

**Fixed Income Investment Oversight Group Meeting – Florida PRIME**  
**Meeting Minutes**  
**July 27, 2023 2:00 p.m.**  
**Emerald Coast Conference Room/Virtual via Teams**

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

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

**Other Attendees:** 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)*; Joel Meyer – *Manager, Financial Operations (FHCF)*; Richard Smith – *Senior Portfolio Manager, Short Term*; Paige Wilhelm – *Senior Vice President and Head of Investment Area/Prime Liquidity Team, Senior Portfolio Manager (Federated Hermes)*

**Minutes:** Lisa Collins – *Manager, Public Market Compliance*

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**Agenda Topics**

1. Paige Wilhelm reviewed the stress test results for the quarter ended 06/30/2023.

**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 – Q2 2023*.

2. Paige Wilhelm discussed the Securities and Exchange Commission (SEC) Money Market Fund Reforms.

**Conclusions:**

Florida PRIME is a 2a-7 like fund and is not governed by the SEC; however, it does follow GASB 79. The rules proposed by the SEC (see attached *Securities and Exchange Commission Fact Sheet Money Market Fund Reforms*) are not yet finalized but have been voted on by the SEC commissioners. Federated states that as of now, they are not impacting Florida PRIME nor do they expect them to. Once the rules are published in the Federal Register, Federated will have conversations with GASB to determine if any of these rules will be adopted into GASB 79.

3. 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 commissioners have voted on the rules, but they are not yet finalized.

4. Compliance recap for the quarter ended 06/30/2023:

Conclusions:

- A. No new exceptions were reported.
- B. No open/ongoing exceptions were reported.
- C. No Affected Securities were reported.

5. Other Topics.

Performed the annual review of the Florida PRIME Risk Rankings relative to the Investment Policy Statement (IPS). See *Appendix A, Florida PRIME Compliance Risk Rankings*.

Conclusions:

- A. Each IPS parameter is ranked "High" or "Low" with respect to the level of risk associated with a potential guideline breach. These rankings along with the frequency for independent verification are reviewed and approved by the FI-IOG on a minimum annual basis.
- B. No changes were recommended, and the current risk rankings were approved by the FI-IOG.
- C. SBA compliance staff will continue to perform independent testing of compliance parameters on a daily basis.

6. 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 PRIME - Q2 2023**

<b>Date of Stress Tests:</b>	28-Apr	31-May	30-Jun
<b>Shadow NAV at Time of Tests:</b>	0.99999	1.00000	0.99994

**STRESS TESTING RESULTS DURING THE PERIOD**

Pct of Shares Redeemed	Redemptions Only					
	Stress NAV			Weekly Liquidity		
	Apr	May	Jun	Apr	May	Jun
0%	0.99999	1.00000	0.99994	42.49%	39.63%	40.06%
10%	0.99998	1.00000	0.99993	36.10%	32.94%	33.40%
20%	0.99998	1.00000	0.99993	30.00%	30.00%	30.00%
30%	0.99998	1.00000	0.99992	30.00%	30.00%	30.00%
40%	0.99998	1.00000	0.99990	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		
	Apr	May	Jun	Apr	May	Jun	Apr	May	Jun	Apr	May	Jun	Apr	May	Jun	Apr	May	Jun
0%	0.99954	0.99945	0.99919	42.49%	39.63%	40.06%	0.99913	0.99912	0.99903	42.49%	39.63%	40.06%	0.99920	0.99929	0.99931	42.49%	39.63%	40.06%
10%	0.99948	0.99939	0.99910	36.10%	32.94%	33.40%	0.99903	0.99902	0.99892	36.10%	32.94%	33.40%	0.99911	0.99921	0.99924	36.10%	32.94%	33.40%
20%	0.99942	0.99931	0.99899	30.00%	30.00%	30.00%	0.99891	0.99890	0.99879	30.00%	30.00%	30.00%	0.99900	0.99911	0.99914	30.00%	30.00%	30.00%
30%	0.99934	0.99921	0.99884	30.00%	30.00%	30.00%	0.99875	0.99874	0.99862	30.00%	30.00%	30.00%	0.99885	0.99899	0.99902	30.00%	30.00%	30.00%
40%	0.99923	0.99908	0.99865	30.00%	30.00%	30.00%	0.99854	0.99853	0.99838	30.00%	30.00%	30.00%	0.99866	0.99882	0.99885	30.00%	30.00%	30.00%

Test	% of Orig. Portfolio Stressed			Pct of Shares Redeemed	Combination					
	Apr	May	Jun		Stress NAV			Weekly Liquidity		
	Apr	May	Jun		Apr	May	Jun	Apr	May	Jun
Redemptions Only	0.0%	0.0%	0.0%	0%	0.99789	0.99786	0.99766	42.49%	39.63%	40.06%
Change in Int. Rates	95.2%	96.3%	95.1%	10%	0.99766	0.99763	0.99740	36.10%	32.94%	33.40%
Credit Event	67.0%	68.6%	67.0%	20%	0.99736	0.99733	0.99707	30.00%	30.00%	30.00%
Floater Spread Widening	39.9%	38.9%	36.5%	30%	0.99698	0.99695	0.99665	30.00%	30.00%	30.00%
Combination	95.2%	96.3%	95.1%	40%	0.99648	0.99644	0.99609	30.00%	30.00%	30.00%

**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.

**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%.
- 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.

**Redemption Funding Method:**

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

# Money Market Fund Reforms



The Commission adopted amendments to certain rules that govern money market funds under the Investment Company Act of 1940. The amendments are designed to improve the resilience and transparency of money market funds by:

- Increasing minimum liquidity requirements to provide a more substantial buffer in the event of rapid redemptions;
- Removing provisions from the current rule that permit a money market fund to temporarily suspend redemptions and removing the regulatory tie between the imposition of liquidity fees and a fund's liquidity level;
- Requiring certain money market funds to implement a liquidity fee framework that will better allocate the costs of providing liquidity to redeeming investors; and
- Enhancing certain reporting requirements to improve the Commission's ability to monitor and assess money market fund data.

## Why This Matters

Money market funds are managed with the goal of providing principal stability and access to liquidity by investing in high-quality, short-term debt securities whose value does not fluctuate significantly in normal market conditions. These characteristics have made money market funds popular cash management vehicles for both retail and institutional investors and an important source of short-term financing for businesses, banks, and governments.

In March 2020, economic concerns about the impact of the COVID-19 pandemic led investors to reallocate their assets into cash and short-term government securities. Prime and tax-exempt money market funds, particularly institutional funds, experienced large outflows, which contributed to stress on short-term funding markets. The amendments are designed to address concerns about prime and tax-exempt money market funds highlighted by these events and to improve the resilience and transparency of money market funds more generally.

## What's Required

### Increase of the Minimum Daily and Weekly Liquidity Requirements

The amendments will increase the minimum liquidity requirements for money market funds to at least 25 percent of a fund's total assets in daily liquid assets and at least 50 percent of a fund's total assets in weekly liquid assets. These amendments will provide a more substantial buffer that will better equip money market funds to manage significant and rapid investor redemptions in stressed market conditions while maintaining funds' flexibility to invest in diverse assets during normal market conditions.

### Removal of Temporary Redemption Gates and the Tie Between the Weekly Liquid Asset Threshold and Liquidity Fees

The amendments will remove money market funds' ability to impose temporary gates to suspend redemptions. They will also remove the regulatory tie that permits money market funds to impose liquidity fees if their weekly liquid assets fall below a certain threshold. These changes will reduce the risk of investor runs on money market funds during periods of market stress.

### Liquidity Fee Requirement

The amendments will require institutional prime and institutional tax-exempt money market funds to impose mandatory liquidity fees when a fund experiences daily net redemptions that exceed 5 percent of net assets, unless the fund's liquidity costs are *de minimis*. In addition, non-government money market funds must impose a discretionary liquidity fee if the fund's board (or its delegate) determines that a fee is in the best interest of the fund. The amended liquidity fee framework is designed to protect remaining shareholders from dilution and to more fairly allocate costs so that redeeming shareholders bear the costs of redeeming from the fund when liquidity in underlying short-term funding markets is costly.

### Other Amendments

Under the amendments, retail and government money market funds may handle a negative interest rate environment either by converting from a stable share price to a floating share price or by reducing the number of shares outstanding to maintain a stable net asset value per share, subject to certain board determinations and disclosures to investors.

The amendments will also modify certain reporting forms to reflect the amendments to the regulatory framework for money market funds. The modifications to the reporting requirements will improve transparency and facilitate Commission monitoring of money market funds. In addition, the Commission adopted amendments to Form PF, the confidential reporting form for certain SEC-registered investment advisers to private funds, to require additional information regarding the liquidity funds they advise that is generally aligned with the amended reporting for money market funds. These amendments were proposed by the Commission in January 2022.

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## What's Next

The rule amendments will become effective 60 days after publication in the Federal Register. The reporting form amendments will become effective June 11, 2024. The Commission is adopting a tiered approach to the transition periods for the other final amendments. The Commission has provided for a six-month transition period for funds to comply with certain amendments, including the minimum portfolio liquidity requirements and the discretionary liquidity fee provision. Funds will have twelve months after the effective date to comply with the amended rule's mandatory liquidity fee provision.

**Appendix A**  
**Florida PRIME Compliance Risk Rankings**

Risk Ranking	Test	Limits	
High	Securities must be USD denominated	Minimum	100%
High	Unregistered securities must be eligible for sale to Accredited Investors or Qualified Purchasers	Minimum	100%
<u>Ratings Requirements</u>			
High	First Tier Securities	Minimum	100%
Low	Long-term securities must have long-term ratings in the three highest categories	Pass/Fail	
Low	Commercial Paper must have short-term ratings from at least one NRSRO	Minimum	100%
Low	Securities in Highest Rating Category (A-1+ or equivalent)	Minimum	50%
<u>Maturity</u>			
Low	Individual Security	Maximum	397 days
Low	Government floating rate notes/variable rate notes	Maximum	762 days
High	Dollar Weighted Average Maturity	Maximum	60 days
High	Weighted Average Life	Maximum	120 days
High	S&P Weighted Average Life	Maximum	90-120 days
<u>Issuer Diversification</u>			
Low	First Tier issuer (limit does not apply to cash, cash items, U.S. Government securities and repo collateralized by these securities)	Maximum	5%
<u>Demand Feature and Guarantor Diversification</u>			
Low	First Tier securities issued by or subject to demand features and guarantees of a non-controlled person	Maximum	10%/75%
Low	First Tier securities issued by or subject to demand features and guarantees of a controlled person	Maximum	10%/100%

Risk Ranking	Test	Limits	
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Money Market Mutual Funds

Low	Invested in any one Money Market Mutual Fund	Maximum	10%
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Repurchase Agreements

Low	Repurchase Agreement Counterparty Rating	Minimum	A-1
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Low	Term (2-5 days) Repurchase Agreements with any single dealer - Counterparty Rating A-1+	Maximum	10%
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Low	Term (2-5 days) Repurchase Agreements with any single dealer - Counterparty Rating A-1	Maximum	10%
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Low	Repurchase Agreements with any single dealer - Counterparty Rating A-1	Maximum	25%
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Low	Repurchase Agreement Counterparties must be rated by S&P	Pass/Fail	
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Low	Term (more than 5 business days) Repurchase Agreements with any single dealer - Counterparty Rating A-1+	Maximum	5%
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Low	Term (more than 5 business days) Repurchase Agreements with any single dealer - Counterparty Rating A-1	Maximum	5%
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Concentration

Low	Industry Concentration, excluding financial services industry	Maximum	25%
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Low	Any Single Government Agency	Maximum	33.33%
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Low	Illiquid Securities	Maximum	5%
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High	Assets invested in securities accessible within 1 business day	Minimum	10%
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High	Assets invested in securities accessible within 5 business days	Minimum	30%
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High	Net Asset Value	Minimum	99.75%
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