

# NEW HAMPSHIRE PUBLIC DEPOSIT INVESTMENT POOL

September 16, 2015

New Hampshire Banking Department  
53 Regional Drive  
Concord, NH 03301

## MINUTES OF PUBLIC SESSION

Call the Meeting to Order – NH Banking Department Commissioner, Glenn Perlow, called the meeting to order at 10:00.

Attendance and Quorum - Attendance taken and quorum established.

Present - Shaun Thomas, NH Dept. of Revenue; Michael Jache, City of Concord, NHGFOA; Daniel R. Lynch, NH Municipal Association; Sharon Wickens, City of Manchester, NH Government Finance Officers' Association; Christopher MacDonnell, Bank of NH, NHBA; Dean Michener, NHSBA; Lyn Gelinias, Citizens Bank, NHBA; William Dwyer, Treasurer, NH Department of the Treasury

Also Present - Glenn Perlow, Bank Commissioner; Emelia Galdieri, Legal Counsel, NH Banking Department; Spencer Culp, Director of Trust Supervision, NH Banking Department; Michele Kelleher, Paralegal, NH Banking Department; Barbara Fava, PFM; William T. Sullivan, Jr., PFM; Jeffrey Rowe, PFM

Commissioner Perlow briefly explained the draft minutes from the prior meetings (05/20/15 public and non-public, 06/22/15 public and non-public and 07/01/15) would need to be discussed and approved (with any suggested changes).

Minutes of the public session of the May 20, 2015 meeting were discussed. Commissioner Perlow asked for a motion to approve the minutes. Daniel Lynch motioned to approve the minutes, seconded by Michael Jache. William Dwyer proposed changing his title from "Commissioner" to "Treasurer" and to remove the stray "on" after "per RSA 91-A" in the last paragraph. The committee VOTED unanimously to approve the minutes with the two proposed changes. Lyn Gelinias did not vote on these minutes because she was recused from the meeting. Dean Michener abstained from voting.

Minutes of the non-public session of the May 20, 2015 meeting were discussed. Daniel Lynch motioned to approve the minutes, seconded by Michael Jache. Daniel Lynch proposed changing "City of Concord" to "City of Dover" on the bottom of page two and the top of page three. Commissioner Perlow requested page numbers on all meeting minutes going forward. William Dwyer proposed changing the seventh line of the first paragraph from "Upon review of the proposal" to "Before scoring the proposal", to change his title from "Commissioner" to "Treasurer", and to change "motion to forward" to "motion to move forward" on page 5 (2/3 down the page in the second indented section).

Lyn Gelinas briefly discussed her recusal and not attending the meetings as a result. She will not be voting on the minutes but Commissioner Perlow determined it was okay for her to stay and review them and she should be added to the top of the minutes as “recused.”

Dean Michener abstained from voting.

The committee VOTED unanimously to approve the minutes with the proposed changes. Lyn Gelinas did not vote on these minutes because she was recused from the meeting. Dean Michener abstained from voting.

Commissioner Perlow and Emelia Galdieri briefly discussed non-public session minutes and how they become public. Noted the minutes will remain marked “non-public” because the session itself was non-public even though the minutes are now are publicly accessible pursuant to RSA 91-A.

Minutes of the public session of the June 22, 2015 meeting were discussed. Daniel Lynch motioned to approve the minutes, seconded by William Dwyer. William Dwyer proposed adding “by” on the last page between “issued” and “the”, and changing his title from “Commissioner” to “Treasurer”. Daniel Lynch proposed adding Lyn Gelinas as “recused” on the top of the minutes. The committee VOTED unanimously to approve the minutes with the proposed changes. Lyn Gelinas did not vote on these minutes because she was recused from the meeting. Dean Michener abstained from voting.

Minutes of the non-public session of the June 22, 2015 meeting were discussed. Motion made by Daniel Lynch to approve the minutes, second by Sharon Wickens.

William Dwyer proposed adding “to” between “changed” and “state” on the top of page 2 in the second indented paragraph. Emelia Galdieri proposed adding Lyn Gelinas as “recused” on the top of the minutes. The committee VOTED unanimously to approve the minutes with the proposed changes. Lyn Gelinas did not vote on these minutes because she was recused from the meeting. Dean Michener abstained from voting.

Minutes of the July 1, 2015 emergency meeting were discussed. Michael Jache motioned to approve the minutes, seconded by Sharon Wickens. Commissioner Perlow clarified that Lyn Gelinas was absent from this meeting not recused. William Dwyer abstained from voting because he was not present at the meeting.

Commissioner Perlow discussed voting on minutes if not present at a meeting. The committee also generally discussed that after a meeting, non-public meeting minutes are drafted within three (3) days of the meeting and public meeting minutes are drafted within five (5) days.

The minutes with the proposed changes were VOTED unanimously. Lyn Gelinas did not vote on these minutes because she was recused from the meeting. Shaun Thomas, William Dwyer, and Dean Michener abstained from voting.

Commissioner Perlow turned over the meeting to PFM Asset Management, LLC. He extended his appreciation to PFM as there were no “hiccups” in service during the transition to the new investment manager.

Barbara Fava discussed the transition from Cutwater – the transition went well, the Cutwater team was great. Though there was a very tight deadline (considerably shorter than a normal transition), it went smoothly. She reviewed and discussed the *NHPDIP Transition and Activity Report* (Tab II of the Exhibit). PFM could not speak with Cutwater until the contract was signed, so they were delayed until June. The Cooperation and Management Agreement was mailed to investors on July 2, 2015. The Draft Information Statement was sent to investors July 13, 2015 but was not effective until August 3, 2015. Webinars were held to explain the changes; over eighty (80) investors joined and no questions were asked. The website converted over on July 31, 2015. The website address is the same but the website has some minor changes. There has been no negative feedback. By August 1, 2015, PFM had all the data uploaded. In total there were 6,000 accounts so there was tons of data to upload. There are six (6) years of account statements accessible on the website. On August 3, 2015, the assets moved and PFM started managing the accounts, and the new NHPDIP Information Statements were filed with the Municipal Securities Regulatory Board (MSRB).

Barbara Fava discussed the number of inactive accounts and subaccounts, all of which were turned off and can be reactivated within one (1) year. William Dwyer asked about the time frame necessary to determine an account was inactive. Barbara Fava clarified an inactive account as an account that had no activity for one (1) year. Daniel Lynch asked if the six (6) years of records were accessible online. Barbara Fava clarified that inactive accounts are accessible online for one (1) year then can be accessed in paper by request. There are 137 investors enrolled for EON online access. There are several webinars scheduled.

Barbara Fava indicated that PFM was surprised at the amount of check activity. The program will continue to offer checks but encourage ACH or other, more secure, options. There are some challenges in receiving a check with a note to open an account. PFM requires a registration form to open an account. PFM is working through some issues where checks were made out incorrectly or shared tax identification numbers caused issues.

Standard and Poor's Ratings Services affirmed NHPDIP's 'AAAm' rating on August 3, 2015. (Tab II of the Exhibit)

Lyn Gelinas asked for clarification on the inactive accounts and whether they contained any money. Barbara Fava confirmed that inactive accounts have no money and have had no money for over a year.

Daniel Lynch asked how PFM communicated with inactive account holders prior to the August 3, 2015 transition. He was particularly concerned with arbitrage rebate calculations. William Sullivan explained that PFM has a protocol for bond proceeds and offers arbitrage rebate calculation services.

Barbara Fava stated PFM may want to educate investors on inactive accounts. Though PFM has already attempted to educate investors, it can be repeated. Michael Jache suggested notifying account holders. William Sullivan discussed the IRS concerns such as comingling of funds and the need for the issuance of new account numbers.

Barbara Fava discussed Tab III(A) of the Exhibit – *Statement of Assets and Liabilities* dated August 31, 2015. The report only contains one (1) month. Moving forward this will be a quarterly report consisting of three (3) months of data. The cash balance is relatively high.

Commissioner Perlow asked for the comparison of the current total to the prior total. Barbara Fava explained that there was no big drop or gain. Apparently, anyone concerned about the transition pulled their money out prior to the transition happening so PFM saw a drop off right before the transition.

Barbara Fava discussed Tab III(B) of the Exhibit – *Fixed Income Management Monthly Market Review* which was emailed out to all account holders of record. Jeffrey Rowe gave an overview of the volatility of the market due to the slowing economy in China and the announcement that the Fed will be raising rates. The Fed will be meeting tomorrow (09/17/15) to discuss rates. Though the Fed may wait the rate hikes will probably take effect this year.

Jeffrey Rowe discussed Tab III(C) of the Exhibit – PFM’s view differs from the prior managers. PFM changed the investment type and restructured the portfolio composition. Repurchase agreements are one (1) day or so and are the safest and most liquid security when done right.

William Dwyer questioned Tab III(A), page 2 of the Exhibit, US Bank NA, 18 basis points, one (1) day maturity. He had concerns about the appearance of a conflict because US Bank NA is the custodian. Jeffrey Rowe discussed that it was a good/market rate. Barbara Fava stated that PFM considered the appearance of conflict in making investment. She further stated that there is no requirement to buy products from U.S. Bank. Commissioner Perlow asked if there is any disclosure or guidelines regarding relationships with banks and is there an assessment that is done. He suggested a one or two sentence explanation or affirmative statement. Barbara Fava will explore putting a footnote in the disclosure statement and will work with PFM’s lawyers on the language.

Jeffrey Rowe discussed Tab III(C), page 2 of the Exhibit– *Net Asset Value Analysis*. He explained that you want stability and do not want to “break the buck” (under 0.9925) and though there are ways to fix you wouldn’t want to do so without a meeting. Depending on the net asset value the board could be notified or a meeting could be called.

Jeffrey Rowe briefly discussed Tab III(C), page 3 of the Exhibit – *Credit Quality* – the goal is to not take a whole lot of risk. He also briefly discussed Tab III(C), page 4 of the Exhibit. There was a discussion about weighted average maturity (WAM) and weighted average life (WAL).

Christopher MacDonnell left at 11:00am.

Jeffrey Rowe discussed Tab III(D) of the Exhibit – the goal is to preserve the dollar value. The portfolio is regularly stress tested. Cutwater previously performed a basis point shift of 200 but PFM performs a 300. All scenarios run would not “break the buck.” The test run consisted of one month. Daniel Lynch and Glenn Perlow discussed how often the information should be received the committee. Daniel Lynch and Michael Jache stated they would like to see the stress test monthly along with a new balance and cover letter.

Jeffrey Rowe discussed Tab III(D), page 4 of the Exhibit – *Stress Test Scenario Summary* and explained the modest, severe and extreme case increases.

Jeffrey Rowe discussed Tab III(D), page 5 of the Exhibit regarding Liquidity Requirements. In reviewing you look at what were daily inflows and outflows and look at the portfolio daily and weekly and determine how much cash is in the portfolio.

Barbara Fava discussed that the list of the largest shareholders may not necessarily be public information and the specific shareholder names would not be included on future reports.

Barbara Fava discussed Tab IV of the Exhibit. PFM initially adopted the same policy as Cutwater but is now suggesting changes to the NHPDIP Investment Policy and the Information Statement. Jeffrey Rowe discussed each of the suggested changes. PFM thinks NHPDIP may be missing out on investment opportunities by limiting itself and suggests expanding options. PFM recommends adding corporate notes, adding insured bank deposits, adding collateralized bank deposits and adding CDs. Barbara Fava stated PFM would like to keep the money local in local banks.

Commissioner Perlow called a five minute break at 11:30am.

The meeting reconvened at 11:40am.

Emelia Galdieri reminded the group of the changes to the Cooperation Agreement. Barbara Fava mentioned if the changes were filed tomorrow with MSRB within forty eight (48) hours they would be mailed to investors. Commissioner Perlow asked whether the changes were consistent with how PFM operates across the country. Barbara Fava confirmed the same. Previously changes were governed by the Cooperation Agreement which was changed at the emergency meeting in July.

Daniel Lynch questioned changing prior Exhibit E to the old Cooperation Agreement.

Lyn Gelinas asked for clarification of “yankee” versus “domestic.” Jeffrey Rowe explained “domestic” is a bank or corporation located in the United States while “yankee” is a chartered domestic subsidiary subject to United States tax rules. Commissioner Perlow asked if the verbiage was changing, Jeffrey Rowe and Barbara Fava confirmed yes.

The committee generally discussed ratings. Daniel Lynch questioned leaving “rates A-1+” on page 15, sentence (10) of the Information Statement instead of deleting it. Lyn Gelinas stated that sentence (8) on the same page also stated “A-1+”. Barbara Fava stated looking through to collateral not issues; collateralization does not have a limit. William Dwyer stated it seems okay to omit information as written. Commissioner Perlow stated the consensus of the group seems to be to keep the changes as proposed. The group agreed.

Commissioner Perlow requested a motion to accept the changes to the NHPDIP Investment Policy as proposed. Motion made by William Dwyer, seconded by Sharon Wickens and the committee VOTED unanimously to accept the changes.

Barbara Fava discussed the proposed changes to the Information Statement. The most significant proposed changes are on page 11. PFM added standard language used in all of the pools it manages. The fund will provide arbitrage calculation services. Cutwater had outsourced these services. PFM has a group that performs these services. If investors choose to use the services there are fees that are charged and are listed. PFM’s charges are lower than Cutwater’s charges.

Commissioner Perlow requested a motion to approve all the proposed changes to the Information Statement. Motion made by William Dwyer, seconded by Sharon Wickens and the committee VOTED unanimously to approve all the proposed changes.

Short adjournment for working lunch break.

Barbara Fava discussed the auditor contract (Tab V of the Exhibit). PFM will pay the contract fees that are estimated at approximately \$26,000.00. The auditor, Ernst & Young LLP insists the contract be with and signed by Commissioner Perlow instead of PFM. There is an *Advisory Committee Member Questionnaire* that needs to be filled out by each member before Commissioner Perlow signs the contract. The engagement letter is a standard letter and Ernest & Young LLP currently audits ten of sixteen of PFM's clients.

Barbara Fava then introduced William Sullivan to discuss Section VI, the marketing report. William Sullivan discussed he spent time with Joanne Klatskin. PFM offered Ms. Klatskin a part time position with the potential for full time. He discussed the marketing plans – he and Ms. Klatskin will be going out to meet people with the goal to educate them and expose the pool to everyone.

Commissioner Perlow asked if PFM offers additional products that Cutwater used to offer. Barbara Fava stated Joanne Klatskin was offering other products but would have to “take off” her PDIP hat and to sign customers up for those other products. William Sullivan stated that PFM can offer such products but will run products by the committee prior to offering. Barbara Fava stated Cutwater offered products under the PDIP umbrella and brought to the committee first. William Sullivan discussed the opportunity to bid on the bond/MAC (multi-asset claims).

Commissioner Perlow discussed moving forward – enhancements to the pool but not assets held in pool and providing information on items in the marketplace.

Barbara Fava discussed reporting requirements/needs moving forward. Group wants reports/detailed package each quarter (like today). Going forward on a monthly basis, the group wants stress tests; beginning and end month balances; portfolio assets composition – whole detail. Barbara Fava will send out the next monthly information for feedback.

Barbara Fava took a poll of who would prefer electronic copies of the quarterly meeting documents – everyone but Shaun Thomas and Michael Jache were fine with electronic copies.

Scheduling of future meetings is tentatively scheduled as follows:

November 12, 2015 at 9:00am

February 11, 2016 at 9:00am

May 12, 2016 at 9:00am

August 11, 2016 at 9:00am

Meeting adjourned at 12:55 p.m.