

New Hampshire Public Deposit Investment Pool
Advisory Committee Meeting
Thursday October 21, 2010 at 9 am
New Hampshire Banking Department
53 Regional Drive, Suite 200, Concord, NH

MINUTES

Members Present for the Meeting:

NH State Treasurer Catherine Provencher, Department of Revenue Commissioner Kevin A. Clougherty, Paul Micali, representing the NH GFOA, Sharon Wickens, representing the NH GFOA, Daniel Lynch, representing the NH Municipal Association, Nicole Pellenz, representing the NH Bankers Association, and Gregory J. Wenger, representing the NH Association of Counties.

Members Absent from the Meeting:

Celia Leonard, designee for Bank Commissioner Peter C. Hildreth, Jeanette Davila, representing the NH Bankers Association, and the appointee (vacant) of the NH School Boards Association.

Other Attendees:

Barbara Robinson, Department of Revenue, Ingrid White, NH Banking Department, Richard Arcand, NH Banking Department, Jo Ann Klaskin, Regional Director, NH Public Deposit Investment Pool, Thomas Jordan, Managing Director, Jo Ann Klatskin, Regional Director, and Jeffrey MacDonald, CFA, Director of Portfolio Management from Cutwater Asset Management, and Managing Directors Barbara Fava, Engagement Manager, David Sallack, Operations and Customer, Debra Goodnight, Accounting and Reporting, and Ken Schiebel, Portfolio Management from PFM Asset Management.

Richard Arcand took the minutes.

Ms. White opened the meeting at 9:14 am.

1. RFP Subcommittee Report, Re 2010-01 Submissions

Ms White requested a motion to enter a nonpublic session. Pursuant to RSA 91-A:3, II and 91-A:5, IV Mr. Micali motioned for the Advisory Committee to enter a nonpublic session to discuss financial information of the proposal submissions. Mr. Wegner seconded the motion. The motion passed unanimously by Roll Call Vote. The Committee entered a nonpublic session at 9:16 am.

The Committee returned from nonpublic session at 1:24 pm.

2. Other Business: None

3. Adjournment:

Ms. Provencher motioned to adjourn the meeting, Mr. Clougherty seconded, and the motion passed unanimously. The meeting was adjourned at 1:25 pm.

Respectfully submitted,

Richard Arcand
NH Banking Department

New Hampshire Public Deposit Investment Pool Advisory Committee

Minutes from the Non Public Session (10/21/10)

Date and Time: 10/21/10, 9:16 am

Meeting Location: NH Banking Department, 53 Regional Drive, Concord, NH

Members Present for the Meeting:

NH State Treasurer Catherine Provencher, Department of Revenue Commissioner Kevin A. Clougherty, Paul Micali, representing the NH GFOA, Sharon Wickens, representing the NH GFOA, Daniel Lynch, representing the NH Municipal Association, Nicole Pellenz, representing the NH Bankers Association, and Gregory J. Wenger, representing the NH Association of Counties.

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Other Attendees:

Barbara Robinson, Department of Revenue, Ingrid White, NH Banking Department, Richard Arcand, NH Banking Department.

Richard Arcand took the minutes.

The Advisory Committee entered nonpublic session after a unanimous roll call vote at 9:16 am.

Cutwater Asset Management Presentation

Thomas Jordan, Managing Director, Jo Ann Klatskin, Regional Director, and Jeffrey MacDonald, CFA, Director of Portfolio Management provided an overview of the company, and their general plans to manage the NH PDIP in the future.

Mr. Jordan introduced the Cutwater team and thanked the committee for their support. Mr. Jordan then provided a handout and discussed Cutwater's management and investment philosophy.

- Page 8 - Ms Pellenz asked a question about the CLASS program. Mr. Jordan explained CLASS is a special money market fund and that the NH PDIP is our fund and not shared by others.
- Page 9 - Mr. Clougherty asked about the current liquidity protection. Mr. Jordan explained that we have a full guarantee but that it will have to change in the future.
- Page 9 - Mr. Clougherty asked "going forward, what guarantee will the PDIP have?" Mr. Jordan explained that the Letter of Credit will be offered to protect the fund.
- Mr. Wegner asked "what if we don't do anything, could we keep the current guarantee?" Mr. Jordan explained that "No, the NH PDIP would have to change".

- Ms. Pellenz asked about the cost for the letter of credit. Mr. Jordan explained that it is 5 basis points.
- Mr. Clougherty asked about the LOC at Deutsche Bank – Why not an American Bank? Mr. Jordan explained that other banks are not providing LOCs or aren't cost competitive.
- Ms. White asked who would have the right to draw on the LOC. Mr. Jordan explained that Cutwater would be named.
- Ms. Provencher asked how much was the total fee? Mr. Jordan explained that 5 basis points would be a fee that must be charged and Jo Ann Klatskin stated that the total fee would be 25 basis points and it would include the fee for the LOC.
- Ms Klatskin talked about the client services that Cutwater would provide.
- Ms Pellenz asked about ACH Services. Ms. Klatskin explained that funds are “pushed”.
- Ms. Provencher asked about security issues. Ms. Klatskin explained that several measures are in place.
- Mr. Micali asked about the 11 O’Clock cutoff. Mr. Jordan explained that the time is determined by the banks and they would try to get it adjusted.
- Page 12 - Mr. Clougherty asked if the additional services cost others in the pool. Mr. Jordan explained that individual municipalities would pay the fee, if required.

Mr. Jordan asked Jeffrey MacDonald, CFA, Director of Portfolio Management to talk about the portfolio. Mr. Macdonald stated that the Pool is a diversified portfolio (structurally) and that they closely monitor the Pool (operationally) in real time using the Charles River Trade Order Management System.

- Mr. Clougherty asked if the system is part of a SAS 70 audit. Mr. Jordan explained that they are getting one.
- Ms. Provencher stated that if something (an investment) changed overnight the board would not be able to immediately meet and discuss it. Mr. MacDonald explained how they would handle the investment decision making.
- Ms. Provencher asked Mr. MacDonald if they look back to see how well they did they do in predicting future performance. Mr. MacDonald said yes, they do look back.
- Mr. Clougherty asked about team members and how often do they meet. Mr. MacDonald explained that they have five key people at their meetings.
- Mr. Clougherty asked what do they think about the economy right now. Mr. MacDonald stated that they believe the economy is recovering but it still faces problems in housing and employment – a slow return to growth.
- Mr. Clougherty asked when the Pool might see better returns. Mr. MacDonald explained that it could be a while until the Fed unwinds the assets on their balance sheet.

Mr. Jordan talked about the fee and the pool's performance against others.

- Mr. Micali asked how would they market the Pool. Ms. Klatskin said she would stress the pool's safety calls to zero balance accounts, a newsletter, investment seminars similar to other states, and to attend more conferences.
- Mr. Micali asked if they could provide a list of 3-4 clients (pools) that they have lost, they we could contact. Mr. Jordan stated that they haven't had anyone leave. One CLASS did close but that was because of a risk problem and another had closed because the pool was not needed any more. He also stated that the State of Maine left but that they (Maine) had made a mistake.
- Ms. Provencher asked how many pools were they managing. Mr. Jordan stated 14.
- Ms. Provencher stated that two of the pools represent half of the total assets.
- Mr. Clougherty asked if a big client left would that affect NH. Mr. Jordan stated it would not affect us at all. He also stated that they are working on more programs in other States.

Ms. Klatskin noted that answers to board questions could be found on page 47 of the hand out.

Mr. Jordan thanked the Committee again for the business.

The Cutwater team left and the committee talked about some points that were made. Mr. Clougherty discussed how the economy might be after the election.

PFM Asset Management Presentation

Managing Directors Barbara Fava, Engagement Manager, David Sallack, Operations and Customer, Debra Goodnight, Accounting and Reporting, and Ken Schiebel, Portfolio Management.

At 11:25 Ms. Fava began the presentation by introducing the members of the PFM team. On page 3 of the presentation, Ms. Fava stated that they would use US Bank as the Custodian, and PriceWaterhouseCoopers as the auditor.

- Mr. Clougherty asked if they would be using the US Bank office in NY. Ms. Fava stated that they work with the HQ in Minnesota.

Ms. Fava highlighted the differences with the current group. She stated that they will provide a higher yield with lower risk, they are confident they will grow participation in the pool, and she stated that the transition would be seamless – they do this all the time.

Ms Fava stated that they have \$36 billion under management, and that PFM was the top rated firm by the iMoneyNet firm. The GFOA also recognized PFM for their work.

Ms. Fava discussed an organizational chart on page 41. Eight people have joined recently and only three have left.

PFM manages 16 local pools with \$17 billion under management. PFM also has a money market mutual fund that complies with our management objectives.

Mr. Schiebel discussed how they would manage the pool.

- Ms. Provencher asked if the Pool can use corporate issued money market funds. Mr. Schiebel answered yes.

Mr. Schiebel stated that they can run the pool and earn more with less risk. They stopped investing in asset backed commercial paper in 2007. Collateralized Repurchase Agreements represent more yield and less risk.

- Ms. Provencher asked about the risk rating. Mr. Schiebel and Ms Fava explained that it was subjective rating.

Mr. Schiebel stated that they choose other commercial paper companies like big banks, GE and Walmart. Mr. Schiebel also added that many of the Asset Backed Securities in our portfolio don't meet the objectives of the pool, and that there were other inconsistencies.

- Ms. Provencher asked about the allocations of "A2P2" investments.
- Ms. Provencher asked if PFM has CDOs or other investments. Mr. Schiebel said yes.

Mr. Schiebel stated 14 of the pools "funds" are AAA rated by S&P, which adds another layer of due diligence.

- Ms. Provencher asked how much would this (the rating) cost? Ms. Fava said it would be included.

Ms. Goodnight discussed the accounting software programs , their backups, etc.

- Ms. Pellenz asked if they would they would perform a stress test if we ran a 2a-7 like fund. Ms. Goodnight said yes.

Ms. Goodnight explained that the GASB statement further defined what 2a-7 pools should be doing (new rules).

PFM also follows MSRB rules and are members of FINRA and they comply with all those compliance rules.

Mr. Sallack stated that they all had Government jobs before they joined PFM and they really understand how clients use these pools.

Mr. Sallack stated that they have a fully staffed customer service center located in Harrisburg, PA.

Mr. Sallack stated they also have a specific Technology Manager.

- Mr. Clougherty asked about SAS 70. Ms. Goodnight responded that US Bank is SAS 70 compliant.
- Mr. Clougherty asked if they were moving to a VOIP system. Mr. Sallack said yes.

Mr. Sallack stated that the pool will have a full fledged web site.

- Ms. Provencher asked how they handle purchases and redemptions. Mr. Sallack said it would be a “lock box”.
- Mr. Lynch asked how far can you look back? Mr. Sallack said six years.
- Mr. Clougherty asked if it was updated regularly. Mr. Sallack said every night.
- Mr. Clougherty asked about ACHs. Mr. Sallack said either wire transfers or ACH.
- Ms. Pellenz asked if there were any limits on sub accounts. Mr. Sallack said that there were no limits and they can take transactions up to 2 pm.
- Mr. Clougherty asked if we would be a stand alone pool. Ms. Fava stated that we (NH) would be managed separately.
- Ms. Provencher asked everything separate? Ms. Fava stated yes, funds, everything.
- Ms. Pellenz asked about online security. Mr. Sallack said that yes, username and passwords and controls can be put on if multiple users needed access.
- Ms. Pellenz asked about dual control. Mr. Sallack said no, not online but they have the capability via fax.
- Mr. Lynch asked if debt service payments can be set up. Mr. Sallack said yes and that reminders are sent.
- Ms. Provencher asked how far in advance is the notice sent. Mr. Sallack said that the reminder is sent 24 hours in advance.
- Ms. Robinson asked what if the account had insufficient funds. Mr. Sallack said they would call the day before.
- Ms. Provencher asked what if the town bounced more than once, what’s the penalty. PFM stated that the board would to set up those rules. Mr. Clougherty felt that the committee has a responsibility in this area.
- Mr. Lynch asked about holidays and other dates. PFM responded that if the banks are open they are open.

Page 30 - PFM discussed marketing and growing the program. Their LGIP programs have higher yields than others.

- Ms. Robinson asked how would PFM communicate these products to the clients. PFM stated that they would work with the board, then on the marketing materials, workshops, literature, etc and then plan visits with them.
- Ms. Fava stated that a CDARS program could be setup at the local banks.
- Ms. Provencher asked about other options. Ms. Fava said they are willing to explore.

- Mr. Micali asked how would PFM market the pool if you couldn't expand the product line. PFM said that they would educate the members to overcome the barriers to participation, i.e., is the yield competitive, do they understand how it works mechanically.
- A discussion ensued about the drop in the pool depositors. Ms. Provencher stated that State aid is down and Mr. Micali agreed, there are less funds available. Ms. Fava discussed their bond program and growing the pool's participation.
- Ms. Provencher asked about the spikes on the chart on page 31. Ms. Fava stated that these were seasonal withdrawals.
- Mr. Micali asked how often does the portfolio management team meet. PFM stated they meet once a month and weekly as needed and the entire trading team is involved.
- Mr. Clougherty asked about the insurance / credit facility. Ms. Fava said that the credit facility would cost an additional 100 basis points. Ms. Fava also stated the MBIA is using junk bonds to back NH PDIP. PFM is proposing prudent investments.
- Ms. Provencher asked what happens when the return is lower than the fee. Ms. Fava stated that they haven't had that problem. They have waived fees and clients would never have to pay PFM.
- Mr. Wegner asked about the Burlingame Complaints. Ms. Fava explained although they were named in the suit, they were named as a member of the industry in general and didn't actually provide any direct services.
- Mr. Micali asked if they could give us the names of 3 pools that have left. Ms. Fava said some have been taken in-house but none have left.
- Ms Provencher asked about the transition. Ms Fava stated that the transition would be smooth and transparent and would take about 4 months.
- Mr. Clougherty asked if it would be better to transition the Pool after the Holidays. PFM stated that the end of the month would be best.
- Ms. White asked what would we need to get moving. Ms. Fava stated that they would need very little, just an initial meeting with Cutwater and the board.
- Ms. Wickens asked what kind of a local presence would they have. Ms. Fava stated that they would have a full time local person. They agreed to work with the board to find an appropriate person.
- PFM thanked the board and left at 1 pm.
- The committee talked about some points that were made.
- Ms. Provencher had questions about the credit facility. The best rate is 40 basis points.
- Ms. Provencher asked if the Committee could ask PFM for the source the information they quoted and to check with PriceWaterHouseCoopers if the Pool is supposed to be GASB59

compliant.

- Ms. Provencher also asked where the 2009 audit was.
- Mr. Wegner stated that a change might help reinvigorate the Pool deposits.

Ms. Provencher moved to leave the nonpublic session and Mr. Clougherty seconded. Motion passed unanimously.

The nonpublic session ended at 1:24 pm.

Ms. Provencher moved to adjourn the meeting and Mr. Clougherty seconded. Motion passed unanimously.

The meeting was adjourned at 1:25 pm.

Respectfully submitted,

Richard Arcand
NH Banking Department