

As discussed at last month’s Board meeting, three alternatives were identified for the investment of NIMPA’s Plant Closure fund, which has a current balance of approximately \$5.1 million.

- Keep funds in current PNC Bank account
- Invest funds in short-term government money market account
- Invest funds in longer-term government securities

Benefits and drawbacks of each of these alternatives are outlined below.

Keep Funds in Current PNC Bank Account

NIMPA could keep the funds in the PNC Bank account where they are currently invested.

Benefits

Very liquid

Drawbacks

Only FDIC insured to \$250,000

Lower interest rate than short-term Treasuries (3.45%)

Invest Funds in Short-Term Government Money Market Account

NIMPA could invest the funds in a PNC short-term money market account, taking advantage of higher short-term interest rates because of the inverted yield curve.

Benefits

Very liquid

Higher interest rate at present (~5.2%)

Invested in government-backed securities

Drawbacks

Likely to be less attractive interest rate when yield curve uninverts

Invest Funds in Longer-Term Government Securities

NIMPA could also invest the funds in a longer-term government security, such as a 10-year Treasury note.

Benefits

Government backed

Liquid

Drawbacks

Interest rate risk if funds needed before maturity

Rates lower than short-term Treasuries (~4.29%)

The table below compares annual earnings on the three alternatives at current market rates:

	<u>Amount</u>	<u>Yield</u>	<u>Annual Income</u>
Keep Funds in PNC Bank Account	5,100,000	3.45%	175,950
Invest Funds in Short-Term Gov't Money Market	5,100,000	5.20%	265,200
Invest Funds in Longer-Term Gov't Securities	5,100,000	4.29%	218,790

Issues

The biggest issues are the uncertainty of when the plant closure funds will be needed and when the interest rate curve will uninvert.

Not knowing when the plant closure funds will be needed makes it challenging to determine the appropriate investment horizon for these funds. If NIMPA were to invest in a 20-year Treasury bond, and the funds were needed in 15 years, a principal loss could be incurred if interest rates were higher when the bond was sold than when it was purchased.

The Treasury yield curve has been inverted since July 2022. It is impossible to know when the yield curve will uninvert, which might suggest a change in investment approach. Recent inflation news suggests that rate cuts may be slower to happen than previously believed. This issue can be mitigated by regular monitoring of NIMPA's investment.

Recommendation

We recommend that NIMPA open an account with PNC Capital Markets and invest the Plant Closure Fund in a short-term government money market fund. We further recommend that Avant monitor the investment monthly, with the intention of moving funds to a longer-term government security when the yield curve uninverts.