

February 21, 2013

Agenda

MARC 530
1:00PM-3:00PM

For Committee Action

1. Approval of November 15, 2012 Meeting Minutes Tony Vu

For Committee Review

2. SSGA-Commodities Update Tony Vu
3. Treasury Access Update Tony Vu
4. Performance for Period ending Dec 31, 2012-Wilshire Consulting Bill Bensusan
5. Investment Consultant ITN Tony Vu
6. Other Business

Attendance: Tony Vu, University Treasurer (Chair)
Dr. Chun-Hao Chang, Chair, Dept. of Finance and Real Estate (Member)
Dr. Kenneth Jessell, CFO and Senior VP of Finance and Administration, FIU (Member)
Dr. William Welch, Chair – Retired, Dept. of Finance (Member)

Bill Bensur, Managing Director, Wilshire Consulting
Nick Sefchok, Associate, Wilshire Consulting
Jon K. Speare, Managing Director, Commonfund

Benjamin Jarrell, Treasury Manager

Call to Order

The Chair convened a meeting of the Florida International University Investment Committee at 10:33 A.M. on Thursday, November 15, 2012 at Modesto Maidique Campus, MARC 530 in Miami, FL.

Items for Committee Action

Approval of August 16, 2012 Meeting Minutes

Motion to approve the minutes of the August 16, 2012 meeting was unanimously approved.

Items for Committee Review

1. Treasury Access – Working Capital Management – Jon Speare

- Commonfund is a non-profit investment management firm that specializes in Higher Education.
- Markets are currently experiencing significant risks with little return.
- Treasury Access is the best cash investment platform practice across the industry.
- Concerns: unlimited FDIC insurance coverage for non interest bearing transaction accounts is expected to expire on December 31st. The coverage will be \$250K for each tax ID.
- \$1.3 Trillion in Money Markets; \$300 Billion to \$500 Billion is expected to flow from bank accounts to money funds. There are not enough short-term money funds to manage the movement.
- Treasury Secretary Geitner and the SEC are developing reforms for the Money Market industry to prevent systemic risks. Reforms might include: Requirement of capital reserves, redemption limitations and floating NAVs.
- Large family owned money funds (Fidelity and Federated) are at risk because they do not currently have access to significant capital.
- Treasury Access uses 3 managers SSgA, BlackRock and JP Morgan. Each manager has access to significant capital. The platform offers 8 funds with daily liquidity.

- Many firms' are "effectively" subsidizing the cost of money funds. Commonfund, currently, does not charge a fee for Treasury Access; however, a participant fee of 3 bps is expected to be charged in 2013.
- Implementation of the Treasury Access platform will enhance the University's cash management process by allowing the University to access funds up to 2pm each business day. SPIA only allows the University to access funds up to 11am each business day. The platform is expected to make the University's cash transfer process more efficient and add \$100K-\$200K in revenue per year (Chair Vu).
- Motion to approve Treasury Access Platform implementation was unanimously approved.

2. Fixed Income Market Review – Bill Bensus and Nick Sefchok – Wilshire Consulting

- Increases in the interest rates are expected to impact our fixed income positions. SPIA (Duration of 2-3 years) and Prudential (Duration of 4-5 years) are our largest positions.
- Wilshire's analysis provided various scenarios involving interest rate changes and their effect on the core and short duration fixed income markets. The analysis compared the Barclays U.S. Aggregate (duration – 4.9 years) and the Barclays 1-3 Aggregate (duration – 1.9 years) when the yield curve made a parallel shift, flattened, and steepened.
- Parallel Shift – rates would need to rise 100 bps to erode the current yield premium over a 2 year period and approximately 150 bps over a 3 year period. Position would be at risk if there is a "spike" in rates.
- Flattening Yield Curve – Short-Term rates rise 1.5X as much as intermediate rates. An investor would need intermediate rates to rise 150 bps in three years time for a shorter duration investment to be advantageous.
- Steepening Yield Curve – with the spread between the Barclays U.S. Aggregate and Barclays 1-3 Year Government/Credit Index at 1.64% the portfolio would break-even over a three year period.
- Prudential's core competency is in managing sectors not yield curve positioning. The team expects that Prudential will underperform when rates are increasing.
- The team should consider "getting our foot into the door" of a short duration fund (due to potential demand) and be willing to give up yield for safety (Dr Welch).
- A position in a 1-3 year duration fund could be included in both the Strategic Reserve and Working Capital Pools. Funds with a duration of 1-3 years, generally, are fairly liquid (T1 –T3).
- A partial move into a shorter duration fund would be a pro-active, not defensive, strategy.
- Wilshire agreed to present a list of short duration bond managers at the next Investment Committee meeting.

3. Capital Markets Update – Bill Bensus and Nick Sefchok – Wilshire Consulting

- Markets have been showing concern with the Fiscal Cliff. QE Infinity – eventually the rates will need to increase.
- Recovery is not very strong – Small amount of inflation 2% - Growth is anemic (at 2%) and should be at 4%-5% in this stage of the recovery. GDP with fiscal cliff should be 0% to -2%.

- Companies are flush with cash that could be used for acquisitions. Consumers are more confident. Housing prices have improved.
- Solid returns in equities - October YTD 10% - Fixed Income has been the “star”.
- Prudential’s returns are not sustainable. Commodities position is used for diversification as it is not connected to the markets. TIPS are in place to hedge against anticipated inflation.
- TIPS should not be eliminated; however, the team might consider reducing the minimum range of the TIPS allocation.
- The Team should consider broadening the target ranges to incorporate Short Term Fixed Income positions.

4. Performance for Period Ending September 30, 2012 – Bill Bensur and Nick Sefchok – Wilshire Consulting

- Reserve and Strategic Pools are at a “high water mark”. Nearly all managers have added value to the University’s portfolio.
- BlackRock is a good fit in the portfolio. They are the #1 manager in the High Yield Fixed Income Mutual Funds Universe for their 3 year performance. The high yield index has been very hard to match.
- CS McKee – Small Cap – Needs improvement – no changes have been made in their approach to stock picking – CS McKee made a few bad stock picks, however, we want to be able to experience their recovery and can afford to wait it out – The team might need to re-evaluate their performance in 2 quarters.
- The biggest issue for the portfolio is that short end rates are effectively at 0%.

5. Investment Consultant ITN

- ITN vs. RFP – the committee can select more than one best and final offer with an ITN, whereas, an RFP only allows us to speak to the “winner” of the process.
- The Foundation is using an ITN for an outsourced CIO model (Discretionary). This approach provides the Foundation flexibility in case it wants to make changes.
- Treasury Team will be the evaluation committee and the Investment Committee will be the decision-maker.
- Document, currently, requires that the Consultant have a minimum of \$100 Billion in Assets under Advisement and experience with Higher Education operating funds.
- Treasury Team will send the Committee a draft of the ITN document.

Adjournment

Seeing no other business, Chairman Vu adjourned the meeting at 12:37 PM.