

THE NORTH CAROLINA CAPITAL MANAGEMENT TRUST
c/o CAPITAL MANAGEMENT OF THE CAROLINAS, LLC
1520 SOUTH BOULEVARD
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CHARLOTTE, NORTH CAROLINA 28203
April 7, 2014

Ms. Mary Jo White, Chair
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

RE: Comment on Proposed Money Market Reform; File Number S7-03-13

Dear Chair White:

I am the Chair of the Board of Trustees of the North Carolina Capital Management Trust (NCCMT). The Independent Trustees have responded previously in 2009 and 2013 to proposed changes in the regulation of money market mutual funds. I am writing you again because of information I have read in the press and what I will discuss later in this letter.

Briefly, the NCCMT is a registered investment company that consists of two portfolios. One of the portfolios, the Cash Portfolio, is a money market mutual fund. The second portfolio, the Term Portfolio, is a bond fund managed with an extremely short-term maturity. Shares of the NCCMT are offered exclusively to local governments and public authorities in the State of North Carolina. The Cash Portfolio is an AAAM-rated fund in which investments are limited to the highly restricted investments authorized for local governments in North Carolina. The Local Government Commission, a regulatory agency whose staff is housed in the North Carolina Department of State Treasurer, also must certify both portfolios. The NCCMT has operated since 1982 in all manner of economic environments and has never experienced any credit or liquidity issues. The NCCMT is one of the very few Local Government Investment Pools (LGIPs) in the country that is registered with the SEC. As of March 31st, over 750 governmental entities had total balances of over \$3.7 billion in the Cash Portfolio.

As we stated in our September 2013 response to the proposed regulations, we believe that the SEC's 2010 regulations when coupled with the very restrictive North Carolina General Statutes give sufficient protection to money market mutual fund regulations. Therefore further regulations that fundamentally change the structure of money market funds are unnecessary. Even though we have this view, the firms that carry out the activities of the NCCMT (Capital Management of the Carolinas and Fidelity Management and Research Company) have been working diligently the past six months with our governmental participants to develop strategies to implement the proposed regulations. We had tentatively identified modifications in which the Cash Portfolio would have been separated into two different funds discussed in the proposed regulations. One fund would have been structured as a retail fund in which redemptions would have

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been limited to \$1 million per day per account. The second fund would have operated as a governmental fund for those participants (which are the largest of the governmental entities) that could not utilize a fund with limited redemptions. This is not a perfect solution and would have had negative consequences for our participants, but it would have limited the amount of damage. Our participants, while not thrilled with the proposed regulations, were willing to accommodate some changes in how the Cash Portfolio operated.

I read in the March 26th edition of the *Wall Street Journal* that the Commission was considering modifying the proposed regulations so that retail funds would only be available to “natural persons”. Because our clients, for all of the reasons we have mentioned in previous responses, are not interested in a LGIP with a floating net asset value or a fund that had potential restrictions on liquidity or possible redemption fees, we would likely be forced to convert the Cash Portfolio into a government money market fund. With more normalized conditions in the bond markets, Fidelity estimates that this conversion would result in an 8 basis point reduction in return. Our participants are able to use competing bank products that are obviously not subject to the same regulations. We are already seeing extensive outflows to competing bank depository products. The NCCMT was created by the North Carolina General Assembly in 1982 to be an alternative investment to bank products. The banks at that time were operating without any competition. The NCCMT has provided that competition in a very effective manner. As I mentioned previously, the Cash Portfolio has never had any credit or liquidity issues and in fact assets increased by over 50% during the financial crisis because our participants had more confidence in the safety of the NCCMT than they did in many of the local financial institutions (and with good reason considering how close Wachovia came to being taken over by the FDIC). In the 31-year history of the NCCMT, the largest amount of withdrawals from the Cash Portfolio during a 30-day period was approximately 7% of fund assets. The fund has always followed the mantra of safety, liquidity, and then yield that is the recommended investment objectives for governmental operating moneys.

As best I can determine, only three states have LGIPs that are registered with the Commission. None of these funds have ever experienced any issues that put their participants at risk. Moneys in the NCCMT are stable and the participants react in the same manner as retail investors. If the facts reported by the *Wall Street Journal* are accurate, I ask that the Commission consider modifying its definition of retail funds by including LGIPs that are registered with the SEC in the proposed definition. This would not be a significant modification, but would help the NCCMT better fulfill our clients' investment objectives. On pages 123 – 4 in the proposed regulations, the Commission raised questions concerning LGIPs and how these pools would be affected by the proposed regulations. The Commission could minimize the harmful impacts for at least 90% of our participants (particularly the small and medium-sized governments that have been so damaged by the economic downturn) by including LGIPS in the definition of retail funds.

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On a personal note, you and I share a common heritage. We are both graduates of The College of William and Mary. I am so proud of our great William and Mary graduates in the public service area like Bob Gates, James Comey and you. I look forward to meeting you sometime in Williamsburg.

Thank you for your consideration. If you have any additional questions, please contact me at [REDACTED], or the above address.

Sincerely yours,

A handwritten signature in black ink that reads "Thomas P. Hollowell". The signature is written in a cursive style with a large, prominent "T" and "H".

Thomas P. Hollowell, Chair of the Independent Trustees
The North Carolina Capital Management Trust

Cc: The Honorable Richard Burr
The Honorable Kay Hagan
The Honorable Janet Cowell