

# Net Asset Value (NAV) Webinar

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July 17<sup>th</sup>, 2013

## Presented by:

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## Table of Contents

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- **The Benefits of Unitizing Funds**
- **Floating NAV: Principal, Interest, and Total Return**
- **Drivers of NAV Volatility**
- **Money Market Funds: Stable or Floating NAV?**
- **CalTRUST Portfolio Strategy in Today's Environment**



## The Benefits of Unitizing Funds

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- ▶ Combining assets from multiple subaccounts for efficiency
- ▶ Accuracy of ownership interests in underlying subaccounts
  - ▶ Principal
  - ▶ Undistributed net income
  - ▶ Realized and unrealized capital gains
- ▶ Allowance for intra-month entry and exit into portfolios
  - ▶ Principal accounting versus unitized



## Floating NAV: Principal, Interest, and Total Return

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- Two components make up the Total Return of the Fund:
  - Principal (NAV)** – will show gains as interest rates fall
  - Interest Income (Dividends)** – will improve as interest rates rise

These two components, when examined on an **individual basis**, do not provide a clear picture of the Total Return on the Fund.

Example: In a rising interest rate environment, investors will be cautious of principal loss, however, income return will supplement this decline as rates rise as the interest earnings produce solid returns.



## Drivers of NAV Volatility

### Interest Rate Risk

- Large function of **duration** (interest rate sensitivity) → As interest rates rise, bond prices (and NAV) decrease. The longer the duration of a bond or Fund, the greater the price decrease as rates increase.

Example: If a bond (or Fund) has a duration of 2.00, a 1% increase in interest rates will result in a 2% decrease in market value (NAV).

### Credit Risk

- Function of one-off, name specific incidents as well as corporate sector underperformance relative to Treasury securities of equal maturities.

Example: A widening in corporate bond yield spreads during down markets, relative to Treasuries, will cause security prices to decline to a greater magnitude than matched Treasuries. This occurred in the second quarter of 2013 which was the worst quarter for corporate credit since the third quarter of 2008. The overall Fund NAV can fall as a result.



# Scenario Analysis and NAV Sensitivity

As of 6/30/2013

Representative: CalTRUST Short Term

Duration: 0.79

Initial NAV: \$10.01

Horizon Months: 12

Reinvestment Rate: 0.51%

Initial Investment: \$1,000,000

Yield Chg (bps)	Total Return	Income Return	Price Return	Ending YTW	NAV	Market Value
-50	0.723	0.347	0.376	0.006	10.05	\$1,007,230
-25	0.597	0.408	0.189	0.255	10.03	\$1,005,970
0	0.492	0.492	0.000	0.505	10.01	\$1,004,920
25	0.379	0.571	-0.192	0.755	9.99	\$1,003,790
50	0.252	0.646	-0.394	1.005	9.97	\$1,002,520
75	0.122	0.724	-0.602	1.254	9.95	\$1,001,220
100	-0.006	0.804	-0.811	1.504	9.93	\$999,940
125	-0.133	0.883	-1.016	1.754	9.91	\$998,670
150	-0.258	0.961	-1.219	2.004	9.89	\$997,420

Source: CMS BondEdge & Wells Capital Management

# Scenario Analysis and NAV Sensitivity

As of 6/30/2013

Representative: CalTRUST Medium Term

Duration: 1.89

Initial NAV \$10.03

Horizon Months: 12

Reinvestment Rate: 0.77%

Initial Investment: \$1,000,000

Yield Chg (bps)	Total Return	Income Return	Price Return	Ending YTW	NAV	Market Value
-50	1.687	0.743	0.944	0.265	10.12	\$1,016,870
-25	1.230	0.757	0.473	0.515	10.08	\$1,012,300
0	0.774	0.774	0.000	0.765	10.03	\$1,007,740
25	0.317	0.791	-0.474	1.014	9.98	\$1,003,170
50	-0.142	0.808	-0.950	1.264	9.93	\$998,580
75	-0.602	0.825	-1.427	1.514	9.89	\$993,980
100	-1.058	0.843	-1.901	1.763	9.84	\$989,420
125	-1.510	0.860	-2.370	2.013	9.79	\$984,900
150	-1.957	0.877	-2.834	2.263	9.75	\$980,430

Source: CMS BondEdge & Wells Capital Management

## Money Market Funds: Stable or Floating NAV?

► SEC released two reform proposals for comment on June 5<sup>th</sup>, 2013 with a 90 day window for comments. The final proposal is expected to be released in the first quarter of 2014 or shortly thereafter.

### I. **Floating NAVs:** Institutional Prime Funds required to float NAVs

- i. Movement away from cost-accounting (amortized) to market pricing (mark-to-market)
- ii. All Retail and Government MMFs are excluded

### II. **Liquidity Fees and Redemption Gates:** Prime Funds (both retail and institutional) required to adopt both

- i. Fund may continue to transact at a stable share price if ‘liquidity fees’ and ‘gates’ are imposed during times of ‘stress’ (defined as weekly liquid assets falling below 15% of total assets)
  - Fee: 2% liquidity fee on all redemptions
  - Gate: 30 day temporary suspension (Board discretion)
- ii. Government MMFs are excluded

### III. **Additional Disclosure & Diversification Requirements**





## CalTRUST Portfolio Strategy in Today's Environment

► **Money Market Fund** – Shorter than the universe of comparable money market funds. As of 6/30/13, the Fund had a weighted average maturity of 31 Days. To ensure sufficient liquidity, the Fund offered 26% daily liquidity and 44% weekly liquidity which is higher than the industry standard.

► **Short Term Fund** – Duration of the Fund is targeted between 0.50 and 1.00. Yield advantaged sectors add diversification and yield to the portfolio. Corporates are capped at 30% per California Government Code Section 53601 and the Fund is usually fully invested in that sector. Other sectors include Agency debentures, Asset-Backed securities and municipal securities.

► **Medium Term Fund** – The Fund has a duration of 1.88 as of 6/30/13. The majority of the Fund is invested in securities with maturities of less than three years in order to protect against a steepening of the yield curve. Similar to the Short Term Fund, yield advantaged sectors are emphasized within the context of CA Code.

