

Maximizing Returns on Surplus Operating Cash

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The AFP® Annual Conference



Agenda

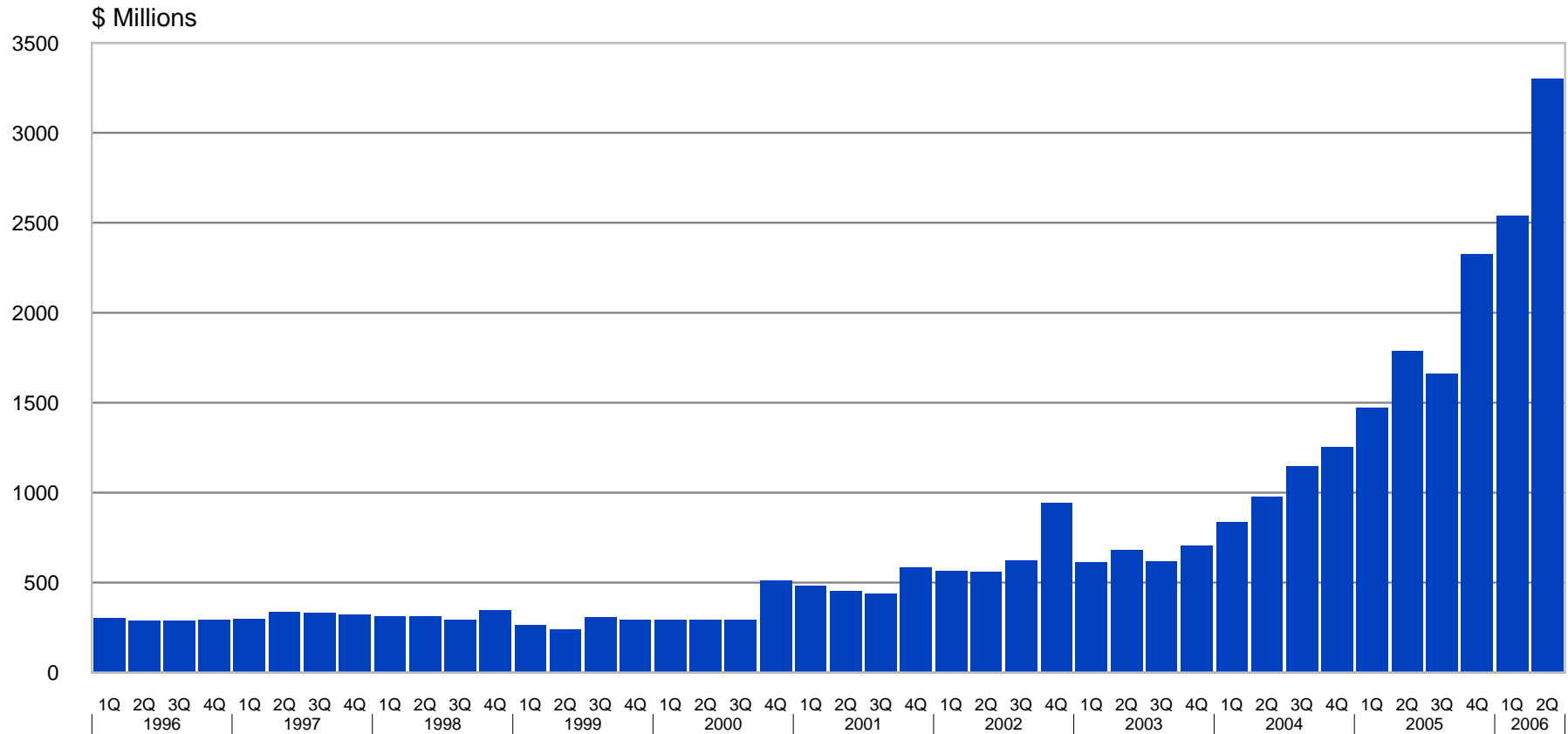
- Overview
- Liquidity assessment
- Portfolio tiering
- Selection of external managers
- Investment policy
- Custody bank
- Reporting and performance reviews
- Securities lending
- Corporate governance

Corporate Overview

- Gilead Sciences, Inc. (NASDAQ: GILD)
 - Biopharmaceutical company
- Discovers, develops and commercializes innovative therapeutics to advance the care of patients suffering from life-threatening diseases worldwide.
- Headquartered in Foster City, California
 - Operations in North America, Europe and Australia.
- \$2.0B in revenue (2005)
- \$29B market capitalization
- Franchises: HIV, Hepatitis B and antifungal
- Marketed products: [Atripla™](#) [Truvada®](#) [Viread®](#) [AmBisome®](#)
[Hepsera®](#) [Emtriva®](#) [Vistide®](#) [Tamiflu®](#)
- 2100 employees

Gilead's Liquidity

Cash Balance 1996 to 2006



Liquidity Assessment

- **How much cash do we have?**
 - Forecast weekly, quarter end and year end cash balances
- **How much cash do we need?**
 - Minimum cash balance
- **What major non-operating cash uses are expected?**
 - Annual and quarterly cash planning

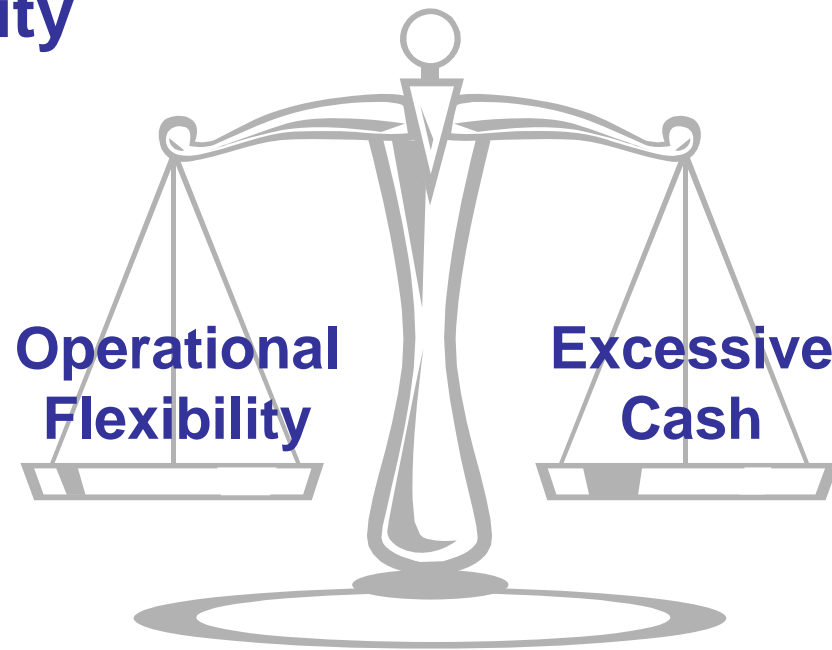
Liquidity Assessment

Cash Forecasting

- **Weekly cash forecast for current quarter**
 - Sources: AR, interest income, inter-company & stock option exercises
 - Uses: Inter-company, payroll, AP
 - Global focus, by entity
 - Updated weekly
- **Compare results with projected financial statements for reasonableness**
- **Why forecast?**
 - Optimize portfolio performance
 - Prevents unrealized losses
 - Reduces idle cash balances

Liquidity Assessment

Optimal Liquidity



- Mitigate untimely liquidity event
- Maintain GILD high multiple
 - Flexibility to pursue opportunities

Liquidity Assessment

Defining Minimum Cash

Liquidity Ratio	Business Shock	Value at Risk
<ul style="list-style-type: none"> Benchmark liquidity profile of peers in Biotech 	<ul style="list-style-type: none"> Minimum cash needs for 18-months 	<ul style="list-style-type: none"> Analyze probability of liquidity event given GILD's historical & projected financial performance
<ul style="list-style-type: none"> Conclusion: ~\$1.9b 	<ul style="list-style-type: none"> Conclusion: ~\$1.5b 	<ul style="list-style-type: none"> Conclusion: 85% confidence level in GILD meeting cash needs over next 3-years



Recommendation:

- Minimum cash balance; plus
- Available capacity under revolving credit facility

Liquidity Assessment

Cash Planning

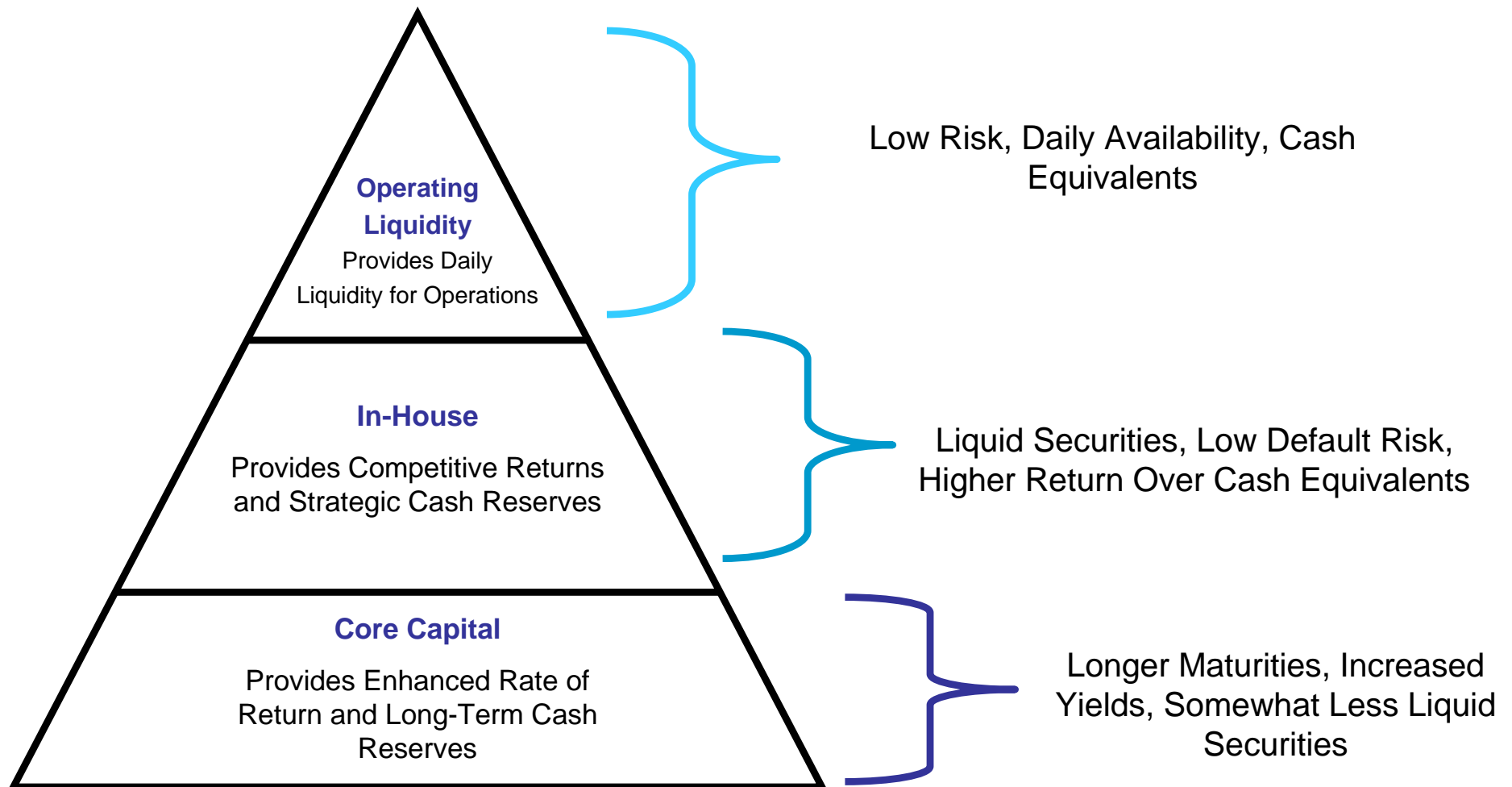
- **Annually and each quarter identify major non-operating uses of cash**
 - M&A
 - In-licensing
 - Stock repurchase
 - Optional debt repayment
- **Ensures optimal sizing of liquidity tiers**

Portfolio Tiering

Cash Tiering

- **Define cash tiers by duration**
- **Determine objective of each investment tier**
 - Liquidity or yield
 - Priorities differ by duration of cash tier
 - Return of capital is always an objective
- **Develop benchmark for each tier**
 - Market driven indices
 - Duration of BM similar as duration of investment tier
 - Easy to calculate, verifiable
 - Representative of permissible securities

Cash Tiers



Tier I: Operating Liquidity

- **Defined minimum balance**
 - Size driven by historical analysis of maximum daily need adjusted for non-operating cash items
- **Money Market Fund**
 - Returns outperform sweep account
 - MMK portal gives access to multiple funds
 - Taxable and non-taxable funds
- **Immediate availability**
 - 2:00pm same day availability
- **Sweep accounts to ensure no idle cash balances**

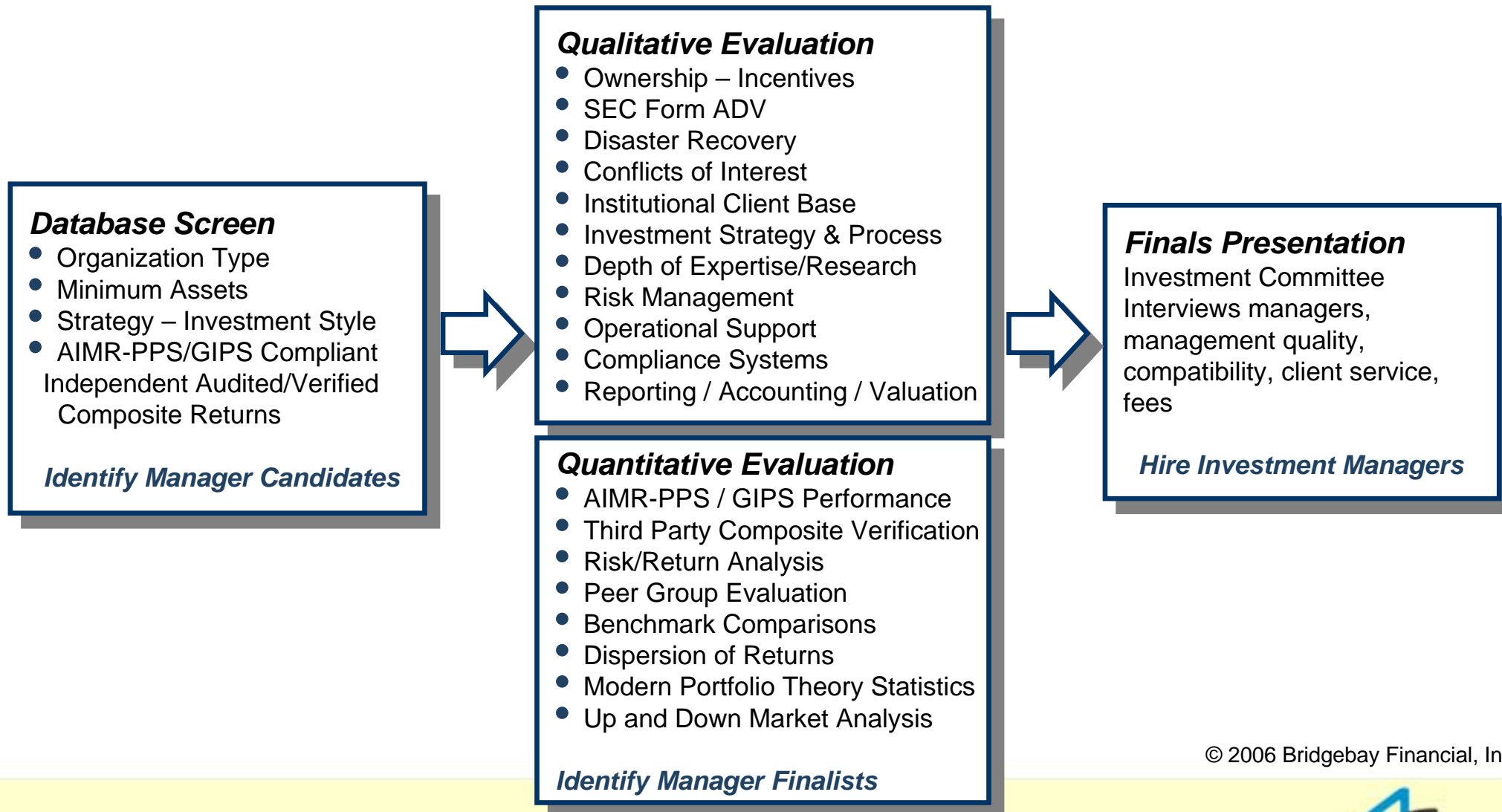
Tier II: In-House Portfolio

- **Managed by Gilead Treasury**
- **CFO approved target balance**
- **Provide liquidity source for M&A, stock buyback, and unexpected cash requirements**
- **Out perform MMF, very liquid, little mark to market risk, buy and hold**
 - Reduces overall management fees
 - Benchmark: Blend 3-month + 12-month LIBID
 - 18 month max maturity, 9 month maximum WAM
- **Strict investment process including;**
 - Documented controls & segregation of duties
 - A sub-set of the approved investment list
 - CFO approved broker/dealers
 - Third party performance calculation and strategy review
- **Quarterly credit review of investments conducted by external manager**
 - Included in the quarterly BAC compliance report

Tier III: Core Capital Portfolio

- **Managed by SEC-registered investment advisors**
 - Increased mark to market risk through increased credit exposure
 - Trading allowed with realized loss limits
- **No target balance**
- **Objectives in order of priority**
 - Increased returns, preservation of capital, then liquidity
 - Maximize returns through complex securities, credit and longer duration
- **Benchmark: 2 year duration target**
 - Taxable Benchmark
 - Blended 3-month LIBOR + ML 1-5 year Govt/Corp
 - Tax-exempt Benchmark
 - Blended Muni Swap Index + ML 1-5 year Muni

Investment Manager Search Process



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- **Independent accountants' report of investment manager composite**
 - Verification letter of composites as set forth by GIPS® (formerly AIMR-PPS®)
 - Investment Manager *“complied with all the composite construction requirements of the Global Investment Performance Standards GIPS® on a firm-wide basis for the period from January 1, 2005 to December 31, 2005, and designed its processes and procedures to calculate and present performance results in compliance with the GIPS® as of December 31, 2005.”*
- **SAS 70 Report**
 - Auditing firm's experience in conducting SAS 70 reports for other firms
- **SEC Form ADV or IAPD (Investment Adviser Public Disclosure)**
 - http://www.adviserinfo.sec.gov/IAPD/Content/Search/iapd_OrgSearch.aspx
- **NASD Broker-Check**
 - http://www.nasd.com/InvestorInformation/InvestorProtection/NASDW_005882

Investment Manager Performance Factors

SEC Form ADV Part II



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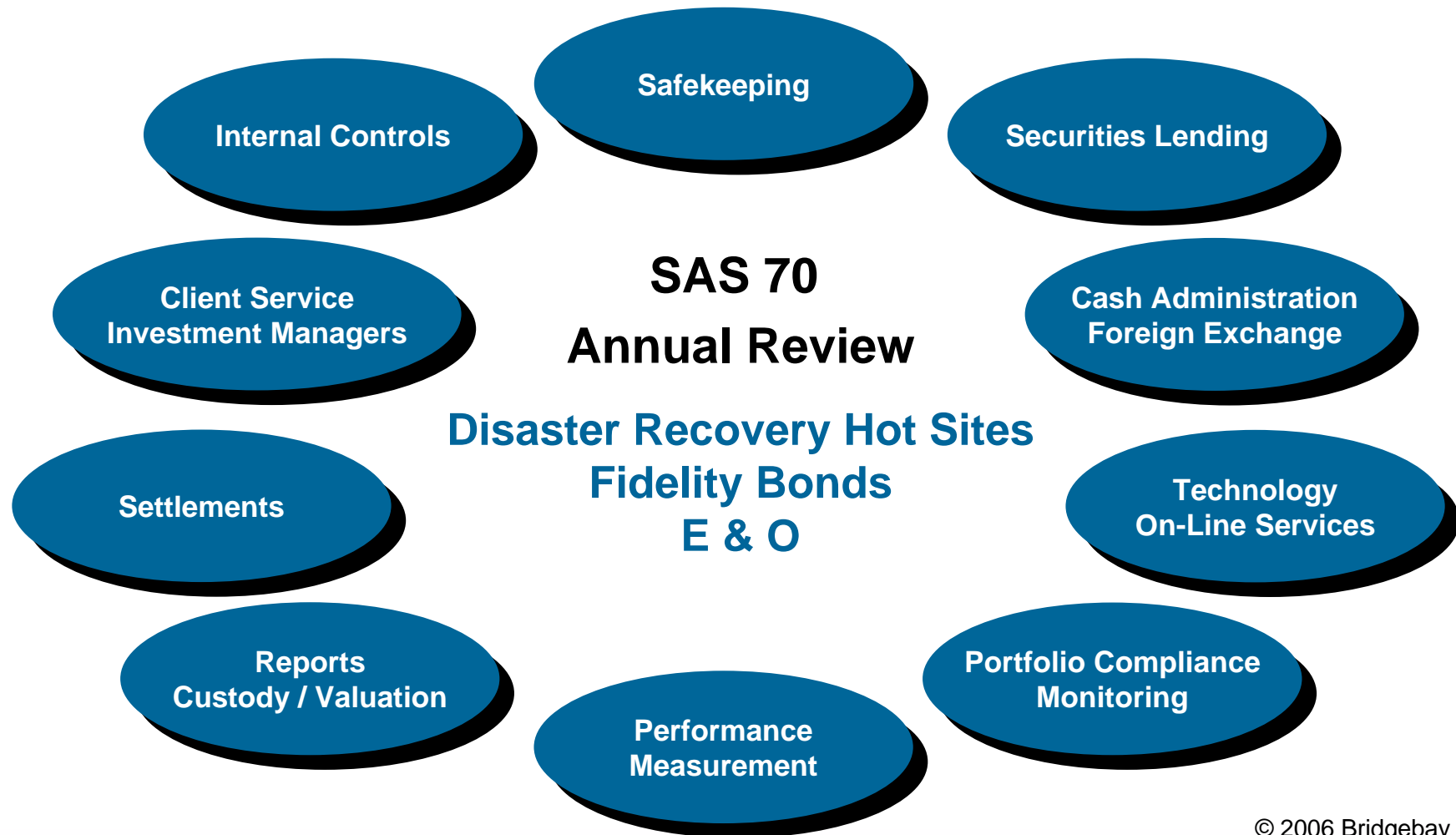
Investment Policy

- **Audit Committee approved**
 - Reviewed annually
- **Defined list of authorized traders and approvers**
- **Policy contains specific guidelines and limitations**
 - Allowable securities
 - Asset class exposure limits
 - Maximum issuer limitations
 - Maximum maturity for single security
 - Maximum weighted average maturity for cash tier
 - Minimum program requirements
 - Maximum issue limitation
 - Minimum credit rating requirements
 - Maximum country exposure limits
 - Maximum realized loss budget
- **Guidelines and limitations are established at levels that enable achievement of objective**

Expand the Eligible Securities

- ***Taxable Securities***
 - Treasuries/Agencies
 - Repo
 - Money Market Instruments
 - Corporate Notes
 - Floating Rate Notes
 - Taxable Municipals
 - Asset Backed Securities
- ***Structured Securities***
 - Mortgage Backed Securities
 - CMOs
 - Commercial MBS
- ***Tax-Advantaged Securities***
 - General Obligations
 - Pre-Refunded Notes
 - Tax-Exempt Commercial Paper
 - Variable Rate Demand Notes
 - Short-Term Notes
 - Tax-Exempt Put Bonds
 - Auction Rate Securities
 - Revenue Bonds
 - Municipal Bonds Transportation
 - Municipal Housing
 - Industrial Development Bonds

Global Custody Performance Factors



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Reporting & Performance

- **Custodian provides all accounting and reporting**
 - Ensures consistency
 - SAS 70 type II certified
- **Internal analysis and third party investment consultant review by portfolio and in aggregate**
 - Monthly, quarterly and annual total return
 - Average credit rating
 - Exposures
 - Credit rating
 - Maturity/duration
 - Security sector
 - Attribution analysis - Factors contributing to performance vs. benchmark
 - Duration
 - Sector
 - Yield curve positioning
 - Security selection
- **Conduct forward-looking scenario analysis**
 - Interest rate shift +/- 50bps., 100bps and vs. annual plan assumptions
 - Yield curve volatility
 - Impact on unrealized losses

We forecast an annual return on cash for financial planning purposes and compare our actual results to this number

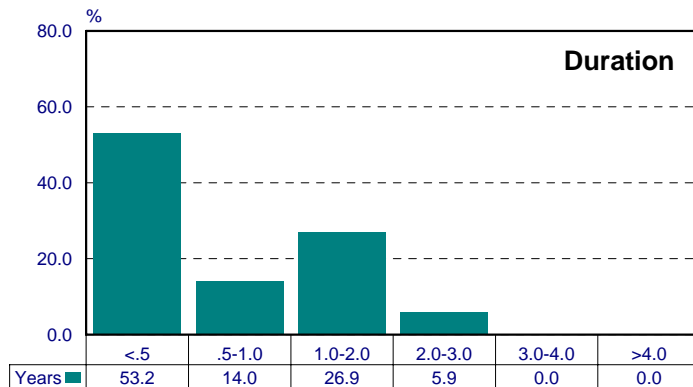
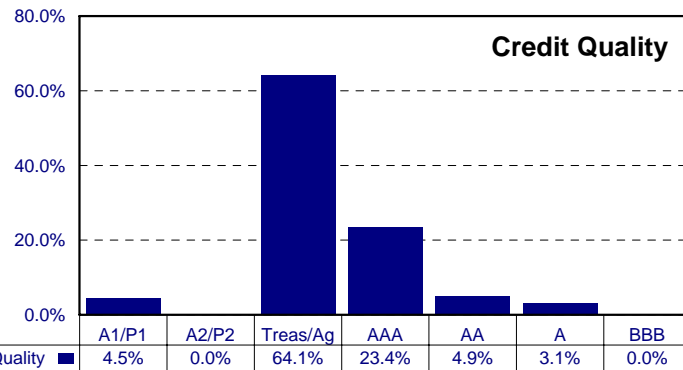
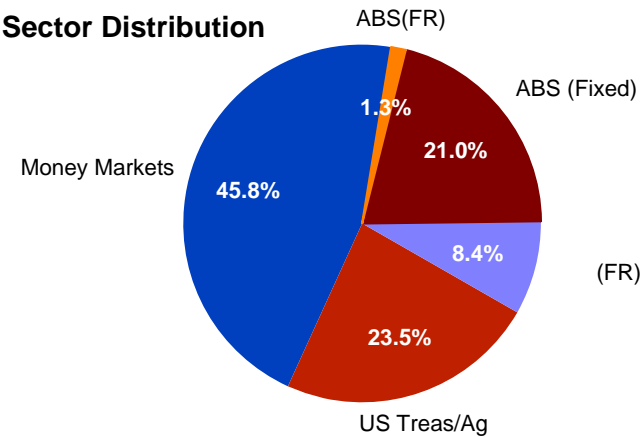
Performance Reviews

- **Quarterly meeting with third party investment consultant to review all portfolios and with each external manager**
 - Face-to-face meeting at least once every 6-months
 - Review performance for quarter, YTD and since inception
 - Discuss macro economic assumptions impacting strategy
 - Review strategy or changes to strategy
 - Opportunities and resulting realized losses
 - Potential changes to investment policy
 - Changes in portfolio or firm management personnel
 - Affiliations with hedge funds
- **Formal agenda sent to managers in advance of meeting and managers required to provide presentation materials for Gilead's review prior to meeting**

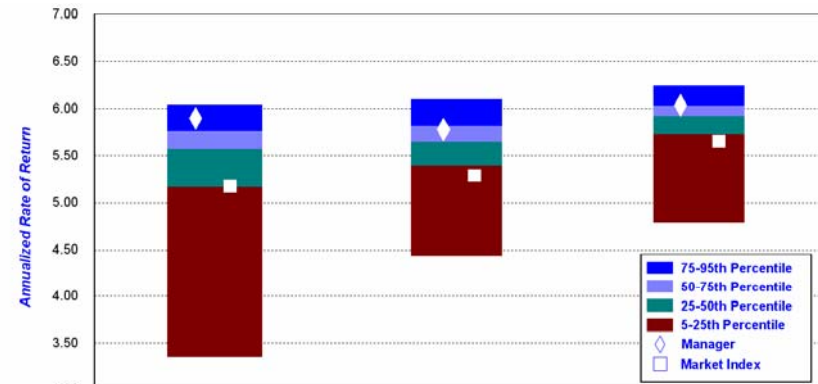
Quarterly Manager Review

Manager A <i>as of June, 2004</i>	
Portfolio Market Value (\$000)	727,662
Average Credit Quality	Aa2
Average Duration (Years)	0.98

Sector Distribution



Universe Comparison Risk Adjusted Returns



	3 Years	5 Years	7 Years
Maximum	6.10	6.20	6.37
75th Percentile	5.89	5.94	6.15
Median	5.70	5.77	6.03
25th Percentile	5.28	5.52	5.85
Minimum	3.46	4.54	4.90
Manager E	6.05	5.82	6.15
Market Index	5.28	5.37	5.78
Custom Benchmark	5.88	5.77	6.08

Simulated data. Not representative of Client holdings or investments.

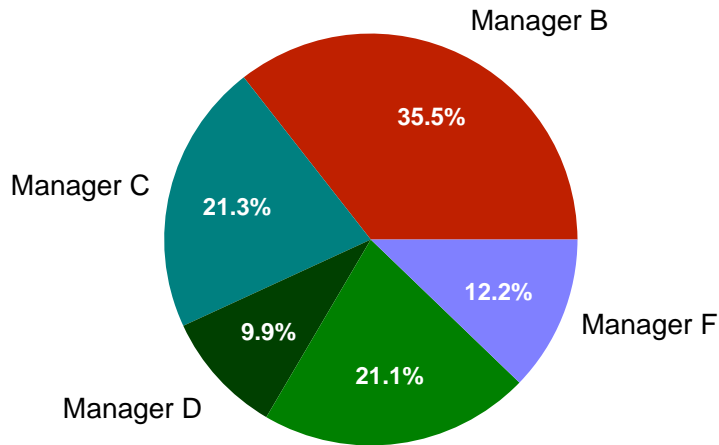
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Quarterly Consolidated Review

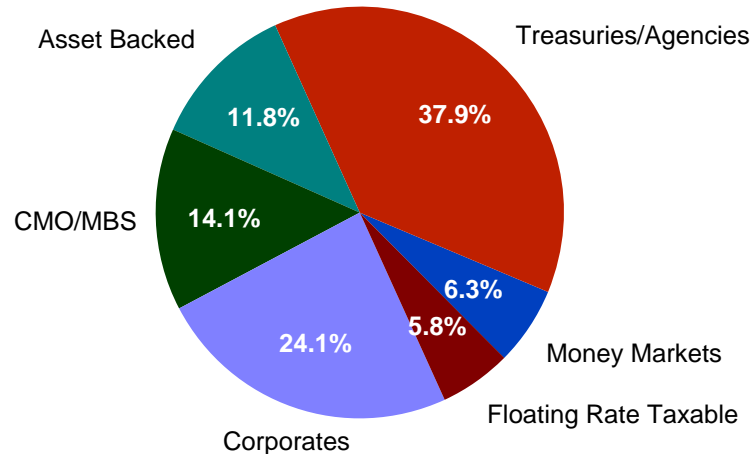


Asset Distribution by Manager

Percentage of Portfolio Market Value



Consolidated Sector Distribution



Sensitivity Analysis

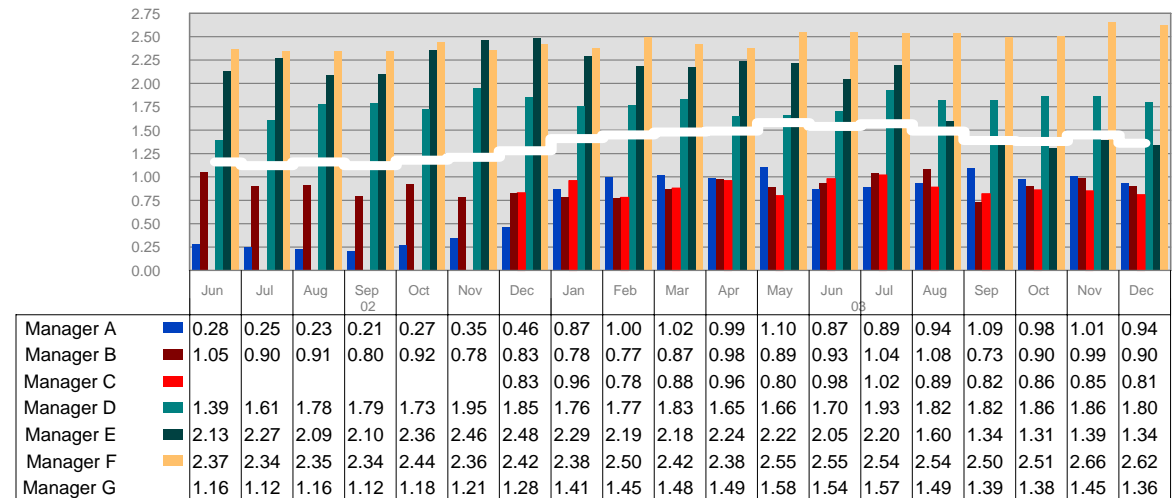
Change in Interest Rates

	No Change		Increase 50 bps.		Increase 100 bps.		Increase 150 bps.	
	6 mos	12 mos	6 mos	12 mos	6 mos	12 mos	6 mos	12 mos

Portfolio

Horizon Return	1.60%	3.20%	1.13%	2.25%	0.65%	1.30%	0.18%	0.35%
Income Return	1.60%	3.20%	1.60%	3.20%	1.60%	3.20%	1.60%	3.20%
Market Return	0.00%	0.00%	-0.48%	-0.95%	-0.95%	-1.90%	-1.43%	-2.85%
Beginning Fair Market Value	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000	\$100,000
Ending Fair Market Value	\$101,600	\$103,200	\$101,125	\$102,250	\$100,650	\$101,300	\$100,175	\$100,350

Duration - Manager Comparison

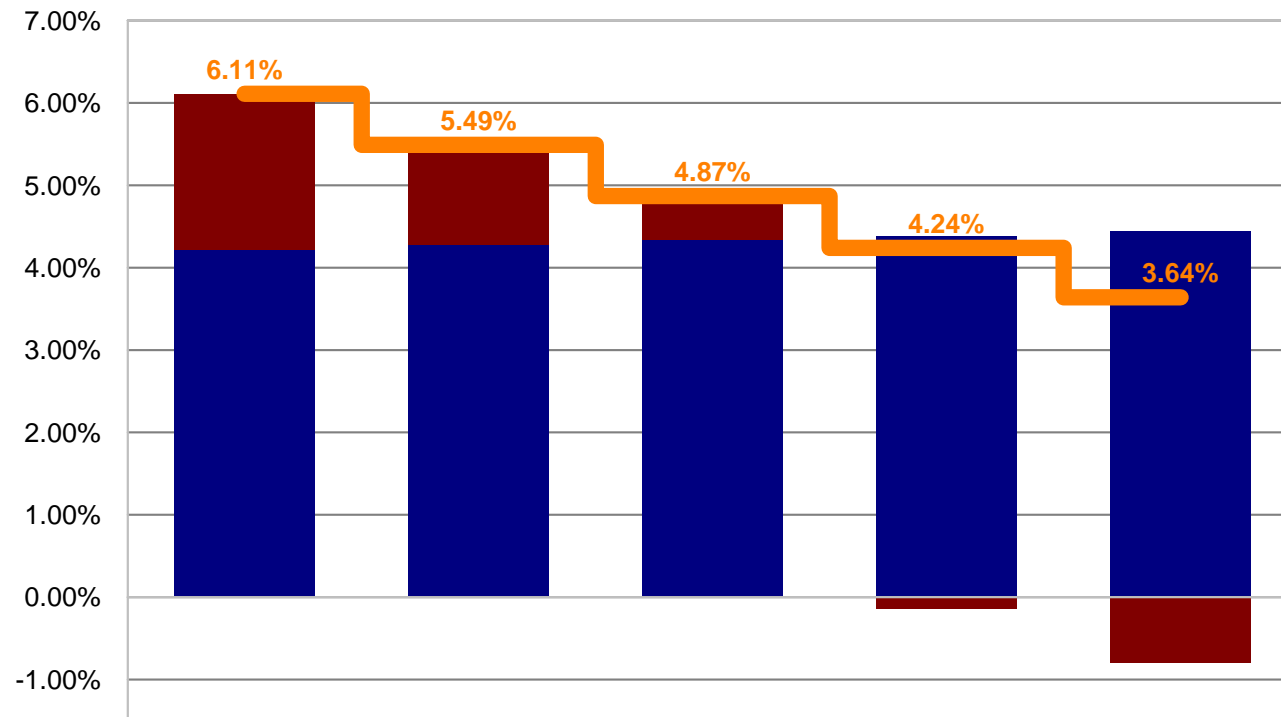


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Sensitivity Analysis

Impact of interest rate changes over next 12 months

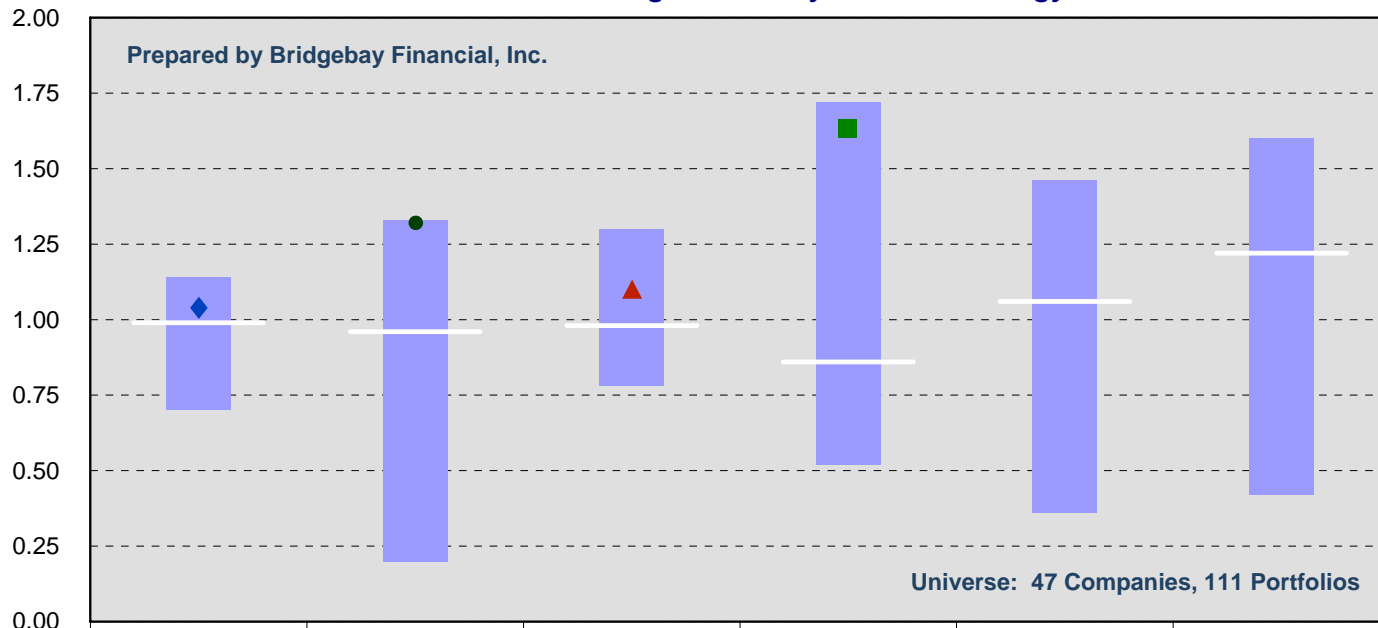


1.7 Year Duration	-100 bps	-50 bps	No Change	50 bps	100 bps
Income	4.22%	4.28%	4.34%	4.38%	4.44%
Principal	1.89%	1.21%	0.53%	-0.14%	-0.80%
Total Return	6.11%	5.49%	4.87%	4.24%	3.64%

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Benchmarking Study of Balance Sheet Cash Portfolios

One Year Trailing Returns by Duration Strategy

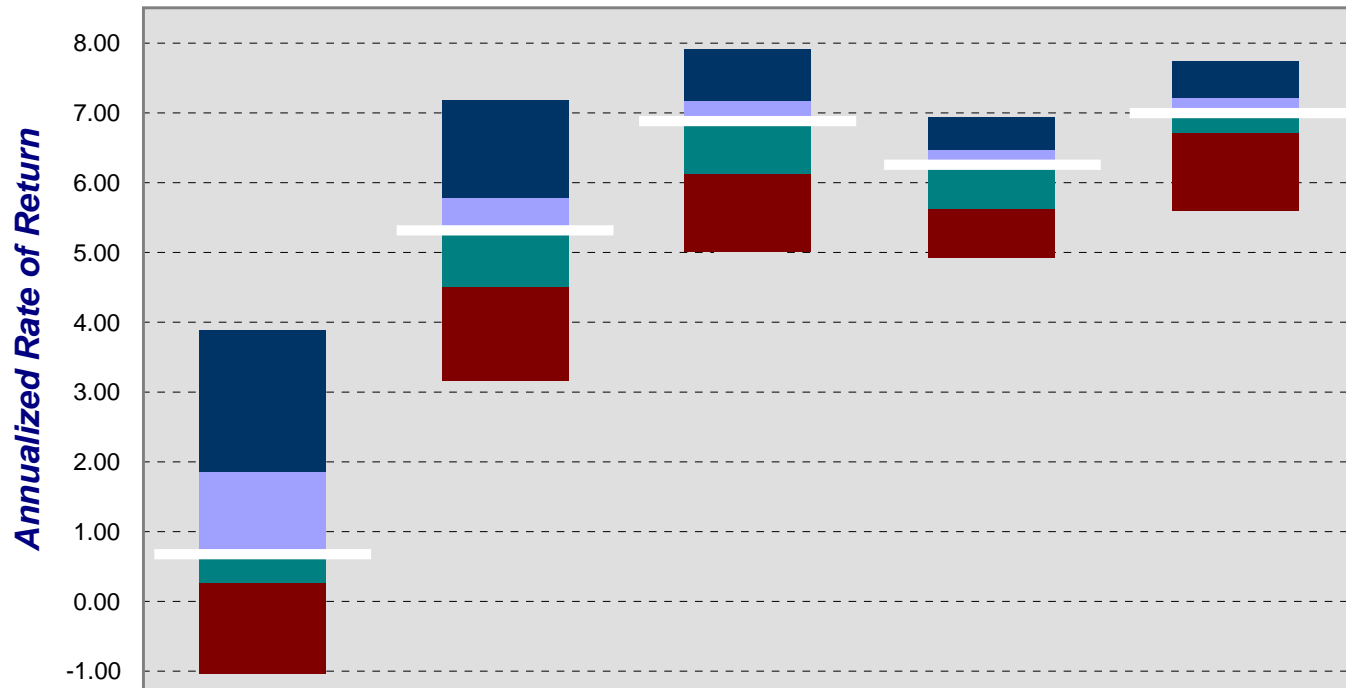


	0.50 Years	1.00 Years	1.25 Years	1.50 Years	1.70 Years	2.25 Years
High	1.14	1.33	1.30	1.72	1.46	1.60
Low	0.70	0.20	0.78	0.52	0.36	0.42
Average	0.99	0.96	0.98	0.86	1.06	1.22
Manager A	1.04					
Manager B			1.10			
Manager C		1.32				
Manager D				1.63		
Number of Portfolios	32	26	17	10	16	10

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Manager Peer Group Comparison

Range of Annualized Returns



	1 Year	3 Years	5 Years	7 Years	10 Year
Percentiles					
Maximum	3.89	7.18	7.92	6.94	7.74
75th Percentile	1.86	5.78	7.19	6.46	7.20
Median	0.68	5.33	6.90	6.29	7.01
25th Percentile	0.28	4.51	6.14	5.62	6.72
Minimum	(1.02)	3.15	5.00	4.91	5.59

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Performance Review

Red Flags

- ✎ High transaction volume
- ✎ Change in portfolio quality or credit quality drift
- ✎ Increase in securities with negative outlook or credit watch
- ✎ Increased concentrations by issuer
- ✎ Exceptions to policy
- ✎ Use of leverage such as reverse repos
- ✎ Dramatic duration changes
- ✎ Negative convexity
- ✎ Strange yield to maturity numbers by security
- ✎ Size of paydowns on MBS or ABS increase

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Securities Lending

- An incremental way, if properly managed, to enhance total return on portfolio securities
- Securities lending conducted through custodian
- Indemnification by custodian
- Investment strategy to earn revenue on existing assets
- Global business approximately \$3 Trillion on loan
- Securities lending provides liquidity to financial markets
- Can add incremental income in a risk-controlled framework

Securities Lending Risks

- Counterparty Default
 - Diligence in Counterparty Selection
 - Risk-Adjusted Exposure Monitoring
 - Diversification
 - Collateral Maintenance: 102% & 105%
 - Indemnification
- Asset/Liability Management
 - Investment Management Expertise
 - Interest Rate & Liquidity Management
 - Credit Analysis Expertise
- Cross Border Risk
 - Legal / Tax due diligence process
- Operational Risk
 - Documented procedures and policies
 - Segregated Compliance Officers
 - Integrated System Links with Custodian
 - Reporting Transparency

Corporate Governance

- **Quarterly review of portfolio performance at Audit Committee meeting**
 - Market environment
 - Yield curve changes
 - Returns analysis
 - Total return and book return
 - Taxable vs. tax-advantaged
 - Portfolio and manager
 - Adherence to critical components of investment policy
- **Investment policy reviewed annually**