



STATE TREASURERS OFFICE
LGIP Stakeholders Meeting

8/24/17



GOVERNMENT
PORTFOLIO
ADVISORS

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PUBLIC FUND INVESTING TRENDS FOR 2018

MANAGING WITH ACCOUNTABILITY

- ✓ Disciplined investment process while utilizing technology to optimize results.
- ✓ Reporting effectively by delivering relevant and timely information to all stakeholders.
- ✓ Staying current by encouraging ongoing evaluation of best practices and balancing cost and benefit.

MANAGING WITH CONFIDENCE

- ✓ Creating a team to provide resources in managing in up and down markets.
- ✓ Develop trusted relationships, while adhering to the framework of “trust and verify” is the foundation to support a successful investment program. (Advisors, brokers, bank custodians and reporting vendors).
- ✓ Understanding the balance of risk and reward in respect to the investment strategy.

MANAGING WITH TRANSPARENCY

- ✓ Transparency is more than checking boxes , it is a philosophy that impacts every aspect of the investment operations.
- ✓ Reporting capabilities and oversight committees provide for additional transparency.
- ✓ Adhering to GFOA, GIOA and other public fund industry past practices with the highest ethical standards.

Market Commentary

Fed Funds: Interest rate forecasts point to one more rate hike this year. Provided that the economy continues to perform about as expected, most participants anticipate that gradual increases in the Fed Funds rate will continue. Members continue to expect that economic activity will expand at a moderate pace and labor market conditions should strengthen somewhat further. Policy makers also issued forecasts showing another three quarter-point rate increases in 2018, similar to the previous projections in March.

Current Implied Probabilities of rate changes based on fed funds futures per Bloomberg.

	Prob. Of Hike	Prob. Of Cut	1.25-1.50	1.50-1.75	1.75-2.00
7/26/2017	0.0%	0.1%	0.0%	0.0%	0.0%
9/20/2017	10.1%	0.1%	10.1%	0.0%	0.0%
11/1/2017	10.8%	0.1%	10.7%	0.1%	0.0%
12/13/2017	39.2%	0.1%	35.7%	3.5%	0.0%
1/31/2018	39.7%	0.1%	35.9%	3.8%	0.1%
3/21/2018	59.2%	0.0%	43.8%	14.2%	1.3%
5/2/2018	59.5%	0.0%	43.8%	14.4%	1.3%

SOURCE: BLOOMBERG

Economic and Rate Data

Quarterly Yield Change

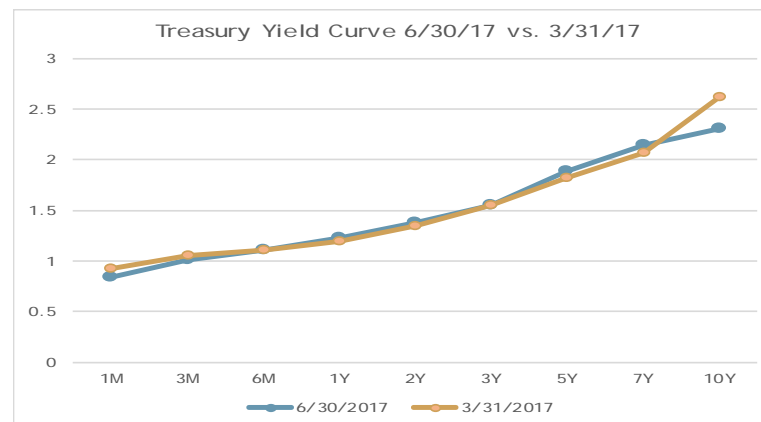
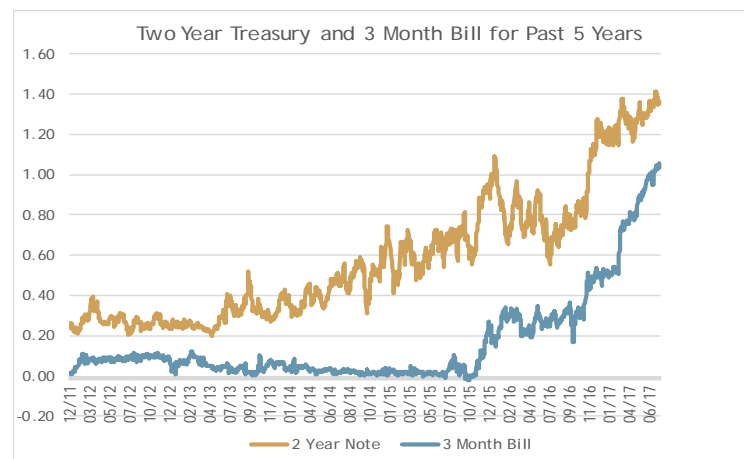
	16-Jun	16-Sep	16-Dec	17-Mar	17-Jun
3-month bill	0.26	0.28	0.5	0.75	1.01
2-year note	0.58	0.76	1.19	1.26	1.38
5 year note	1	1.15	1.93	1.92	1.89
10-year note	1.47	1.6	2.44	2.39	2.3

Economists Survey Projections for Rates

	Q3-17	Q4-17	Q1-18	Q2-18
Fed Funds	1.35	1.5	1.65	1.85
2 Year	1.56	1.74	1.89	2.09
10 Year	2.48	2.67	2.79	2.89

Economist Survey Projections

	Q3-17	Q4-17	Q1-18	Q2-18
Real GDP	2.20	2.30	2.50	2.40
CPI(YOY%)	2.30	2.10	2.00	2.30
Unemployment	4.40	4.30	4.30	4.20



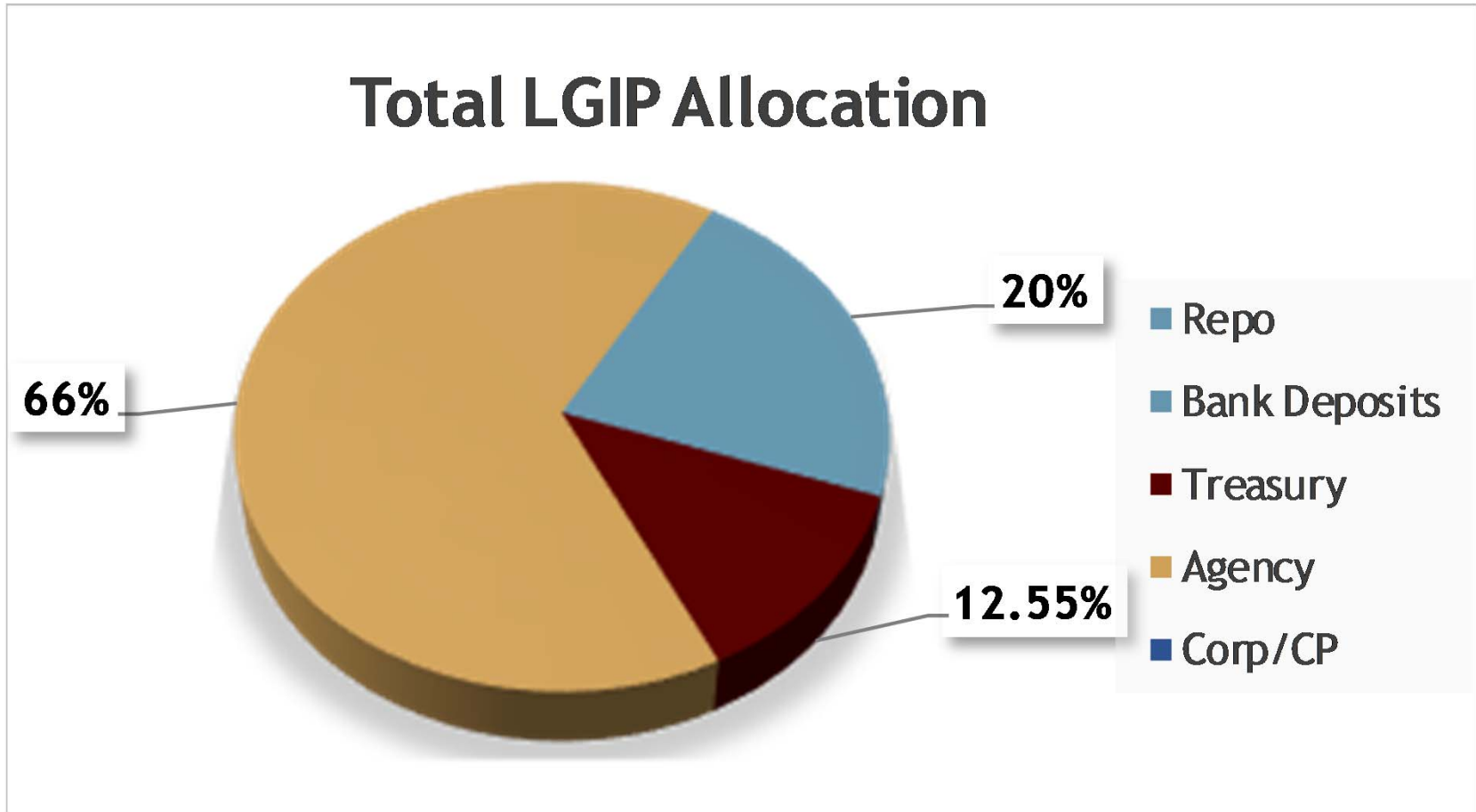
Performance of LGIP in Yield

LGIP FUND	Market Value	Days	6/30/2017	Earnings Yield
			Quarter End Yield	6/30/16-6/30/17 Fiscal Year
LGIP 30 Day Gross Yield	\$ 885,076,477	54	0.966%	0.56%
S&P LGIP Govt Pools Gross Return		34	0.900%	0.56%
LGIP 30 Day Net Yield			0.916%	0.51%
S&P LGIP Govt Pools Net Return			0.750%	0.41%

Information provided by JP Morgan, STO QED system and S&P

6/30/17	CHANGE IN PORTFOLIO FROM 6/30/16-6/30/17							
	Market Value+int	Repo	Bank	Treasury	Agency	Corp/CP	STIF	Other
6/30/2017 \$	885,076,477	20.37%	1.52%	12.55%	65.56%	0.00%	0.00%	0.00%
6/30/2016 \$	750,598,952	31.31%	7.29%	2.01%	59.39%	0.00%	0.00%	0.00%
Change over Period \$	134,477,525	-10.94%	-5.77%	10.54%	6.17%	0.00%	0.00%	0.00%

LGIP Asset Allocation as of 6/30/17



Rankings to Other State LGIP's 1st Quartile are prime funds plus longer maturity

	<u>As of 5/31/2017</u>		
	Daily	7 Day	Monthly
Oregon Short-Term Fund			1.45%
Utah Public Treasurers Investment Fund			1.29%
1st Quartile	1.15%		
Florida Prime		1.15%	
Massachusetts Muni Depository Trust Cash		1.12%	
Texas CLASS		1.10%	
Virginia State Non-Arb Program SNAP		1.10%	
CalTRUST Short Term Fund			1.08%
Florida CLASS		1.08%	
Texas LOGIC		1.08%	
Texas TexPool Prime		1.07%	
Colorado ColoTrust Plus+		1.06%	
Maine State Treasurer's Pooled Cash			1.05%
Montana Short-Term Investment Pool		1.04%	
West Virginia Money Market Pool		1.04%	
Ohio State Treasury Asset Reserve STAR OH	1.03%		
Michigan CLASS		1.02%	
Texas Lone Star Corp Overnight Plus		1.02%	
Texas Lone Star Corp Overnight		1.00%	
Florida FLGIT Local Govt Day to Day Fund*		0.98%	
Florida FLSAFE		0.98%	
California PFM Asset Mgmt Program		0.97%	
Colorado CSAFE		0.97%	
Virginia LGIP		0.97%	
Illinois Metro Investment Convenience Fund	0.96%		
Nevada LGIP			0.96%

Source: Tracs Financial

Rankings to Other State LGIP's Top Level of 2nd quartile is Prime with Commercial Paper

	2nd Quartile	0.95%	
California LAIF		0.94%	
Illinois Institutional Investors Trust (IIIT)			0.93%
Pennsylvania PFM PLGIT Prime			0.93%
Michigan PFM Schl Dist Liq Asset Fund+ - Max			0.92%
Pennsylvania INVEST Daily			0.92%
Idaho LGIP			0.91%
Kansas Municipal Investment Pool	0.91%		
Wisconsin Investment Series Coop Investment	0.90%		
Pennsylvania INVEST Community		0.89%	
Minnesota PFM Schl Dist Liq Asset Fund - Max		0.88%	
New Hampshire Public Deposit Investment Pool		0.88%	
Washington LGIP			0.87%
Indiana TrustIndiana		0.85%	
Maryland MLGIP		0.85%	
Connecticut Short-Term Investment Fund		0.84%	
Georgia Fund 1			0.84%
New Jersey Cash Management Fund			0.82%
Minnesota MNTrust Investment Share		0.81%	
Missouri PFM Securities Investment Program		0.81%	
Orange County Money Mkt Fund			0.81%
Illinois Funds Money Market Fund		0.80%	
Pennsylvania Schl Dist Liq Asset Fund Liq		0.80%	
Alaska Muni League Investment Pool AMLIP	0.79%		
New Mexico MexiGROW LGIP		0.79%	
Tennessee LGIP			0.79%

Source: Tracs Financial

NMSTO – LGIP POLICY OBJECTIVES

Objectives: Safety, Liquidity and Return

Safety is addressed through asset diversification and credit quality.

Liquidity is addressed through maturity distribution, cash flow analysis and overnight investments.

Return is achieved through the selection of maturity and value between repurchase agreements, bank deposits and US Treasury or Agency securities.

NMSTO – MANAGING RISK

*Ranking on Interest rate risk: **LOW***

Interest rate risk, which represents the negative impact on market value if interest rates move up. The LGIP pool remains within the policy constraints of a weighted average maturity of under 60 days.

*Ranking on Credit risk: **LOW***

Credit risk, which is the risk associated with the ability of the issuers to pay its debt obligations. The portfolio continues to be invested in high quality securities with the majority of investments held in US Agency securities and fully collateralized repurchase agreements or bank deposits. There is no corporate or commercial paper holdings.

Ranking on Reinvestment rate risk: **LOW**

Reinvestment rate risk is minimized through the optimization of cash flow analysis and investing to near the weighted average maturity maximum of 60 days.

Sensitivity Analysis

SENSITIVITY ANALYSIS

Weighted Average Maturity:	54
Book Value from QED:	883,826,191.00
Market Value (NAV):	0.99979
Total \$ Unrealized Loss:	(\$188,450)
Total \$ Unrealized Gain:	\$0
Market Value - QED:	\$883,637,741

<i>Basis Point Shift</i>									Unrealized Gain (Loss)
150	0.996525	0.997297	0.997440	0.997568	0.997683	0.997789	0.998129	\$	(2,149,818)
125	0.997054	0.997708	0.997829	0.997937	0.998036	0.998125	0.998413	\$	(1,822,923)
100	0.997582	0.998119	0.998218	0.998307	0.998388	0.998461	0.998698	\$	(1,496,028)
75	0.998110	0.998530	0.998608	0.998677	0.998740	0.998797	0.998982	\$	(1,169,134)
50	0.998639	0.998941	0.998997	0.999047	0.999092	0.999134	0.999267	\$	(842,239)
25	0.999167	0.999352	0.999386	0.999417	0.999445	0.999470	0.999551	\$	(515,345)
0	0.999695	0.999763	0.999776	0.999787	0.999797	0.999806	0.999836	\$	(188,450)
-25	1.000224	1.000174	1.000165	1.000157	1.000149	1.000142	1.000120	\$	138,445
-50	1.000752	1.000585	1.000554	1.000527	1.000501	1.000479	1.000405	\$	465,339
-75	1.001281	1.000996	1.000944	1.000896	1.000854	1.000815	1.000690	\$	792,234
-100	1.001809	1.001407	1.001333	1.001266	1.001206	1.001151	1.000974	\$	1,119,128
-125	1.002337	1.001818	1.001722	1.001636	1.001558	1.001487	1.001259	\$	1,446,023
-150	1.002866	1.002229	1.002112	1.002006	1.001910	1.001824	1.001543	\$	1,772,918

<i>Redemption/Inflow</i>	-30%	-10%	-5%	0%	5%	10%	30%
<i>O/S Shares</i>	618,678,334	795,443,572	839,634,881	883,826,191	928,017,501	972,208,810	1,148,974,048

$$\text{Shift Upon NAV} = \text{NAV} - (\text{APM}/365) * (\text{Bp}/10,000)$$

$$\text{Dilution Upon NAV} = (\text{NAV} + \text{Change}) / (1 + \text{Change})$$

Source: S&P rating matrix

* Provided by STO on S&P Report

Note: Market Value of LGIP differs on S&P report from JP Morgan report

Key Points of Focus in the STIC Monthly Reports

GPA reports on the following key measures:

Asset Allocation:

- 1) Present the current asset allocation by funds.
- 2) Present the changes in asset allocation over the quarter.
- 3) Present asset allocation change fiscal year to date basis.

Performance Measurement and Risk Management:

- 1) Provide a comparison of the duration targets for each investment fund relative to the established benchmark duration.
- 2) Provide a return comparison over the last quarter, fiscal year and rolling one year period on the investment relative to the established benchmarks.
- 3) Potential price changes on the portfolio given changes in interest rates – Shock Analysis for the LGIP.

Investment Strategy Review:

- 1) Provide an analysis on the current strategy
- 2) Considerations based on market outlook and funds objectives

GPA relies on the performance data and information provided from STO's custodial bank JP Morgan, and STO's internal reporting system.

SUMMARY AND TAKE-AWAYS

STO's approach to managing the LGIP with Accountability:

- ✓ S&P Rating of AAAM and oversight on a weekly basis
- ✓ Investment Policy guidelines
- ✓ Benchmark of the S&P Government Pools

STO's approach to managing the LGIP with Confidence:

- ✓ Asset allocation oversight and invests with intention
- ✓ Cash flow analysis and review
- ✓ Broker Dealer relationships
- ✓ Policy compliance

STO's approach to managing the LGIP with Transparency:

- ✓ STIC reports –<http://www.nmsto.gov/stic-binders/LGIP> Section
- ✓ Quarterly oversight report by GPA
- ✓ Information available upon request

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