

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: 1\_12\_21 BoF Agenda Item #7– State Treasurer Investment Report  
DATE: December 30, 2020

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**Agenda Item #7**

For discussion and possible action: on the approval of the State Treasurer’s quarterly investment report for the quarter ended September 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 September 30, 2020**

- Compared to the extreme volatility in the first and second quarters of the calendar year, the quarter ended September 30, 2020 was relatively quiet in the fixed income market. Treasury yields were mostly unchanged with the 10-Year Treasury increasing three (3) basis points during the quarterly to close at 0.69%. In addition, the slope of the curve increased modestly as noted in the chart below.
- Monetary policy remains highly accommodative with the Federal Reserve unveiling a new inflationary-policy framework that will allow inflation to modestly exceed its 2% target as part of an ‘inflation averaging’ program.

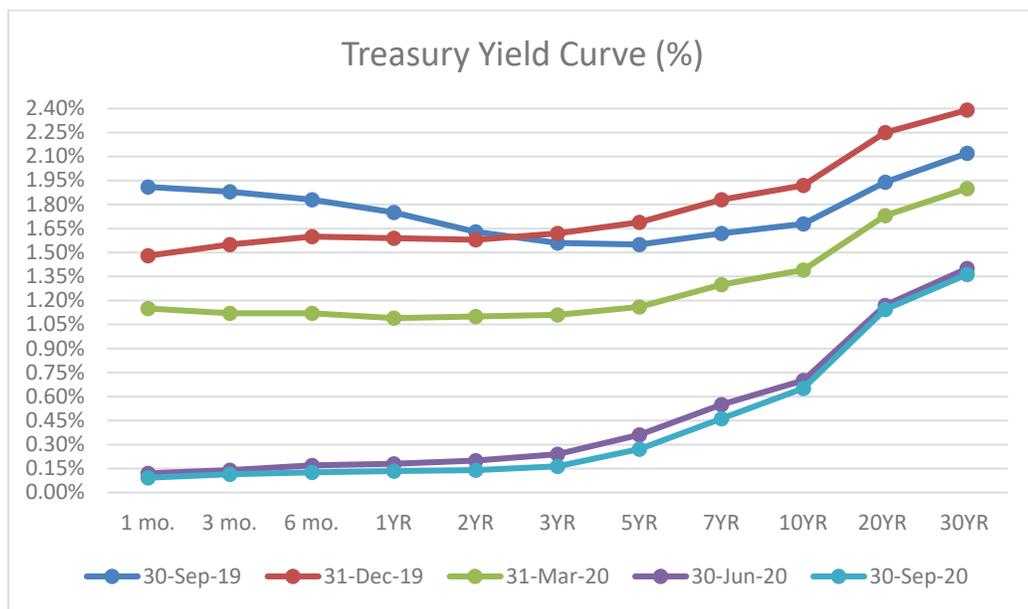


Chart is for illustrative purposes only. Investment Policy prohibits the General Portfolio from investing in Treasuries beyond 10 years.

## Investment Performance as of September 30, 2020

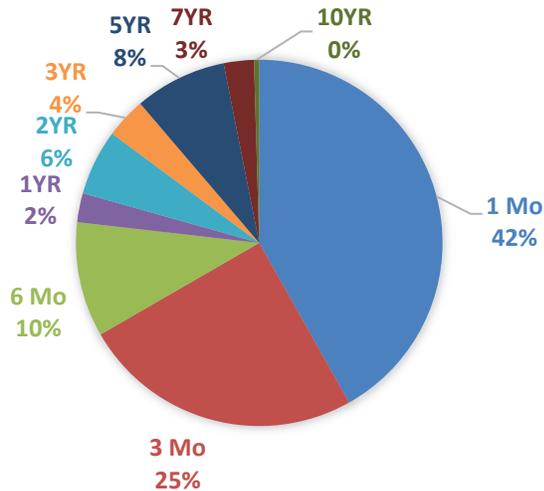
### Local Government Investment Pool (LGIP)

As of September 30, 2020, the total assets under management (AUM) were \$2.21 billion. The yield to maturity as of September 30, 2020 was 0.523% which is 38 basis point in excess of the benchmark yield of 0.14%.

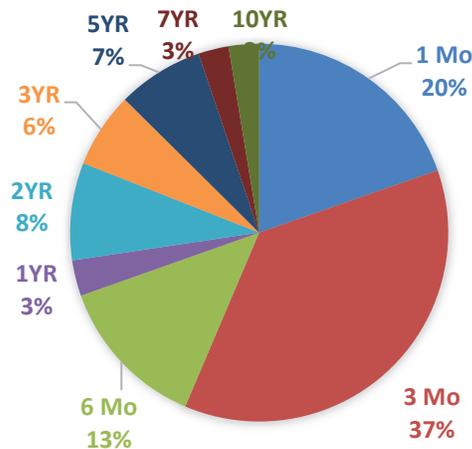
### General Portfolio

As of September 30, 2020, the AUM for the General Portfolio was \$3.53 billion (market value). The yield to maturity was 0.71%. 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. Each manager was funded \$80 million during the fourth calendar quarter of 2020. Buckhead Capital Management manages securitized assets and began investing in October and Western Asset Management manages a credit portfolio which began investing in November. The performance of these two managers will be reported to the Board with the fourth calendar quarter report at the March 2021 meeting.

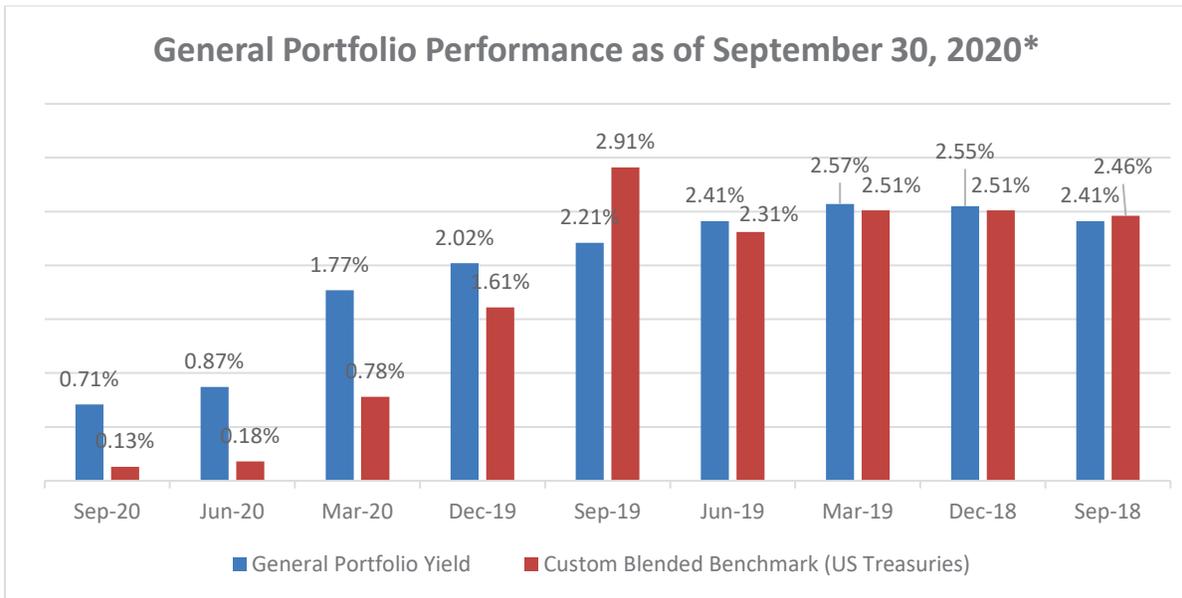
Below is a graphical representation of the asset weighted maturities in the General Portfolio as of September 30, 2020 versus one-year prior.



Asset Weighted Maturities as of 9.30.20

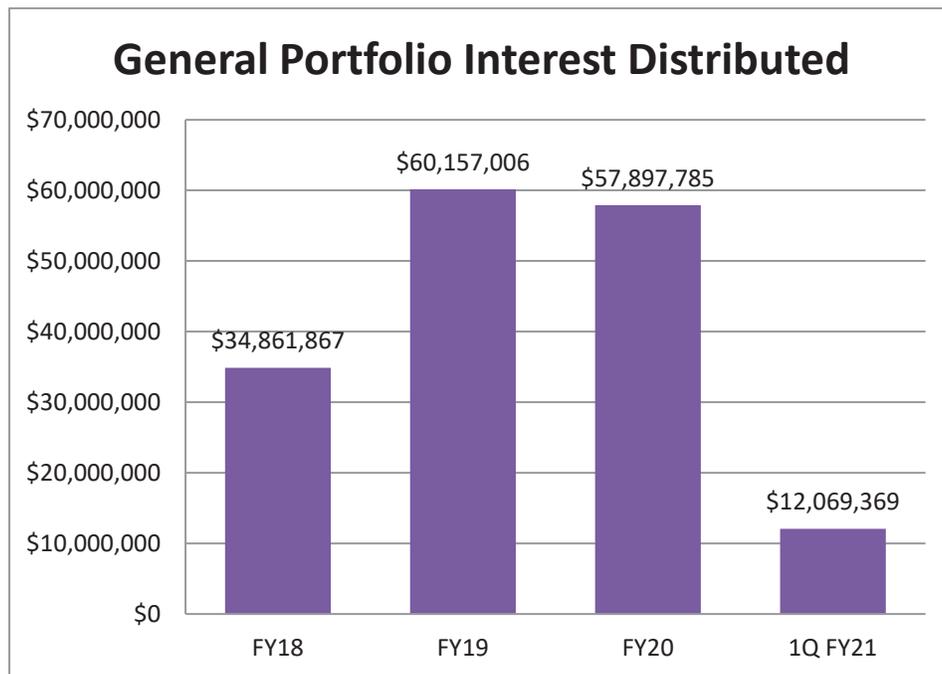


Asset Weighted Maturities as of 9.30.19



\*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.



# INVESTMENTS

## GENERAL PORTFOLIO

FISCAL YEAR 2021  
Period Ending  
September 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

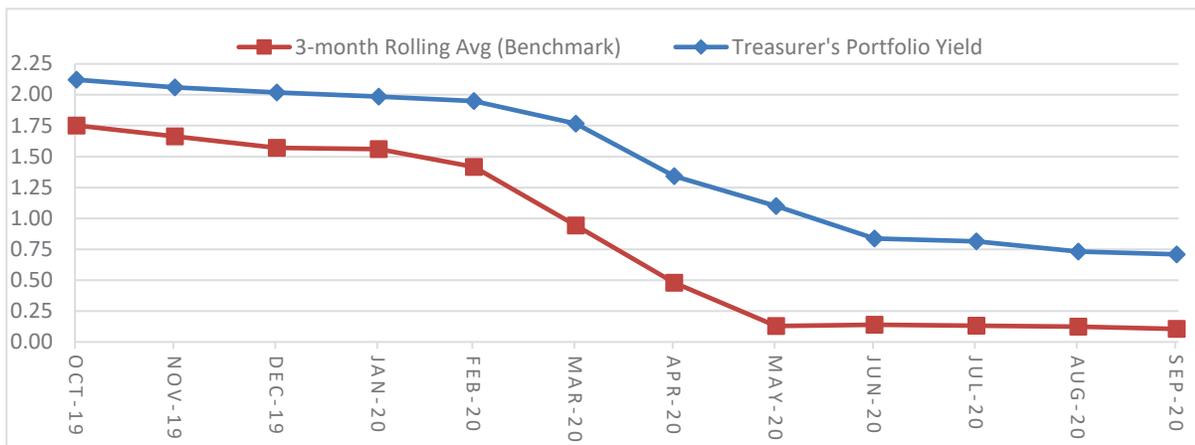
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, foreign notes, international development notes, asset-backed securities, municipal bonds 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 September 30, 2020, the yield on the portion of the General Portfolio was 0.709%. A three month rolling average of this benchmark for this period was 0.11% with the average days to maturity at 218 days. The average days to maturity for the portfolio was 278 days.

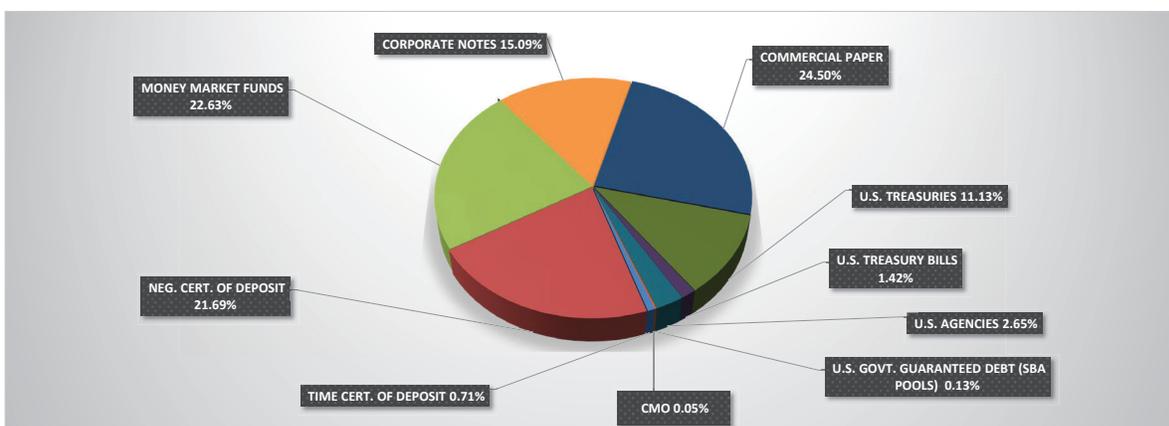
### Performance vs. Benchmark



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

**GENERAL PORTFOLIO  
Amortized Book Value**

	<u>September 30, 2020</u> <u>Amortized Book Value</u>	<u>June 30, 2020</u> <u>Amortized Book Value</u>
	<u>Total Portfolio</u>	<u>Total Portfolio</u>
TIME CERTIFICATES OF DEPOSIT	\$ 25,000,000	\$ 25,000,000
NEGOTIABLE CERTIFICATES OF DEPOSIT	763,001,628	748,000,000
MONEY MARKET FUNDS	796,345,141	863,691,992
ASSET-BACKED SECURITIES	-	-
MORTGAGE-BACKED SECURITIES	-	-
CORPORATE NOTES	530,839,469	641,147,506
COMMERCIAL PAPER	861,960,095	772,020,611
MUNICIPAL BONDS	-	-
U.S. TREASURIES	391,725,783	437,267,464
U.S. TREASURY BILLS	49,995,278	-
U.S. AGENCIES	93,295,834	106,494,097
U.S. GOVERNMENT GUARANTEED DEBT	4,411,856	5,606,603
SUPRANATIONALS	-	-
COLLATERALIZED MORTGAGE OBLIGATION	1,856,157	2,161,116
REPURCHASE AGREEMENTS	-	-
<b>TOTAL</b>	<b>\$ 3,518,431,241</b>	<b>\$ 3,601,389,388</b>



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

	<u>September 30, 2020</u>	<u>September 30, 2019</u>
<b>TOTAL PORTFOLIO</b>	\$3,518,431,241	\$2,763,971,165

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

	Quarter Ended 09/30/2020	Quarter Ended 12/31/2020	Quarter Ended 03/31/2021	Quarter Ended 06/30/2021	FY 2021 Totals
<b><u>Average Daily Balances of Funds</u></b>					
General Fund	1,495,148,012				1,495,148,012
All Funds	3,516,802,318				3,516,802,318
<b><u>Annualized Interest Rate</u></b>					
Cash Basis (see Note 1)	1.3770%				1.3770%
Accrual Basis	1.4142%				1.4142%
<b><u>Interest Distribution for General Fund (Cash Basis)</u></b>					
General Fund Interest Collected	5,131,222				5,131,222
General Fund Interest Revenue - Distributed	5,131,222				5,131,222
Undistributed General Fund Interest Revenue	-				-
<b><u>Interest Distribution for All Funds (Cash Basis)</u></b>					
All Funds Interest Collected	12,069,369				12,069,369
All Funds Interest Revenue - Distributed	12,069,369				12,069,369

**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, 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.

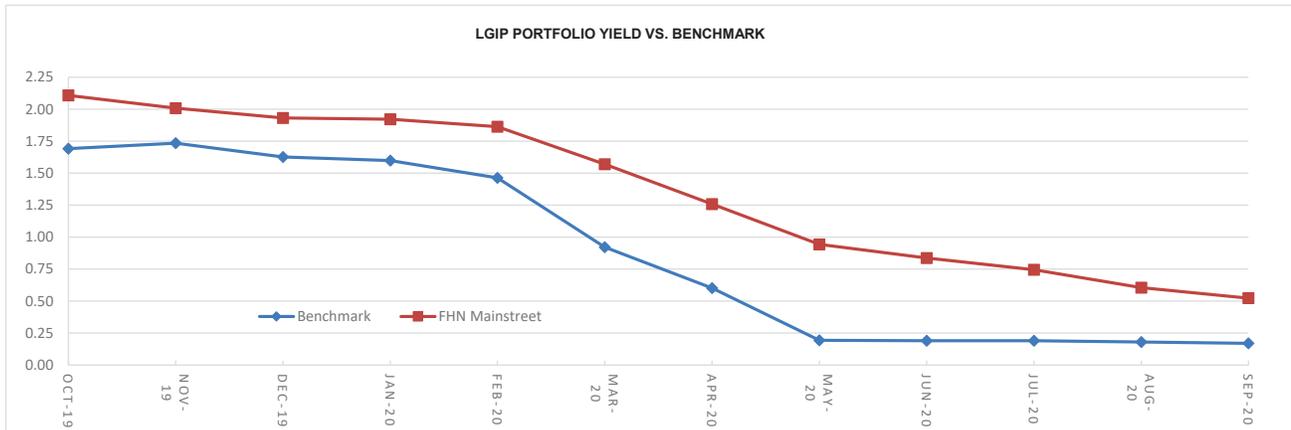
## Investment Guidelines

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, 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 9.4% of the fund matures on a daily basis, ensuring sufficient liquidity to meet both anticipated and unanticipated withdrawals. Additionally, approximately 51.6% 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

## Performance

FHN Financial began managing the LGIP portfolio in July 2015. As of September 30, 2020, the LGIP's portfolio yield was 0.523%, and the blended benchmark was 0.14%. The average days to maturity of the LGIP portfolio was 141 days.



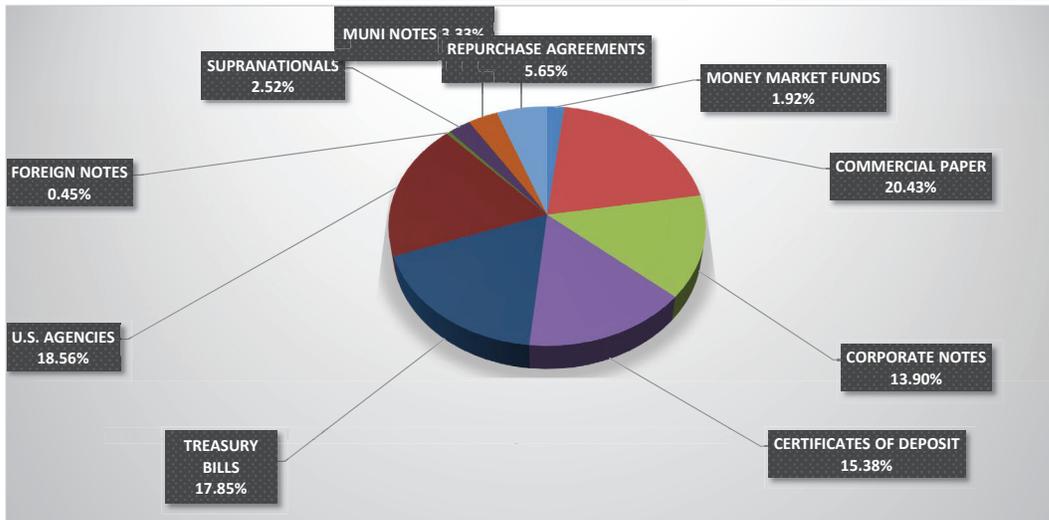
\* Benchmark is 3-month rolling weighted average of 55% Dealer Commercial Paper 150-Day Index, 30% Agency Note 180 Day Index, and 15% Dreyfus Institutional Preferred Government Money Markey Fund.

\*\*Benchmark was updated July 2020. This graph represents that change. June 2020 and prior shows the old benchmark.

**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, 2020</u>		<u>June 30, 2020</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 42,510,785	\$ -	\$ 112,008,647	\$ -
COMMERCIAL PAPER	451,760,213	-	336,406,999	-
CORPORATE NOTES	307,310,473	83,662	290,042,145	180,706
CERTIFICATES OF DEPOSIT	340,016,417	217,511	275,092,207	217,511
SUPRANATIONALS DISCOUNTS	-	-	15,078,658	-
TREASURY NOTES	-	-	-	-
TREASURY BILLS	394,867,146	-	324,875,569	-
U.S. AGENCIES	410,405,445	2,364	344,689,903	2,292
FOREIGN NOTES	10,004,070	-	10,016,701	-
SUPRANATIONALS	55,587,256	136,067	29,997,300	-
ASSET-BACKED SECURITIES	-	-	12,001,875	-
MUNI NOTES	73,454,555	180,446	-	-
REPURCHASE AGREEMENTS	125,000,000	-	-	-
TOTAL	\$ 2,210,916,360	\$ 620,050	\$ 1,750,210,005	\$ 400,509
GRAND TOTAL	\$ 2,211,536,410	\$ 2,211,536,410	\$ 1,750,610,514	\$ 1,750,610,514



**YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON**  
September 30, 2020                      September 30, 2019

<b>TOTAL PORTFOLIO</b>	<b>\$2,211,536,410</b>	<b>\$1,360,381,037</b>
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