COMMONWEALTH OF VIRGINIA
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Participant Newsletter June 30, 2019

LGIP
Investment Guidelines Compliance (06-30-19):

● Diversification:	Actual	Max.
U. S. Treasury/Agency	28%	100%
Repurchase Agreements	11%	50%
Negotiable CDs & BAs	31%	40%
Commercial Paper	29%	35%
Corporate	1%	25%
AAA Sovereign Govt	0%	10%
● Maturity Limitations:		
Average Days to Maturity	39 days	60 days

LGIP Monthly Statistics:

- Avg NAV: 6,438,109,000
- Active Accounts: 814
- Simple Yield: 2.45%
- Effective Yield: 2.48%
- NAV (per Share): $1.00

Quarterly Performance:

● Average Yield:	4th Qtr FY 19	FY 19
LGIP ($ weighted)	2.52%	2.40%
Institutional Money Funds[1]	2.35%	1.99%
Treasury 3-Mo. Constant Maturity[2]	2.44%	2.31%

[1]Consists of 453 institutional money market funds totaling $1,904.2 billion as reported by iMoneyNet as of 06-30-19.

[2]Federal Reserve Bank H.15 Release.

LGIP EM
Investment Guidelines Compliance (06-30-19):

● Diversification:	Actual	Max.
U. S. Treasury/Agency	50%	100%
Repurchase Agreements	0%	50%
Negotiable CDs & BAs	14%	45%
Commercial Paper	5%	35%
Corporate	22%	25%
AAA Sovereign Govt	0%	10%
Virginia Treasury LGIP Portfolio	9%	15%
● Duration Limitations:	0.88 years	1 Yr +/-3Mo

LGIP EM Monthly Statistics:

- NAV: 139,737,000
- Active Accounts: 22
- Simple Yield: 2.33%
- Yield as of 06-30-19: 2.32%
- NAV (per Share): $10.00

Quarterly Performance:

	4th Qtr FY 19	FY 19
• Total Return:		
LGIP EM	0.76%	2.78%
U.S. 1-Year Treasury Bill Index[1]	0.95%	2.96%
● Average Yield:		
LGIP EM ($ weighted)	2.45%	2.33%
U.S. 1-Year Treasury Bill Index[2]	2.19%	2.43%

[1]The annual performance benchmark is BofA Merrill Lynch U.S. 1-year Treasury Bill Index + 15 bps.

[2]The ICE BofAML US 1-year Treasury Bill Index Yield to Maturity as of 06-30 2019.

Market and Economic News

The March to June quarter was marked by sharp declines in market yields, primarily driven by flight-to-quality investment flows and expectations for lower domestic monetary policy rates. International trade tensions and the negative impact on the global economy are beginning to weigh on the investment and hiring outlook, particularly for manufacturing companies. The Fed has noted the negative implications of a protracted trade war, now suggesting that they could cut policy rates, possibly multiple times before the end of 2019. As domestic policy rates are the primary driver of short-term fixed income market returns, policy rate cuts will drive the LGIP yield lower by a similar magnitude. Although the Fed has not clearly signaled impending rate cuts, futures markets are suggesting that Fed Funds rates will be approximately 50 basis points lower by the end of this year.

The Fed maintained policy rates at the June meeting in a range of 2.25 percent to 2.50 percent although the committee dropped the word "patient" and instead highlighted "uncertainties" surrounding the economic outlook in its prepared statement. In the ‘dot-plot,’ eight of seventeen participants see lower policy rates in 2019 and seven of those see two potential rate cuts by year end. However, the median dot continues to call for no change in rates in 2019 while in 2020 the median dot now sees policy rates falling to a range of 2.00 percent to 2.25 percent. A single FOMC participant dissented and preferred a 25 basis points cut to policy rates at the June meeting. During the press conference, Chair Powell made comments about low current and expected inflation rates which, in conjunction with a desire to maintain the economic expansion, were interpreted by market participants to be supportive of a cut to policy rates in a so-called “insurance cut” at the upcoming July 31 meeting. FOMC members speaking in the days after the press conference largely reiterated the case for rate cuts. Fed Funds futures contracts are currently pricing a 100 percent probability of a 25 basis points cut at the July meeting and an 80 percent probability of a second cut at the September meeting.

Another important component determining yields for LGIP Program participants is the excess return over risk free assets received by investing in high quality bank and corporate issuance. The following is a high-level review of financial highlights released for the calendar second quarter of 2019 among approved LGIP investment names.

Domestic bank credit quality continued to remain high. Many banks have reached their capital retention goals and are returning a majority of earnings to shareholders. Earnings growth is slowing as net interest margins compress and the prospect of higher rates fades away. Nonperforming loans are lower than in the prior year period. Foreign financial institutions are continuing the slow process of building capital. European lenders are reporting improving loan losses but continue to operate in a low return environment.

Corporate earnings remained favorable, allowing leverage improvements on the balance sheets of many issuers. The technology sector in particular benefited from continued high levels of cash flow and a reduction in outstanding debt. Bristol-Myers Squibb and International Business Machines were removed from purchase consideration as both firms increased leverage in advance of acquisitions. The approved list expanded with the additions of truck manufacturer PACCAR and Chilean state-owned bank Banco Estado.