

OFFICE OF THE TREASURER
STATE OF WASHINGTON

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**INVESTMENT UPDATE FROM
THE OFFICE OF THE STATE TREASURER
PROGRAMS, PORTFOLIOS & MARKETS**

BAR Meeting

MAY 15, 2025



INTRO & AGENDA

- **OST Investments Team:**
 - Staff of six, including four portfolio managers
 - Manage **State Treasury and Treasurer's Trust portfolio (approx. \$14 billion)**
 - Provide investment management services and resources for local governments
- **Today:**
 - **Local government resources:**
 - **Local Government Investment Pool (up to \$30 billion):**
Short term daily liquidity
 - **Separately Managed Investment Portfolios (\$1.1 billion):**
Intermediate term accounts on a contract basis
 - **Statewide Custody Program:**
Negotiated custody contract
 - **Markets and strategy:**
 - Fed Funds expectations, employment and the economy, inflation, effects of tariffs
 - Investment strategy implications

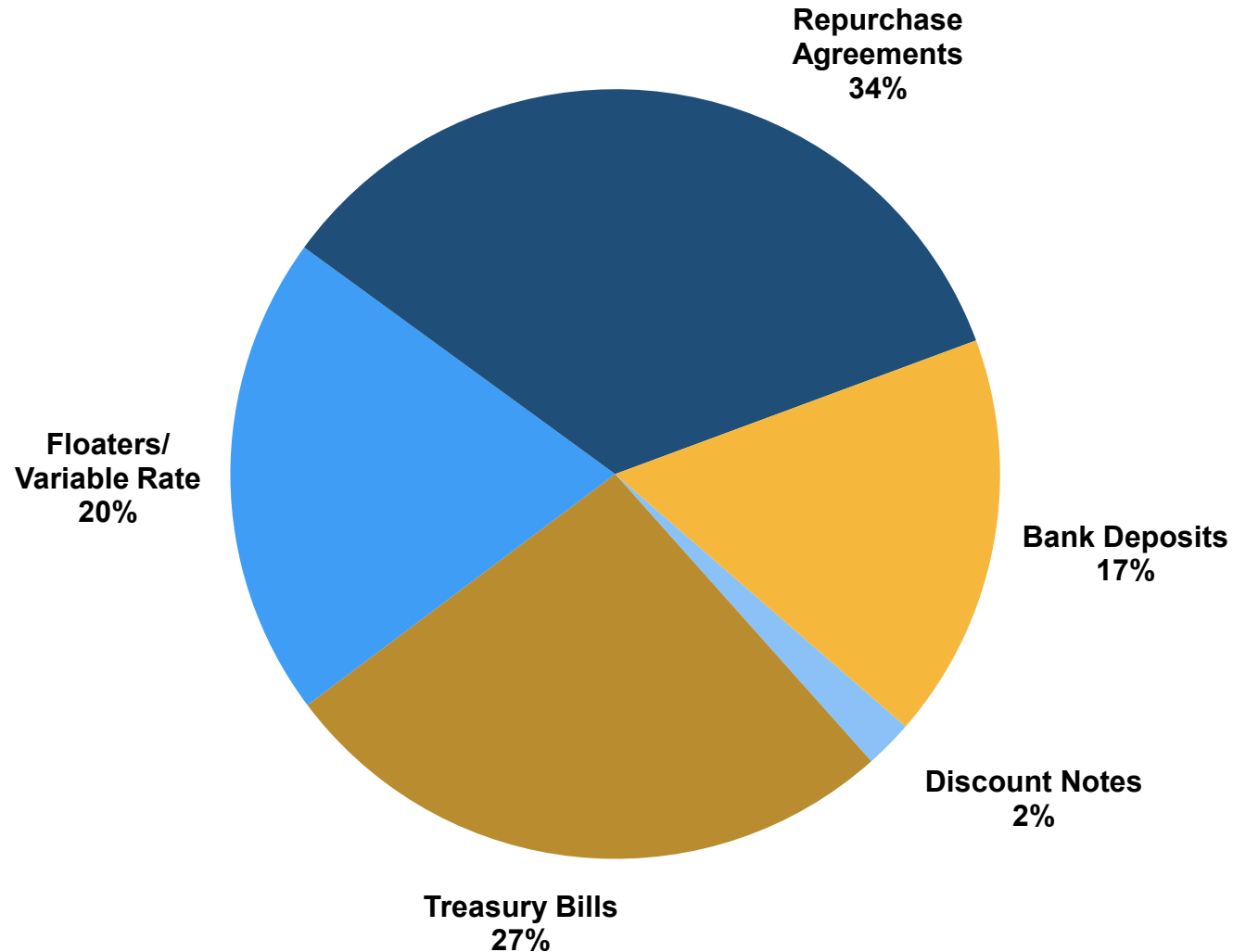


LOCAL GOVERNMENT INVESTMENT POOL

- **Objective: Provide a safe, liquid, short-term investment vehicle for local governments**
 - Patterned after private sector 2a-7 money market funds; rate of return closely tracks the Federal Funds rate
 - Benchmark - net and gross yields of the iMoneyNet Government & Agency group of money market funds
 - 100% daily liquidity and NO maturity date
 - Safely invest while achieving a competitive rate of return
- **Open to all local government entities in the state; around 500 participants**
- **Liquidity**
 - 100 % liquidity by 10:00 am
 - No restrictions on balances or number of transactions per month
 - Transaction size minimum: \$5,000, unless withdrawing interest for the month
 - Transaction size maximum: no formal maximum, however we ask to be notified a day prior if transactions are larger than \$10 million. We do our best to accommodate requests.
- **Low fee: by statute OST can only charge what it costs to run the LGIP**
 - FY 2024 Administrative Fee – 0.6 basis point (0.006%)

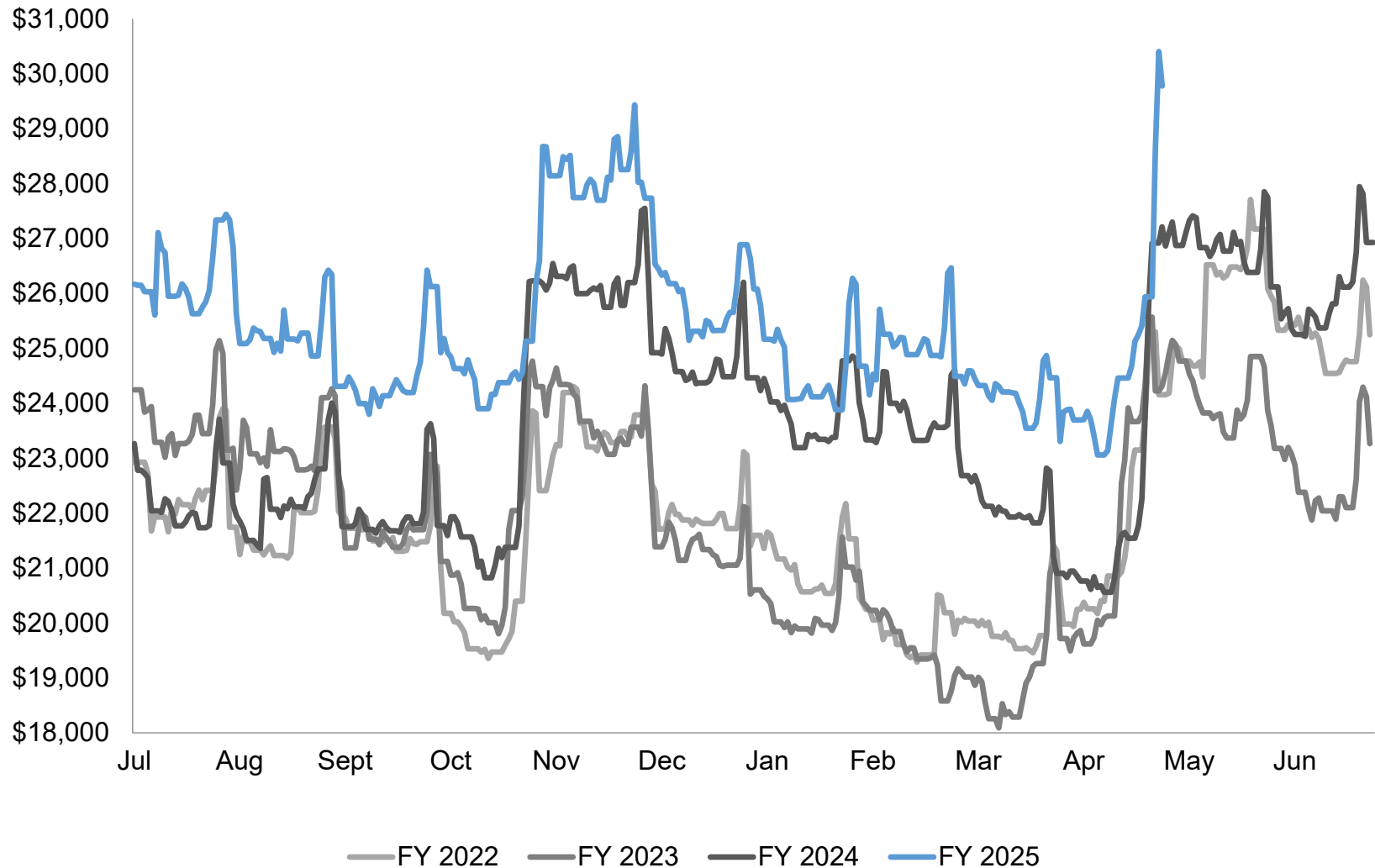


LGIP HOLDINGS BY SECURITY TYPE AS OF APRIL 2024





LGIP DAILY BALANCES





HOW THE LGIP WORKS

- **Daily Earnings Calculation**
 - Earnings Credited monthly – on the last business day of the month
- **LGIP Advisory Committee**
 - 14 appointed members – 6 appointed by the Treasurer and eight appointed by the state associations
- **Prospectus**
 - <https://tre.wa.gov/sites/default/files/2023-10/LGIP-Money-Market-Fund-Prospectus.pdf>
- **LGIP ACFR**
 - <https://tre.wa.gov/investments-and-public-deposits/investments/local-government-investment-pool/lqip-documents/lqip-annual-comprehensive-financial-reports>
 - Received ACFR Award for 25 consecutive years
- **Outside Independent Audit**
 - Occurs annually
 - Current Auditor – Moss Adams

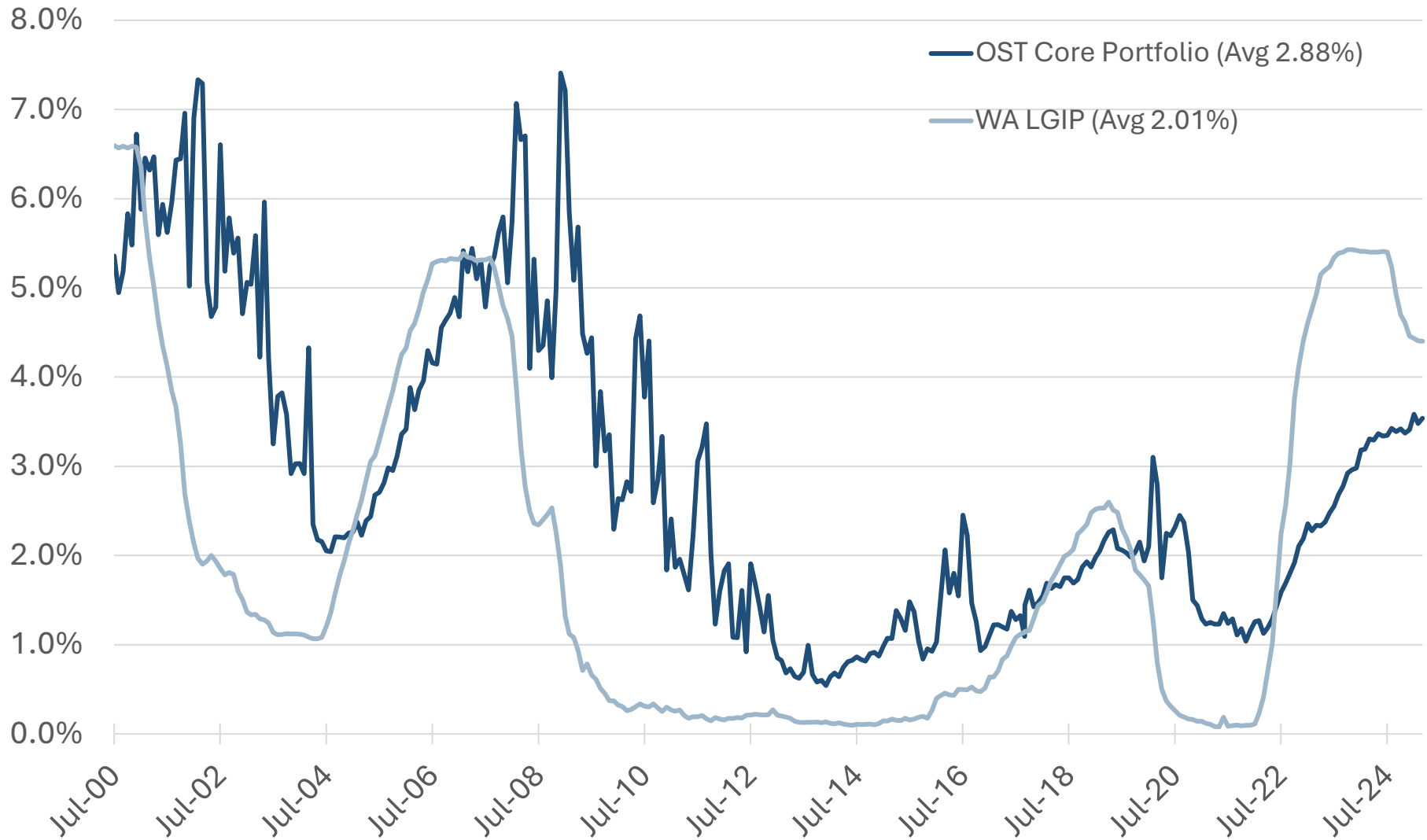


SEPARATELY MANAGED ACCOUNTS (SMA)

- **Newer than the LGIP**
- **Objective: Offer low-cost intermediate-term investment management to local governments**
 - Intended for core balances that are not required for immediate cash flow needs
 - Investment strategy replicates OST's own core portfolio, complementing the LGIP
 - 5-year maximum maturity; effective duration around 2.1 years
 - Invest in US Treasury, US agency and supranational notes
- **Open to all local government entities in the state, with minimum initial deposit of \$10mm**
- **Administrative fees range from 2 to 4.5 basis points annually (0.02%-0.045%)**
 - Includes investment accounting and custody services
 - Deducted from earnings
- **How it works:**
 - Interagency agreement—contract model
 - Each participant has their own holdings
 - Current portfolios range in size from \$10mm to over \$300mm
 - Deposits and withdrawals are intended to be infrequent but are not restricted



OST CORE OUTPERFORMS LGIP OVER TIME





WHY OPEN AN SMA PORTFOLIO

- **Many local governments are holding a lot of cash in short term/money market instruments**
- **Core/liquidity approach is a sound long term investment strategy**
- **OST offers a hands off, “set it and forget it” option: investment management, custody fees, investment accounting and reporting for a low fee**
- **Leverage OST’s advantages:**
 - Portfolio management expertise and experience
 - Analytical, trading and market research resources including Bloomberg, TradeWeb and YieldBook
 - Competitive transaction execution from issuers and broker dealers
- **SMA is ideal for local governments that:**
 - Have a material amount of funds that can be invested further out the yield curve, outside the money market space (longer than 1-year maturities)
 - Lack the time, resources or knowledge to develop an appropriate investment strategy and carry out risk management oversight
 - Have the necessary information about and awareness of cash flows to identify core balances for longer term investment



STATEWIDE CUSTODY PROGRAM

- **Objective: offer a negotiated securities custody contract option to local governments that choose to use it**
- OST is authorized to negotiate a statewide securities custody contract on behalf of local governments and institutions of higher education, through a periodic RFP process
- OST issues the RFP, selects the custody provider and negotiates a model contract
 - Benefits both local governments and financial institutions by consolidating the custody search process
 - Smaller local governments receive the same terms as larger
 - Currently 32 participants with assets of \$25.8 billion
 - Current statewide custody provider is Principal Bank
 - Annual fees range from \$4k-\$15k, depending on portfolio size
- OST is **not** a party to the contract; each contract is between the custodian and the local participant

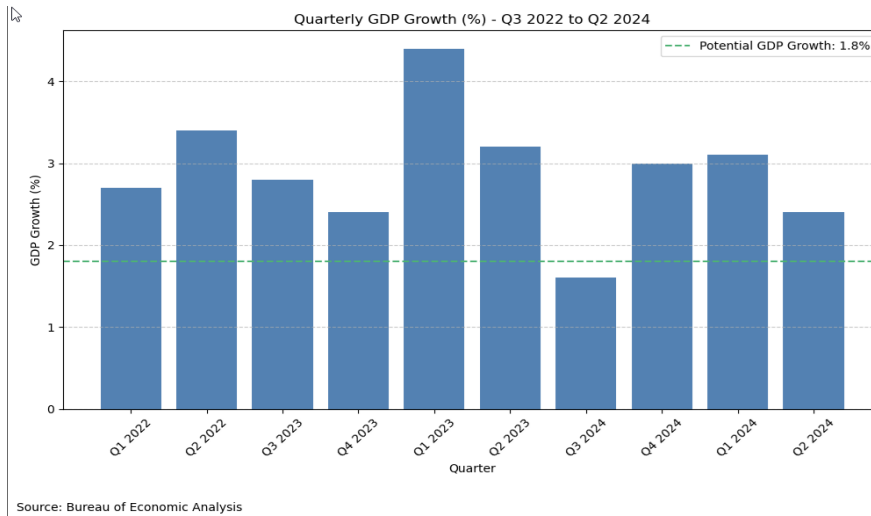


OTHER RESOURCES

- **OST Website:** www.tre.wa.gov
 - Information about LGIP, SMA and Statewide Custody programs
 - Washington Fund Directory: centralized list of state resources for project financing
[Washington Fund Directory | Office of the Washington State Treasurer](#)
 - Guide to Public Funds Investing and other local government investment resources: [Local Government Investment Resources | Office of the Washington State Treasurer](#)
- **GFOA: Government Finance Officers Association:** www.gfoa.org
 - Best Practices publications on topics including budgeting, capital planning, accounting, investment management and others
- **WPTA: Washington Public Treasurers Association:** www.wpta.us
 - Investment Policy Certification
 - Debt Policy Certification
- **WFOA: Washington Finance Officers Association:** www.wfoa.org
 - Webinars and in person training opportunities on large variety of topics
- **GIOA: Government Investment Officers Association:** www.gioa.us
 - Webinars on investment and market related topics



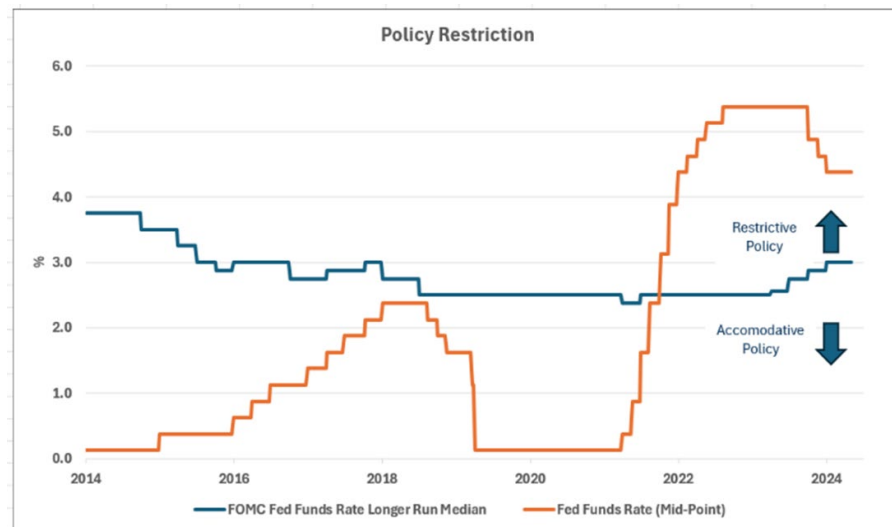
MARKET STRATEGY



GDP growth remained resilient entering in 2025, defying repeated recession forecasts and staying above trend.

Fed policy remains restrictive, even after 100bps of easing in late 2024.

Inflation remains stubbornly above the Fed's 2% target. Core PCE near 2.9% at end of 2024.





MARKET UPDATE

Summary

- Policy uncertainty remains a key headwind to long-term economic growth.
- Tariff risks, while potentially de-escalating, require strategy to strike a balance between the elements of stagflation:
 - Inflation will probably hit 3.5%-4% this summer.
 - Slower grow, with a chance of recession.
- Potential for expansionary fiscal policy this summer.
 - Watching the X-date – potentially late August.
 - Debt/GDP and persistent debt issues.

LGIP

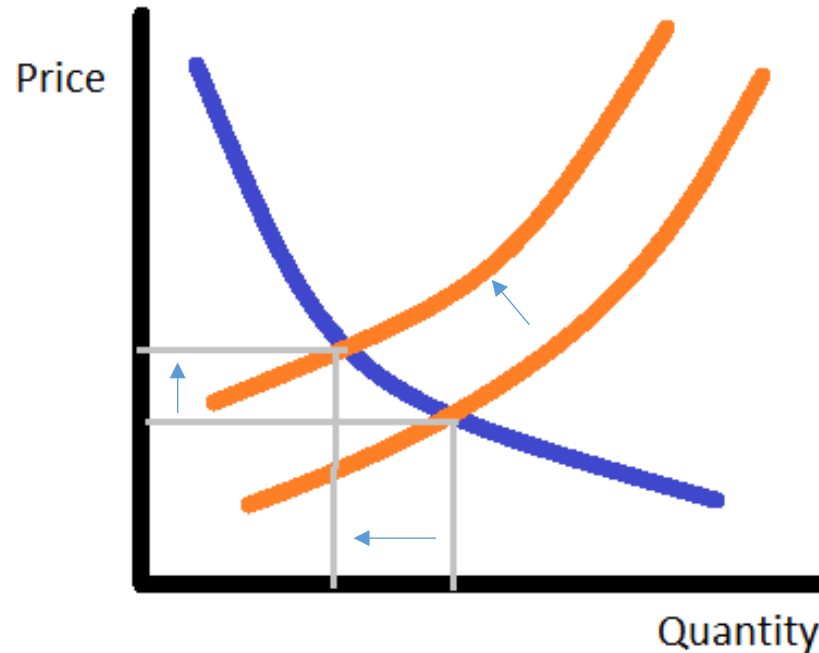
- Targeting weighted average maturity (WAM) in the range of 20-30 days.
- Six-month bill ladder gives positive exposure greater than expected policy easing.
- In the event of no change in rates, portfolio is positioned to provide strong current income.

Core Portfolios

- Given the high-level of volatility and uncertainty, we continue to focus on economic fundamentals and incoming data.
- Remain close to target duration
- Tactically maintain (or add) duration when the implicit pricing of Fed policy is reasonable (or opportunistic) given our view of the economy



MARKET UPDATE



High Level Macroeconomic perspective.

- Tariffs are a tax on trade, ultimately reducing supply
- Predicts price level rises, and output is reduced



MARKET UPDATE

Federal Reserve

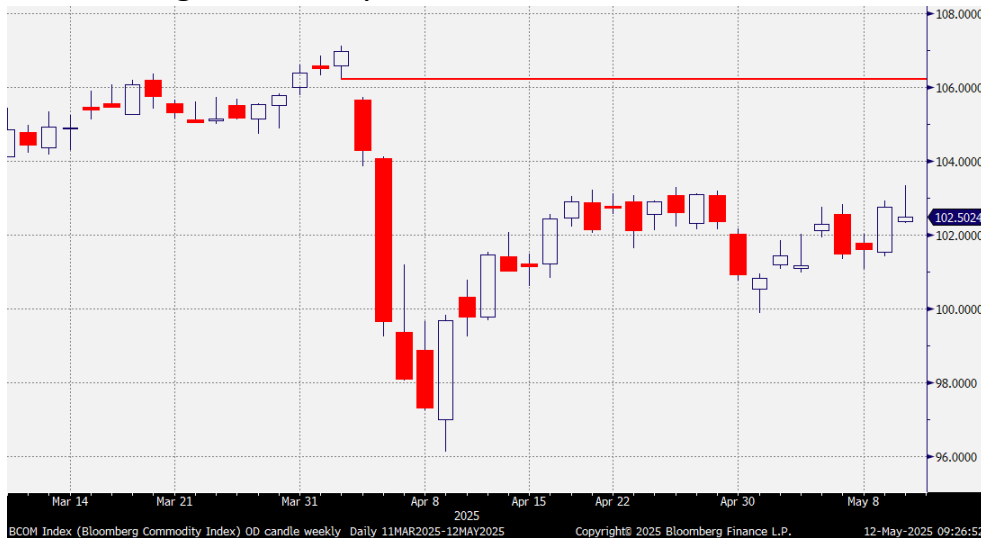
- Magnitude and timing of tariff effects (lower growth and inflation) are unknown.
- From the Fed's perspective things are getting worse:
 - “The Committee is attentive to the risks to both sides of its dual mandate and judges that the risks of higher unemployment and higher inflation have risen.”
- The Fed solution is to wait for the uncertainty to resolve, then act on the mandate farthest away from target.
 - Therefore, the Fed response will likely be late.
- Current market implied market rates.

<u>Meeting</u>	<u>#Hikes/Cuts</u>	<u>Imp. Rate Δ</u>	<u>Implied Rate</u>
06/18/2025	-0.114	-0.029	4.3
07/30/2025	-0.466	-0.116	4.213
09/17/2025	-1.1	-0.275	4.054
10/29/2025	-1.646	-0.411	3.918
12/10/2025	-2.245	-0.561	3.768
01/28/2026	-2.586	-0.646	3.682
12/09/2026	-3.824	-0.956	3.373

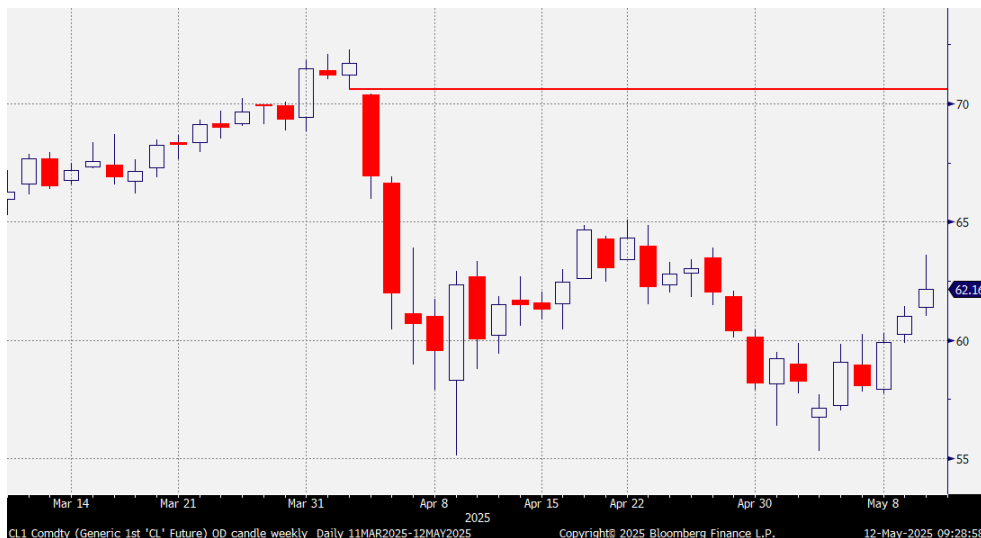


MARKET UPDATE

Bloomberg Commodity Index



Crude Oil



Initial impact of Liberation Day is a sharp reduction in commodity prices. Why?

If the total output of the economy is reduced and quantity of goods sold is reduced, producers need less inputs. Less demand for inputs reduces the price of commodities.



MARKET UPDATE

Dollar Index (last two months)



The dollar has traded lower after Liberation Day. The purchasing power parity (PPP) model suggests country with the higher inflation have a weaker currency. Interest rate models of currencies suggest higher interest rate countries have stronger inflation. Initial expectations were for substantial Fed easing.

Dollar Index (last 10 years)





MARKET UPDATE

Ten Year Note



Long term interest rates have moved higher since Liberation Day. Long-term interest rate risk premium has increased with the risk of inflation and risks of policy uncertainty. Higher long-term rates ultimately forced Trump to capitulate and de-escalate the trade war.

30 Year Bond

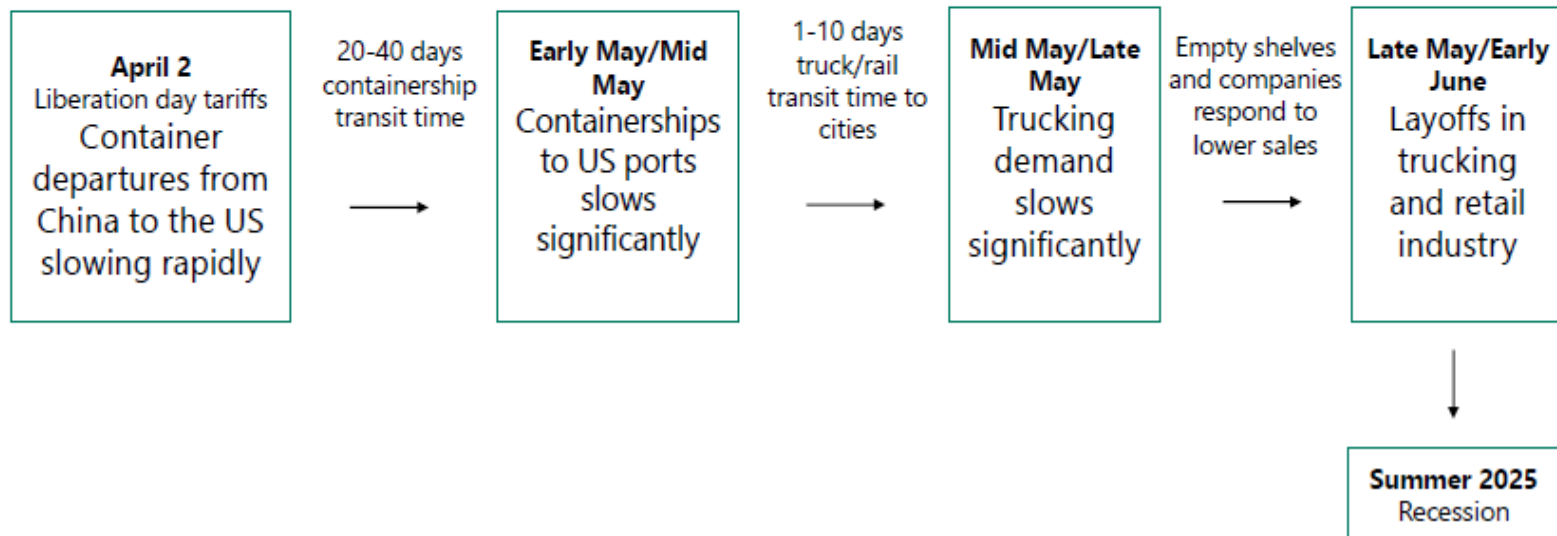




MARKET UPDATE

APOLLO

The Voluntary Trade Reset Recession



Source: Torston Slok, Apollo



MARKET UPDATE – TARIFF IMPACTS

Sectors with relatively greater risk

- Autos / Capital Goods
- Retail
- Technology
- Healthcare (pharma and medical technology)

Businesses with relatively greater risk

- High % of U.S. COGS sourced outside of U.S.
- Geographically-concentrated supply chains
- Less business model diversification (generally)
- Small businesses with less scale and supplier leverage

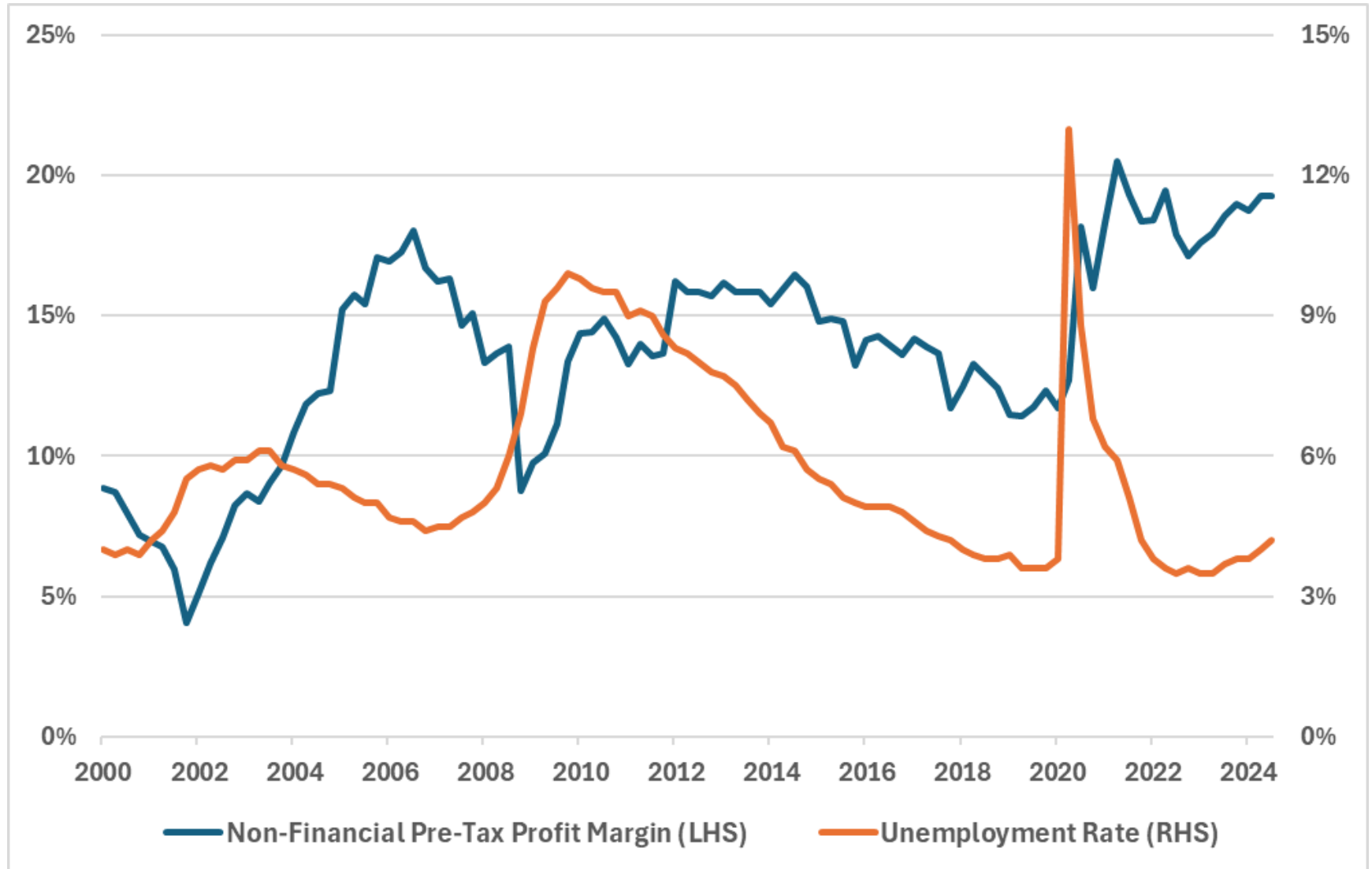
Margin Preservation Actions

1. Price increases
2. Negotiate lower supply-chain costs
3. Initiate expense reductions and operational efficiencies
 - Could include headcount layoff and/or reduction
4. Adjust product mix and gain market share (longer-term)
5. Geographical diversification of supply chains and production (longer-term)



MARKET UPDATE

MARGINS & LABOR MARKET





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