

THE IOWA INVESTOR

A newsletter published for Iowa Public Agency Investment Trust (IPAIT)

INVESTMENT COMMENTARY - BY LAURIE MARDIS

If investors are to be believed, the U.S. economy is heading for a vigorous recovery. Equities delivered their second consecutive return in excess of 15 percent in the third quarter, and all bond risk sectors continued their strong outperformance. Although we agree that the economy is on the road to recovery, our enthusiasm is tempered by the potential for potholes as government support is replaced by private investment.

Evidence of positive momentum can be seen in a variety of data. The ISM (Institute for Supply Management) indexes for both the manufacturing and service sectors have both popped above 50, indicating expansion on the business side. Low interest rates, declining home prices, and the first-time homebuyer credit have boosted housing activity. And, initial jobless claims have declined suggesting an improvement in the labor outlook.

Unfortunately, there is also substantial evidence that the economy has yet to regain solid footing. First and foremost is the unemployment rate which has skyrocketed to 9.8 percent and continues to move higher. The recession that began in December 2007 has resulted in job losses totaling 7.2 million, the highest number of losses since the Great Depression. And credit is not yet flowing freely to small business, despite the Federal Reserve's efforts to inject substantial liquidity for "toxic" assets on bank balance sheets.

The net result is that the economic boost provided by the various stimulus programs and monetary policies will not be withdrawn any time soon. In fact, extensions of unemployment benefits and the first-time homeowner tax credit are already being discussed. These tactics will allow the economy to generate positive growth, though the rate of growth will be modest compared to past recoveries.

The IPAIT Diversified Portfolio continues to enjoy high credit quality and safety of principal in this difficult time. Low yields in the money market space are challenging to both portfolio managers and participants, and we look forward to rising rates though they will not likely materialize for an extended period. Until then, we continue to place the highest value on safety and liquidity, and appreciate the opportunity to provide a high quality yield in this volatile environment.

If you have any questions please feel free to contact IPAIT.

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OVERVIEW - BY BRYANT SHERIFF

The majority of 2009 is in the rearview mirror now, and as the year draws to a close, I wanted to shed some light on public fund depositories and their ability/willingness to bid on city, county, and municipal utility dollars. Several State of Iowa regulations govern the ability of banks to bid on public fund investments.

- The state has requirements for collateralization of public fund investments which tie up the bank's assets.
- The state sets a minimum rate of interest which public funds must be paid, but this rate is not always quickly adjusted to reflect market rate changes, leaving banks in the unwelcome position of paying more for public funds than they can earn on the deposits.
<http://www.treasurer.state.ia.us/rates/>
- Public funds are backed by the state sinking fund which leaves banks exposed to potential assessments. If a bank fails, all the other banks which have public funds on deposit are assessed to pay for the public fund deposits in the failed bank (after FDIC insurance is used up). So if

assessments are levied to cover bank failures, a bank with significant public fund deposits will pay a higher assessment than a bank with very little in public fund deposits.

Furthermore the Fed Funds rate remains extremely low right now, so banks have other sources of cheap funding. It has been almost a full calendar year (December 16, 2008) since the Federal Reserve last moved the Fed Funds rate (0-0.25%). Constrained lending activity in this environment has also contributed to banks having fewer options for generating income off public fund deposits.

While the current environment remains difficult, annual conventions are a great way to stay up-to-date on a wide range of topics that influence public entities. IPAIT, like in year's past, will have a booth at these events to meet public officials and answer questions that may come up. A couple of these conferences have already passed as of publishing time including the Iowa League of Cities' annual convention, held

in Davenport, as well as the Iowa Association of Municipal Utilities event in Des Moines. Both were once again great shows!

Upcoming conferences that are quickly approaching include IMFOA in October and ISAC Fall School in November. IPAIT will have a booth set up at both locations, so feel free to stop by and say hello!

If you would like to schedule a meeting in person, or have any questions or concerns about the IPAIT program, feel free to contact me. On behalf of the IPAIT program, thank you and I hope to see you soon.

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COMPARATIVE ANALYSIS

Fed Funds remained at zero percent to 0.25 percent throughout the first quarter and Treasury securities range from 0.06 percent (3-month) to 2.32 percent (5-year). Comparative information including the IPAIT Diversified Fund yield, the iMoneyNet benchmark index, and various U.S. Treasuries follows:

Investment Type		Oct. 28, 2009	Investment Type	Oct. 28, 2009
IPAIT Diversified Fund	Daily yield	0.13%	Federal Funds (overnight rate)	0-0.25%
	Seven-day yield	0.15%	3-month Treasury Bill	0.06%
IPAIT Direct Government Obligation Fund	Daily yield	0.001%	6-month Treasury Bill	0.16%
	Seven-day yield	0.001%	2-year Treasury Note	0.94%
iMoneyNet Yield (comparable money market index)		0.02%	5-year Treasury Note	2.32%

IPAIT's Sponsoring Associations



Iowa Association of Municipal Utilities
 1735 NE 70th Avenue
 Ankeny, IA 50021-9353
www.iamu.org



Iowa League of Cities
 317 Sixth Avenue, Suite 800
 Des Moines, IA 50309
www.iowaleague.org



Iowa State Association of Counties
 501 SW Seventh Street, Suite Q
 Des Moines, IA 50309-4540
www.iowacounties.org

*IPAIT was established in 1987. IPAIT provides two daily liquid portfolios - the Diversified Fund and the Direct Government Obligation Fund (DGO). IPAIT's unique, internet-based proprietary reporting system offers real-time account inquiry, and transaction capabilities via the internet. Participants may invest, withdraw funds, check balances and transaction history, and make vendor payments with this service. There is also toll-free phone access to experienced administrators who can personally assist you with any IPAIT-related inquiry. There is no limit on the number of individual accounts, no minimum balance requirement, and no limits on the number of transactions per month. Please contact us today to learn more about the additional benefits IPAIT has to offer you. **An investment in the Fund is not insured or guaranteed by the FDIC or any other government agency. Although the Fund seeks to preserve the value of your investment at \$1.00/share, it is possible to lose money by investing in the Fund. This newsletter must be accompanied by the Information Statement prior to investing. The Information Statement is available at www.IPAIT.org***



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