

**Contact: Patrice Sayre**

**FUND MANAGER ISSUES**

**Action Requested:** Recommend that the Board of Regents, State of Iowa (the “Board”) approve the proposed Federated Prime Private Liquidity Fund (the “Fund”) for cash allocations within the Board-approved investment pools, subject to any final due diligence which would include, but not necessarily be limited to, legal review of investment documents. The Fund is a private money market fund and seeks to maintain a stable net asset value (NAV), investing primarily in a portfolio of high-quality securities which are issued by banks, corporations and the U.S. government and mature in 397 days or less.

**Executive Summary:** The Board of Regents investment policy requires that the investment advisor, Marquette Associates (“Marquette”), provide recommendations and advice on matters regarding investment manager selection.

Federated has been managing money market funds for 40 years. In its history, Federated’s prime money market funds have never had any defaults and they have never had to infuse capital into their prime money market funds, as other money market fund managers had to do in 2008. The Fund is managed by a senior team of portfolio managers, all of whom have been with Federated for more than 20 years.

Marquette supports cash investments with Federated in the Fund. Given money market reform set to be implemented on October 14, 2016, 1940 Act money market funds must convert to a floating NAV, unless they are exempt by being a fully retail fund, or holding government-only securities. By investing in the Fund, the Board could benefit from the higher yield of a prime fund as well as benefit from the safety of a constant \$1 NAV. This recommendation is subject to any final due diligence which would include, but not necessarily be limited to, legal review of investment documents.

The arrival at this recommendation follows numerous discussions about how to address short-term investments, with the Universities’ desire to expand their authorized money market investment vehicles given the impending money market legislation later this year.

**Background and Analysis:** Prime funds are the highest yielding money market fund, and can invest in commercial paper for higher yield at incremental risk. Government money market funds, which must be 99.5% invested in government securities including Treasuries and Agencies, are lower yielding due to the limitation of investment options. The lowest yielding money market fund option is a Treasury money market fund. Federated manages over \$30 billion in their prime money market composite with a track record that dates back to 1991. The Fund will be managed by the same team utilizing the same investment strategy/mandate and process as the prime money market composite. Federated expects to commence investment operations when the assets committed to the Fund are in excess of \$1 billion. Federated is not expected to impose any liquidity fees or gates, and to maintain daily liquidity. The Fund’s terms are reasonable and its stated fees are favorable.

Marquette has performed due diligence on Federated numerous times, most recently via a conference call on May 19, 2016 to discuss the firm, team, strategy, investment process, performance and terms. Present on the call were Paige Wilhelm, Senior Vice President, Head of the Prime Money Market Team, Senior Portfolio Manager, Jonathan Lipinski, Vice President, Institutional Cash, and Jack Ebenreiter, Senior Vice President, Consultant Relations Manager, all from Federated, and Ben Mohr, Senior Research Analyst, Fixed Income, from Marquette.

In addition, Marquette reviewed the documents for both the Founders and Premier shares of the Federated Fund.

Investment Merits

- ▶ Established money market fund manager with long-term track record and substantial assets under management
- ▶ Fund is managed by a senior team of portfolio managers, all of whom have been with Federated for more than 20 years
- ▶ Federated has never experienced a default in their prime money market funds

Investment Concerns

- ▶ The Fund will seek to maintain a constant \$1 NAV, but does not guarantee it
- ▶ The Fund may delay the payment of redemption proceeds during emergency conditions, when disposal of securities is not reasonably practicable