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Search for Yield, High Quality and Downside Protection for Corporate Cash Portfolios

AUTODESK.

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AUTODESK
Make anything.

Autodesk at a Glance

- Autodesk builds software that helps people imagine, design and create a better world
- Founded in 1982
- Headquartered in San Francisco, CA area
- 8,800 employees globally
- $2.1 billion fiscal year 2018 revenue
- $33.9 billion market capitalization

AUTODESK®
Make anything.

Changes to Autodesk Investment Program

Began to allow for BBB investments

- **Driver was for greater investment diversification**
  - Increase investable names
  - Diversify away from financials
- **Provided some yield enhancement**
- **Risk monitoring to ensure comfort with names being purchased**
- **Have had some downgrades, but nothing dropping out of investment grade**

Changes to Autodesk Investment Program

Began to allow for Asset Backed Security (ABS) investments

- Allow AAA rated credit card and autos
- Diversification into additional asset class
- Paydown feature helpful in rising rate environment

Changes in Rising Rate Environment

Shortened portfolio duration

- Reduced duration by approx. 1 year

Some portfolios shifted to large amount of floating rate investment

- Use of FRNs and short-term CP

Changes have helped manage unrealized losses in current environment and provide funding for the business

Looking Forward

Cash segmentation post tax reform

- How much cash on the balance sheet?

How can we incorporate ESG investing?

Preparing for next phase in the credit cycle

- Any future credit concerns?

Revisit investment policy

- Looking at potential new asset classes

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Investing Cash Enhancement Portfolios in a Rising Rate Environment

The Road Map

- Reduce duration and limit curve exposure
- Increase floating rate exposure but be mindful of carry give-up
- Emphasize securities with frequent cash flows (Asset Backed Securities)

Since 1986, structured securities (and Asset Backed Securities in particular) have played an important role in delivering attractive risk adjusted returns

Cash Enhancement Opportunities

- Traditional 2a-7 Money Market Securities (CP, CD's, T-Bills, Agency Discount Notes)
- Short High Grade Corporate Securities
- Expand opportunity set:
  - Asset Backed Securities
    - 2a-7 Eligible tranches
    - Short average life securities (Fixed and Floating Rate)
  - Agency "Government Guaranteed" CMBS

ABS Issuance & Outstanding Bonds (Billions)

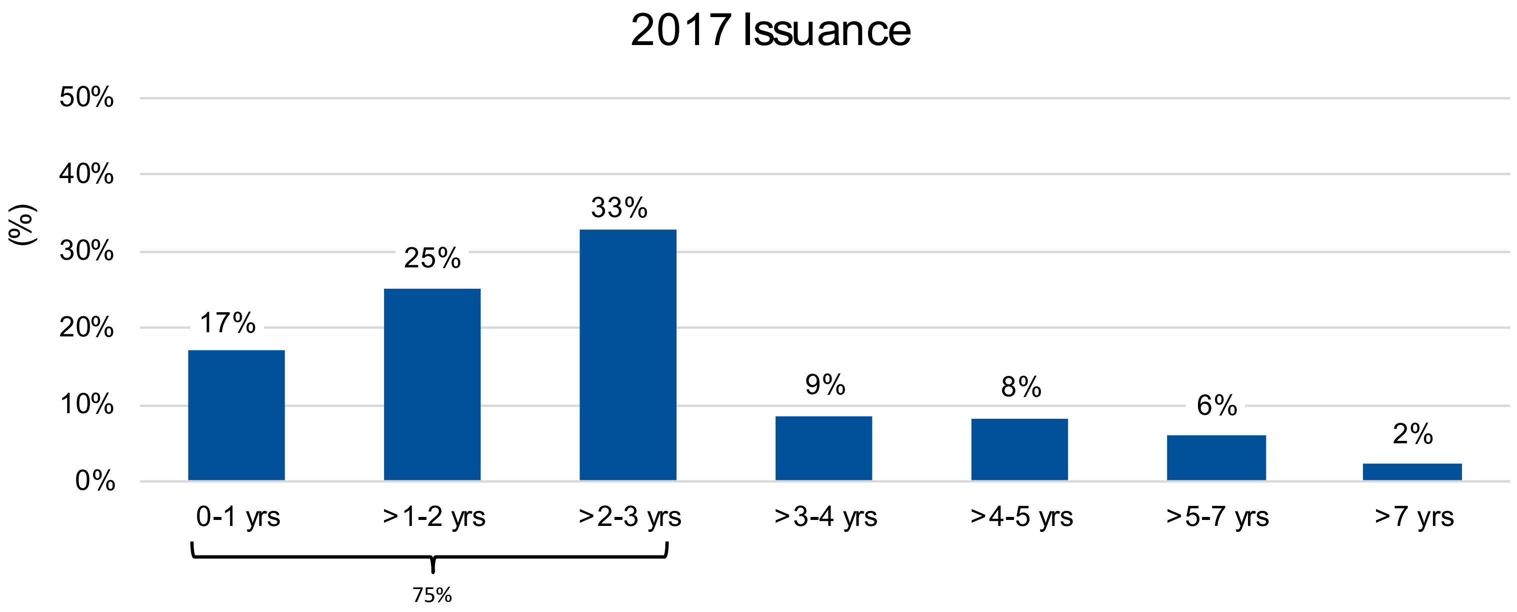
	YTD Issuance – Aug 2018	Outstanding Bonds YE 2017
Autos	$ 76.2	$203.0
Credit Cards	22.8	128.9
Equipment	20.0	56.6
Device Payment Plans	1.2	6.6
Other	46.6	361.1
Total	$166.8	$756.2

Source: SIFMA

Why Consumer ABS? Different Risk Profile

	Corporates	Asset Backed
Securitization	Unsecured	Secured by collateral
Collateral	Single borrower/one company	Diverse pool of obligors: 1,000 – 50,000 obligors
Interest	Semi-annual	Monthly
Principal Amortization	None: Bullet payment at maturity	Amortizing payments for some ABS types, Bullet payment for others
Impairments	Corporation can always make decisions that can impair bondholders; Share buybacks, M&A, dividends	Independent servicing & bankruptcy remote

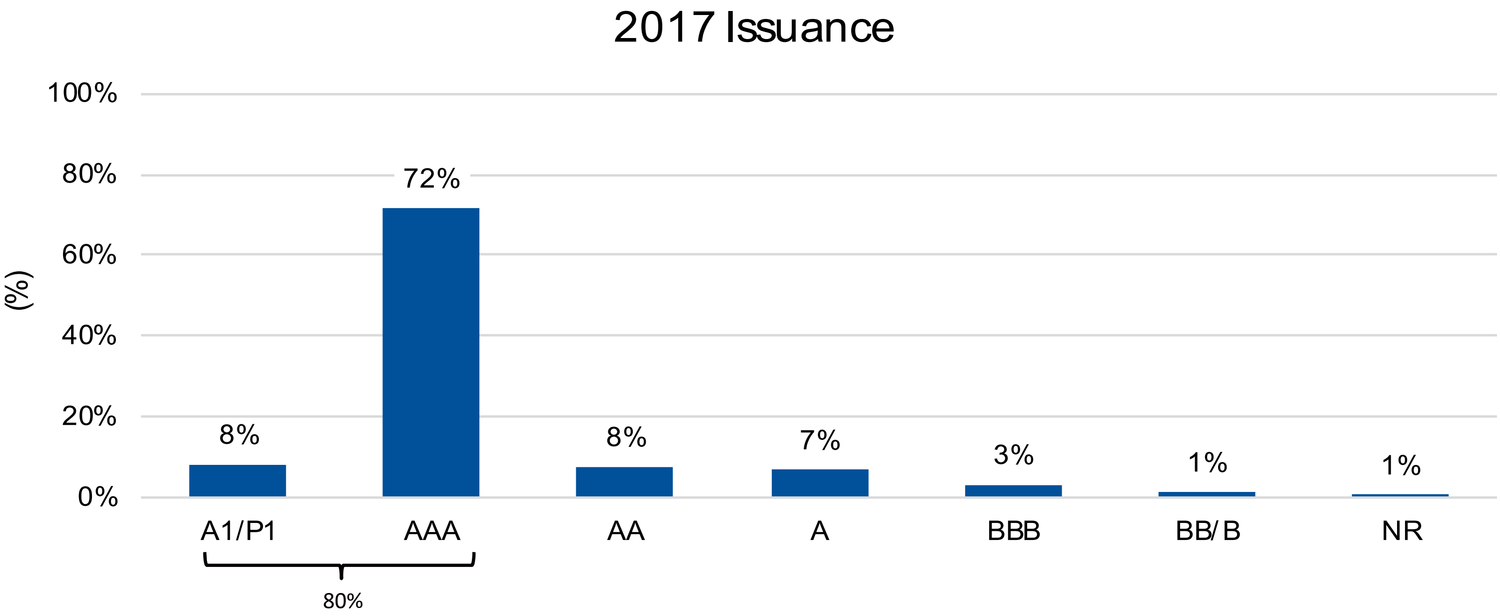
Consumer ABS Issuance by Average Life



- **Regular front-end issuance (75% <=3 years) provides attractive investment opportunities for short duration mandates**
- **Longer maturity bonds dominated by credit cards, rental cars, dealer floorplan and student loans**

Source: Bloomberg, Thomson Reuters, Wells Fargo Securities. Totals may not foot due to rounding.

Consumer ABS Issuance by Ratings



- **Consumer ABS is mostly rated AAA, with 80% in the highest rating categories**
- **Below “AAA” rated classes can provide good relative value opportunities for investors that don’t require “AAA” ratings**

Rating category based on lowest of split ratings
Source: Bloomberg, Thomson Reuters, Wells Fargo Securities. Totals may not foot due to rounding.

ABS Auto Deal Structure Example: ABS Auto Deal

CLS	SIZE($MM)	WAL	S&P/MDY	E.FNL	L.FNL	BNCH	SPRD	YLD%	CPN%	PRICE
A-1	192.00	0.28	A-1+/P-1	04/19	09/19	iLib	+ 5	2.41515	2.41515	100-00
A-2-A	340.00	0.95	AAA/Aaa	01/20	09/20	EDSF	+ 17	2.914	2.89	99.99398
A-2-B	70.00	0.95	AAA/Aaa	01/20	09/20	1mL	+ 17			100-00
A-3	410.00	1.71	AAA/Aaa	10/20	06/21	EDSF	+ 27	3.206	3.18	99.99210
A-4	86.14	2.16	AAA/Aaa	12/20	07/22	iSwp	+ 36	3.329	3.30	99.98726
B	59.27	2.29	AA/Aa2	01/21	07/22	iSwp	+ 53	3.507	3.48	99.99645
C	55.18	2.38	A/A2	03/21	07/22	iSwp	+ 75	3.732	3.70	99.99253
D	34.06	2.48	BBB/Baa2	03/21	12/22	iSwp		RETAINED		

2a-7 MMKT Tranche

Short Avg Life Fixed and Floating Rate Tranches

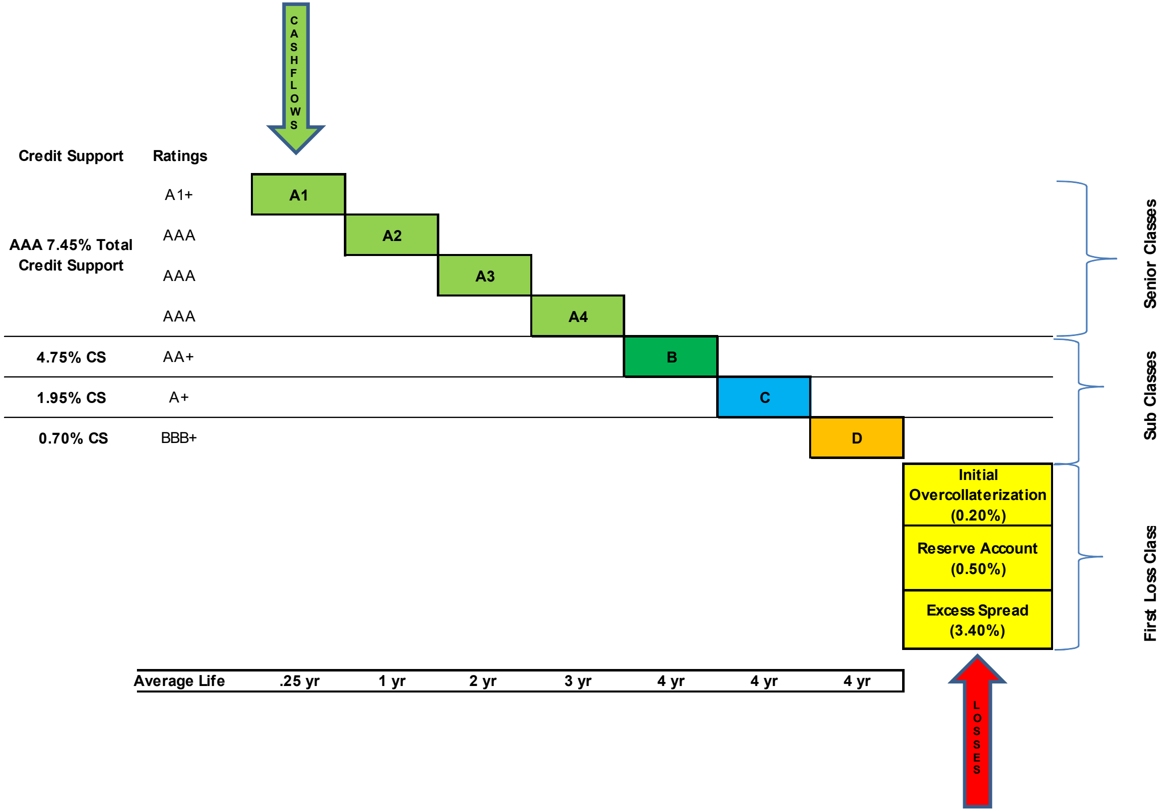
Subordinate classes

Source: Bloomberg, Merganser * September 2018 Issue

Key Takeaways:

- Large liquid “prime” auto deal ($1.25 Billion)
- Sequential pay cash flow structure (interest paid monthly to all classes, principal paid sequentially)
- Investors can select from various tranches (fixed and floating rate) by average life and ratings
- Auto deals delever as senior classes payoff sequentially (i.e. buildup in credit support)

Prime Auto Deal Cash Flow Waterfall (Initial)



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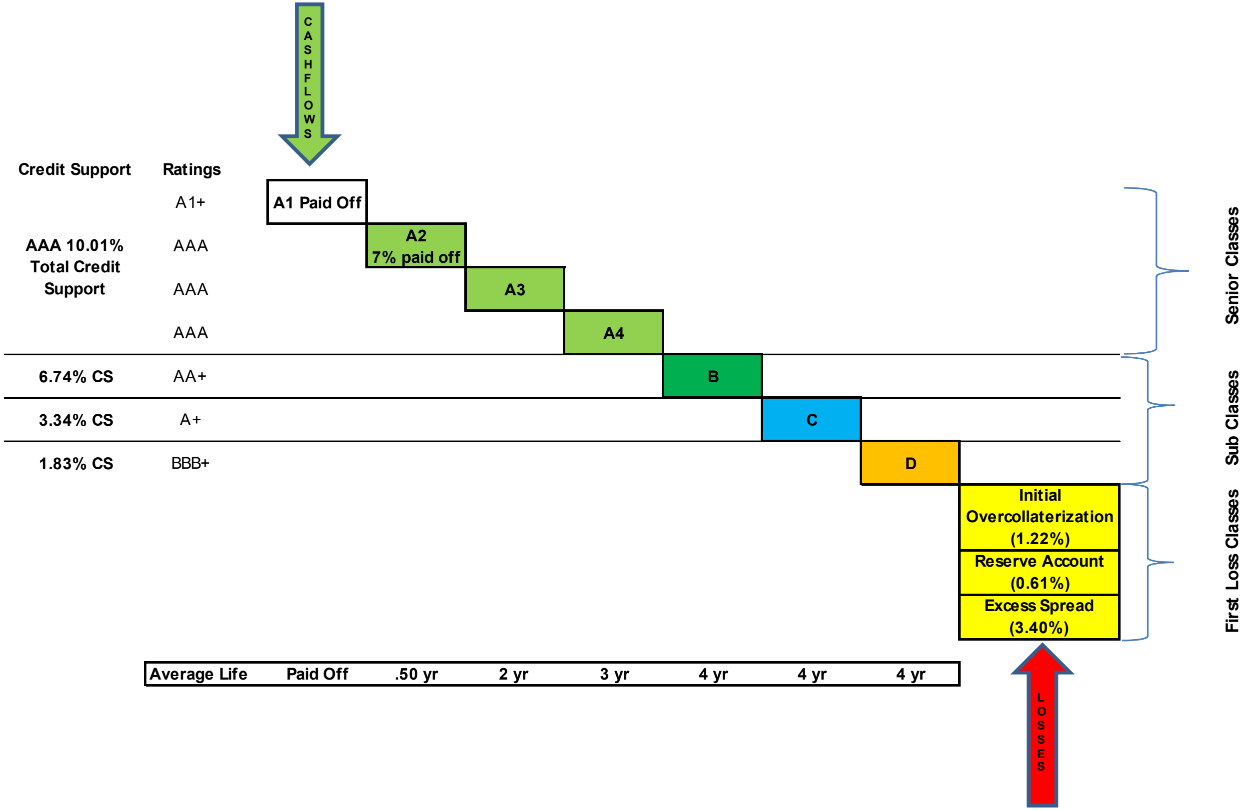
Prime Auto Deal Structure (6 Months Later)



Consumer Auto ABS Ratings Transition (1993-2017:H1)

Transition Matrix by Original Rating Using Rating Before Ratings WR

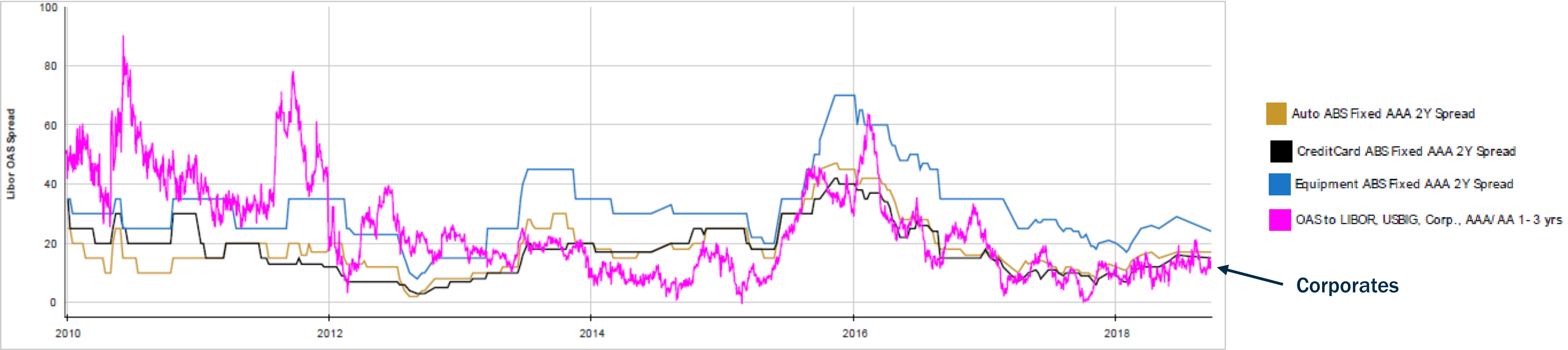
	Avg. Counts	Aaa	Aa	A	Baa	Ba	B	Caa-C	Impairment	Downgraded
Aaa:	3,378	95.47%	1.69%	0.38%	2.22%	0.24%	0.00%	0.00%	0.00%	4.53%
Aa:	289	76.82%	22.49%	0.69%	0.00%	0.00%	0.00%	0.00%	0.00%	0.69%
A:	452	39.60%	16.59%	40.04%	1.33%	0.88%	0.00%	0.88%	0.66%	3.10%
Baa:	288	25.00%	22.92%	12.50%	34.38%	2.78%	2.08%	0.00%	0.35%	4.86%
Ba:	106	2.83%	6.60%	29.25%	10.38%	43.40%	6.60%	0.00%	0.94%	6.60%
B:	14	0.00%	0.00%	0.00%	0.00%	7.14%	78.57%	7.14%	7.14%	

- **Auto deals deleverage as senior classes payoff in sequential order**
- **Structural deleveraging has generated long track record of stable ratings with positive ratings bias**
- **Over 24 year period 75% of bonds originally rated AA were upgraded to AAA**

Source: Moody's Investor Service, Wells Fargo Securities

ABS vs. High Grade Corporate Spread History

2 Year ABS vs 1-3 Year AAA-AA Corp Index (2009 – 2018)



- **The yield spread on AAA rated two year average life ABS versus high grade corporates is attractive.**

Fitch U.S. Credit Card ABS Transition Matrix During Crisis Years

U.S. Credit Card ABS Transition (July ‘07-June ‘11)

	AAA	AA	A	BBB	BB	B	CCC	CC and Below	PIF	WD	Total
AAA:	34.98%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	64.10%	0.96%	100.00%
AA:	0.00%	16.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	84.00%	0.00%	100.00%
A:	0.00%	5.41%	14.86%	0.00%	0.00%	0.00%	0.00%	0.00%	78.38%	1.35%	100.00%
BBB:	0.00%	0.00%	1.34%	26.85%	0.00%	0.00%	0.00%	0.00%	71.81%	0.00%	100.00%
BB:	0.00%	0.00%	0.00%	0.00%	7.69%	0.00%	0.00%	0.00%	92.31%	0.00%	100.00%
B:	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Fitch U.S. Auto ABS Transition Matrix During Crisis Years

U.S. Auto ABS Transition (July ‘07-June ‘11)

	AAA	AA	A	BBB	BB	B	CCC	CC and Below	PIF	WD	Total
AAA:	2.79%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	97.21%	0.00%	100.00%
AA:	1.89%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	98.11%	0.00%	100.00%
A:	8.33%	2.08%	2.08%	0.00%	0.00%	0.00%	0.00%	0.00%	87.50%	0.00%	100.00%
BBB:	11.63%	2.33%	4.65%	0.00%	0.00%	0.00%	0.00%	0.00%	81.40%	0.00%	100.00%
BB:	0.00%	0.00%	35.71%	0.00%	7.14%	0.00%	0.00%	0.00%	57.14%	0.00%	100.00%
B:	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	100.00%	0.00%	0.00%	100.00%

- As reported by Fitch, no downgrades of auto deals during crisis years
- Many deals were upgraded

Ratings Stability of Merganser ABS Holdings vs. Moody's ABS Universe

Merganser ABS Portfolio Holdings

	Upgrade	No Change	Downgrade
Aaa:		97%	3%
Aa:	15%	74%	11%
A:	10%	89%	1%
Baa:	17%	83%	
Ba:	100%		

Moody's ABS Universe

	Upgrade	No Change	Downgrade
Aaa:		84%	16%
Aa:	4%	78%	18%
A:	5%	82%	13%
Baa:	3%	85%	12%
Ba:	13%	77%	10%

- **Over the three year period ending December 31, 2010, 97% of all the AAA-rated securities in portfolios managed by Merganser retained their AAA-ratings versus 84% for the Moody's universe**
- **For Merganser portfolios' AA-rated holdings, 74% retained their AA-ratings through the credit crisis while 15% were upgraded and 11% were downgraded**
- **For Moody's universe, 78% retained their AA-ratings while only 4% were upgraded and 18% were downgraded**

The tables above illustrate the stability of Merganser's ABS holdings throughout the credit crisis (1/1/08-12/31/10).*

As of December 31, 2010
Source: Moody's. *Excludes Home Equity, Manufactured Housing and foreign issued U.S. dollar denominated mortgages.

Conclusion

- Diversification for portfolios dominated by corporate debt and govt debt
- Attractive relative value opportunities vs. high grade alternatives
- Heavily weighted front-end supply makes ABS well suited for shorter duration mandates
- Monthly pay feature provides rapid re-investment opportunities of cash flows in rising rate environment
- Consumer ABS has long term track record of stable to improving ratings

Manager experience is key

Disclosures

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Investment Universe for Rising Rates

- Money Market Instruments/Funds
- Repurchase Agreements (Repo)
- Commercial Paper
- T-Bills
- Non-Callable Governments/Agencies (Fixed/Floating Rate)
- Negotiable CDs
- Floating Rate CDs
- Corporate Notes (Fixed/Floating Rate)
- Asset Backed Securities

Response to Fed Raising Rates

Portfolio with high cashflows and frequent coupon resets

- **Shorten maturities to re-invest often with rates hikes**
- **Shorten duration to reduce interest rate sensitivity**
- **Add floating rate securities with frequent coupon resets**
- **Add amortizing securities with strong cashflows**
    - Paydowns and interest payments

Risks of Extending Duration for Yield

Increases book yield for income generation

- Total return a better measure
- Considers income and principal (market value changes)

Break-even analysis

- Fed expectation, roll down yield curve, expected holding period

Risk of unrealized losses as rates rise

- Decreases liquidity if need to sell securities
- Potential for impairment

Fixed Rate Portfolio

Portfolio Characteristics	
Duration:	1 Year
Yield:	2.45%
Max WAL:	3 Years
Credit Quality:	AA
Fixed Rate Securities:	100%

Sectors
Treasuries
Agencies
Financials
Corporates

Sensitivity Analysis	
1-year return after 3 Fed rate hikes of 25 bps each (75 bps)	
Income Return:	2.61%
Price Return:	-0.75%
Total Return:	**1.86%**

Floating Rate Portfolio

Portfolio Characteristics	
Duration:	0.4 Year
Yield:	2.30%
Max WAL:	3 Years
Credit Quality:	AA
Floating Rate:	100%

Sectors
Money Markets
Agencies - Floating Rate
ABS - Floating Rate
CDs - Floating Rate
Notes - Floating Rate

Sensitivity Analysis	
1-year return after 3 Fed rate hikes of 25 bps each (75 bps)	
Income Return:	2.69%
Price Return:	-0.02%
Total Return:	**2.67%**

Expand the Investment Universe

- 144A Notes
- 4(2) Commercial Paper
- Floating Rate CDs & Notes
- Asset Backed Securities (ABS)
    - Money market tranche of ABS

SEC 144A Securities

- Liquid and tradeable
- Good yields and investor demand
- SEC fast tracks issuance
  - Senior Notes, Bonds, FRCDs, Commercial Paper 4(2)
  - Issued by public company with audited financials
  - With / without registration rights
- Not to be confused with “Private Placements”
- Only Qualified Institutional Buyers (QIB) – institutional

IPS: SEC 144A Securities

- 144A Notes, Bonds, FRCDs
- 4(2) Commercial Paper
- Senior securities
- Investment grade by Moody’s, S&P, Fitch or DBRS
- Same permissible maturities as registered securities

Floating Rate CDs & Notes

- Alternative to rolling CDs, Commercial Paper, Notes
- Hedge against rising interest rates
  - Frequent coupon resets to higher rates
  - Principal remains stable
- Coupon indexed to LIBOR + spread or SOFR + spread
- Available multiple maturities
- Spread duration increases with maturity

IPS: Floating Rate CDs & Notes

- Bank FRCDs, Corporate FRNs
- Senior notes, 144A
- Investment grade
- 1, 3, 6 month coupon resets
- LIBOR -> SOFR in 2021
- Up to 3 years WAL

- Exclude:
  - Floors and caps
  - Extendable features
  - Complex reset formulas

LIBOR Transition to SOFR in 2021

- Secured Overnight Financing Rate (SOFR) to replace LIBOR in 2021
- SOFR is transaction-based rate, started on April 3, 2018
- Overnight rate currently available, published daily
- New issues maturing after December 31, 2021 will be SOFR-based
    - New purchases of LIBOR-linked FRNs mature before 2021 transition date
- $400 billion investment grade, FRNs are LIBOR-based

IPS: Asset Backed Securities

- A1/P1 money market tranche
- AAA-rated, senior tranche or current pay
- Weighted average life (WAL)
- Collateral types

IPS: Credit Quality

- Expand ratings agencies (NRSROs)
  - Moody's
  - S&P
  - Fitch
  - DBRS
- The middle rating of 3 NRSRO ratings governs
- The lower rating if there are only 2 ratings governs

IPS: Risk Management Controls

- Process for Credit Changes
  - Track Watch and Negative outlook on holdings
  - Look for “Cliffhangers”
  - Be pre-emptive – do not wait for downgrade or out-of-compliance
  - “Safety basket” to hold downgraded, out-of-compliance security
  - Consider hold security to maturity if <9-12 months to maturity and bond considered “money-good”
- Be mindful of the Other Than Temporary Impairment process

Yield, High Quality and Downside Protection

Q & A

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