


TRACS FINANCIAL℠
The best investment you can make...

THE PUBLIC INTEREST

Independent and Objective Analysis of State and Local Government Pools

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January 2019 Issue
Data as of December 2018

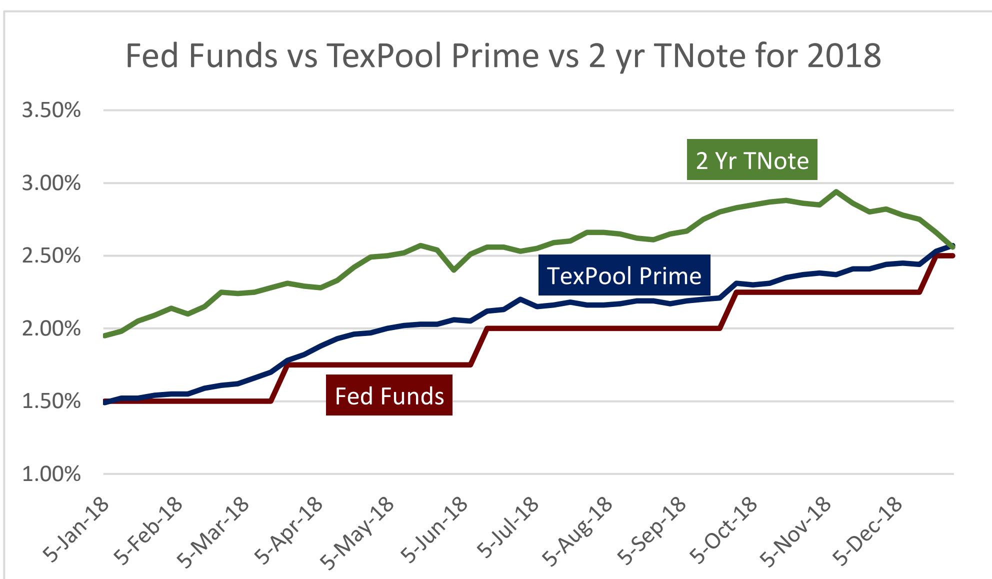
INSIDE THIS ISSUE

Special Edition: 2018 National LGIP Yield Performance and Rankings

What a year 2018 was in so many ways, exhausting many say. Perhaps politics, global market disruptions, the attempt by our Fed to normalize rates despite other central bank resistance to reverse QE and the uncertainty regarding trade and tariffs all contributed. The Fed meanwhile held to their "dot plot" rate hike mission with quarterly hikes starting in March and some fairly confusing comments by Fed chair Powell on October 3rd regarding the Fed funds rate being fairly far away from what they call their "neutral rate", whatever that is. We have yet to hear any succinct definition. We had been calling for a Fed pause at their December meeting but comments from Trump regarding his opinion of policy made the Dec hike almost assured. We stated last fall that the Fed path of tightening could cause stock prices to tumble sharply, falling from Sept highs of 26,000 down to their support level pre-tax cut ebullience levels of 22,500. The rest is history, but many comments made by Powell after the December debacle indicate a more patient Fed less set on the previously assumed 3 hike target in 2019. Stocks bounced, the dollar backed off, and high yield debt markets recovered. At this writing, many believe that the Fed is likely at the end of their tightening cycle as former chair Yellen noted 1/14. Pool yields rose with each quarterly Fed hike last year much to the pleasure of public sector investors looking for much needed additional investment revenue after nearly a decade of near 0% returns.

2 yr TN yields generally lead Fed funds, up or down, confirmed or refuted by longer term yields. The chart shows that by year end, the markets thought a Fed pause was in order.

Watch 2 year TN yields.



<u>At this writing, we do not believe that the Fed will hike rates in 2019.</u> Global growth is slowing and inflation numbers appear to be declining. It seems unlikely that the Fed would want to consider a rate cut after just having raised rates last month. That might signal that the Fed was very concerned about a potential liquidity crisis and do more damage to the markets. We will touch on some potential Fed policy tools that could be used instead of the blunt instrument of Fed rates.

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By the Numbers

There are many variables which include things like fees and portfolio percentage of commercial paper in Primes.

The following yields on an annualized basis reflect how our nations LGIPs performed in 2018. There are at least 6 pools at or near the top rankings that do not reflect SEC rule 2a-7 type pools but may be short term or ultrashort duration bond funds but these are the collective pool yields nonetheless. The first true 2a-7 type LGIP was the Texas CLASS Prime coming in at a yield of 2.09% and most of the pools we follow below are considered to be true 2a-7s, most with the triple-A money fund type ratings. There are certain other state or local government pools like CA LAIF which is also a short duration type pool with average portfolio maturities beyond the 60 day WAM cap on 2a-7s. We also note that the FL Prime is a rated 2a-7 which benefited from a legal settlement and that amount was passed on to pool members, obviously benefiting yield somewhat. The CalTRUST pool is actually a short duration fund with a WAM target of 0-2 years and is rated AAf.

2018 LGIP Performance

Red: LGIPS
Gold: State Sponsored Pools

Obviously a pretty tight grouping in the TOP 10 yields which would be expected given that 2a-7 portfolio structure guidelines are the same.

Rank	2018 Averages	AVG
	Utah Public Treasurers Investment Fund	2.37%
	Arizona Pool 500	2.19%
	Oregon Short-Term Fund	2.18%
	Florida Prime	2.16%
	Virginia State Non-Arb Program SNAP*	2.10%
	CalTRUST Short Term Fund	2.09%
#1	Texas CLASS	2.09%
#2	Texas Lone Star Corp Overnight Plus	2.08%
#2	Massachusetts Muni Depository Trust Cash	2.08%
#2	Colorado ColoTrust Plus+	2.08%
#3	Texas LOGIC	2.06%
#4	Florida CLASS	2.05%
#4	Texas TexPool Prime	2.05%
#5	Michigan CLASS	2.03%
#5	Virginia LGIP*	2.03%
#6	Florida FLSAFE*	2.02%
#6	Texas Lone Star Corp Overnight	2.02%
#6	West Virginia Money Market Pool	2.02%
#6	California PFM Asset Mgmt Program*	2.02%
#7	Pennsylvania PFM PLGIT Prime*	2.01%
#8	CalTRUST Money Market Fund*	2.00%
#8	Florida FLGIT Local Govt Day to Day Fund*	2.00%
#9	South Carolina LGIP	1.96%
#9	Colorado CSAFE	1.96%
#10	Montana Short-Term Investment Pool	1.95%
	Wisconsin Investment Series Coop Investment*	1.94%
	Ohio State Treasury Asset Reserve STAR OH	1.94%
	New Jersey Cash Management Fund	1.93%
	Idaho LGIP	1.93%
	Pennsylvania INVEST Daily*	1.93%
	Michigan PFM Schl Dist Liq Asset Fund+ - Max*	1.93%
	Arizona Pool 5	1.93%
	Pennsylvania INVEST Community*	1.92%
	Arizona Pool 700	1.92%
	Louisiana Asset Management Pool	1.91%
	Minnesota PFM Assc of Govts Investing for Counties*	1.90%
	Washington LGIP	1.90%
	Connecticut Short-Term Investment Fund	1.88%
	Texas TexasDAILY*	1.88%
	Minnesota PFM Schl Dist Liq Asset Fund - Max*	1.88%
	Wisconsin LGIP	1.88%
	Minnesota MNTrust Investment Share*	1.88%
	New York Liq Asset Fund Liq*	1.87%

It starts to get interesting as to why some Prime pools can have so much lower yields than the Top Prime yield at 2.09% or even the top all-gov pool at 1.90%. Competition helps where obligation falls short.

It is difficult to get access to many pool portfolios to know whether a pool is truly an all government guaranteed portfolio.

***Our apparent TOP 3 Gov'y pools** were:*

Washington State
Texas CLASS Gov
TexPool & TexSTAR (tied)

New Hampshire Public Deposit Investment Pool*	1.87%
Nevada LGIP^	1.86%
Kansas Municipal Investment Pool	1.86%
Pennsylvania Schl Dist Liq Asset Fund Liq*	1.85%
Texas CLASS Government	1.85%
California LAIF	1.85%
Illinois Metro Investment Convenience Fund*	1.85%
Indiana TrustINdiana	1.85%
Georgia Fund 1	1.85%
Illinois Funds Money Market Fund	1.84%
Missouri PFM Securities Investment Program*	1.84%
Maryland MLGIP	1.84%
Pennsylvania PFM PLGIT I-CLASS*	1.82%
Texas TexSTAR	1.82%
Texas TexPool	1.82%
Illinois Schl Dist Liq Asset Fund Plus - Max*	1.81%
Texas Lone Star Govt Overnight	1.81%
Tennessee LGIP	1.80%
Pennsylvania PFM PLGIT ARM*	1.80%
Alaska Muni League Investment Pool AMLIP*	1.80%
Pennsylvania PFM PLGIT PLUS-CLASS*	1.79%
Minnesota PFM Schl Dist Liq Asset Fund - Liq*	1.78%
New Jersey PFM Asset & Rebate Management Program*	1.78%
New Mexico MexiGROW LGIP	1.77%
West Virginia Govt Money Market Pool	1.77%
CalTRUST Government Fund*	1.77%
Arizona Pool 7	1.76%
Oklahoma Public School Liq Asset Pool	1.76%
Michigan PFM Schl Dist Liq Asset Fund+ - Cash*	1.75%
Illinois PFM Park Dist Liq Asset Fund Plus*	1.75%
Illinois Schl Dist Liq Asset Fund Plus - Liq*	1.74%
Colorado ColoTrust Prime	1.73%
New York CLASS	1.73%
Wisconsin Investment Series Coop Cash Management*	1.72%
Wyoming Government Investment Fund*	1.72%
Maine State Treasurer's Pooled Cash	1.71%
Pennsylvania PFM PLGIT CLASS*	1.65%
Pennsylvania Schl Dist Liq Asset Fund Max*	1.63%
Wyoming State Treas Asset Reserve (WYO-STAR)^	1.62%
Iowa TELF*	1.61%
Iowa IPAIT Diversified	1.60%
Iowa Schl Joint Invest Trust Diversified*	1.58%
Nebraska Public Agency Investment Trust*	1.57%
Nebraska PFM Schl Dist Liq Asset Fund*	1.56%
New York Liq Asset Fund Max*	1.36%
South Dakota Public Funds Investment Trust ^	1.27%

**used last day of month rate to calculate*
^calculated with incomplete data
All values are approximate and you should check with each specific fund for accuracy

Current Pool Yields

There is a fairly large collection of pools now with yields above the top end of the current Fed rate range of 2.50%. Since most pools keep a large percentage of their portfolios in 0-7 day cash, including overnight repo, it will be interesting to see whether Fed funds and repo rates stay near the top end of the Fed range. The potential for a Fed reduction in IOER, should some liquidity crisis occur and where the Fed wants to have some of those excess reserves put into the system for liquidity, could bring down repo rates. We'll see.

December Month End 2018 LGIP Performance

Red: LGIPS
Gold: State Sponsored Pools

We could see pool yields at these levels for the year if there are no further Fed rate changes.

All government portfolio type pool yields are running in a tight range of 2.38%-2.40%.

	As of 12/31/2018		
	Daily	**7 Day**	**Monthly**
Utah Public Treasurers Investment Fund			2.80%
Florida Prime		2.64%	
1st Quartile	**2.59%**		
Massachusetts Muni Depository Trust Cash		2.59%	
Florida CLASS		2.58%	
Texas Lone Star Corp Overnight Plus		2.58%	
Texas TexPool Prime		2.58%	
Virginia State Non-Arb Program SNAP		2.57%	
Florida FLSAFE		2.56%	
Oregon Short-Term Fund			2.56%
Texas LOGIC		2.56%	
Texas Lone Star Corp Overnight		2.56%	
California PFM Asset Mgmt Program		2.55%	
Texas CLASS		2.55%	
West Virginia Money Market Pool		2.55%	
CalTRUST Short Term Fund			2.54%
New Jersey Cash Management Fund			2.54%
Colorado ColoTrust Plus+		2.53%	
Virginia LGIP		2.53%	
CalTRUST Money Market Fund		2.52%	
Florida FLGIT Local Govt Day to Day Fund		2.49%	
Ohio State Treasury Asset Reserve STAR OH	2.49%		
Pennsylvania PFM PLGIT Prime		2.49%	
Washington LGIP		2.47%	
Illinois Institutional Investors Trust (IIIT)		2.46%	
Michigan CLASS		2.45%	
Colorado CSAFE		2.43%	
Connecticut Short-Term Investment Fund		2.43%	
Louisiana Asset Management Pool		2.42%	
2nd Quartile	**2.41%**		
Illinois Funds Money Market Fund		2.41%	
Wisconsin Investment Series Coop Investment	2.41%		
Kansas Municipal Investment Pool	2.40%		
Michigan PFM Schl Dist Liq Asset Fund+ - Max		2.40%	
Minnesota PFM Assc of Govts Investing for Counties		2.40%	
Texas CLASS Government		2.40%	
Texas Lone Star Govt Overnight		2.40%	
Texas TexSTAR		2.40%	
Minnesota MNTrust Investment Share		2.39%	
Minnesota PFM Schl Dist Liq Asset Fund - Max		2.39%	
Montana Short-Term Investment Pool		2.39%	
Pennsylvania INVEST Community		2.39%	
South Carolina LGIP			2.39%
Texas TexPool		2.39%	
Arizona Pool 5			2.38%
Idaho LGIP			2.38%
Nebraska Public Agency Investment Trust*	2.38%		
Texas TexasDAILY	2.38%		
West Virginia Govt Money Market Pool		2.38%	

We continue to be concerned about risks in the Euro zone banks and the massive amount of high yield corporate debt issuance.

The spreads between the top and bottom quartiles is remarkable.

New Hampshire Public Deposit Investment Pool		2.37%	
New Mexico MexiGROW LGIP*		2.37%	
Wisconsin LGIP			2.37%
Maryland MLGIP		2.36%	
Georgia Fund 1			2.35%
Indiana TrustINdiana		2.35%	
New York Liq Asset Fund Liq'	2.35%		
Pennsylvania INVEST Daily		2.35%	
Pennsylvania PFM PLGIT I-CLASS		2.35%	
Pennsylvania Schl Dist Liq Asset Fund Liq'		2.35%	
Illinois Metro Investment Convenience Fund	2.34%		
Missouri PFM Securities Investment Program		2.34%	
New Jersey PFM Asset & Rebate Management Program		2.33%	
Alaska Muni League Investment Pool AMLIP	2.32%		
California LAIF	2.32%		
Iowa TELF		2.32%	
CalTRUST Government Fund		2.31%	
Pennsylvania PFM PLGIT ARM		2.31%	
Pennsylvania PFM PLGIT PLUS-CLASS		2.31%	
Illinois Schl Dist Liq Asset Fund Plus - Max		2.29%	
Arizona Pool 7			2.27%
Minnesota PFM Schl Dist Liq Asset Fund - Liq		2.27%	
Tennessee LGIP			2.26%
Wisconsin Investment Series Coop Cash Management	2.26%		
Colorado ColoTrust Prime		2.25%	
Illinois PFM Park Dist Liq Asset Fund Plus		2.25%	
Median			
3rd Quartile	**2.23%**		
Crane 100 MMF Index	2.23%		
Michigan PFM Schl Dist Liq Asset Fund+ - Cash		2.23%	
Illinois Schl Dist Liq Asset Fund Plus - Liq		2.22%	
Maine State Treasurer's Pooled Cash			2.22%
Oklahoma Public School Liq Asset Pool		2.22%	
Pennsylvania Schl Dist Liq Asset Fund Max'		2.22%	
Wyoming Government Investment Fund		2.22%	
New York CLASS		2.21%	
Pennsylvania PFM PLGIT CLASS		2.16%	
Nebraska PFM Schl Dist Liq Asset Fund		2.15%	
Iowa Schl Joint Invest Trust Diversified		2.14%	
Iowa IPAIT Diversified		2.09%	
4th Quartile	**2.05%**		
New York Liq Asset Fund Max'	1.86%		
Orange County Money Mkt Fund			1.86%
Nevada LGIP			NA
South Dakota Public Funds Investment Trust		NA	
Wyoming State Treas Asset Reserve (WYO-STAR)			NA

**As of 1/2/19, 'as of 12/26/18*

Nonrated longer duration pool and the yield data was not used in the quartile data with the other pools which are generally true 2a-7 portfolios.

County Pools **As of 12/31/2018**	**Monthly**
San Mateo County CA Investment Pool 1	2.22%
Orange County CA Extended Fund	2.07%
Orange County CA Combined Pool for Schools	2.05%
Spokane County WA Investment Pool (SCIP)	2.02%
Orange County CA Combined County Pool	2.00%

Note$ with Interest

Time for Fed policy to enter the 21st century.

Looking back at 2018, the TRACS position was consistent that the Fed would not be able to raise rates to the extent predicted by the "dot plots". The Dec hike to 2.25%-2.50% plus an additional 3 hikes this year would have put US fed funds rates at 3.0%-3.25%, far above all other industrialized nations and their central banks. 10 year German Bund yields are at .25%! Many sovereign yields are negative. When the yields of the 2 and 10 year Treasuries collapsed toward the end of the year and stock markets cratered, we felt our observations were confirmed by the markets themselves. As we enter 2019, it appears that the Fed has shifted to a pause status. Further, the Fed has often stated that it wanted to "normalize" Fed rates to levels that would allow significant rate cuts should some serious financial crisis occur on a variety of levels. (High yield and junk debt markets are a serious risk to the markets, Euro banks are nontransparent, and nonperforming debt levels are growing. Jeffrey Gundlach (new bond king) is very concerned about the levels of US debt). All of this seemed nonsensical to us going back to Yellen. Fed funds are the rates at which banks lend to each other so what does that have to do with infusing liquidity into the system? Former Dallas Fed governor Richard Fisher stated several years ago that "Fed funds" were a vestigial organ, no longer functioning or useful, we totally agree. Fed monetary policy based on having an ability to slash Fed funds rates seems more than a ridiculous way to justify rate hikes, especially in a slowing economy.

The Fed has many more tools in the box it can use that create less of a disruption to credit markets but that do effect liquidity. Repo and reverse, slowing the run off of the balance sheet, and the Interest on Excess Reserves (IOER) are far more effective ways to adjust liquidity in the system. Using Fed funds rates seems as outdated and antiquated as does the old Phillips Curve model that states that inflation always occurs with full employment. Both are inexplicable relics in a new global market environment.

About the Author

TRACS Financial founder Jeffery Flynn has been associated with public sector investing for over 30 years and is a nationally recognized authority on prudent cash management techniques. Over the years, we have issued warnings, alerts and observations about the markets, typically when we saw reason for concern or opportunity.

TRACS strongly encourages the use of FDIC insured community bank deposit programs especially since our Federal government seems incapable of taking care of the needs of our people and communities. The "effective rate of return" on public sector deposits is enhanced if those funds actually help people in our communities. To read more about FDIC insured deposit programs, visit the TRACS Financial website www.tracsfinancial.com.

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