The New Landscape of Liquidity Management

Presented to:

California Municipal Treasurers Association

April 22, 2009

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SEC Rule 2a-7

- Dollar-weighted average maturity not greater than 90 days
- Final maturity of an individual security not greater than 397 days
- 5% individual issuer limit
- 10% limit on illiquid securities
- Invest only in high-quality First or Second Tier money market instruments
- No derivative securities

Rule 2a-7 is a rule under the Investment Company Act of 1940 which permits a money market fund to use amortized cost to stabilize the value of its shares at $1.00. Rule 2a-7 imposes various restrictions on the money market fund’s portfolio, including restrictions related to diversification, and credit quality and maturity of portfolio securities.
Portfolio Management: Decision-Making Process

- Weighted Average Maturity
- Relative Value Approach
  - Across yield curve
  - Across sectors
  - Across security types
  - Across credit quality standards
- Cash Flow
Confidence Building Initiatives

September 7  →  Treasury and the Fed announce Fannie Mae & Freddie Mac placed into conservatorship by U.S. Government

September 19 →  Treasury announces temporary guarantee program for money market funds

September 28 →  Congress passes $700 B Troubled Asset Relief Plan (TARP)

October 8  →  FOMC and central banks around the world cut interest rates. Fed funds rate cut 50 bp to 1.50%

October 14 →  Treasury & FDIC announce government support for U.S. Banks. Other governments around the globe announce support of foreign banks.

October 29 →  FOMC cuts Fed Funds rate by 50 bp to 1.00%

December 16 →  In an unprecedented move the Fed cuts rates to a range of 0-25%
Liquidity Building Initiatives Created by the Federal Reserve

**September 19** → Asset Backed Commercial Paper Money Market Liquidity Facility (AMLF) Effective September 22

**October 6** → Federated Reserve will pay interest on balances held at Reserve Banks. Effective date accelerated from October 1, 2011 to October 1, 2008

**October 7** → Commercial Paper Funding Facility (CPFF) Effective October 27, 2008

**October 21** → Money Market Investor Funding Facility (MMIFF) Effective date November 10, 2008
3-Month LIBOR (9/7/08 – 4/3/09)

Source: Bloomberg
# Largest 1-Mo Changes of All MMFs

<table>
<thead>
<tr>
<th>Date</th>
<th>Assets ($ Bils)</th>
<th>1-month Change ($B)</th>
<th>1-month Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>September 2008</td>
<td>$3,331.2</td>
<td>$-147.2</td>
<td>-4.2%</td>
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<tr>
<td>June 2008</td>
<td>3,364.6</td>
<td>-75.4</td>
<td>-2.2</td>
</tr>
<tr>
<td>September 2002</td>
<td>2,111.9</td>
<td>-52.8</td>
<td>-2.4</td>
</tr>
<tr>
<td>June 2002</td>
<td>2,143.6</td>
<td>-48.9</td>
<td>-2.2</td>
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<tr>
<td>April 2003</td>
<td>2,111.3</td>
<td>-48.0</td>
<td>-2.2</td>
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<td>March 2002</td>
<td>2,214.8</td>
<td>-47.4</td>
<td>-2.1</td>
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<td>February 2005</td>
<td>1,827.6</td>
<td>-47.3</td>
<td>-2.5</td>
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<tr>
<td>April 2004</td>
<td>1,920.2</td>
<td>-43.3</td>
<td>-2.2</td>
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<tr>
<td>September 2003</td>
<td>2,044.8</td>
<td>-40.0</td>
<td>-1.9</td>
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<tr>
<td>April 2000</td>
<td>1,617.0</td>
<td>-39.9</td>
<td>-2.4</td>
</tr>
</tbody>
</table>

Source: iMoneyNet
Prime Money Fund Assets (Assets in $B)

Source: iMoneyNet
ICI Money Market Working Group Recommendations

- Daily & weekly minimum liquidity requirements
- Tighter portfolio maturity limits & calculation a spread “WAM”
- Follow best practices for determining minimal credit risk
- Know your clients