



Current Investment Opportunities for Corporate Cash Portfolios

NWAFP

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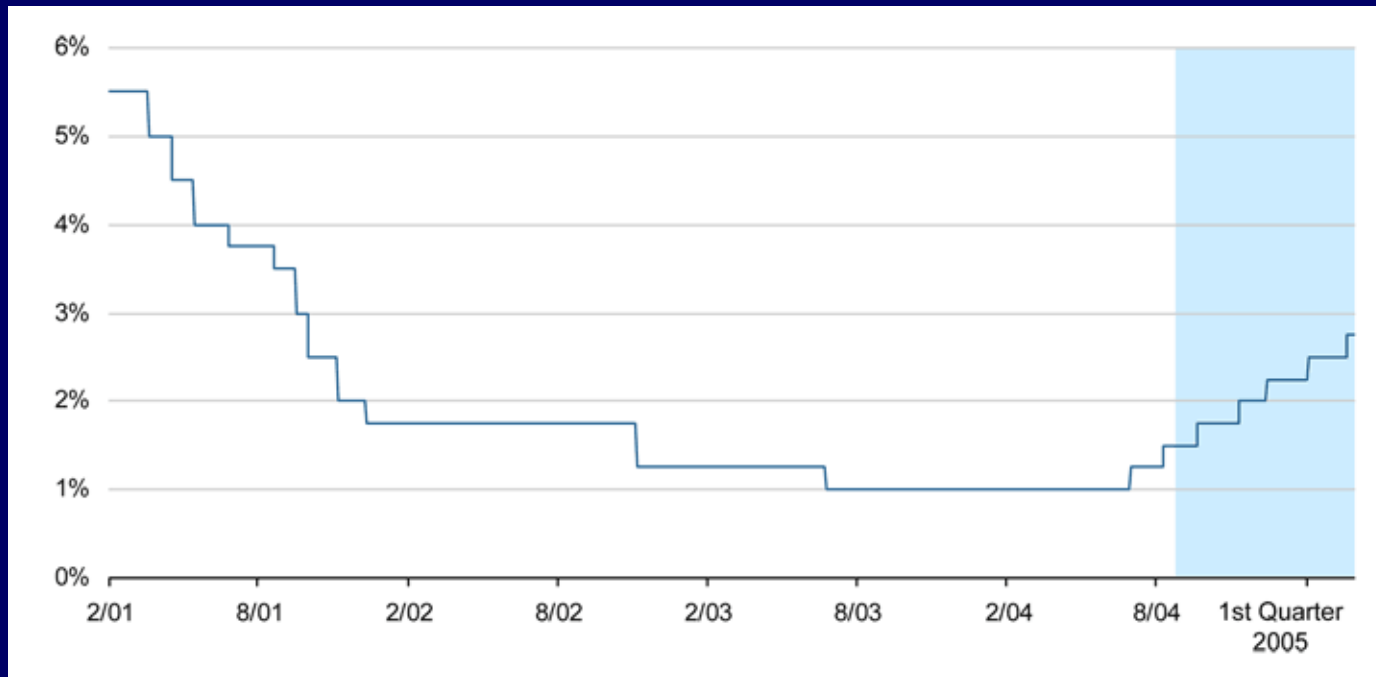
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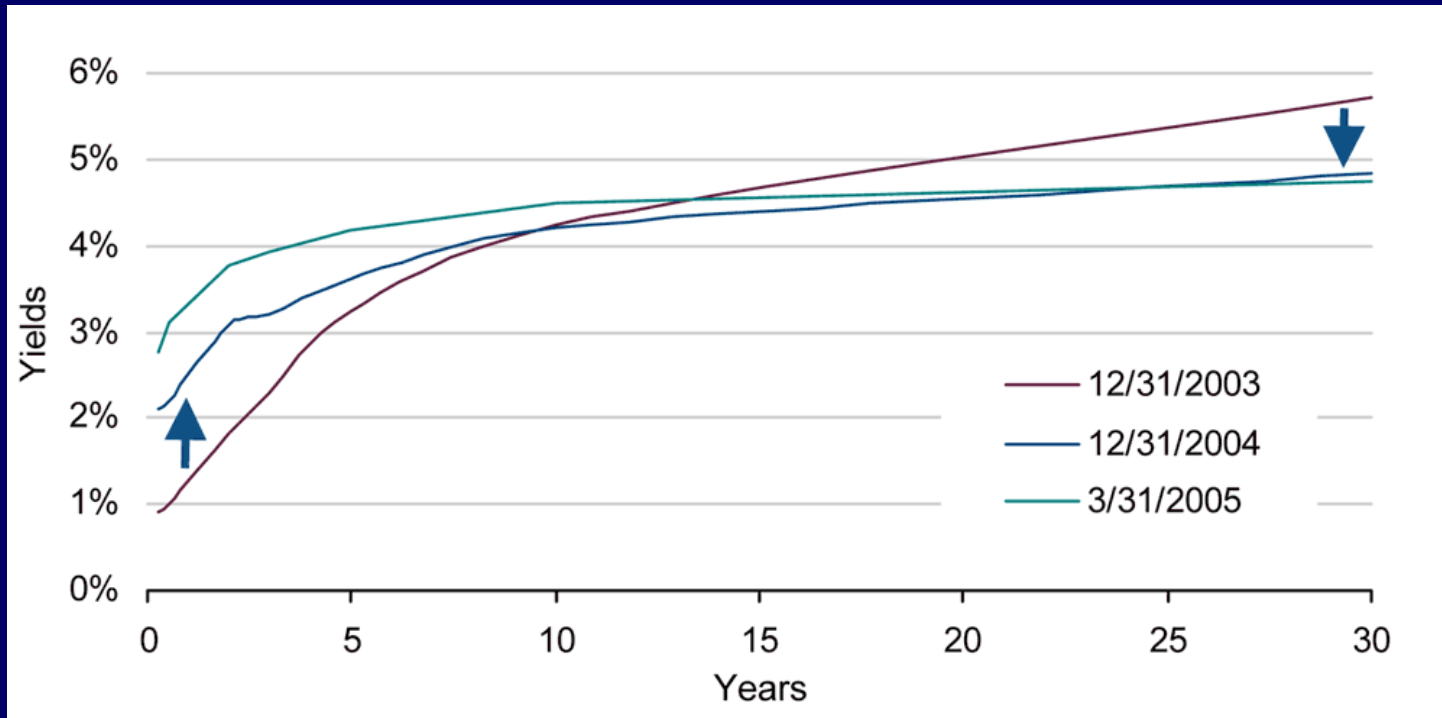


The Fed Funds Rates Since 2001





Flattening of the Yield Curve





Where Are All the AAA Issuers?

- 17 AAA issuers in 1964
- 25 AAA direct issuers in 1981
- Today 6 U.S. AAA issuers
 - Represent 1/2% of 1,425 rated issuers
 - Lowest level since the 1950s
- 34 companies rated AA

- Decline in AAA issuers due to increased financial leverage to increase stock price over last 5 years have shored up financials

- General Electric, has maintained AAA rating for 48 years since 1956





Credit Ratings

Moody's		Standard & Poor's	
Senior Unsecured Rating	Short-Term Equivalent Rating	Senior Unsecured Rating	Short-Term Equivalent Rating
Aaa	P-1 MIG-1	AAA	A-1+ SP-1+
Aa1		AA+	
Aa2		AA	
Aa3		AA-	
A1	P-2 MIG-2	A+	A-1 SP-1
A2		A	
A3		A-	
Baa1	P-3 MIG-3	BBB+	A-2 SP-2
Baa2		BBB	
Baa3	NP	BBB-	A-3 SP-3
Ba1		BB+	
Ba2		BB	
Ba3		BB-	

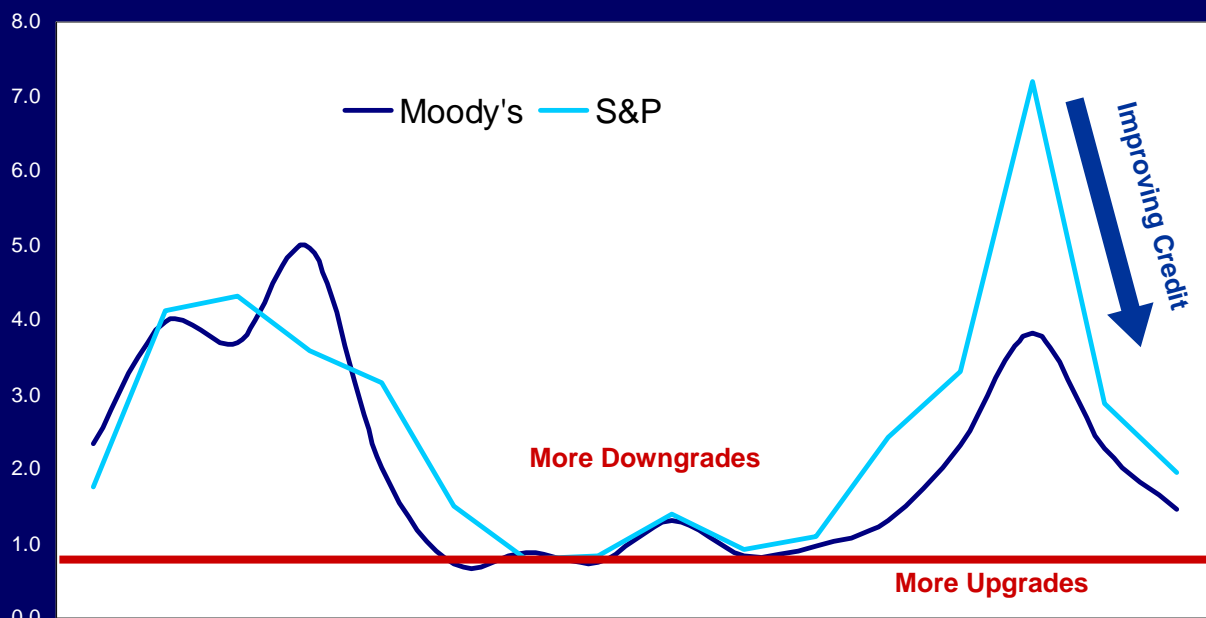
Source: S&P and Moody's



Credit Rating Trends

Corporate Downgrade/Upgrade Ratio

>1 Means Downgrades Outnumber Upgrades



	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Moody's	2.35	3.99	3.70	4.97	2.03	0.74	0.89	0.75	1.31	0.84	0.97	1.31	2.33	3.84	2.27	1.46
S&P	1.77	4.13	4.32	3.59	3.16	1.50	0.79	0.84	1.40	0.92	1.09	2.42	3.32	7.21	2.89	1.95





Diversification

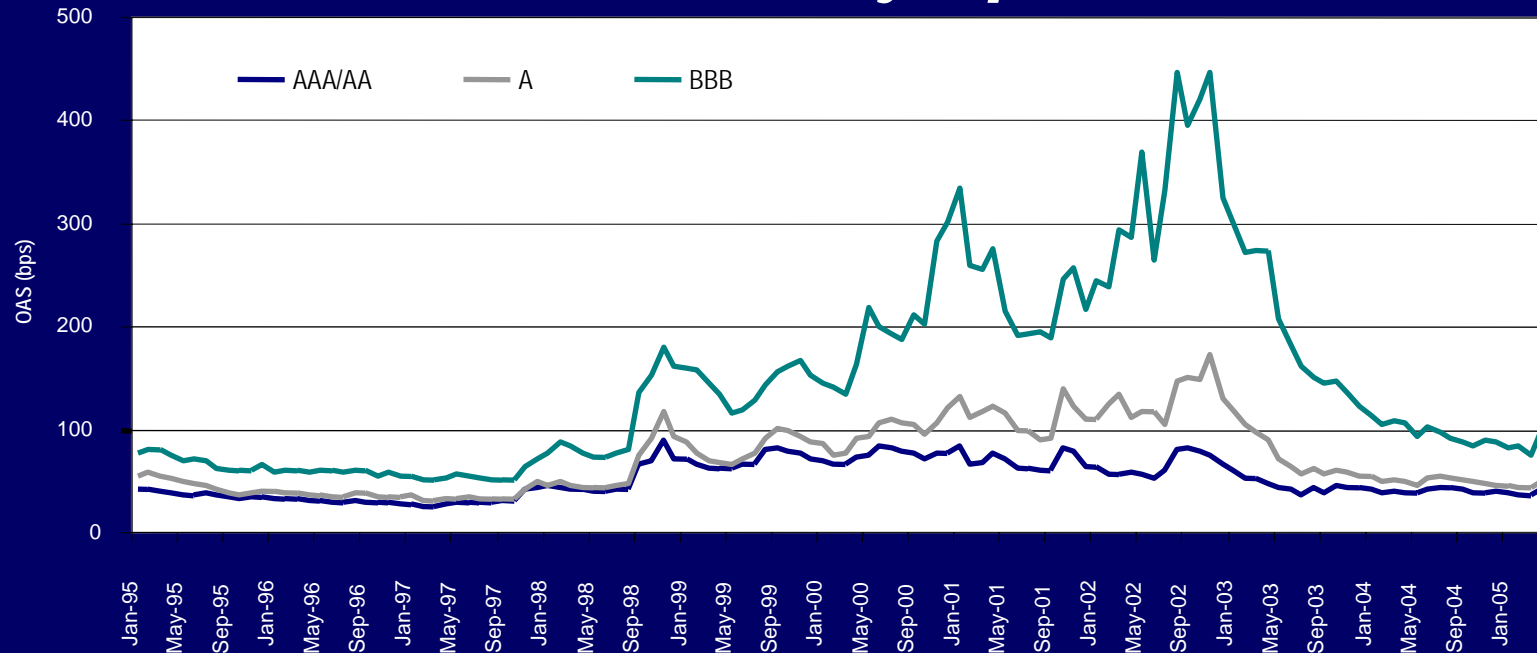
Spread Your Risk for that Unforeseen Event

- Reduce per issuer limitation from 5% to 2-3%
 - Minimize impact of *headline risk*
- Redefine permissible industry concentrations
 - Review for appropriateness annually
 - *Guilt by association*
- Security sector
 - Broaden the range of security and collateralized types
 - *Maximize flexibility* to swap among sectors





Credit Quality Spreads



Credit Quality	AAA	AA	A	BBB
Current	31	43	49	99
Narrow	20	26	32	51
Average	27	52	72	148
Wide	96	91	172	447

Source: THE YIELD BOOK®, Citigroup Analytics Inc.





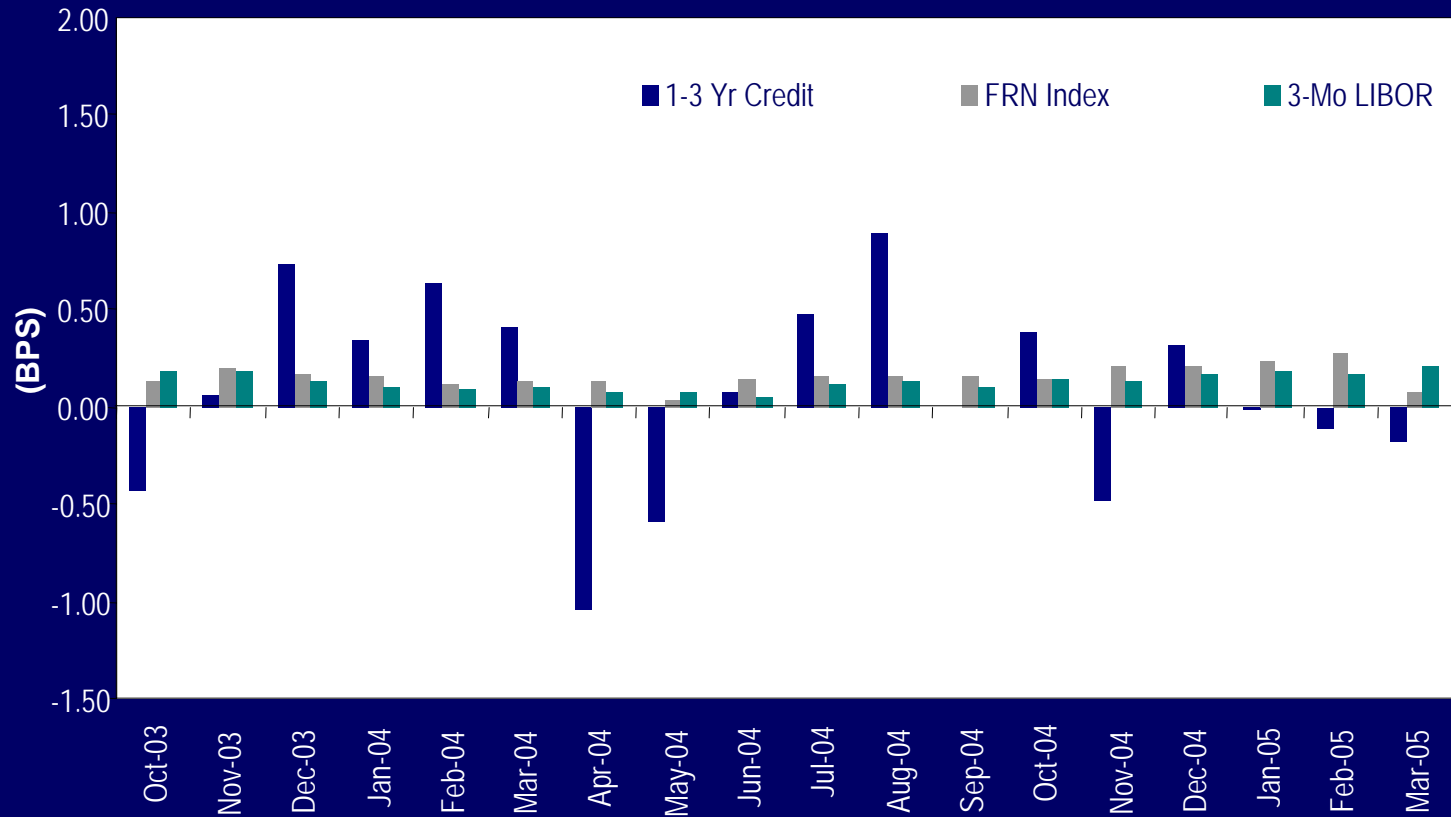
Extend Stated Maturity yet Shorten Duration Floating Rate Notes

- Floating rate notes are excellent alternative to rolling CP
 - Improve sector and issuer diversification
 - Enhance returns
- Simple or straight floating rate securities
- Issued by corporations and financial institutions
- Typical stated final maturity 3-5 years
- Coupons reset weekly, monthly, quarterly or semi-annually
 - Reset is a money market index plus a spread
 - Indices: T-Bill, LIBOR, Prime Rate, CP, Fed Funds





Fixed vs. Floating Rate Notes Total Returns

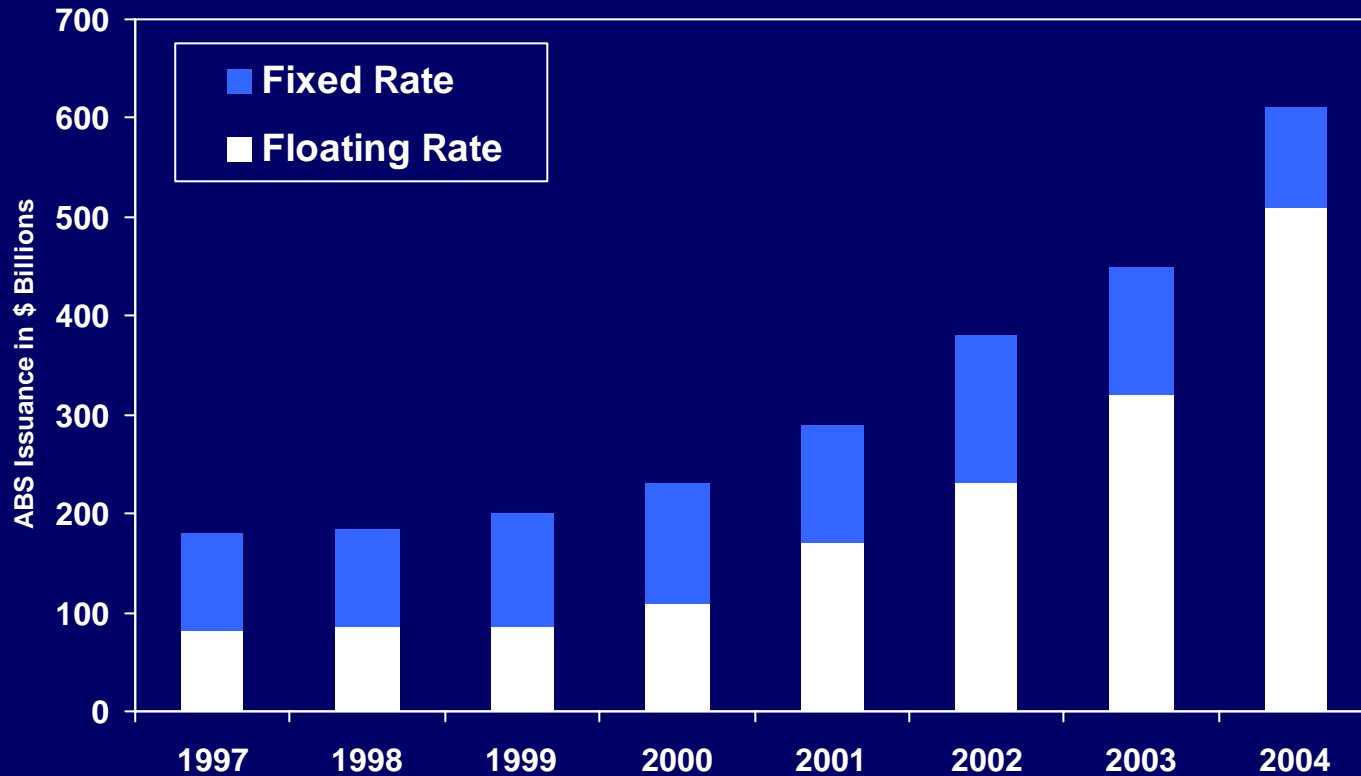


Source: 1-3 Yr Credit and FRN Index: Lehman Brothers
3-Mo LIBOR: Bloomberg.





ABS US Market Issuance

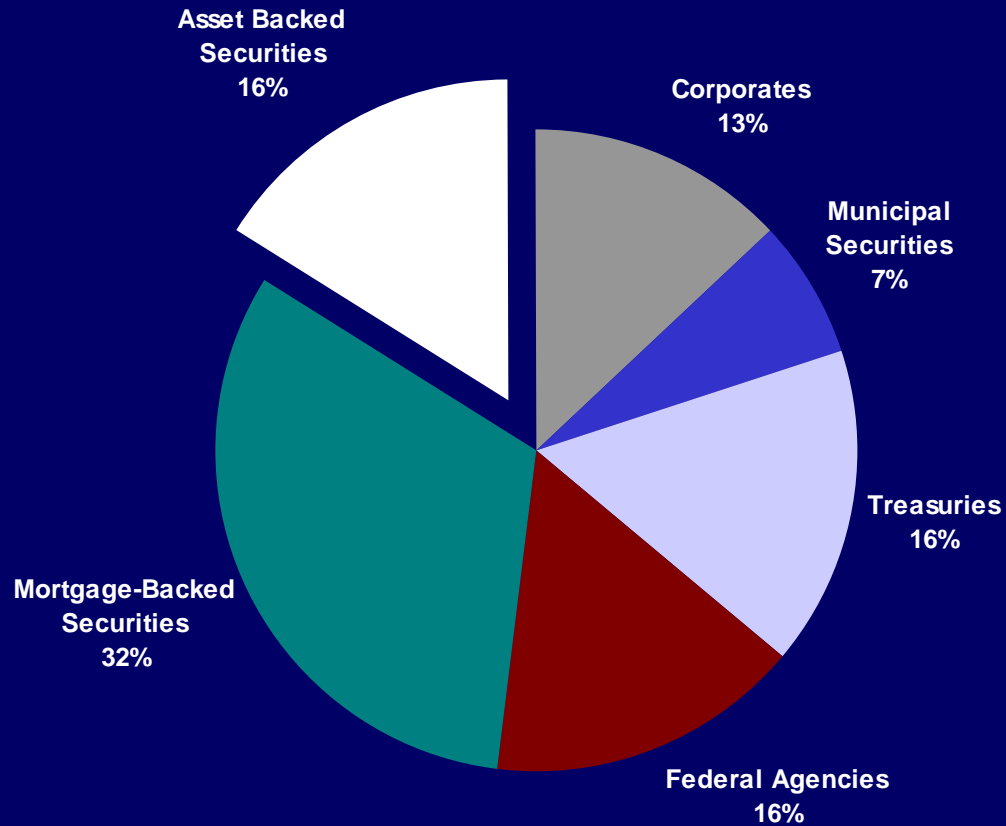


Source: Bloomberg





Asset Backed Securities





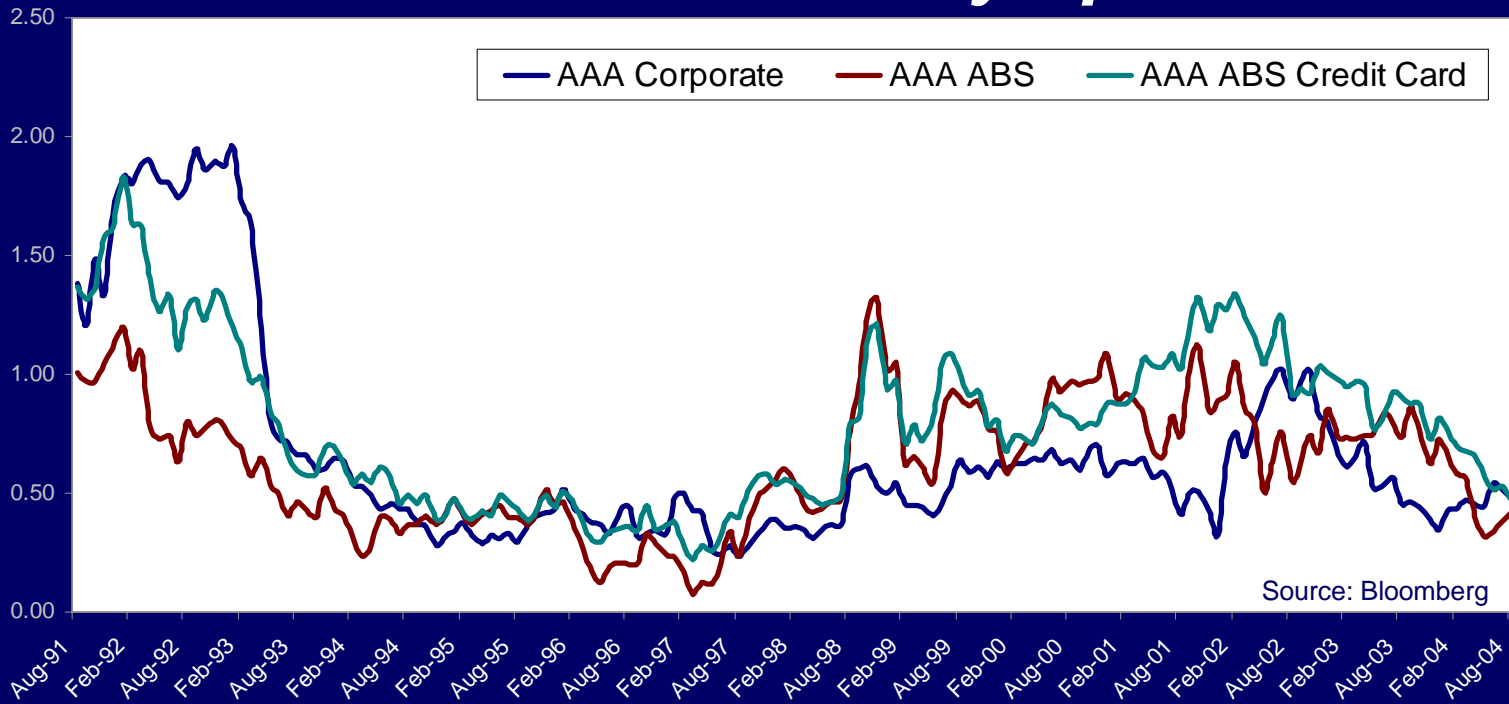
ABS Complement Corporates

- **Benefits**
 - Higher credit quality than its corporate namesake - AAA
 - Predictable cash flows = Stable principal values
 - Less credit deterioration than corporate notes
 - Typically bankruptcy remote
- **ABS are collateralized by assets**
 - Automobile loans, truck loans, credit card receivables
 - Assets placed in trust cover principal and interest payments
- **Risk that a seasoned ABS is purchased at a premium**
 - The bondholders are repaid sooner than expected at par
 - The unamortized premium becomes a capital loss
- **Buy senior notes only - avoid subordinated tranches**





Asset-Backed Security Spreads

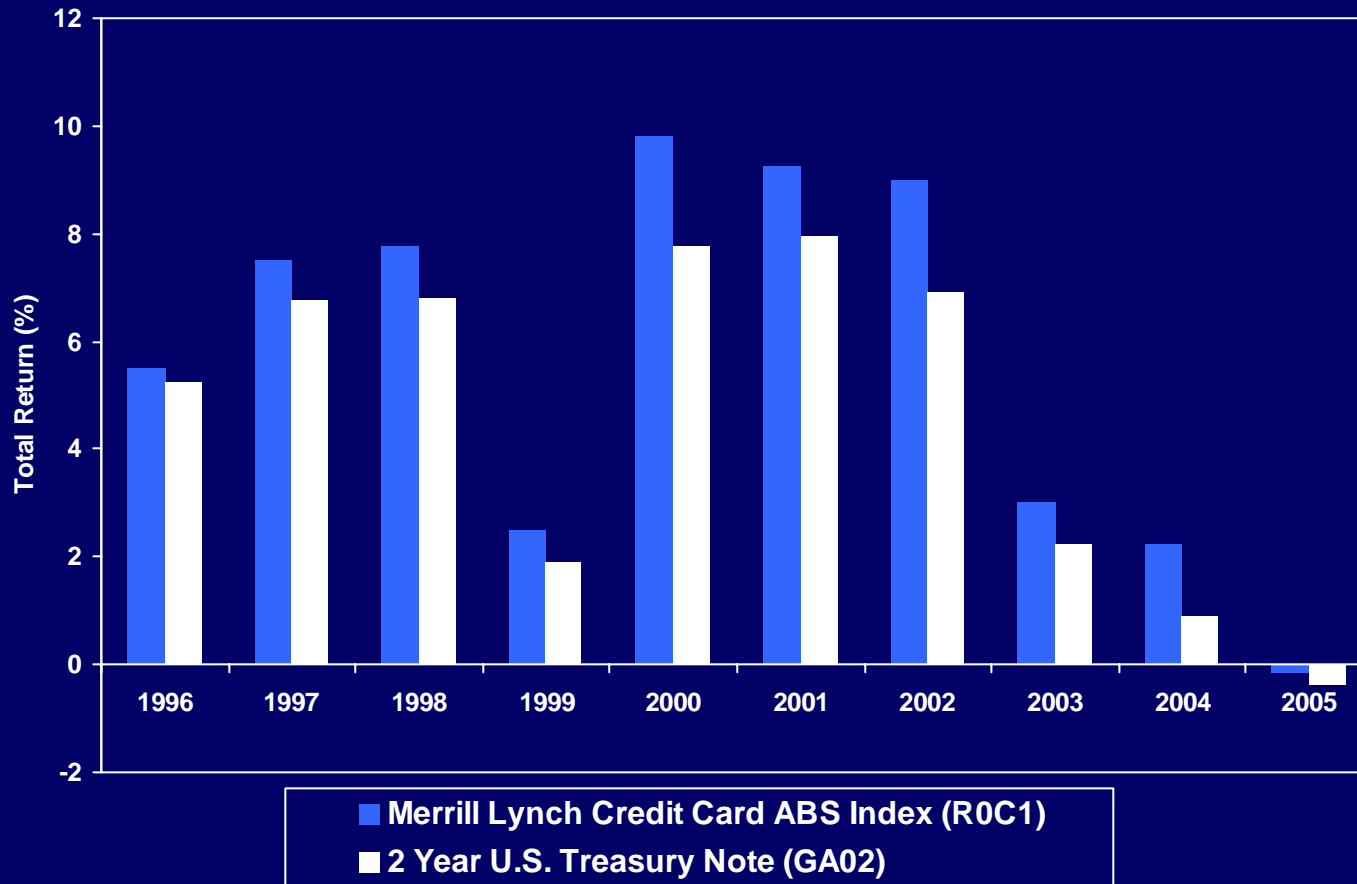


	AAA Corporate	AAA-ABS	AAA ABS Credit Card
Current	47	42	58
Tight	34	38	43
Average	69	62	89
Wide	165	132	194





ABS Historical Performance

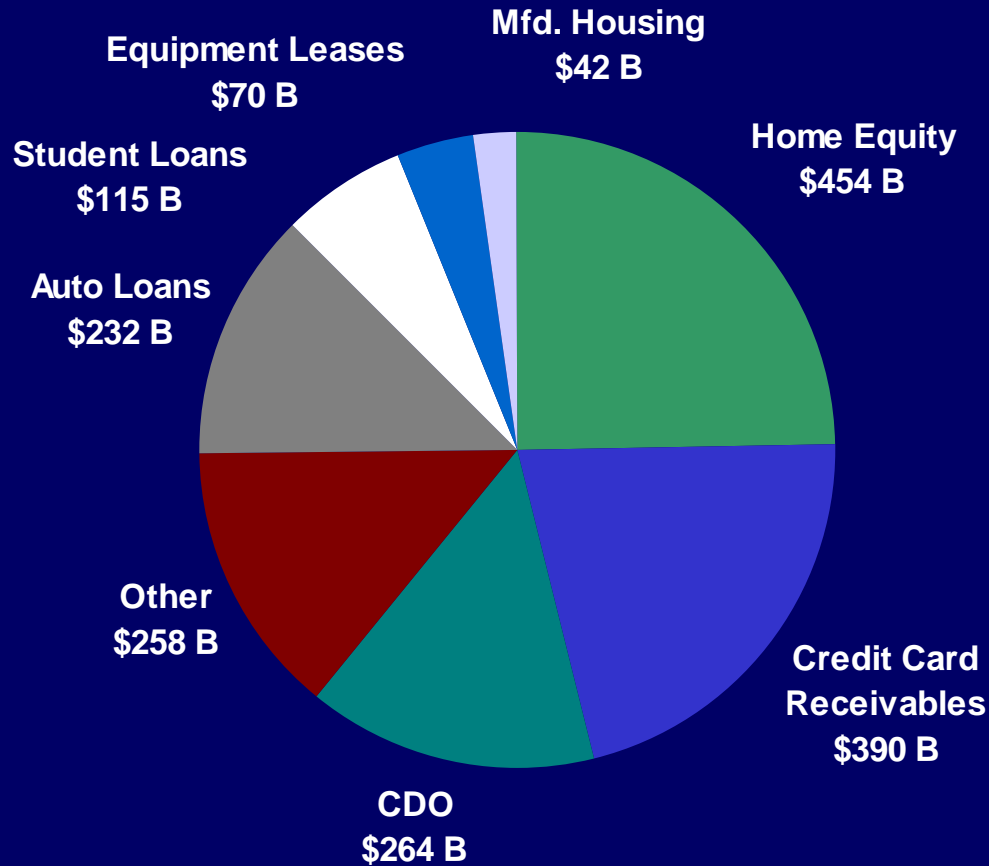


Source: Payden & Rygel



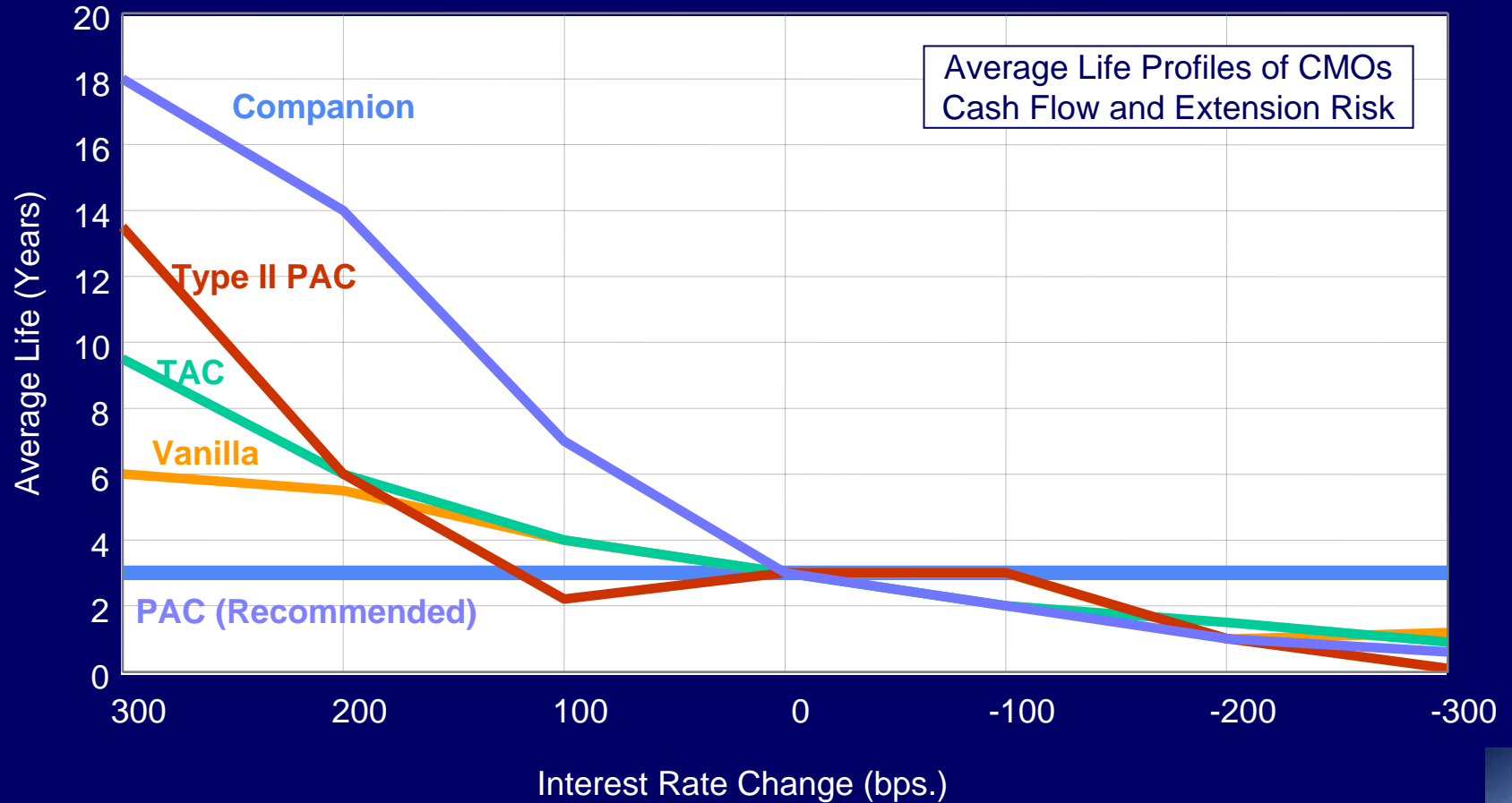


ABS by Major Types of Credit





Mortgage Sector Analysis





Best Practices

Risk Management

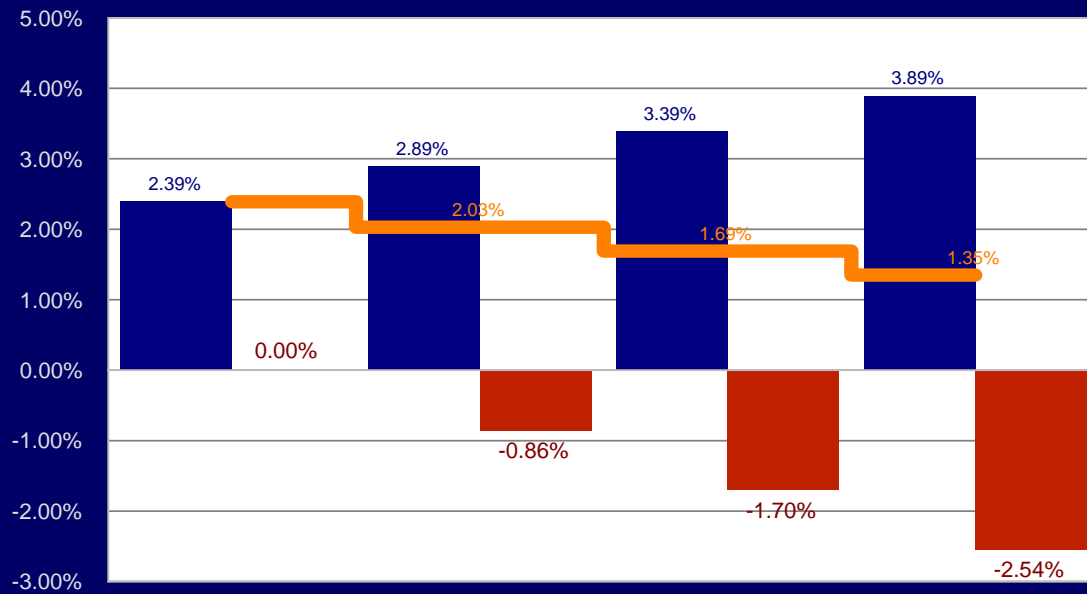
- Potential credit problems
 - Check for cliff hangers, split ratings
 - Industry concentrations
 - Scale back % for lowest permissible credit quality
- Expand security types
- Stress test portfolio for interest rate risk
- Extension risk of individual securities
 - Scrutinize callable, ABS or MBS
 - Highlight securities with negative convexity
 - Check for unusual negative duration
 - NO subordinated issues





Sensitivity Analysis

Impact of interest rate increases over next 12 months

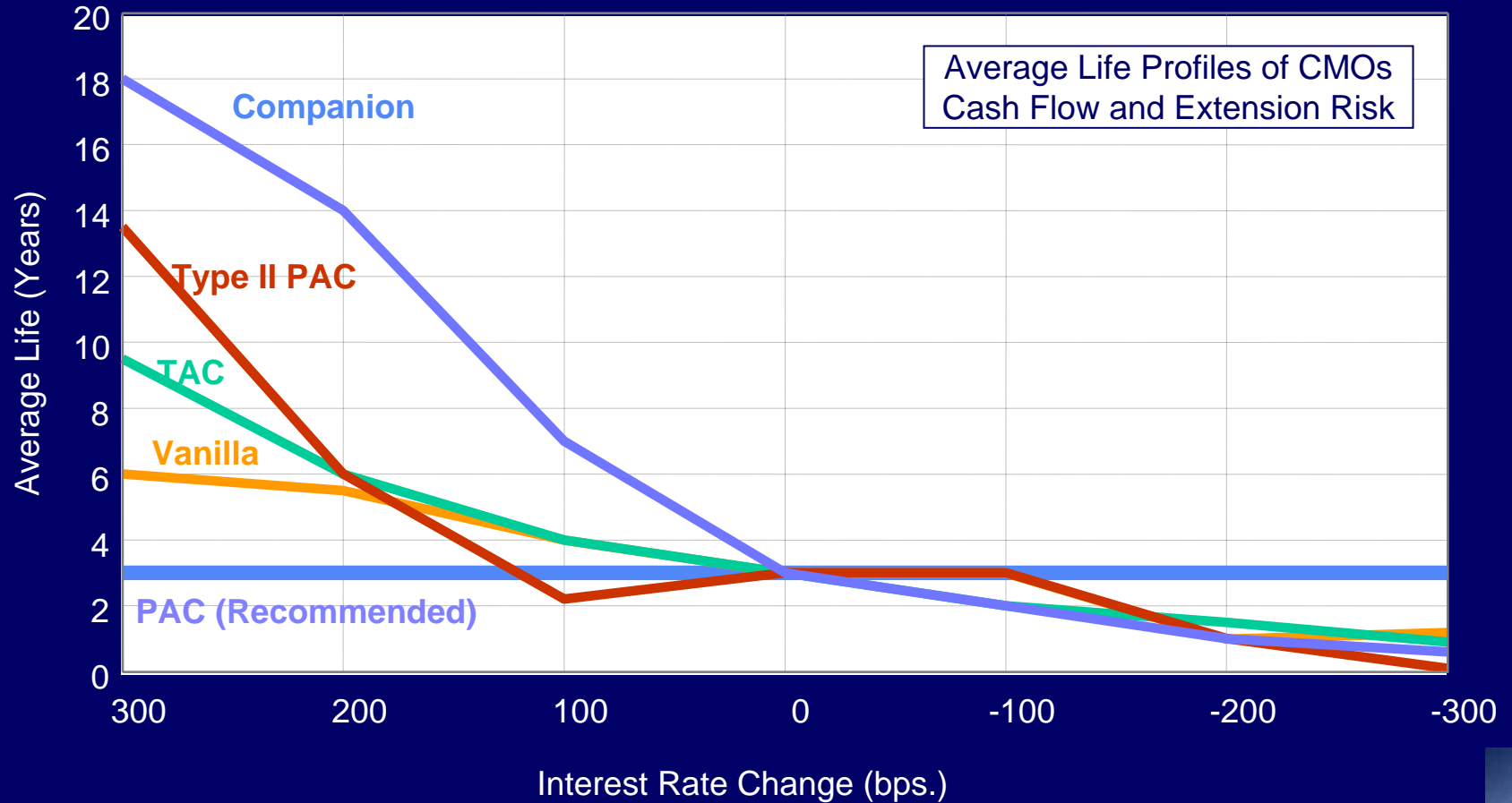


1.7 Year Duration	No Change	50 bps	100 bps	150 bps
Income	2.39%	2.89%	3.39%	3.89%
Principal	0.00%	-0.86%	-1.70%	-2.54%
Total Return	2.39%	2.03%	1.69%	1.35%





Mortgage Sector Analysis





Best Practices

Manager Monitoring

- Change in firm ownership or structure
- Reorganizations
- Mergers
- Divestitures
- Adverse publicity about the firm
- Material litigation
- Senior management turnover or retirements
- Portfolio manager turnover
- No direct access to portfolio manager
- Dramatic change in assets





Sarbanes-Oxley Section 404

Investment Portfolio Review

Investment Policy

- Third party custodian
 - SAS 70 Type I or II
 - Pricing sources
- External manager contracts
 - Affiliated brokers
 - Conflicts of interest
- Counterparty risks
 - Concentrations
 - Exposure to other parts of company
- Evaluate primary and introducing brokers
 - Insurance
 - Clearing
- Review asset liability management
- Update portfolio risk controls





Sarbanes-Oxley Section 404

Investment Policy

- Separate authorities and responsibilities
- Eligible investments
 - Diversification by industry
 - Credit quality scale back based on AAA
 - Reduce issuer exposure to 2-5%
 - Expand types of securities
- Establish approval criteria
 - Broker/dealer
 - External manager
 - Broker/dealer
- Set maximum loss constraints
- Establish process and authority for policy exceptions and credit downgrades





Conclusion





Maturity or Duration Risk and Volatility Measure

3% Coupon, 5 Year Maturity @ Par



3% Coupon, 2 year Call @ 101, 5 Year Maturity @ Par



Zero Coupon, 5 Year Maturity @ Par, IRR 3%

