CLARK COUNTY FINANCE COMMITTEE
First Quarter 2022

Alishia Topper, Chair
Greg Kimsey, Secretary
Karen Dill Bowerman, Council Chair

MINUTES

Call to Order & Introductions
The meeting was called to order on May 17, 2022, by Finance Committee Chair Alishia Topper at 9:30 am via Webex. The Finance Committee members present were County Council Chair Karen Bowerman, Treasurer Alishia Topper and Auditor Greg Kimsey. Also present were Sara Lowe, Rachel Wilson, Amira Ajami, Hannah Swift, Nashida Cervantes, Deanne Woodring and Rashad Masri. Joining as a guest was County Manager Kathleen Otto.

Topper began by inviting introductions.

Topper called for approval of minutes from Q4 Finance Committee meeting. Greg Kimsey made a motion to approve the minutes as presented. Karen Bowerman seconded the motion, the motion carried with unanimous approval.

Investment Policy Review and Approval
Topper explained that each year the Treasurer's Office reviews the Investment Policy and it is an item on the agenda that needs to be reviewed and adopted. The Investment Policy by state statue is the responsibility of the Finance Committee.

Topper stated the Policy was emailed to Bowerman and Kimsey in advance of today's meeting for review and a hardcopy was provided with tabs calling out the separate items that correlate with the cover memo. Three specific topic areas were outlined for discussion: administrative revisions; establishing a custom benchmark; and changes to the Net Asset Value (NAV) language. Topper asked Rachel Wilson, Senior Management Analyst Investment Officer, to provide background on the amendments up for consideration.

Amendment Recommendation Housekeeping Items:
Wilson began by stating the Policy is a living document that governs how the portfolio is managed and the treasurer's office strives to ensure its relevant and as current as possible. The administrative edits proposed ensure statutory references are current and the document has terminology consistency. The reference to the Clark County Investment Pool (Pool) size was updated to reflect the balance at year end. Having this in policy gives context to how much money is being managed.

Wilson asked for questions and clarification on how to vote on each proposed amendment. Topper responded that that each topic area would be a separate motion.

Topper asked for questions on the housekeeping edits. Kimsey asked for the reasoning behind eliminating the sentence and description "...the risk of using a NAV instead of a dollar in, dollar out..." from the information statements and service agreements. Topper clarified that those amendments would be discussed during consideration of the second motion. Kimsey made the motion to approve the housekeeping recommendations as presented in the memo. Bowerman seconded the motion. Motion passed 3-0.

Amendment Recommendation 1A: XVIII. Risks and 1B: XXVII. Clark County Investment Pool

Topper introduced the second proposed amendments which included changes to the NAV. Wilson explained that the NAV is in three different sections of the policy: XVIII Risks, XXIII Reporting and XXVII Clark County Investment Pool. Under the Risks section, the current language allows for the Treasurer to take action as deemed appropriate relating to the NAV, however, under the Clark County Investment Pool section, the current language states the county will sell securities to bring the NAV back into the Policy bandwidth. Policy language needs to change to be consistent and allow for discretion and prudence. Wilson addressed Kimsey's earlier question, the reasoning behind eliminating the sentence and description "...the risk of using a NAV instead of a dollar in, dollar out..." from the information statements and service agreements. She stated that we no longer have the information statement document because it was mostly duplicative of the policy and all relevant information has been streamlined into the Policy and the newly revised service agreements. Topper agreed and advised there was duplicate references in the Policy, it is also in another section of the policy on page 18, marked 1B.

Kimsey asked if the treasurer's office informs investors that they are taking on risks. Topper responded that the risks associated with the Pool is outlined in the Policy. Topper added she fully supports the recommended amendment but is open to hearing an amendment to the amendment.

After a lengthy discussion that allowed for Kimsey to express his concerns and receive responses, Kimsey stated the amendment should include the language "risks will be described to investors in a written form." Topper confirmed that the amendment to section 1 A is to add a paragraph saying risks shall be described in writing to Pool participants.

Kimsey, moved to approve the NAV recommended amendment with two changes, to include a risk disclosure requirement and to include a disclosure requirement for material changes to the policy. Bowerman seconded the motion. Motion 2 passed 3-0.

Amendment Recommendation 2a: XXI. Performance Standards

Wilson described the recommended amendment is to replace the current performance benchmark with a custom benchmark to reflect current management. The treasurer's office uses a 1-year benchmark that does not match the management of the Pool. The change will be to a customized benchmark that was developed in consultation with our investment advisor Government Portfolio Advisors (GPA).

Topper invited questions. Kimsey expressed a concern that this change leaves it up to the treasurer's office to define what customized benchmark to use.

After discussion Lowe asked Deanne Woodring with GPA for her thoughts as she was integral in helping develop the customized benchmark. Woodring agrees with amending it to say approved by the Finance Committee and it should be tied to the risk profile of the portfolio. Thus, aligning a benchmark to the risk and the objectives of the participants and approved by the Committee so there is additional oversight into selecting the customized benchmark.

Kimsey, moved to approve the amendment recommendation with one change. The amendment adds additional oversight to the custom benchmark selection via approval by the Finance Committee. Bowerman seconded the motion. Motion 3 passed 3-0.

Lowe asked if all recommended policy amendments were agreed upon and adopted, Topper confirmed. She advised the Policy with the amendments will be sent to Bowerman and Kimsey for their signature, and once signed will be posted on the Treasurer's website.

Topper asked if the committee would like to finish the agenda since the meeting was extending past its scheduled time, all agreed to continue.

Market Update

Deanne Woodring from GPA began by discussing the implied Fed Funds target rate chart. She explained that the federal funds expectations accelerated meaningfully in the first quarter as tight labor markets and continued inflation pressures forced the Fed to ramp up. Given the inflation numbers and coming out of the pandemic, we have experienced one of the fastest rising rate environments in history, resulting in price changes to the portfolio. The unusual part of the market is that the market has moved without the Fed making changes until the most recent 25 basis point hike. The market anticipates that the market will drop in 2024. This is what caused the uncertainty and dramatic movement between December 31, 2021, where the 2-year note was yielding 0.75% and today where it is yielding 2.768%. That's a 200 basis points increase in rates occurring in one quarter, with most of that happening in March of last quarter. Over the long run this will mean higher returns for participants.

Shifting Fed expectations led to a surge in yields and a flattening of the interest rate curve beyond the 3-year mark. Yields inside 2-years are expected to climb up as additional Fed hikes occur. Wilson said the previous year we were ahead of State Pool earnings by $8.8 million and last year we were ahead by $7.1 million.

Looking forward to how the economy will hold up, markets are pricing in a rate path above that of the last cycle while the Fed's projections are largely in-line with the last rate cycle. Our job is not to predict where the rates are going, but to work within the rates and manage the risk profile of the portfolio. Corporate spreads are one of the risk issues we are focused on. Spreads widened out marginally during the first quarter as risk assets struggled in the backdrop of a more hawkish Fed, slowing economic growth and geopolitical events.

In summary, first quarter growth looks set to slow due to impacts from the Omicron COVID variant as well as a slowdown in the industrial and manufacturing segments of the economy. We ended the quarter neutral on corporate credit and municipal spreads and underweight on agency spreads given the lack of supply and spread. We expect continued pockets of volatility in spread in various sectors that may provide an opportunity to add additional high-quality issuers at attractive levels. Inflation data and the underlying components will continue to be closely monitored for signs of relief. We expect headline inflation to print higher in months ahead due to energy and food price impacts, however we are seeing early signs of relief in select goods sectors and a rebuilding of inventories that may help cool inflation in the back half of the year.

Total Investment Overview

Woodring explained the structure of our portfolio ties to our Policy. GPA reports on what types of securities we are holding and a compliance report showing what we own relative to the Policy constraints. In securities, we currently have about 25.6% in U.S. Agencies, 24.3% in U.S Treasuries, 11.8% in Corporates, and 17.4% in the State Pool. The duration and the maturity of the portfolio are both approximately 1.33 at the end of the quarter. Woodring stated the compliance report shows that the Treasurer's Office was in full compliance, except for the NAV. The NAV was out of compliance at quarters end.

Woodring invited questions and Kimsey asked, how has the Clark County Investment Pool done against the market benchmark? Woodring answered that the benchmark performed at -1.98 and the portfolio performed at -2.00. Wilson added that we are well diversified, and we have found opportunities to invest while maintaining sufficient liquidity.

Investment Report

Wilson began by reporting as of March 31, 2022, the Pool ending balance was $1.08 billion, of which 17.0% was invested in the State Pool (LGIP). Over the quarter Clark County's balance changed slightly. The balance increased from 37.5% to 40.3% and school district balances decreased from 44.3% to 43.0% as bond proceeds were spent down. First quarter's average book return was 0.60%, the LGIP's average was 0.15%. We have been able to hold onto yield as much as possible, and current yields are steadily increasing. The 12-month rolling average total market return, which includes changes in market value, was -1.86%; 1-year treasury benchmark was -0.67%. Our effective duration is at 1.33 years, higher than the benchmark of 0.95 years. As of March 31, 2022, the NAV is $0.980291.

The committee reviewed quarterly activity, notably the purchases of $15 million in U.S. treasuries, $10 million in U.S. agencies, $6 million in municipal bonds and $5 million in corporate bonds. We also had $61 million in maturities. Wilson invited questions and Kimsey asked about the comparison between the County Pool vs the benchmark. He noted that the Pool had a shorter duration and a 23 basis point less return. The benchmark had a longer duration, but a better return than the Pool. Why is that? Wilson responded that it depends on the make up in the specific period. The benchmark is broad as far as what area of the curve you can be in so even though the average is 1.30, if its heavily weighted in cash, you could still have a different return. Woodring added that there is also a difference in a corporate exposure vs a treasury exposure; the benchmark is 100% treasury exposure.

Debt Report

Amira Ajami, Financial Services Manager, shared at the end of fourth quarter, the outstanding debt for Clark County was just over $66 million and the debt for all other districts was about $1.3 billion. Our bond rating continues to be at a Aa1. The county has a low debt burden with remaining general obligation debt capacity at about $2 billion and remaining non-voted general obligation debt capacity at $1,982,630,259. The county's internal line of credit is $5 million.

Current and upcoming debt issues include Educational Service District 112 debt payoff of $260 thousand in February 2022; Evergreen School District bond proceeds of $40 - $50 million in Q3 2022; semi-annual debt payment of approximately $32 million in June 2022; and the Public Facilities District sales tax rebate extension. Other items to note includes, Moody's credit rating service is adjusting its metrics for evaluating counties and cities, REET internal loan is being reviewed for early payoff and the timeline to change the internal line of credit to the Secured Overnight Financing Rate (SOFR) from LIBOR is extended to June 2023.

Topper explained that the remainder of the debt report is a table of all outstanding debt by district, detailed by issuance.

Good of the Order & Adjournment
Topper asked for questions or comments for the good of the order. Lowe announced that the Debt Policy was accredited by the Washington Public Treasurers Association (WPTA). Topper thanked everyone. With no other items of business, Topper adjourned the meeting at 10:59 am.

Prepared by: *Nashida Cervantes*
Nashida Cervantes

Submitted by: [signature]
Auditor Greg Kimsey