: JOHN JOHNSON

CASH MANAGER/INVESTMENT OFFICER
COUNTY OF SAN BERNARDINO

SPEAKERS:

DEBORAH M. HIGGINS
PRESIDENT
HIGGINS CAPITAL

MARTIN CASSELL
CEO AND CHIEF INVESTMENT OFFICER
CHANDLER ASSET MANAGEMENT

TODD CUPPIA
DIRECTOR/SENIOR AGENCY STRATEGIST
STIFEL



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INTRODUCTION

JOHN JOHNSON
COUNTY OF SAN BERNARDINO





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PERMISSIBLE INVESTMENTS

UNDER CA CODE 53601

DEBORAH M. HIGGINS
HIGGINS CAPITAL



Permissible Investments

- Expect a quick run-through of the allowable investments under CA Code 53601. The format today will follow the LAIG table in the next slide. The table and notes can be found on pages 12 and 13 of the 2013 [LAIG](#).
- This is to allow the focus today on: 1) timely information on upcoming legislation; 2) the current interest rate environment, investment strategies; 3) changes in the fixed income market supply; and 4) asset classes that may be viable future investment vehicles for public funds.

LAIG Allowable Investment Table

Investment Type	Maximum Maturity ^C	Maximum Specified Percentage of Portfolio ^D	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
State of Obligations – CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U.S. Agency Obligations	5 years	None	None
Bankers' Acceptances	180 days	40% ^E	None
Commercial Paper – Select Agencies ^F	270 days	25% of the agency's money ^G	"A-1" If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. ^H
Commercial Paper – Others Agencies ^I	270 days	40% of the agency's money ^J	"A-1" If the issuer has issued long-term debt, it must be rated "A" without regard to modifiers. ^H
Negotiable Certificates of Deposit	5 years	30% ^K	None
CD Placement Service	5 years	30% ^K	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days ^L	20% of the base value of the portfolio	None ^M
Medium-Term Notes ^N	5 years	30%	"A" rating
Mutual Funds and Money Market Mutual Funds	N/A	20% ^O	Multiple ^{P,Q}
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	"AA" Rating ^R
Bank/Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	Multiple ^S
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund ^T	N/A	None	None

Local Agency Bonds

- (a) Bonds issued by the local agency including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency or by a department, board, agency, or authority of the local agency.
- **If buying your own debt, consider a possible conflict of interest: In issuing debt, your goal is getting the lowest possible yield while investing general funds, your goal is getting the highest possible yield. Backup your decision with documentation.**

U.S. Treasury Obligations

- (b) United States Treasury notes, bonds, bills, or certificates of indebtedness, or those for which the faith and credit of the United States are pledged for the payment of principal and interest.
- The partial shutdown and debt ceiling crisis had China call to de-Americanize the world.

State Obligations – CA

- (c) Registered state warrants or treasury notes or bonds of this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.
- State of CA is rated A1 by Moody's and A by S&P with a stable outlook by both.

State Obligations – Other States

- (d) Registered treasury notes or bonds of any of the other 49 United States in addition to California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 United States, in addition to California.
- Due diligence is paramount. **There are different laws for different states and it is difficult to keep up with what's happening in each state.**

CA Local Agency Obligations (Bonds, notes, warrants, etc.)

- (e) Bonds, notes, warrants, or other evidences of indebtedness of any local agency within this state, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.
- Examples-Certificates of Participation (COPs) and Variable Rate Demand Note (VRDN)

U.S. Agency Obligations

- f) Federal agency or United States government-sponsored enterprise (GSEs) obligations, participations, or other instruments, including those issued by or fully guaranteed as to principal and interest by federal agencies or United States government-sponsored enterprises.
- There is bi-partisan commitment to encouraging private capital support for housing while winding down Fannie & Freddie. Expect adoption of any reform a couple of years down the road.
- **Currently allowable: FFCB, FHLB, FHLMC, FNMA, Farmer Mac, AID, TVA, & PEFCO**

Allowable GSE websites

- FFCB www.farmcreditfunding.com
- FHLB www.fhlb-of.com
- FHLMC www.freddiemac.com
- FNMA www.fanniemae.com
- Farmer Mac www.farmermac.com
- AID www.usaid.com
- TVA www.tva.gov
- PEFCO www.pefco.com

Bankers' Acceptances

- (g) Bankers acceptances otherwise known as bills of exchange or time drafts that are drawn on and accepted by a commercial bank. Purchases of bankers acceptances may not exceed 180 days' maturity or 40 percent of the agency's money that may be invested pursuant to this section. However, no more than 30 percent of the agency's money may be invested in the bankers acceptances of any one commercial bank pursuant to this section.
- **A BA is a common way to finance international trade. It is issued by a non-financial firm and guaranteed by a bank to make payment.**

Commercial Paper (CP) – Selected Agencies

- (h) Commercial paper of “prime” quality of the highest ranking or of the highest letter and number rating as provided for by a nationally recognized statistical-rating organization (NRSRO).
- “Select Agencies” are defined as a “city, a district, or other local agency that do[es] not pool money in deposits or investment with other local agencies, other than local agencies that have the same government body.”
- **CP is a short-term unsecured promissory note from the issuer to pay; 1st line of defense is the issuer’s stand-alone credit strength.**
- The overall amount of CP outstanding is around \$1 trillion since stabilizing in 2010. During the 2008 financial crisis, the CP market contracted sharply & was briefly shut down. Composition is shifting from asset-backed to non-financial issuance.
- CP is expected to remain expensive given the lack of alternatives for money fund investors. **Due to balance sheet constraints, more and more CP is being issued as 144a and is not a permissible investment (the opinion of the panelists).**

CP – Other Agencies

- “Other Agencies” are counties, a city and county, or other local agency “that pools money in deposits or investments with other local agencies, including local agencies that have the same governing body.” Local agencies that pool exclusively with other local agencies that have the same governing body must adhere to the limits set for “Select Agencies,” from the previous slide.

Negotiable CDs

- (i) Negotiable certificates of deposit issued by a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a state-licensed branch of a foreign bank. Purchases of negotiable certificates of deposit may not exceed 30 percent of the agency's money which may be invested pursuant to this section. For purposes of this section, negotiable certificates of deposit do not come within Article 2 (commencing with Section 53630), except that the amount so invested shall be subject to the limitations of Section 53638.
- **Limits will be affected by AB 279.**

CD Placement Service

- AB 279 effective January 14, 2014
- John Johnson of County of San Bernardino will cover AB 279 that makes changes to CD placement services effective January 1, 2014, later in this webinar.

Repo/Reverse Agreements

- j(1) Investments in repurchase agreements or reverse repurchase agreements or securities lending agreements of any securities authorized by this section, as long as the agreements are subject to this subdivision, including the delivery requirements specified in this section.
- (2) Investments in repurchase agreements may be made, on any investment authorized in this section, when the term of the agreement does not exceed one year. The market value of securities that underlay a repurchase agreement shall be valued at 102 percent or greater of the funds borrowed against those securities and the value shall be adjusted no less than quarterly. Since the market value of the underlying securities is subject to daily market fluctuations, the investments in repurchase agreements shall be in compliance if the value of the underlying securities is brought back up to 102 percent no later than the next business day.
- **Repos are a key product for investors looking for liquidity or specific securities.**

Repo/Reverse Market Activity

- Debt ceiling negotiations saw repo rates move sharply higher.
- The Fed continues to test its overnight fixed-rate reverse repo facility (RRP) tool.
- The Fed's overnight reverse repos are expected to establish a floor under front-end interest rates and control near-term borrowing costs for banks, broker-dealers, money-market funds & some GSEs.
- Tri-party repo outstanding continues to fall due to risk of “fire sales” of tri-party repo collateral in the event of a large dealer's default on its repo obligations.
- The Federal Reserve remains alert about systemic risk in the repo market (the domino effect).

Reverse Repo Conditions

- There are specific conditions that must be met for engaging in both reverse repo and securities lending agreements that can be found in CDIAC's 2013 [LAIG](#), pages 64-65.
- **Securities lending, like repo, is a type of secured financing transaction.** Securities lending provides lenders of securities with a low risk yield enhancement to their portfolios.

Medium-Term Notes

- k) Medium-term notes, defined as all corporate and depository institution debt securities with a maximum remaining maturity of five years or less, **issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States.** Notes eligible for investment under this subdivision shall be rated “a” or better by a nationally recognized rating service. Purchases of medium-term notes shall not include other instruments authorized by this section and may not exceed 30 percent of the agency’s money that may be invested pursuant to this section.

Mutual Funds & Money Market Funds

- (l)(1) Shares of beneficial interest issued by diversified management companies that invest in the securities and obligations as authorized by subdivisions (a) to (j), inclusive, or subdivisions (m) or (n) and that comply with the investment restrictions of this article and Article 2 (commencing with Section 53630); (2) (2) Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940.
- **The funds' investments and maturities must be in compliance with CA Code 53601 or your IP if it's more restrictive.**

Bond Proceeds Accounts

- (m) Moneys held by a trustee or fiscal agent and pledged to the payment or security of bonds or other indebtedness, or obligations under a lease, installment sale, or other agreement of a local agency, or certificates of participation in those bonds, indebtedness, or lease installment sale, or other agreements, **may be invested in accordance with the statutory provisions governing the issuance of those bonds**, indebtedness, or lease installment sale, or other agreement, or to the extent not inconsistent therewith or if there are no specific statutory provisions, in accordance with the ordinance, resolution, indenture, or agreement of the local agency providing for the issuance.

Collateralized Bank Deposits

- (n) Notes, bonds, or other obligations that are at all times secured by a valid first priority security interest in securities of the types listed by Section 53651 as eligible securities for the purpose of securing local agency deposits having a market value at least equal to that required by Section 53652 for the purpose of securing local agency deposits. The securities serving as collateral shall be placed by delivery or book entry into the custody of a trust company or the trust department of a bank that is not affiliated with the issuer of the secured obligation, and the security interest shall be perfected in accordance with the requirements of the Uniform Commercial Code or federal regulations applicable to the types of securities in which the security interest is granted.
- Collateral requirement is 120%.

Mortgage Pass-Through or Asset Backed Securities

- (o) Any mortgage pass-through security, collateralized mortgage obligation, mortgage-backed or other pay-through bond, equipment lease-backed certificate, consumer receivable pass-through certificate, or consumer receivable-backed bond of a maximum of five years' maturity. Securities eligible for investment under this subdivision shall be issued by an issuer having an "a" or higher rating for the issuer's debt as provided by a nationally recognized rating service and rated in a rating category of "aa" or its equivalent or better by a nationally recognized rating service. Purchase of securities authorized by this subdivision may not exceed 20 percent of the agency's surplus money that may be invested pursuant to this section.
- Sponsors of ABS are the originators of the loans and receivables and can affect deal performance through asset selection and servicing. **The issuer and sponsor may be different. From a rating standpoint, there is some confusion as to how you look at the rating. Look at the sponsors rating as well.**
- Various ABS Issuers: Home Equity; Credit Card, Auto Loan, Equipment, Asset-backed; Student Loan; Airplane Receivables

Bank/Time Deposits

- 53601.8 Notwithstanding Section 53601 or any other provision of this code, a local agency, at its discretion, may invest a portion of its surplus funds in certificates of deposit at a commercial bank, savings bank, savings and loan association, or credit union that uses a private sector entity that assists in the placement of certificates of deposit, provided that the purchases of certificates of deposit pursuant to this section, Section 53635.8, and subdivision (i) of Section 53601
- FDIC has a subject matter expert in the insurance division that *picks up the phone* to answer any questions about FDIC rules on deposit insurance account coverage:
<http://www.fdic.gov/deposits/index.html>

County Pooled Investment Funds

- No maximum specified % of portfolio
- No minimum quality requirements
- All have oversight committees
- Post on their websites monthly investment results

Joint Powers Authority Pool

- (p) Shares of beneficial interest issued by a joint powers authority organized pursuant to Section 6509.7 that invests in the securities and obligations authorized in subdivisions (a) to (n), inclusive. Each share shall represent an equal proportional interest in the underlying pool of securities owned by the joint powers authority. To be eligible under this section, the joint powers authority issuing the shares shall have retained an investment adviser that meets all of the following criteria:
 - (1) The adviser is registered or exempt from registration with the Securities and Exchange Commission.
 - (2) The adviser has not less than five years of experience investing in the securities and obligations authorized in subdivisions (a) to (n), inclusive.
 - (3) The adviser has assets under management in excess of five hundred million dollars (\$500,000,000).

- LAIF is a voluntary program created by Statute; began in 1977 as an investment alternative for CA local governments and special districts.
 - LAIF is a part of the Pooled Money Investment Account (PMIA).
 - Monies placed in LAIF can not be transferred or impounded or seized by any state official or state agency.
 - The right to withdraw deposited monies upon demand may not be altered, impaired or denied in any way by a state official or state agency based upon the state's failure to adopt a State Budget by July 1 of each new fiscal year.

Voluntary Investment Program Fund

- Deposit between 200 million and \$10 billion into the Voluntary Investment Program Fund, upon approval by their governing bodies. Deposits in the fund will be invested in the Pooled Money Investment Account (PMIA).
- There are currently no participants in this program.
- <http://www.treasurer.ca.gov/pmia-laif/>

Resources and Contact Info

- 2013 Local Agency Investment Guidelines (LAIG):
<http://www.treasurer.ca.gov/cdiac/laig/guideline.pdf>
- PMIA/LAIF Performance Report:
http://www.treasurer.ca.gov/pmia-laif/performance/PMIA-LAIF_perform.pdf
- FDIC: <http://www.fdic.gov/>
- Deborah M. Higgins: www.higginscapital.com
debbie@higginscapital.com

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WHAT INVESTMENT STRATEGIES ARE PRUDENT IN THE CURRENT INTEREST RATE ENVIRONMENT

TODD CUPPIA
STIFEL

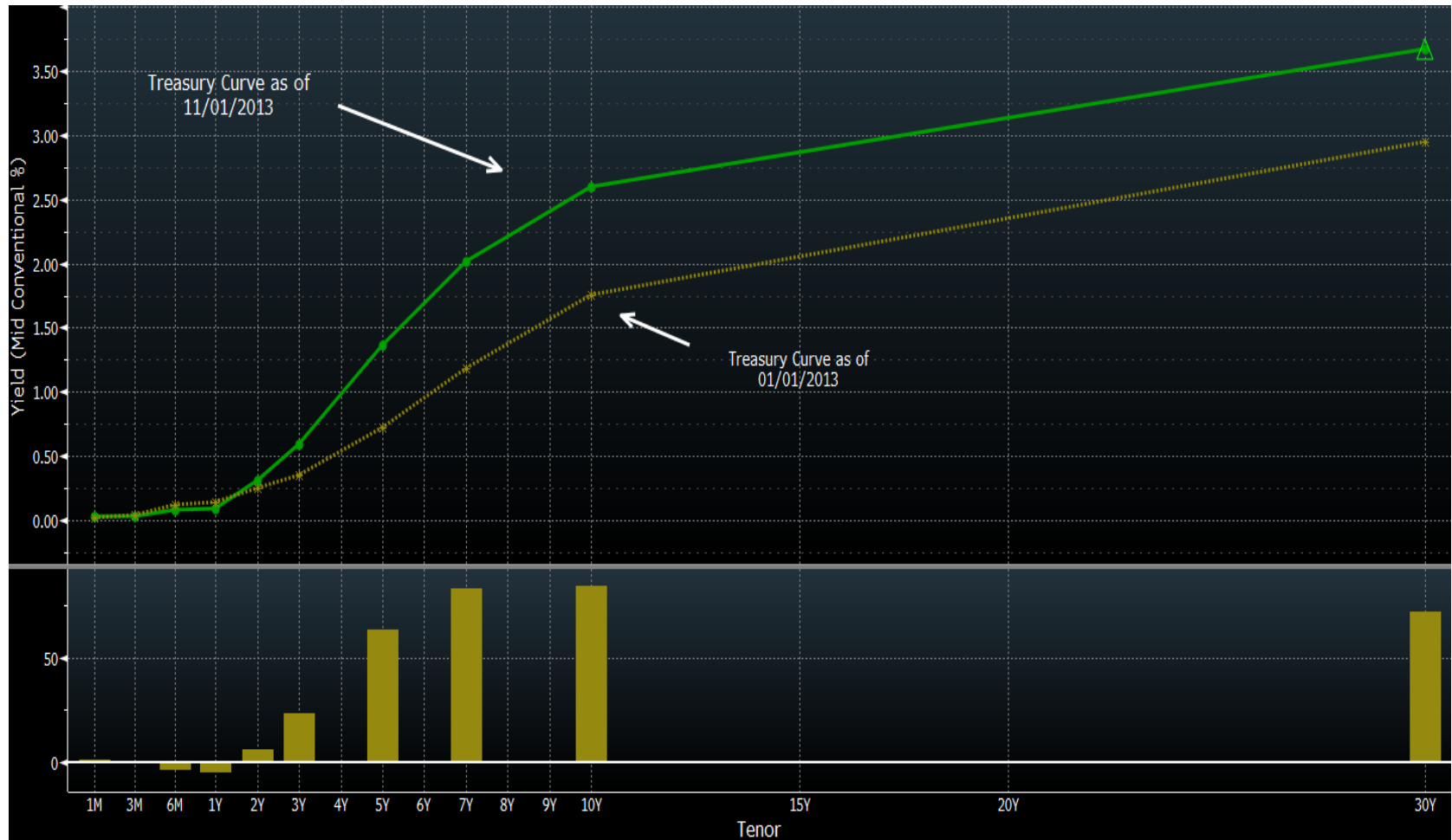
MARTIN CASSELL
CHANDLER ASSET MANAGEMENT

Introduction

What are prudent investment strategies for the current interest rate environment?

- What does the slope to the curve tell us about future expectations for interest rates?
- How might monetary policy impact the shape of the yield curve?
- How do changes in the curve impact bond valuations?
- How have periods of sustained rising rates affected public sector investment portfolios?

Treasury Curve Comparison



Portfolio Strategies

What are prudent investment strategies for the current interest rate environment?

- Curve Considerations – Bullets and Barbells and Ladders, Oh My!
- Duration Strategies
 - Cash Flow Redeployment
 - Coupon Structures
 - Diversification
 - Other Considerations

Diversification

Diversification benefits the basic public agency investment objectives of

- Safety

- By reducing risk

- Liquidity

- By providing maturities for cash needs
- By holding highly marketable securities

- Yield

- By reducing volatility

Diversification

- A diversified portfolio is one that holds a variety of securities with different characteristics
- Diversification can reduce risk, but cannot eliminate risk
- Diversification can reduce volatility
- The idea of diversification is to create a portfolio with the best combination of risk and expected return

Diversification

- Systematic or market risk cannot be diversified
 - Market risk impacts all securities

- Idiosyncratic risk can be diversified
 - Asset type
 - Industry
 - Issuer

Diversification

- A well diversified portfolio has the potential to provide a greater level of safety and reduce the volatility of returns

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SUPRANATIONALS COVERED BONDS YANKEE BONDS

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Supranational Bonds

What are Supranational Bonds?

- Similarities and important differences between Agency debt and Supranational debt.
- Are they acceptable in local code?
- Legal / Recourse considerations to be aware of for pre-purchase due diligence
- Trading / analytical considerations.

Supranational Bonds

Some Differences between Suprationals and Fannie Mae / Freddie Mac		
	Fannie Mae / Freddie Mac	Supranational
Objective	US Residential / Commercial Real Estate	Economic Development
Sponsoring Entity	The United States Government	Multiple Governments
Oversight	FHFA (Regulator and Conservator)	Board with representation from shareholders
Implied Support	The United States Government	Member Nations / Shareholders

Selected Examples of Supranational Issuers

- The World Bank
- International Finance Corporation
- Inter-American Development Bank
- European Bank for Reconstruction and Development
- African Development Bank
- Nordic Investment Bank
- European Investment Bank
- Asian Development Bank

Supranational Bonds – Example

21) Bond Description		22) Issuer Description	
Pages	Issuer Information	Identifiers	
1) Bond Info	Name INTL BK RECON & DEVELOP	BB Number EJ9043146	
2) Addtl Info	Industry Supranationals	CUSIP 459058DG5	
3) Covenants	Security Information	ISIN US459058DG57	
4) Guarantors	Mkt of Issue Global	Bond Ratings	
5) Bond Ratings	Country SNAT Currency USD	Moody's Aaa	
6) Identifiers	Rank Unsecured Series	S&P NA	
7) Exchanges	Coupon 0.375 Type Fixed	Composite NR	
8) Inv Parties	Cpn Freq S/A	Issuance & Trading	
9) Fees, Restrict	Day Cnt 30/360 Iss Price 99.99600	Amt Issued/Outstanding	
10) Schedules	Maturity 11/16/2015	USD 3,000,000.00 (M) /	
11) Coupons	BULLET	USD 3,000,000.00 (M)	
Quick Links	Issue Spread 7.00bp vs T 0 ¼ 09/30/15	Min Piece/Increment	
32) ALLQ Pricing	Calc Type (1) STREET CONVENTION	1,000.00 / 1,000.00	
33) QRD Quote Reca	Announcement Date 10/24/2013	Par Amount 1,000.00	
34) TDH Trade Hist	Interest Accrual Date 11/01/2013	Book Runner JOINT LEADS	
35) CAC Corp Action	1st Settle Date 11/01/2013	Exchange LUXEMBOURG	
36) CF Prospectus	1st Coupon Date 11/16/2013		
37) CN Sec News			
38) HDS Holders			
39) VPR Underly Inf			
66) Send Bond			
<p>Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2013 Bloomberg Finance L.P. SN 263873 H326-1289-0 01-Nov-13 11:02:53 EDT GMT-4:00</p>			

Supranational Bonds – Example

- International Bank for Reconstruction and Development (World Bank)
- Established in 1944 as the original institution of the World Bank Group, IBRD is owned and operated for the benefit of its 188 member countries.
- The four largest shareholders are the U.S., Japan, Germany, and France
- What does the World Bank do?*

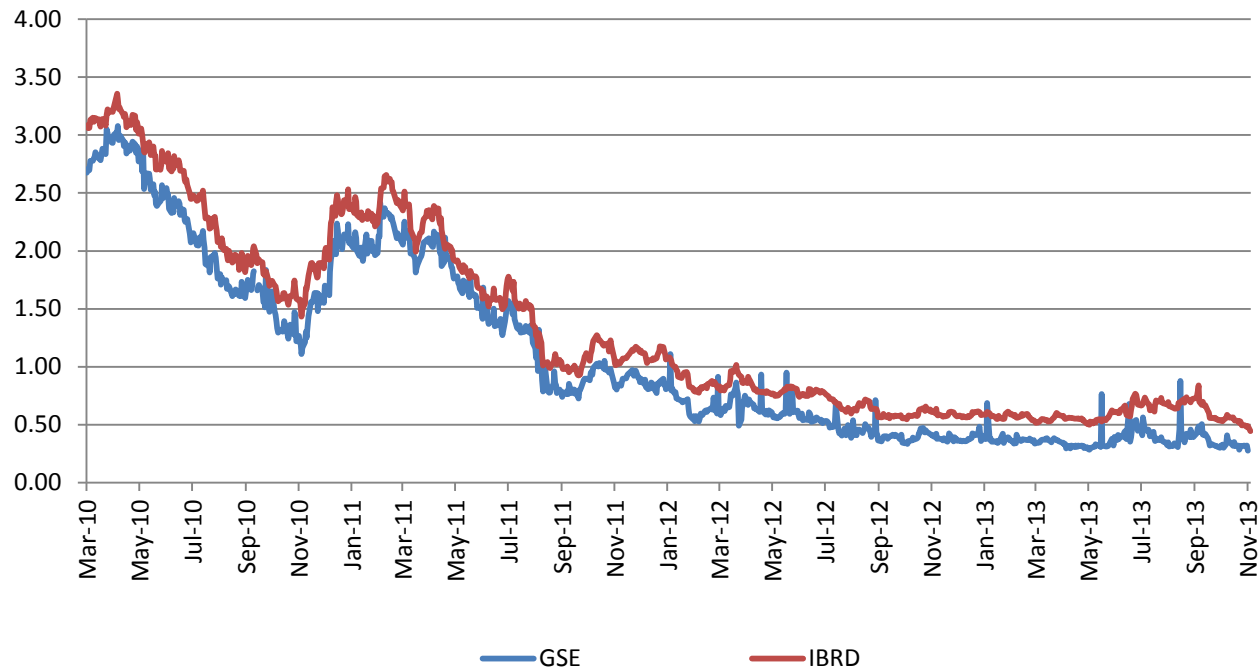
 - The world's largest funder of education
 - The world's largest external funder of the fight against HIV/Aids
 - A leader in the fight against corruption
 - A strong supporter of debt relief
 - The largest international financier of biodiversity projects
 - The largest international financier of water supply and sanitation projects

* Source: A guide to the World Bank

Supranational Bonds – Example

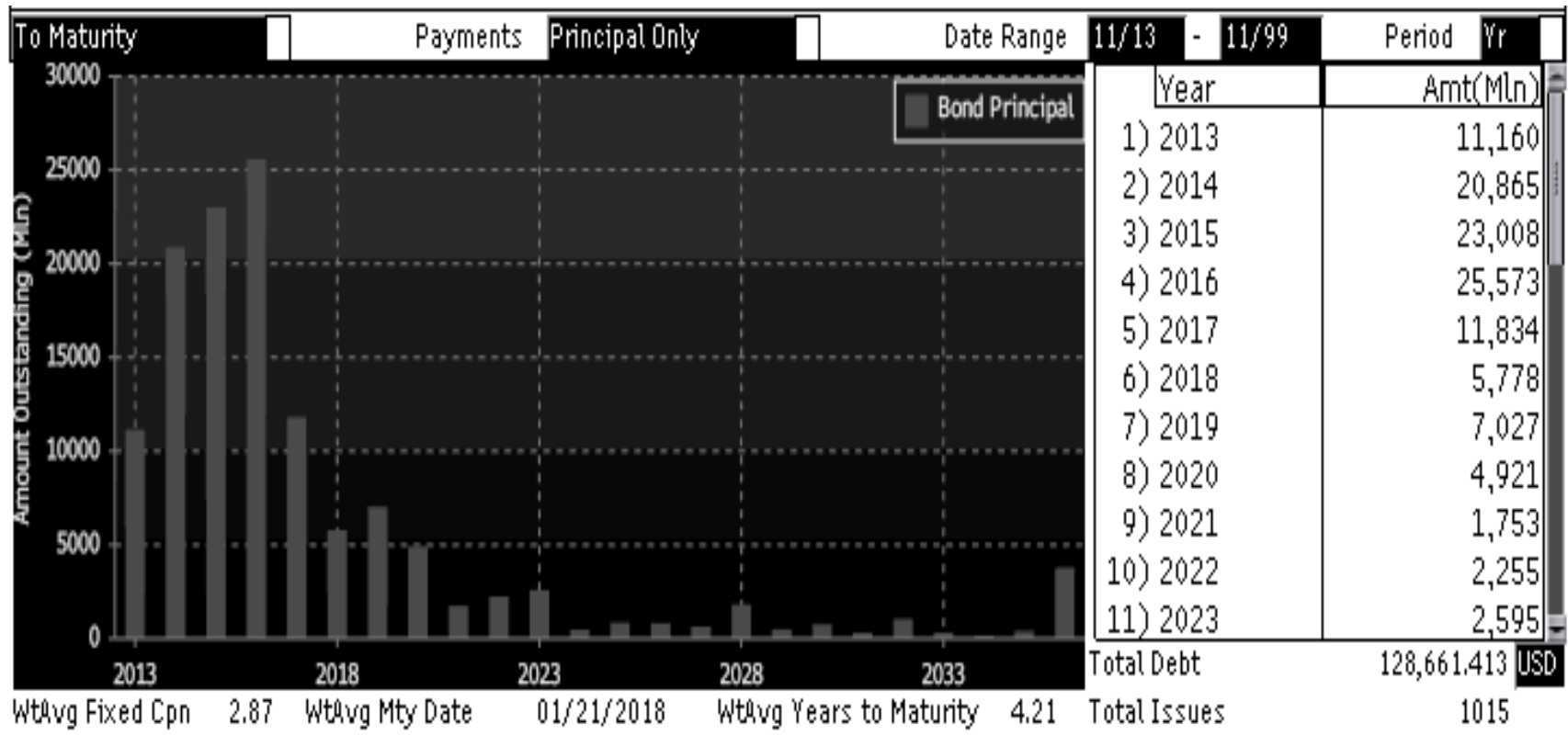
Correlation between GSE and IBRD yields on representative 5-year benchmark is very high.

**Representative Yield Comparison
GSE / IBRD**



Supranational Bonds

IBRD debt distribution schedule / bonds outstanding



Supranational Bonds – Additional Considerations

- Yield comparison to GSEs
- Liquidity
- Legal Structure / Venue / Recourse
- Are there different types of Supranational bonds?
- Other risks?

Covered Bonds

Covered Bonds in the context of Safety/ Liquidity/Yield

- What is a cover pool and what assets can be used as collateral?
- What are the main differences between covered bonds and senior unsecured obligations? What is a dual recourse obligation?
- Supply/Demand and liquidity considerations
- Example/potential risks

Yankee Bonds

What are Yankee Bonds?

- Dollar-denominated debt securities that are issued by non-domestic issuers in the United States
- Yankee Bonds can be issued by Corporations or Sovereign Governments
- Examples of Yankee Bonds
- What to look for when looking at a large corporate issuers with multiple subsidiaries.
- Other considerations to be aware of?

Yankee Bonds

TOYOTA Float 12/09/13 Corp		99) Feedback		Page 1/11		Description: Bond		
		94) Notes		95) Buy		96) Sell		
						97) Settings		
21) Bond Description		22) Issuer Description						
Pages	Issuer Information	Identifiers						
1) Bond Info	Name TOYOTA MOTOR CREDIT CORP	BB Number	EJ4710780					
2) Addtl Info	Industry Automotive	CUSIP	89233P7A8					
3) Covenants	Security Information	ISIN	US89233P7A84					
4) Guarantors	Mkt of Issue Domestic MTN	Bond Ratings						
5) Bond Ratings	Country US	Currency	USD	Moody's	Aa3			
6) Identifiers	Rank Unsecured	Series	MTN	S&P	AA-			
7) Exchanges	Coupon 0.2581	Type	Floating	Composite	AA-			
8) Inv Parties	Formula QUARTLY US LIBOR FLAT	Issuance & Trading						
9) Fees, Restrict	Day Cnt ACT/360	Iss Price	100.00000	Amt Issued/Outstanding				
10) Schedules	Maturity 12/09/2013	Issue Spread		USD 225,000.00 (M) /				
11) Coupons	BULLET	Calc Type (21)FLOAT RATE NOTE		USD 225,000.00 (M)				
Quick Links	Announcement Date	12/04/2012	Min Piece/Increment		1,000.00 / 1,000.00			
32) ALLQ Pricing	Interest Accrual Date	12/06/2012	Par Amount		1,000.00			
33) QRD Quote Reqa	1st Settle Date	12/06/2012	Book Runner		LOOPCM,RBCCM			
34) TDH Trade Hist	1st Coupon Date	03/11/2013	Reporting		TRACE			
35) CAC Corp Action								
36) CF Prospectus								
37) CN Sec News								
38) HDS Holders								
39) VPR Underly Inf								
6) Send Bond								
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PRIVATE PLACEMENT: 144A

MARTIN CASSELL
CHANDLER ASSET MANAGEMENT

DEBORAH M. HIGGINS
HIGGINS CAPITAL



Private Placement – 144a

- 144a securities are not registered with the SEC
- Not subject to same disclosure requirements as registered securities
- May offer a higher yield than registered securities
- The SEC rule limits who can buy private placement securities to certain Qualified Institutional Buyers (QIBs)

Private Placement – 144a

- Who is a Qualified Institutional Investor (QIB)?
- Large sophisticated organizations with the primary responsibility of managing large investment portfolios with at least \$100 million in securities specifically named under the rule
- Public Agencies are referenced as a QIB only as those who invest for the benefit of their employees
- The rule applies to the fund purchasing the security, not party making the transaction

Private Placement – 144a

- The Florida State Board of Administration requested an opinion from the SEC to allow them to buy 144a securities on multiple occasions, but did not receive one
- After some of the 144a securities Florida held failed, the SEC subpoenaed documents from the Florida pool in 2009
- The SEC ended the investigation in 2010 with no enforcement action

What's the difference?

GRAB
BELLSOUTH CORP T 4.117 04/26/14 101.782/101.837 (0.393/0.283) BVAL

T 4.117 04/26/14 Corp 99 Feedback Page 1/11 Description: Bond

99 Notes 99 Buy 99 Sell 97 Settings

21) Bond Description	22) Issuer Description	Identifiers
1) Bond Info	Name BELLSOUTH CORP	BB Number EC3821047
2) Addtl. Info	Industry Wireline Telecom Services	CUSIP 079860AA0
3) Covenants	Security Information	ISIN US079860AA01
4) Guarantors	Mkt of Issue Priv Placement	Bond Ratings
5) Bond Ratings	Country US Currency USD	Moody's A3
6) Identifiers	Rank Sr Unsecured Series 144A	S&P A-
7) Exchanges	Coupon 4.117 Type Fixed	Fitch A
8) Inv Parties	Cpn Freq N/A	Composite A-
9) Fees, Restrict	Day Cnt ACT/360 Iss Price 100.00000	Issuance & Trading
10) Schedules	Maturity 04/26/2014	Amt Issued/Outstanding
11) Coupons		USD 1,000,000.00 (M) /
Quick Links		USD 1,000,000.00 (M)
32) ALLQ Pricing	Issue Spread	Min Piece/Increment
33) QRD Quote Reqa	Calc Type (1311)MULTI-STEP CPN BND	250,000.00 / 1,000.00
34) TDH Trade Hist	Announcement Date 04/26/2013	Par Amount 1,000.00
35) CAC Corp Action	Interest Accrual Date 04/26/2013	Book Runner GS,MS
36) CF Prospectus	1st Settle Date 04/26/2013	Exchange
37) CN Sec News	1st Coupon Date 04/26/2014	
38) HDS Holders	CPN RESETS REFLECTED IN OUR MULTI CPN DISPLAY. GS/MS OPT TO REMKT 4/26/13. FINALMTY:	
39) VPR Underly Inf	4/26/21. REPS (RESET PUT SECS). CPN FREQ = ANNUAL.	
66) Send Bond		

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 3204 1210 Hong Kong 852 2377 6000
Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2013 Bloomberg Finance L.P.
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GRAB
BELLSOUTH CORP T 5.2 09/15/14 104.149/104.149 (0.384/0.384) TRAC

T 5.2 09/15/14 Corp 99 Feedback Page 1/11 Description: Bond

99 Notes 99 Buy 99 Sell 97 Settings

21) Bond Description	22) Issuer Description	Identifiers
1) Bond Info	Name BELLSOUTH CORP	BB Number ED6080847
2) Addtl. Info	Industry Wireline Telecom Services	CUSIP 079860AG7
3) Covenants	Security Information	ISIN US079860AG70
4) Guarantors	Mkt of Issue Global	Bond Ratings
5) Bond Ratings	Country US Currency USD	Moody's WR
6) Identifiers	Rank Sr Unsecured Series	S&P A-
7) Exchanges	Coupon 5.2 Type Fixed	Fitch A
8) Inv Parties	Cpn Freq S/A	Composite A-
9) Fees, Restrict	Day Cnt 30/360 Iss Price 99.76800	Issuance & Trading
10) Schedules	Maturity 09/15/2014	Amt Issued/Outstanding
11) Coupons		USD 1,500,000.00 (M) /
Quick Links		USD 1,500,000.00 (M)
32) ALLQ Pricing	Issue Spread	Min Piece/Increment
33) QRD Quote Reqa	Calc Type (1)STREET CONVENTION	1,000.00 / 1,000.00
34) TDH Trade Hist	Announcement Date 09/08/2004	Par Amount 1,000.00
35) CAC Corp Action	Interest Accrual Date 09/13/2004	Book Runner GS,JPM,LEH
36) CF Prospectus	1st Settle Date 09/13/2004	Reporting TRACE
37) CN Sec News	1st Coupon Date 03/15/2005	
38) HDS Holders	CALL @ MAKE WHOLE +20BP. LONG 1ST CPN.	
39) VPR Underly Inf		
66) Send Bond		

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What's the big deal?

- There's a QIB List and under Plan, Public Agencies are referenced as a QIB only as those who invest for the benefit of their employees.
- Note the two BellSouth deals look similar. However, in the Security information block, the 1st one is a private placement under 144a.
- As a broker/dealer, looking at the two, a public agency does not qualify under the QIB for the 1st one. Despite the deal size, name, and maturity, if it looks like a duck, quacks like a duck, and walks like a duck, it is a duck.

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AB 279
**INSURED DEPOSITS OFFERED THROUGH
PLACEMENT SERVICES**

**JOHN JOHNSON
COUNTY OF SAN BERNARDINO**

AB 279 – Effective January 1, 2014

What does AB 279 do?

- This law, until January 1, 2017, removes the term “certificates of deposit” and instead authorizes a local agency to invest in *deposits*, as specified, and limit the amount of its funds that an agency may place with any one private sector entity that assists in the placement of deposits with one or more commercial banks, savings banks, savings and loan associations, or credit unions that are located in the United States. The law prescribes requirements for the financial institutions that a private sector entity is authorized to use.

AB 279 – Effective January 1, 2014

What does AB 279 do?

- Clarifies that other types of FDIC (or NCUA) insured bank deposits placed by a private sector placement service, are eligible for purchase by local agencies under GC 53601.8 and 53635.8.
- Limits local agency investment to 10% per private sector placement entity (for *non-CD* placement deposits).
- Limits *total* agency investment to 30% in deposits placed by private sector placement entities.

AB 279 – Effective January 1, 2014

What are the benefits?

- Safety: Credit risk is to FDIC or NCUA. Allows for FDIC/NCUA insurance on placement balances above \$250,000.
- Liquidity: Provides for additional withdrawal flexibility vs. CDARS.
- Yield: Competitive returns.
- May be placed with local selected depository institution participating a deposit placement program.

AB 279 – Effective January 1, 2014

What are the risks?

- Administrative Risk: Risk that the placement service and selected depository institution does not simultaneously exchange the agency's funds with other participating banks to ensure that all deposits are fully insured at all times.
- Workout Risk: Risk of a participating financial institution failure that may delay return of an agency's insured funds.
- Duplication Risk: Risk that the agency may have multiple deposits in a single participating financial institution by investing through multiple products and/or with multiple deposit placement service vendors. Could result in local agency funds being unintentionally uninsured.
- Liquidity Risk: Withdrawal options may be limited. May not offer daily liquidity.

AB 279 – Effective January 1, 2014

Things to consider when using a deposit placement service:

- ❑ Must make sure that exposure limits are not exceeded.
- ❑ May reduce an agency's capacity to purchase NCDs and YCDs. Investments in Certificates of Deposit pursuant to GC 53601.8, 53635.8, and 53601(i) shall not exceed 30% of the agency's funds.
- ❑ Selected Depository Institution net worth/shareholder equity limits still apply under GC 53638.
- ❑ Potential conflicts of interest under GC 53637.
- ❑ Satisfactory Title 12 US Code performance standards under GC 53635.2.
- ❑ Additional Treasury back office administration, due diligence and oversight, and reporting.

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FLOATING RATE SECURITIES

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Floating Rate Securities

Description of the various floating rate products

- What are floating rate bonds?
- What are the most common indexes used in floating rate securities?
- What are potential risks to be aware of when evaluating floating rate securities?
- Description of range accruals, inverse floaters, and other derivative products?
- Other considerations

Floating Rate Securities

GRAB
FED HOME LN BANK FHLB Var 06/28 **NOT PRICED**

FHLB Float 06/27/28 Corp 99) Feedback Page 1/11 Description: Structured Note

94) Notes 95) Buy 96) Sell 97) Settings

21) Bond Description 22) Issuer Description

Pages 1) Bond Info 2) Addtl Info 3) Covenants 4) Guarantors 5) Bond Ratings 6) Identifiers 7) Exchanges 8) Inv Parties 9) Fees, Restrict 10) Schedules 11) Coupons Quick Links 32) ALLQ Pricing 33) QRD Quote Reca 34) TDH Trade Hist 35) CAC Corp Action 36) CF Prospectus 37) CN Sec News 38) HDS Holders 39) VPR Underly Inf 66) Send Bond	Issuer Information Issuer FEDERAL HOME LOAN BANK Industry Government Agencies	Identifiers BB Number EJ6998532 CUSIP 313383HP9 ISIN US313383HP99
	Security Information Mkt of Issue US Domestic Range Accrual Country US Currency USD Rank Unsecured Series Coupon Type Variable	Bond Ratings Moody's Aaa S&P AA+ Composite AA+
	Cpn Freq Quarterly Day Cnt ACT/ACT Iss Price 100.00000 Maturity 06/27/2028 CALL 12/27/13@100.00	Issuance & Trading Amt Issued/Outstanding USD 20,000.00 (M) / USD 20,000.00 (M)
	Issue Spread Calc Type (198)NO CALC-FLOATERS Announcement Date 05/29/2013 Interest Accrual Date 06/27/2013 1st Settle Date 06/27/2013 1st Coupon Date 09/27/2013	Min Piece/Increment 500,000.00 / 5,000.00 Par Amount 5,000.00 Book Runner MS-sole Reporting TRACE

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Floating Rate Securities

What happens if the range is broken?

GRAB
FED HOME LN BANK FHLB Var 06/28 NOT PRICED
FHLB Float 06/27/28 Corp 99 Feedback Page 11/11 Description: Structured Note
94 Notes 95 Buy 96 Sell 97 Settings

21) Bond Description 22) Issuer Description

Pages

- 1) Bond Info
- 2) Addtl Info
- 3) Covenants
- 4) Guarantors
- 5) Bond Ratings
- 6) Identifiers
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- 8) Inv Parties
- 9) Fees, Restrict
- 10) Schedules
- 11) Coupons

Quick Links

- 32) ALLQ Pricing
- 33) QRD Quote Reca
- 34) TDH Trade Hist
- 35) CAC Corp Action
- 36) CF Prospectus
- 37) CN Sec News
- 38) HDS Holders
- 39) VPR Underly Inf
- 66) Send Bond

Coupons

50 Coupons 59 Coupon Formula


Paying Index N/A
 Observation Index Interbank Rate
 Convention Mod-Unadj eff 06/27/2013
 Cap N.A.
 Floor N.A.
 Structure Type Range Accrual

Range Coupon Formula

Date	Coupon Formula	Range
06/27/2013	(4.000% Fixed)*n/N	0.0000<=US0006M Index<=4.0000
06/27/2018	(4.000% Fixed)*n/N	0.0000<=US0006M Index<=5.0000
06/27/2023	(4.000% Fixed)*n/N	0.0000<=US0006M Index<=6.0000

n = # of Calendar Days in the period that satisfy the Indexing Formula
 N = total # of Calendar Days in the accrual period

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