Public Funds Investment Institute
Connecting Public Funds Investors

Public Investment Trends – Maximizing Revenues

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Presented by

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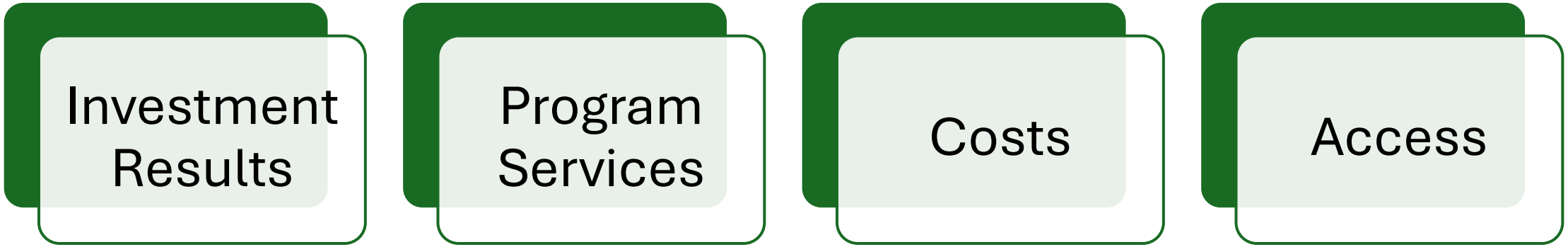
From the Top

* LGIPs invest nearly 25% of state and local government assets.

- LGIPs have grown significantly in the past five years
  - Higher short-term interest rates.
  - Growing state and local revenue, increased investment balances, but also increased uncertainty about expenses.
  - Investment market changes are unfriendly to small and mid-sized public unit investors.
  - Banks have changed their focus from investment-type to transaction-type accounts.
- Issues and Opportunities; What Other LGIPs are considering
  - Emerging investment considerations.
  - LGIP advantages over money market funds/banks.
  - Technology/operations challenges.

Components of Program Value



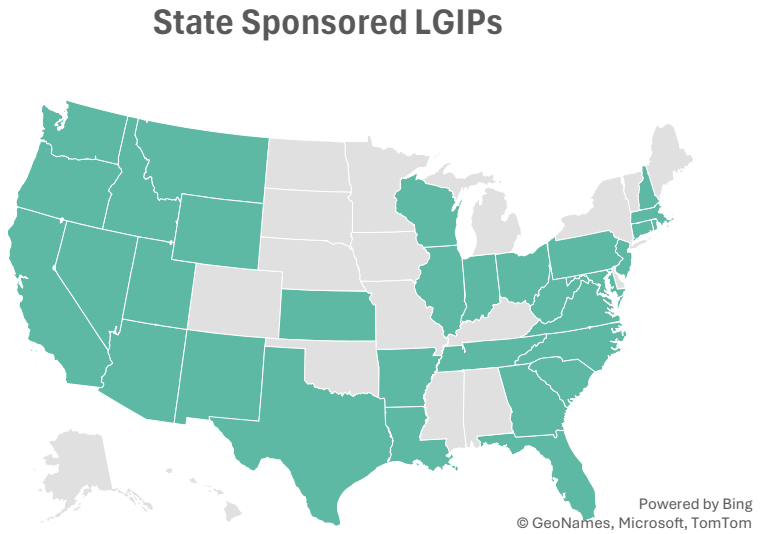
Investment Earnings: a Significant Revenue Source for Public Agencies

- Generation-high interest rates inflated earnings to an estimated $203 billion in 2024, equivalent to 8% of tax revenue.
- Investment assets expanded by 37% from 2020-2025, rates moved from less than 10 basis points to over 5%.
- A decline in short term rates and anticipated modest drawdown of investment balances will reduce earnings to ~$100 billion by 2027.
- Earnings should equal ~4% of tax revenue in 2026 and 2027.

Source: tax revenue 2020-2025,Census Bureau; LGIP rates 2020-2025, S&P Global; PFII calculations

PFII 2024 LGIP Survey

- **Total assets $931 billion**
  - Represents nearly 25% of total state and local government investment holdings.
- **State sponsored LGIPs**
  - Assets: $691 billion
  - 32 states, 47 funds
  - Average program size = $21.6 billion
  - Some accept both state and local assets for investment, others just accept local assets.
  - Assets increased by $18 billion or 3% from 2023.
  - Increase in assets was entirely from local government investors whose assets grew 5%.
- **Local-sponsored LGIPs**
  - 20 states, 54 funds, 114 portfolios
  - Assets of $240 billion
  - Average program size =$4.4 billion
  - Often in the same marketplace where there is a state sponsored program.
  - Many states have multiple local sponsored programs that compete.



LGIPs Operate Within a State Specific Legal/ Regulatory Framework

- **LGIPs are viewed as providing an essential government service and thus are exempt from most provisions of Federal securities and tax laws.**

- **Most funds operate under a state specific statute; some derive from general powers of the state Treasurer or powers under intergovernmental cooperation statutes.**

LGIPs generally look to these authorities for direction

Government Accounting Standards Board

GASB 79 and GASB 31 provide standards for participants to account for the fair value of investments, including investments in external investment pools. These do not specifically focus on operating or accounting standards for the pools.

Government Finance Officers Association

2008 Best Practices statement provides guidance on how pool investors should evaluate these investments.

National Association of State Treasurers/National Association of State Auditors Comptrollers and Treasurers

2016 Voluntary Guidelines for the Management of Stable Net Asset Value Local Government Investment Pools is a guide to the governance and management of LGIPs.

Credit rating agencies

Rating criteria are focused on portfolio management and investment quality; they do not address disclosure, reporting and transparency.

The LGIP Industry is Built Around Offering Stable Value Portfolios

Rule 2a-7 like funds—89 portfolios

Several are registered with the Securities and Exchange Commission as a money market fund but most are unregistered funds that closely adhere to Rule 2a-7with regard to

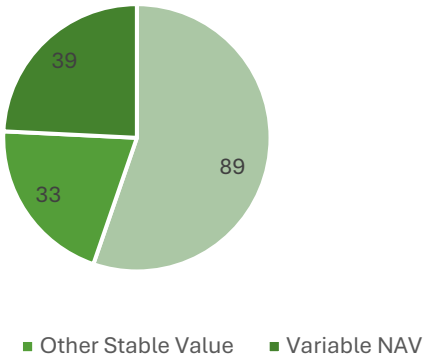
- Asset quality
- Maturity and weighted average maturity limits
- NAV determination—they advertise a stable NAV regardless of whether they are government-oriented or "prime" funds.
- Liquidity may vary from Rule 2a-7 limits
- Prime funds do not follow the SEC's liquidity fee regime.

Other stable value funds—33 portfolios

- Maturities and weighted average maturity may exceed Rule 2a-7 limits
- Liquidity may vary from Rule 2a-7 limits
- May offer or stipulate constant NAV but do not use amortized cost or penny-rounding for NAV determination.

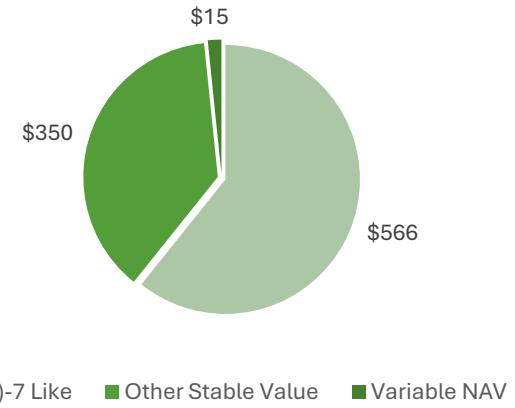
A stable value portfolio is offered by all state and local sponsored LGIPs; some offer other funds or products as well.

Number of LGIP Portfolios by Type



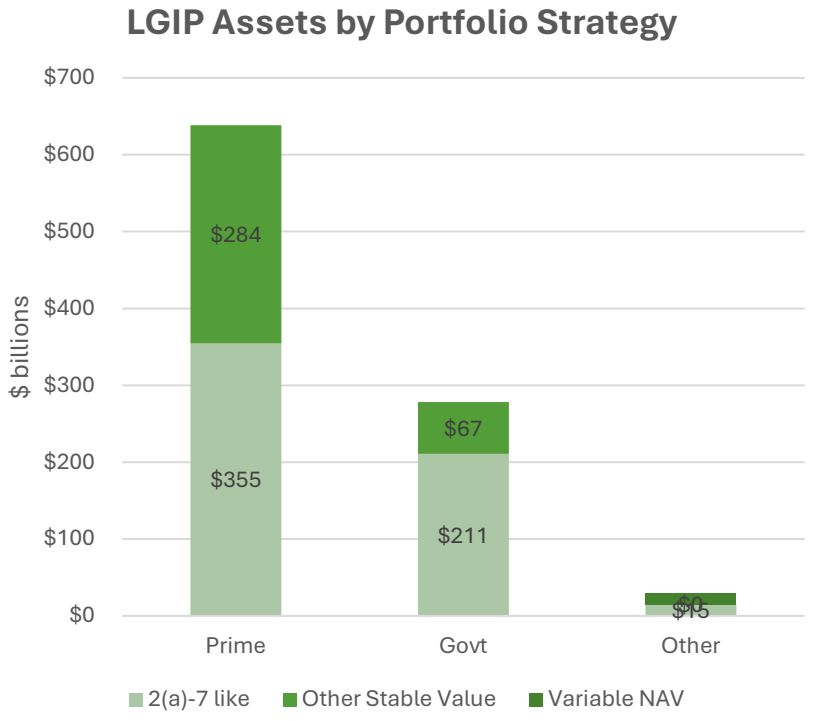
LGIP Assets by Investment Strategy

($ billions)



Prime Portfolios Predominate

- **Prime portfolios predominate: assets = $639 billion.**
  - $355 billion in portfolios that generally follow Rule 2(a)-7 to achieve stable value.
  - Employ credit and government obligations; credit is more restrictive than credit in prime money market funds.
  - $284 billion in "fiat" stable value portfolios
    - Do not follow Rule 2(a)-7
    - May be longer durations
    - Liquidity policies deviate from Rule 2(a)-7
    - State assets buffer/protect stable asset value.
- **Government oriented portfolios: assets = $278 billion.**
  - 77% of these assets are in Rule 2(a)-7 like portfolios.
  - Not limited by SEC definition of "government portfolios" and some invest up to 35% in credit instruments, including bank deposits.
  - Balance in "fiat" stable value portfolios with longer duration.
- **Variable NAV portfolios represented only about $15 billion of total.**



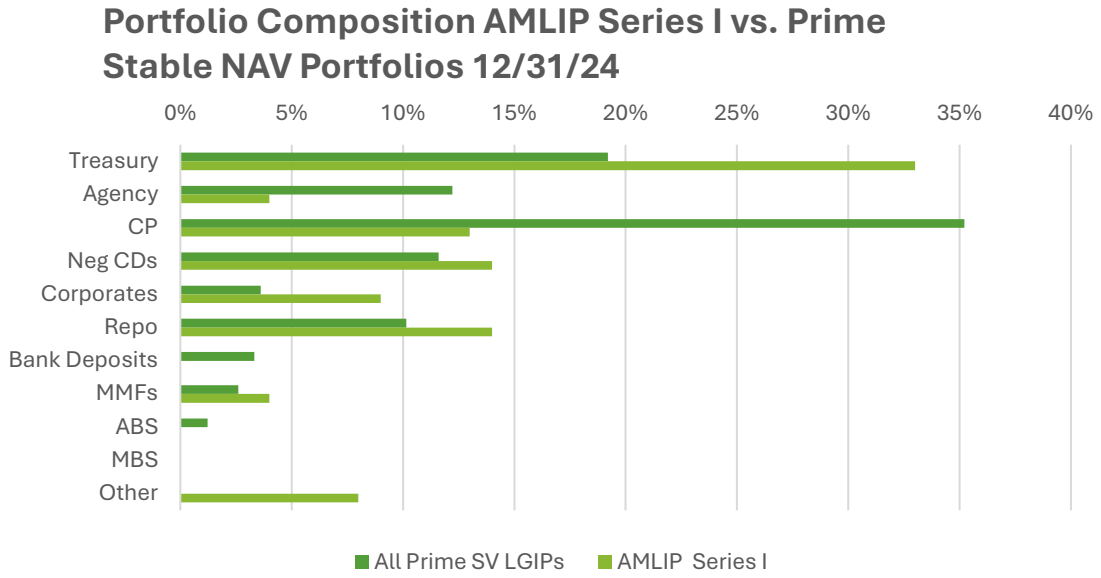
Some LGIPs Offer Other Products

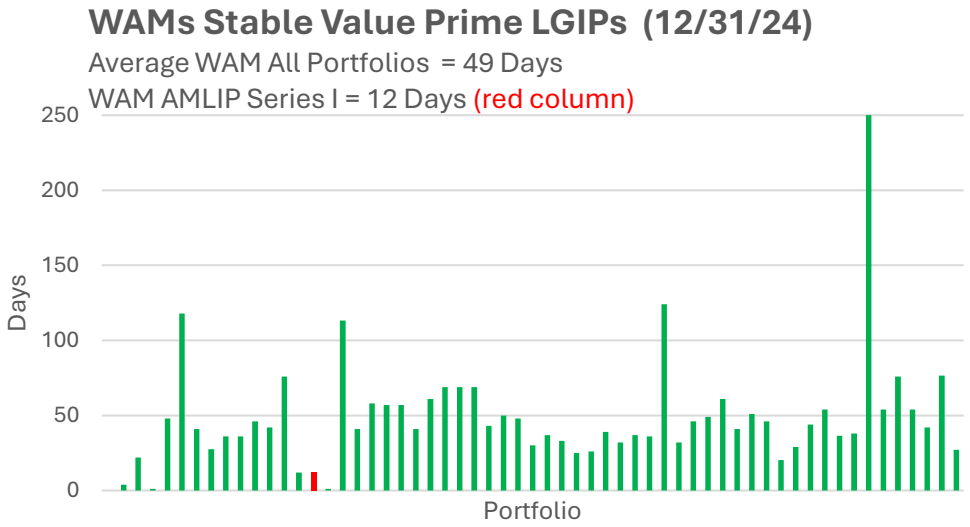
- **Separately managed fixed income accounts**
  - Offered under sponsorship of the LGIP
  - Managed by the LGIP's manager
  - Some are aimed at bond proceeds investment.
- **Banking services**
  - Check writing
  - Direct deposit
  - Payment services.
- **Bank deposits/certificates of deposit**
  - Packages of FDIC insured CDs
  - Bulk collateralized CDs.
- **Equity-oriented accounts**
  - Offered by a few programs
  - Utilize manager's or third party funds rather than a dedicated fund.

"Yield is a commodity"

How AMLIP Series I Compared to Prime Stable NAV Universe

- **AMLIP Series I portfolio is generally within the ranges of the Prime Stable value universe.**
- **AMLIP had lower concentration in credit**
  - 36% vs. 54% for prime LGIP universe
  - Some LGIPs had up to 90% in credit
  - Overall credit allocations of prime universe and prime money market funds were similar.
- **AMLIP had greater reliance on government obligations**
  - 37% in AMLIP Series I vs. 31% in universe in Treasury and GSE debt.
- **AMLIP had more liquidity than Prime LGIP universe**
  - Repo + money funds= 18% for AMLIP Series I vs.13% for universe.
- **AMLIP WAM of 12 days was among the shortest in the universe.**

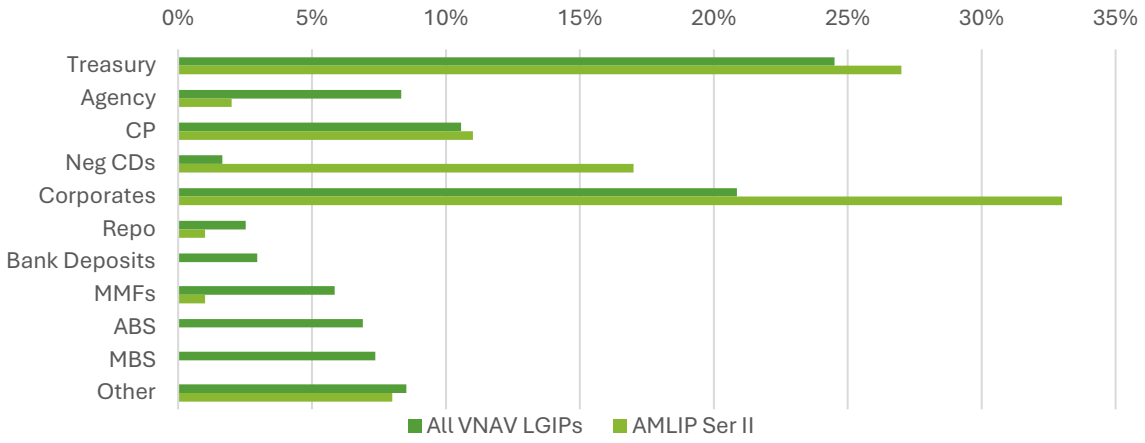




How AMLIP Series II Compared to VNAV LGIP Universe

- **AMLIP portfolio composition varied in some respects from average ranges in universe.**
- **AMLIP held 61% of assets in credit**
  - Much of this was in short term and floating rate notes
  - The VNAV LGIP universe held on average 36% of assets in credit.
- **29% of AMLIP Series II assets were in government obligations**
  - This compares with 33% for the VNAV universe.
- **AMLIP Series II held no ABS/MBS securities vs. the VNAV universe average of 14%.**
- **The AMLIP Series II portfolio had a duration of 12 days vs. the average duration of the VNAV universe of 1.5 years**
  - The duration of the VNAV universe is within the typical range of short-term bond funds registered with the Securities and Exchange Commission.

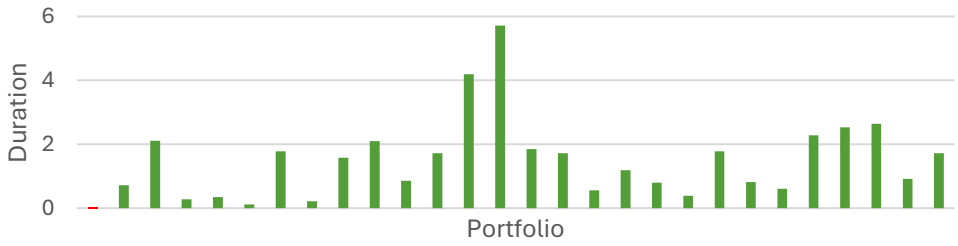
Portfolio Composition AMLIP Series II vs. All VNAV LGIPs 12/31/24



AMLIP Series II Duration vs. Duration of All VNAV Portfolios 12/31/24

Average duration 1.5

AMLIP duration .03 (red bar)



Disclosure/Transparency Scores

A few LGIPs follow SEC requirements closely:

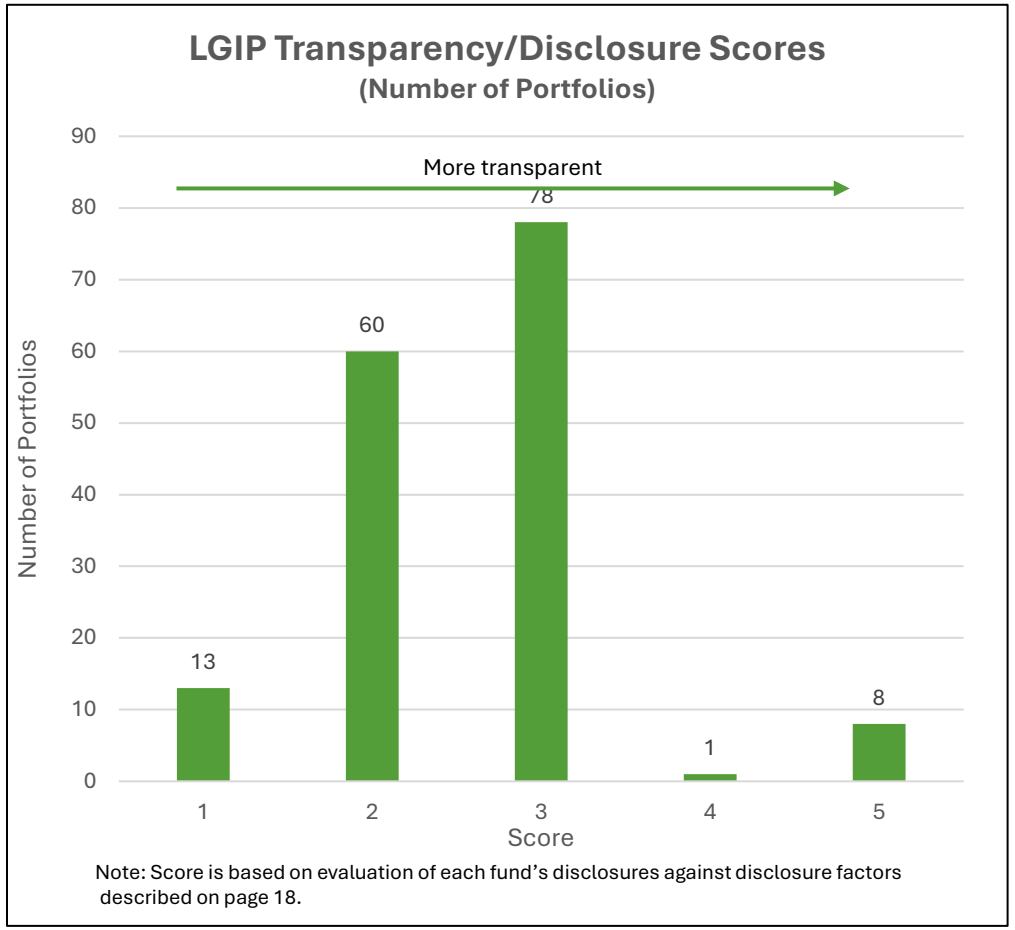
- Extensive program disclosure
- Daily yield and detailed portfolio characteristic information
- Daily and historic investor purchase/redemption activity
- Daily shadow pricing and share flows.
- Monthly summary of portfolio holdings.

Most LGIPs provide less detailed or less frequent disclosure.

Areas for improvement:

- Information or policy statement vs. prospectus
- Publish daily, one day and 30 day yields with history
- Publish daily and historic WAM and WAL
- Publish daily and weekly liquidity and history
- Publish summary of recent portfolio asset flows
- Monthly summary of portfolio holdings.

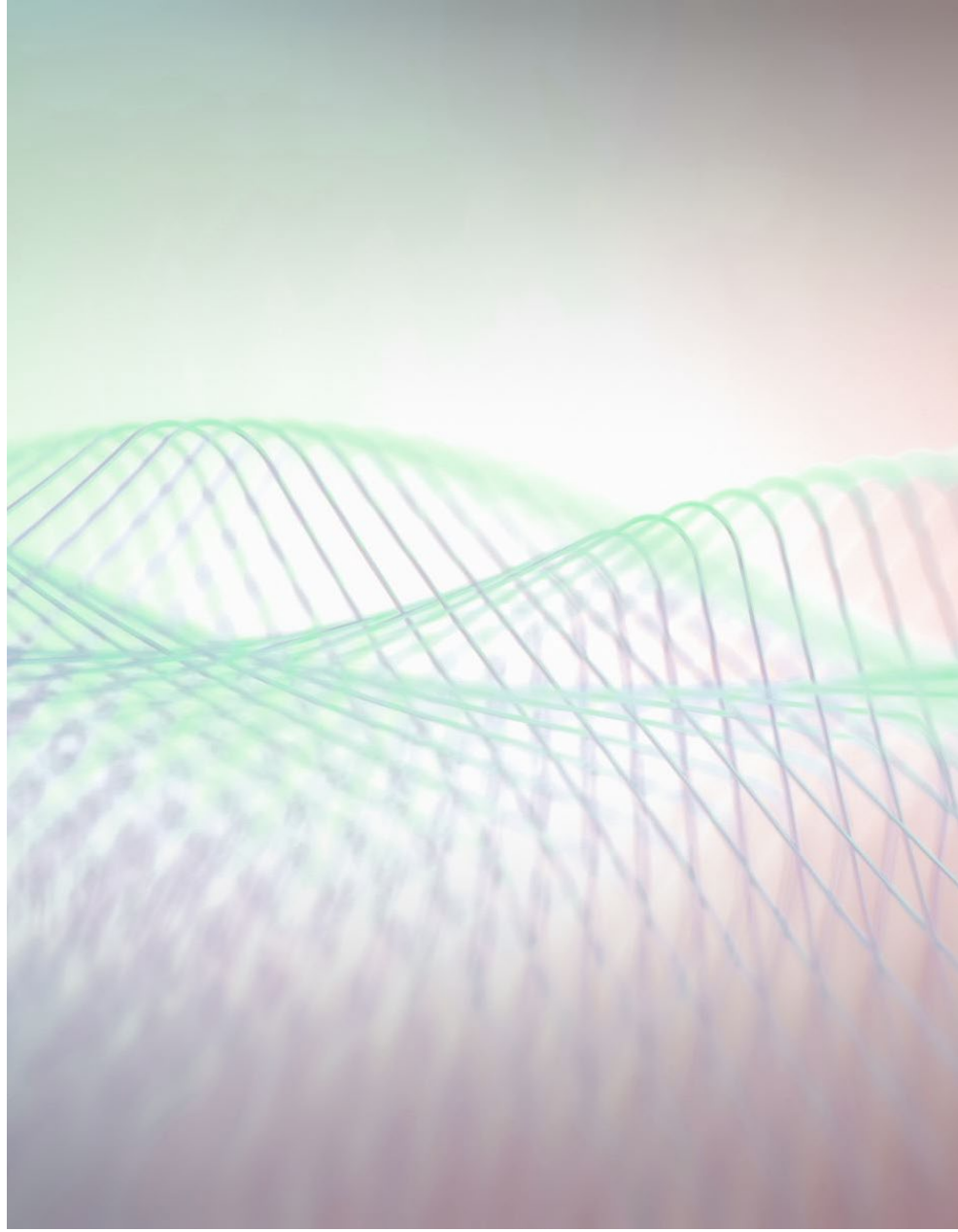
AMLIP Scored 3, as did the majority of LGIPs



Note: Score is based on evaluation of each fund's disclosures against disclosure factors described on page 18.

LGIPs: Issues and Opportunities

- Emerging investment considerations:
  - Stable coins and tokenized money market funds
  - Implications of reduction in sovereign U.S. credit for principal stability funds: implications for sovereign, government sponsored enterprise and corporate credit and ratings
  - Access to markets (especially Treasury market) for local governments.
- Potential expansion of investor base to nonprofits
- Advantages over money market funds—benefit (and risk) of regulatory exemption.
- Technology challenges
  - Cybersecurity
  - Move to 24-hour cash via FedNOW and other technology
  - Artificial intelligence efficiencies (and risks!).



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