

# Short-Term Due Diligence: Critical Success Factors to Maintaining The Dollar

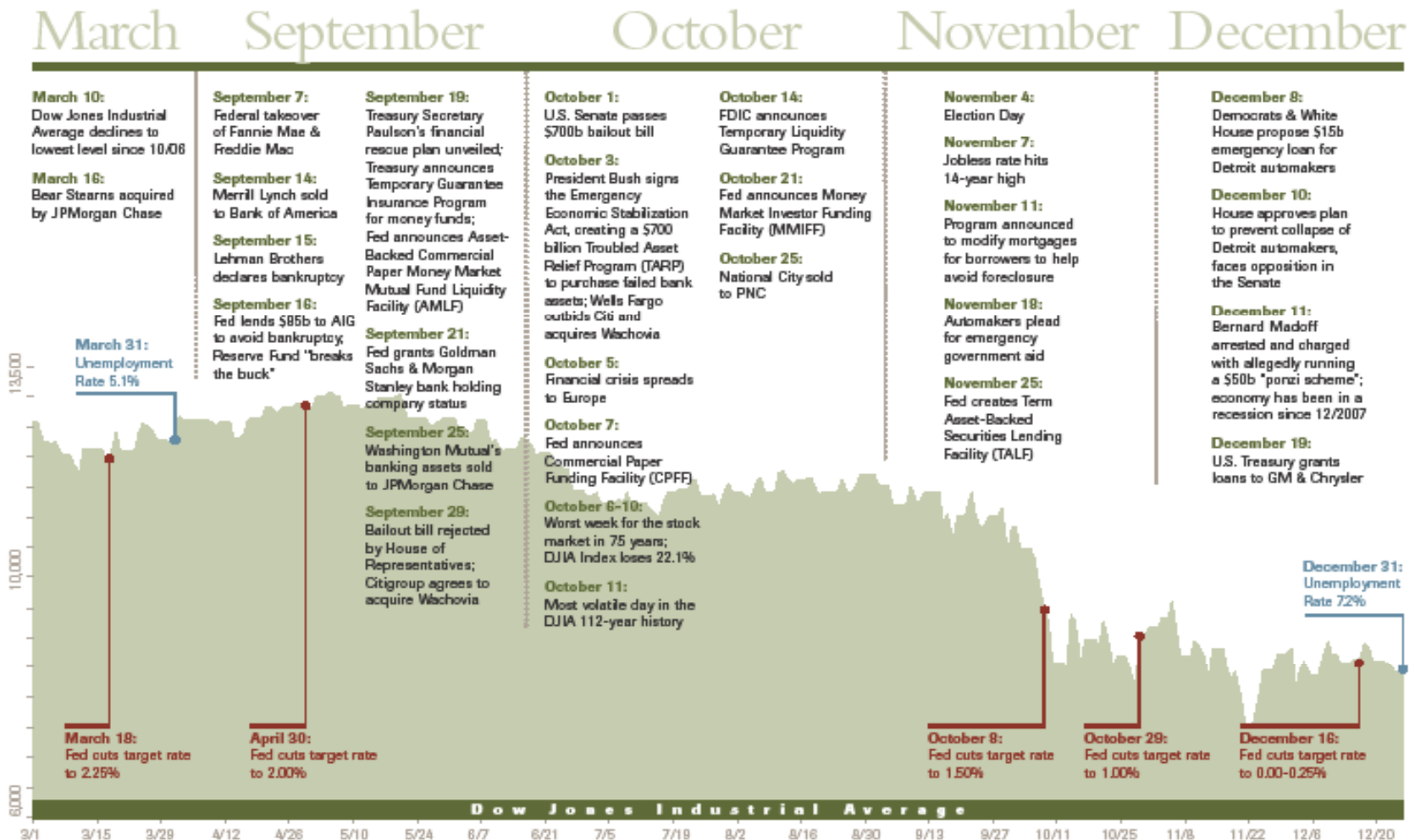
Presented to: National Association of State Treasurers

*May 13, 2009*



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*Senior Vice President*

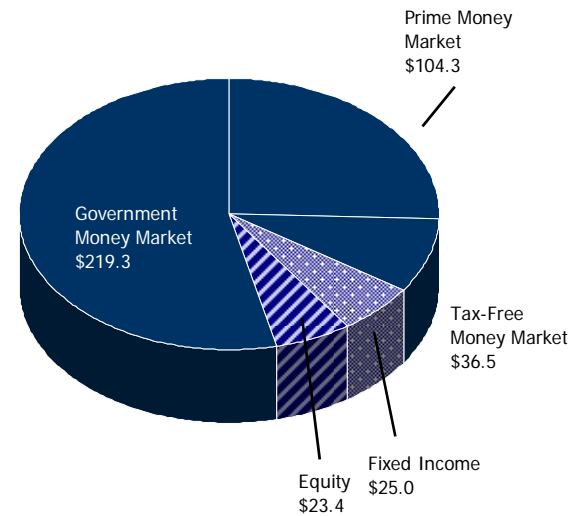
# 2008: A Year that Changed the Financial Landscape



# Federated Liquidity Management

More Than \$409 Billion in Total Assets Under Management (as of 3/31/09)

- \$23.4 billion in Equity Assets
- \$25.0 billion in Fixed Income Assets
- \$360.1 billion in Money Market Assets
- 55 Money Market Portfolios
  - 33 Taxable
  - 6 Tax-Free National\*\*
  - 16 Tax-Free State-Specific\*



- Manage public sector money in all 50 states
- Service 3,500 public entities directly
- Manage nation's largest money market LGIP relationship

\* Income may be subject to the federal alternative minimum tax.

\*\* Income may be subject to the federal alternative minimum tax and state and local taxes.

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# Critical Success Factors to Maintaining \$1.00/share

- § Follow a comprehensive set of guidelines
- § Practice full transparency; understand your clients
- § Organize for dedicated functionality
- § Utilize sound portfolio construction techniques
- § Conduct in-depth credit analysis

*People*

*Process*

*Systems*

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## Rule 2a-7: A Comprehensive Set of Guidelines

- Every security acquired by a money fund must satisfy five general risk control provisions, which are intended to limit any deviation between a money fund's amortized cost value and its market value. These requirements include:
  - The security must be United States dollar denominated

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  - The security must be United States dollar denominated
  - The security must have a maturity of 397 days or less, and acquisition of the security cannot cause the dollar-weighted average maturity of the money fund's portfolio to exceed 90 days

## ...The security must have a maturity of 397 days or less

Type of Security	Stated Maturity	Maturity Under Rule 2a-7
Government Variable Rate Security	Unlimited	Next Reset Date
Government Floating Rate Security	Unlimited	Next Day
Variable Rate Security	$\leq$ 397-days	Next Reset Date
Floating Rate Security (whether or not subject to a Demand Feature)	$\leq$ 397-days	Next Day
Variable Rate Security subject to a Demand Feature	$\leq$ 397-days	Earlier of the Next Reset Date or Next Tender Date
Variable Rate Security subject to a Demand Feature	$>$ 397-days	Later of Next Reset Date or Next Tender Date
Floating Rate Security subject to a Demand Feature	$>$ 397-days	Next Tender Date

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  - The security must have a maturity of 397 days or less, and acquisition of the security cannot cause the dollar-weighted average maturity of the money fund's portfolio to exceed 90 days
  - The security must present minimal credit risks

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## ...The security must present minimal credit risks

- Rule 2a-7 provides that every portfolio security acquired by a money fund must present minimal credit risks.
- It further indicates that the minimal credit risk determination *may not* be based solely on the rating assigned to the portfolio security by a nationally recognized statistical rating organization (NRSRO)
- The SEC indicated that the minimal credit risk determination should be “based upon an analysis of the issuer’s capacity to repay its short-term debt.”
  - A cash flow analysis
  - An assessment of the issuer’s ability to react to future events, including a review of the issuer’s competitive position, cost structure and capital intensiveness
  - An assessment of the issuer’s liquidity, including bank lines of credit and alternative sources of liquidity
  - A “worst case scenario” evaluation of the issuer’s ability to repay its short-term debt from cash sources or asset liquidations in the event that the issuer’s backup credit facilities are unavailable

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  - The security must present minimal credit risks
  - The security must be an "eligible security"

## ...The security must be an “eligible security”

Number of Ratings	Ratings Received	Tier Under Rule 2a-7
Two NRSROs:	P-1/A-1	First Tier
	P-2/A-1	Second Tier
	P-3/A-1	Not Eligible
Three NRSROs:	A-1/F-1/P-3	First Tier
	A-2/F-1/P-3	Second Tier
	A-3/F-1/P-3	Not Eligible
Four NRSROs:	F-1/AMB-1/A-3/P-3	First Tier
	F-2/AMB-1/A-3/P-3	Second Tier
	F-3/AMB-1/A-3/P-3	Not Eligible
Five NRSROs:	R-1/AMB-1/A-3/P-3/F-3	First Tier
	R-2/AMB-1/A-3/P-3/F-3	Second Tier
	R-3/AMB-1/A-3/P-3/F-3	Not Eligible

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  - The security must present minimal credit risks
  - The security must be an "eligible security"
  - Acquisition of the security cannot violate the diversification requirements of Rule 2a-7

## ...Acquisition of the security cannot violate the diversification requirements of Rule 2a-7

Rule 2a-7 Issuer Diversification	
Type of Security	Taxable
Government Securities	No Limit
Repurchase Agreements Collateralized Fully by Government Securities	No Limit
Refunded Securities	No Limit
Securities Subject to Guarantees Issued by a Non-Controlled Person	Demand Guarantor Details appear in Rule 2a-7
First Tier Securities	5% x 100%
Second Tier Conduit Securities	1% x 100%*
Other Second Tier Securities	1% x 100%*

The first number represents the maximum percentage of total assets that the money fund may invest in the specified type of security. The second number represents the minimum percentage of total assets that must comply with these limitations. Securities marked with an "\*" cannot exceed 5% of total assets in the aggregate.

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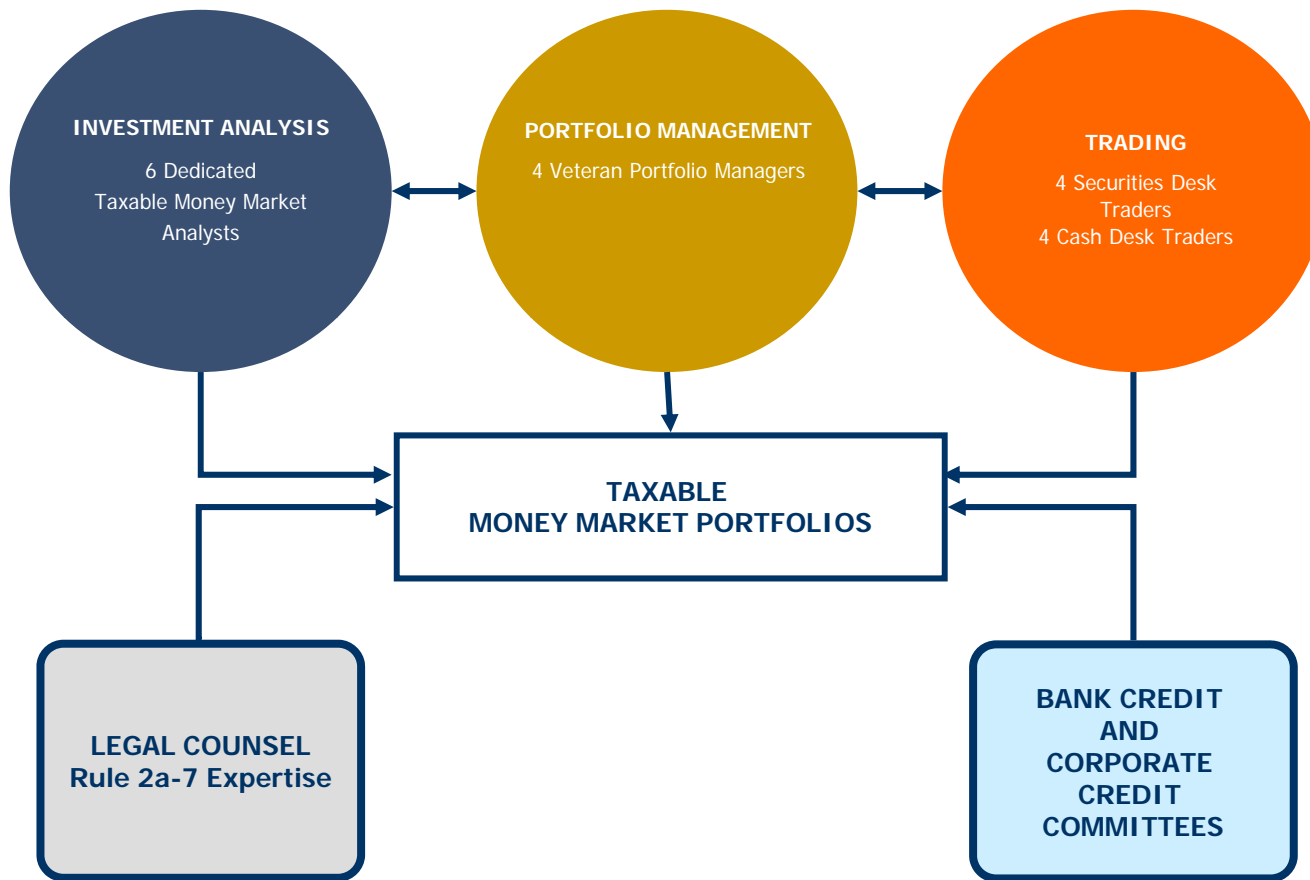
# Full Transparency; Understand Your Clients

- Know thy clients' cash flow needs
  - Withdrawals
    - Seasonal
    - Intermittent
    - Unexpected
  - Deposits
    - How much, how often

***Practice Open Communication***

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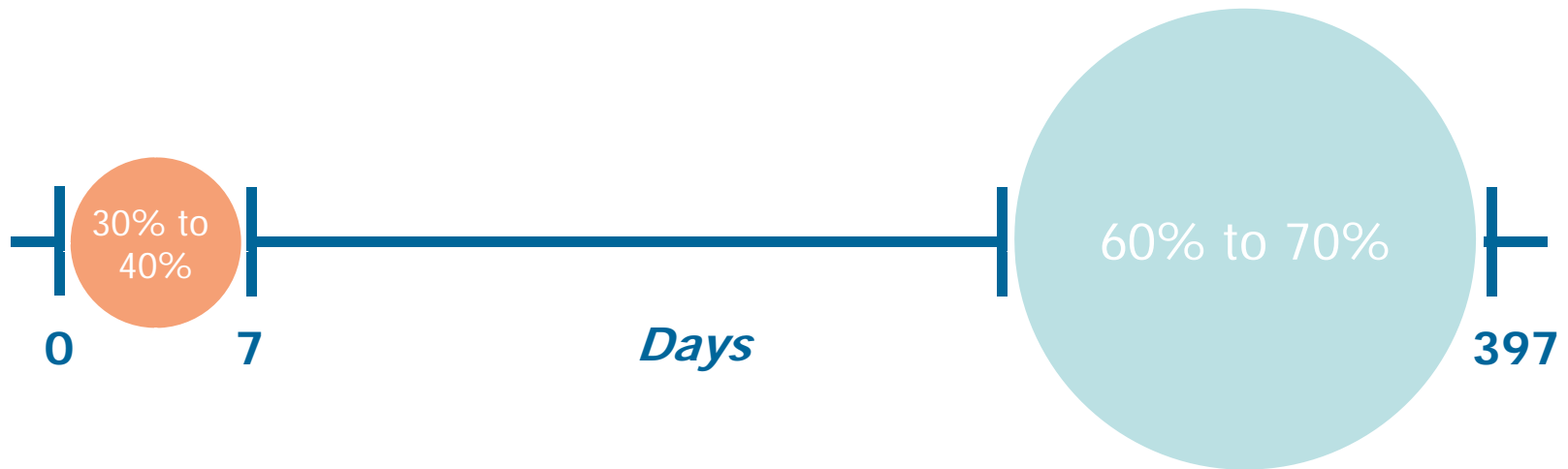
# Organized for Dedicated Functionality



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# Utilize Sound Portfolio Construction Techniques

Value-Added Through Barbell Structure

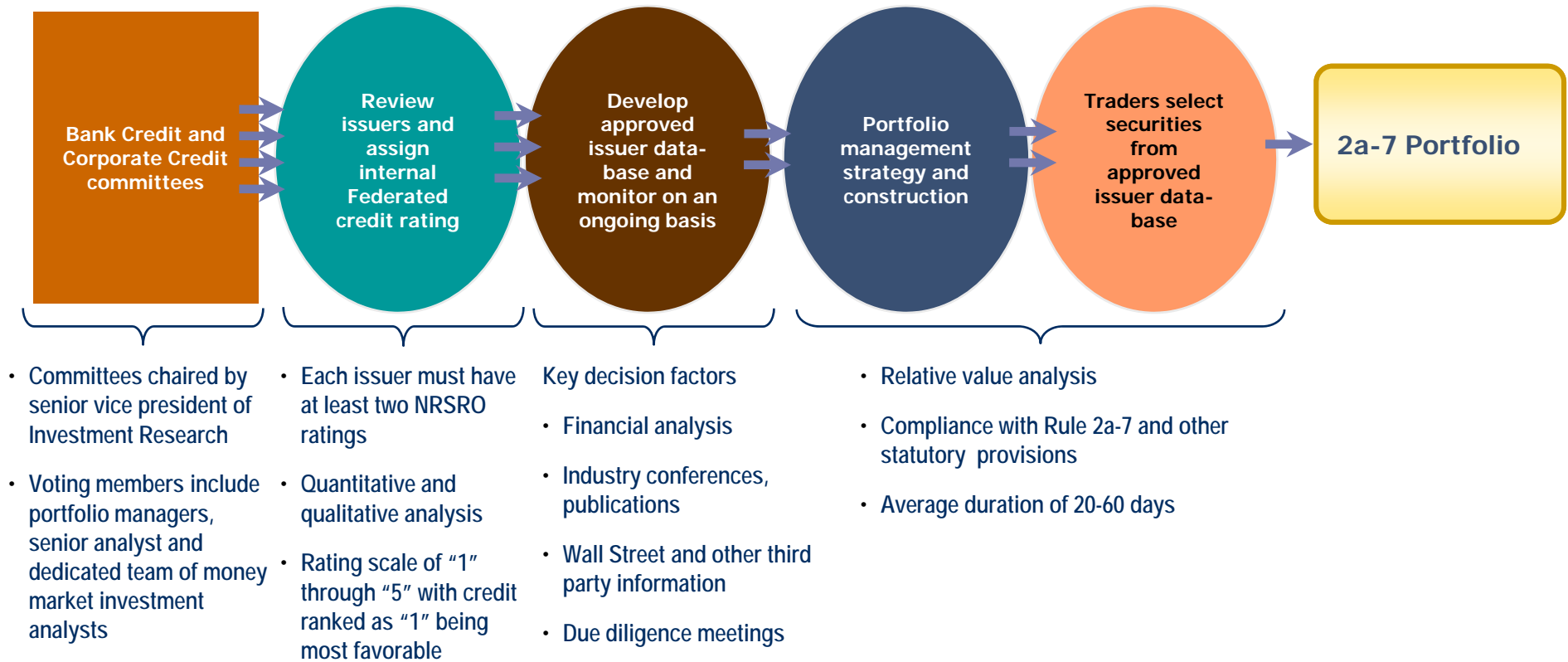


- Repo
- Time Deposits
- Variable Rate Instruments

- Commercial Paper
- Bank Instruments
- Asset-Backed Securities
- Corporate Notes

# Conduct in-depth Credit Analysis

## Stringent Credit Review Process at Federated



# Federated Rating System

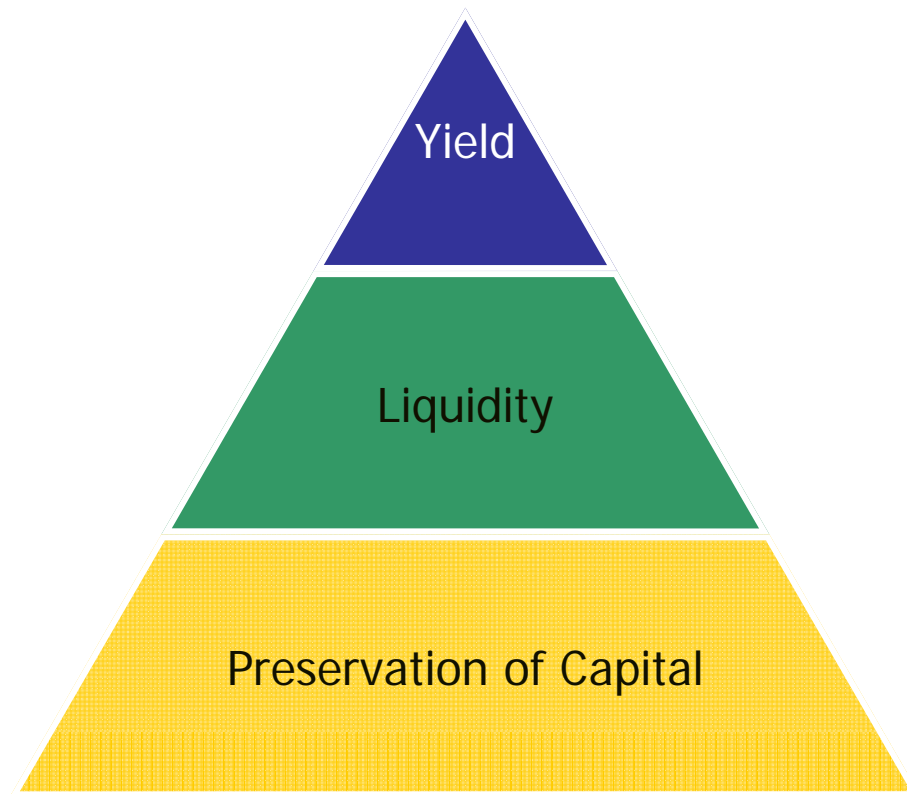
	Federated Internal Rating	Equates to	Maturity*
STRONG	1	A-1/P-1	397 days
	2	"high" A-1/P-1	397 days
	3	"low" A-1/P-1	180 days
	4	"high" A-2/P-2	90 days
WEAK	5	"low" A-2/P-2	90 days (Analyst can further restrict)

\*Exceptions can be made at analysts' discretion

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## Final Point: Get The Little Things Right Every Day

- Use external ratings as one input
- Separate investment and compliance functions
- Dedicate people to functionality
- Know your asset base
- Practice bias toward more than one NRSRO for each security
- Exercise qualitative vs. quantitative credit vigilance at acquisition and during hold period --> sale
- Develop escalation procedures for material events and stick to them



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## Disclosure

*For more complete information on Federated Funds, visit [FederatedInvestors.com](http://FederatedInvestors.com) or contact your Federated wholesaler for prospectuses. Investors should consider the fund's investment objectives, risks, charges, and expenses carefully before investing. Information about these and other important subjects is in the fund's prospectus, which should be read carefully before investing.*

***An investment in money market funds is neither insured nor guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although money market funds seek to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in these funds.***

All Federated domestic money market mutual funds are covered under the Treasury Department's money market guarantee program through September 18, 2009 except for Automated Government Money Trust, Treasury Cash Series, Treasury Cash Series II, Trust for U.S. Treasury Obligations Fund and Treasury Obligations Fund. These funds invest solely in U.S. Treasury securities, which are backed by the full faith and credit of the U.S. Government, and repurchase agreements fully collateralized by U.S. Treasury securities.

The Treasury's program is designed to provide coverage to shareholders for amounts held by them in participating money market mutual funds regulated by Rule 2a-7 as of the close of business on September 19, 2008. The program provides a guarantee to participating money market mutual fund shareholders based on the number of shares invested in the fund at the close of business on September 19, 2008. Any increase in the number of shares an investor holds after the close of business on September 19, 2008, will not be guaranteed. In addition, if the number of shares an investor holds fluctuates over the period, the investor will be covered for either the number of shares held as the close of business on September 19, 2008, or the current amount, whichever is less. The program also states that in the event a customer closes their account with a fund or broker/dealer, any future investment in the fund will not be guaranteed.