

# RI GFOA

May 17, 2018



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FIDELITY INSTITUTIONAL ASSET MANAGEMENT<sup>SM</sup>



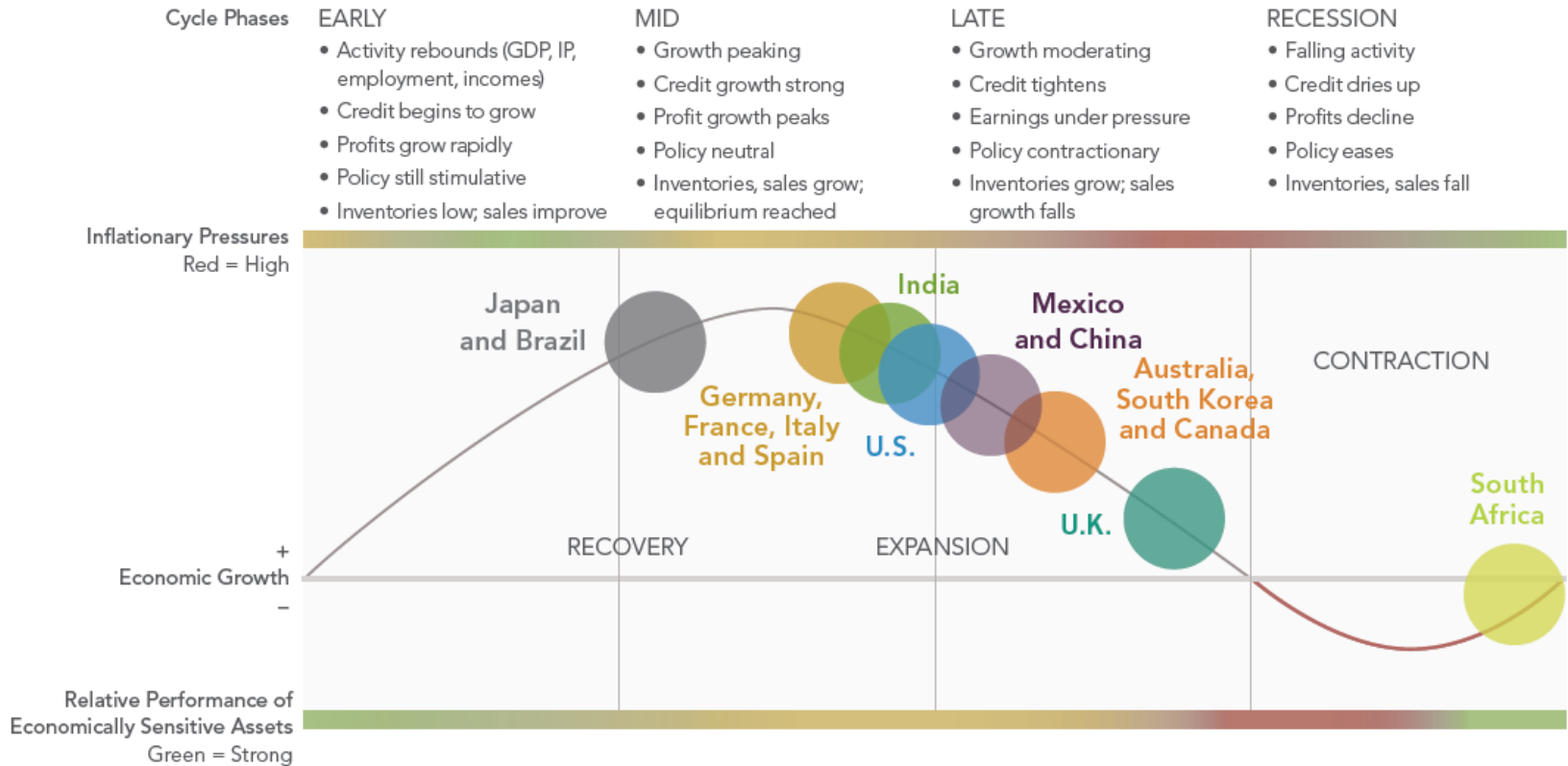
# Agenda

1. Current Market Conditions
2. Appendix

# Current Market Conditions

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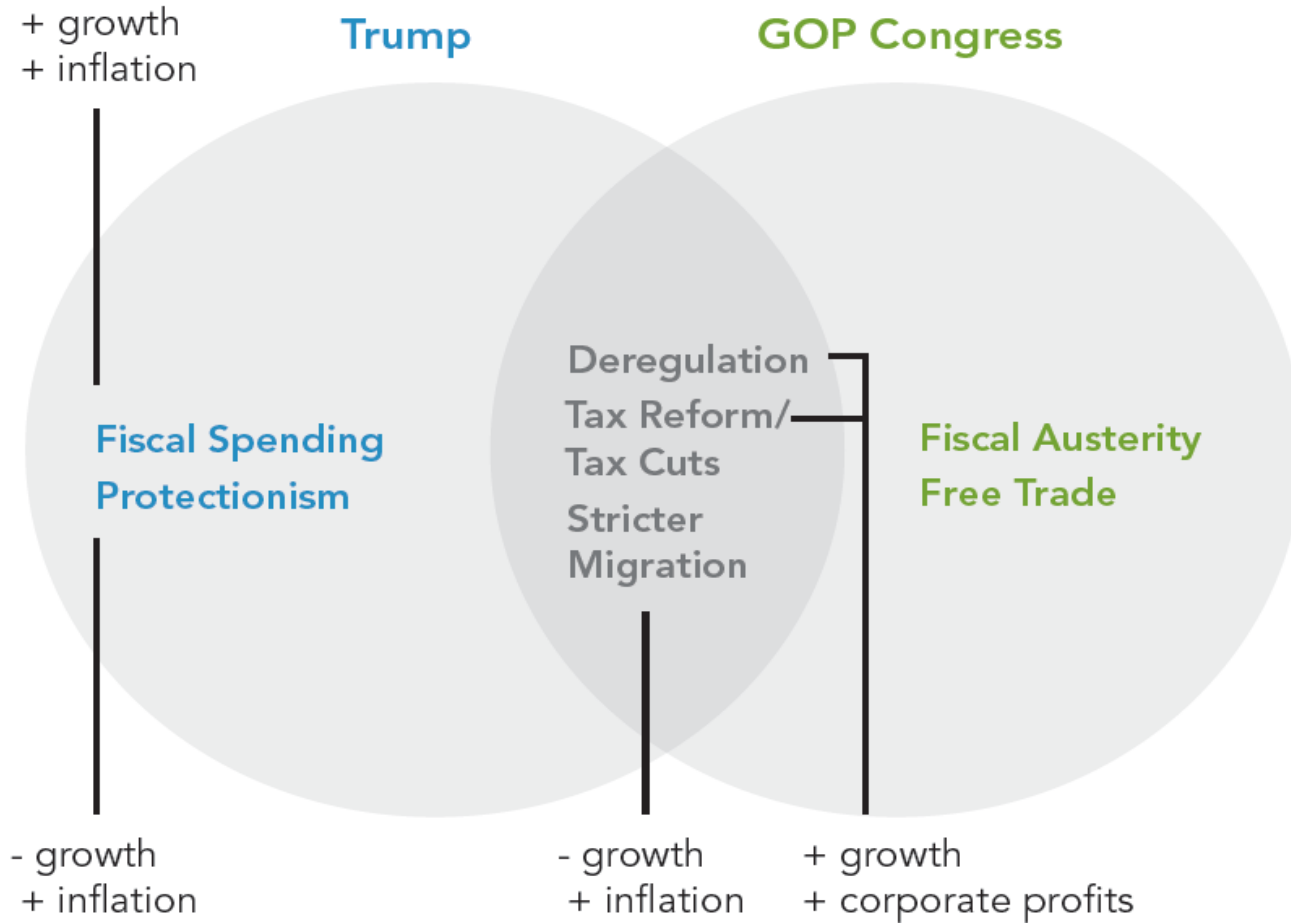
# Business Cycle Framework



Note: The diagram above is a hypothetical illustration of the business cycle. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Source: Fidelity Investments (AART), as of 1/31/18.

# The Potential Impact of Public Policies

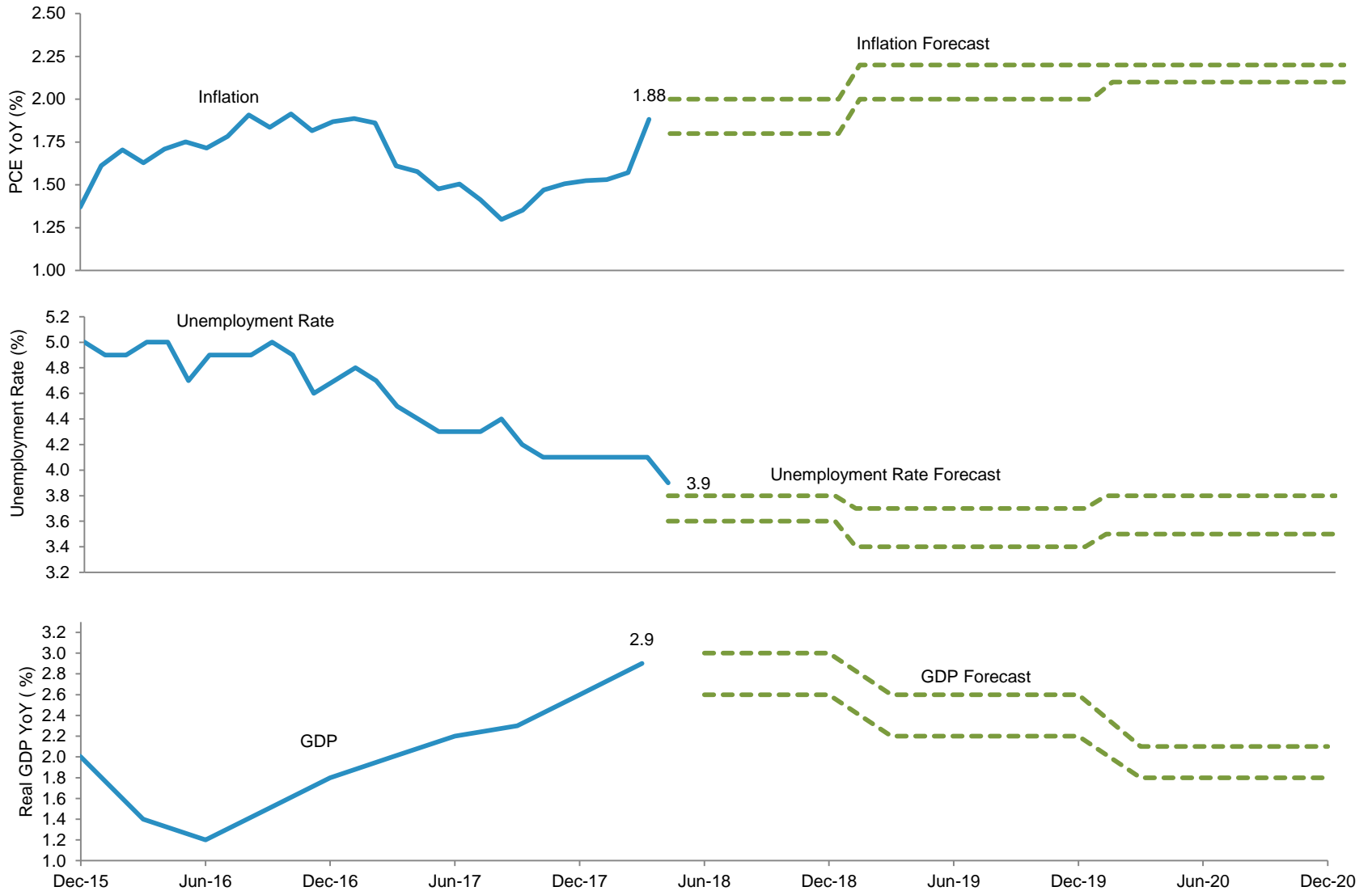
Various policies are likely to have different implications for U.S. growth and inflation



Source: Fidelity Investments as of 12/12/2016

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# Federal Reserve's Economic Projections



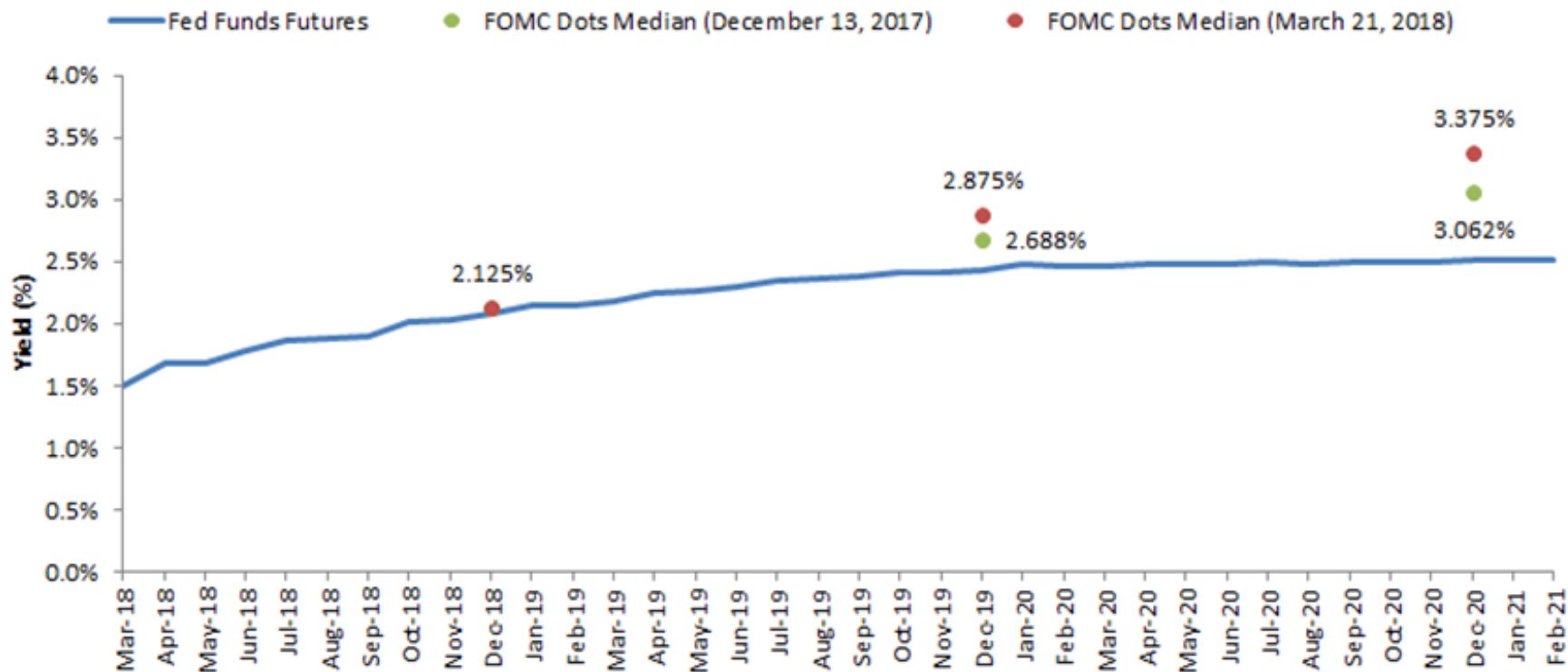
Source: Bloomberg and Federal Reserve.

Inflation as of 3/31/2018, Unemployment Rate as of 4/30/2018, and GDP as of 3/31/2018.

FOMC Forecast based on the central tendency (excludes the three highest and three lowest projections for each variable in each year) as of 3/21/2018.

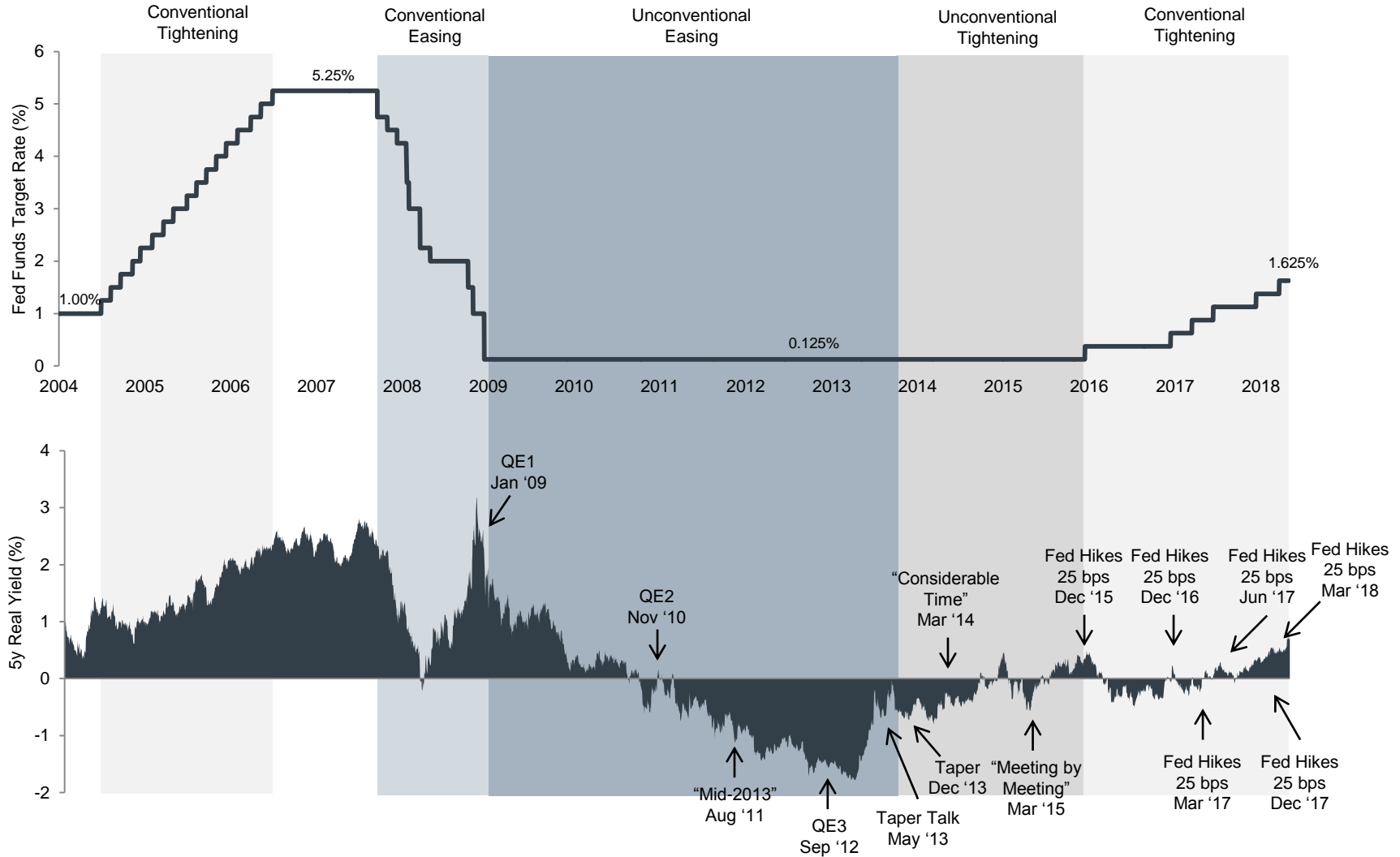
# Forward Rate Guidance Shifts Higher

## Fed Funds Futures vs. Fed Forward Guidance



Source: U.S. Federal Reserve Bank, Bloomberg Finance L.P., as of 3/31/18

# Gradual Conventional Tightening

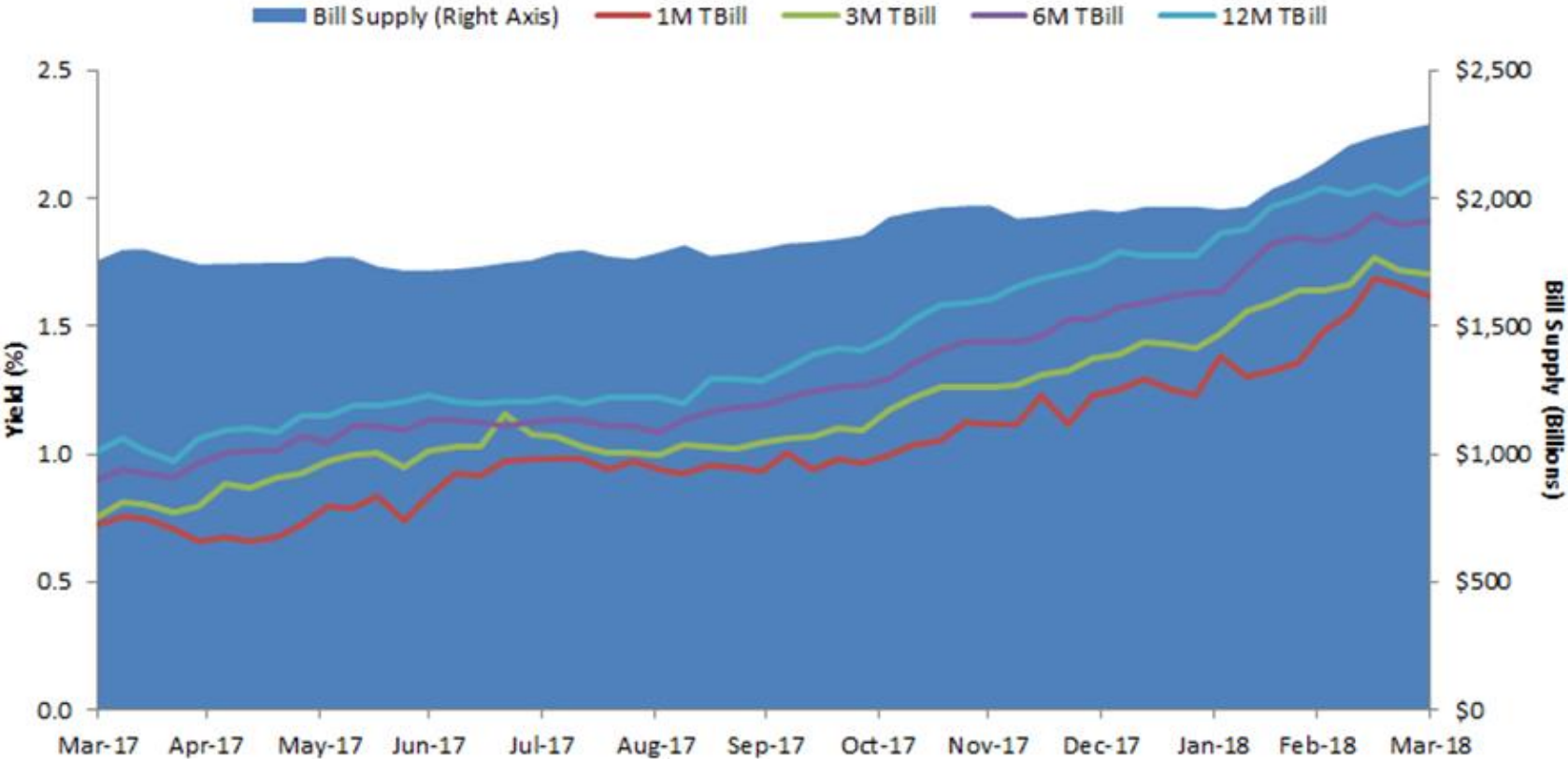


Source: Federal Reserve and Bloomberg as of 4/30/2018.



# T-Bill Yields Climbed as Issuance Surged

## Treasury Bill Supply and Yields

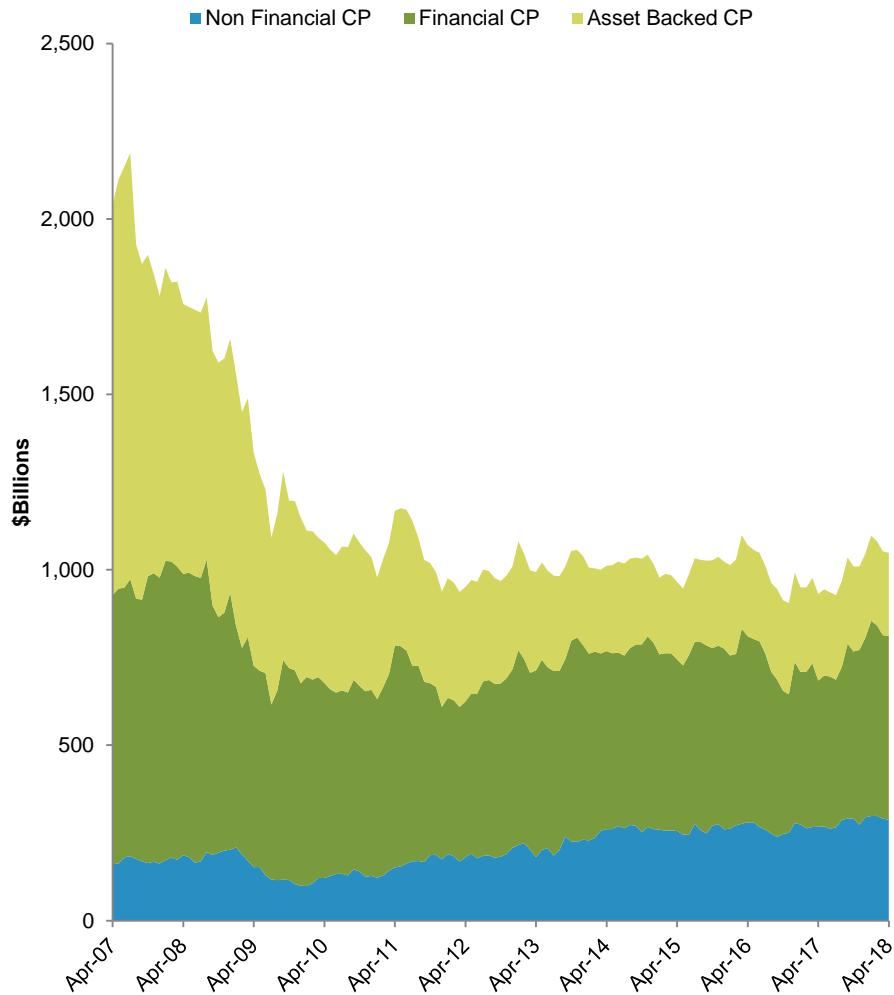


Source: J.P. Morgan Markets, as of 3/31/18

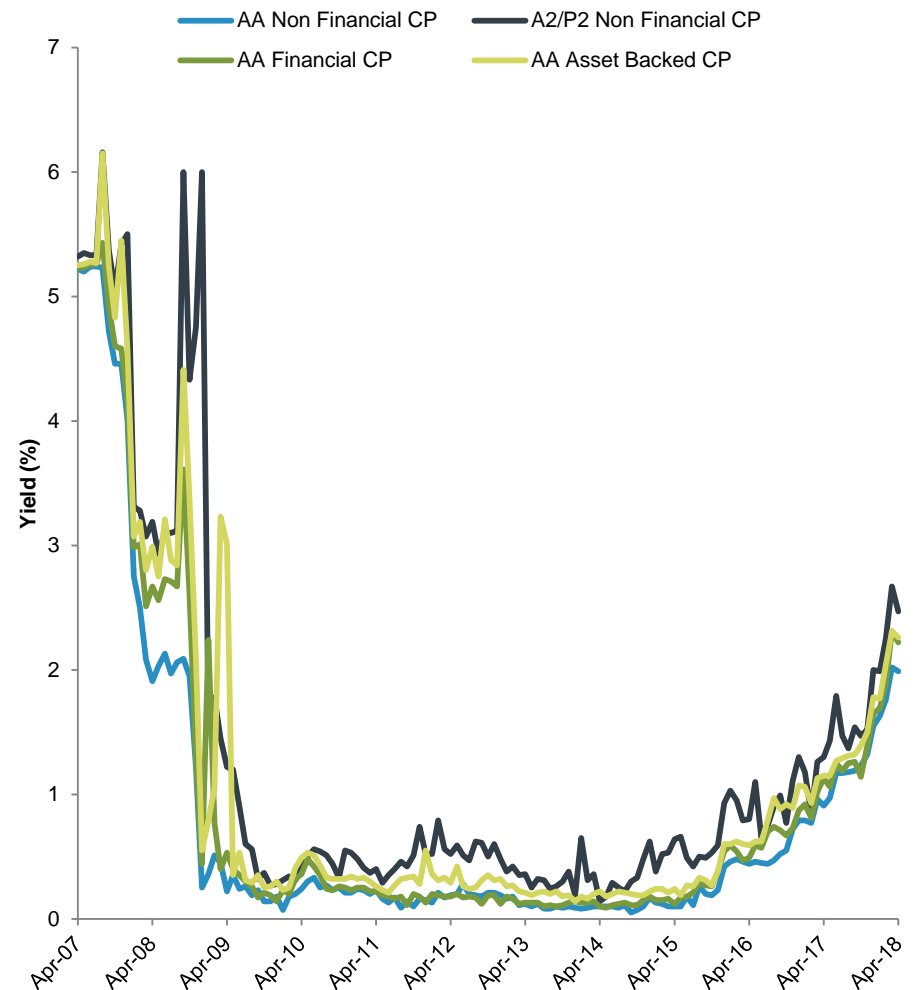


# Increased Bill Supply Drives Rates Higher

## Commercial Paper Outstanding

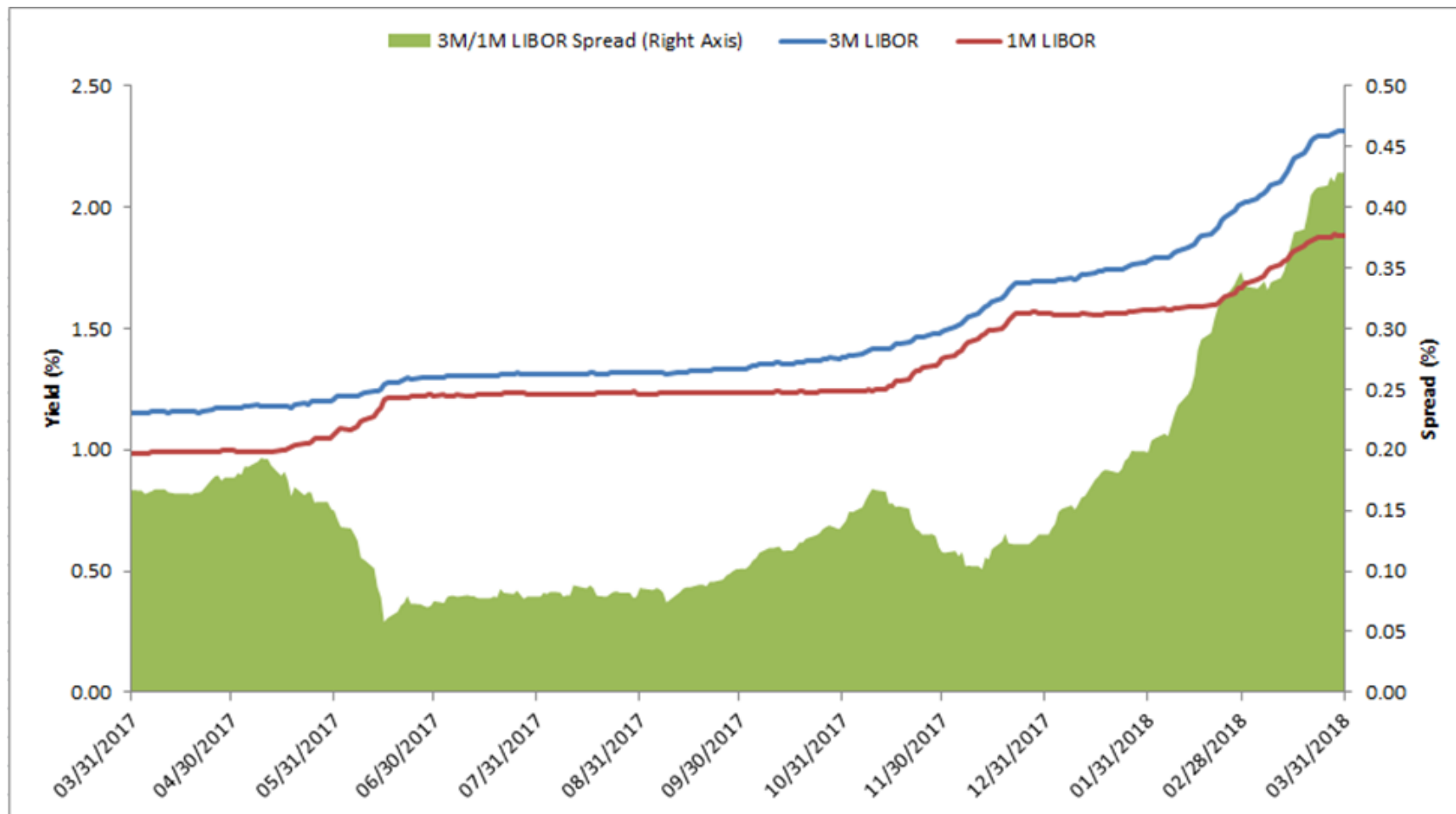


## Commercial Paper 90-Day Yields



Source: Federal Reserve & Bloomberg Finance L.P., as of 4/30/2018

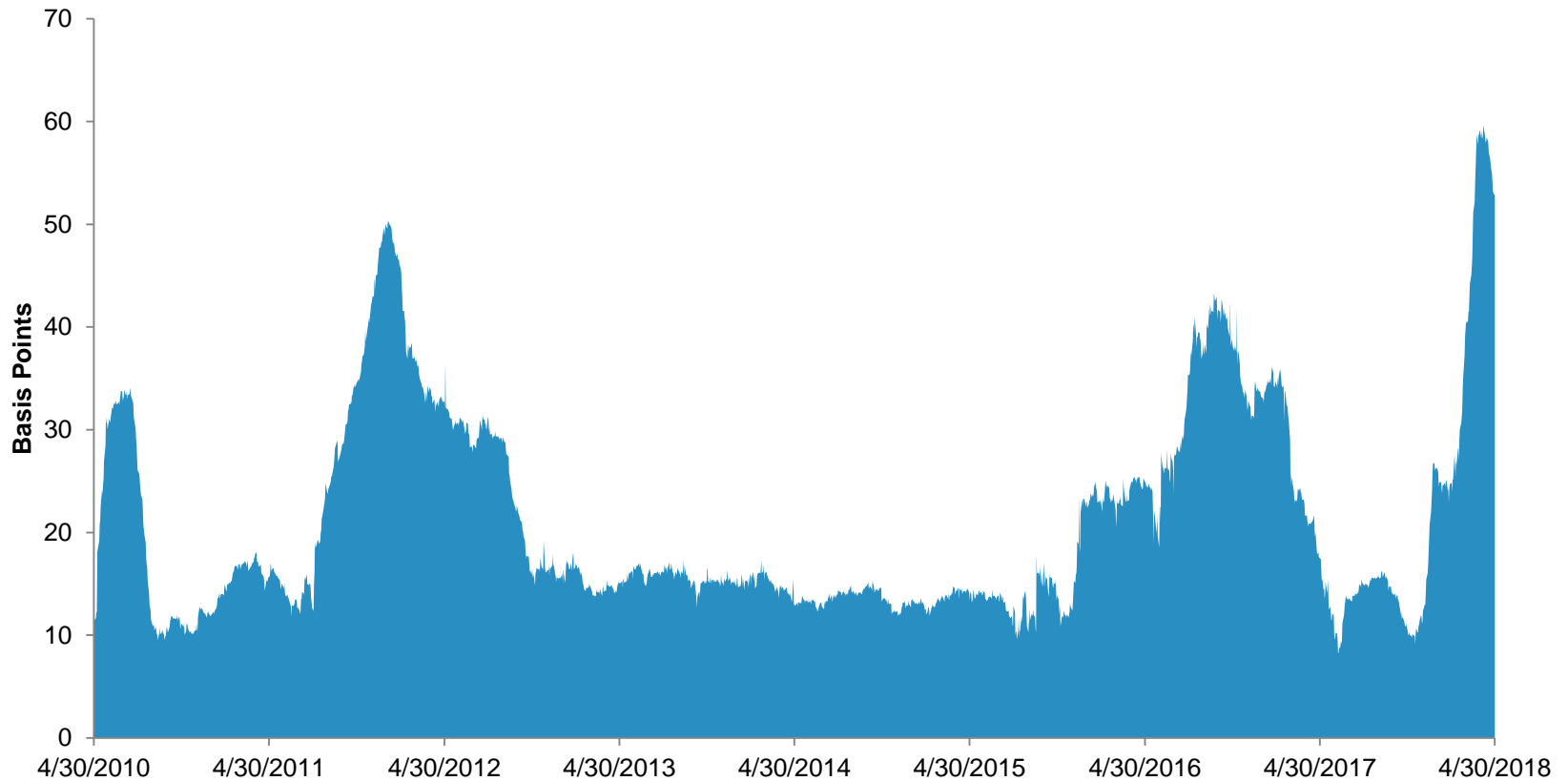
# 1M-3MLIBOR Spreads Increased Considerably



Source: Bloomberg Finance L.P as of March 31, 2018.

# Supply Dynamics Widens LIBOR/OIS Spreads

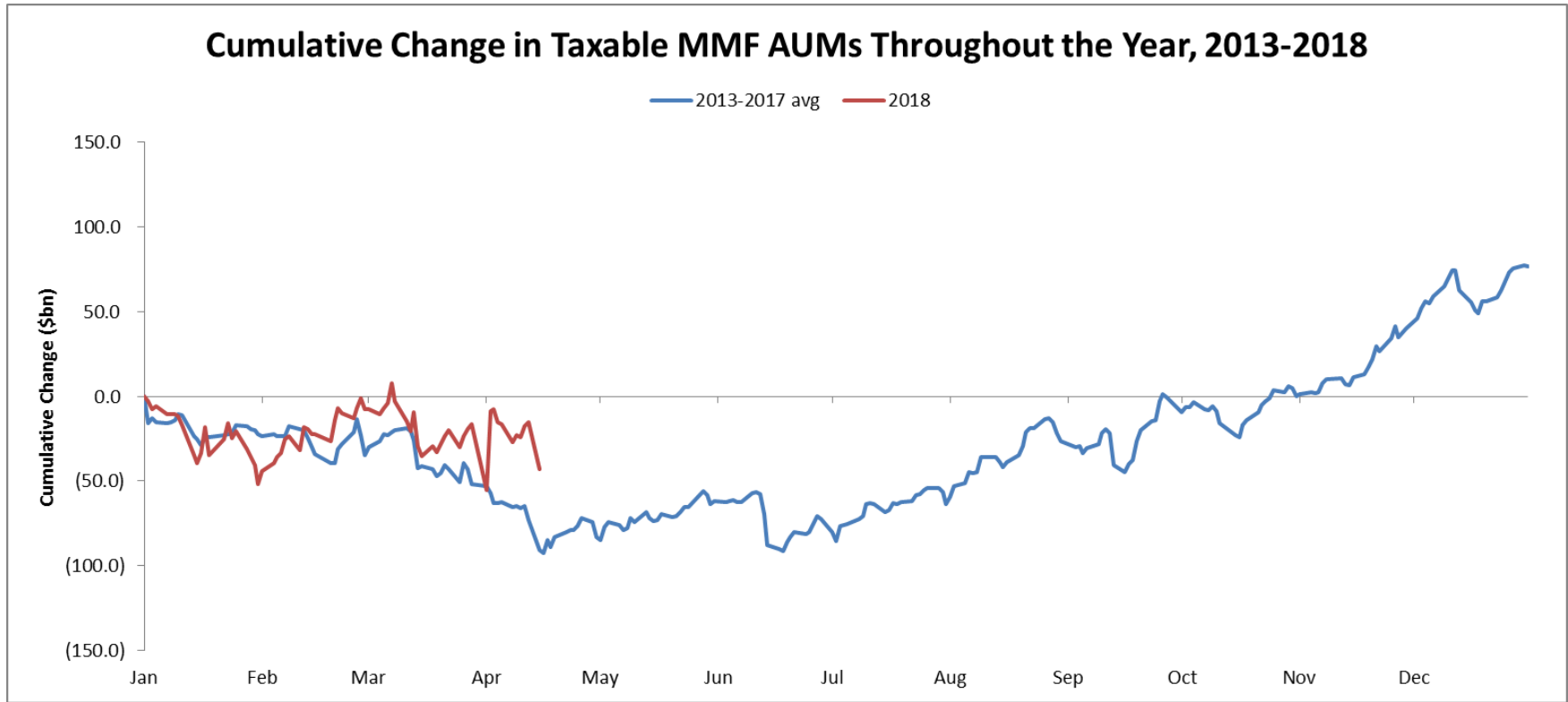
## 3-Month US LIBOR OIS Spread



Note: Spread represents the difference between 3-Month Libor and the 3-Month USD Overnight Indexed Swap. Overnight Indexed Swap (OIS) is a fixed/float interest rate swap where the floating leg is computed using a published overnight index rate. The index rate is typically the rate for overnight unsecured lending between banks, for example the Federal funds rate for US dollars, Eonia for Euros or Sonia for Sterling.

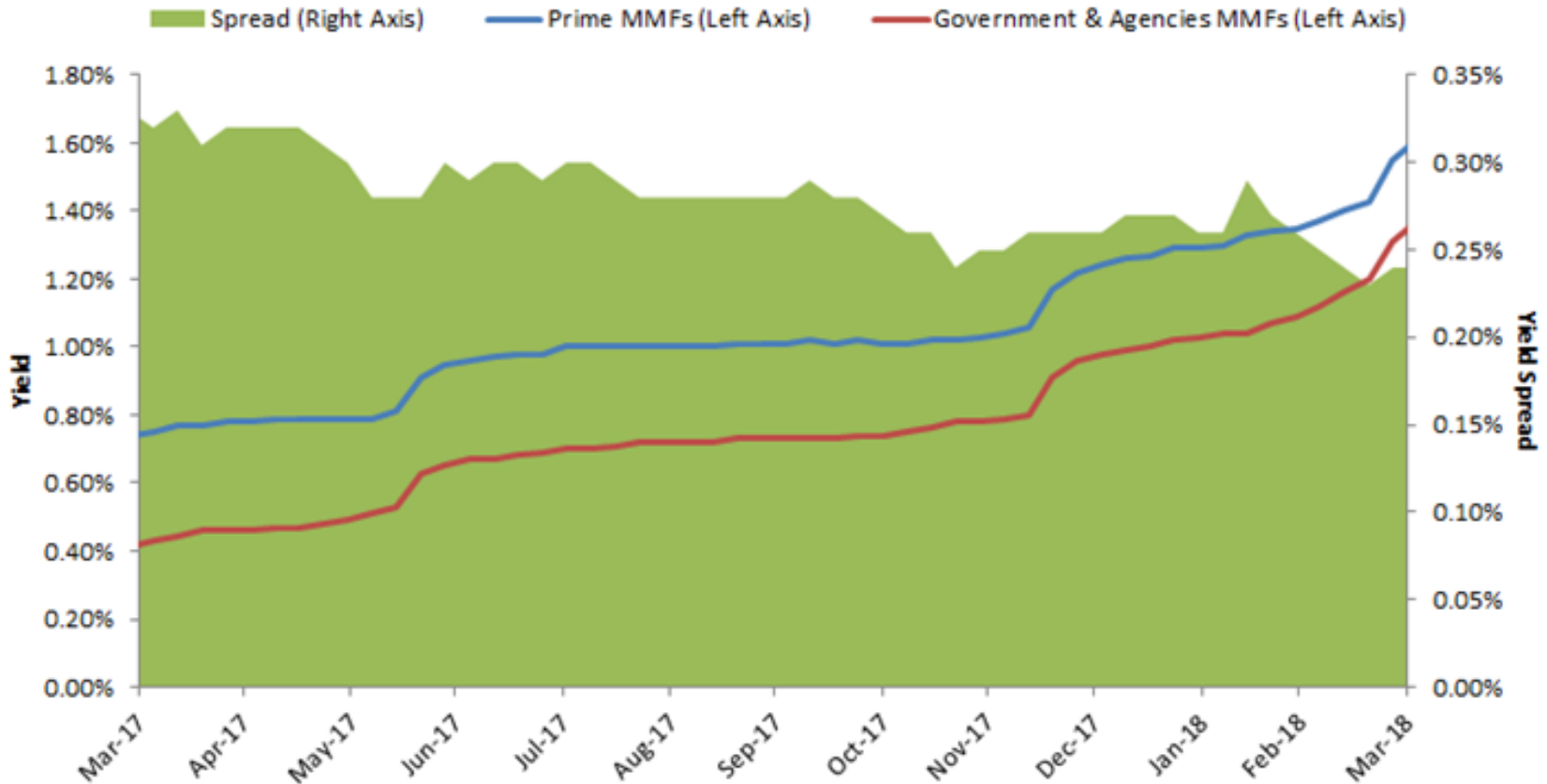
Source: Bloomberg as of 4/30/2018.

# MMFs Benefit from Repatriation & Higher Market Rates



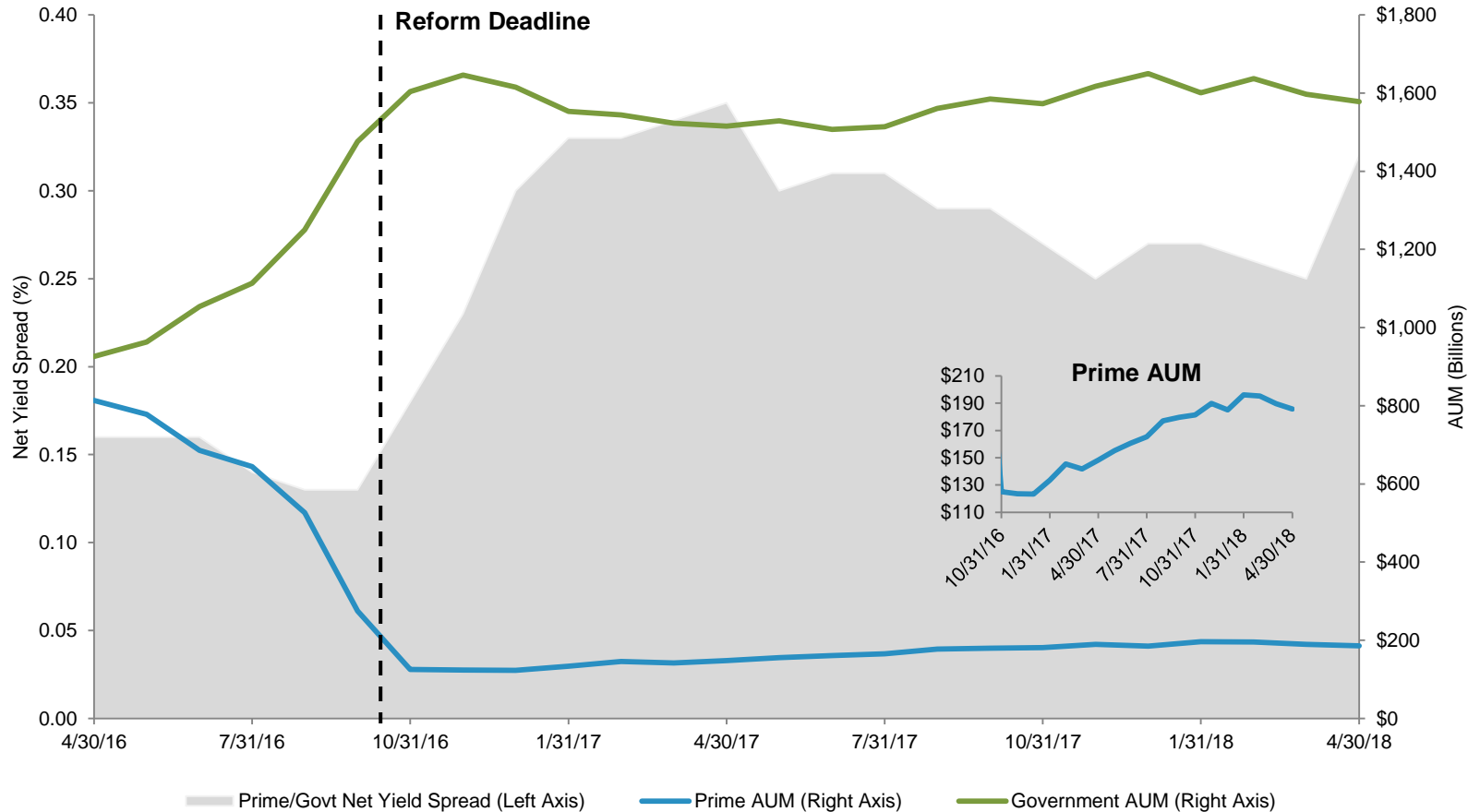
Source: IMoneyNet 4-3-18

# Prime & Government MMFs Yield Spreads Narrow



Note: Prime and Government & Agencies MMFs include institutional share classes only. Source: iMoneyNet, as of Mar. 31, 2018.

# Institutional Prime & Government Yield Spreads



Source: iMoneyNet as of 4/30/2018.

Notes: April 2018 Assets Under Management is preliminary and may be subject to change. MMF yields shown are average month end net 7-day annualized yields reported by iMoneyNet for institutional prime and institutional government money market funds. In the chart, spread refers to the difference between prime and government money market yields. Past performance is no guarantee of future results.

# Second Quarter Investment Strategy and Outlook

## Investment Strategy

- Seeking to preserve principal, maintain liquidity and achieve superior risk-adjusted performance
  - Emphasize fundamental and macro research in formulating portfolio structures
  - Manage weighted average maturities (WAM) and weighted average life (WAL) constraints to enhance NAV stability, liquidity and performance
  - Position portfolios based on our assessment of relative value across the money market yield curve within the context of our approved credits

## Outlook

- Less regulation, lower taxes, and more assertive foreign policy are policy shifts that may boost growth
  - The Federal Reserve recently increased its estimate of 2018 GDP growth by 0.2% to 2.7% reflecting the benefits of tax-cuts that may extend and accelerate positive investment trends. Estimated 2019 GDP was increased from 2.1% to 2.4%
  - Strengthening economic activity may grow core inflation to the Fed's targeted level of around 2% through the end of 2018
  - Fiscal stimulus may be limited and unfold over years
- The Fed is still on a path of gradual tightening, given their optimistic outlook
  - FOMC's forward guidance is still on a gradual path even as inflation trends higher
  - The Fed is forecasting two additional rate hikes in 2018 and three more in 2019
  - The Fed increased its run-off caps to \$30B per month. The plan calls for quarterly increases until the caps reach \$50B per month
  - Higher predicted growth and inflation enable the BOE, ECB and BOC opportunities to reduce monetary accommodation



# Appendix

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# Why Cash is Relevant Again

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Cash has re-emerged as a viable short-term investment solution following seven years of zero interest rate policy (12/2008 – 12/2015).

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Money market funds (MMFs) survived money market reform (October 2016).

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Higher interest rates have driven industry average MMF yields equal to or greater than bank deposit/sweep accounts.

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Money market fund yields are highly correlated with the Federal Funds Target Rate. Yields will continue to move higher as the Fed tightens.

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Cash as an asset class has returned to prominence (i.e. both equities and bonds had negative returns in Q1).

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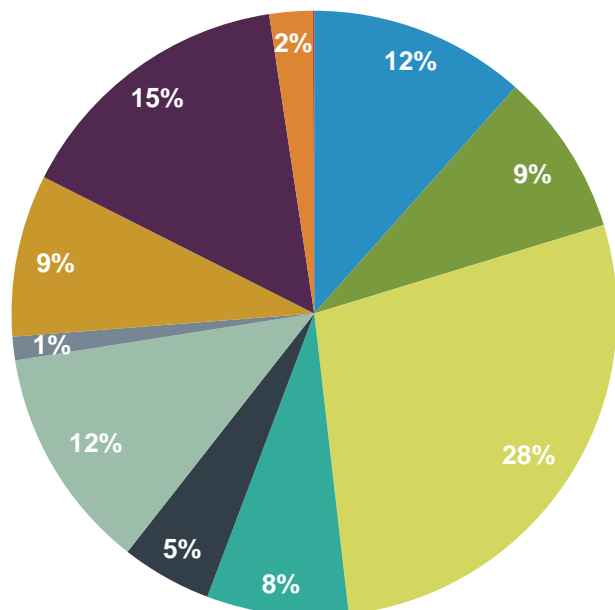


Money market and alternatives for longer investment horizons such as conservative ultra-short duration bond funds are professionally managed, diversified portfolios, offering market based returns.

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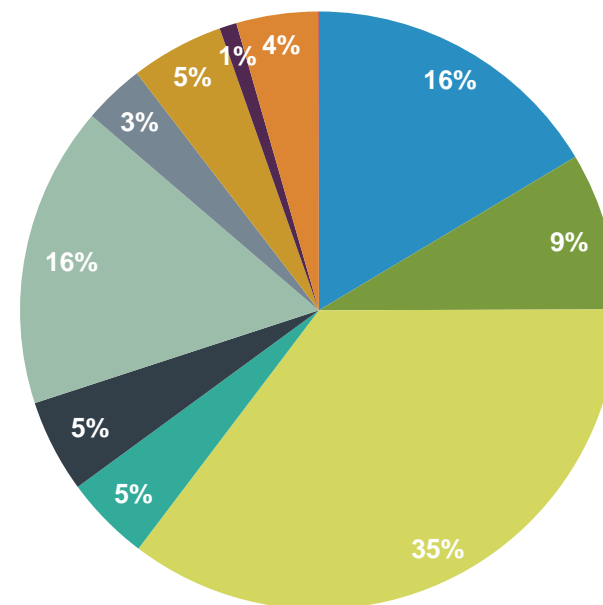
# Ocean State Investment Pool Composition

**APRIL 30, 2018**



- North American Banks
- Asian/Australian Banks
- Eurozone Banks
- Nordic/Swiss Banks
- UK Banks
- Asset Backed CP
- Non-Traditional Repo
- Other Securities
- Government/Repo
- Finance Companies
- Net Other Assets\*

**APRIL 30, 2017**



## Portfolio Characteristics

<b>Net Assets</b>	\$475 Million
<b>Weighted Average Maturity (WAM)</b>	14 Days
<b>Weighted Average Life (WAL)</b>	28 Days

## Portfolio Characteristics

<b>Net Assets</b>	\$363 Million
<b>Weighted Average Maturity (WAM)</b>	18 Days
<b>Weighted Average Life (WAL)</b>	32 Days

Portfolio diversification is presented to illustrate examples of the securities that each fund has bought and may not be representative of a fund's current or future investments. Each fund's investments may change at any time. Percentages may not add up to 100 due to rounding.

\*Net Other Assets may include cash and receivables and payables related to open security or capital stock trades.

Source: Fidelity Investments as of 4/30/2018.

# Performance Review as of April 30, 2018

Ocean State Investment Pool	7-Day Yield	Cumulative			Annualized		LOF*
		3-Month	6-Month	1-Year	3-Year	5-Year	
<b>Net Yield</b>	1.77%	0.40%	0.74%	1.30%	0.77%	0.50%	0.43%
<b>Citigroup 3-Month Treasury Bill</b>		0.37%	0.67%	1.16%	0.54%	0.34%	0.29%
<b>Value Added</b>		0.03%	0.07%	0.14%	0.23%	0.16%	0.14%

\*Inception date is March 6, 2012

Total returns are historical and include change in share value and reinvestment of dividends and capital gains, if any.

**Performance data shown represents past performance and is no guarantee of future results. Investment return and principal value will fluctuate, so you may have a gain or loss when shares are sold. Index performance is not meant to represent that of OSIP.**

Sources: Fidelity Investments as of 4/30/2018.

**The yield quotation more closely reflects the current earnings of the Ocean State Investment Pool than the total return quotation.**

# Important Information

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Not a deposit of a bank. No guarantee by the State of Rhode Island or the U.S. Government or any of its agencies.

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**Before investing in the Ocean State Investment Pool Trust, consider its investment objectives, risks, charges, and expenses. For additional information, call FIISC at 855-900-OSIP (6747) for a free Investment Circular. To view the Investment Circular online, please go to <https://institutional.fidelity.com/osip> Please read the Investment Circular carefully before you invest. The Investment Circular is the only authorized source of definitive information regarding investment in the Ocean State Investment Pool Cash Portfolio.**

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**You could lose money by investing in a money market fund. Although the fund seeks to preserve the value of your investment at \$1.00 per share, it cannot guarantee it will do so. An investment in the fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Fidelity Investments and its affiliates, the fund's sponsor, have no legal obligation to provide financial support to the fund, and you should not expect that the sponsor will provide financial support to the fund at any time.** Fidelity's government and U.S. Treasury money market funds will not impose a fee upon the sale of your shares, nor temporarily suspend your ability to sell shares if the fund's weekly liquid assets fall below 30% of its total assets because of market conditions or other factors.

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In general the bond market is volatile, and fixed income securities carry interest rate risk. (As interest rates rise, bond prices usually fall, and vice versa. This effect is usually more pronounced for longer-term securities.) Fixed income securities also carry inflation, credit and default risks for both issuers and counterparties. Unlike individual bonds, most bond funds do not have a maturity date, so avoiding losses caused by price volatility by holding them until maturity is not possible. Foreign securities can be more volatile than U.S. markets due to increased risks of adverse issuer, political, regulatory, market or economic developments. Changes in government regulation, interest rates and economic downturns can have a significant effect on issuers in the financial services sector, including the price of their securities or their ability to meet their payment obligations. Prepayment of principal prior to a security's maturity can cause greater price volatility if interest rates change. The fund can invest in securities that may have a leveraging effect (such as derivatives and forward-settling securities) that may increase market exposure, magnify investment risks, and cause losses to be realized more quickly.

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