

Recent Market Volatility and MOSIPs Commitment to Safety of Public Fund Investments

May 31, 2020

The extreme volatility seen in the markets in March and April has subsided. In spite of this and the sharp rebound in equities from the March lows, caution abounds as many uncertainties in the economy remain. The Federal Reserve (Fed) has been successful in providing liquidity in the marketplace by way of renewed quantitative easing, rate cuts and a variety of lending programs to corporates, municipals and main street. The re-opening of states coupled with some better than expected economic numbers gives the markets some confidence. However, a myriad of challenges and headwinds remain, and could weigh on investor sentiment. These include eroding US/Chinese relations, renewed worries over the potential for a second wave of the coronavirus and a continued rise in unemployment.

As we look at the short-term markets, Treasury Bill (T-Bill) yields have been buoyed by record supply in the second quarter as the federal government raises cash for the CARES Act. Meanwhile, in credit markets, LIBOR rates have plunged along with unsecured funding markets (commercial paper, negotiable CDs). This dynamic (T-Bill yields up and credit rates down) has resulted in very narrow credit spreads in the money markets.

PFM, as investment advisor and administrator to MOSIP, is actively working to ensure that MOSIP's investments continue to be aligned with the Program's goals of safety of principal, liquidity to invest and redeem shares, and a market rate of return. We have processes and systems focused on trading, review, and compliance for safeguarding public assets and will continue to rely on them during this time. These include:

1. Frequently reviewing MOSIP's investments valuation to ensure market changes do not adversely affect current investments. MOSIP's goal for its portfolio is to maintain a stable net asset value of one dollar in securities (by market value) for every dollar of investment. The Program's permitted investments are limited to only high quality, short maturity investments, which alleviates much of the risks involved when interest rates move quickly. With the heightened market volatility PFM has added more frequent pricing checks to ensure the stable net asset value is maintained.
2. Updating model scenarios to stress test the portfolios. We routinely look at "what if" scenarios for the MOSIP Liquid Series seeking to anticipate impacts to quick changes in liquidity or interest rates. Our natural bias toward safety and liquidity has benefited the MOSIP Liquid Series thus far and our stress testing has not shown reason for concern.
3. Managing the portfolio to ensure adequate liquidity. Pursuant to board policy and consistent with the S&P AAAM rating criteria, a substantial portion of the MOSIP Liquid Series is included in cash, daily and weekly liquidity buckets calculated pursuant to Securities and Exchange Commission criteria also utilized for registered money market mutual funds. The diversity of our investor community

is one of our strengths and we are confident in the balance of invested funds for liquidity needs.

4. Seeking to provide a market rate of return. We continue to evaluate all permitted investments to invest in those that will provide a market rate of return for the pool's investors. With market interest rates for money market instruments having declined to near 0% since March, with the Federal Reserve's lowering of the fed funds rate to a range of 0 - 0.25%, the yield for your pool has declined significantly as well. This decline will likely continue for the near future as the pace of pool yield changes typically lags the market. It's important to note that this decline is not related to any concerns for safety, rather it is a normal adjustment as the pool is designed to have a yield that is in keeping with the level of interest rates in the market.

We have experienced no interruption or reduction in our ability to serve investors and to effectively manage your program. PFM has been employing a "work from home" approach for employees since mid-March and many had been working remotely several weeks earlier. We also have a liberal leave policy for all employees, and we encourage its use, especially for those who do not feel well or have increased family responsibilities due to the coronavirus. Our entire team has been highly effective in working remotely and we are prepared to continue operating in this manner as long as is required for prudence and the safety of our employees, investors and communities.

We appreciate the continued trust you have in investing with MOSIP. Please contact your MOSIP marketing representative or Client Services at 877-696-6747 if we can help answer any questions about your investments.

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