

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: 3_10_20 BoF Agenda Item #7– State Treasurer Investment Report
DATE: March 3, 2020

Agenda Item #7

For discussion and possible action: on the approval of to the State Treasurer’s quarterly investment report for the quarter ended December 31, 2019 pursuant to NRS 355.045.

Fixed Income Market Highlights as of December 31, 2019

- In the U.S. Treasury bond market, the overall yield curve steepened with Treasury yields declining at the short end of the curve while increasing at the intermediate and long segments as noted below in the chart. The 2-year declined by only 5 basis points to 1.59%, whereas in the longer end, the 10-year increased 24 basis points to end the year at 1.92%.
- The overall fixed-income market generated relatively strong returns in the fourth quarter driven mainly by the continued decrease in interest rates, which pushed bond prices higher across the board.

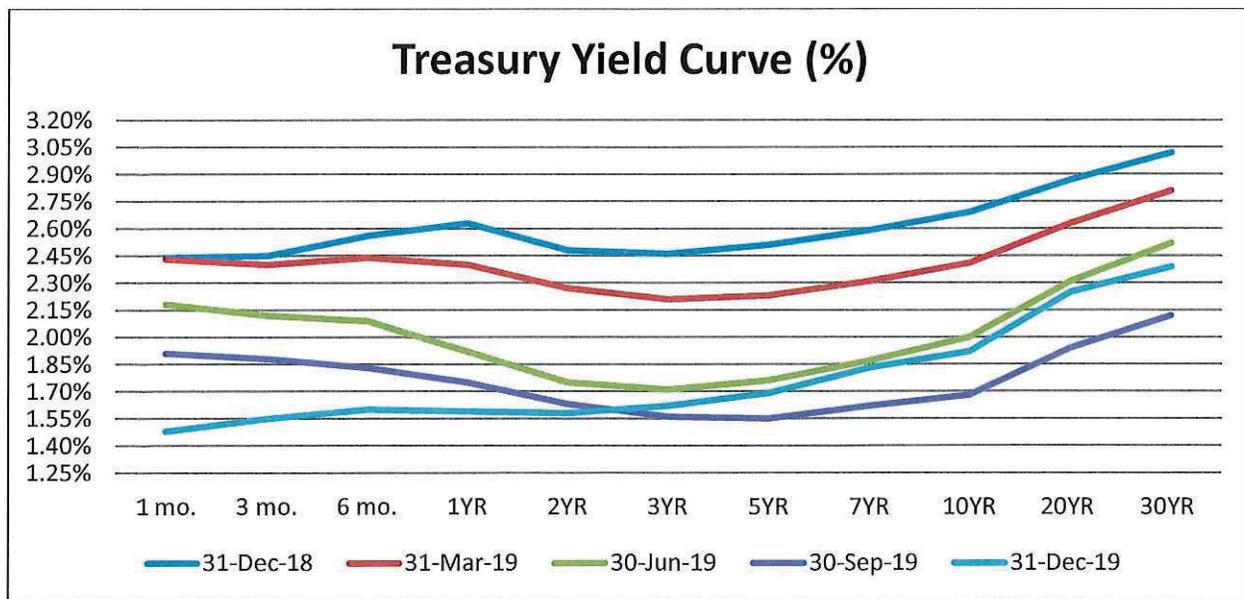


Chart is for illustrative purposes only. Investment Policy prohibits the General Portfolio from investing in Treasuries beyond 10 years.

Investment Performance as of December 31, 2019

Local Government Investment Pool (LGIP)

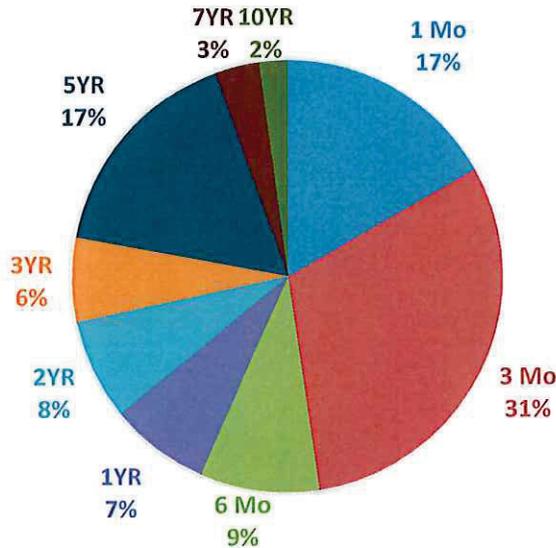
As of December 31, 2019, the total assets under management (AUM) were \$1.66 billion. Currently, FTN Financial manages the portfolio and the yield to maturity as of September 30, 2019 was 1.93% which is 32 basis points in excess of the benchmark yield of 1.61%.

General Portfolio

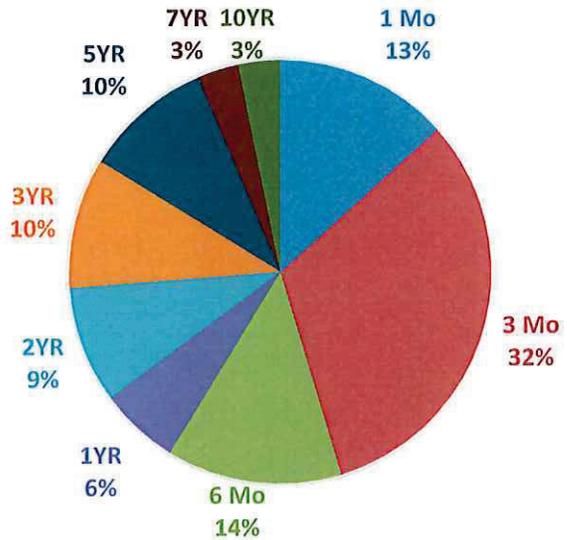
As of December 31, 2019, the AUM for the General Portfolio was \$2.92 billion (market value). The yield to maturity was 2.02%. As of July 1, 2019, staff began management of the entire General Portfolio after the two outside managers' contracts expired. The holdings previously managed by these managers 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.

The Investment Policy Statement of the General Portfolio requires corporate note securities to have a long-term rating of "A" or better from a nationally recognized rating agency at the time of purchase. Additionally, the 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 previous investment manager, MacKay Shields purchased a corporate bond issued by Dominion Energy Gas in December 2015 which was in compliance at the time of purchase with a Moody's rating of A2. The security was downgraded by Moody's in September 2018 to an A3. Both the external manager and the Treasurer's Office closely monitored the security and company through its call date in November 2019. The Portfolio received all necessary interest payments over the life of the security and principal with no loss to the Portfolio.

Below is a graphical representation of the asset weighted maturities in the General Portfolio as of December 31, 2019 versus one-year prior.

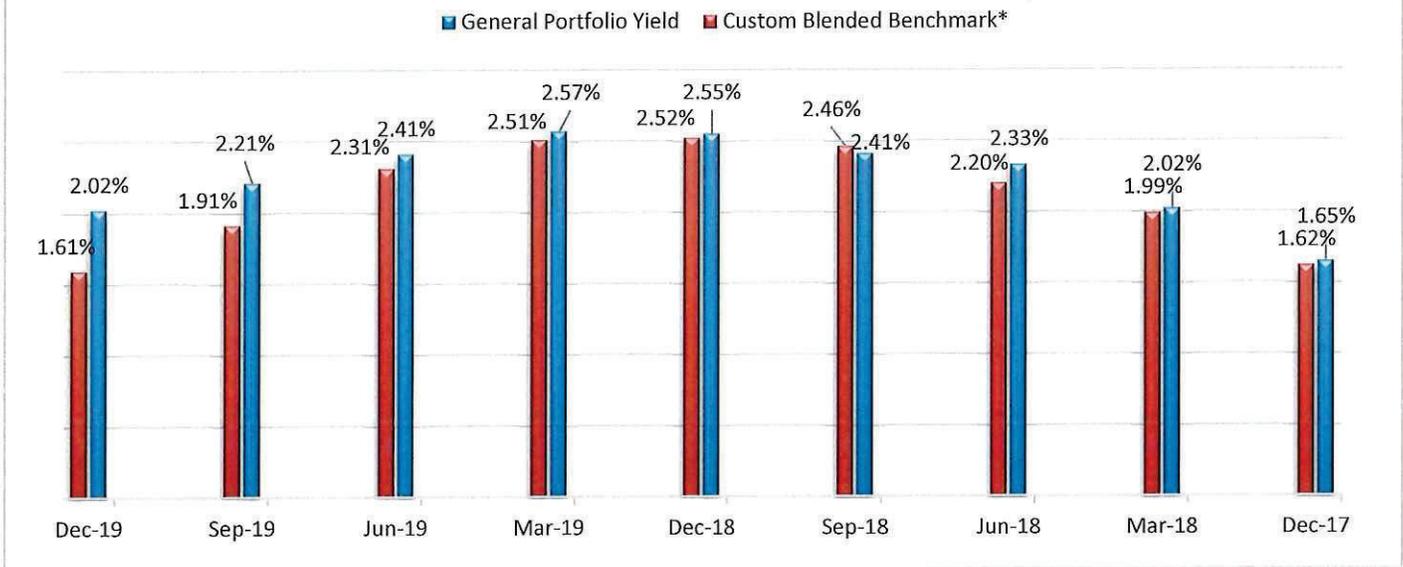


Asset Weighted Maturities as of 12.31.19



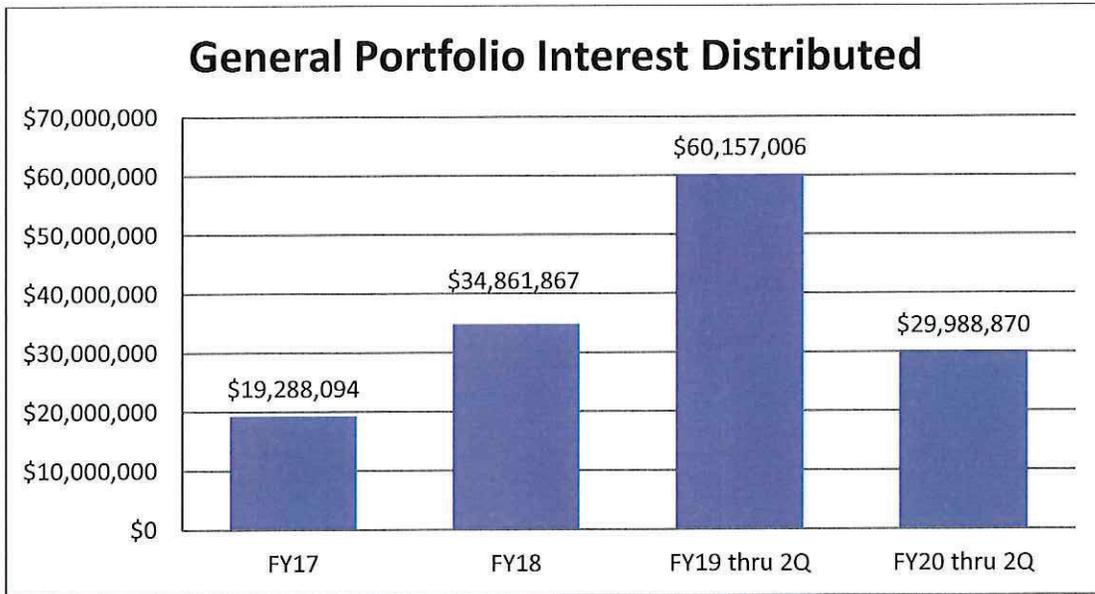
Asset Weighted Maturities as of 12.31.18

General Portfolio Performance as of Dec 31, 2019



*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 December 31, 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
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INVESTMENTS

GENERAL PORTFOLIO

FISCAL YEAR 2020
 Period Ending
 December 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

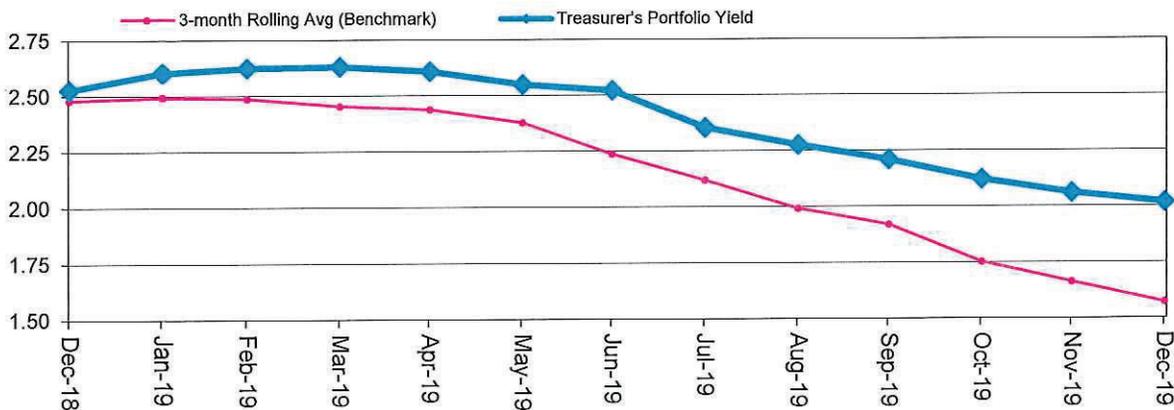
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, municipal bonds and banker's acceptances. These securities are diversified to prevent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

Performance

As of December 31, 2019, the yield on the portion of the General Portfolio was 2.018%. A three month rolling average of this benchmark for this period was 1.57% with the average days to maturity at 218 days. The average days to maturity for the portfolio was 534 days. As of July 1, 2019, staff began management of the entire General Portfolio after the two outside managers' contract expired.

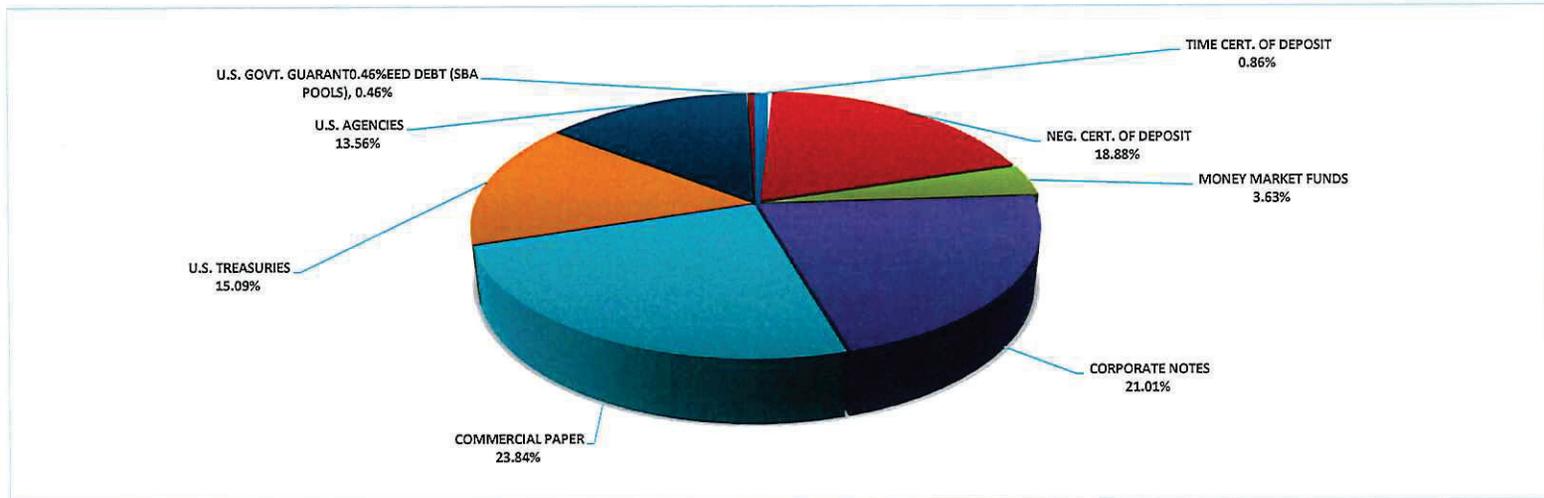
Performance vs. Benchmark



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

**GENERAL PORTFOLIO
Amortized Book Value**

	<u>December 31, 2019</u>	<u>September 30, 2019</u>
	<u>Amortized Book Value</u>	<u>Amortized Book Value</u>
	<u>Total Portfolio</u>	<u>Total Portfolio</u>
WASHINGTON FEDERAL CHECKING ACCT.	\$ -	\$ -
TIME CERTIFICATES OF DEPOSIT	25,000,000	25,000,000
NEGOTIABLE CERTIFICATES OF DEPOSIT	551,590,762	676,622,998
MONEY MARKET FUNDS	106,140,420	9,663,903
ASSET-BACKED SECURITIES	-	-
MORTGAGE-BACKED SECURITIES	-	-
CORPORATE NOTES	613,645,281	498,955,879
COMMERCIAL PAPER	696,242,230	528,465,575
MUNICIPAL BONDS	-	-
U.S. TREASURIES	440,869,892	569,360,455
U.S. TREASURY BILLS	77,820,308	-
U.S. AGENCIES	396,145,058	287,013,168
U.S. GOVERNMENT GUARANTEED DEBT	13,430,883	16,889,185
REPURCHASE AGREEMENTS	-	152,000,000
TOTAL	\$ 2,920,884,834	\$ 2,763,971,164



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
TOTAL PORTFOLIO	\$2,920,884,834	\$2,515,919,507

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	1,021,499,952			989,691,263
All Funds	2,803,384,491	2,811,672,692			2,807,528,592
<u>Annualized Interest Rate</u>					
Cash Basis (see Note 1)	2.5164%	1.6264%			2.0714%
Accrual Basis	2.4723%	1.5824%			2.0274%
<u>Interest Distribution for General Fund (Cash Basis)</u>					
General Fund Interest Collected	6,225,295	4,275,545			10,500,840
General Fund Interest Revenue - Distributed	6,225,295	4,275,545			10,500,840
Undistributed General Fund Interest Revenue	-				-
<u>Interest Distribution for All Funds (Cash Basis)</u>					
All Funds Interest Collected	18,219,190	11,769,680			29,988,870
All Funds Interest Revenue - Distributed	18,219,190	11,769,680			29,988,870

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 December 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.

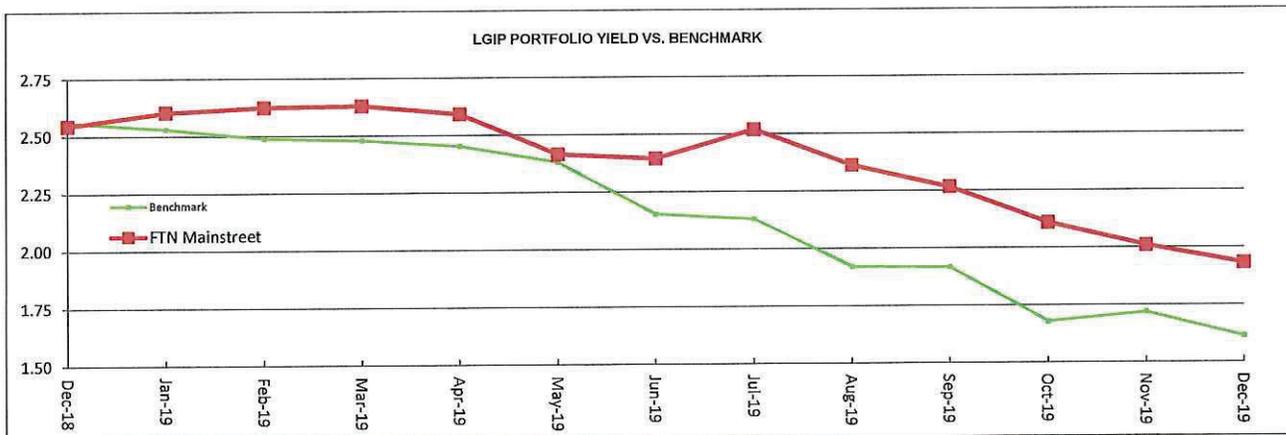
Investment Guidelines

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 59% 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 December 31, 2019, the LGIP's portfolio yield was 1.932%, and the blended benchmark was 1.61%. The average days to maturity of the LGIP portfolio was 125 days.

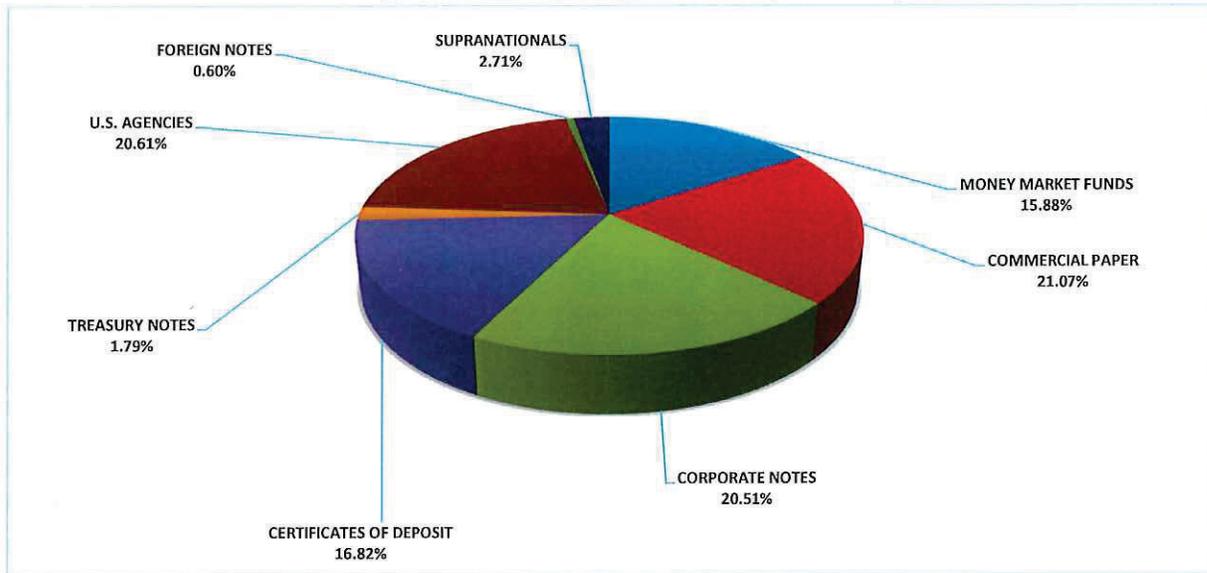


* Benchmark is 3-month rolling weighted average of 50% Dealer Commercial Paper 90-Day Index, 35% Agency Discount Note 6-Month Index, and 15% Morgan Stanley Institutional Liquidity Government Portfolio Fund.

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>December 31, 2019</u>		<u>September 30, 2019</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 264,349,072	\$ -	\$ 110,777,859	\$ -
COMMERCIAL PAPER	350,726,217	-	296,387,983	-
CORPORATE NOTES	340,779,100	627,536	248,573,908	470,605
CERTIFICATES OF DEPOSIT	279,996,536	-	249,991,849	-
U.S. TREASURIES				
NOTES	29,876,369	-	49,747,138	-
BILLS	-	-	24,886,976	-
U.S. AGENCIES	342,996,616	103,457	224,675,314	67,875
FOREIGN NOTES	10,041,962	5,222	-	-
SUPRANATIONALS	45,110,767	-	54,801,529	-
REPURCHASE AGREEMENTS	-	-	100,000,000	-
TOTAL	\$ 1,663,876,640	\$ 736,215	\$ 1,359,842,556	\$ 538,480
GRAND TOTAL	\$ 1,664,612,855	\$ 1,664,612,855	\$ 1,360,381,036	\$ 1,360,381,036



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
TOTAL PORTFOLIO	\$1,664,612,855	\$1,029,392,935