



— | WEST VIRGINIA | —

# BOARD OF TREASURY INVESTMENTS

*A Component Unit of the State of West Virginia*

**Comprehensive Annual Financial Report**  
**Fiscal Year Ended June 30, 2019**

WEST VIRGINIA  
**BOARD OF TREASURY  
INVESTMENTS**

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**Comprehensive Annual Financial Report  
for the Fiscal Year Ended June 30, 2019**

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*A Component Unit of the State of West Virginia*

**James C. Justice, II**  
*Governor*

**John D. Perdue, Chairman**  
*West Virginia State Treasurer*

**John B. McCuskey**  
*West Virginia State Auditor*

**Glenda Probst**  
*Appointed by the Governor*

**Michael L. Glasser, Esquire**  
*Attorney at Law*  
*Appointed by the Governor*

---

*Prepared by the Board of Treasury Investments Staff  
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October 17, 2019

To: Members of the West Virginia Board of Treasury Investments,  
Honorable Members of the Legislature,  
And the Citizens of West Virginia

I am pleased to present you with the June 30, 2019, Comprehensive Annual Financial Report (“CAFR”) for the West Virginia Board of Treasury Investments (the “BTI”). The report is a review of the financial and investment conditions of the State of West Virginia’s Consolidated Fund. Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the BTI. An independent certified public accounting firm has audited the basic financial statements contained in this report.

The BTI was created to oversee and manage the state’s operating funds, also known as the Consolidated Fund. Significant achievements for the year included reaffirmation of the AAAM rating by Standard & Poor’s for the WV Money Market and WV Government Money Market pools, selection of an investment consultant, continued outperformance of select pools versus their peer groups, and operating under budget. The CAFR demonstrates the BTI’s commitment to financial accountability and conformity to the highest standards for preparation of state and local government financial reports.

The report is designed to provide a general overview of the State of West Virginia’s Consolidated Fund investments. It was compiled with the assistance of employees of the West Virginia State Treasurer’s Office. These individuals are committed to providing reliable and credible information in conformity with accounting principles generally accepted in the United States of America.

Sincerely,

John D. Perdue  
State Treasurer  
Chairman of the Board

315 70<sup>th</sup> Street SE • Charleston, WV 25304  
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## **ACKNOWLEDGEMENTS**

### **Report Prepared By:**

West Virginia Board of Treasury Investments  
315 70 Street SE  
Charleston, West Virginia 25304

### **Staff:**

Kara K. Hughes, Executive Director  
Karl V. Shanholtzer III, Chief Financial Officer  
Denise R. Baker, Director of Operations  
Holly Garner, Investment Accountant  
Randy Covert, Investment Accountant

**We invite you to visit our web site at [www.wvbt.org](http://www.wvbt.org)**

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## **Introductory Section**



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October 17, 2019

Members of the West Virginia Board of Treasury Investments

Honorable Members of the West Virginia Legislature

Participants in the State of West Virginia's Consolidated Fund

Citizens of West Virginia

Ladies and Gentlemen:

I am pleased to present you with the June 30, 2019, Comprehensive Annual Financial Report (“CAFR”) for the West Virginia Board of Treasury Investments (the “BTI”). The report is a complete review of the financial status of the State of West Virginia’s short-term operating funds (the “Consolidated Fund”). Responsibility for both the accuracy of the data, and the completeness and fairness of the presentation, rests with the management of the BTI. The BTI’s financial statements have been audited by Brown, Edwards & Company, L.L.P. The independent audit provides reasonable assurance that the financial statements for the fiscal year ended June 30, 2019, are free of material misstatement, whether due to fraud or error. The independent audit involved performing procedures to obtain evidence about amounts and disclosures in the financial statements; comprehensive risk assessment as well as assessing the accounting principles used and the reasonableness of significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor rendered an unmodified opinion that the BTI’s financial statements for the fiscal year ended June 30, 2019, are fairly presented in all material respects in conformity with accounting principles generally accepted in the United States of America (“GAAP”). The independent auditor’s report is presented as the first component of the financial section of this report.

Management is responsible for establishing and maintaining internal control designed to ensure that the investments of the Consolidated Fund are protected from loss, theft or misuse and that the preparation of the financial statements is in conformity with GAAP. Internal control is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived from it, and (2) the evaluation of costs and benefits requires estimates and judgments by management. Management of the BTI has established a comprehensive internal control framework that is designed to provide a reasonable basis for making representations concerning the finances of the BTI. Because the cost of internal control should not outweigh its benefits, the BTI’s comprehensive framework of internal control has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis ("MD&A"). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. BTI's MD&A can be found immediately following the report of the independent auditor in the Financial Section.

### ***Profile of the West Virginia Board of Treasury Investments***

The West Virginia Legislature established the BTI, effective July 8, 2005, as a public corporation of the State of West Virginia, to make short-term operating funds of the state more accessible to state government.

The West Virginia State Treasurer's Office provides a full time staff for the BTI as well as various supplementary administrative services. A five-member Board of Directors governs the BTI. The State Governor, State Treasurer, and State Auditor serve as ex officio members of the Board. The Governor appoints the two remaining members subject to the advice and consent of the State Senate. Of the two members appointed by the Governor, one shall be a certified public accountant and one shall be an attorney, and both shall have experience in finance, investing and management. The State Treasurer is Chairman of the Board. The Board was established by the Legislature to provide prudent fiscal administration, investment, and management for the short-term operating funds of the State of West Virginia.

The Consolidated Fund provides for the investment of moneys not currently needed to fund state governmental operations, as well as providing the opportunity for local governments to participate in large investment pools, and for those funds statutorily required to be invested in the Consolidated Fund. As of June 30, 2019, the Consolidated Fund had \$5.2 billion in total assets. The Consolidated Fund is made up of nine legally separate investment pools and accounts: three external investment pools, three special-purpose internal investment pools, and three individual investment accounts. A more detailed description of the investment pools that make up the Consolidated Fund are found in Note 1 of the Notes to the Financial Statements.

In order to properly carry out the investment policy, as described in detail in the Investment Section, the Board has hired various outside service providers. Their roles as fiduciaries are clearly identified in the investment policy to ensure operational efficiency, clear lines of communication, and accountability in all aspects of operations. The Board contracts with NEPC, LLC as the investment consultant. The Board requires the consultant to employ a chartered financial analyst or a certified treasury manager to work directly with the BTI. The consultant is responsible for performing investment manager evaluations, suggesting modifications to the investment policy, and performing other services requested by the Board. The Board also hires investment managers who have complete discretion over the timing, selection, and execution of investment trades. The managers are provided explicit written instructions detailing their particular duties and administer the portfolio consistent with the investment policy. The BTI currently contracts with UBS Asset Management, Federated Investors and Sterling Capital Management as the investment managers.

In accordance with *WV State Code §12-6C-19*, the Board may charge fees, which are subtracted from the total return on investments, for the reasonable and necessary expenses incurred by the Board in rendering services. All fees collected are deposited in a special account in the State Treasury. The Board annually adopts a budget and fee schedule, which describes how fees are charged to each pool.

### ***Investment Activities***

The investment policies and strategies for the Consolidated Fund can be found in the Investment Section of this report. The policies are designed to provide safeguards on assets while optimizing return based on each fund's risk parameters.

The return information presented in the Investment Section is calculated by the BTI with the assistance of our consultant, NEPC, LLC, and the individual investment managers. The investment return calculations were prepared using a monthly time-weighted rate of return methodology.

### ***Economic Review & Other Financial Information***

The United States economy slowed significantly from fiscal year 2018 levels, with Gross Domestic Product ("GDP") slowing from approximately 3.1% for fiscal year 2018 to 2.3% for fiscal year 2019. Ongoing trade disputes between the U.S. and its major trading partners and slowing global growth were factors that weighed on the U.S. economy. Business spending dropped year-over-year, falling from 6.9% for fiscal year 2018 to 2.7% for fiscal year 2019. Consumer spending, which accounts for approximately two-thirds of the GDP, was also down from the prior fiscal year, falling to 2.1% from 2.6%. Net exports were negative over the fiscal year, falling from 5.3% for fiscal year 2018 to -1.5% for fiscal year 2019. Economists were projecting GDP growth in the final quarter of the fiscal year would fall below 2% as businesses cut back investment and exports slowed. However, consumer spending, which had weakened in the middle part of the year, jumped from 1.1% for the third quarter of the fiscal year to 4.3% for the final quarter of the fiscal year. While overall growth was weaker in the final quarter of the fiscal year, falling from 3.1% for the third quarter to 2.1% for the fourth quarter, the jump in consumer spending appeared to indicate that the economy still had some momentum going into fiscal year 2020. At the state level, the economy continued to perform well. For the third quarter of the fiscal year (first calendar quarter of 2019), West Virginia led the nation in economic growth, with a robust 5.2% increase in GDP. For the first nine months of fiscal year 2019, West Virginia's growth averaged 5.4% versus 0.6% for the same period in fiscal year 2018. Growth was attributed to an increase in coal exports and an increase in natural gas activity driven by the construction of major pipelines across the state. The state also experienced growth in manufacturing and retail trade.

Labor markets were little changed over the fiscal year with the national unemployment rate ending the fiscal year at 3.7%. The labor force participation rate, a measure of the number of people available to work as a percentage of the total population, was unchanged from the prior fiscal year at 62.9%. The number of long-term unemployed, those that have a duration of unemployment in excess of 27 weeks, improved slightly dropping from 1.478 million at the end of fiscal year 2018 to 1.414 million at the end of fiscal year 2019. Average hourly earnings growth improved year-over-year, rising from 2.7% as of June 2018 to 3.1% as of June 2019. There were spots of weakness during the year, with February and May 2019 job growth numbers coming in substantially below expectations. In February 2019, job growth was reported at just 20,000 versus market expectations of 180,000. In May 2019, versus expectations of 180,000, reported job growth was only 75,000. These two spots of weakness in early calendar year 2019 stoked fears that the labor market was weakening. Although a significant rebound in the June 2019 report allayed many of those fears, the early 2019 deceleration in job growth and the sideways trend in initial unemployment claims suggests that the labor market is less vibrant than last fiscal year. West Virginia's employment picture improved significantly over fiscal year 2019 with unemployment falling from 5.4% as of fiscal year-end 2018 to 4.7% as of fiscal year-end 2019. Personal income growth was also strong over the fiscal year, with a 5.6% growth rate during the third quarter of the fiscal year leading the nation. Increases in construction employment, which increased by 19.8% during fiscal year 2019, was cited as the primary reason for the decrease in unemployment and increase in wage growth. Growth in employment was also seen in other sectors of West

Virginia's economy such as mining, manufacturing, education and health services, and leisure and hospitality.

Inflation, as measured by Core Personal Consumption and Expenditures Less Food and Energy ("Core PCE"), weakened over the fiscal year, falling from an annual rate of 1.9% as of June 2018 to 1.6% as of June 2019. Core PCE is the preferred measure of the Federal Reserve (the "Fed") in gauging inflation over the longer run as the Fed views it as a better measure for identifying inflation trends. Core PCE had fallen through much of the second half of the fiscal year, bottoming out at 1.4% in May 2019, before rebounding in the last month of the fiscal year. Other survey- and market-based measures of inflation expectations have remained below 2%. The weak inflation readings will likely allow the Fed to shift away from being concerned about controlling inflation and turn to adopting a monetary policy stance geared towards maintaining the economic expansion and supporting employment.

The debt ceiling, which had been suspended by Congress in February 2018, again moved to the forefront as the new debt ceiling was re-imposed on March 2, 2019. The U.S. Treasury Department began employing extraordinary measures to maintain federal debt under the debt ceiling and projected that the federal government would run out of borrowing capacity in the early fall of 2019. By the end of fiscal year 2019, the deadline for dealing with the borrowing cap had been moved up to September 2019 as the U.S. Treasury was projected to exhaust its cash on hand and extraordinary measures by that time. Weaker than expected corporate income tax collections and slower overall federal revenue growth contributed to the sooner-than-expected deadline. By the close of the fiscal year, the U.S. Congress and President were seen as being far apart on a solution to addressing the debt ceiling and passing a budget to fund the federal government for fiscal year 2020. Yields on Treasury bills maturing in September and October 2019 were elevated based on market concerns as to whether Congress and the President could overcome their differences and strike a deal to avoid a default and potential federal government shutdown.

Fiscal year 2019 was marked by an abrupt change in the Federal Reserve's Open Market Committee (the "FOMC") stance. At the September 2018 FOMC meeting, the Fed raised the fed funds rate a quarter point to a range of 2.00% to 2.25%. In addition to the rate hike, in the statement announcing the decision, the FOMC removed language that described the current stance of monetary policy as "accommodative." Fed Chairman Jerome Powell ("Chair Powell"), indicated in his remarks after the announcement that the removal of this language was not intended to be a signal of a change in the likely policy path, rather it was a sign that policy was proceeding in line with the Fed's expectations. Indeed, there was no change in the FOMC members' longer-run forecasts, which anticipated one more rate hike in 2018, three more in 2019, and one in 2020. In October 2018 remarks, Chair Powell stated that policy rates were a "long way" from neutral at that point in time. In the latter part of fiscal year 2019, however, markets appeared to be indicating that rates were viewed as too restrictive. The Treasury yield curve, which had started the fiscal year flat, flattened even further in first half of fiscal year 2019. By December 2018, the spread between the 2- and 5-year Treasuries had turned negative and the 2- and 10-year spread had fallen to its lowest levels since 2007. Volatility had also re-appeared with equity markets posting sub-par performance in October and November 2018. The Fed, consistent with their stated positions of basing rate hikes on incoming financial and economic data, opted to hike rates at their December 2018 meeting, raising the policy rate by 25 basis points to a range of 2.25% to 2.50%. The summary of projections released after the meeting indicated that the FOMC anticipated that rates would continue to rise until policy moved from accommodative to restrictive. The market reaction to the rate hike was a steep selloff in risk assets and a rally in interest rates as investors feared that the FOMC would tighten too quickly and put an early end to economic expansion. In an effort to calm markets and acknowledge tightening financial conditions, the Fed shifted to a dovish stance in January 2019. In the post-meeting statement, the FOMC shifted rate guidance from "further gradual increases" to a "patient" approach in Fed policy. This effectively signaled that the FOMC was done with rate hikes for now and would make changes to rates in response to incoming economic data. The

Fed also indicated that the balance sheet run-off would be ended sooner than expected. The balance sheet normalization program, which had started in October 2017, was viewed by many as tightening monetary policy since the effect of the run-off is a decrease in reserves. In its March 2019 meeting, the FOMC further clarified guidance and indicated that no more rate hikes were expected for the remainder of calendar year 2019 and only one hike anticipated for calendar year 2020. The Fed also announced that the balance sheet normalization would be tapered starting in May 2019 and ended in September 2019. Financial markets cheered the updated guidance, with risk assets performing well for the quarter and Treasury yields falling as investors anticipated a more accommodative Fed. Moving into the end of the fiscal year, markets began pricing in Fed rate cuts starting in July 2019. A dismal employment report in May 2019 pointed to a possible weakening in the labor markets, trade tensions between the U.S. and China appeared to be far from resolution, inflation expectations had fallen, and economic growth appeared to be on the verge of slowing. At June 30, 2019, the markets had fully priced in a 25 basis point rate cut at the July 2019 meeting, with expectations of two additional cuts in the last quarter of 2019.

Treasury yields ended fiscal year 2019 higher, benefitting from two rate hikes by the Fed during the fiscal year. Average bill yields during fiscal year 2019 were 90 to 100 basis points higher than fiscal year 2018. The overall curve-flattening trend from the end of fiscal year 2018 continued during fiscal year 2019. The bill curve, which had begun the year with a spread between the 1-month and 1-year Treasuries of 44 basis points, began flattening out in the second quarter of the fiscal year, eventually inverting in March 2019. By the end of the fiscal year, the spread between the 1-month and 1-year Treasuries stood at negative 26 basis points. The yield on the 1-month bill exceeded any Treasury yield available up to, and including, the 10-year Treasury. Many front-end yields over 3-months moved in a “U” shape pattern over the fiscal year, rising in response to Fed rate hikes, before falling as global central banks shifted towards monetary policy easing. As an example, 3-month USD LIBOR ended fiscal year 2018 at 2.34%, peaked at 2.82% in December 2018, and fell to 2.32% by the end of June 2019. Longer-dated Treasuries followed a similar pattern of rising during the year before falling below June 2018 levels by the end of fiscal year 2019.

The WV Money Market and WV Government Money Market Pools outperformed fiscal year 2018, reporting returns, net of all fees, of 2.43% and 2.20% respectively for fiscal year 2019. For the WV Money Market Pool, the 2019 return exceeded fiscal year 2018’s return of 1.54% by 89 basis points. The West Virginia Government Money Market Pool outperformed its fiscal year 2018 return of 1.26% by 94 basis points. The increase in performance in these pools was attributable to the rate hikes at the end of fiscal year 2018 and the two Fed rate hikes during fiscal year 2019. The West Virginia Short Term Bond Pool’s performance, net of all fees, for fiscal year 2019 beat fiscal year 2018’s performance by 340 basis points, rising from 1.14% to 4.54%. Higher coupons over the fiscal year, coupled with declining yields and tightening in credit spreads in the latter part of fiscal year 2019, resulted in the pool attaining significantly higher performance over fiscal year 2018’s results.

### ***Major Initiatives***

- *Standard and Poor’s AAAM Rating*

For the twelfth consecutive year, Standard and Poor’s re-affirmed the BTI’s AAAM rating on the WV Money Market and WV Government Money Market Pools. Funds with Principal Stability Fund ratings (“PSFRs”), such as the BTI, seek to maintain a stable net asset value. The PSFR rating is the highest money market rating assigned by Standard and Poor’s. For a fund to be eligible for an investment-grade rating, all investments must carry a Standard & Poor’s short-term rating of A-1+ or A-1.

The AAAM rating is based on Standard and Poor’s analysis of the fund’s credit quality, investment policies, market price exposure, and conservative management. The rating signifies that the safety of the invested

principal is excellent, and that there is superior capacity to maintain a stable net asset value at all times. This is achieved through conservative investment practices and strict internal controls.

- *Hiring of Investment Manager for the WV Short Term Bond Pool*

At the end of fiscal year 2018, BTI staff were in the process of evaluating proposals received from investment managers in response to a Request for Proposals (“RFP”) for investment management services for the WV Short Term Bond Pool. After a thorough review process, Sterling Capital Management was awarded the mandate in September 2018. Sterling assumed investment management responsibilities for the pool in November 2018.

- *Certificate of Achievement for Excellence in Financial Reporting*

The BTI received the Government Finance Officers Association Certificate of Achievement for Excellence in Financial Reporting for the June 30, 2018 Comprehensive Annual Financial Report (“CAFR”). The Certificate of Achievement is the highest form of recognition in governmental accounting and financial reporting, and its attainment represents a significant accomplishment. This is the thirteenth consecutive year that the BTI has received this prestigious award.

- *Budget Surplus*

For fiscal year 2019, actual fee collections exceeded estimates. Because of conservative management of expenditures, the BTI ended the year with a budget surplus of \$399,000. With this surplus, the BTI operated in surplus territory for the fourteenth consecutive year. With revenue collections during fiscal year 2019 exceeding estimates, the BTI is cutting the administrative fee for fiscal year 2020.

- *Peer Group Benchmark*

NEPC, the BTI’s investment consultant, maintains a peer group benchmark for the WV Money Market and WV Government Money Market Pools. The benchmark for the WV Money Market Pool is composed of a universe of tier 1 institutional money market funds, while the benchmark for the WV Government Money Market Pool comprises Treasury and Agency focused government money market funds.

The WV Money Market Pool peer group includes 254 discrete tier 1 funds comprising \$748.6 billion in assets. The Pool ranked first out the 308 funds for the 3-month and 5-year periods ending June 30, 2019. Over the 1-year and 3-year periods, the Pool was ranked third and second, respectively. This high ranking was attributed to the low effective investment management fee paid to the Pool’s investment managers. For the year ended June 30, 2019, the effective investment management fee was 2.96 basis points.

The WV Government Money Market Pool peer group comprises 605 discrete Treasury and Agency focused government funds totaling \$2.2 trillion in assets. The performance of the Pool ranked first in the 3-month and 5-year time periods ending June 30, 2019. Over the 1-year and 3-year periods the Pool was ranked second. As with the WV Money Market Pool, this high ranking versus the peer group was attributed to the favorable investment management fee schedule. For the year ended June 30, 2019, the effective investment management fee was 3.29 basis points.

***Certificate of Achievement for Excellence in Financial Reporting***

The Government Finance Officers Association of the United States and Canada (the “GFOA”) awarded a Certificate of Achievement for Excellence in Financial Reporting to the BTI for its comprehensive annual financial report for the fiscal year ended June 30, 2018. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report continues to meet the Certificate of Achievement Program’s requirements, and we are submitting it to the GFOA to determine its eligibility for another certificate.

***Acknowledgments***

We wish to express our appreciation to many individuals whose dedicated efforts have made this report possible. BTI’s success would not be possible without the support and leadership of the Board members, the Legislature, the participants, and the citizens of West Virginia. The BTI’s staff, NEPC, LLC Investment Consulting, UBS Asset Management, Sterling Capital Management, Federated Investors, and the staff of the Office of the State Treasurer provided diligent and dedicated service in building the BTI as a professional investment organization for the investment of short-term state funds.

Respectfully, I hereby submit the Comprehensive Annual Financial Report of the West Virginia Board of Treasury Investments for the Year Ended June 30, 2019.

Sincerely,



Karl V. Shanholtzer III, CFA, CPA  
Chief Financial Officer  
West Virginia Board of Treasury Investments





Government Finance Officers Association

**Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting**

Presented to

**West Virginia Board of Treasury  
Investments**

For its Comprehensive Annual  
Financial Report  
for the Fiscal Year Ended

**June 30, 2018**

*Christopher P. Morill*

Executive Director/CEO

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## PRINCIPAL OFFICIALS



**John D. Perdue**  
WV State Treasurer  
*Chairman*



**James C. Justice, II**  
Governor, State of WV  
*Vice Chairman*



**John B. McCuskey**  
WV State Auditor  
*Director*



**Glenda Probst**  
*Director*

Photo  
Not  
Available

**Michael L. Glasser**  
*Director*

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## INVESTMENT PHILOSOPHY

The Board was established by the legislature to provide prudent fiscal administration, investment, and management for the Consolidated Fund. It is the investment philosophy of the Board to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity.

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## OBJECTIVES

All assets shall be invested with the following objectives and priorities:

- Safety of principal. Investments shall be undertaken in a manner that seeks preservation of capital with reasonable investment risk, in the overall portfolio.
- Liquidity requirements of anticipated and unanticipated expenditures.
- Maximization of the yield allocated to participant investments consistent with all investment objectives.
- Recognition of differing objectives and needs of various participants.
- Conformance with State law and other pertinent legal restrictions.
- Diversification of assets by investment in various securities classifications and the use of various investment managers in order to smooth the volatility of returns.
- Realized gains and losses are recognized by the Funds as they occur.

| WEST VIRGINIA |  
**BOARD OF TREASURY  
INVESTMENTS**

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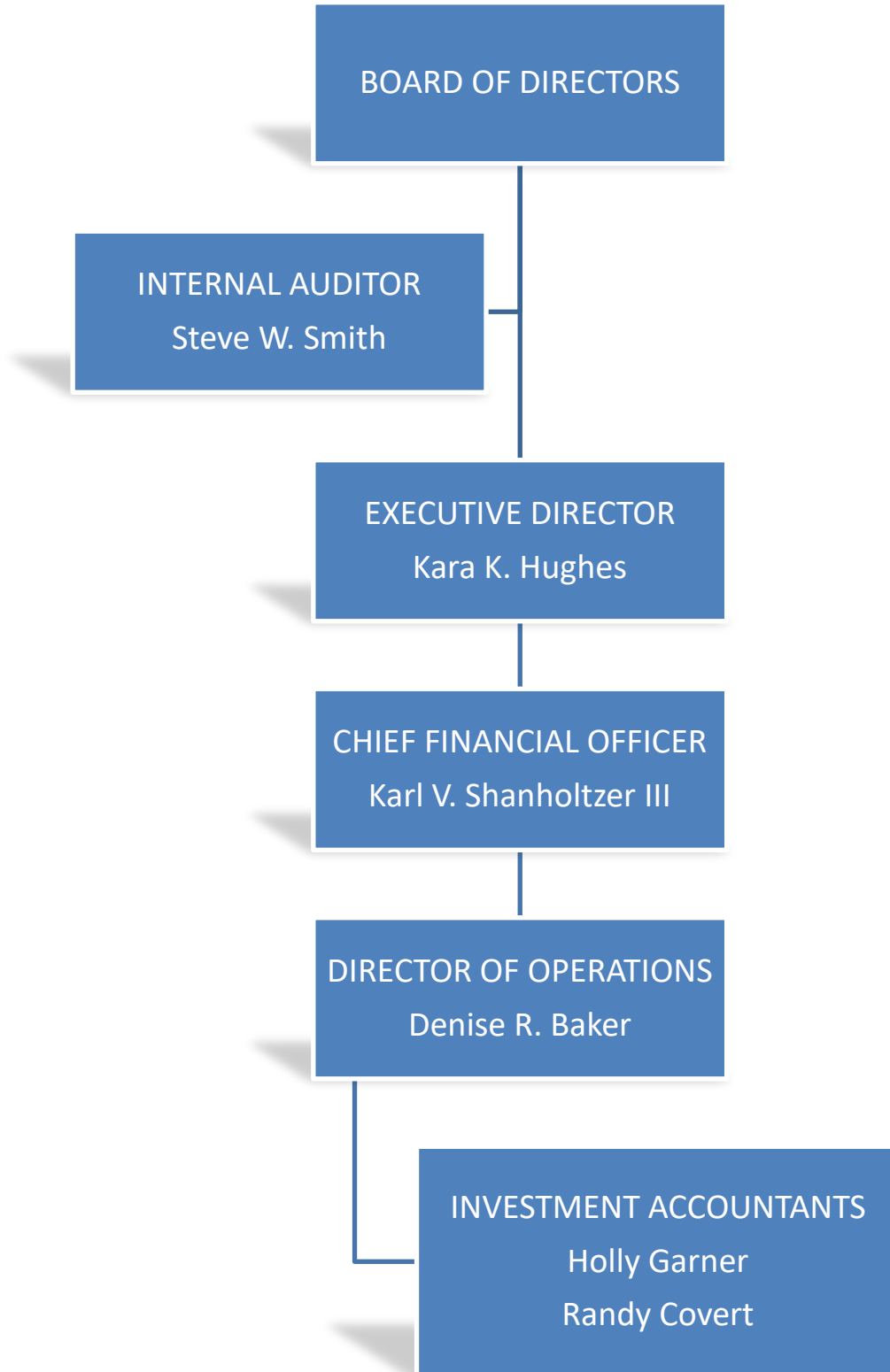
**MISSION STATEMENT**

The Board of Treasury Investments' mission is to prudently invest the funds under its charge, for the benefit of its Shareholders, their constituents and citizens, and to achieve the best return possible for them, by providing focused investment management services, and utilizing financial professionals for the sound administration and oversight of its investment processes.

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*The BTI staff (from left to right) is Kara Hughes, Steve Smith, Karl Shanholtzer, Holly Garner, Randy Covert and Denise Baker.*



The following Treasurer’s Office employees provide professional support services to the Board as needed: Christina Merbedone, *Assistant General Counsel*; Bryan Archer, *Deputy Treasurer of Administration*; and Wilma Harrison, *Legal Assistant*.

**CONSULTING AND PROFESSIONAL SERVICES  
AS OF JUNE 30, 2019**

**INDEPENDENT AUDITOR**

Brown, Edwards & Company, L.L.P.  
Charleston, West Virginia

**LEGAL COUNSEL**

West Virginia State Treasurer's Office  
Charleston, West Virginia

**INVESTMENT SYSTEM**

State Street Global Exchange  
Princeton, New Jersey

**MASTER CUSTODIAN**

BNY Mellon  
Pittsburgh, Pennsylvania

**INVESTMENT CONSULTANT AND PERFORMANCE MEASUREMENT**

NEPC, LLC Investment Consultants  
Atlanta, Georgia

**INVESTMENT MANAGERS**

Federated Investors  
Pittsburgh, Pennsylvania

Sterling Capital Management  
Charlotte, North Carolina

UBS Asset Management (Americas)  
Chicago, Illinois

*The Schedule of Investment and Management Fees is on Page 91 in the Investment Section of this report.*

## **Financial Section**

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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Members of the  
West Virginia Board of Treasury Investments  
Charleston, West Virginia

### Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities and the combined fiduciary funds of the West Virginia Board of Treasury Investments (the "BTI"), a component unit of the State of West Virginia, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the BTI's basic financial statements, as listed in the table of contents.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the combined fiduciary funds of the BTI, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the BTI's basic financial statements. The introductory section, combining and individual fund financial statements, the schedule of investments in securities, and the investment and statistical sections, as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements and the schedule of investments in securities are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual fund financial statements and the schedule of investments in securities are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory, investment, and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated August 30, 2019 on our consideration of the BTI's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the BTI's internal control over financial reporting and compliance.

*Brown, Edwards & Company, L.L.P.*

CERTIFIED PUBLIC ACCOUNTANTS

Lynchburg, Virginia  
August 30, 2019

## West Virginia Board of Treasury Investments

### Management's Discussion and Analysis

June 30, 2019

As management of the West Virginia Board of Treasury Investments (the "BTI"), we offer readers of the financial statements of the BTI this discussion and analysis of the BTI's financial performance for the fiscal year ended June 30, 2019. We encourage readers to consider the information presented in this section in conjunction with the BTI's financial statements, including notes to the financial statements, which follow this section.

The BTI serves as an investment vehicle for the operating cash of West Virginia State agencies and authorities, local governments such as cities and counties, and other political subdivisions throughout the State. The various investment pools and individual investment accounts managed by the BTI are collectively known as the Consolidated Fund. The Consolidated Fund's investment pools and accounts contain short-term fixed income instruments that are managed for the sole benefit of the participants.

#### **Financial Highlights**

The financial position of the State of West Virginia improved during fiscal year 2019 as the positive revenue trends from fiscal year 2018 continued into the new fiscal year. Over the first half of the fiscal year, revenue collections were higher than expected and by December 2018, exceeded fiscal-year-to-date expectations by over \$185 million. This gave the West Virginia Department of Revenue (the "Revenue Department") the confidence to revise the revenue estimates upward in January 2019. Continued strong revenue growth resulted in the Revenue Department revising the estimates upwards three more times over the remaining months of the fiscal year. These four revisions increased the revenue estimates by almost 7%, or \$308 million, from the beginning-of-year estimates. Total general revenue collections by fiscal year-end exceeded the revised estimates by approximately \$8 million. Personal income tax collections were almost \$5 million ahead of the revised estimate, continuing the growth in personal income tax from fiscal year 2018. Another bright spot was severance taxes, which exceeded estimates by over \$11 million. The overall positive growth in the West Virginia economy was responsible for the improvements in revenue collections and an increase in the BTI's investment pools' net position from fiscal year-end 2018. Proceeds from 2018 bond issuances under the Roads to Prosperity Highway Program remained invested in the WV Money Market Pool over the course of fiscal year 2019, helping to maintain an elevated net position over 2018 levels. The Division of Highways expects that a majority of the \$1.2 billion in proceeds will be drawn down and spent over the course of fiscal year 2020.

Rates of return, net of advisor fees, for the Consolidated Fund's WV Money Market, WV Government Money Market, and WV Short Term Bond Pools were 2.47%, 2.25%, and 4.58%, respectively, for the year ended June 30, 2019. The increase in returns from the prior fiscal year was primarily driven by global economic factors and policy actions of the Federal Reserve (the "Fed") over the course of fiscal year 2019. In the first quarter of the fiscal year, the Fed continued their policy normalization campaign, hiking rates in September 2018. The quantitative tightening program that had begun during fiscal year 2018 continued, with the Fed balance sheet run-off reaching the scheduled \$50 billion monthly reduction in October 2018. Under the balance sheet normalization program, the Fed only reinvested interest and maturity receipts that exceeded the targeted monthly reduction. The objective of the program is to reduce the Fed's balance sheet to a more "normal" level from the current level of more than \$4 trillion. Yields on the short end of the Treasury curve continued to rise over the first quarter, increasing the returns on the WV Money Market and WV Government Money Market Pools. In the second quarter, global economic growth began showing

signs of slowing. Yields on Treasuries with maturities over one year peaked in November 2018 and began falling as global economic growth concerns came to the forefront. Market participants became concerned that the Fed was tightening policy too quickly, perhaps already putting a damper on some parts of the economy. The yield curve continued flattening even as the Fed maintained a hawkish stance, with the Fed communicating that it was continuing its policy normalization program. As anticipated, the Federal Open Market Committee (the “FOMC”) hiked rates a quarter point at the December 2018 meeting. Although FOMC participants had lowered their median forecast to only two rate hikes over calendar year 2019, the statement retained language with respect to future rate hikes that the market saw as more aggressive than expected. Additionally, Chairman Jerome Powell, in remarks after the meeting stated that the Fed was content to let the balance sheet runoff continue on autopilot, with monetary policy changes addressed through adjustments to the policy rate. The market reaction was very negative as stocks plummeted and longer-dated Treasury yields fell with market participants becoming more concerned that the Fed would raise rates to the point where economic growth would stall. The December 2018 rate increase would mark the last rate hike during the fiscal year as the Fed abruptly moved from monetary tightening to monetary easing. While the U.S. economic expansion was continuing, there were signs appearing that the pace of growth was slowing. Fed statements became more dovish, with the Fed removing language about future rate hikes. The Fed modified their statements to indicate that the Fed would be patient and future rate adjustments would be dependent on incoming data. With respect to the balance sheet normalization program, the Fed announced that it would modify its balance sheet reduction program. At the May 2019 meeting, the Fed announced that the balance sheet reduction program would come to an end in September 2019. Economic news weighed heavily on rates and rate expectations as the U.S.-China trade dispute continued to drag on. A last-minute breakdown in talks between the U.S. and China and threats of additional tariffs by President Trump damaged business confidence in the U.S. The May jobs report fell well short of expectations, coming in at an increase in payrolls of only 75,000 jobs versus expectations of a gain of 180,000. While news on the economic front brightened in June, the market was pricing in future rate cuts, with an expected rate cut of 50 basis points at the July 2019 FOMC meeting. Rates under six months to maturity ended the fiscal year modestly higher from the end of fiscal year 2018, while rates on maturities six months and over slid to levels below where they started in fiscal year 2019. These movements in rates helped to boost performance over fiscal year 2018 levels in the WV Money Market, WV Government Money Market and WV Short Term Bond Pools.

The WV Money Market Pool is structured as a money market fund with the goal of preservation of principal. The benchmark for the WV Money Market Pool was a blended benchmark composed of fifteen percent of the iMoneyNet Treasury & Repo Institutional Average plus eighty-five percent of the iMoneyNet First Tier Institutional Average. Returns, net of advisor fees, in the WV Money Market Pool were higher year-over-year, increasing from 1.58% for fiscal year 2018 to 2.47% for fiscal year 2019. The largest factor in the increase in performance in fiscal year 2019 was the series of rate hikes by the Fed discussed previously. The pool was managed over the first half of the fiscal year with the expectation that the Fed would continue to raise rates. As such, the weighted average maturity (“WAM”) was maintained in the low to mid 30-day range to take advantage of rising rates over the first half of fiscal year 2019. As the Fed guidance moved from tightening to easing, the managers extended the pool’s WAM to the high 30 to low 40-day range. Treasury allocations were maintained near the 15% minimum given the relative attractiveness of other permissible investment sectors. While fed funds futures were implying three rate cuts over the first half of fiscal year 2020, many participants in the money markets were of the opinion that there would be no more than two rate cuts over that period. With the manager expectations in line with market expectations for rate cuts over the first two quarters of fiscal year 2020, the WAM of the pool is expected to be maintained at its current range.

The WV Government Money Market Pool’s objective is to preserve capital and maintain sufficient liquidity to meet the daily disbursement requirements of participants, while earning a return above inflation. The benchmark for the WV Government Money Market Pool is a blended benchmark composed of fifteen percent of the iMoneyNet Treasury & Repo Institutional Average plus eighty-five percent of the iMoneyNet Government & Agencies Institutional Average. Returns for the WV Government Money Market Pool were

higher than the previous fiscal year, with the pool return, net of advisor fees, increasing from 1.30% from fiscal 2018 to 2.25% for fiscal year 2019. As with the WV Money Market Pool, the increase in returns in the WV Government Money Market Pool was primarily the result of rate hikes by the Fed during the fiscal year. Similar to the WV Money Market Pool, the WV Government Money Market Pool's investment manager kept the WAM short during the first half of the fiscal year. The WAM was maintained in the low 20-day range over the early part of the fiscal year to take advantage of expected Fed rate hikes. The WAM was extended out to the mid 30-day range towards the end of the fiscal year as the Fed shifted to an easing of monetary policy. With yields on agency securities being unattractive relative to similar duration Treasury securities, the WAM was increased through purchases of longer-dated Treasuries. Given the inverted bill curve, the manager targeted a higher level of overnight repo for the pool, generally keeping 25% of the pool in repo. The manager expects to maintain a similar duration profile over the first half of fiscal year 2020 and may lengthen the WAM if there are attractive opportunities available on the longer end of the bill curve.

The WV Short Term Bond Pool is structured as a mutual fund with the objective of asset growth rather than current income. The benchmark for the WV Short Term Bond Pool is the ICE BofAML 1-3 Year US Corporate & Government Index plus 10 basis points. Fiscal year 2019 net-of-advisor-fee returns were up sharply over fiscal year 2018 returns, increasing from 1.18% for fiscal year 2018 to 4.58% for fiscal year 2019. In early fiscal year 2019, there was an investment manager change for the pool, with Sterling Capital Management ("Sterling") taking over for Federated Investors. Sterling won the mandate through a competitive bidding process that included Federated Investors and fifteen other investment management firms. In addition to the change in manager, the Board of the BTI elected to modify the investment guidelines for the pool to place limits on how far a manager could deviate from the Pool's benchmark duration. Prior to this change, the investment manager had a maximum duration limit of two years with no minimum limit. The guideline revision requires the investment manager to maintain the pool's duration within plus or minus twenty percent of the benchmark duration. When Sterling assumed control of the pool in November 2018, the pool's duration stood at 1.0 years versus the benchmark duration of 1.85 years. In order to bring the pool duration into compliance with policy, and to reposition the pool in line with Sterling's credit coverage and market outlook, Sterling engaged in a series of trades over November and December 2018. Performance over this period was short of the benchmark, but the portfolio was better positioned to take advantage of the decline in market yields in the second half of the year. With a portfolio duration closer to 1.9 years, the pool was able to pick up approximately six basis points of excess return versus the benchmark over the second half of the year. An overweight to corporate bonds and underweight to Treasuries also helped boost performance, as the pool benefitted from declining yields and tightening credit spreads. By fiscal year-end, the composition of the pool had been shifted from approximately 41% securitized products, 46% corporate debt and 13% Treasuries to 57% corporate debt, 28% securitized products and 15% Treasuries. The manager will continue to maintain the pool's duration neutral to the benchmark and will adjust allocations as necessary to respond to incoming market data. Sterling is anticipating a rate cut by the Fed early in fiscal year 2020, possibly as soon as July 2019, with future rate decisions dependent on economic data providing confirmation of a meaningful slowdown in U.S. growth.

## **Overview of the Financial Statements**

This report presents the operating results and financial position of the BTI, which is composed of a proprietary fund and fiduciary fund. The proprietary fund is an internal service fund, or operating fund, used to account for activities that provide investment and administrative services on behalf of the State and other participants in the Consolidated Fund. The fiduciary fund is used to account for the activities of the Consolidated Fund, which is made up of nine legally separate investment pools and accounts. There are three external investment pools, three special-purpose internal investment pools, and three individual investment accounts, all of which are included in the fiduciary fund. The BTI is the trustee, or fiduciary, for participants in the Consolidated Fund. Financial statements for the proprietary fund and the fiduciary funds are reported using the economic resources measurement focus and the accrual basis of accounting in

accordance with accounting principles generally accepted in the United States of America (“GAAP”) for governmental entities.

The Statement of Net Position presents information on the proprietary fund’s assets and liabilities, with the difference between the two reported as net position. This statement is categorized into current and non-current assets and liabilities. For purposes of the financial statements, current assets and liabilities are those assets and liabilities with immediate liquidity or which are collectible or becoming due within 12 months of the statement’s date.

The Statement of Revenues, Expenses and Changes in Net Position reflects the operating and non-operating revenues and expenses of the proprietary fund for the operating year. Operating revenues primarily consist of investment service fees charged to the Consolidated Fund with significant operating expenses composed of salaries and benefits, investment advisor fees, investment management system expenses, professional service fees, and fiduciary bond fees.

The Statement of Cash Flows reflects the proprietary fund’s cash flows from operating activities. Cash collections and payments are reflected in this statement to arrive at the net increase or decrease in cash and cash equivalents for the year.

The Statement of Fiduciary Net Position presents information on the fiduciary fund’s assets and liabilities, with the difference between the two reported as net position held in trust for investment pool participants and individual investment account holders.

The Statement of Changes in Fiduciary Net Position reports the additions and deductions to the fiduciary fund for the year. Additions are composed of investment income, such as interest, dividends, and accretion; investment expenses such as investment advisor fees, custodian bank fees, administrative fees; and purchases of pool units, reinvestments of pool distributions, and contributions to individual investment accounts. Deductions represent distributions to pool participants, redemption of units by pool participants, and withdrawals from individual investment accounts.

The State of West Virginia reports the proprietary fund as an internal service fund in its Comprehensive Annual Financial Report (“CAFR”). An internal service fund is used to report any activity that provides goods or services to other funds, departments, or agencies of the State and its component units, or to other governments, on a cost-reimbursement basis. The State reports the portions of the Consolidated Fund pools and accounts held by state agencies and component units as investment holdings of those entities within the appropriate fund reporting categories for those entities. The State reports the portions of the Consolidated Fund held by local governments, municipalities, and other political subdivisions as investment trust funds, a type of fiduciary fund. Fiduciary fund reporting is used to account for resources held for the benefit of parties outside the governmental entity, and those resources are not available to support operations of that entity.

## Financial Analysis of the Operating Fund

**Net position.** The following is the condensed Statements of Net Position of the proprietary fund, which represents the assets, liabilities, and net position generated by the operating activities of the BTI, as of June 30, 2019 and 2018 (in thousands).

	2019	2018
Current assets	\$ 2,028	\$ 1,651
Noncurrent assets	5	5
Total assets	<u>2,033</u>	<u>1,656</u>
Current liabilities	577	609
Total liabilities	<u>577</u>	<u>609</u>
Net position:		
Net investment in capital assets	5	5
Unrestricted	<u>1,451</u>	<u>1,042</u>
Total net position	<u>\$ 1,456</u>	<u>\$ 1,047</u>

The net position of the Operating Fund increased by \$409,000 during fiscal year 2018. The increase in net position was the primarily the result of an increase in current assets of \$377,000. Also contributing to the increase in net position was a decrease of \$32,000 in current liabilities. Noncurrent assets did not materially change during fiscal year 2019.

The majority of the proprietary fund's net position consists of current assets. Current assets are composed of cash and accounts receivable that will be used to pay investment advisor, custodian, and administrative costs. The current asset balance of \$2,028,000 comprises \$1,396,000 in cash and \$632,000 in accounts receivable. The cash and accounts receivable balances increased from 2018 by \$362,000 and \$15,000, respectively.

The increase in the cash balance was primarily a result of a net operating income of \$409,000. Offsetting the increase from net operating income were changes in the receivables and payables balances. The changes in receivables and payables are more fully discussed below.

The accounts receivable balance of \$632,000 represents fees that have been accrued but not withdrawn from the investment pools at June 30, 2019 to pay investment advisor, custodian, and administrative costs. In accordance with *WV State Code §12-6C-19*, the Board may charge fees to the pools for reasonable and necessary expenses incurred for rendering services. The fees charged to the pools are categorized into direct expenses (investment advisor and custodian fees) and indirect expenses (administrative costs). As part of the BTI operations, administrative and custodial fees accrued in the investment pools are periodically transferred from the pools to the BTI's operating fund to pay for all necessary and reasonable expenses. Investment advisor and custodial fees are accrued daily or monthly and transferred to the operating fund to coincide with the receipt of advisor and custodial invoices. The periodic nature of these transfers results in the accounts receivable balance. Accounts receivable increased by \$15,000 over the fiscal year end 2018 balance. This increase was composed of increases in administrative and advisor fees receivable of \$22,000 and \$33,000, respectively, and a decrease in custodian fees receivable of \$40,000. The increases in administrative and advisor fees receivable resulted from the higher level of assets under management at the end of fiscal year 2019 as compared to fiscal year-end 2018. With respect to custodian fees receivable, at the end of fiscal year 2018, payments to the BTI's custodian were placed on hold pending resolution of West Virginia unemployment insurance compliance issues. Since custodian fees are not transferred until the invoices are ready for payment, six months of custodian fees were held in the investment pools. These

compliance issues were resolved early in fiscal year 2019 and the normal process of paying custodian fees on a monthly basis resumed. At the end of fiscal year 2019, there was only one month of custodian fees receivable.

Capital assets, net of accumulated depreciation, did not substantially change during the year. New computer equipment, totaling \$3,000 was purchased during the fiscal year. This increase in capital assets was offset by annual depreciation of \$3,000. There were no asset retirements during fiscal year 2019.

The balance of \$577,000 in current liabilities represents \$504,000 in accounts payable and \$73,000 of reimbursements due to the West Virginia State Treasurer's Office (the "STO") at June 30, 2019. Current liabilities decreased by \$32,000 as compared to the fiscal year-end 2018 balance. The net decrease in current liabilities was composed of a decrease of \$49,000 in accounts payable and an increase of \$17,000 in reimbursements due to the STO. The majority of the accounts payable balance represents amounts due for services received from the BTI's investment advisors for the quarter ending June 30, 2019, custodian fees for June 2019, investment consultant fees for the quarter ending June 30, 2019, and maintenance costs for the investment management system for June 2019. The net decrease of \$49,000 in accounts payable was primarily composed of an increase in amounts payable to the BTI's investment advisors for the quarter ending June 30, 2019, and decreases in the amounts payable for custodian fees and maintenance costs. Investment advisor fees payable increased by \$33,000 due to a higher level of assets under management during the final quarter of the fiscal year 2019 as compared to the final quarter of fiscal year 2018. Custodian fees payable decreased by \$74,000 as a result of the resolution of the previously mentioned payment hold placed on the BTI's custodian at the end of fiscal year 2018. The payable amount decreased by a greater amount than the related receivable since custody fees for three months' invoices had been transferred from the investment pools prior to the BTI being notified of the payment hold. Maintenance fees payable decreased by approximately \$13,000 as there was only one month of fees payable at fiscal year-end 2019 versus two months payable at the end of fiscal year 2018. The remaining \$5,000 change in payables was due to invoices for purchase of new computer equipment and professional services rendered during the last two months of fiscal year 2019. The \$73,000 in reimbursements due to the STO was for staffing services provided to the BTI, office space rental and utilities expenses, and the BTI's share of other office expenses paid on the BTI's behalf by the STO. The amount due to the STO was \$17,000 higher than at the end of fiscal year 2018, primarily due to an increase in pass-through costs related to annual software license renewals, travel, and professional services.

Net position of the BTI's proprietary fund is composed of net investment in capital assets and unrestricted net position. Capital asset expenditures of \$1,000 or more (\$500 or more for certain computer equipment) are capitalized at cost and reported net of accumulated depreciation. Unrestricted net position represents net position not restricted for use by legal, contractual or enabling legislation constraints.



**Changes in net position.** The following is the condensed Statements of Revenues, Expenses and Changes in Net Position of the operating fund for the periods ended June 30, 2019 and 2018 (in thousands).

	2019	2018
<b>Revenues</b>		
Operating revenues:		
Management services	\$ 1,717	\$ 1,245
Advisor and custodian services	1,893	1,597
Total revenues	<u>3,610</u>	<u>2,842</u>
<b>Expenses</b>		
Operating expenses:		
General and administrative	1,305	1,190
Advisor and custodian fees	1,893	1,594
Depreciation	3	2
Total expenses	<u>3,201</u>	<u>2,786</u>
Increase in net position	409	56
Net position at beginning of year	<u>1,047</u>	<u>991</u>
Net position at end of year	<u><u>\$ 1,456</u></u>	<u><u>\$ 1,047</u></u>

Operating revenues at June 30, 2019 consist of investment advisor, custodian, and management fees billed to the pools by the operating fund to cover the cost of providing investment management services. The fees charged to the pools are categorized into direct or indirect expenses. All direct expenses, investment advisor and custodian fees are charged directly to the pools as they are incurred. All indirect expenses, e.g. insurance, staff costs, and rent, are charged to the pools based upon a fixed basis point fee against the net position of the pool. The fees collected are deposited in a special account in the STO created and designated as the Board of Treasury Investments Fee Fund in accordance with *West Virginia Code §12-6C-19*.

Operating revenues for fiscal year 2019 increased by \$768,000. The increase in revenue consisted of an increase of \$472,000 in management (administrative) fees charged to the pools, an increase of \$262,000 in advisor fee revenues, and an increase of \$34,000 in custodial fees.

Advisor fees are computed based upon market values of the pools. The average market value of assets under management were approximately \$1.5 billion higher over the course of fiscal year 2019 for the WV Money Pool, resulting in an increase in advisor fees of \$427,000. Offsetting this increase in advisor fees was a decrease in the advisor fees for the WV Short Term Bond Pool. During fiscal year 2019, there was a change in the investment advisor for the pool. The contract with Federated Investors, who had managed the pool since October 2008, expired and a request for proposals was issued. The winning bidder, Sterling Capital Management, took over investment management of the pool in November 2018. The fee charged by Sterling is approximately 3 basis points lower than the fee charged by Federated. Additionally, the average assets of the pool declined by approximately \$16 million during the fiscal year as investors in the pool withdrew some of their funds. The combination of these two factors resulted in a decrease in investment advisor fees for the WV Short Term Bond Pool of \$165,000. Advisor fees for the WV Government Money Market Pool did not change significantly from 2018 levels. The custodian fees increased by a combined \$34,000 as a result of the increase in the assets of these pools and an increase in trading in the pools. The increase in trading in the WV Money Market and WV Government Money Market Pools was driven by actual and expected rising rates over most of the fiscal year. The increase in trading in the WV Short Term Bond Pool resulted from the change in investment advisors. Administrative fee revenue increased by \$472,000 from fiscal year 2018 levels. For fiscal year 2019, the BTI left the administrative fee unchanged, anticipating that bond proceeds that were deposited in the WV Money

Market Pool at the end of fiscal year 2018 would be withdrawn during fiscal year 2019 as the funds were spent down or reinvested in a stand-alone account that matched investment cash flows to expected expenditures. The expected drawdown did not occur, resulting in a much higher average asset balance in the WV Money Market Pool than was anticipated. Adding to this was an increase in investments by state agencies, which added an additional \$694 million in investments over the course of the fiscal year. This led to a \$1.5 billion increase in the average assets of the WV Money Market Pool for fiscal year 2019, which was responsible for an overwhelming majority of the increase in administrative fees.

Total operating expenses for the year increased by \$415,000. This includes an increase of \$115,000 in general and administrative expense and an increase in advisor and custodian fees of \$299,000. Depreciation expense increased from the prior fiscal year by \$1,000.

General and administrative expenses represent costs associated with operating the BTI that are not considered directly applicable to investment management. Salary reimbursements, investment consulting fees charged by NEPC Investment Consulting and fiduciary bond expenses make up the majority of this expense line item. Salary reimbursements and related expenses increased by \$46,000 from the prior year. This increase was the result of an increase in salary amounts allocated by the STO to the BTI resulting from merit raises and an across-the-board salary increase granted by the Legislature. Professional services also increased during fiscal year 2019, rising by \$28,000 from fiscal year 2018 levels. The primary components of this increase was an increase in costs related to Bloomberg terminal services, an increase in professional services costs related to the design costs for BTI marketing and promotional materials and consulting costs allocated by the STO to the BTI for the STO's network infrastructure upgrades. Computer equipment expenditures increased in fiscal year 2019 by \$23,000. This increase was related to an increase in reimbursements to the STO for the BTI's share of the costs of the STO's network infrastructure upgrades. These expenditures were not capitalized by the BTI since the BTI did not directly purchase, and does not own, any of the computer and networking equipment purchased by the STO. Travel and training costs increased by \$14,000 over fiscal year 2018 levels as BTI staff increased attendance at training events and professional conferences and also increased in-state travel to perform presentations to local governments. Other general and administrative expenses increased by approximately \$4,000 from fiscal year 2018.

A large portion of the BTI's expenses represent investment advisor fees. The current investment advisors are Federated Investors, Sterling Capital Management, and UBS Global Asset Management. All investment decisions and trade executions are performed by the investment advisors. The balance of custodian and advisor fee expense is composed of investment advisor fees of \$1,725,000 and custodian fees of \$168,000. Investment advisor fees increased by \$262,000 and custodian fees increased by \$37,000 over fiscal year 2018 levels. The net increase of \$427,000 in investment advisor fees was the result of an increased level of assets under management in the WV Money Market Pool over fiscal year 2019. Offsetting this increase was a decrease in advisor fees for the WV Short Term Bond Pool. As previously discussed, the change in investment manager for this pool resulted in advisor fees decreasing by \$165,000 as compared to fiscal year 2018. Custodian fees increased by \$37,000 during fiscal year 2019, primarily due to the aforementioned increase in assets under management during the fiscal year.

**Financial Analysis of the Consolidated Fund**

**Net position.** The following is combined, condensed Statements of Fiduciary Net Position of the Consolidated Fund fiduciary funds as of June 30, 2019 and 2018 (in thousands).

	2019	2018
<b>Assets</b>		
Investments	\$ 5,159,739	\$ 4,429,361
Receivables	11,933	6,123
Total assets	<u>5,171,672</u>	<u>4,435,484</u>
<b>Liabilities</b>		
Accrued expenses	631	616
Dividends and purchases payable	1,817	5,386
Total liabilities	<u>2,448</u>	<u>6,002</u>
<b>Net Position</b>		
Held in trust for investment pool participants	5,166,061	4,398,144
Held in trust for individual investment account holders	3,163	31,338
Net position	<u>\$ 5,169,224</u>	<u>\$ 4,429,482</u>

As of June 30, 2019, the Consolidated Fund’s assets totaled approximately \$5.2 billion and were composed almost entirely of investments in securities. Net position as of the end of fiscal year 2019 was nearly \$740 million higher than the fiscal year end 2018 net position. The increase in net position was composed of a net increase of \$768 million in investments by state agencies and local governments in the investment pools. Offsetting this increase was a decline in investments in individual accounts, which fell by \$28 million from fiscal year end 2018.

As more fully discussed below, the BTI experienced a net increase in invested funds during fiscal year 2019. The overwhelming majority of the increase was in the WV Money Market Pool, which saw an increase of almost \$693 million in net position. The WV Government Money Market Pool also increased year-over-year, adding approximately \$40 million from fiscal year-end 2018. Net position of the WV Short Term Bond Pool increased by \$28 million while the State Loan Pool added approximately \$10 million in net position. Pools and accounts that experienced decreases in net position from fiscal year 2018 were the WV Bank Pool and Municipal Bond Commission Account (the “MBC Account”). Investments in the WV Bank Pool fell by almost \$4 million as higher rates made certificates of deposit offered through the West Virginia CD program less attractive to state banks. The MBC Account net position went to zero as the full \$28 million invested as of fiscal year-end 2018 matured and was withdrawn during the fiscal year. The School Fund, Reserve Pool and West Virginia Economic Development Authority Account were little changed from the prior fiscal year.

The receivables balance is composed of accrued interest and dividends and receivables for investments sold. Receivables increased by \$5.8 million over the fiscal year-end 2018 balance. The increase was composed of an increase in interest and dividends receivable of \$2.4 million and an increase of \$3.4 million in receivables for investments sold. Although investments increased year-over-year, the increase in interest rates from two Fed rate hikes during the fiscal year was the primary reason for the overall increase in interest receivable. In the WV Money Market Pool, interest and dividends receivable increased by almost \$0.4 million from fiscal year 2018. The pool’s holdings of interest bearing securities, at 45% of total holdings

by fiscal year-end 2019, was similar to the level of interest bearing securities held at the end of fiscal year 2018. With the increase in net position over fiscal year 2019, the amount of interest bearing holdings increased by approximately \$200 million from fiscal year-end 2018. The weighted average coupon on the interest bearing securities increased from 2.19% at the end of fiscal year 2018 to approximately 2.53% by the end of fiscal year 2019. The increase in interest bearing assets, as well as increase in coupon rates, was responsible for the \$0.4 million increase in interest receivable in the WV Money Market Pool from fiscal year 2019.

The interest receivable balance of the WV Government Money Market Pool was down slightly from fiscal year 2018 as the investment manager decreased holdings of interest bearing securities in favor of discount Treasury and Agency holdings. The change in investment mix dropped interest bearing holdings from 52% of the pool at fiscal year-end 2018 to only 33% at the end of fiscal year 2019. The shift in the mix of interest bearing versus discount securities resulted in the interest receivable balance dropping slightly in spite of the modest increase in assets and increase in coupon rates year-over-year.

Changes in the interest and dividends receivable balance of the WV Short Term Bond Pool accounted for the majority of the overall increase in interest and dividends receivable, rising by almost \$2.0 million from fiscal year 2018. An increase in market interest rates and changes in securities held by the pool led to the increase in interest and dividends receivable as compared to fiscal year-end 2018. The weighted-average coupon of securities held by WV Short Term Bond Pool increased from 2.43% at the end of fiscal year 2018 to 2.86% at the end of fiscal year 2019. In addition to the higher coupons, the investment manager increased allocations to securities with quarterly and semi-annual interest payment frequencies from 58% of the pool to approximately 71% of the pool. The higher allocation to securities with less frequent interest payments resulted in an increase in days of interest accrued at fiscal year-end 2019. The WV Short Term Bond Pool was also responsible for the \$3.4 million year-over-year increase in receivables for securities sold. Certain securities were sold by the pool at the end of June 2019 that had trade settlement dates after fiscal year-end 2019. There were no such receivables in the WV Short Term Bond Pool, or any other pool or account, at the end of fiscal year 2018.

The remaining pools and accounts did not experience significant changes in interest and dividends receivable year-over-year. The WV Bank Pool had an increase of over \$0.1 million in interest receivable as a result of increased interest rates over the last half of the fiscal year. Interest receivable in the MBC Account decreased \$0.1 million to zero at the end of fiscal year 2019. The decline was entirely due to all investments in the account maturing and the proceeds withdrawn from the account prior to fiscal year end. The remaining pools and accounts were little changed from the prior fiscal year.

Total liabilities decreased by approximately \$3.5 million from June 30, 2018 levels. Total liabilities consist of accrued expenses, representing accrued manager fees, custodian bank fees and administrative fees, and dividends and purchases payable, representing dividends payable to participants in the WV Short Term Bond Pool and amounts payable for securities purchases settling in the following accounting period. The majority of the decrease in liabilities was the result of changes in the amounts payable for securities purchased in the WV Short Term Bond Pool. The liability for investments purchased for the WV Short Term Bond Pool fell by \$4.0 million as there were no unsettled investment purchase transactions at the end of fiscal year 2019. Dividends payable in the WV Short Term Bond Pool increased by over \$0.4 million as a result of the increase in yields at fiscal year-end as compared to the prior fiscal year-end. Accrued expenses were up slightly as compared to the end of fiscal year 2018.

Net position is the excess of total assets over total liabilities. As of June 30, 2019, the Consolidated Fund had total net position of just over \$5.1 billion. The net position consists of funds held in trust for investment pool participants and individual account holders. Investment pool participants are those participants investing in the WV Money Market, WV Government Money Market, WV Short Term Bond, WV Bank, Reserve, and Loan Pools. Net position for investment pool participants increased approximately 17.5%

from the prior year due to increases in investments in the WV Money Market, WV Government Money Market, WV Short Term Bond and State Loan Pools. Investment in the WV Bank Pool declined from the prior fiscal year. Net position of the individual accounts was down 89.9% from fiscal year 2018. The decline in net position in individual accounts was due entirely to the Municipal Bond Commission closing the MBC Account during the fiscal year. The remaining pools and accounts did not change significantly during the year.

Net position of the WV Money Market Pool increased by approximately \$693 million from the prior year. State agency investments increased by \$678 million over the course of the fiscal year while local government investments increased by nearly \$15 million. The majority of the increase in state agency investments was in State Participation. State Participation represents cash of the General Fund and cash of other state agencies that is not invested for the benefit of a particular agency. The balance of State Participation increased by \$504 million from fiscal year 2018 and is related to the increase in overall revenue collections by the state during fiscal year 2019. The next largest increase in state agency investments was in the West Virginia Retiree Health Benefit Trust OPEB accumulation account, which added \$49 million during the fiscal year. Investments by the West Virginia Department of Transportation (the "DOT") increased by \$47 million. This increase was primarily from the issuance of bonds during fiscal year 2019 under the Roads to Prosperity program, net of disbursements from other bond proceeds investments. Balances invested for other state agencies increased by \$78 million year-over-year,

Net position of the WV Government Money Market Pool increased by \$39.8 million from fiscal year end 2018. State agency deposits, which made up almost 82% of the funds invested in the Pool at the end of fiscal year 2019, decreased by \$2.9 million over the course of fiscal year 2019. The \$2.9 million decrease in state agency deposits was composed of a \$1.8 million increase in MBC deposits, a \$2.9 million decrease in West Virginia Housing Development Fund deposits and a \$1.8 million decrease in Division of Environmental Protection (the "DEP") deposits. Direct local government investments in the Pool are predominately made by county school boards. Over fiscal year 2019, local government investments increased by \$42.7 million, primarily from a single county school board which invested proceeds from a bond issuance for school construction.

The net position of the WV Short Term Bond Pool increased by \$28.3 million from fiscal year-end 2018. A majority of the increase was from reinvestment of net investment income and changes in fair value over the course of the fiscal year. Participant investment balances were stable over the year, with net redemptions of only \$4.7 million during the fiscal year. The majority of the net redemptions were due to a local government that closed out their account during fiscal year 2019.

Investments in the State Loan Pool rose during the fiscal year, increasing by \$10.2 million. The balance of the Revolving Loan program increased by \$10.7 million for the year as the WVEDA made draws on the loan program. Loan draws totaling \$20.0 million were made during the year. Offsetting the draws were regular monthly principal payments and an extra principal payment of \$1.4 million. During the fiscal year, the BTI was notified by the WVEDA that it was writing down the value of investments made under the WVEDA Non-recourse loan program to zero as of June 30, 2019. The write-downs for the fiscal year totaled \$0.5 million and brought the estimated net realizable value of the loan to approximately \$0.3 million. This value represents cash available for capital calls that is held by the WVEDA. The WVEDA is in the process of notifying the venture capital firms that future capital investments are being suspended and the investment program is being closed out. Once the notification period has expired, the WVEDA will return the remaining cash to the BTI and close out the loan. The WVEDA Non-recourse Loan program is more fully discussed in Note 7 to the financial statements.

The net position of the WV Bank Pool decreased by nearly \$4 million during fiscal year 2019. Demand for funds offered through the West Virginia CD program fell slightly from the prior fiscal year as rates for

offerings of the CD program increased during the fiscal year. The BTI continued offering \$15 million at each monthly auction during fiscal year 2019, placing approximately 87% of the funds offered at auction.

The balance of the Reserve Pool did not change significantly over the fiscal year. There were no contributions or withdrawals in the pool during the year. The \$0.4 million increase in net position was the result of interest earnings that were reinvested in the account.

Net position held in trust for individual account holders represent individual state agency accounts with specific investment needs. While legal ownership of the securities rests with the BTI, each agency has 100% beneficial ownership of the investments in its pool and is solely responsible for the investment decisions in accordance with the legal restrictions applicable to those assets. Net position for individual account holders decreased by \$28 million from the prior fiscal year. The MBC was responsible for the decrease in net position for individual account holders. The MBC account holds investments escrowed to defease certain municipal bond issues. Levels of investment in this account are affected by municipal refinancing/refunding activity levels and the availability of, and yield on, eligible assets. Over the course of the fiscal year, the MBC withdrew \$28.3 million as all of the securities held in the account matured. With no new contributions, the account was closed in May 2019. Although the account was closed out during fiscal year 2019, the MBC may reopen it at any time in the future. For the remaining accounts, the net position of the School Fund increased by \$0.2 million while the West Virginia Economic Development Authority – American Woodmark (“EDA-AW”) account net position did not significantly change during the year.

**Changes in net position.** The following is a combined, condensed Statements of Changes in Fiduciary Net Position of the Consolidated Fund fiduciary funds for the years ended June 30, 2019 and 2018 (in thousands).

	2019	2018
<b>Additions</b>		
Net investment income	\$ 120,213	\$ 56,265
Net realized loss	(817)	(583)
Net increase (decrease) in fair value of investments	14,306	(5,460)
Unit purchases and contributions	11,538,994	11,623,844
Total additions	<u>11,672,696</u>	<u>11,674,066</u>
<b>Deductions</b>		
Distributions	119,146	55,275
Unit redemptions and withdrawals	10,813,808	10,189,236
Total deductions	<u>10,932,954</u>	<u>10,244,511</u>
Change in net position	739,742	1,429,555
Net position at beginning of year	<u>4,429,482</u>	<u>2,999,927</u>
Net position at end of year	<u>\$ 5,169,224</u>	<u>\$ 4,429,482</u>

Fiscal year 2019 net investment income more than doubled from fiscal year 2018 as a result of the two Fed rate hikes over the fiscal year and an increase in net position throughout the year. All pools and accounts, with the exception of the EDA and MBC accounts, experienced increases in net investment income, with a total increase of \$63.9 million from the prior fiscal year. The WV Money Market Pool’s net investment income increased by \$55.8 million, the largest increase of all the pools in dollar terms. The WV Government Money Market Pool experienced an increase of \$2.4 million over fiscal year 2018 net investment income. Net investment income in the WV Short Term Bond Pool was up \$4.6 million from

fiscal year 2018. The WV Bank Pool's net investment income increased by \$0.8 million and the Reserve Pool's net investment income increased by \$0.2 million. Even with write-downs in the Non-recourse loan program totaling \$0.5 million, the State Loan Pool's net investment income rose \$0.2 million from fiscal year 2018 levels. Net investment income in the MBC Fee Account was down \$0.2 million from fiscal year 2018 as a result of the account closing during the year. Net investment income in the School Fund and EDA-AW Account were little changed from fiscal year 2018.

The Fed's two rate hikes during the fiscal year were significant contributors to the BTI's two principal stability pools outperforming fiscal year 2018 results. WV Money Market Pool performance, net of advisor fees, increased by 89 basis points over fiscal year 2019 rising from 1.58% in fiscal year 2018 to 2.47% for fiscal year 2019. While the increase in returns accounted for approximately one-third of the increase in net investment income, the largest contributor to the \$55.8 million increase in net investment income was the \$1.5 billion increase in average investment balances over the course of fiscal year 2019.

The WV Government Money Market Pool also experienced an increase in net-of-advisor-fee performance year-over-year, with returns rising by 95 basis points from 1.30% in fiscal year 2018 to 2.25% in fiscal year 2019. For fiscal year 2019, the two Fed rate hikes were responsible for the majority of the \$2.4 million increase in net investment income for the pool. Also contributing to the increase was an increase in the average investment levels over fiscal year 2019. The average amount invested over fiscal year 2019 was \$11.5 million higher than the average over fiscal year 2018.

The WV Short Term Bond Pool's performance, net of advisor fees, nearly quadrupled from fiscal year 2018's performance levels. Returns in fiscal year 2019 increased by 340 basis points from fiscal year 2018, rising from 1.18% to 4.58%. Increases in the average coupon rate and purchase yield of securities over the course of the year were able to overcome a drop in the average amount invested over the course of the fiscal year. The average amount invested fell by approximately \$16 million over fiscal year 2019 as compared to fiscal year 2018. The increase in the average coupon rate and purchase yield were primarily responsible for the \$4.6 million increase in net investment income year-over-year.

The WV Bank Pool's net investment income increased by \$0.8 million from fiscal year 2018 levels. Increased rates were the primary cause of the increased interest income during fiscal year 2019. Placement rates during fiscal year 2019 fell from 2018 levels, with an average placement of \$13.1 million per auction in fiscal year 2019 versus an average placement of \$13.6 million in fiscal year 2018. However, the average rate for the placements increased significantly during fiscal year 2019, rising from 1.69% in the prior fiscal year to 2.53% in fiscal year 2019.

The Reserve Pool's net investment income increased \$0.2 million over fiscal year 2018 levels. Nearly all of the Pool's assets are deposited in a demand deposit account. The interest rate on the deposit account resets at the beginning of the month. The entire increase in the net investment income was due to rising rates throughout the fiscal year.

Net investment income in the Loan Pool increased by only \$0.2 million from fiscal year 2018 levels. Interest income in the pool increased year-over-year by \$0.7 million as rates on the Revolving Loan and Broadband Loan reset higher. Increases in the balance of the Revolving Loan in the second half of the fiscal year also helped to boost interest income. However, in fiscal year 2019, loan loss reserves increased by \$0.5 million from fiscal year 2018 levels as the WVEDA wrote off the remaining balance of investments made with the loan proceeds. The WVEDA has approximately \$0.3 million of cash on hand from the loan proceeds that was available to fund additional investments. The BTI expects that most of this amount will be returned once the WVEDA completes the wind-down of the venture capital program funded by the Non-recourse loan. See Note 7 to the audited financial statements for more information on the loan programs of the Loan Pool.

Net investment income for the MBC Account fell \$0.2 million from fiscal year 2018. There were no new investments in the pool during the fiscal year and the proceeds of maturing investments were withdrawn. The pool was effectively closed out at the beginning of May 2019.

Net investment income for the remaining accounts was comparable to the prior fiscal year.

For the year, the investment pools had a combined net realized loss of \$817,000. Realized net losses for fiscal year 2019 were \$234,000 higher than the net losses during fiscal year 2018. The majority of the increase was an increase in realized losses in the WV Short Term Bond Pool. Management of investments in the pool changed hands during the year, as Sterling Capital Management won the mandate through a competitive bidding process. In November 2018, Sterling assumed responsibility as the investment manager for the pool. Over November and December of 2018, Sterling traded to reposition the pool to reflect their credit coverage and market outlook. A number of holdings were sold off, generating net realized losses of approximately \$842,000, which represented an increase of approximately \$245,000 in net losses from fiscal year 2018 levels. The increase in realized losses from the WV Short Term Bond Pool was offset by an increase of \$11,000 in realized gains in the WV Money Market Pool during fiscal year 2019. The realized gains in the WV Money Market Pool were the result of normal trading activity related to generating liquidity, taking advantage of opportunities, or repositioning the portfolio to stay within policy limits.

The net change in fair value for fiscal year 2019 was positive, rising by approximately \$19.8 million from fiscal year 2018. Nearly all of the increase in fair value year-over-year was in the WV Short Term Bond Pool, which experienced an increase of \$19.7 million in fair value. The primary drivers for the increase in fair value for 2019 was a change in the duration positioning of the pool and the abrupt reversal in Fed policy over the second half of the fiscal year. The pool's new investment manager moved the pool's average duration from around 1 year in October 2018 to approximately 1.8 years by the end of December 2018. The pool had previously been managed with a low duration to minimize fair value losses from increases in market rates. With the increased duration of the pool, fluctuations in market yields had a greater effect on the value of pool holdings. With the Fed moving from hawkish to dovish in the second half of the fiscal year, yields in the 1- to 3-year section of the Treasury curve fell approximately 73 basis points. Along with the decline in Treasury yields, credit spreads tightened over this period. With its longer duration, the falling Treasury yields and tightening spreads resulted in the significant increase in fair value in the WV Short Term Bond Pool.

The change in fair value in the EDA-AW Account was similar to the prior year, rising by \$0.1 million.

### **Economic Factors**

The Consolidated Fund is designed to address the short-term liquidity needs of the participants which focus on safety of principal, maximization of yield, and conformance with state law and other pertinent legal restrictions. The Board recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. However, the Investment Policy of the BTI invests assets in a manner that minimizes risks with the primary objectives of safety and liquidity.

Moves in the financial markets were dominated by two main themes over the fiscal year: the evolution of monetary policy in the U.S. and ongoing tensions related to global trade. As previously discussed, the end of calendar year 2018 saw a steep selloff in risk assets and a rally in interest rates as investors feared that the FOMC would tighten monetary policy too quickly and bring an early end to U.S. economic expansion. The Fed shifted to a dovish stance in January 2019, acknowledging tighter financial conditions, and adopted a patient stance in determining future adjustments to the target fed funds rate. The FOMC cited slowing global economic activity, volatile financial conditions, and muted inflationary pressures as issues warranting the change in the Fed's views. At the FOMC meeting in March 2019, the Fed further revised



their outlook, with the “dot plot” from the March meeting indicating that a majority of the committee members expected rates to stay unchanged through the remainder of calendar year 2019. Chair Powell tried to reassure markets, saying that economic fundamentals were still strong, but he also acknowledged that recent developments in the U.S. and around the globe were potentially placing a damper on U.S. economic growth. The committee also revised their economic outlook lower, dropping their calendar year 2019 economic growth projections to 2.1% from 2.3%, lowering their inflation forecast to 1.8% from 2.0%, and raising their unemployment rate forecast to 3.7% from 3.5%. The FOMC also announced the end of their balance sheet normalization program, placing an end to the reductions in September 2019. Financial markets cheered the updated monetary policy with risk assets performing better and Treasury yields falling in anticipation of a more accommodative Fed. Rates six months and under, which had peaked in March 2019, slid through the remainder of the fiscal year, dropping 30-plus basis points over the final quarter. The rates reflected the growing market consensus that the Fed was more likely to cut rates in the near term. Even with the decrease in rates towards the end of the fiscal year, the overall average throughout fiscal year 2019 was higher than the average over fiscal year 2018. The two principal stability funds benefitted from the higher level of rates over the fiscal year, with fiscal year 2019 returns topping fiscal year 2018 returns. Further out the curve, the slide in rates in the 1- to 3-year section of the Treasury curve accelerated in the last quarter of the fiscal year, falling 50 to 70 basis points across those tenors. Since the peak in November 2018, the 2-year Treasury had fallen 123 basis points and the 3-year Treasury had fallen 134 basis points. Corporate spreads to Treasuries, which rose through the first half of the fiscal year, peaked in January 2019 and fell through the second half of the fiscal year. The fall in Treasury rates, along with tightening corporate spreads, helped to significantly increase the performance of the WV Short Term Bond Pool during fiscal year 2019.

Economic growth in the U.S., as measured by Gross Domestic Product (“GDP”), during fiscal year 2019 was positive, averaging approximately 2.3% over the fiscal year. Although this growth level was seen as reasonably strong, it was well short of the average growth rate of 3.2% over the course of fiscal year 2018. Growth began showing signs of slowing in the final quarter of calendar year 2018, with a slowdown in consumer spending, weaker business investment, and uncertainty over trade. The effects of the tax cuts from the 2017 Tax Cut and Jobs Act also appeared to be dissipating. While proponents of the cuts had hoped for a boost that would promote long-term, above-trend economic growth, the effects of the tax cut appeared to be fading. Further clouding the economic picture going forward was the Federal government shutdown that began on December 22, 2018. The shutdown, which lasted a record-breaking 35 days, began after President Trump and the U.S. Congress could not reach an agreement on an appropriations bill to fund the government for federal fiscal year 2019. The Congressional Budget Office (the “CBO”) estimated that the shutdown cost the U.S. economy at least \$11 billion. In addition to these costs, the CBO also indicated that there were other indirect costs to the economy that could not be easily estimated. Trade tensions between the U.S. and China worsened in the second half of the fiscal year, with trade talks completely breaking down in May 2019. President Trump had also threatened to impose tariffs on goods imported from Mexico unless that country took steps to reduce the flow of immigrants at the U.S.-Mexico border. Although the countries reached an agreement on a plan to slow immigration, the threat highlighted the Trump administration’s willingness to use tariffs as a weapon to further policy goals. Although the administration had delayed a decision on the implementation of tariffs on European auto imports based on national security, the willingness of the administration to weaponize tariffs could point to this issue resurfacing in the new fiscal year. The increase in trade tensions and their negative effect on global growth strongly contributed to the FOMC’s about-face on monetary policy and helped to push rates down towards the end of the fiscal year. The yield curve, which had been projected to invert by the end of calendar year 2018, did not invert until March 2019. An inversion of the yield curve, or negative spread between short-term and long-term rates, is viewed as a warning sign of an oncoming recession. The Treasury yield curve ended the year with the 1-month Treasury yield higher than any yield up to, and including, the 10-year Treasury yield. Economic uncertainty globally and within the U.S., and a Fed signaling a likelihood of future monetary easing, resulted in the decline in yields by fiscal year-end.

At the state level, general revenue funds were \$316.4 million above original official fiscal year 2019 estimates and 12.0% above prior year receipts. Economic growth accelerated during the year with significant growth in employment, wages, energy output and non-manufacturing goods exports. The state's economic performance was highlighted in two recent reports from the U.S. Department of Commerce. According to a news release on personal income growth, West Virginia ranked first among all states with an annualized personal income growth rate of 5.6% during the first quarter of calendar year 2019. In a separate release, West Virginia ranked first among all states with a 5.2% growth rate in real gross state product in the first quarter of calendar year 2019.

Revenue growth was led by a more than 33 percent gain in severance tax collections due to increases in energy prices and increases in oil, natural gas and coal production. The value of foreign good exports rose by nearly \$1.0 billion in calendar year 2018 with the gain largely concentrated in the area of coal exports. Led by significant gains in construction employment, nonfarm payroll employment growth accelerated to an annualized rate of more than 2.5 percent by the first quarter of calendar year 2019. A major contributing factor to the employment upswing in calendar year 2018 and early 2019 was the construction of several large-scale interstate natural gas pipeline projects in the region. These projects along with enhanced public-sector highway expenditures and growth in foreign exports during the first half of fiscal year 2019 were all significant factors in recent economic expansion and tax collection growth. In addition, West Virginia benefitted from temporary upswings in both personal income tax and corporation net income revenues due to taxpayer behavior associated with the enactment of significant federal tax reform legislation first effective in 2018. Lower federal tax rates encouraged taxpayers to maximize their deductions prior to reform in 2017 and to shift income forward to 2018 when tax rates were lower. As a result, corporation net income tax collections and personal income tax collections surged by roughly 92 percent and 14 percent, respectively, in the final quarter of fiscal year 2019 when 2018 annual returns were filed. For the entire year, Corporation Net Income Tax collections surged by 79.9 percent and Personal Income Tax collections increased by 9.4 percent. Due to higher employment and wages, income withholding tax collections grew by 9.9 percent for the year with higher growth of 13.4 percent during the first half of the year when pipeline construction activity was at peak level. Consumer Sales Tax collections also rose by 8.8 percent during the year.

The combination of conservative budgeting practices and continued improvement in economic activity contributed to a net budgetary surplus of nearly \$36.9 million at the close of fiscal year 2019. Out of this budgetary surplus, \$18.4 million will be transferred into the Revenue Shortfall Reserve Fund and \$18.4 million was appropriated by the Legislature in the fiscal year 2020 Budget Bill.

The official fiscal year 2020 general revenue estimate of more than \$4.71 billion is more than \$46.1 million less than actual fiscal year 2019 general revenue collections of more than \$4.756 billion. Lower revenues are anticipated following an unusually sharp 12% rise in fiscal year 2019. The base budget expenditures for fiscal year 2020 from general revenues and lottery revenues are \$5.131 billion, \$258 million higher than the base budget expenditures included in the fiscal year 2019 budget of \$4.873 billion.

The recent economic momentum associated with higher energy production and higher coal sales is anticipated to slow in the coming fiscal year due to slower global economic growth and the possible escalation of trade disputes among key countries. The economic momentum associated with various gas pipeline construction projects is also expected to subside in fiscal year 2020, especially if progress on two major pipeline projects ceases due to pending environmental litigation. The impact of the slowdown in pipeline construction activities should be somewhat offset by additional public infrastructure spending on roads. Economic activity and tax revenues associated with the issuance of future state road bonds will also contribute to revenue growth in future years beyond this fiscal year.

The future State budget picture has improved as the result of the recent economic improvements and an extended pattern of conservative budgeting. As a result, no additional revenue transfers are currently

anticipated from the Revenue Shortfall Reserve Fund over the next fiscal year. However, tax revenue collection patterns remain highly volatile relative to past long-term historical trends. The continuation of conservative budgeting practices should aid in the rebuilding of reserve fund balances during times of prosperity to levels necessary for the State to weather the next recession whenever such time arises.

**Requests for Information**

This financial report is designed to provide a general overview of the BTI's operations. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to Chief Financial Officer, West Virginia Board of Treasury Investments, 1900 Kanawha Boulevard East, Charleston WV 25305.

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West Virginia Board of Treasury Investments  
Statement of Net Position  
Proprietary Fund

June 30, 2019

*(In Thousands)*

<b>Assets</b>	
Current assets:	
Cash	\$ 1,396
Receivables	<u>632</u>
Total current assets	2,028
Noncurrent assets:	
Capital assets, net of accumulated depreciation	<u>5</u>
Total assets	<u>2,033</u>
 <b>Liabilities</b>	
Current liabilities:	
Accounts payable	<u>577</u>
Total liabilities	<u>577</u>
 <b>Net position</b>	
Net investment in capital assets	5
Unrestricted	<u>1,451</u>
Total net position	<u>\$ 1,456</u>

*See accompanying notes to financial statements*

West Virginia Board of Treasury Investments  
Statement of Revenues, Expenses and Changes in Net Position  
Proprietary Fund

For the Year Ended June 30, 2019

*(In Thousands)*

<b>Operating revenues</b>	
Management services	\$ 1,717
Advisor services	1,725
Custodian services	<u>168</u>
Total operating revenues	<u>3,610</u>
 <b>Operating expenses</b>	
Advisor fees	1,725
Management fees	716
Professional service fees	272
Fiduciary bond	20
Custodian fees	168
General and administrative	297
Depreciation	<u>3</u>
Total operating expenses	<u>3,201</u>
 <b>Operating income</b>	 <u>409</u>
 Change in net position	 409
Net position at beginning of period	<u>1,047</u>
Net position at end of period	<u><u>\$ 1,456</u></u>

*See accompanying notes to financial statements*

West Virginia Board of Treasury Investments  
Statement of Cash Flows  
Proprietary Fund

For the Year Ended June 30, 2019

*(In Thousands)*

<b>Cash flows from operating activities</b>	
Cash received for services	\$ 3,595
Payments to vendors	<u>(3,230)</u>
Net cash provided by operating activities	365
 <b>Cash flows from capital and related financing activities</b>	
Purchase of capital equipment	<u>(3)</u>
Net cash used for capital and related financing activities	<u>(3)</u>
 Net increase in cash	 362
Cash at beginning of period	<u>1,034</u>
Cash at end of period	<u><u>\$ 1,396</u></u>
 <b>Reconciliation of operating income to net cash provided by operating activities</b>	
Operating income	\$ 409
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	3
Changes in assets and liabilities:	
Receivables	(15)
Accounts payable	<u>(32)</u>
Net cash provided by operating activities	<u><u>\$ 365</u></u>

*See accompanying notes to financial statements*

West Virginia Board of Treasury Investments  
 Combined Statement of Fiduciary Net Position  
 Fiduciary Funds  
 Consolidated Fund

June 30, 2019

*(In Thousands)*

<b>Assets</b>	
Investments:	
At amortized cost	\$4,424,642
At fair value	<u>735,097</u>
Total investments	5,159,739
Receivables:	
Accrued interest	8,192
Dividends	370
Investments sold	<u>3,371</u>
Total receivables	<u>11,933</u>
Total assets	5,171,672
 <b>Liabilities</b>	
Accrued expenses	631
Dividends payable	<u>1,817</u>
Total liabilities	<u>2,448</u>
 <b>Net Position</b>	
Held in trust for investment pool participants	5,166,061
Held in trust for individual investment account holders	<u>3,163</u>
Total net position	<u><u>\$5,169,224</u></u>

*See accompanying notes to financial statements*



West Virginia Board of Treasury Investments  
 Combined Statement of Changes in Fiduciary Net Position  
 Fiduciary Funds  
 Consolidated Fund

For the Year Ended June 30, 2019

(In Thousands)

<b>Additions</b>	
Investment income:	
Interest	\$ 65,025
Dividends	4,311
Net amortization	54,990
Provision for uncollectible loans	<u>(504)</u>
Total investment income	123,822
Investment expenses:	
Investment advisor fees	1,725
Custodian bank fees	168
Administrative fees	<u>1,716</u>
Total investment expenses	<u>3,609</u>
Net investment income	120,213
Net realized loss from investments	(817)
Net increase in fair value of investments	<u>14,306</u>
Net increase in net position from operations	133,702
Participant transaction additions:	
Purchase of pool units by participants	11,418,719
Reinvestment of pool distributions	119,737
Contributions to individual investment accounts	<u>538</u>
Total participant transaction additions	<u>11,538,994</u>
Total additions	<u>11,672,696</u>
<b>Deductions</b>	
Distributions to pool participants:	
Net investment income	119,963
Net realized loss from investments	<u>(817)</u>
Total distributions to pool participants	119,146
Participant transaction deductions:	
Redemption of pool units by participants	10,784,814
Withdrawals from individual investment accounts	<u>28,994</u>
Total participant transaction deductions	<u>10,813,808</u>
Total deductions	<u>10,932,954</u>
Change in net position	739,742
Net position at beginning of period	<u>4,429,482</u>
Net position at end of period	<u><u>\$ 5,169,224</u></u>

*See accompanying notes to financial statements*

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# West Virginia Board of Treasury Investments

## Notes to Financial Statements

June 30, 2019

### 1. Organization and Operations

The West Virginia Board of Treasury Investments (the “BTI”) is charged with managing the individual investment pools and accounts of the Consolidated Fund under authority of West Virginia State Code Chapter 12, Article 6C, West Virginia Treasury Investments Act. The West Virginia Legislature established the BTI as a public corporation of the State of West Virginia, to make short-term operating funds of the state more accessible to state government and to allow the West Virginia Investment Management Board (the “IMB”), which had managed the Consolidated Fund, to focus on the state’s long-term trust investments. The Consolidated Fund is the statutory title of the fund that collectively refers to the investment pools and accounts that the BTI manages. The BTI operates on a fiscal year that begins July 1 and ends June 30.

The accompanying financial statements include the operations of the BTI as well as investment balances and transactions of the individual investment pools and accounts of the Consolidated Fund under management of the BTI. The BTI provides a business-type activity that charges fees on a cost-reimbursement basis and is shown in the separate proprietary fund financial statements. Investment activities of the Consolidated Fund are shown in the separate fiduciary fund financial statements.

The West Virginia State Treasurer’s Office provides direct administrative and management services to the BTI. The BTI does not directly employ a staff, but reimburses the Treasurer’s Office for all personnel expenses of Treasury employees assigned to administer and manage the BTI. The Treasurer’s Office also provides various supplementary administrative services. A five-member Board of Directors governs the BTI. The State Governor, State Treasurer, and State Auditor serve as ex officio members of the Board. The Governor appoints the two remaining members subject to the advice and consent of the State Senate. Of the two members appointed by the Governor, one shall be a certified public accountant and one shall be an attorney, and both shall have experience in finance, investing and management. The State Treasurer is Chairman of the Board.

The Consolidated Fund provides for the investment of moneys not currently needed to fund state governmental operations, as well as providing the opportunity for local governments to participate in large investment pools, and for those funds statutorily required to be invested in the Consolidated Fund. The following investment pools and accounts make up the Consolidated Fund:

**WV Money Market** – This pool consists of the operating funds of the State, funds held by State agencies, and funds from local governments who desire the opportunity to invest with the State. Its purpose is to provide for the investment of all surplus funds and to supply the daily cash needs of the State. The pool is co-managed by Federated Investors and UBS Global Asset Management.

**WV Government Money Market** – This pool consists of State agency and local government investors who wish to invest in a pool that restricts its investments to U.S. Government Obligations, U.S. Government Agency Obligations, or repurchase agreements. The pool is managed by UBS Global Asset Management.

**WV Short Term Bond** – This pool consists of the operating funds of the State that are not needed immediately to fund the State’s liquidity requirements. The pool is managed by Sterling Capital Management.

**WV Bank** – This pool consists of certificates of deposit purchased by the State through the West Virginia CD Program. The program purchases CDs from state banks and depositories to make state investment funds available for consumer and business loans within the state.

**Loan** – This pool is composed of loans made by the State. Within the Loan Pool is a non-recourse loan made by the West Virginia Economic Development Authority (the “WVEDA”) to the West Virginia Enterprise Advancement Corporation (the “WVEAC”), which in turn invests the funds in the West Virginia Enterprise Capital Fund, LLC (the “WVECF”), which then invests the money in venture capital funds. The WVEAC is a non-profit corporation that has a common board of directors with the WVEDA. The non-recourse loan program was authorized pursuant to WV Code §12-6-9, which requires the BTI to transfer up to \$25,000,000 in State funds to the WVEDA. The funds transferred by the BTI are to be repaid with proceeds received by the WVEDA from the WVEAC, which will make repayment to the WVEDA from the proceeds it receives from the WVECF. The Loan Pool is restricted by statute to receiving 3% earnings on the funds transferred to the WVEDA. Although the non-recourse loan made by the WVEDA may earn in excess of 3%, only 3% will be given to the Loan Pool, and the WVEDA will retain the rest. The BTI is not responsible for exercising any discretion over or making any decisions in regard to the lending, investing and repayment activities of the non-recourse loan program, or for any other loans in the Loan Pool. The WVEDA provides all bookkeeping and accounting records of the non-recourse loan program. The BTI’s role is to transfer the funds to the WVEDA when requested and to maintain an accounting for the loans within the Loan Pool based on information provided by the WVEDA. In the 2017 legislative session, the West Virginia State Legislature established a program to provide loan guarantees for borrowings related to projects for the expansion of broadband services to unserved and underserved areas of West Virginia. Under the program, the BTI, subject to a liquidity determination and cash availability, shall make available to the WVEDA, from the Consolidated Fund, in the form of a nonrecourse revolving loan, \$50 million, for the purpose of insuring the payment or repayment of any debt instrument entered into by an entity for purposes of expanding broadband services to unserved and underserved areas of the state. The nonrecourse revolving loan is payable by the WVEDA solely from moneys received in respect to the insured debt instruments.

**Reserve** – This pool is composed of an interest-bearing depository account with United Bank. The pool was created to provide an added layer of security for the WV Money Market and WV Government Money Market Pools. The objective of this pool is to provide support for the WV Money Market and WV Government Money Market Pools to ensure their unit net position does not fall below \$0.9985. The State is the sole participant in this pool. Other funds are transferred to this pool as management deems necessary.

**Participant Directed Accounts** – The BTI also maintains accounts for individual State agencies with specific investment needs. These accounts are collectively referred to as Participant Directed Accounts, and include the following: Municipal Bond Commission (“MBC”), School Fund, and Economic Development Authority – American Woodmark (“EDA – AW”). Each agency is the sole participant in its account and is responsible for the investment decisions in accordance with the legal restrictions applicable to those assets. Effective May 31, 2019, the MBC Account was closed after the MBC withdrew the proceeds of matured investments held by the account.

The BTI is authorized by West Virginia Code Chapter 12, Article 6C, Section 9, to invest in United States government and agency obligations, commercial paper, corporate bonds, repurchase agreements, asset-backed securities, and investments in accordance with the Linked Deposit Program, which is a program

using financial institutions in the state to reduce loan costs to small businesses by offsetting interest reductions on the loans with certificates of deposit, loans approved by the Legislature, and any other programs authorized by the Legislature. In addition to the restrictions in investment types, at no time shall more than seventy-five percent of the Consolidated Fund be invested in any bond, note, debenture, commercial paper or other evidence of indebtedness of any private corporation or association and at no time shall more than five percent be invested in securities issued by a single private corporation or association. Further, no less than fifteen percent of the Consolidated Fund shall be invested in any direct obligation of or obligation guaranteed by the United States government.

## **2. Significant Accounting Policies**

### **Basis of Accounting**

The financial statements of the BTI are reported using the economic resources measurement focus and the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Under this method of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

An internal service fund, which is a type of proprietary fund, is used to account for investment management services provided by the BTI on a cost-reimbursement basis. An investment trust fund, which is a type of fiduciary fund, is used to account for each of the investment pools and accounts of the Consolidated Fund. The Consolidated Fund is composed of three external investment pools (WV Money Market, WV Government Money Market, and WV Short Term Bond), three internal investment pools (WV Bank, Loan, and Reserve) and three individual investment accounts (Municipal Bond Commission, School Fund, and Economic Development Authority – American Woodmark). Effective May 31, 2019, the MBC Account was closed after the MBC withdrew the proceeds of matured investments held by the account.

### **Budgetary Information**

The Board's annual operating budget is appropriated by the Legislature from fees collected by the BTI.

### **Cash Equivalents**

Cash equivalents are short-term investments with maturities when acquired of 90 days or less.

### **Capital Assets**

Capital asset expenditures of \$1,000 (\$500 in the case of certain computer equipment) or more with a useful life greater than one year are capitalized at cost and reported net of accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. The estimated useful lives are three years.

### **Wages, Compensated Absences, Retirement Plan and Other Postemployment Benefits**

The BTI has no employees. The State Treasurer's Office provides administrative and management services to the BTI. As a result, the BTI does not accrue for compensated absences and other postemployment benefits or directly contribute to the state retirement plan. Management services provided are recorded as management fees paid to the State Treasurer's Office.

## **Income Taxes**

The BTI is a public corporation organized under laws of the State of West Virginia and, as such, is exempt from federal and state taxation. Accordingly, the financial statements have been prepared recognizing that the BTI is not subject to federal or state income taxes.

## **Revenues and Expenses – Proprietary Fund**

Operating revenues of the BTI's proprietary fund are generated from services provided to the investment pools and accounts of the Consolidated Fund. Revenues of the proprietary fund also are derived from vendor fees charged directly to the investment pools and accounts and paid by the proprietary fund, such as investment advisor fees and custodian fees. Operating expenses of the proprietary fund represent payments for services provided under contract, such as investment advisors and consultants, fiduciary bond fees, and custodian fees; general and administrative expenses of the BTI, such as administrative and management services, office equipment, office supplies, and office space; and depreciation of capital assets. Revenues and expenses are recorded when earned and incurred in accordance with the economic resources measurement focus and the accrual basis of accounting.

## **Net Position – Proprietary Fund**

The net position of the BTI's proprietary fund is composed of net investment in capital assets and unrestricted net position, which represent net position not restricted to use by legal, contractual or enabling legislation constraints.

## **Use of Estimates**

Certain estimates and assumptions are required by management in the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America. Actual results could differ significantly from those estimates. The significant estimates and assumptions that affect the reporting of amounts of assets and liabilities at the statement of financial position date and revenues and expenses for the year then ended are those required in the determination of the allowance for loan losses and amortization of investments. Actual results in the near term could differ from the estimates used to prepare these financial statements.

## **Investment Accounting**

**Investment Carrying Value** The BTI is an investment vehicle of the State, its component units, and local governments, all of which are government entities. The investments of the WV Money Market, WV Government Money Market, WV Bank, Loan, and Reserve pools or accounts are carried at amortized cost, as permissible under Governmental Accounting Standards Board ("GASB") Statement No. 31, as amended by GASB Statement Nos. 72 and 79. The WV Money Market and WV Government Money Market pools measure all investments at amortized cost for financial reporting purposes in accordance with criteria established in GASB Statement No. 79. The criteria specify that the pools must transact with their participants at a stable net asset value per share and meet requirements for portfolio maturity, portfolio quality, portfolio diversification, portfolio liquidity, and shadow pricing. The BTI does not place any limitations or restrictions on participant withdrawals from the WV Money Market and WV Government Money Market pools, such as redemption notice periods, maximum transaction amounts, nor possess authority to impose liquidity fees or redemption gates.

The specific exceptions to fair value reporting for the other pools and accounts referred to above are defined in professional standards as follows. The WV Bank Pool contains nonnegotiable certificates of deposit, which are nonparticipating interest-earning investment contracts. The Loan Pool contains loans receivable arising from lending activities of economic development authorities. The Reserve Pool contains a bank depository account that has no market.

The investments of the remaining pools and participant accounts are reported at fair value, which is determined by third party pricing services based on asset portfolio pricing models and other sources. The BTI measures fair value at the end of each month. See Note 5 for a discussion and summary of the measurement of the fair values. Investments in commingled investment pools are valued at the reported unit values of the individual funds. Commissions on the purchases of securities by the BTI are a component of the security price quoted by the seller and are included in the investment cost.

**Repurchase Agreements** The BTI uses only tri-party repurchase agreements. Under the terms of a tri-party repurchase agreement, the seller transfers collateral securities to an account of the BTI's manager/agent at the seller's custodian bank. This arrangement perfects the BTI's lien on the collateral and effectively protects the BTI from a default by the seller. The BTI requires sellers in repurchase transactions to pledge collateral of at least 102% of the cash borrowed from the BTI. If the seller defaults and the fair value of the collateral declines, realization of the collateral by the BTI may be delayed or limited.

**Asset-Backed Securities** Certain pools invest in various asset-backed securities and structured corporate debt. The pools invest in these securities to enhance yields on investments. Changes in market interest rates affect the cash flows of these securities and may result in changes in fair value. The overall return or yield on these securities depends on the changes in the interest and principal payment pattern and market value of the underlying assets.

**Investment Transactions** Investment transactions are accounted for on a trade date basis.

**Investment Gains and Losses** Gains and losses on the sale of investment securities are recognized at the time of sale by the average cost method. The calculation of realized gains and losses is independent of the calculation of the net increase in the fair value of investments. Realized gains and losses on investments held in more than one fiscal year and sold in the current year may have been recognized as an increase or decrease in the fair value of investments reported in the prior year.

**Interest Income** Interest income is recognized as earned on the accrual method with one exception. The cost recovery method of income recognition is used for the interest on the WVEDA Non-Recourse Loan held by the Loan Pool. Under this method, interest income will only be recognized once the principal balance of the loan has been recovered.

**Dividend Income** Dividend income is recognized on the ex-dividend date.

**Amortization** Discounts and premiums on securities purchased are amortized over the life of the respective securities using the scientific method of amortization. This method maintains a constant book yield over the life of the security. The amortization of asset-backed securities considers the effect of prepayments on the life of the security. The effect of changing prepayment assumptions is reported in the Combined Statement of Changes in Fiduciary Net Position in the year of the change.

**Allowance for Loan Losses** The allowance for loan losses is available to absorb future loan losses. The allowance is increased by provisions charged against operations and reduced by charge-offs (losses), net of recoveries. The provision is based on several factors including: analytical reviews of loan loss experience in relationship to outstanding loans; a continuing review of problem loans and overall portfolio quality,

including analysis of the quality of the underlying collateral; and management's judgment on the impact of current and expected economic conditions on the portfolio. At June 30, 2019, the Loan Pool had an allowance for uncollectible loans of \$23,968,000.

**Distributions to Participants** The net income of the WV Money Market and WV Government Money Market Pools are declared as dividends and distributed daily to the participants based upon their pro rata participation in the pools. The distributions of net investment income are credited to the participants' accounts in the form of dividend reinvestments in the pool and have been included in distributions to participants and reinvestment of distributions as presented on the Statement of Changes in Fiduciary Net Position.

The monthly net income of the WV Short Term Bond Pool is declared as a dividend on the last day of the month and distributed to the participants in the pool on the first day of the following month. Distributions are paid in the form of reinvestments in the pools and have been included in distributions to participants and reinvestment of distributions as presented on the Statement of Changes in Fiduciary Net Position.

The net income of the WV Bank Pool is determined monthly and reinvested in the pool. The earnings are transferred periodically to the State Participation Account which represents invested cash of the state not specifically allocated to individual agencies.

The net income of the Loan Pool is determined monthly and distributed to the participant on the last day of the month. Distributions are paid in the form of reinvestments in the pool and have been included in distributions to participants and reinvestment of distributions as presented on the Statement of Changes in Fiduciary Net Position.

The net income of the Reserve Pool is declared as a dividend and distributed on the last day of the month. If the pool incurs a loss resulting in negative income, the loss will be distributed on the last day of the month.

**Expenses** Each pool is charged for its direct investment-related cost and for its allocated share of other expenses. The other expenses are allocated to the pools based on asset size. Certain pools are not charged expenses or are charged a reduced expense. The BTI proprietary fund pays all expenses on behalf of the pools and is subsequently reimbursed by the pools.

### **3. Cash and Cash Equivalents**

The proprietary fund's cash on deposit with the State Treasurer's Office was approximately \$1,396,000 at June 30, 2019. The cash is pooled with other deposits from the State's agencies, departments, boards and commissions and is subject to coverage by the Federal Deposit Insurance Corporation ("FDIC") or collateralized by securities held by the State or its agents in the State's name. Cash equivalents are short-term, highly liquid investments having original maturities of 90 days or less. The proprietary fund did not hold any cash equivalents at June 30, 2019.

Custodial credit risk of cash deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The BTI does not have a deposit policy for custodial credit risk. BTI management does not believe any of its proprietary fund's deposits are exposed to custodial credit risk.



#### 4. Investments and Deposits

The BTI has adopted an investment policy in accordance with the “Uniform Prudent Investor Act.” The “prudent investor rule” guides those with responsibility for investing the money for others. Such fiduciaries must act as a prudent person would be expected to act, with discretion and intelligence, to seek reasonable income, preserve capital, and, in general, avoid speculative investments. The BTI’s investment policy is to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. The BTI recognizes that risk, volatility, and the possibility of loss in purchasing power are present to some degree in all types of investments. Due to the short-term nature of the Consolidated Fund, the BTI believes that it is imperative to review and adjust the investment policy in reaction to interest rate market fluctuations/trends on a regular basis and has adopted a formal review schedule. Investment policies have been established for each investment pool and account of the Consolidated Fund.

#### Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Two of the BTI’s pools, the WV Money Market and WV Government Money Market Pools, have been rated AAAM by Standard & Poor’s. A fund rated AAAM has extremely strong capacity to maintain principal stability and to limit exposure to principal losses due to credit, market, and/or liquidity risks. AAAM is the highest principal stability fund rating assigned by Standard & Poor’s. Neither the BTI itself nor any of the other Consolidated Fund pools or accounts has been rated for credit risk by any organization. Of the Consolidated Fund pools and accounts, seven are subject to credit risk: WV Money Market Pool, WV Government Money Market Pool, WV Short Term Bond Pool, WV Bank Pool, Loan Pool, Reserve Pool, and School Fund Account.

The BTI limits the exposure to credit risk in the WV Money Market Pool by requiring all long-term corporate debt be rated A+ or higher by Standard & Poor’s (or its equivalent) and short-term corporate debt be rated at A-1 or higher by Standard & Poor’s (or its equivalent). The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. The following table provides information on the credit ratings of the WV Money Market Pool’s investments (in thousands):

Security Type	Credit Rating		Carrying Value (in Thousands)	Percent of Pool Assets
	Moody’s	S&P		
U.S. Treasury notes *	Aaa	AA+	\$ 24,927	0.63%
U.S. Treasury bills *	P-1	A-1+	329,390	8.33
Commercial Paper	P-1	A-1+	733,411	18.54
	P-1	A-1	1,494,297	37.77
Negotiable certificates of deposit	P-2	A-1	8,490	0.21
	P-1	A-1+	179,251	4.53
	P-1	A-1	534,891	13.52
Money market funds	Aaa	AAAM	178,619	4.51
Repurchase agreements (underlying securities):				
U.S. Treasury bonds and notes*	Aaa	AA+	426,000	10.77
U.S. agency bonds and notes	Aaa	AA+	47,200	1.19
			<u>\$ 3,956,476</u>	<u>100.00%</u>

\* U.S. Treasury issues are explicitly guaranteed by the United States government and are not considered to have credit risk.

The BTI limits the exposure to credit risk in the WV Government Money Market Pool by limiting the pool to U.S. Treasury issues, U.S. government agency issues, money market funds investing in U.S. Treasury issues and U.S. government agency issues, and repurchase agreements collateralized by U.S. Treasury issues and U.S. government agency issues. The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. The following table provides information on the credit ratings of the WV Government Money Market Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value (in Thousands)	Percent of Pool Assets
	Moody's	S&P		
U.S. Treasury bills *	P-1	A-1+	\$ 57,785	22.93%
U.S. agency bonds and notes	Aaa	AA+	30,975	12.28
U.S. agency discount notes	P-1	A-1+	110,373	43.77
Money market funds	Aaa	AAAm	111	0.04
Repurchase agreements (underlying securities):				
U.S. agency bonds and notes	Aaa	AA+	52,900	20.98
			<u>\$ 252,144</u>	<u>100.00%</u>

\* U.S. Treasury issues are explicitly guaranteed by the United States government and are not considered to have credit risk.

The BTI limits the exposure to credit risk in the WV Short Term Bond Pool by requiring all long-term corporate debt be rated BBB- or higher by Standard & Poor's (or its equivalent) and all short-term corporate debt be rated A-1 or higher by Standard & Poor's (or its equivalent). Mortgage-backed and asset-backed securities must be rated AAA by Standard & Poor's (or its equivalent). The pool must have at least 15% of its assets in U.S. Treasury obligations or obligations guaranteed as to repayment of interest and principal by the United States of America. The following table provides information on the credit ratings of the WV Short Term Bond Pool's investments (in thousands):

Security Type	Credit Rating		Carrying Value (in Thousands)	Percent of Pool Assets
	Moody's	S&P		
U.S. Treasury notes *	Aaa	AA+	\$ 115,292	15.75%
U.S. agency collateralized mortgage obligations				
U.S. government guaranteed*	Aaa	AA+	26,472	3.62
Non-U.S. government guaranteed	Aaa	AA+	23,674	3.23
Corporate fixed- and floating-rate bonds and notes				
	Aaa	AA+	2,147	0.30
	Aa2	AA+	5,024	0.69
	Aa2	AA	5,577	0.76
	Aa2	A+	8,566	1.17
	Aa2	NR	2,784	0.38
	Aa3	AA+	5,042	0.69

(Continued on next page)

\* U.S. Treasury issues and certain U.S. agency collateralized mortgage obligations are explicitly guaranteed by the United States government and are not considered to have credit risk.

Security Type	Credit Rating		Carrying Value (in Thousands)	Percent of Pool Assets
	Moody's	S&P		
Corporate fixed- and floating-rate bonds and notes (continued)	Aa3	AA-	16,616	2.27
	Aa3	A+	13,139	1.80
	Aa3	A	2,765	0.38
	A1	AA-	18,323	2.50
	A1	A+	15,880	2.17
	A1	A	7,426	1.01
	A1	A-	8,612	1.18
	A1	NR	5,223	0.71
	A2	A	19,418	2.65
	A2	A-	24,214	3.31
	A3	A+	8,592	1.17
	A3	A	13,148	1.80
	A3	A-	35,050	4.79
	A3	BBB+	30,732	4.20
	Baa1	A-	6,889	0.94
	Baa1	BBB+	14,806	2.02
	Baa1	BBB	5,213	0.71
	Baa2	A-	6,143	0.84
	Baa2	BBB+	14,524	1.98
	Baa2	BBB	37,277	5.09
	Baa2	BBB-	6,369	0.87
	Baa3	BBB+	1,091	0.15
	Baa3	BBB	9,193	1.26
	Baa3	BBB-	36,044	4.92
	Ba1	BBB	2,013	0.28
	Ba1	BBB-	4,214	0.58
	NR	A	8,761	1.20
NR	BBB+	2,658	0.36	
Collateralized mortgage obligations	NR	AAA	5,958	0.81
Commercial mortgage-backed securities	Aaa	NR	377	0.05
Asset-backed securities	Aaa	AAA	45,739	6.25
	Aaa	NR	75,441	10.31
	NR	AAA	35,020	4.78
Money market funds	Aaa	AAAm	523	0.07
			\$ 731,969	100.00%

NR = Not Rated

The WV Bank Pool holds an interest in a money market mutual fund valued at approximately \$232,000. The mutual fund is rated AAAM by Standard & Poor's and Aaa by Moody's. The BTI does not have a policy specifically addressing credit risk in the WV Bank Pool.

The Loan Pool is composed of loans made by the State. The pool holds intergovernmental loans and an investment in a money market mutual fund of approximately \$34,000. The mutual fund is rated AAAM by Standard & Poor's and Aaa by Moody's. The loans are not rated; however, because there is the potential for defaults on the loans, the pool is subject to credit risk related to the loans. The BTI addresses this credit risk by establishing and regularly evaluating a reserve for uncollectible loans.

The Reserve Pool holds an interest in a money market mutual fund valued at approximately \$1,000. The mutual fund is rated AAAM by Standard & Poor's and Aaa by Moody's. The BTI does not have a policy specifically addressing credit risk in the Reserve Pool.

The School Fund Account holds only an interest in a money market mutual fund valued at approximately \$1,425,000. The mutual fund is rated AAAM by Standard & Poor's and Aaa by Moody's. The BTI does not have a policy specifically addressing credit risk in the School Fund Account.

**Interest Rate Risk**

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. All Consolidated Fund pools and accounts are subject to interest rate risk.

The overall weighted average maturity of the investments of the WV Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
U.S. Treasury notes	\$ 24,927	125
U.S. Treasury bills	329,390	34
Commercial paper	2,236,198	57
Negotiable certificates of deposit	714,142	33
Repurchase agreements	473,200	3
Money market funds	178,619	3
	\$ 3,956,476	42

The overall weighted average maturity of the investments of the WV Government Money Market Pool cannot exceed 60 days. Maximum maturity of individual securities cannot exceed 397 days from date of purchase, except for government floating rate notes, which can be up to 762 days. The following table provides information on the weighted average maturities for the various asset types in the WV Government Money Market Pool:

Security Type	Carrying Value (In Thousands)	WAM (Days)
U.S. Treasury bills	\$ 57,785	65
U.S. agency bonds and notes	30,975	75
U.S. agency discount notes	110,373	35
Repurchase agreements	52,900	3
Money market funds	111	3
	\$ 252,144	40

The overall effective duration of the investments of the WV Short Term Bond Pool is limited to a +/- 20 percent band around the effective duration of the portfolio's benchmark (the ICE BofAML 1-3 US

Corporate & Government Index). As of June 30, 2019, the effective duration of the benchmark was 657 days. Maximum effective duration of individual securities cannot exceed 1,827 days (five years) from date of purchase. The following table provides information on the effective duration for the various asset types in the WV Short Term Bond Pool:

Security Type	Carrying Value (In Thousands)	Effective Duration (Days)
U.S. Treasury notes and bonds	\$ 115,292	816
U.S. agency collateralized mortgage obligations	50,146	976
Corporate fixed-rate bonds and notes	365,352	847
Corporate floating-rate bonds and notes	38,121	286
Collateralized mortgage obligations	5,958	752
Commercial mortgage-backed securities	377	15
Asset-backed securities	156,200	393
Money market funds	523	-
	\$ 731,969	723

The West Virginia Bank Pool holds nonnegotiable certificates of deposit totaling \$77,000,000 with maturity dates ranging from July 2019 through December 2019, and an interest in a money market mutual fund valued at approximately \$232,000. The money market mutual fund has a weighted average maturity of one day. The BTI's policy does not specifically address maturity restrictions as a means of managing exposure to losses in this pool arising from increasing interest rates.

The Loan Pool holds an interest in a money market mutual fund in the amount of approximately \$34,000 with a weighted average maturity of one day. The BTI's policy does not specifically address maturity restrictions as a means of managing exposure to losses in this pool arising from increasing interest rates.

The Reserve Pool maintains funds totaling approximately \$19,546,000 in a bank depository account and an interest in a money market mutual fund valued at approximately \$1,000. The money market mutual fund has a weighted average maturity of one day. The BTI's policy does not specifically address maturity restrictions as a means of managing exposure to losses in this pool arising from increasing interest rates.

The School Fund Account holds only an interest in a money market mutual fund valued at approximately \$1,425,000 with a weighted average maturity of one day. The BTI's policy does not specifically address maturity restrictions as a means of managing exposure to fair value losses in this pool arising from increasing interest rates.

The EDA-AW Account holds only a U.S. Treasury bond valued at approximately \$1,703,000 that matures August 15, 2023. The BTI's policy does not specifically address maturity restrictions as a means of managing exposure to fair value losses in this pool arising from increasing interest rates.

### **Other Risks of Investing**

Other risks of investing can include concentration of credit risk, custodial credit risk, and foreign currency risk.

Concentration of credit risk is the risk of loss attributed to the magnitude of a Consolidated Fund pool or account's investment in a single corporate issuer. The BTI investment policy prohibits those pools and accounts permitted to hold corporate securities from investing more than 5% of their assets in any one corporate name or one corporate issue.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the BTI will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Repurchase agreements are required to be collateralized by at least 102% of their value, and the collateral is held in the name of the BTI. The BTI or its agent does not release cash or securities until the counterparty delivers its side of the transaction.

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. None of the Consolidated Fund's investment pools or accounts holds interests in foreign currency or interests valued in foreign currency.

### **Deposits**

Custodial credit risk of deposits is the risk that in the event of failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. Deposits include nonnegotiable certificates of deposit. The WV Bank Pool contains nonnegotiable certificates of deposit valued at \$77,000,000. The Reserve Pool contains funds totaling approximately \$19,546,000 in a bank depository account. The BTI does not have a deposit policy for custodial credit risk.

## **5. Investments Measured at Fair Value**

The BTI measures the WV Short Term Bond Pool, the School Fund Account and the EDA-AW Account at fair value for financial reporting purposes. GASB Statement No. 72 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is a market-based measurement, not an entity-specific measurement. The BTI categorizes fair value measurements within the fair value hierarchy established by accounting principles generally accepted in the United States of America in accordance with GASB Statement No. 72.

The fair value hierarchy established under GASB Statement No. 72 categorizes the inputs to valuation techniques used to measure fair value into three levels as follows:

Level 1 inputs – Quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date.

Level 2 inputs – Inputs – other than quoted prices included within Level 1 – that are observable for an asset or liability, either directly or indirectly.

Level 3 inputs – Unobservable inputs for an asset or liability.

The fair value hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs.

The following table summarizes the recurring fair value measurements of the investment securities in the WV Short Term Bond Pool in accordance with GASB Statement No. 72 fair value hierarchy levels as of June 30, 2019 (in thousands):

Investment Type	Level 1	Level 2	Level 3	Total
U.S. Treasury Notes	\$ 115,292	\$ -	\$ -	\$ 115,292
U.S. agency collateralized mortgage obligations	-	50,146	-	50,146
Corporate fixed-rate bonds and notes	-	365,352	-	365,352
Corporate floating-rate bonds and notes	-	38,121	-	38,121
Collateralized mortgage obligations	-	5,958	-	5,958
Commercial mortgage-backed securities	-	377	-	377
Asset-backed securities	-	156,200	-	156,200
Money market funds	523	-	-	523
	\$ 115,815	\$ 616,154	\$ -	\$ 731,969

The valuation methodologies and inputs presented below are used in the fair value measurements for investments in securities in the WV Short Term Bond Pool classified as Level 2 in the preceding table.

#### **U.S. Agency Collateralized Mortgage Obligations**

Level 2 U.S. agency collateralized mortgage obligations are evaluated using predicted cash flows, adjusted by an applicable spread/yield/price adjustment incorporating benchmark yields, collateral performance, and prevailing market conditions.

#### **Corporate Fixed-Rate Bonds and Notes**

Level 2 corporate fixed-rate bonds and notes are priced using spread, yield and price based evaluations. For spread- and yield-based evaluations, a bullet (non-call) spread scale is created for relevant maturities for each issuer. The spreads are based on the new issue market, secondary trading and dealer quotes. For price-based evaluations, evaluators use recently executed transactions of similar securities and dealer quotes to arrive at appropriate pricing.

#### **Corporate Floating-Rate Bonds and Notes**

Level 2 corporate floating-rate bonds are evaluated by calculating current and future coupons, then discounting each cash flow by an appropriate discount margin. A basic yield scale covering a range of quality ratings and maturities is established for the corresponding indices. The yield scale consists of discount margins obtained from primary and secondary dealers in the new issue market. Final yields are calculated by adding the appropriate discount margin to each forward rate plus special adjustments to capture issue-specific characteristics, as applicable. The resulting yields are then used to discount each cash flow.

**Collateralized Mortgage Obligations**

Level 2 collateralized mortgage obligations are evaluated using predicted cash flows, adjusted by an applicable spread/yield/price adjustment incorporating benchmark yields, collateral performance, and prevailing market conditions.

**Commercial Mortgage-Backed Securities**

Level 2 commercial mortgage-backed securities are evaluated using predicted cash flows, adjusted by an applicable spread/yield/price adjustment incorporating benchmark yields, collateral performance, third-party real estate analysis, and prevailing market conditions.

**Asset-Backed Securities**

Level 2 asset-backed securities are evaluated using predicted cash flows, adjusted by an applicable spread/yield/price adjustment incorporating benchmark yields, collateral performance, and prevailing market conditions.

The School Fund Account holds a money market fund reported at a fair value of \$1,425,000 using Level 1 inputs.

The EDA-AW Account holds a U.S. Treasury bond reported at a fair value of \$1,703,000 using Level 1 inputs.

**6. Capital Assets**

Capital asset activity in the proprietary fund was as follows (in thousands):

	June 30, 2018	Increases	Decreases	June 30, 2019
Equipment, at cost	\$ 21	\$ 3	\$ -	\$ 24
Accumulated depreciation	(16)	(3)	-	(19)
Equipment, net of accumulated depreciation	<u>\$ 5</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5</u>

**7. Related Party Transactions**

**Intergovernmental Investments**

The BTI is required by law to enter into certain investment transactions with other state entities. At June 30, 2019, the BTI’s intergovernmental investments, which are assets of the Loan Pool, included the following:

- a. The “WVEDA Revolving Loan” is an obligation of the West Virginia Economic Development Authority (WVEDA). The terms of the loan program require the BTI to make available on a revolving basis up to \$175,000,000 for the WVEDA to use to fund economic development initiatives. The interest rate is reset on July 1 of each year and is based on the twelve month return of the WV Money Market Pool. The rate for the year ending June 30, 2019, was 1.60%. The rate has a 1% annual adjustment cap. The WVEDA makes monthly principal and interest payments calculated on a 120-month amortization of the outstanding balance. At June 30, 2019, the outstanding balance was \$117,371,000.



- b. The “WVEDA Non-recourse Loan” represents an obligation of the WVEDA. The BTI assumed the loan as of July 8, 2005. The loan was originally entered into with the West Virginia Investment Management Board on April 9, 2002. The terms of the loan allow for the WVEDA to borrow up to \$25,000,000 from the BTI through June 29, 2012. As of March 2010, the WVEDA had borrowed the maximum amount. The funds borrowed by the WVEDA are to be loaned, without recourse, to the West Virginia Enterprise Advancement Corporation (WVEAC), for investment in the West Virginia Enterprise Capital Fund, to fund certain venture capital initiatives. The loan earns interest at 3%, which is fixed for the term of the loan. The WVEDA is required to make annual principal payments of \$10,000 plus accrued interest for the first ten years. However, in the event the WVEDA has not received any returns from the investment with the WVEAC, these payments may be deferred through June 30, 2012. Beginning June 30, 2013, the WVEDA was expected to make principal and interest payments sufficient to repay all outstanding principal and accrued interest in full by June 30, 2022. On June 24, 2013, the BTI was notified by the WVEDA that the WVEDA had not received monetary returns from its venture capital investments and therefore would be unable to make the scheduled payment on June 30, 2013. At June 30, 2019, \$24,326,000 of principal was outstanding.

Because of the uncertain collectability of this loan, the BTI has elected to recognize income on a cost recovery basis. Any payments received will be applied to reduce the outstanding principal balances until that balance is fully recovered. Any amounts received after recovery of the principal balance will be recognized as interest income when received. Additionally, a valuation reserve of \$23,968,000 has been accrued at June 30, 2019.

- c. The "WVEDA Broadband Loan" represents an obligation of the WVEDA. During its 2017 regular legislative session, the West Virginia State Legislature passed House Bill 3093 ("HB 3093"). The purpose of HB 3093 was to provide for the enhancement and expansion of broadband internet services throughout the state. Under provisions of the bill, effective July 7, 2017, the BTI is required to make available to the WVEDA, from the Consolidated Fund, up to \$50 million to insure the payment or repayment of any debt entered into by an entity for purposes of expanding broadband services to unserved and underserved areas of the state. The loan is structured as a non-recourse, revolving loan that is payable by the WVEDA solely from moneys received in respect to the insured debt instruments. The WVEDA may not insure more than \$10 million per entity in one calendar year. The loan has a variable rate equal to the 12-month average yield on the WV Money Market Pool. The rate resets quarterly and the maximum annual adjustment may not exceed 1.00%. For the quarter ending June 30, 2019, the annualized rate is 2.26%. The WVEDA is required to make quarterly payments to pay all accrued interest on a loan for the prior quarter. On a quarterly basis, the WVEDA determines the outstanding balance of the insured debt covered by the loan and adjusts the outstanding balance of the loan to equal the outstanding balance of the insured debt. At June 30, 2019, the outstanding balance was \$1,480,000.

As of June 30, 2019, the WVEDA has provided the BTI with a Notice of Intent to Request Advance indicating that the WVEDA is providing insurance, in the amount of \$10 million, to insure a broadband expansion loan. The WVEDA does not intend to draw the funds for the loan insurance until there is an event of default on the insured loan. As of June 30, 2019, the insured loan is in good standing and the likelihood of default appears remote.

### **Transactions with State Treasurer’s Office**

The State Treasurer’s Office provides various services to the BTI, some of which are reimbursed by the BTI, and others of which the Treasurer provides at no cost to the BTI. During the year ended June 30, 2019, the BTI reimbursed the Treasurer’s Office \$832,000 for services, which includes \$716,000 for

management services provided by Treasurer’s Office employees. As of June 30, 2019, the BTI had an amount payable to the Treasurer’s Office totaling \$83,000, of which \$56,000 was for management services provided by Treasurer’s Office employees. Also during the year, the Treasurer’s Office provided services valued at approximately \$20,000 at no cost to the BTI.

## 8. Risk Management

The BTI is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters.

Board members are covered by a \$5 million blanket bond and general liability and property coverage of \$1 million per occurrence through the West Virginia State Board of Risk and Insurance Management (“BRIM”). The BTI has obtained additional coverage of \$5 million faithful performance bond through an outside underwriter. There have been no claims since the inception of the BTI.

## 9. Effect of New Accounting Pronouncements

The GASB has issued a statement related to accounting and financial reporting for asset retirement obligations related to the retirement of tangible assets: Statement No. 83, *Certain Asset Retirement Obligations*. The objective of Statement No. 83 is to enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain asset retirement obligations. The provisions of Statement No 83 are effective for reporting periods beginning after June 15, 2018. Because the BTI does not have any asset retirement obligations, either required by contract or government mandate, related to retirement of long-lived tangible assets, it is not affected by this statement.

The GASB has issued a statement related to accounting and financial reporting for fiduciary activities: Statement No. 84, *Fiduciary Activities*. The objective of Statement No. 84 is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. The provisions of this statement are effective for reporting periods beginning after December 15, 2018. BTI management has not determined the effect, if any, this statement will have on its financial statements.

The GASB has issued a statement relating to financial accounting and reporting for leases: Statement No. 87, *Leases*. The objective of Statement No. 87 is to better meet the information needs of financial statement users by improving accounting and reporting for leases by governments. The provision of this statement are effective for reporting periods beginning after December 15, 2019. Because the BTI does not typically lease assets, and has no plans to lease any assets in the near future, it is not currently affected by this statement.

The GASB has issued a statement relating to accounting and financial reporting for debt: Statement No 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of Statement No. 88 is to improve information disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. The provisions of this statement are effective for reporting periods beginning after June 15, 2018. Because the BTI does not issue debt and does not engage in borrowings, it is not affected by this statement.

The GASB has issued a statement related to accounting and financial reporting for interest cost incurred in construction: Statement No. 89, *Interest Cost Incurred before the End of a Construction Period*. The objective of Statement No. 89 is to enhance the relevance and comparability of information about capital

assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The provisions of this statement are effective for reporting periods beginning after December 15, 2019. Because the BTI does not engage in borrowing or construction activity, it is not affected by this statement.

The GASB has issued a statement related to accounting and financial reporting for major equity interests: Statement No. 90, *Majority Equity Interests – an amendment of GASB Statements No. 14 and 61*. The objectives of Statement No. 90 are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The provisions of this statement are effective for reporting periods beginning after December 15, 2018. Because the BTI does not have any majority equity interests in legally separate organizations and does not engage in activities that would result in the BTI acquiring a majority equity interest in a legally separate organization, it is not affected by this statement.

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West Virginia Board of Treasury Investments  
 Combining Statement of Fiduciary Net Position  
 Fiduciary Funds  
 Consolidated Fund

June 30, 2019

(In Thousands)

	<u>WV Money Market Pool</u>	<u>WV Government Money Market Pool</u>	<u>WV Short Term Bond Pool</u>	<u>WV Bank Pool</u>	<u>Loan Pool</u>
<b>Assets</b>					
Investments:					
At amortized cost	\$ 3,956,476	\$ 252,144	\$ -	\$ 77,232	\$ 119,243
At fair value	-	-	731,969	-	-
Receivables:					
Accrued interest	2,918	56	4,436	545	163
Dividends	364	-	4	-	-
Investments sold	-	-	3,371	-	-
Total receivables	<u>3,282</u>	<u>56</u>	<u>7,811</u>	<u>545</u>	<u>163</u>
Total assets	<u>3,959,758</u>	<u>252,200</u>	<u>739,780</u>	<u>77,777</u>	<u>119,406</u>
<b>Liabilities</b>					
Accrued expenses	445	41	138	3	4
Dividends payable	-	-	1,817	-	-
Total liabilities	<u>445</u>	<u>41</u>	<u>1,955</u>	<u>3</u>	<u>4</u>
<b>Net Position</b>					
Held in trust for investment pool participants	3,959,313	252,159	737,825	77,774	119,402
Held in trust for individual investment account holders	-	-	-	-	-
Total net position	<u>\$ 3,959,313</u>	<u>\$ 252,159</u>	<u>\$ 737,825</u>	<u>\$ 77,774</u>	<u>\$ 119,402</u>

(Continued)

<u>Reserve Pool</u>	<u>Municipal Bond Commission Account</u>	<u>School Fund Account</u>	<u>Economic Development Authority - American Woodmark Account</u>	<u>Total</u>
\$ 19,547	\$ -	\$ -	\$ -	\$4,424,642
-	-	1,425	1,703	735,097
41	-	-	33	8,192
-	-	2	-	370
-	-	-	-	3,371
<u>41</u>	<u>-</u>	<u>2</u>	<u>33</u>	<u>11,933</u>
19,588	-	1,427	1,736	5,171,672
-	-	-	-	631
-	-	-	-	1,817
-	-	-	-	2,448
19,588	-	-	-	5,166,061
-	-	1,427	1,736	3,163
<u>\$ 19,588</u>	<u>\$ -</u>	<u>\$ 1,427</u>	<u>\$ 1,736</u>	<u>\$5,169,224</u>

West Virginia Board of Treasury Investments  
 Combining Statement of Changes in Fiduciary Net Position  
 Fiduciary Funds  
 Consolidated Fund

For the Year Ended June 30, 2019

(In Thousands)

	WV Money Market Pool	WV Government Money Market Pool	WV Short Term Bond Pool	WV Bank Pool	Loan Pool
<b>Additions</b>					
Investment income:					
Interest	\$ 39,471	\$ 1,907	\$ 19,223	\$ 1,942	\$ 1,780
Dividends	4,052	6	205	13	8
Net (amortization) accretion	51,165	3,531	309	-	-
Provision for uncollectible loans	-	-	-	-	(504)
Total investment income (loss)	<u>94,688</u>	<u>5,444</u>	<u>19,737</u>	<u>1,955</u>	<u>1,284</u>
Investment expenses:					
Investment advisor fees	1,146	79	500	-	-
Custodian bank fees	127	14	27	-	-
Administrative fees	1,289	95	260	29	41
Total investment expenses	<u>2,562</u>	<u>188</u>	<u>787</u>	<u>29</u>	<u>41</u>
Net investment income	92,126	5,256	18,950	1,926	1,243
Net realized gain (loss) from investments	24	2	(843)	-	-
Net increase in fair value of investments	<u>-</u>	<u>-</u>	<u>14,275</u>	<u>-</u>	<u>-</u>
Net increase in net position from operations	92,150	5,258	32,382	1,926	1,243
Participant transaction additions:					
Purchase of pool units by participants	11,039,255	357,409	993	2,894	17,719
Reinvestment of pool distributions	92,107	5,257	18,742	1,926	1,243
Contributions to individual investment accounts	-	-	-	-	-
Total participant transaction additions	<u>11,131,362</u>	<u>362,666</u>	<u>19,735</u>	<u>4,820</u>	<u>18,962</u>
Total additions	11,223,512	367,924	52,117	6,746	20,205
<b>Deductions</b>					
Distributions to pool participants:					
Net investment income	92,126	5,256	18,950	1,926	1,243
Net realized gain (loss) from investments	24	2	(843)	-	-
Total distributions to pool participants	<u>92,150</u>	<u>5,258</u>	<u>18,107</u>	<u>1,926</u>	<u>1,243</u>
Participant transaction deductions:					
Redemption of pool units by participants	10,444,241	322,861	5,664	2,894	8,705
Withdrawals from individual investment accounts	-	-	-	-	-
Total participant transaction deductions	<u>10,444,241</u>	<u>322,861</u>	<u>5,664</u>	<u>2,894</u>	<u>8,705</u>
Total deductions	<u>10,536,391</u>	<u>328,119</u>	<u>23,771</u>	<u>4,820</u>	<u>9,948</u>
Net increase (decrease) in net position from operations	687,121	39,805	28,346	1,926	10,257
Inter-pool transfers in	19,250	-	-	13,650	-
Inter-pool transfers out	<u>(13,650)</u>	<u>-</u>	<u>-</u>	<u>(19,250)</u>	<u>-</u>
Net inter-pool transfers in (out)	<u>5,600</u>	<u>-</u>	<u>-</u>	<u>(5,600)</u>	<u>-</u>
Change in net position	692,721	39,805	28,346	(3,674)	10,257
Net position at beginning of period	3,266,592	212,354	709,479	81,448	109,145
Net position at end of period	<u>\$ 3,959,313</u>	<u>\$ 252,159</u>	<u>\$ 737,825</u>	<u>\$ 77,774</u>	<u>\$ 119,402</u>

(Continued)

<u>Reserve Pool</u>	<u>Municipal Bond Commission Account</u>	<u>School Fund Account</u>	<u>Economic Development Authority - American Woodmark Account</u>	<u>Total</u>
\$ 462	\$ 150	\$ -	\$ 90	\$ 65,025
-	-	27	-	4,311
-	-	-	(15)	54,990
-	-	-	-	(504)
<u>462</u>	<u>150</u>	<u>27</u>	<u>75</u>	<u>123,822</u>
-	-	-	-	1,725
-	-	-	-	168
-	1	-	1	1,716
<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>	<u>3,609</u>
462	149	27	74	120,213
-	-	-	-	(817)
-	-	-	31	14,306
<u>462</u>	<u>149</u>	<u>27</u>	<u>105</u>	<u>133,702</u>
449	-	-	-	11,418,719
462	-	-	-	119,737
-	1	537	-	538
<u>911</u>	<u>1</u>	<u>537</u>	<u>-</u>	<u>11,538,994</u>
1,373	150	564	105	11,672,696
462	-	-	-	119,963
-	-	-	-	(817)
<u>462</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119,146</u>
449	-	-	-	10,784,814
-	28,514	391	89	28,994
<u>449</u>	<u>28,514</u>	<u>391</u>	<u>89</u>	<u>10,813,808</u>
911	28,514	391	89	10,932,954
462	(28,364)	173	16	739,742
-	-	-	-	32,900
-	-	-	-	(32,900)
-	-	-	-	-
462	(28,364)	173	16	739,742
19,126	28,364	1,254	1,720	4,429,482
<u>\$ 19,588</u>	<u>\$ -</u>	<u>\$ 1,427</u>	<u>\$ 1,736</u>	<u>\$ 5,169,224</u>



**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities**  
**June 30, 2019**  
*(In thousands)*

**WEST VIRGINIA MONEY MARKET POOL**

<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
<i>U.S. Treasury Notes</i>							
United States Treasury		1.500 %	2.392 %	10/31/2019	25,000	\$ 24,927	\$ 24,948
Total U. S. Treasury Notes	0.6%					24,927	24,948
<i>U.S. Treasury Bills</i>							
United States Treasury		0.000	2.345	07/02/2019	50,000	49,997	49,997
United States Treasury		0.000	2.283	07/09/2019	75,000	74,962	74,962
United States Treasury		0.000	2.372	07/16/2019	35,000	34,966	34,966
United States Treasury		0.000	2.223	07/23/2019	97,000	96,870	96,871
United States Treasury		0.000	2.084	07/30/2019	20,000	19,967	19,967
United States Treasury		0.000	2.398	08/01/2019	20,000	19,959	19,965
United States Treasury		0.000	2.075	12/26/2019	33,000	32,669	32,666
Total U. S. Treasury Bills	8.3%					329,390	329,394
<i>Commercial Paper</i>							
Natixis NY Branch		0.000	2.634	07/01/2019	1,750	1,750	1,750
Antalis SA		0.000	2.509	07/01/2019	67,500	67,500	67,500
Atlantic Asset Securities Corp		0.000	2.403	07/01/2019	20,000	20,000	20,000
Barton Capital Corp		0.000	2.434	07/01/2019	20,000	20,000	19,999
Collateralized CP II Co		0.000	2.983	07/01/2019	2,000	2,000	2,000
Starbird Funding Corp		0.000	2.424	07/01/2019	20,000	20,000	20,000
Versailles		0.000	2.634	07/01/2019	15,000	15,000	14,997
CNPC Finance HK LTD		0.000	2.627	07/02/2019	20,000	19,999	19,999
Fairway Finance Corp		0.000	2.615	07/02/2019	10,000	9,999	9,999
Gotham Funding Corp		0.000	2.448	07/02/2019	30,000	29,998	29,998
Kells Funding LLC		0.000	2.621	07/02/2019	5,000	5,000	5,000
Liberty Street Funding LLC		0.000	2.629	07/02/2019	15,000	14,999	14,999
CNPC Finance HK LTD		0.000	2.627	07/03/2019	30,000	29,996	29,996
Federation Des Caisses		0.000	2.389	07/05/2019	20,000	19,995	19,995
Nationwide Building Society		0.000	2.459	07/10/2019	25,000	24,985	24,984
LMA Americas LLC		0.000	2.650	07/12/2019	9,000	8,993	8,992
Collateralized CP II Co	2.643	F	2.642	07/12/2019	5,000	5,000	5,000
Antalis SA		0.000	2.634	07/15/2019	15,000	14,985	14,985
Atlantic Asset Securities Corp		0.000	2.664	07/15/2019	5,000	4,995	4,995
DBS Bank LTD		0.000	2.608	07/15/2019	8,000	7,992	7,992
Victory Receivables Corp		0.000	2.428	07/15/2019	30,000	29,972	29,972
Matchpoint Finance PLC		0.000	2.612	07/16/2019	4,000	3,996	3,996
Toronto Dominion Bank		0.000	2.609	07/16/2019	17,500	17,481	17,479
Nationwide Building Society		0.000	2.448	07/17/2019	35,000	34,962	34,962
Antalis SA		0.000	2.489	07/18/2019	5,330	5,324	5,324
Mitsubishi UFJ Trust & Banking		0.000	2.612	07/18/2019	8,000	7,990	7,990
Sheffield Receivables		0.000	2.634	07/18/2019	7,000	6,991	6,991
Mitsubishi UFJ Trust & Banking		0.000	2.603	07/19/2019	21,000	20,973	20,973
UnitedHealth Group Inc		0.000	2.572	07/19/2019	8,500	8,489	8,489
Albion Capital Corp		0.000	2.633	07/22/2019	29,000	28,956	28,956
Nationwide Building Society		0.000	2.454	07/22/2019	37,500	37,447	37,447
IBM Corp		0.000	2.614	07/24/2019	35,000	34,942	34,942
Bedford Row Funding Corp	2.644	F	2.644	07/25/2019	11,000	11,000	11,000
Industrial & Commercial Bank		0.000	2.479	07/26/2019	20,000	19,966	19,966
Barton Capital Corp		0.000	2.490	07/29/2019	27,500	27,448	27,448
Makayan Banking BHD		0.000	2.931	07/30/2019	10,000	9,977	9,977

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F – Floating rate note security.

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**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities (Continued)**  
**June 30, 2019**  
*(In thousands)*

<b>WEST VIRGINIA MONEY MARKET POOL (Continued)</b>							
<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
Great Bridge Capital		0.000	2.617	07/30/2019	25,000	24,948	24,948
Banque Et Caisse Epargne		0.000	2.595	08/01/2019	7,000	6,985	6,985
Credit Agricole CIB NY		0.000	2.734	08/02/2019	10,000	9,976	9,976
DBS Bank LTD		0.000	2.634	08/02/2019	4,000	3,991	3,991
Fairway Finance Corp		0.000	2.588	08/02/2019	18,000	17,959	17,959
LMA Americas LLC		0.000	2.443	08/05/2019	20,000	19,953	19,953
Antalis SA		0.000	2.623	08/06/2019	20,000	19,948	19,948
LMA Americas LLC		0.000	2.796	08/06/2019	20,000	19,945	19,945
United Overseas Bank		0.000	2.583	08/06/2019	15,000	14,962	14,962
Old Line Funding LLC		2.594	F 2.648	08/07/2019	6,000	6,000	6,000
Cancara Asset Sec LLC		0.000	2.582	08/08/2019	5,000	4,987	4,987
Chariot Funding LLC		2.524	F 2.572	08/08/2019	9,000	9,000	9,000
Sheffield Receivables		0.000	2.582	08/09/2019	4,000	3,989	3,989
Versailles		2.599	F 2.632	08/12/2019	10,000	10,000	10,000
Erste Abwicklungsanstalt		0.000	2.551	08/13/2019	10,000	9,970	9,970
Banque Et Caisse Epargne		0.000	2.609	08/15/2019	15,000	14,952	14,952
Collateralized Flex Co LLC		0.000	2.964	08/15/2019	5,000	4,982	4,982
United Overseas Bank		0.000	2.541	08/19/2019	8,500	8,471	8,471
Banque Et Caisse Epargne		0.000	2.597	08/20/2019	7,000	6,975	6,975
Kells Funding LLC		0.000	2.557	08/20/2019	15,000	14,948	14,948
Liberty Street Funding LLC		0.000	2.499	08/20/2019	20,000	19,932	19,932
Toronto Dominion Bank		0.000	2.594	08/20/2019	25,000	24,911	24,912
Caisse Des Depots ET CON		0.000	2.584	08/21/2019	20,000	19,928	19,928
Thunder Bay Funding		0.000	2.597	08/22/2019	25,000	24,908	24,908
Bedford Row Funding Corp		2.754	F 2.754	08/23/2019	3,000	3,000	3,000
Chariot Funding LLC		2.514	F 2.514	08/27/2019	9,000	9,000	9,002
CAFCO LLC		0.000	2.331	08/28/2019	20,000	19,926	19,923
CRC Funding LLC		0.000	2.692	08/29/2019	9,000	8,961	8,963
Cancara Asset Sec LLC		0.000	2.394	08/30/2019	10,000	9,961	9,960
Barton Capital Corp		0.000	2.520	09/03/2019	10,000	9,956	9,957
Sheffield Receivables		0.000	2.520	09/03/2019	20,000	19,912	19,911
Collateralized CP Flex Co LLC		2.618	F 2.670	09/03/2019	25,000	25,000	25,011
Nieuw Amrsterdam Rec		0.000	2.489	09/04/2019	5,000	4,978	4,978
Sumitomo Mitsui Banking Corp		0.000	2.671	09/04/2019	5,000	4,976	4,979
NRW Bank		0.000	2.516	09/05/2019	25,000	24,887	24,892
Sumitomo Mit/Singapore		0.000	2.446	09/05/2019	20,000	19,912	19,910
Charta LLC		0.000	2.469	09/06/2019	9,000	8,959	8,960
Sumitomo Mit/Singapore		0.000	2.500	09/06/2019	5,200	5,176	5,176
Bank of China Hong Kong		0.000	2.695	09/10/2019	20,000	19,896	19,896
Manhattan Asset Funding		0.000	2.428	09/10/2019	35,000	34,835	34,834
Liberty Street Funding LLC		0.000	2.418	09/11/2019	8,000	7,962	7,961
Daimler Finance		0.000	2.448	09/12/2019	14,000	13,932	13,923
Toronto Dominion Bank		0.000	2.418	09/12/2019	25,000	24,880	24,876
Atlantic Asset Securities Corp		0.000	2.428	09/13/2019	12,500	12,439	12,438
Chariot Funding LLC		0.000	2.428	09/13/2019	9,000	8,956	8,956
ASB Finance LTD		0.000	2.526	09/16/2019	18,000	17,905	17,906
Manhattan Asset Funding		0.000	2.449	09/16/2019	11,298	11,240	11,240
MUFG Bank LTD/NY		0.000	2.665	09/17/2019	2,751	2,735	2,736
Matchpoint Finance PLC		0.000	2.556	09/18/2019	25,000	24,862	24,862
Nationwide Building Society		0.000	2.392	09/20/2019	40,000	39,789	39,783
Old Line Funding LLC		0.000	2.387	09/20/2019	10,000	9,947	9,947
Oversea-Chinese Banking		0.000	2.325	09/20/2019	20,000	19,897	19,891
Thunder Bay Funding		0.000	2.568	09/23/2019	25,000	24,853	24,863
Alpine Securitization		2.560	2.560	09/23/2019	25,000	25,000	25,000
Thunder Bay Funding		0.000	2.557	09/23/2019	13,000	12,924	12,929

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**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities (Continued)**  
**June 30, 2019**  
*(In thousands)*

<b>WEST VIRGINIA MONEY MARKET POOL (Continued)</b>							
<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
Old Line Funding Corp		0.000	2.567	09/26/2019	10,000	9,939	9,943
Svenska Handelsbanken NY		0.000	2.619	09/26/2019	10,000	9,938	9,942
Bedford Row Funding Corp		2.632	F 2.632	09/26/2019	5,000	5,000	5,003
BNZ International Funding		0.000	2.640	09/27/2019	15,000	14,905	14,911
Charta LLC		0.000	2.661	10/01/2019	17,500	17,383	17,395
Sheffield Receivables		0.000	2.546	10/01/2019	22,500	22,357	22,355
Liberty Street Funding LLC		0.000	2.484	10/02/2019	15,000	14,906	14,907
Longship Funding LLC		0.000	2.640	10/02/2019	10,000	9,933	9,931
Anglesea Funding LLC		2.580	F 2.665	10/02/2019	11,000	11,000	11,000
BNP Paribas NY Branch		0.000	2.630	10/04/2019	15,000	14,898	14,907
Fairway Finance Corp		0.000	2.484	10/04/2019	3,000	2,981	2,981
Nordea Bank		0.000	2.629	10/04/2019	20,000	19,864	19,877
Collateralized CP Co LLC		0.000	2.714	10/07/2019	5,000	4,964	4,968
Citigroup Global Markets		0.000	2.609	10/07/2019	4,000	3,972	3,975
Coca-Cola Co		0.000	2.683	10/07/2019	10,000	9,928	9,936
Collateralized CP Co LLC		0.000	2.714	10/08/2019	7,000	6,949	6,955
Anglesea Funding LLC		2.614	F 2.629	10/11/2019	25,000	25,000	25,014
Thunder Bay Funding		0.000	2.651	10/15/2019	7,500	7,443	7,448
Exxon Mobile Corp		0.000	2.319	10/15/2019	20,000	19,866	19,862
Citigroup Global Markets		0.000	2.630	10/15/2019	7,000	6,947	6,952
DBS Bank LTD		0.000	2.350	10/15/2019	25,250	25,079	25,077
Nordea Bank		0.000	2.551	10/15/2019	21,000	20,846	20,855
Societe Generale		0.000	2.329	10/15/2019	20,000	19,866	19,857
Exxon Mobile Corp		0.000	2.297	10/16/2019	15,120	15,019	15,015
JP Morgan Securities		0.000	2.693	10/16/2019	10,000	9,922	9,930
Toronto Dominion Bank		0.000	3.112	10/18/2019	5,000	4,954	4,964
DBS Bank LTD		0.000	2.289	10/22/2019	20,000	19,859	19,856
Bedford Row Funding Corp		2.734	F 2.734	10/24/2019	5,000	5,000	5,004
Old Line Funding Corp		0.000	2.750	11/04/2019	15,000	14,859	14,879
Ciesco LLC		0.000	2.608	11/06/2019	5,000	4,955	4,956
Chariot Funding LLC		2.464	F 2.521	11/06/2019	10,000	10,000	10,001
Bedford Row Funding Corp		2.524	F 2.579	11/07/2019	4,000	4,000	4,001
Nordea Bank		0.000	2.593	11/08/2019	10,000	9,909	9,915
LMA Americas LLC		0.000	2.630	11/12/2019	8,000	7,924	7,932
Crown Point Capital Co		2.613	F 2.612	11/12/2019	20,000	20,000	20,006
Old Line Funding LLC		2.541	F 2.541	11/13/2019	15,000	15,000	15,001
Crown Point Capital Co		2.601	F 2.601	11/14/2019	10,000	10,000	10,003
Collateralized CP Flex Co LLC		2.580	F 2.561	11/19/2019	5,000	5,000	5,000
Old Line Funding LLC		2.503	F 2.503	11/20/2019	6,000	6,000	6,000
Bedford Row Funding Corp		2.533	F 2.533	11/21/2019	8,000	8,000	8,003
Jupiter Securitization Co LLC		2.624	F 2.624	11/22/2019	50,000	50,000	50,027
Collateralized CP Co LLC		0.000	2.651	11/25/2019	5,000	4,947	4,954
Collateralized CP Co LLC		2.581	F 2.581	11/26/2019	6,000	6,000	6,001
Glencove Funding LLC		2.568	F 2.634	11/29/2019	15,000	15,000	15,000
Old Line Funding LLC		2.460	F 2.530	12/05/2019	7,500	7,500	7,500
Bedford Row Funding Corp		0.000	2.275	12/06/2019	9,000	8,912	8,911
DBS Bank LTD		0.000	2.339	12/11/2019	7,000	6,928	6,929
Citigroup Global Markets		0.000	2.653	12/16/2019	7,000	6,916	6,927
DNB Bank ASA		2.494	F 2.494	12/16/2019	12,000	12,000	12,002
Nestle Capital Corp		0.000	2.646	12/23/2019	3,000	2,962	2,967
Collateralized Co LLC		0.000	2.666	01/10/2020	10,000	9,861	9,880
Bedford Row Funding Corp		2.757	F 2.766	01/13/2020	8,000	8,000	8,005
Coca-Cola Co		0.000	2.633	01/17/2020	29,000	28,587	28,643
Chariot Funding LLC		0.000	2.922	01/27/2020	5,000	4,917	4,917
ASB Finance LTD		2.572	F 2.572	02/10/2020	12,000	12,000	12,005

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**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities (Continued)**  
**June 30, 2019**  
*(In thousands)*

<b>WEST VIRGINIA MONEY MARKET POOL (Continued)</b>							
<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
Westpac Banking Corp		2.710	F	2.690	02/10/2020	12,500	12,506
Westpac Banking Corp		2.700	F	2.660	02/14/2020	10,000	10,004
Royal Bank of Canada		2.520	F	2.590	03/05/2020	5,000	5,002
Jupiter Securitization Co LLC		0.000		2.741	03/13/2020	22,500	22,074
Bedford Row Funding Corp		2.542	F	2.571	03/13/2020	1,000	1,000
Jupiter Securitization Co LLC		0.000		2.741	03/16/2020	4,000	3,923
National Australia Bank LTD		0.000		2.689	03/19/2020	30,000	29,430
Royal Bank of Canada		2.690	F	2.872	04/09/2020	15,000	15,004
Toronto Dominion Bank		2.650	F	2.650	06/18/2020	20,000	20,000
Total Commercial Paper	56.6%					2,236,198	2,236,606
<i>Negotiable Certificates of Deposit</i>							
KBC Bank NV NY		2.350		2.350	07/02/2019	20,000	20,000
Canadian Imperial Bank		2.728	F	2.728	07/05/2019	20,000	20,000
Canadian Imperial Bank		2.909	F	2.564	07/08/2019	4,600	4,600
Svenska Handelsbanken NY		2.692	F	2.692	07/08/2019	5,000	5,000
Bank of Montreal		2.560		2.560	07/08/2019	27,000	27,000
Sumitomo Mitsui Trust		2.600		2.600	07/12/2019	24,000	24,000
Societe Generale		2.667	F	2.667	07/15/2019	8,000	8,000
Rabobank Nederland NV NY		2.610	F	2.610	07/19/2019	8,500	8,500
Sumitomo Mitsui Bank NY		2.654	F	2.654	07/22/2019	5,000	5,001
Sumitomo Mitsui Bank NY		2.584	F	2.584	07/25/2019	8,000	8,001
Svenska Handelsbanken NY		2.562	F	2.588	07/29/2019	10,000	10,000
Sumitomo Mitsui Trust		2.562	F	2.619	07/30/2019	14,000	14,000
Rabobank Nederland NV		2.640	F	2.640	08/02/2019	8,500	8,502
Toronto Dominion Bank		2.380		2.380	08/06/2019	30,250	30,250
Sumitomo Mitsui Trust		2.545		2.545	08/08/2019	20,800	20,804
Bank of Nova Scotia		2.600		2.600	08/22/2019	17,000	17,000
BNZ International Funding		2.508	F	2.560	09/03/2019	9,000	9,002
Bank of Montreal		2.380		2.380	09/06/2019	20,000	20,002
Nordea Bank		2.620		2.620	09/11/2019	10,000	10,006
BNP Paribas NY		2.522	F	2.522	09/18/2019	15,000	15,005
Bank of Tokyo-Mit UFJ NY		2.070		2.630	09/25/2019	6,000	5,991
Skandinav Enskilda Bank		2.411	F	2.651	10/11/2019	5,000	5,001
Sumitomo Mitsui Trust		2.477	F	2.494	10/16/2019	50,000	49,999
Skandinav Enskilda Bank		2.602	F	2.602	10/28/2019	10,000	10,000
Bank of Montreal		2.789	F	2.789	11/01/2019	5,000	5,003
Oversea-Chinese Banking		2.579	F	2.579	11/01/2019	15,000	15,000
Sumitomo Mitsui Bank NY		2.532	F	2.532	11/08/2019	20,000	19,998
Cooperatieve Rabobank UA		2.310		2.310	11/12/2019	16,500	16,497
Sumitomo Mitsui Bank NY		2.502	F	2.502	11/18/2019	25,000	24,997
Oversea-Chinese Banking		2.534	F	2.534	11/27/2019	7,000	7,002
Skandinav Enskilda Bank		2.320		2.320	12/09/2019	5,000	5,003
Canadian Imperial Bank		2.840	F	2.840	01/03/2020	10,000	10,018
Svenska Handelsbanken NY		2.737	F	2.737	01/14/2020	8,000	8,005
Svenska Handelsbanken NY		2.632	F	2.621	01/27/2020	8,000	8,001
Bank of Nova Scotia		2.551	F	2.551	02/06/2020	15,000	15,004
Canadian Imperial Bank		2.551	F	2.551	02/06/2020	10,000	10,003
Oversea-Chinese Banking		2.503	F	2.503	02/21/2020	17,000	17,002
Westpac Banking Corp		2.690	F	2.640	03/13/2020	20,000	20,006
Bank of Montreal		2.700		2.700	03/19/2020	25,000	25,114
Royal Bank of Canada		2.700	F	2.660	04/24/2020	5,000	5,001
Bank of Montreal		2.584	F	2.584	04/27/2020	10,000	10,003
Canadian Imperial Bank		2.620	F	2.620	05/01/2020	23,000	23,006

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**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities (Continued)**  
**June 30, 2019**  
*(In thousands)*

<b>WEST VIRGINIA MONEY MARKET POOL (Continued)</b>								
<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>	
Canadian Imperial Bank		2.620	<i>F</i>	2.620	05/01/2020	20,000	20,000	20,005
Bank of Montreal		2.589	<i>F</i>	2.588	05/07/2020	10,000	10,000	10,002
Bank of Montreal		2.564	<i>F</i>	2.564	05/15/2020	14,000	14,000	14,001
Canadian Imperial Bank		2.564	<i>F</i>	2.564	05/15/2020	15,000	15,000	15,001
Bank of Nova Scotia		2.552	<i>F</i>	2.552	05/18/2020	5,000	5,000	4,999
Bank of Montreal		2.790	<i>F</i>	2.620	06/05/2020	5,000	5,000	5,000
Royal Bank of Canada		2.700	<i>F</i>	2.660	06/12/2020	10,000	10,000	10,000
Bank of Nova Scotia		2.690	<i>F</i>	2.650	06/22/2020	10,000	10,000	10,000
Toronto Dominion Bank		2.604	<i>F</i>	2.604	06/25/2020	25,000	25,000	25,000
Total Negotiable Certificates of Deposit	18.0%						714,142	714,339
<i>Repurchase Agreements</i>								
BNP Paribas SA		2.490		2.490	07/01/2019		250,000	250,000
Goldman, Sachs & Co		2.510		2.510	07/01/2019		47,200	47,200
Merrill Lynch PFS Inc		2.490		2.490	07/01/2019		176,000	176,000
Total Repurchase Agreements	12.0%						473,200	473,200
<i>Money Market Funds</i>								
Federated		2.250	**			200	200	200
Federated		2.460	**			176,993	177,014	177,046
BlackRock Liquidity		2.350	**			1,405	1,405	1,405
Total Money Market Funds	4.5%						178,619	178,651
<b>Total Money Market Pool</b>	<b>100.0%</b>						<b>\$ 3,956,476</b>	<b>\$ 3,957,138</b>

**WEST VIRGINIA GOVERNMENT MONEY MARKET POOL**

<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>	
<i>U.S. Treasury Bills</i>								
United States Treasury		0.000 %	2.345 %	07/02/2019	5,000	\$ 5,000	\$ 5,000	
United States Treasury		0.000	2.350	07/09/2019	5,000	4,997	4,997	
United States Treasury		0.000	2.412	07/11/2019	5,000	4,997	4,997	
United States Treasury		0.000	2.372	07/16/2019	5,000	4,995	4,995	
United States Treasury		0.000	2.257	07/23/2019	13,000	12,982	12,982	
United States Treasury		0.000	2.429	08/01/2019	6,000	5,987	5,990	
United States Treasury		0.000	2.185	11/21/2019	5,000	4,958	4,959	
United States Treasury		0.000	2.186	11/29/2019	5,000	4,955	4,957	
United States Treasury		0.000	2.179	12/05/2019	5,000	4,954	4,956	
United States Treasury		0.000	2.075	12/26/2019	4,000	3,960	3,960	
Total U. S. Treasury Bills	22.9%						57,785	57,793

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**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities (Continued)**  
**June 30, 2019**  
*(In thousands)*

<b>WEST VIRGINIA GOVERNMENT MONEY MARKET POOL (Continued)</b>								
<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>	
<i>U. S. Government Agency Bonds and Notes</i>								
Federal Home Loan Bank		2.395	F	2.395	07/03/2019	2,000	2,000	2,000
Federal Home Loan Bank		2.275	F	2.275	07/19/2019	1,000	1,000	1,000
Federal Home Loan Bank		2.285	F	2.285	07/19/2019	1,000	1,000	1,000
Federal Home Loan Bank		2.362	F	2.362	08/02/2019	2,000	2,000	2,000
Federal Home Loan Bank		2.278	F	2.278	08/20/2019	2,000	2,000	2,000
Federal Home Loan Bank		2.283	F	2.283	08/21/2019	2,000	2,000	2,000
Federal Home Loan Bank		2.322	F	2.322	09/10/2019	4,000	4,000	4,000
Federal Home Loan Bank		2.342	F	2.342	10/09/2019	1,000	1,000	1,000
Federal Home Loan Bank		2.389	F	2.389	11/07/2019	2,000	2,000	1,999
Federal Home Loan Bank		2.382	F	2.382	11/12/2019	2,000	2,000	2,000
Federal Home Loan Bank		2.485	F	2.485	11/15/2019	1,000	1,000	1,000
Federal Farm Credit Bank		2.394	F	2.394	03/25/2020	1,000	1,000	1,000
Federal Home Loan Bank		2.392	F	2.392	05/08/2020	2,500	2,500	2,499
Federal Home Loan Bank		2.368	F	2.368	05/20/2020	2,000	2,000	1,999
Federal Home Loan Bank		2.510		2.510	05/28/2020	1,475	1,475	1,476
Federal Home Loan Bank		2.400		2.400	06/17/2020	4,000	4,000	4,000
Total U. S. Government Agency Bonds and Notes	12.3%						30,975	30,973
<i>U.S. Agency Discount Notes</i>								
Federal Home Loan Bank		0.000		2.431	07/02/2019	5,000	5,000	5,000
Federal Home Loan Bank		0.000		2.441	07/05/2019	4,000	3,999	3,999
Federal Home Loan Bank		0.000		2.369	07/10/2019	27,500	27,484	27,484
Federal Home Loan Bank		0.000		2.436	07/12/2019	2,000	1,999	1,998
Federal Home Loan Bank		0.000		2.479	07/15/2019	7,000	6,993	6,993
Federal Home Loan Bank		0.000		2.132	07/16/2019	5,000	4,996	4,996
Federal Home Loan Bank		0.000		2.213	07/18/2019	10,000	9,990	9,990
Federal Home Loan Bank		0.000		2.351	07/31/2019	5,000	4,990	4,990
Federal Home Loan Bank		0.000		2.422	08/01/2019	5,000	4,990	4,989
Federal Home Loan Bank		0.000		2.426	08/14/2019	5,000	4,985	4,985
Federal Home Loan Bank		0.000		2.281	08/20/2019	5,000	4,984	4,986
Federal Home Loan Bank		0.000		2.275	08/21/2019	7,500	7,476	7,477
Federal Home Loan Bank		0.000		2.392	08/28/2019	2,000	1,992	1,993
Federal Home Loan Bank		0.000		2.376	09/04/2019	2,000	1,991	1,991
Federal Home Loan Bank		0.000		2.377	09/06/2019	4,000	3,984	3,984
Federal Home Loan Bank		0.000		2.258	09/13/2019	11,000	10,950	10,951
Federal Home Loan Bank		0.000		2.427	10/15/2019	2,000	1,986	1,986
Federal Farm Credit Bank		0.000		2.465	11/25/2019	1,600	1,584	1,586
Total U.S. Agency Discount Notes	43.8%						110,373	110,378
<i>Repurchase Agreements</i>								
Goldman, Sachs & Co		2.510		2.510	07/01/2019	52,900	52,900	52,901
Total Repurchase Agreements	21.0%						52,900	52,901
<i>Money Market Funds</i>								
BlackRock Liquidity		2.350	**			111	111	111
Total Money Market Funds	0.0%						111	111
<b>Total Government Money Market Pool</b>	<b>100.0%</b>						<b>\$ 252,144</b>	<b>\$ 252,156</b>

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F – Floating rate note security.

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**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities (Continued)**  
**June 30, 2019**  
*(In thousands)*

**WEST VIRGINIA SHORT TERM BOND POOL**

<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
<i>U. S. Treasury Notes and Bonds</i>							
United States Treasury		1.000 %	0.992 %	10/15/2019	4,575	\$ 4,575	\$ 4,560
United States Treasury		2.750	2.837	09/30/2020	7,500	7,492	7,578
United States Treasury		2.125	2.561	01/31/2021	5,000	4,966	5,023
United States Treasury		1.375	2.775	05/31/2021	10,500	10,228	10,421
United States Treasury		2.750	2.710	08/15/2021	8,700	8,707	8,880
United States Treasury		1.250	2.486	10/31/2021	15,000	14,582	14,833
United States Treasury		1.875	2.900	11/30/2021	13,500	13,180	13,543
United States Treasury		1.875	2.485	01/31/2022	29,700	29,250	29,805
United States Treasury		1.875	1.830	08/31/2022	20,557	20,585	20,649
Total U. S. Treasury Notes and Bonds	15.8%					113,565	115,292
<i>U.S. Agency Collateralized Mortgage Obligations</i>							
Federal Home Loan Mort Corp		2.644	F 2.759	03/15/2021	7	7	7
Federal Home Loan Mort Corp		2.644	F 2.757	06/15/2021	1	1	1
Federal National Mortgage Assn		2.510	2.915	08/01/2021	3,425	3,404	3,456
Federal National Mortgage Assn		2.510	2.912	08/01/2021	4,190	4,165	4,228
Federal National Mortgage Assn		2.510	2.912	08/01/2021	3,260	3,240	3,289
Federal Home Loan Mort Corp		2.864	2.802	08/25/2022	4,840	4,837	4,929
Federal National Mortgage Assn		3.000	2.840	05/01/2030	6,612	6,672	6,760
Federal Home Loan Mort Corp		2.994	F 2.997	08/15/2030	94	94	96
Federal Home Loan Mort Corp		2.894	F 2.967	09/15/2030	50	49	50
Federal Home Loan Mort Corp		2.794	F 2.810	07/15/2031	53	53	53
Federal Home Loan Mort Corp		2.844	F 2.857	12/15/2031	98	98	97
Federal Home Loan Mort Corp		2.794	F 2.807	01/15/2033	159	159	159
Federal National Mortgage Assn		2.654	F 2.994	03/25/2036	554	554	549
Government National Mortgage		2.500	2.512	10/20/2039	2,704	2,701	2,715
Government National Mort Assn		2.867	F 2.859	12/20/2060	2,202	2,183	2,198
Government National Mort Assn		2.967	F 2.891	12/20/2060	1,950	1,953	1,951
Government National Mort Assn		3.067	F 2.964	02/20/2061	2,889	2,905	2,896
Government National Mort Assn		2.967	F 2.891	06/20/2062	2,979	2,983	2,981
Government National Mort Assn		2.987	F 2.905	08/20/2062	1,305	1,308	1,307
Government National Mort Assn		2.807	F 2.771	12/20/2062	1,826	1,817	1,821
Government National Mort Assn		2.867	F 2.814	03/20/2063	2,287	2,282	2,283
Government National Mort Assn		2.917	F 2.851	04/20/2063	2,245	2,244	2,243
Government National Mort Assn		3.167	F 3.050	08/20/2063	3,004	3,028	3,018
Government National Mort Assn		2.867	F 2.821	04/20/2065	3,065	3,054	3,059
Total U.S. Agency Collateralized Mortgage Obligations	6.9%					49,791	50,146
<i>Corporate Fixed-Rate Bonds and Notes</i>							
Duke Energy Florida LLC		2.100	2.100	12/15/2019	156	156	156
Bat Capital Corporation		2.297	3.096	08/14/2020	4,150	4,113	4,141
KKR Group Finance Co		6.375	3.379	09/29/2020	4,673	4,842	4,891
Fed Caisses Desjardins		2.250	3.455	10/30/2020	5,000	4,921	5,001
Georgia Pacific LLC		5.400	3.528	11/01/2020	6,000	6,145	6,236
Dominion Energy Gas Holdings		2.800	3.550	11/15/2020	5,000	4,950	5,023
Takeda Pharmaceutical		3.800	3.833	11/26/2020	1,750	1,748	1,782
UBS AG		2.450	3.505	12/01/2020	5,000	4,927	5,005
Marsh & McLennan Co Inc		3.500	3.540	12/29/2020	5,000	4,997	5,083
Wells Fargo Bank NA		2.600	2.717	01/15/2021	3,550	3,544	3,564
US Bank NA		3.000	3.042	02/04/2021	4,290	4,286	4,342

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**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities (Continued)**  
**June 30, 2019**  
*(In thousands)*

<b>WEST VIRGINIA SHORT TERM BOND POOL (Continued)</b>							
<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
Regions Financial Corp		3.200	3.223	02/08/2021	1,950	1,949	1,971
Crown Castle INTL Corp		3.400	3.405	02/15/2021	2,000	2,000	2,027
Celgene Corporation		2.875	2.891	02/19/2021	1,720	1,720	1,734
Exelon Corp		2.450	2.455	04/15/2021	1,000	1,000	1,000
Cargill Inc		3.050	3.442	04/19/2021	2,500	2,483	2,533
Scentre Group Trust		2.375	3.320	04/28/2021	2,800	2,754	2,791
Citizens Bank NA/RI		2.550	2.534	05/13/2021	1,800	1,801	1,805
Huntington National Bank		3.250	3.291	05/14/2021	4,000	3,997	4,066
Cargill Inc		4.307	3.452	05/14/2021	1,600	1,625	1,660
American Express		3.375	3.381	05/17/2021	2,000	2,000	2,038
CVS Corp		2.125	2.184	06/01/2021	1,000	999	993
Diamond 1 Fin/Diamond 2		4.420	3.504	06/15/2021	3,000	3,052	3,091
Coventry Health Care Inc		5.450	3.761	06/15/2021	1,000	1,032	1,049
Capital One Financial Corp		4.750	3.652	07/15/2021	3,000	3,064	3,136
Citibank NA		3.400	3.439	07/23/2021	4,000	3,997	4,085
Mitsubishi UFJ Financial Group		3.535	3.570	07/26/2021	2,500	2,498	2,556
Citizens Financial Group		2.375	2.386	07/28/2021	2,660	2,659	2,658
New York Life Global FDG		3.250	3.280	08/06/2021	2,100	2,099	2,147
Tyson Foods Inc		2.250	2.299	08/23/2021	1,310	1,309	1,306
Ryder System Inc		2.250	2.296	09/01/2021	1,250	1,249	1,246
Seven & I Holdings		3.350	3.435	09/17/2021	4,000	3,993	4,087
Halfmoon Parent INC		3.400	3.400	09/17/2021	1,000	1,000	1,020
Kinder Morgan Ener Part		5.000	4.133	10/01/2021	7,500	7,638	7,864
Smithfield Foods Inc		2.650	2.732	10/03/2021	1,290	1,288	1,272
Fortis Inc		2.100	2.313	10/04/2021	1,100	1,098	1,091
ConAgra Foods Inc		3.800	3.512	10/22/2021	5,180	5,213	5,324
National Australia BK/NY		3.700	3.741	11/04/2021	4,300	4,296	4,435
American Express		3.700	3.691	11/05/2021	3,500	3,501	3,608
Cargill Inc		3.250	3.532	11/15/2021	1,250	1,242	1,279
American Electric Power Co Inc		3.650	3.672	12/01/2021	4,750	4,748	4,899
BPCE SA		2.750	3.300	12/02/2021	4,750	4,690	4,785
Roper Technologies INC		2.800	2.834	12/15/2021	2,000	1,998	2,013
AERCAP Ireland CAP/GLOBAL		4.450	4.497	12/16/2021	2,550	2,547	2,648
John Deere Capital Corp		3.200	3.234	01/10/2022	5,500	5,496	5,643
Westpac Banking Corp		2.800	3.324	01/11/2022	5,350	5,283	5,417
Sumitomo Mitsui Financial		2.846	3.701	01/11/2022	5,000	4,898	5,055
MetLife Global Funding		3.375	3.381	01/11/2022	1,375	1,375	1,413
Fox Corporation		3.666	3.666	01/25/2022	3,750	3,750	3,875
Pacificorp		2.950	2.950	02/01/2022	5,500	5,500	5,595
Jackson National Life Global		3.300	2.844	02/01/2022	4,200	4,247	4,297
Key Bank NA		3.300	3.221	02/01/2022	5,500	5,511	5,645
FMC Corporation		3.950	3.553	02/01/2022	3,200	3,231	3,299
Caterpillar Financial Services		2.950	2.967	02/26/2022	5,365	5,363	5,478
Mitsubishi UFJ Leasing		3.406	3.406	02/28/2022	2,500	2,500	2,551
AT&T Inc		3.200	3.384	03/01/2022	6,000	5,972	6,128
Regency Energy Partner		5.875	4.208	03/01/2022	6,000	6,250	6,436
Toyota Industries Corp		3.110	3.104	03/12/2022	5,500	5,500	5,598
Burlington North Santa Fe		3.050	2.966	03/15/2022	2,300	2,305	2,356
Cadillac Fairview Property		3.125	3.080	03/20/2022	5,395	5,401	5,501
Cintas Corporation		2.900	3.011	04/01/2022	5,500	5,484	5,594
Huntington National Bank		3.125	3.155	04/01/2022	1,825	1,824	1,861
Midwest Connector Capital Co		3.625	3.139	04/01/2022	5,000	5,063	5,123
MassMutual Global Funding		2.500	3.264	04/13/2022	5,000	4,899	5,042
Saudi Arabian Oil Co		2.750	2.843	04/16/2022	5,175	5,161	5,223
DBS Group Holdings LTD		2.850	2.864	04/16/2022	2,750	2,749	2,784

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**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities (Continued)**  
**June 30, 2019**  
*(In thousands)*

<b>WEST VIRGINIA SHORT TERM BOND POOL (Continued)</b>							
<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
Goldman Sachs Group Inc		3.000	3.405	04/26/2022	11,679	11,552	11,791
Avolon Holdings		3.625	3.647	05/01/2022	3,885	3,882	3,938
Guardian Life GLOB Fund		2.500	3.617	05/08/2022	5,000	4,850	5,024
International Business Machs		2.850	2.869	05/13/2022	7,302	7,298	7,426
Consumers Energy Company		2.850	2.745	05/15/2022	2,715	2,723	2,765
Discovery Communications		3.300	4.059	05/15/2022	4,000	3,918	4,072
Simon Property Group Inc		2.625	3.027	06/15/2022	3,475	3,436	3,508
Compass Bank		2.875	2.908	06/29/2022	2,000	1,998	2,017
Healthcare Trust of America		2.950	3.421	07/01/2022	3,785	3,734	3,812
Athene Global Funding		3.000	3.659	07/01/2022	3,825	3,754	3,871
Penske Truck Leasing		4.875	3.799	07/11/2022	5,000	5,153	5,315
Tapestry Inc		3.000	4.049	07/15/2022	3,066	2,975	3,070
Wells Fargo & Company		2.625	2.644	07/22/2022	5,000	4,997	5,036
Charter Communications		4.464	3.277	07/23/2022	2,800	2,896	2,942
Alimentation Couche-Tard		2.700	2.720	07/26/2022	1,425	1,424	1,428
Federal Realty Inv Trust		3.000	3.686	08/01/2022	3,885	3,808	3,946
Baltimore Gas & Electric Co		2.800	2.388	08/15/2022	3,631	3,676	3,677
Brixmor Operating		3.875	3.792	08/15/2022	4,325	4,335	4,442
Centerpoint Energy INC		2.500	3.182	09/01/2022	4,500	4,408	4,506
Ryder System Inc		2.500	2.405	09/01/2022	4,000	4,011	4,008
VISA Inc		2.150	2.214	09/15/2022	4,000	3,992	4,017
National Rural Utilities		2.300	2.304	09/15/2022	2,000	2,000	2,005
Korea Hydro & Nuclear Power		3.000	3.821	09/19/2022	5,500	5,365	5,577
PRICOA Global Funding		2.450	2.472	09/21/2022	1,330	1,329	1,335
Realty Income Corp		3.250	3.155	10/15/2022	5,000	5,014	5,130
Bank of America Corp		2.503	3.831	10/21/2022	4,000	3,837	4,010
Constellation Brands Inc		2.650	2.787	11/07/2022	5,500	5,476	5,519
Jones Lang LaSalle Inc		4.400	3.570	11/15/2022	3,550	3,643	3,691
NiSource Finance Corp		2.650	2.677	11/17/2022	860	859	865
Andeavor Logis LP		3.500	3.568	12/01/2022	2,000	1,996	2,047
NBC Universal Media LLC		2.875	2.701	01/15/2023	2,860	2,876	2,921
AERCAP Ireland CAP/GLOBAL		3.300	3.357	01/23/2023	2,000	1,996	2,018
Morgan Stanley		3.750	2.988	02/25/2023	6,000	6,156	6,268
<b>Total Corporate Fixed-Rate Bonds and Notes</b>	<b>49.9%</b>					<b>358,297</b>	<b>365,352</b>
<b>Corporate Floating-Rate Bonds and Notes</b>							
Sempra Energy		3.097	F 3.097	01/15/2021	965	965	962
Manufacturers & Traders Trust		2.850	F 2.850	01/25/2021	4,000	4,000	3,992
Bank of America Corp		3.252	F 3.252	07/21/2021	4,000	4,000	4,013
Bank of America Corp		3.242	F 3.242	10/01/2021	4,000	4,000	4,011
General Motors Financial Co		4.147	F 4.147	01/14/2022	3,640	3,640	3,674
Citibank NA		3.165	F 3.207	02/19/2022	4,000	4,000	4,050
Capital One Financial Corp		3.403	F 3.403	03/09/2022	2,060	2,060	2,077
Becton Dickinson & Company		3.504	F 3.504	06/06/2022	2,000	2,000	2,013
American Express		3.189	F 3.189	08/01/2022	2,000	2,000	2,004
BP Capital Markets		3.069	F 3.068	09/19/2022	1,000	1,000	1,001
Nissan Motor Acceptance		3.020	F 3.020	09/28/2022	3,200	3,200	3,180
JP Morgan Chase & Co		3.207	F 3.203	04/01/2023	7,000	7,000	7,144
<b>Total Corporate Floating-Rate Bonds and Notes</b>	<b>5.2%</b>					<b>37,865</b>	<b>38,121</b>
<b>Collateralized Mortgage Obligations</b>							
Galton Funding Mortgage Trust		4.500	4.352	02/25/2019	5,806	5,919	5,958
<b>Total Collateralized Mortgage Obligations</b>	<b>0.8%</b>					<b>5,919</b>	<b>5,958</b>

(Continued on Next Page)

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**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities (Continued)**  
**June 30, 2019**  
*(In thousands)*

<b>WEST VIRGINIA SHORT TERM BOND POOL (Continued)</b>							
<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
<i>Commercial Mortgage-Backed Securities</i>							
Wells Fargo RBS		3.344	F	3.368	03/15/2044	376	376
Total Commercial Mortgage-Backed Securities	0.1%					376	377
<i>Asset-Backed Securities</i>							
Ford Credit Auto Lease Trust		2.020		2.035	06/15/2020	996	996
BMW Vehicle Lease Trust		2.180		2.190	06/22/2020	5,100	5,097
Kubota Credit Owner Trust		1.500		1.516	07/15/2020	488	487
GM Financial Auto Leasing		2.260		2.277	08/20/2020	1,650	1,649
Volvo Financial Equipment		1.890		1.898	09/15/2020	1,100	1,098
Ford Credit Auto Lease Trust		2.170		2.180	02/15/2021	1,320	1,318
BMW Vehicle Lease Trust		2.190		2.214	03/22/2021	575	575
Hyundai Auto Lease Trust		2.130		2.142	04/15/2021	4,000	3,998
Great American Leasing Rec		2.600		2.620	06/15/2021	2,000	2,006
MMAF Equipment Finance		2.920		2.944	07/12/2021	607	608
Master Credit Card Trust		2.260		2.281	07/21/2021	4,000	3,999
Hyundai Auto Lease Trust		2.210		2.223	09/15/2021	3,400	3,395
Nextgear Floorplan		2.190		2.210	09/15/2021	2,000	1,998
GM Financial Auto Leasing		2.120		2.134	09/20/2021	2,000	1,996
Hertz Vehicle Financing LLC		2.670		3.532	09/25/2021	4,750	4,757
PFS Financing Corp		1.870		1.877	10/15/2021	1,250	1,247
Drive Auto Receivables		3.010		3.030	11/15/2021	808	809
AmeriCredit Automobile Rec		1.980		1.994	12/20/2021	1,642	1,639
Chrysler Capital Auto Rec		1.960		1.969	01/18/2022	120	120
GMF Floorplan		2.220		2.236	01/18/2022	2,000	1,998
Santander Retail Auto Lease Tr		2.370		2.387	01/20/2022	1,500	1,500
Enterprise Fleet Financing LLC		2.040		2.057	02/22/2022	1,375	1,371
Santander Drive Auto Rec		3.010		3.027	03/15/2022	1,500	1,503
AmeriCredit Automobile Rec		1.900		1.914	03/18/2022	2,354	2,349
Securitized Term Auto Rec		2.289		2.372	03/25/2022	2,405	2,402
Nextgear Floorplan		2.540		2.555	04/18/2022	4,000	4,001
Santander Retail Auto Lease Tr		3.060		3.081	04/20/2022	3,000	3,027
Dell Equipment Finance Trust		2.140		2.152	04/22/2022	647	646
Mercedes - Benz Master Owner		2.654	F	2.669	05/16/2022	1,800	1,801
Honda Auto Receivables Owner		3.010		3.028	05/18/2022	1,300	1,316
Hertz Fleet Lease Funding LP		2.700		2.724	07/11/2022	5,000	4,999
Gracechurch Card PLC		2.794	F	2.810	07/15/2022	4,000	3,999
PFS Financing Corp		2.994	F	3.013	07/15/2022	1,650	1,653
GM Financial Auto Loan		2.320		0.000	07/18/2022	3,500	3,506
Enterprise Fleet Financing LLC		2.130		2.140	07/20/2022	462	461
World Omni Automobile Lease		2.320		2.331	08/15/2022	1,500	1,499
Nissan Auto Lease Trust		2.040		2.048	09/15/2022	2,275	2,272
Cards II Trust		2.654	F	2.669	10/17/2022	1,800	1,800
MMAF Equipment Finance LLC		2.210		2.220	10/17/2022	2,000	2,000
Nextgear Floorplan		2.560		2.573	10/17/2022	4,000	4,009
PFS Financing Corp		2.400		2.421	10/17/2022	3,400	3,406
Dell Equipment Finance Trust		2.190		2.202	10/24/2022	2,000	1,998
Volvo Financial		2.894	F	2.912	11/15/2022	3,350	3,360
Golden Credit Card Trust		2.620		2.634	01/15/2023	1,900	1,912
Mercedes Benz Auto Lease		2.010		2.020	01/17/2023	1,750	1,749
Enterprise Fleet Financing		2.220		2.231	01/20/2023	1,800	1,797
Great American Leasing Rec		2.360		2.373	01/20/2023	4,750	4,751
AmeriCredit Auto Rec		3.150		3.078	03/20/2023	2,090	2,117
Ally Master Owner Trust		3.290		3.311	05/15/2023	1,000	1,021

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F – Floating rate note security.

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\*\* Rate represents last business day of the month.

**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities (Continued)**  
**June 30, 2019**  
*(In thousands)*

<b>WEST VIRGINIA SHORT TERM BOND POOL (Continued)</b>							
<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
BMW Floorplan Master Owner Tr		3.150	3.179	05/15/2023	1,600	1,600	1,632
World Omni Automobile Lease		2.940	2.961	05/15/2023	3,000	3,000	3,028
GM Financial Consumer Auto		2.060	2.075	05/16/2023	3,500	3,500	3,499
Ally Master Owner Trust		3.300	3.327	07/17/2023	1,250	1,250	1,274
First National Master Trust		2.834	F 2.851	10/16/2023	3,200	3,200	3,203
Mercedes-Benz Auto Lease Trust		2.510	2.476	10/16/2023	1,400	1,400	1,404
Dell Equipment Finance Trust		3.370	3.400	10/22/2023	1,220	1,220	1,241
ARI Fleet Lease Trust		2.110	2.124	07/15/2024	1,563	1,563	1,564
Discover Card Master Trust		3.040	3.059	07/15/2024	5,000	5,000	5,121
Daimler Trucks Retail Trust		3.030	3.050	11/15/2024	2,500	2,500	2,523
ARI Fleet Lease Trust		2.280	2.296	04/15/2026	5,000	4,999	5,000
Chesapeake Funding II LLC		1.880	1.909	06/15/2028	904	903	903
Ford Credit Auto Owner Trust		2.360	2.854	03/15/2029	11,000	10,766	11,024
Chesapeake Funding II LLC		1.990	1.999	05/15/2029	2,099	2,099	2,094
Chesapeake Funding II LLC		1.910	1.920	08/15/2029	1,082	1,082	1,077
SLMA Student Loan Trust		3.494	F 3.520	06/17/2030	496	496	496
Social Professional Loan Progr		3.254	F 3.276	07/25/2039	569	569	568
Social Professional Loan Progr		1.720	1.726	09/25/2040	518	518	516
Social Professional Loan Progr		2.390	2.402	02/25/2042	2,004	2,004	2,006
<b>Total Asset Backed Securities</b>	<b>21.2%</b>					<b>155,534</b>	<b>156,200</b>
<b>Money Market Funds</b>							
BlackRock Liquidity		2.350	**		523	523	523
<b>Total Money Market Funds</b>	<b>0.1%</b>					<b>523</b>	<b>523</b>
<b>Total Short Term Bond Pool</b>	<b>100.00%</b>					<b>\$ 721,870</b>	<b>\$ 731,969</b>

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F – Floating rate note security.

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**West Virginia Board of Treasury Investments**  
**Schedule of Investments in Securities (Continued)**  
**June 30, 2019**  
*(In thousands)*

**WEST VIRGINIA BANK POOL**

<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
<i>Certificates of Deposit</i>							
Citizens Bank of WV		2.680 %	2.680 %	07/11/2019	5,000	\$ 5,000	\$ 5,000
WesBanco Bank		2.680	2.680	07/11/2019	10,000	10,000	10,000
Main Street Bank		2.650	2.650	08/15/2019	4,000	4,000	4,000
Bank of Romney		2.650	2.650	08/15/2019	1,000	1,000	1,000
WesBanco Bank		2.650	2.650	08/15/2019	10,000	10,000	10,000
Bank of Romney		2.650	2.650	09/12/2019	1,000	1,000	1,000
WesBanco Bank		2.650	2.650	09/12/2019	10,000	10,000	10,000
WesBanco Bank		2.650	2.650	10/10/2019	10,000	10,000	10,000
Bank of Romney		2.600	2.600	11/14/2019	1,000	1,000	1,000
WesBanco Bank		2.650	2.650	11/14/2019	10,000	10,000	10,000
BcBank Inc		2.450	2.450	12/12/2019	2,500	2,500	2,500
Citizens Bank of WV		2.450	2.450	12/12/2019	5,000	5,000	5,000
WesBanco Bank		2.450	2.450	12/12/2019	7,500	7,500	7,500
Total Certificates of Deposit	99.7%					77,000	77,000
<i>Money Market Funds</i>							
BlackRock Liquidity		2.350 **			232	232	232
Total Money Market Funds	0.3%					232	232
<b>Total West Virginia Bank Pool</b>	<b>100.0%</b>					<b>\$ 77,232</b>	<b>\$ 77,232</b>

**STATE LOAN POOL**

<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
<i>Loans and Mortgages</i>							
Intergovernmental Loans							
WVEDA Revolving Loan		0.890 %			117,371	\$ 117,371	\$ 117,371
WVEDA Non-Recourse Loan		3.000			24,326	24,326	24,326
WVEDA Broadband Loan		1.300			1,480	1,480	1,480
Total Intergovernmental Loans						143,177	143,177
Reserve for uncollectable loans					23,968	23,968	23,968
Loans and Mortgages, net of reserve for uncollectable loans	100.0%					119,209	119,209
<i>Money Market Funds</i>							
BlackRock Liquidity		2.350 **			34	34	34
Total Money Market Funds	0.0%					34	34
<b>Total State Loan Pool</b>	<b>100.0%</b>					<b>\$ 119,243</b>	<b>\$ 119,243</b>

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**West Virginia Board of Treasury Investments  
Schedule of Investments in Securities (Continued)  
June 30, 2019 (In thousands)**

**RESERVE POOL**

<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
<i>Depository Accounts</i>							
United National Bank		2.49% ** F	2.503%	08/31/2022	19,546	\$ 19,546	\$ 19,546
Total Depository Accounts	100.0%					19,546	19,546
<i>Money Market Funds</i>							
BlackRock Liquidity		2.350 **			1	1	1
Total Money Market Funds	0.0%					1	1
<b>Total Reserve Pool</b>	<b>100.0%</b>					<b>\$ 19,547</b>	<b>\$ 19,547</b>

**SCHOOL FUND**

<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
<i>Money Market Funds</i>							
BlackRock Liquidity		2.350 **			1,425	\$ 1,425	\$ 1,425
Total Money Market Funds	100.0%					1,425	1,425
<b>Total School Fund</b>	<b>100.0%</b>					<b>\$ 1,425</b>	<b>\$ 1,425</b>

**EDA - AW**

<u>SECURITY NAME</u>	<u>% of POOL</u>	<u>COUPON</u>	<u>YIELD</u>	<u>MATURITY</u>	<u>UNITS</u>	<u>AMORTIZED COST</u>	<u>FAIR VALUE*</u>
<i>U. S. Treasury Issues</i>							
United States Treasury Bond		6.250 %	4.929 %	08/15/2023	1,445	\$ 1,515	\$ 1,703
Total U. S. Treasury Issues	100.0%					1,515	1,703
<b>Total EDA-AW</b>	<b>100.0%</b>					<b>\$ 1,515</b>	<b>\$ 1,703</b>

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## **Investment Section**

## Consolidated Fund Overview at June 30, 2019

**Investment Philosophy:** It is the investment philosophy of the Board of Treasury Investments (the “BTI”) to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity.

**Investment Objectives:** It is the investment objective of the BTI to provide focused investment services for the Consolidated Fund, reduce costs for and increase returns to its participants.

**Total Investments at June 30, 2019:** \$ 5,159,739,000.

**Description of the Consolidated Fund:** The Consolidated Fund under the management of the BTI consisted of nine investment pools and single participant accounts during the year. The 2005 West Virginia Legislature established the BTI, effective July 8, 2005, as a public corporation of the State of West Virginia to make short-term operating funds of the state more accessible to state government. The BTI employs a top-down approach to developing its investment strategy for the management of its funds. Starting with the objectives of the fund, the BTI considers constraints outlined in its investment policy, which includes among other parameters: safety, liquidity, and maximization of rate of return. The Investment Policy is summarized on Pages 92 – 97 of this Investment Section.

The Consolidated Fund provides for the investment of moneys not currently needed to fund state governmental operations, as well as providing the opportunity for local governments to participate in large investment pools, and for those funds statutorily required to be invested in the Consolidated Fund. The Consolidated Fund pools and accounts are described in detail following this overview.

**Expense Ratios:** The Board annually adopts a budget and fee schedule, which describes how fees are charged to each pool and account. The fees charged to the Consolidated Fund are categorized into direct or indirect expenses as follows:

- (a). Direct Expenses - All investment advisor and custodian expenses will be charged directly to the pools and accounts as they are incurred.
- (b). Indirect Expenses - All indirect expenses such as insurance, staff costs, investment consultant fees, and rent shall be allocated based upon the percentage of net position under management.

Expense ratios for the pools and accounts are detailed in Table 2: Financial Highlights on Page 104 in the Statistical Section.

**Basis of Presentation:** Rates of return use a time-weighted rate of return methodology based upon market values.

**Economic Environment:** Economic growth in the U.S. slowed significantly from 2018 levels, averaging approximately 2.3% for fiscal year 2019 versus an average growth rate of 3.1% for fiscal year 2018. The Federal Reserve (the “Fed”) hiked rates twice in the first half of the year before abruptly changing their policy stance from hawkish to dovish. After the two rate hikes, market conditions appeared to indicate that the market viewed interest rates as too restrictive. In addition to pausing rate hikes, the Fed announced that the balance sheet normalization program would be ended in September 2019. The Fed funds target rate ended the year 50 basis points higher, at a range of 2.25% to 2.50%. At the end of the fiscal year, the

markets had fully priced in a rate cut in July 2019, with the expectation of two additional cuts in the last quarter of 2019.

The U.S. bond market, as measured by the Barclays Aggregate Bond Index, returned 7.87% for fiscal year 2019. Domestically, equity returns were strong for fiscal year 2018. The broad U.S. equity market, as measured by the Russell 3000 index, returned 8.98% for the fiscal year. Smaller or emerging markets equity performance fell short of domestic equity performance for fiscal year 2019. Foreign equity returns, as measured by the MSCI Emerging Markets Index, posted a return of 1.58% for the fiscal year. Commodity markets disappointed for the year, with commodity market performance, as measured by the S&P GSCI Total Return Index, returning a negative 11.49%.

**Pool and Account Overviews:** The following pages present overviews of the investment pools and accounts of the Consolidated Fund.

The reports on the investment activities of each pool and account are prepared by staff of the BTI with assistance from pool and account managers and the BTI's investment consultant.

The Schedule of Investments in Securities is presented in the Financial Section on Pages 52-64, and Participant Net Asset Values are presented in the Statistical Section on Page 114.



## **West Virginia Money Market Pool**

### **❑ Investment Objectives and Policy Guidelines**

#### Objectives

The West Virginia Money Market Pool was created to invest participants' operating funds. The objective of the pool is to maintain sufficient liquidity to meet the daily disbursements of participants while striving to earn a return above inflation. The pool is structured as a money market fund with the goal of preservation of principal. The pool risk factor is low, and the pool is managed under numerous maturity restrictions, diversification guidelines, and credit limits.

Participants include state agencies and local governments throughout the state.

#### Benchmarks

The performance of the West Virginia Money Market Pool (net of external investment manager fees) will be measured against a blended benchmark of 15% iMoneyNet Treasury & Repo Institutional Average + 85% iMoneyNet First Tier Institutional Average.

#### Investment Managers

The West Virginia Money Market Pool is managed by Federated Investors and UBS Asset Management.

#### Maturity Restrictions, Diversification Guidelines and Credit Limits

All restrictions are based upon total dollar percentages of pool holdings using an amortized cost basis. Securities that fall out of compliance may be held to maturity based upon recommendation of the investment manager and investment consultant. The Board may require the investment manager to sell non-compliant securities. Where noted, the date of purchase shall mean the settlement date.

- Weighted average maturity of the West Virginia Money Market Pool shall not exceed 60 days.
- Weighted average final maturity of the pool shall not exceed 90 days.
- Maximum maturity of individual securities cannot exceed 397 days from the date of purchase except for certain variable rate and floating rate U.S. Government securities.
- Variable rate and floating rate securities shall be based on a money market index and shall not have a final maturity longer than 762 days if they are U.S. Government securities, or 397 days if they are not U.S. Government securities.
- Minimum 15% of the pool must be in U.S. Treasury obligations or obligations guaranteed as to payment of interest and principal by the United States of America (inclusive of U.S. Treasury collateralized repurchase agreements and money market funds that invest substantially all of their assets in securities issued by the U.S. Treasury and in related repurchase agreements).
- Repurchase agreements must comply with the requirements of the Repurchase Agreement Policy.
- Money market funds utilized by the pool must be approved in advance by the Board.
- Maximum 5% of the pool may be invested in any one corporate name.
- Maximum 5% of the pool may be invested in any one supranational name.
- Maximum exposure in money market funds is limited to 10% of any individual rated fund at the pool level. The aggregate exposure at the pool level may not exceed 30%.

- Maximum 75% of the pool may be invested in notes with floating rates.
- All corporate securities must be rated A+ or higher (or its equivalent) if long term and A-1 or higher (or its equivalent) if short term.
- All supranational securities must be rated AA or higher (or its equivalent) if long term and A-1 or higher (or its equivalent) if short term.
- Maximum of 20% of the pool may be invested in asset-backed and mortgage-backed securities. Asset-backed commercial paper is not considered an asset-backed security under this limitation.
- Asset-backed and mortgage-backed securities must be rated AAA (or its equivalent).
- Asset-backed commercial paper programs that are eligible for purchase should be fully or partially supported programs that provide adequate diversification by asset type (trade receivables, credit card receivables, auto loans, etc.)
- The pool may not hold inverse floaters.
- The pool may not be leveraged in any manner.
- The pool may not hold unregistered securities or private placements with the exception of securities issued pursuant to the SEC Rule 144A and commercial paper issued pursuant to Rule 4(2) of the Securities Act of 1933.
- The pool shall not acquire any illiquid security if, after acquisition, more than 5% of the pool would be invested in illiquid securities.
- The pool shall not acquire any other security other than daily liquid assets if the fund would have less than 10% of its total assets in daily liquid assets.
- The pool shall not acquire any other security other than weekly liquid assets if the fund would have less than 30% of its total assets in weekly liquid assets.
- If the pool is rated by a nationally recognized statistical rating organization (“NRSRO”), each investment manager is required to comply with any additional maturity, concentration, credit or other restrictions or requirements of the NRSRO for maintenance of the rating.

#### **□ BTI Role**

The role of the BTI for the West Virginia Money Market Pool is as follows:

- Develop investment guidelines.
- Select and oversee investment managers.
- Prohibit commingling of funds with any other account in the Consolidated Fund.
- Distribute daily earnings to participants.
- Calculate monthly net income and net asset value.
- Prepare monthly a statement of net position, a statement of changes in net position, and a detailed list of securities.

#### **□ Income Allocation**

Net investment income and realized gains and losses are declared as dividends and distributed daily to the participants. If the pool incurs an extraordinary loss and distributing the loss would decrease the share value below one dollar (\$1), the Investment Committee will be notified immediately for development of an action plan.

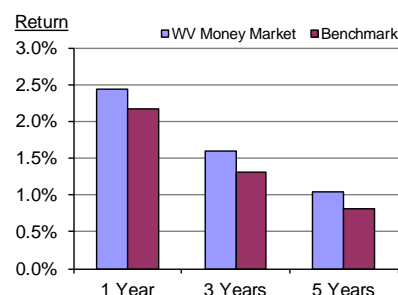
**❑ Asset Allocation – Permissible vs. Actual**

Permissible Allocation	Maximum Percent of Pool	Actual Allocation June 30, 2019	
		Carrying Value (Thousands)	Percent of Pool
Security Type			
U.S. Treasury obligations	100.0%	\$ 354,317	9.0%
U.S. government agency obligations & FDIC guaranteed obligations	85.0%	-	-
Repurchase agreements	85.0%	473,200	12.0%
Commercial paper, asset backed commercial paper, corporate debt and supranational debt (Combined)	75.0%	2,236,198	56.5%
Certificates of deposit	75.0%	714,142	18.0%
Money market funds	30.0%	178,619	4.5%
Asset-backed & mortgage-backed securities	20.0%	-	-
Municipal securities	15.0%	-	-
Depository accounts	5.0%	-	-
		<b>\$ 3,956,476</b>	<b>100.0%</b>

**❑ Actual Returns**

Actual Annualized Returns for Periods Ended June 30, 2019

	1 Year	3 Years	5 Years
<b>Returns by Investment Manager:</b>			
Federated Investors *	2.51%	1.66%	-
UBS	2.43%	1.60%	1.06%
Total pool returns	2.43%	1.59%	1.04%
<b>Benchmark:</b>			
Custom Index **	2.17%	1.30%	0.81%



\* The pool was co-managed by JP Morgan Asset Management until August 1, 2015, when Federated Investors replaced them.

\*\* Benchmark is 15% iMoneyNet Treasury & Repo Institutional Average + 85% iMoneyNet First Tier Institutional Average. Prior to July 1, 2015, BofA Merrill Lynch 3-Month T-bill plus floating hurdle with maximum of 15 bps; prior to January 2013, Merrill Lynch 3-Month T-bill + 15 bps

Returns are calculated on a time-weighted basis.  
 Manager returns are net of manager fees.  
 Total pool returns are net of all fees.

□ **Investments**

For a detailed list of investments in the West Virginia Money Market Pool, see the Schedule of Investments in Securities in the Supplementary Information on Pages 52-56.

## **West Virginia Government Money Market Pool**

### **❑ Investment Objectives and Policy Guidelines**

#### Objectives

The West Virginia Government Money Market Pool was created to invest restricted moneys of participants in U.S. Treasury and U.S. government agency obligations. The investment objective of the pool is to preserve capital and maintain sufficient liquidity to meet the daily disbursement needs of participants, while striving to earn a return above inflation. The pool is structured as a money market fund with an emphasis on maintaining a stable dollar value. The risk factor on this pool is low and managed through maturity restrictions. The default risk is minimal due to the types of securities held.

Participants include state agencies and local governments throughout the state.

#### Benchmarks

The performance of the West Virginia Government Money Market Pool (net of external investment manager fees) will be measured against a blended benchmark of 15% iMoneyNet Treasury & Repo Institutional Average + 85% iMoneyNet Government & Agencies Institutional Average.

#### Investment Manager

The West Virginia Government Money Market Pool is managed by UBS Asset Management.

#### Maturity Restrictions, Diversification Guidelines and Credit Limits

All restrictions are based upon total dollar percentages of the pool holdings using an amortized cost basis. Securities that fall out of compliance may be held to maturity based upon recommendation of the investment manager and investment consultant. The Board may require the investment manager to sell non-compliant securities. Where noted, the date of purchase shall mean the settlement date.

- Weighted average maturity of the pool shall not exceed 60 days.
- Weighted average final maturity of the pool shall not exceed 90 days.
- Maximum maturity of individual securities held cannot exceed 397 days from the date of purchase except for certain variable rate and floating rate U.S. government securities.
- Variable rate and floating rate U.S. government securities shall be based on a money market index and shall not have a final maturity longer than 762 days.
- Minimum 15% of the pool must be in U.S. Treasury obligations or obligations guaranteed as to payment of interest and principal by the United States of America (inclusive of U.S. Treasury collateralized repurchase agreements and money market funds that invest substantially all of their assets in securities issued by the U.S. Treasury and in related repurchase agreements).
- Repurchase agreements must comply with the requirements of the Repurchase Agreement Policy.
- Money market funds utilized by the pool must be approved in advance by the Board.
- Maximum exposure in government money market funds is limited to 10% of any individual rated fund at the pool level. The aggregate exposure may not exceed 30%.
- The pool may not hold private placements, or inverse floaters, or be leveraged in any manner.

- The pool shall not acquire any illiquid security if, after acquisition, more than 5% of the pool would be invested in illiquid securities.
- The pool shall not acquire any other security other than daily liquid assets if the fund would have less than 10% of its total assets in daily liquid assets.
- The pool shall not acquire any other security other than weekly liquid assets if the fund would have less than 30% of its total assets in weekly liquid assets.
- If the pool is rated by a Nationally Recognized Statistical Rating Organization (“NRSRO”), the investment manager is required to comply with any additional maturity, concentration, credit or other restrictions or requirements of the NRSRO for maintenance of the rating.

❑ **BTI Role**

The role of the BTI for the West Virginia Government Money Market Pool is as follows:

- Develop investment guidelines.
- Select and oversee investment managers.
- Prohibit commingling of funds with any other account in the Consolidated Fund.
- Distribute daily earnings to participants.
- Calculate monthly net income and net asset value.
- Prepare monthly a statement of net position, a statement of changes in net position, and a detailed list of securities.

❑ **Income Allocation**

Net investment income and realized gains and losses are declared as dividends and distributed daily to the participants. If the pool incurs an extraordinary loss and distributing the loss would decrease the share value below one dollar (\$1), the Investment Committee will be notified immediately for development of an action plan.

❑ **Asset Allocation – Permissible vs. Actual**

Permissible Allocation		Actual Allocation June 30, 2019	
Security Type	Maximum Percent of Pool	Carrying Value (Thousands)	Percent of Pool
U.S. Treasury obligations	100.0%	\$ 57,785	22.9%
U.S. government agency obligations & FDIC guaranteed obligations	85.0%	141,348	56.1%
Repurchase agreements	85.0%	52,900	21.0%
Government money market funds	30.0%	111	0.0%
Depository accounts	5.0%	-	-
		<u>\$ 252,144</u>	<u>100.0%</u>

☐ **Actual Returns**

Actual Annualized Returns for Periods Ended June 30, 2019



\* Benchmark is 15% iMoneyNet Treasury & Repo Institutional Average + 85% iMoneyNet Government & Agencies Institutional Average. Prior to July 1, 2015, BofA Merrill Lynch 3-Month T-bill

Returns are calculated on a time-weighted basis.  
 Manager returns are net of manager fees.  
 Total pool returns are net of all fees.

☐ **Investments**

For a detailed list of investments in the West Virginia Government Money Market Pool, see the Schedule of Investments in Securities in the Supplementary Information on Pages 56-57.

## **West Virginia Short Term Bond Pool**

### **❑ Investment Objectives and Policy Guidelines**

#### Objectives

The West Virginia Short Term Bond Pool was created to invest restricted moneys of the State which have a longer term investment horizon. The goal of the pool is to earn an incremental return over the West Virginia Money Market Pool with an objective of asset growth rather than current income. The pool is structured as a mutual fund and is limited to monthly withdrawals and deposits by participants. The risk factor on this pool is higher than the West Virginia Money Market Pool.

Participants include state agencies and local governments throughout the state.

#### Benchmark

The performance of the West Virginia Short Term Bond Pool (net of external Investment Manager fees) will be measured against the ICE BofAML 1-3 Year US Corporate & Government Index + 10 basis points. Prior to November 1, 2018, performance was measured against the BofA Merrill Lynch US Corporate & Government, 1-3 Years, A Rated and Above Index + 10 basis points.

#### Investment Manager

The West Virginia Short Term Bond Pool is managed by Sterling Capital Management. Prior to November 1, 2018, the Pool was managed by Federated Investors.

#### Maturity Restrictions, Diversification Guidelines and Credit Limits

All restrictions are based upon percentage of the pool holdings on a market value basis at the time of the securities purchase. Securities that fall out of compliance may be held to maturity based upon recommendation of the investment manager and investment consultant. The Board may require the investment manager to sell non-compliant securities. Where noted, the date of purchase shall mean the settlement date.

- Effective duration of the West Virginia Short Term Bond Pool shall not deviate from the effective duration of the benchmark index by more than +/- 20 percent.
- Effective duration of securities cannot exceed five years (1,827 days).
- Effective duration of commercial paper or asset backed commercial paper will not exceed 397 days.
- Minimum 15% of the pool must be in U.S. Treasury obligations or obligations guaranteed as to payment of interest and principal by the United States of America (inclusive of U.S. Treasury collateralized repurchase agreements and money market funds that invest substantially all of their assets in securities issued by the U.S. Treasury and in related repurchase agreements.)
- Maximum 5% of the pool may be invested in any one corporate name or one corporate issue.
- Maximum 5% of the pool may be invested in any one supranational name.
- All long-term corporate securities must be rated BBB- or higher (or its equivalent), provided that no more than 20% may be invested in securities rated BBB- to BBB+ (or its equivalent).
- All long-term supranational securities must be rated AA or higher (or its equivalent).



- All short-term corporate securities, short-term supranational securities, commercial paper or asset backed commercial paper must be rated A-1 or higher (or its equivalent).
- Asset backed and mortgage backed securities must be rated AAA (or its equivalent).
- Maximum 75% of the pool may be invested in floating rate notes.
- Floating rate notes shall be based on a money market index and shall not have an effective duration longer than five years.
- Maximum of 50% of the pool may be invested in asset backed and mortgage backed securities. Asset backed commercial paper is not considered an asset backed security under this limitation.
- Asset backed commercial paper programs that are eligible for purchase should be fully or partially supported programs that provide adequate diversification by asset type (trade receivables, credit card receivables, auto loans, etc.)
- The pool may not hold unregistered securities or private placements with the exception of securities issued pursuant to the SEC Rule 144A, public or municipal securities exempt from registration under Section 3(a)(4) of the Securities Act of 1933, and commercial paper issued pursuant to Rule 4(2) of the Securities Act of 1933.
- The pool may not invest in inverse floaters or be leveraged in any manner.
- Money market and fixed income funds utilized by the pool must be approved in advance by the Board.
- Repurchase agreements must comply with the requirements of the Repurchase Agreement Policy.
- If the pool is rated by a Nationally Recognized Statistical Rating Organization (“NRSRO”), the investment manager is required to comply with any additional maturity, concentration, credit or other restrictions or requirements of the NRSRO for maintenance of the rating.

❑ **BTI Role**

The role of the BTI for the West Virginia Short Term Bond Pool is as follows:

- Develop investment guidelines.
- Select and oversee investment managers.
- Prohibit commingling of funds with any other account in the Consolidated Fund.
- Distribute monthly earnings to participants.
- Calculate monthly net income and net asset value.
- Prepare monthly a statement of net position, a statement of changes in net position, and a detailed list of securities.

❑ **Income Allocation**

Net investment income and realized gains and losses are declared as dividends on the last day of the month and distributed to the participants in the pool on the first day of the following month. Gains and losses (realized and unrealized) are reflected in the net asset value calculated each month.

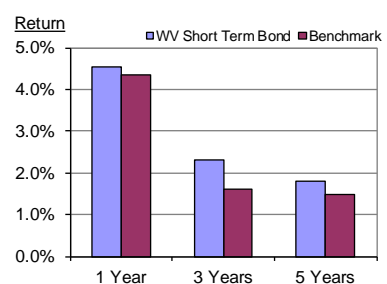
□ **Asset Allocation – Permissible vs. Actual**

Permissible Allocation		Actual Allocation June 30, 2019	
Security Type	Maximum Percent of Pool	Carrying Value (Thousands)	Percent of Pool
U.S. Treasury obligations	100.0%	\$ 115,292	15.8%
U.S. government agency obligations & FDIC guaranteed obligations	85.0%	50,146	6.9%
Repurchase agreements	85.0%	-	-
Commercial paper, asset backed commercial paper, corporate debt and supranational debt (combined)	75.0%	403,473	55.1%
Asset backed and mortgage backed securities	50.0%	162,535	22.1%
Certificates of deposit	50.0%	-	-
Money market and fixed income funds	30.0%	523	0.1%
Municipal securities	15.0%	-	-
Depository accounts	5.0%	-	-
		<b>\$ 731,969</b>	<b>100.0%</b>

□ **Actual Returns**

Actual Annualized Returns for Periods Ended June 30, 2019

	1 Year	3 Years	5 Years
Total pool returns *	4.54%	2.30%	1.80%
Benchmark **	4.35%	1.62%	1.49%



\* Sterling Capital Management became manager November 1, 2018. Federated Investors was investment manager from October 1, 2008 to October 31, 2018.

\*\* ICE BofAML 1-3 Year US Corporate & Government Index + 10 bps. Prior to November 1, 2018, BofA Merrill Lynch US Corporate & Government, 1-3 Years, A Rated and Above Index + 10 bps.

Returns are calculated on a time-weighted basis.  
 Manager returns are net of manager fees.  
 Total pool returns are net of all fees.

□ **Investments**

For a detailed list of investments in the West Virginia Short Term Bond Pool, see the Schedule of Investments in Securities in the Supplementary Information on Pages 58-62.

## **West Virginia Bank Pool**

### **□ Investment Objectives and Policy Guidelines**

#### Objectives

The West Virginia Bank Pool is composed of certificates of deposit placed with West Virginia financial institutions that are approved state depositories. Placement of the certificates of deposit is accomplished through a competitive bidding process (West Virginia CD Program). The State is the sole participant in this pool.

#### Benchmark

The performance of the West Virginia Bank Pool will be measured against a custom benchmark of 15% iMoneyNet Treasury & Repo Institutional Average + 85% iMoneyNet First Tier Institutional Average.

#### Investment Manager

None.

#### Maturity Restrictions, Diversification Guidelines and Credit Limits

- To participate in the West Virginia CD Program, a financial institution must be designated as a State Depository in accordance with West Virginia Code §12-1-2(a) and have a branch bank in West Virginia.
- The Board shall establish rules and guidelines for the competitive bidding process. Such rules shall be made available to all interested, qualified financial institutions prior to participation. Qualified, interested financial institutions must agree to the rules and guidelines to participate.
- The minimum bid is \$100,000.00. Bids must be in increments of \$100,000.00 to a maximum of \$10,000,000.00 per parent institution per placement.
- The minimum rate will be equivalent to a the six month return on the West Virginia Money Market Pool or other rate as approved by the BTI chairman.
- Certificates of deposit in excess of insurance coverage by the Federal Deposit Insurance Corporation (FDIC) must be collateralized pursuant to West Virginia code §12-1-4 and Board of Treasury Investments Bank Account Collateral Policy.

### **□ BTI Role**

The role of the BTI for the West Virginia Bank Pool is as follows:

- Develop investment guidelines.
- Prohibit commingling of funds with any other account in the Consolidated Fund.
- Distribute monthly earnings to participants.
- Calculate monthly net income and net asset value.

- Prepare monthly a statement of net position, a statement of changes in net position, and a detailed list of securities.

**☐ Income Allocation**

Net investment income is declared as dividends and distributed on the last day of the month.

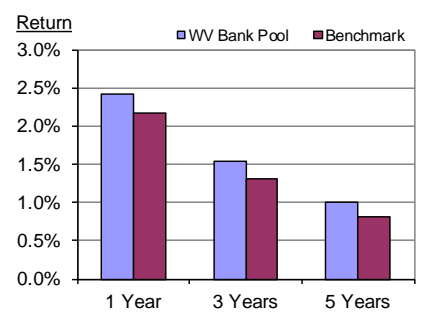
**☐ Asset Allocation – Permissible vs. Actual**

Permissible Allocation		Actual Allocation June 30, 2019	
Security Type	Maximum Percent of Pool	Carrying Value (Thousands)	Percent of Pool
Certificates of deposit	100.0%	\$ 77,000	99.7%
Money market funds	30.0%	232	0.3%
		<u>\$ 77,232</u>	<u>100.0%</u>

**☐ Actual Returns**

Actual Annualized Returns for Periods Ended June 30, 2019

	1 Year	3 Years	5 Years
Total pool returns	2.41%	1.53%	1.01%
Benchmark *	2.17%	1.30%	0.81%



\* Benchmark is 15% iMoneyNet Treasury & Repo Institutional Average + 85% iMoneyNet First Tier Institutional Average; prior to July 1, 2015, BofA Merrill Lynch 3-Month T-bill plus floating hurdle with maximum of 15 bps; prior to January 2013, Merrill Lynch 3-Month T-bill + 15 bps

Returns are calculated on a time-weighted basis.  
 Manager returns are net of manager fees.  
 Total pool returns are net of all fees.

**☐ Investments**

For a detailed list of investments in the West Virginia Bank Pool, see the Schedule of Investments in Securities in the Supplementary Information on Page 63.

## **Loan Pool**

### **❑ Investment Objectives and Policy Guidelines**

#### Objectives

The State Loan Pool is composed of loans made to/by the West Virginia Economic Development Authority (the “EDA”), West Virginia Property Valuation Training and Procedures Commission (the “PVTPC”), and certain FHA/VA housing loans for single-family homes. The State is the sole participant in this pool. The Directors of the BTI Board shall bear no fiduciary responsibility with regard to any of the loans contemplated under §12-6C-11.

Under the State Code, the BTI is required to make available to EDA, subject to a liquidity determination, the following:

- A Revolving Loan up to \$175 million for business and industrial development projects; and
- A Non-Recourse Loan up to \$25 million through June 29, 2012, to fund loans for certain venture capital initiatives; and
- A Revolving Loan up to \$50,000,000 to provide loan insurance for debt instruments to expand broadband within West Virginia

#### Benchmarks

None.

#### Investment Manager

None.

#### Maturity Restrictions, Diversification Guidelines and Credit Limits

None.

### **❑ BTI Role**

The role of the BTI for the overall Loan Pool is as follows:

- Receive and post loan payments.
- Open an account on behalf of the State Loan Pool.
- Develop investment guidelines.
- Prohibit commingling of funds with any other account in the Consolidated Fund.
- Provide cash flow information regarding securities held by the pool.
- Record contributions and withdrawals.
- Provide monthly statements regarding pool activity
- Calculate monthly net income and net asset value.
- Prepare monthly a statement of net position, a statement of changes in net position, and a detailed list of securities.

The role of the BTI for the EDA Industrial Development Loan is as follows:

- Provide EDA with the annual rate to be charged on the loan.
- Facilitate the transfer of funds to EDA via the State Treasurer’s Office.
- Invoice the EDA on a monthly basis for interest and principal due on outstanding loan balances

The role of the BTI for the EDA Non-Recourse Loan is as follows:

- Produce pool financial statements based on information provided by EDA
- Facilitate the transfer of funds to EDA via the State Treasurer’s Office.

The role of the BTI for the Broadband Debt Guarantee Revolving Loan is as follows:

- Provide EDA with quarterly interest rate to be charged on the loan
- Facilitate the transfer of funds to EDA via the State Treasurer’s Office
- Invoice the EDA on a quarterly basis for interest and principal due on outstanding balances

**Income Allocation**

Net investment income is declared as dividends and distributed on the last day of the month. If the pool incurs a loss resulting in negative income, the loss will be distributed to participants on the last day of the month.

**Asset Allocation – Permissible vs. Actual**

Permissible Allocation		Actual Allocation June 30, 2019	
Security Type	Maximum Percent of Pool	Carrying Value (Thousands)	Percent of Pool
Other investments	100.0%	\$ 119,209	100.0%
Money market funds	20.0%	34	0.0%
Depository accounts	5.0%	-	-
		<u>\$ 119,243</u>	<u>100.0%</u>

**Actual Returns**

The BTI does not maintain rates of return for the Loan Pool.

**Investments**

For a detailed list of investments in the Loan Pool, see the Schedule of Investments in Securities in the Supplementary Information on Page 63.

## **Reserve Pool**

### **□ Investment Objectives and Policy Guidelines**

#### Objectives

The Reserve Pool was created to provide an added layer of security for the West Virginia Money Market and West Virginia Government Money Market Pools. The objective of the pool is to provide support for the West Virginia Money Market and West Virginia Government Money Market Pools to ensure the net asset values do not fall below \$0.9985 per unit.

#### Benchmarks

None.

#### Investment Manager

None.

#### Maturity Restrictions, Diversification Guidelines and Credit Limits

All restrictions are based upon total dollar percentages of Pool holdings using an amortized cost basis. Securities that fall out of compliance may be held to maturity based upon recommendation of the investment manager and investment consultant. The Board may require the investment manager to sell non-compliant securities.

- Maximum maturity of individual securities cannot exceed 397 days from the date of purchase.
- Depository accounts are required to be collateralized as defined in the BTI's Bank Account Collateral Policy.

### **□ BTI Role**

The role of the BTI for the Reserve Pool is as follows:

- Develop investment guidelines.
- Provide cash flow information regarding securities held by the pool.
- Record contributions and withdrawals.
- Calculate monthly net income and net asset value.
- Prepare monthly a statement of net position, a statement of changes in net position, and a detailed list of securities.
- The BTI will monitor the net asset value of the West Virginia Money Market and West Virginia Government Money Market Pools on a daily basis in accordance with the BTI's Net Asset Value Monitoring Policy. This policy requires the Chief Financial Officer and Executive Director to



develop a formal and written action plan to address the NAV decline when it falls below \$0.9985 per unit. Board members are notified to approve the written action plan.

- If the net asset value falls below \$0.9985 per unit, the BTI will request Board approval to utilize the Reserve Pool to ensure the NAV is stabilized at \$0.9985 per unit.

**Income Allocation**

Net investment income is declared as dividends and distributed on the last day of the month. If the pool incurs a loss resulting in negative income, the loss will be distributed on the last day of the month.

**Asset Allocation – Permissible vs. Actual**

Permissible Allocation		Actual Allocation June 30, 2019	
Security Type	Maximum Percent of Pool	Carrying Value (Thousands)	Percent of Pool
U.S. Treasury obligations	100.0%	\$ -	-
U.S. government agency obligations	100.0%	-	-
Repurchase agreements	100.0%	-	-
Government money market funds	100.0%	1	0.0%
Certificates of deposit	100.0%	-	-
Depository accounts	100.0%	19,546	100.0%
		<u>\$ 19,547</u>	<u>100.0%</u>

**Actual Returns**

The BTI does not maintain rates of return for the Reserve Pool.

**Investments**

For a detailed list of investments in the Reserve Pool, see the Schedule of Investments in Securities in the Supplementary Information on Page 64.

## **Municipal Bond Commission Account**

### **❑ Investment Objectives and Policy Guidelines**

#### Objectives

The Municipal Bond Commission Account is governed by West Virginia State Code §13-3-7 as it relates to permissible securities, limitations on purchase, sale or exchange of securities, interest; and custody of securities. Effective May 31, 2019, the Municipal Bond Commission Account was closed after the Municipal Bond Commission withdrew the proceeds of matured investments held by the account.

#### Benchmarks

None.

#### Investment Manager

None.

#### Maturity Restrictions, Diversification Guidelines and Credit Limits

- No security shall be purchased, sold or exchanged without the concurrence or ratification of a majority of all members of the Municipal Bond Commission (the “Commission”).
- No security shall be purchased at a price above, nor sold or exchanged at a price below, its prevailing fair market value.
- No security shall be purchased, sold or exchanged for the purpose of aiding any individual, firm or corporation by the payment of brokerage commissions or fees thereto.
- No security purchased, sold or exchanged shall benefit any member or employee of the Commission.

### **❑ BTI Role**

The role of the BTI for the Municipal Bond Commission Account is as follows:

- Open an account on behalf of the Commission.
- Develop investment guidelines.
- Prohibit commingling of funds with any other account in the Consolidated Fund.
- Provide cash flow information regarding securities held by the account.
- Provide securities information to the custodian.
- Review signature authorization from the Commission for trade activity.
- Record contributions and withdrawals based upon Commission authorization.
- Provide detailed fee invoice.
- Charge fees for management of the account.
- Calculate monthly net income and net asset value.
- Prepare monthly a statement of net position, a statement of changes in net position, and a detailed list of securities.

❑ **Income Allocation**

Net investment income and realized gains and losses are posted to the account monthly.

❑ **Asset Allocation – Permissible vs. Actual**

Asset allocations have not been established for the Municipal Bond Commission Account. Permissible securities are as follows:

- Securities of the United States or any agency thereof which are guaranteed by or for which the full faith and credit of the United States is pledged for the payment of the principal and interest.
- General obligations of the State or any of its agencies, boards or commissions, or any county, municipality or school district in the state.
- Repurchase agreements or similar banking arrangements with a member bank of the Federal Reserve System, or a bank, the deposits of which are insured by the Federal Deposit Insurance Corporation (the “FDIC”), or its successor, provided that such investments shall only be made to the extent insured by the FDIC or to the extent that the principal amount thereof shall be fully collateralized by direct obligations of or obligations guaranteed by the United States of America.

❑ **Actual Returns**

The BTI does not maintain rates of return for the Municipal Bond Commission Account.

❑ **Investments**

As of June 30, 2019, there were no securities held by in the Municipal Bond Commission Account.

## **School Fund Account**

### **❑ Investment Objectives and Policy Guidelines**

#### Objectives

The School Fund was established by State Code §18-9-5 to contribute toward supporting state public schools. The investment objective is to maintain the irreducible \$1 million principal as defined in State Code §18-9A-16.

#### Benchmarks

None.

#### Investment Manager

None.

#### Maturity Restrictions, Diversification Guidelines and Credit Limits

Minimum 15% of the investments of the School Fund must be invested in U.S. Treasury obligations.

### **❑ BTI Role**

The role of the BTI for the School Fund Account is as follows:

- Open an account on behalf of the School Fund Board.
- Develop investment guidelines.
- Prohibit commingling of funds with any other account in the Consolidated Fund.
- Provide monthly statements regarding School Fund activity.
- Calculate monthly net income and net asset value.
- Prepare monthly a statement of net position, a statement of changes in net position, and a detailed list of securities.

### **❑ Income Allocation**

Net investment income and realized gains and losses are posted to the account monthly. Unrealized gains and losses are reflected in the net asset value calculated each month.

### **❑ Asset Allocation – Permissible vs. Actual**

The School Fund shall be invested in interest-bearing securities of the United States, or securities, the payment of which as to both principal and interest, has been guaranteed by the United States, or of West Virginia, or of any county, city, town or village, or school district of West Virginia, or if such interest-bearing securities cannot be obtained, then such fund shall be invested in such other solvent interest-bearing securities as shall be approved by the School Fund Board. At June 30, 2019, 100.0% of the School Fund

Account's securities, totaling \$1,425,000, were invested in a money market fund that invests in U.S. Treasury and agency securities.

**Actual Returns**

The BTI does not maintain rates of return for the School Fund Account.

**Investments**

For a detailed list of investments in the School Fund Account, see the Schedule of Investments in Securities in the Supplementary Information on Page 64.

**Economic Development Authority – American Woodmark Account**

**❑ Investment Objectives and Policy Guidelines**

Objectives

In accordance with West Virginia Code Section §31-15-23, the Economic Development Authority (the “EDA”) – American Woodmark Account invests excess funds received by appropriation or other funds which the EDA directs to be invested.

Benchmarks

None.

Investment Manager

None.

Maturity Restrictions, Diversification Guidelines and Credit Limits

None

**❑ BTI Role**

The role of the BTI for the EDA – American Woodmark Account is as follows:

- Open an account on behalf of the EDA.
- Develop investment guidelines.
- Prohibit commingling of funds with any other account in the Consolidated Fund.
- Provide cash flow information regarding securities held by the account.
- Invest earned interest not withdrawn by the EDA.
- Review signature authorization from the EDA for trade activity.
- Record contributions and withdrawals based upon EDA authorization.
- Provide monthly statements regarding EDA activity.
- Charge fees for management of the account.
- Calculate monthly net income and net asset value.
- Prepare monthly a statement of net position, a statement of changes in net position, and a detailed list of securities.

**❑ Income Allocation**

Net investment income and realized gains and losses are posted to the account monthly. Unrealized gains and losses are reflected in the net asset value calculated each month.

❑ **Asset Allocation – Permissible vs. Actual**

Permissible securities for the EDA – American Woodmark Account are as follows:

- A U.S. Treasury obligation that matures August 15, 2023.
- Money market funds

At June 30, 2019, 100.0% of the EDA – American Woodmark Account’s securities, totaling \$1,703,000, were invested in a U.S. Treasury Bond maturing August 15, 2023.

❑ **Actual Returns**

The BTI does not maintain rates of return for the EDA – American Woodmark Account.

❑ **Investments**

For a detailed list of investments in the EDA – American Woodmark Account, see the Schedule of Investments in Securities in the Supplementary Information on Page 64.

**Schedule of Investment Management Fees**  
**Consolidated Fund**  
**For the Fiscal Year Ended June 30, 2019**  
*(In Thousands)*

External fees:	
Investment advisors:	
WV Money Market Pool	\$ 1,146
WV Government Money Market Pool	79
WV Short Term Bond Pool	500
	<u>1,725</u>
Custodians:	
WV Money Market Pool	127
WV Government Money Market Pool	14
WV Short Term Bond Pool	27
	<u>168</u>
Total external fees	<u>1,893</u>
Internal fees:	
Investment consultant	156
Fiduciary bond	20
Administration	1,540
Total internal fees	<u>1,716</u>
Total investment management fees	<u><u>\$ 3,609</u></u>



## INVESTMENT POLICY SUMMARY

### I. PURPOSE

The investment policy of the West Virginia Board of Treasury Investments (the “BTI”) is adopted pursuant to Article 6C of Chapter 12 of the West Virginia Code and specifically outlines the investment philosophy and practices of the BTI. It has been developed to provide a fiscal administration, investment, and management plan for the assets entrusted to the Board. The Board has adopted this investment policy to serve as that plan and to provide:

- A clear direction to investment managers and consultants, staff, participants, and any other outside service provider as to the objectives, goals, and restrictions with regard to investment of assets;
- A methodology which allows assets to be structured and invested in a prudent manner; and
- A meaningful basis for the evaluation of asset classes, investment managers and the strategies used to achieve the various investment objectives.

### II. INVESTMENT PHILOSOPHY

The BTI was established by the State Legislature to provide prudent fiscal administration, investment, and management for the assets entrusted to the BTI. It is the investment philosophy of the BTI to invest assets in a manner that strives for maximum safety, provides adequate liquidity to meet all operating requirements, and achieves the highest possible investment return consistent with the primary objectives of safety and liquidity. Due to the short-term nature of the funds, the BTI believes it is imperative to review and adjust the policy in reaction to interest rate market fluctuations/trends on a regular basis. In order to accomplish this, the BTI has adopted the following formal review schedule:

<b>Agenda Item</b>	<b>Review Schedule</b>
Investment Performance	Quarterly
Investment Manager Rebalancing	Quarterly
Investment Policy	Annually
Fee Schedule and Budget	Annually
Select Rating Agencies	Annually
Stress Testing of Portfolios	Monthly

When required, the BTI may react to trends in the market more quickly by itself or through actions of its Investment Committee.

The BTI will employ investment managers to implement this policy. The BTI shall monitor the performance of, and supervise all investment managers.

In determining its philosophy toward risk, the BTI considers its fiduciary obligations, statutory requirements, and current market conditions. Additionally, the BTI will consider the participants’ purposes and characteristics, financial conditions, liquidity needs, sources and level of contributions, income and

general business conditions. Based upon these many factors, the BTI identifies when either a more conservative or more aggressive investment approach is warranted.

### **III. INVESTMENT OBJECTIVES**

The BTI's objective is to provide focused investment services for the funds, reduce costs for, and increase returns to its participants. Realizing the majority of the funds are for operating expenses, the policy is designed to address the short-term liquidity needs of the participants and limit risk, but still permitting for a better rate of return than participants may be able to obtain on their own.

All available funds shall be invested with the following objectives and priorities:

- Safety of principal. Investments shall be undertaken in a manner that seeks preservation of capital with reasonable investment risk in the overall portfolio.
- Liquidity requirements of anticipated and unanticipated expenditures.
- Maximization of the yield allocated to participants' investments consistent with all investment objectives.
- Recognition of differing objectives and needs of various participants.
- Conformance with state law and other pertinent legal restrictions.
- Diversification of assets by investment in various securities classifications and the use of various investment managers in order to smooth the volatility of returns.

### **IV. INVESTMENT/ADMINISTRATIVE RESPONSIBILITIES**

The BTI is responsible for the prudent investment and administration of the funds. In order to properly carry out the policy, the BTI will rely on staff and outside service providers. Due to the number of parties involved, their roles as fiduciaries must be clearly identified to ensure operational efficiency, clear lines of communication, and accountability in all aspects of operations. The following describes the parties and the roles they assume as fiduciaries.

#### **A. BOARD OF DIRECTORS**

The Board has the responsibility of establishing and maintaining the policy and determining the objectives for all aspects of BTI operations.

The Board shall adopt by-laws and delegate the implementation of the policy to the Investment Committee and staff. The Board shall focus on important policy level issues, maintaining the proper fiduciary perspective and time horizon for analysis of the progress of the policy and the investment returns on the funds, and develop, adopt, review or modify the asset rebalancing plan, investment policy, fee schedule, and budget for the funds at least annually.

The Board may establish committees of its members as required to effectively implement the policy. Currently, the Board has established the Investment, Audit, and Personnel and Governance Committees as described below. Committees shall be briefed as required on any topic or issue pertinent to the Board's operations, and shall make reports regarding those topics to the Board at its meetings.

#### **B. INVESTMENT COMMITTEE**

The primary objective of the Investment Committee is to implement this policy and to do so effectively,

prudently, and in a cost efficient manner in full compliance with all applicable laws, rules, and regulations.

The Investment Committee shall have the following specific responsibilities to be performed with the advice and assistance of staff and the investment consultant, and shall make recommendations to the Board for action as necessary regarding:

- Policies for preservation of capital, risk tolerance, credit standards diversification, rate of return, stability and turnover, liquidity, reasonable costs and fees, permissible investments, maturity ranges, internal controls, safekeeping and custody, valuation methodologies, and calculation of earnings and yields;
- Evaluation, selection, and termination of the investment managers and investment consultant;
- Regular review of and revisions to the investment policy;
- Investigate any reported investment problems or non-compliance;
- Evaluation of investment results to ensure compliance with the investment policy and to determine success of investment activities; and
- Other investment related issues as necessary for the prudent and cost effective investment of the funds.

#### **C. INVESTMENT CONSULTANT**

The investment consultant will be selected by and serve at the will and pleasure of the Board, based upon recommendations from the Investment Committee. The consultant must have and assign an employee to work directly with the BTI, who has a Chartered Financial Analyst or a Certified Treasury Professional designation. The consultant works with the Board and staff to implement this policy. This requires regular meetings with staff, the Investment Committee and/or the Board, to provide an independent perspective on various issues and make recommendations as appropriate.

#### **D. INVESTMENT MANAGERS**

Investment managers will be selected by and serve at the will and pleasure of the Board, based upon recommendations from the Investment Committee. The managers will have demonstrated expertise with the type of portfolio in their charge. The managers will be provided explicit written instructions detailing their particular assignment, and will construct and manage the portfolio consistent with the policy.

#### **E. CUSTODIAN**

The custodian holds directly, through its agents, its sub-custodians, or designated clearing systems, securities held as investments by the BTI. The custodian is accountable for registration of those securities in good delivery form, collection of income generated, and any corporate action notification. The custodian is responsible for delivery, receipt, tracking, and reporting of securities transactions. The BTI may opt to delegate other duties to the custodian.

#### **F. INTERNAL AUDITOR**

The Board shall retain an internal auditor to report directly to the Board. As minimum qualifications, the internal auditor shall be a certified public accountant with at least three years' experience as an auditor. The internal auditor shall develop an internal audit plan, with Board approval, for the testing of procedures, internal controls and security of transactions.

#### **G. EXTERNAL AUDITOR**

The BTI shall be audited annually by an independent certified public accounting firm selected by the Board. The certified public accounting firm must have a minimum staff of ten certified public accountants, be a member of the American Institute of Certified Public Accountants and, if doing business in West Virginia, a member of the West Virginia Society of Certified Public Accountants. The Board shall have financial and compliance audits of the Board's books, accounts and records with respect to its receipts, disbursements, investments, contracts and all other matters relating to its financial operations.

#### **H. NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION**

The BTI shall annually select Nationally Recognized Statistical Rating Organizations ("NRSRO") whom it deems suitable to rely upon for credit ratings. Currently the BTI has selected the following NRSRO's:

- Moody's Investor Services
- Standard & Poor's
- Fitch Ratings
- Dominion Bond Rating Service, Ltd.

#### **V. STANDARD OF CARE**

Any investment made pursuant to this policy shall be made in accordance with the "Uniform Prudent Investor Act" and shall be further subject to the following:

- The Directors shall diversify the investment of the funds so as to minimize the risk of large losses unless, under the circumstances, it is clearly prudent not to do so;
- The Directors shall defray reasonable expenses of investing and managing the funds by charging fees; and
- The Directors shall discharge their duties in accordance with the documents and instruments consistent with the State Code.

#### **VI. GENERAL INVESTMENT GUIDELINES**

The BTI recognizes that risk (i.e., the uncertainty of future events), volatility (i.e., the potential for variability of asset values), and the possibility of loss in purchasing power (due to inflation) are present to some degree in all types of investments. Due to the short-term nature of the funds, high levels of risk should be avoided, but the assumption of risk may be warranted if it is needed in order to allow the investment managers the opportunity to achieve satisfactory results consistent with the policy and the investment guidelines for the pool/portfolio they manage.

All securities must have a readily attainable market value, and must be readily marketable. Listed within the investment guidelines for each pool and account are the securities specifically permitted by the policy.

#### **VII. CONFLICT OF INTEREST AND ETHICS**

The Directors, staff, and any outside service provider shall refrain from those circumstances that could be considered a conflict of interest with BTI operations and transactions. A conflict of interest is a circumstance that creates an actual conflict with any fiduciary duty owed and a personal or business activity

that could conflict with, could give the appearance of a conflict with, or could impair the ability to make impartial decisions in matters affecting BTI operations and transactions.

Additionally, the Directors and staff shall maintain knowledge of, and shall comply with, all applicable laws, rules and regulations of any governmental or regulatory entity governing the management of the funds and shall not knowingly participate in, assist or fail to report to the BTI any acts in violation of those laws, rules and regulations. This requirement includes, but is not limited to, compliance with the “West Virginia Governmental Ethics Act” in the State Code. Any actual or perceived violation of the Ethics Act shall be reported in writing to the Personnel and Governance Committee of the Board for action.

## **VIII. AUDITOR ACCESS TO RECORDS**

An investment manager or custodian which holds securities for the account of, in trust of, in trust for, or pledged to the BTI, shall be required to allow the BTI or its agents to conduct an audit with respect to such securities or securities transactions for a period of two years after date of any trade executed on behalf of the BTI.

## **IX. OTHER BTI POLICIES**

The policy incorporates policies that govern the day-to-day practices of the BTI, including:

- Pricing Policy
- Net Asset Value Monitoring Policy
- Dividend Reinvestments Policy
- Record Retention Policy
- Outside Service Provider Policy
- Repurchase Agreement Policy
- Securities Lending Program Policy
- Bank Account Collateral Policy
- Investment Manager Due Diligence and Watch List Policy
- Securities Litigation Policy

## **X. MISCELLANEOUS PROVISIONS**

### **A. AMENDMENTS**

Any modification or amendment of this policy may be made by an action adopted at any duly constituted Board meeting; provided, however, that no such modification or amendment shall abrogate the rights and duties of then existing BTI contracts with outside service providers, unless required by operation of law or agreed to by the outside service providers.

### **B. NO RECOURSE**

No provision in this policy shall be the basis for any claim against any director or staff, in his individual or official capacity, or against the BTI itself.

**C. EFFECT UPON EXISTING CONTRACT**

This policy shall not abrogate the rights and duties of the BTI under contracts with outside service providers executed prior to the effective date of this policy, unless required by operation of law or agreed to by the outside service provider.

**D. EFFECT OF FAILURE TO COMPLY AS TO INVESTMENTS**

Failure to comply with this policy shall not invalidate any investment or affect the validity of the authorization of the Board, or their designee, to make such investments, unless required by the Board.

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## **Statistical Section**



## INTRODUCTION TO STATISTICAL SECTION

The Statistical Section of the BTI's CAFR presents information as a historical perspective and a context for understanding what the information in the financial statements, note disclosures, supplementary information, and other financial information says about the BTI's overall financial health.

### **Table 1: Schedules of Additions, Deductions, and Changes in Net Position – Consolidated Fund**

This table presents historical information showing trends in the changes in Consolidated Fund net position and the components of those changes.

### **Table 2: Financial Highlights – Consolidated Fund State Operating Pools**

This table presents historical information showing per share data and ratios for the state operating pools of the Consolidated Fund for the past ten years. The ratio of expenses to average net position represents the percentage of net position used to operate the pool. The ratio of net investment income to average net position represents financial performance of the pool, or the extent to which operations have resulted in changes in net position. The portfolio turnover rate is a measurement of how frequently assets within a fund are bought and sold by the managers.

### **Table 3: Rates of Return – Consolidated Fund State Operating Pools**

This table presents historical information showing the rates of return for the Consolidated Fund State Operating Pools for the past ten years.

### **Table 4: Participation in Consolidated Fund State Operating Pools**

This table presents historical information for the past ten years showing the participation in the Consolidated Fund State Operating Pools that are open to all state agencies and local governments in the state. Many state agencies and local governments have multiple accounts.

### **Table 5: Net Position – Consolidated Fund**

This table presents historical information showing the total net position of the Consolidated Fund for the past ten years.

### **Table 6: Net Position, Changes in Net Position, and Restatement of Net Position – Operating Fund**

This table presents historical information showing the total net position and changes in net position of the Operating Fund (a proprietary fund) for the past ten years.

### **Table 7: Schedule of Net Asset Values—Consolidated Fund Operating and Special Purpose Pools**

This table presents components of total net asset values of the Consolidated Fund Operating and Special Purpose Pools at June 30, 2019, as well as investment unit data.

### **Table 8: Portfolio Statistics – Consolidated Fund Operating Pools**

This table presents weighted average days to maturity, maximum weighted average investment maturity term per BTI investment policy, and money market yields for the Consolidated Fund Operating Pools at June 30, 2019.

**Table 9: Participant Net Asset Values—Consolidated Fund Operating Pools**

This table presents major investors in the Consolidated Fund Operating Pools at June 30, 2019.

**Glossary of Financial and Investment Terms**

A glossary of financial and investment terms is presented to help readers understand the basic concepts and information provided in this comprehensive annual financial report.

**Table 1: Schedules of Additions, Deductions, and Changes in Net Position – Consolidated Fund**

Fiscal Year Ended June 30  
(In Thousands)

	2019	2018	2017	2016	2015
<b>Additions</b>					
Investment income:					
Interest	\$ 65,025	\$ 35,994	\$ 23,420	\$ 17,145	\$ 14,942
Dividends	4,311	1,648	666	402	1,575
Securities lending income	-	-	-	-	-
Net accretion (amortization)	54,990	21,465	7,470	1,070	(3,885)
Provision for securities lending loss	-	-	-	-	-
Provision for uncollectible loans	(504)	-	(639)	(507)	(822)
Total investment income	<u>123,822</u>	<u>59,107</u>	<u>30,917</u>	<u>18,110</u>	<u>11,810</u>
Investment expenses:					
Investment advisor fees	1,725	1,463	1,345	1,366	1,552
Custodian bank fees	168	134	116	126	133
Administrative fees	1,716	1,245	1,383	1,291	1,298
Securities lending agent fees	-	-	-	-	-
Securities lending borrower rebates	-	-	-	-	-
Total investment expenses	<u>3,609</u>	<u>2,842</u>	<u>2,844</u>	<u>2,783</u>	<u>2,983</u>
Net investment income	120,213	56,265	28,073	15,327	8,827
Net realized gain (loss) from investments	(817)	(583)	128	(39)	(442)
Net increase (decrease) in fair value of investments	<u>14,306</u>	<u>(5,460)</u>	<u>(1,917)</u>	<u>2,818</u>	<u>(986)</u>
Net increase in net position from operations	133,702	50,222	26,284	18,106	7,399
Participant transaction additions:					
Purchase of pool units by participants	11,418,719	11,558,987	11,266,082	9,864,797	10,934,435
Reinvestment of pool distributions	119,737	55,550	27,979	15,082	8,679
Contributions to individual investment accounts	538	9,307	26,512	64,252	825
Total participant transaction additions	<u>11,538,994</u>	<u>11,623,844</u>	<u>11,320,573</u>	<u>9,944,131</u>	<u>10,943,939</u>
Total additions	11,672,696	11,674,066	11,346,857	9,962,237	10,951,338
<b>Deductions</b>					
Distributions to pool participants:					
Net investment income	119,963	55,858	27,709	15,147	8,714
Net realized gain (loss) from investments	(817)	(583)	128	(39)	(442)
Total distributions to pool participants	<u>119,146</u>	<u>55,275</u>	<u>27,837</u>	<u>15,108</u>	<u>8,272</u>
Participant transaction deductions:					
Redemption of pool units by participants	10,784,814	10,171,762	11,141,869	10,233,162	10,977,054
Withdrawals from individual investment accounts	28,994	17,474	16,385	44,327	20,105
Total participant transaction deductions	<u>10,813,808</u>	<u>10,189,236</u>	<u>11,158,254</u>	<u>10,277,489</u>	<u>10,997,159</u>
Total deductions	<u>10,932,954</u>	<u>10,244,511</u>	<u>11,186,091</u>	<u>10,292,597</u>	<u>11,005,431</u>
Change in net position	<u>\$ 739,742</u>	<u>\$ 1,429,555</u>	<u>\$ 160,766</u>	<u>\$ (330,360)</u>	<u>\$ (54,093)</u>

(Continued)

	2014	2013	2012	2011	2010
\$	15,103	\$ 17,579	\$ 17,094	\$ 20,410	\$ 21,499
	1,653	330	461	446	624
	-	-	-	-	-
	(4,563)	(6,351)	(3,986)	6,255	7,700
	-	(1,629)	(945)	(596)	(1,193)
	(1,251)	-	-	-	-
	10,942	9,929	12,624	26,515	28,630
	1,486	1,366	1,420	1,399	1,277
	129	132	141	134	107
	1,083	593	1,004	1,052	1,468
	-	-	-	-	-
	-	-	-	-	-
	2,698	2,091	2,565	2,585	2,852
	8,244	7,838	10,059	23,930	25,778
	44	2,850	(12)	6,527	1,576
	2,401	(96)	(1,946)	(11,329)	(770)
	10,689	10,592	8,101	19,128	26,584
	10,832,452	11,345,517	10,994,105	10,590,080	10,192,912
	8,812	8,277	10,918	21,531	19,301
	356	291,228	156,312	6,760	4,950
	10,841,620	11,645,022	11,161,335	10,618,371	10,217,163
	10,852,309	11,655,614	11,169,436	10,637,499	10,243,747
	8,087	6,727	8,862	16,264	17,989
	44	(370)	(114)	6,527	1,576
	8,131	6,357	8,748	22,791	19,565
	11,259,270	11,513,580	11,391,935	10,356,782	9,949,245
	193,010	223,638	21,259	10,949	13,023
	11,452,280	11,737,218	11,413,194	10,367,731	9,962,268
	11,460,411	11,743,575	11,421,942	10,390,522	9,981,833
\$	(608,102)	\$ (87,961)	\$ (252,506)	\$ 246,977	\$ 261,914

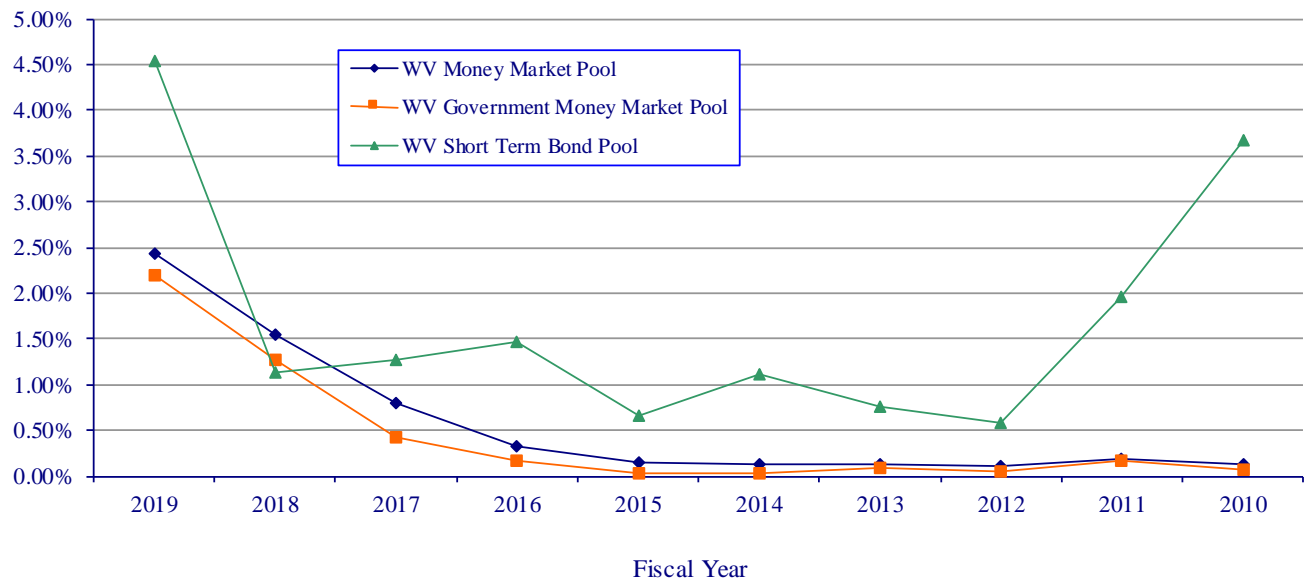
**Table 2: Financial Highlights – Consolidated Fund State Operating Pools**

	Fiscal Year Ended June 30									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
<b>WV Money Market Pool</b>										
Per share data:										
Net asset value at beginning of year	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Net investment income	0.02	0.02	0.01	-	-	-	-	-	-	-
Net realized and unrealized gain	-	-	-	-	-	-	-	-	-	-
Net increase from operations	0.02	0.02	0.01	-	-	-	-	-	-	-
Distributions to participants	0.02	0.02	0.01	-	-	-	-	-	-	-
Net asset value at end of year	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>
Shares outstanding (in thousands)	3,959,313	3,266,592	1,780,967	1,556,503	1,890,872	1,960,118	2,496,857	2,788,044	3,019,878	2,820,141
Ratio of expenses to average net assets	0.07%	0.07%	0.08%	0.08%	0.08%	0.07%	0.05%	0.06%	0.06%	0.07%
Ratio of net investment income to average net assets	2.39%	1.56%	0.84%	0.27%	0.13%	0.13%	0.14%	0.11%	0.18%	0.14%
<b>WV Government Money Market Pool</b>										
Per share data:										
Net asset value at beginning of year	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00	\$ 1.00
Net investment income	0.02	0.01	-	-	-	-	-	0.01	-	-
Net realized and unrealized gain	-	-	-	-	-	-	-	-	-	-
Net increase from operations	0.02	0.01	-	-	-	-	-	0.01	-	-
Distributions to participants	0.02	0.01	-	-	-	-	-	0.01	-	-
Net asset value at end of year	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>	<u>\$ 1.00</u>
Shares outstanding (in thousands)	252,159	212,354	202,070	190,160	248,503	238,981	287,253	300,047	262,898	221,265
Ratio of expenses to average net assets	0.08%	0.08%	0.09%	0.09%	0.08%	0.08%	0.06%	0.06%	0.07%	0.08%
Ratio of net investment income to average net assets	2.29%	1.32%	0.47%	0.16%	0.03%	0.02%	0.09%	0.06%	0.15%	0.10%
<b>WV Short Term Bond Pool</b>										
Per share data:										
Net asset value at beginning of year	\$ 101.07	\$ 101.81	\$ 102.03	\$ 101.67	\$ 101.79	\$ 101.47	\$ 100.06	\$ 100.34	\$ 101.35	\$ 100.59
Net investment income	2.68	1.97	1.47	1.15	0.85	1.20	0.70	0.86	1.56	2.41
Net realized and unrealized gain (loss)	1.90	(0.83)	(0.22)	0.34	(0.19)	0.33	1.34	(0.31)	0.40	1.20
Net increase from operations	4.58	1.14	1.25	1.49	0.66	1.53	2.04	0.55	1.96	3.61
Distributions to participants	2.58	1.88	1.47	1.13	0.78	1.21	0.63	0.83	2.97	2.85
Net asset value at end of year	<u>\$ 103.07</u>	<u>\$ 101.07</u>	<u>\$ 101.81</u>	<u>\$ 102.03</u>	<u>\$ 101.67</u>	<u>\$ 101.79</u>	<u>\$ 101.47</u>	<u>\$ 100.06</u>	<u>\$ 100.34</u>	<u>\$ 101.35</u>
Shares outstanding (in thousands)	7,158	7,020	7,403	7,754	7,490	7,600	6,083	5,040	4,746	4,496
Ratio of expenses to average net assets	0.11%	0.13%	0.14%	0.14%	0.14%	0.12%	0.07%	0.10%	0.10%	0.14%
Ratio of net investment income to average net assets	2.67%	1.97%	1.47%	1.19%	0.87%	0.78%	0.50%	0.73%	1.26%	2.52%
Portfolio turnover rate	2.78%	3.45%	3.06%	6.77%	4.17%	1.10%	2.48%	11.11%	3.66%	5.07%

**Table 3: Rates of Return – Consolidated Fund State Operating Pools**

	Fiscal Year Ended June 30									
	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
WV Money Market Pool	2.43%	1.54%	0.80%	0.32%	0.14%	0.13%	0.13%	0.11%	0.18%	0.12%
WV Government Money Market Pool	2.20%	1.26%	0.42%	0.16%	0.03%	0.02%	0.09%	0.05%	0.16%	0.06%
WV Short Term Bond Pool	4.54%	1.14%	1.26%	1.47%	0.65%	1.11%	0.76%	0.59%	1.96%	3.67%

Rates of return are time weighted, annualized, and net of all fees



**Table 4: Participation in Consolidated Fund State Operating Pools**

Fiscal Year Ended June 30

(Net Asset Values Expressed in Thousands)

	2019		2018		2017		2016		2015	
	Number of Accounts	Net Asset Value	Number of Accounts	Net Asset Value	Number of Accounts	Net Asset Value	Number of Accounts	Net Asset Value	Number of Accounts	Net Asset Value
<b>WV Money Market Pool:</b>										
State agency accounts	1,044	\$ 3,765,849	1,037	\$ 3,087,615	1,115	\$ 1,653,945	1,196	\$ 1,462,081	1,275	\$ 1,804,995
Local government accounts	204	193,464	198	178,977	207	127,022	206	94,422	208	85,877
Accumulated undistributed securities lending income		-		-		-		-		-
	<u>1,248</u>	<u>\$ 3,959,313</u>	<u>1,235</u>	<u>\$ 3,266,592</u>	<u>1,322</u>	<u>\$ 1,780,967</u>	<u>1,402</u>	<u>\$ 1,556,503</u>	<u>1,483</u>	<u>\$ 1,890,872</u>
<b>WV Government Money Market Pool:</b>										
State agency accounts	23	\$ 206,834	23	\$ 209,783	20	\$ 198,527	24	\$ 184,246	23	\$ 202,008
Local government accounts	23	45,325	21	2,571	27	3,543	27	5,914	70	46,495
Accumulated undistributed securities lending income		-		-		-		-		-
	<u>46</u>	<u>\$ 252,159</u>	<u>44</u>	<u>\$ 212,354</u>	<u>47</u>	<u>\$ 202,070</u>	<u>51</u>	<u>\$ 190,160</u>	<u>93</u>	<u>\$ 248,503</u>
<b>WV Short Term Bond Pool:</b>										
State agency accounts	38	\$ 737,161	39	\$ 705,986	38	\$ 750,256	37	\$ 787,715	35	\$ 758,066
Local government accounts	7	664	8	3,493	9	3,475	9	3,434	9	3,384
	<u>45</u>	<u>\$ 737,825</u>	<u>47</u>	<u>\$ 709,479</u>	<u>47</u>	<u>\$ 753,731</u>	<u>46</u>	<u>\$ 791,149</u>	<u>44</u>	<u>\$ 761,450</u>
<b>2014</b>										
<b>WV Money Market Pool:</b>										
State agency accounts	1,336	\$ 1,869,338	1,347	\$ 2,427,230	1,282	\$ 2,708,359	1,239	\$ 2,956,372	1,118	\$ 2,746,279
Local government accounts	221	90,780	222	69,627	222	79,685	226	63,506	217	73,862
Accumulated undistributed securities lending income		-		-		-		-		14
	<u>1,557</u>	<u>\$ 1,960,118</u>	<u>1,569</u>	<u>\$ 2,496,857</u>	<u>1,504</u>	<u>\$ 2,788,044</u>	<u>1,465</u>	<u>\$ 3,019,878</u>	<u>1,335</u>	<u>\$ 2,820,155</u>
<b>WV Government Money Market Pool:</b>										
State agency accounts	20	\$ 184,523	17	\$ 189,828	18	\$ 178,519	15	\$ 184,473	26	\$ 193,292
Local government accounts	77	54,458	80	97,425	80	121,528	84	78,425	48	27,973
Accumulated undistributed securities lending income		-		-		-		-		-
	<u>97</u>	<u>\$ 238,981</u>	<u>97</u>	<u>\$ 287,253</u>	<u>98</u>	<u>\$ 300,047</u>	<u>99</u>	<u>\$ 262,898</u>	<u>74</u>	<u>\$ 221,265</u>
<b>WV Short Term Bond Pool:</b>										
State agency accounts	34	\$ 768,763	12	\$ 611,495	14	\$ 499,402	14	\$ 474,511	14	\$ 454,793
Local government accounts	9	4,837	10	5,756	9	4,890	10	1,676	8	904
	<u>43</u>	<u>\$ 773,600</u>	<u>22</u>	<u>\$ 617,251</u>	<u>23</u>	<u>\$ 504,292</u>	<u>24</u>	<u>\$ 476,187</u>	<u>22</u>	<u>\$ 455,697</u>

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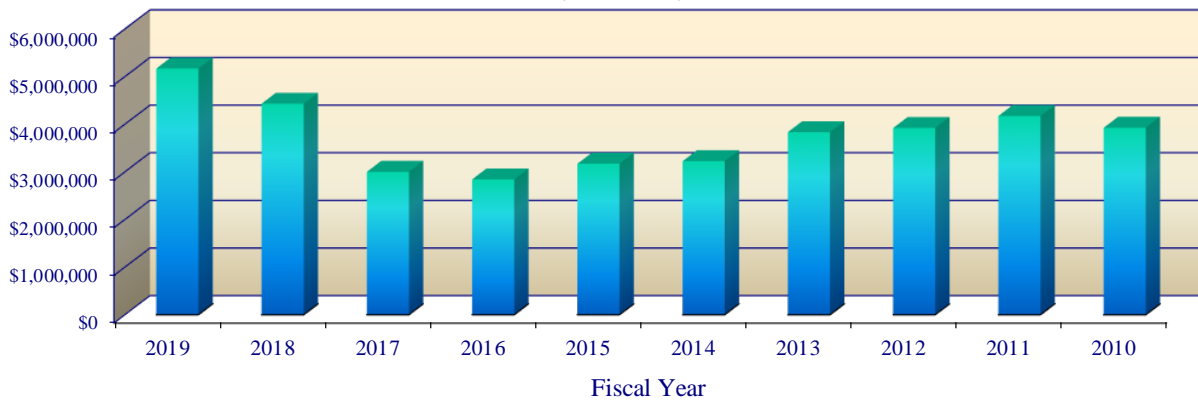
**Table 5: Net Position – Consolidated Fund**

Fiscal Year Ended June 30  
(In Thousands)

	2019	2018	2017	2016
WV Money Market Pool	\$ 3,959,313	\$ 3,266,592	\$ 1,780,967	\$ 1,556,503
WV Government Money Market Pool	252,159	212,354	202,070	190,160
WV Short Term Bond Pool	737,825	709,479	753,731	791,149
WV Bank Pool	77,774	81,448	79,774	129,294
Loss Amortization Pool	-	-	-	-
Loan Pool	119,402	109,145	125,400	124,438
Reserve Pool	19,588	19,126	18,854	18,767
Municipal Bond Commission Account	-	28,364	35,881	25,296
School Fund Account	1,427	1,254	1,418	1,584
EDA-AW Account	1,736	1,720	1,832	1,970
	<u>\$ 5,169,224</u>	<u>\$ 4,429,482</u>	<u>\$ 2,999,927</u>	<u>\$ 2,839,161</u>

**Total Consolidated Fund Net Position**

(In Thousands)



(Continued)

2015	2014	2013	2012	2011	2010
\$ 1,890,872	\$ 1,960,118	\$ 2,496,857	\$ 2,788,044	\$ 3,019,878	\$ 2,820,155
248,503	238,981	287,253	300,047	262,898	221,265
761,450	773,600	617,251	504,292	476,187	455,697
116,111	73,060	70,042	52,590	60,067	60,082
-	-	-	-	188,544	187,726
125,210	129,264	118,366	106,825	132,181	132,918
18,716	20,757	21,920	19,041	19,179	30,147
4,565	24,538	216,728	145,150	9,997	13,916
2,174	1,356	1,327	1,555	1,385	1,393
1,920	1,940	1,972	2,133	1,867	1,907
<u>\$ 3,169,521</u>	<u>\$ 3,223,614</u>	<u>\$ 3,831,716</u>	<u>\$ 3,919,677</u>	<u>\$ 4,172,183</u>	<u>\$ 3,925,206</u>

**Table 6: Net Position, Changes in Net Position, and Restatement of Net Position – Operating Fund**

Fiscal Year Ended June 30  
(In Thousands)

	2019	2018	2017	2016	2015	2014
<b><u>Changes in Net Position</u></b>						
<b>Operating revenues</b>						
Management services	\$ 1,717	\$ 1,245	\$ 1,383	\$ 1,290	\$ 1,297	\$ 1,353
Advisor services	1,725	1,463	1,345	1,366	1,553	1,486
Custodian services	168	134	116	126	132	129
Total operating revenues	<u>3,610</u>	<u>2,842</u>	<u>2,844</u>	<u>2,782</u>	<u>2,982</u>	<u>2,968</u>
<b>Operating expenses</b>						
Advisor fees	1,725	1,463	1,345	1,366	1,553	1,486
Management fees	716	670	637	642	613	591
Professional service fees	272	244	265	231	229	254
Fiduciary bond	20	20	19	19	18	44
Custodian fees	168	131	119	126	132	129
General and administrative expenses	297	256	280	266	258	216
Depreciation	3	2	2	1	2	3
Total operating expenses	<u>3,201</u>	<u>2,786</u>	<u>2,667</u>	<u>2,651</u>	<u>2,805</u>	<u>2,723</u>
<b>Operating income (loss)</b>	<u>409</u>	<u>56</u>	<u>177</u>	<u>131</u>	<u>177</u>	<u>245</u>
Change in net position	<u>\$ 409</u>	<u>\$ 56</u>	<u>\$ 177</u>	<u>\$ 131</u>	<u>\$ 177</u>	<u>\$ 245</u>
<b><u>Net Position at Year-End</u></b>						
Investment in capital assets	\$ 5	\$ 5	\$ 4	\$ 4	\$ 1	\$ 3
Unrestricted	<u>1,451</u>	<u>1,042</u>	<u>987</u>	<u>810</u>	<u>682</u>	<u>503</u>
Total net position	<u>\$ 1,456</u>	<u>\$ 1,047</u>	<u>\$ 991</u>	<u>\$ 814</u>	<u>\$ 683</u>	<u>\$ 506</u>

(Continued)

<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
\$ 955	\$ 1,004	\$ 1,052	\$ 1,468
1,366	1,420	1,399	1,277
<u>132</u>	<u>141</u>	<u>134</u>	<u>107</u>
2,453	2,565	2,585	2,852
1,364	1,420	1,399	1,276
625	647	623	637
222	212	222	202
158	155	155	155
133	141	134	107
222	214	217	205
<u>3</u>	<u>2</u>	<u>2</u>	<u>3</u>
<u>2,727</u>	<u>2,791</u>	<u>2,752</u>	<u>2,585</u>
<u>(274)</u>	<u>(226)</u>	<u>(167)</u>	<u>267</u>
<u>\$ (274)</u>	<u>\$ (226)</u>	<u>\$ (167)</u>	<u>\$ 267</u>
\$ 5	\$ 7	\$ 6	\$ 1
<u>256</u>	<u>528</u>	<u>755</u>	<u>927</u>
<u>\$ 261</u>	<u>\$ 535</u>	<u>\$ 761</u>	<u>\$ 928</u>

**Table 7: Schedule of Net Asset Values — Consolidated Fund Operating and Special Purpose Pools**

**June 30, 2019**

*(In Thousands except for Investment Unit Data)*

	WV Money Market Pool	WV Government Money Market Pool	WV Short Term Bond Pool	WV Bank Pool	Loan Pool	Reserve Pool
Paid-in capital	\$ 3,959,313	\$ 252,159	\$ 727,726	\$ 77,774	\$ 119,402	\$ 19,588
Accumulated undistributed net investment income (loss)	-	-	-	-	-	-
Accumulated undistributed net realized gain (loss)	-	-	-	-	-	-
Unrealized net appreciation (depreciation) of investments	-	-	10,099	-	-	-
Net position at value	<u>\$ 3,959,313</u>	<u>\$ 252,159</u>	<u>\$ 737,825</u>	<u>\$ 77,774</u>	<u>\$ 119,402</u>	<u>\$ 19,588</u>
Investment unit data:						
Units outstanding	3,959,313,091	252,159,034	7,158,283	77,774,563	119,401,616	19,587,456
Net position, unit price	\$ 1.00	\$ 1.00	\$ 103.07	\$ 1.00	\$ 1.00	\$ 1.00

**Table 8: Portfolio Statistics — Consolidated Fund Operating Pools**

**June 30, 2019**

	<u>West Virginia Money Market</u>	<u>West Virginia Government Money Market</u>	<u>West Virginia Short Term Bond Pool</u>
Weighted Average Days to Maturity	42 days	40 days	N/A
Maximum Weighted Average Investment Maturity Term Per Board Guidelines	60 days	60 days	N/A
Effective Duration	N/A	N/A	723 days
Permissible Effective Duration Range Per Board Guidelines	N/A	N/A	526 to 788 days
Money Market Yield - Monthly	2.48%	2.29%	N/A

The money market yield represents the rate of income, net of expenses, earned over the past month and is not intended to indicate future performance. The return is annualized over a 365-day year, assuming no reinvestment of earnings.

**Table 9: Participant Net Asset Values — Consolidated Fund Operating Pools**

**June 30, 2019**

*(In Thousands)*

<b>WV Money Market Pool</b>			
State Agencies:		Local Governments:	
WV State Treasurer's Office:		Wood Co Board of Education	28,761
State Participation	\$ 887,785	Mercer County Board of Education	27,816
Banking Services	400,817	City of Charleston	20,359
Safekeeping	33,271	Fayette County Board of Education	12,970
Safe Road Bonds	70	Marshall County Board of Education	16,846
Roads to Prosp Debt Service	95	Tyler Co Board of Education	6,792
Broadband Loan Guarantee	10,020	Taylor County Board of Education	8,178
Veterans Lottery	1,166	Boone County Commission	5,345
Total WV State Treasurer's Office	<u>1,333,224</u>	Pleasants County Board of Education	5,158
Department of Transportation	1,324,907	Braxton County Board of Education	4,851
Higher Education Policy Commission	257,093	Kanawha EOC	4,910
Public Employees Insurance Agency	149,137	City of Parkersburg	4,947
Department of Environmental Protection	67,706	Berkeley Co PSSD	5,757
WV Lottery Commission	144,619	Lewis County Board of Education	1,656
Department of Commerce	33,657	City of Weirton	2,832
Department of Health and Human Resources	103,338	Lincoln County Board of Education	3,866
Division of Natural Resources	82,838	Roane County Board of Education	2,296
Board of Risk and Insurance Management	47,459	Fayette County Commission	2,193
Water Development Authority	35,292	Kanawha County Emergency Ambulance Authority	3,938
WV Municipal Pension Oversight Board	30,962	Mason County Board of Education	5,684
WV Economic Development Authority	43,015	Ritchie County Board of Education	1,399
School Building Authority	16,743	Wyoming County Board of Education	1,083
Regional Jail Authority	16,870	Berkeley County Board of Education	2,367
WV Housing Development Fund	19,556	Greenbrier County Board of Education	1,080
WVU	8,537	Pleasants County Commission	1,028
Insurance Commission	11,570	Other	11,353
WV State Auditor's Office	6,925	Total net asset value	<u>193,465</u>
Performance and wage bond accounts	19,335		<u>\$ 3,959,313</u>
Other	13,065		
Total State Agencies	<u>3,765,848</u>		

<b>WV Government Money Market Pool</b>	
State Agencies:	
Municipal Bond Commission	\$ 190,827
WV Economic Development Authority	7,625
Other	8,382
Total State Agencies	<u>206,834</u>
Local Governments:	
Ohio County Board of Education	42,669
Hancock County Commission	1,143
Other	1,513
Total Local Governments	<u>45,325</u>
Total net asset value	<u>\$ 252,159</u>

<b>WV Short Term Bond Pool</b>	
State Agencies:	
WV State Treasurer's Office:	
State Participation	\$ 302,073
Banking Services	177,013
Prepaid Tuition Escrow	24,347
Total WV State Treasurer's Office	<u>503,433</u>
Department of Environmental Protection	159,726
WV Lottery Commission	32,762
WV Economic Development Authority	18,332
Higher Education Policy Commission	6,085
DHHR - Children's Health Insurance	4,551
WV Court of Claims	4,271
WV Parkways Authority	3,431
Department of Transportation	2,250
Other	2,321
Total State Agencies	<u>737,162</u>
Local Governments:	
Other	663
Total Local Governments	<u>663</u>
Total net asset value	<u>\$ 737,825</u>

## Glossary of Financial and Investment Terms

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**Agency Security** - A security issued by a U.S. Government agency, such as the Federal Home Loan Bank. These securities have high credit ratings but are typically not backed by the full faith and credit of the U.S. Government.

**Asset-Backed Commercial Paper (ABCP)** - A form of commercial paper that is collateralized by other financial assets such as trade receivables, auto loans and credit cards. Similar to commercial paper, maturities range from one to 270 days.

**Asset-Backed Security (ABS)** - A financial security that is collateralized by a pool of assets such as loans, leases, credit card debt, royalties or receivables.

**Banker's Acceptance** - A high quality, short-term negotiable discount note drawn on and accepted by banks that are obligated to pay the face amount at maturity.

**Basis Point** - The smallest measure used in quoting yields or returns. One basis point is 0.01% of yield. One hundred basis points equals 1%. For example, a yield that changed from 8.75% to 9.50% increased by 75 basis points.

**Benchmark** - A standard unit used as the basis of comparison; a universal unit that is identified with sufficient detail so that other similar classifications can be compared as being above, below, or comparable to the benchmark.

**Capital Gain (Loss)** - Also known as capital appreciation (depreciation), capital gain (loss) measures the increase (decrease) in value of an asset over time.

**Certificate of Deposit (CD)** - A debt instrument issued by banks, usually paying interest, with maturities ranging from seven days to several years.

**Commercial Paper (CP)** - Short-term obligations with maturities ranging from one to 270 days. They are issued by banks, corporations, and other borrowers to investors with temporarily idle cash.

**Compounded Annual Total Return** - Compounded annual total return measures the implicit annual percentage change in value of an investment, assuming reinvestment of dividends, interest, and realized capital gains, including those attributable to currency fluctuations. In effect, compounded annual total return smoothes fluctuations in long-term investment returns to derive an implied year-to-year annual return.

**Consumer Price Index (CPI)** - A measure of change in consumer prices, as determined by a monthly survey of the U.S. Bureau of Labor Statistics. Components of the CPI include housing costs, food, transportation, electricity, etc.

**Cumulative Rate of Return** - A measure of the total return earned for a particular time period. This calculation measures the absolute percentage change in value of an investment over a specified period, assuming reinvestment of dividends, interest income, and realized capital gains. For example, if a \$100 investment grew to \$120 in a two-year period, the cumulative rate of return would be 20%.



**Derivative** - Derivatives are generally defined as contracts whose value depends on, or derives from, the value of an underlying asset, reference rate, or index. For example, an option is a derivative instrument because its value derives from an underlying stock, stock index, or future.

**Discount Rate** - The interest rate that the Federal Reserve charges banks for loans, using government securities or eligible paper as collateral.

**Expense Ratio** - The amount, expressed as a percentage of total investment, that shareholders pay for mutual fund operating expenses and management fees.

**Federal Funds Rate** - The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is one of the most sensitive indicators of the direction of interest rates because it is set daily by the market.

**Federal Open Market Committee (FOMC)** - A committee within the Federal Reserve System that is responsible by law for overseeing the nation's open market operations (the Fed's buying and selling of securities in the market). The FOMC makes key decisions about interest rates and the growth of the United States money supply.

**Federal Reserve Board** - The governing body of the Federal Reserve System (twelve regional Federal banks monitoring the commercial and savings banks in their regions). The board establishes Federal Reserve System policies on such key matters as reserve requirements and other regulations, sets the discount rate, and tightens or loosens the availability of credit in the economy.

**Floating Rate Note** - Securities with a variable coupon rate that is adjusted at set intervals, such as daily, weekly, or monthly. The coupon rate is based on a benchmark interest rate, such as LIBOR, Fed Funds, and Treasury Bills plus or minus a spread.

**Gross Domestic Product (GDP)** - Total final value of goods and services produced in the United States over a particular period of time, usually one year. The GDP growth rate is the primary indicator of the health of the economy.

**Index** - A benchmark used in executing investment strategy which is viewed as an independent representation of market performance. An index implicitly assumes cost-free transactions; some assume reinvestment of income. Examples: S&P Index, Lehman Brothers Aggregate Index, Russell 2000 Index.

**Inflation** - A measure of the rise in price of goods and services, as happens when spending increases relative to the supply of goods on the market, i.e. too much money chasing too few goods.

**Investment Income** - The equity dividends, bond interest, and/or cash interest paid on an investment.

**London Interbank Offered Rate (LIBOR)** - A benchmark interest rate that is calculated daily from estimates submitted by a panel of leading banks in London. Each bank estimates what interest rate it would be charged if it were to borrow from other banks. LIBOR rates are calculated in five currencies and for seven borrowing periods ranging from overnight to one year.

**Maturity Date** - The date on which the principal amount of a bond or other debt instrument becomes payable or due.

**Money Market Fund (MMF)** - An open-ended mutual fund that invests in commercial paper, bankers' acceptances, repurchase agreements, government securities, certificates of deposit, and other highly liquid and safe securities and pays money market rates of interest. MMF's are managed to maintain a net asset value of \$1 per share.

**Mortgage-Backed Security (MBS)** - A mortgage-backed security is a type of ABS that is secured by a mortgage or collection of mortgages. There are multiple sub-types of MBS, such as pass-through securities, collateralized mortgage obligations, and commercial mortgage-backed securities. MBS are classified as agency, or government, MBS and non-agency, or private label, MBS. Agency MBS are issued by government sponsored enterprises such as Fannie Mae, Freddie Mac or Ginnie Mae. Certain agency MBS are fully guaranteed as to repayment of principal and interest by the U.S. government. Non-agency MBS are issued by non-governmental issuers such as trusts and other special purpose entities.

**Net Asset Value (NAV)** - The total assets minus total liabilities, including any valuation gains or losses on investments or currencies, and any accrued income or expense.

**Par Value** - The stated or face value of a stock or bond. It has little significance for common stocks; however, for bonds it specifies the payment amount at maturity.

**Principal** - Face value of an obligation, such as a bond or a loan, that must be repaid at maturity.

**Realized Gain (Loss)** - A gain (loss) that has occurred financially. The difference between the principal amount received and the cost basis of an asset realized at sale.

**Repurchase Agreements (Repos)** - An agreement to purchase securities from an entity for a specified amount of cash and to resell the securities to the entity at an agreed upon price and time. Repos are widely used as a money market instrument.

**Reverse Repurchase Agreements (Reverse Repos)** - An agreement to sell securities to an entity for a specified amount of cash and to repurchase the securities from the entity at an agreed upon price and time.

**Treasury Bill (T-Bill)** - Short-term, highly liquid government securities issued at a discount from the face value and returning the face amount at maturity.

**Treasury Bond or Note** - Debt obligations of the Federal government that make semi-annual coupon payments and are sold at or near par value in denominations of \$1,000 or more.

**Turnover** - The minimum of security purchases or sales divided by the fiscal year's beginning and ending market value for a given portfolio.

**Unrealized Gain (Loss)** - A profit (loss) that has not been realized through the sale of a security. The gain (loss) is realized when a security or futures contract is actually sold or settled.

**Volatility** - A statistical measure of the tendency of a market price or yield to vary over time. Volatility is said to be high if the price, yield, or return typically changes dramatically in a short period of time.

**Yield** - The return on an investor's capital investment.

**Yield Curve** - A graphical representation of the interest rates on debt for a range of maturities. The shape of the yield curve refers to the relative difference, or spread, between longer-term and shorter-term interest rates. Yield curves are used to assess the expected futures state of the economy and play a crucial role in credit modeling, including bond valuation and risk and rating assessment.

**Yield to Maturity** - The total return anticipated on a bond if it is held until it maturity. Yield to maturity is expressed as an annual rate.