

Governor Brian Sandoval
Chairman



State of Nevada
STATE BOARD OF FINANCE

Members
Treasurer Dan Schwartz
Controller Ron Knecht
Teresa J. Courier
Brian A. Sagert

PUBLIC NOTICE

AGENDA

MEETING OF THE STATE BOARD OF FINANCE
Tuesday, November 13, 2018
1:00 P.M.

Locations:

Via videoconference at the following locations:

Old Assembly Chambers
Capitol Building, Second Floor
101 N. Carson Street
Carson City, NV 89701

Grant Sawyer State Office Building
555 E. Washington Avenue, Suite 5100
Las Vegas, NV 89101

Agenda Items:

1. **Public Comment**
Comments from the public are invited at this time. Pursuant to NRS 241.020(2)(d)(7), the Board intends to limit to 10 minutes the time for an individual to speak and may impose reasonable restrictions on place or manner for such comment. No restriction will be imposed based on viewpoint. Comment will only be received on matters relevant to the Board's jurisdiction. The Board may discuss but is precluded from acting on items raised during Public Comment that are not on the agenda.
2. **For discussion and possible action:** Approval of the Board of Finance minutes from the meeting held on October 9, 2018.

Presenter: Tara Hagan, Chief Deputy Treasurer

101 N. Carson Street, Suite 4
Carson City, Nevada 89701
775-684-5600
Website: NevadaTreasurer.gov/BoF

3. **For discussion and possible action:** Discussion and possible action (a) regarding the State Treasurer's quarterly investment report for the quarter ended September 30, 2018 and (b) to approve or disapprove the Treasurer's investment policies for the General Portfolio and the Local Government Investment Pool (LGIP).

Presenter: Tara Hagan, Chief Deputy Treasurer

4. Board Members' comments, including discussion of future agenda items and status of past, present and future projects or other matters within the Board's jurisdiction.
5. Public Comment
Comments from the public are invited at this time. Pursuant to NRS 241.020(2)(d)(7), the Board intends to limit to 10 minutes the time for an individual to speak and reserves the right to impose other reasonable restrictions on place or manner for such comment. No restriction will be imposed based on viewpoint. Comment will only be received on matters relevant to the Board's jurisdiction. The Board may discuss but is precluded from acting on items raised during Public Comment that are not on the agenda.

ADJOURNMENT

Notes:

Items may be taken out of order; items may be combined for consideration by the public body; and items may be pulled or removed from the agenda at any time.

Prior to the commencement and conclusion of a quasi judicial proceeding that may affect the due process rights of an individual, the Board may refuse to consider public comment. See NRS 233B.126.

The State Board of Finance is pleased to make reasonable accommodations for persons with physical disabilities. Please call (775) 684-7109 if assistance is needed.

Tara Hagan, Secretary to the Board may be contacted at (775) 684-5600 to obtain copies of supporting materials, which are available to the public at 101 N. Carson St., Carson City, NV 89701.

THIS AGENDA HAS BEEN POSTED IN THE FOLLOWING PUBLIC LOCATIONS:

- **Capitol Building, 1st & 2nd Floors, Carson City, Nevada**
- **Legislative Building, Carson City, Nevada**
- **Nevada State Library, Carson City, Nevada**
- **Blasdel Building, Carson City, Nevada**
- **Grant Sawyer Building, Las Vegas, Nevada**
- **City Halls in Reno, Elko and Henderson, Nevada**

Also online at: http://www.nevadatreasurer.gov/Finances/Board/BOF_Home/ and <https://notice.nv.gov/>

STATE BOARD OF FINANCE
October 9, 2018 – 1:00 PM
Summary Minutes

Location:

Via videoconference at the following locations:

Old Assembly Chambers Capitol Building, Second Floor 101 N. Carson Street Carson City, NV 89701	Governor's Office Conference Room 555 E Washington Avenue, Suite 5100 Las Vegas, NV 89101
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Governor Sandoval called the meeting to order at 1:00 P.M.

Board members present:

Governor Brian Sandoval – Carson City
Treasurer Dan Schwartz – Las Vegas
Teresa Courier – Carson City
Brian Sagert – Las Vegas
Controller Knecht – Carson City

Others present:

Tara Hagan – Chief Deputy Treasurer
Dennis Belcourt – Deputy Attorney General
CJ Manthe – Nevada Department of Business and Industry
Stephen Aichroth – Nevada Housing Division
Michael Holliday – Nevada Housing Division
Fred Eoff – Public Financial Management
Joshua Bertain – Praxis Consulting Group
Eric Novak – Praxis Consulting Group
Alan Molasky – Ovation Affordable Housing, LLC
Lorri Murphy – Ovation Affordable Housing, LLC

Agenda Item 1 – Public Comment.

No public comment in Carson City or Las Vegas.

Agenda Item 2 – For discussion and possible action – Approval of the Board of Finance minutes from the meeting held on August 14, 2018.

Teresa Courier moved to approve the minutes. Treasurer Schwartz seconded the motion. Motion passed unanimously. Controller Knecht abstained due to the fact he was not present at the meeting on August 14, 2018.

Agenda Item 3 – **For discussion and possible action:** Discussion and possible action on the Nevada Housing Division’s request to approve the Administrator’s Findings of Fact pertaining to the issuance of up to \$25,000,000 of Multi-Unit Housing Revenue Bonds (Oquendo Senior Apartments), for the purpose of construction of a 201-unit affordable housing rental project in Clark County, Nevada. The project owner/developer will be a limited partnership entity comprised of Ovation Affordable Housing, Inc. (an affiliate of Ovation Development Corporation) and Coordinated Living of Southern Nevada, Inc. Wells Fargo Community Lending and Investment will be the equity investor limited partner. Approval of the Board of Finance is required pursuant to NRS 319.270(4)

Mr. Aichroth presented the Nevada Housing Division’s request to approve the Administrator’s Findings of Fact pertaining to the issuance of up to \$25,000,000 of multi-unit housing revenue bonds for the Oquendo Senior Apartments. He noted that the bonds will be used to provide for the new construction of a 201-unit affordable senior apartment complex in southwest Las Vegas valley near the intersection of Russel Road and Durango road. The rental housing will serve 201 households at or below 60% of the area medium income. Mr. Aichroth stated the project will be co-developed by Ovation Development Corporation and Coordinated Living of Southern Nevada. The Housing Division will be the conduit issuer on the project and there will be no liability for the repayment of the bonds for the State of Nevada. The project will be structured in two phases; the construction phase and the permanent phase with construction debt being placed directly with Wells Fargo and the permanent debt being placed with Barings LLC. Wells Fargo Community Lending will act as the investor member and will provide an equity investment of approximately \$13,592,000, in exchange for the 4% low income housing tax credit.

Mr. Fred Eoff provided an overview of the property and financing and noted that he anticipated the final numbers to be very similar to those noted in the Board materials.

Governor Sandoval asked when they expect the construction to begin and the estimated completion date of the project. Mr. Eoff stated that they expect the closing to occur in mid-December, the construction will commence in late February or early March 2019 with an estimated completion date approximately 18 – 24 months later.

Governor Sandoval asked what is the age group that defines senior and makes them eligible to take advantage of the property. Mr. Aichroth explained there must be one individual in the household that is 55 years of age or older.

Governor Sandoval asked how they determine who gets to occupy the premises. Mr. Eoff stated it’s on a first come first serve as far as occupying the premises.

Controller Knecht asked if there was anything, such as shopping centers, hospitals, etc. within walking distance of the property. Mr. Molasky, developer of the project, stated that right next door there are restaurants, an urgent care, medical services and a shopping center that is a half mile up the road. He also noted that there are bus routes very close by.

Controller Knecht moved to approve Agenda Item 3. Teresa Courier seconded the motion. Motion passed unanimously.

Agenda Item 4 - Board Members' comments, including discussion of future agenda items and status of past, present and future projects or other matters within the Board's jurisdiction.

No comments from Board Members

Agenda Item 10 – Public Comment

No public comment in Carson City or Las Vegas.

Meeting adjourned at 1:21-pm.

Dan Schwartz
State Treasurer

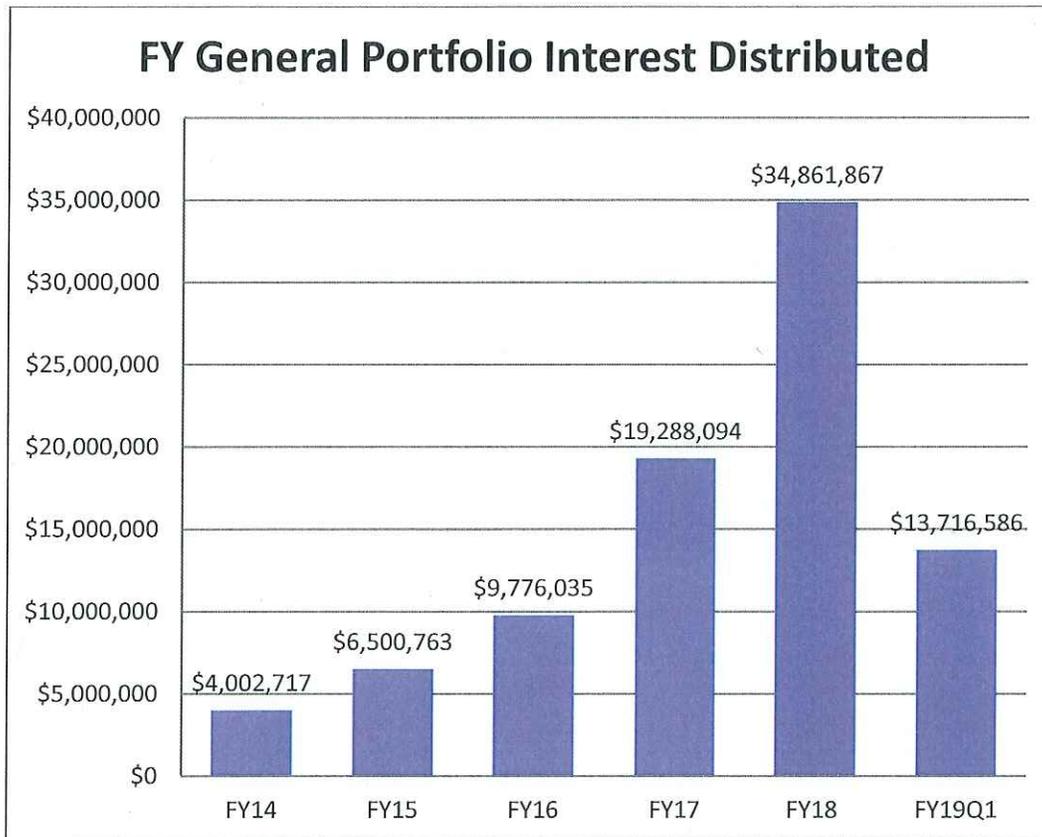


STATE OF NEVADA
OFFICE OF THE STATE TREASURER

TO: Board of Finance (BoF) Members
FROM: Tara Hagan, Chief Deputy Treasurer
SUBJECT: 11_13_18 BoF Agenda Item #3– State Treasurer Investment Report
DATE: November 7, 2018

Agenda Item #3

Discussion and possible action (a) regarding the State Treasurer’s quarterly investment report for the quarter ending September 30, 2018 and (b) to approve or disapprove the Treasurer’s investment policies for the General Portfolio and the Local Government Investment Pool (LGIP).



Investment Performance as of September 30, 2018

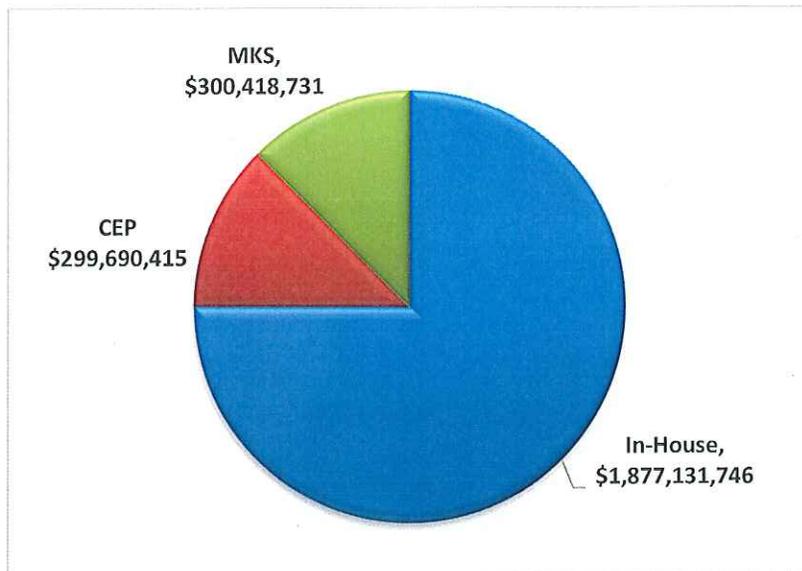
LGIP

As of September 30, 2018, the total assets under management (AUM) were \$1,081,410,833. Currently, FTN Financial manages the portfolio and the yield to maturity as of September 30, 2018 for LGIP assets was 2.25% which is 1 basis point in excess of the benchmark yield of 2.24%.

The Investment Policy Statement of the Local Government Investment Pool requires Corporate Note securities of the LGIP maintain two long term ratings of "A" or better from a nationally recognized rating agency at the time of purchase. Additionally, policy directs the Treasurer's Office to notify the Board of Finance when a security falls out of compliance and has either matured or been sold. The LGIP held a Ralph Lauren Corporation fixed income security with a par value of approximately \$3.8 million that matured September 26, 2018. The security was in compliance at the time of purchase; however, in July 2017, Ralph Lauren Corporation was downgraded by Standard & Poor's giving the security a long-term rating of A-, causing the security to fall out of compliance. Moody's maintained an A2 rating for the life of the security. Both the external manager and Treasurer's Office staff monitored the security and company closely through the maturity. The security matured on 9/28/18 without any loss to the LGIP.

General Portfolio

As of September 30, 2018, the AUM for the General Portfolio was \$2.48 billion (market value) with 75% managed internally and 25% managed by outside managers.

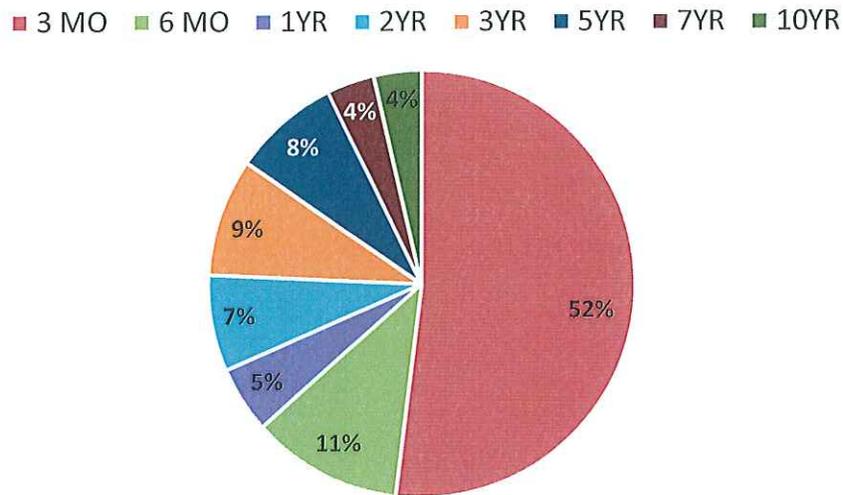


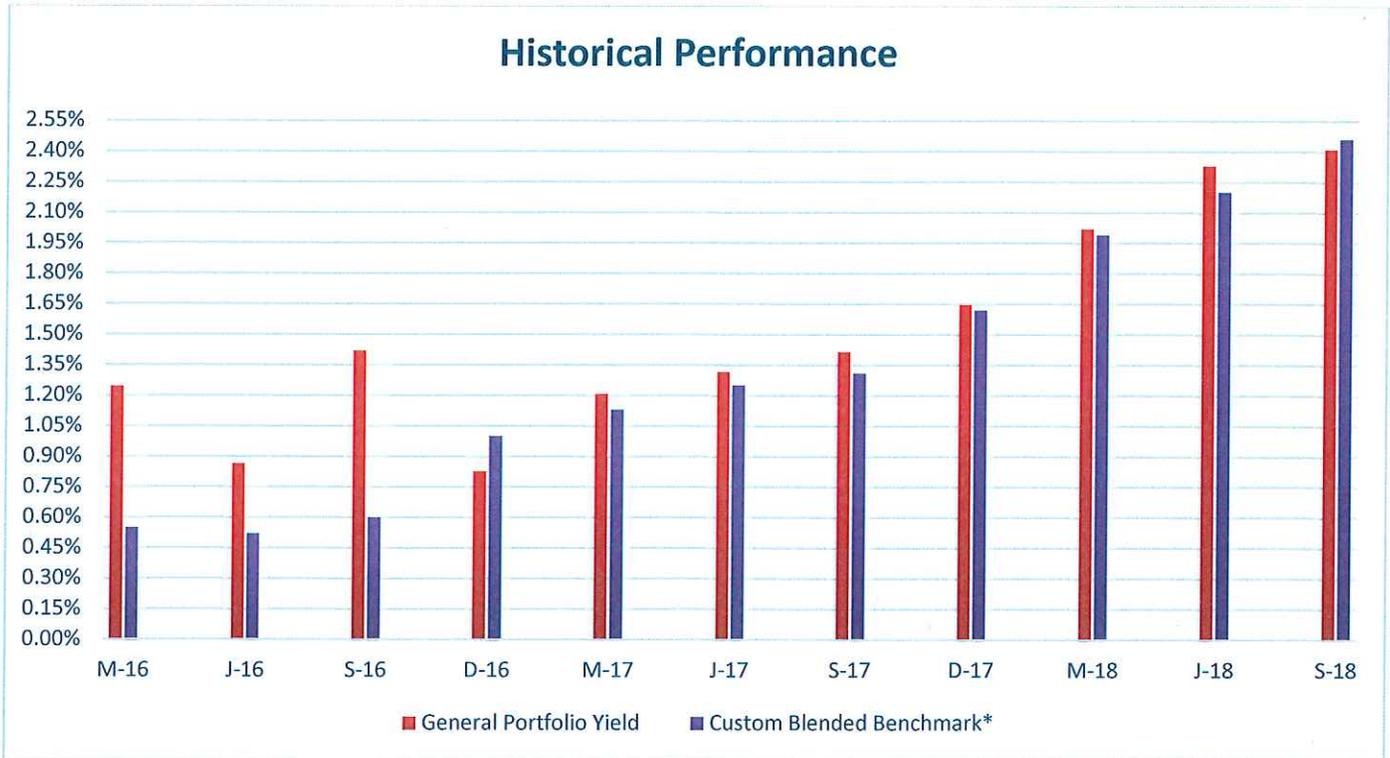
The overall yield to maturity (YTM) as of September 30, 2018 for the General Portfolio was 2.41%. Below is the YTM breakdown by portfolio:

- Internally managed portfolio was 2.25%.
- Chicago Equity Partners (CEP) portfolio was 2.90%.
- MacKay Shields (MKS) portfolio was 2.93%.

Although the outside managers' charts on page 4 indicate declines in the overall market values for the year-to-date and one-year numbers, these portfolios have not incurred any material realized losses to date, as securities have not been sold. The valuations are the result of the current rising interest rate environment which negatively affects the market value of the longer-maturity securities previously purchased by the outside managers. As noted above, if the outside managers held their respective investments to maturity, the yield would be 2.90% for CEP and 2.93% for MKS.

Below is a graphical representation of the asset weighted maturities in the General Portfolio as of September 30, 2018.





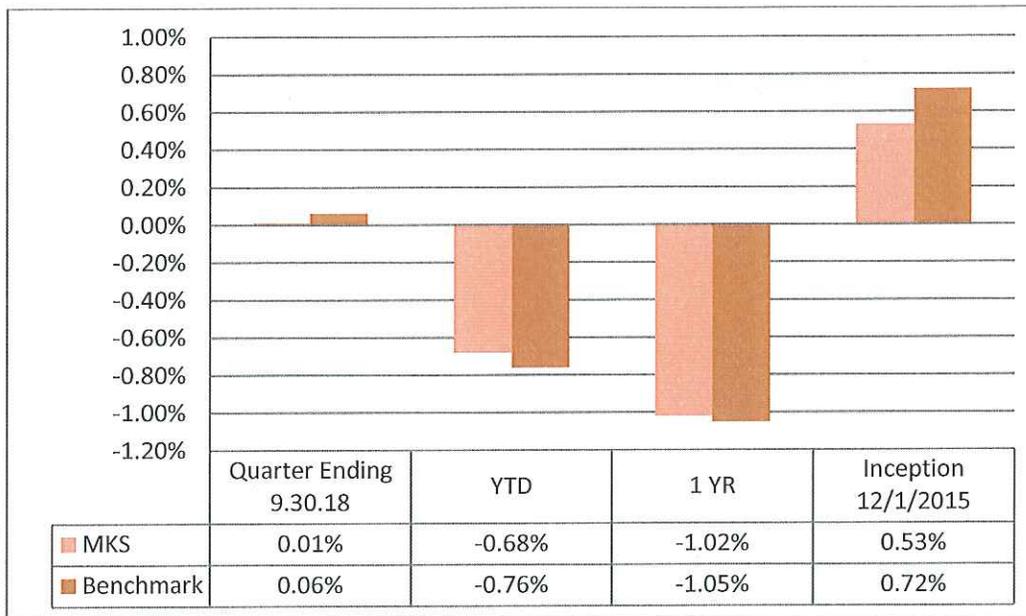
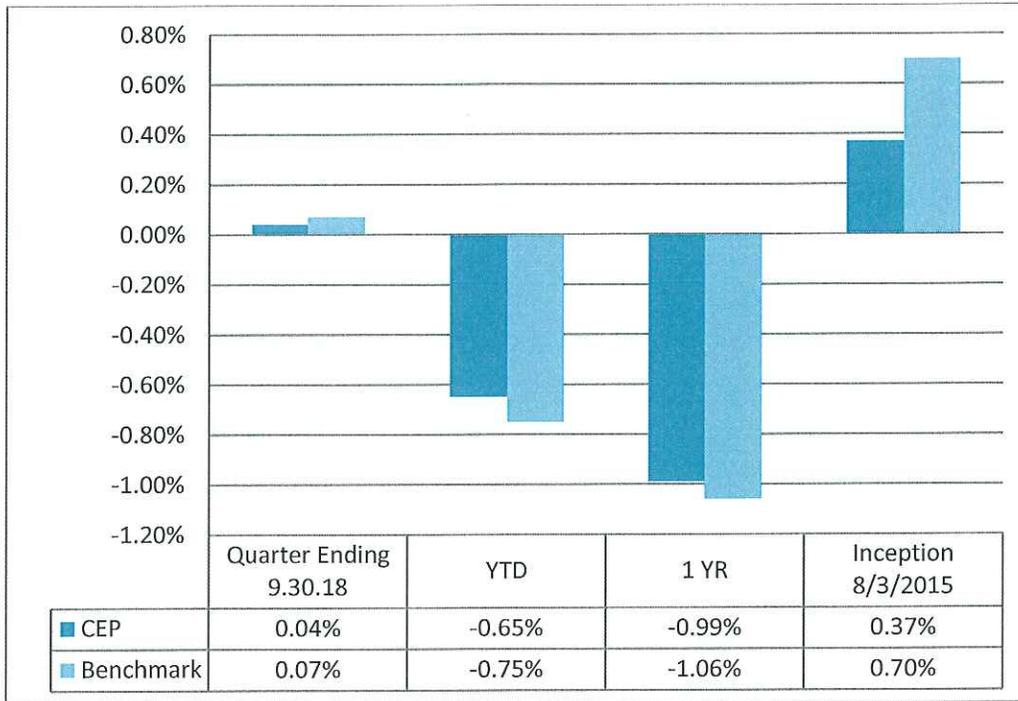
*Custom benchmark yield matches the asset-weighted maturities of the General Portfolio for each quarter to the appropriate Treasury yield.

General Portfolio Outside Managers' Performance

Chicago Equity Partners (CEP) began managing \$200 million in General Portfolio assets on August 3, 2015 with an additional \$100 million in 2016 for a total of \$300 million.

The calendar year to date time weighted performance net of fees is -0.65%. As of September 30, 2018, CEP has distributed \$11.91 million in net interest since inception. The hard dollar fees paid since inception to CEP as of September 30, 2018 were \$980,834 (31.7 basis points).

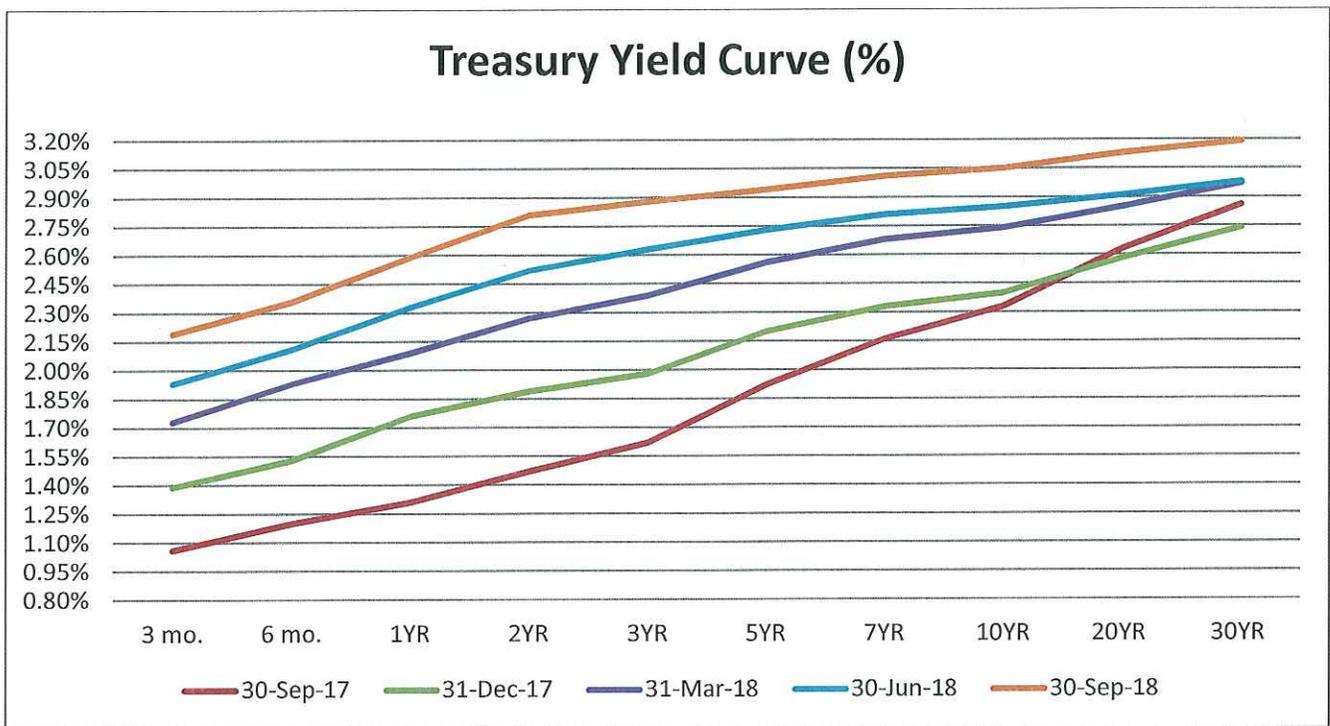
MacKay Shields (MKS) began managing \$200 million in General Portfolio assets on December 1, 2015 with an additional \$100 million for a total of \$300 million. The calendar year to date time weighted performance net of fees is -0.68%. As of September 30, 2018, MKS has distributed \$11.10 million in net interest since inception. The hard dollar fees paid since inception to MKS as of September 30, 2018 were \$1,000,041 (32.3 basis points).



Please note the applicable Nevada statutory restrictions regarding corporate notes, local authorities, foreign sovereigns, supranational and foreign agency can negatively impact each manager's portfolio performance versus the index.

Fixed Income Market Highlights as of September 30, 2018

- As expected, the Federal Reserve (Fed) raised the fed funds rate target rate by 25 basis points or a quarter of a percent in September to 2.00- 2.25%. The Fed maintained its hawkish stance by signaling for one more rate hike in December 2018 and potentially three more in 2019.
- Third calendar quarter Gross Domestic Product (GDP) increased at an annual rate of 3.5 percent, according to the "advance" estimate released by the Bureau of Economic Analysis. GDP rose to 4.1% in the second calendar quarter making it the strongest quarter since 2014.
- The US Treasury yield curve flattened further during the third calendar quarter as the difference between the 2-year and 10-year rates narrowed to 24 basis points versus 33 basis points in the second quarter.



NRS 355.170 prohibits the General Portfolio from investing in Treasuries beyond 10 years. Chart is for illustrative purposes only.

Recommendation:

I respectfully request consideration and approval of the quarterly investment reports and the Treasurer’s investment policies for the General Portfolio and the LGIP.



State Treasurer
www.NevadaTreasurer.gov

INVESTMENTS

GENERAL PORTFOLIO

FISCAL YEAR 2019
 Period Ending
 September 30, 2018

Overview

Investment of the State of Nevada General Fund Portfolio is a function performed by the State Treasurer, who, by the provisions of NRS 355, has adopted policies for the prudent and conservative investment of these funds. The General Portfolio encompasses governmental, proprietary, enterprise and fiduciary funds of the State. Investment objectives include safety of principal, portfolio liquidity and market return.

Investment Guidelines

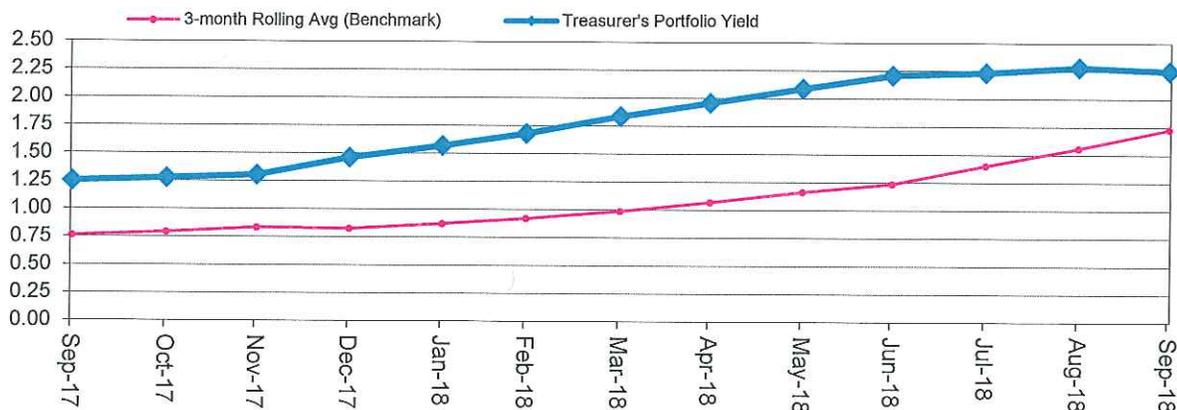
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, municipal bonds and banker's acceptances. These securities are diversified to prevent over-concentration in a specific maturity, a specific issuer, or a specific class of securities. The targeted duration of the portfolio is one and a half years, with no security extending longer than ten years.

The State Treasurer maintains a conservative, moderately active investment strategy. Cash flow forecasts are prepared to identify operating cash requirements that can be reasonably anticipated. In order to maintain sufficient liquidity, a portion of the portfolio is structured so that securities mature concurrently with cash needs in the short and medium term. Monies deemed to have a longer investment horizon, are invested to take advantage of longer term market opportunities.

In-House Performance

As of September 30, 2018, the yield on the portion of the General Portfolio managed in-house was 2.252%. A three month rolling average of this benchmark for this period was 1.73% with the average days to maturity at 218 days. The average days to maturity for the in-house managed portfolio was .54 years or 196 days.

In-House Performance vs. Benchmark

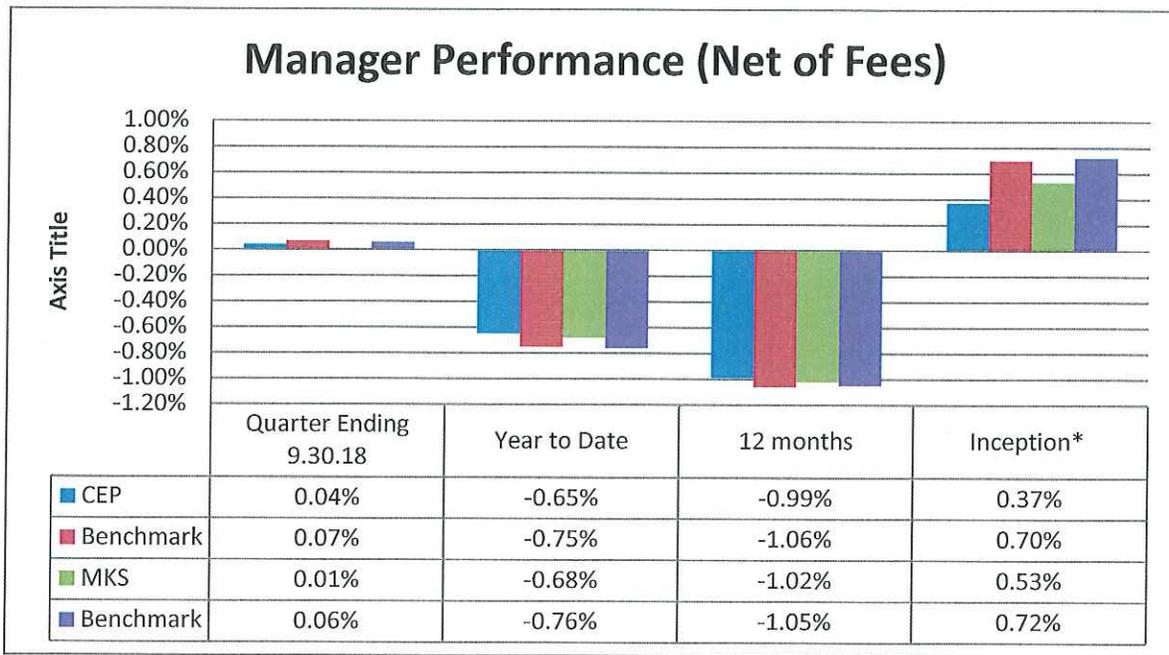


* Benchmark is 3-month rolling weighted average of 80% 3-month Treasuries and 20% 2-year Treasuries

Outside Manager Performance

The annualized performance since inception for period ending September 30, 2018 for manager Chicago Equity Partners (CEP) is 0.37% and for Mackay Shields (MKS) is 0.53%*. Both of these returns are based on time-weighted rate of return which is defined as the compounded growth rate of \$1 over the period being measured. These funds have been assigned the Bloomberg Barclays Intermediate A or better Government Credit benchmark. The Nevada statutory requirements prevent managers from investing in certain securities (supranationals and foreign sovereigns), fewer corporate notes and governmental securities longer than 10 years which is the cause of the difference in manager performance versus the benchmark. *CEP inception date is August 2015 and MKS is December 2015.

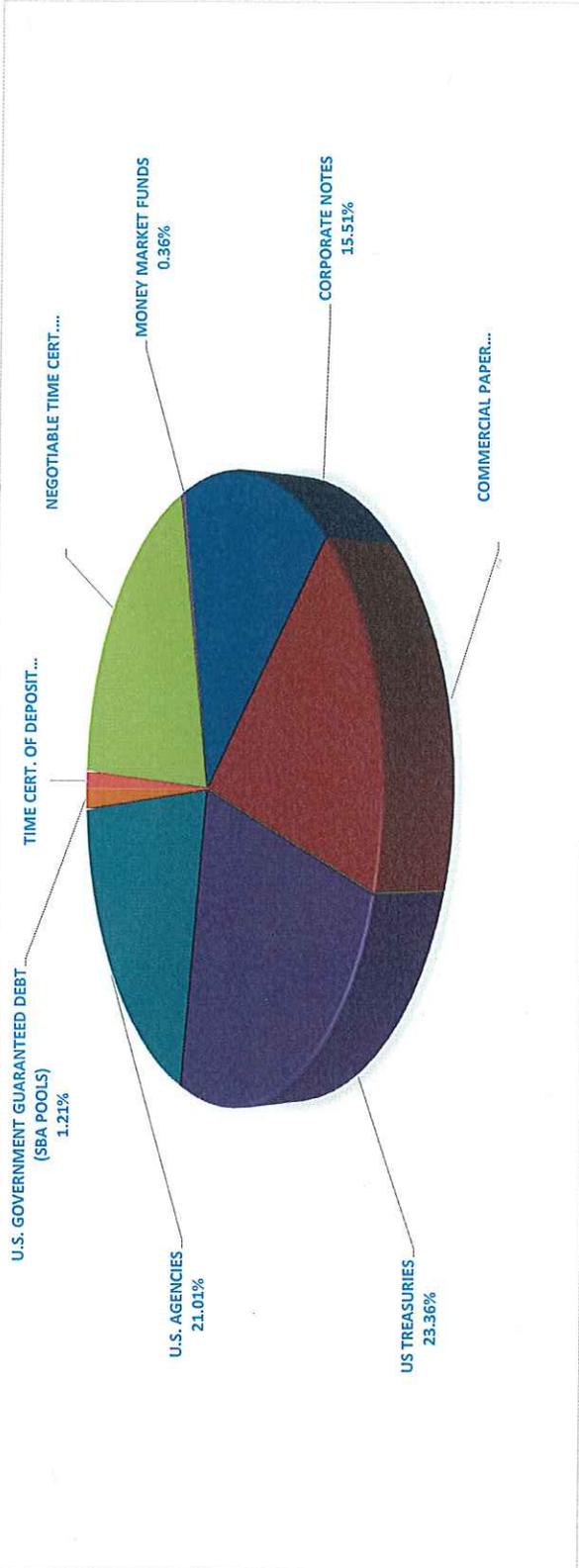
Outside Managers' Performance vs. Benchmark



*Inception date for CEP is 8.3.15 and 12.1.15 for MKS

GENERAL PORTFOLIO
Amortized Book Value and Purchased Interest

	September 30, 2018			June 30, 2018		
	Treasurer In-House	Chicago Equity Partners	Mackay Shields	Treasurer In-House	Chicago Equity Partners	Mackay Shields
WASHINGTON FEDERAL CHECKING ACCT.	\$ -	\$ -	\$ -	\$ 1,144	\$ -	\$ -
TIME CERTIFICATES OF DEPOSIT	25,000,000	-	-	25,000,000	-	-
NEGOTIABLE CERTIFICATES OF DEPOSIT	519,001,166	-	-	435,001,394	-	-
MONEY MARKET FUNDS	5,371,232	3,468,464	82,632	3,242,379	17,186,389	54,031
ASSET-BACKED SECURITIES	-	-	-	-	-	-
MORTGAGE-BACKED SECURITIES	-	-	-	-	-	-
CORPORATE NOTES	250,886,185	50,708,518	86,436,332	212,250,464	35,110,766	92,674,343
COMMERCIAL PAPER	420,993,501	-	-	487,825,269	-	-
MUNICIPAL BONDS	-	-	-	-	-	-
U.S. TREASURIES	114,784,264	251,036,555	218,596,933	49,789,360	251,251,228	211,295,463
U.S. AGENCIES	515,009,034	5,598,901	4,999,026	522,415,727	6,084,865	4,991,105
U.S. GOVERNMENT GUARANTEED DEBT	30,277,489	-	-	35,456,489	-	-
REPURCHASE AGREEMENTS	-	-	-	93,000,000	-	-
TOTAL	\$ 1,881,322,870	\$ 310,812,438	\$ 310,114,924	\$ 1,863,982,227	\$ 309,633,248	\$ 309,014,942
GRAND TOTAL	\$ -	\$ 2,502,250,232	\$ -	\$ -	\$ 2,482,630,417	\$ -



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	September 30, 2018	September 30, 2017
TOTAL PORTFOLIO	\$2,502,250,232	\$2,148,716,689

State of Nevada
Office of the State Treasurer
Schedule of General Fund Interest Revenue

	Quarter Ended 09/30/2018	Quarter Ended 12/31/2018	Quarter Ended 03/31/2019	Quarter Ended 06/30/2019	FY 2019 Totals
<u>Average Daily Balances of Funds</u>					
General Fund	806,653,832				806,653,832
All Funds	2,659,186,033				2,659,186,033
<u>Annualized Interest Rate</u>					
Cash Basis (see Note 1)	2.0386%				2.0386%
Accrual Basis	1.9953%				1.9953%
<u>Interest Distribution for General Fund (Cash Basis)</u>					
General Fund Interest Collected	4,160,873				4,160,873
General Fund Interest Revenue - Distributed	4,160,873				4,160,873
Undistributed General Fund Interest Revenue	-				-
<u>Interest Distribution for All Funds (Cash Basis)</u>					
All Funds Interest Collected	13,716,586				13,716,586
All Funds Interest Revenue - Distributed	13,716,586				13,716,586

Note 1 Interest is distributed to statutorily approved funds and budget accounts based on the cash basis of accounting. Under the cash basis of accounting, earnings are distributed in the quarter received but not necessarily in the quarter they were earned. Therefore, some of the receipts included in the Actual General Fund interest collected line were actually earned in the prior period and some of the earnings included in the General Fund interest revenue - accrual basis line will not be collected until a subsequent period.



Overview

The State of Nevada Local Government Investment Pool (LGIP) was established as an alternative investment program to be utilized by local governments for their public funds. This program's operation is the responsibility of the State Treasurer who, by the provisions of state statute, has adopted guidelines for the prudent investment of these pooled funds. Any local government, as defined by NRS 354.474, may deposit its public monies into this fund for purposes of investment. As of September 30, 2018, there were 88 members of the LGIP, which includes cities, counties, school districts, and various special districts. The LGIP's foremost investment objectives include safety of principal, portfolio liquidity, and market return, which are consistent with a conservative, short duration portfolio.

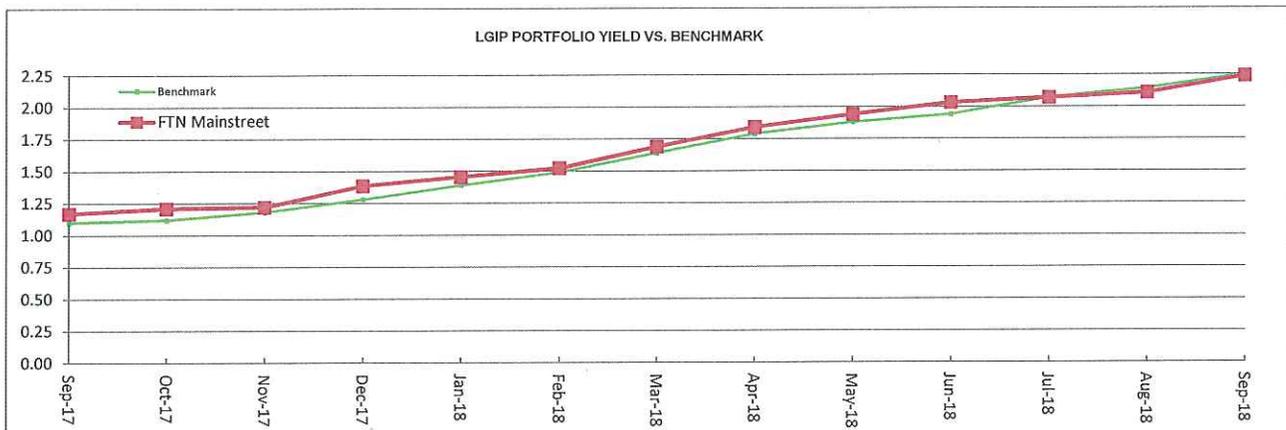
Investment Guidelines

The permissible investments of the LGIP include United States Treasury and Agency securities, repurchase agreements, high quality commercial paper, negotiable certificates of deposit, municipal bonds and banker's acceptances. These securities are diversified to prevent over-concentration in a specific maturity, a specific issuer, or a specific class of securities. The average maturity of the portfolio must not exceed 150 days, and no single security may be longer than two years.

The State Treasurer maintains a conservative investment strategy, which incorporates the matching of maturing securities to the cash needs of the participants. Approximately 10% of the fund matures on a daily basis, ensuring sufficient liquidity to meet both anticipated and unanticipated withdrawals. Additionally, at approximately 60% of the fund matures within 90 days, compared to the policy requirement of 50%. This requirement minimizes the risk that the market value of portfolio holdings will fall significantly due to adverse changes in general interest rates.

Performance

FTN Financial began managing the LGIP portfolio in July 2015. As of September 30, 2018, the LGIP's portfolio yield was 2.25%, and the blended benchmark was 2.24%. The average days to maturity of the LGIP portfolio was 128 days.

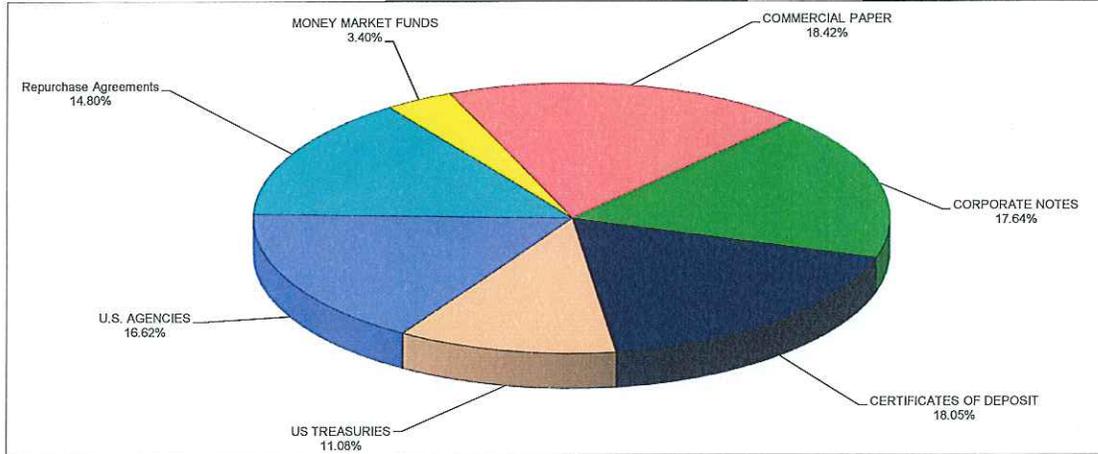


* Benchmark is 3-month rolling weighted average of 20% Dealer Commercial Paper 90-Day Index, 60% Agency Discount Note 6-Month Index, and 20% Morgan Stanley Institutional Liquidity Government Portfolio Fund.

Administration

The State Treasurer has adopted an Investment Policy relating specifically to the LGIP. The State Board of Finance shall review and approve or disapprove the policies established by the State Treasurer for investment of money of the LGIP at least every four months. The State Treasurer hereby confirms all LGIP investments are in compliance with the Terror-Free Investment Policy and the Divestiture Policy. The State Treasurer may contract with an independent auditor to review LGIP transactions for accuracy and fairness in reporting.

	<u>September 30, 2018</u>		<u>June 30, 2018</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 36,797,560	\$ -	\$ 88,943,309	\$ -
COMMERCIAL PAPER	199,150,364	-	169,552,624	-
CORPORATE NOTES	190,720,086	70,574	202,465,305	351,680
CERTIFICATES OF DEPOSIT	194,992,959	148,157	204,967,254	-
MUNICIPAL BONDS	-	-	-	-
U.S. TREASURIES				
NOTES	69,829,605	60,122	139,786,865	-
BILLS	49,914,394	-	79,534,178	-
U.S. AGENCIES	179,716,551	10,461	134,940,278	1,771
ASSET-BACKED SECURITIES	-	-	-	-
REPURCHASE AGREEMENTS	160,000,000	-	100,000,000	-
TOTAL	<u>\$ 1,081,121,519</u>	<u>\$ 289,315</u>	<u>\$ 1,120,189,813</u>	<u>\$ 353,450</u>
GRAND TOTAL	<u>\$ 1,081,410,833</u>	<u>\$ 289,315</u>	<u>\$ 1,120,543,263</u>	<u>\$ 353,450</u>



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>September 30, 2018</u>	<u>September 30, 2017</u>
TOTAL PORTFOLIO	\$1,081,410,833	\$998,447,501