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Managing Liquidity in a Post-Reform World

October, 24 2016

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CEO, Capital Advisors Group, Inc.



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Moderator & Panelists



Ben Campbell
CEO, Capital Advisors Group, Inc.



Kim Kelly-Lippert, CTP
Manager, Treasury Operations, American Honda Motor Co., Inc.



Klas Holmlund, CFA
Head of Treasury, Vertex Pharmaceuticals, Inc.



David Miller
Treasurer and Senior Vice President, Hunt Companies, Inc.



Ben Campbell

CEO, Capital Advisors Group, Inc.

Bio: Ben has more than 30 years of experience in the securities and banking industries establishing trading operations and creating short-term investment strategies for clients. As CEO and Founder of Capital Advisors Group, Ben contributes to the companies business strategy, overseeing its investment portfolios, product development, and client relationship management efforts. Prior to founding Capital Advisors Group, Ben was a Vice President in the money market center at The Boston Company and held various positions at Fidelity Investments.

Company Overview: Capital Advisors Group, Inc. is an independent investment advisor specializing in institutional cash investments, risk management, and debt finance consulting. The company manages over \$8.6 billion and advises on approximately \$12 billion in cash assets for companies across the United States (as of 9/30/2016).

Clientele: Capital Advisors Group services private, public and non-profit organizations. Client industries served have included, but are not limited to: biotechnology, healthcare, technology, aerospace, telecommunications, education, automotive, insurance, venture capital, publishing, and retail.



The Power of Dreams

Kim Kelly-Lippert, CTP

Manager, Treasury Operations, American Honda Motor Co., Inc.

Bio: Kim has been in Treasury Operations for 30 years with 24 years spent at a subsidiary of Edison International. She has continued her career with American Honda Motor Co., Inc., where she currently leads operational and strategic treasury functions, manages banking relationships and directs the short-term investment portfolio.

Company Overview: American Honda Motor Co., Inc. is a subsidiary of Honda Motor Co., Ltd. The company combines product sales, service, distribution and coordination of functions across Honda in North America.

Team Structure: (A) Director, Treasury Operations, (B) Manager, Treasury Operations, (C) two Treasury Analysts.

Cash Flows/Positioning: High overnight/monthly liquidity. Majority of portfolio is held 30 days or less in prime MMFs, bank deposits and repo.



Klas Holmlund, CFA

Head of Treasury, Vertex Pharmaceuticals, Inc.

Bio: Klas manages the global treasury function at Vertex where his responsibilities include investments, capital markets, FX, financial risk management, and global treasury operations. Prior to joining Vertex in 2010, he worked in the corporate treasury at General Motors and with investment management at Evergreen Investments.

Company Overview: Vertex is a global biotechnology company that aims to discover, develop, and commercialize innovative new medicines for serious diseases.

Team Structure: (A) Department Head, (B) Treasury Manager, and (C) three Treasury Analysts.

Cash Flows/Positioning: Majority of portfolio is highly liquid, with a heavy skew toward bank deposits and short-term fixed income instruments.



David Miller

Treasurer and Senior Vice President, Hunt Companies, Inc.

Bio: David joined Hunt Companies in 2010 and manages the day-to-day treasury operations, including analyzing and implementing new cash management products, managing the short-term investment portfolio, and overseeing debt transactions. David previously worked in the corporate treasury groups for Centerline Holding, National Financial Partners, UBS Financial Services and Datek Online Financial.

Company Overview: Hunt is an industry-leading real estate company dedicated to building value through development, investment, and management.

Team Structure: (A) Treasurer and SVP, (B) Assistant Treasurer, and (C) two Treasury Analysts

Cash Flows/Positioning: Majority of portfolio is highly liquid, using a combo of MMFs, bank deposits, and short-term fixed income instruments.

2016: A Year of Change



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FROM THE JUNE 2016 SPECIAL REPORT ISSUE OF TREASURY & RISK MAGAZINE

Bracing for New Money Fund Rules

When prime funds switch to a floating net asset value this fall, many in are expected to find other places to stow their cash.



Bloomberg

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There's a \$300 Billion Exodus From Money Markets Ahead

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INVESTING MUTUAL FUNDS

These Money Market Funds Lost \$100 Billion in Assets in a Week



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Investors Exit Prime Funds Ahead of Changes

Despite the outflows, a recent AFP survey suggests corporate finance executives are warming up to the concept of funds that float.

AFP

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Sources:

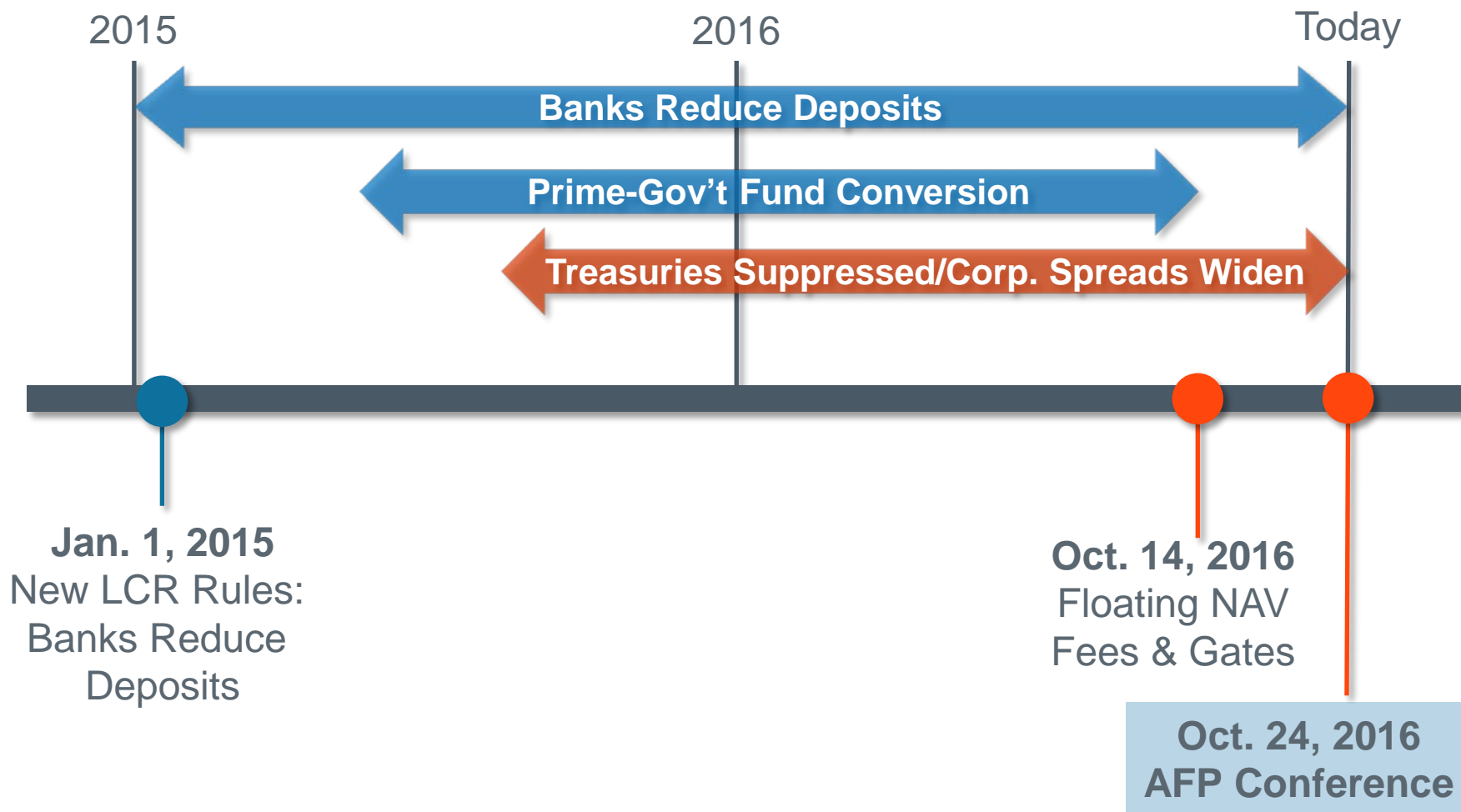
Treasury & Risk: <http://www.treasuryandrisk.com/2016/06/08/bracing-for-new-money-fund-rules>

The Wall Street Journal: <http://www.wsj.com/articles/big-banks-to-americas-companies-we-dont-want-your-cash-1445161083>

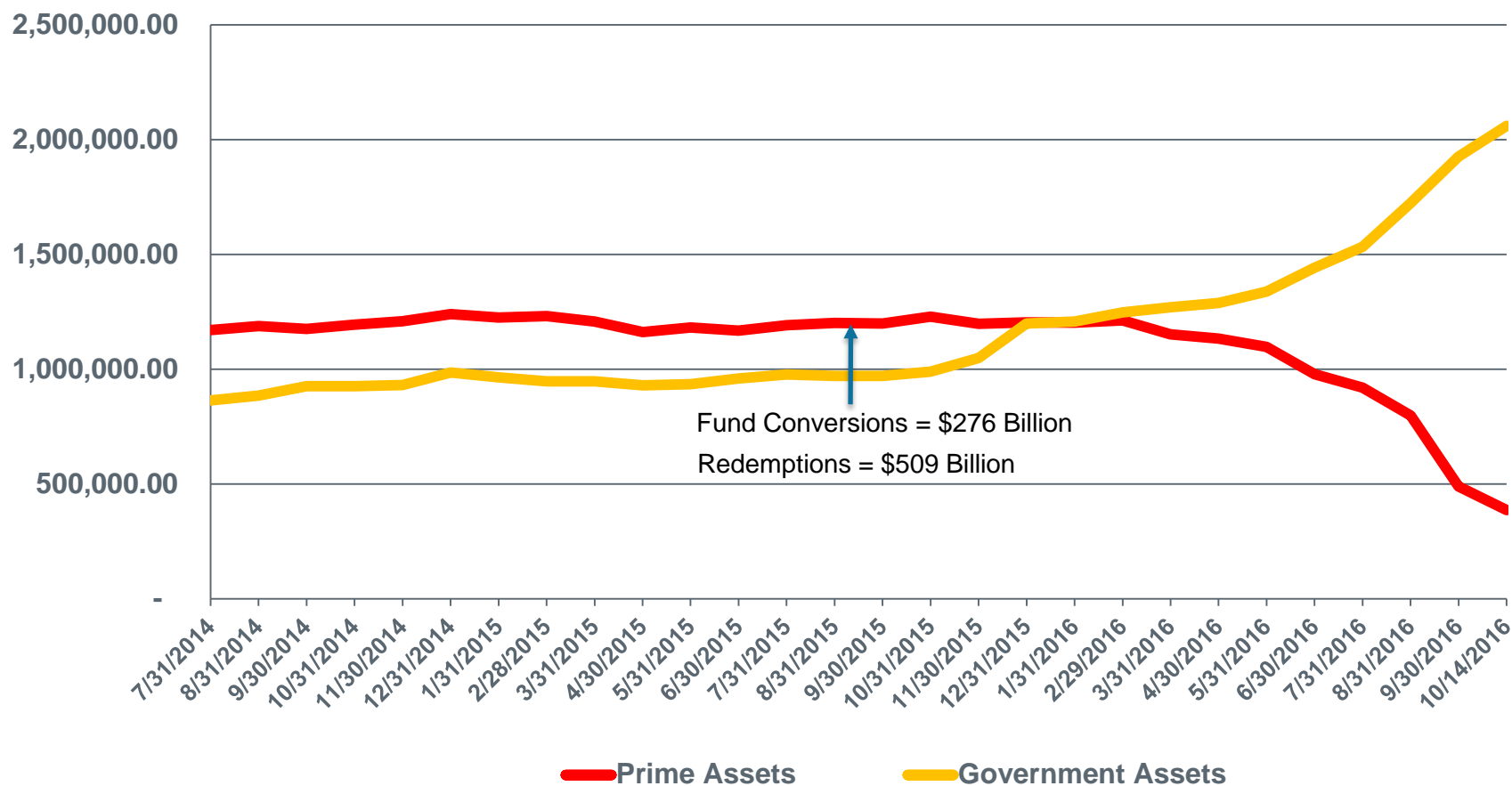
Bloomberg: <http://www.bloomberg.com/news/articles/2016-09-13/there-s-a-300-billion-exodus-ahead-as-new-money-fund-era-dawns>

Treasury & Risk: <http://www.treasuryandrisk.com/2016/08/10/investors-exit-prime-funds-ahead-of-changes>

Reform Implementation Timeline



Over \$785 Billion in Outflows from Prime Money Market Funds

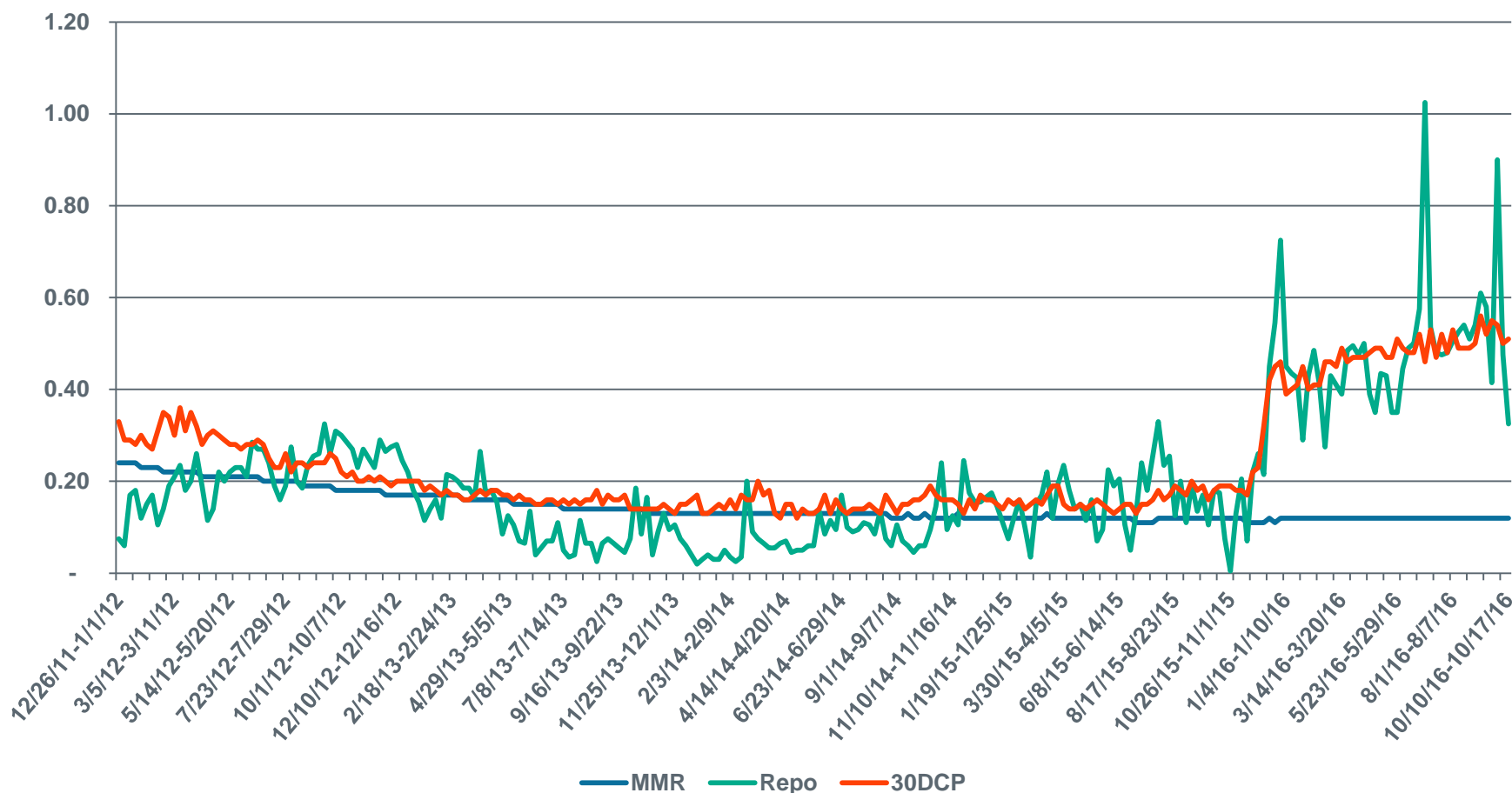


Source: iMoneyNet: Money Fund Analyzer - Prime and gov't fund assets (as of 10/14/2016)

Panel Question

Reform Preparation – Current Situation

MMDA Rates vs. Overnight Gov't Repo Rates & 30D A1/P1 CP



Sources:

MMR: FDIC weekly national money market rates for deposits greater than \$100,000.

<https://www.fdic.gov/regulations/resources/rates/previous.html>

Repo: Overnight general collateral repo rate backed by government collateral from Bloomberg (Index: USRG1T)

30-Day CP: 30-day non-financial corporate CP rates from Bloomberg (Index: DCP030D)

Cash Vehicles Are Changing

Bank Deposits

- Dodd Frank & Basel III
- Lower Yield Potential
- Lagging Yield in a Rising Rates Environment
- Supply Shortage

Prime Money Funds

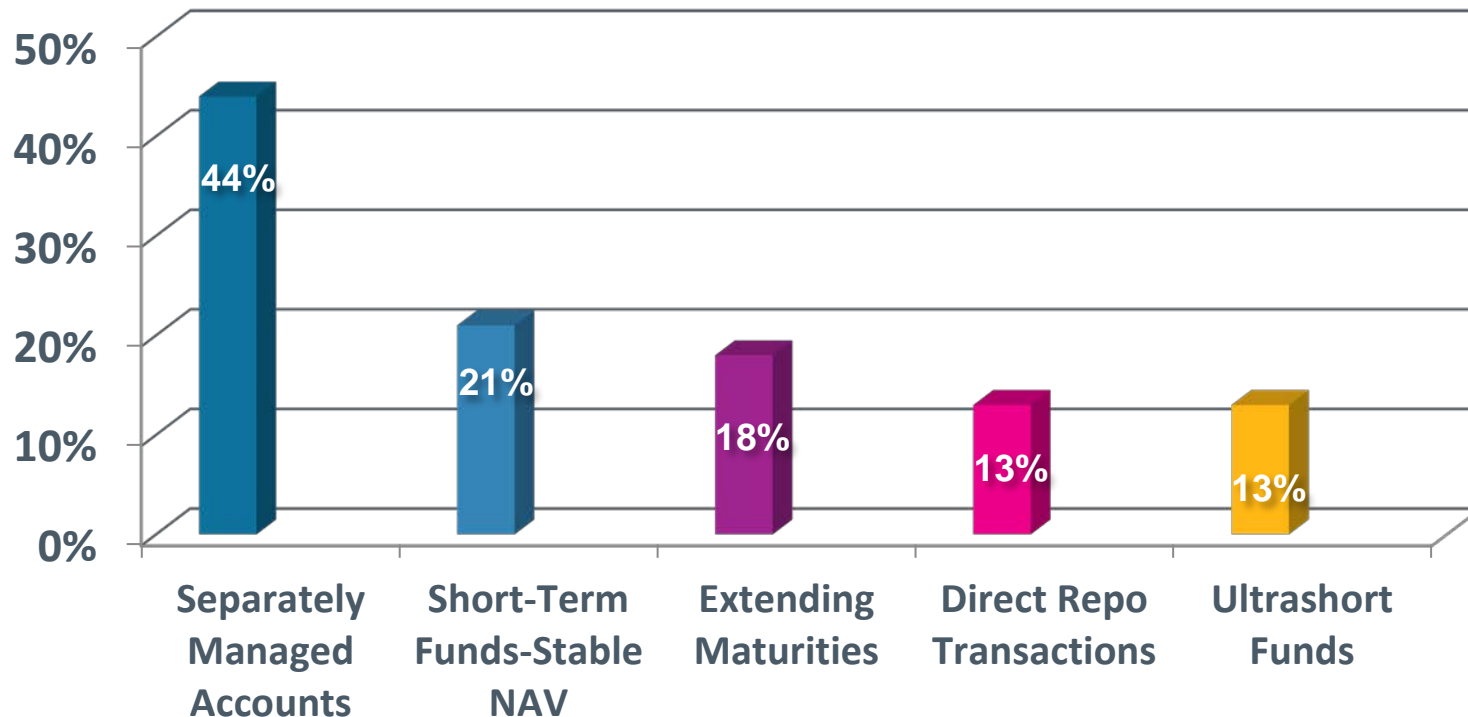
- Floating NAVs
- Fees and Gates
- Lower Yield Potential
- Rising Rate Environment
- Institutional Only

Alternatives

- Gov't Money Market Funds
- Separately Managed Accounts
- Ultrashort Funds
- Private Funds With Stable Navs
- Direct Repo Transactions
- Insured Deposit Accounts
- Extending Maturities
- Extending Credit Risk
- Other

Treasurers Investigate Alternatives

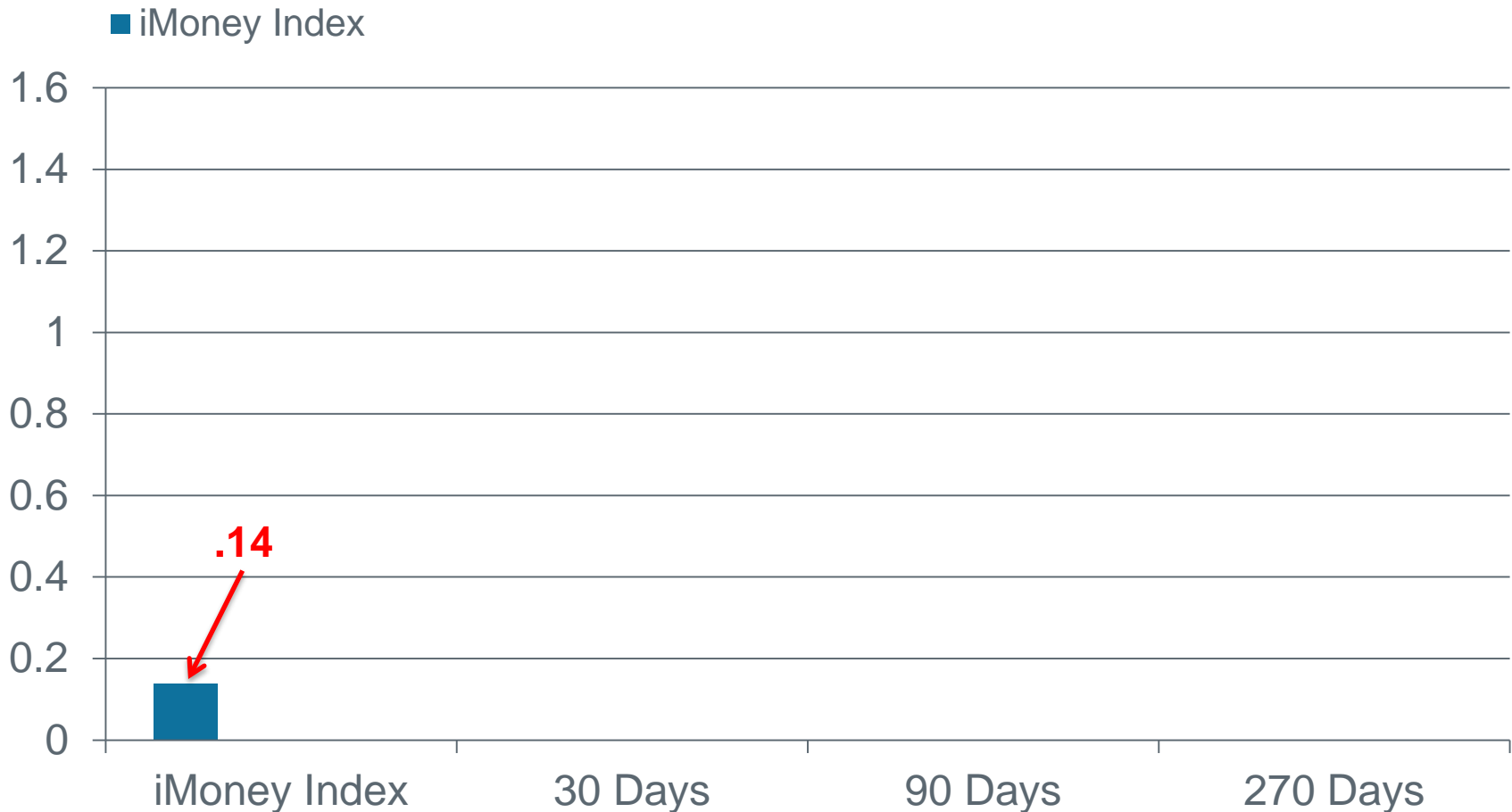
2016 AFP Liquidity Survey



*“The most-preferred alternative that organizations would consider in response to the SEC MMF ruling appears to be separately managed accounts (**cited by 44 percent of respondents**).”*

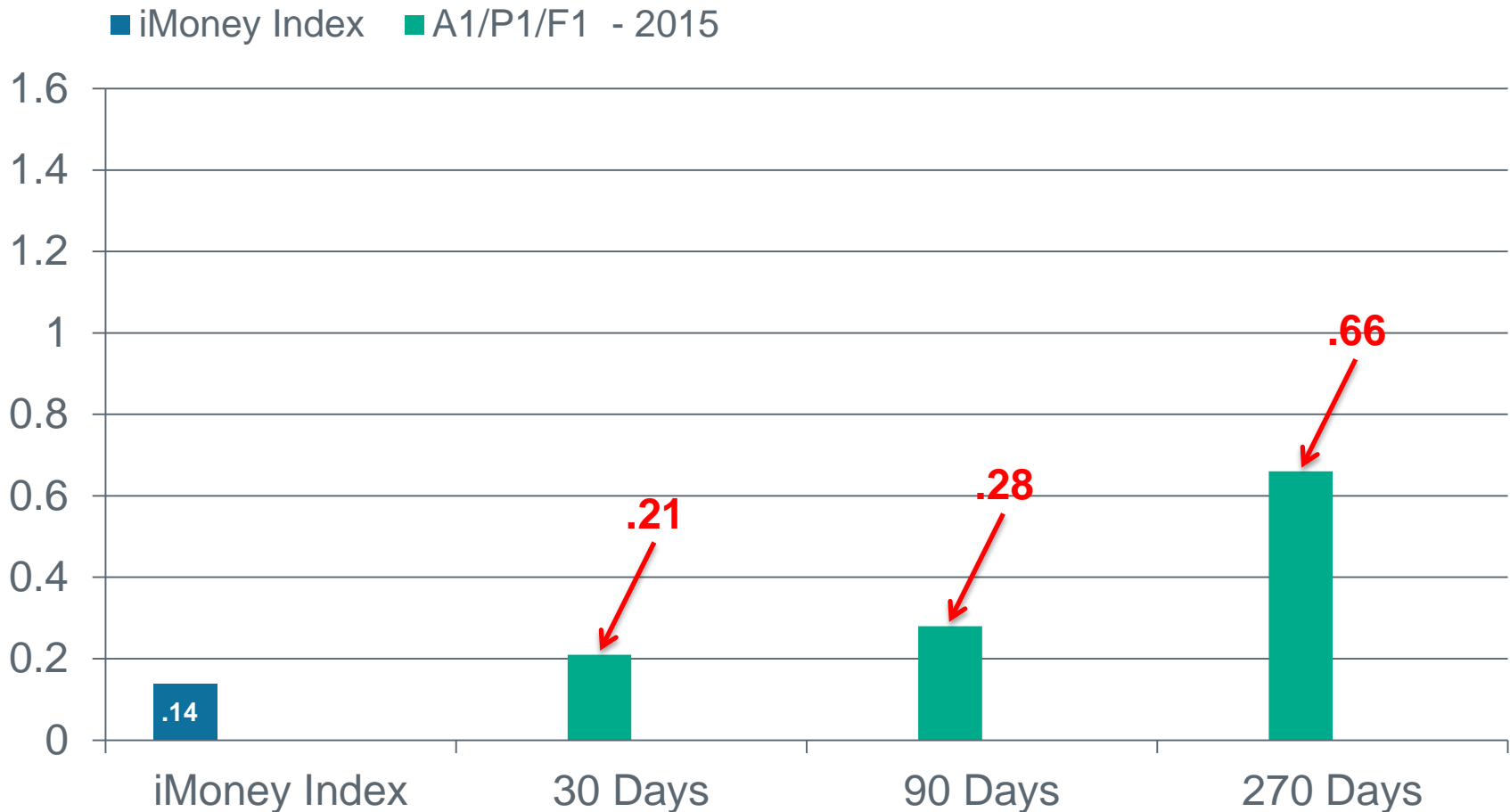
Source: 2016 AFP Liquidity Survey Report of Survey Results (pages 23-24)

Wider Yield Spreads = Opportunity Costs



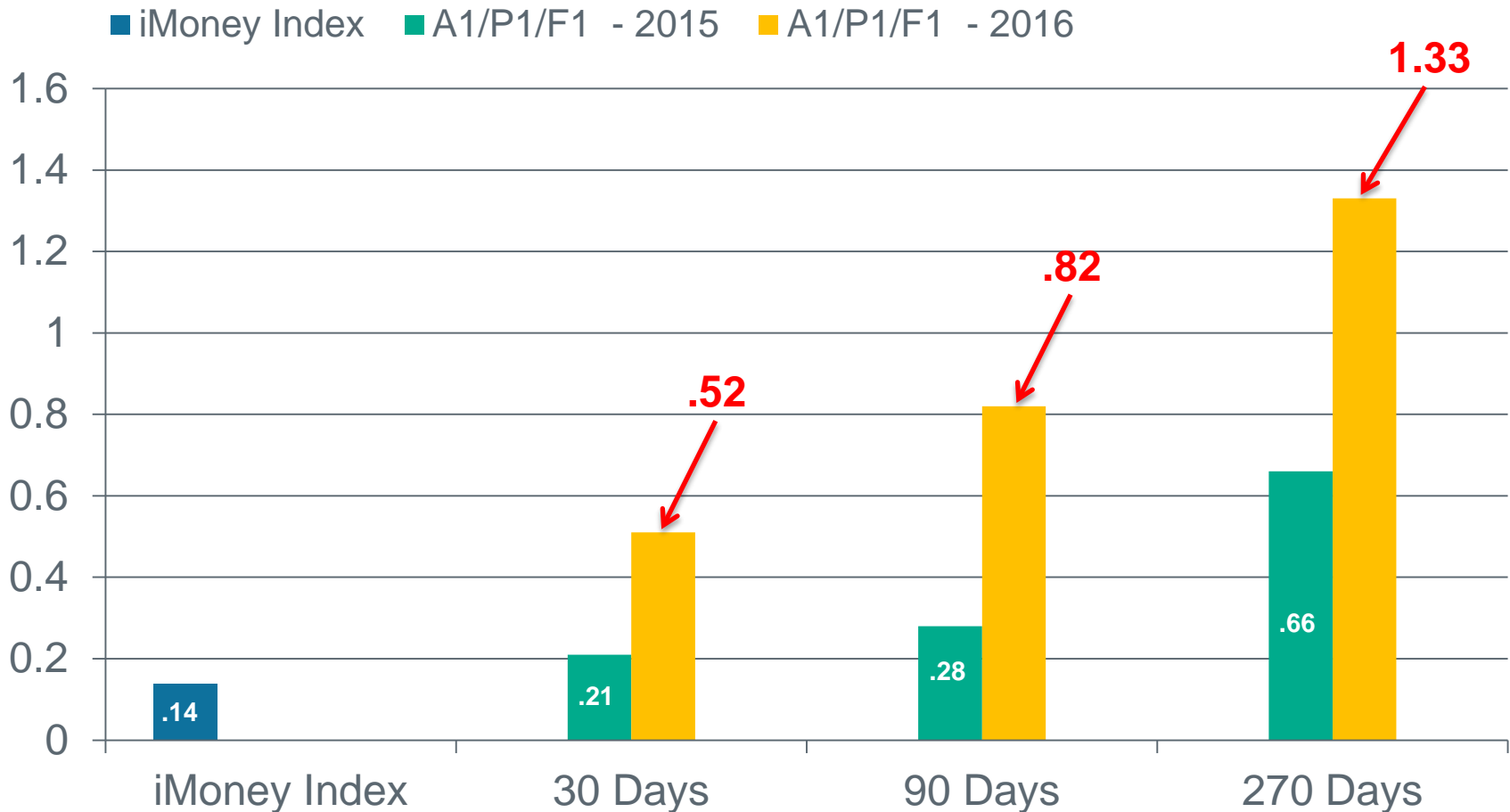
Sources:
iMoneyNet: Money Fund Analyzer (as of 10/14/2016)

Wider Yield Spreads = Opportunity Costs

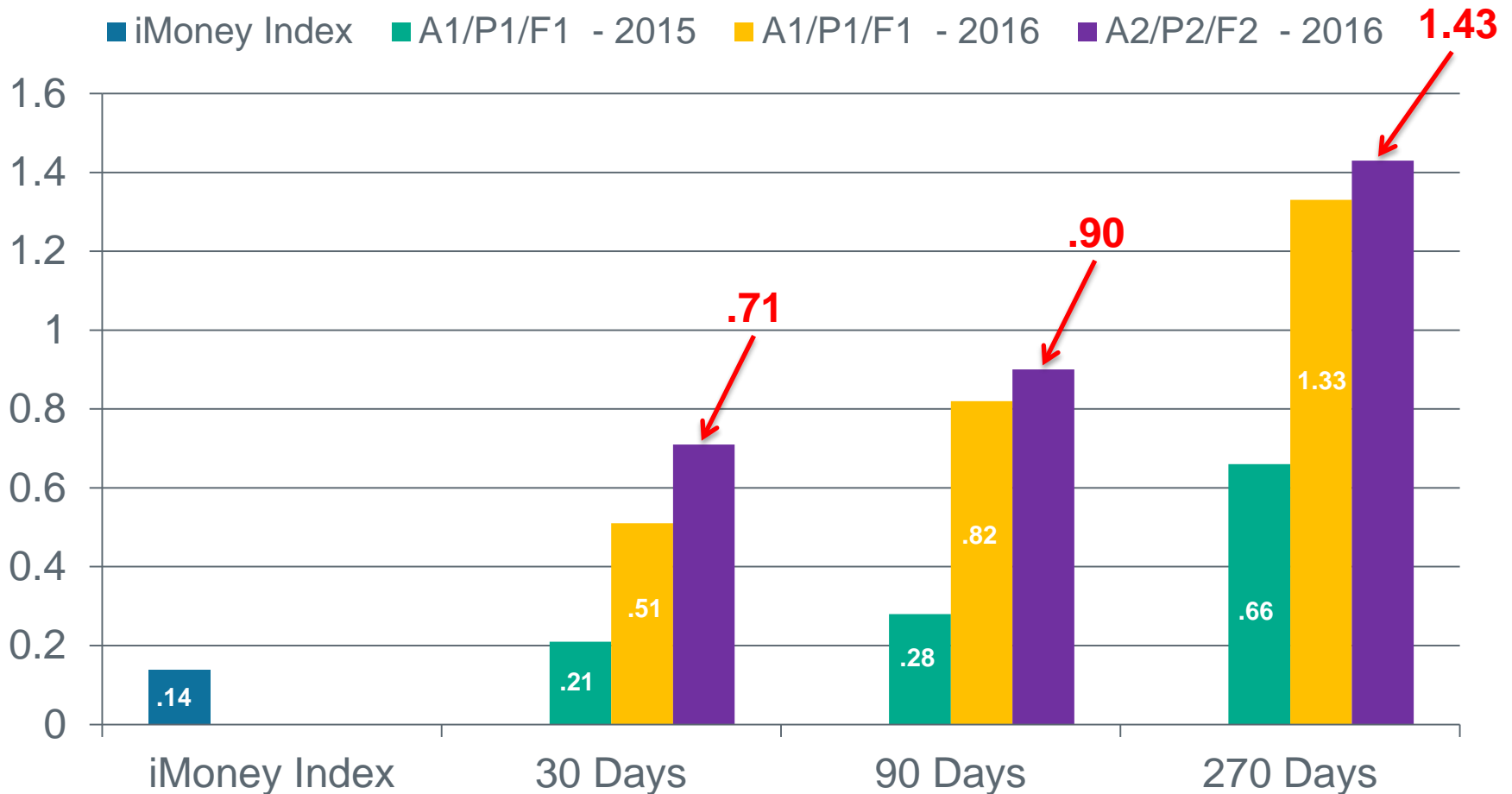


Sources:
iMoneyNet: Money Fund Analyzer (as of 10/14/2016)
Bloomberg USD Dealer CP Curve Index (A1/P1/F1) (as of 10/14/2015)

Wider Yield Spreads = Opportunity Costs



Wider Yield Spreads = Opportunity Costs



Panel Question

Opportunity Cost

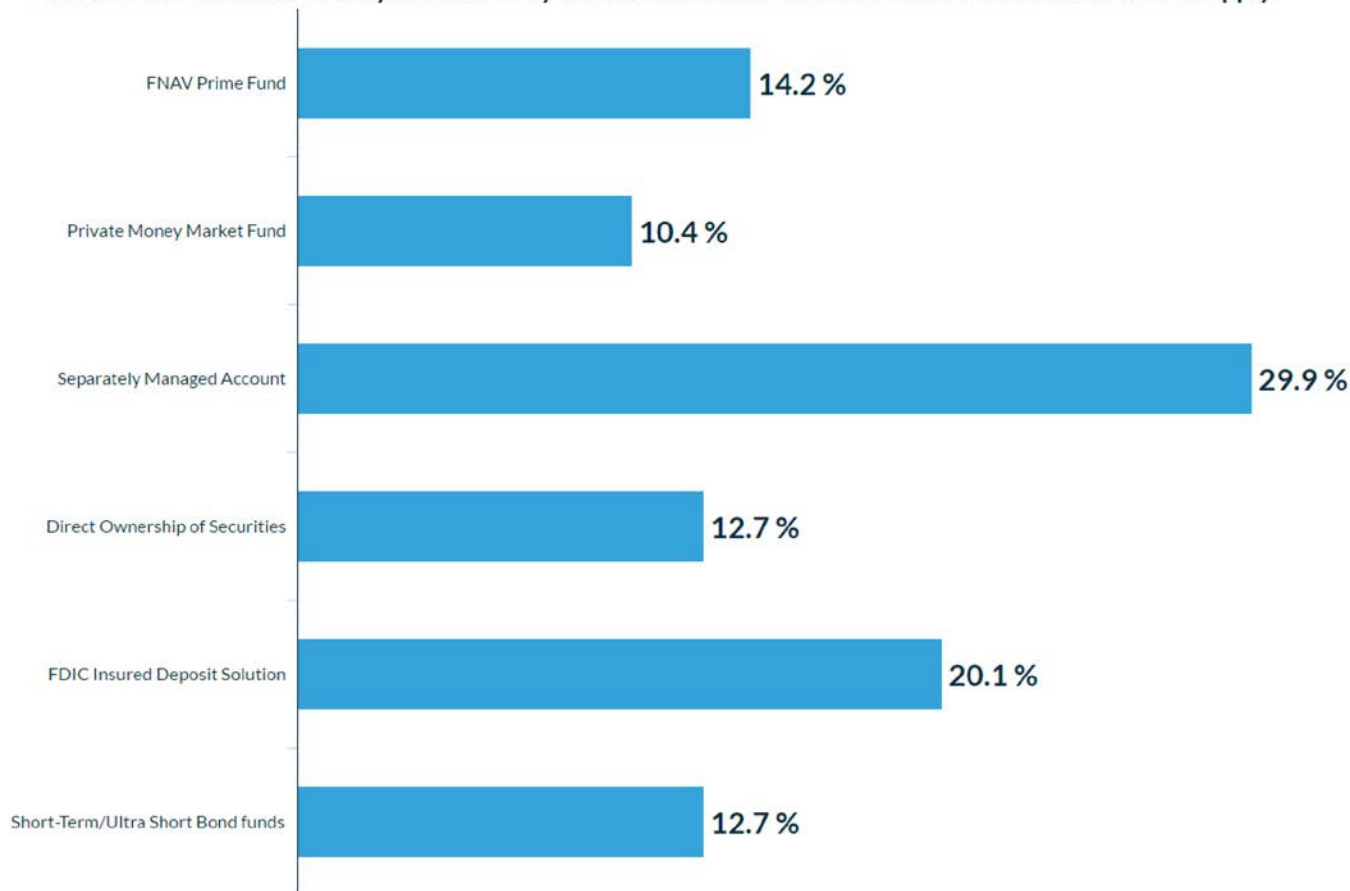
Audience Poll

Which cash investments are you most likely to consider in the next 6 months? Please select all that apply.

- A) FNAV Prime Fund
- B) Private Money Market Fund
- C) Separately Managed Account
- D) Direct Ownership of Securities
- E) FDIC Insured Deposit Solution
- F) Short-Term/Ultra Short Bond funds

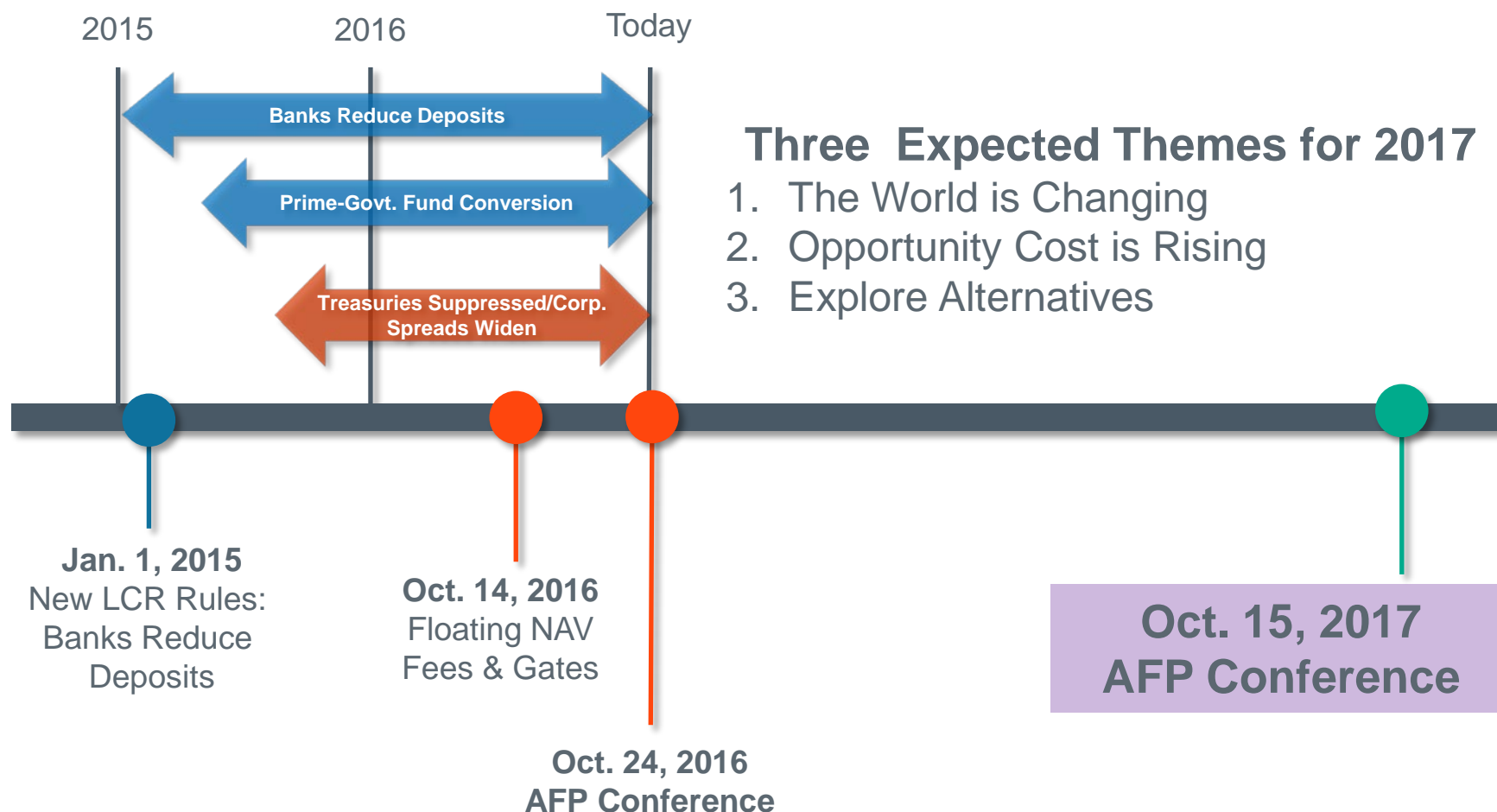
Poll Results

Which cash investments are you most likely to consider in the next 6 months? Please select all that apply.



Source:
<https://api.cvent.com/polling/v1/api/polls/spau8jox>

Summary



Q&A