PLGIT

Pennsylvania Local Government Investment Trust

The Expansion of Permitted Investments In Pennsylvania:

Act 10 of 2016 & the PLGIT Investment Line-up Overview

February 2017

PLGIT – The Pennsylvania Local Government Investment Trust
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Existing Solely For Your Success

Overview

- **Background of Act 10 of 2016**
- **Overview of PLGIT Investment Line-up**
- **PFMAM’s Experience**
- **Security Descriptions**

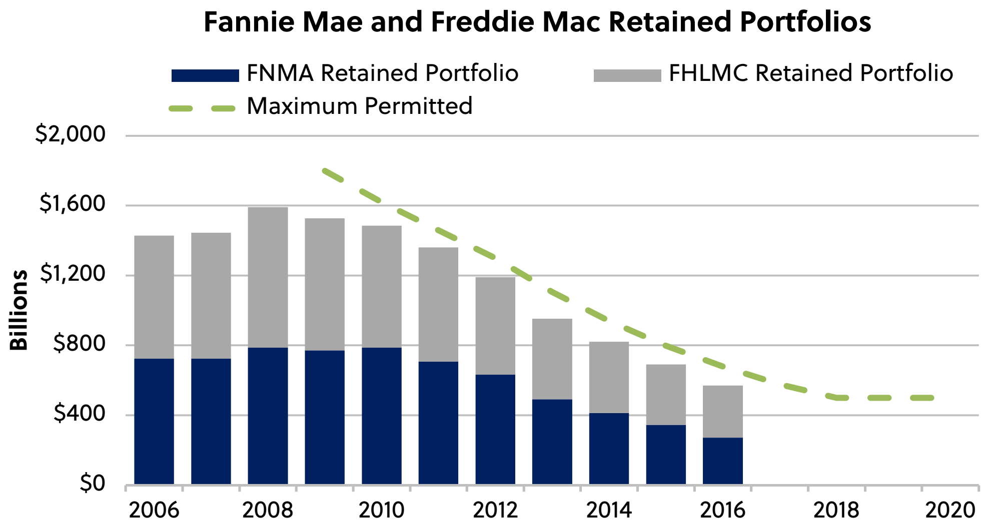
Background of Act 10 of 2016

Challenges that Local Governments and Schools Have Faced

- Short-Term Treasury and Agency yields impacted heavily by the Federal Reserve's near-zero overnight target rate policy since 2008
  - Local governments and schools have been suffering a substantial reduction of interest earnings each year due to the extremely low interest rate environment
- Federal Agency supply is decreasing, which further pushes down rates, and could potentially completely disappear
- Impending changes in the regulatory environment will further limit the supply of high-quality short-term money market securities, consequently putting further downward pressure on short-term interest rates
- Lack of uniformity among current investment statutes and descriptions for Pennsylvania Local Governments and Schools regarding permitted investments
- Lack of diversification given limited investment options available in Pennsylvania

Changing Dynamics and Regulations in the Market

- As a result of the financial crisis of 2008, the U.S. Treasury Department mandated Fannie Mae and Freddie Mac's maximum allowable retained mortgage portfolio decline by 15% annually until their individual portfolios each reach $250 billion.
- With the decline in their respective portfolios, supply of agency debt will continue to shrink, leaving local governments with fewer investment options.



- Impending changes in the regulatory environment will further limit the supply of high-quality short-term money market securities, consequently putting further downward pressure on short-term interest rates.
- Impending changes include:
  - Basel III (Implementation estimated to commence March 2019)
    - Capital Requirements
    - Liquidity Coverage Ratio
    - Leverage Ratio

Source: Fannie Mae and Freddie Mac. Projected portfolio sizes represent legislatively mandated balance sheet maximums. As of December 31, 2016.

Act 10 of 2016 – Expanding PA Permitted Investments

- **Seeking higher yields is not the only issue:**
  - Dwindling supply of permitted investments
  - Banking regulation changes
  - Inconsistency in PA investment codes
  - Lagging best practices of Government Finance Officers Association* ("GFOA") and most other states
- **Act 10 of 2016 ("Act 10") enables, but does not require:**
  - Additional investment types for operating funds
  - Unification of the different investment codes
  - Aligns PA local government investment opportunities with most other states
- **Act 10 <u>requires</u> important safeguards:**
  - Credit quality and maturity criteria, which we believe are valuable risk management tools
  - High credit quality standards
  - Relatively short maturity standards

**Source: www.gfoa.org*

The Evolution of Act 10 of 2016

- In December 2013, Senate Bill 1207 ("SB 1207") was introduced to the Senate by Senator Dominic Pileggi.
  - SB 1207 amends the act of July 25, 1973, authorizing cities of the first class and second class to invest funds in commercial paper by:
    - expanding act to include all public corporations (including local governments and schools) and municipal authorities
    - authorized expansion of investments permitted included: commercial paper, bankers' acceptances, negotiable certificates of deposit and high quality corporate notes
  - SB 1207 passed the Senate in June 2014 by a 50-0 vote and was subsequently referred to the House for consideration
  - SB 1207 failed to pass in the House due to the legislative session ending
- In June 2015 House Bill 1296 ("HB 1296") was introduced to the House by Representative Kate Harper.
  - HB 1296 was modeled after SB 1207 from the prior legislative session, which amends the act of July 25, 1973, authorizing cities of the first class and second class to invest funds in commercial paper by:
    - expanding the act to include all public corporations (including local governments and schools) and municipal authorities
    - authorizing expansion of investments permitted to include: commercial paper, bankers' acceptances, negotiable certificates of deposit, and insured bank deposit reciprocals

The Evolution of Act 10 of 2016

- Other parameters of HB 1296 include:
  - extending maturity limit of federal agency securities beyond a 397-day maximum maturity
  - updating money market fund language in anticipation of changes in Federal regulations

- In September 2015, HB 1296 passed the House by a 190-7 vote and was referred to the Senate for consideration
- On February 9, 2016, the third and final consideration in the Senate took place where HB 1296 passed by a 47-0 vote and was referred back the House for a concurrence vote due to a minor amendment by the Senate
- The House concurred with the Senate amendment on March 15, 2016 (187-3) and the Bill was sent to the Governor for final approval
- The Governor signed the Bill into law on March 25, 2016
- There was a 60 day waiting period before Act 10 became effective on May 24, 2016

Sponsoring Associations Support

- PLGIT's seven sponsoring associations played an active role throughout the entire process of the development and the passing of Act 10
- The PLGIT Sponsoring Associations are:

County Commissioners Association of Pennsylvania

Pennsylvania Municipal Authorities Association

Pennsylvania State Association of Boroughs

Pennsylvania Association of School Administrators

Pennsylvania State Association of Township Commissioners

Pennsylvania State Association of Township Supervisors

The Pennsylvania Municipal League

Prior & Act 10 Permitted Investments Overview

- Under prior law, local government and school investment codes vary by entity type and class.
- Act 10 enables all PA local governments and schools to have the same opportunities and aligns permitted investments with best practices.

Government Type	Prior Fixed Income Investments					Act 10 Permitted Investments – "Prime" Securities		
	US Treasuries	Fed Agy*	Bank Deposits & Bank CD's	G.O. Debt of Comm. And PA Local Govt's	MMF and LGIPs	Commercial Paper	Bankers' Acceptance	Negotiable CD's
Boroughs	✓	✓	✓	✓	✓	Act 10	Act 10	Act 10
Cities, 1st & 2nd Class	✓	✓	✓	✓	✓	✓	Act 10	Act 10
Cities, 3rd Class	✓	✓	✓	✓	✓	Act 10	Act 10	Act 10
Counties –2nd & 2A Class	✓	✓	✓	✓	✓	✓	Act 10	Act 10
Counties 3rd – 8th Class	✓	✓	✓	✓	✓	✓	Act 10	Act 10
Municipal Authorities	✓	✓	✓	✓	✓	Act 10**	Act 10	Act 10
School Districts	✓	✓	✓	✓	✓	Act 10	Act 10	Act 10
Twps of 1st Class	✓	✓	✓	✓	✓	Act 10	Act 10	Act 10
Twps of the 2nd Class	✓	✓	✓	✓	✓	Act 10	Act 10	Act 10

✓– Previously Permitted **Act 10** – Act 10 Permitted

**Generally only short-term Federal Agencies with maturities less than 397 days, Act 10 allows for longer maturities*
***Some Authorities were permitted to invest in commercial paper*

Overview of New Investment Types

Commercial Paper

- Corporations or other business entities, issue short-term debt, generally between 1- and 270-days, to finance accounts receivable, inventories, and meeting other short-term liabilities.
- Issued at a discount, pays face value at maturity.
- Creditworthiness relates to the credit of the issuing company.
- Generally, higher yielding than government securities.

Bankers' Acceptances

- Commercial banks issue these short-term instruments, generally from 1- to 180-days, to facilitate commercial trades.
- Issued at a discount, pays face value at maturity.
- Creditworthiness relates to the credit of the issuing bank.
- Generally, higher yielding than government securities, though slightly less than commercial paper.

Overview of New Investment Types

Negotiable Certificates of Deposit

- Issued by a nationally or state-chartered bank, a federal or state savings and loan association, or a state-licensed branch of a foreign bank, generally maturities are within 7-days and 5-years (3-year maximum maturity in Act 10).
- Pays face value and interest at maturity or sold at a discount and pays face value at maturity.
- A “negotiable instrument,” not a bank deposit or account; therefore, deposit insurance and collateralization do not apply.
- Creditworthiness relates to the credit of the issuing company.
- Generally, higher yielding than government securities.

Insured Bank Deposit Reciprocal

- Deposits at one Federal Deposit Insurance Corporation (“FDIC”) insured financial institution, that are above the FDIC-insured limit of $250,000, are redeposited by the original FDIC-insured institution in additional FDIC-insured institutions such that no one institution has greater than the insurance limit, and at the same time, other FDIC-insured institutions deposit their customers’ funds in an equal amount at the first institution.

Act 10 Risk Limiting Provisions

- Additional investment options allow for PA local governments and schools to more fully diversify their investments.
- Limiting maturity and requiring high credit ratings helps limit risk.

Prudent Risk Limiting/Management Provisions

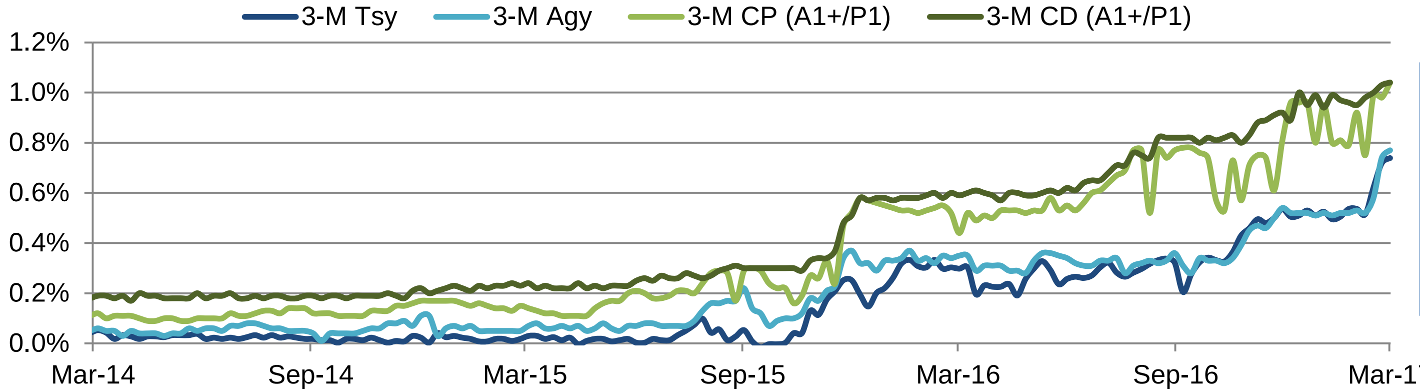
Security Type	Risk Limiting Factors
Federal Agency	• Some agencies are fully backed by U.S. Government • Other agencies are strongly supported by the Federal Government • Rated at least "A" by at least two NRSROs*
Repurchase Agreements	• Must be collateralized by U.S. Treasury or Federal Agency securities
Commercial Paper	• Rated in top short-term category by at least two NRSROs* • Maximum maturity of 270 days
Bankers' Acceptances	• Rated in top short-term category by at least two NRSROs* • Maximum maturity of 180 days
Negotiable CD's	• For CD's with maturities less than one year, must be rated in top short-term category by at least two NRSROs* • For CD's with maturities greater than a year, must be rated at least "A" by at least two NRSROs* • Maximum maturity of three years or less
Insured Bank Deposit Reciprocal	• All deposits are 100% FDIC-insured.

**NRSROs – Nationally Recognized Statistical Ratings Organizations (for example, S&P, Moody's, Fitch)*

Pennsylvania Local Government Investment Trust

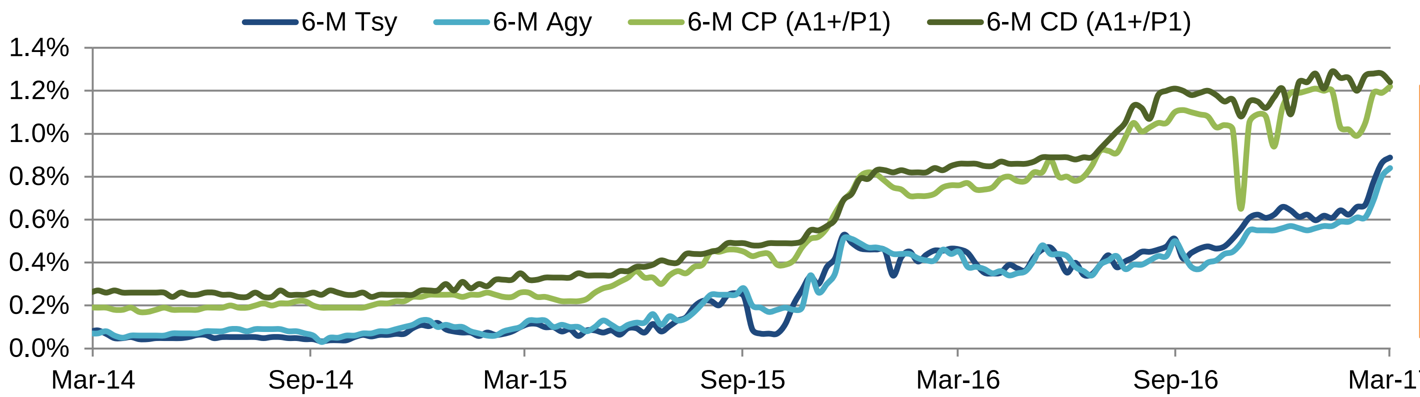
Expanded Permitted Securities Can Add Value to Short-Term Portfolios

Historical 3-Month Yields*: Treasury, Federal Agency, A1+/P1 CP, and A1+/P1 CD's



<u>Average CP Yield Advantage</u>**
vs. Treasury = 0.21%
vs. Agency = 0.17%
<u>Average CD Yield Advantage</u>**
vs. Treasury = 0.28%
vs. Agency = 0.24%

Historical 6-Month Yields*: Treasury, Federal Agency, A1+/P1 CP, and A1+/P1 CD's

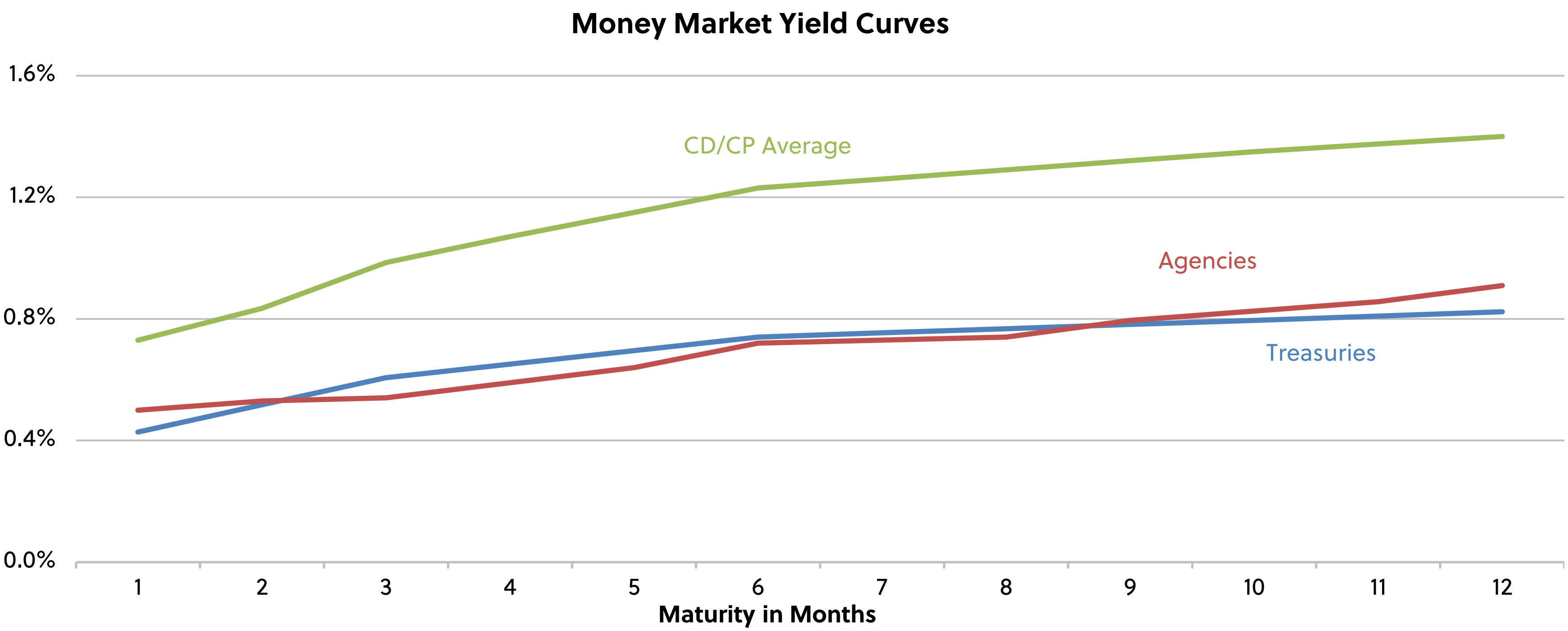


<u>Average CP Yield Advantage</u>**
vs. Treasury = 0.29%
vs. Agency = 0.29%
<u>Average CD Yield Advantage</u>**
vs. Treasury = 0.36%
vs. Agency = 0.36%

Source: Bloomberg
**Historical yields from March 2014 through March 2017.*
***Prior 3 years ending March 15, 2017.*

Current Money Market Yield Curve

- Yields on Commercial Paper and Negotiable CD's remain attractive alternatives to U.S. Treasury Bills and short-term Federal Agencies where yields are constrained by Fed policy.
- CP/CD rates vary significantly by issuer.



Source: Bloomberg, as of February 28, 2017, PFMAM. Information on CD/CP ranges are estimates based on independently compiled data, are for general information purposes only, and are not intended to provide specific advice or specific recommendations.

Overview of PLGIT Investment Line-up

PLGIT Investment Line-Up

- PLGIT offers two enhanced liquid and fixed-rate investment options
  - ***PLGIT/PRIME*** Portfolio amended its investment policy and is available to <u>all</u> Investors
  - ***PLGIT/TERM*** Portfolio amended its investment policy for new investments
- All other PLGIT options remain the same

Current PLGIT Investment Line-up

PLGIT-Class, ***PLGIT-Plus/Class***, ***PLGIT/I-Class***, ***PLGIT/PRIME***	***Liquid & short-term funds; variable rate***
PLGIT/TERM, ***PLGIT-CD***	***Fixed-rate, fixed-term options from 60 - 365 days***
PLGIT/ARM	***Liquid and fixed-term investments for tax-exempt bond proceeds***
PLGIT-CAP	***Cash Allocation Program offering specialized investment advice based on Participant cash flows and market conditions***
PLGIT/SAM	***Separate, longer-term portfolios for reserve funds***

Changed with Act 10 (PLGIT/PRIME, PLGIT/TERM) | **No Changes** (all others)

PLGIT Investment Line-Up

PLGIT-Class

- A money market-type account; no minimum balance; unlimited check processing

PLGIT/PLUS-Class

- A money market-type account for investments of 30 days or longer; $50,000 minimum initial deposit; $5,000 minimum for additional deposits

PLGIT/I-Class

- An internet-only money market-type account; $50,000 minimum initial deposit; $5,000 minimum for additional deposits; two withdrawals per month; lower expense ratio/higher yield than PLGIT/PLUS-Class

PLGIT/PRIME Portfolio

- A money market-type account, no minimum deposit or balance required, two withdrawals per month, investments in newer Act 10 instruments provide opportunity for higher yields

PLGIT Investment Line-Up

PLGIT/TERM

- A fixed rate/fixed term investment; 60 days to 1 year; $100,000 minimum; ability to lock in rate in advance for a forward commitment

PLGIT/ARM

- A program developed for the investment of bond proceeds - combines investment and arbitrage management
- Assets blended between liquid pool program and individual investments

PLGIT-CD Purchase Program

- A fixed rate/fixed term investment in individual FDIC-insured CDs through national network of over 400 participating banks; 60 days to 1 year; one CD per bank per FDIC limit (max of $250K);
- CDs are owned by each Investor, not the Trust

PLGIT Investment Line-Up

PLGIT Cash Allocation Program (PLGIT-CAP)

- Program designed to utilize historical cash flows in an attempt to determine an optimal allocation of investments among PLGIT investment options

PLGIT Separate Account Management (PLGIT/SAM)

- Program designed to provide a customized investment strategy tailored to managing intermediate-term and reserve funds
- Maximum duration of separate account is 2 years

Features of PLGIT/PRIME Portfolio

1. ***PLGIT/PRIME*** may include all permitted investment options outlined in Act 10
2. No minimum initial deposit or balance requirements
3. ***PLGIT/PRIME*** offers a limited number of cash management services including:
   - Wire in/out; Direct Deposit of subsidies; Direct payments of fed/state payments
   - Withdrawals, including transfers to other PLGIT options, limited to 2 per month; transactions can be done online or over the phone
4. Check writing continues to be offered through the PLGIT Portfolio (***PLGIT-Class***)
   - Investor needs to transfer funds from ***PLGIT/PRIME*** to ***PLGIT-Class*** to write checks
5. To open a ***PLGIT/PRIME*** account requires new “Account Application” if adding to an existing account
   - If opening a new account, a new “Account Application” and a “Permissions” forms would need to be completed
6. ***PLGIT/PRIME*** account number mirrors the PLGIT Portfolio account number provided Investor isn’t opening a brand new account name
7. To fund a new ***PLGIT/PRIME*** account an Investor can transfers funds from a PLGIT Portfolio or fund through wire or ACH Purchase

Key Benefits of PLGIT/PRIME

- **Enhanced Yield** – Commercial paper, negotiable CD's, and bankers' acceptances typically offer a yield advantage compared to other permitted investment vehicles

- **Ample Liquidity** – 2 withdrawals per month

- **Diversification** – An investment in ***PLGIT/PRIME***, in addition to your entity's overall cash and investment portfolio, provides another layer of diversification

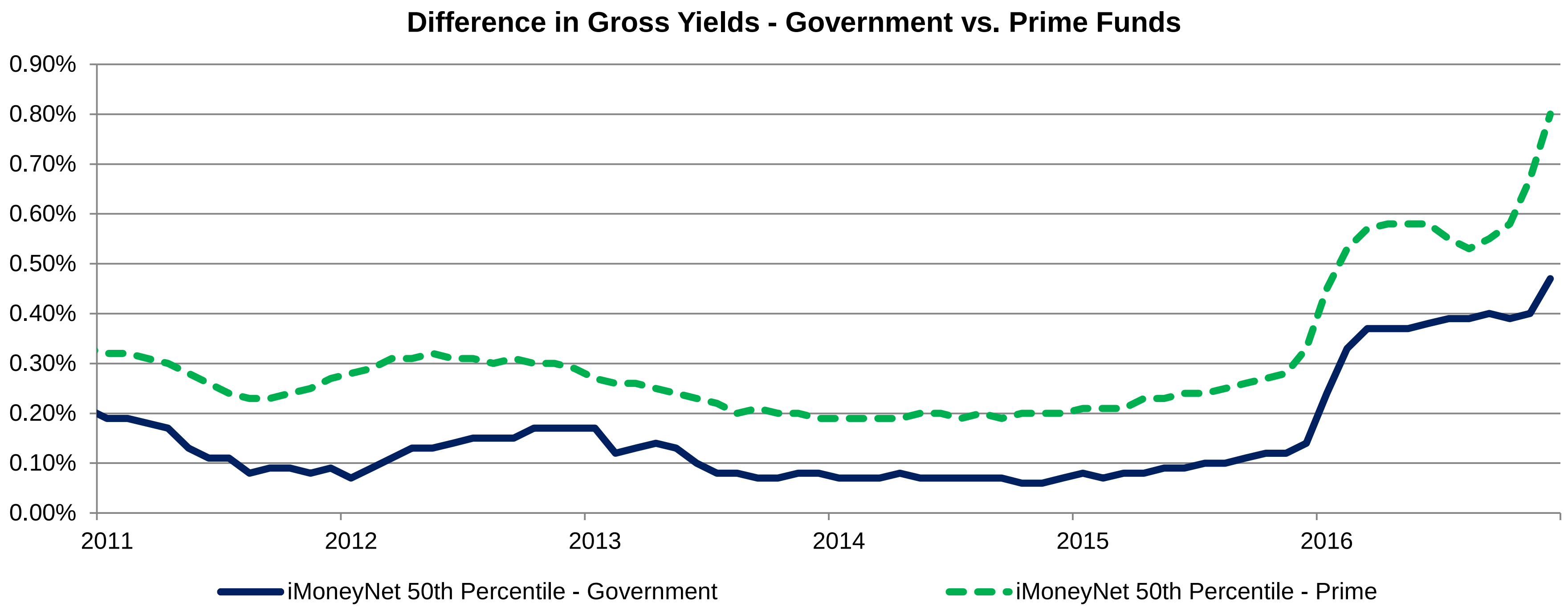
- **Convenience** – No minimum balance requirement and internet purchases and redemptions can be initiated 24 hours a day

- **Flexibility** – Wire and ACH capability; no waiting period prior to redemption

- **Cash Management Services** – As part of the PLGIT Programs, ***PLGIT/PRIME*** Investors gain access to the full array of PLGIT cash management services via transfers to ***PLGIT-Class Shares***

Potential Benefits of Prime Funds

- A comparison between historic gross yields on iMoneyNet's 50th Percentile Government Institutional and Prime Institutional funds is depicted in the graph below.
  - The average difference between the iMoneyNet 50th Percentile Government and Prime funds over the prior 3 year period ending December 31, 2016 is 16 basis points (0.16%).



Source: As measured by the average of the gross rate advantage of the 50th percentile of the iMoneyNet Fund Rankings for Prime Funds over the 50th percentile of the iMoneyNet Fund Rankings for Government Funds for the five years ended December 31, 2016. The iMoneyNet Prime Institutional Average includes 109 highly rated Prime funds, and the iMoneyNet Government Institutional Average includes 322 highly rated Government funds.

Features of PLGIT/TERM Portfolio

1. Upon the effective date of Act 10 PLGIT started a new ***PLGIT/TERM*** Series that invests in the new investments, such as commercial paper and negotiable CDs, along with its traditional investments

2. Available maturities range from 60 – 365 days

3. Minimum investment amount remains $100,000

4. With the inclusion of the new investments, yields offered are higher than those of traditional ***PLGIT/TERM*** investments

5. New investments in ***PLGIT/TERM*** account requires new “Account Application” if adding to an existing account

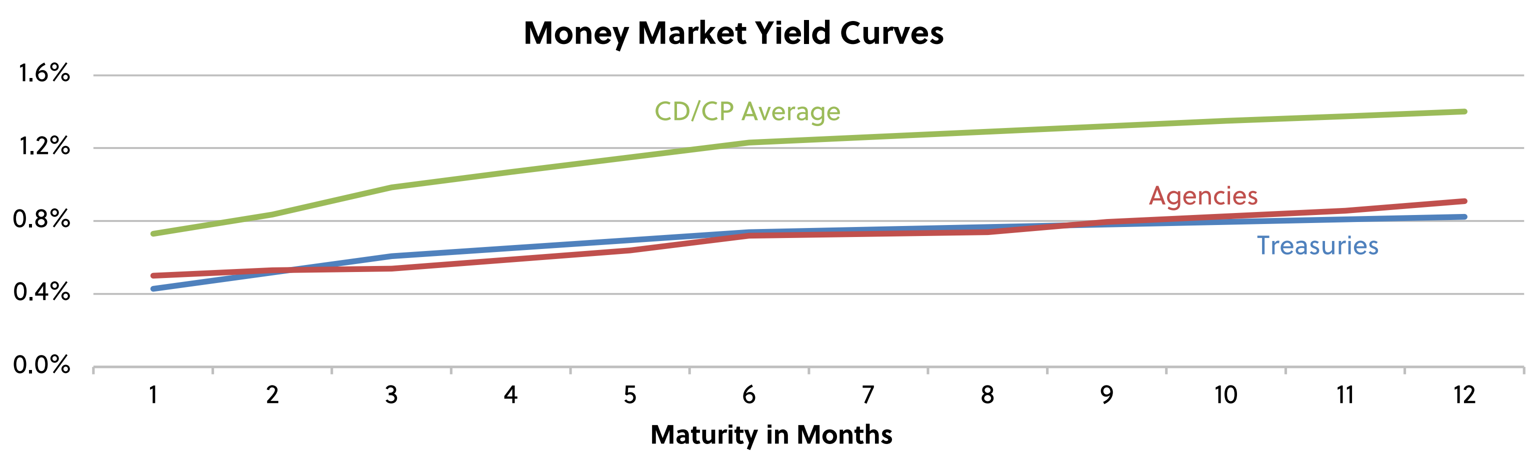
   - If opening a new account, new “Account Application” and a “Permissions” forms would need to be completed

6. Investor purchases ***PLGIT/TERM*** from **PLGIT Portfolio** or ***PLGIT/PRIME***

Key Benefits of PLGIT/TERM

- **Enhanced Yield** – Commercial paper, negotiable CD, and bankers' acceptances investments typically offer a yield advantage compared to other permitted investment vehicles
  - Yields on commercial paper and negotiable CD's provide potentially higher yields in the 60- to 365-day space for TERM Portfolios
  - Below is a current yield comparison between commercial paper/negotiable CD's and U.S. Treasury and federal agency securities
- **Diversification** – An investment in ***PLGIT/TERM***, in addition to your entity's overall cash and investment portfolio, provides another layer of diversification

Money Market Yield Curve Comparison



Source: Bloomberg, as of February 28, 2017, PFMAM. Information on CD/CP ranges are estimates based on independently compiled data, are for general information purposes only, and are not intended to provide specific advice or specific recommendations.

How To Enroll

- **Review PLGIT Information Statement**
- **Current Investors**
  - If you are registered for PLGIT online access, simply complete the PLGIT "Account Application" form to add a ***PLGIT/PRIME*** and/or ***PLGIT/TERM*** account to an existing PLGIT account.
  - If you would like to open a new account, please complete the PLGIT "Account Application" and "Permissions" forms.
  - If you are not registered for online access, please complete the PLGIT "Contact Record" form.
- **New Investors**
  - Please contact your PLGIT marketing rep to review the PLGIT joining documents.
- For assistance or to learn more about ***PLGIT/PRIME and PLGIT/TERM***, please contact PLGIT at 1-800-572-1472 or visit us on the web at www.plgit.com.

PFMAM's Experience

PFMAM's Experience Investing in Prime Securities

- Prime securities are high-quality corporate securities such as commercial paper, negotiable CD's, and bankers' acceptances.
- Prime securities are not new to PFM Asset Management LLC (PFMAM), the investment advisor and administrator to PLGIT since the Trust's inception in 1981.
- PFMAM currently provides investment advisory and administrative services to 15 pooled investment programs across the country (including PLGIT) and one registered investment company (money market fund).
- Eleven (11) of these funds, in ten (10) states, invest in high-quality prime securities.
  - States include: Michigan, Minnesota (2 funds), Wyoming, Missouri, Illinois, California, Massachusetts, Florida, Virginia, New Hampshire
  - On average, prime securities make up approximately 45% or more of each of these funds
  - Across these eleven (11) funds, prime securities account for $9.5 billion in assets, as of January 31, 2017.
- Further, PFMAM limits all prime security purchases to only those issuers that have passed through its formal credit review process and are listed on the PFMAM Credit Committee Approved Issuer List.

PFMAM's Credit Review Philosophy

- Utilize credit to seek above benchmark returns with minimum volatility
- Integrated into broader investment process
- Research conducted "on the desk" by portfolio managers and traders
- Emphasize emerging industry and macro trends
- Thorough review of issuer-specific trends

Issuer Analysis

- Balance sheet analysis
- Earnings: actual and projections
- Asset quality and impairments
- Corporate governance
- Price movement of fixed-income and equity securities
- Monitor credit default swap levels
- Trading volume
- Analysts' recommendations

Macro Analysis

- Industry trends
- Competitive environment
- Business cycle
- Regulatory environment
- Rating agency actions
- Sovereign credit developments

PFMAM's Credit Review Process

- PFMAM's credit committee starts with the entire universe of potential issuers
- Preliminary screening eliminates issuers that will not add value or fail to meet rating requirements
- Industry screening further removes potential issuers by analyzing the issuers industry
- The issuer screening then narrows the universe to a few potential issuers by assessing the individual issuers
- The issuer(s) that pass all the screenings are added to the Approved Issuer List

Bloomberg
MarketAxess
Tradeweb

Universe of Potential Issuers

Preliminary Screen

- Minimum rating requirements
- Availability of supply
- Relative value analysis

Where do we get our information:

- Independent research
- Company releases
- Sell side analysis
- News releases
- Company financials
- Ratings reports
- Security Valuation

Industry Screen

- Economic outlook
- Outlook for industry growth
- Geographic exposure
- Changes in regulatory environment

Issuer Screen

- Improving or stable ratings
- Diversity of revenue/profits
- Capital structure
- Strength of financial position
- Leader in industry
- Superior product
- Management team

Approved Issuer List

PLGIT

Pennsylvania Local Government Investment Trust

Proactive Credit Management

- Through proactive credit management, PFMAM was able to successfully navigate through the various crises

2007
Residential Mortgage Deterioration

2007 Q2: Assessed collateral exposure of ABCP conduits and other asset classes

July 2007: Liquidated entire holdings of ABCP (over $2 billion)

2007 Q3/Q4: Ceased purchase of issuers with exposure to RMBS (Bear Stearns, Lehman Brothers, Merrill Lynch, and RBS)

2008
Lehman Brothers Failure

May 2006: Last Lehman holding matured

2007 Q3: Placed Lehman on hold

Portfolios were well-positioned to weather the impact of the failure

Sep. 2008: Restricted purchases to government securities only

Portfolio management team focused on liquidity

2011/2012
European Debt Crisis

Monitored developments in Europe on an ongoing basis

Some issuers are removed from credit list, others are placed on hold or restricted by maturity

No exposure to Greece, Portugal, Italy, or Ireland

2015/2016
Energy Sector Pressures

Low energy and commodity prices have pressured producers and lenders to the sector

Restricted purchases and eliminated exposure to lenders with outsized energy exposure

Placed restrictions on commodity producers early in cycle

Eliminated exposure to a producer with less favorable fundamentals

Disclosure: The information presented above is based upon past experience to illustrate particular analysis or decisions in the context of market events and does not describe all credit recommendations. PFMAM cannot guarantee the future performance of credit analysis of any specific market.

Security Descriptions

U.S. Treasury Obligations

- **Issuer:** - U.S. Treasury
- **Credit Quality:** - Generally considered to be risk-free, AA+ (S&P)/Aaa (Moody's)
- **Maturity:** - 1 month to 30 years
- **Yields:** - Relatively low
- **How they work:** - U.S. Treasury Notes and Bonds (1+ years to maturity) pay a coupon semi annually and pay par amount at maturity

  - U.S. Treasury Bills (under 1 year to maturity) pay par amount upon maturity
- **Bought/Sold:** - Bought and sold in primary and secondary markets
- **Liquidity:** - Very liquid

GNMA Obligations

- **Issuer:** - Financial Institutions approved by the Government National Mortgage Association
- **Credit Quality:** - AA+ (S&P) / Aaa (Moody's), Backed by the full faith and credit of the U.S.
- **Maturity:** - 1 day to 30 years
- **Yields:** - Slightly higher than Treasuries
- **Risks:** - Interest rate risk, extension risk, prepayment risk and reinvestment risk
- **How they work:** - Cash flows based on a pool of mortgages; securities pay periodic coupons, comprised of the principal and interest payments from the borrowers, and pay par amount upon maturity or prepayment date
- **Bought/Sold:** - Bought and sold in both primary and secondary markets
- **Liquidity:** - Moderate to high liquidity

Federal Agency/GSE Obligations

• **Issuer:**	- Federal Agencies - Government sponsored enterprises (GSE)
• **Credit Quality:**	- Most are AA+ (S&P) / Aaa (Moody's) - Most are not full faith and credit
• **Maturity:**	- 1 day to 30 years
• **Yields:**	- Slightly higher than Treasuries
• **Risks:**	- Interest rate risk, reinvestment risk and, if callable, risk of being called
• **How they work:**	- They pay a coupon either annually, semi annually, quarterly or monthly and pay par amount upon final maturity
• **Bought/Sold:**	- Bought and sold in the primary and secondary markets
• **Liquidity:**	- Generally high

Bank Deposits and Bank Certificates of Deposit

- **Issuer:** - Commercial Banks, Credit Unions, Savings Banks
- **Credit Quality:** - Varies
  - First $250,000 insured by FDIC, NCUA
  - Then, must be secured by collateral (Act 72)
- **Maturity:** - Overnight for bank deposits
  - Greater than 7 days for CD's
- **Yields:** - Bank deposits - low
  - Bank CD's - moderate (depends on credit quality)
- **Risks:** - CD's may have early withdrawal penalties
- **Bought/Sold:** - Directly from bank or credit union, brokers, or investment advisors
- **Liquidity:** - Bank deposits - highly liquid
  - FDIC-Insured CDs' - illiquid
  - Collateralized CD's - illiquid

Note: This information applies only to non-negotiable bank deposits and Certificates of Deposit.

Please see the page for Negotiable Certificates of Deposit for information specific to these securities.

General Obligation Debt of the Commonwealth of PA and PA Local Governments

- **Issuer:** - Commonwealth of PA and its Local Governments
- **Credit Quality:** - Varies (not always rated), may carry bond insurance, no credit rating requirement in PA codes
- **Maturity:** - 1 week to 30 years
- **Yields:** - Tax-exempt return (usually lower than comparable maturity Treasury)
- **Risks:** - Interest rate risk - increases with maturity
  - Credit risk - minimal due to G.O. structure
- **Bought/Sold:** - Notes or Bonds are issued by state and local governments and sold through an underwriter or selling group
- **Liquidity:** - Not a liquid secondary market

Money Market Mutual Funds

- **Issuer:** - Financial institutions, Banks
- **Credit Quality:** - AAAm / Aaa-mf
- **Maturity:** - Overnight
- **Yields:** - Low
- **How they work:** **-** Constant Net Asset Value (Low Volatility)
  - 2a-7 funds (money market mutual funds)
  - "$1 in, $1 out"
  - Fees netted from income
- **Risks:** - Minimal - must invest in only permitted investments
- **Bought/Sold:** - Bought and sold through brokerage companies, mutual fund firms and banks
- **Liquidity:** - Daily liquidity

Commercial Paper

- **Issuer:** - Corporate entity which may include a bank holding company
- **Credit Quality:** - Secured by credit and cash flow of the issuer
- **Maturity:** - 1 day to 270 days
- **Yields:** - Slightly higher than government obligations, depends on credit of issuer
- **Risks:** - Credit risk – minimal with adequate constraints
  - Reinvestment risk – minimal when matched to cash flows
- **How they work:** - Sold at a discount, pays face value upon maturity
- **Bought/Sold:** - Bought and sold directly from corporations and in the secondary market through broker/dealers
- **Liquidity:** - Moderate to high

Bankers' Acceptances

- **Issuer:** - Commercial banks
- **Credit Quality:** - Obligation of the issuing bank secured by the value of trade goods financed; May be eligible for presentment to the Federal Reserve at face value
  - Irrevocable obligation of issuing bank
- **Maturity:** - 1 day to 180 days
- **Yields:** - Slightly lower than commercial paper
- **Risks:** - Credit risk – minimal with adequate constraints,
  - Reinvestment risk – minimal when matched to cash flows
- **How they work:** - Short-term instrument issued by a firm that is guaranteed by a commercial bank, sold at a discount and pays face value upon maturity
- **Bought/Sold:** - Directly from issuers or in secondary markets
- **Liquidity:** - Moderate to high

Negotiable Certificates of Deposit

- **Issuer:** - Commercial banks
- **Credit Quality:** - Based on bank rating
  - More senior than commercial paper
- **Maturity:** - 7 days to usually up to 5 years (Act 10 of 2016 restriction is a max of 3 years)
- **Yields:** - Usually slightly higher than government obligations
- **Risks:** - Credit risk – minimal with adequate constraints
  - Reinvestment risk – minimal when matched to cash flows
- **How they work:** - Pay par amount plus interest on maturity date
- **Bought/Sold:** - Traded in the secondary markets, usually in lots of $1 million or more
- **Liquidity:** - Moderate to high

Importantly, negotiable certificates of deposit are not bank deposits or bank accounts. They are negotiable instruments, in other words, securities. Since they are not bank deposits or accounts, rules regarding collateralization of deposits do not apply.

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