

**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: 9\_12\_17 BoF Agenda Item #4– State Treasurer Investment Report

DATE: September 5, 2017

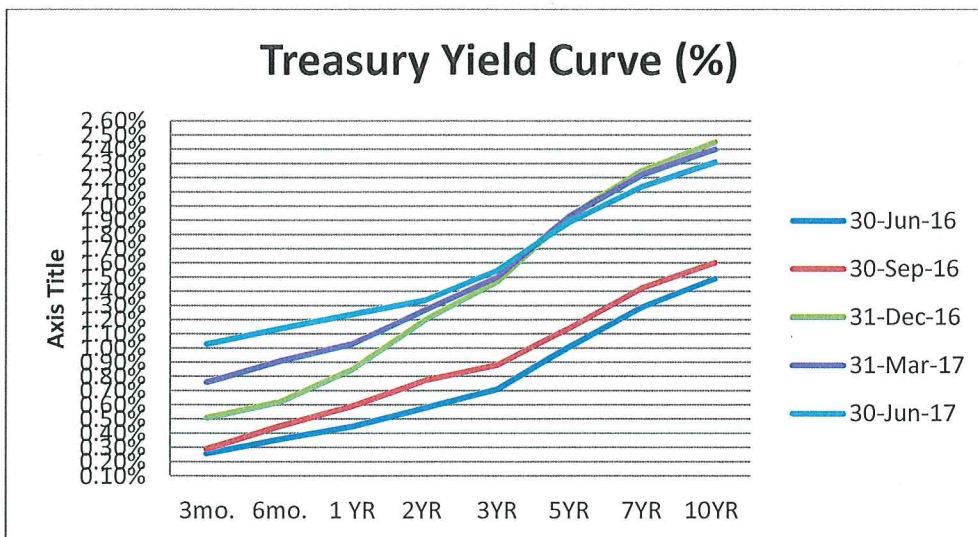
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**Agenda Item #4**

Discussion and possible action (a) regarding the State Treasurer's quarterly investment report for the quarter ending June 30, 2017 and (b) to approve or disapprove the Treasurer's investment policies for the General Portfolio and the Local Government Investment Pool (LGIP).).

**Fixed Income Markets**

Fixed income markets remained relatively calm in the second quarter with little change in rates and spreads. The Fed raised the Fed fund target rate to 1.25% at its June meeting as was widely expected. This is the third 25 basis point increase in the last seven months. The Treasury yield curve flattened, with short rates higher and longer-term yields lower. The 2-year Treasury increased in yield by 12 basis points to 1.38%, the 5-year note closed at 1.89%, and the 10-year declined by 8 basis points to 2.31%. Weak productivity data coupled with rising labor costs remain a concern in the US. However, inflation in both the US and Eurozone continued to slow after a series of higher prints in the first quarter of 2017. The US unemployment rate fell to a 16-year low of 4.3%, and non-farm payrolls only rose by a seasonally adjusted 138,000 new jobs in May.

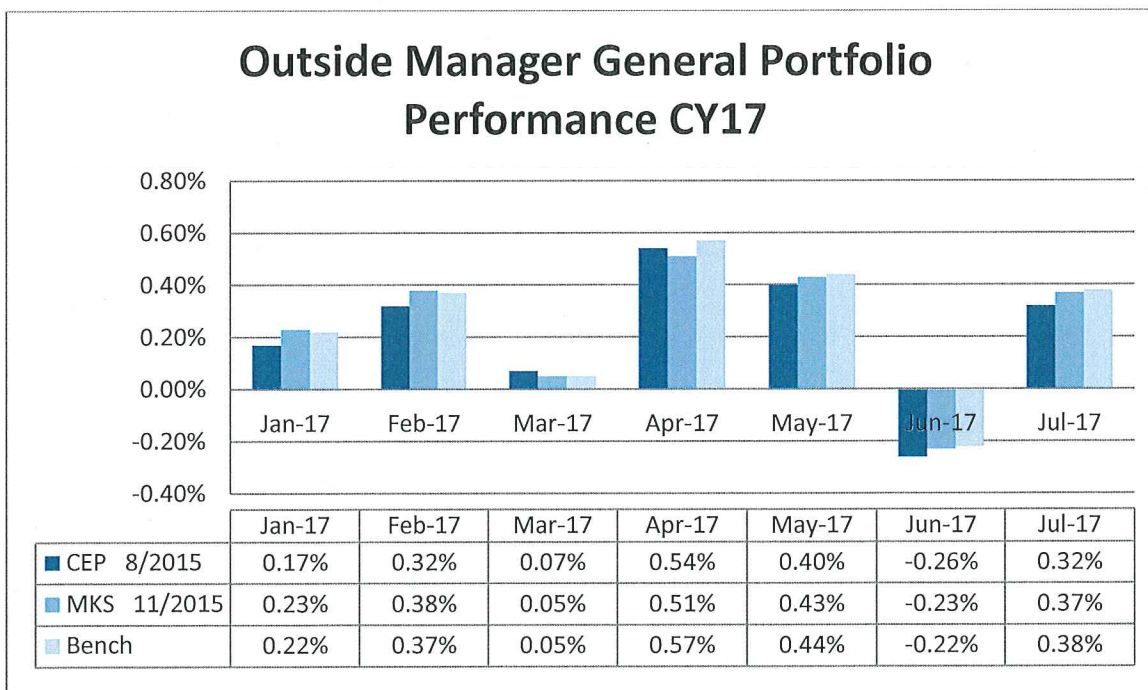


## Current Performance:

The attached reports indicate performance for the quarter ending June 30, 2017.

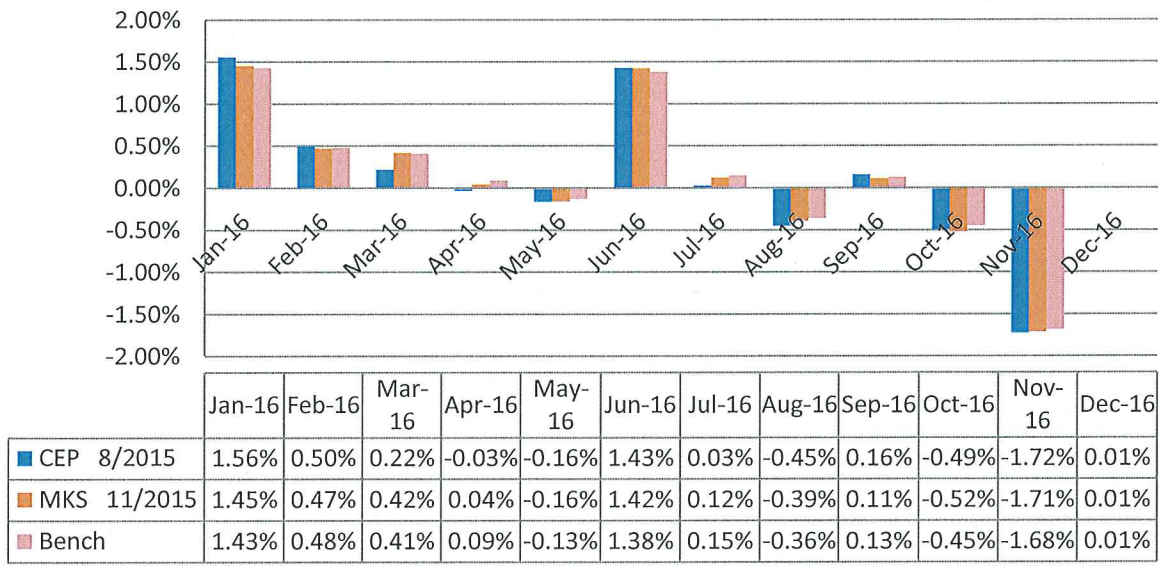
- FTN Financial began managing the LGIP portfolio in July 2015. The yield to maturity as of June 30, 2017 for LGIP assets was 1.092% which is 0.13% in excess of the benchmark return of 0.96%.
- The yield to maturity as of June 30, 2017 for total assets in the General Portfolio is 1.32%.
  - The yield to maturity of the internally managed portion of the General Portfolio was 1.137% which is 0.44% in excess of the custom blended benchmark return of 0.69%.
  - Chicago Equity Partners (CEP) began managing \$200 million in General Portfolio assets on September 1, 2015 with an additional \$25 million added in January 2016, \$40 million added in July and \$35 million in September for a total of \$300 million.
    - The year to date time weighted performance is 1.24%. As of June 30, 2017, CEP has distributed \$5.81 million in net interest since inception. The hard dollar fees paid since inception to CEP as of June 30, 2017 were \$616,248.
  - MacKay Shields (MKS) began managing \$200 million in General Portfolio assets on December 1, 2015 with an additional \$25 million added in January 2016, \$40 million added in July and \$35 million in September for a total of \$300 million.
    - The year to date time weighted performance is 1.39%. As of June 30, 2017, MKS has distributed \$4.32 million in net interest since inception. The hard dollar fees paid since inception to MKS as of June 30, 2017 were \$666,239.

## Historical Performance Information

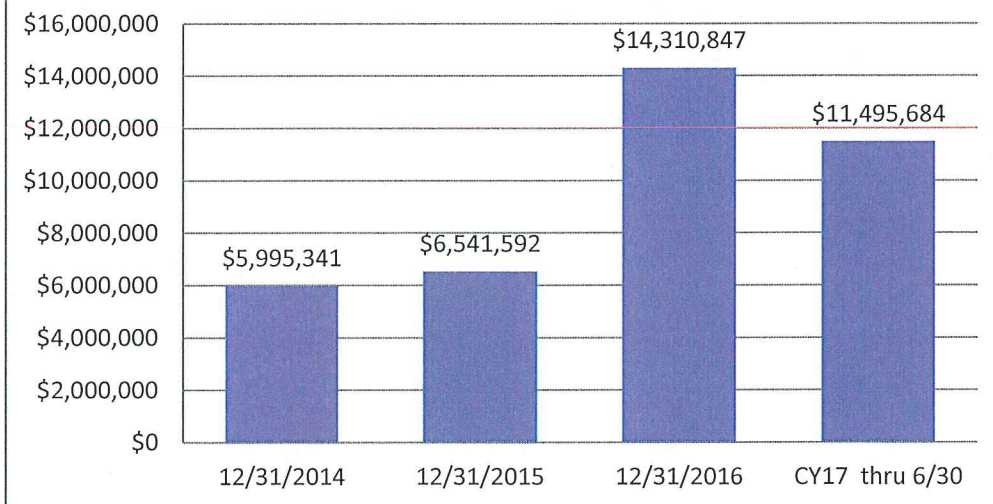




## Outside Manager General Portfolio Performance CY16



## 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](http://www.NevadaTreasurer.gov)

## INVESTMENTS

### GENERAL PORTFOLIO

FISCAL YEAR 2017

Period Ending

June 30, 2017

## 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 Board of Finance shall review investment policies at least every three months and approve any changes. 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.

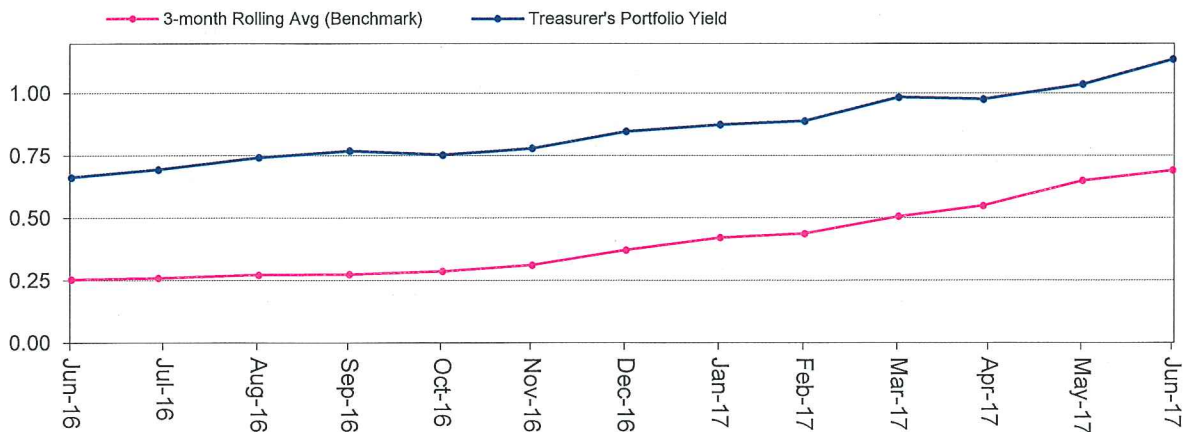
The State Treasurer maintains a conservative, moderately active investment strategy. Cash flow forecasts are prepared to identify operating cash requirements that can be reasonably anticipated. In order to maintain sufficient liquidity, a portion of the portfolio is structured so that securities mature 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.

While the short term general fund and a portion of the longer term investments are managed in house by the Treasurer, two firms, Chicago Equity Partners and MacKay Shields have been hired to manage the bulk of the longer term general fund assets.

## In House Performance

As of June 30, 2017, the yield to maturity as of June 30, 2017 on the portion assets managed in house was 1.137%. A three month rolling average of this benchmark for this period was 0.69% with a duration of 218 days. The duration of the in-house managed portfolio was .39 years or 144 days.

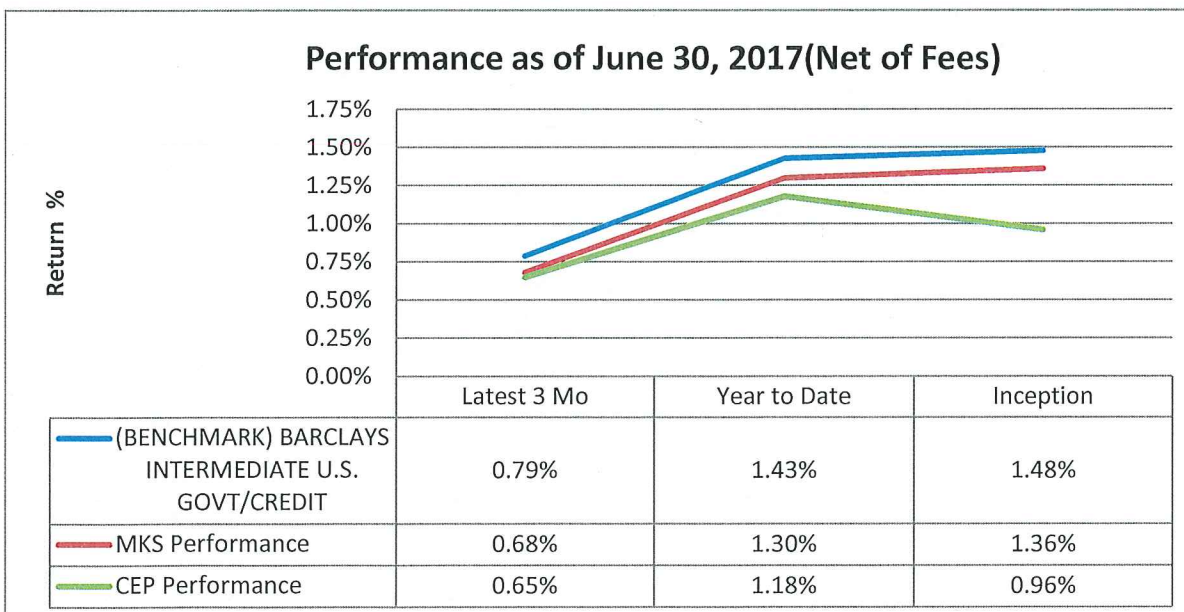
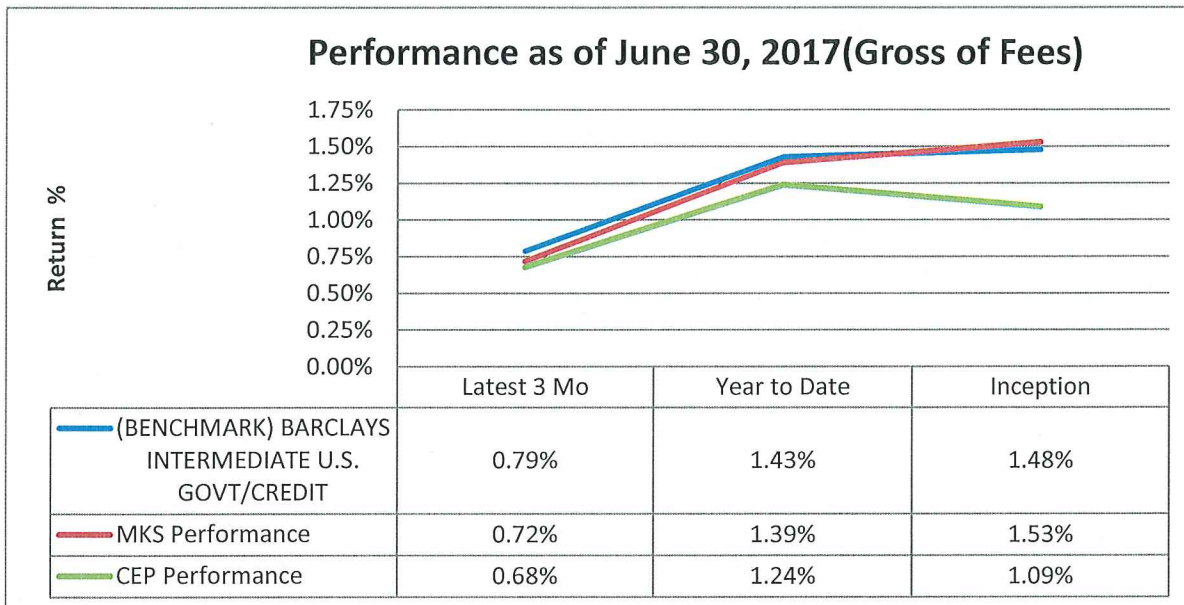
## General Fund Performance vs. Benchmark



## Outside Manager Performance

The performance since inception for period ending June 30, 2017 for manager Chicago Equity Partners (CEP) is 1.09% and for Mackay Shields (MKS) is 1.53%\*. 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 benchmark as of June 30, 2017 was 1.48%. The Nevada statutory requirements prevent managers from investing in certain securities and fewer corporate notes which is the cause of the difference in manager performance versus the benchmark. \*CEP inception date is September 2015 and MKS is December 2015.

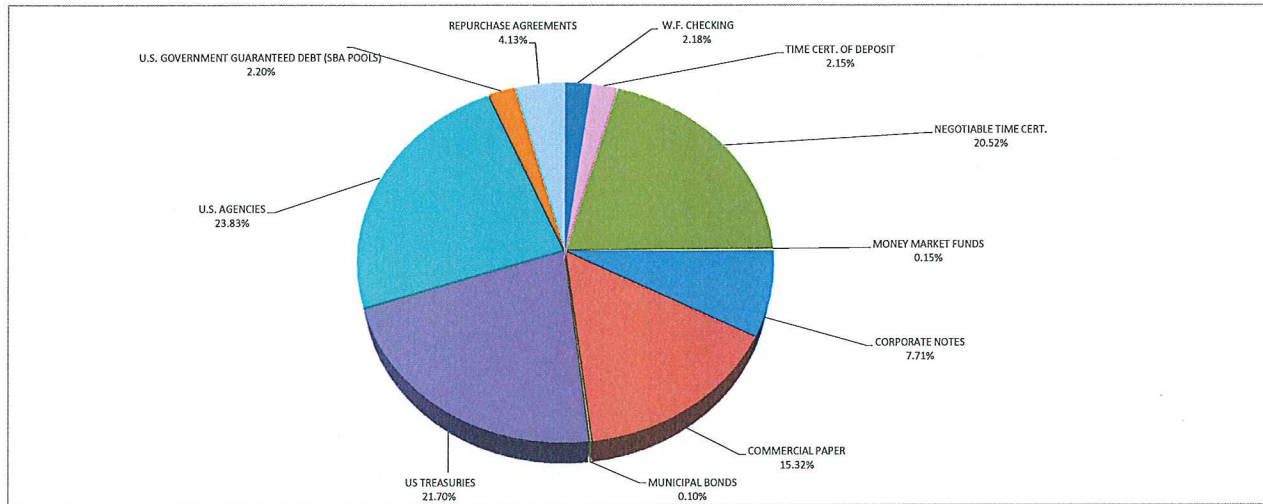
### Outside Managers' Performance vs. Benchmark





**GENERAL PORTFOLIO**  
Amortized Book Value and Purchased Interest

	<u>June 30, 2017</u>			<u>March 31, 2017</u>		
	<u>Amortized Book Value</u>			<u>Amortized Book Value</u>		
	<u>Treasurer In-</u>	<u>Chicago Equity</u>	<u>Mackay Shields</u>	<u>Treasurer In-</u>	<u>Chicago Equity</u>	<u>Mackay Shields</u>
	<u>House</u>	<u>Partners</u>		<u>House</u>	<u>Partners</u>	
WASHINGTON FEDERAL CHECKING	\$ 50,774,756			\$ 50,681,251		
TIME CERTIFICATES OF DEPOSIT	50,000,000			50,000,000		
NEGOTIABLE CERTIFICATES OF DEP	477,000,000			455,004,829		
MONEY MARKET FUNDS	2,537,402	649,075	276,152	2,659,461	2,463,821	503,883
ASSET-BACKED SECURITIES	0			0		
MORTGAGE-BACKED SECURITIES	0			0		
CORPORATE NOTES	68,498,000	22,929,843	87,823,863	70,126,916	26,778,581	89,050,838
COMMERCIAL PAPER	356,000,000			380,218,091		
MUNICIPAL BONDS	2,350,000			45,329,733		
U.S. TREASURIES	30,000,000	263,266,334	211,183,137	15,063,836	248,862,072	208,720,854
U.S. AGENCIES	529,900,000	18,967,899	4,999,711	454,763,879	26,542,575	4,999,558
U.S. GOVERNMENT GUARANTEED D	51,119,194			60,741,270		
REPURCHASE AGREEMENTS	96,000,000			125,000,000		
TOTAL	\$ 1,714,179,352	\$ 305,813,150	\$ 304,282,863	\$ 1,709,589,265	\$ 304,647,049	\$ 303,275,133
GRAND TOTAL	\$		\$ 2,324,275,365	\$		\$ 2,317,511,447



**YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON**

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
TOTAL PORTFOLIO	\$2,324,275,365	\$2,109,761,842

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

	Quarter Ended 09/30/2016	Quarter Ended 12/31/2016	Quarter Ended 03/31/2017	Quarter Ended 06/30/2017	FY 2017 Totals
<u><b>Average Daily Balances of Funds</b></u>					
General Fund	140,705,275	489,385,799	477,415,360	586,634,764	423,535,299
All Funds	2,166,844,878	2,257,249,472	2,362,951,352	2,561,552,289	2,337,149,498
<u><b>Annualized Interest Rate</b></u>					
Cash Basis (see Note 1)	0.7604%	0.6979%	0.7887%	1.0441%	0.8228%
Accrual Basis	0.7094%	0.6495%	0.7417%	0.9898%	0.7726%
<u><b>Interest Distribution for General Fund (Cash Basis)</b></u>					
General Fund Interest Collected	269,878	857,468	931,376	1,514,101	3,572,824
General Fund Interest Revenue - Distributed	269,878	857,468	931,376	1,514,101	3,572,824
Undistributed General Fund Interest Revenue	-	-	-	-	-
<u><b>Interest Distribution for All Funds (Cash Basis)</b></u>					
All Funds Interest Collected	4,104,544	3,963,396	4,610,083	6,610,071	19,288,094
All Funds Interest Revenue - Distributed	4,104,544	3,963,396	4,610,083	6,610,071	19,288,094

**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 June 30, 2017, there were 87 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.

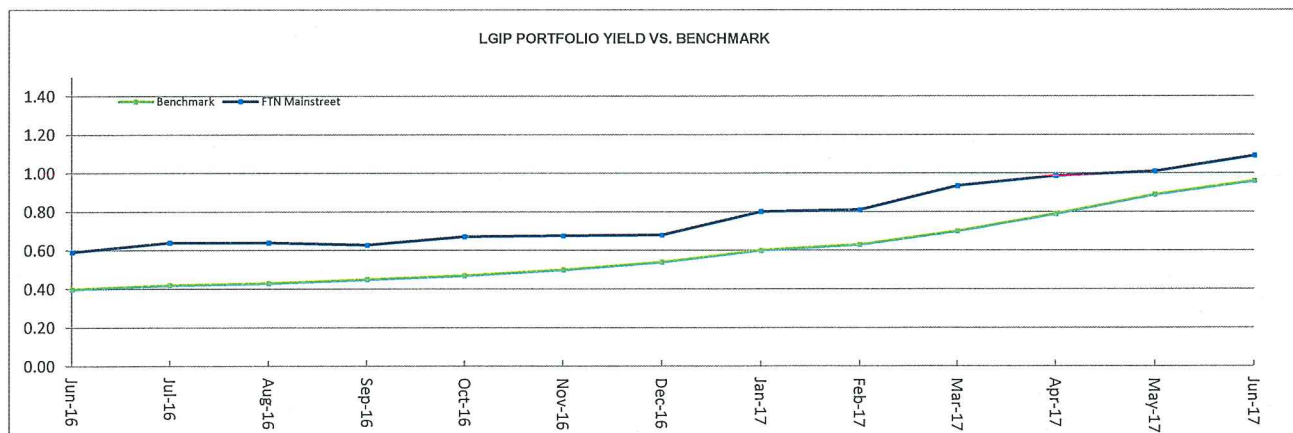
## Investment Guidelines

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 20% 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 June 30, 2017, the yield to maturity on assets was 1.092% and the blended benchmark was 0.96%. The average duration of the LGIP portfolio was 130 days.

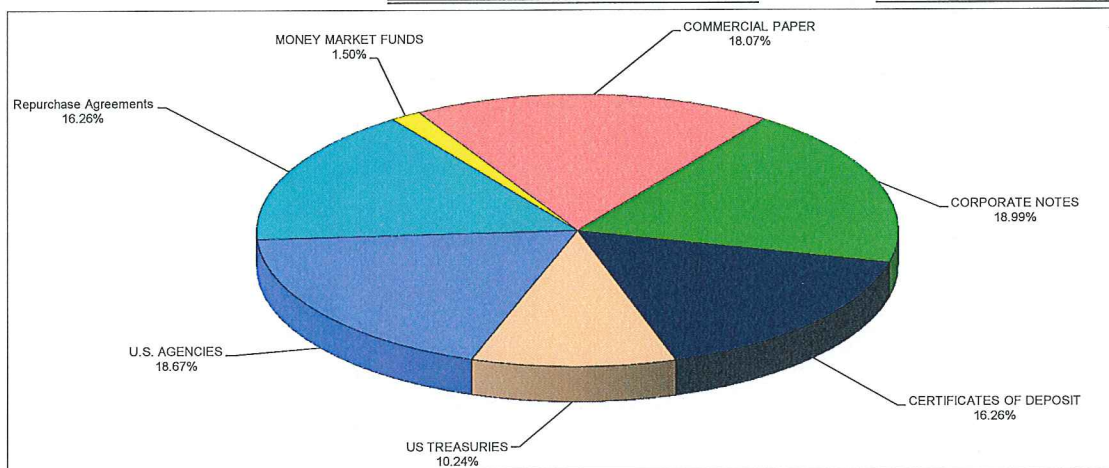




### Administration

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>June 30, 2017</u>		<u>March 31, 2017</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 12,492,647		\$ 5,793,609	
COMMERCIAL PAPER	150,000,000		191,739,835	
CORPORATE NOTES	157,514,000	99,054	176,054,888	351,365
CERTIFICATES OF DEPOSIT	135,000,000		188,000,062	
MUNICIPAL BONDS				
U.S. TREASURIES				
NOTES	85,000,000	1,537	84,922,278	16,304
BILLS				
U.S. AGENCIES	155,000,000	20,222	172,910,639	361
ASSET-BACKED SECURITIES	-		-	
REPURCHASE AGREEMENTS	135,000,000		165,000,000	
TOTAL	\$ 830,006,647	\$ 120,813	\$ 984,421,310	\$ 368,030
GRAND TOTAL	\$ 830,127,460		\$ 984,789,340	



### YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>June 30, 2017</u>	<u>June 30, 2016</u>
<b>TOTAL PORTFOLIO</b>	<b>\$830,127,460</b>	<b>\$580,964,435</b>