

Zach Conine
State Treasurer



STATE OF NEVADA
OFFICE OF THE STATE TREASURER

TO: Board of Finance (BoF) Members
FROM: Kim Shafer, Deputy Treasurer - Investments
SUBJECT: 3_09_21 BoF Agenda Item #6– State Treasurer Investment Report
DATE: March 1, 2021

Agenda Item #6

For discussion and possible action: on the approval of the State Treasurer’s quarterly investment report for the quarter ended December 31, 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 December 31, 2020

- Compared to the extreme volatility in the first and second quarters of the calendar year, the quarter ended December 30, 2020 was relatively quiet in the fixed income market. Treasury yields remained low with the longer end of the curve steepening slightly. This quarter saw the short end of the curve remaining low with the 1-Year and shorter at ten (10) basis points and below. In addition, the 10-Year Treasury increased twenty-four (24) basis points during the quarter to close at 0.93%.
- At the December Federal Open Market Committee, the Fed recommitted to Treasury and mortgage-backed purchases. The Fed expects to maintain an accommodative stance on monetary policy until maximum employment and inflation hits 2% over the long run.

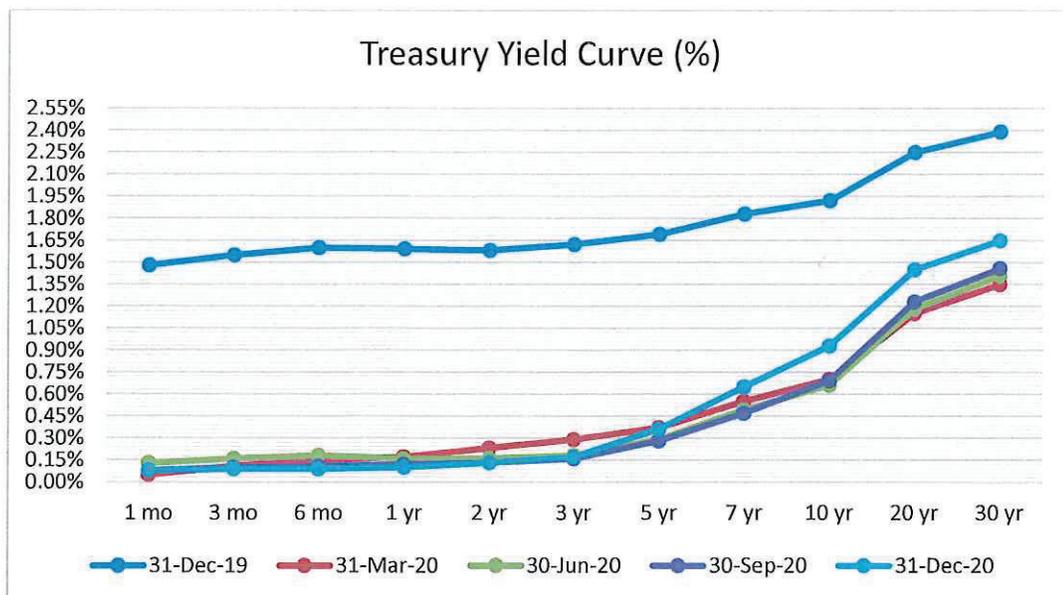


Chart is for illustrative purposes only. Investment Policy prohibits the General Portfolio from investing in Treasuries beyond 10 years.

Investment Performance as of December 31, 2020

Local Government Investment Pool (LGIP)

As of December 31, 2020, the total assets under management (AUM) were \$2.31 billion. The yield to maturity as of December 31, 2020 was 0.334% which is 18 basis point in excess of the benchmark yield of 0.15%.

General Portfolio

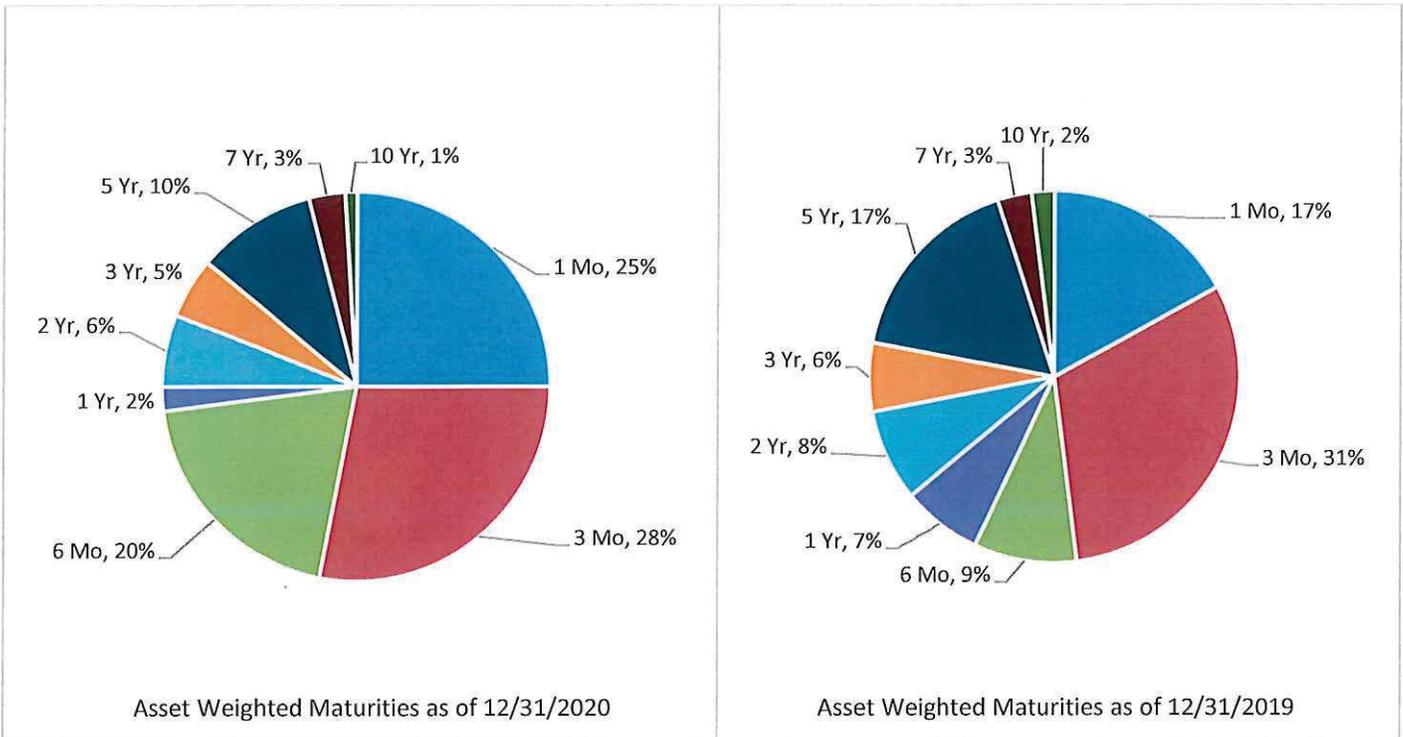
As of December 31, 2020, the AUM for the General Portfolio was \$3.37 billion (market value) with 95% managed internally and 5% managed by outside managers. Contracts for two new fixed income managers were approved by the State Board of Examiners and became effective October 1, 2020. Each manager was 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 securities which began investing in November. Additional funding was provided to the managers in the first calendar quarter of 2021 in the amount of \$70 million each. The managers are in the initial stages of positioning the portfolios. Staff's report at the June 2021 meeting will have an entire quarter of performance for both managers for period ending March 31, 2021.

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 two pieces of the same corporate bond issued by The Boeing Company in fiscal year 2016. Both were 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 closely monitored the security and company through the maturity date in October 2020. The Portfolio received all interest payments over the life of the security and the entire principal with no loss to the Portfolio.

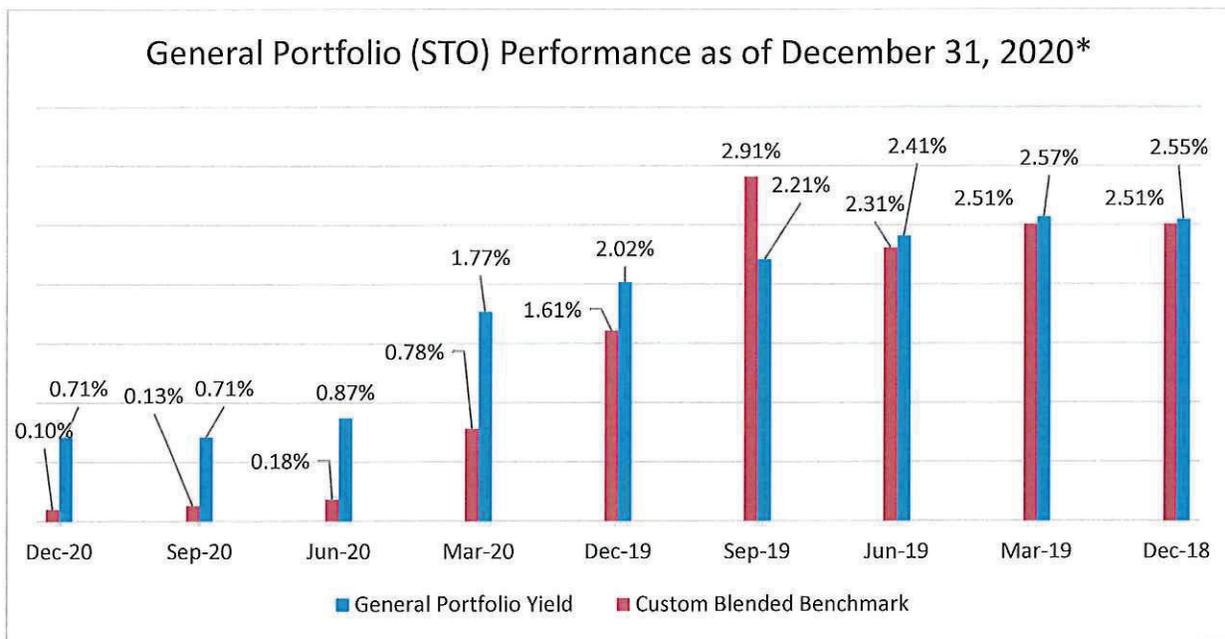
The overall yield to maturity (YTM) as of December 31, 2020 for the General Portfolio was 0.71%. Below is the YTM breakdown by portfolio:

- Internally managed portfolios were 0.70%
- Buckhead Capital Management portfolio was 1.09%
- Western Asset Management portfolio was 0.60%

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

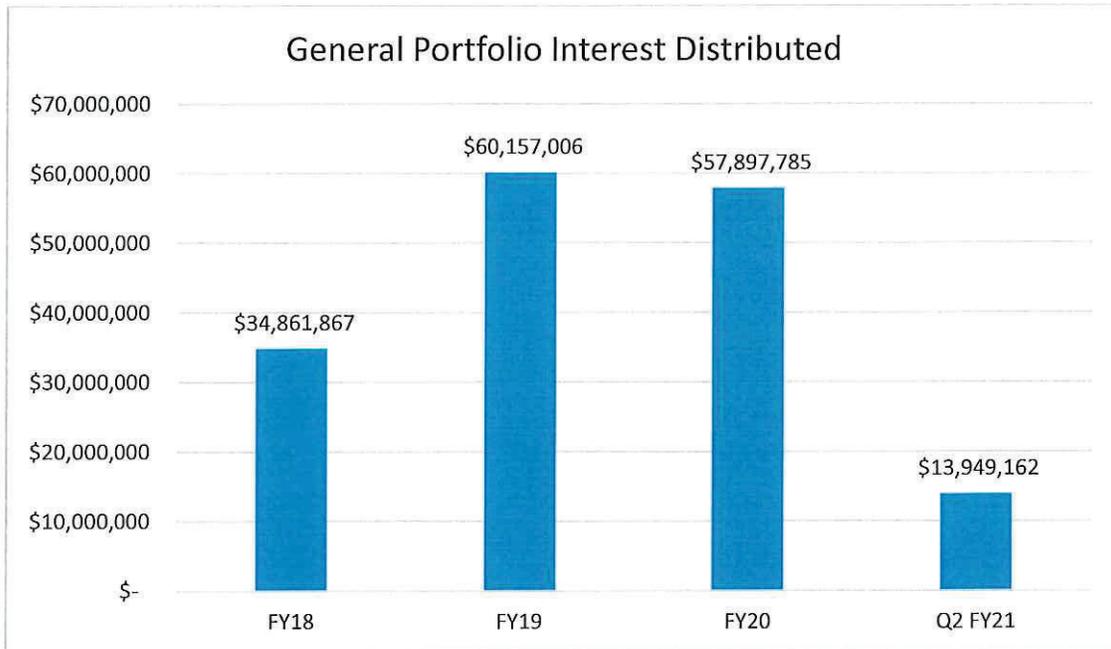


The chart below shows the internally managed portfolio performance against the custom benchmark for the past nine quarters.



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

The chart below provides the historical interest distributed for Fiscal Year 2021 to date 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 2021

Period Ending

December 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

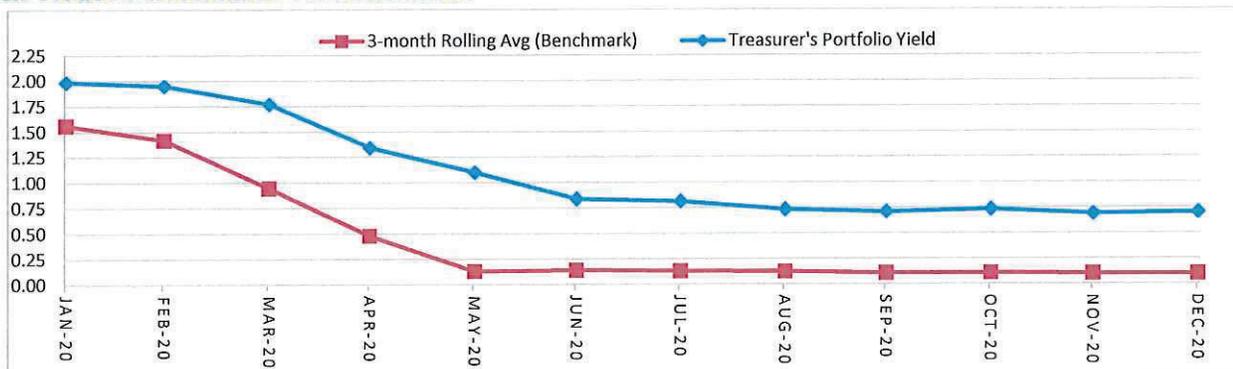
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, foreign notes, international development notes, asset-backed securities, municipal bonds 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.

In-House Performance

As of December 31, 2020, the yield on the in-house portion of the General Portfolio was 0.700%. A three month rolling average of this benchmark for this period was 0.10% with the average days to maturity at 218 days. The average days to maturity for the portfolio was 279 days.

In-House Performance vs. Benchmark

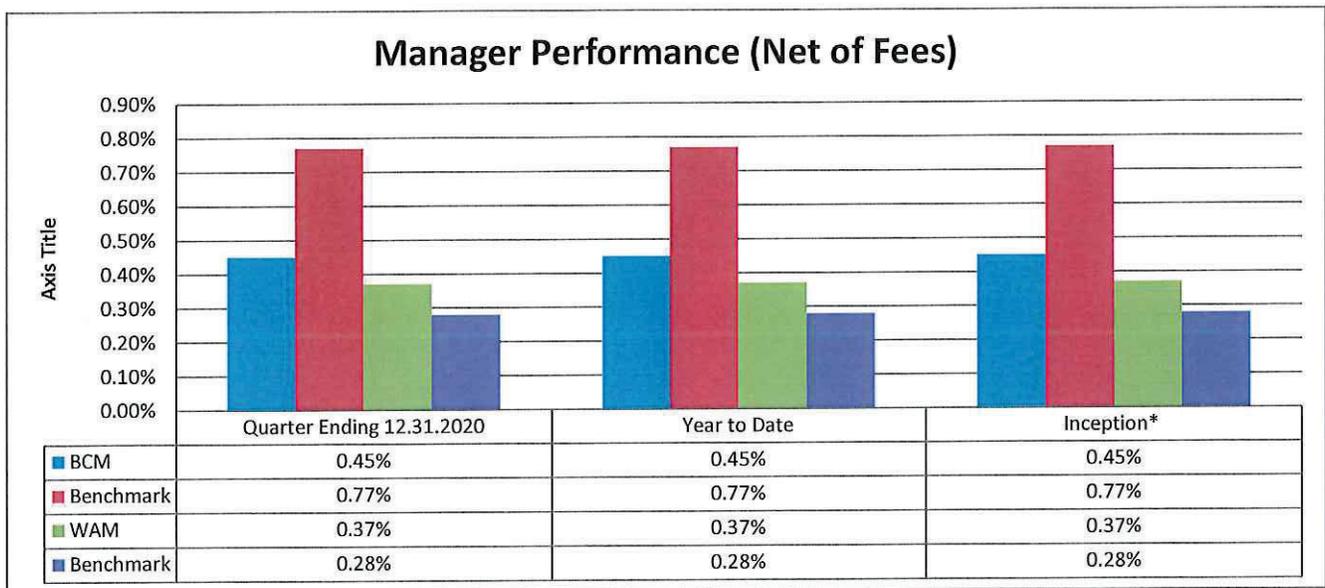


* Benchmark is 3-month rolling weighted average of 80% 3-month Treasuries and 20% 2-year Treasuries

Outside Manager Performance

The annualized performance since inception for period ending December 31, 2020 for Buckhead Capital Management (BCM) is 0.45%* and for Western Asset Management (WAM) is 0.37%*. BCM is contracted to provide investment management services for securitized assets in the State General Portfolio. BCM has been assigned the Bloomberg Barclays CMBS AAA Index benchmark. WAM is contracted to provide investment management services for corporate assets in the State General Portfolio. WAM has been assigned the ICE BofA 3-5 Year AA US Corporate & Yankee Index benchmark. *BCM inception date is October 2020 and WAM is November 2020. Funding occurred in these two accounts during the quarter being reported. The first complete quarter for both external managers will be quarter 3, March 31, 2021.

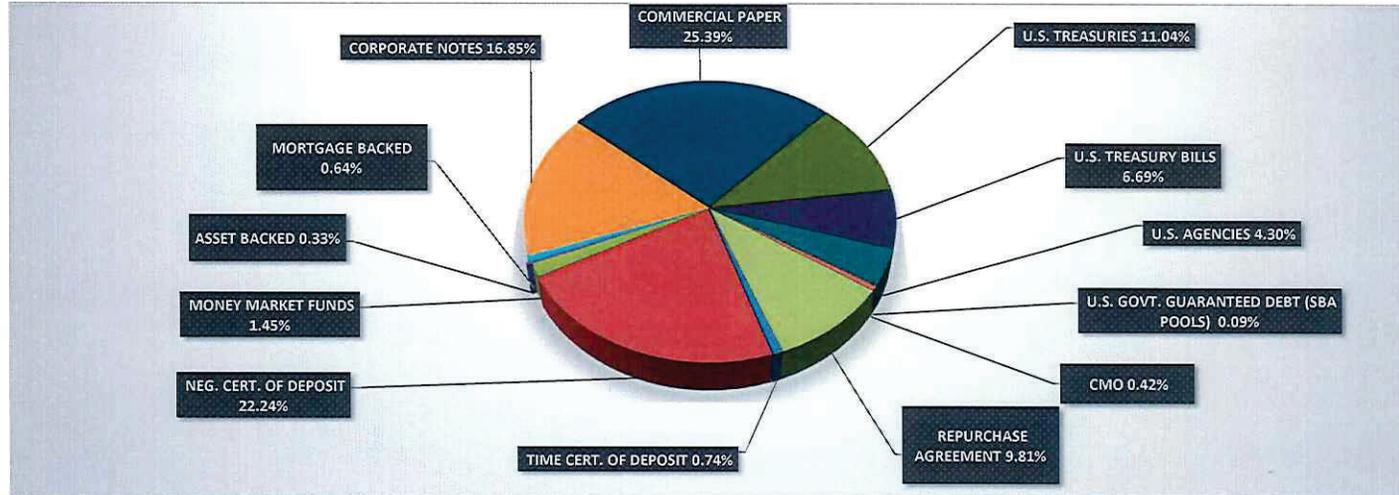
Outside Managers' Performance vs. Benchmark



*Inception date for BCM is 10/19/2020 and WAM is 11/16/2020

GENERAL PORTFOLIO
Amortized Book Value

	<u>December 31, 2020</u>			<u>September 30, 2020</u>	
	<u>Amortized Book Value</u>			<u>Amortized Book Value</u>	
	<u>Treasurer In-House</u>	<u>Buckhead Capital Management</u>	<u>Western Asset Management</u>	<u>Total Portfolio</u>	<u>Total Portfolio</u>
TIME CERTIFICATES OF DEPOSIT	\$ 25,000,000.00	\$ -	\$ -	\$ 25,000,000	\$ 25,000,000
NEGOTIABLE CERTIFICATES OF DEPOSIT	748,000,073	-	-	748,000,073	763,001,628
MONEY MARKET FUNDS	45,714,142	342,045	2,630,653	48,686,840	796,345,141
ASSET-BACKED SECURITIES	-	11,256,049	-	11,256,049	-
MORTGAGE-BACKED SECURITIES	-	21,454,065	-	21,454,065	-
CORPORATE NOTES	489,785,522	-	76,873,925	566,659,447	530,839,469
COMMERCIAL PAPER	853,666,414	-	-	853,666,414	861,960,095
MUNICIPAL BONDS	-	-	-	-	-
U.S. TREASURIES	371,282,751	-	-	371,282,751	391,725,783
U.S. TREASURY BILLS	224,985,803	-	-	224,985,803	49,995,278
U.S. AGENCIES	110,248,408	34,413,086	-	144,661,494	93,295,834
U.S. GOVERNMENT GUARANTEED DEBT	3,100,198	-	-	3,100,198	4,411,856
SUPRANATIONALS	-	-	-	-	-
COLLATERALIZED MORTGAGE OBLIGATION	1,580,493	12,523,142	-	14,103,635	1,856,157
REPURCHASE AGREEMENTS	330,000,000	-	-	330,000,000	-
TOTAL	\$ 3,203,363,804	\$ 79,988,387	\$ 79,504,578	\$ 3,362,856,769	\$ 3,518,431,241



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>December 31, 2020</u>	<u>December 31, 2019</u>
TOTAL PORTFOLIO	\$3,362,856,769	\$2,920,884,834

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
<u>Average Daily Balances of Funds</u>					
General Fund	\$ 1,495,148,012	\$1,505,555,858			\$ 1,500,351,935
All Funds	3,516,802,318	3,552,536,535			3,534,669,427
<u>Annualized Interest Rate</u>					
Cash Basis (see Note 1)	1.3770%	0.2125%			0.7948%
Accrual Basis	1.4142%	0.2493%			0.8318%
<u>Interest Distribution for General Fund (Cash Basis)</u>					
General Fund Interest Collected	5,131,222	796,037			5,927,259
General Fund Interest Revenue - Distributed	5,131,222	796,037			5,927,259
Undistributed General Fund Interest Revenue	-	-			-
<u>Interest Distribution for All Funds (Cash Basis)</u>					
All Funds Interest Collected	12,069,369	1,879,793			13,949,162
All Funds Interest Revenue - Distributed	12,069,369	1,879,793			13,949,162

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, 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.

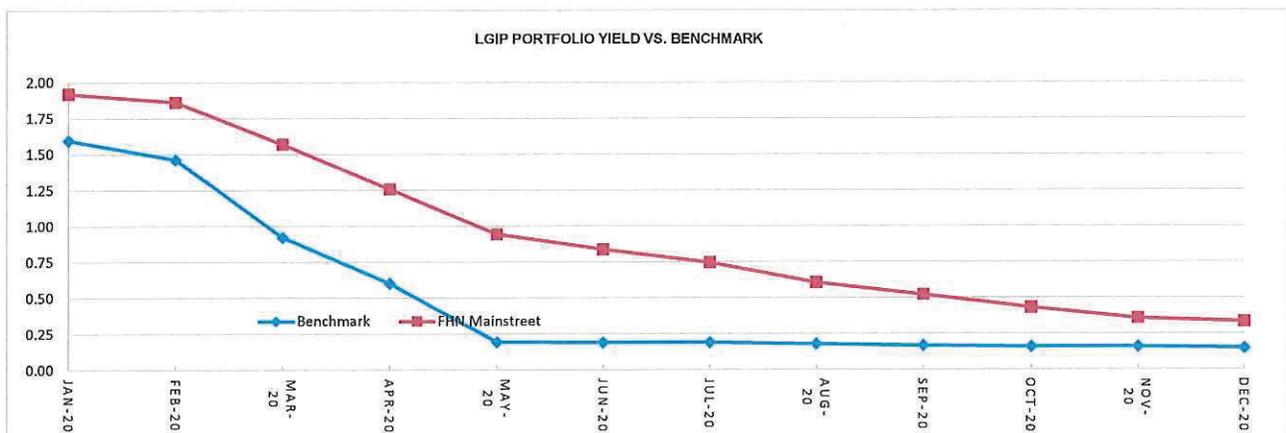
Investment Guidelines

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 9.5% of the fund matures on a daily basis, ensuring sufficient liquidity to meet both anticipated and unanticipated withdrawals. Additionally, approximately 59.9% 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

FHN Financial began managing the LGIP portfolio in July 2015. As of December 31, 2020, the LGIP's portfolio yield was 0.334%, and the blended benchmark was 0.15%. The average days to maturity of the LGIP portfolio was 119 days.



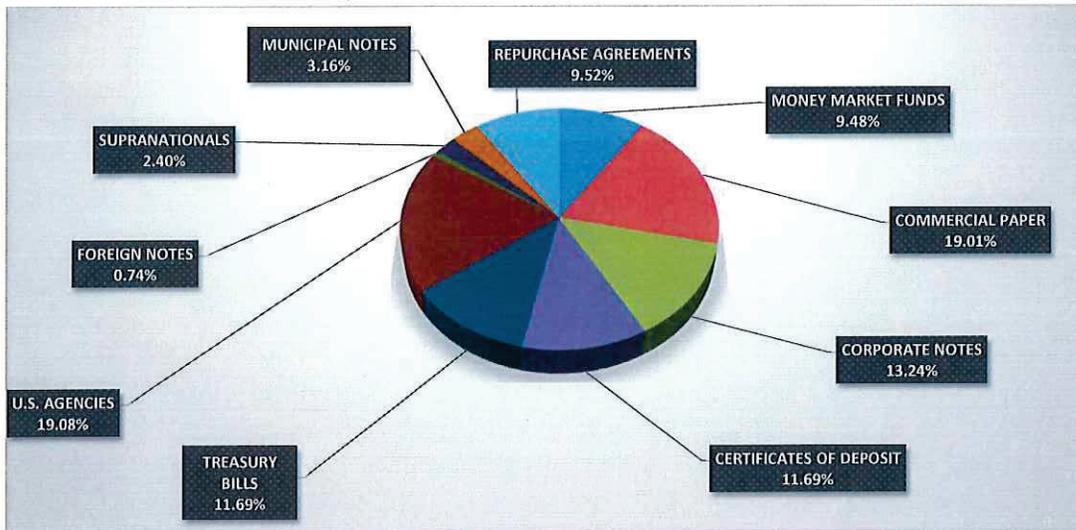
* Benchmark is 3-month rolling weighted average of 55% Dealer Commercial Paper 150-Day Index, 30% Agency Note 180 Day Index, and 15% Dreyfus Institutional Preferred Government Money Markey Fund.

**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>December 31, 2020</u>		<u>September 30, 2020</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 218,937,480	\$ -	\$ 42,510,785	\$ -
COMMERCIAL PAPER	439,021,653	-	451,760,213	-
CORPORATE NOTES	305,630,559	288,509	307,310,473	83,662
CERTIFICATES OF DEPOSIT	270,000,000	-	340,016,417	217,511
SUPRANATIONALS DISCOUNTS	-	-	-	-
TREASURY NOTES	-	-	-	-
TREASURY BILLS	269,940,370	-	394,867,146	-
U.S. AGENCIES	440,692,910	2,335	410,405,445	2,364
FOREIGN NOTES	17,002,805	23,233	10,004,070	-
SUPRANATIONALS	55,440,203	5,347	55,587,256	136,067
ASSET-BACKED SECURITIES	-	-	-	-
MUNICIPAL NOTES	72,776,793	180,446	73,454,555	180,446
REPURCHASE AGREEMENTS	220,000,000	-	125,000,000	-
TOTAL	\$ 2,309,442,773	\$ 499,870	\$ 2,210,916,360	\$ 620,050
GRAND TOTAL	\$ 2,309,942,643	\$ -	\$ 2,211,536,410	\$ -



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON
December 31, 2020 December 31, 2019

TOTAL PORTFOLIO	\$2,309,942,643	\$1,664,612,855
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