

**Florida PRIME  
Fixed Income Investment Oversight Group Meeting**

Minutes

February 26, 2014

11:00 a.m. - 12:00 p.m.

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**Attendees**

Kevin Ceurvorst – Senior Portfolio Manager-Investment Grade Credit  
Karen Chandler – Director of Enterprise Risk Management  
Lisa Collins – Manager of Public Market Compliance  
Bridget Dervish – Senior Risk & Control Analyst III  
Cherie Jeffries – Director of Fixed Income Trading  
Michael McCauley – Senior Officer-Investment Programs & Governance  
Eric Nelson – Chief Risk & Compliance Officer  
Richard Smith – Senior Portfolio Manager-Short Term  
Sheilah Smith – Director of Public Market Compliance  
Katy Wojciechowski – Senior Investment Officer-Fixed Income

**Agenda Topics**

1. Reviewed 4<sup>th</sup> Quarter Stress Test Results.

Conclusions:

A conference call was conducted with Florida PRIME Portfolio Manager, Paige Wilhelm, to review the 4<sup>th</sup> Quarter 2013 Stress Test results. The portfolio was tested on 12/31/13 for the following events: a) a change in short-term interest rates, b) an increase in net shareholder redemptions, c) downgrades and defaults, and d) changes between a benchmark overnight interest rate and the interest rates on securities held in Florida PRIME. At the end of December, the Net Asset Value (NAV) of the fund was at par. With no redemptions, it would take an estimated 342 basis point change in short-term interest rates or a 543 basis point change in spread rates to reduce the NAV to the minimum required \$.9950. Also, if the largest holding (Dreyfus Government Cash Management Fund) was downgraded or defaulted, an estimated recovery rate of 91.22% would be necessary to maintain a NAV of \$.9950. If the lowest rated entity (Mizuho Corporate Bank with short-term ratings of P-1/A-1/F1 and long-term ratings of A1/A+/A- by Moody's, S&P, and Fitch, respectively) was downgraded or defaulted, an estimated recovery value of 89.89% would be necessary to maintain a NAV of \$.9950. Federated does not regard any of the reported stress test results as reasonably likely to occur during the next year and is not aware of any other events that the Advisor views as reasonably likely to occur in the next year that would cause the NAV of Florida PRIME to fall below \$.9950.

2. Follow-up items:

The Senior Officer-Investment Programs & Governance will follow up with Federated to gain perspective on the market convention for calculating liquidity ratios when a 2a7 (or 2a7-like) fund is closed, but the market is open.

Conclusion:

The Senior Officer-Investment Programs & Governance and the Director of Public Market Compliance conducted a conference call with the Florida PRIME Portfolio Manager to discuss the market convention

for calculating liquidity ratios when a 2a7 (or 2a7-like) fund is closed, but the market is open. The Portfolio Manager indicated that Federated applies the Securities and Exchange Commission definition of “overnight” when calculating Daily Liquid Assets, which means that securities maturing on the next business day are included in the percentage. In November, since Florida PRIME was closed on 11/28/13 and 11/29/13, month-end liquidity ratios were calculated on 11/27/13, despite the market being open on 11/29/13 and the pool’s investment in the Dreyfus Government Cash Management Fund on that day. However, 2a7 funds generally follow the NYSE holiday schedule (i.e. Closed Thanksgiving Day only), unless an event occurs, such as a catastrophic storm.

3. Reviewed December 2013 monthly compliance, transaction, and holdings reports.

Conclusions:

- A. No compliance violations were reported on the Federated checklist.
- B. In the verification of high risk parameters, no material discrepancies were identified. Minimal differences were noted on the daily and weekly liquidity calculations. On 12/31/13, the market closed early prior to the New Year’s Day holiday, and Mellon swept the Florida PRIME cash balance before all purchases had been booked. This resulted in an overdraft of \$60 million. When calculating liquidity, Federated deducted the cash for the overdraft but did not increase exposure to the Dreyfus fund, which understated liquidity by .70%. Despite this, daily and weekly liquidity ratios exceeded the minimum thresholds of 10% and 30%, respectively. Since the overdraft was due to an early sweep by the custodian bank, Federated did not revise the checklist. SBA Financial Operations reviewed and updated the list of personnel at the SBA and Federated to receive notices regarding changes to the schedule for the Dreyfus sweep. Key SBA Financial Operations staff and the Florida PRIME Portfolio Manager were added to the distribution list.
- C. No extraordinary transactions or holdings were identified.
- D. No QIB restrictions were identified on Bloomberg for 144A securities purchased in December 2013.

Action Items

None.