

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\_9\_20 BoF Agenda Item #6– State Treasurer Investment Report  
DATE: June 2, 2020

**Agenda Item #6**

For discussion and possible action: on the approval of to the State Treasurer’s quarterly investment report for the quarter ended March 31, 2020 pursuant to NRS 355.045.

**Fixed Income Market Highlights as of March 31, 2020**

- Markets were characterized by extreme volatility in the first calendar year quarter of 2020. Growing concern regarding the impact of the coronavirus on global economic growth has changed sentiment strongly in favor of ‘risk off’ assets. The Federal Reserve acted swiftly with aggressive monetary policy easing, including both rate cuts and an expansion of their balance sheet.
- Interest rates declined across the complete term structure, with short-term rates declining the most significantly in March due to the Federal Reserve rate cuts. Corporate spreads increased dramatically in early March before a month-end rally that left spreads wider by 149 basis points in March and 179 wider year-to-date.

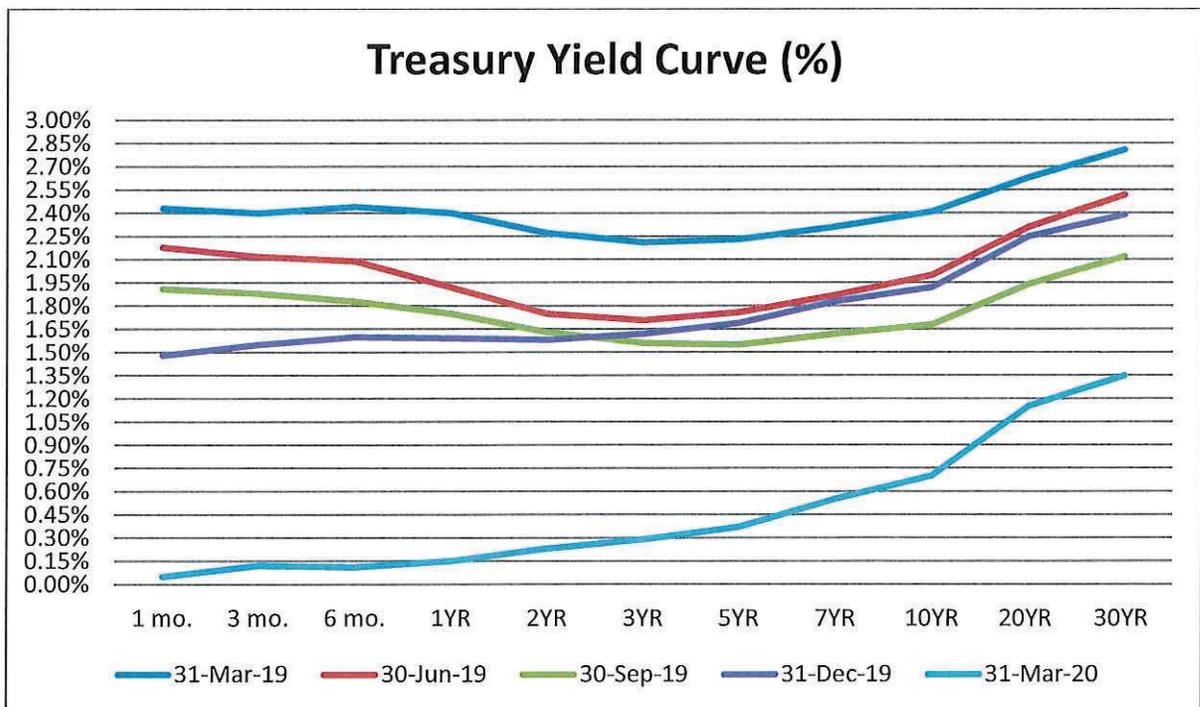


Chart is for illustrative purposes only. Investment Policy prohibits the General Portfolio from investing in Treasuries beyond 10 years.

## Investment Performance as of March 31, 2020

### Local Government Investment Pool (LGIP)

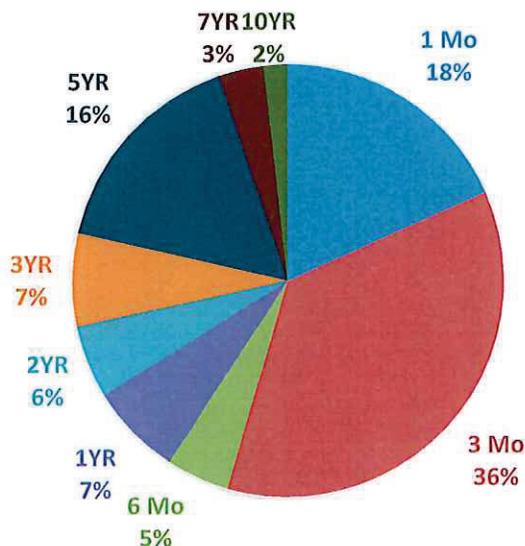
As of March 31, 2020, the total assets under management (AUM) were \$1.77 billion. Currently, FHN Financial manages the portfolio and the yield to maturity as of September 30, 2019 was 1.57% which is 72 basis points in excess of the benchmark yield of 0.85%.

### General Portfolio

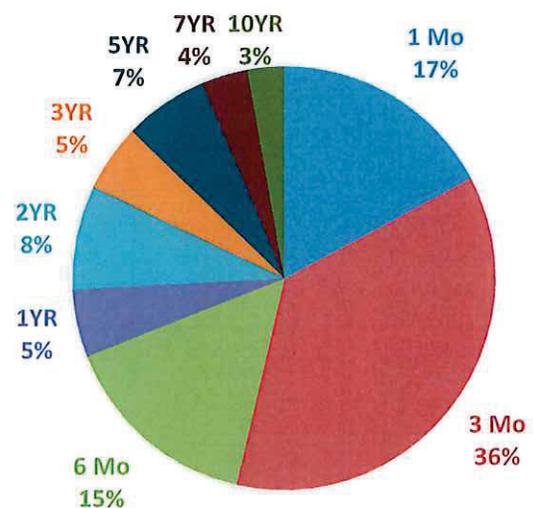
As of March 31, 2020, the AUM for the General Portfolio was \$3.05 billion (market value). The yield to maturity was 1.77%. As of July 1, 2019, staff began management of the entire General Portfolio after the two outside managers' contracts expired. The holdings previously managed by these managers are currently managed internally while the office conducts a request for proposal (RFP). We have completed the RFP process and are currently in contract negotiations with two outside managers; we anticipate these contracts to be considered by the State Board of Examiners at its July meeting.

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 Boeing Company (\$1.4 million par) during 2018 which was in compliance at the time of purchase with a Fitch rating of A. The security was downgraded by Fitch in January 2020 to an A-. The Treasurer's Office sold the security prior to its March 2023 maturity date for a slight profit.

Below is a graphical representation of the asset weighted maturities in the General Portfolio as of March 31, 2020 versus one-year prior.



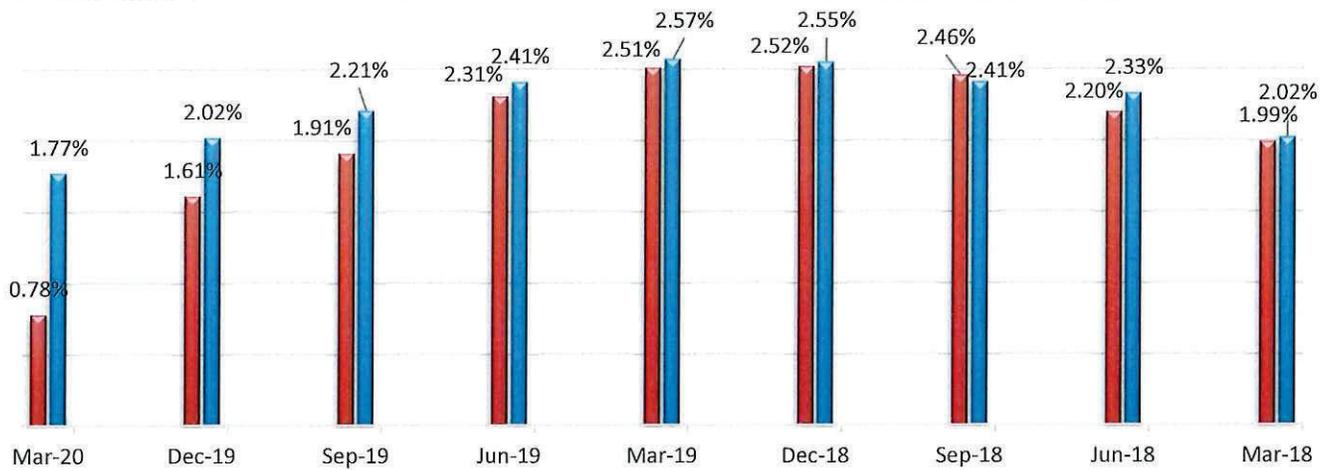
Asset Weighted Maturities as of 3.31.20



Asset Weighted Maturities as of 3.31.19

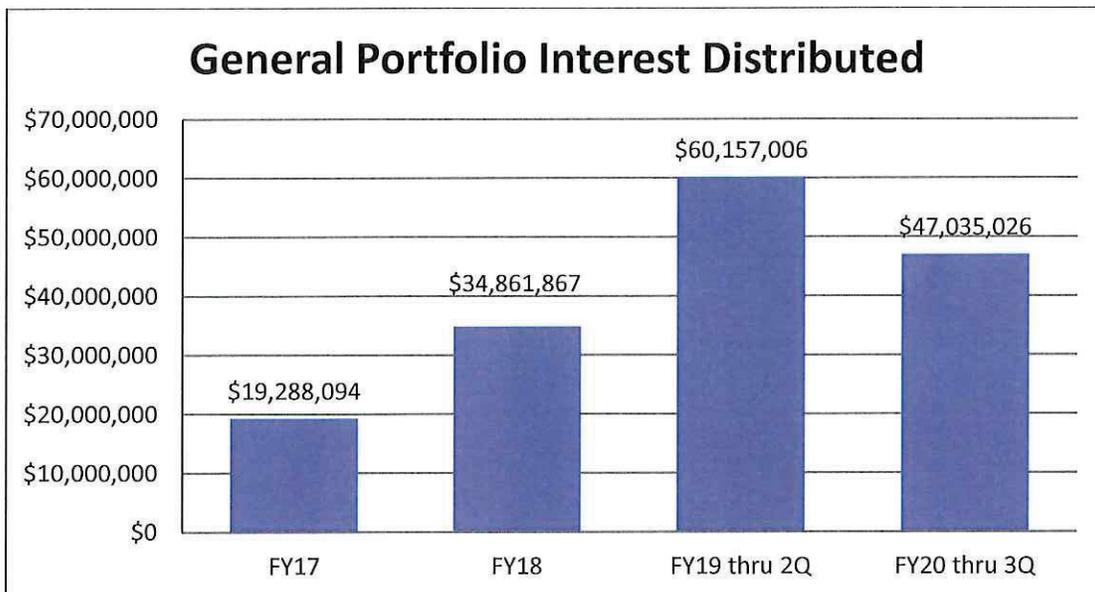
## General Portfolio Performance as of March 31, 2020

■ 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 March 31, 2020 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  
March 31, 2020

### 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

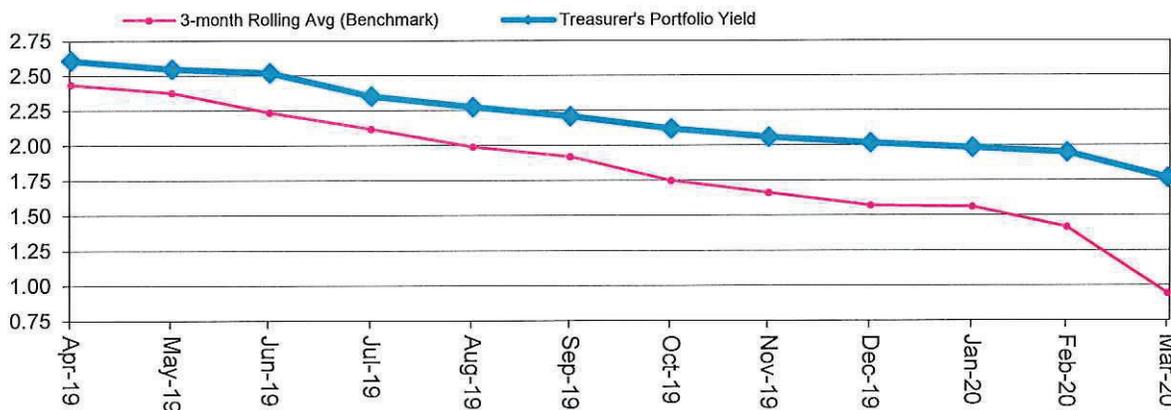
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, municipal bonds and banker's acceptances. These securities are diversified to prevent 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 March 31, 2020, the yield on the portion of the General Portfolio was 1.767%. A three month rolling average of this benchmark for this period was 0.94% with the average days to maturity at 218 days. The average days to maturity for the portfolio was 493 days. As of July 1, 2019, staff began management of the entire General Portfolio after the two outside managers' contract expired.

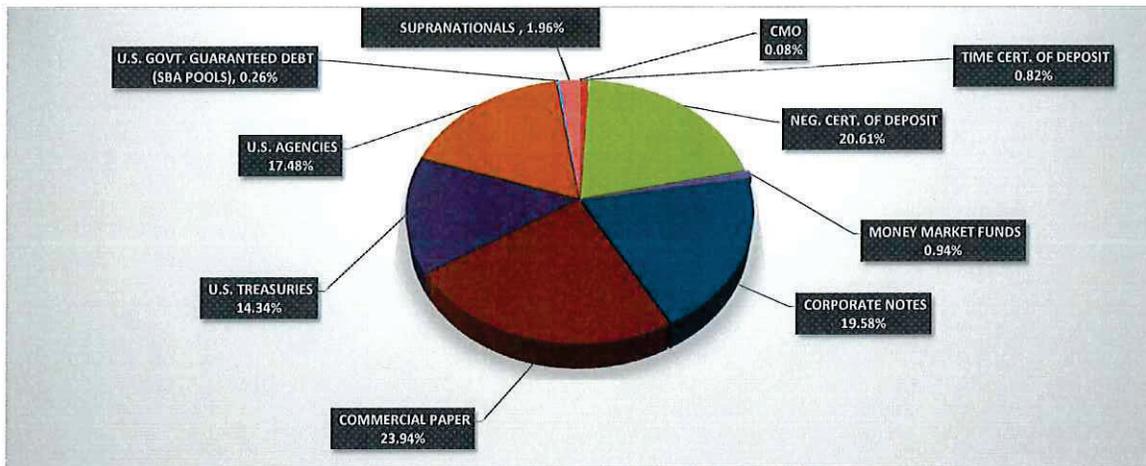
### Performance vs. Benchmark



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

**GENERAL PORTFOLIO**  
Amortized Book Value

	<u>March 31, 2020</u> Amortized Book Value	<u>December 31, 2019</u> Amortized Book Value
	<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	629,002,599	551,590,762
MONEY MARKET FUNDS	28,577,262	106,140,420
ASSET-BACKED SECURITIES	-	-
MORTGAGE-BACKED SECURITIES	-	-
CORPORATE NOTES	597,749,982	613,645,281
COMMERCIAL PAPER	730,672,655	696,242,230
MUNICIPAL BONDS	-	-
U.S. TREASURIES	437,599,657	440,869,892
U.S. TREASURY BILLS	-	77,820,308
U.S. AGENCIES	533,514,192	396,145,058
U.S. GOVERNMENT GUARANTEED DEBT	7,834,828	13,430,883
SUPRANATIONALS	59,827,774	-
COLLATERALIZED MORTGAGE OBLIGATION	2,459,861	-
REPURCHASE AGREEMENTS	-	152,000,000
<b>TOTAL</b>	<b>\$ 3,052,238,810</b>	<b>\$ 3,072,884,834</b>



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

	<u>March 31, 2020</u>	<u>March 31, 2019</u>
<b>TOTAL PORTFOLIO</b>	\$3,052,238,810	\$2,679,249,902

**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
<b><u>Average Daily Balances of Funds</u></b>					
General Fund	957,882,574	1,021,499,952	1,042,330,643		1,007,237,723
All Funds	2,803,384,491	2,811,672,692	3,137,319,571		2,917,458,918
<b><u>Annualized Interest Rate</u></b>					
Cash Basis (see Note 1)	2.5164%	1.6264%	2.1438%		2.0955%
Accrual Basis	2.4723%	1.5824%	2.1037%		2.0528%
<b><u>Interest Distribution for General Fund (Cash Basis)</u></b>					
General Fund Interest Collected	6,225,295	4,275,545	5,663,347		16,164,188
General Fund Interest Revenue - Distributed	6,225,295	4,275,545	5,663,347		16,164,188
Undistributed General Fund Interest Revenue	-				-
<b><u>Interest Distribution for All Funds (Cash Basis)</u></b>					
All Funds Interest Collected	18,219,190	11,769,680	17,046,156		47,035,026
All Funds Interest Revenue - Distributed	18,219,190	11,769,680	17,046,156		47,035,026

**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, 2020, there were 89 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.

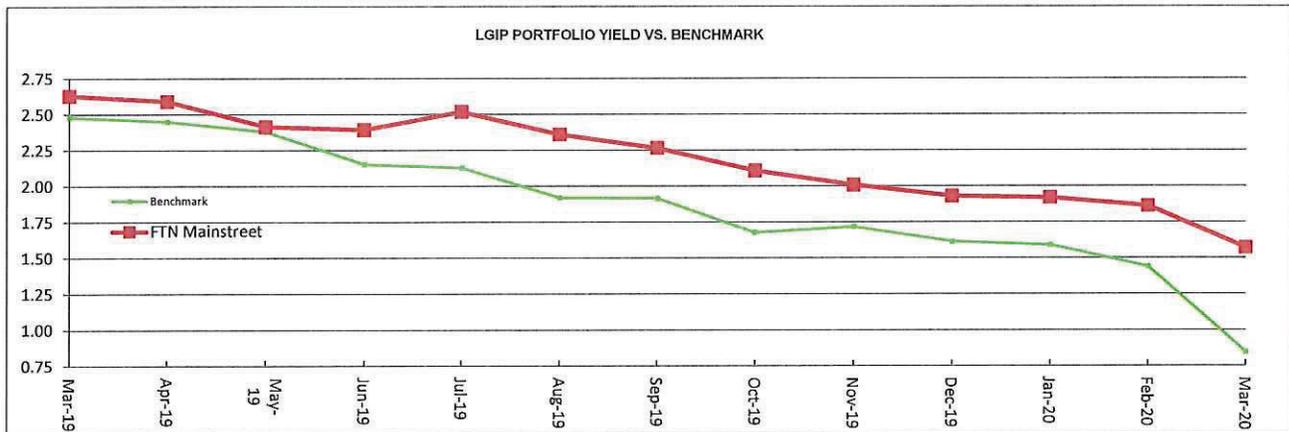
## Investment Guidelines

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 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 March 31, 2020, the LGIP's portfolio yield was 1.571%, and the blended benchmark was 0.85%. The average days to maturity of the LGIP portfolio was 122 days.

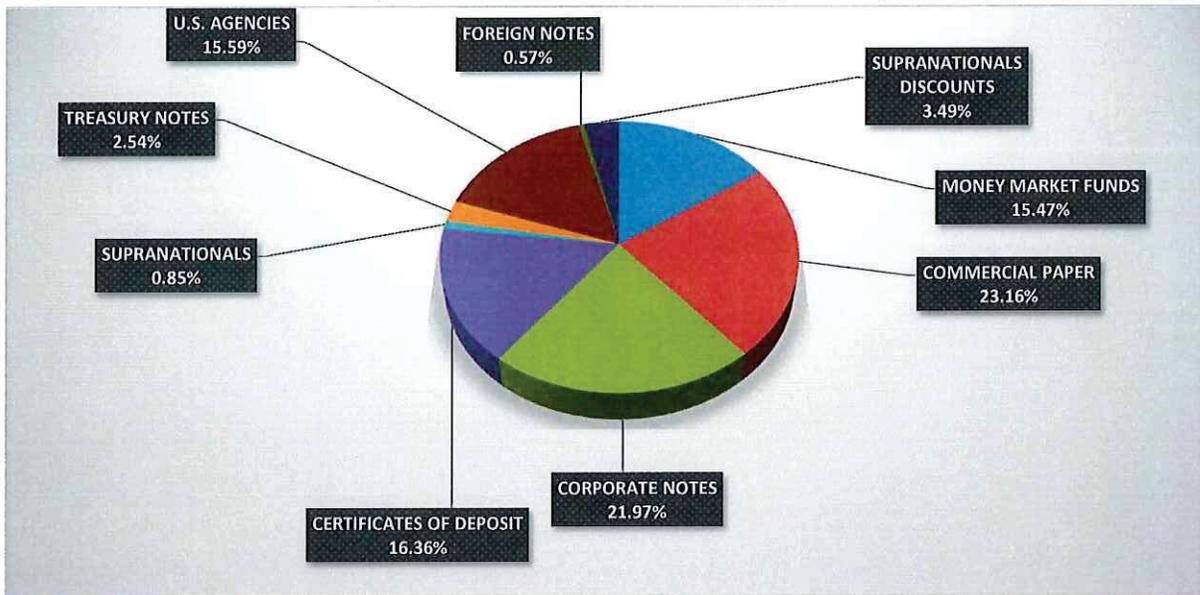


\* Benchmark is 3-month rolling weighted average of 50% Dealer Commercial Paper 90-Day Index, 35% Agency Discount Note 6-Month Index, and 15% Morgan Stanley Institutional Liquidity Government Portfolio Fund.

**Administration**

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

	<u>March 31, 2020</u>		<u>December 31, 2019</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 274,446,451	\$ -	\$ 264,349,072	\$ -
COMMERCIAL PAPER	410,761,369	-	350,726,217	-
CORPORATE NOTES	388,529,032	1,190,388	340,779,100	627,536
CERTIFICATES OF DEPOSIT	289,994,708	77,639	279,996,536	-
SUPRANATIONALS	15,098,713	-	-	-
TREASURY NOTES	44,982,008	-	29,876,369	-
TREASURY BILLS	-	-	-	-
U.S. AGENCIES	276,414,759	44,193	342,996,616	103,457
FOREIGN NOTES	10,029,331	5,222	10,041,962	5,222
SUPRANATIONALS DISCOUNTS	61,948,576	-	45,110,767	-
REPURCHASE AGREEMENTS	-	-	100,000,000	-
TOTAL	<u>\$ 1,772,204,947</u>	<u>\$ 1,317,441</u>	<u>\$ 1,763,876,639</u>	<u>\$ 736,215</u>
GRAND TOTAL	<u>\$ 1,772,204,947</u>	<u>\$ 1,317,441</u>	<u>\$ 1,763,876,639</u>	<u>\$ 736,215</u>



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

	<u>March 31, 2020</u>	<u>March 31, 2019</u>
<b>TOTAL PORTFOLIO</b>	\$1,773,522,389	\$1,253,472,141