

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: 11_12_19 BoF Agenda Item #10– State Treasurer Investment Report
DATE: November 5, 2019

Agenda Item #10

For discussion and possible action: on the approval of to the State Treasurer’s quarterly investment report for the quarter ended September 30, 2019 pursuant to NRS 355.045.

Fixed Income Market Highlights as of September 30, 2019

- In the U.S. Treasury bond market, the overall yield curve declined, but the curve also flattened as interest rates on the longer end of the curve fell further than the shorter end, as noted in the chart below. In the short end of the curve, the 2-year declined by only 13 basis points to 1.62%, whereas in the longer end, the 10-year declined 35 basis points to 1.66% close to its multiyear lows.
- The overall fixed-income market generated relatively strong returns in the third quarter driven mainly by the continued decrease in interest rates, which pushed bond prices higher across the board.

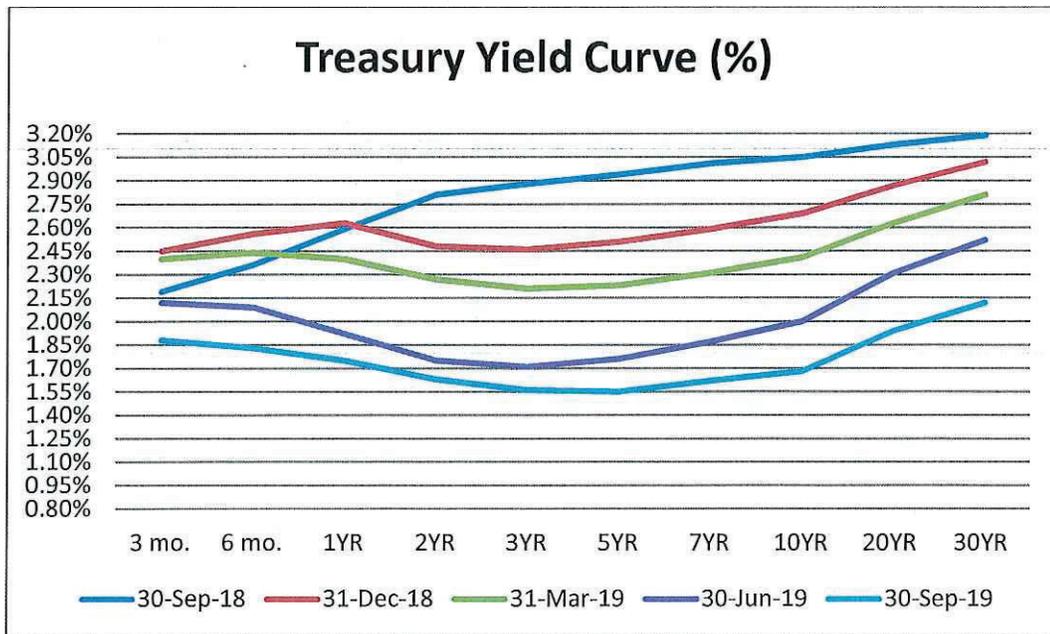


Chart is for illustrative purposes only. Investment Policy prohibits the General Portfolio from investing in Treasuries beyond 10 years.

Investment Performance as of September 30, 2019

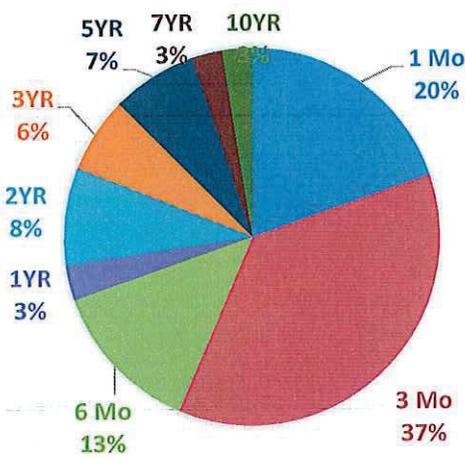
Local Government Investment Pool (LGIP)

As of September 30, 2019, the total assets under management (AUM) were \$1.359 billion. Currently, FTN Financial manages the portfolio and the yield to maturity as of September 30, 2019 was 2.27% which is 41 basis point in excess of the benchmark yield of 1.86%.

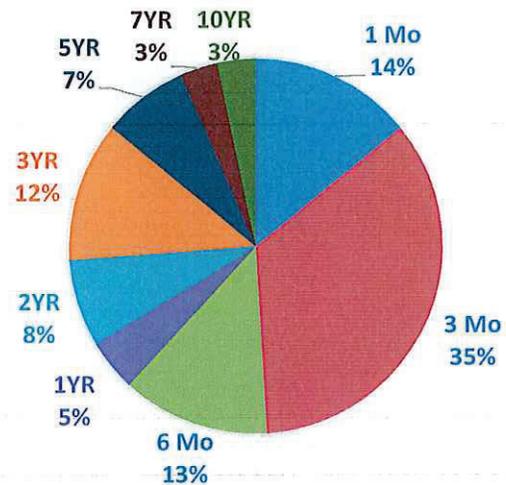
General Portfolio

As of September 30, 2019, the AUM for the General Portfolio was \$2.80 billion (market value). The yield to maturity was 2.21%. As of July 1, 2019, staff began management of the entire General Portfolio after the two outside managers' contracts expired. The holdings previously managed by these managers are currently managed internally while the office conducts a request for proposal. We will continue to keep the Board of Finance apprised of the procurement process and manager selection.

Below is a graphical representation of the asset weighted maturities in the General Portfolio as of September 30, 2019 versus one-year prior.



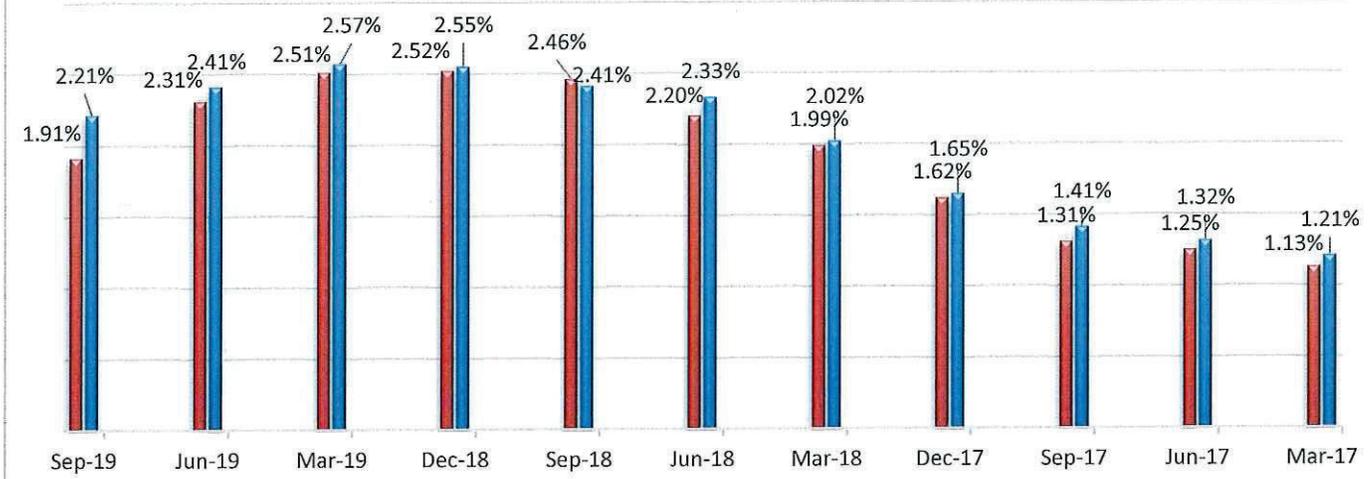
Asset Weighted Maturities as of 9.30.19



Asset Weighted Maturities as of 9.30.18

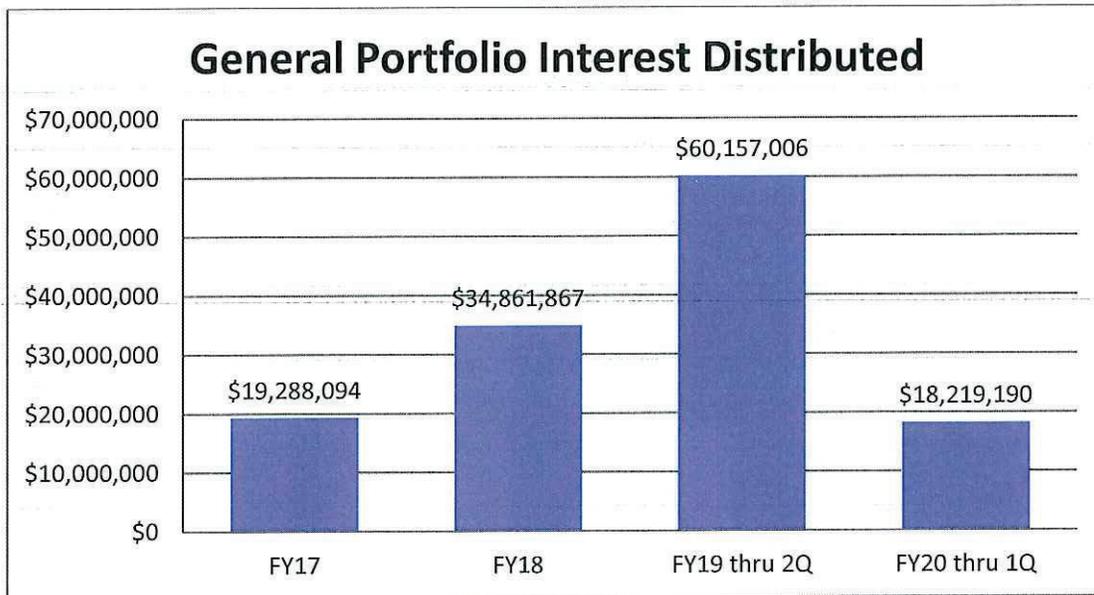
General Portfolio Performance as of Sept. 30, 2019

■ General Portfolio Yield ■ Custom Blended Benchmark*



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

The chart below provides the historical interest distributed as of September 30, 2019 for the current fiscal year and by each prior fiscal year for the General Portfolio. Interest is distributed to statutorily approved funds, such as the State General Fund and statutorily approved budget accounts.



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 2020

Period Ending
 September 30, 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

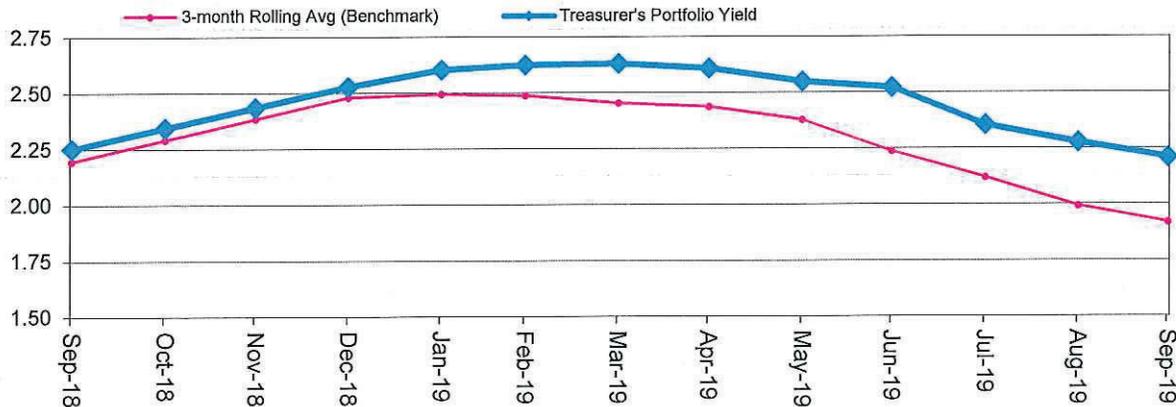
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, municipal bonds and banker's acceptances. These securities are diversified to prevent 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.

Performance

As of September 30, 2019, the yield on the portion of the General Portfolio was 2.210%. A three month rolling average of this benchmark for this period was 1.92% with the average days to maturity at 218 days. The average days to maturity for the portfolio was 396 days. As of July 1, 2019, staff began management of the entire General Portfolio after the two outside managers' contract expired.

Performance vs. Benchmark



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

GENERAL PORTFOLIO
Amortized Book Value and Purchased Interest

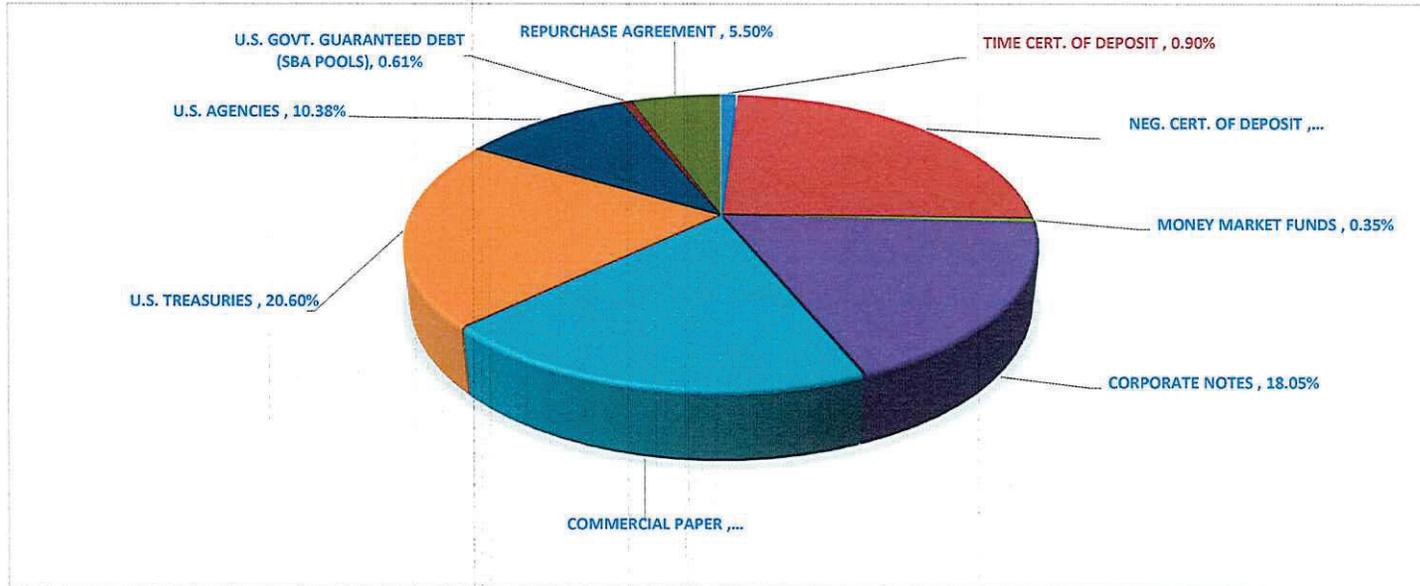
September 30, 2019
Amortized Book Value

WASHINGTON FEDERAL CHECKING ACCT.
 TIME CERTIFICATES OF DEPOSIT
 NEGOTIABLE CERTIFICATES OF DEPOSIT
 MONEY MARKET FUNDS
 ASSET-BACKED SECURITIES
 MORTGAGE-BACKED SECURITIES
 CORPORATE NOTES
 COMMERCIAL PAPER
 MUNICIPAL BONDS
 U.S. TREASURIES
 U.S. TREASURY BILLS
 U.S. AGENCIES
 U.S. GOVERNMENT GUARANTEED DEBT
 REPURCHASE AGREEMENTS
 TOTAL
 GRAND TOTAL

<u>Total Portfolio</u>	
\$	-
	25,000,000
	676,622,998
	9,663,903
	-
	-
	498,955,879
	528,465,575
	-
	569,360,455
	-
	287,013,168
	16,889,185
	152,000,000
\$	2,763,971,164
\$	2,763,971,165

June 30, 2019
Amortized Book Value

<u>Treasurer In-House</u>	<u>Chicago Equity Partners</u>	<u>Mackay Shields</u>
\$	\$	\$
-	-	-
25,000,000	-	-
538,002,142	-	-
1,043,574	1,145,175	7,233,752
-	-	-
-	-	-
272,302,273	52,685,424	77,520,597
443,777,040	-	-
-	-	-
295,180,422	216,753,405	200,547,277
530,977,396	-	-
12,326,662	3,492,789	5,022,531
132,000,000	-	-
-	-	-
\$	\$	\$
2,250,609,509	274,076,793	290,324,157
		2,815,010,459



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
TOTAL PORTFOLIO	\$2,763,971,165	\$2,502,250,232

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

	Quarter Ended 09/30/2019	Quarter Ended 12/31/2019	Quarter Ended 03/31/2020	Quarter Ended 06/30/2020	FY 2020 Totals
<u>Average Daily Balances of Funds</u>					
General Fund	957,882,574				957,882,574
All Funds	2,803,384,491				2,803,384,491
<u>Annualized Interest Rate</u>					
Cash Basis (see Note 1)	2.5164%				2.5164%
Accrual Basis	2.4723%				2.4723%
<u>Interest Distribution for General Fund (Cash Basis)</u>					
General Fund Interest Collected	6,225,295				6,225,295
General Fund Interest Revenue - Distributed	6,225,295				6,225,295
Undistributed General Fund Interest Revenue	-				-
<u>Interest Distribution for All Funds (Cash Basis)</u>					
All Funds Interest Collected	18,219,190				18,219,190
All Funds Interest Revenue - Distributed	18,219,190				18,219,190

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, 2019, 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.

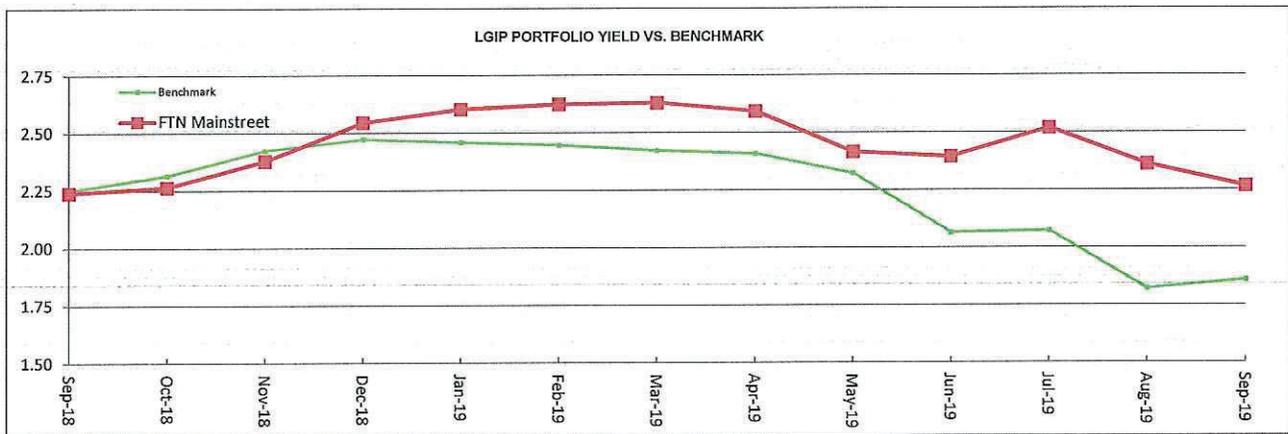
Investment Guidelines

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 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 September 30, 2019, the LGIP's portfolio yield was 2.266%, and the blended benchmark was 1.86%. The average days to maturity of the LGIP portfolio was 139 days.

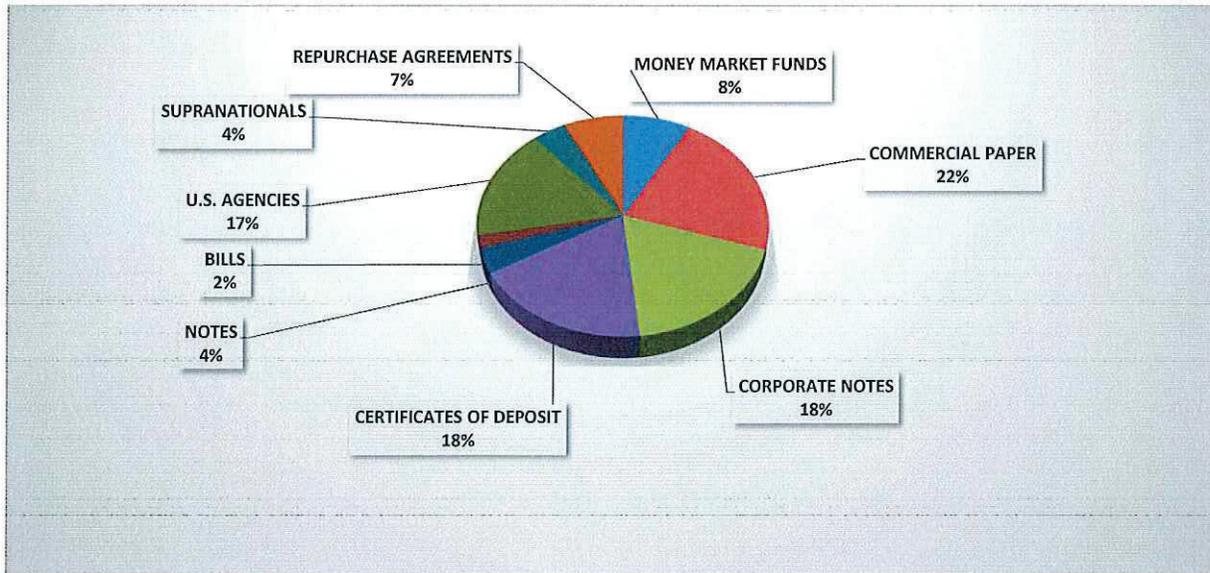


* Benchmark is 3-month rolling weighted average of 20% Dealer Commercial Paper 90-Day Index, 60% Agency Discount Note 6-Month Index, and 20% Morgan Stanley Institutional Liquidity Government Portfolio Fund.

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, 2019</u>		<u>June 30, 2019</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 110,777,859	\$ -	\$ 151,706,362	\$ -
COMMERCIAL PAPER	296,387,983	-	230,292,548	-
CORPORATE NOTES	248,573,908	470,605	218,167,432	302,781
CERTIFICATES OF DEPOSIT	249,991,849	-	205,000,000	1,757
MUNICIPAL BONDS	-	-	-	-
U.S. TREASURIES				
NOTES	49,747,138	-	79,496,492	-
BILLS	24,886,976	-	-	-
U.S. AGENCIES	224,675,314	67,875	269,412,954	20,493
ASSET-BACKED SECURITIES		-		-
SUPRANATIONALS	54,801,529	-		
REPURCHASE AGREEMENTS	100,000,000	-	100,000,000	-
TOTAL	<u>\$ 1,359,842,557</u>	<u>\$ 538,480</u>	<u>\$ 1,254,075,787</u>	<u>\$ 325,031</u>
GRAND TOTAL	<u>\$ 1,360,381,037</u>	<u>\$ 538,480</u>	<u>\$ 1,254,400,818</u>	<u>\$ 325,031</u>



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>September 30, 2019</u>	<u>September 30, 2018</u>
TOTAL PORTFOLIO	\$1,360,381,037	\$1,081,410,833