

Fixed Income Investment Oversight Group Meeting – Florida PRIME
Meeting Minutes
April 26, 2023 2:00 p.m.
Emerald Coast Conference Room/Virtual via Teams

Attending Members: Karen Chandler – *Director, Enterprise Risk Management*; Sooni Raymaker – *Chief Risk & Compliance Officer*; Katy Wojciechowski – *Senior Investment Officer, Fixed Income*

Members Not Present: Mike McCauley – *Senior Officer, Investment Programs & Governance*

Other Attendees: Jennifer Barrett – *Senior Compliance Analyst*; Lisa Collins – *Manager, Public Market Compliance*; Hannah Day – *Investment Compliance Analyst*; Chad Foote – *Chief Operating Financial Officer*; Paul Groom – *Deputy Executive Director*; Cherie Jeffries – *Director, Fixed Income Trading*; Mykel Kenton – *Manager, Public Market Compliance*; Melissa Macilveen – *Manager, Administrative Programs (FHCF)*; Richard Smith – *Senior Portfolio Manager, Short Term*; Lamar Taylor – *Interim Executive Director & CIO*; Paige Wilhelm – *Senior Vice President and Head of Investment Area/Prime Liquidity Team, Senior Portfolio Manager (Federated Hermes)*

Minutes: Mykel Kenton – *Manager, Public Market Compliance*

Agenda Topics

1. Paige Wilhelm reviewed the stress test results for the quarter ended 03/31/2023.

Conclusions:

In combination with various levels of increases in shareholder redemptions, the portfolio was tested against the following hypothetical events: a) an increase in the general level of short-term interest rates, b) a credit event representing various portions of the fund's portfolio, c) the widening of spreads, in various sectors, compared to the indexes to which portfolio securities are tied, and d) a combination of a, b, and c. See attached *Stress Testing Board Summary Report for Florida Local Government Investment Pool A – Q1 2023*.

Katy Wojciechowski, asked if Federated has seen a lot of inflows into Federated funds? Paige Wilhelm responded they have seen a lot of money coming into money market funds, particularly into the government funds and prime funds. This is the seasonal outflow period for Florida PRIME, but while the money is going out a little bit, Federated is seeing higher highs in assets and higher lows, so the money is not going out quickly. Katy Wojciechowski then asked if the money coming in is “hot” and could it flow out more quickly? Paige Wilhelm said not in Florida PRIME, but in general money market funds it could be. In this kind of rate environment, rates are better in the money market funds than in banks. Layer that with the Silicon Valley Bank crisis and flight to quality, then some of the money coming into the government funds may be “hot” money.

Sooni Raymaker inquired about financial service sector holdings and not seeing any holdings (in Florida PRIME) in regional banks, such as Silicon Valley Bank or First Republic, asking if that is because they do not meet the quality thresholds? Paige Wilhelm stated the three banks that failed in March (Silicon Valley Bank, Signature Bank, and Silvergate Bank) did not issue short term money market instruments because they were not high quality enough and did not have commercial paper programs. Paige Wilhelm further informed the group that while regional banks do issue certificates of deposit and commercial paper, Federated does not have exposure to those banks. Federated does have

exposure to a few names such as PNC or State Street Bank; however, Federated does not classify them as regional banks as they are bigger and more diversified banks. Federated is comfortable with all the bank names on the approved list for Florida PRIME.

In reference to a potential default based on the government not extending the debt ceiling, Lamar Taylor asked if there is any thought on implications of a default and stress testing? Paige Wilhelm said that Federated avoids purchasing any treasury securities with maturity dates of when the debt ceiling problem could occur. Paige Wilhelm stated that Florida PRIME does not have exposure to government treasury paper in the potential default time period. In addition, Federated has conversations with the Treasury and the Fed regarding what would happen if there was a technical default and what would be impacted. Katy Wojciechowski asked what would happen to repurchase agreements? Paige Wilhelm said Federated is structured so that they would not take collateral on repurchase agreements that mature the next day, so if the treasury were to default, they would not have paper that would mature the next day. There are also procedures in place for how things would unwind if they did hold collateral during a default period.

Lamar Taylor inquired, with First Republic under stress, is Federated hearing anything on whether the federal government would continue the practice of supporting depositors like they did for Silicon Valley Bank and Signature Bank. If not, is that a systemic concern for the banking sector? Paige Wilhelm stated that Federated's bank analyst is following this closely. Federated does not feel like there is a spillover affect for the banks on the approved list for Florida PRIME. The banks on the Florida PRIME approved list are larger, global, diversified banks.

2. Follow-up item from 7/27/22:

It was recommended that the PRIME Investment Policy Statement and the PRIME risk rankings are revisited after the SEC finalizes rules on money market funds.

Conclusions:

The SEC has not taken any final action on its proposed rule amendments to 2a-7 since they were issued in 12/2021.

3. Compliance recap for the quarter ended 03/31/2023:

Conclusions:

A. No new exceptions were reported.

B. No open/ongoing exceptions were reported.

C. No Affected Securities were reported.

4. No Other Topics.

5. Action item from 7/27/22.

It was recommended that the PRIME Investment Policy Statement and the PRIME risk rankings are revisited after the SEC finalizes rules on money market funds.

EXHIBIT A

Stress Testing Board Summary Report for Florida Local Government Investment Pool A Q1-2023

Date of Stress Tests:	31-Jan	28-Feb	31-Mar
Shadow NAV at Time of Tests:	1.00012	1.00013	0.99995

STRESS TESTING RESULTS DURING THE PERIOD

Pct of Shares Redeemed	Redemptions Only					
	Stress NAV			Weekly Liquidity		
	Jan	Feb	Mar	Jan	Feb	Mar
0%	1.00012	1.00013	0.99995	46.62%	42.65%	40.73%
10%	1.00013	1.00014	0.99994	40.69%	36.28%	34.14%
20%	1.00014	1.00016	0.99994	33.28%	30.00%	30.00%
30%	1.00016	1.00018	0.99993	30.00%	30.00%	30.00%
40%	1.00019	1.00021	0.99991	30.00%	30.00%	30.00%

Pct of Shares Redeemed	Change in Interest Rates						Credit Event						Floater Spread Widening					
	Stress NAV			Weekly Liquidity			Stress NAV			Weekly Liquidity			Stress NAV			Weekly Liquidity		
	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar	Jan	Feb	Mar
0%	0.99950	0.99961	0.99945	46.62%	42.65%	40.73%	0.99943	0.99942	0.99912	46.62%	42.65%	40.73%	0.99947	0.99950	0.99918	46.62%	42.65%	40.73%
10%	0.99944	0.99957	0.99939	40.69%	36.28%	34.14%	0.99937	0.99936	0.99902	40.69%	36.28%	34.14%	0.99941	0.99944	0.99908	40.69%	36.28%	34.14%
20%	0.99937	0.99951	0.99931	33.28%	30.00%	30.00%	0.99929	0.99928	0.99890	33.28%	30.00%	30.00%	0.99934	0.99937	0.99897	33.28%	30.00%	30.00%
30%	0.99928	0.99944	0.99922	30.00%	30.00%	30.00%	0.99919	0.99917	0.99874	30.00%	30.00%	30.00%	0.99924	0.99928	0.99882	30.00%	30.00%	30.00%
40%	0.99916	0.99935	0.99909	30.00%	30.00%	30.00%	0.99905	0.99904	0.99853	30.00%	30.00%	30.00%	0.99911	0.99916	0.99863	30.00%	30.00%	30.00%

Test	% of Orig. Portfolio Stressed			Pct of Shares Redeemed	Combination					
	Jan	Feb	Mar		Stress NAV			Weekly Liquidity		
	Jan	Feb	Mar		Jan	Feb	Mar	Jan	Feb	Mar
Redemptions Only	0.0%	0.0%	0.0%	0%	0.99817	0.99828	0.99785	46.62%	42.65%	40.73%
Change in Int. Rates	94.2%	93.7%	94.9%	10%	0.99797	0.99809	0.99761	40.69%	36.28%	34.14%
Credit Event	64.4%	64.5%	65.4%	20%	0.99771	0.99785	0.99732	33.28%	30.00%	30.00%
Floater Spread Widening	37.7%	34.7%	39.3%	30%	0.99739	0.99754	0.99693	30.00%	30.00%	30.00%
Combination	94.2%	93.7%	94.9%	40%	0.99695	0.99713	0.99642	30.00%	30.00%	30.00%

B. Escalation Procedures:

Based on Federated's procedures, as of 6/30/2016, Counsel to the Independent Directors or Trustees will receive notification from the Adviser upon the occurrence of the following events in a Rule 2a-7 money market fund: (1) any deviation between the NAV and the market based NAV in excess of \$0.0040 per share or (2) Weekly Liquid assets drop below 30%.

C. Assessment of Fund's Ability to Withstand Events Reasonably Likely to Occur During the Following Year:

Unless highlighted above for further discussion, the Adviser has determined that each fund is structured in such a way that the occurrence of the events, described more fully above, which the Adviser believes are reasonably likely to occur during the next 12 months would not result in a Fund's Weekly Liquid Assets falling below 10% or a fund failing to minimize principal volatility.

D. Test Descriptions:

- Unusual Redemption Activity: Resulting NAV & liquidity levels following redemptions equal to 40% in 10% increments
- Change in Interest Rates: Resulting NAV & liquidity levels following a change in rates of 0.75%(1.25% for Jan).
- Credit Event: Banks widen by 0.50%, and Travel and Leisure spreads widen by 0.25%
- Floater Spread Widening: Resulting NAV & liquidity levels following a widening of floater spreads off of the applicable index of 0.50%
- Combination: Change in Interest Rates, Credit Event, and Floater Spread Widening combined.

E. Redemption Funding Method:

Redemptions - Sell Daily Liquidity down to 0 percent then Weekly Liquidity down to 30 percent then based on Final Maturity Date