

**PLGIT**  
Pennsylvania Local Government Investment Trust

## **Changes to Permitted Investments**


*Act 10 of 2016: Expansion of  
Pennsylvania Permitted Investments*

**PMAA 74<sup>th</sup> Annual Conference & Trade Show**  
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Extend  
Your  
Success

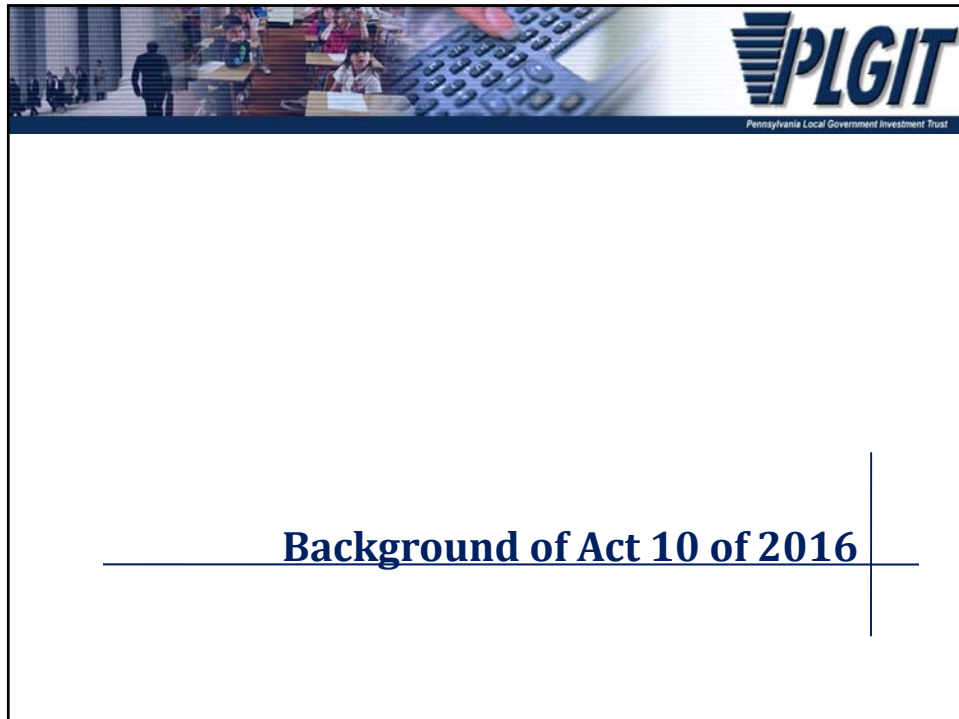


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## **Overview**

- ❖ **Background of Act 10 of 2016**
- ❖ **Overview of PLGIT Investment Line-up**
- ❖ **PFMAM's Experience**
- ❖ **Roadmap**
- ❖ **Security Descriptions**



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This slide features a header banner identical to the one above, with a collage of images and the PLGIT logo. The title "Challenges Facing Authorities, Local Governments and Schools" is centered in a blue serif font. Below the title is a bulleted list of challenges. The slide number "4" is located in the bottom right corner.

***Challenges Facing Authorities,  
Local Governments and Schools***

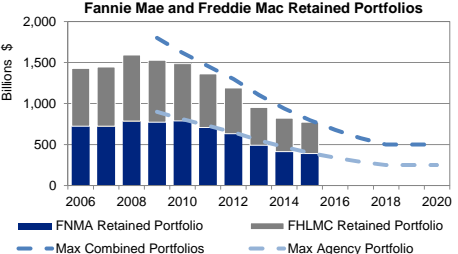
- Short-Term Treasury and Agency yields impacted heavily by the Federal Reserve's near-zero overnight target rate policy since 2008
  - Local governments and schools have been suffering a substantial reduction of interest earnings each year due to the extremely low interest rate environment
- Federal Agency supply is decreasing, which further pushes down rates, and could potentially completely disappear
- Impending changes in the regulatory environment will further limit the supply of high-quality short-term money market securities, consequently putting further downward pressure on short-term interest rates
- Lack of uniformity among current investment statutes and descriptions for Pennsylvania Municipal Authorities, Local Governments and Schools regarding permitted investments
- Lack of diversification given limited investment options available in Pennsylvania

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## Changing Dynamics and Regulations in the Market

- As a result of the financial crisis of 2008, the U.S. Treasury Department mandated Fannie Mae and Freddie Mac's maximum allowable retained mortgage portfolio decline by 15% annually until their individual portfolios each reach \$250 billion.
- With the decline in their respective portfolios, supply of agency debt will continue to shrink, leaving local governments with fewer investment options.
- Impending changes in the regulatory environment will further limit the supply of high-quality short-term money market securities, consequently putting further downward pressure on short-term interest rates.
- Impending changes include:
  - Basel III's Capital Requirements
  - Basel III's Liquidity Coverage Ratio
  - Rule 2a-7 Money Market Fund Reforms





**Fannie Mae and Freddie Mac Retained Portfolios**

Billions \$

2006 2008 2010 2012 2014 2016 2018 2020

FNMA Retained Portfolio FHLMC Retained Portfolio  
Max Combined Portfolios Max Agency Portfolio


Source: Fannie Mae and Freddie Mac. Projected portfolio sizes represent legislatively mandated balance sheet maximums. As of December 31, 2015.

## Act 10 of 2016 – Expanding PA Permitted Investments

- Seeking higher yields is not the only issue:**
  - Dwindling supply of permitted investments
  - Banking regulation changes
  - Inconsistency in PA investment codes
  - Lagging best practices of Government Finance Officers Association\* ("GFOA") and most other states
- Act 10 of 2016 ("Act 10") enables, but does not require:**
  - Additional investment types for operating funds
  - Unification of the different investment codes
  - Aligns PA local government investment opportunities with most other states
- Act 10 requires important safeguards:**
  - Credit quality and maturity criteria, which we believe are valuable risk management tools
  - High credit quality standards
  - Relatively short maturity standards

\*Source: [www.gfoa.org](http://www.gfoa.org)




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### *The Evolution of Act 10 of 2016*

- In December 2013, Senate Bill 1207 ("SB 1207") was introduced to the Senate by Senator Dominic Pileggi.
  - SB 1207 amends the act of July 25, 1973, authorizing cities of the first class and second class to invest funds in commercial paper by:
    - expanding act to include all public corporations (including local governments and schools) and municipal authorities
    - authorized expansion of investments permitted included: commercial paper, bankers' acceptances, negotiable certificates of deposit and high quality corporate notes
  - SB 1207 passed the Senate in June 2014 by a 50-0 vote and was subsequently referred to the House for consideration
  - SB 1207 failed to pass in the House due to the legislative session ending
- In June 2015 House Bill 1296 ("HB 1296") was introduced to the House by Representative Kate Harper.
  - HB 1296 was modeled after SB 1207 from the prior legislative session, which amends the act of July 25, 1973, authorizing cities of the first class and second class to invest funds in commercial paper by:
    - expanding act to include all public corporations (including local governments and schools) and municipal authorities
    - authorizing expansion of investments permitted to include: commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals

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### *The Evolution of Act 10 of 2016*

- Other parameters of HB 1296 include:
  - extending maturity limit of federal agency securities beyond current 397-day maximum maturity
  - updating money market fund language in anticipation of changes in Federal regulations
- In September 2015, HB 1296 passed the House by a 190-7 vote and was referred to the Senate for consideration
- On February 9, 2016, the third and final consideration in the Senate took place where HB 1296 passed by a 47-0 vote and was referred back the House for a concurrence vote due to a minor amendment by the Senate
- The House concurred with the Senate amendment on March 15, 2016 (187-3) and the Bill was sent to the Governor for final approval
- The Governor signed the Bill into law on March 25, 2016
- **After a 60 day waiting period, Act 10 became effective on May 24, 2016.**

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## Sponsoring Associations Support

- PLGIT's seven sponsoring associations played an active role throughout the entire process of the development and the passing of Act 10

**The PLGIT Sponsoring Associations are:**



**PSATS**  
Pennsylvania State Association of Township Supervisors



**The Authorities**  
Pennsylvania Municipal Authorities Association



**TCC**  
Pennsylvania State Association of Township Commissioners



**The Pennsylvania Municipal League**



**Pennsylvania State Association of Boroughs**




**CCAP**  
County Commissioners Association of Pennsylvania



**PASA**  
Pennsylvania Association of School Administrators

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## Prior & Act 10 Permitted Investments Overview

- Under prior law, local government and school investment codes vary by entity type and class.
- Act 10 enables all PA municipal authorities, local governments and schools to have the same opportunities and aligns permitted investments with best practices.

| Government Type                                  | Fixed Income Investments |          |                           |  |               | Act 10 Permitted Investments – "Prime" Securities |                     |                 |
|--|--------------------------|----------|---------------------------|--|---------------|---|---------------------|-----------------|
|  | US Treasuries            | Fed Agy* | Bank Deposits & Bank CD's | G.O. Debt of Comm. And PA Local Govt's | MMF and LGIPs | Commercial Paper                                  | Bankers' Acceptance | Negotiable CD's |
| Boroughs   | ✓                        | ✓        | ✓                         | ✓                                      | ✓             | Act 10  | Act 10              | Act 10          |
| Cities, 1 <sup>st</sup> & 2 <sup>nd</sup> Class  | ✓                        | ✓        | ✓                         | ✓                                      | ✓             | ✓   | Act 10              | Act 10          |
| Cities, 3 <sup>rd</sup> Class                    | ✓                        | ✓        | ✓                         | ✓                                      | ✓             | Act 10  | Act 10              | Act 10          |
| Counties – 2 <sup>nd</sup> & 2A Class            | ✓                        | ✓        | ✓                         | ✓                                      | ✓             | ✓   | Act 10              | Act 10          |
| Counties 3 <sup>rd</sup> – 8 <sup>th</sup> Class | ✓                        | ✓        | ✓                         | ✓                                      | ✓             | ✓   | Act 10              | Act 10          |
| Municipal Authorities                            | ✓                        | ✓        | ✓                         | ✓                                      | ✓             | Act 10**  | Act 10              | Act 10          |
| School Districts                                 | ✓                        | ✓        | ✓                         | ✓                                      | ✓             | Act 10  | Act 10              | Act 10          |
| Twps of 1 <sup>st</sup> Class                    | ✓                        | ✓        | ✓                         | ✓                                      | ✓             | Act 10  | Act 10              | Act 10          |
| Twps of the 2 <sup>nd</sup> Class                | ✓                        | ✓        | ✓                         | ✓                                      | ✓             | Act 10  | Act 10              | Act 10          |



✓ – Previously Permitted    **Act 10** – Act 10 Permitted

\*Generally only short-term Federal Agencies with maturities less than 397 days, Act 10 allows for longer maturities

\*\*Some Authorities were previously permitted to invest in commercial paper

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## *Commercial Paper*

- Short-term bonds issued by corporations and large banks to finance daily activities
  - Banks can be foreign banks that have a branch in the U.S.
- Sold at a discount, pays par plus interest at maturity
  - Example: Investor purchases \$1,000,000 of Commercial Paper with a 1% yield
  - Investor would pay \$990,000 and receive \$1,000,000 at maturity
- Maturities range from 7 to 270 days
- Typically offer higher yield than short-term Treasuries or Agencies
- Credit rating varies depending on the issuer

During the manufacturing process of Boeing airplanes and before the actual sale of the completed airplane, Boeing would issue commercial paper as a way to pay for payroll, raw materials, and working capital.




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## *Bankers' Acceptances*

- Obligations issued by large banks
- Created to facilitate commercial trades
- Similar to commercial paper, sold at a discount and pays par plus interest at maturity
- Maturities are limited to 180 days or less
- Yields are generally higher than Treasuries/Agencies
- Creditworthiness relates to the credit of the issuing bank

A bank will issue a bankers' acceptance to facilitate trade between a buyer and seller of goods. The bankers' acceptance acts as a guarantee that the transaction will be made.



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## Certificates of Deposit

**Non-Negotiable CDs**

- Issued by financial institutions
- No secondary market
- Penalties for early withdrawal
- Can be insured by FDIC or collateralized




**Negotiable CDs**

- Issued by large banks and savings and loans
- Sold in lots of at least \$1 million
- Active secondary market
- Not collateralized
- Credit quality varies by issuer



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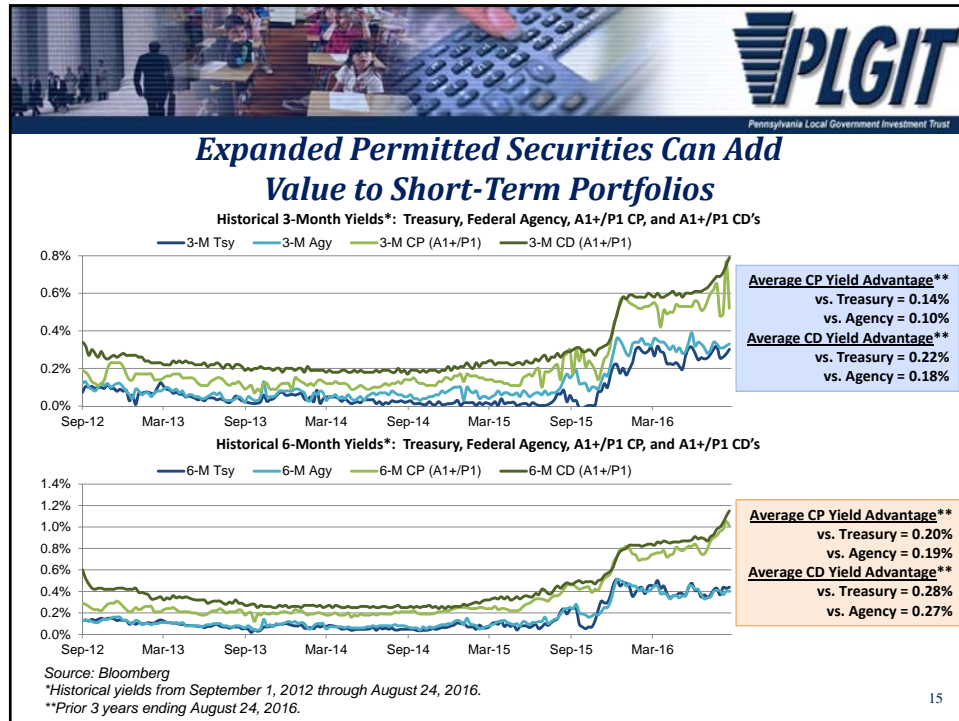
## Act 10 Risk Limiting Provisions

- Additional investment options allow for PA municipal authorities, local governments and schools to more fully diversify their investments.
- Limiting maturity and requiring high credit ratings helps limit risk.

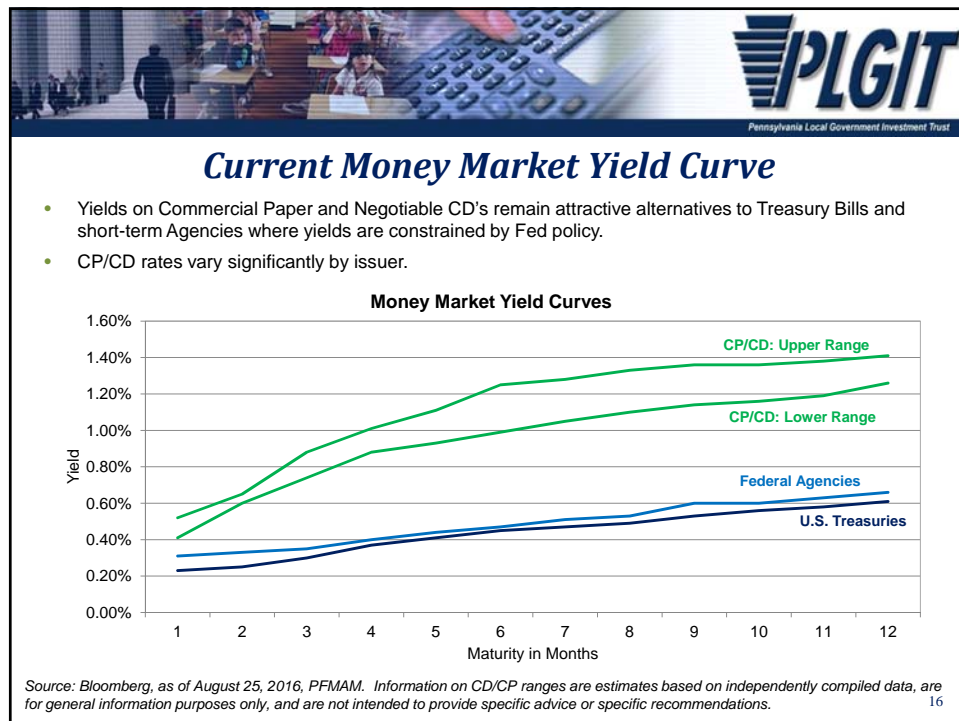
| Prudent Risk Limiting/Management Provisions |  |
|---|--|
| Security Type                               | Risk Limiting Factors  |
| <b>Federal Agency</b>                       | <ul style="list-style-type: none"> <li>• Some agencies are fully backed by U.S. Government</li> <li>• Other agencies are strongly supported by the Federal Government</li> <li>• Rated at least "A" by at least two NRSROs*</li> </ul>   |
| <b>Repurchase Agreements</b>                | <ul style="list-style-type: none"> <li>• Must be collateralized by U.S. Treasury or Federal Agency securities</li> </ul>   |
| <b>Commercial Paper</b>                     | <ul style="list-style-type: none"> <li>• Rated in top short-term category by at least two NRSROs*</li> <li>• Maximum maturity of 270 days</li> </ul>   |
| <b>Bankers' Acceptances</b>                 | <ul style="list-style-type: none"> <li>• Rated in top short-term category by at least two NRSROs*</li> <li>• Maximum maturity of 180 days</li> </ul>   |
| <b>Negotiable CD's</b>                      | <ul style="list-style-type: none"> <li>• For CD's with maturities less than one year, must be rated in top short-term category by at least two NRSROs*</li> <li>• For CD's with maturities greater than a year, must be rated at least "A" by at least two NRSROs*</li> <li>• Maximum maturity of three years or less</li> </ul> |
| <b>Insured Bank Deposit Reciprocal</b>      | <ul style="list-style-type: none"> <li>• All deposits are 100% FDIC-insured.</li> </ul>  |

\*NRSROs – Nationally Recognized Statistical Ratings Organizations (for example, S&P, Moody's, Fitch)

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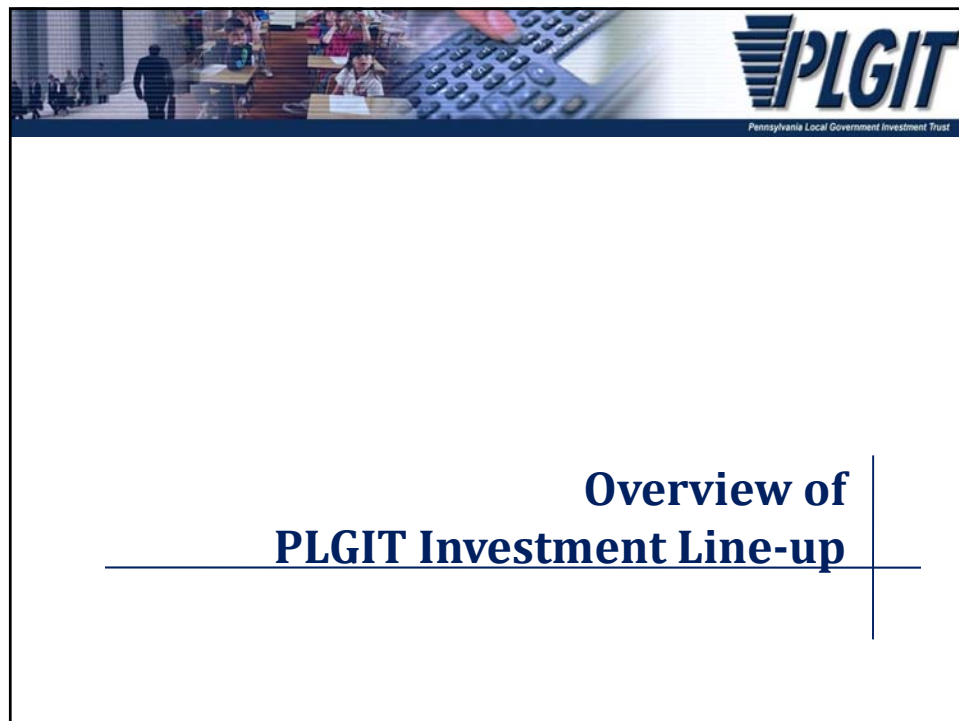
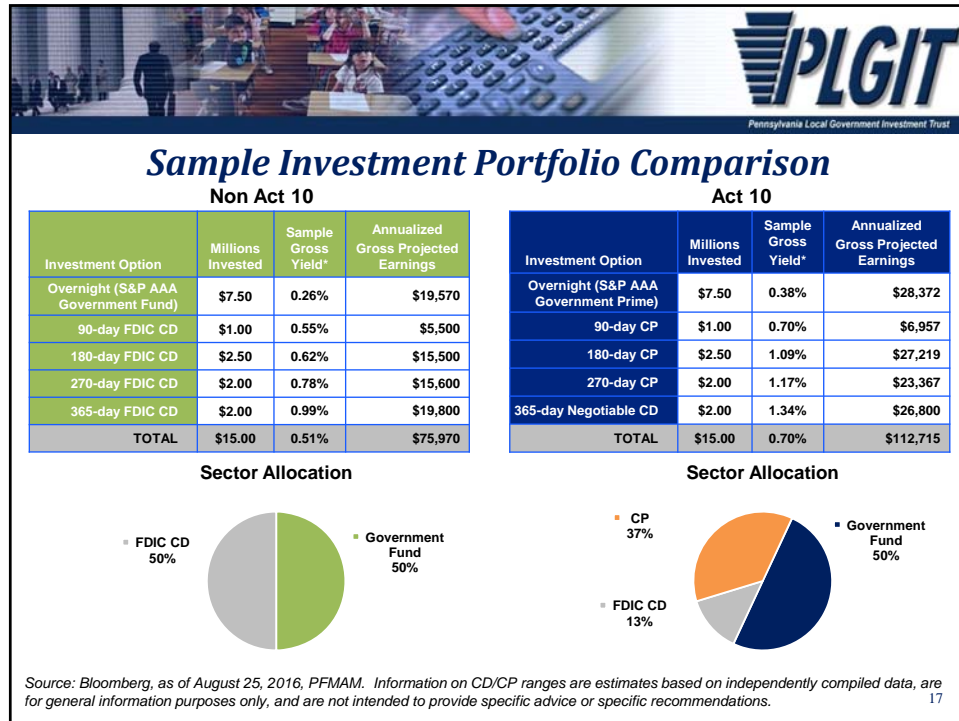



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## PLGIT Investment Line-Up


- By taking advantage of the new investments offered through Act 10, PLGIT investors can benefit through enhance liquid and fixed-rate investment options
  - The **PLGIT/PRIME** Portfolio, previously only for certain authorities and counties, is now available to all Investors
  - PLGIT/TERM** Portfolio has amended its investment policy for new investments
- All other PLGIT options remain the same

### Current PLGIT Investment Line-up

|             |  |   |             |  |
|-------------|--|---|-------------|--|
| PLGIT-Class | PLGIT-Plus/Class   | PLGIT/I-Class                                     | PLGIT/PRIME | Liquid & short-term funds; variable rate |
| PLGIT/TERM  | PLGIT-CD   | Fixed-rate, fixed-term options from 60 - 365 days |             |  |
| PLGIT/ARM   | Liquid and fixed-term investments for tax-exempt bond proceeds   |   |             |  |
| PLGIT-CAP   | Cash Allocation Program offering specialized investment advice based on Participant cash flows and market conditions |   |             |  |
| PLGIT/SAM   | Separate, longer-term portfolios for reserve funds   |   |             |  |

Includes Act 10 Investments
No Changes

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## PLGIT Investment Line-Up

### PLGIT Portfolio (Class, PLUS, I-Class)

- No changes to PLGIT Portfolio or its 3 share classes
- Continue to offer all current cash management services


### PLGIT/PRIME Portfolio

- Investment policy updated to take advantage of all newly permitted investment options
- Expanded availability to all PLGIT Investors

### PLGIT CD Purchase Program

- No change to the CD program

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## ***PLGIT Investment Line-Up***

**PLGIT/TERM**

- No changes for Investors who currently hold **PLGIT/TERM** investments
- Future **PLGIT/TERM** investments will take advantage of new permitted investments

**PLGIT/ARM Pool**

- No change to **PLGIT/ARM**


**PLGIT/ARM Individual Portfolios**

- If the bond documents permit the new investments or include language that references "investments permitted by law" an IP could invest in the new permitted investments

**PLGIT – Separate Account Management (SAM)**

- Investors will need to update their investment policies to reflect new permitted investments. PLGIT can assist investors with providing sample language.

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## ***Features of PLGIT/PRIME Portfolio***

1. **PLGIT/PRIME** includes all permitted investment options outlined in Act 10
2. No minimum initial deposit or balance requirements
3. **PLGIT/PRIME** offers a limited number of cash management services including:
  - Wire in/out; Direct Deposit of subsidies; Direct payments of fed/state payments
  - Withdrawals, including transfers to other PLGIT options, limited to 2 per month; transactions could be done online or over the phone
4. Check writing continues to be offered through the PLGIT Portfolio (**PLGIT-Class**)
  - Investor can transfer funds from **PLGIT/PRIME** to **PLGIT-Class** to write checks
5. To open a **PLGIT/PRIME** account requires new "Account Application" if adding to an existing account
  - If opening a new account, new "Account Application" and a "Permissions" forms needs to be completed
6. **PLGIT/PRIME** account number mirrors the PLGIT Portfolio account number provided
7. An investor can send in new funds or transfer from another PLGIT investment option to fund a new **PLGIT/PRIME** account

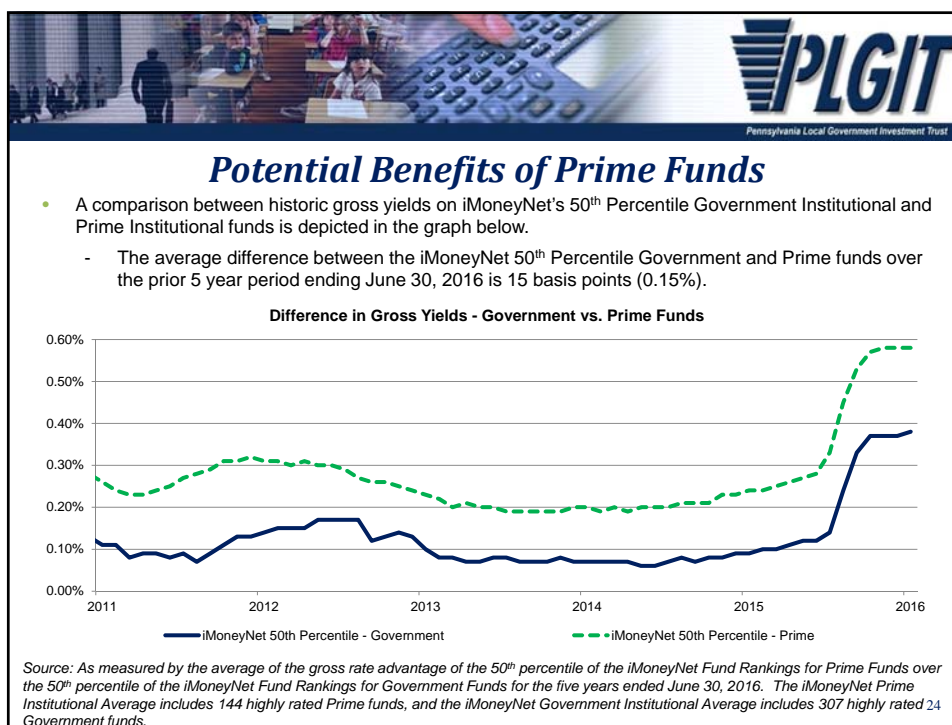
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### Key Benefits of PLGIT/PRIME

- **Enhanced Yield** – Commercial paper, negotiable CD, and bankers' acceptances investments typically offer a yield advantage compared to other permitted investment vehicles
- **Ample Liquidity** – 2 withdrawals per month
- **Diversification** – An investment in **PLGIT/PRIME**, in addition to your entity's overall cash and investment portfolio, provides another layer of diversification
- **Convenience** – No minimum balance requirement and internet purchases and redemptions can be initiated 24 hours a day
- **Flexibility** – Wire and ACH capability; no waiting period prior to redemption
- **Cash Management Services** – As part of the PLGIT Programs, **PLGIT/PRIME** Investors gain access to the full array of PLGIT cash management services via transfers to **PLGIT-Class Shares**

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### Features of PLGIT/TERM Portfolio

1. Upon the effective date of Act 10 PLGIT started a new **PLGIT/TERM** series that could invest in the new investment types, along with the pre-Act 10 investments
2. Available maturities range from 60 – 365 days
3. Minimum investment amount remains \$100,000
4. With the inclusion of the new investments, yields offered will be higher than those of traditional **PLGIT/TERM** investments for many maturity dates
5. New investments in **PLGIT/TERM** account requires new “Account Application” if adding to an existing account
  - If opening a new account, new “Account Application” and a “Permissions” forms needs to be completed
6. Investor purchases **PLGIT/TERM** from any share class of the PLGIT Portfolio or **PLGIT/PRIME**

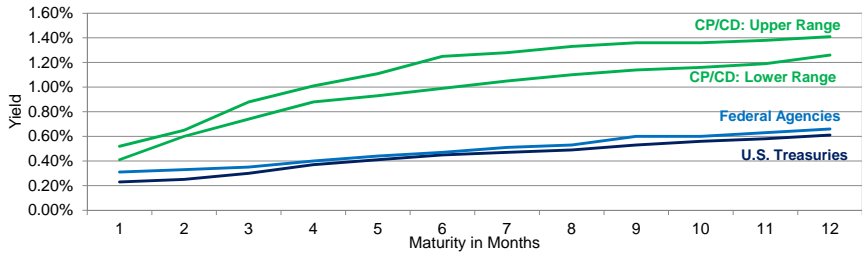
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### Key Benefits of PLGIT/TERM

- **Enhanced Yield** – Commercial paper, negotiable CD, and bankers’ acceptances investments typically offer a yield advantage compared to other permitted investment vehicles
  - Yields on commercial paper and negotiable CD’s provide potentially higher yields in the 60- to 365-day space for TERM Portfolios
  - Below is a current yield comparison between commercial paper/negotiable CD’s and U.S. Treasury and federal agency securities
- **Diversification** – An investment in **PLGIT/TERM**, in addition to your entity’s overall cash and investment portfolio, provides another layer of diversification


**Money Market Yield Curve Comparison**



Source: Bloomberg, as of August 25, 2016, PFMAM. Information on CD/CP ranges are estimates based on independently compiled data, are for general information purposes only, and are not intended to provide specific advice or specific recommendations.

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## *How To Enroll*

- **Review PLGIT Information Statement**
- **Current Investors**
  - If you are registered for PLGIT online access, simply complete the PLGIT "Account Application" form to add a **PLGIT/PRIME** and/or **PLGIT/TERM** account to an existing PLGIT account.
  - If you would like to open a new account, please complete the PLGIT "Account Application" and "Permissions" forms.
  - If you are not registered for online access, please complete the PLGIT "Contact Record" form.
- **New Investors**
  - Please contact your PLGIT marketing rep to review the PLGIT joining documents.
- For assistance or to learn more about **PLGIT/PRIME** and **PLGIT/TERM**, please contact PLGIT at 1-800-572-1472 or visit us on the web at [www.plgit.com](http://www.plgit.com).

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## PFMAM's Experience



## ***PFMAM's Experience Investing in Prime Securities***

- Prime securities are high-quality corporate securities such as commercial paper, negotiable CD's, and bankers' acceptances.
- Prime securities are not new to PFM Asset Management LLC (PFMAM), the investment advisor and administrator to PLGIT since the Trust's inception in 1981.
- PFMAM currently provides investment advisory and administrative services to 15 pooled investment programs across the country (including PLGIT) and one registered investment company (money market fund).
- Thirteen (13) of these funds, in twelve (12) states, invest in high-quality prime securities.
  - States include: Michigan, Minnesota (2 funds), Wyoming, Missouri, Illinois, California, Massachusetts, Florida, Virginia, Colorado, New Hampshire, and Pennsylvania
  - On average, prime securities make up approximately 55% or more of each of these funds
  - Across these thirteen (13) funds, prime securities account for \$8.6 billion in assets, as of July 31, 2016.
- Further, PFMAM limits all prime security purchases to only those issuers that have passed through its formal credit review process and are listed on the PFMAM Credit Committee Approved Issuer List.

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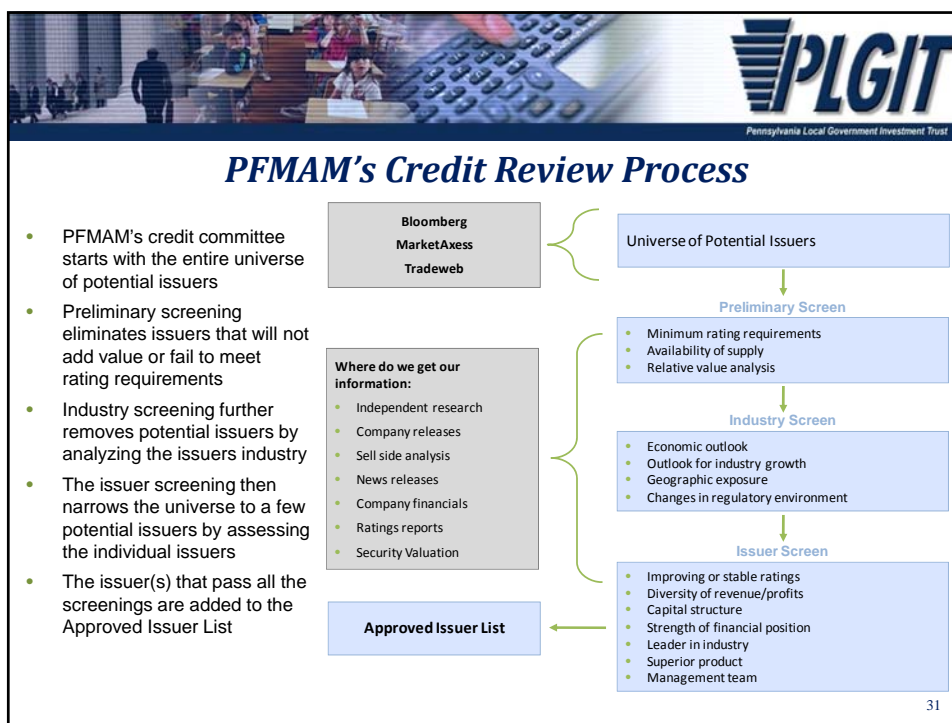



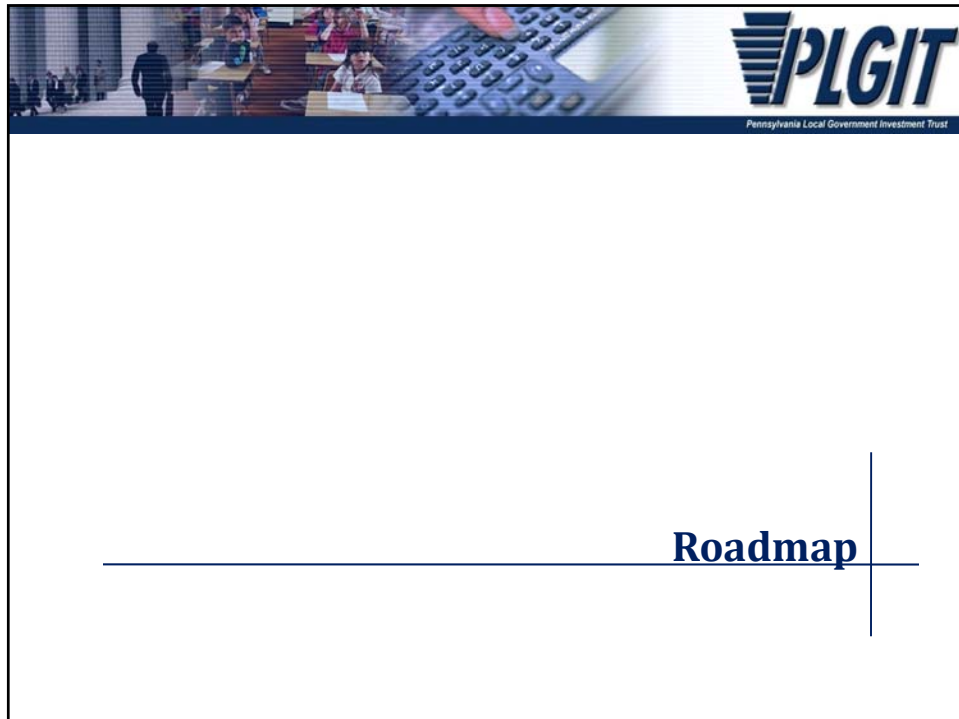
## ***PFMAM's Credit Review Philosophy***

- Utilize credit to seek above benchmark returns with minimum volatility
- Integrated into broader investment process
- Research conducted "on the desk" by portfolio managers and traders
- Emphasize emerging industry and macro trends
- Thorough review of issuer-specific trends

| Issuer Analysis  | Macro Analysis   |
|--|--|
| <ul style="list-style-type: none"> <li>• Balance sheet analysis</li> <li>• Earnings: actual and projections</li> <li>• Asset quality and impairments</li> <li>• Corporate governance</li> <li>• Price movement of fixed-income and equity securities</li> <li>• Monitor credit default swap levels</li> <li>• Trading volume</li> <li>• Analysts' recommendations</li> </ul> | <ul style="list-style-type: none"> <li>• Industry trends</li> <li>• Competitive environment</li> <li>• Business cycle</li> <li>• Regulatory environment</li> <li>• Rating agency actions</li> <li>• Sovereign credit developments</li> </ul> |


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***Fundamental Questions to Ask Concerning Investments***

- What are you purchasing?
- Who is the seller?
- Is the investment safe, legal, liquid?
- Does the investment offer a competitive yield?
- How is the yield calculated?
- Does it meet your cash flow requirements?
- Are current market conditions right for this investment?



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### *Is It Too Good To Be True?*



- “Guaranteed” returns
- Reluctance to provide documentation
- Teaser rates
- Rates well above comparables
- Limited or no access to funds
- Unfamiliar product name or company name

***Invest only in products where you feel comfortable and can comfortably explain***

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### *Investment Advice in Any Market*

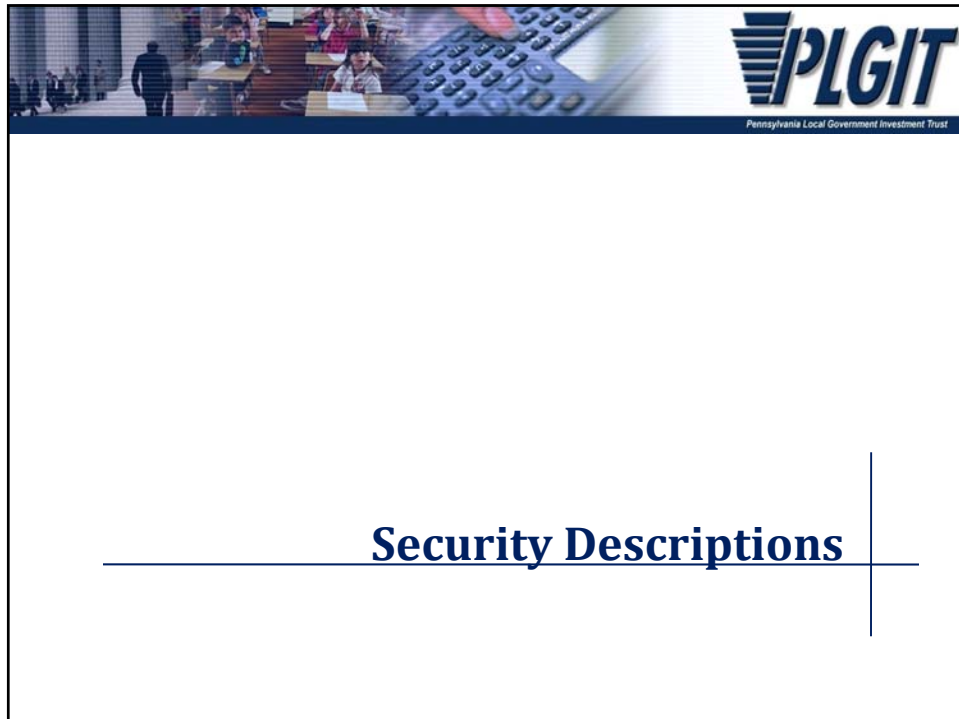
**Stick to basic principles:**

- Safety, Liquidity, then Yield
- Diversification
- Maturity diversification
- Manage risks
- Develop a long-term plan
- Base investments on liquidity needs
- Don't try to “guess” where rates are going
- Consider investments that react to interest rate changes in different ways - fixed and variable rate



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The slide features a header image on the left showing a collage of people in a professional setting. On the right is the PLGIT logo, which consists of a stylized blue and white graphic followed by the text 'PLGIT' in a bold, sans-serif font. Below the logo, in smaller text, is 'Pennsylvania Local Government Investment Trust'. The main body of the slide is white and contains the title 'U.S. Treasury Obligations' in a bold, blue serif font, centered. Below the title is a list of bullet points, each with a green dot, detailing the characteristics of U.S. Treasury Obligations. The list includes: Issuer (U.S. Treasury), Credit Quality (Generally considered to be risk-free, AA+ (S&P)/Aaa (Moody's)), Maturity (1 month to 30 years), Yields (Relatively low), How they work (U.S. Treasury Notes and Bonds (1+ years to maturity) pay a coupon semi annually and pay par amount at maturity; U.S. Treasury Bills (under 1 year to maturity) pay par amount upon maturity), Bought/Sold (Bought and sold in primary and secondary markets), and Liquidity (Very liquid).

- **Issuer:** - U.S. Treasury
- **Credit Quality:** - Generally considered to be risk-free, AA+ (S&P)/Aaa (Moody's)
- **Maturity:** - 1 month to 30 years
- **Yields:** - Relatively low
- **How they work:**
  - U.S. Treasury Notes and Bonds (1+ years to maturity) pay a coupon semi annually and pay par amount at maturity
  - U.S. Treasury Bills (under 1 year to maturity) pay par amount upon maturity
- **Bought/Sold:** - Bought and sold in primary and secondary markets
- **Liquidity:** - Very liquid


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### ***GNMA Obligations***

- **Issuer:** - Financial Institutions approved by the Government National Mortgage Association
- **Credit Quality:** - AA+ (S&P) / Aaa (Moody's), Backed by the full faith and credit of the U.S.
- **Maturity:** - 1 day to 30 years
- **Yields:** - Slightly higher than Treasuries
- **Risks:** - Interest rate risk, extension risk, prepayment risk and reinvestment risk
- **How they work:** - Cash flows based on a pool of mortgages; securities pay periodic coupons, comprised of the principal and interest payments from the borrowers, and pay par amount upon maturity or prepayment date
- **Bought/Sold:** - Bought and sold in both primary and secondary markets
- **Liquidity:** - Moderate to high liquidity


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### ***Federal Agency/GSE Obligations***

- **Issuer:** - Federal Agencies  
- Government sponsored enterprises (GSE)
- **Credit Quality:** - Most are AA+ (S&P) / Aaa (Moody's)  
- Most are not full faith and credit
- **Maturity:** - 1 day to 30 years
- **Yields:** - Slightly higher than Treasuries
- **Risks:** - Interest rate risk, reinvestment risk and, if callable, risk of being called
- **How they work:** - They pay a coupon either annually, semi annually, quarterly or monthly and pay par amount upon final maturity
- **Bought/Sold:** - Bought and sold in the primary and secondary markets
- **Liquidity:** - Generally high

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### ***Bank Deposits and Bank Certificates of Deposit***

- **Issuer:** - Commercial Banks, Credit Unions, Savings Banks
- **Credit Quality:**
  - Varies
  - First \$250,000 insured by FDIC, NCUA
  - Then, must be secured by collateral (Act 72)
- **Maturity:**
  - Overnight for bank deposits
  - Greater than 7 days for CD's
- **Yields:**
  - Bank deposits - low
  - Bank CD's - moderate (depends on credit quality)
- **Risks:**
  - CD's may have early withdrawal penalties
- **Bought/Sold:** - Directly from bank or credit union, brokers, or investment advisors
- **Liquidity:**
  - Bank deposits - highly liquid
  - FDIC-Insured CD's - illiquid
  - Collateralized CD's - illiquid

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### ***General Obligation Debt of the Commonwealth of PA and PA Local Governments***

- **Issuer:** - Commonwealth of PA and its Local Governments
- **Credit Quality:** - Varies (not always rated), may carry bond insurance, no credit rating requirement in PA codes
- **Maturity:** - 1 week to 30 years
- **Yields:** - Tax-exempt return (usually lower than comparable maturity Treasury)
- **Risks:**
  - Interest rate risk - increases with maturity
  - Credit risk - minimal due to G.O. structure
- **Bought/Sold:** - Notes or Bonds are issued by state and local governments and sold through an underwriter or selling group
- **Liquidity:** - Not a liquid secondary market

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### **Money Market Mutual Funds**

- **Issuer:** - Financial institutions, Banks
- **Credit Quality:** - AAAM / Aaa-mf
- **Maturity:** - Overnight
- **Yields:** - Low
- **How they work:** - Constant Net Asset Value (Low Volatility)\*
  - 2a-7 funds (money market mutual funds)
  - "\$1 in, \$1 out"
  - Fees netted from income
- **Risks:** - Minimal - must invest in only permitted investments
- **Bought/Sold:** - Bought and sold through brokerage companies, mutual fund firms and banks
- **Liquidity:** - Daily liquidity

\*Effective October 2016, some money market funds will be required to float their Net Asset Value per share.

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### **Commercial Paper**

- **Issuer:** - Corporate entity which may include a bank holding company
- **Credit Quality:** - Secured by credit and cash flow of the issuer
- **Maturity:** - 1 day to 270 days
- **Yields:** - Slightly higher than government obligations, depends on credit of issuer
- **Risks:** - Credit risk – minimal with adequate constraints  
- Reinvestment risk – minimal when matched to cash flows
- **How they work:** - Sold at a discount, pays face value upon maturity
- **Bought/Sold:** - Bought and sold directly from corporations and in the secondary market through broker/dealers
- **Liquidity:** - Moderate to high

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### ***Bankers' Acceptances***

- **Issuer:** - Commercial banks
- **Credit Quality:** - Obligation of the issuing bank secured by the value of trade goods financed; May be eligible for presentment to the Federal Reserve at face value  
- Irrevocable obligation of issuing bank
- **Maturity:** - 1 day to 180 days
- **Yields:** - Slightly lower than commercial paper
- **Risks:** - Credit risk – minimal with adequate constraints,  
- Reinvestment risk – minimal when matched to cash flows
- **How they work:** - Short-term instrument issued by a firm that is guaranteed by a commercial bank, sold at a discount and pays face value upon maturity
- **Bought/Sold:** - Directly from issuers or in secondary markets
- **Liquidity:** - Moderate to high

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### ***Negotiable Certificates of Deposit***

- **Issuer:** - Commercial banks
- **Credit Quality:** - Based on bank rating  
- More senior than commercial paper
- **Maturity:** - 7 days to usually up to 5 years
- **Yields:** - Usually slightly higher than government obligations
- **Risks:** - Credit risk – minimal with adequate constraints  
- Reinvestment risk – minimal when matched to cash flows
- **How they work:** - Pay par amount plus interest on maturity date
- **Bought/Sold:** - Traded in the secondary markets, usually in lots of \$1 million or more
- **Liquidity:** - Moderate to high

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