

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: June 8, 2021 BoF Agenda Item #6– State Treasurer’s Investment Report  
DATE: June 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 March 31, 2021 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 March 31, 2021**

- U.S. 10- year Treasury yields jumped more than 80 basis points during the first calendar quarter of 2021 and closed the quarter at 1.74%. Rising inflation expectations and real yields drove the increase in longer yields as demonstrated in the chart below. Despite the rise, fixed income valuations remain expensive relative to history. All categories (credit, mortgage-backed, high yield, etc.) ended the quarter in their lowest decile relative to history, with credit spread levels well below historical averages.
- At the March 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.

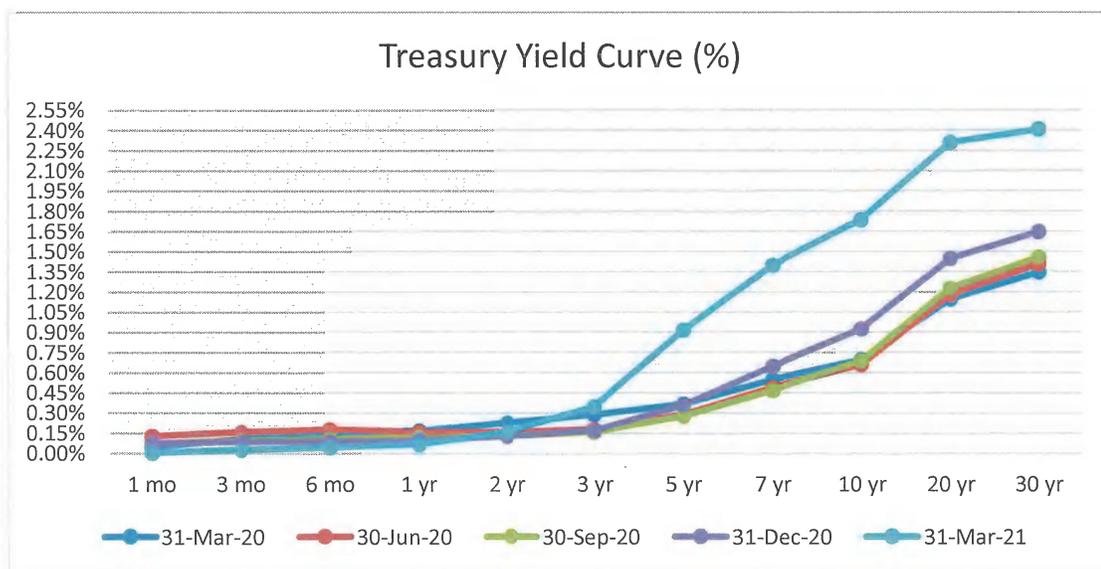


Chart is for illustrative purposes only. Investment Policy prohibits the General Portfolio from investing in Treasuries beyond 10 years.

## Investment Performance as of March 31, 2021

### **Local Government Investment Pool (LGIP)**

As of March 31, 2021, the total assets under management (AUM) were \$2.4 billion. The yield to maturity as of March 31, 2021 was 0.252% which is 10 basis point in excess of the benchmark yield of 0.15%.

### **General Portfolio**

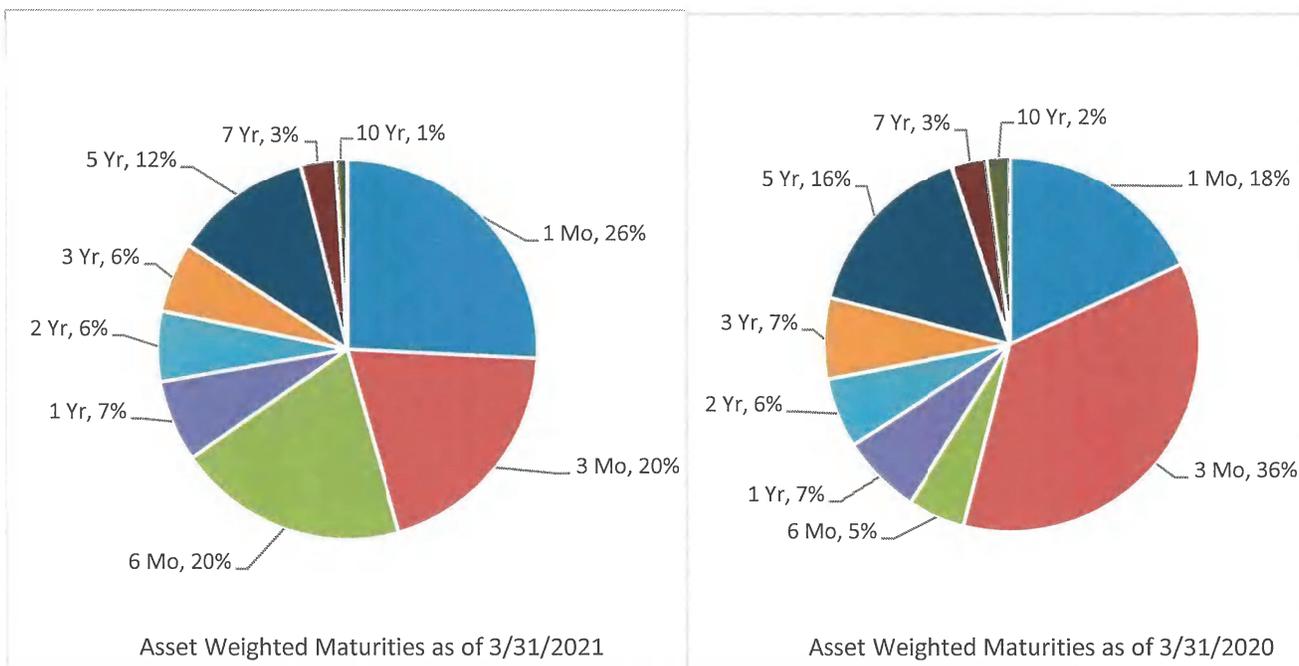
As of March 31, 2021, the AUM for the General Portfolio was \$3.68 billion (market value) with 92% managed internally and 8% managed by outside managers. Contracts for two new fixed income managers were approved by the State Board of Examiners and became effective October 1, 2020. Please see the charts on pages 3 and 4 for more information on each manager.

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 Starbucks Corporation in fiscal year 2017. The security was in compliance at the time of purchase with a Moody’s rating of A2. The security was downgraded by Moody’s in November 2017 to an A3. The Treasurer’s Office closely monitored the security and company through the maturity date in February 2021. The Portfolio received all necessary interest payments over the life of the security and principal with no loss to the Portfolio.

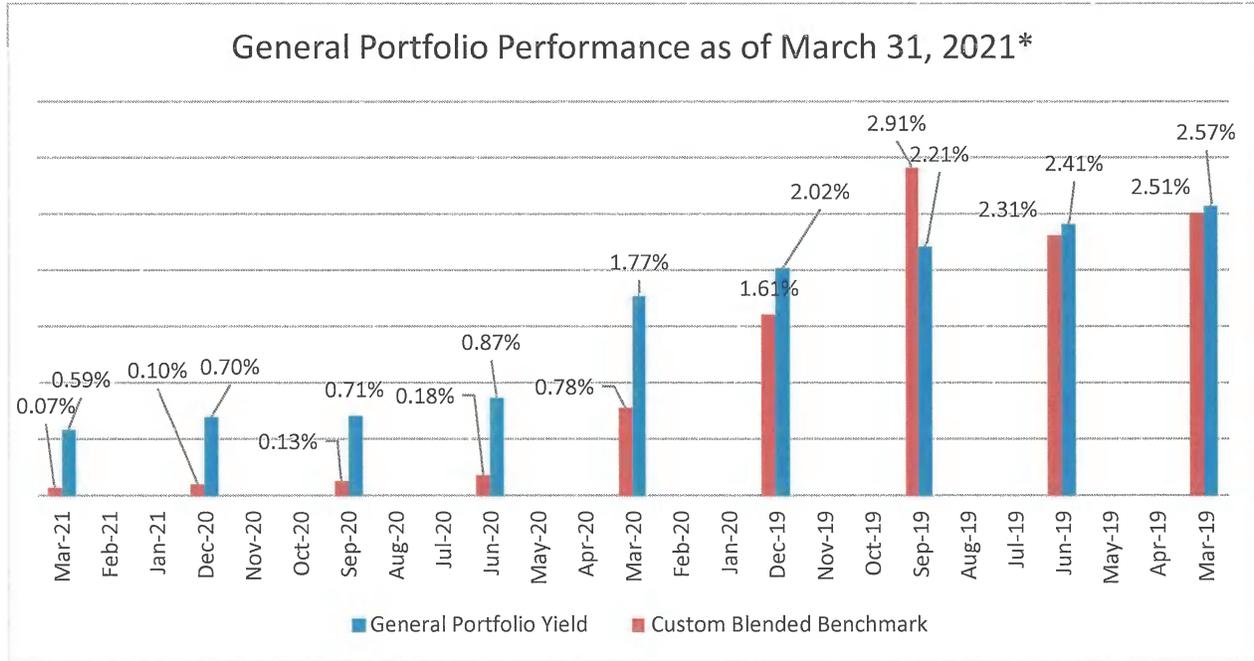
The overall yield to maturity (YTM) as of March 31, 2021 for the General Portfolio was 0.647%. Below is the YTM breakdown by portfolio:

- Internally managed portfolios were 0.585%
- Buckhead Capital Management portfolio was 1.49%
- Western Asset Management portfolio was 1.05%

Below is a graphical representation of the asset weighted maturities in the General Portfolio as of March 31, 2021 versus one-year prior.



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

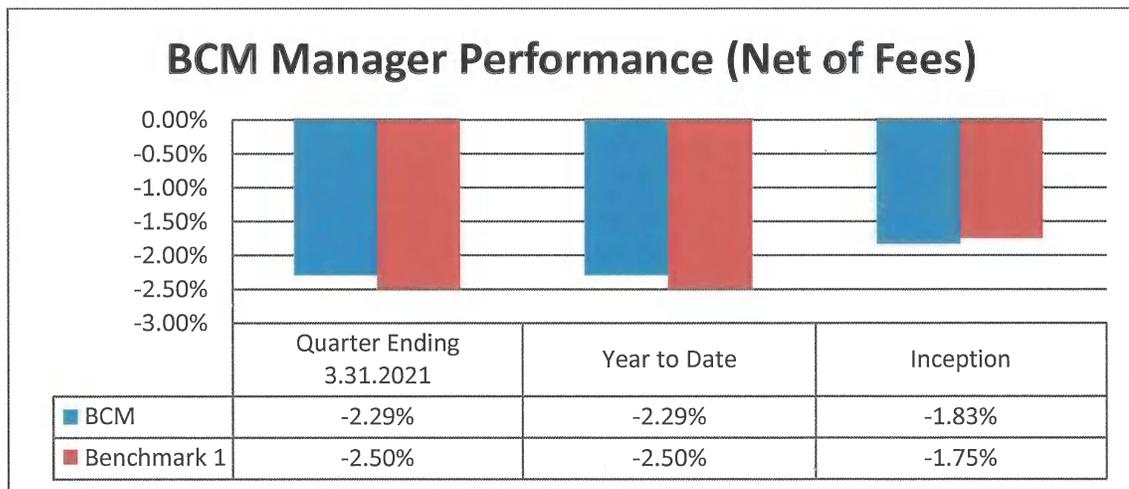


\*Custom benchmark yield matches the asset-weighted maturities of the General Portfolio, internally managed portion, for each quarter to the appropriate Treasury yield.

### General Portfolio Outside Managers' Performance

Buckhead Capital Management (BCM) began managing \$80 million in General Portfolio Assets on October 9, 2020 with an additional \$70 million provided in the quarter under review for a total of \$150 million in assets under management.

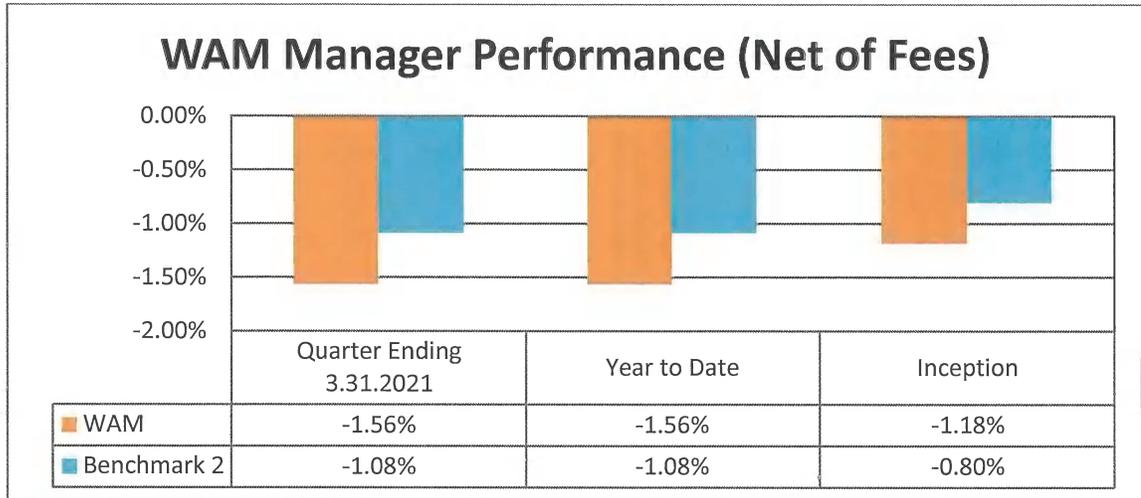
The calendar year to date time weighted performance net of fees is (2.29%). As of March 31, 2021, BCM has earned \$525,318 in net interest since inception which has been reduced by hard dollar manager fees (\$20,879) paid over the same period.



1. Benchmark used for the BCM mandate is the Bloomberg Barclays CMBS AAA Index and inception date is October 2020.

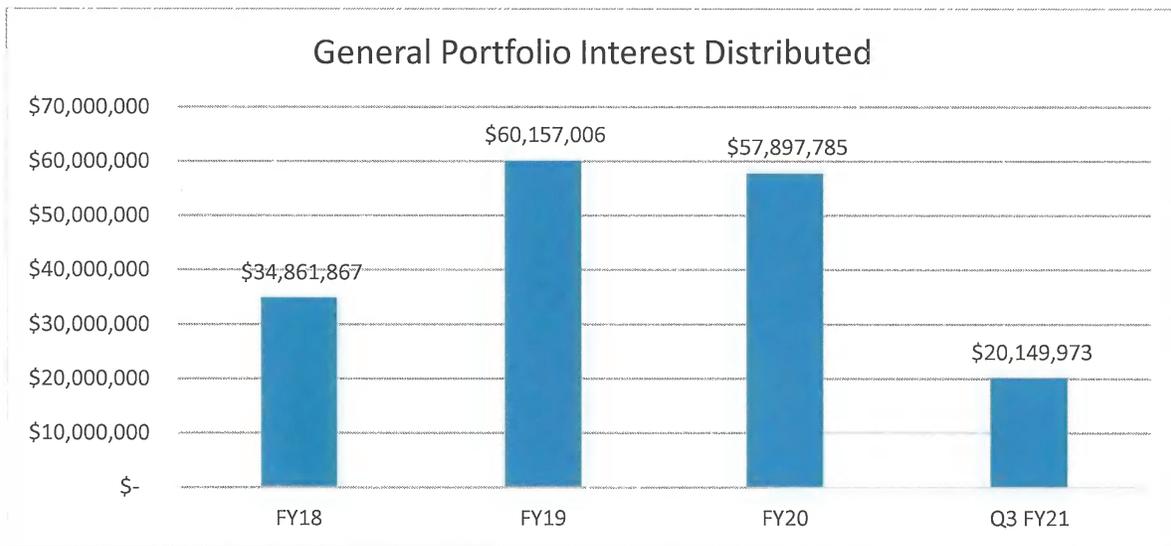
Western Asset Management (WAM) began managing \$80 million in General Portfolio Assets on November 16, 2020 with an additional \$70 million provided in the quarter under review for a total of \$150 million in assets under management.

The calendar year to date time weighted performance net of fees is (1.56%). As of March 31, 2021, WAM has earned \$247,565 in net interest since inception which has been reduced by hard dollar manager fees (\$20,109) paid over the same period.



2. Benchmark used for the WAM mandate is the ICE BofA 3 – 5 Year AA US Corporate & Yankee Index and the inception date is November 2020.

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.



## INVESTMENTS

GENERAL PORTFOLIO

FISCAL YEAR 2021

Period Ending

March 31, 2021

### 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

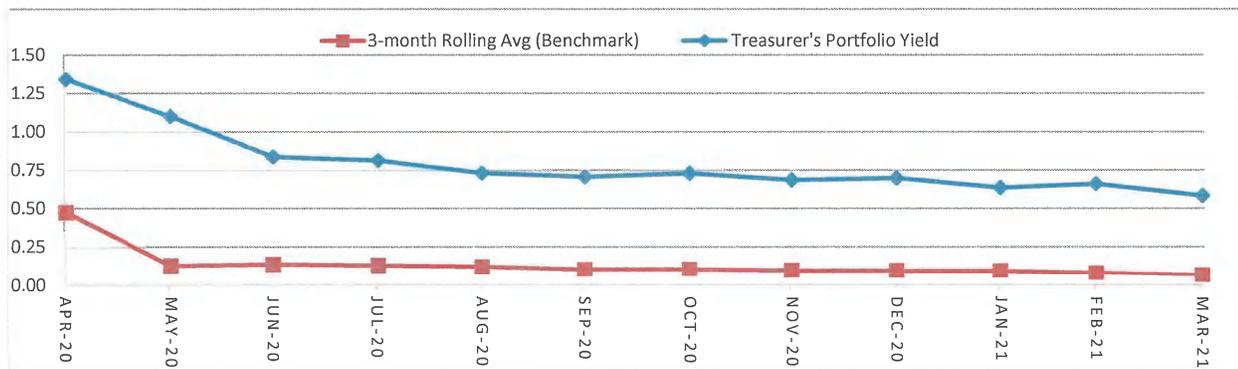
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, foreign notes, international development notes, asset-backed securities, municipal bonds 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 March 31, 2021, the yield on the in-house portion of the General Portfolio was 0.585%. A three month rolling average of this benchmark for this period was 0.07% with the average days to maturity at 218 days. The average days to maturity for the portfolio was 299 days.

### In-House Performance vs. Benchmark

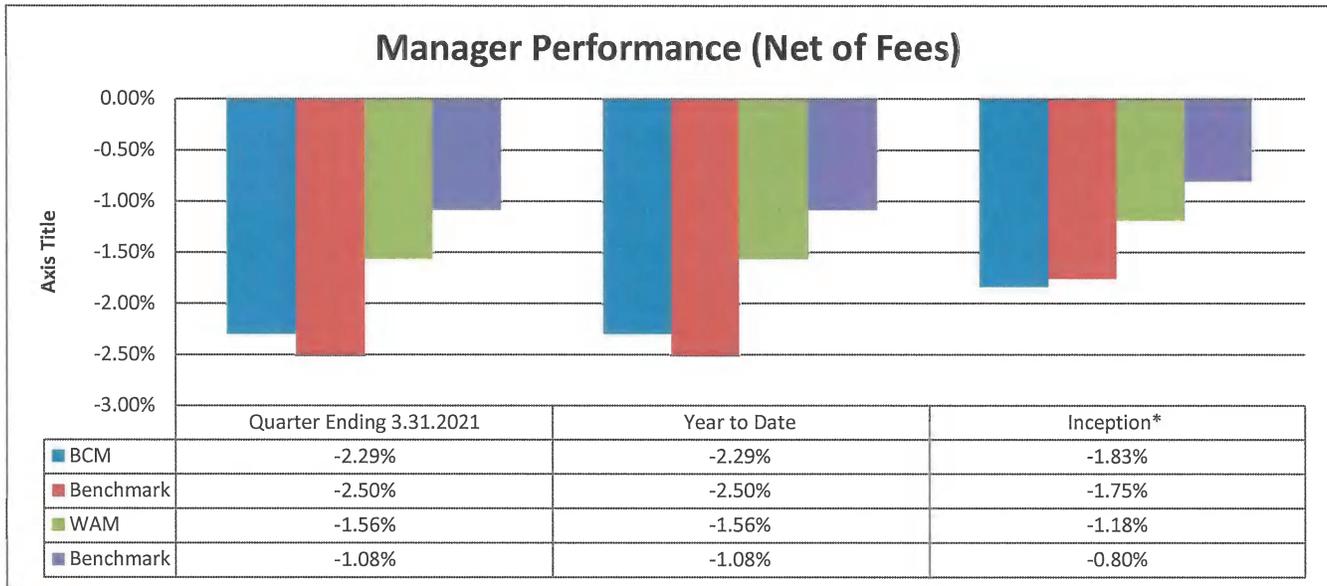


\* Benchmark is 3-month rolling weighted average of 80% 3-month Treasuries and 20% 2-year Treasuries

## Outside Manager Performance

The annualized performance since inception for period ending March 31, 2021 for Buckhead Capital Management (BCM) is -2.29%\* and for Western Asset Management (WAM) is -1.56%\*. 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 previous quarter. This the first complete quarter for both external managers.

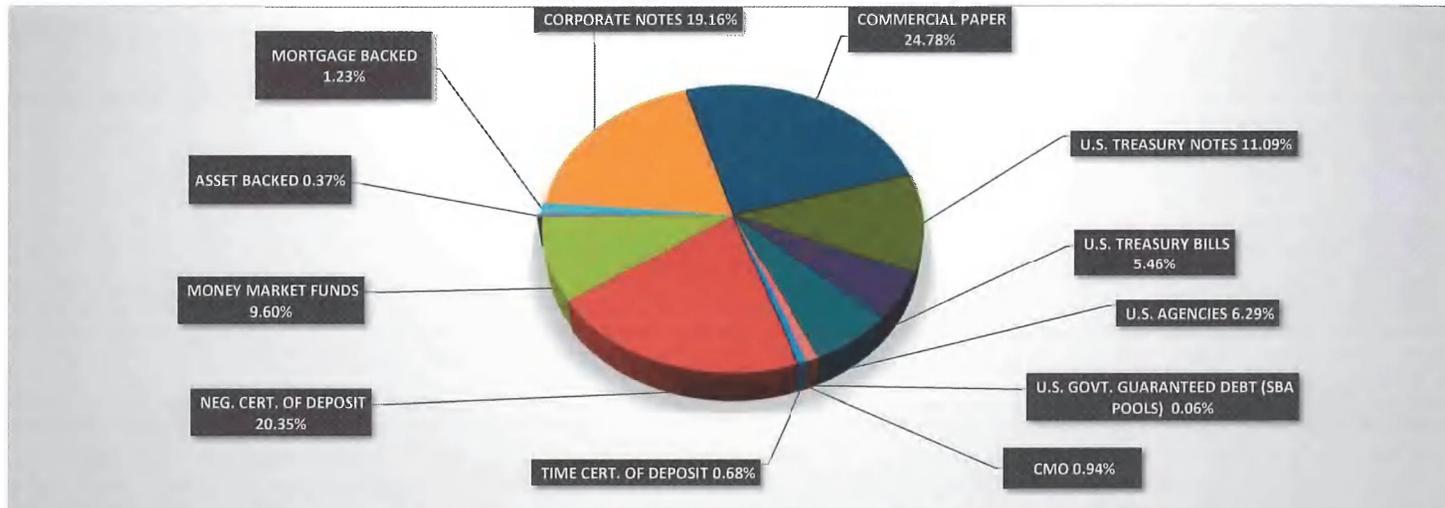
## Outside Managers' Performance vs. Benchmark



\*Inception date for BCM is October 2020 and WAM is November 2020

**GENERAL PORTFOLIO  
Amortized Book Value**

	<u>March 31, 2021</u>				<u>December 31, 2020</u>
	<u>Amortized Book Value</u>		<u>Western Asset</u>		<u>Amortized Book Value</u>
	<u>Treasurer In-House</u>	<u>Buckhead Capital Management</u>	<u>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	746,000,000	-	-	746,000,000	748,000,073
MONEY MARKET FUNDS	347,906,728	3,284,418	591,186	351,782,332	48,686,840
ASSET-BACKED SECURITIES	-	13,414,066	-	13,414,066	11,256,049
MORTGAGE-BACKED SECURITIES	-	45,053,387	-	45,053,387	21,454,065
CORPORATE NOTES	559,380,918	-	142,775,473	702,156,391	566,659,447
COMMERCIAL PAPER	908,435,285	-	-	908,435,285	853,666,414
MUNICIPAL BONDS	-	-	-	-	-
U.S. TREASURY NOTES	400,657,280	-	5,974,440	406,631,720	371,282,751
U.S. TREASURY BILLS	199,988,260	-	-	199,988,260	224,985,803
U.S. AGENCIES	175,280,812	55,339,791	-	230,620,603	144,661,494
U.S. GOVERNMENT GUARANTEED DEBT	2,026,203	-	-	2,026,203	3,100,198
SUPRANATIONALS	-	-	-	-	-
COLLATERALIZED MORTGAGE OBLIGATION	1,339,841	33,146,514	-	34,486,355	14,103,635
REPURCHASE AGREEMENTS	-	-	-	-	330,000,000
<b>TOTAL</b>	<b>\$ 3,366,015,327</b>	<b>\$ 150,238,176</b>	<b>\$ 149,341,099</b>	<b>\$ 3,665,594,602</b>	<b>\$ 3,362,856,769</b>



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

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
<b>TOTAL PORTFOLIO</b>	<b>\$3,665,594,602</b>	<b>\$3,052,238,810</b>

**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	\$ 1,505,555,858	\$ 1,361,179,076		\$ 1,453,960,982
All Funds	3,516,802,318	3,552,536,535	3,517,204,697		3,528,847,850
<b><u>Annualized Interest Rate</u></b>					
Cash Basis (see Note 1)	1.3770%	0.2125%	0.7555%		0.7817%
Accrual Basis	1.4142%	0.2493%	0.7254%		0.7963%
<b><u>Interest Distribution for General Fund (Cash Basis)</u></b>					
General Fund Interest Collected	5,131,222	796,037	2,611,110		8,538,369
General Fund Interest Revenue - Distributed	5,131,222	796,037	2,611,110		8,538,369
Undistributed General Fund Interest Revenue	-	-			-
<b><u>Interest Distribution for All Funds (Cash Basis)</u></b>					
All Funds Interest Collected	12,069,369	1,879,793	6,200,811		20,149,973
All Funds Interest Revenue - Distributed	12,069,369	1,879,793	6,200,811		20,149,973

**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, 2021, 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.

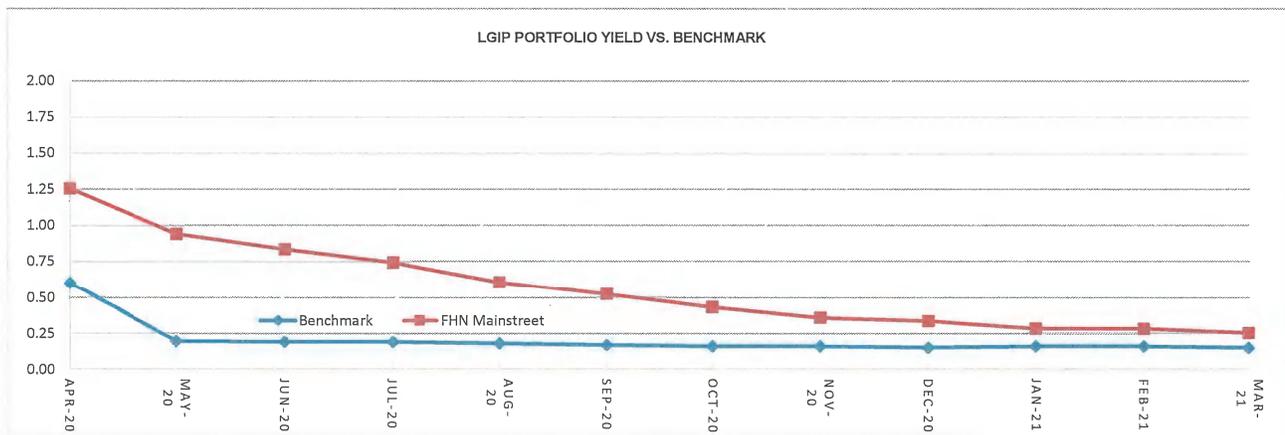
## Investment Guidelines

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 15.9% of the fund matures on a daily basis, ensuring sufficient liquidity to meet both anticipated and unanticipated withdrawals. Additionally, approximately 54.2% 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 March 31, 2021, the LGIP's portfolio yield was 0.252%, and the blended benchmark was 0.15%. The average days to maturity of the LGIP portfolio was 123 days.



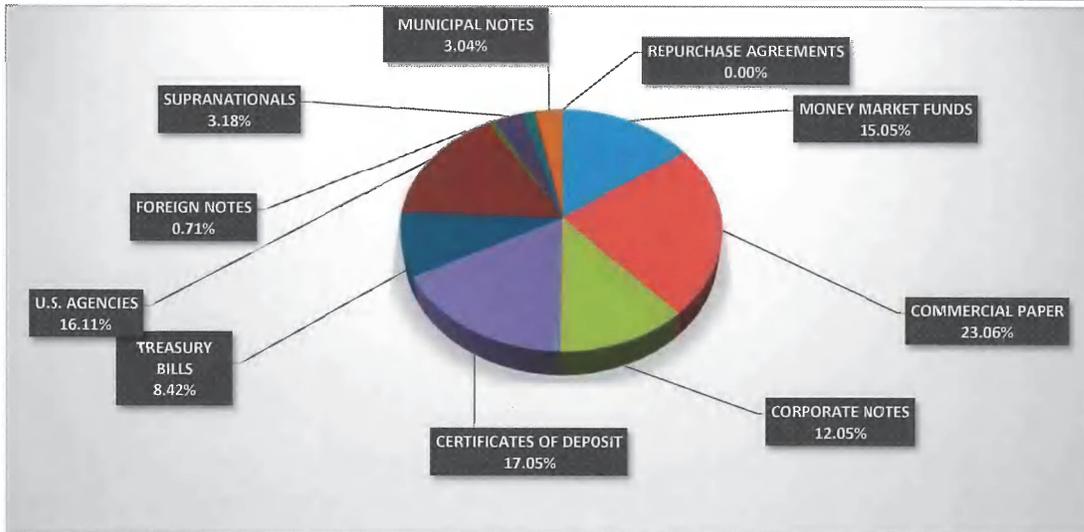
\* Benchmark is 3-month rolling weighted average of 55% Dealer Commercial Paper 150-Day Index, 30% Agency Note 180 Day Index, and 15% Dreyfus Institutional Preferred Government Money Markey Fund.

\*\*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>March 31, 2021</u>		<u>December 31, 2020</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 357,319,041	\$ -	\$ 218,937,480	\$ -
COMMERCIAL PAPER	547,588,288	-	439,021,653	-
CORPORATE NOTES	285,972,044	288,509	305,630,559	288,509
CERTIFICATES OF DEPOSIT	405,000,000	-	270,000,000	-
SUPRANATIONALS DISCOUNTS	-	-	-	-
TREASURY NOTES	-	-	-	-
TREASURY BILLS	199,936,496	-	269,940,370	-
U.S. AGENCIES	382,531,596	2,335	440,692,910	2,335
FOREIGN NOTES	16,879,447	23,233	17,002,805	23,233
SUPRANATIONALS	75,451,406	5,347	55,440,203	5,347
ASSET-BACKED SECURITIES	31,635,292	-	-	-
MUNICIPAL NOTES	72,111,464	180,446	72,776,793	180,446
REPURCHASE AGREEMENTS	-	-	220,000,000	-
TOTAL	\$ 2,374,425,075	\$ 499,870	\$ 2,309,442,773	\$ 499,870
GRAND TOTAL	\$ 2,374,425,075	\$ 2,374,924,945	\$ 2,309,442,773	\$ 2,309,942,643



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

	<u>March 31, 2021</u>	<u>March 31, 2020</u>
<b>TOTAL PORTFOLIO</b>	\$2,374,924,945	\$1,773,522,389