

WASHOE COUNTY INVESTMENT COMMITTEE

MINUTES OF MEETING

MONDAY, JANUARY 29, 2024
2:00 PM

PRESENT: Alexis Hill, Chair (via Zoom)
Justin Taylor, Treasurer
Eric P. Brown, County Manager (via Zoom)
Abbe Yacoben, Chief Financial Officer
Cathy Hill, Comptroller

STAFF: Trenton Ross, Legal Counsel, Washoe County District Attorney's Office
Brenda Mathers, Chief Deputy Treasurer, Washoe County Treasurer's Office
Marissa Kuckhoff, Administrative Assistant I, Washoe County Treasurer's Office
Casey McDonald, Office Assistant, Washoe County Treasurer's Office (Via Zoom)

MEEDER: Rick Phillips, Senior Vice President, Chief Investment Strategist, Meeder Public Funds

OTHER: Robert Andrews, Accounting Manager, Washoe County Comptroller's Department (Via Zoom)
Debra Crowley, Senior Financial Analyst, Truckee River Flood Management (via Zoom)
George Robison, Executive Director, Truckee River Flood Management Authority (via Zoom)

The Washoe County Investment Committee met in the Comptroller's Conference Room of the Washoe County Administration Complex, located at 1001 East Ninth St., Reno, Nevada. Treasurer Justin Taylor called the meeting to order, and Marissa Kuckhoff, Administrative Assistant I, called the roll. It was established that quorum was present, and the Committee conducted the following business.

AGENDA ITEM 2 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: "Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee's agenda."

Treasurer Taylor called for any public comment and there was none.

AGENDA ITEM 3 – MINUTES [FOR POSSIBLE ACTION]

Agenda Subject: "Possible approval of minutes for the Washoe County Investment Committee's October 25, 2023, meeting. Board members may identify any additions or corrections to the draft minutes as transcribed."

Treasurer Taylor introduced this agenda item, called for any corrections, and there were none. Chief Financial Officer Abbe Yacoben moved to approve the minutes and Comptroller Cathy Hill seconded. The motion passed unanimously.

AGENDA ITEM 4 – INVESTMENT SERVICES AGREEMENT – REPORT ON STATUS OF REQUEST FOR PROPOSAL (RFP) [NON-ACTION ITEM]

Agenda Subject: "Report by Treasurer on status of RFP for Investment Services."

Treasurer Taylor introduced this agenda item and gave the following update. In the interest of prudence and transparency, after the acquisition of FHN by Meeder investments, we have gone out to Requests for Proposal (RFP) for investment management services. Washoe County joined the State of Nevada in this process, and the RFP was released January 25th. The deadline for proposals is February 29, 2024. Shortly after the deadline, there

will be an evaluation process and presentations with a notice of award expected toward the end of April. Comptroller Hill asked who would be sitting on the panel for presentations for the Treasurer's Office and Treasurer Taylor replied that the Chief Deputy Treasurer, Brenda Mathers, would be on the panel.

AGENDA ITEM 5 – UPDATE AND DISCUSSION REGARDING WASHOE COUNTY'S INVESTMENT PORTFOLIO [NON-ACTION ITEM]

Agenda Subject: "The October-December 2023 quarterly report will be provided, and Committee Members may discuss the report. Presentation by FHN Financial Main Street Advisors on the following: Washoe County's Investment Portfolio Strategy discussion and Economic Update."

Treasurer Taylor introduced this agenda item and Rick Phillips with Meeder Public Funds presented the quarterly report.

ECONOMIC AND MARKET UPDATE

Phillips gave the following economic overview of the market.

Introduction to Meeder Public Funds

Phillips explained that his team was with FHN for over ten years. Phillips recalled that in March of 2023, regional banks started having issues because of what was occurring with the Fed Fund hikes. It was determined that Phillips's team wanted to be with a purely investment company rather than a bank and broker dealer. Phillips explained that prior to the change, FHN was the largest investment manager in the State and, now that they have joined Meeder, they are the second largest in the country. Meeder Public Funds adheres to a similar philosophy and has resources beyond what FHN had available.

12 Paramount Principles of Public Fund Investment Programs

- 1. Longer Duration Will Generate More Investment Income Over the Long Run**
- 2. A Detailed Asset/Liability Matching Model (aka: Cash Flow Model) is a Must**
3. Interest Rate Risk (WAM/Duration) Should Match Cash Flow Metrics
- 4. Credit Can Enhance Income, But Duration is the Bigger Determinant of Income**
5. Prudent Diversification Among Asset Classes and Investment Types/Maturities
6. You, I...Nor Anyone Else Can Time the Market Accurately Over the Long Run
7. Limit Optionality (Callables) in the Portfolio
8. The Goofiness of GASB 31—Gains are Bad and Losses are Good! (The Unrealized Kind)
9. Understand the Risks of Funds in LGIP and Other Pools (JPAs, Bond Funds)
10. Follow GAAP (Generally Accepted Accounting Principles)
11. Benchmark Your Investment Program and Portfolio in Multiple Ways
12. Tell the Story: Provide Quality, Timely, Transparent Reporting

Employing Probable Expectations:

Increasing the likelihood of long-term success for the Investment Program (SLI-Safety, Liquidity, Income).

Principal Preservation > Investment Income

"The Investment Portfolio is the only place in local government where revenue can be generated without assessing taxes or fees".

Cash Flow Modeling

Cash flow needs are studied to capture longer duration.

Longer Duration Will Generate More Investment Income Over the Long Run

Monthly Yield: Clark County NV Pool vs. NV LGIP

Phillips explained that when interest rates go up, a shorter maturity portfolio will go up faster as maturities roll off and the money can be reinvested. When looking at the average fiscal year yields, there have been five years (including the current fiscal year to date) where the shorter pool has produced more income, but over the long run, the portfolio generated an additional 53 basis points per year.

It is noted that County Manger Eric P. Brown joined the meeting by Zoom.

Highest Year Ending Yields Since 2006... 17 Years Ago

Phillips reviewed historic data showing U.S. Treasury Yields from 1989 through 2023. Several events, including the Gulf War, 9/11 Dot.com Recession, Great Recession, and COVID all pushed yields low.

Credit Can Enhance Income, But Duration is the Bigger Determinant of Income

Corporate Spreads and ABS Spreads to Treasuries over time from 2000 to 2023 were reviewed. There has been an increase in Asset Backed Securities as they have increased in value and are AAA rated, higher than Treasuries. If there are enough funds and not as much liquidity is needed, the mortgage market may have additional value.

The County's "Shopping List" of Securities is Limited... For Very Good Reasons

Nevada Revised Statutes dictate the investments allowed by the County. Projections vary greatly among investment strategists.

2023: Lots of Volatility and Not Much Change... Where Next?

Economic/Market Major Indicators... The Primary Drivers of Interest Rates

Fed is Not as Dovish as the Market... We Expect the Fed to Be More Correct

- The Fed is much less dovish than the market, partly due to inflation remaining above their 2% target in their projections.
- There are eight 2024 Fed meetings. The futures market is pricing in about six 25 basis point cuts in 2024, the Fed is projecting only three.
- The market and the Fed hasn't done a great job predicting Fed Funds this cycle.

U.S. Treasury and Fed Funds Rates

- The last Fed hike was July 2023, about 6 months ago.
- Since 1984, the Fed cuts an average of about 8 months after the final hike of a cycle.
- The longest pause was right before the Great Recession.

Will Inflation (PCE Core) Hit the Fed's Target 2% This Year?

- Inflation has declined materially the cycle peak in summer of 2022.
- Bloomberg's survey shows CPI at a YOY 2.3% for Q4 2024 and PCE Core (the Fed's favorite inflation metric) at YOY 2.4% for Q4 2024.

Monthly and YOY CPI Data

- Lower energy costs have really helped inflation decline the past few months.
- Shelter (housing/rent) is the largest component of CPI.
- It has remained stubbornly high the past year.

Rent Inflation Data YOY% Change

- Shelter inflation is a lagging component of inflation.
- Many economists expect to see shelter inflation decline in 2024.

“In-N-Out Inflation Gauge” ... They Weren’t Alone in the Large Price Increases

- In-N-Out’s inflation of different menu items has ranged from up 12% to up 23.5% from May 2021 to Dec 2023.
- Hamburgers having the highest and shakes the lowest over this time period.
- In-N-Out wages have increased materially as well since May 2021.

Leading Economic Index YOY

- The Conference Board’s Leading Economic Indicators has been an accurate recession predictor in the past.
- It’s been below -5 for the past 8 months.
- When it has gone to that level or below in previous cycles, a recession has occurred.

Conference Board’s LEI Components

- The stock market component has been a positive for LEI.
- The “non-financial” components have been the drag.

U.S. Growth (GDP)

- U.S. GDP is project to slow in 2024, but not be negative.
- The Atlanta Fed’s GDPNowcast has had a better predictive track record recently.

U.S. Job Openings

- Job openings have declined substantially the past year.
- But they are still elevated as compared to the past.
- The unemployment rate is 3.7% and has been below 4% for about 2 years. That is unusually low.

U.S. Treasury and Fed Funds Rates the Past 12 Months

- Intermediate and longer rates have fallen considerably since October 2023.
- This is due primarily to somewhat softer economic data and a more dovish Fed.

PORTFOLIO METRICS AND INFORMATION

Portfolio Summary

The three main objectives of the portfolio are safety, liquidity, and income. Phillips reviewed information as of December 31, 2023, for the Sector Allocation, Maturity Distribution, Credit Quality, Account Summary, Month-End Portfolio Book Yield, and Top Issuers. The maturity distribution is waited mostly in the 0-1Year (41.1%), followed by the 1-2Year (21.0%), and 4-5Year at 20.4%. The sector allocation is controlled by Nevada Revised Statute.

Historical Book Values

The historic book value for the portfolio ending 12/31/2023 was \$923.4 million.

Yield At Cost Per 6-Month Maturity Intervals

Phillips reviewed the yield at cost of maturities by percentage of the total portfolio.

Historical Earnings & Book Return Performance

The fiscal year-to-date earnings and the fiscal year-to-date book return were shown by month. At the end of December 2022, the fiscal year to date earnings for the portfolio totaled \$3,854.67(\$K) and at the end of December 2024, the fiscal year to date earnings for the portfolio totaled \$10,610.01 (\$K).

Investment Policy Compliance

The Washoe County Portfolio is in compliance with Nevada Revised Statutes and the Investment Policy.

Treasurer Taylor thanked Phillips for the report and moved to the next agenda item.

AGENDA ITEM 6 – COMMITTEE MEMBER COMMENTS [NON-ACTION ITEM]

Agenda Subject: “This item is limited to announcements or issues proposed for future agendas and/or workshops.”

Treasurer Taylor called for any committee member’s comments and there were none.

AGENDA ITEM 7 – PUBLIC COMMENTS [NON-ACTION ITEM]

Agenda Subject: “Comments heard under this item will be limited to three minutes per person and may pertain to matters both on and off the Committee’s agenda.”

Treasurer Taylor called for public comment and there was none.

AGENDA ITEM 8 – ADJOURNMENT [NON-ACTION ITEM]

Treasurer Taylor adjourned the meeting.

Attachments to Minutes



Agenda Item 3 -
2023 10 25 Minutes



Agenda Item 5 -
Washoe Co 1-29-24.