

Zach Conine
State Treasurer



STATE OF NEVADA
OFFICE OF THE STATE TREASURER

TO: Board of Finance (BoF) Members
FROM: Tara Hagan, Chief Deputy Treasurer
SUBJECT: 6_13_19 BoF Agenda Item #6– State Treasurer Investment Report
DATE: June 5, 2019

Agenda Item #6

Discussion and possible action (a) regarding the State Treasurer’s quarterly investment report for the quarter ending March 31, 2019 and (b) to approve or disapprove the Treasurer’s investment policies for the General Portfolio and the Local Government Investment Pool (LGIP).

Fixed Income Market Highlights as of March 31, 2019

- The US Federal Reserve (the Fed) adopted a dovish stance during its latest testimony in March. The Fed removed the prospects of additional rate hikes in 2019. The current Fed funds rate is 2.25- 2.50%.
- US Treasuries rallied in the first quarter as did credit markets. The benchmark 10-year Treasury rate fell approximately 28 basis points to 2.41%; the 2-year rate fell 23 basis points to 2.26% and the long bond (30-year fell 20 basis points to 2.82%.
- During the quarter, the yield curve inverted between 3-month Treasury bills out to the 10-year note, the first time since 2007.

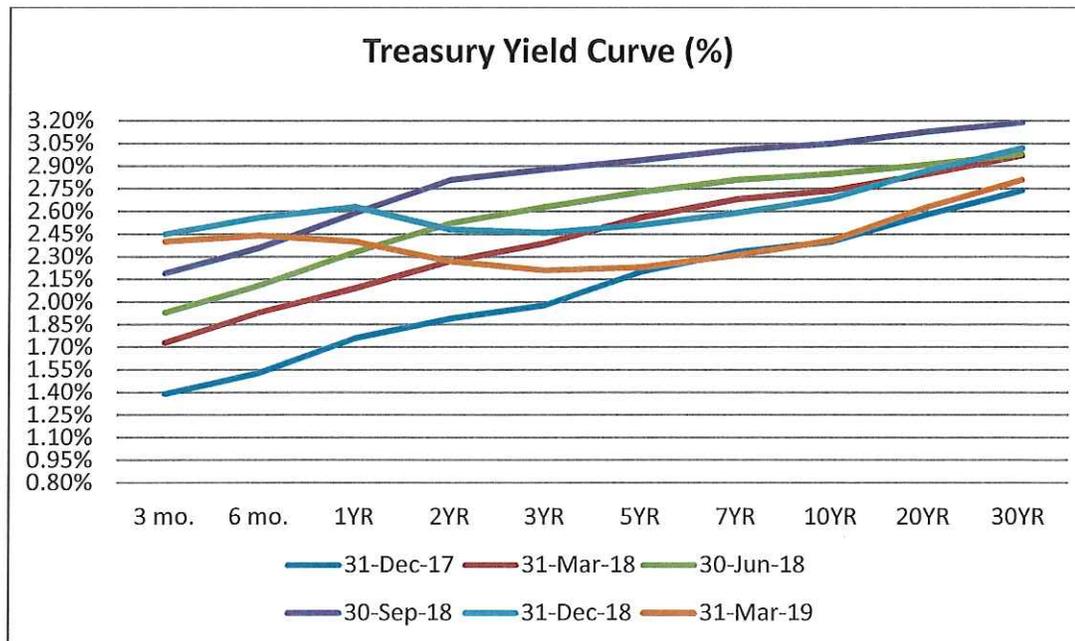


Chart is for illustrative purposes only. Investment Policy prohibits the General Portfolio from investing in Treasuries beyond 10 years.

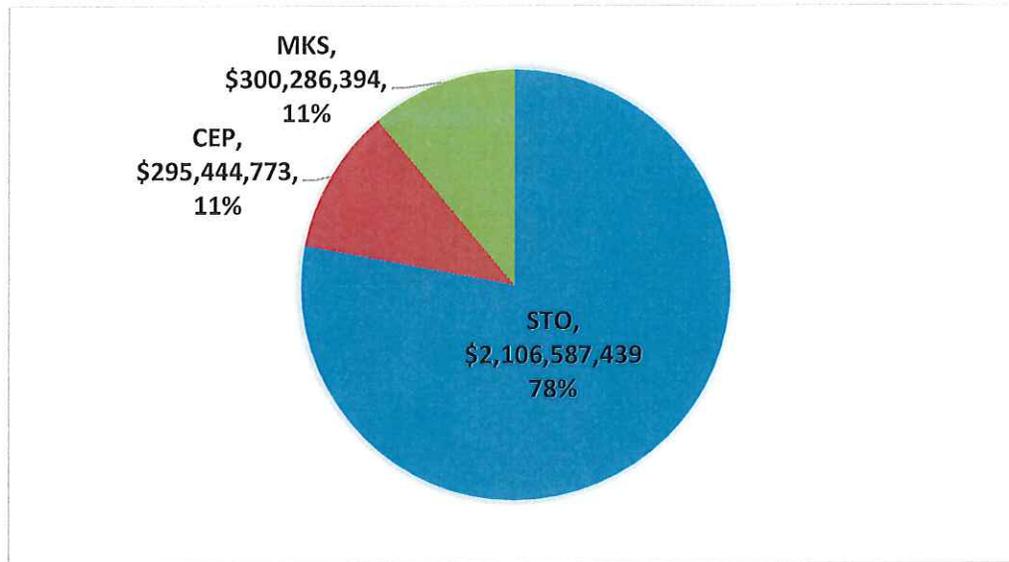
Investment Performance as of March 31, 2019

LGIP

As of March 31, 2019, the total assets under management (AUM) were \$1,253,472,140. Currently, FTN Financial manages the portfolio and the yield to maturity as of March 31, 2019 was 2.60% which is 18 basis point in excess of the benchmark yield of 2.42%.

General Portfolio

As of March 31, 2019, the AUM for the General Portfolio was \$2.70 billion (market value) with 78% managed internally by the State Treasurer and 22% managed by outside managers.



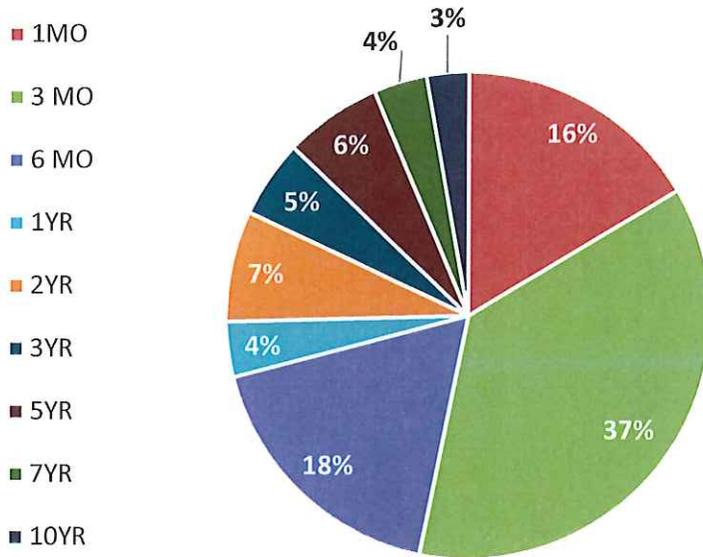
KEY: STO: State Treasurer Staff CEP: Chicago Equity Partner MKS: MacKay Equity Partners

The overall yield to maturity (YTM) as of March 31, 2019 for the General Portfolio was 2.57%. Below is the YTM breakdown by portfolio:

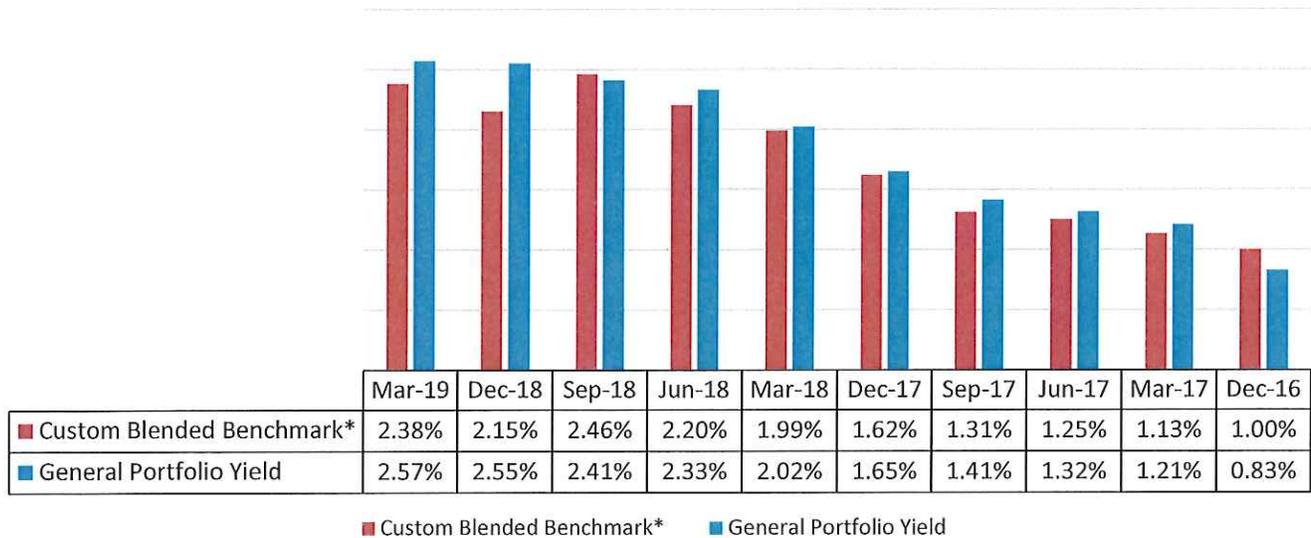
- Internally managed portfolio was 2.63%.
- Chicago Equity Partners (CEP) portfolio was 2.39%.
- MacKay Shields (MKS) portfolio was 2.31%.

The outside managers' charts on page 4 and 5 provide total time weighted return for each separate portfolio, including the market value weighted return of the underlying holdings. Time weighted return measures a fund's compounded rate of growth over a specific time period(s). This measurement allows the State Treasurer to evaluate the outside managers' performance between various time periods against the appropriate benchmark. This differs from the yield data noted above, as it assumes the managers will hold their respective underlying investments to maturity, resulting in 2.39% for CEP and 2.31% for MKS.

Below is a graphical representation of the asset weighted maturities in the General Portfolio as of March 31, 2019.



General Portfolio Historical Performance as of March 31, 2019

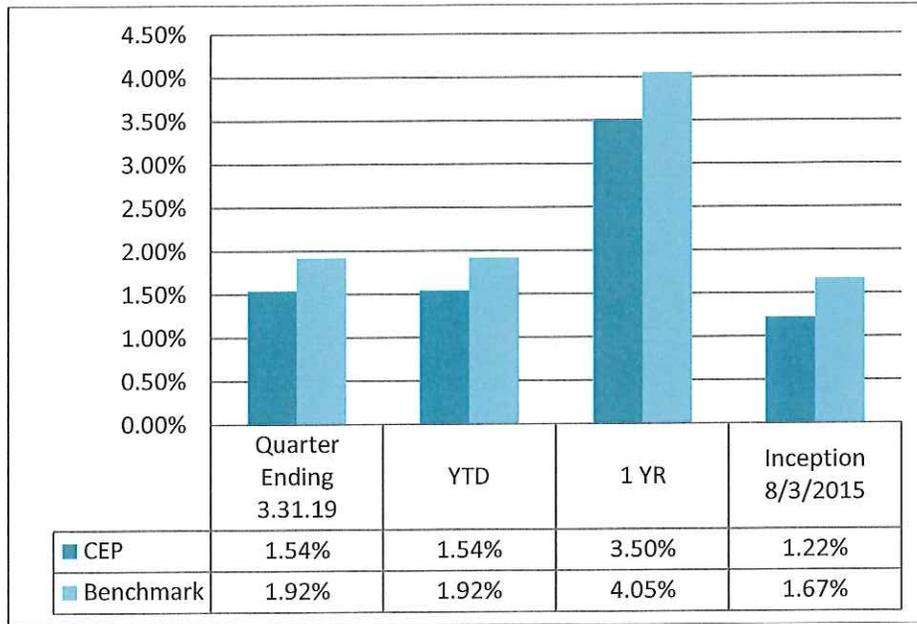


*Custom benchmark yield matches the asset-weighted maturities of the General Portfolio for each quarter to the appropriate Treasury yield.

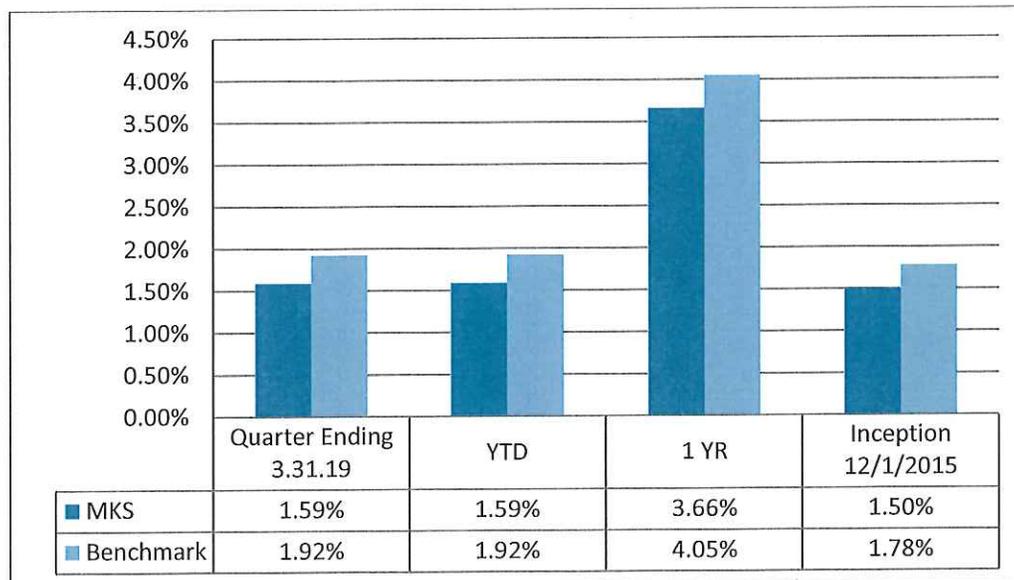
General Portfolio Outside Managers' Performance

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 1.54%. As of March 31, 2019, CEP has distributed \$13.34 million in net interest since inception which has been reduced by the hard dollar manager fees (\$1,165,352) paid over the same time period.

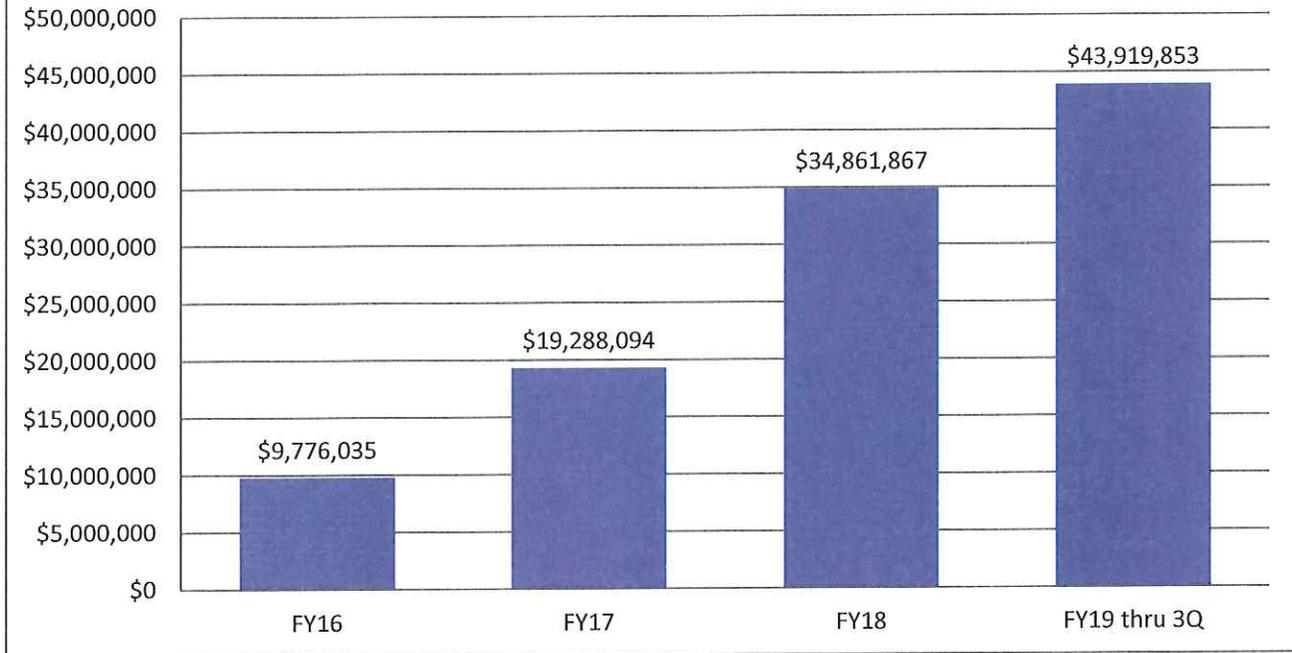


MacKay Shields (MKS) began managing \$200 million in General Portfolio assets on December 1, 2015 with an additional \$100 million in 2016 for a total of \$300 million. The calendar year to date time weighted performance net of fees is 1.59%. As of March 31, 2019, MKS has distributed \$12.66 million in net interest since inception which has been reduced by the hard dollar manager fees (\$1,169,505) paid over the same time period.



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.

General Portfolio Interest Distributed



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
March 31, 2019

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

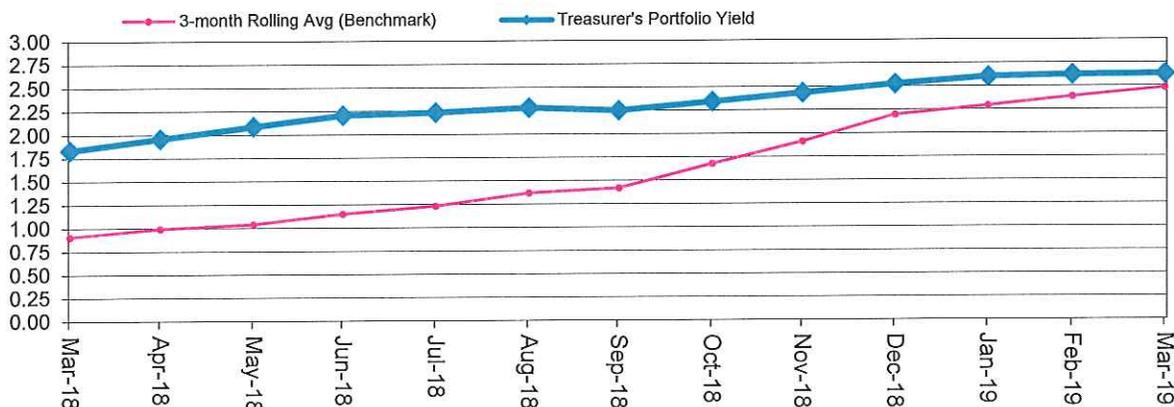
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, municipal bonds and banker's acceptances. These securities are diversified to prevent 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 March 31, 2019, the yield on the portion of the General Portfolio managed in-house was 2.630%. A three month rolling average of this benchmark for this period was 2.45% with the average days to maturity at 218 days. The average days to maturity for the in-house managed portfolio was .47 years or 171 days.

In-House Performance vs. Benchmark



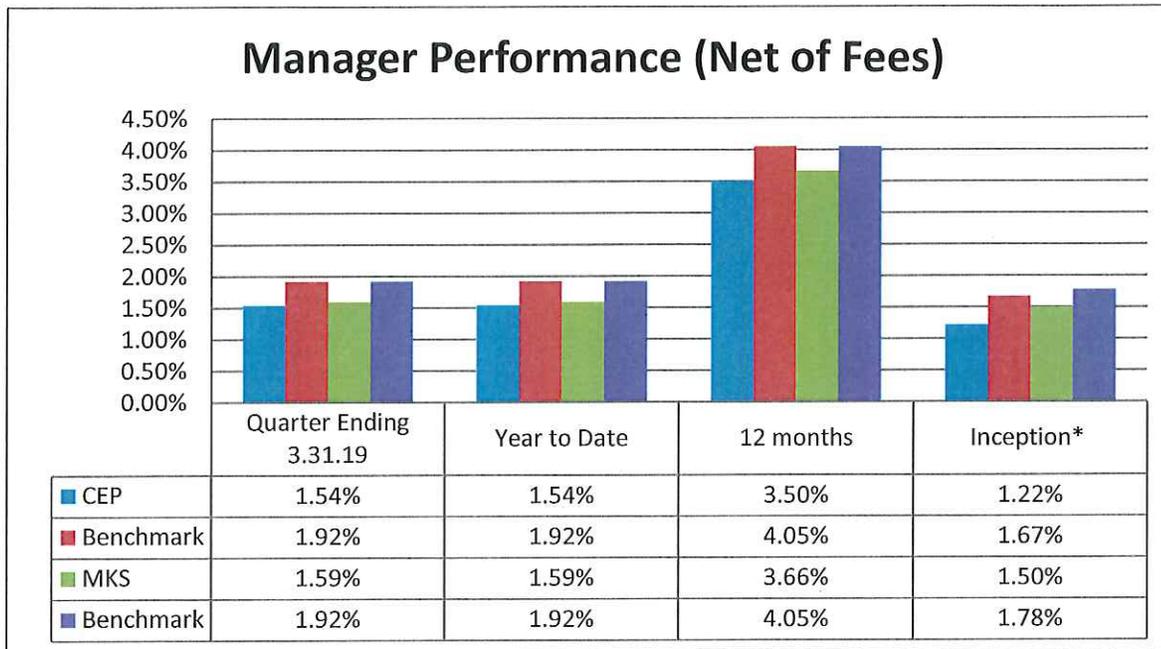
* Benchmark is 3-month rolling weighted average of 80% 3-month Treasuries and 20% 2-year Treasuries

Outside Manager Performance

The annualized performance since inception for period ending March 31, 2019 for manager Chicago Equity Partners (CEP) is 1.22% and for Mackay Shields (MKS) is 1.50%*. 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.

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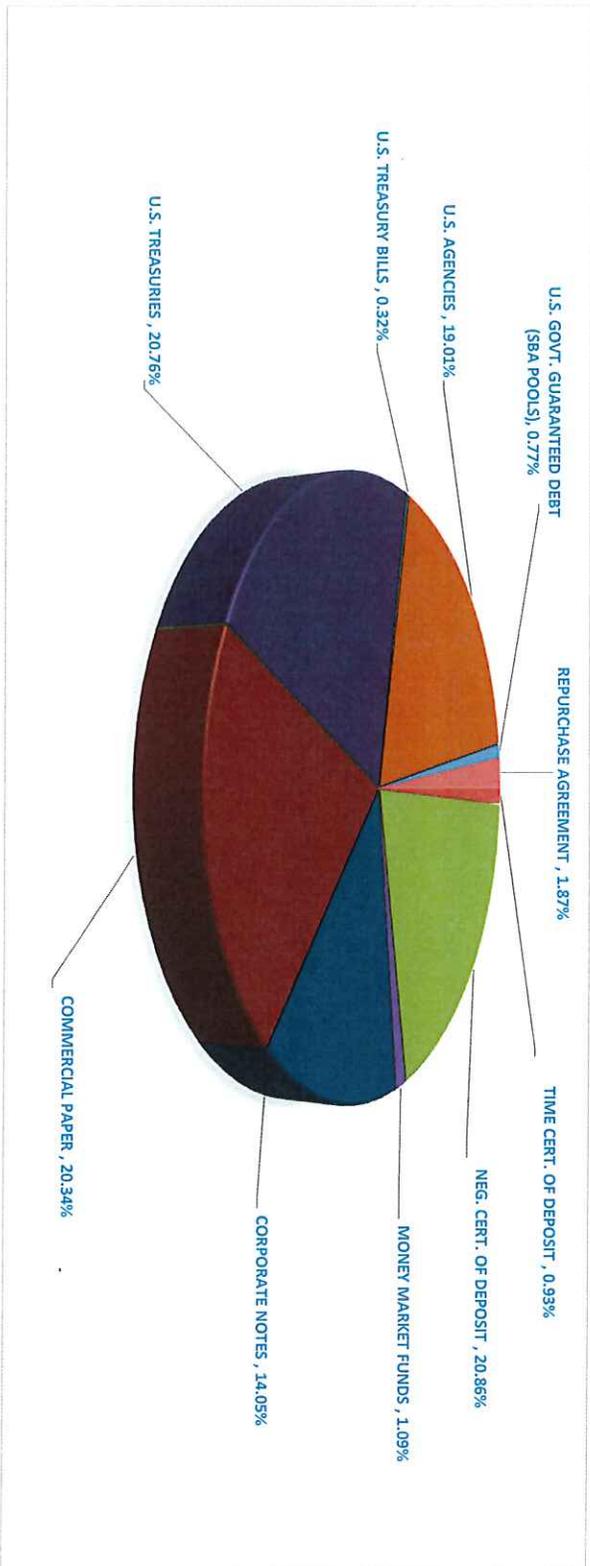
Outside Managers' Performance vs. Benchmark



*Inception date for CEP is 8.3.15 and 12.1.15 for MKS

GENERAL PORTFOLIO
Amortized Book Value and Purchased Interest

	March 31, 2019				December 31, 2018			
	Treasurer In-House	Chicago Equity Partners	Mackay Shields	Amortized Book Value	Treasurer In-House	Chicago Equity Partners	Mackay Shields	Amortized Book Value
WASHINGTON FEDERAL CHECKING ACCT.	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
TIME CERTIFICATES OF DEPOSIT	25,000,000	-	-	-	25,000,000	-	-	-
NEGOTIABLE CERTIFICATES OF DEPOSIT	559,000,000	-	-	-	512,002,381	-	-	-
MONEY MARKET FUNDS	10,239,269	4,676,720	14,408,554	14,408,554	2,989,217	1,080,952	192,128	-
ASSET-BACKED SECURITIES	-	-	-	-	-	-	-	-
MORTGAGE-BACKED SECURITIES	-	-	-	-	-	-	-	-
CORPORATE NOTES	248,171,251	53,003,777	75,149,286	75,149,286	249,528,718	54,886,370	80,188,122	-
COMMERCIAL PAPER	545,085,209	-	-	-	509,888,067	-	-	-
MUNICIPAL BONDS	-	-	-	-	-	-	-	-
U.S. TREASURIES	111,260,121	237,405,417	207,479,490	207,479,490	135,637,849	250,821,882	226,372,294	-
U.S. TREASURY BILLS	8,451,573	-	-	-	24,859,951	-	-	-
U.S. AGENCIES	500,299,097	3,895,738	5,014,696	5,014,696	407,719,557	5,196,903	5,006,947	-
U.S. GOVERNMENT GUARANTEED DEBT	20,709,702	-	-	-	24,548,170	-	-	-
REPURCHASE AGREEMENTS	50,000,000	-	-	-	-	-	-	-
SUBTOTAL	\$ 2,078,216,223	\$ 298,981,652	\$ 302,052,027	\$ 2,679,249,902	\$ 1,892,173,910	\$ 311,986,107	\$ 311,759,490	\$ 2,515,919,507
GRAND TOTAL								



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	March 31, 2019	March 31, 2018
TOTAL PORTFOLIO	\$2,679,249,902	\$2,585,929,142

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	836,027,952	820,301,994		820,994,593
All Funds	2,659,186,033	2,656,636,026	2,762,789,888		2,692,870,649
<u>Annualized Interest Rate</u>					
Cash Basis (see Note 1)	2.0386%	2.07697%	2.3747%		2.1634%
Accrual Basis	1.9953%	2.03360%	2.2911%		2.1067%
<u>Interest Distribution for General Fund (Cash Basis)</u>					
General Fund Interest Collected	4,160,873	4,352,706	4,578,190		13,091,769
General Fund Interest Revenue - Distributed	4,160,873	4,352,706	4,578,190		13,091,769
Undistributed General Fund Interest Revenue	-	-			-
<u>Interest Distribution for All Funds (Cash Basis)</u>					
All Funds Interest Collected	13,716,586	13,947,525	16,255,742		43,919,853
All Funds Interest Revenue - Distributed	13,716,586	13,947,525	16,255,742		43,919,853

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 March 31, 2019, 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.

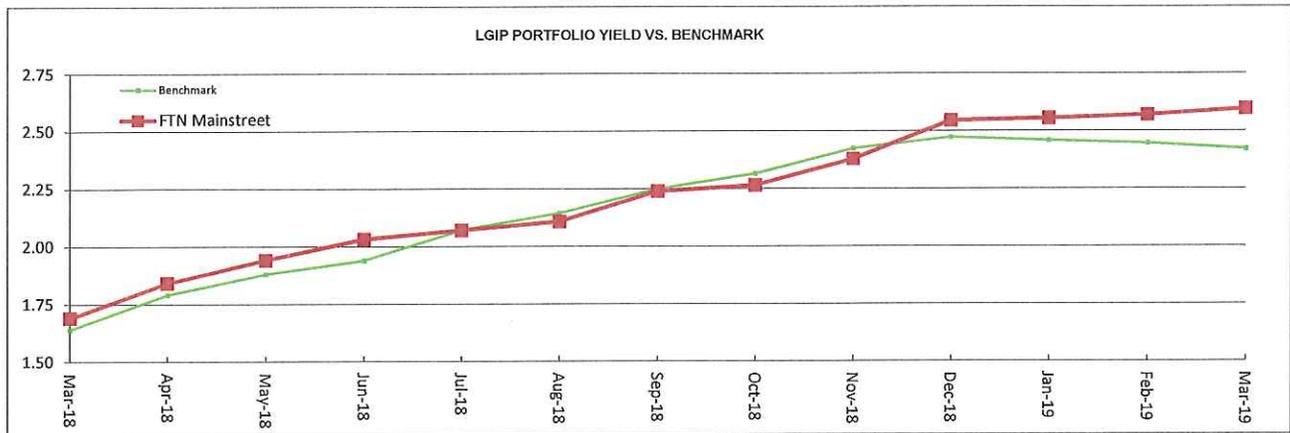
Investment Guidelines

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, approximately 53% 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 March 31, 2019, the LGIP's portfolio yield was 2.596%, and the blended benchmark was 2.42%. The average days to maturity of the LGIP portfolio was 134 days.

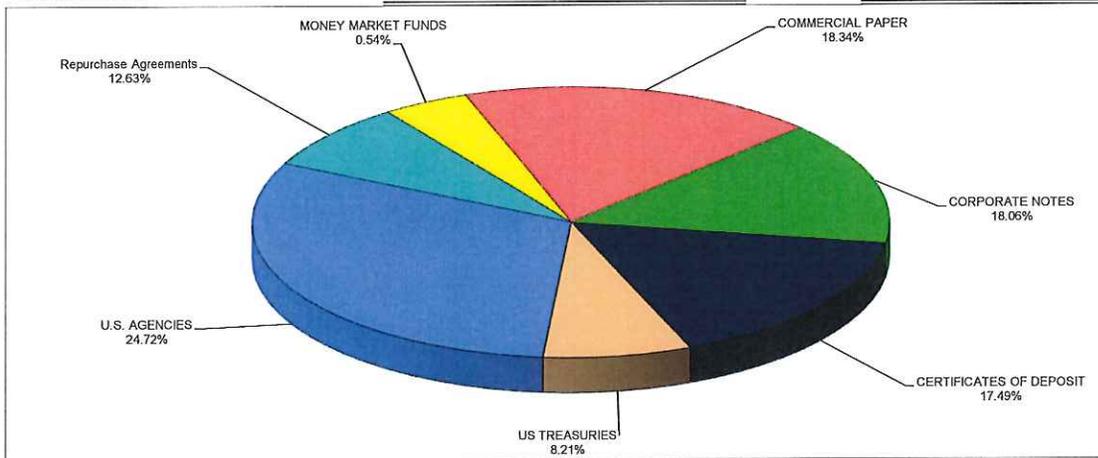


* Benchmark is 3-month rolling weighted average of 20% Dealer Commercial Paper 90-Day Index, 60% Agency Discount Note 6-Month Index, and 20% Morgan Stanley Institutional Liquidity Government Portfolio Fund.

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>March 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 54,209,079	\$ -	\$ 5,521,886	\$ -
COMMERCIAL PAPER	228,250,199	-	188,773,853	-
CORPORATE NOTES	184,428,864	230,695	185,908,212	-
CERTIFICATES OF DEPOSIT	205,000,000	-	179,999,990	1,757
MUNICIPAL BONDS	-	-	-	-
U.S. TREASURIES				
NOTES	94,221,612	102,298	84,533,641	-
BILLS	-	-	-	-
U.S. AGENCIES	387,022,570	6,823	254,407,737	94,024
ASSET-BACKED SECURITIES				
REPURCHASE AGREEMENTS	100,000,000	-	130,000,000	-
SUBTOTAL	\$ 1,253,132,325	\$ 339,816	\$ 1,029,145,318	\$ 247,616
GRAND TOTAL	\$ 1,253,472,141	\$ 1,253,472,141	\$ 1,029,392,934	\$ 1,029,392,934



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
TOTAL PORTFOLIO	\$1,253,472,141	\$1,157,653,007