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Silicon Valley Association for Financial Professionals

# IPS, Trends, and MMF Reforms

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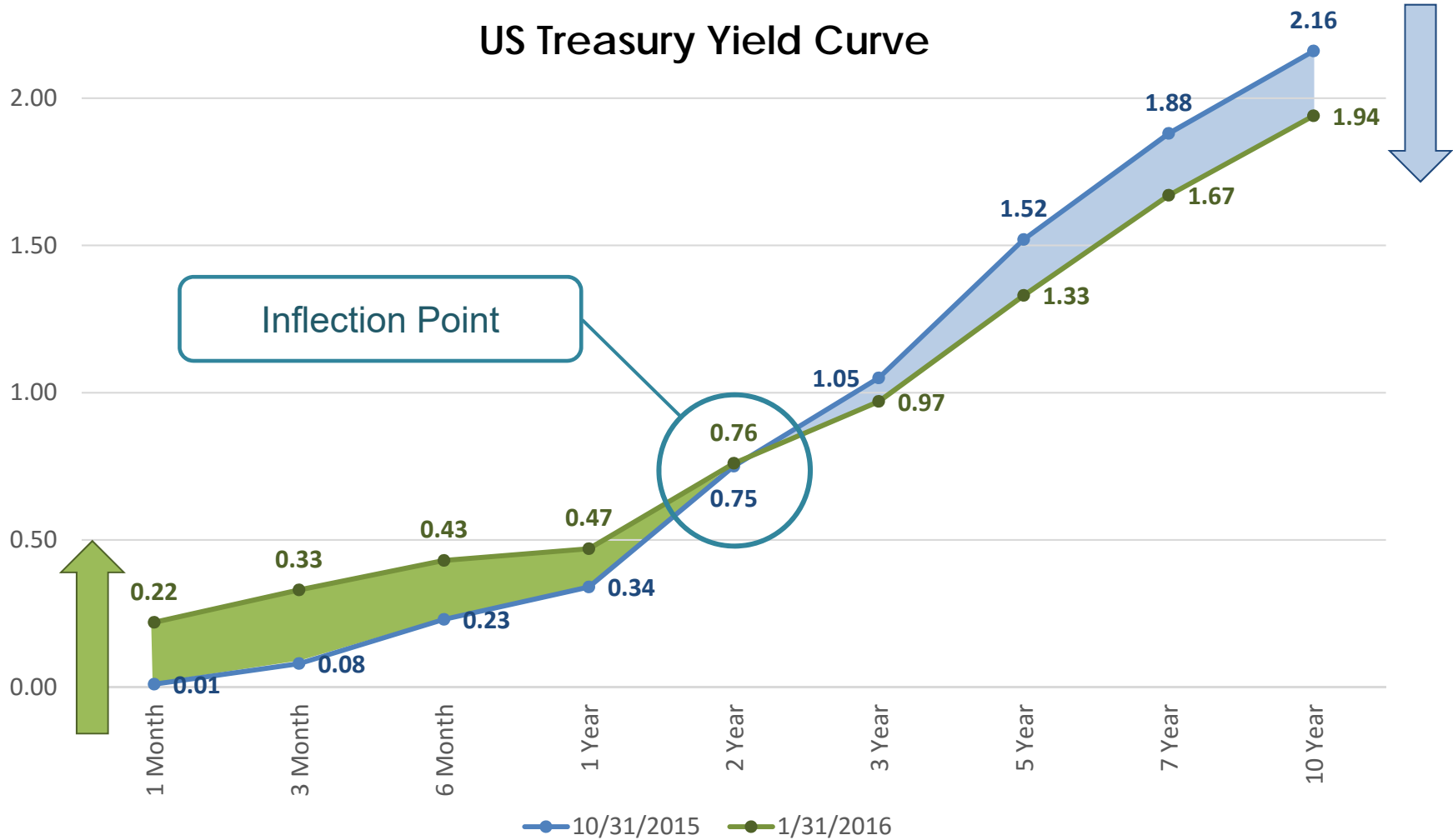
- Fed finally raised rates December 2015
- Greatest risks to portfolios in 2016
  - Credit spreads widening combined with rate rises
  - Credit downgrades energy-related, M&A issuance, shareholder friendly action
  - As equity values decline debt/equity ratios rise
- Corporates have been darlings – now seeing credit deterioration with overly cautious rating agencies
- 2 troubled junk bond funds, fears of credit defaults and potential contagion to highly rated credits
- Market-based FNAV MMF introduced as rates rise



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# Greatest portfolio risk is not duration

## US Treasury Yield Curve





# Credit Watch Negative

As of March 1, 2016

Energy Sector	S&P	Moody's	Negative Outlook	Expected Downgrade
Exxon Mobile	AAA	Aaa	S&P	S&P – 1 notch
Shell Oil	A+	Aa1	S&P/Moody's	S&P – 1 notch Moody's – 3 notches
Chevron Corp	AA-	Aa1	Moody's	Moody's – 3 notches
BP Capital	A-	A2	Moody's	Moody's – 3 notches
Schlumberger	AA-	A2	Moody's	Moody's – 2 notches

Moody's placed 178 issuers on credit watch negative in January, 2016



# Credit Cliffhangers

## S&P Downgrades to BBB in 2015 & 2016

Name	Downgrade Date	Previous	Current	Notches
AT&T INC	02/02/2015	A-	BBB+	-1
CORNING INC	10/27/2015	A-	BBB+	-1
EBAY INC	07/20/2015	A	BBB+	-2
MCDONALD'S CORP	11/10/2015	A-	BBB+	-1
MISSISSIPPI POWER CO	08/17/2015	A	BBB+	-2
NORDSTROM INC	02/19/2016	A-	BBB+	-1
SOUTHERN CO	08/17/2015	A-	BBB+	-1
VIRGINIA ELECTRIC AND POWER CO	02/01/2016	A-	BBB+	-1
VODAFONE GROUP	05/28/2015	A-	BBB+	-1
VOLKSWAGEN GROUP OF AMERICA FINANCE	12/01/2015	A-	BBB+	-1
WOOLWORTHS LIMITED	08/27/2015	A-	BBB+	-1



## Moody's Downgrades to BBB in 2015 & 2016

Name	Downgrade Date	Previous	Current	Notches
BECTON DICKINSON	03/17/2015	A3	Baa2	-2
CONOCOPHILLIPS CO	02/25/2016	A2	Baa2	<b>-3</b>
CORNING INC	10/28/2015	A3	Baa1	-1
DUKE ENERGY CORP	01/13/2016	A3	Baa1	-1
Phillips Petroleum Company	02/25/2016	A2	Baa2	<b>-3</b>
RIO TINTO FINANCE (USA) PLC	02/24/2016	A3	Baa1	-1
SUNCOR ENERGY INC	02/12/2016	A3	Baa1	-1
WOOLWORTHS LIMITED	08/28/2015	A3	Baa1	-1



- Expand ratings agencies (NRSROs)
  - Moody's
  - S & P
  - Fitch
  - DBRS
- The middle rating of 3 NRSRO governs, the lower rating if have only 2 ratings governs.
- If a credit rating falls below the minimum credit quality in IPS due to market dislocations, the manager, with notification to the Treasurer/CFO may continue to hold the investment.



- **Risk Management controls**
  - Process for Negative Outlook and Negative Watch
  - Be pre-emptive and not wait for the downgrade to be out of compliance
  - Have a safety bucket to catch out-of-compliance, money-good bonds that can be held to maturity
  - Basket for temporary holding of downgraded security to hold to maturity if <9-12 months to maturity and bond considered “money-good”
- **Be mindful of the OTTI process**





- **Review all steps of investment process from end user perspective**
  - Custody Services
  - Book of Record and Accounting Services
  - In-House Investment Management and Expertise
  - Outside Investment Managers
  - Immediate Liquidity Providers
  - Investment Advisers
  - Review the Process with Legal Department
  - “What If” Scenarios
  - SOC Reports and Informational Security



- **Emphasis on Capital Preservation and Available Liquidity**
  - Capital Preservation is an Overarching Objective
  - Define Immediate Liquidity Bucket – Cash Available at All Times
  - Link to Cash Flow Forecast Process
  - Address the need and ability to raise additional liquidity on short notice
  - Holistic view on Counter Party risk



- **Review and address any specialized corporate requirements**
  - Tax strategy
  - International aspects
  - Cash management and Operational requirements
  - Disclosure requirements
  - 1940 Act



# Money Market Fund Reforms

Effective October, 2016

- **Floating NAV (Prime)**
  - Market-based, price rounded to \$1.0000
- **Stable NAV (Government)**
  - Amortized cost, price rounded to \$1.00
- **Liquidity Fees and/or Redemption Gates – Prime Funds**
- **Stronger Diversification Requirements:**
  - $\leq 10\%$  of MMF's total assets can be subject to guarantees or demand features from a single institution
  - Aggregates affiliates, maximum 5%
  - Treat ABS sponsors as guarantors



- **Enhanced Website Disclosure Requirements April, 2016**
  - Increase disclosure of material events
  - Statement of Additional Information (SAI) discloses any time a fund received sponsor support
  - Disclose daily and weekly liquid assets ~30% of assets
  - Disclose daily and weekly liquid assets, net shareholder inflows and outflows, and post market-based NAVs
  - Show 6 months historical information
- **Enhanced Stress Testing before April, 2016**
  - Ability to maintain weekly liquid assets >10%
  - Minimize principal fluctuation under different scenarios



- **Remove:**
  - NRSRO fund ratings from S&P, Moody's, Fitch
  - References to WAM and WAL
- **Add:**
  - Registered fund, SEC Rule 2a-7 money funds
  - Floating NAV for Prime funds
  - Stable NAV for Government funds
  - Maximum 5% of fund's assets
  - Range for acceptable price fluctuation +/- \$.0002



# Intraday FNAV Pricing

## FNAV Strike 3x per Day

AM								PM											
8:00 AM	8:30 AM	9:00 AM	9:30 AM	10:00 AM	10:30 AM	11:00 AM	11:30 AM	12:00 PM	12:30 PM	1:00 PM	1:30 PM	2:00 PM	2:30 PM	3:00 PM	3:30 PM	4:00 PM	4:30 PM	5:00 PM	5:30 PM
		Securities Priced		FNAV posted to MMF website	FNAV posts on MMF Portals			Securities Priced		FNAV posted to MMF website	FNAV posts on MMF Portals			Securities Priced		FNAV posted to MMF website	FNAV posts on MMF Portals		

## FNAV Strike 2x per Day

AM								PM											
8:00 AM	8:30 AM	9:00 AM	9:30 AM	10:00 AM	10:30 AM	11:00 AM	11:30 AM	12:00 PM	12:30 PM	1:00 PM	1:30 PM	2:00 PM	2:30 PM	3:00 PM	3:30 PM	4:00 PM	4:30 PM	5:00 PM	5:30 PM
		Securities Priced		FNAV posted to MMF website	FNAV posts on MMF Portals											Securities Priced		FNAV posted to MMF website	FNAV posts on MMF Portals

For illustrative purposes only



## **Make side-by-side comparisons and review:**

- Domestic/Offshore/Currency
- CUSIP/Symbols/TICKER
- Domicile
- Regulatory guidance – SEC 2a-7, private, IMMFA
- Type Prime, Government, Tax-Exempt
- FNAV or CNAV pricing and # intraday pricing
- Range of acceptable FNAV





## **Make side-by-side comparisons and review:**

- Net asset inflows or outflows
- Daily/weekly liquidity
- Material disclosure event
- Inception date
- Total assets
- Maximum 5% of fund = \$ \_\_\_\_ million permissible
- Fees (Gross/Net)
- Ratings NRSROs
- Country exposures as % of total portfolio
  - Set internal limits on country exposures
  - Credit ratings of sovereigns



## **Review portfolio holdings as % of total assets:**

- Commercial Paper
  - ABCP
  - Financial CP
  - Industrial CP
- Repurchase Agreements
  - Tri-Party Treasury Repo
  - Treasury/Agency Repo
  - Non-Traditional Repo
    - Counterparties
    - Underlying collateral
    - Maturity
  - Federal Reserve Treasury Repo



## **Review portfolio holdings as % of total assets:**

- US Treasuries
- US Agencies and GSE
- Industrials and Non-Financials
  - Notes
  - Floating rate notes/fixed notes
- Financials
  - Certificate of deposit, fixed and floating CD
  - Time deposits
  - Notes
  - Floating rate notes/fixed notes
- Sovereigns/Local Authorities/Agencies
- Supranationals



- IMMFA - EU implementing their similar to US SEC 2-a7 reforms
- Reforms fueling MMF consolidation in US and Europe
- BOA selling \$87 Billion of MMF assets to BlackRock (11/2015)
- MMF sponsors restructuring their fund offerings
  - Adding 12 Government Institutional funds
  - Closing 31 Prime Institutional funds
- Fed raised cap on overnight Fed New York Reverse Repo from \$300 Billion to \$2 Trillion
- MMFs differ on single or multiple intraday NAVs
- MMF portals updating systems for multiple intraday NAVs



- In-house portfolio
  - Direct investments in CP, TD, CDs, Treasuries/Agencies
- 7-day maturity institutional prime fund (FNAV)
- Short maturity fund with 60 day maximum maturity (FNAV)
- Ultra-short duration bond fund, SEC-registered (FNAV)
- Separate account managed by external manager
  - Average 6 or 9-12 month duration
- Institutional collective trusts (CNAV \$1.00)
  - Private fund with MMF characteristics
  - High minimum balance



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# Questions?

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# Speaker Biographies

**Ivan Troufanov** is Director, Assistant Treasurer at **NetSuite**, leading vendor of cloud computing business management software suites, where he is responsible for the Treasury function including global treasury operations, global risk management and insurance, capital structure, global pension fund management, investment management and foreign exchange risk management.

Previously he was Assistant Treasurer at BioMarin Pharmaceutical Inc. and salesforce.com and held several other Treasury positions responsible for financial risk management, investments, foreign exchange, cash management, and project financing. Mr. Troufanov received his bachelor's degree in economics from Stanford University.

**Linda Ruiz-Zaiko** is President of **Bridgebay Financial**, ([www.bridgebay.com](http://www.bridgebay.com)) an institutional investment consulting firm established in 1987. She advises treasury operating funds in developing strategic investment plans, investment policies, audit committee presentations, risk-controlled investment programs, custodian and manager selection, and ongoing monitoring. She has presented at Euro Finance Conferences in Europe, Money Market Expo, and AFP Conferences. She has been published in AFP Exchange, Treasury Management International and investment manager newsletters. She has a BA from Case Western Reserve University, attended University of Madrid, and holds a MBA in Finance from University of California Berkeley.

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