



# SURVIVING LEHMAN

How to Manage Cash When the Unthinkable Happens



**John C. Donohue**

617.391.0229

[jdonohue@dwright.com](mailto:jdonohue@dwright.com)



## **John C. Donohue** Executive Vice President; Head of Liquidity Management



535 Boylston Street, Suite 4A  
Boston, MA 02116  
Ph: 617-391-0229  
Fx: 802-383-4373  
jdonohue@dwright.com

John serves as Portfolio Manager for Dwight's money market and short duration accounts and is responsible for strategy development and investment oversight of Dwight's Liquidity Management Team. John has been recognized by iMoneyNet with a 2002 Top Manager award, a 2001 Honorable mention award and by Lipper for the top performing US Government Money Market fund of 2002. For the seven years prior to joining Dwight in 2009, John was Managing Director and Head of Global Liquidity for Lehman Brothers and Neuberger Berman. Prior to Lehman, John worked at Allmerica Asset Management, where he was head of the short duration product group. He also served as a Portfolio Manager for CS First Boston Investment Management. John is a member of the iMoneyNet Money Market Advisory Board and Conference Faculty. He is also a frequent presenter at industry conferences such as TMANE national and regional events, and global forums such as American Chamber of Commerce in Singapore.

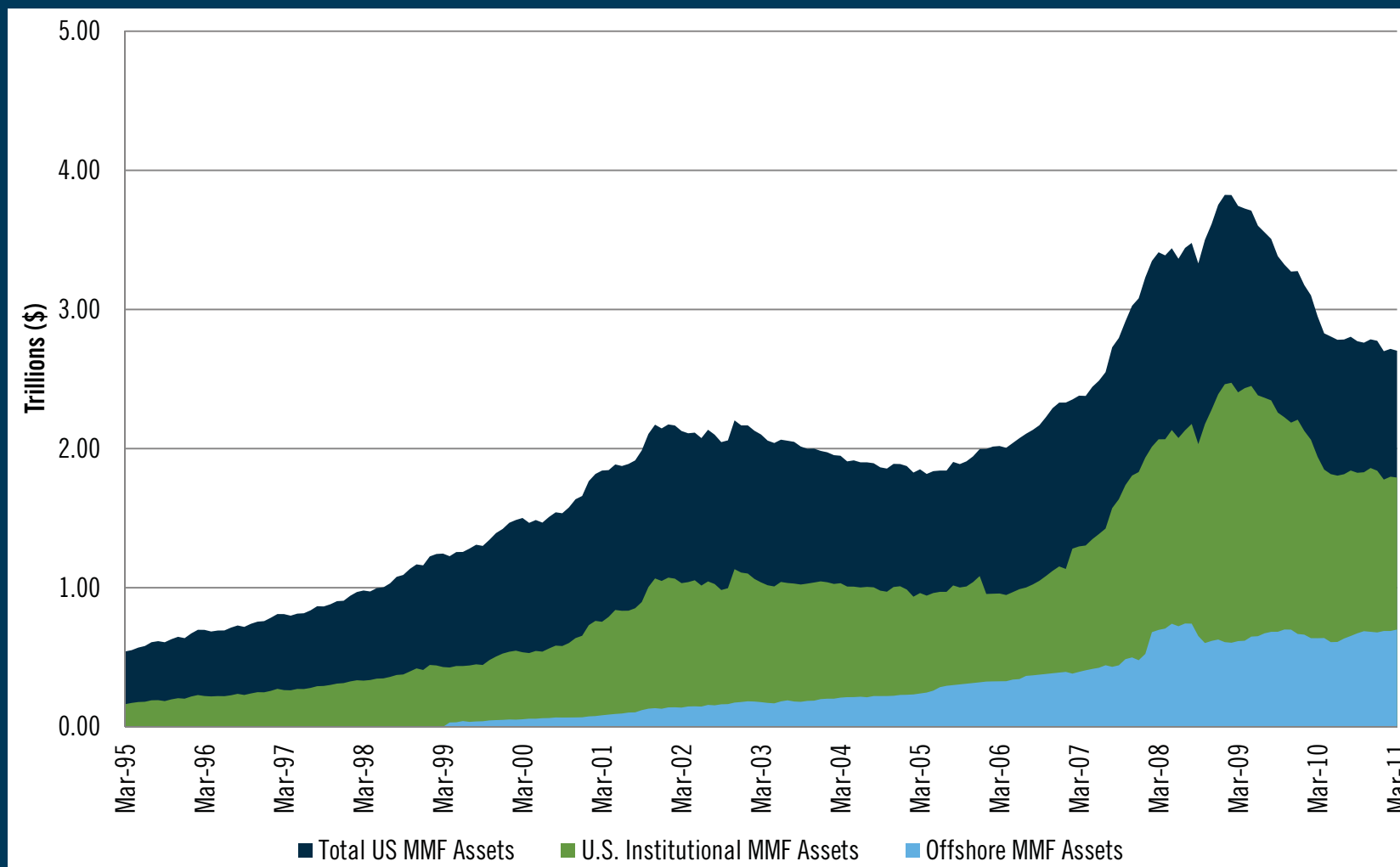
## **Dwight Asset Management Company LLC**

Dwight Asset Management Company LLC focuses exclusively on fixed income investment management services for institutional clients including retirement plans, corporations, public funds, insurance companies, financial institutions, endowments, foundations, and Taft-Hartley plans. Dwight manages and advises for approximately \$53 billion as of March 31, 2011.

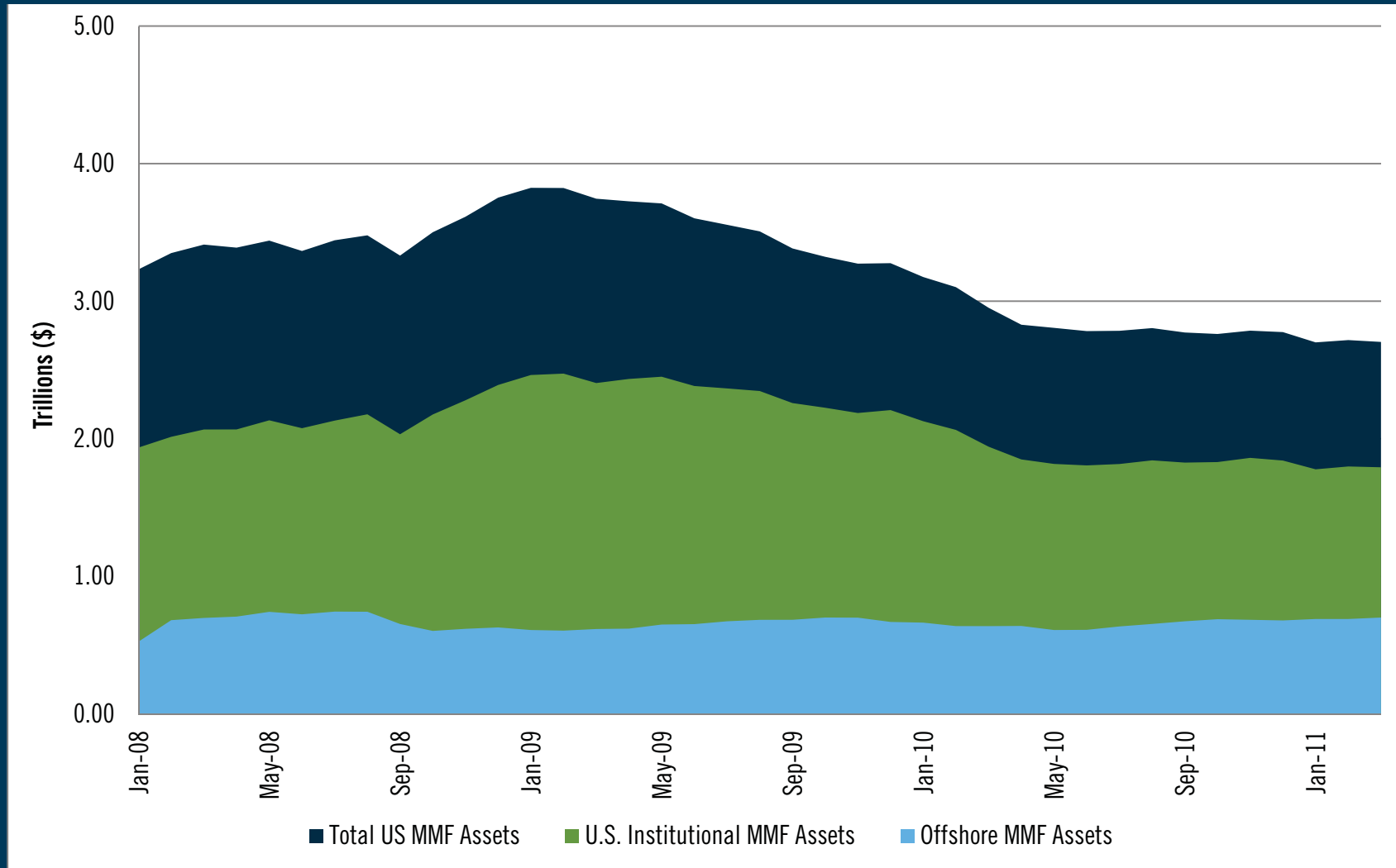
At Dwight, we believe our culture sets us apart. Headquartered in Burlington, Vermont, our independent thinking and clear perspective reflect our environment. Our collaborative atmosphere encourages innovation and creative solutions to complex investment challenges.



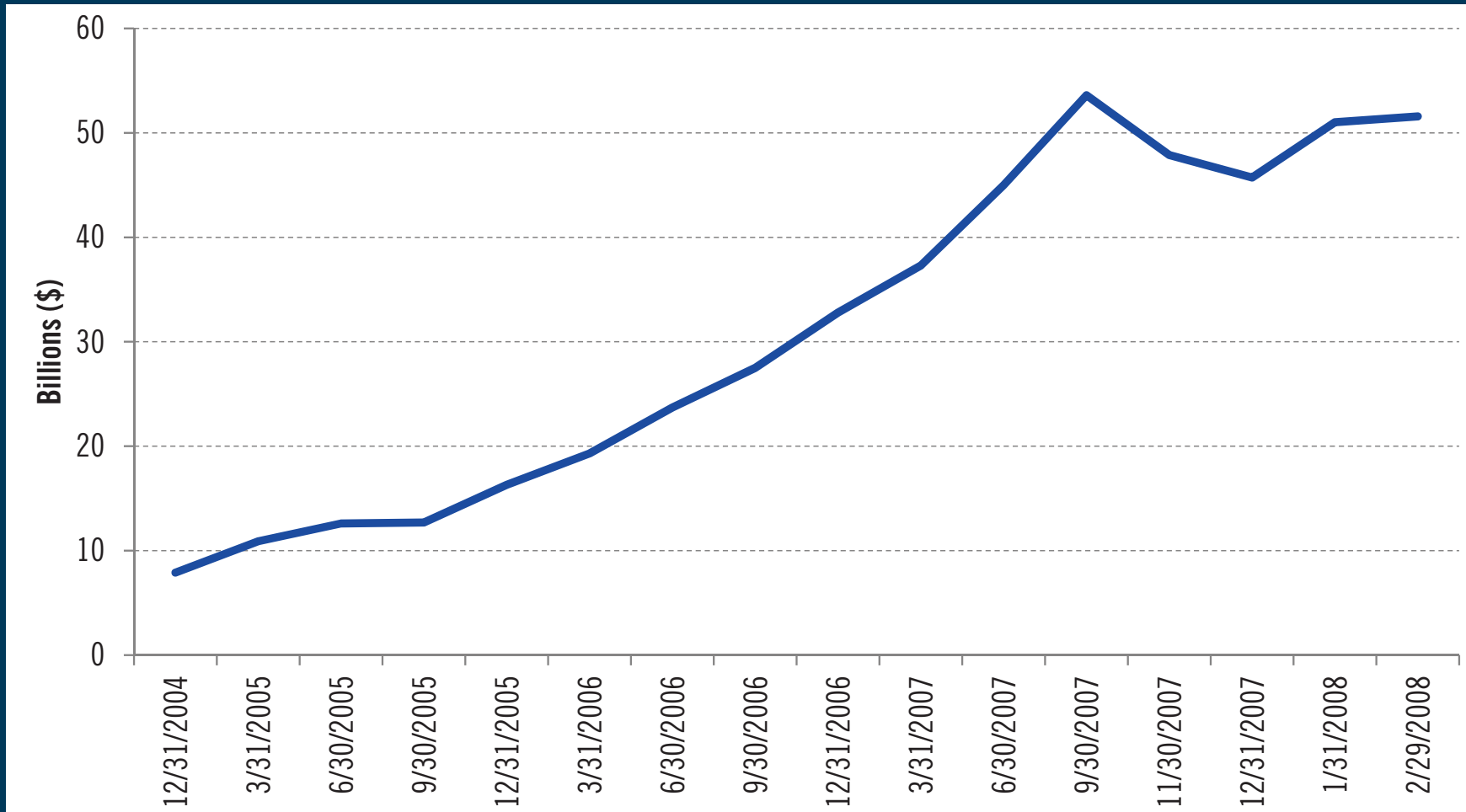
Investors continue to embrace money funds as a safe, liquid place to invest cash

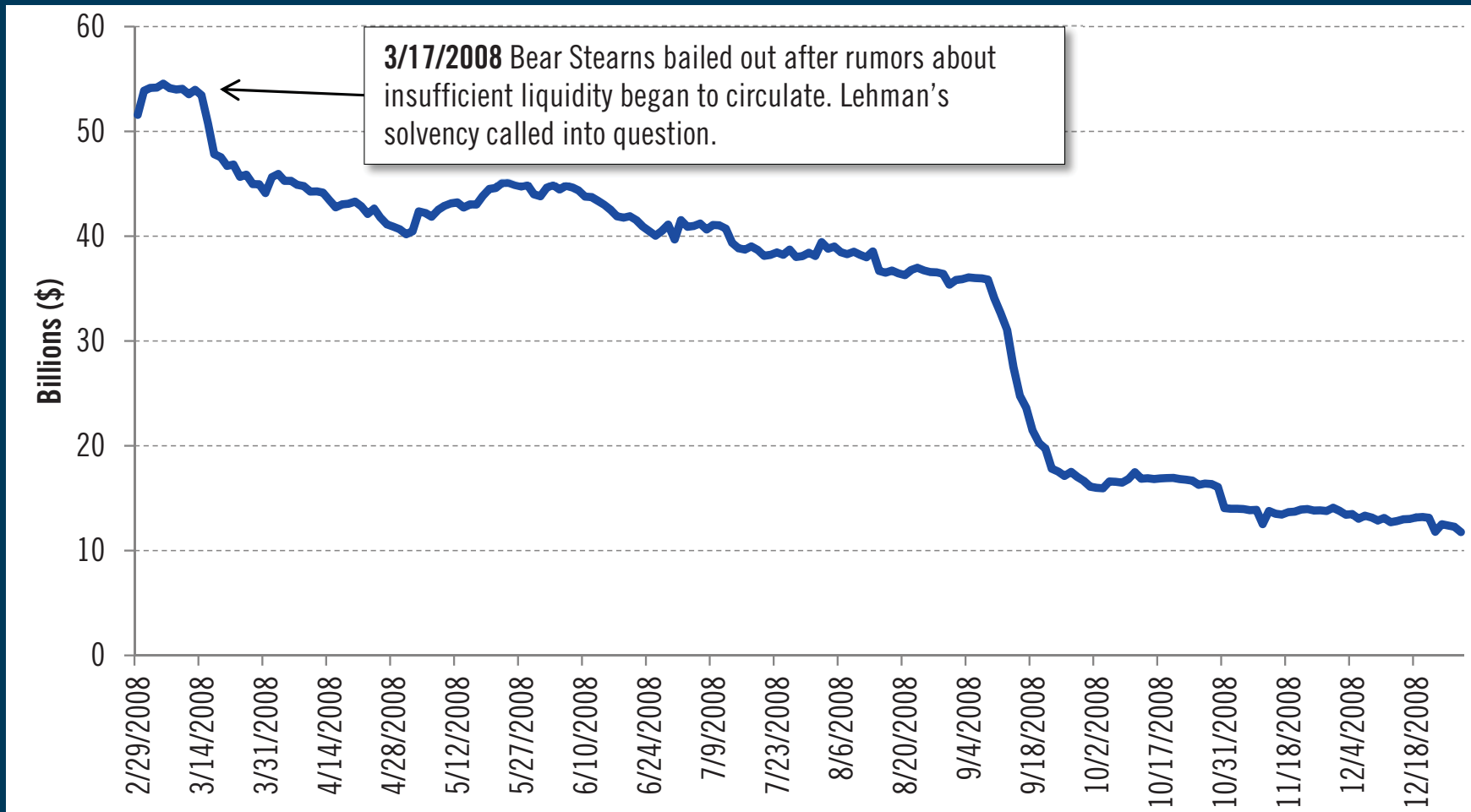


Source: iMoneyNet, Inc.



Source: iMoneyNet, Inc.





# Regulatory Changes Impacting Portfolio Management

	Old Rule 2a-7	Current Rule 2a-7	Estimated Yield Impact (bp) <sup>1</sup>	Implementation Date
Daily Liquidity - Taxable	None	10%	0	May 28, 2010
Daily Liquidity - Municipal	None	None	None	n/a
Weekly Liquidity - Taxable	None	30%	(9-12)	May 28, 2010
Weekly Liquidity - Municipal	None	30%	0	May 28, 2010
Weighted Average Maturity (WAM)	90-days	60-days	(0-8)	June 30, 2010
Weighted Average Life (WAL)	None	120-days	(1-3)	June 30, 2010
Illiquid Securities	10%	5%	(1-3)	May 28, 2010
Second Tier Securities	5% 1% per issuer 397-day limit	3% 0.5% per issuer 45-day limit	(0-3)	May 28, 2010
<b>Total</b>			(11-29)	

1. Estimated yield impacts represent annual reductions in annual fund yield in a normalized rate environment over time. Reductions show impact to fund that is running at or near current Rule 2a-7 limits. Yield impacts differ among rated, institutional, and retail funds.

## President's Working Group

- ◆ Floating NAV
- ◆ Private Emergency Liquidity Facility
- ◆ Mandatory Redemptions in Kind
- ◆ Insurance for MMFs
- ◆ Tiered Money Funds
- ◆ Regulating Stable NAV as a Special Purpose Bank

## Investors should always know what they are buying and cash is no exception

- ◆ Take a consultant-like approach to evaluating cash strategies
- ◆ Determine the strategic importance of cash
- ◆ Don't rely only on ratings, for securities or funds
- ◆ Review cash managers on the same basis as any other asset class
- ◆ Transparency is crucial

## Questions your Money Market Fund Providers don't want you to ask

- ◆ What are your diversification requirements?
- ◆ Do you have shareholder concentration limits?
- ◆ What % of the fund do the top 10 shareholders own?
- ◆ Do you have sell triggers?
- ◆ Can I see your approved list?

**We manage cash portfolios in accordance with six key investment themes designed to preserve capital during severe market dislocations:**

- ◆ Rely upon absolute maturity versus dealer liquidity
- ◆ Ratings are irrelevant in the face of illiquidity
- ◆ Diversification is second only to conservative security selection
- ◆ Highly engineered structures should be avoided
- ◆ 100% liquidity support required for all asset-backed commercial paper
- ◆ Institutional shareholder concentrations must be monitored and managed

# Asset-backed Commercial Paper (ABCP)

## Asset-backed Commercial Paper

- ◆ Short-term **secured** debt instrument
- ◆ Issued by a **special purpose entity**
- ◆ To finance **financial assets**
- ◆ Exempt from registration under **section 4(2)** of the Securities Act
- ◆ 270-day maximum maturity

## Commercial Paper

- ◆ Short-term **unsecured** debt instrument
- ◆ Issued by banks and corporations
- ◆ To finance current operations
- ◆ Exempt from registration under **section 3a(3)** of the Securities Act
- ◆ 270-day maximum maturity

# ABCP Structural Types in 2007

## Multi-Seller

- Multi-seller programs provide financial institutions an efficient way to meet their clients' financing needs.
- Client collateral is structured into essentially the equivalent of a single-A or double-A asset-backed security, allowing the bank sponsor to finance these assets at top tier short-term rates while still maintaining control over the collateral and lending relationship.
- Multi-seller programs are typically supported by 100% liquidity backstops and some program-wide credit support.

## Single-Seller

- Single-seller programs are similar to multi-seller programs, except that the collateral is all from the same seller.
- Auto manufacturers typically use this type of structure to supplement their securitization funding.
- Single-seller programs are typically supported by 100% liquidity backstops and some program-wide credit support.

## Credit Arbitrage

- Credit Arbitrage are designed to capture the spread between highly rated long-term assets and short-term funding.
- Investors are exposed to downgrade risk, but not market value declines of the underlying public securities.
- Banks typically create these structures to fund their own securities portfolios off balance sheet.
- These programs are typically supported by 100% liquidity backstops and some program-wide credit support.

## Hybrids

- Hybrids consist of both generic multi-seller assets and public securities.
- Banks utilize these structures to avoid the cost of creating two separate programs and to attain the right funding size for the market.
- These programs are typically supported by 100% liquidity backstops and some credit support.

## Repo

- This relative new comer to the ABCP market provides third party funding to institutions that want to borrow using repurchase agreements.
- The collateral securing the repo agreement could be anything, including equity.
- Disclosure is weak.

## SIVs

- Structured Investment Vehicles seeks to arbitrage the credit duration spread for highly rated assets on a leveraged basis.
- SIVs are generally buy and hold investors and have very strict limitations as to the credit ratings, domicile of issuers and sector exposures of the portfolio to insure diversification.
- SIVs are supported with less than 100% liquidity support and rely on the liquidity of the high quality assets.
- Recent market price volatility has caused SIVs to fall out of favour.

## MM CDOs

- Money market collateralized debt obligations seeks to capture the spread between high yielding assets and short-term funding.
- Investors are exposed to downgrade risk, liquidity risk and manager risk.
- Most MM CDOs are very complex and could be considered illiquid investments.

# U.S. ABCP Market at June 30, 2007

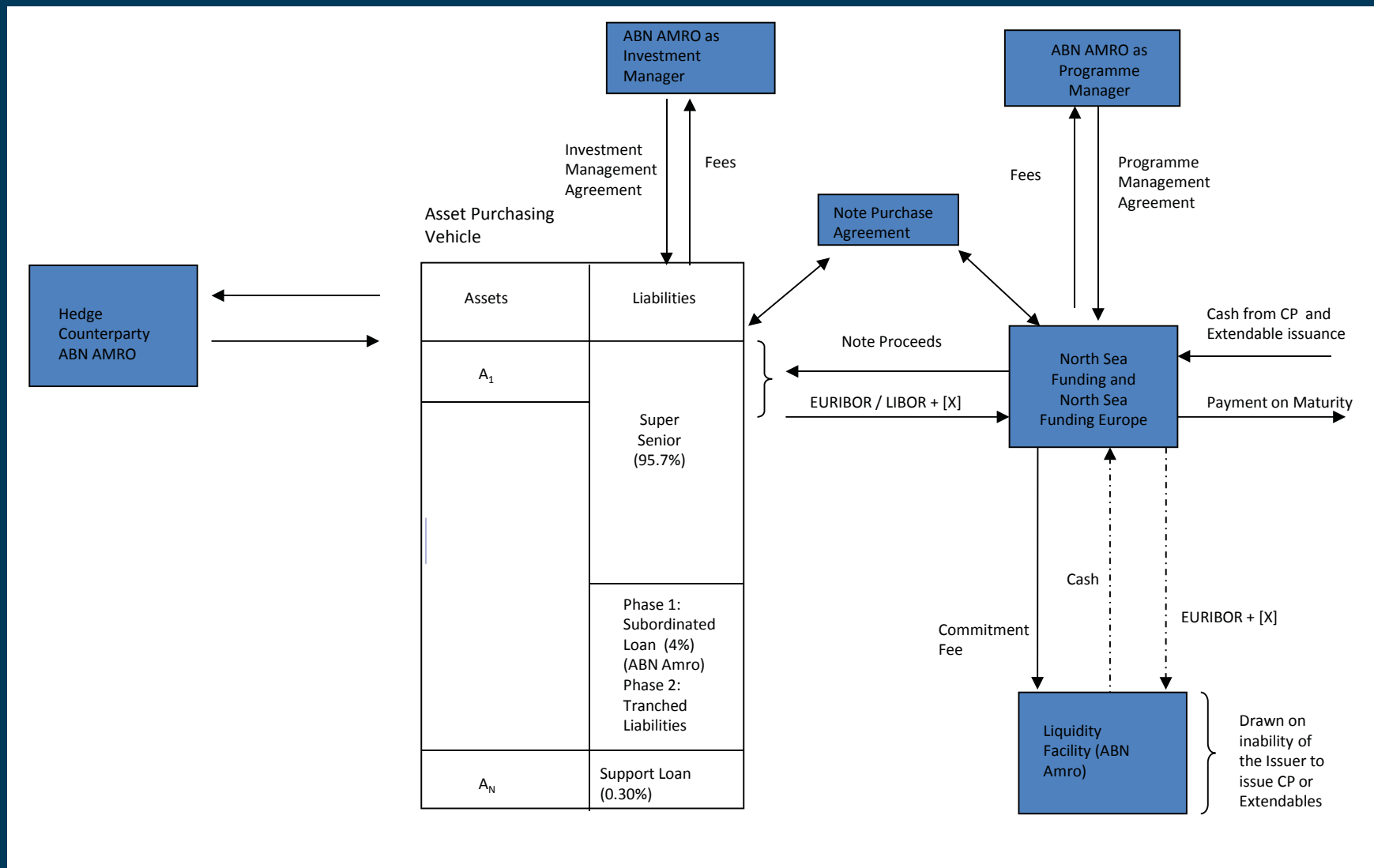
- ◆ 331 U.S. ABCP programs with \$1.2tn or 55% of CP market
- ◆ 92 multi-sellers with \$500bn or 44% of ABCP market
- ◆ 61 single-sellers with \$190bn or 17% of ABCP market
- ◆ 32 credit arbitrage with \$135bn or 12% of ABCP market
- ◆ 24 hybrid with \$90bn or 8% of ABCP market
- ◆ 36 SIVs with \$73bn or 6% of ABCP market
- ◆ 64 CDOs with \$69bn or 6% or ABCP market
- ◆ Citibank was largest sponsor with 17 programs and 7.2% of the ABCP market
- ◆ Grampian Funding (Lloyds) was largest program with \$36bn outstanding

Source: Moody's, Merrill Lynch

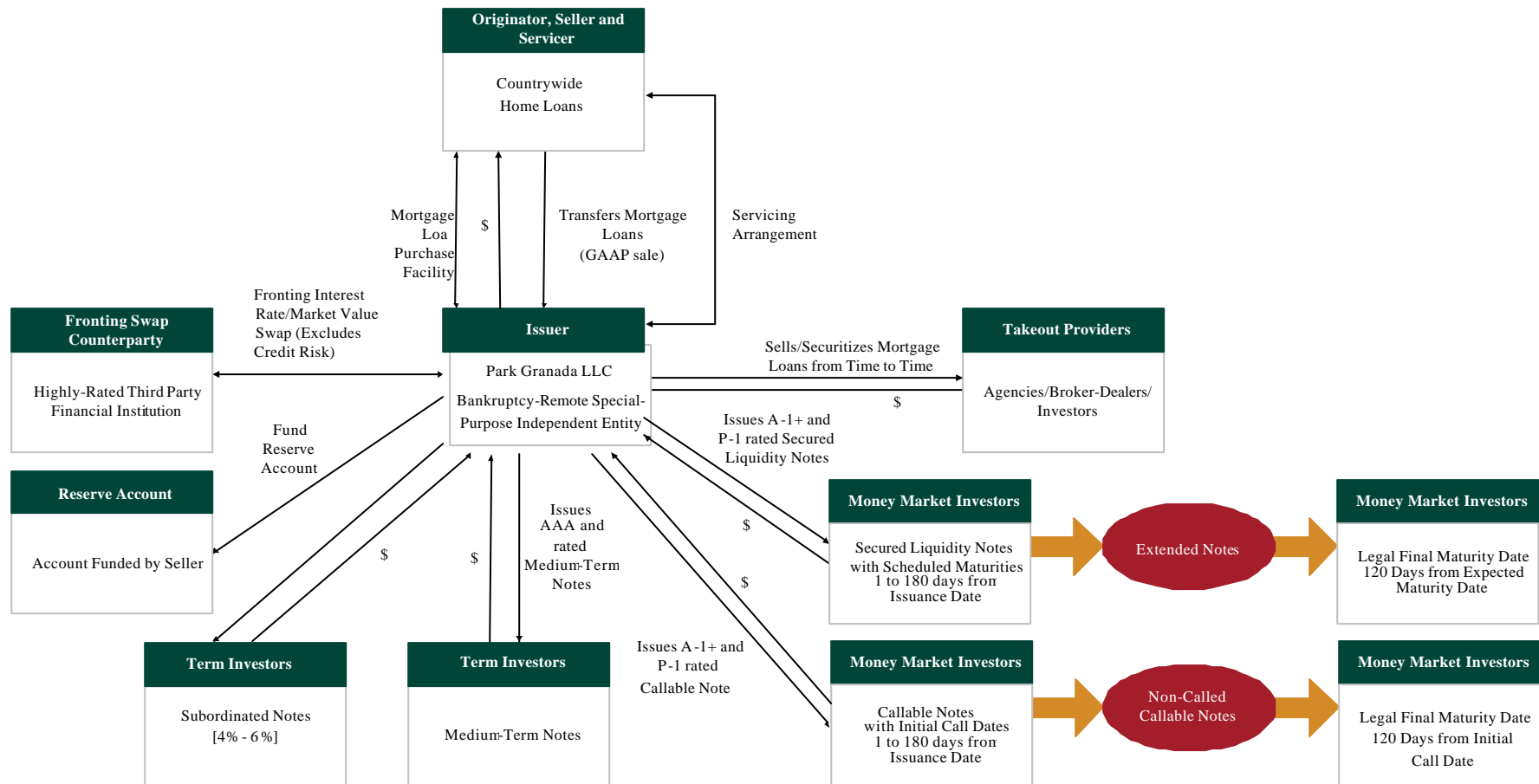
- ◆ Rating agencies downgrade 650 subprime residential mortgage-backed securities (RMBS)
- ◆ Values of RMBS held by ABCP programs decline
- ◆ ECB and Fed inject cash into system three times
- ◆ Structural triggers in some ABCP programs require protective action

Source: Merrill Lynch

# Conduit Structure of NorthSea Funding



# Schematic Diagram of Park Granada LLC



*This information does not constitute either an offer to sell or a solicitation of an offer to buy any of the securities referred to herein. Offers to sell and solicitations of offers to buy the securities are made only by, and this information must be read in conjunction with, the final Offering Circular (the "Offering Circular"). Information contained herein does not purport to be complete and is subject to the same qualifications and assumptions, and should be considered by investors only in the light of the same warnings, lack of assurances and representations and other precautionary matters, as disclosed in the Offering Circular. Information regarding the underlying assets has been provided by the issuer of the securities or an affiliate thereof and has not been independently verified by Lehman Brothers Inc. or any affiliate. The analyses contained herein have been prepared on the basis of certain assumptions (including, in certain cases, assumptions specified by the recipient hereof) regarding payments, interest rates, losses and other matters, including, but not limited to, the assumptions described in the Offering Circular. Lehman Brothers Inc., and any of its affiliates, make no representation or warranty as to the actual rate or timing of payments on any of the underlying assets or the payments or yield on the securities. This information supersedes any prior versions hereof and will be deemed to be superseded by any subsequent versions (including, with respect to any description of the securities or underlying assets, the information contained in the Offering Circular).*

# Secured Liquidity Programs Extend

- ◆ Broadhollow (American Home)
- ◆ Ottimo (Aladdin Capital)
- ◆ Luminent Star (Luminent Mortgage)
- ◆ Lakeside CDO (Vanderbilt Capital)
- ◆ KKR Atlantic and Pacific (KKR Financial)
- ◆ RAMS II and RAMSIII (Rams Mortgage)

Source: Merrill Lynch

# SIVs Hit Enforcement Triggers

- ◆ Mainsail II (Solent Capital)
- ◆ Golden Key (Avendis Financial Services)
- ◆ Cheyne Finance (Cheyne Capital)
- ◆ Kestrel (Brightwater Capital)
- ◆ Axon (Axon Asset Mgt)
- ◆ Orion (Eiger Capital)
- ◆ Rhinebridge (IKB)

Source: Merrill Lynch

## U.S. ABCP Market by year end 2008

- ◆ Outstandings shrank 38% to \$704 billion
- ◆ 192 ABCP programs terminated, 9 were added
- ◆ Spreads widened to 1mL+56
- ◆ The Reserve Fund broke the buck
- ◆ Lehman Brothers was bankrupt
- ◆ The Federal Reserve created a lending facility for ABCP to increase liquidity
- ◆ **No** investor lost money from a multi-seller ABCP program.

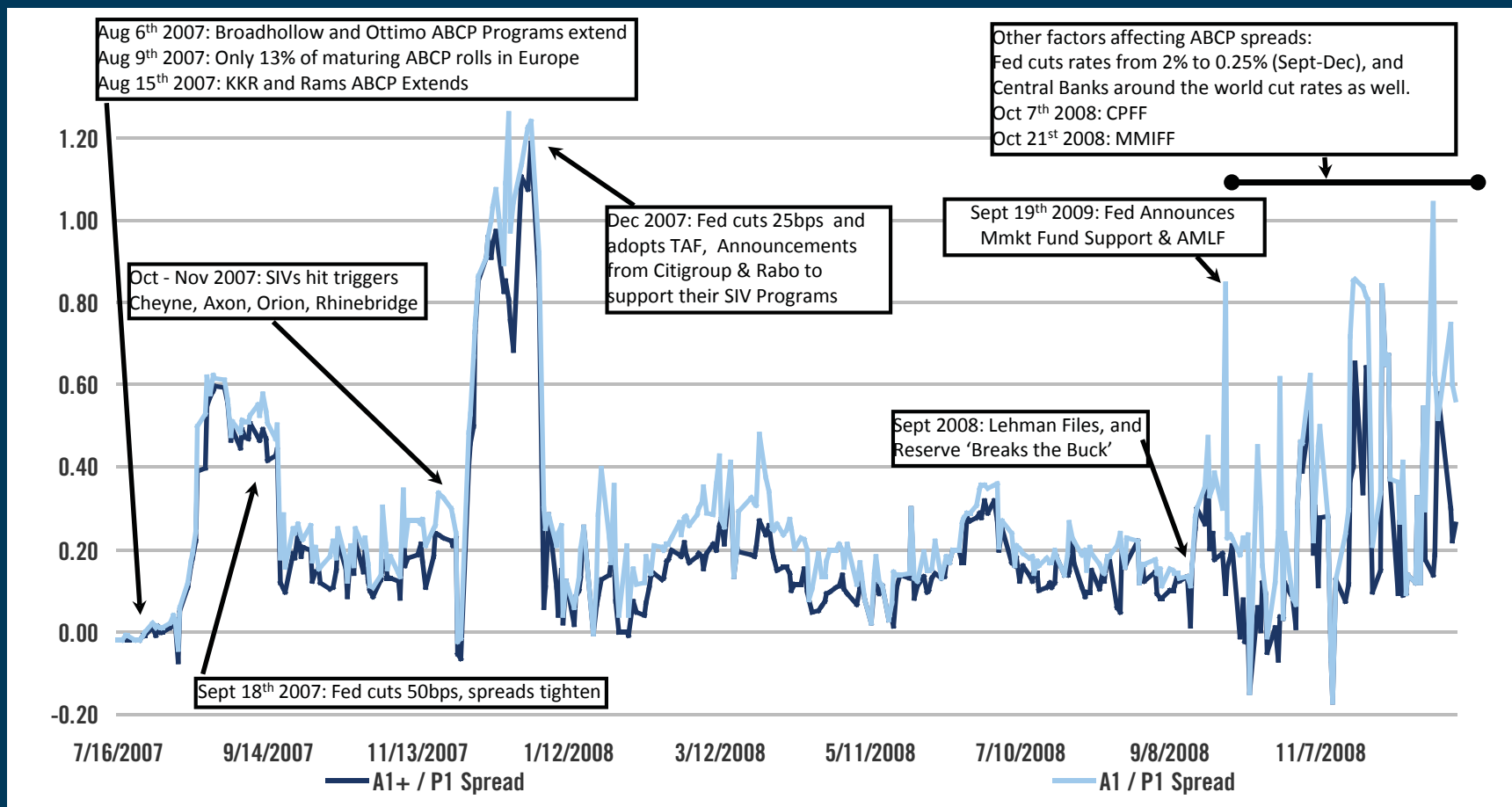
# U.S. ABCP Market today

- ◆ 118 U.S. ABCP programs with \$365bn outstanding
- ◆ 67 multi-sellers with \$257bn outstanding
- ◆ 17 single-sellers with \$38bn outstanding
- ◆ 7 credit arbitrage with \$34bn outstanding
- ◆ 9 hybrid with \$31bn outstanding
- ◆ 7 SIVs with \$0.5bn outstanding
- ◆ 4 CDOs with \$0.6bn outstanding
- ◆ Royal Bank of Scotland is largest sponsor with 10% of market and 8 programs
- ◆ Straight-A Funding is largest program with \$38bn outstanding

Source: Moody's

# ABCP Spreads

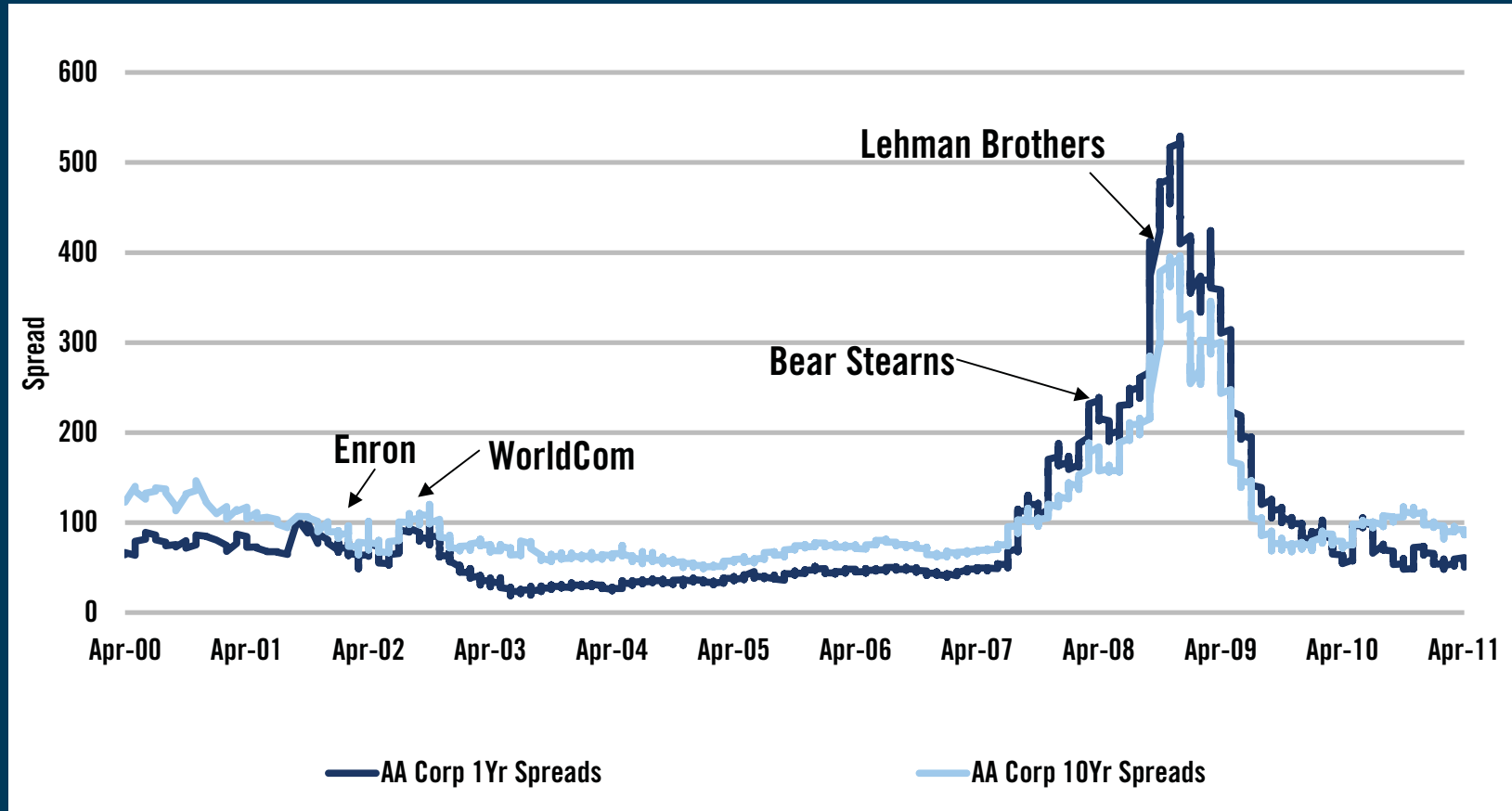
## ABCP Spreads (1 Month ABCP vs 1 Month Libor)



Source: Bloomberg

# Credit Volatility in the 21<sup>st</sup> Century

## Credit Spread Effect of Enron, WorldCom, Bear Stearns & Lehman Brothers



Source: Barclays

# Credit Cliffhangers

Peripheral European Banks

Bear Stearns, Lehman, Monolines, WaMu, SIVs, Iceland Banks

Ford, GMAC, AT&T, Disney

Tyco, Enron, WorldCom, PG&E, SoCalEd, Textron

Mercury Finance, General American, ABB Treasury

# The U.S. Mortgage Market Bubble/Global Financial Crisis

- ◆ **The crisis began in 2001 as Fed Funds Rate was lowered 11 times from 6.5% to 1.75%**
  
- ◆ **Lending standards eased due to:**
  - Lack of mortgage broker oversight
  - Influx of speculative buyers
  - Growth in the ABS markets
  - Increased use of riskier products (e.g., Alt-A, Option ARM)
  
- ◆ **Housing bubble ended in August 2005 and a financial crisis followed**
  - Losses have spread to other asset classes and global economies
  - Financial companies have taken over \$2 trillion of losses globally
  - Commercial/Investment banks have taken \$1.5 trillion of losses globally
  - Financial companies have cut over 373,000 jobs worldwide
  
- ◆ **Potential issues going forward:**
  - Can global regulators ensure a vibrant, harmonized financial system?
  - Muni defaults/double dip in housing market?
  - Losses on PIIGS-related debt?

**OUR GOAL: To preserve capital by executing well in advance of any price deterioration resulting from negative actions by rating agencies.**

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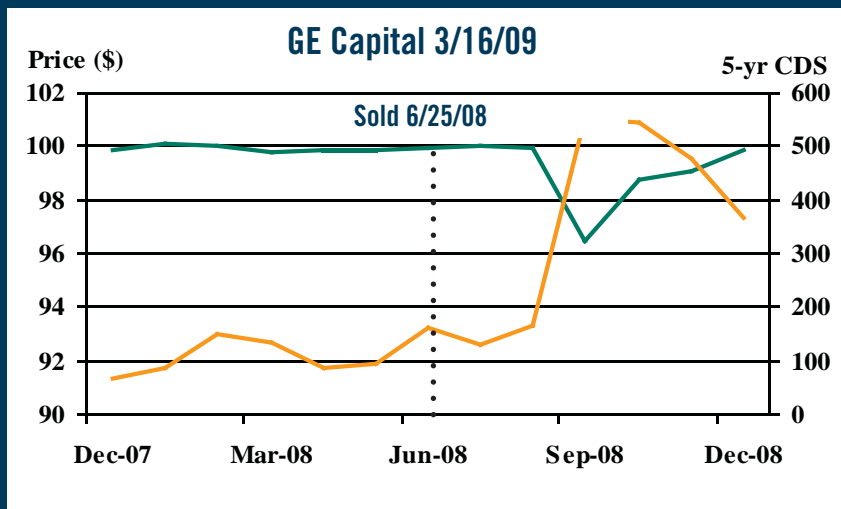
## DWIGHT'S ACTUATION MODEL

Used to identify issuers experiencing **above-average market price volatility** and **above-average market price deterioration**

- ◆ Daily analysis is used in conjunction with fundamental credit research to incorporate market-based data into investment recommendations and trading decisions
- ◆ Current and historical credit default swap (CDS) and equity price data is utilized for each issuer and issuer peer group
- ◆ Data is back-tested to derive appropriate decision-making criteria
- ◆ Both "hard" triggers (which lead to "trading sells") and "soft" triggers (which lead to issuers being placed on review) are incorporated
- ◆ Model has proven to be valuable during current credit crisis in identifying trading positions that should be sold before continued market price deterioration occurs and any negative rating actions are taken

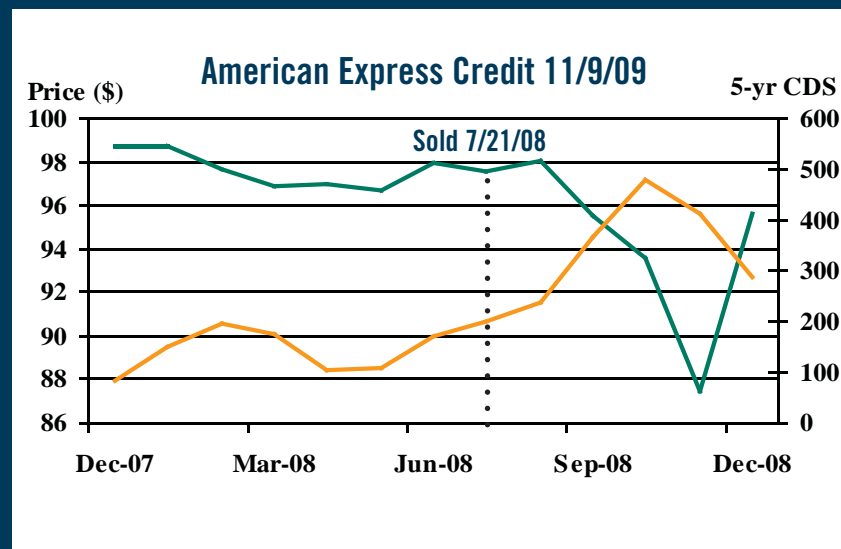
# Practical Application of Actuation Model

The model advocated making the following trades after factoring in credit fundamentals:



## GE Capital 3/16/09 (Portfolio: Stable NAV)

- ◆ Sold full position on 6/25/08.
- ◆ Saved 348 bps, or \$34,800 per \$1 MM position.
- ◆ 5-year CDs widened from 130 bps on 6/20/08 to a wide of 1,068 bps on 3/3/09.
- ◆ Rating agencies kept GECC at AAA through entire period.



## American Express Credit 11/9/09 (Portfolio: Non-Stable NAV)

- ◆ Sold full position on 7/21/08.
- ◆ Saved 1,033 bps, or \$103,337 per \$1 MM position.
- ◆ 5-year CDs widened from 186 bps on 7/18/08 to a wide of 671 bps on 11/10/08.
- ◆ Rating agencies kept American Express Credit at Aa3/A+ through September 2008.

# Actuation Model: Downgrades & Spread Widening

- ◆ The Model allowed us to stay ahead of rating downgrades and 5-year CDS price widening.

Super List Issuer <sup>1</sup>	5-yr CDS as of 5/28/08 (bps) <sup>2</sup>	L-T Ratings as of 5/28/08 <sup>3</sup>	Date of Removal from Super List	5-yr CDS High (bps) <sup>4</sup>	Date of First Downgrade <sup>3</sup>
Banco Santander	56	Aa1/AA	9/16/2008	185	7/30/2009
BBVA	55	Aa1/AA	9/16/2008	185	7/30/2009
Berkshire Hathaway	65	Aaa/AAA	9/17/2008	525	4/8/2009
BNP Paribas	45	Aa1/AA+	3/9/2009	137	1/28/2009
General Electric Capital Corp.	93	Aaa/AAA	6/24/2008	1,068	3/12/2009
ING Bank	55	Aa1/AA	9/15/2008	190	10/21/2008
J.P.Morgan	80	Aa2/AA-	9/11/2008	227	12/19/2008
Shell Finance UK	25	Aa1/AA	N/A	85	N/A
Toyota Motor Credit	20	Aaa/AAA	10/28/2008	290	2/6/2009
U.S. Bancorp	77	Aa2/AA	9/17/2008	236	3/30/2009
Wells Fargo	88	Aa1/AA+	9/11/2008	344	12/19/2008

Super List Issuer <sup>1</sup>	Representative Short-Term Bond <sup>5</sup>	Spread (bps) as of 5/28/08 <sup>2</sup>	Spread (bps) as of Date of Removal from Super List <sup>2</sup>	Cash Spread Wide (bps) <sup>6</sup>	Date of First Downgrade <sup>3</sup>
Banco Santander	SANTAN 7.625 9/14/10	231	279	816	12/8/2008
BBVA <sup>7</sup>	BBVASM FLT 10/4/10	17	45	175	4/1/2009
Berkshire Hathaway	BRK 4.2 12/15/10	101	122	300	11/20/2008
BNP Paribas <sup>8</sup>	BNP 4.75 4/4/2011	38	119	147	3/17/2009
General Electric Capital Corp.	GE 5.2 2/1/11	114	124	908	3/5/2009
ING Bank	INTNED 5.125 5/1/15	222	275	857	3/17/2009
J.P.Morgan	JPM 4.5 11/15/10	161	175	467	11/5/2008
Shell Finance UK	RDSALN 5.625 6/27/11	78	N/A	268	1/29/2009
Toyota Motor Credit	TOYOTA 5.45 5/18/11	127	178	335	5/28/2009
U.S. Bancorp	USB 4.5 7/29/10	109	262	403	1/27/2009
Wells Fargo	WFC 4.625 8/9/10	144	150	475	3/9/2009

Note: The Dwight Liquidity Team has found the Actuation Model to be a useful tool for identifying certain names "at-risk" during the recent period of high market volatility and distress. There is no guarantee that the Model will be as useful given future market conditions. A complete review of Dwight's Actuation Model performance for different time periods, specific to other Super List Issuers or given past market conditions is available upon request.

1. The Dwight Liquidity Team's Super List was first created in May 2008 and was comprised of the above 11 issuers.

2. Source: Barclays Capital.

3. Source: Moody's, S&P; date of first downgrade by either Moody's or S&P during the period May 2008 - Present.

4. Source: Barclays Capital; highest one day observation during the period 2001 - Present.

5. Short-term bonds were selected by Dwight Asset Management Company LLC that represented general spread movement for issuer's senior unsecured debt.

6. Source: Barclays Capital; highest one day observation during the period May 2008 - Present.

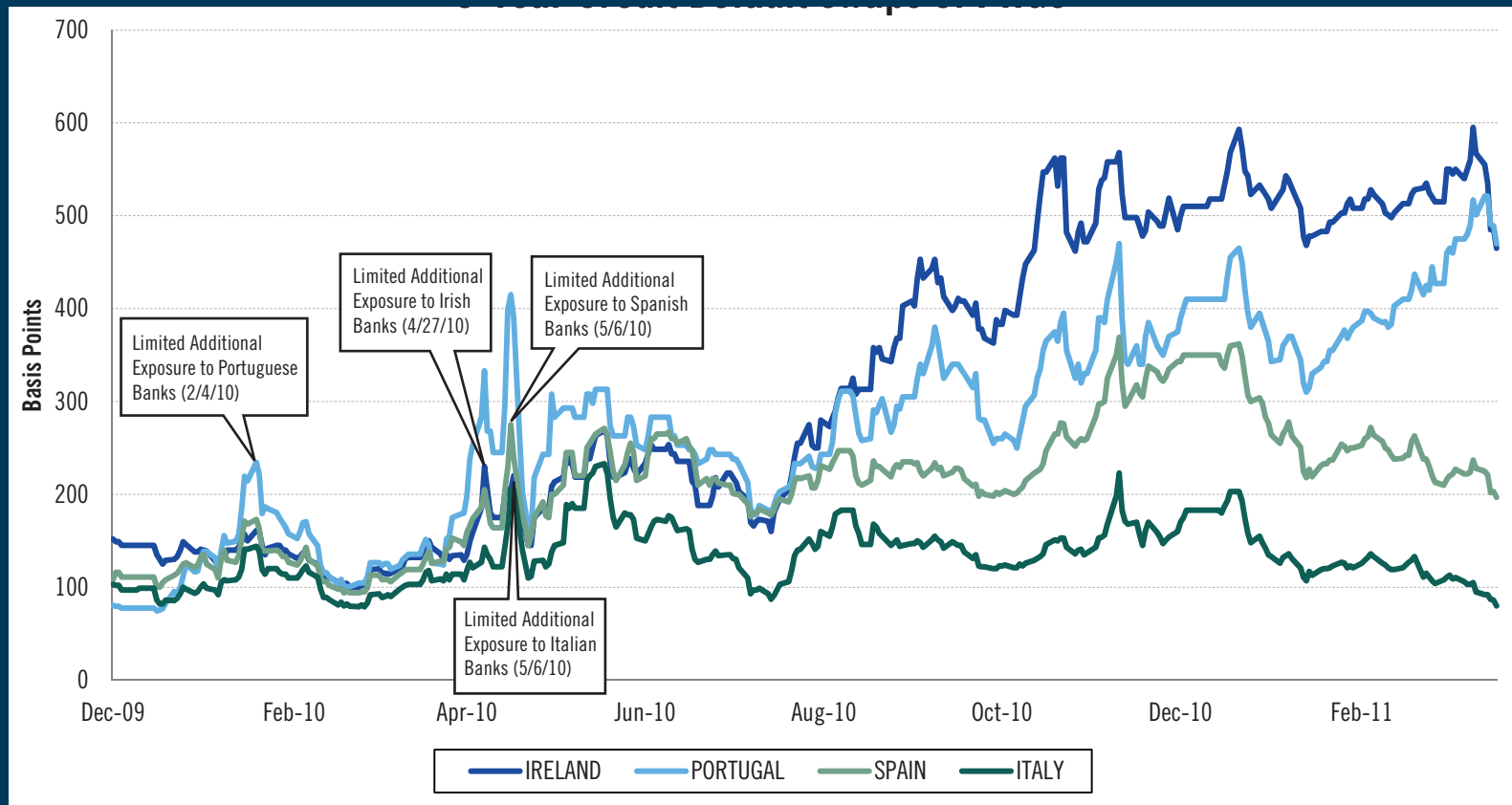
7. Source: Bank of America, floating rate security, EUR denominated.

8. Source: Bank of America, EUR denominated.

# Actuation Model: Peripheral Sovereign Volatility

Our conservative approach along with the ability to utilize fundamental and market based data allowed Dwight's Liquidity team to stay ahead of much of the volatility in Peripheral Sovereigns.

## 5-Year Credit Default Swaps of PIIGS



Barclays Capital data source: Barclays Capital Indices, POINT. ©2011 Barclays Capital Inc. Used with permission. POINT is a registered trademark of Barclays Capital Inc.

# Sample Stress Test

## NAV Sensitivity, Default of 10 Largest Non-U.S. Government Holdings

NAVs below 0.995 are shaded RED

Net Assets @ Amortized Cost:		200,000,000									
Net Assets @ Market:		200,000,000									
----- Recovery Rates -----											
Top 10 Non-US Government Issuers	Portfolio Weight	90%	80%	70%	60%	50%	40%	30%	20%	10%	0%
Wells Fargo	1.85%	0.99815	0.99630	0.99445	0.99260	0.99075	0.98890	0.98705	0.98520	0.98335	0.98150
JP Morgan Chase	1.80%	0.99820	0.99640	0.99460	0.99280	0.99100	0.98920	0.98740	0.98560	0.98380	0.98200
Nestle Capital	1.65%	0.99835	0.99670	0.99505	0.99340	0.99175	0.99010	0.98845	0.98680	0.98515	0.98350
General Electric Capital	1.65%	0.99835	0.99670	0.99505	0.99340	0.99175	0.99010	0.98845	0.98680	0.98515	0.98350
Comm Bank Australia	1.65%	0.99835	0.99670	0.99505	0.99340	0.99175	0.99010	0.98845	0.98680	0.98515	0.98350
BNP Paribas	1.65%	0.99835	0.99670	0.99505	0.99340	0.99175	0.99010	0.98845	0.98680	0.98515	0.98350
American Honda Finance	1.35%	0.99865	0.99730	0.99595	0.99460	0.99325	0.99190	0.99055	0.98920	0.98785	0.98650
Berkshire Hathaway	1.35%	0.99865	0.99730	0.99595	0.99460	0.99325	0.99190	0.99055	0.98920	0.98785	0.98650
Morgan Stanley	1.35%	0.99865	0.99730	0.99595	0.99460	0.99325	0.99190	0.99055	0.98920	0.98785	0.98650
Westpac Banking	1.35%	0.99865	0.99730	0.99595	0.99460	0.99325	0.99190	0.99055	0.98920	0.98785	0.98650

Source: Dwight Asset Management

## NAV Sensitivity Analysis assuming Systemic Spread Widening and Shareholder Redemptions

NAVs below 0.9985 are shaded YELLOW; NAVs below 0.9975 are shaded ORANGE; NAVs below 0.995 are shaded RED

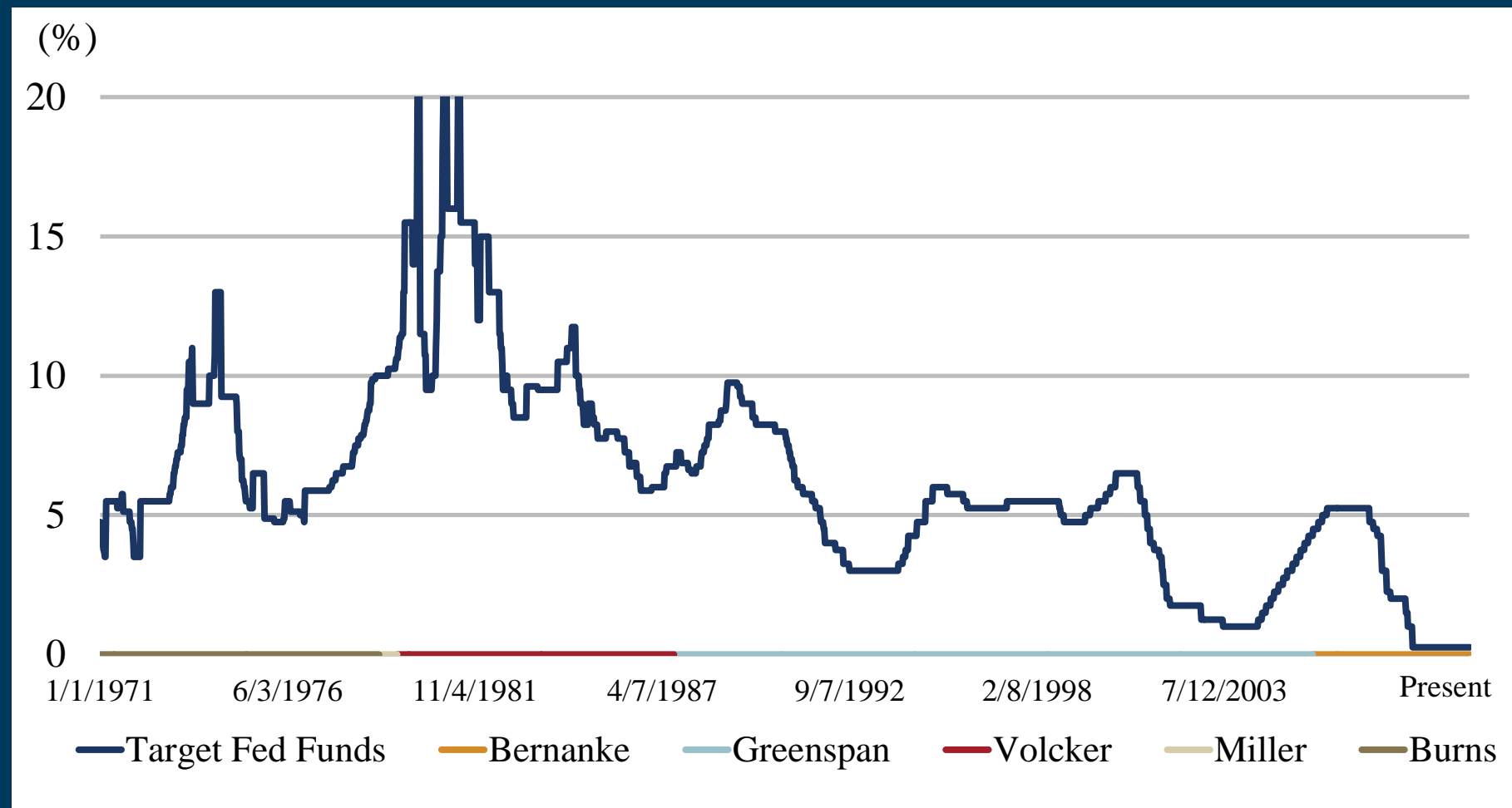
Net Assets @ Amortized Cost:		200,000,000															
Net Assets @ Market:		200,000,000															
----- Systemic Spread Widening <sup>1</sup> -----																	
	Baseline NAV	+10	+20	+30	+40	+50	+60	+70	+80	+90	+100	+150	+200	+300	+400	+500	+600
	1.00000	0.99990	0.99980	0.99970	0.99961	0.99951	0.99941	0.99931	0.99921	0.99920	0.99902	0.99853	0.99804	0.99707	0.99611	0.99516	0.99421
NAV after 5% redemptions	1.00000	0.99990	0.99979	0.99969	0.99959	0.99948	0.99938	0.99928	0.99917	0.99915	0.99897	0.99845	0.99794	0.99692	0.99591	0.99490	0.99390
NAV after 10% redemptions	1.00000	0.99989	0.99978	0.99967	0.99956	0.99945	0.99934	0.99924	0.99913	0.99911	0.99891	0.99837	0.99783	0.99675	0.99568	0.99462	0.99356
NAV after 15% redemptions	1.00000	0.99988	0.99977	0.99965	0.99954	0.99942	0.99931	0.99919	0.99908	0.99906	0.99884	0.99827	0.99770	0.99656	0.99543	0.99430	0.99319
NAV after 20% redemptions	1.00000	0.99988	0.99975	0.99963	0.99951	0.99939	0.99926	0.99914	0.99902	0.99900	0.99877	0.99816	0.99755	0.99634	0.99514	0.99395	0.99276
NAV after 25% redemptions	1.00000	0.99987	0.99974	0.99961	0.99948	0.99934	0.99921	0.99908	0.99895	0.99893	0.99869	0.99804	0.99739	0.99610	0.99482	0.99354	0.99228
NAV after 30% redemptions	1.00000	0.99986	0.99972	0.99958	0.99944	0.99930	0.99916	0.99902	0.99888	0.99885	0.99860	0.99790	0.99720	0.99582	0.99445	0.99308	0.99173
NAV after 35% redemptions	1.00000	0.99985	0.99970	0.99955	0.99939	0.99924	0.99909	0.99894	0.99879	0.99876	0.99849	0.99774	0.99699	0.99550	0.99402	0.99255	0.99109
NAV after 40% redemptions	1.00000	0.99984	0.99967	0.99951	0.99934	0.99918	0.99902	0.99885	0.99869	0.99866	0.99836	0.99755	0.99674	0.99512	0.99352	0.99193	0.99035
NAV after 45% redemptions	1.00000	0.99982	0.99964	0.99946	0.99928	0.99911	0.99893	0.99875	0.99857	0.99854	0.99821	0.99733	0.99644	0.99468	0.99293	0.99119	0.98947
NAV after 50% redemptions	1.00000	0.99980	0.99961	0.99941	0.99921	0.99902	0.99882	0.99862	0.99843	0.99839	0.99804	0.99706	0.99609	0.99415	0.99223	0.99031	0.98842
NAV after 55% redemptions	1.00000	0.99978	0.99956	0.99934	0.99913	0.99891	0.99869	0.99847	0.99825	0.99822	0.99782	0.99673	0.99565	0.99350	0.99136	0.98924	0.98713
NAV after 60% redemptions	1.00000	0.99975	0.99951	0.99926	0.99902	0.99877	0.99853	0.99828	0.99803	0.99799	0.99755	0.99632	0.99511	0.99269	0.99028	0.98789	0.98552
NAV after 65% redemptions	1.00000	0.99972	0.99944	0.99916	0.99888	0.99859	0.99831	0.99803	0.99775	0.99771	0.99719	0.99580	0.99441	0.99164	0.98889	0.98616	0.98345
NAV after 70% redemptions	1.00000	0.99967	0.99934	0.99902	0.99869	0.99836	0.99803	0.99771	0.99738	0.99732	0.99673	0.99510	0.99348	0.99025	0.98704	0.98386	0.98069
NAV after 75% redemptions	1.00000	0.99961	0.99921	0.99882	0.99843	0.99803	0.99764	0.99725	0.99686	0.99679	0.99607	0.99412	0.99217	0.98830	0.98445	0.98063	0.97683
NAV after 80% redemptions	1.00000	0.99951	0.99902	0.99852	0.99803	0.99754	0.99705	0.99656	0.99607	0.99598	0.99509	0.99265	0.99021	0.98537	0.98056	0.97579	0.97104
NAV after 85% redemptions	1.00000	0.99934	0.99869	0.99803	0.99738	0.99672	0.99607	0.99541	0.99476	0.99465	0.99345	0.99020	0.98695	0.98050	0.97408	0.96771	0.96139
NAV after 90% redemptions	1.00000	0.99902	0.99803	0.99705	0.99606	0.99508	0.99410	0.99312	0.99214	0.99197	0.99018	0.98530	0.98043	0.97074	0.96113	0.95157	0.94208
NAV after 95% redemptions	1.00000	0.99803	0.99606	0.99409	0.99213	0.99016	0.98820	0.98624	0.98428	0.98394	0.98036	0.97059	0.96086	0.94149	0.92225	0.90314	0.88416
NAV after 99% redemptions	1.00000	0.99015	0.98031	0.97047	0.96064	0.95082	0.94101	0.93120	0.92140	0.91969	0.90181	0.85297	0.80430	0.70745	0.61125	0.51571	0.42081

Source: Dwight Asset Management

1. Assumes a uniform, instantaneous widening of spreads for all securities including US government and Agency securities but excluding securities maturing in 1 business day.

# History as a Guide

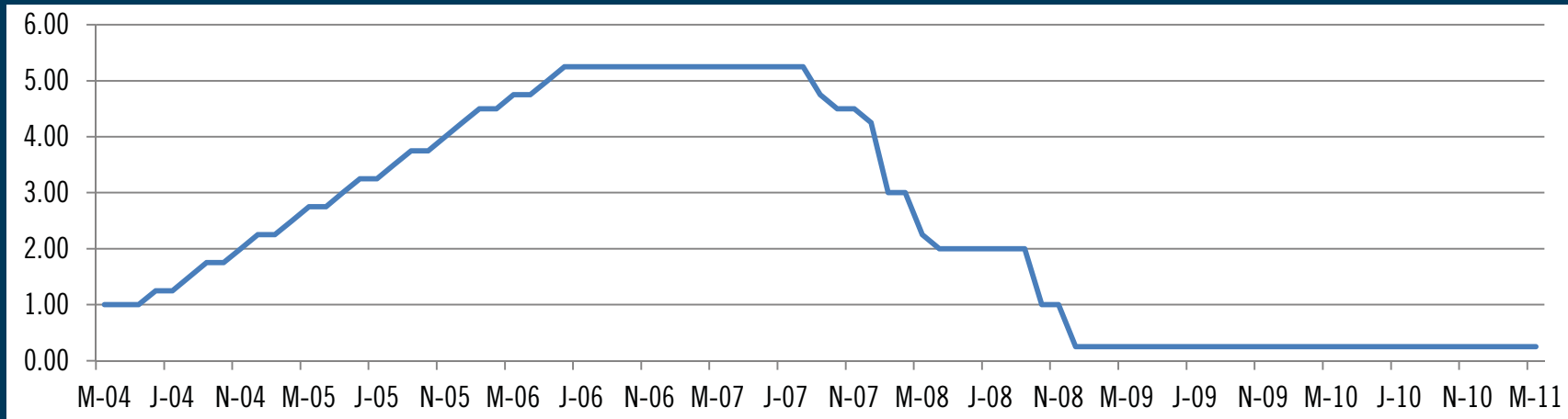
## Target Federal Funds Rate, January, 1971 - Present



Source: Federal Reserve Board.

# History as a Guide: Where Do We Go From Here?

## Fed Funds Target: '04-Present



### Expansionary Policies

- Reinvest proceeds of maturing mortgages in Treasuries
- Expand balance sheet by purchasing Treasuries, mortgages, etc.
- Lowering/stop paying interest on excess reserves banks hold at the Fed

### Why Expand?

- Stymie disinflation which could lead to deflation
- Avoid a double-dip scenario which could be sparked by worsening employment or falling home prices

### Restrictive Policies (“Exit Strategy”)

- Drain excess reserves via reverse repo
- Adjust the discount rate
- Raise the rate paid on reserve balances
- U.S. Treasury sells bills and deposits proceeds with the Fed

### Why Restrict?

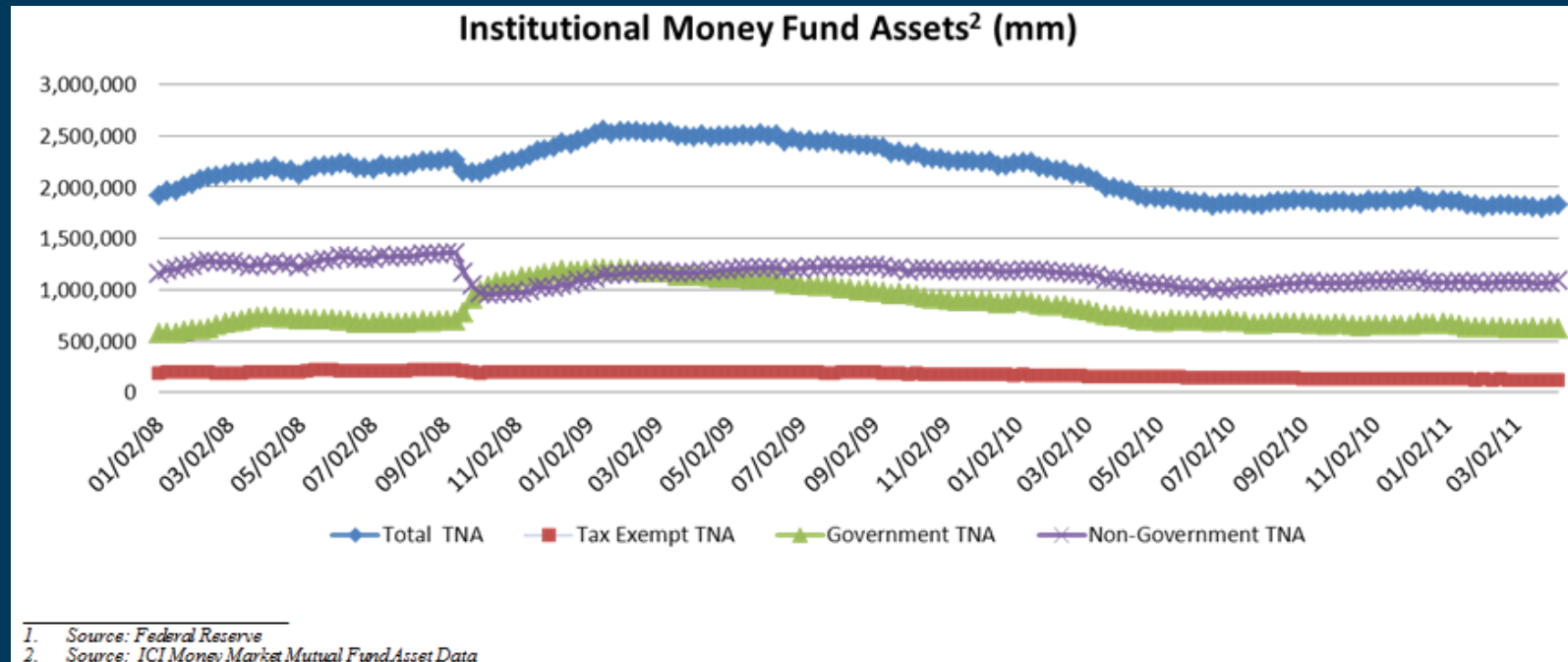
- Shrinking their balance sheet is the first step toward a hike in rates
- Head off inflation risks

	Current	12m Forecast
<b>ECONOMIC ACTIVITY</b> <ul style="list-style-type: none"> <li>• Our GDP forecast for 2011 is 2.8% as we think real income growth stats will key this figure</li> <li>• Key downside risks come from austerity measures by state &amp; local governments as well as constrained consumer balance sheets amidst an ongoing housing slump</li> </ul>	<b>U.S. GDP</b>	
	2.00%	2.80%
<b>INFLATION</b> <ul style="list-style-type: none"> <li>• Our headline CPI forecast of 2.8% and core forecast of 1.3% are a bit above consensus</li> <li>• FOMC wants to see core consumer inflation rise to near 2%</li> </ul>	<b>CPI</b>	
	2.7	2.8
<b>MONETARY POLICY</b> <ul style="list-style-type: none"> <li>• FOMC doves believe deflation risk is negligible but are worried nonetheless about anemic employment growth and below target core inflation</li> <li>• Hawks in the Fed believe policy needs to be tightened soon</li> <li>• We believe we will not see a move in the Fed target rate until 2H 2012</li> </ul>	<b>FF Target</b>	
	0-0.25	0-0.25
<b>INTEREST RATES</b> <ul style="list-style-type: none"> <li>• The FOMC will complete the \$600bn QE2 program, although additional stimulus is unlikely</li> <li>• We stand near historic highs in the 2s/10s spread (272bps)</li> <li>• Short rates remain compressed in the front-end due to supply constraints</li> </ul>	<b>2 Year U.S. Treasury</b>	
	0.636	1.2

# Will Investors Emerge From Their Bunkers?

## Corporate Cash Balances Continue Their Ascent

- ◆ Corporations control approximately \$1.88 trillion of cash and short-term investments<sup>1</sup>
- ◆ As a result of the financial crisis, many investors moved into Bank Deposits, Treasury Bills, Government Agency Obligations, and Treasury and Government-only Money Funds
- ◆ European debt levels, continued money fund reform, low interest rates, and the potential for money fund fee increases all remain on the minds of corporate treasury personnel
- ◆ Corporate Treasurers are starting to demand cash investment alternatives to heavily regulated 2a-7 money market funds and customized cash solutions are gaining traction



**OBJECTIVE:** Provide highest available current income consistent with principal preservation and liquidity by investing in a diversified portfolio of U.S. Treasury and Agency securities.

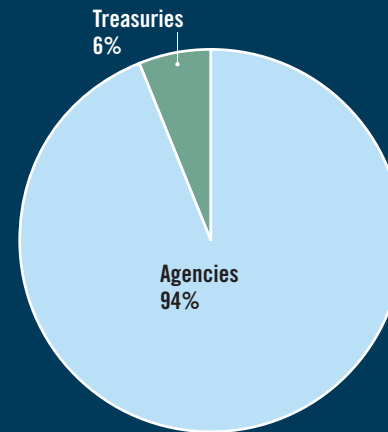
## KEY STATISTICS

	Model Portfolio	3 Month T-Bill
Yield to Maturity (%) <sup>1</sup>	0.10%	0.05%
Modified Duration (years)	0.25	0.25

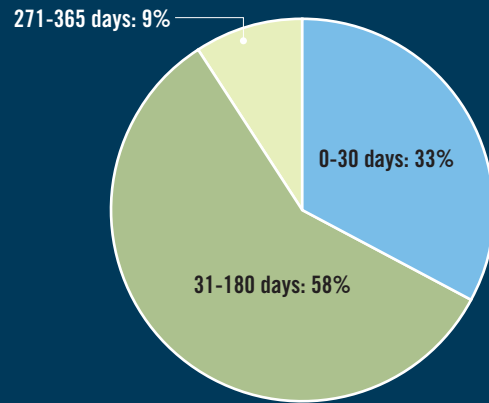
## PORTFOLIO GUIDELINES

Max Maturity Per Issuer	1 year
Max Weighted Average Maturity	90 days
Eligible Investments	Agencies & Treasuries

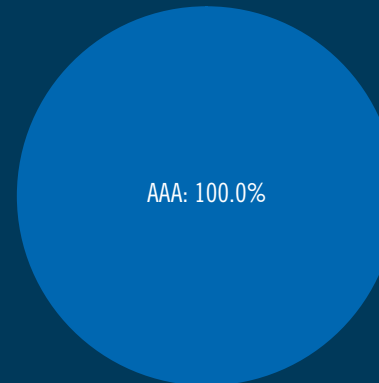
## Sector Diversification



## Maturity Distribution



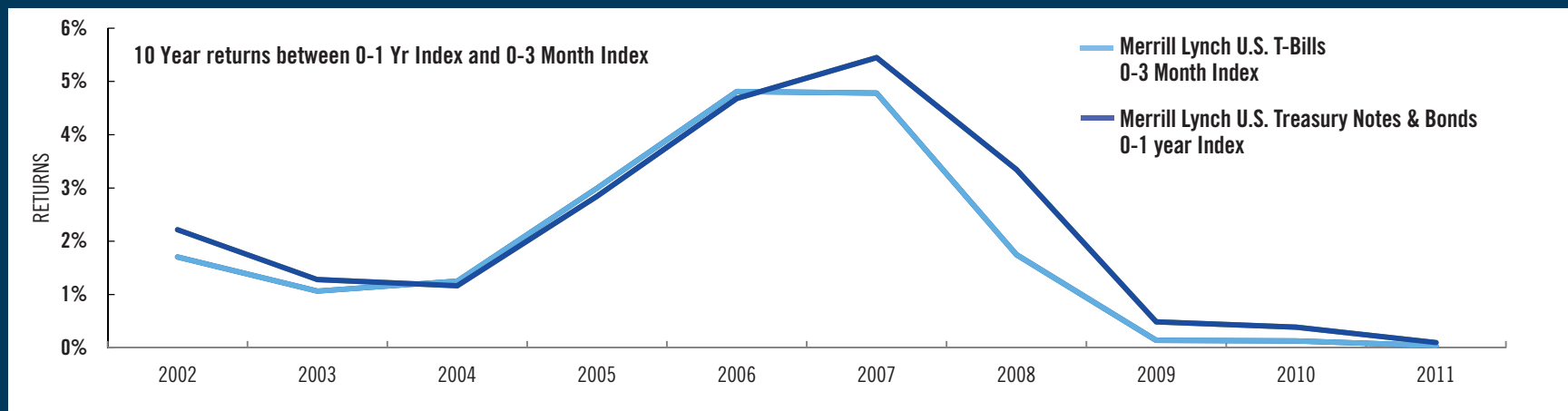
## Credit Quality Distribution



1. The yield, which is gross of fees, and other information presented above is hypothetical and presented for illustrative purposes only. Hypothetical performance has inherent limitations. No assurance can be given that an account will achieve the results presented. Past performance is no guarantee of future results. Actual returns will be reduced by investment advisory and other fees incurred. Please additional information in the appendix on Hypothetical Performance Disclosure

# Yield Comparison

Over time, the 0-1 year Index has, on average, provided an excess return over the 0-3 month Index



YIELD COMPARISON <sup>1</sup>	Merrill Lynch 0-3 Month Index	Merrill Lynch 0-1 Year Index	Yield Difference	\$ Difference <sup>2,3</sup>
2002	1.71%	2.22%	0.51%	\$5,120,000
2003	1.07%	1.28%	0.21%	\$2,130,000
2004	1.25%	1.16%	-0.09%	\$(890,000)
2005	3.00%	2.84%	-0.16%	\$(1,550,000)
2006	4.81%	4.68%	-0.13%	\$(1,290,000)
2007	4.78%	5.45%	0.67%	\$6,670,000
2008	1.75%	3.35%	1.60%	\$15,970,000
2009	0.14%	0.49%	0.35%	\$3,490,000
2010	0.13%	0.39%	0.26%	\$2,580,000
2011	0.04%	0.10%	0.06%	\$600,000
<b>10 Year Average</b>	<b>1.87%</b>	<b>2.19%</b>	<b>0.32%</b>	<b>\$3,283,000</b>

Hypothetical total incremental value over the past 10 years: \$32,830,000

1. Source: Bloomberg, Dwight Asset Management Company LLC. The Bloomberg GOB1 index is a subset of the Bank of America U.S. Treasury Bill index including all securities with a remaining term to final maturity of less than 3 months. The Bloomberg GOQA 0-1 year tracks the performance of sovereign debt issued by the U.S. Government in its domestic market with maturities of less than one year.

2. The performance and other information presented above is hypothetical and presented for illustrative purposes only. Hypothetical performance information has inherent limitations. No assurance can be given that an account will achieve the results presented. Past performance is no guarantee of future results. Actual returns will be reduced by investment advisory and other fees incurred.

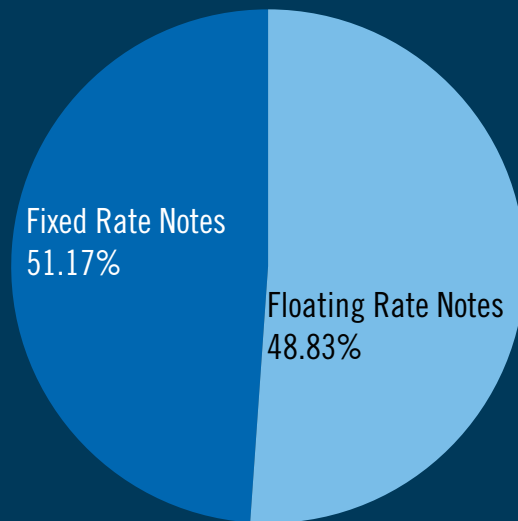
3. Based on a hypothetical \$1. billion cash portfolio

# The "Old" versus the "New"

Hypothetical 2a7 registered Money Market Fund in 2006 and what changes have been made to make it compliant within the new rules

## 2006 Hypothetical Portfolio

### Sector Breakdown



### Liquidity Breakdown (Weighted Average Life)

1 - 30 Days	<b>15.13%</b>
31 - 60 Days	22.38%
61 - 90 Days	10.93%
91 - 180 Days	2.46%
181 - 365 Days	49.10%

### Fund Facts

Weighted Average Maturity	<b>65 days</b>
Weighted Average Life (Spread WAM)	<b>203 days</b>

## Adjustments made to comply with new rules

**Decrease Spread WAM to 120 Days and decrease WAM to  $\leq 60$  days.**

- What was done: Puttable FRNs, Lower allocation to FRNs, shorter maturity profiles.
- How does this change portfolio composition?

### **Increase Liquidity buckets**

- Higher allocation to Repurchase agreements and overnight time deposits.
- More government agencies securities in Prime funds

**Best Guess for the Future...?**

# Important Disclosures

The views expressed herein reflect those of the portfolio manager and do not necessarily represent the views of Dwight Asset Management or its affiliates. Any such views are subject to change at any time based upon market or other conditions and Dwight disclaims any responsibility to update such views. These views may not be relied on as investment advice. Information contained herein has been obtained from sources believed to be reliable, but not guaranteed. Please obtain the advice of your fiduciary prior to any investment. Past performance is no guarantee of future results.