

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: 10\_13\_20 BoF Agenda Item #7– State Treasurer Investment Report  
DATE: September 24, 2020

**Agenda Item #7**

For discussion and possible action: on the approval of the State Treasurer’s quarterly investment report for the quarter ended June 30, 2020 and to approve or disapprove the Treasurer’s investment policies for the General Portfolio and the Local Government Investment Pool (LGIP). Approval of the Board of Finance is required pursuant to NRS 355.045.

**Fixed Income Market Highlights as of June 30, 2020**

- After a first quarter which saw a substantial decline in Treasury yields (the 10-year Treasury yield declined 121 basis points) and an equally large increase in credit spreads (corporate option adjusted spread (OAS) rose by 179 basis points), both because of the onset of the pandemic, markets in the second quarter responded rapidly to the combination of fiscal and monetary policy response.
- While credit spreads declined by 122 basis points during the second quarter, interest rates remained essentially unchanged (10-year Treasury yield at 12/31/19 was 1.91%, fell to 0.70% at 3/31 and closed at 0.65% on 6/30).
- These developments suggest a high level of uncertainty about near term economic growth but recognize the strong commitment by the Federal Reserve to support credit markets by maintaining both access and affordability to both institutional borrowers and consumers.

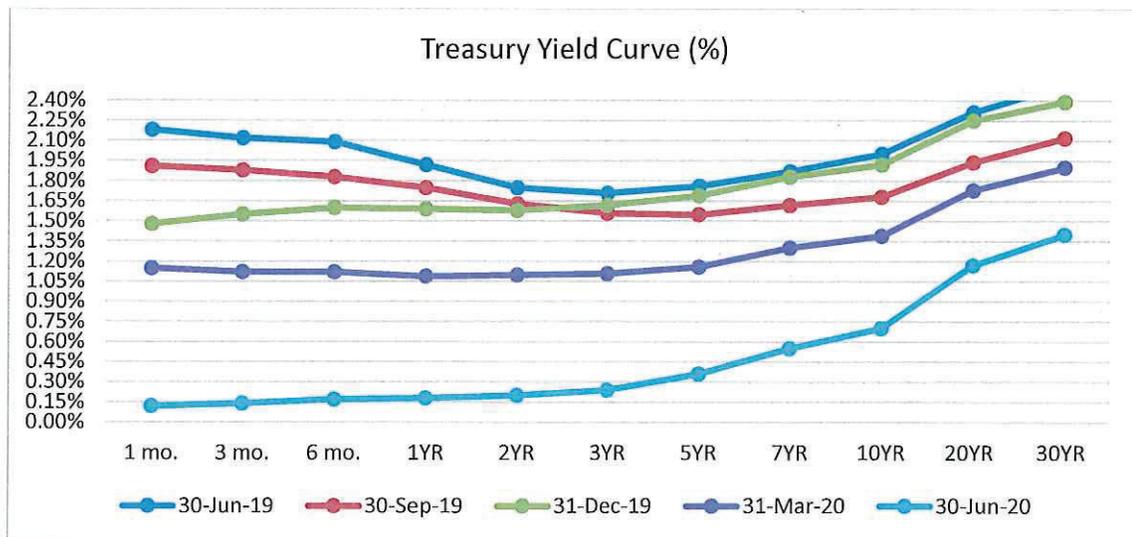


Chart is for illustrative purposes only. Investment Policy prohibits the General Portfolio from investing in Treasuries beyond 10 years.

## Investment Performance as of June 30, 2020

### Local Government Investment Pool (LGIP)

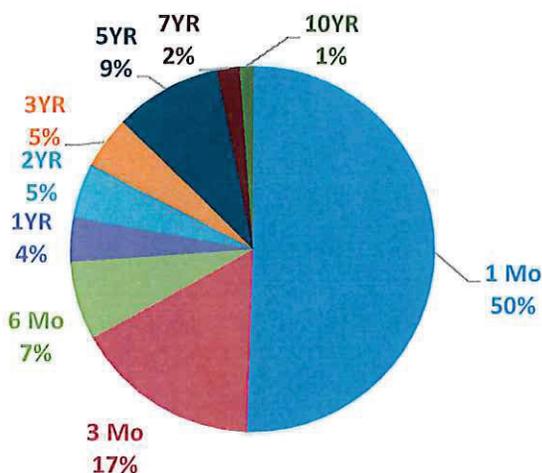
As of June 30, 2020, the total assets under management (AUM) were \$1.75 billion. Currently, FTN Financial manages the portfolio and the yield to maturity as of June 30, 2020 was 0.837% which is 69 basis point in excess of the benchmark yield of 0.15%.

### General Portfolio

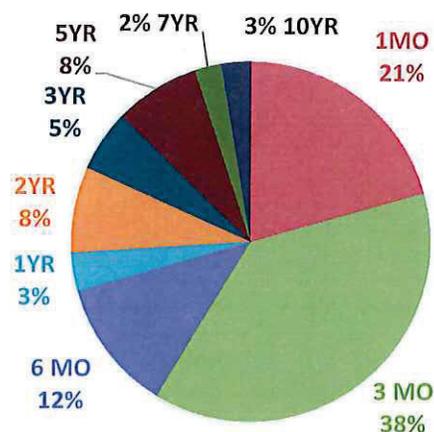
As of June 30, 2020, the AUM for the General Portfolio was \$3.64 billion (market value). The yield to maturity was 0.84%. As of July 1, 2019, staff began management of the entire General Portfolio after the two outside managers' contracts expired. However, contracts for two new fixed income managers were approved by the State Board of Examiners and effective October 1, 2020. Treasurer Conine and staff have been working with the managers to approve model portfolios with the intent to fund each manager with \$80 million in October. Western Asset Management will manage the credit portfolio and Buckhead Capital Management will manage securitized assets, primarily mortgage-backed securities. We will begin to include performance for these managers effective with the fourth calendar quarter report (October – December 2020).

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 Consolidated Edison Company (\$900,000 par) during 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 October 2018 to an A3. The Treasurer's Office did not sell the security early since it would have resulted in a loss; the security matured in June 2020 for the full par amount.

Below is a graphical representation of the asset weighted maturities in the General Portfolio as of June 30, 2020 versus one-year prior.



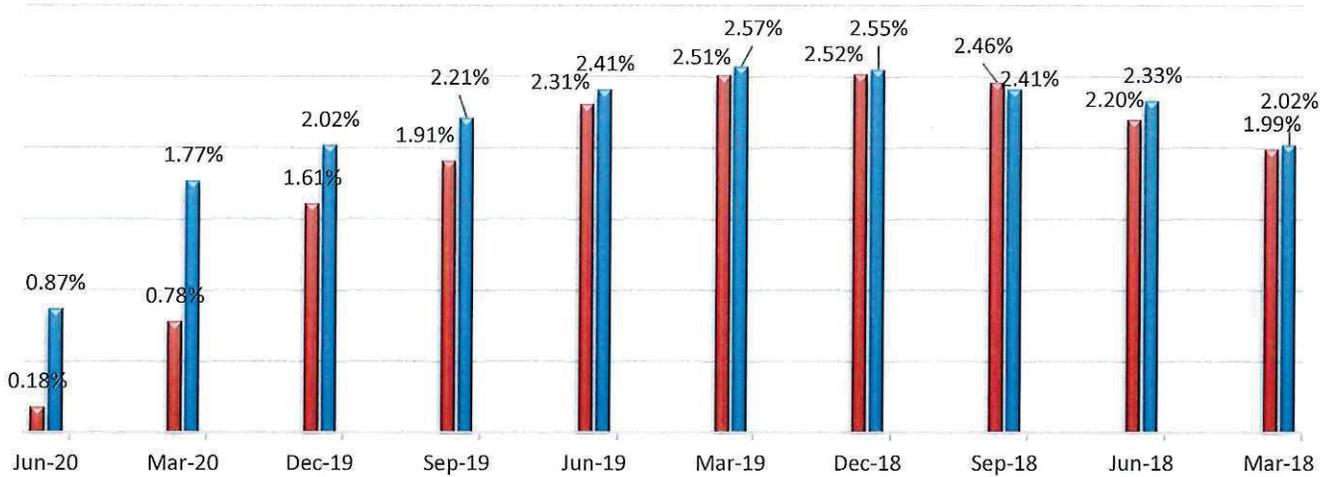
Asset Weighted Maturities as of 6.30.20



Asset Weighted Maturities as of 6.30.19

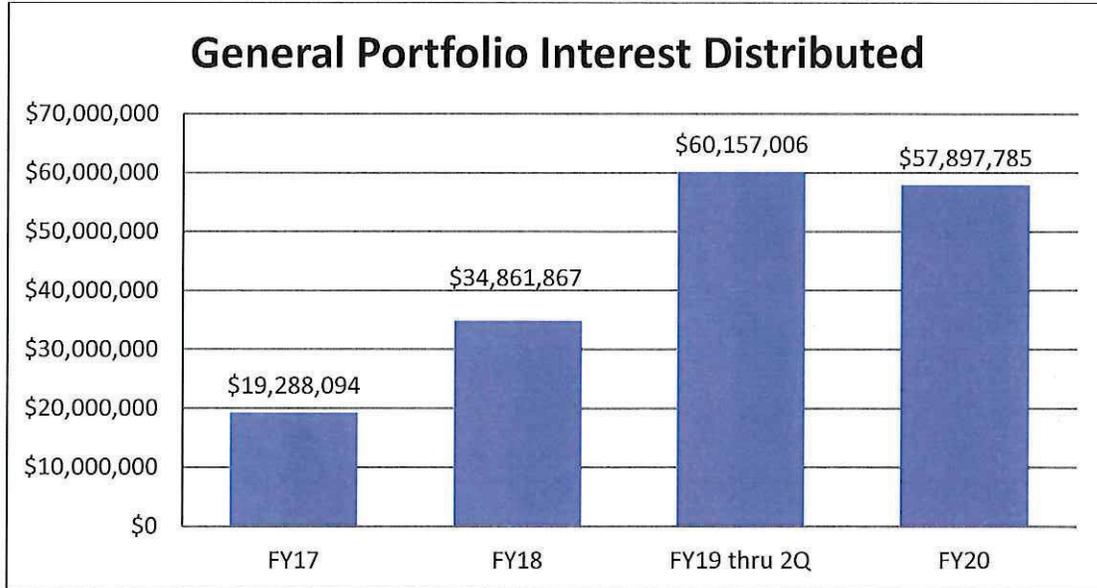
## General Portfolio Performance as of June 30, 2020

■ 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 for the entire Fiscal Year 2020 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  
June 30, 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

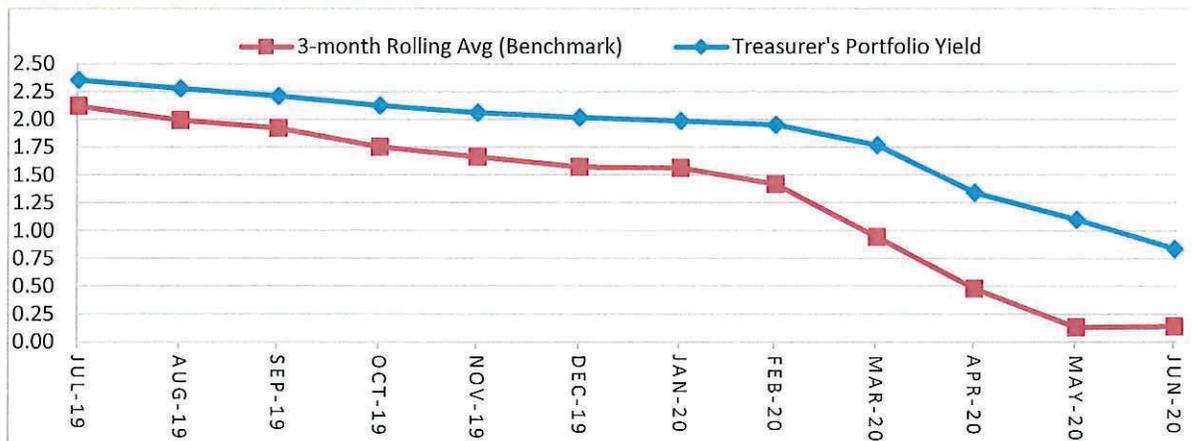
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, foreign notes, international development notes, asset-backed securities, municipal bonds 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 June 30, 2020, the yield on the portion of the General Portfolio was 0.837%. A three month rolling average of this benchmark for this period was 0.14% with the average days to maturity at 218 days. The average days to maturity for the portfolio was 303 days. As of July 1, 2019, staff began management of the entire General Portfolio after the two outside managers' contract expired.

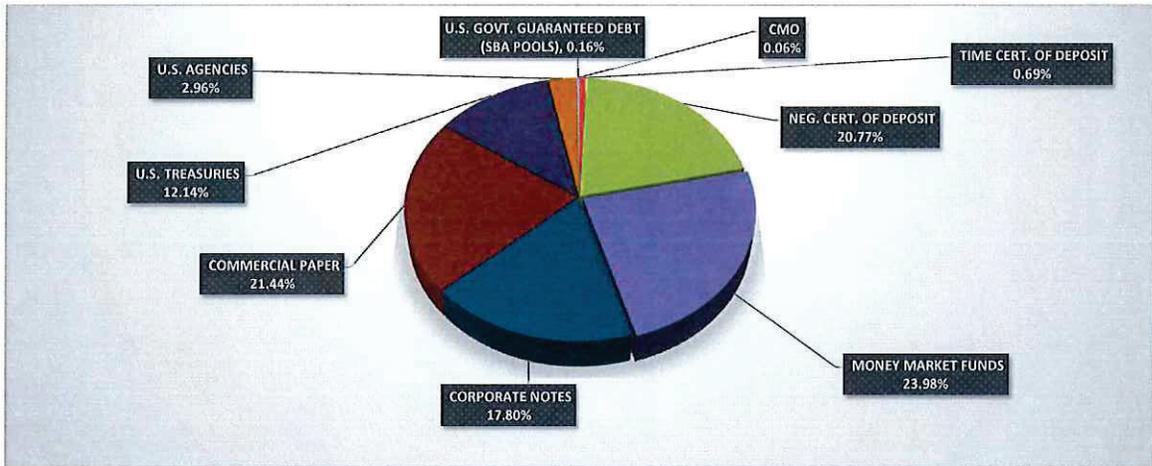
### Performance vs. Benchmark



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

**GENERAL PORTFOLIO**  
Amortized Book Value

	<u>June 30, 2020</u> Amortized Book Value	<u>March 31, 2020</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	748,000,000	629,002,599
MONEY MARKET FUNDS	863,691,992	28,577,262
ASSET-BACKED SECURITIES	-	-
MORTGAGE-BACKED SECURITIES	-	-
CORPORATE NOTES	641,147,506	597,749,982
COMMERCIAL PAPER	772,020,611	730,672,655
MUNICIPAL BONDS	-	-
U.S. TREASURIES	437,267,464	437,599,657
U.S. TREASURY BILLS	-	-
U.S. AGENCIES	106,494,097	533,514,192
U.S. GOVERNMENT GUARANTEED DEBT	5,606,603	7,834,828
SUPRANATIONALS	-	59,827,774
COLLATERALIZED MORTGAGE OBLIGATION	2,161,116	2,459,861
REPURCHASE AGREEMENTS	-	-
<b>TOTAL</b>	<b>\$ 3,601,389,388</b>	<b>\$ 3,052,238,810</b>



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

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
<b>TOTAL PORTFOLIO</b>	\$3,601,389,388	\$2,759,280,579

**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	1,533,114,321	1,138,706,872
All Funds	2,803,384,491	2,811,672,692	3,137,319,571	3,595,702,845	3,087,019,900
<b><u>Annualized Interest Rate</u></b>					
Cash Basis (see Note 1)	2.5164%	1.6264%	2.1438%	1.2209%	1.8769%
Accrual Basis	2.4723%	1.5824%	2.1037%	1.1884%	1.8367%
<b><u>Interest Distribution for General Fund (Cash Basis)</u></b>					
General Fund Interest Collected	6,225,295	4,275,545	5,663,347	4,329,582	20,493,770
General Fund Interest Revenue - Distributed	6,225,295	4,275,545	5,663,347	4,329,582	20,493,770
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	10,862,759	57,897,785
All Funds Interest Revenue - Distributed	18,219,190	11,769,680	17,046,156	10,862,759	57,897,785

**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, 2020, 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.

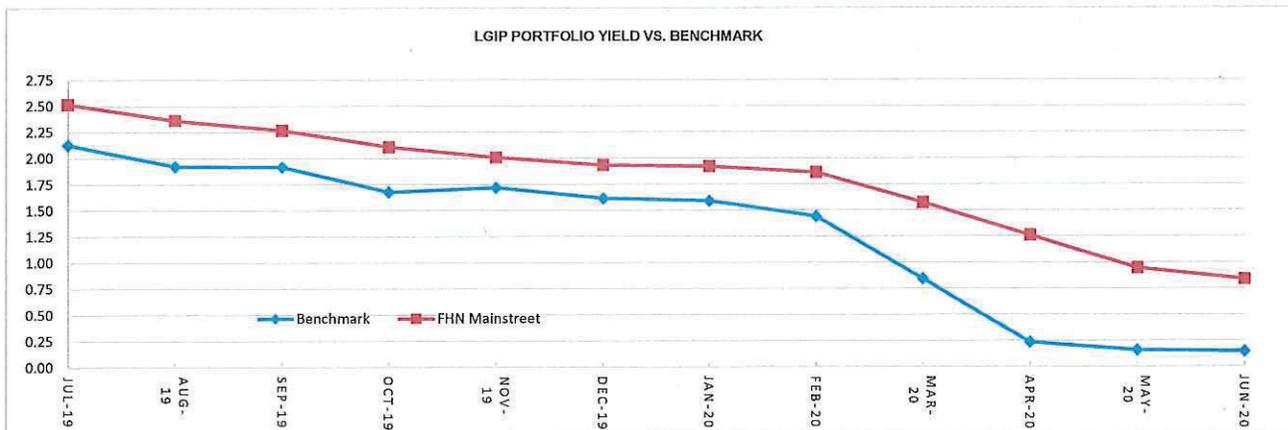
## Investment Guidelines

The permissible investments of the LGIP include United States Treasury and Agency securities, repurchase agreements, high quality commercial paper, negotiable certificates of deposit, foreign notes, international development notes, asset-backed securities, 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 7.4% of the fund matures on a daily basis, ensuring sufficient liquidity to meet both anticipated and unanticipated withdrawals. Additionally, approximately 54% 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

## Performance

FTN Financial began managing the LGIP portfolio in July 2015. As of June 30, 2020, the LGIP's portfolio yield was 0.837%, and the blended benchmark was 0.15%. The average days to maturity of the LGIP portfolio was 130 days.

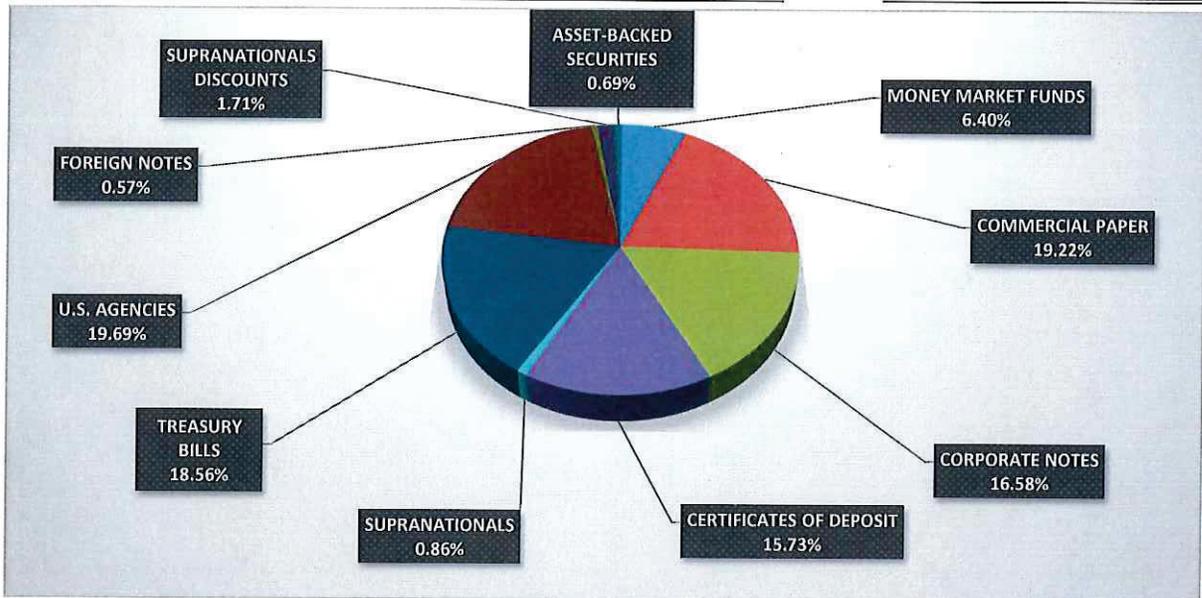


\* Benchmark is 3-month rolling weighted average of 50% Dealer Commercial Paper 90-Day Index, 35% Agency Discount Note 6-Month Index, and 15% Morgan Stanley Institutional Liquidity Government Portfolio Fund.

**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>June 30, 2020</u>		<u>March 31, 2020</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 112,008,647	\$ -	\$ 274,446,451	\$ -
COMMERCIAL PAPER	336,406,999	-	410,761,369	-
CORPORATE NOTES	290,042,145	180,706	388,529,032	1,190,388
CERTIFICATES OF DEPOSIT	275,092,207	217,511	289,994,708	77,639
SUPRANATIONALS	15,078,658	-	15,098,713	-
TREASURY NOTES	-	-	44,982,008	-
TREASURY BILLS	324,875,569	-	-	-
U.S. AGENCIES	344,689,903	2,292	276,414,759	44,193
FOREIGN NOTES	10,016,701	-	10,029,331	5,222
SUPRANATIONALS DISCOUNTS	29,997,300	-	61,948,576	-
ASSET-BACKED SECURITIES	12,001,875	-	-	-
REPURCHASE AGREEMENTS	-	-	-	-
TOTAL	\$ 1,750,210,005	\$ 400,509	\$ 1,772,204,947	\$ 1,317,442
GRAND TOTAL	\$ 1,750,210,005	\$ 1,750,610,514	\$ 1,772,204,947	\$ 1,773,522,389



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

	<u>June 30, 2020</u>	<u>June 30, 2019</u>
<b>TOTAL PORTFOLIO</b>	\$1,750,610,514	\$1,254,399,061