

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: BoF Agenda Item #9– State Treasurer Quarterly Investment Report and Policies Approval
DATE: October 19, 2021

Agenda Item #9

For discussion and possible action: on the approval of the State Treasurer’s quarterly investment report for the quarter ended June 30, 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 June 30, 2021

- As noted below in the Treasury yield curve graph, the curve flattened, as long-end yields declined, and front-end yields moved higher. The flattening can be attributed to a smaller-than-expected infrastructure bill, declining inflation expectations and the prospect of Fed asset purchase tapering. The rates on the 10-year and 30-year declined 27 and 33 basis points, respectively.
- At the June Federal Open Market Committee, the Fed recommitted to bond purchases at a constant pace of \$120 billion per month to keep interest rates low. Chairman Powell reiterated the bank’s belief that inflation will be transitory. However, by the end of the quarter, a survey showed 13 of 18 Fed governors anticipate two Fed funds hikes by the end of 2023. This was an increase from seven (7) of 18 governors forecasting one hike by the end of 2023 during the prior quarter.

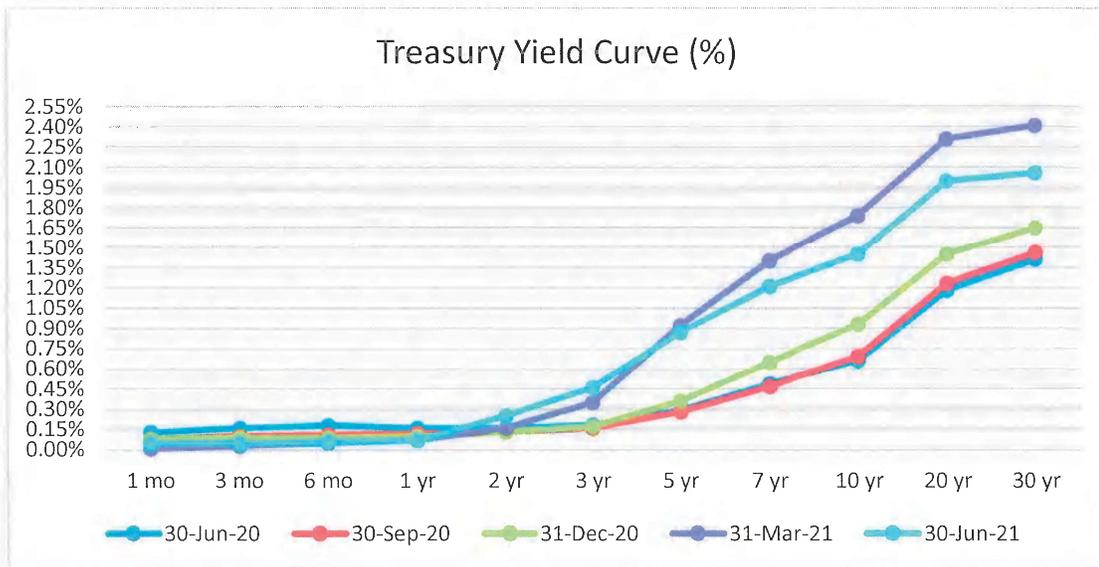


Chart is for illustrative purposes only. Investment Policy prohibits the General Portfolio from investing in Treasuries beyond 10 years.

Investment Performance as of June 30, 2021

Local Government Investment Pool (LGIP)

As of June 30, 2021, the total assets under management (AUM) were \$2.1 billion. The yield to maturity as of June 30, 2021 was 0.22% which is 12 basis points in excess of the benchmark yield of 0.10%.

General Portfolio

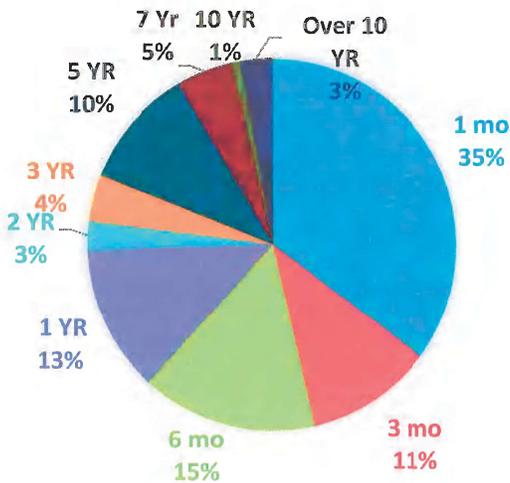
As of June 30, 2021, the AUM for the General Portfolio was \$6.93 billion (market value) with 93% managed internally and 7% managed by outside managers. Please see the charts on pages 3 and 4 for more information on the performance on each manager.

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 service 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 corporate bonds one issued by Cintas Corporation and the other by Consolidated Edison Corporation. Cintas Corporation was purchased in December 2016 with a Moody’s rating of A2 but fell out of compliance (Moody’s A3) in March 2017. Consolidated Edison was purchased in March 2018 with a Moody’s rating of A2 but fell out of compliance (Moody’s A3) in October 2018. The Treasurer’s Office closely monitored the securities and companies through their respective maturity dates in June 2021. The Portfolio received all necessary interest and principal payments over the life of the security with no loss to the Portfolio.

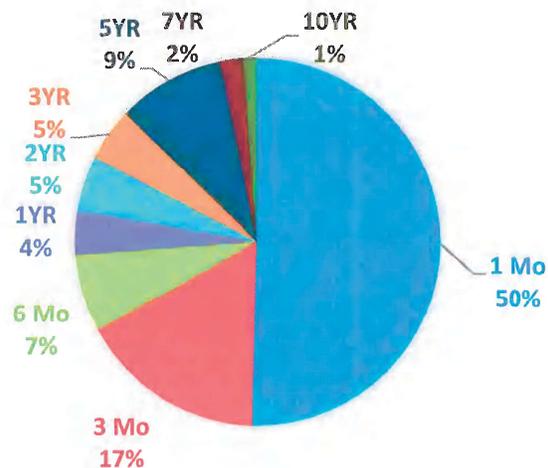
The overall yield to maturity (YTM) as of June 30, 2021, for the General Portfolio was 0.45%. Below is the YTM breakdown by portfolio:

- Internally managed portfolios were 0.389%
- Buckhead Capital Management portfolio was 1.56%
- Western Asset Management portfolio was 0.86%

Below is a graphical representation of the asset weighted maturities in the General Portfolio as of June 30, 2021 versus one-year prior.

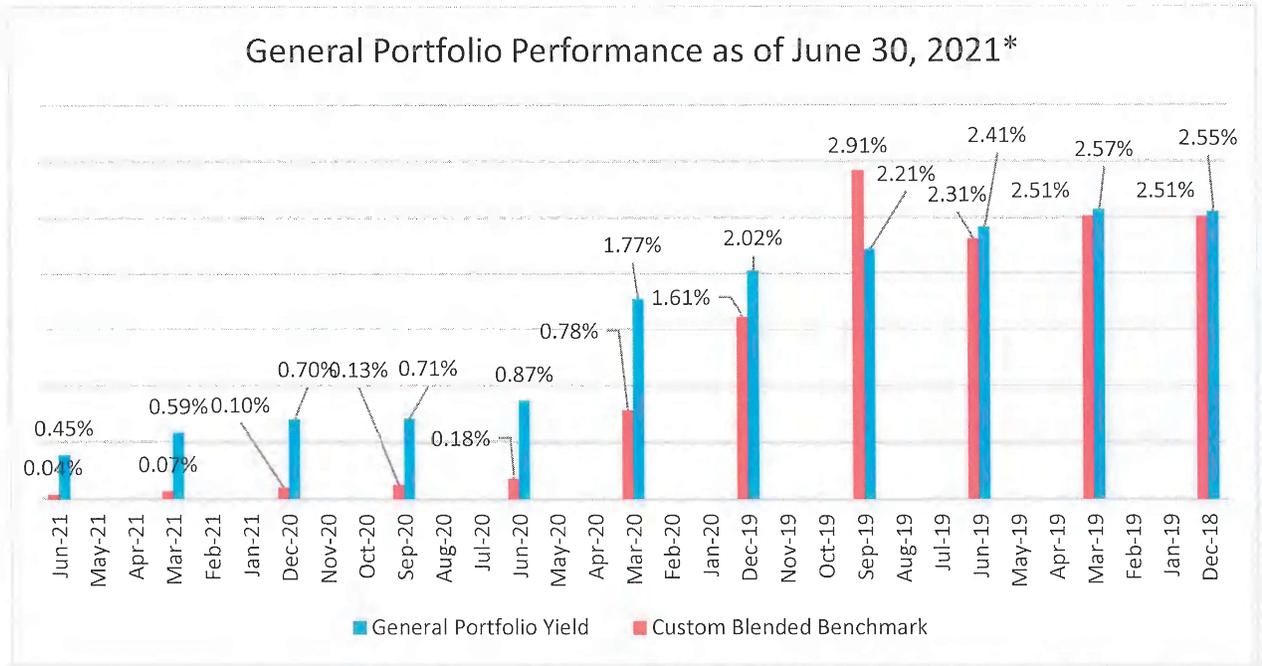


Asset Weighted Maturities as of 6.30.21



Asset Weighted Maturities as of 6.30.20

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

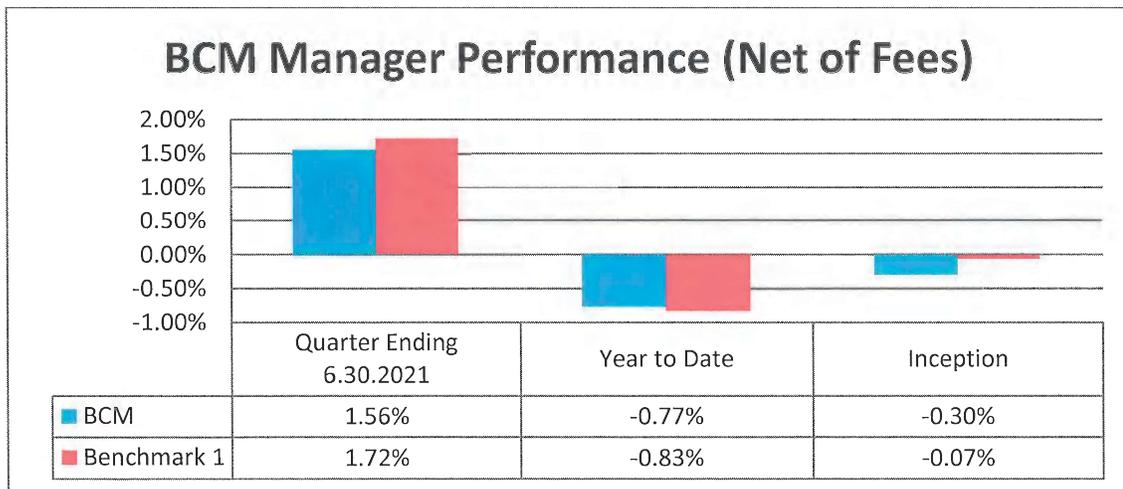


*Custom benchmark yield matches the asset-weighted maturities of the General Portfolio, internally managed portion, for each quarter to the appropriate Treasury yield.

General Portfolio Outside Managers' Performance

Buckhead Capital Management (BCM) began the quarter managing \$150 million in General Portfolio Assets on June 18, 2020, an additional \$130 million was distributed in the quarter ending June 30, 2021 for a total of \$280 million in assets under management.

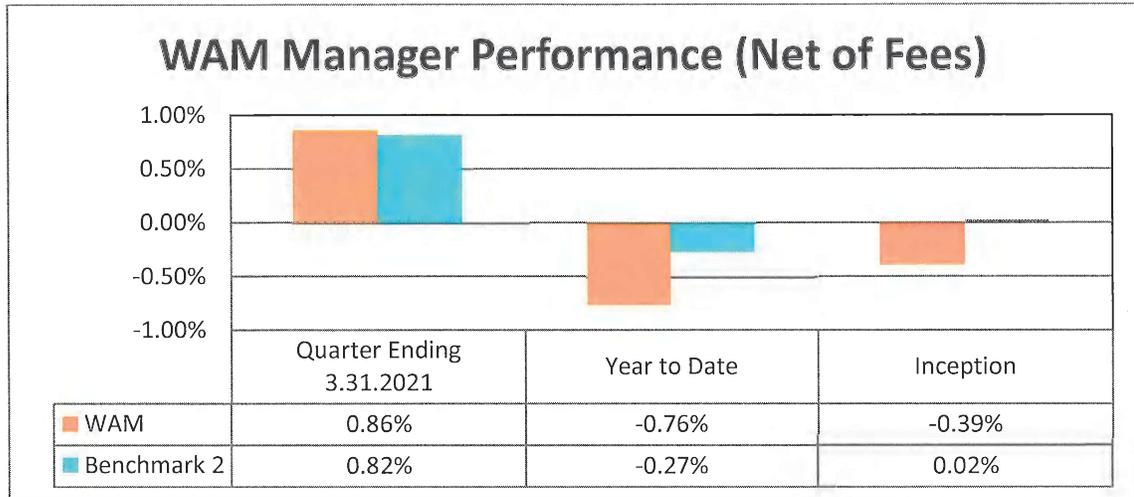
The calendar year to date time weighted performance net of fees is (0.77%). As of June 30, 2021, BCM has earned \$1,977,185 in net interest since inception which has been reduced by hard dollar manager fees (\$94,536) paid over the same period.



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

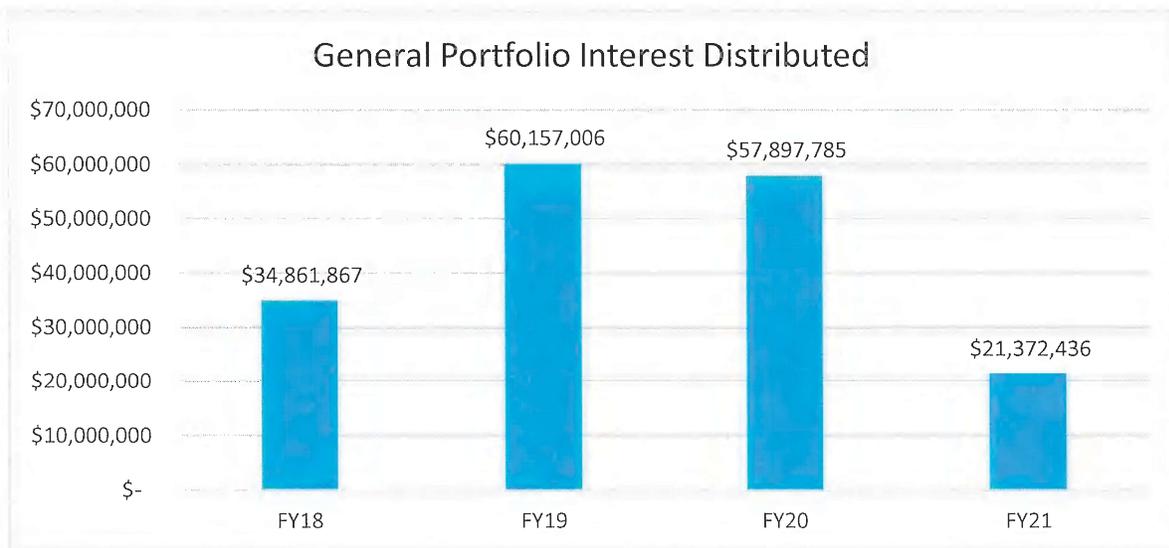
Western Asset Management (WAM) began managing \$80 million in General Portfolio Assets on November 16, 2020 with an additional \$70 million was distributed in the quarter ending June 30, 2021 for a total of \$150 million in assets under management.

The calendar year to date time weighted performance net of fees is (0.76%). As of June 30, 2021, WAM has earned \$1,882,597 in net interest since inception which has been reduced by hard dollar manager fees (\$147,891) 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.



State Treasurer
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INVESTMENTS

GENERAL PORTFOLIO

FISCAL YEAR 2021

Period Ending
June 30, 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

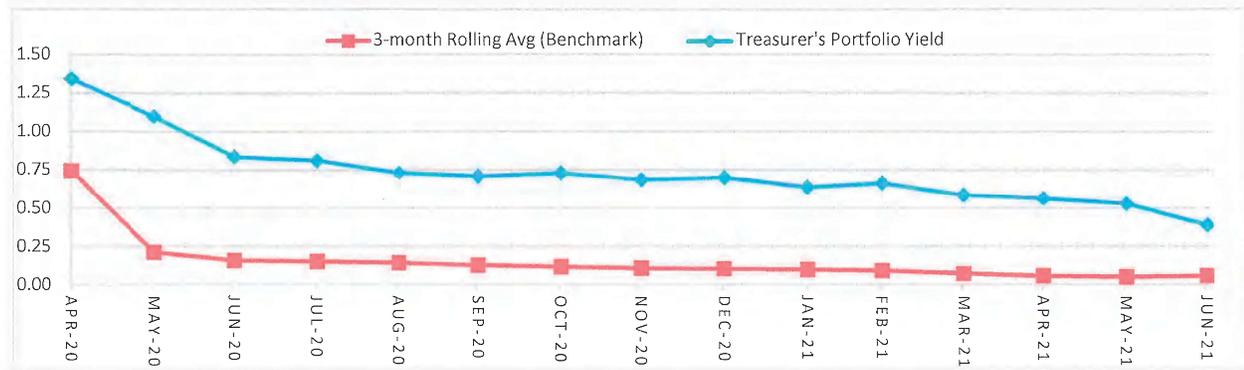
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, foreign notes, international development notes, asset-backed securities, municipal bonds 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 June 30, 2021, the yield on the in-house portion of the General Portfolio was 0.389%. A three month rolling average of this benchmark for this period was 0.06% with the average days to maturity at 218 days. The average days to maturity for the portfolio was 353 days.

In-House Performance vs. Benchmark

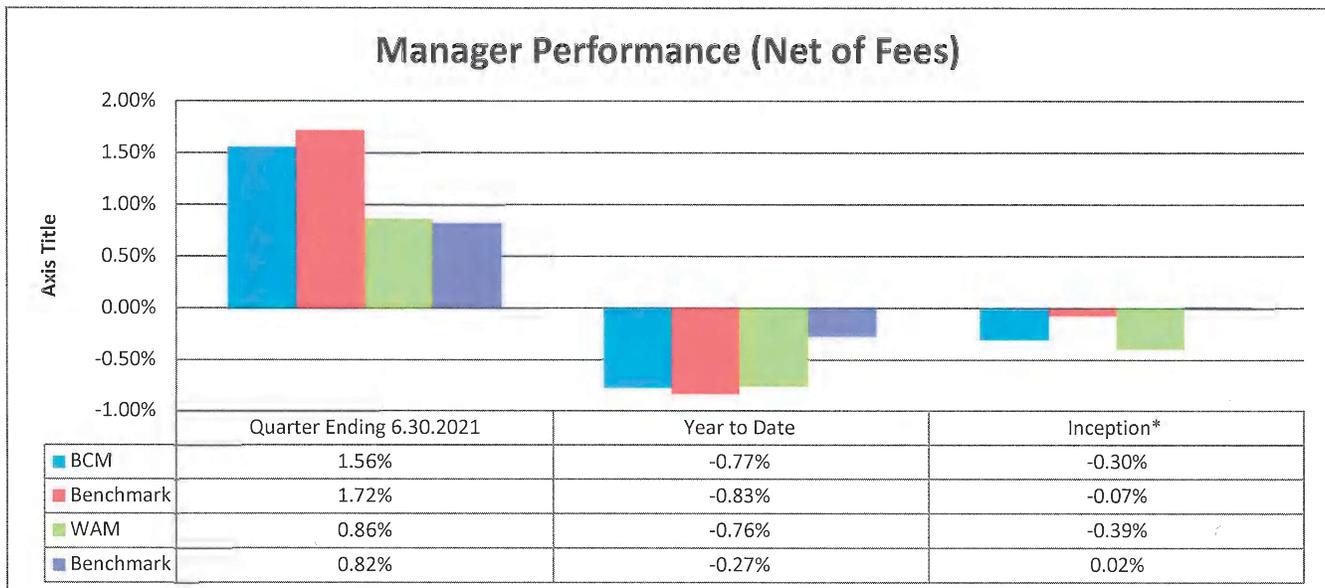


* Benchmark is 3-month rolling weighted average of 80% 3-month Treasuries and 20% 2-year Treasuries

Outside Manager Performance

The annualized performance since inception for period ending June 30, 2021 for Buckhead Capital Management (BCM) is -0.30%* and for Western Asset Management (WAM) is -0.39%*. BCM provides investment management in securitized assets in the Portfolio. The performance of the BCM portfolio will be benchmarked against the Bloomberg Barclays CMBS AAA Index. WAM provides investment management for corporate/credit assets. The performance of WAM is benchmarked against the ICE BofA 3-5 Year AA US Corporate & Yankee Index.

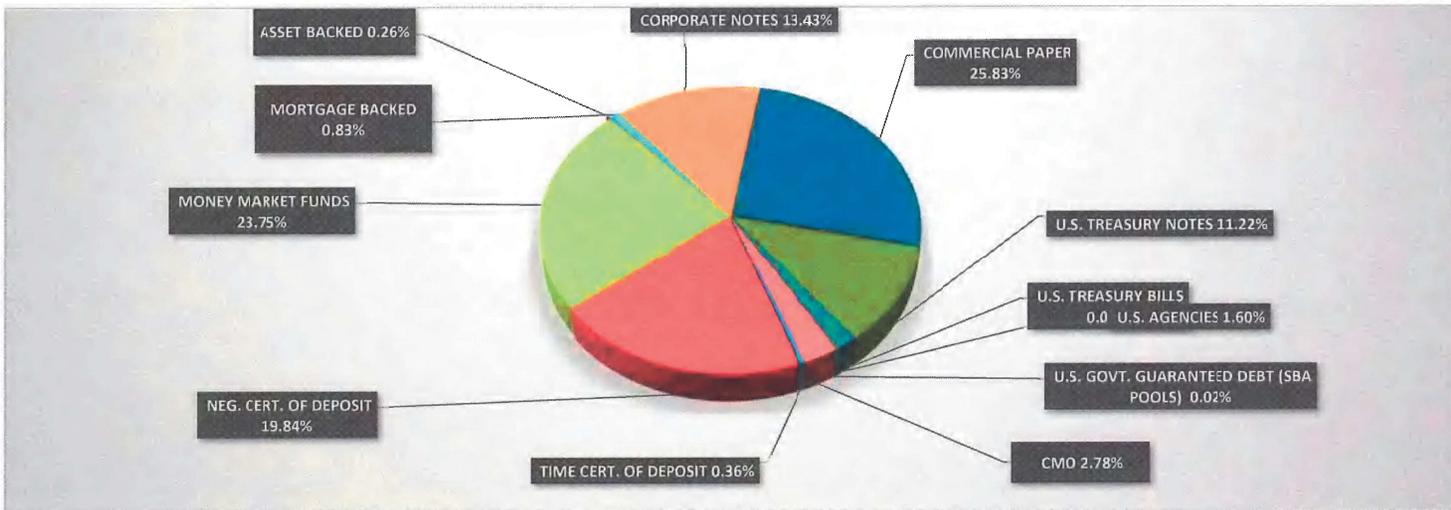
Outside Managers' Performance vs. Benchmark



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

**GENERAL PORTFOLIO
Amortized Book Value**

	<u>June 30, 2021</u>				<u>March 31, 2021</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	1,377,138,798	-	-	1,377,138,798	746,000,000	
MONEY MARKET FUNDS	1,635,712,948	12,805,454	121,325	1,648,639,726	351,782,332	
ASSET-BACKED SECURITIES	-	18,078,603	-	18,078,603	13,414,066	
MORTGAGE-BACKED SECURITIES	-	57,645,917	-	57,645,917	45,053,387	
CORPORATE NOTES	932,364,313	-	-	932,364,313	702,156,391	
COMMERCIAL PAPER	1,650,319,955	-	142,738,004	1,793,057,959	908,435,285	
MUNICIPAL BONDS	-	-	-	-	-	
U.S. TREASURY NOTES	778,780,036	-	-	778,780,036	406,631,720	
U.S. TREASURY BILLS	-	-	4,998,912	4,998,912	199,988,260	
U.S. AGENCIES	110,762,944	-	-	110,762,944	230,620,603	
U.S. GOVERNMENT GUARANTEED DEBT	1,312,346	-	-	1,312,346	2,026,203	
SUPRANATIONALS	-	-	1,671,902	1,671,902	-	
COLLATERALIZED MORTGAGE OBLIGATION	1,121,780	192,118,055	-	193,239,835	34,486,355	
REPURCHASE AGREEMENTS	-	-	-	-	-	
TOTAL	\$ 6,512,513,121	\$ 280,648,028	\$ 149,530,143	\$ 6,942,691,292	\$ 3,665,594,602	



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
TOTAL PORTFOLIO	\$6,942,691,292	\$3,601,389,388

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	\$ 1,361,179,076	\$ 2,495,833,168	\$ 1,714,429,028
All Funds	3,516,802,318	3,552,536,535	3,517,204,697	4,596,300,393	3,795,710,986
<u>Annualized Interest Rate</u>					
Cash Basis (see Note 1)	1.3770%	0.2125%	0.7555%	0.1281%	0.6183%
Accrual Basis	1.4142%	0.2493%	0.7254%	0.1281%	0.6293%
<u>Interest Distribution for General Fund (Cash Basis)</u>					
General Fund Interest Collected	5,131,222	796,037	2,611,110	663,809	9,202,178
General Fund Interest Revenue - Distributed	5,131,222	796,037	2,611,110	663,809	9,202,178
Undistributed General Fund Interest Revenue	-	-			-
<u>Interest Distribution for All Funds (Cash Basis)</u>					
All Funds Interest Collected	12,069,369	1,879,793	6,200,811	1,222,463	21,372,436
All Funds Interest Revenue - Distributed	12,069,369	1,879,793	6,200,811	1,222,463	21,372,436

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, 2021, there were 87 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.

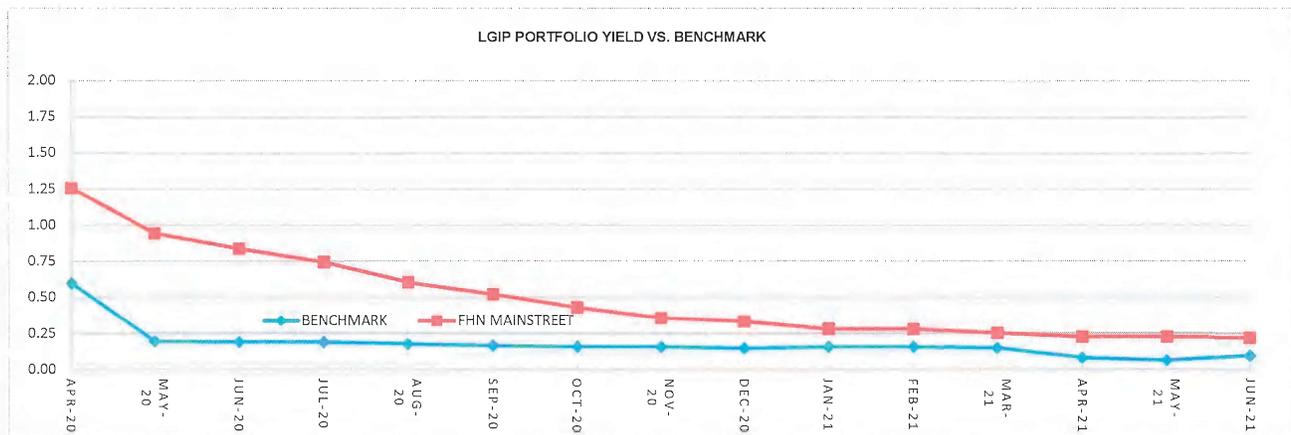
Investment Guidelines

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 13.4% of the fund matures on a daily basis, ensuring sufficient liquidity to meet both anticipated and unanticipated withdrawals. Additionally, approximately 61% 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 June 30, 2021, the LGIP’s portfolio yield was 0.222%, and the blended benchmark was 0.10%. The average days to maturity of the LGIP portfolio was 142 days.



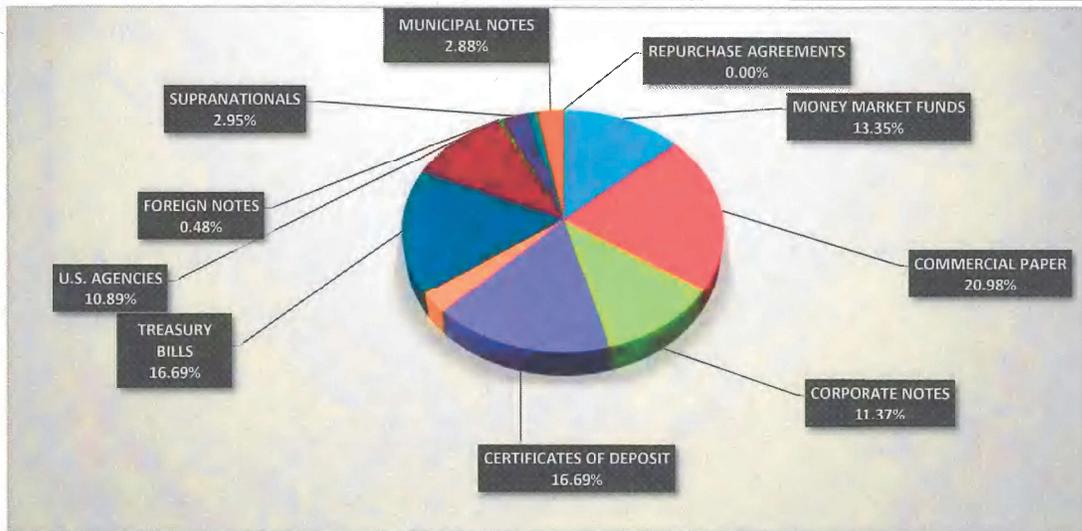
* Benchmark is 3-month rolling weighted average of 55% Dealer Commercial Paper 150-Day Index, 30% Agency Note 180 Day Index, and 15% Dreyfus Institutional Preferred Government Money Markey Fund.

**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>June 30, 2021</u>		<u>March 31, 2021</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 279,865,701	\$ -	\$ 357,319,041	\$ -
COMMERCIAL PAPER	439,877,488	-	547,588,288	-
CORPORATE NOTES	238,100,707	294,361	285,972,044	288,509
CERTIFICATES OF DEPOSIT	349,999,998	917	405,000,000	-
SUPRANATIONALS DISCOUNTS	-	-	-	-
TREASURY NOTES	55,280,005	111,482	-	-
TREASURY BILLS	349,957,137	-	199,936,496	-
U.S. AGENCIES	228,335,782	-	382,531,596	2,335
FOREIGN NOTES	10,010,658	3,819	16,879,447	23,233
SUPRANATIONALS	61,876,900	4,373	75,451,406	5,347
ASSET-BACKED SECURITIES	22,373,151	-	31,635,292	-
MUNICIPAL NOTES	60,348,149	85,479	72,111,464	180,446
REPURCHASE AGREEMENTS	-	-	-	-
TOTAL	\$ 2,096,025,676	\$ 500,432	\$ 2,374,425,074	\$ 499,870
GRAND TOTAL	\$ 2,096,025,676	\$ 500,932	\$ 2,374,425,074	\$ 499,870



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
TOTAL PORTFOLIO	\$2,096,526,108	\$1,750,610,514