

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: January BoF Agenda Item #7– State Treasurer Quarterly Investment Report and Policies Approval
DATE: January 3, 2022

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, 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 September 30, 2021

- As noted below in the Treasury yield curve graph, there was relatively little movement in the yield curve for securities maturing inside of three years as compared to quarter ended June 30, 2021. However, during the quarter ended September 30, the yield curve level shifts were more dramatic with the three-year treasury varying between a low of 32 basis points on August 3 and a high of 56 basis points on September 27. Given the movement in the curve, longer benchmarks strongly outperformed in July, before underperforming in August and September.
- The Federal Open Market Committee since September has reversed course and will end its asset purchase program earlier than announced. Feeling the heat from inflation and pressure from a tightening labor market, the Fed will reduce its purchases by \$30 billion per month rather than the original \$15 billion which should end the program in March 2022. Markets are pricing in close to three rate hikes in 2022.

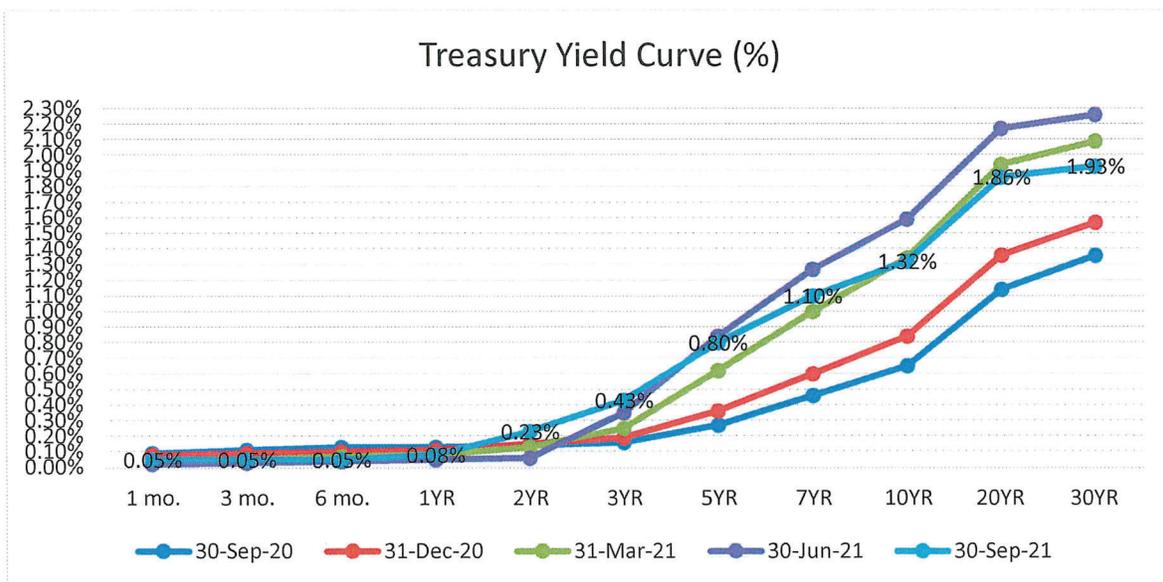


Chart is for illustrative purposes only. Investment Policy prohibits the General Portfolio from investing in Treasuries beyond 10 years.

Investment Performance as of September 30, 2021

Local Government Investment Pool (LGIP)

As of September 30, 2021, the total assets under management (AUM) were \$2.19 billion. The yield to maturity as of September 30, 2021, was 0.18% which is 11 basis points in excess of the benchmark yield of 0.07%.

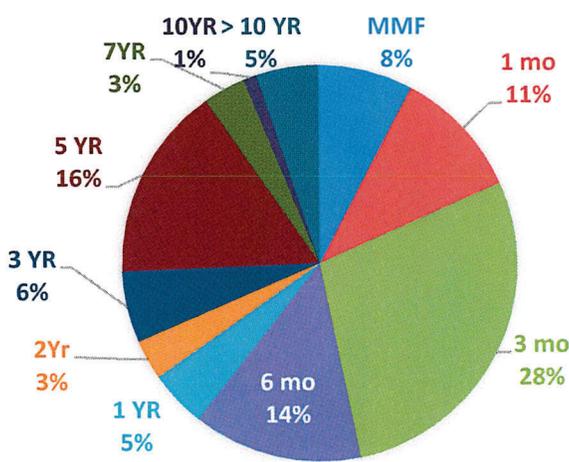
General Portfolio

As of September 30, 2021, the AUM for the General Portfolio was \$6.93 billion (market value) with 87% managed internally and 13% managed by outside managers. Please see the charts on pages 3 and 4 for more information on the performance on each manager.

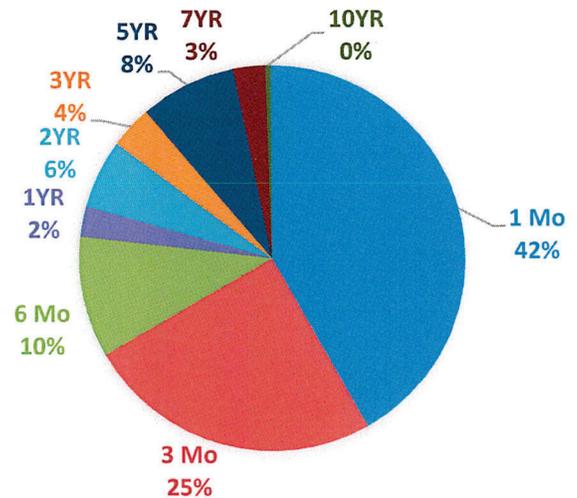
The overall yield to maturity (YTM) as of September 30, 2021, for the General Portfolio was 0.82%. Below is the YTM breakdown by portfolio:

- Internally managed portfolios were 0.434%
- Buckhead Capital Management portfolio was 1.30%
- Western Asset Management portfolio was 0.98%

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

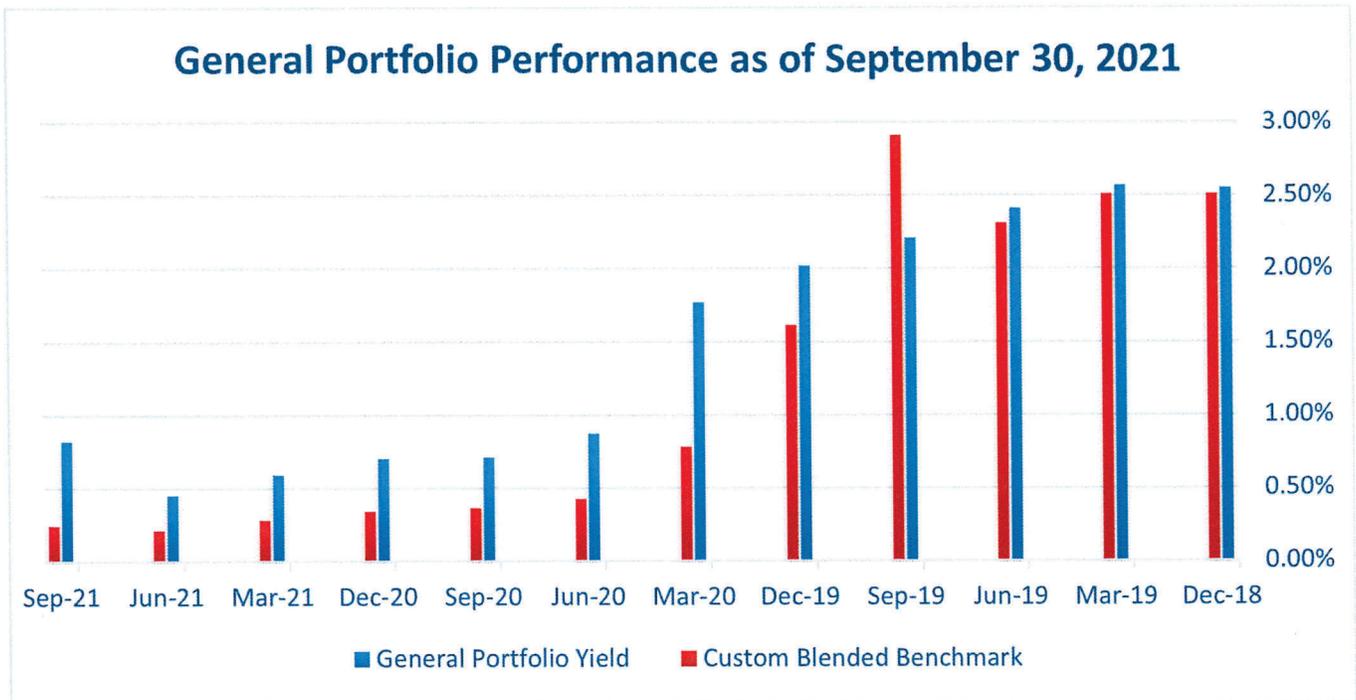


Asset Weighted Maturities as of 9.30.21



Asset Weighted Maturities as of 9.30.20

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

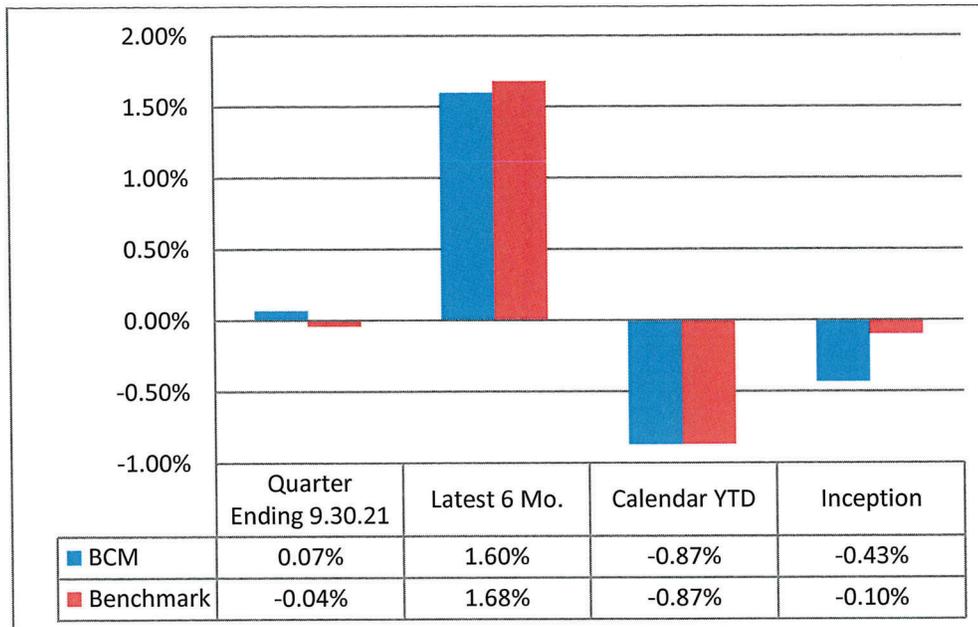


Custom blended benchmark yield matches the asset-weighted maturities of the General Portfolio, internally managed portion, for each quarter to the appropriate Treasury yield.

General Portfolio Outside Managers’ Performance

Buckhead Capital Management (BCM) began the quarter managing \$150 million in General Portfolio Assets in September 2020, \$130 million was distributed in June 2021, and an additional \$220 million was distributed in September 2021 for a total of \$500 million in assets under management.

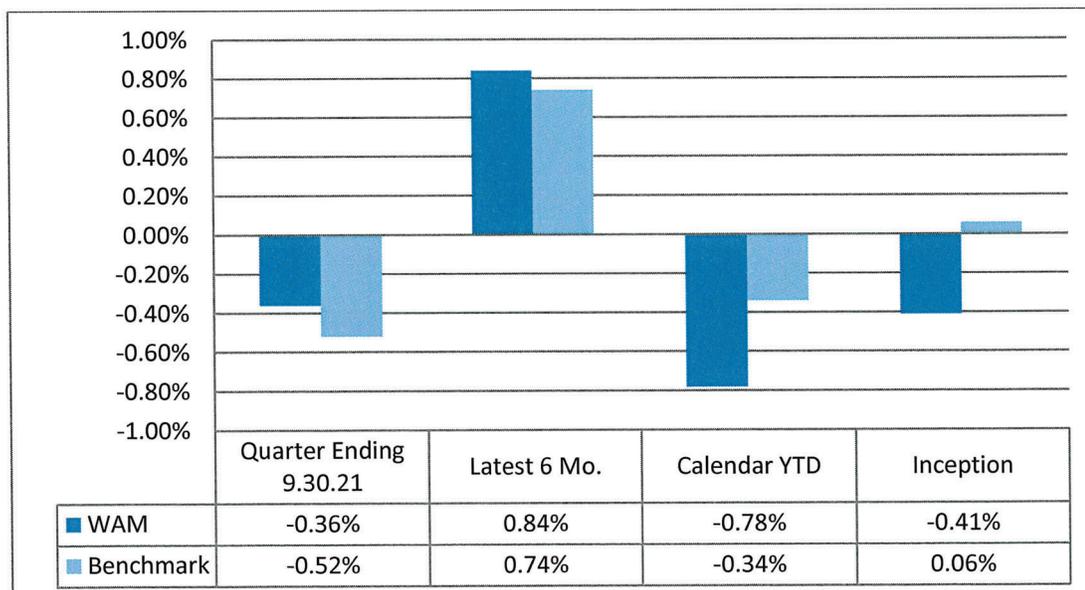
The calendar year to date time weighted performance net of fees is (0.87%). As of September 30, 2021, BCM has earned \$1,482,320 in net interest since inception which has been reduced by hard dollar manager fees (\$142,594) paid over the same period.



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

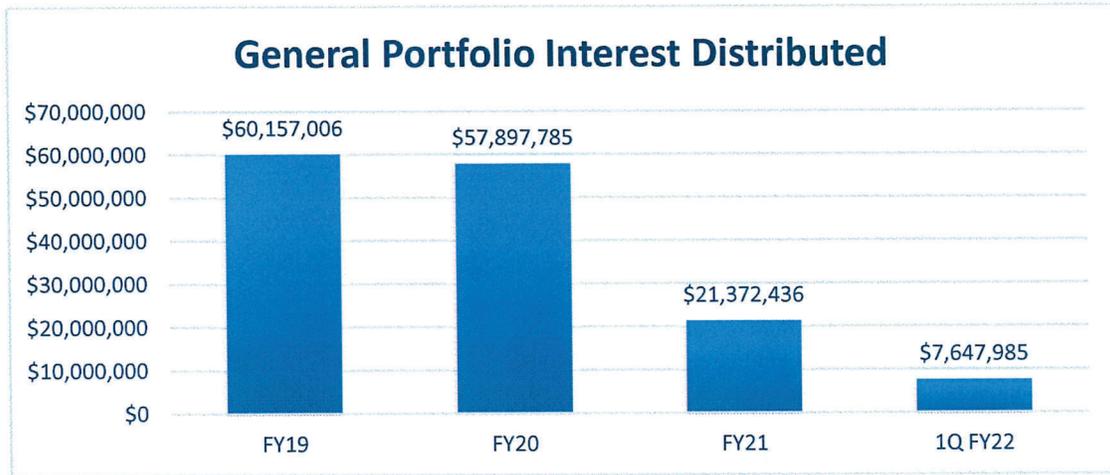
Western Asset Management (WAM) began managing \$80 million in General Portfolio Assets in November 2020, \$70 million was distributed in June 2021, and an additional \$200 million was distributed in September 2021 for a total of \$350 million in assets under management.

The calendar year to date time weighted performance net of fees is (0.78%). As of September 30, 2021, WAM has earned \$1,275,854 in net interest since inception which has been reduced by hard dollar manager fees (\$147,891) paid over the same period.



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 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
www.NevadaTreasurer.gov

INVESTMENTS

GENERAL PORTFOLIO

FISCAL YEAR 2021
Period Ending
September 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

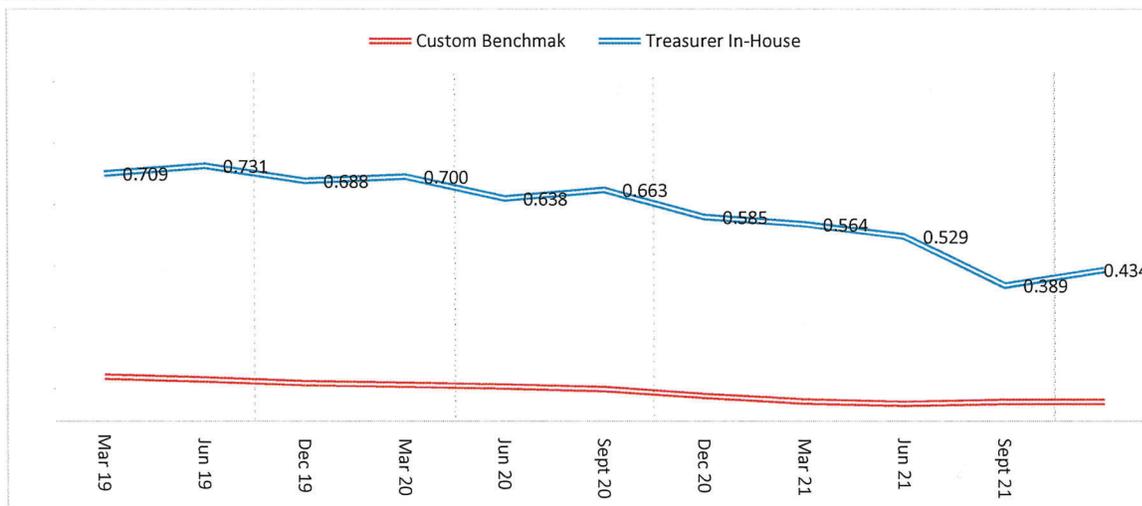
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, foreign notes, international development notes, asset-backed securities, municipal bonds 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 September 30, 2021, the yield on the in-house portion of the General Portfolio was 0.434%. A three month rolling average of this benchmark for this period was 0.09% with the average days to maturity at 218 days. The average days to maturity for the portfolio was 399 days.

In-House Performance vs. Benchmark

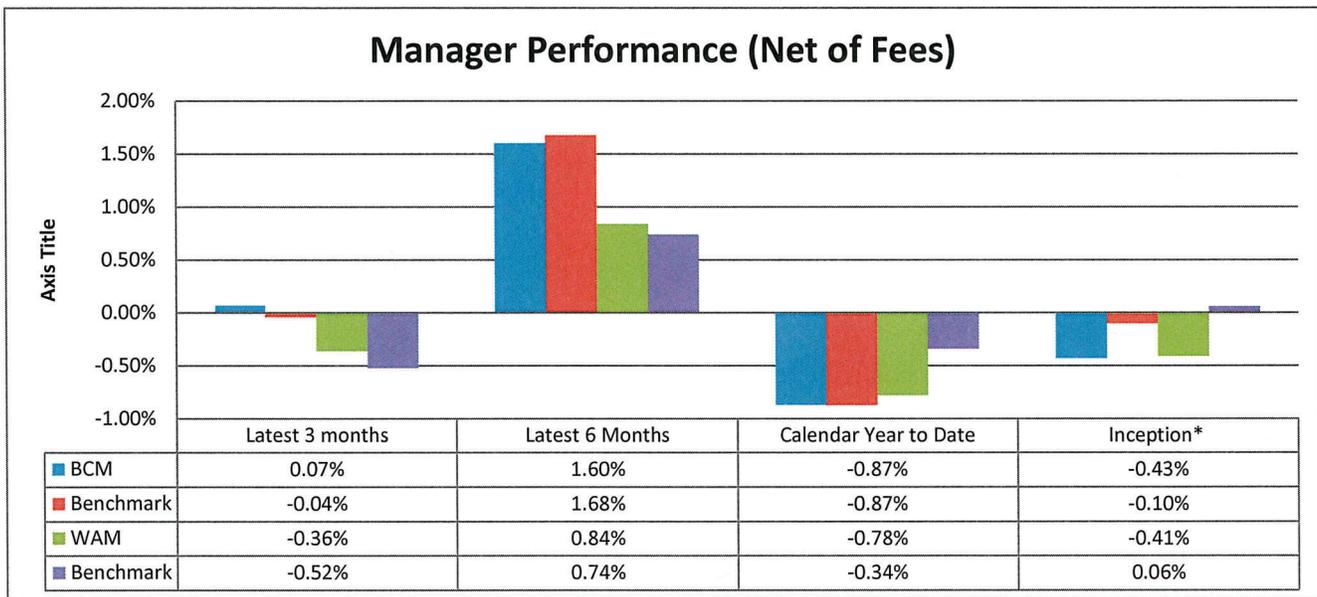


* Benchmark is 3-month rolling weighted average of 80% 3-month Treasuries and 20% 2-year Treasuries

Outside Manager Performance

The annualized performance for the period ending September 30, 2021 for Buckhead Capital Management (BCM) is -0.07%* and for Western Asset Management (WAM) it's -0.36%*. BCM provides investment management in securitized assets, including U.S. Agency and Non U.S. Agency mortgaged backed securities, and asset backed securities. The performance of the BCM portfolio is benchmarked against the Bloomberg Barclays CMBS AAA Index. WAM provides investment management for corporate/credit securities. The performance of WAM is benchmarked against the ICE BofA 3-5 Year AA US Corporate & Yankee Index.

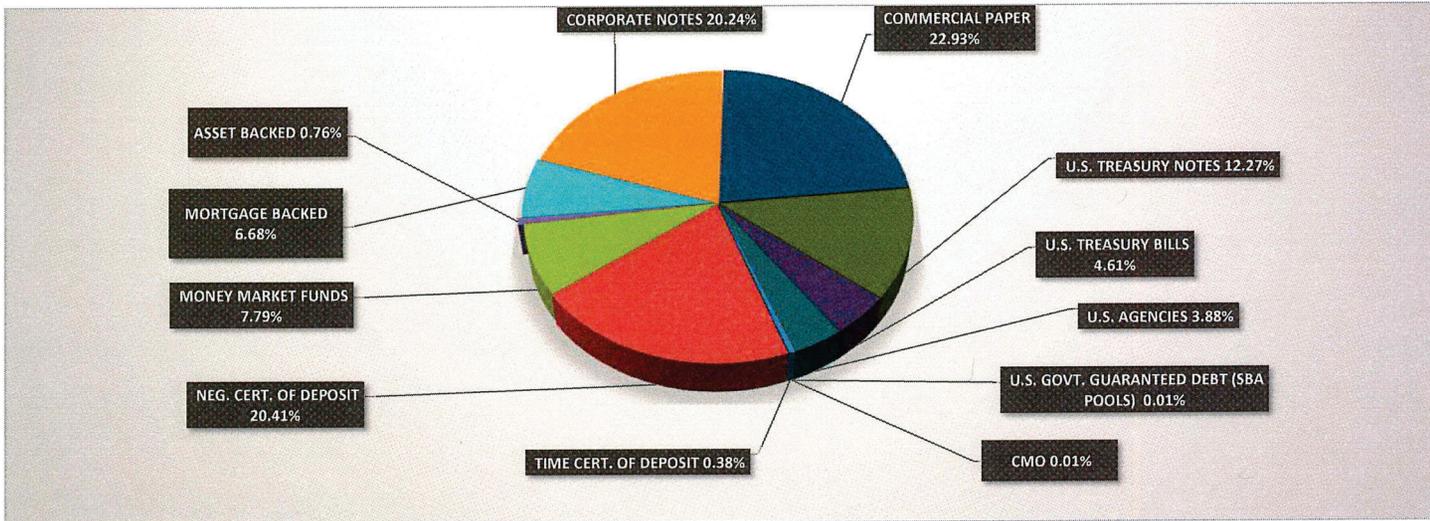
Outside Managers' Performance vs. Benchmark



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

**GENERAL PORTFOLIO
Amortized Book Value**

	<u>September 30, 2021</u> <u>Amortized Book Value</u>				<u>June 30, 2021</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	1,328,000,000	-	-	1,328,000,000	1,377,138,798
MONEY MARKET FUNDS	501,805,059	996,901	3,882,709	506,684,669	1,648,639,726
ASSET-BACKED SECURITIES	-	49,165,000	-	49,165,000	18,078,603
MORTGAGE-BACKED SECURITIES	-	434,410,811	-	434,410,811	57,645,917
CORPORATE NOTES	990,386,000	-	326,569,000	1,316,955,000	932,364,313
COMMERCIAL PAPER	1,492,100,000	-	-	1,492,100,000	1,793,057,959
MUNICIPAL BONDS	-	-	-	-	-
U.S. TREASURY NOTES	797,620,000	-	570,000	798,190,000	778,780,036
U.S. TREASURY BILLS	300,000,000	-	-	300,000,000	4,998,912
U.S. AGENCIES	252,330,000	-	-	252,330,000	110,762,944
U.S. GOVERNMENT GUARANTEED DEBT	706,426	-	-	706,426	1,312,346
SUPRANATIONALS	-	-	1,950,000	1,950,000	1,671,902
COLLATERALIZED MORTGAGE OBLIGATION	897,146	-	-	897,146	193,239,835
REPURCHASE AGREEMENTS	-	-	-	-	-
TOTAL	\$ 5,688,844,631	\$ 484,572,712	\$ 332,971,709	\$ 6,506,389,052	\$ 6,942,691,291



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
TOTAL PORTFOLIO	\$6,506,389,052	\$3,601,389,388

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

	Quarter Ended 09/30/2021	Quarter Ended 12/31/2021	Quarter Ended 03/31/2022	Quarter Ended 06/30/2022	FY 2021 Totals
<u>Average Daily Balances of Funds</u>					
General Fund	\$ 3,020,630,041				\$ 3,020,630,041
All Funds	5,406,281,888				5,406,281,888
<u>Annualized Interest Rate</u>					
Cash Basis (see Note 1)	0.4616%				0.4616%
Accrual Basis	0.4819%				0.4819%
<u>Interest Distribution for General Fund (Cash Basis)</u>					
General Fund Interest Collected	4,281,694				4,281,694
General Fund Interest Revenue - Distributed	4,281,694				4,281,694
Undistributed General Fund Interest Revenue	-				-
<u>Interest Distribution for All Funds (Cash Basis)</u>					
All Funds Interest Collected	7,647,985				7,647,985
All Funds Interest Revenue - Distributed	7,647,985				7,647,985

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.

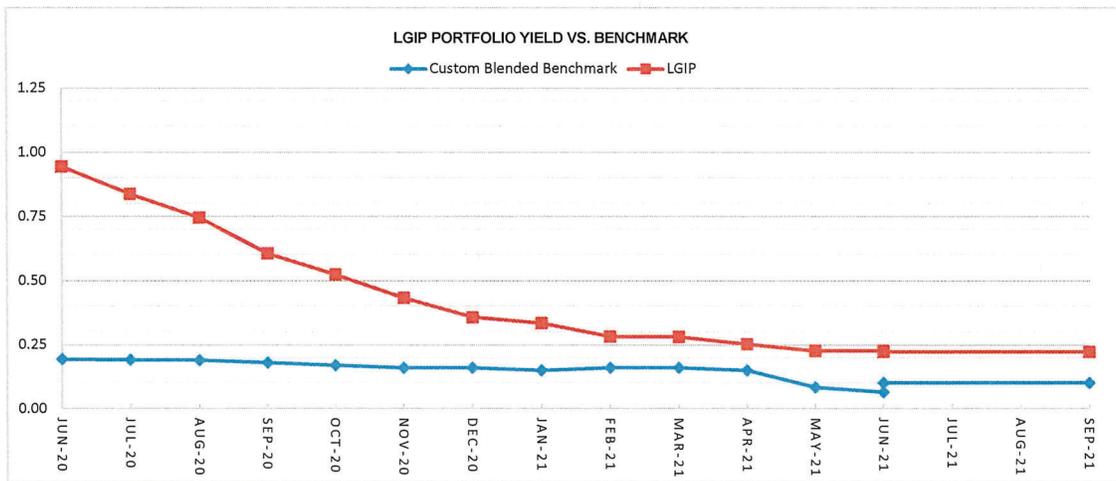
Investment Guidelines

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 September 30, 2021, the LGIP’s portfolio yield was 0.18%, and the blended benchmark was 0.11%. The average days to maturity of the LGIP portfolio was 140 days.



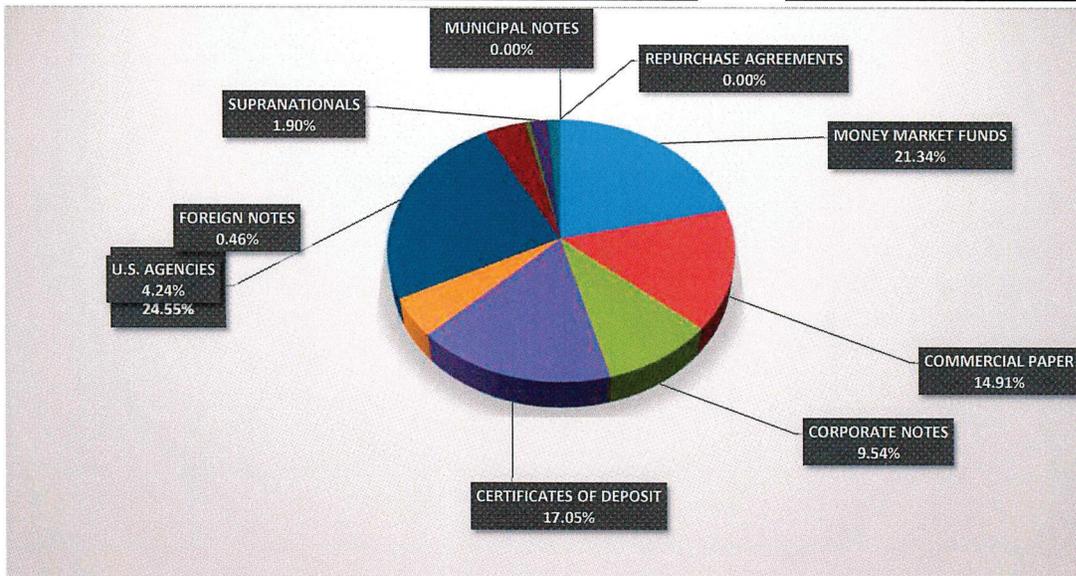
* Benchmark is 3-month rolling weighted average of 55% Dealer Commercial Paper 150-Day Index, 30% Agency Note 180 Day Index, and 15% Dreyfus Institutional Preferred Government Money Markey Fund.

**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, 2021</u>		<u>June 30, 2021</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 469,353,591	\$ -	\$ 279,865,701	\$ -
COMMERCIAL PAPER	327,862,437	-	439,877,488	-
CORPORATE NOTES	209,737,957	22,969	238,100,707	294,361
CERTIFICATES OF DEPOSIT	374,999,987	-	349,999,998	917
SUPRANATIONALS DISCOUNTS	-	-	-	-
TREASURY NOTES	105,113,243	-	55,280,005	111,482
TREASURY BILLS	539,970,432	-	349,957,137	-
U.S. AGENCIES	93,295,851	-	228,335,782	-
FOREIGN NOTES	10,009,191	311	10,010,658	3,819
SUPRANATIONALS	41,793,217	-	61,876,900	4,373
ASSET-BACKED SECURITIES	27,296,702	23,280	22,373,151	-
MUNICIPAL NOTES	-	-	60,348,149	85,479
REPURCHASE AGREEMENTS	-	-	-	-
TOTAL	\$ 2,199,432,608	\$ 46,559	\$ 2,096,025,676	\$ 500,431
GRAND TOTAL	\$ 2,199,479,167	\$ 2,199,479,167	\$ 2,096,526,107	\$ 2,096,526,107



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>June 30, 2021</u>	<u>June 30, 2020</u>
TOTAL PORTFOLIO	\$2,199,479,167	\$1,750,610,514