REGIONAL TRANSPORTATION COMMISSION OF WASHOE COUNTY (RTC)
INVESTMENT COMMITTEE MEETING

Tuesday	**2:00 p.m.**	**January 25, 2021**

PRESENT:

Stephanie Haddock, CGFM, RTC Director of Finance/CFO
Nelia Belen, RTC Accountant
Hannah Yue, RTC Accountant
Monique Spyke, Managing Director, PFM Asset Management LLC
Bill Thomas, AICP, RTC Executive Director

ABSENT: **Jelena Williams, RTC Financial Manager**

The RTC Investment Committee Meeting was held on January 25, 2021 at 2:00 p.m. via Zoom and was called to order by Stephanie Haddock. The following business was conducted:

ROLL CALL

Present: Nelia Belen, Stephanie Haddock, Monique Spyke, Bill Thomas, Hannah Yue

Absent: Jelena Williams

Item 1 APPROVAL OF AGENDA

Stephanie Haddock: It is 2:05 p.m. Can I can have a motion for approval of the Agenda?

Nelia Belen: I move to approve the Agenda.

Stephanie Haddock: I have a motion, can I have a second?

Bill Thomas: Second.

Stephanie Haddock: Thank you. All those in favor say Aye.

Response: Aye.

Stephanie Haddock: Motion passes.

Item 2 ***PUBLIC INPUT***

Stephanie Haddock: There is no public input, so we will move on to the approval of the October 27, 2020 meeting minutes.

Item 3 **APPROVAL OF MINUTES**

Stephanie Haddock: Did everyone have a chance to look at the minutes, and were there any changes that we needed to make?

Nelia Belen: I didn't find any changes, so I move for the approval of the minutes.

Hannah Yue: Second

Stephanie Haddock: All those in favor say Aye?

Response: Aye.

Stephanie Haddock: Motion passes.

Item 4 ***DISCUSSION OF THE RTC DEBT SERVICE RESERVE INVESTMENT PERFORMANCE AND POSSIBLE APPROVAL OF A RECOMMENDATION TO BE PRESENTED TO THE RTC BOARD OF DIRECTORS***

Monique Spyke: We start every presentation with a Summary of Market Conditions, just to put in context of where we are in the market and what our options are with regard to reinvestments. We do have some cash in the portfolio and there are just a couple of thoughts on where that cash may be deployed.

I'll start with the Market Update. There has been a lot of focus, as we all know, on the Corona Virus for the past year or so. This 4th Calendar Quarter was no different. In the 4th Quarter we saw a big resurgence of the Virus due to colder weather, and a more prolific strain of the spread of the virus due to the holiday season, and many instances where the caseloads increased significantly.

The good news in the 4th Quarter with regards to the Corona Virus of course was the distribution of the vaccine. As we know, the vaccine distribution was not as prolific as we may have hoped, but as we continue on in 2021, we are seeing more robust distribution plans for the vaccine.

For the economy we've seen some continued recovery, such as the unemployment rate, which I will talk more about in a moment, but that has been positive. Other positives have been household wealth, savings for consumers, and all things pointing to the ability to bounce back and continue to bounce back. Consumers are in great shape, however the impact of the Pandemic hasn't been felt evenly. For those of us that we would call white collar workers, we are able to work from home. Those employers and workers have been able to adjust fairly quickly. Whereas essential workers who were front line workers did not fare as well. Some of those employees had to jump out of the economy due to having to care for children, etc., so that impasse is not evenly felt.

Jumping to the market, there was a lot of focus on the Presidential Election in the 4th Calendar Quarter of the year. The market at this point, has for the most part moved on from that election. We have seen the soft markets rally, we've seen the yield curves deepen a little bit. I'll also talk about that in a moment. The Fed has continued to comment on their commitment to accommodating the markets by anchoring in that 25 basis point range. The thought being that as the Fed continues to do that, it will help support consumers and will also support business for consumer spending activity.

Lastly, this shows Fiscal Stimulus is on the way. President Biden has made that a key part of his initial set of priorities, trying to pass additional stimulus to help combat the economic loads associates with the Pandemic.

With the economy, we still have a long way to go for recovery. Two of the primary metrics we look at with regard to economic health are of course GDP and what is the economy producing? Then the other thing we look at is unemployment. So, we know GDP-wise we have some place to go, we have 2-3 more percentage points than they thought, and just given the size of our economy, that's about $800-900 Billion of economic activity that we have to sort of create in order to get back to where we were pre-pandemic.

The unemployment picture is also the same in some ways. We've been able to recover some of those jobs that were lost as a result of the Pandemic. I saw a figure this morning that said, "Worldwide, there were probably 255 million jobs lost across the globe due to this Pandemic". This statistic focuses primarily on the United States and we've seen some bounce back in those job numbers. The unemployment rate at the end of the year was at 6.7%, which is a far down from the high of about 14% last year. So, there has been some recovery in Nevada and I want to say the last unemployment rating that I saw showed an unemployment rate around 10%, which is down from 11.9% last October. So again, we are not where we were before the Pandemic, but all in all, those numbers are still very positive.

Other things to think about in the market that we want to pay attention to is starting from the top left of Page 3, Consumer Confidence. I like to think of Consumer Confidence as a forward looking measure. The more confident consumers are, the more likely they are to feel comfortable spending their money and putting money in the economy, which is really what drives that GDP engine, with consumer spending being 70% of GDP. We've had some ups and downs in consumer confidence that you can see here. There was a big drop at the beginning of the Pandemic. The 4th Quarter had a big resurgence from the virus that really put consumer confidence down. As the vaccine moves forward, and as more people get vaccinated, we are fairly confident that that number will go back in a positive direction.

Personal Spending MoM% also saw big decreases here at the start of the year. We've seen personal spending pick back up, and there is a very interesting graphic in the next few pages that is going to talk about what that spending has been, how much disposable income is available, and that is going to be a big harbinger of our ability to recover from a GDP perspective.

Other things that are positive, we've seen home sales continue to be a bright spot in the economy as people have taken advantage of low barn rates and the ability to be less anchored to a specific locale for work. They started buying homes in different parts of the country, moving out to the suburbs and taking advantage of bigger spaces as a lot of remote workers were able to explore their options.

Other positives is manufacturing. When you see manufacturing above this black line, it shows that we are producing and folks are manufacturing, those are all good positives to the economy.

In the 4th Quarter, Congress did pass another Pandemic relief bill of $900 billion. You'll be happy to see here about $45 billion of that went to local transportation efforts. I'm not sure if any of that was directed or helpful to the RTC, but it was nice to see some of that going to some local agencies across the country. Other things that were able to benefit from this package include an additional $325 billion to small businesses through the PPP program. They did change some of the requirements for that program in an effort to really target more specifically to businesses that had specific income losses. They provided direct checks to individuals, increased the unemployment benefits and extended the time frame that folks would qualify for unemployment. Also, $82 billion went to schools and $69 billion went to vaccine testing and tracing. It is hoped that the next Pandemic relief package will expand on some of these categories, but from what we are hearing so far, some of that money will go to continue to support schooling vaccination efforts and providing some more direct checks to individuals.

Other economic support that is being provided and maintains to be provided is the Fed keeping the interest rate at that anchor point, that 0-25 basis points, to keep borrowing costs low in the market. That continues to support some asset purchase programs where they are purchasing certain types of bonds for the market. They continue to have the Pandemic Unemployment Assistance Program, which really expanded unemployment to take care of some of those workers that did not previously qualify. Those types of workers include Gig workers and Uber drivers.

The last thing in terms of support was reducing bank reserve requirements. Allowing banks to lower the amount they have to keep in reserves and hopefully allowing them to do more with that money rather than keeping it on hold at the bank.

This is my favorite slide of the quarter, on Page 5, I think this really speaks to where the optimism is coming from that we'd be able to get back to a more solid footing in the economy. The chart on the left, shows Personal Savings in the U.S. The bottom red line is consumer spending, which essentially is what happens with the spending in the economy and this chart goes back to 2006. The top blue line is disposable income. So, essentially how much money do consumers actually have to spend, and the difference between those two things is savings. So what we've seen during this Pandemic is the savings has increased. And why has the savings increased? Well, we know it's an unnatural phenomenon as consumers have, in some instances, been prevented from spending with a lot of the closures in place. Ordinances requiring restaurants to close and/or reduce capacity to 25%, hair salons closing, what have you, very different ordinances across the country, State to State, in some instances unfortunately County by County within the same State. The hope is as things return to some since of normalcy as the vaccine gets more widely distributed, that the consumer spending number will continue to increase. As you notice, disposable income actually ratcheted it up in some cases. The hope is that as folks get out, we will see sort of a resurgence. The fact is that folks are just dying to get outside and go to restaurants, the movies, dancing, etc.

The other thing that is really interesting to note is household wealth on the chart on the right, and you can see this also increased significantly during this Pandemic. Some of that has to do with savings, a little bit has to do with equity returns that we've experienced this year, which I'll show you in a moment. In general, wealth has been a net increase. Some combined equity in the market, the additional savings, and even the housing prices going up really resulted in a net increase in wealth overall. All of those things bode well for the economy and on a going forward basis.

Other things to think about is that the Fed is also showing hope for further recovery. What I have on here is the same sort of matrix, but the projection of this matrix is GDP and Unemployment. The Fed is projecting that GDP will recover this year from -2.4% at the beginning of the Pandemic to 4.2% in 2021, as consumers get out and spend some of that wealth with some of those savings that were created, which I showed on the prior slide. Then that projection ramping down in 2022 and 2023 until we get back to sort of a more normal 2.5%, which is where we have been for the most part.

Then on the right, are the Unemployment projections. Unemployment has been recovering faster than anticipated. Again, it ended December at about 6.7%. You can see the projections for unemployment in 2021 are expecting to end the year at 5.9%; then 4.2% in 2022 and 3.7% 2023. That is a little bit closer to where we were pre-Pandemic.

So it may take a couple of years to go to get back to where we were, but quite frankly given the breadth and scale of the Pandemic, these are really good projections.

What does that mean from an income perspective? I've mentioned the two times that the Fed has committed essentially to keeping that Fed Funds Target Rate at the 0-25% level. For the most part, we are contemplating investing the RTC's reserve in this area of the yield curve. As you can see, interest rates are fairly low. Traditionally, our investment strategy has been to keep those reserves fairly liquid in the 1-5 year range on average, but those yields are anchored fairly low where we are reinvesting in low rates in general. So, what are we looking for? We're trying to find ways to create some income opportunities.

This past quarter for example, we reinvested some of the reserve funds in a Federal Agency Security and met our duration target. We want to make sure that if you do need to use those reserves, we're not going to pay a big penalty if we need to sell. So, we're trying to keep it in what we call sort of a short duration space. Meaning it's not going to fluctuate in value very much, but it's still going to provide you with some income.

The opportunities for income in this area of the yield curve are fairly limited. When we keep the available investments to agencies and treasuries, this means they are also further limited.

One of the things that we've done in the past is look to adding some Corporate exposure to the portfolio. We stepped away from that strategy, probably a couple years ago, and just focused on Federal Agencies, using less Treasuries. You can the graphics (Page 8) that show Federal Agency Yield Spreads, and going sort of across the credit curve, showing different credit instruments. I'm going to focus on these two on the left, because this is really where we focus your investments. One of the things you'll notice about this chart is that spreads for the most part have come in. Before the Pandemic, looking at the Corporate spread, we were getting probably an additional 30-40 basis points for Corporate credit. At that time, pre-pandemic, we didn't think that wasn't an attractive wobble for that risk in the portfolio. Then at the height of the Pandemic, I would say the higher the market volatility, those yield spreads spike up. Why didn't we jump in on that yield spike? There are a couple reasons, one, most of our clients are public sector investors. We wanted to stop, take a look back, and see how the Pandemic was going to affect the Corporate issuers. So, we didn't want to jump in because the yield was sort of the last criteria for our clients' portfolio including yours.

As the market recovers, you'll notice these spreads have come down again, so we are once more in the market where we are not getting a lot of additional income to incorporate credit risk. What is unique about this environment versus the pre-pandemic environment, is that the yield curve overall is low. So whereas before, you know 20-30 basis points wasn't too attractive, that 20-30 basis points becomes more attractive when that double, or in some cases triple, yield available on US Treasury Security. So that's just something to think about.

Federal Agencies have a very similar story, this chart above here, where pre-pandemic you weren't getting a lot of value, quite frankly with Federal agencies, there was earned trading right on top of Treasury. During the Pandemic and from last year that situation changed and we tried to add to the agency allocation in the portfolio, which we did.

Other things just to note, the Corporate space was a space last year where there was a lot of return provided. So, just looking at these versus Treasuries, AA and AAA Corporate and A Corporates, you can see they provided some return here. I like to include BBB Corporates just as a proxy. We don't buy BBB Corporates for the most part, but some BBB issuers are considered investment grade. That BBB plus area. So, I think it is informative. It may be worth considering, once again, whether we want to add Corporates for a portion of the portfolio. Again, that's not something we've done for the past few years, but given where the rate environment is, that may provide some additional income potential.

The last couple of things I want to note, this is just making the case that Corporates have provided good return versus Treasury in the agencies over the last year in 2020. We think on a going forward basis it's going to be very hard to find income in the Treasury and Agency markets, given these low yields. Corporates need to be one area where we can add some exposure.

My last chart is the S&P 500. This chart is great because I always say, if you're just looking at this chart and you see an 18.4% yearly return in 2020, you wouldn't really think there was a Pandemic happening or that anything happened in 2020. That is until you take this chart out and you can see how the market really reacted. Huge decline in returns, then the first Pandemic relief bill passed, and then as the market got used to what was going on, it fairly recovered.

There is some concern around the Presidential election. I think the market has recovered for the most part and on a going forward basis, focusing on that consumer spending in the hope that the market will return to full health and that the consumer will help pick up some of that slack.

Any questions on the market before I turn to the Portfolio? None.

For the Portfolio Review, there is about $8 million in the portfolio, all those shaded areas are for Series 2010EF. You can see here that the majority of the portfolio is in the Federal Agency sector, again really trying to find income. We have about $1.2 million in the Money Market fund that we want to deploy, we are currently evaluating opportunities in the Agency space. There is the Treasury space as well, but we are looking for any income opportunities that are going to be outside of Treasuries for now.

One of the things we do want to consider is if we're comfortable making recommendations for Corporate Notes and if that is an option. Our philosophy is fairly conservative with Corporates, but when you have a very robust credit review, it prompts us to analyze and be sure that we would recommend, but we're still doing that risk return analysis. We are evaluating whether the additional income we received for that Corporate is worth the risk inherent investing in Corporate. Just having that option doesn't necessarily mean that that is the recommendation we would make. But I think we have not been looking at Corporates, as we shied away from them a couple years ago. That is a question for consideration whether we want to look at Corporates, if they are permitted by the policy, we just haven't recommended them, but we can continue our practice of evaluating opportunities, providing those recommendations for execution to the CFO's office and then make those trades. Then of course by following up by reporting on that activity through monthly statements.

Other snapshots for the portfolio you can see this portfolio is segregated between 1-2 and 2-3 years. We of course have the cash that we want to look to deploy and we would likely be investing in the 2-3 year area or even the 3-4 year area.

The Agency portfolio is diversified, so although we have it all in Agency, we are using different agencies, which are Fannie Mae, Freddie Mac and Federal Farm Credit Banks. You can see it is pretty evenly distributed between the 3.

The portfolio yields have declined as interest rates decline. This chart shows the portfolio yield in blue, compared to the 1-Year Treasury and the 2-Year treasury. So as interest rates had been moving up over the years, we tend to reinvest maturities in the portfolio, so we were able to hold onto some good income. Now we're investing consistently with short term rates. The hope is in adding more diversity will help elevate the income potential in the portfolio, as we have more options other than Treasuries and Agencies.

For the most part we're pretty happy the performance of the portfolio. This chart went back a few years, you see we were able to sort of hold onto some yield even when rates were lower than the portfolio yield on average.

Earnings for the portfolio are about $4000 for the quarter, ending calendar year 2020. Here is your full earnings by year, so again, you can sort of see over the years incomes have shifted, and some of our back income here is in 2017 and 2018, before income started falling again, consistent with interest rates changes.

Lastly, we do think that the economy is really going to turn depending on the speed of the vaccine rollout. What that really means is this return to normalcy is contingent on how comfortable people are getting out and about, and how folks handle the other mandates associated with containing the vaccine. We are watching that. We want to keep the portfolio fairly liquid, but we do want to try to find some income opportunities. So, again, if the Committee is comfortable with Corporates, we could look to adding that as an option for consideration for managing the portfolio. Otherwise we will continue to look for healthy income opportunities in the Federal Agency sector.

That concludes my formal presentation.

Stephanie Haddock: Thank you Monique. I agree, I would like to look at Corporates and our policy allows for up to 20% in that area. I think the goal of having the short term investments as originally thought in the past years was a good strategy for us, mostly because we still had refunding's available to us. Now we've surpassed that point in our debt service and the remaining bonds that we have in the reserves are ones that we are not able to do any refunding's. So maybe in looking at strategies, I would suggest if you think it's a longer term investment that's going to make us more interest, then go ahead and do that, because we're not going to be looking to cash out reserves like we were in the previous two years. We've done that, we've pulled out all the money we expected to pull out from refunding's in 2019 and 2020. All $8 million is sitting there until we pay off the bonds. I think we're safe in the mix of short term versus long term and however that works out for our investment portfolio.

Monique Spyke: Thank you Stephanie.

Bill Thomas: Stephanie, I have a couple questions. So this $8 million, we have it as a reserve, and it's our money, and we have to set it aside because of the bonds we've sold? Then any money we make off of it, is money we get to keep when we pay off the debt, right?

Stephanie Haddock: Yes, that's correct, any interest we earn off of that base investment, the required reserves for the bonds, we can transfer into our Operating accounts and use for Road Projects, but it is restricted to Road Projects.

Bill Thomas: So, those returns that Monique showed over the years, those have gone back into our Fuel Tax Fund?

Stephanie Haddock: Yes, actually what it ended up doing is reducing our overall debt, when we did the Bond refundings in 2019 and 2020, we took the reserves and any interest that we had accrued up to that point or earned up until that point and bought down our debt. So when we refinanced, we were able to refinance a little at a lower over debt number.

Bill Thomas: So, if we pay off our debt, we can involve more stocks and bonds and we just pay off the debt. Is the obligation we have, the $8 million, is that a fixed amount until the bonds mature, or can it adjust based upon the debt we have left to pay the bonds off? In other word, a percentage of the amount we owe, or is it just a flat amount we have to keep?

Stephanie Haddock: It is a flat amount we have to keep and it's per the Bond Covenants and I believe, I'd have to go back and tell you exactly what that is, it's about 20% of our total debt service or something like that, or equal to our final debt service payment, something in that range, I can't remember exactly off the top of my head, but I can report back to you if you'd like on what exactly that means, but it's per Bond Covenants, we have no choice, we can't adjust that amount at all.

Bill Thomas: Then the risk we're able to take is limited by NRS State Law? Is it limited also by the Bond?

Stephanie Haddock: It is. It's more limited by the bond, so one of the interesting things that happened recently in the last Legislature is this investment change in allowability to invest in Asset Backed Securities, however, RTC can't do that, because our Bond Covenants do not allow for that. Unfortunately we were very specific when we did the bonds and what we could invest in. They were the investments that were in the current NRS at the time that we did the bonds, so we did not have the foresight to say whatever NRS says is allowable, so we can only do the Asset, Treasuries and Corporates, so that's what we are limited to.

Bill Thomas: So, why did we turn away from Corporates in the past?

Stephanie Haddock: I'm going to let Monique answer that, she kind of said it in her presentation, but she can go back over it.

Monique Spyke: I think it was the make-up of the Committee and I think there were some members that were more conservative than others. Also, I think PFM is fairly conservative ourselves. I think the yield on Corporate Bonds had been coming down and the question was, "are we getting enough income from this corporate exposure that we would expect to get in the market? At the time, as interest rates were rising, there was other income to be had in Treasury and Agency markets. We felt it was not additional income and maybe didn't justify some trades in that area for this reserve portfolio. Today, I think the landscape looks different. Yield spreads are still tight, however I think yields are so low in the Treasury and Agency markets that if you can get an additional 20-30 basis points that it's doubling the income that you would otherwise receive for just a Treasury obligation. So it essentially changes the economics of that trade.

Stephanie Haddock: I think there was a period of time that Corporates were difficult to get a hold of. At least the ones of the quality that we have to have as a Government.

Monique Spyke: We saw in the past, and this tends to happen in interest rate environments even today, where folks are looking for high quality fixed income assets that provide a real return, as sort of a gold rush to that sector. So, it was hard finding certain Corporates, also harder finding Corporates in the maturity range that we needed. The sort of the 2-Year market becomes more difficult to find a certain Corporate asset. So, unless we have more maturity flexibility looking even further out to that 3-5 year area, I think you'll have better luck.

Bill Thomas: So, I assume you're giving presentations to other clients, as well as your peers that are doing this for other clients you have? What are other clients doing?

Monique Spyke: Our clients are fairly comfortable with corporate exposure. Your total percent limit is sort of right in the pocket of what we're seeing. Some of our clients are able to go further and are taking advantage of that. I think what we're trying to convey is that return expectations going forward are really muted. There is not going to be a price depreciation, there is nowhere for yields to go but up. So, income is really going to be where we'll find opportunities and get income you have to broaden away from Treasuries.

Bill Thomas: So, if there were an economic downturn, would that then drive us back to Treasuries, is that where people go? Where did people go during the Great Recession?

Monique Spyke: Yes, they go to Treasuries. Treasuries were the best performing asset class. I think what we do in this instance is we rest on our credit process. Having that as the plan about jumping in for yields for credit, but being very diligent about the credit we are comfortable exposing our clients to. Right now, for our credit review process we're doing the same things we've done before, like how does industry fair? How does corporation fair within the industry? We are also doing a lot of cash flow tasking analyses on the Corporates. You know, how exposed are they to the consumer? What does their cash flow look like today, what does it look like if things go south again? Where are we comfortable holding it? Each of our Corporates are also allocated to certain maturity ranges. There are some issuers we are comfortable holding for a year, there are some issuers we are only comfortable holding for that year, there are some we are comfortable holding for 5 and/or 10 years.

Bill Thomas: So, when we say to you we want to get back into Corporates, then you guys decide what and how and then come back to us? Or do you give us a menu of how we get into Corporate?

Monique Spyke: No, what we would do is we would know for example that you are comfortable with Corporate recommendation. For every trade we make on this portfolio, we talk to the Portfolio Manager, then my team essentially writes an email memo of recommendation to the RTC CFO's office and says, this is what we want to buy, this is the maturity range, this is the credit, and here is what we think it's going to do, are you comfortable with that buy on this Bond. Then we get the authority to do so and then they can move forward with the execution of that trade.

Bill Thomas: Well, I'm comfortable moving to Corporate, so I don't know, do you just make that decision Stephanie or do we as a Committee make it? I know the Board has to approve it.

Stephanie Haddock: The Board doesn't have to approve it. Our policy says I have authority as CFO to make the trades without the Board's approval. However, I will report to the Board that we had this meeting, this is the direction we are recommending we go and that would be in the Board report to them in February. What will happen from here is Monique will report this back to the Portfolio Manager, and at some point in time they will send me an email recommending that they purchase specific Corporates, and I approve that.

Ok, so I think then that is for action, I think our motion would be to accept Monique's report and that we are going to recommend going forward and purchase Corporates as our investment policy allows.

Bill Thomas: I'll second it. So, question, are you going to say to the Board like what between 1% and 20% of Corporate's is ok?

Stephanie Haddock: Yes, up to our policy which is 20% of our total percent of our total portfolio can be invested in Corporates and the recommendation would be to do this.

Bill Thomas: So, you're going to tell them we are going to go up to 20% Corporate?

Stephanie Haddock: Yes, correct.

Bill Thomas: Ok, got it.

Stephanie Haddock: All those in favor of the motion?

Bill Thomas: I second the motion.

Stephanie Haddock: The motion passes.

Item 5 MEMBER ITEMS

Stephanie Haddock: Anyone have any other Member Items? No other member items.

Item 6 PUBLIC INPUT

Stephanie Haddock: We have no public input.

Item 7 ADJOURNMENT

Stephanie Haddock: We will be scheduling the next quarterly meeting sometime in late April.

Monique Spyke: Thank you all.

Stephanie Haddock: Do we have a motion for adjournment.

Nelia Belen: Motion to adjourn.

Hannah Yue: Second.

Stephanie Haddock: All those in favor:

Response: Aye

Stephanie Haddock: We are adjourned.

The meeting adjourned at 1:45 p.m.

Stephanie Haddock
Digitally signed by Stephanie Haddock
Date: 2021.02.12 14:00:47 -08'00'

Stephanie Haddock, CGFM
Director of Finance/CFO
Regional Transportation Commission

LOCATION

Regional Transportation Commission
1105 Terminal Way, Reno, NV 89502
1st Floor Conference Room, Suite 101

DATE: January 25, 2021
TIME: 2:00 p.m.

REGIONAL TRANSPORTATION COMMISSION OF WASHOE COUNTY
INVESTMENT COMMITTEE AGENDA

Meeting via teleconference/Zoom only pursuant to NRS 241.023 and Emergency Directive 006.

I. Pursuant to Section 1 of Governor Steve Sisolak's Declaration of Emergency Directive 006 ("Directive 006"), the requirement contained in NRS 241.023(1)(b) that there be a physical location designated for meetings of public bodies where members of the public are permitted to attend and participate has been suspended. Pursuant to Section 3 of Directive 006, the requirements contained in NRS 241.020(4)(a) that public notice agendas be posted at physical locations within the State of Nevada has likewise been suspended. Pursuant to Section 5 of Directive 006, the requirement contained in NRS 241.020(3)(c) that physical locations be available for the public to receive supporting material for public meetings has been suspended.

II. The RTC has a standing item for accepting public input on topics relevant to the jurisdiction of the RTC. Because specific items may be taken out of order to accommodate the public and/or the Committee, public input on all items will be received under Items 2 and 6. Individuals providing public input will be limited to three minutes. Individuals acting as a spokesperson for a group may request additional time. Individuals will be expected to provide public input in a professional and constructive manner. Attempts to present public input in a disruptive manner will not be allowed. Additionally, public comment can be submitted by email to mkraus@rtcwashoe.com. The committee will make reasonable efforts to include all public comment received by email. Please provide comments by 5:00 p.m. on January 22, 2021. If Directive 006, Section 2 is no longer in effect at the time of this meeting, then the meeting will be held at the above location at the above date and time, and members of the public may submit public comment in person as well as electronically as described above.

III. The Committee may combine two or more agenda items for consideration and/or may remove an item from the agenda or delay discussion relating to an item on the agenda at any time.

V. The RTC appreciates the publics patience and understanding during these difficult and challenging circumstances.

****ROLL CALL****

1. **APPROVAL OF AGENDA** *(For Possible Action)*
2. **PUBLIC INPUT** - *please read paragraph II near the top of this page*
3. **APPROVAL OF MINUTES**

   Approve the Minutes of the October 27, 2020 Meeting
4. **DISCUSSION OF THE RTC DEBT SERVICE RESERVE INVESTMENT PERFORMANCE AND POSSIBLE APPROVAL OF A RECOMMENDATION TO BE PRESENTED TO THE RTC BOARD OF DIRECTORS** *(For Possible Action)*
5. **MEMBER ITEMS**
6. **PUBLIC INPUT** - *please read paragraph II near the top of this page*
7. **ADJOURNMENT** *(For Possible Action)*

Posting locations: Washoe Co. Admin. Bldg., 1001 E. 9th St., Reno, NV; RTC, 1105 Terminal Way, Reno, NV; 4th STREET STATION, 200 E. 4th St., Reno, NV; CENTENNIAL PLAZA, Victorian Square, Sparks, NV; Sparks City Hall, 431 Prater Way, Sparks, NV; Reno City Hall, 1 E. First St., Reno, NV; RTC website www.rtcwashoe.com; and https://notice.nv.gov

WASHOE COUNTY RTC

Investment Performance Review

For the Quarter Ended December 31, 2020

Client Management Team

Monique Spyke, Managing Director

Robert Cheddar, CFA, Managing Director

PFM Asset Management LLC

50 California Street, Suite 2300
San Francisco, CA 94111
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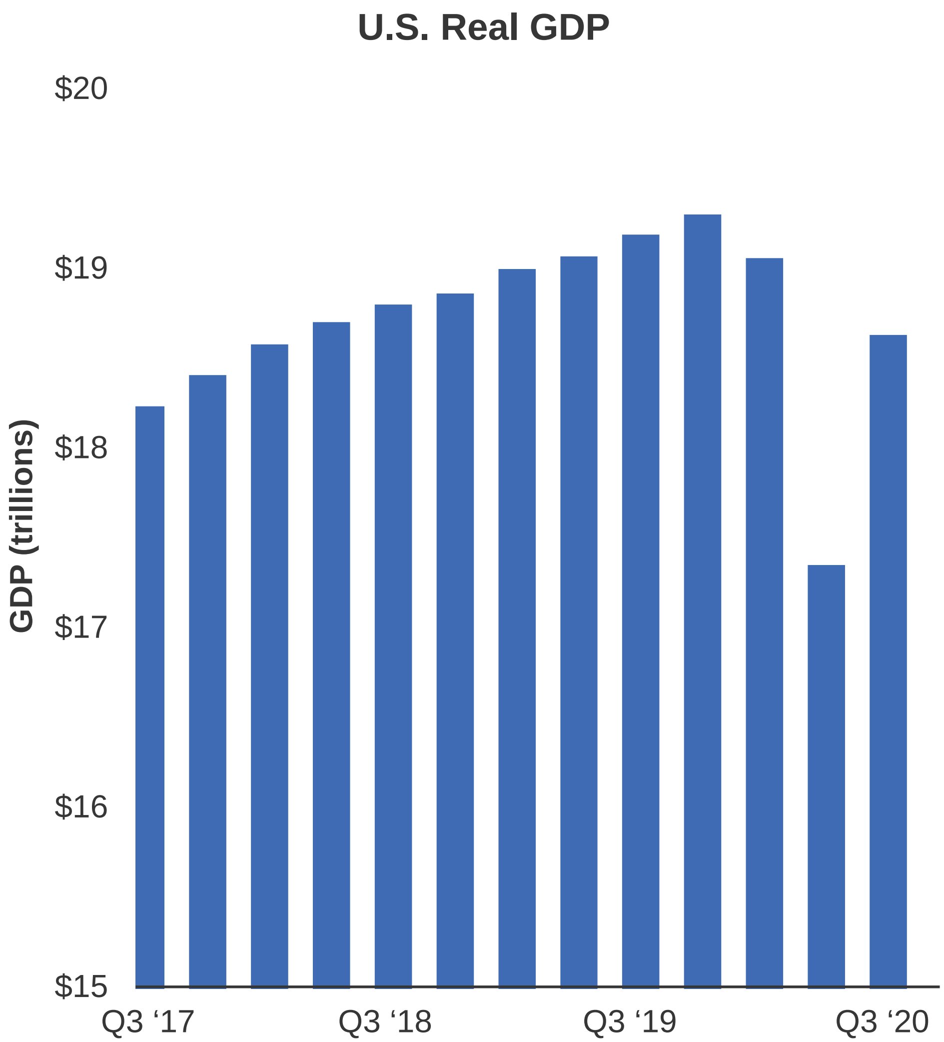
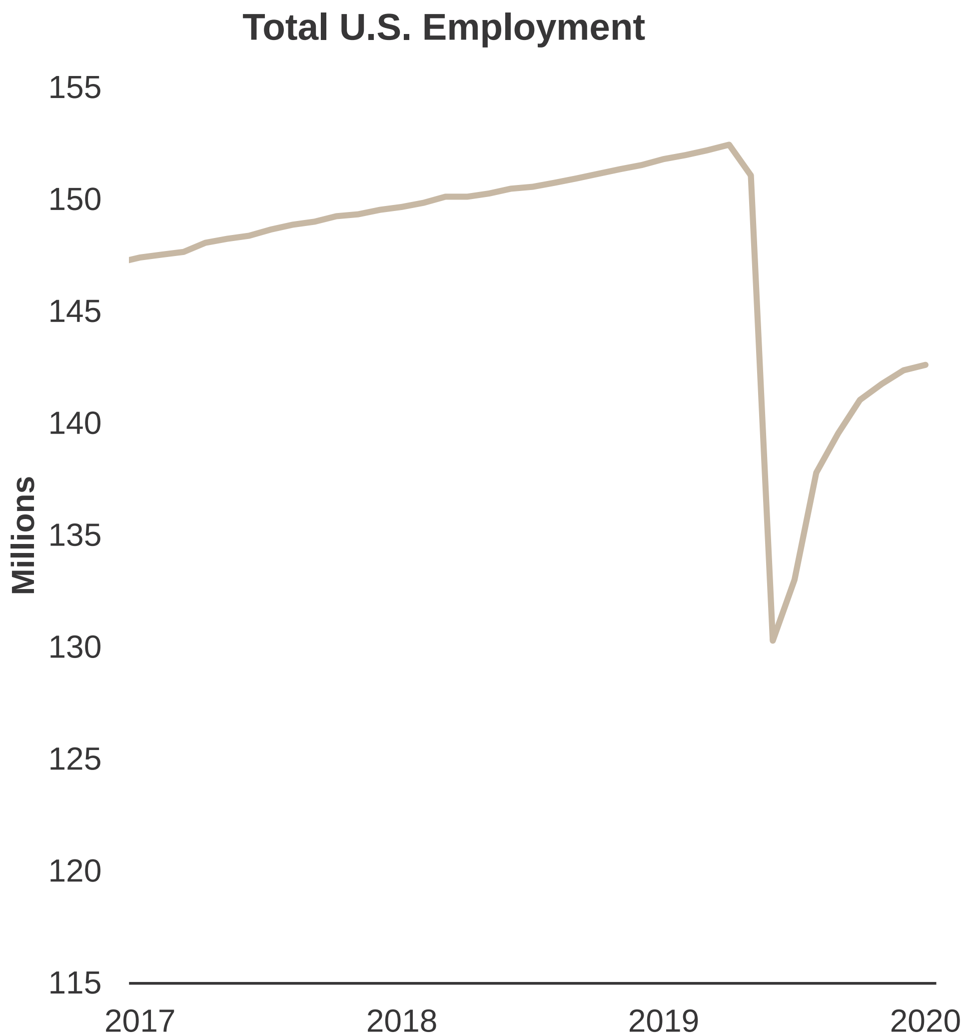
Market Update

Markets Weigh Massive Policy Support Against Economic Challenges

- **Coronavirus**
  - **Resurgence** in fourth quarter due to colder weather
  - Initial distribution of **vaccines**
- **Economy**
  - **Recovery** continues
  - **Big business** built liquidity cushion
  - **Consumers** generally in good shape to drive future spending
  - **Impact of pandemic** not felt evenly
- **Markets**
  - Markets rally after **presidential election**
  - **Fed** committed to strong accommodation
  - Additional **fiscal stimulus** on the way

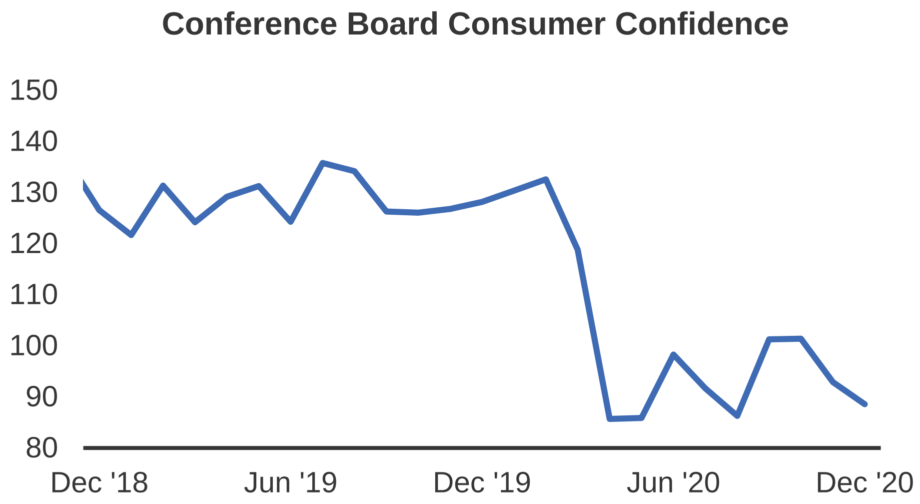
Economy Still Has a Long Road Ahead to Full Recovery

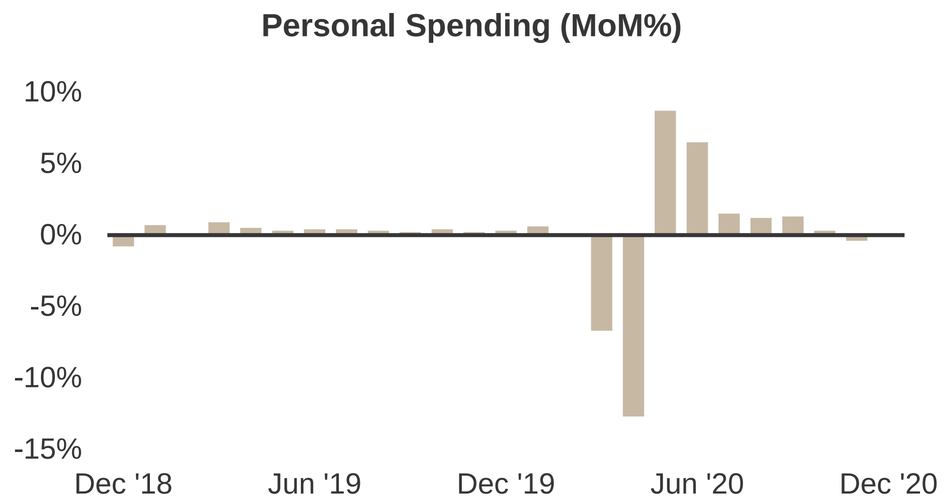


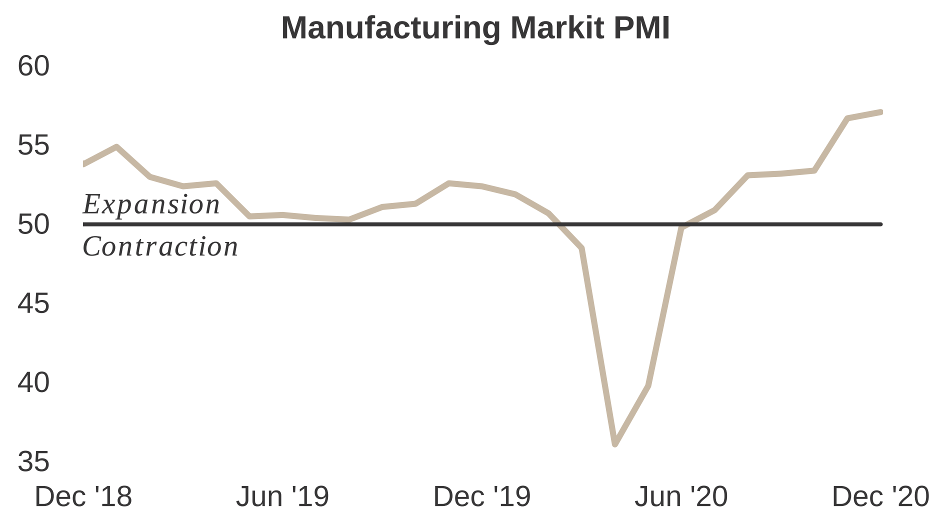


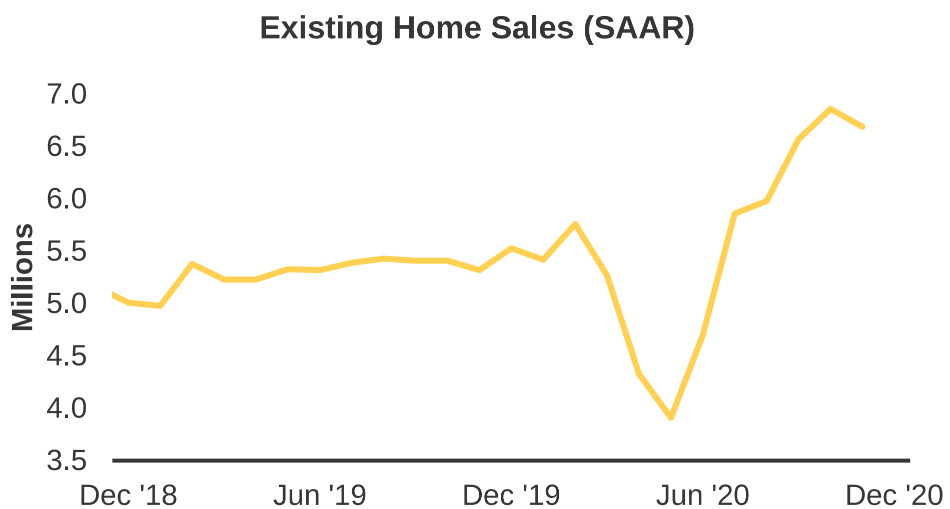
Source: Bloomberg, latest available data as of 12/31/2020. Total U.S. Employment is total non-farm payrolls.

Uptick in COVID-19 Cases Slows Economic Recovery





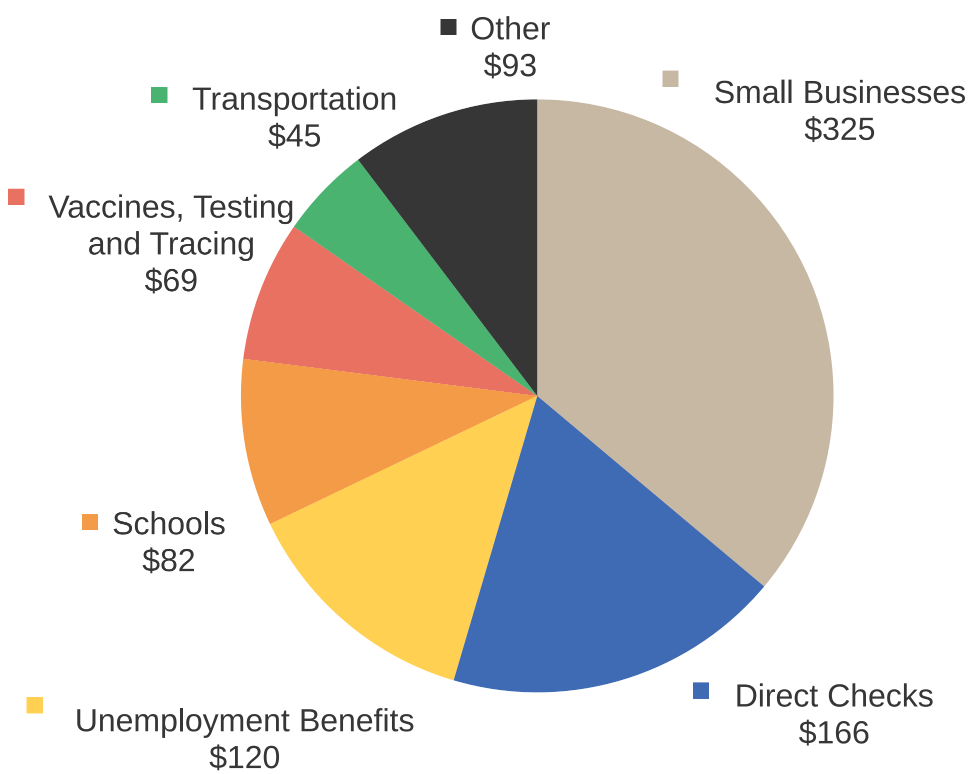




Source: Bloomberg and FRED, latest available data as of 12/31/2020. SAAR is Seasonally Adjusted Annual Rate.

Congress Passes a New $900 Billion Pandemic Relief Package

New Emergency Relief Package, in billions



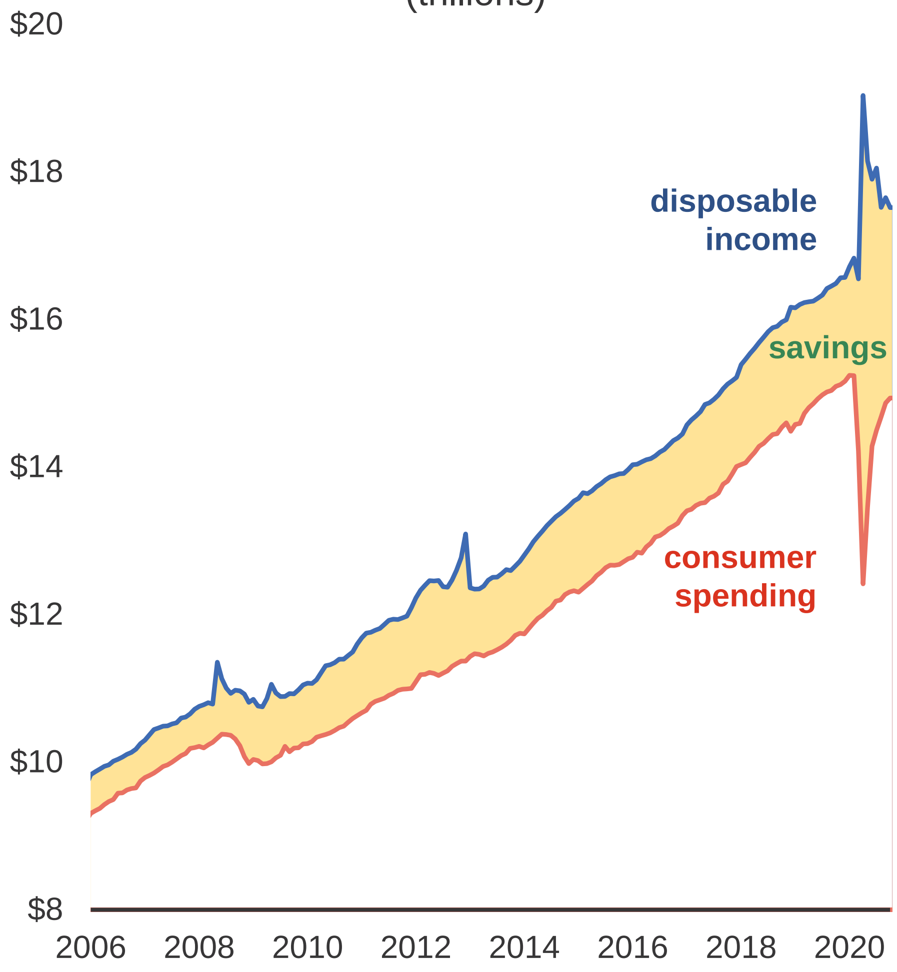
Other Ongoing Economic Support Measures

- Federal Reserve's near-zero interest rate target
- Federal Reserve's asset purchase programs and backstop of multiple asset classes
- CARES Act and Pandemic Unemployment Assistance programs
- Reduced bank reserve requirements, allowing looser financial conditions

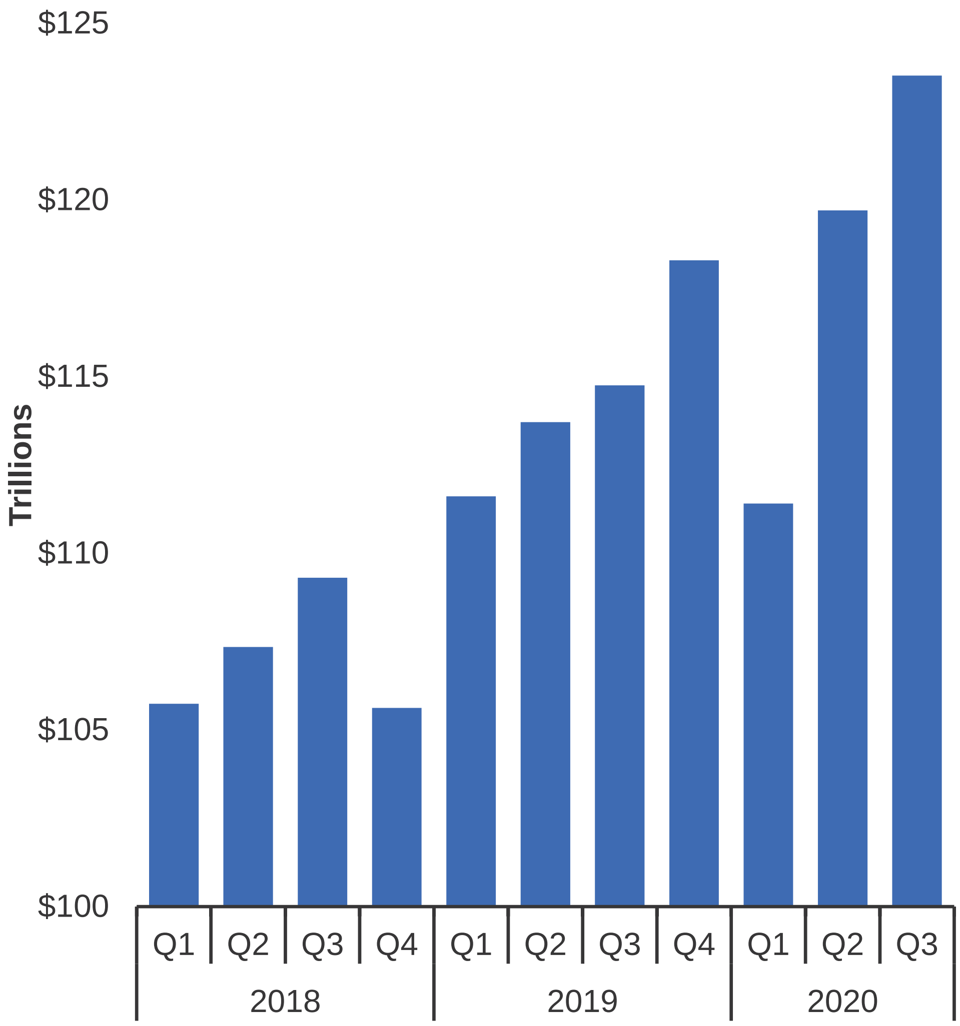
Source: WSJ and Congressional aides, most recent data as of 12/31/2020. "Other" includes support for small banks that serve low-income and minority communities, childcare and broadband services, among other categories.

Accumulated Savings and Wealth Are Likely to Fuel Consumer Spending

Personal Savings in U.S.
(trillions)

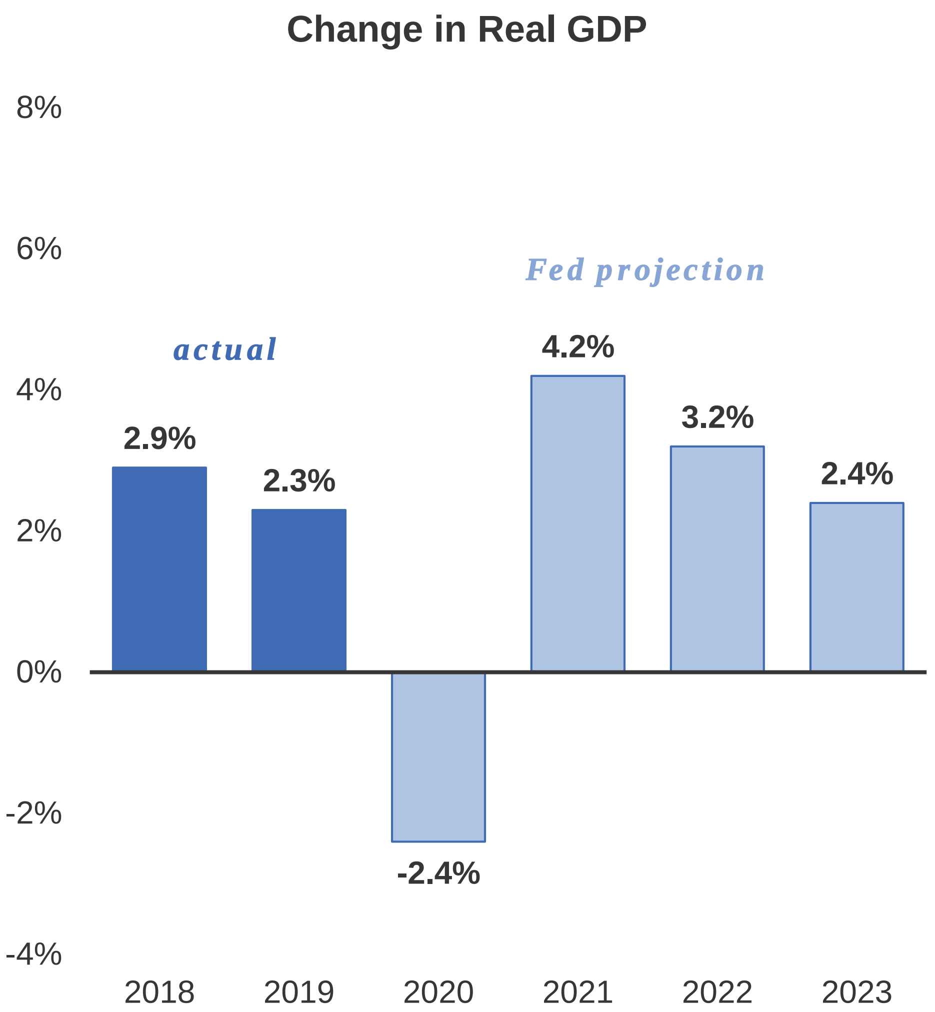


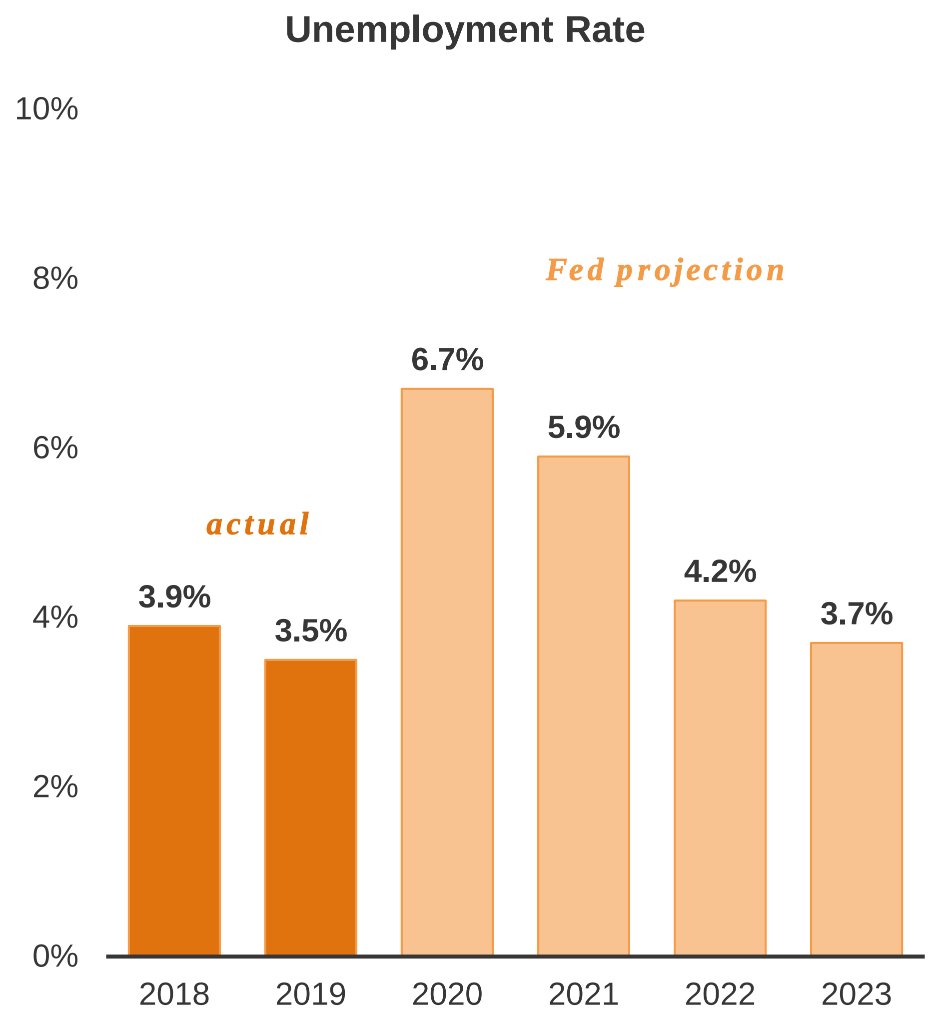
Household Net Worth



Source (left): Federal Reserve, as of December 2020. Sources (right): U.S. Bureau of Economic Analysis and FRED.

Fed Expects Economy to Recover Further in 2021

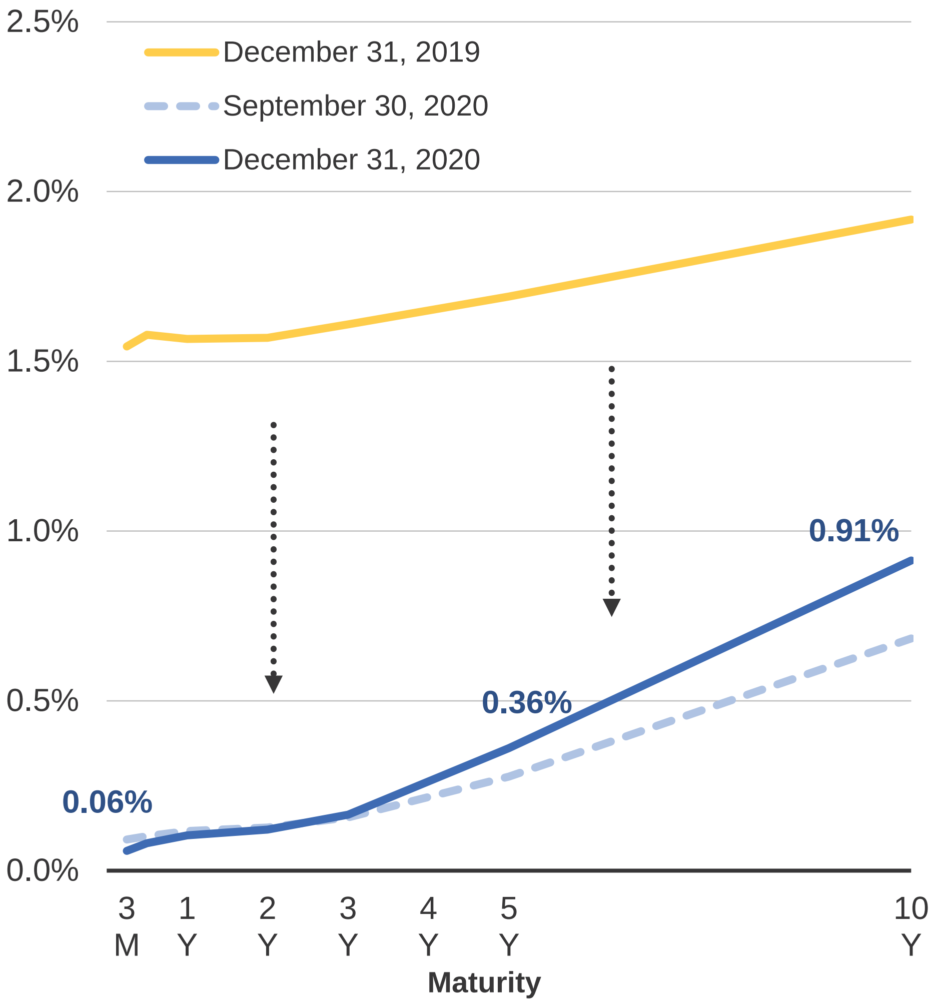




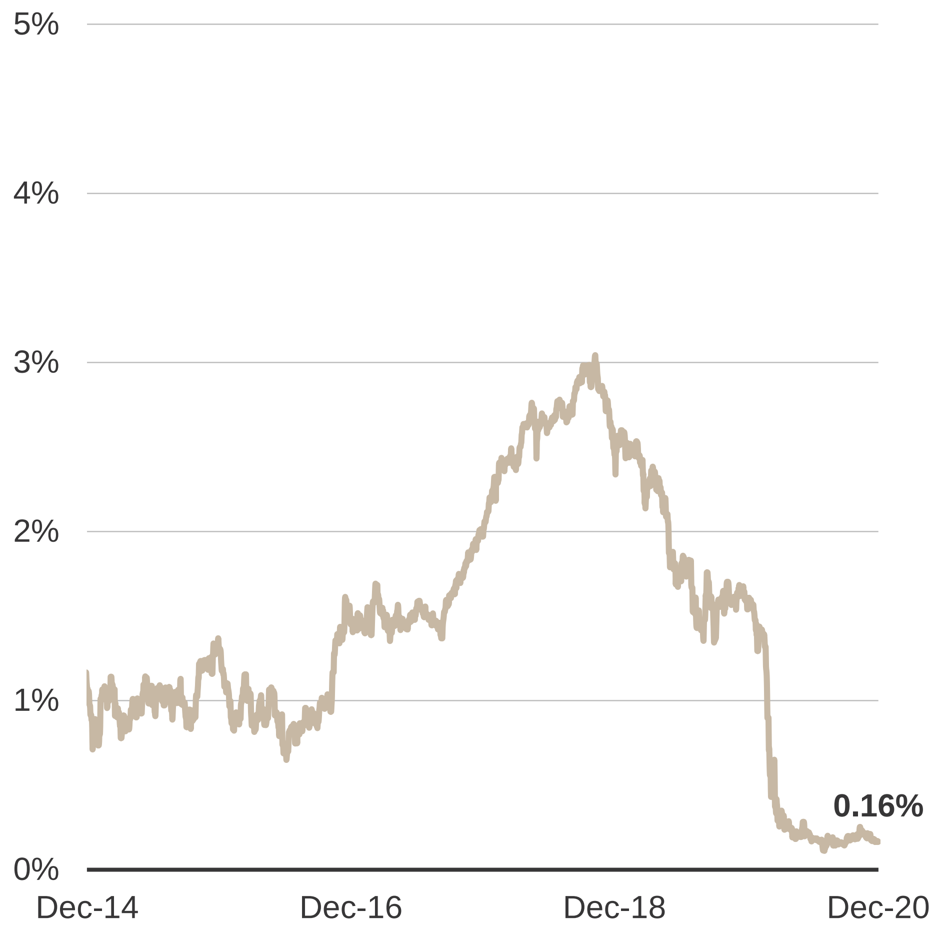
Source: Federal Reserve, economic projections as of December 2020.

Short Rates Were Steady, but the Yield Curve Steepened in Fourth Quarter

U.S. Treasury Yield Curve



3-Year Treasury Yield

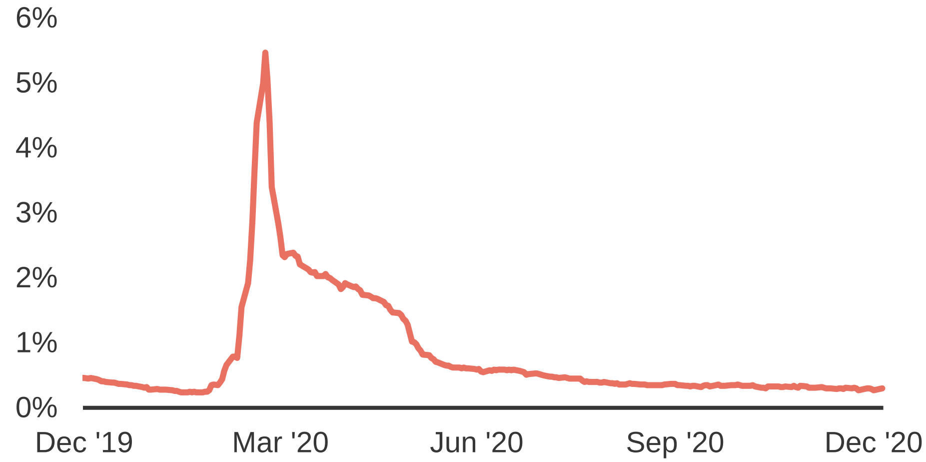


Source: Bloomberg as of 12/31/2020.

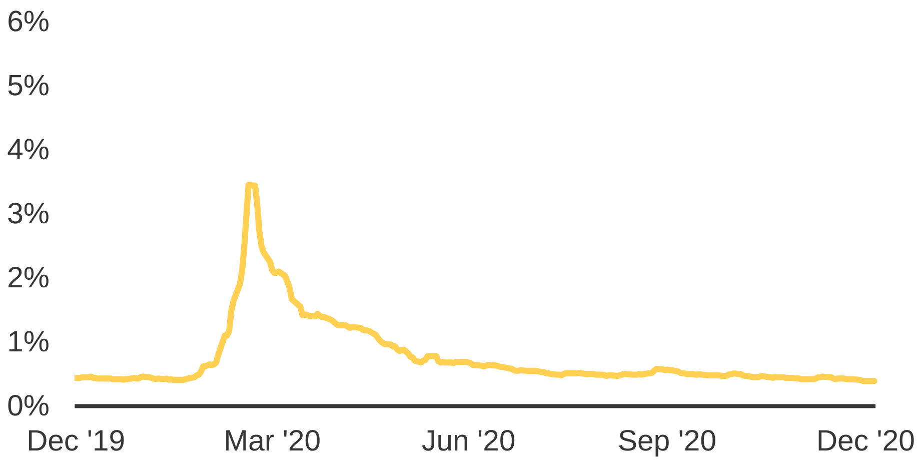
Yield Spread Narrowing Continued During Fourth Quarter

Federal Agency Yield Spreads

Asset-Backed Securities Yield Spreads



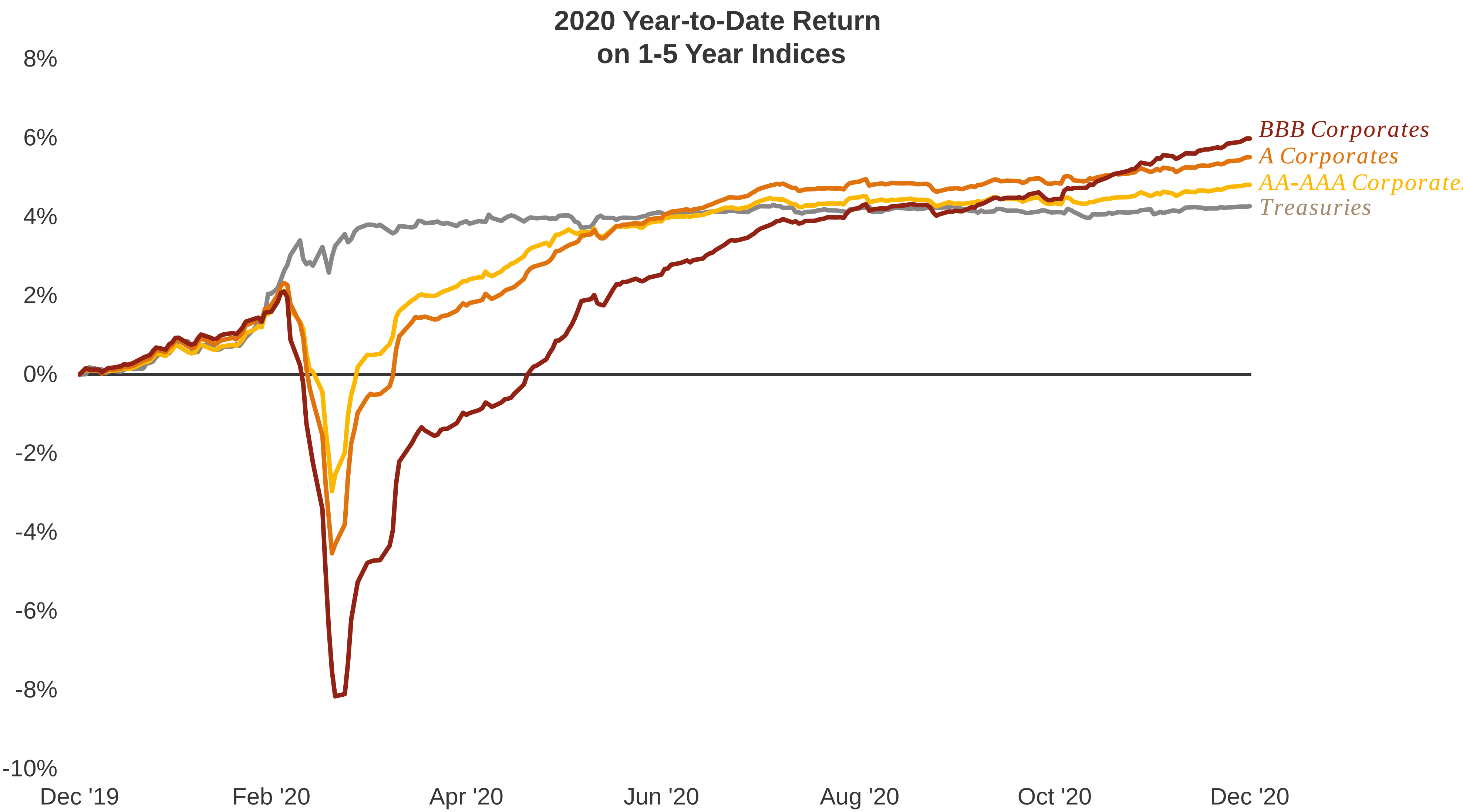
Corporate Notes A-AAA Yield Spreads



Corporate High Yield Spread

Source: ICE BofAML 1-5 year Indices via Bloomberg, MarketAxess and PFM as of 12/31/2020. Spreads on ABS and MBS are option-adjusted spreads of 0-5 year indices based on weighted average life; spreads on agencies are relative to comparable maturity Treasuries. CMBS is Commercial Mortgage-Backed Securities.

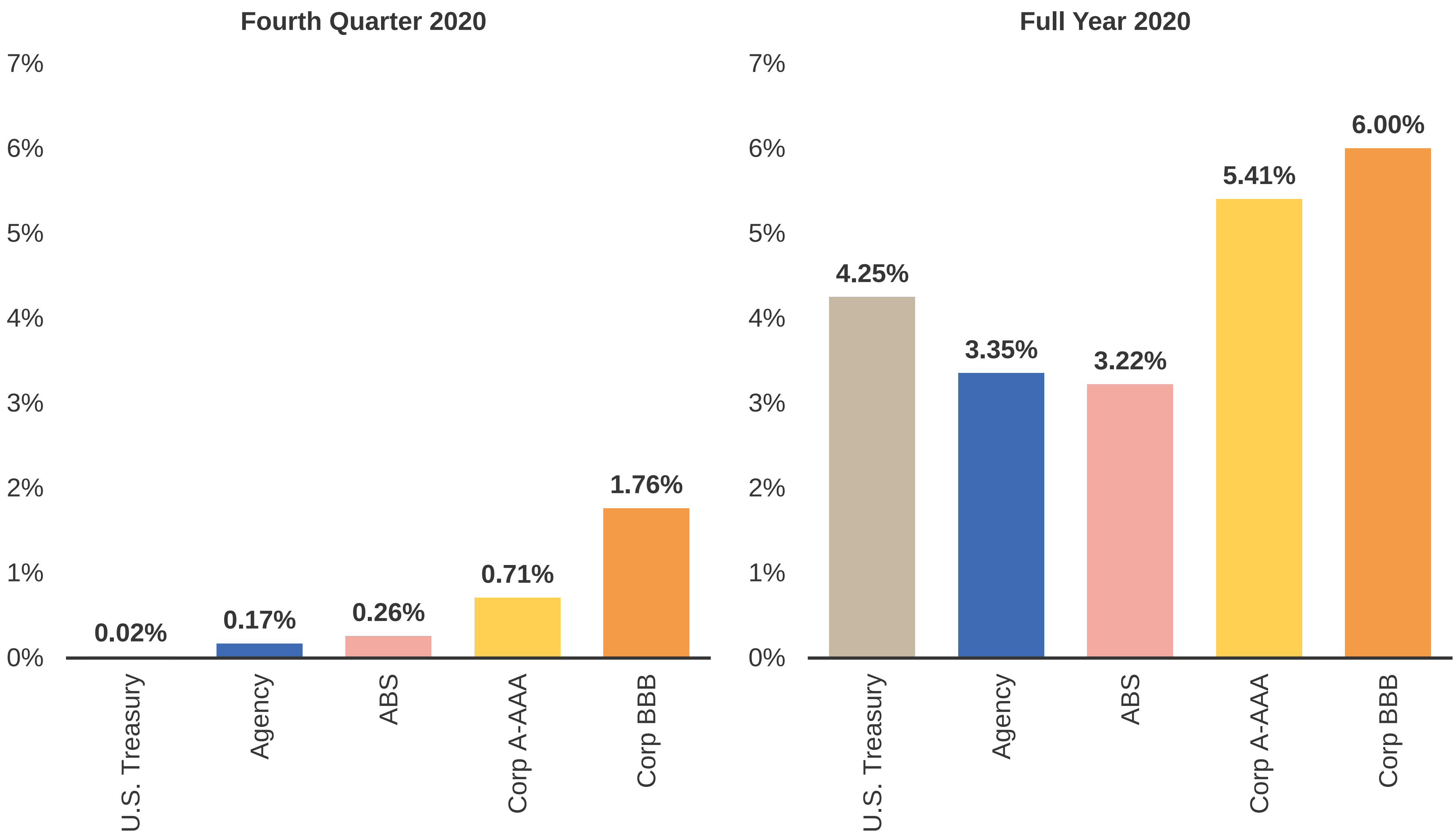
After Big Decline in the First Quarter, Corporates Ultimately Lead Performance for 2020



Source: ICE BofAML 1-5 Year Indices, as of 12/31/2020.

Credit Sector Continues Strong Outperformance in the Fourth Quarter

1-5 Year Indices



Source: ICE BofAML Indices. ABS indices are 0-5 year, based on weighted average life. As of 12/30/2020.

Equities Rise to Record High on Vaccine News and Passing of New Stimulus

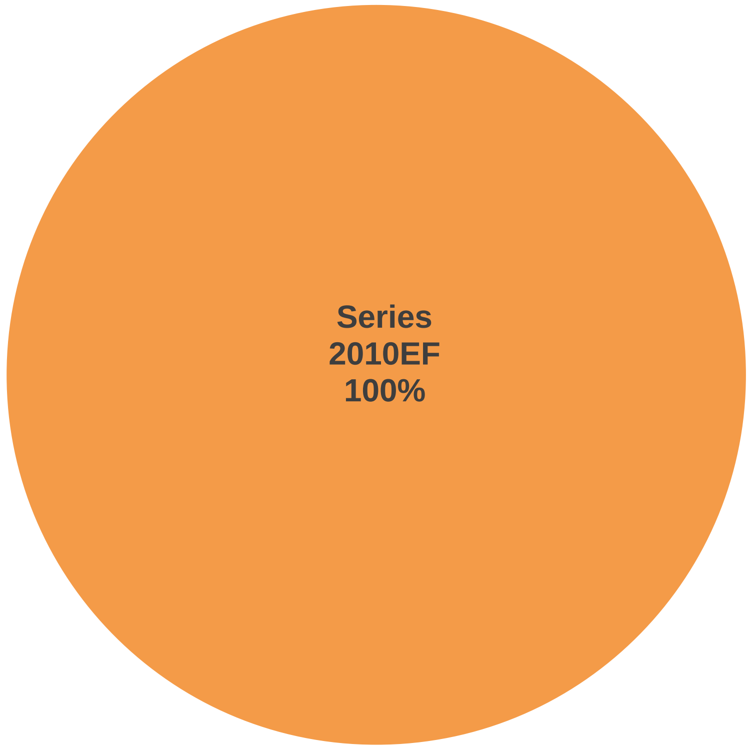
S&P 500 Price Chart

Source: Bloomberg, as of 12/31/2020.

Portfolio Review

Allocation of Bond Reserve Portfolios

	Market Value[1]
Series 2010EF	**8,118,727**



1. Includes accrued interest and money market funds.

Sector Allocation & Compliance

- The portfolio is in compliance with the RTC's Investment Policy and Nevada Revised Statutes.

Security Type	Market Value	% of Portfolio	% Change vs. 9/30/20	Permitted by Policy	In Compliance
Federal Agency	$6,889,609	84.9%	+24.6%	100%	✓
Securities Sub-Total	**$6,889,609**	**84.9%**			
Accrued Interest	$5,024				
Securities Total	**$6,894,633**				
Money Market Fund	$1,224,094	15.1%	-24.6%	100%	✓
Total Investments	**$8,118,727**	**100.0%**			

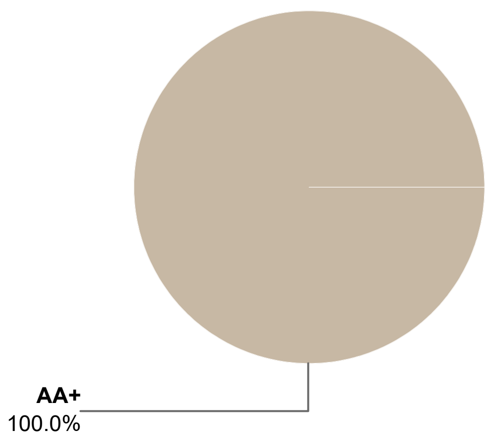
Market values, excluding accrued interest. Detail may not add to total due to rounding. Current investment policy as of December 2011.

Portfolio Statistics

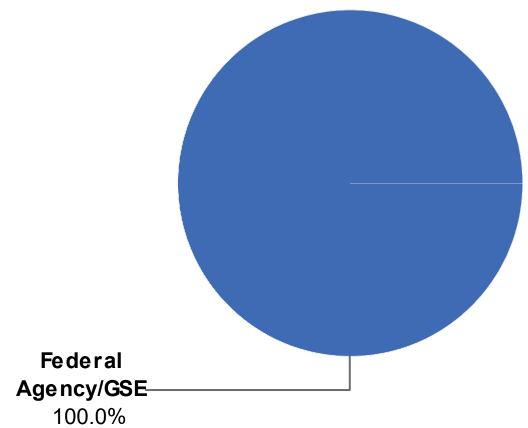
As of December 31, 2020

Par Value:	$6,885,000
Total Market Value:	$8,118,727
Security Market Value:	$6,889,609
Accrued Interest:	$5,024
Cash:	$1,224,094
Amortized Cost:	$6,873,747
Yield at Market:	0.17%
Yield at Cost:	0.28%
Effective Duration:	2.29 Years
Average Maturity:	2.30 Years
Average Credit: *	AA

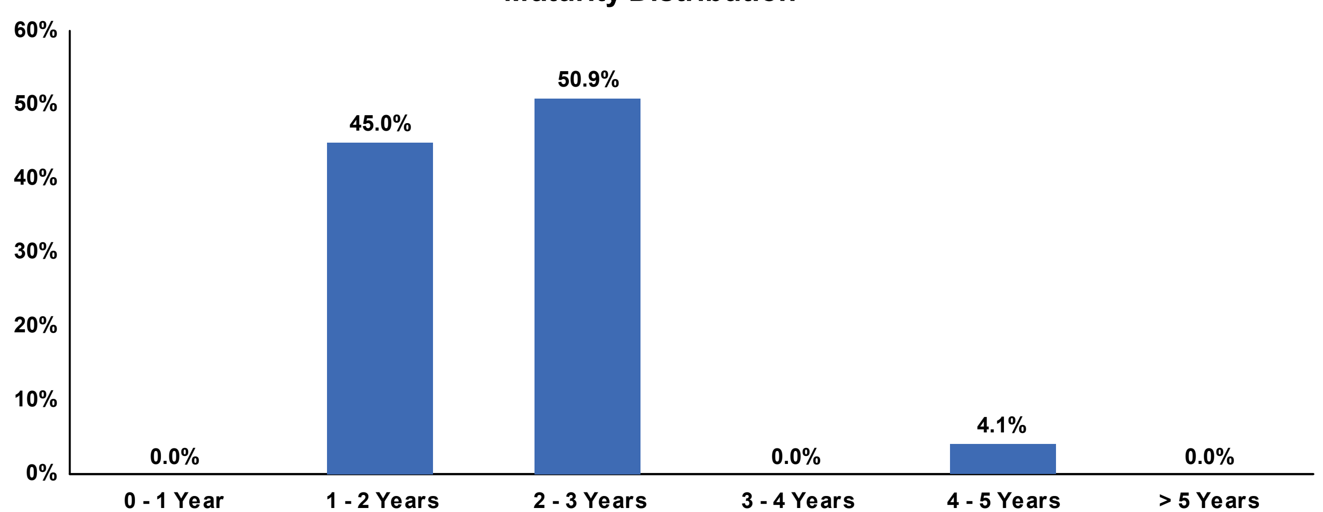
Credit Quality (S&P Ratings)



Sector Allocation



Maturity Distribution



* *An average of each security's credit rating assigned a numeric value and adjusted for its relative weighting in the portfolio.*

Issuer Distribution

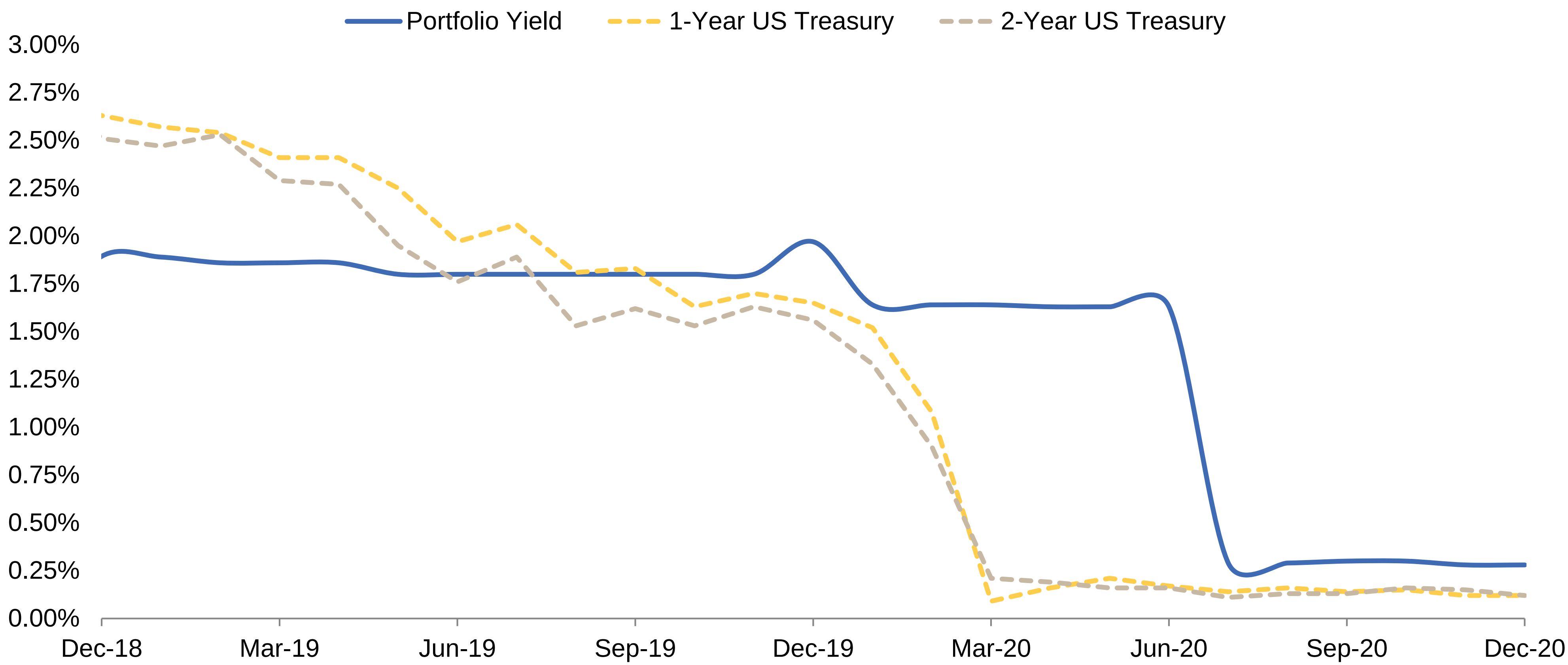
As of December 31, 2020

Issuer	Market Value ($)	% of Portfolio
FANNIE MAE	2,504,545	36.4%
FREDDIE MAC	2,385,538	34.6%
FEDERAL FARM CREDIT BANKS	1,999,526	29.0%
Grand Total:	**6,889,609**	**100.0%**

Portfolio Yield

- The yield to maturity at cost on the aggregate portfolio was 0.28% as of December 31, 2020.
  - The average portfolio yield was 0.96% over the last trailing twelve months (1/1/20 – 12/31/20) compared to the average yield of 1.84% during the prior year's trailing twelve months (1/1/19 – 12/31/19).

Washoe County RTC Aggregate Portfolio vs. U.S. Treasury Month End Yields
December 2018 – December 2020

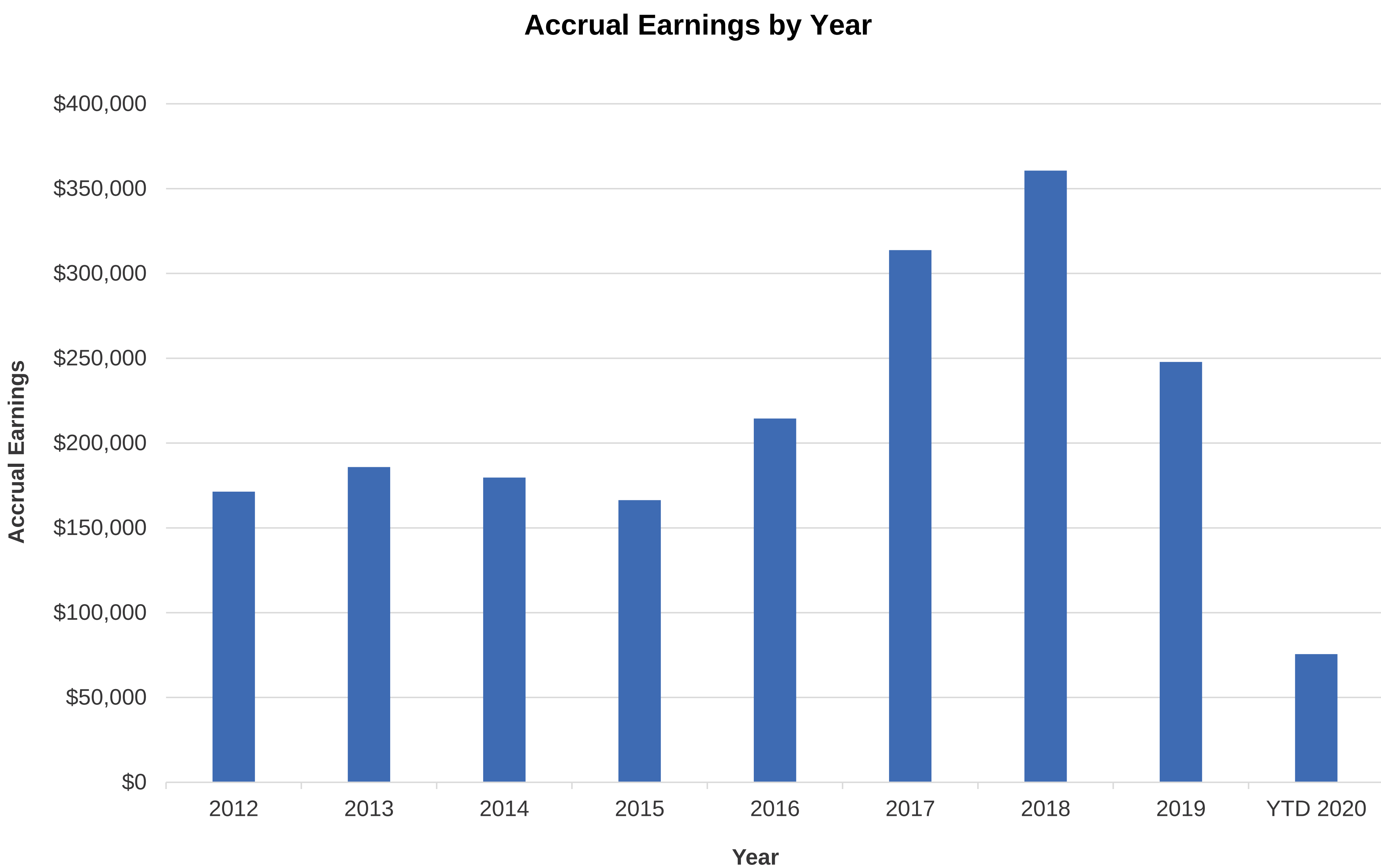


Source: Bloomberg.

Portfolio Earnings

Quarter-Ended December 31, 2020

	Market Value Basis	Accrual (Amortized Cost) Basis
Beginning Value (09/30/2020)	$4,885,827.94	$4,876,527.61
Net Purchases/Sales	$1,996,180.00	$1,996,180.00
Change in Value	$7,601.02	$1,039.63
Ending Value (12/31/2020)	$6,889,608.96	$6,873,747.24
Interest Earned	$3,110.36	$3,110.36
Portfolio Earnings	$10,711.38	$4,149.99


Accrual Earnings by Year
$400,000
$350,000
$300,000
$250,000
$200,000
$150,000
$100,000
$50,000
$0
Accrual Earnings
2012
2013
2014
2015
2016
2017
2018
2019
YTD 2020
Year

Investment Strategy Outlook

- As 2020 ends, the uncertainties of 2021 now come into focus. Significant central bank intervention is expected to continue, and we expect interest rates will remain low for the foreseeable future. The speed of vaccine rollouts will ultimately drive the pace of the anticipated "return to normalcy." Considering the economic uncertainties that remain, we plan on maintaining the portfolio's neutral duration position relative to the benchmark.
- Our outlook for major investment-grade sectors includes the following:
  - Agencies: Strong demand for agency bonds has pushed incremental yield spreads in basis points down to single digits. While the portfolio currently includes larger allocations relative to prior years when spreads were consistently tighter to similar-duration treasuries, holdings for 2021 will be more strategic--reduced holdings of shorter maturities where spreads may be narrower while continuing to participate in attractive longer new issues.

Holdings &
Transactions

Quarterly Portfolio Transactions

Trade Date	Settle Date	Par ($)	CUSIP	Security Description	Coupon	Maturity Date	Transact Amt ($)	Yield at Market	Realized G/L (BV)
BUY									
11/16/20	11/23/20	2,000,000	3133EMGX4	FFCB NOTES	0.12%	11/23/22	1,996,180.00	0.22%	
Total BUY		**2,000,000**					**1,996,180.00**		
INTEREST									
10/1/20	10/1/20	0	MONEY0002	MONEY MARKET FUND			16.96		
11/2/20	11/2/20	0	MONEY0002	MONEY MARKET FUND			16.42		
12/1/20	12/1/20	0	MONEY0002	MONEY MARKET FUND			13.22		
12/29/20	12/29/20	0	MONEY0002	MONEY MARKET FUND			1.43		
Total INTEREST		**0**					**48.03**		

Managed Account Detail of Securities Held

Security Type/Description Dated Date/Coupon/Maturity	CUSIP	Par	S&P Rating	Moody's Rating	Trade Date	Settle Date	Original Cost	YTM at Cost	Accrued Interest	Amortized Cost	Market Value
Federal Agency Bond / Note											
FREDDIE MAC NOTES DTD 07/23/2020 0.125% 07/25/2022	3137EAET2	295,000.00	AA+	Aaa	7/22/2020	7/23/2020	294,420.92	0.22	161.84	294,549.08	294,908.25
FREDDIE MAC NOTES DTD 07/23/2020 0.125% 07/25/2022	3137EAET2	805,000.00	AA+	Aaa	7/21/2020	7/23/2020	803,180.70	0.24	441.63	803,583.33	804,749.65
FFCB NOTES DTD 11/23/2020 0.125% 11/23/2022	3133EMGX4	2,000,000.00	AA+	Aaa	11/16/2020	11/23/2020	1,996,180.00	0.22	263.89	1,996,384.08	1,999,526.00
FANNIE MAE NOTES DTD 07/10/2020 0.250% 07/10/2023	3135G05G4	2,500,000.00	AA+	Aaa	7/9/2020	7/10/2020	2,495,350.00	0.31	2,968.75	2,496,093.15	2,504,545.00
FREDDIE MAC NOTES DTD 08/21/2020 0.250% 08/24/2023	3137EAEV7	1,000,000.00	AA+	Aaa	8/25/2020	8/26/2020	998,810.00	0.29	902.77	998,949.36	1,001,643.00
FREDDIE MAC NOTES DTD 09/25/2020 0.375% 09/23/2025	3137EAEX3	285,000.00	AA+	Aaa	9/23/2020	9/25/2020	284,142.15	0.44	285.00	284,188.24	284,237.06
Security Type Sub-Total		**6,885,000.00**					**6,872,083.77**	**0.28**	**5,023.88**	**6,873,747.24**	**6,889,608.96**
Managed Account Sub Total		**6,885,000.00**					**6,872,083.77**	**0.28**	**5,023.88**	**6,873,747.24**	**6,889,608.96**
Securities Sub-Total		**$6,885,000.00**					**$6,872,083.77**	**0.28%**	**$5,023.88**	**$6,873,747.24**	**$6,889,608.96**
Accrued Interest											**$5,023.88**
Total Investments											**$6,894,632.84**

Bolded items are forward settling trades.

IMPORTANT DISCLOSURES

This material is based on information obtained from sources generally believed to be reliable and available to the public; however, PFM Asset Management LLC cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. All statements as to what will or may happen under certain circumstances are based on assumptions, some, but not all of which, are noted in the presentation. Assumptions may or may not be proven correct as actual events occur, and results may depend on events outside of your or our control. Changes in assumptions may have a material effect on results. Past performance does not necessarily reflect and is not a guaranty of future results. The information contained in this presentation is not an offer to purchase or sell any securities.

- Market values that include accrued interest are derived from closing bid prices as of the last business day of the month as supplied by Refinitiv, Bloomberg, or Telerate. Where prices are not available from generally recognized sources, the securities are priced using a yield based matrix system to arrive at an estimated market value.
- In accordance with generally accepted accounting principles, information is presented on a trade date basis; forward settling purchases are included in the monthly balances, and forward settling sales are excluded.
- Performance is presented in accordance with the CFA Institute's Global Investment Performance Standards (GIPS). Unless otherwise noted, performance is shown gross of fees. Quarterly returns are presented on an unannualized basis. Returns for periods greater than one year are presented on an annualized basis. Past performance is not indicative of future returns.
- Bank of America/Merrill Lynch Indices provided by Bloomberg Financial Markets.
- Money market fund/cash balances are included in performance and duration computations.
- Standard & Poor's is the source of the credit ratings. Distribution of credit rating is exclusive of money market fund/LGIP holdings.
- Callable securities in the portfolio are included in the maturity distribution analysis to their stated maturity date, although, they may be called prior to maturity.
- MBS maturities are represented by expected average life.

GLOSSARY

- **ACCRUED INTEREST:** Interest that is due on a bond or other fixed income security since the last interest payment was made.
- **AGENCIES:** Federal agency securities and/or Government-sponsored enterprises.
- **AMORTIZED COST:** The original cost of the principal of the security is adjusted for the amount of the periodic reduction of any discount or premium from the purchase date until the date of the report. Discount or premium with respect to short-term securities (those with less than one year to maturity at time of issuance) is amortized on a straight line basis. Such discount or premium with respect to longer-term securities is amortized using the constant yield basis.
- **BANKERS' ACCEPTANCE:** A draft or bill or exchange accepted by a bank or trust company. The accepting institution guarantees payment of the bill as well as the insurer.
- **COMMERCIAL PAPER:** An unsecured obligation issued by a corporation or bank to finance its short-term credit needs, such as accounts receivable and inventory.
- **CONTRIBUTION TO DURATION:** Represents each sector or maturity range's relative contribution to the overall duration of the portfolio measured as a percentage weighting. Since duration is a key measure of interest rate sensitivity, the contribution to duration measures the relative amount or contribution of that sector or maturity range to the total rate sensitivity of the portfolio.
- **EFFECTIVE DURATION:** A measure of the sensitivity of a security's price to a change in interest rates, stated in years.
- **EFFECTIVE YIELD:** The total yield an investor receives in relation to the nominal yield or coupon of a bond. Effective yield takes into account the power of compounding on investment returns, while nominal yield does not.
- **FDIC:** Federal Deposit Insurance Corporation. A federal agency that insures bank deposits to a specified amount.
- **INTEREST RATE:** Interest per year divided by principal amount and expressed as a percentage.
- **MARKET VALUE:** The value that would be received or paid for an investment in an orderly transaction between market participants at the measurement date.
- **MATURITY:** The date upon which the principal or stated value of an investment becomes due and payable.
- **NEGOTIABLE CERTIFICATES OF DEPOSIT:** A CD with a very large denomination, usually $1 million or more, that can be traded in secondary markets.
- **PAR VALUE:** The nominal dollar face amount of a security.
- **PASS THROUGH SECURITY:** A security representing pooled debt obligations that passes income from debtors to its shareholders. The most common type is the mortgage-backed security.

GLOSSARY

- **REPURCHASE AGREEMENTS:** A holder of securities sells these securities to an investor with an agreement to repurchase them at a fixed price on a fixed date.
- **SETTLE DATE:** The date on which the transaction is settled and monies/securities are exchanged. If the settle date of the transaction (i.e., coupon payments and maturity proceeds) occurs on a non-business day, the funds are exchanged on the next business day.
- **TRADE DATE:** The date on which the transaction occurred; however, the final consummation of the security transaction and payment has not yet taken place.
- **UNSETTLED TRADE:** A trade which has been executed; however, the final consummation of the security transaction and payment has not yet taken place.
- **U.S. TREASURY:** The department of the U.S. government that issues Treasury securities.
- **YIELD:** The rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.
- **YTM AT COST:** The yield to maturity at cost is the expected rate of return based on the original cost, the annual interest receipts, maturity value, and the time period from purchase date to maturity, stated as a percentage on an annualized basis.
- **YTM AT MARKET:** The yield to maturity at market is the rate of return based on the current market value, the annual interest receipts, maturity value, and the time period remaining until maturity, stated as a percentage on an annualized basis.