

**STATE OF NEVADA**  
**OFFICE OF THE STATE TREASURER**  
**INVESTMENT POLICY**  
**LOCAL GOVERNMENT POOLED INVESTMENT**  
**FUND**  
**(LGIP)**



**ZACH CONINE**  
**STATE TREASURER**

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## **I AUTHORITY**

Nevada Revised Statutes (NRS) 355.167 stipulates that the Local Government Pooled Investment Fund (LGIP) is created as an agency fund to be administered by the State Treasurer. NRS 355.167 further stipulates that any local government, as defined in NRS 354.474, may deposit its money with the State Treasurer for credit to the fund for purposes of investment. The State Treasurer may adopt reasonable regulations to carry out the administration of the LGIP. NRS 355.045 requires that the State Board of Finance (Board) review and approve or disapprove the policies established by the State Treasurer for investment of the LGIP at least every four (4) months.

Accordingly, the purpose of this policy is to comply with NRS 355.167 in order to establish the guidelines that will govern the investment activities of the State Treasurer with regard to the management of local government monies in the LGIP. Furthermore, this policy shall comply with NRS 355.170 and 355.171, which establish the authorized and prohibited investments of local government monies. This policy may only be amended by a majority vote of the Board.

This policy will ensure the prudent investment of the LGIP, adherence to statutory requirements applicable to the investment of public funds, maintenance of daily cash flow requirements, and the establishment of a competitive benchmark rate of return.

## **II SCOPE**

This policy applies to all money that comprises the LGIP, the purpose of which is to provide an alternative investment program to be utilized by State local governments for the pooling of their public funds. The LGIP is reported as a fiduciary fund type in the State's Comprehensive Annual Financial Report (CAFR), which is audited annually by an independent accounting firm.

In addition to providing local government participants (participants) a safe and convenient method of investment, the LGIP also offers the following benefits:

- A. No minimum or maximum size of accounts;
- B. Multiple accounts may be maintained for accounting purposes;
- C. No transaction size limitation for deposit or withdrawal of monies; and.
- D. No restrictions on length of time monies are deposited.

### **III PRUDENCE**

The standard of care, per NRS 355.145, to be used in the investment program will be the following “prudent person” standard, as hereafter quoted, and will be applied while conducting all investment transactions:

“The state treasurer shall exercise the judgment and care, under the circumstances then prevailing, which a person of prudence, discretion and intelligence exercises in the management of his own affairs, not in regard to speculation, but in regard to the investment of his money, considering the probable income as well as the probable safety of his capital.”

Authorized investment officers and staff who act in accordance with this policy and written procedures in the management of the LGIP, and who exercise the proper due diligence will have no personal responsibility for an individual security’s credit risk or market price changes, provided that deviations from expectations are reported and preventive action is taken to control adverse developments.

### **IV OBJECTIVES**

The LGIP shall be managed to accomplish the following objectives:

#### **A. Safety**

Safety of principal is the foremost objective of the investment program. Investments in the LGIP shall be undertaken to ensure the preservation of principal in the portfolio. The objective will be to mitigate credit risk and interest rate risk.

##### **1. Credit Risk**

The State Treasurer will minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Establishing a pre-approved list of financial institutions and companies that the State Treasurer will be restricted to when purchasing commercial paper and corporate notes.
- Conducting regular credit monitoring and due diligence of these issuers.
- Pre-qualifying the financial institutions and broker/dealers with which the State Treasurer will do business for broker/dealer services and repurchase agreements.
- Diversifying the portfolio so potential losses on individual securities will be minimized.

2. Market Risk/Interest Rate Risk

Market risk relates to price fluctuations of securities that may result in a loss to the LGIP if cash flow requirements force a premature sale. The State Treasurer will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates, by:

- Portfolio maturities must be structured to avoid the forced sale of securities in any but the most severe circumstances.
- Maintaining an effective weighted average maturity of 150 days or less. If an unanticipated large withdrawal of greater than 5% causes the weighted average maturity to extend beyond the 150 days, the average weighted maturity will be brought back into compliance within fourteen (14) days.
- Holding at least 50% of the portfolio's total par value in securities with a maturity of 90 days or less. If an unanticipated large withdrawal of greater than 5% causes the holdings of maturities of 90 days or less to fall below 50%, the maturities will be brought back into compliance within fourteen (14) days.

B. Liquidity

The LGIP will remain sufficiently liquid to enable the LGIP to meet all withdrawal requirements that can be reasonably anticipated. This will be accomplished by:

- Structuring the portfolio so that securities mature concurrent with cash necessary to meet anticipated demand.
- Endeavor to hold 5% - 10% of the portfolio's total par value in securities with a maturity of one (1) day.
- Holding at least 50% of the portfolio's total par value in securities with a maturity of 90 days or less.
- Furthermore, because all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets.

C. Return on Investment

The LGIP will be invested to attain a competitive rate of return in relation to prevailing budgetary and economic environments, while taking into account the LGIP's investment risk constraints and the cash flow characteristics of the portfolio.

#### D. Legality

The State Treasurer will invest the LGIP only within the legal guidelines set forth by the laws of the State. Any investment alternative outside these guidelines is not permissible.

### V DELEGATION OF AUTHORITY

NRS 226.100(1) authorizes the State Treasurer to appoint a Deputy of Investments (Deputy) whose responsibilities include management of the investment program and implementation of procedures consistent with this policy. The Deputy will also be responsible for the supervision and regulation of the investment staff and all external investment professionals associated with the investment program. The Deputy shall maintain a “Trading Authorization” form, signed by the State Treasurer, which lists all persons authorized to make investments and to order the receipt and delivery of investment securities among custodial security clearance accounts. The Trading Authorization Form shall be distributed to all broker-dealers authorized to buy and sell securities with the State.

### VI INVESTMENT PROCEDURES

The State Treasurer will establish written procedures detailing the operation and regulation of the investment program. The procedures set forth the trading authorization of the investment staff, the daily responsibilities of implementing the investment program, and the segregation of investment duties. The State Treasurer will submit to periodic independent audits to determine that investment activities adhere to State statutes, administrative rules, and investment policies.

### VII ETHICS

Investment staff will act responsibly as the custodians of public funds. The staff will refrain from personal business activity that could create an appearance of impropriety or could conflict with the proper execution of the investment program or that could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the State Treasurer any material financial interest in financial institutions that conduct business within Nevada, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual or entity with which business is conducted on behalf of the State.

## VIII AUTHORIZED BROKER-DEALERS

The State Treasurer will maintain a list of authorized broker-dealers. Security transactions are limited solely to those banks, brokers and dealers included on this list. All financial institutions, whether investment banks, dealers, commercial banks or savings and loan institutions must be approved by the State Treasurer before they are able to conduct business with the State Treasurer's Office.

Authorized broker-dealers must have reviewed the eligible investments that are detailed in NRS and the adopted investment policy, and who are aware of the investment needs, constraints, and goals of the investment program. A "Request for Information" (RFI) will be periodically issued to provide a uniform standard the State Treasurer may use to identify the financial condition and professional merits of any firm included on the broker-dealer list. An affidavit attesting to having reviewed and understood the contents of the investment policies and NRS must be completed by each broker-dealer in order to qualify for final selection. All approved broker-dealers must be fully licensed and registered NASD Broker/Dealers or exempt banks.

Criteria used to select broker-dealers through the RFI process will include:

- Financial strength and capital adequacy of firm;
- Services provided by firm;
- Research services available;
- Resume, reputation and qualifications of sales representative;
- Due diligence and firm references, and
- State government expertise.

The State Treasurer will encourage all qualified broker-dealers providing investment services in the State, including those owned by women, minorities, and/or the physically impaired, to respond to the RFI. Consideration will be given to all institutions when their services are competitive on a national basis.

If the LGIP is managed by an outside investment advisor, the investment advisor shall submit to the State Treasurer on a quarterly basis the investment advisor's approved list of broker-dealers. The investment advisor also acknowledges it has followed its policies and procedures in regards to its review of its approved broker-dealers.

## **IX AUTHORIZED INVESTMENTS**

The State Treasurer, in accordance with the provisions of NRS 355.170, NRS 355.171, and this investment policy, is authorized to invest in:

### **A. Banker's Acceptances**

1. An issuing bank must have received the highest letter and numeral short-term ranking (i.e., A-1 / P-1) by at least one nationally recognized statistical rating organization (NRSRO).
2. Must be issued by domestic commercial banks regulated by the Federal Reserve or trust companies which are members of the Federal Reserve System.
3. Maximum maturity of 180 days.
4. Aggregate par value may not exceed 20 percent of total par value of the portfolio as determined at the time of purchase.
5. No more than five (5) percent of total par value of the portfolio may be in one (1) issuer.

### **B. Commercial Paper**

1. Must have received the highest letter and numeral short-term ranking (i.e., A-1 / P-1) by at least one NRSRO.
2. Eligible paper is further limited to issuing corporations that have a total commercial paper program sized in excess of \$250,000,000 and have long-term debt ratings, if any, of "A" or better from at least two (2) NRSROs.
3. Must be issued by a corporation organized and operating in the United States or by a depository institution licensed by the United States or any state and operating in the United States.
4. Maximum maturity of 270 days.
5. Approved commercial paper programs should provide some diversification by industry. Additionally, purchases of commercial paper in industry sectors that may from time to time be subject to undue risk and potential illiquidity should be avoided.
6. Aggregate par value may not exceed 25 percent of total par value of the portfolio at the time of purchase.
7. No more than five (5) percent of total par value of the portfolio may be in one (1) issuer.



C. Corporate Notes

1. Must have a long-term debt rating of “A” or better from at least one NRSRO.
2. Must be issued by corporations organized and operating in the United States or by depository institutions licensed by the United States or any state and operating in the United States.
3. Maximum maturity of two (2) years.
4. Must be purchased from a registered broker-dealer.
5. Aggregate par value may not exceed 25 percent of total par value of the portfolio as determined at the time of purchase.
6. No more than five (5) percent of total par value of the portfolio may be held in one (1) issuer.

D. Foreign Notes

1. Must have a long-term debt rating of “AA” or better by at least one NRSRO.
2. Must be publicly issued and traded in the United States by a foreign financial institution, corporation or government and:
  - a) Denominated in United State dollars;
  - b) Senior unsecured unsubordinated obligations;
  - c) Registered with the Securities and Exchange Commission in accordance with the provisions of the Securities Act of 1933.
3. Maximum maturity of five (5) years.
4. Must be purchased from a registered broker-dealer.
5. Aggregate par value may not exceed 10 percent of total par value of the portfolio as determined at the time of purchase.
6. No more than five (5) percent of total par value of the portfolio may be held in one (1) issuer.

E. International Development Notes

1. Must have a long-term debt rating of “AA” or better by at least one NRSRO.
2. Must be issued by the International Bank for Reconstruction and Development, the International Finance Corporation, or the International American Development Bank, and:
  - a) Denominated in United States dollars;
  - b) Senior unsecured unsubordinated obligations
3. Maximum maturity of five (5) years.
4. Must be denominated in United States dollars.
5. Must be senior unsecured unsubordinated obligations.
6. Aggregate par value may not exceed 15 percent of total par value of the portfolio as determined at the time of purchase.
7. No more than five (5) percent of total par value of the portfolio may be held in one (1) issuer.

- F. Money Market Mutual Funds
  1. Only SEC registered 2(A)7 funds are eligible.
  2. Rating must be “AAA” or its equivalent by at one NRSROs.
  3. Investments must only be in securities issued by the United States Treasury, United State Agency securities, or repurchase agreements fully collateralized in such securities.
  
- G. Negotiable Certificates of Deposit
  1. Issued by commercial banks, insured savings and loan associations, or insured credit unions with at least \$10 billion in assets.
  2. Must have received the highest letter and numeral short-term ranking (i.e., A-1/P-A by at least one NRSRO)
  3. Must also have long-term debt ratings of “A” or better from at least two (2) NRSROs.
  4. Maximum maturity of two (2) years.
  5. Aggregate par value may not exceed 20 percent of total par value of the portfolio.
  6. No more than five (5) percent of total par value of the portfolio may be in one (1) issuer.
  
- H. Repurchase Agreements
  1. Executed with a qualified counterparty approved by the State Treasurer.
  2. Counterparty means a bank which is organized and operating or licensed to operate in the United States under federal or state law or a securities dealer which is a registered broker/dealer, designated by the Federal Reserve Bank of New York as a “primary” dealer, and in full compliance with all applicable capital requirements.
  3. Counterparty must provide annual audited financial statements to the State Treasurer.
  4. Counterparty must have executed a written master repurchase agreement in a form satisfactory to the State Treasurer and the State Board of Finance prior to transacting a repurchase agreement.
  5. Counterparty must have executed a written tri-party agreement in a form satisfactory to the State Treasurer and the State Board of Finance prior to transacting a tri-party repurchase agreement.
  6. Maximum maturity of 90 days.
  7. Must meet collateral requirements contained in this investment policy.
  8. Aggregate par value may not exceed 40 percent of total par value of the portfolio as determined at the time of purchase.
  9. No more than 10 percent of total par value of the portfolio may be in one (1) counterparty.

I. Tax-Exempt Municipal Bonds

1. Issuer must have a long-term debt rating of “A” or better from at least one NRSRO.
2. Eligible securities are:
  - a. Bonds of this State except for Build America Bonds. Bonds issued by the State of Nevada must be held to maturity and not re-sold.
  - b. Bonds issued by other states of the Union.
  - c. Bonds of any country, city school district or other local government of this state or of other states.
3. Maximum maturity of two (2) years.

J. Time Certificates of Deposit

1. Financial institutions with a physical location in the State of Nevada will be selected as depositories based on, but not limited to, the following: financial stability, funds availability, community involvement and other relevant economic criteria.
  1. A financial institution will be eligible to receive total deposits in an amount not to exceed their equity capital.
  2. Maximum maturity of two (2) years.
  3. Must meet collateral requirements contained in this investment policy.

K. United States Treasury Securities

1. Maximum maturity of two (2) years.
2. Eligible securities include bills, notes, bonds, Treasury Inflation-Protected Securities (TIPS), floating rate notes, and Separate Trading of Registered Interest and Principal Securities (STRIPS).

L. United States Agency Securities

1. In addition to obligations of government-sponsored enterprises (GSEs), all other obligations of an agency or instrumentality of the United States of America or a corporation sponsored by the government are authorized.
2. Maximum maturity of two (2) years.
3. Eligible instruments include:
  - a. Discount Notes with a maximum stated maturity of one (1) year;
  - b. Debentures (including structured notes) with a maximum stated maturity of two (2) years. These may include floating rate securities, zero coupon bonds, callable securities, and step-up securities;
4. Aggregate par value of callable securities may not exceed 20 percent of total par value of the portfolio.

M. Asset-Backed Securities

1. Must have received an “AAA” rating or its equivalent by a NRSRO.
2. Maximum stated-final maturity of two (2) years.
3. Aggregate par value may not exceed 20 percent of total par value of the portfolio at time of purchase.
4. No more than 5 percent of the total par value maybe in one issuer at time of purchase.

**X COLLATERALIZATION**

A. Repurchase Agreements

1. Transacted on a delivery versus payment basis, whereby the securities custodian will disburse cash for repurchase agreements only upon the receipt of the purchased securities.
2. Collateral may be transferred directly to the State’s custodial bank on a deliverable basis or using a tri-party custodial bank arrangement.
3. The purchased securities will be United States Treasury or United States Agency securities with a term to maturity not to exceed 10 years.
4. The market value of the purchased securities must equal or exceed 102 percent of the repurchase price to be paid by the counterparty and the value of the purchased securities must be marked to the market weekly. If the value of the purchased securities should fall below 102 percent, the counterparty will be required to submit additional collateral to make up the deficit.

B. Time Certificates of Deposit

1. Pursuant to NRS 356.005, all money deposited by the State Treasurer which is not within the limits of insurance provided by an instrumentality of the United States must be secured by collateral composed of the following types of securities:
  - a. All authorized investments as set forth in this policy;
  - b. Bonds of the State;
  - c. Bonds of any county, municipality or school district within the State;
  - d. Irrevocable letters of credit from any Federal Home Loan Bank with the State Treasurer named as the beneficiary.
2. The collateral must be held in trust with a custodian other than the depository.

## **XI SALE OF SECURITIES**

Securities are normally purchased by the State Treasurer with the intent of holding them until maturity. However, in an effort to minimize market risks, credit risks, and/or increase the return of the portfolio, securities may be sold prior to maturity either at a profit or loss when economic circumstances or a deterioration in credit worthiness of the issuer warrant a sale of the securities to either enhance overall portfolio yield or to minimize loss of investment principal. In the latter situation, the Deputy must abide by the Divestiture Policy, which was previously approved by the Board on April 23, 2008, and is hereby attached as Appendix “A” and re-titled “Sale of Portfolio Securities”. In measuring a profit or loss, the sale proceeds shall be compared to the book value of the security.

## **XII PROHIBITED INVESTMENTS**

No investment shall be made that is prohibited by law. Furthermore, to provide for the safety and liquidity of the LGIP, the portfolio will be subject to the following restrictions in addition to those listed elsewhere in this investment policy:

- Instruments known as inverse floaters, range notes, leveraged floaters, equity-linked securities, option contracts, futures contracts and swaps are prohibited;
- Interest-only strips that are derived from a pool of mortgages, or any other investment that could result in zero interest if held to maturity is prohibited;
- Illiquid investments which lack a readily available market for trading as determined by the Deputy are prohibited;
- Borrowing for investment purposes (“Leverage”) is prohibited;
- Contracting to sell securities not yet acquired in order to purchase other securities for purposes of speculating on developments or trends in the market is prohibited; and
- Reverse repurchase agreements are prohibited.

## **XIII COMPETITIVE PRICING**

Investment transactions are to be made at current market prices. Wherever possible, competitive prices should be obtained through obtaining multiple bids or offers and documenting them on the trade ticket or other written forms. When possible, bids and offers for any investment security shall be taken from a minimum of three (3) security broker/dealers or banks and awards shall be made to the best bid or offer. When identical securities are not available from multiple sources, or investments are purchased directly from issuers (e.g. commercial paper and certificates of deposit) market prices may be documented by reference to offerings of similar securities that are of comparable rating and maturity by other direct issuers.

#### **XIV SAFEKEEPING/CUSTODY AND DELIVERY**

All securities will be held by a third-party custodian designated by the State Treasurer and evidenced by safekeeping receipts. In addition, the following requirements will apply:

- A. Securities purchased by the State Treasurer for the LGIP, as well as collateral for repurchase agreements will be delivered against payment and held in a custodial safekeeping account with an approved financial institution acting as a third-party custodian. Tri-party repurchase agreements are acceptable.
- B. The State Treasurer will periodically issue a Request for Proposal (RFP) for Master Securities Custody Services, which will encompass the following functions:
  - 1. The settlement of all purchase, sales, and calls through the Federal Reserve System (Fed) or the Depository Trust Company (DTC).
  - 2. The collection and distribution of all interest payments.
  - 3. The collection and distribution of all paydowns associated with mortgage- backed and asset-backed securities.
  - 4. The receipt and disbursement of all repurchase agreement collateral.
  - 5. The facilitation of all trading activity conducted by investment managers and securities lending agents.
  - 6. Providing daily accounting and bookkeeping of all investment accounts, weekly market evaluation of securities and month end reports that show a detailed list of holdings with market evaluations.

#### **XV PERFORMANCE EVALUATION**

The LGIP will be invested to obtain a rate of return consistent with its cash flow requirements and risk constraints, and the dependence upon budgetary and economic factors. The State Treasurer’s investment strategy is generally that of a “buy-and-hold” investor but the State Treasurer also has the ability to take advantage of market opportunities as they occur by analyzing projected cash flow to assess the availability of uncommitted money.

Given this strategy, the benchmark used by the State Treasurer to determine whether competitive market yields are being achieved will be comparing the LGIP’s yield to a custom benchmark comprised of the prominent and persistent characteristics of the LGIP, and will be adjusted periodically when material, long-term changes of the LGIP’s sector allocations and weighted average maturity occur.

## **XVI ACCOUNTING AND REPORTING**

The State Treasurer will maintain a technologically adequate investment system that will account for all investment transactions, produce detailed reports of securities holdings, calculate yield to maturity and average portfolio life, create amortization of securities, and calculate portfolio earnings.

Pursuant to NRS 355.045, the State Board of Finance will review the investment policies of the LGIP at least every four (4) months. The State Treasurer will submit a quarterly report which will contain the following information to permit an evaluation of the performance of the LGIP:

- A. An overview of market and economic conditions for the quarter.
- B. The investment strategy used for investment of the portfolio.
- C. A list of securities holdings in the portfolio at quarter end that categorizes each type of security.
- D. Yield to maturity and average life of the portfolio at quarter end.
- E. Percentage allocation of securities by category.
- F. Dollar value of total earnings for the month.
- G. Performance of the portfolio versus the selected benchmark.
- H. Review of the securities lending program, if applicable.

The report will allow the Board to review investment results, provide suggestions for improved future performance, and to verify that investment staff has acted in accordance with investment policies and procedures. If acceptable to the Board, the above information alternatively may be posted to the State Treasurer's website (i.e., in the case where information such as the securities holdings report is voluminous).

The State Treasurer will provide a monthly report for each authorized account which contains the following information:

- A. Deposit or withdrawal of monies by date.
- B. Beginning and ending balance.
- C. Interest earnings.
- D. Annualized gross and net-of-fees yield-to-maturities.
- E. State Treasurer's administrative fee.

## **XVII YIELD CALCULATION AND EARNINGS**

- A. Interest is distributed to each authorized account on a monthly basis using the accrual basis of accounting, whereby income and expense items are recognized as they are earned or incurred, even though they may not have been actually received or paid.
- B. The SIFMA (Securities Industry and Financial Market Association)) method of calculating yield is utilized. The yield-to-maturity is computed monthly on an annualized basis, using the amortized book value of the securities held in the LGIP portfolio. Yield-to-maturity is quoted both gross and net of the State Treasurer's administrative fee.
- C. Earnings composed of gains and losses are calculated and distributed in the month in which they were realized.
- D. Total earnings are apportioned to each authorized account on a pro-rata basis of each account's average weighted dollar days to the LGIP's total average weighted dollar days. (Dollar day = one (1) dollar in the account for one day.)

## **XVIII INTERNAL CONTROLS**

A system of controls will be established to ensure that investment transactions and associated activities are monitored. These controls are created to safeguard against fraud, investment staff error, or other actions that could result in a loss of local government money. The State Treasurer shall develop and maintain written procedures for the operation of the investment program, which are consistent with this investment policy. These procedures shall include reference to separation of duties, safekeeping, collateralization, wire transfers and banking related activities.

The State Treasurer is subject to periodic audits by the Legislative Counsel Bureau that includes unscheduled cash and securities counts. In addition, the State Treasurer will contract with an independent accounting firm to determine whether the accounting records related to the investment program are accurately presented and whether the State Treasurer is in compliance with NRS and approved investment policies.

## **XIX SECURITIES LENDING**

NRS 355.167(4) allows the State Treasurer to lend securities from the LGIP. However, securities lending is not authorized at this time due to volatility in the bond market and possible dislocations in the future.



## GLOSSARY

**ASSET- BACKED SECURITY (ABS)**

A security backed by notes or receivables against assets. Examples are automobiles loans and credit card receivables.

**AUTHORIZED BROKER/DEALERS AND FINANCIAL INSTITUTIONS**

Broker/dealers and financial institutions approved by the State Treasurer to provide investment services.

**BANKERS' ACCEPTANCES (BA)**

Bankers' Acceptances are negotiable short-term financial instruments which are unconditional obligations of the accepting bank. They are issued on a discount basis.

**BASIS POINT**

1/100 of one (1) percent. (decimally .0001)

**BENCHMARK**

A comparative base for measuring the performance or risk tolerance of the investment portfolio. A benchmark should represent a close correlation to the level of risk and the average duration of the portfolio's investments.

**BROKER**

A party who brings buyers and sellers together, and charges a commission for this service.

**CERTIFICATE OF DEPOSIT (CD)**

A negotiable time deposit issued by a bank in certificate form. A CD is issued with a specific maturity date and pays interest at maturity.

**COLLATERAL**

Securities or cash which a borrower pledges to secure repayment of a loan.

**COLLATERALIZED MORTGAGE OBLIGATION (CMO)**

A security which pools together mortgages and separates them into short, medium, and long-term "tranches". Tranches are set up to pay different rates of interest depending upon their maturity. Interest is usually received on a monthly basis.

**COMMERCIAL PAPER (CP)**

A short-term promissory note issued by a corporation. Commercial paper is issued on a discount basis and has specific maturity dates not to exceed 270 days.

**CORPORATE NOTE**

A negotiable security issued by a corporation.

<b>CUSTODIAN</b>	A financial institution approved by the State Treasurer to provide safe-keeping services with respect to securities and securities-related assets, and to provide other services which may include trade settlement, interest collection and transaction reporting.
<b>DEALER</b>	A firm or individual who buys and sells for his own account.
<b>DELIVERY VS. PAYMENT (DVP)</b>	The exchange of securities and cash at settlement date.
<b>DISCOUNT BASIS</b>	The price of a security expressed as an annualized rate of discount. Discounted securities are purchased at a dollar price below face value, and mature at face value.
<b>DIVERSIFICATION</b>	Allocating investment funds to a variety of securities to minimize market risk.
<b>DURATION</b>	The weighted average maturity of the security's cash flows, where the present values of the cash flows serve as the weights. The greater the duration of a security, the greater it's percentage price volatility.
<b>FAIR VALUE</b>	The amount at which an investment can be exchanged between buyer and seller.
<b>FANNIE MAE</b>	Established by Congress in 1938 to provide liquidity to the mortgage market, especially the secondary market for residential mortgages. Legislation in 1968 transformed the agency into a publicly owned, privately managed corporation, but still required government regulation. Previously known as Federal National Mortgage Association.
<b>FEDERAL AGRICULTURAL MORTGAGE CORPORATION (FARMERMAC)</b>	A federally chartered agency of the United States. It was established to provide a secondary market for agricultural real estate mortgage loans.
<b>FEDERAL FARM CREDIT BANK (FFCB)</b>	The Federal Farm Credit Administration, a federal agency, is responsible for regulating the banks and associations which comprise the Federal Farm Credit System. This System provides credit solely to the United States agricultural sector.
<b>FEDERAL FUNDS RATE</b>	The interest rate charged by banks having excess reserves to banks needing the money to meet reserve requirements.

**FEDERAL HOME LOAN BANK (FHLB)**

The Federal Home Loan Bank Board, established by Congress in 1932, is comprised of 12 Federal Home Loan Banks. The Board is authorized to provide support and liquidity to savings and loans, banks, and insurance companies engaged in home financing.

**FEDERAL HOME LOAN MORTGAGE CORPORATION (FREDDIEMAC)**

Established by Congress in 1970 to enhance the liquidity of mortgage investments and to improve the distribution of investment capital available for home mortgage financing. Legislation in 1989 transformed the agency into a publicly owned, privately managed corporation, but still required government regulation.

**GOVERNMENT AGENCIES**

Refers to securities issued by agencies of the United States government and United States government sponsored enterprises. Securities issued range in maturity from overnight to longer than 10 years. Securities may be issued on a discount basis, or may be interest bearing. Agencies would include FARMERMAC, FFCB, FHLB, FREDDIEMAC, and FANNIEMAE.

**GOVERNMENT NATIONAL MORTGAGE ASSOCIATION (GNMA)**

Established in 1986 to take over some of the functions performed by FNMA. GNMA is an agency controlled by the Department of Housing and Urban Development (HUD). GNMA is authorized to confer a full faith and credit guarantee of the United States government for the timely payment of both principal and interest on packages of mortgages it creates in its mortgage pass-through securities program.

**LEGISLATIVE COUNSEL BUREAU (LCB)**

Encompasses the lawmaking authority of the State of Nevada. It is empowered to enact the laws of the State and provides oversight of the executive and judicial branches of government through the budget and audit processes and reviews the regulations developed by State agencies.

**LIQUIDITY**

The capacity to meet future financial obligations from available resources.

**LOCAL GOVERNMENT INVESTMENT POOL**

A state investment program, usually administered by the State Treasurer, which manages the monies of local governments by using the pooling method.

**MASTER REPURCHASE AGREEMENT**

A written contract between the State Treasurer and an approved counterparty which details each party's obligations in a repurchase agreement transaction. Among other things, it will specify the right of the buyer to liquidate the underlying securities in the event of default by the seller.

**MONEY MARKET FUNDS**

A mutual fund that invests only in money market instruments, or those securities having a maturity of 397 days and under.

<b>NEVADA REVISED STATUTES (NRS)</b>	The codified laws of the State of Nevada as enacted by the Legislature.
<b>PAR VALUE</b>	The principal amount a holder will receive at the maturity of an issue.
<b>PORTFOLIO</b>	A collection of securities held by an investor.
<b>PREMIUM</b>	The amount by which the market price of an issue exceeds face value.
<b>PRUDENT PERSON RULE</b>	An investment standard which may be adopted by an investment organization to guide those with the responsibility for the investment of money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and in general, avoid speculative investments.
<b>RATINGS</b>	The evaluation of an issuer's credit standing published by Moody's, Standard & Poors, Fitch or other rating services.
<b>REPURCHASE AGREEMENT</b>	A simultaneous sale of securities by a bank or broker/dealer with an agreement to repurchase those securities at an agreed upon date, and at an agreed-upon rate of interest.
<b>SAFEKEEPING</b>	A fee arrangement whereby an approved financial institution holds a customer's securities in its vaults, or in the case of book-entry securities, maintains a safe-keeping receipt recorded in the customer's name as evidence of ownership.
<b>SECURITIES INDUSTRY ASSOCIATION</b>	An organization which offers premiere educational programs to member securities firms.
<b>STUDENT LOAN MARKETING ASSOCIATION (SALLIE MAE)</b>	Established in 1972 by Congress as a publicly owned, government sponsored enterprise(GSE), created to provide liquidity for originators of student loans made under federally sponsored student loan programs. In 1997 shareholders voted to privatize Sallie Mae, although the GSE remains the obligor in all pre and post privatization public debt issued.
<b>TIME CERTIFICATE OF DEPOSIT (TCD)</b>	A non-negotiable financial instrument issued with a specific amount, rate and maturity date.
<b>UNITED STATES TREASURY BILLS(T-BILLS)</b>	A discounted security issued by the United States Treasury. T-bills are issued with maturities of one (1), three (3) and six (6) months and one (1) year.

**UNITED STATES  
TREASURY NOTES**

Interest-bearing securities issued by the United States Treasury. Notes are issued with maturities from two (2) to 30 years.

**YIELD**

The rate of annual return on an investment expressed as a percentage. **YIELD TO MATURITY** is the total money earned from investment date to maturity date assuming: 1) semi-annual interest payments, 2) interest are reinvested at same rate security was purchased at, and 3) the premium is subtracted or discount is added to final money.

**APPENDIX A**  
**LOCAL GOVERNMENT POOLED INVESTMENT FUND**  
**SALE OF PORTFOLIO SECURITIES**

The State Treasurer, as fiduciary for all monies, is responsible for administering and investing, and acting within the “prudent person” standard. As such, the State Treasurer has a duty to provide for the:

- a) Safety
- b) Liquidity, and
- c) The securing of a just and reasonable investment return of the portfolio while avoiding undue risk.

There is also the recognition that within a diversified investment portfolio, which follows stated laws and guidelines, individual securities may fall out of regulatory compliance for various reasons. Compliance may encompass risk enhancement due to a security’s rating downgrade below guidelines, price volatility which hampers performance, class percentage restrictions, or policy provisions, which call for liquidation from a designated portfolio.

If an individual security does not conform within policy limitations, there must be a “best judgment” guideline to remedy or correct non-compliance. Keeping in mind the duties identified above, the following criteria should be applied to determine the proper course of action regarding non-compliant securities.

Once a security has fallen out of regulatory compliance, the cause of the compromise shall be reviewed, and the following information identified:

- a) The par value of the security,
- b) The content and performance of any underlying collateral, and
- c) The time remaining to maturity of the security.

If the compromise is of a short-term nature (approximately three months), with no assumed default repercussion, and if the par value is 1% or less of the total par value of the portfolio, the security will be monitored until it re-complies or matures. The non-compliance must be documented in writing, and forwarded to the appropriate Senior Deputy Treasurer.

If the nature of the compromise is long-term, or if default is evident, any non-compliance must be documented in writing, and forwarded to the State Treasurer. After considering recommendations from investment staff, external investment managers or advisors regarding the prudent course of action, the State Treasurer may take appropriate action to sell, redeem, divest, or withdraw the non-compliant security. This shall not be construed to require the premature or otherwise imprudent sale, redemption, or divestment of the security, but shall require that the State Treasurer proceed in a manner to preserve the principal value and the integrity of the portfolio as a whole. Divestiture shall be completed no later than two years following the date of the infraction, and shall be reported upon completion to the State Board of Finance.

Any activity associated with this procedure shall be reported, as with all other investment activity, as provided in NRS 355.045, to the Board of Finance.