



A GUIDE TO MUTB'S SECURITIES LENDING CASH REINVESTMENT OPTIONS

Securities lending cash collateral reinvestment is the process of reinvesting cash that is received as collateral on securities loaned into short-term financial products or money market funds to generate additional revenue for your program. The main objective of any securities lending cash reinvestment option or cash management product is to provide an investment strategy that invests in high quality, liquid securities that provide minimal credit risk, stability and preservation of principal, while providing a competitive market rate of return. Although each of the liquidity solutions discussed below have the same primary investment objective, they are different in many ways, such as structure, risk tolerance and reporting. MUTB's Global Securities Lending Solutions team can assist in finding a collateral reinvestment solution using a variety of different strategies to optimize investment income, while maintaining liquidity.

HIGHLIGHTS

- ▶ Evaluating and establishing your securities lending cash investment policy statement.
- ▶ Understanding securities lending cash reinvestment options by balancing risk, return, and liquidity.
- ▶ Tailoring your securities lending cash reinvestment needs through an active management approach.

UPDATING YOUR SECURITIES LENDING CASH INVESTMENT POLICY STATEMENT

From regulatory changes to an array of multidimensional cash investment vehicles, investors are confronted with a multitude of new risks to manage. In this new cash era, investors not only need to adapt, but incorporate these market changes in their securities lending cash investment policy statement (IPS). By updating and maintaining your cash IPS, investors can identify parameters for both risk tolerance and liquidity to ensure preservation of capital. The following are just a few of the many factors that should be reviewed when updating your cash IPS.

- ▶ What new regulatory changes conflict with my current IPS?
- ▶ How are cash balances viewed and what are the return and other investment objectives (i.e. cash segmenting)?
- ▶ What are my risk tolerance (credit, interest rate, liquidity, spread, and diversification) and liquidity needs?
- ▶ What cash vehicle(s) will I choose and will the product be managed internally or externally?

TYPES OF CASH REINVESTMENT OPTIONS

The most common form of collateral for a securities lending transaction from a borrower is cash. This cash can be actively reinvested in various short-term financial products or money market funds to generate additional revenue for your program. By having a thorough understanding of how these products work and the different associated risks, investors can navigate the various product offerings to find an optimal risk/return balance to enhance the profitability of their program.

The available cash reinvestment options include:

- ▶ Repurchase Agreement (Repo)
- ▶ Government Money Market Fund
- ▶ Prime Money Market Fund
- ▶ Private Commingled Liquidity Fund
- ▶ Separately Managed Account (SMA)

Please see next page for detailed descriptions of each option.

Repurchase Agreement (Repo)

Description

- Short-term agreement; one party sells securities to the other in exchange for cash, with a commitment of buying them back at a later date for a specified, higher price
- Economically similar to a short-term interest-bearing loan against collateral

Maturity

- Most repos mature overnight

Quality

- Determined by your Schedule of Eligible Collateral and margins

Liquidity

- Determined by the agreed upon term

Diversification

- Based on underlying collateral types and limits
- Based on approved counterparty exposure limits
- Risk of default — seller may fail to repurchase the securities at maturity

Government Money Market Fund

Description

- Invests at least 99.5% of total assets in U.S. Treasury and government securities, cash and fully-collateralized repo agreements
- Examples of investments include T-bills, Repo, U.S. Treasury Notes and U.S. Government Agency Debt

Maturity

- Individual Security — 397 days
- Weighted Average Maturity (WAM) — ≤ 60 days
- Weighted Average Life (WAL) — ≤ 120 days

Quality

- SEC Rule 2a-7 requires MMF eligible securities to be of high quality and present minimal credit risk to the fund

Liquidity

- Daily; Must maintain minimum 10% daily liquid asset and 30% weekly liquid asset buckets

Diversification

- Limited to 5% per issuer, excluding government securities

Net Asset Value (NAV)

- Seek to maintain a stable NAV of \$1.00

Liquidity Fees and Redemption Gates

- N/A

Oversight

- To be considered a registered money market mutual fund, funds are required by the SEC to adhere to Rule 2a-7 under the Investment Company Act of 1940

Prime Money Market Fund

Description

- Invests primarily in high-quality, short-term corporate debt securities and other money market instruments
- Examples of investments include CDs, Commercial Paper (CP), Corporate Bonds, Repo, U.S. Treasury and other government securities and Variable Rate Demand Notes (VRDNs)

Maturity

- Individual Security — 397 days
- Weighted Average Maturity (WAM) — ≤ 60 days
- Weighted Average Life (WAL) — ≤ 120 days

Quality

- SEC Rule 2a-7 requires MMF eligible securities to be of high quality and present minimal credit risk to the fund

Liquidity

- Daily; Must maintain minimum 10% daily liquid asset and 30% weekly liquid asset buckets

Diversification

- Limited to 5% per issuer, excluding government securities

Net Asset Value (NAV)

- Seek to maintain a stable NAV of \$1.00

Liquidity Fees and Redemption Gates

- The ability to impose a liquidity fee on redemptions and/or temporary restrictions on redemptions in the form of a redemption gate

Oversight

- To be considered a registered money market mutual fund, funds are required by the SEC to adhere to Rule 2a-7 under the Investment Company Act of 1940

Private Commingled Liquidity Fund

Description

- Customized Securities Lending Fund, structured as an LLC, offered by MUTB exclusively for the MUTB securities lending program for cash collateral reinvestment
- Invests primarily in high-quality, short-term corporate debt securities and other money market instruments
- Examples of investments include CDs, Commercial Paper (CP), Corporate Bonds, Repo, U.S. Treasury and other government securities and Variable Rate Demand Notes (VRDNs)

Maturity

- Individual Security — 730 days
- Weighted Average Maturity (WAM) — ≤ 60 days

Quality

- Eligible securities to be of high quality and present minimal credit risk to the fund with a minimum long-term debt rating of A3 by Moody's or A- by S&P or A- by Fitch at time of purchase

Liquidity

- Daily

Diversification

- Limited to 4% per issuer, excluding government securities
- Limited to 25% per industry, excluding government securities

Net Asset Value (NAV)

- Seek to maintain a stable NAV of \$1.00. An investment in the Fund is not a deposit of the Manager, a federally insured national banking association, or any of its affiliates and is not insured or guaranteed by the FDIC or any other government agency. Although the Fund seeks to preserve principal, it is possible to lose money by investing in the Fund, and the Fund may be unable to maintain a stable NAV of \$1.00.

Liquidity Fees and Redemption Gates

- N/A

Oversight

- The Investment Manager is responsible for the monitoring of the Fund's investments, credits, maturity restrictions and collateralization limits. The Investment Guidelines are in reference to investments for the Fund.

Separately Managed Account (SMA)

Description

- Non comingled investment portfolio professionally administered by MUTB exclusively for their securities lending clients for cash collateral reinvestment
- MUTB recommends investments primarily in high-quality, short-term corporate debt securities and other money market instruments. However, SMAs are fully customizable to the client's risk and return parameters.

Maturity

- Custom to the client

Quality

- Custom to the client

Liquidity

- Custom, client owns the securities versus a portion of a Fund, investment manager can liquidate per the client's instructions.

Diversification

- Custom to the client

Net Asset Value (NAV)

- Determined by the value of the underlying securities

Liquidity Fees and Redemption Gates

- N/A

Oversight

- The Investment Manager is responsible for following the Investment Policy Statement which is created in conjunction with the client

Advantages

- Tailored to the client's individual return objectives, risk tolerance and other specific requirements
- Client ownership of securities eliminates liquidity risks associated with commingled funds
- Transparency

Risk

- Custom to the client