

Zach Conine
State Treasurer



STATE OF NEVADA
OFFICE OF THE STATE TREASURER

TO: Board of Finance (BoF) Members
FROM: Steven Hale, Deputy Treasurer - Investments
SUBJECT: October 2022 BoF Agenda Item #5– State Treasurer Investment Report
DATE: October 11, 2022

Agenda Item #5

For discussion and possible action: on the approval of the State Treasurer’s quarterly investment report for the quarter ended June 30, 2022, 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, 2022

- As can be seen in the Treasury yield curve graph below, interest rates rose sharply in the quarter ended June 30, 2022. The key driver was a cumulative 1.25% increase in the federal funds rate over the period. U.S. 10- year Treasury yields increased 64 basis points during the second calendar quarter of 2022 and closed the quarter at 3.38%. The 2-year Treasury and 3-month Treasury Bill increased by 1.17% and 1.33%, respectively.
- At their June Meeting, Federal Reserve officials indicated they believed the Federal Funds rate could finish the year in a range of 3.25 – 3.50%.

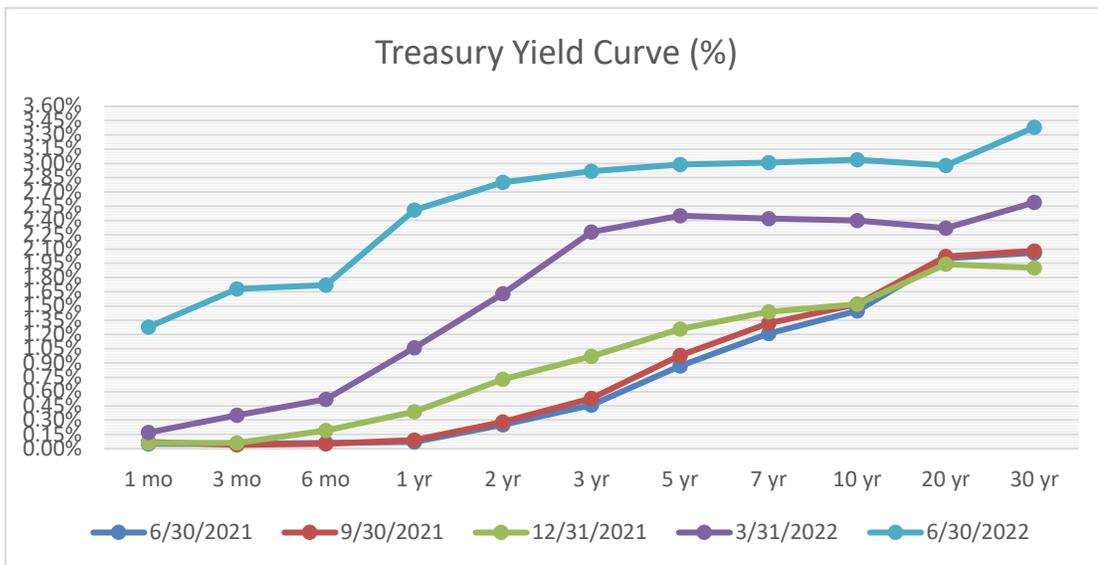


Chart is for illustrative purposes only. Investment Policy prohibits the General Portfolio from investing in Treasuries beyond 10 years.

Investment Performance as of June 30, 2022

Local Government Investment Pool (LGIP)

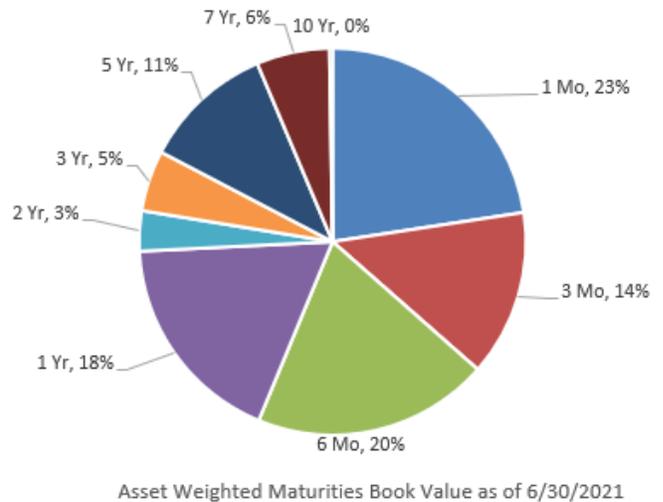
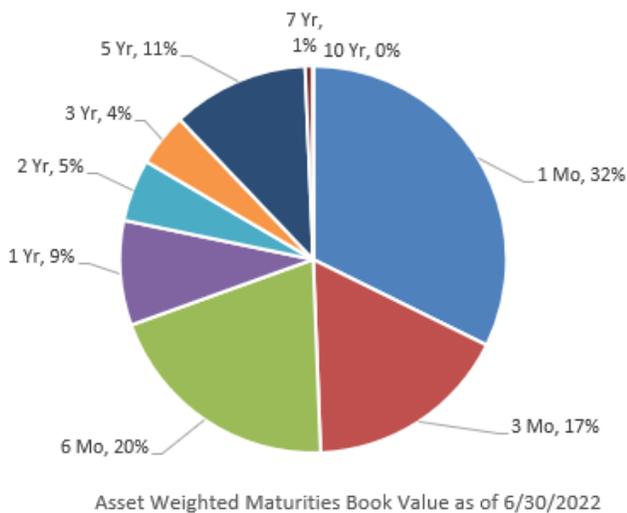
As of June 30, 2022, the total assets under management (AUM) were \$2.139 billion. The yield to maturity as of June 30, 2022 was 1.17% which is 121 basis points below the benchmark yield of 2.38%.

General Portfolio

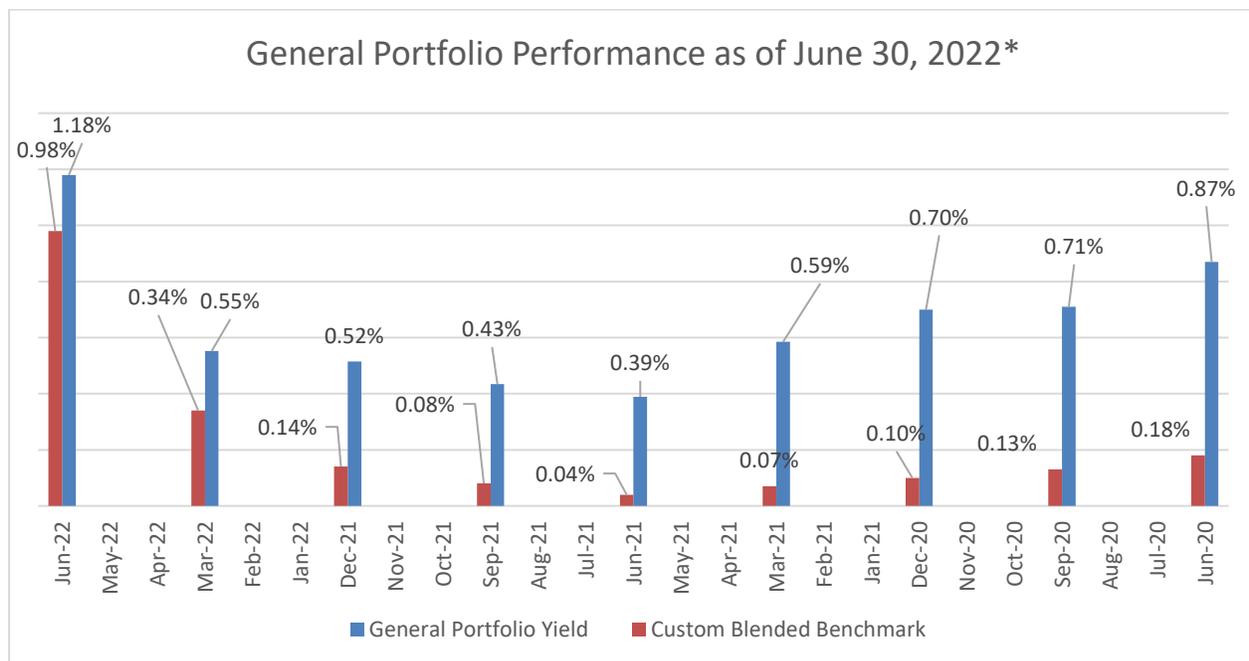
As of June 30, 2022, the AUM for the General Portfolio was \$7.03 billion (market value). 77% of the portfolio was managed internally and 23% by external managers. The General Portfolio's overall yield to maturity 1.18%. Below is the YTM breakdown by portfolio manager:

- Internally managed portfolios were 1.40%
- Buckhead Capital Management was -6.16%
- Western Asset Management was -6.30%

Below is a graphical representation of the asset weighted maturities in the General Portfolio as of June 30, 2022, versus one-year prior.



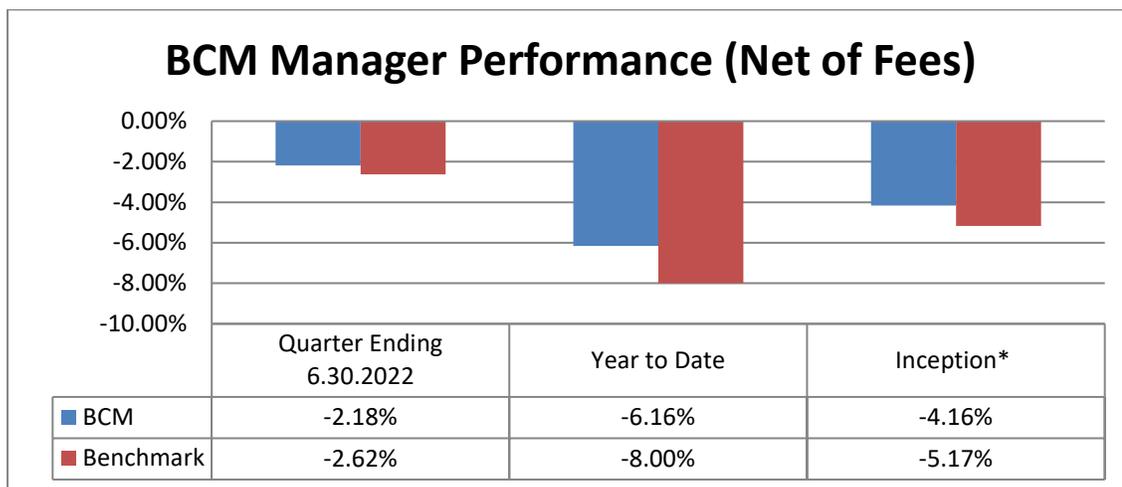
The chart below shows the internally managed portfolio performance against the custom benchmark for 9 quarters.



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

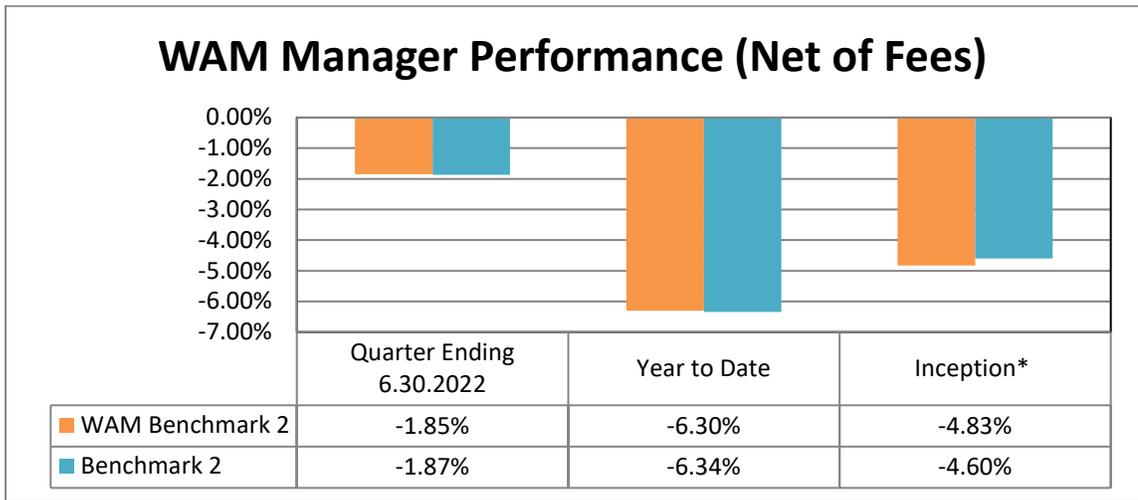
General Portfolio Outside Managers' Performance

Buckhead Capital Management (BCM) began managing \$150 million in September 2020, \$130 million was distributed in June 2021, \$220 million distributed in September 2021, \$200 million in December 2021 and \$200 million was distributed in March 2022, for a total of \$900 million in total distributions.



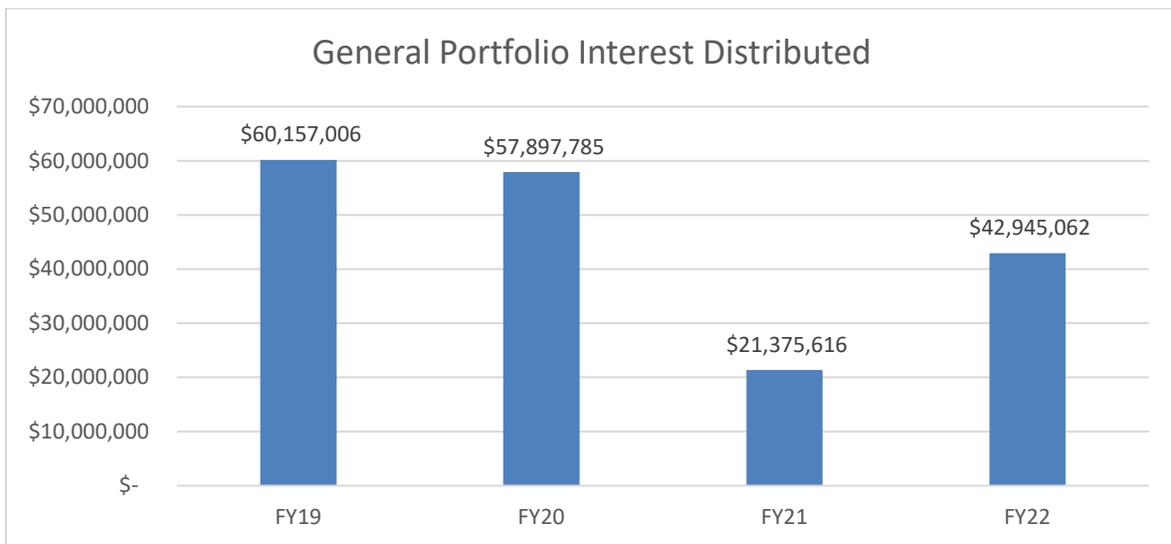
1. Benchmark used for the BCM mandate is the Bloomberg Barclays CMBS AAA Index and inception date is October 2020.

Western Asset Management (WAM) began managing \$80 million in General Portfolio Assets on November 16, 2020, \$70 million was distributed in June 2021, \$200 million was distributed in September 2021, and \$400 million was distributed in March 2022, in May \$10 million was pulled back for a total of \$740 million in assets distributed.



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 2022 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 2022

Period Ending
June 30, 2022

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

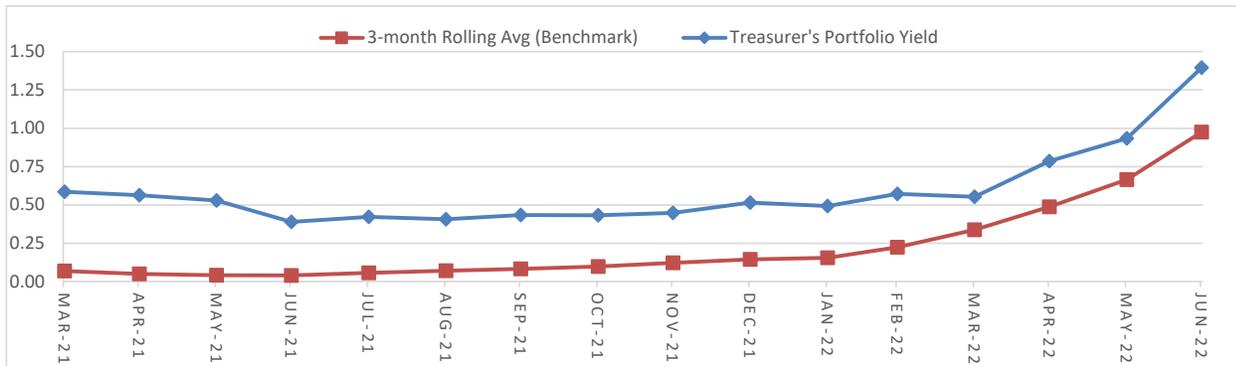
The permissible investments of the General Portfolio include United States Treasury and Agency securities, repurchase agreements, high quality corporate notes and commercial paper, negotiable certificates of deposit, foreign notes, international development notes, asset-backed securities, municipal bonds 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, 2022, the yield on the in-house portion of the General Portfolio was 1.40%. A three month rolling average of this benchmark for this period was 0.98% with the average days to maturity at 218 days. The average days to maturity for the portfolio was 313 days.

In-House Performance vs. Benchmark

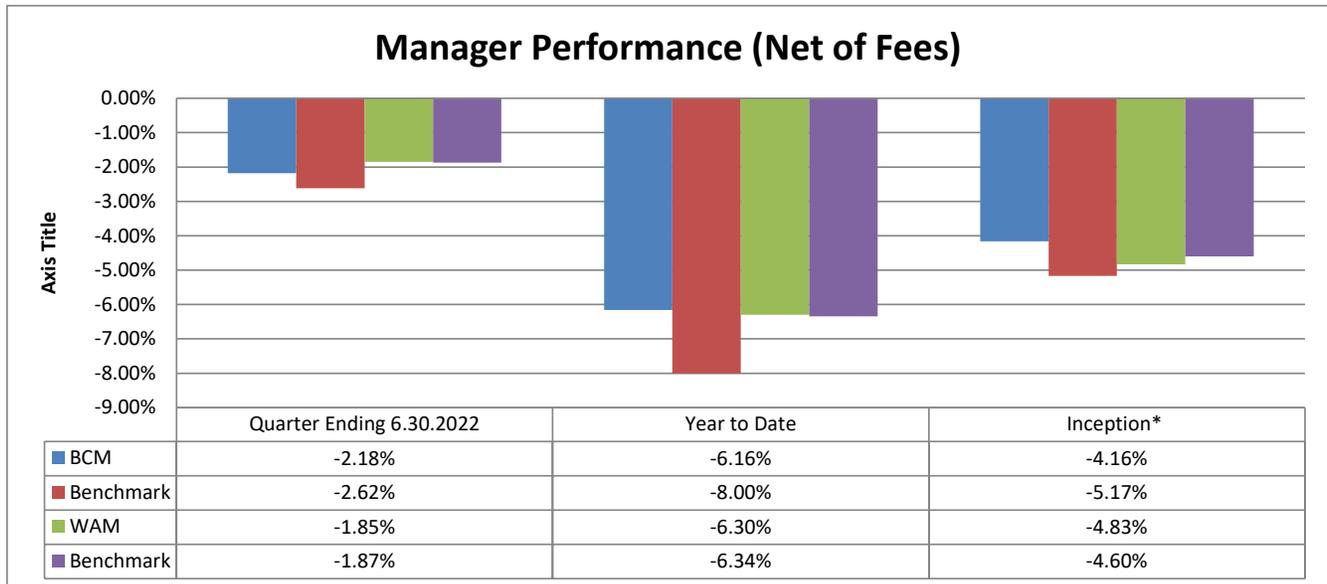


* Benchmark is 3-month rolling weighted average of 80% 3-month Treasuries and 20% 2-year Treasuries

Outside Manager Performance

The annualized performance since inception for period ending June 30, 2022 for Buckhead Capital Management (BCM) is -4.16%* and for Western Asset Management (WAM) is -4.83%*. BCM has been 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 has been 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 was October 2020 and WAM was November 2020. Funding occurred in these two accounts during the previous quarter. This the first complete six month period for both external managers.

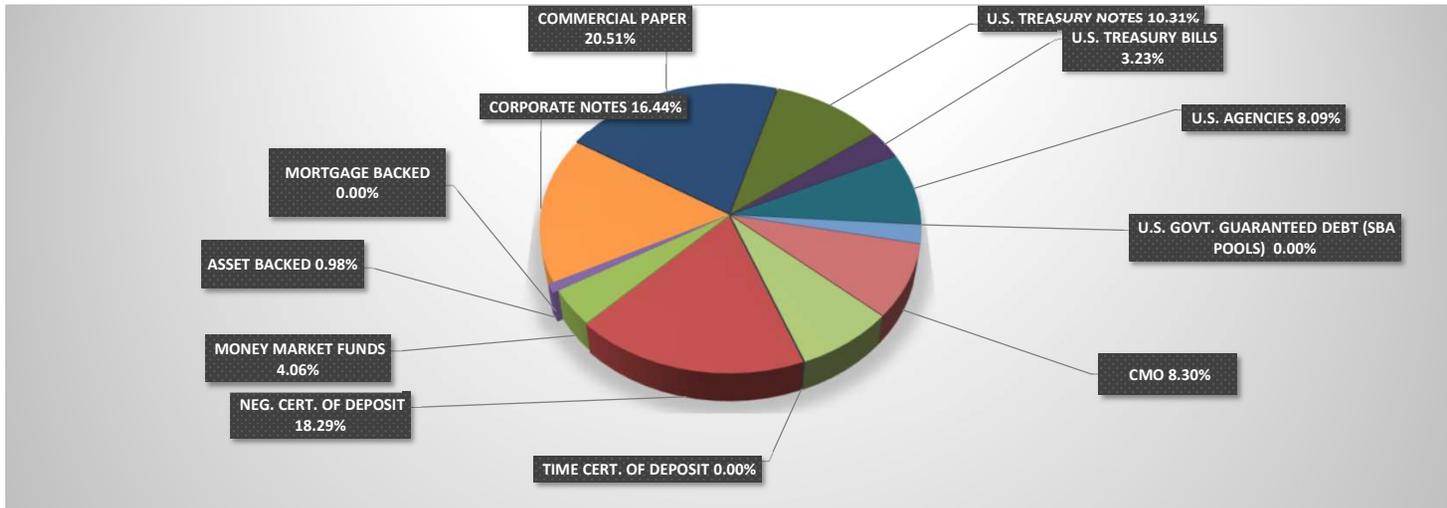
Outside Managers' Performance vs. Benchmark



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

GENERAL PORTFOLIO
Amortized Book Value

	<u>June 30, 2022</u>				<u>March 31, 2022</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	\$ -	\$ -	\$ -	\$ -	\$ -
NEGOTIABLE CERTIFICATES OF DEPOSIT	1,427,000,000	-	-	1,427,000,000	1,042,476,907
MONEY MARKET FUNDS	304,464,085	5,684,820	6,485,132	316,634,037	957,998,173
ASSET-BACKED SECURITIES	-	76,533,293	-	76,533,293	68,496,857
MORTGAGE-BACKED SECURITIES	-	-	-	-	-
CORPORATE NOTES	556,542,000	-	726,337,244	1,282,879,244	1,332,843,042
COMMERCIAL PAPER	1,600,000,000	-	-	1,600,000,000	1,393,931,050
MUNICIPAL BONDS	-	-	-	-	-
U.S. TREASURY NOTES	802,245,000	-	2,178,687	804,423,687	924,844,792
U.S. TREASURY BILLS	251,675,000	-	-	251,675,000	199,659,986
U.S. AGENCIES	437,280,000	193,997,502	-	631,277,502	366,230,795
U.S. GOVERNMENT GUARANTEED DEBT	68,724	-	-	68,724	1,995,531
SUPRANATIONALS	157,000,000	-	5,870,537	162,870,537	92,903,388
COLLATERALIZED MORTGAGE OBLIGATION	521,151	647,281,402	-	647,802,553	656,818,642
REPURCHASE AGREEMENTS	600,000,000	-	-	600,000,000	300,000,000
TOTAL	\$ 6,136,795,961	\$ 923,497,017	\$ 740,871,600	\$ 7,801,164,578	\$ 7,338,199,165



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
TOTAL PORTFOLIO	\$7,801,164,578	\$6,942,691,292

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 2022 Totals
<u>Average Daily Balances of Funds</u>					
General Fund	\$ 3,512,904,104	\$ 3,771,955,037	\$ 4,345,670,001	\$ 4,844,606,918	\$ 4,118,784,015
All Funds	5,406,281,888	5,664,307,505	6,357,846,464	6,996,109,389	6,106,136,312
<u>Annualized Interest Rate</u>					
Cash Basis (see Note 1)	0.4616%	0.2676%	0.8921%	0.8283%	0.6124%
Accrual Basis	0.4819%	0.2882%	0.9114%	0.8374%	0.6297%
<u>Interest Distribution for General Fund (Cash Basis)</u>					
General Fund Interest Collected	4,281,694	2,253,467	8,582,767	9,123,073	24,241,001
General Fund Interest Revenue - Distributed	4,281,694	2,253,467	8,582,767	9,123,073	24,241,001
Undistributed General Fund Interest Revenue	-	-			-
<u>Interest Distribution for All Funds (Cash Basis)</u>					
All Funds Interest Collected	7,658,484	4,379,209	15,558,282	15,348,586	42,944,560
All Funds Interest Revenue - Distributed	7,658,484	4,379,389	15,558,461	15,348,729	42,945,062

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.

Note 2 The quarter ended 09/30/2021 included interest that did not belong to the General Portfolio. This caused the interest collected and distributed to be overstated by \$51,375.82. The quarter ended 03/31/2022 interest was reduced by \$2,869.71 and the quarter ending 06/30/22 was reduced by \$48,406.11 to correct the error. The data above reflected the corrected information.



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, 2022, 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.

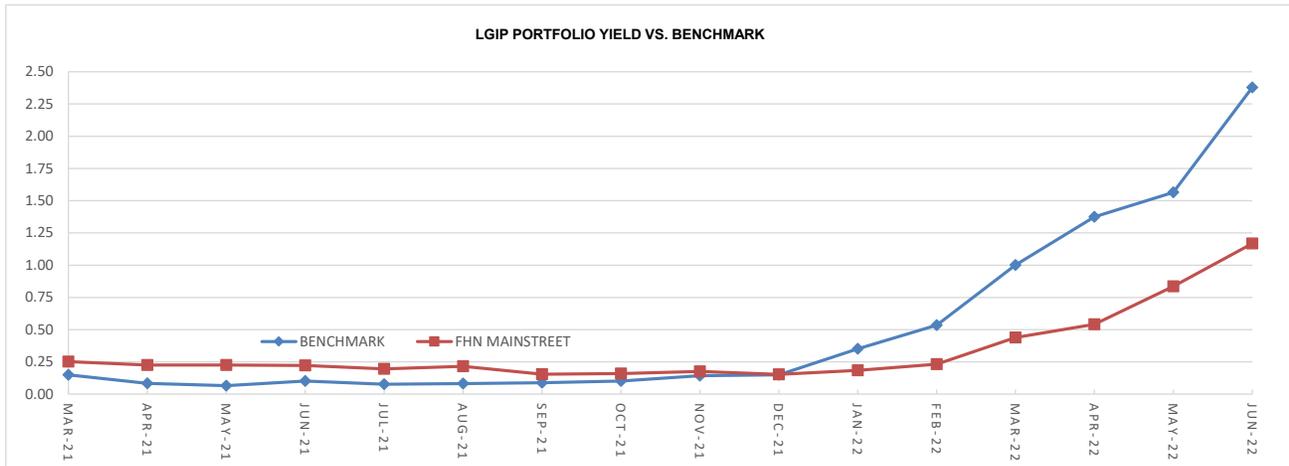
Investment Guidelines

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 18.4% of the fund matures on a daily basis, ensuring sufficient liquidity to meet both anticipated and unanticipated withdrawals. Additionally, approximately 61.5% 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, 2022, the LGIP's portfolio yield was 1.168%, and the blended benchmark was 2.38%. The average days to maturity of the LGIP portfolio was 125 days.



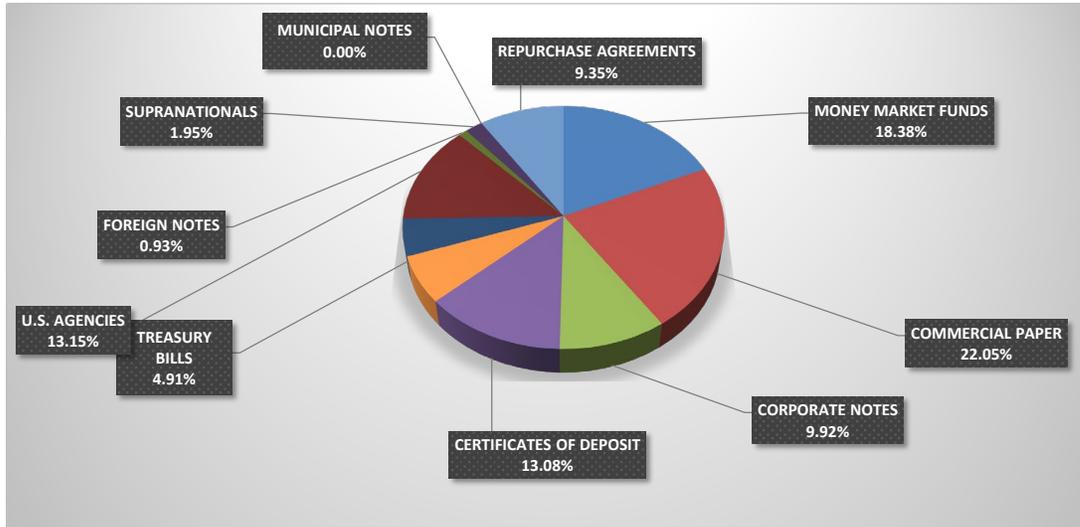
* Benchmark is 3-month rolling weighted average of 55% Dealer Commercial Paper 150-Day Index, 30% Agency Note 180 Day Index, and 15% Dreyfus Institutional Preferred Government Money Markey Fund.

**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, 2022</u>		<u>March 31, 2022</u>	
	<u>Amortized Book</u>	<u>Purchased Interest</u>	<u>Amortized Book</u>	<u>Purchased Interest</u>
MONEY MARKET FUNDS	\$ 393,253,368	\$ -	\$ 205,848,105	\$ -
COMMERCIAL PAPER	471,753,307	-	559,331,894	-
CORPORATE NOTES	212,162,185	93,874	204,496,189	252,577
CERTIFICATES OF DEPOSIT	280,000,000	-	389,999,998	11,417
SUPRANATIONALS DISCOUNTS	-	-	-	-
TREASURY NOTES	134,675,413	138	134,615,051	275
TREASURY BILLS	104,990,400	-	259,831,228	-
U.S. AGENCIES	281,370,684	-	352,363,183	1,333
FOREIGN NOTES	20,007,579	-	20,009,899	-
SUPRANATIONALS	41,635,428	-	41,688,025	-
ASSET-BACKED SECURITIES	(0)	-	1,333,730	-
MUNICIPAL NOTES	-	-	-	-
REPURCHASE AGREEMENTS	200,000,000	-	200,000,000	-
TOTAL	\$ 2,139,848,364	\$ 94,012	\$ 2,369,517,301	\$ 265,602
GRAND TOTAL	\$ 2,139,942,376	\$ 2,139,942,376	\$ 2,369,782,903	\$ 2,369,782,903



YEAR-TO-YEAR BOOK VALUE AND PURCHASED INTEREST COMPARISON

	<u>June 30, 2022</u>	<u>June 30, 2021</u>
TOTAL PORTFOLIO	\$2,139,942,376	\$2,096,526,108