

New Hampshire Public Deposit Investment Pool

February 18, 2021

New Hampshire Banking Department
53 Regional Drive
Concord, NH 03301

MINUTES OF PUBLIC SESSION

Public meeting commenced at 9:04 a.m.

Present: Via Remote Call-in: Monica Mezzapelle, NH State Treasurer; James Gerry, NH DRA; Dan Lynch, NH Municipal Association; Charles Nickerson, NH Association of Counties; Keith Pike, NH Bankers Association; Joe Thornton, NHBA; Sharon Wickens, NH GFOA.

Also Present: Via Remote Call-in: Gerald Little, Commissioner NH Banking Department; Chiara Dolcino, General Counsel, NH Banking Department; Lauren Warner, Hearings Examiner, NH Banking Department; and Doreen Sheppard, Paralegal, NH Banking Department; John Molloy, PFM; Beth Galperin, PFM; Katia Frock, PFM; Mike Varano, PFM; Kristy Merrill, NH Bankers Association; Ryan Hale, NH Bankers Association.

Commissioner Little opened the meeting by reading the attached Script To Ensure Meetings Are Compliant With The Right-to-Know Law During The State Of Emergency provided by the Attorney General's specific guidance on holding an emergency meeting.

The roll was called for attendance and it was established that a quorum of the committee was present. All members and others attending confirmed that there was no one else present at their locations.

Commissioner Little introduced new member James Gerry

Tab I: Minutes:

Minutes of October 15, 2020. No edits or corrections were proposed. Commissioner Little asked for a motion to accept the minutes of October 15, 2020. Dan Lynch move to accept the minutes seconded by Sharon Wickens. The roll was called and motion passed, as follows:

Monica Mezzapelle	Abstain
Sharon Wickens	Yes
Daniel Lynch	Yes
Charles Nickerson	Yes
Joe Thornton	Yes
James Gerry	Abstain
Keith Pike	Yes

Tab II: Investment Advisor Report:

Michael Varano of PFM discussed the information under Tab II. The Covid. Economy slowed a bit in fourth quarter of 2020. January 2021 has been much better. A bright spot in economy nationally is home sales. 2020 was a record year since 2006 for new homes, record low rates. This is positive for more than one reason; i.e., people with existing homes needs items such as furniture, much of which is American made and increases in home value helps overall net worth.

Unemployment is still at 6.7%.

Economic projections from Federal Reserve are positive. 4.2% economic growth is expected for 2021. The Fed is not worried about higher inflation. Stocks and/or home ownerships for 2020 have been exceptional; i.e., gains in value of stocks and homes. Confidence from increased net worth is positive for future.

Wage inflation has been flat for 20 years or so. If the minimum wage increases substantially there will be some wage inflation due to the fact that millions of workers currently do not make \$12 or more per hour.

Bond yields are very low. Market yields also fell due to the Fed buying long term bonds, removing them from the market pushing short term rates lower.

Sum of market update, while economy slowed in quarter 4, many components are doing very well; partly home sales, partly manufacturing; i.e., autos. Despite many disasters, economy is holding up.

Mr. Varano reviewed the investment portfolio. The composition of the fund shows about 10% in US treasuries. Short term T-bills (30-60-90 day) have been issued more than usual. The PDIP held more than usual.

Stress Test was reviewed.

Commissioner Little asked, with rates close to 0, the stress test is stressing down, is it still a legitimate stress test? Mr. Varano answered that the model is what the SEC wants used. It was put in place when rates were much higher. Until recently thinking of negative interest was unheard of – now we try to get $\frac{1}{4}$. Many other countries have negative yields but he does not believe US will have negative rates.

Katia Frock of PFM discussed the information under Tab III. The PDIP meets new definition of qualified institutional buyer. PFM is looking for permission to classify as such. Currently the PDIP can only buy from about 21 of approximately 146 commercial paper sources.

Mr. Varano further explained that pursuant to the SEC, Classification 3(a)3 is the most basic classification. Many more opportunities to purchase commercial paper would be available with the new classification, with higher yield possibilities.

Commissioner Little asked whether the new classification would require any change to current guidelines re: risk to portfolio? Ms. Frock answered that it would not.

Commissioner Little questioned what the language looks like to allow this? Is it linked to AA, AAA ratings, etc.?

Mr. Varano explained that there is no difference at all. As example: Citizens Bank issues commercial paper for operations, PDIP can buy it in the fund. Citizens Bank also issues or guarantees other funding commercial paper entities. Many called asset backed commercial paper. Asset backed market started 30 years ago. It is larger than “regular” commercial paper market. Only credit worthy for those entities that have guarantee of 100% of underlying assets. A QUIB designation indicates a sophisticated entity that understands this market.

Commissioner Little asked how we show the pool members that we have not taken untoward risk and that board has been careful in making the change. What does that language look like?

Mr. Molloy answered that the language currently in the pool's info statement describing commercial paper investments is appropriate for the current commercial paper being purchased as well as the kind available under definition of QUIB. Current language refers to ratings of commercial paper, length of maturity, no more than 5% of pool assets in the commercial paper of any one issuer, issuer must have certain level of assets. Essentially, the types of investments are already authorized.

Commissioner Little asked what the committee is being asked to do. Read statement into the minutes?

Ms. Frock answered that PFM does not need an official vote, but it does not want to make the change without running by board first.

Dan Lynch asked if we acknowledge QUIB we do not have to change anything in the allowed investments under Exhibit E for the pool.

Mr. Molloy responded that hat is correct. The way the securities law has changed, PDIP is a QUIB under that definition.

Monica Mezzapelle commented that there appears to be no vote necessary. PFM is simply notifying us of the change and that it is already covered under current documents.

Sharon Wickens agreed, they are notifying us of a change but it doesn't change the investment policy.

Commissioner Little asked whether the committee is comfortable with idea that with SEC change and QUIB we will invest in commercial paper.

Ms. Wickens stated we already are investing in commercial paper. Would be allowed access to more options as QUIB but still must meet standards of our investment policy.

Ms. Mezzapelle stated that there would be risk, but already is allowed in the investment policy.

Commissioner Little asked for a motion by the committee to accept the recommendations regarding QUIB.

Mr. Molloy proposed the following motion for the committee: The NH PDIP recognizes the change in SEC regulations defining accredited investors and qualified institutional buyers and agrees to include investments in the pool that were previously restricted by the former definitions provided that such investments comply with the pool's current investment policy as stated.

Dan Lynch put forth the motion as stated; seconded by Joe Thornton. There was no further discussion on the motion. The roll was called and it was VOTED as follows:

Monica Mezzapelle	Yes
Sharon Wickens	Yes
Daniel Lynch	Yes
Charles Nickerson	Yes
Joe Thornton	Yes
James Gerry	Yes
Keith Pike	Yes

Dan Lynch asked how it will be communicated to the members of the pool.

Commissioner Little stated that communications with members comes through Beth Galperin and requested Beth do a special communication to the pool members. Ms. Galperin agreed to do so.

Tab III: Financial Report:

Mr. Molloy reviewed the information under Tab IV, indicating that the net position of the pool is down.

Mr. Lynch asked whether going forward it can be identified within the schedule of investments what commercial paper is being acquired by PFM as a QUIB.

Mr. Molly answered that is not part of the normal reporting, but for next few quarters they can figure out a way to highlight that.

Tab IV: Custody Update:

Mr. Molloy explained there is an action item for the board related to the amendment to extension with US Bank.

Ms. Frock explained that the custody agreement expired in July of 2019. The current amendment matches the term in PFM's contract and includes one year extensions. The amendment has been vetted and worked on with PFM and NHBD Legal.

Lauren Warner stated that PDIP must vote to approve this amendment allowing PFM to enter into the contract with US Bank. There are no changes to duties of PFM or US Bank. It only covers the dates from July 2019 and extensions to coincide with PFM's PDIP Contract. Ms. Warner explained that a motion and second from the board to approve the amendment is required.

Motion made by Ms. Wickens; seconded by Mr. Gerry. There was no further discussion on the motion and it was VOTED, as follows:

Monica Mezzapelle	Yes
Sharon Wickens	Yes
Daniel Lynch	Yes
Charles Nickerson	Yes
Joe Thornton	Yes
James Gerry	Yes
Keith Pike	Yes

Commissioner Little recommends accepting the amendment and board vote.

Tab V: Marketing Update:

Beth Galperin of PFM presented information under Tab V. PFM continues customer outreach via Webex. 42 accounts were added since last quarter. Weekly, quarterly communications continue. There were 2 conferences last fall. NE States, GFOA, Tri-Sate Schools virtual conferences coming up.

Commissioner Little discussed the issue of the role of Banking Department in PDIP. The Governor's office and legislative leadership have requested minimizing proposed legislation for this session. Controversial or complicated bills will get retained. Since there has been no clear sense from PDIP about moving PDIP out of banking department it is not moving forward at this time. Possibly can take it up at end of 2021 for potential legislation for next session. Must attempt to minimize subsidization of pool activities by the NHBD. NHBD must generate money to support itself. To do so, NHBD charges assessments, fees, fines to entities regulated by the department. The contract with PFM allows NHBD to receive compensation for activities in support of the PDIP. Commissioner Little has informed the Governor's office of this ability. NHBD will be working with PFM to determine equitable manner to reimburse NHBD. Will happen sometime between now and next meeting.

Monica Mezzapelle asked whether the plan would be to bill PFM for actual expenses or a set amount.

Commissioner Little explained we do not know that answer yet. Currently, NHBD does not track employees' time spent on PDIP activities. There is a statutory per diem rate that NHBD could charge pool. It might be better to find a quarterly rate seeking to equal reimbursement. Current per diem rate is approximately \$1,100 per person per day. Will require conversation with PFM.

The question of moving PDIP out of NHBD is not gone, but delayed due to current pandemic situation. NHBD will begin recovering expenses for managing PDIP so that NH entities are no longer subsidizing those costs.

Mr. Molloy stated to clarify the charge would be assessed against the pool not against PFM.

Tab VI: Confirm Next Board Meeting Date:

Next meeting date is May 27 at 9:00 a.m.

Confirming future dates: 8/26/21
 10/14/21
 2/17/21

Commissioner Little requested a motion to adjourn. Motion made and seconded and VOTED, as follows:

Monica Mezzapelle	Yes
Sharon Wickens	Yes
Daniel Lynch	Yes
Charles Nickerson	Yes
Joe Thornton	Yes
James Gerry	Yes
Keith Pike	Yes

Meeting adjourned at 10:45 a.m.