

ROBERT SPRAGUE
OHIO TREASURER





CPIM
Commercial Paper Course
March 27, 2025

TRUSTED STEWARDSHIP · WISE INVESTMENT · BOLD INNOVATION

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Agenda


- ▀ Definitions
- ▀ Summary of Statutory Requirements
- ▀ Commercial Paper Types
- ▀ Investment Process
- ▀ Credit Rating Agencies
- ▀ Commercial Paper Markets
- ▀ Conclusion

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Commercial paper defined

- Short-term unsecured or collateralized promissory notes.
- Issued by large corporations or other entities as interest bearing securities at par or more typically, at a discount to par.
- Used for short-term credit needs, i.e. payrolls, inventory, current liabilities, account receivables, financing balance sheets.
- Maximum maturity of 270 days and issued in \$100,000+ denominations.
- Issuers can sell directly to investors or through a dealer.




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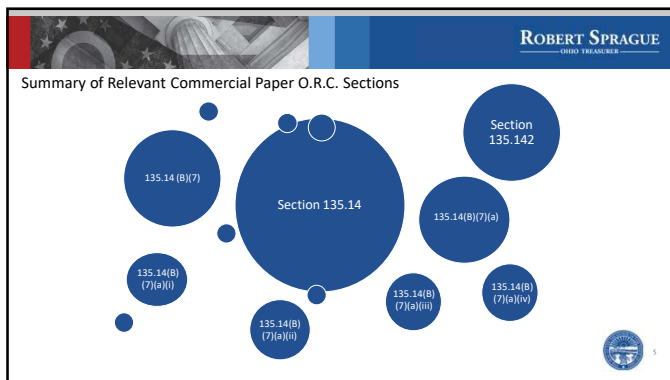
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Summary of Statutory Requirements


Ohio Revised Code Section 135.14 – Investing interim moneys of public subdivisions, effective October 3, 2023
Ohio Revised Code Section 135.142 – Board of education investment of interim moneys, effective October 3, 2023



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Summary of Relevant Commercial Paper O.R.C. Sections


135.14 (B) (7)

135.14 (B)(7)(a)

- Up to 40% of interim moneys can be invested in commercial paper or banker acceptances
- Entity is defined in O.R.C Section 1706.01(K), which lists corporations, limited liability companies, and limited liability partnerships as eligible structures, among others
- Entity must have assets of at least \$500MM

➤ Banker acceptances are short-term financial securities representing a future payment typically between 30 and 180 days

➤ Not utilized in today's markets



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Summary of Relevant Commercial Paper O.R.C. Sections

- 135.14 (B)(7)(a)(i)**
 - Notes need to be rated, at time of purchase, in the highest classification by at least two nationally recognized statistical rating organizations (NRSRA)
- 135.14 (B)(7)(a)(ii)**
 - Aggregate value of notes can not exceed 10% of the aggregate value of the outstanding commercial paper of the issuer
- 135.14 (B)(7)(a)(iii)**
 - Notes must mature no later than 279 days after purchase
- 135.14 (B)(7)(a)(iv)**
 - Single issuer exposure limited to no more than 5%, at the time of purchase

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Summary of Relevant Commercial Paper O.R.C. Sections

- 135.14 (B)(7)(b)**
 - Treasurer or governing boards are required to complete additional training prior to investing in anything in Section 135.14(B)(7)
 - Type and amount of training shall be approved by the Treasurer of State and may be conducted by or provided under the supervision of the same
- 135.14 (F)**
 - Treasurer or governing board must expect to reasonably hold the investment to maturity
- 135.14 (O)(1)**
 - Requires an investment policy statement (IPS) to be on file with the Auditor of State
 - Requires the brokers, dealers or financial institutions to sign the IPS as acknowledgement that they agree to abide by the IPS provisions

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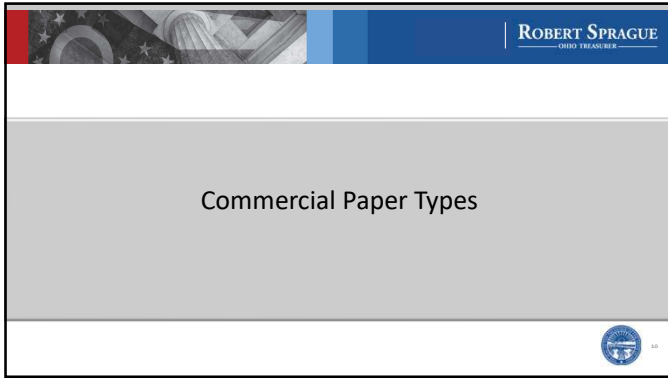
Summary of Relevant Commercial Paper O.R.C. Sections

135.142 Board of education investment of interim moneys

- 135.142(A) - same requirements as 135.14 (B)(7) and related subsections regarding investments in commercial paper and banker acceptances
- 135.142(B) – same training requirement as 135.14(B)(7)(b)
- 135.142(C) – requires annual preparation of a report listing each investment in commercial paper and bankers acceptances that goes to various parties

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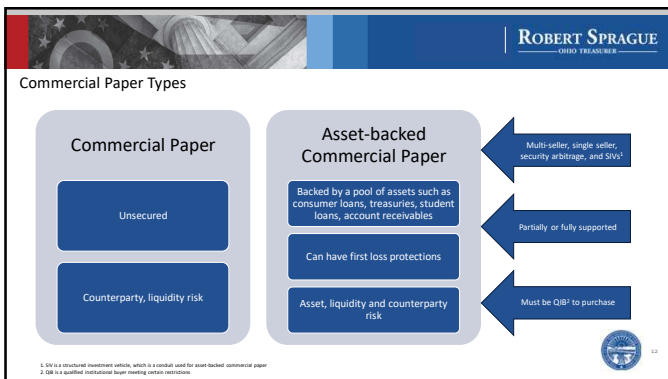
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Section 3(a)3	Section 3(a)2	Section 4(a)2/144A Private Placement
Most common in market	Available for bank obligations both direct and via letter of credit (LOC)	Exempt from registration
Issued 270 days or less	Issued 270 days or less	No limit on issuing terms; however, programs are generally limited to one year
Used for current transactions only	Issuer can gain improved rating through bank LOC	No limit on use of proceeds
	The obligation of the LOC bank to investor is irrevocable and unconditional	Can be issued as asset backed or floating rate note

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Commercial Paper Risks

There are certain risks common to commercial paper (CP) and asset-backed commercial paper (ABCP) and certain risks only associated with ABCP

CP	<p><u>Counterparty risk</u> - uncertainty of being paid back</p> <p><u>Interest rate risk</u> - discount CP/ABCP reflects interest rates at the time of purchase, if rates increase, prices for CP/ABCP can decline</p> <p><u>Liquidity risk</u> - CP/ABCP may not be easily sold under certain market conditions</p>
ABCP	<p>ABCP - market disruptions of the underlying collateral can impact the security</p> <p>ABCP - quality of underlying collateral varies</p>

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Investor Types

Accredited Investor	<ul style="list-style-type: none"> Client investments of \$5MM or more If client investments less than \$5MM, then permissible types of commercial paper exclude 4(a)2 (private placements)
Qualified Institutional Buyer (QIB)	<ul style="list-style-type: none"> Client investments of \$100MM or more No limitation on permissible types of commercial paper

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Example of QIB Certification

dealogic **CERTIFICATE OF RULE 144A QUALIFIED INSTITUTIONAL BUYER AND SECTION 3(c)(7) QUALIFIED PURCHASER** Rev. 12/2011

1. The undersigned certifies that it is familiar with Rule 144A under the Securities Act of 1933, agrees that persons selling securities to the undersigned in reliance upon Rule 144A may rely on the information contained in this certificate and represents and warrants that:

(i) It is a Qualified Institutional Buyer ("QIB") (as described in Article A hereof) of the following type: Investor type of institution as it appears to hold in Article A hereof in e.g., insurance company, investment adviser, etc.

(ii) As of 20, Insert a specific date that is on or after the close of undersigned's most recent fiscal year, the undersigned owned or controlled on a discretionary basis 1 million dollars or more of "eligible securities" (as set forth in Article A).

(iii) If the amount specified in clause (ii) above is less than US\$100 million but not less than US\$10 million, the undersigned is a dealer registered under Section 15 of the Securities Exchange Act of 1934 (the "Exchange Act").

(iv) If the amount specified in clause (ii) above is less than US\$10 million, the undersigned is a dealer registered pursuant to Section 15 of the Exchange Act acting as a customer principal in transaction on behalf of a QIB.

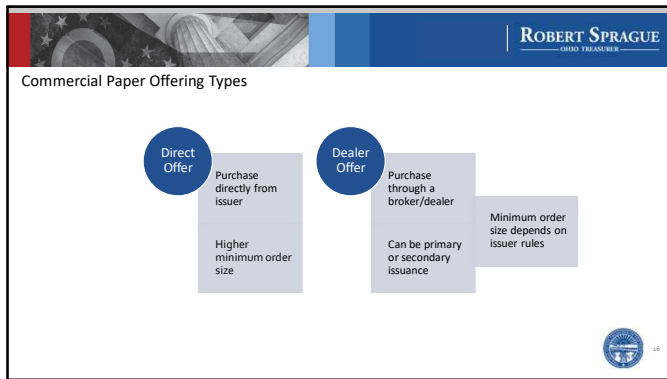
(v) If the undersigned decides to purchase Rule 144A securities for the accounts of others, it will purchase Rule 144A securities only for accounts that independently qualify as QIBs as defined in Rule 144A.

(vi) ** If the undersigned is an investment adviser acting for one or more registered investment companies that are part of a family of investment companies (as defined in Rule 144A) that in the aggregate owns or controls on a discretionary basis at least \$100 million of "eligible securities" (as set forth in Article A), or if the undersigned is itself a registered investment company that is part of such a family of investment companies, on 20, Insert a specific date that is on or after the close of the most recent fiscal year of each such registered investment company (as set forth in Article A), the aggregate owned or controlled on a discretionary basis the following amount of "eligible securities": ☒ \$100 million or more but under \$1 billion, ☐ \$1 billion or more but under \$10 billion, ☐ \$10 billion or more, and ☐ \$100 million or more but under \$1 billion.

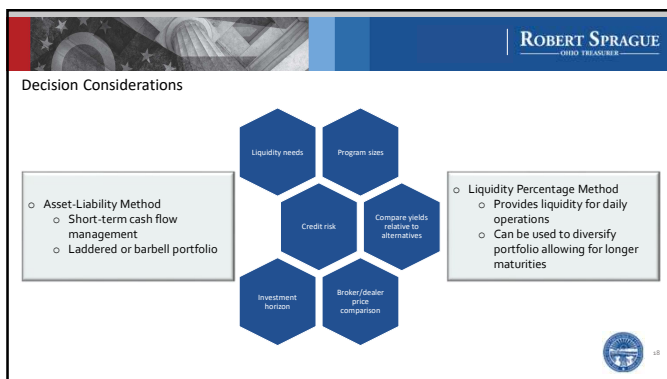
(vii) * The undersigned's current fiscal year ends on 20.

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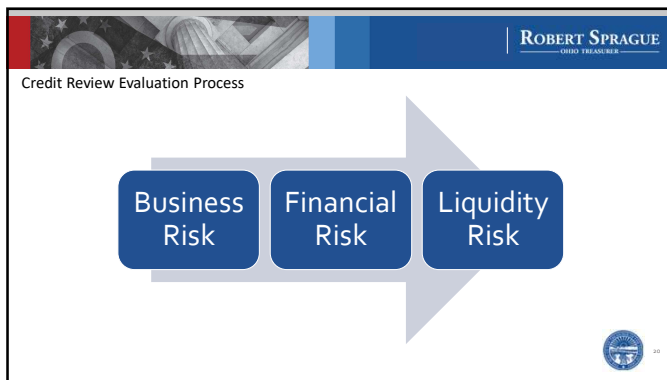








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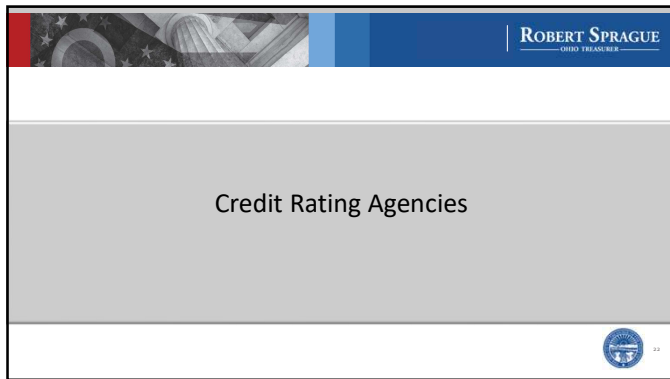
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Information Sources

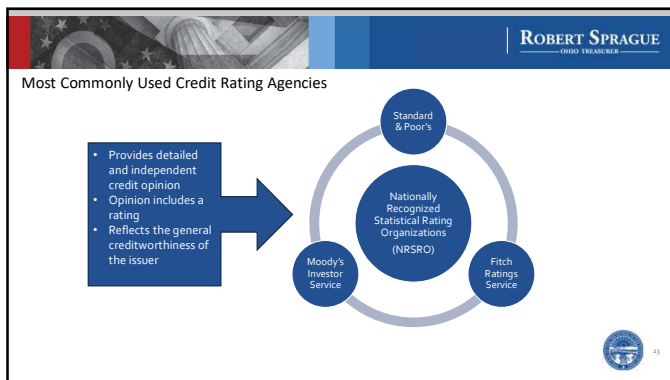
From the issuer	Alternative sources
Company filings – 10Ks; 10Qs, annual reports, quarterly reports	News outlets/media
Press releases	Broker/dealer research
Offering circular/term sheet	Industry news sources
Investor presentations	Credit rating agency reports

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Commercial Paper Markets

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Commercial Paper Markets³

Spreads based on different rating categories

Money Market Curves¹

Recent spreads based on calendar and maturity

Commercial Paper

	0-90 Day	91-180 Day	181-270 Day	271-360 Day	361-450 Day	451-540 Day	541-630 Day	631-720 Day	721-810 Day	811-900 Day	901-990 Day	991-1080 Day	1081-1170 Day	1171-1260 Day	1261-1350 Day	1351-1440 Day	1441-1530 Day	1531-1620 Day	1621-1710 Day	1711-1800 Day	1801-1890 Day	1891-1980 Day	1981-2070 Day	2071-2160 Day	2161-2250 Day	2251-2340 Day	2341-2430 Day	2431-2520 Day	2521-2610 Day	2611-2700 Day		
10/1/2024	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	
11/1/2024	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
12/1/2024	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
1/1/2025	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
2/1/2025	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
3/1/2025	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35	4.35
4-Week Change	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

SOURCE: BLOOMBERG
¹ SPREADS SHOWN ON A SIMPLE YIELD BASIS TO COMPARE WITH COMMERCIAL PAPER MONEY MARKET YIELDS

3. Information provided by Market Public Funds and sourced from Bloomberg

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Commercial Paper Markets³

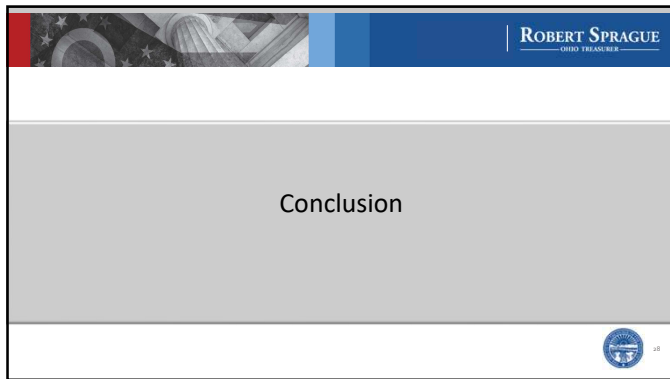
Much of the CP market is issued by financial firms

	CP	Financial	Nonfinancial	Asset Backed
2/19/2025	647.7	302.3	360.8	360.8
2/12/2025	645.5	272.0	360.1	360.1
1/12/2025	639.5	277.4	360.1	360.1
1/1/2025	567.8	236.6	367.7	367.7
Week Change	2.2	30.3	6.7	6.7
4-Week Change	8.2	24.9	0.7	0.7
YTD Change	79.9	65.7	(6.9)	(6.9)

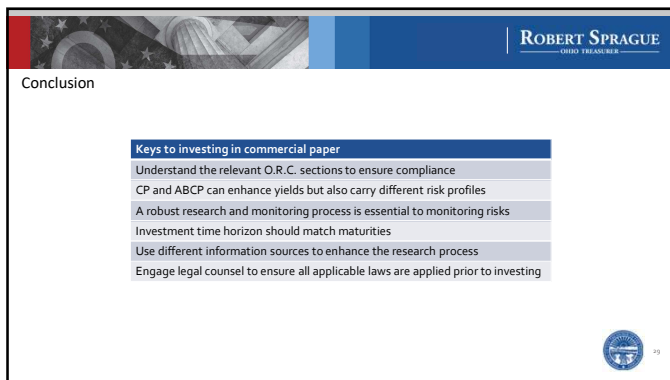
ABCP represents a large percentage of recent outstanding amounts

3. Information provided by Market Public Funds and sourced from Bloomberg

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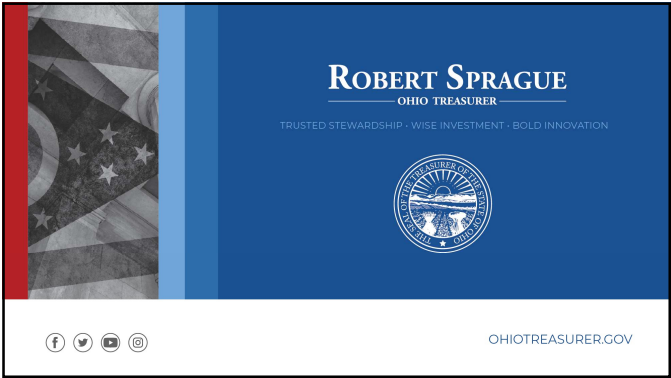
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