COMMONWEALTH OF VIRGINIA
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LGIP
LOCAL GOVERNMENT INVESTMENT POOL

Participant Newsletter June 30, 2017

Investment Guidelines Compliance (6-30-17):

	Actual	Max.
● Diversification:		
U. S. Treasury/Agency	24%	100%
Repurchase Agreements	13%	50%
Negotiable CDs & BAs	31%	40%
Commercial Paper	32%	35%
Corporate	0%	25%
AAA Sovereign Govt	0%	10%
● Maturity Limitations:	47 days	60 days

Monthly Statistics:

- Avg NAV: 4,163,000,000
- Active Accounts: 778
- Simple Yield: 1.05%
- Effective Yield: 1.05%

Quarterly Performance:

● Average Yield:	4th Qtr FY 17	FY 17
LGIP	1.00%	0.75%
Institutional Money Funds[1]	0.57%	0.32%
Treasury 3-Mo. Constant Maturity[2]	0.90%	0.56%

[1]Consists of 488 institutional money market funds totaling $1,668.3 billion as reported by iMoneyNet as of 6-30-17.

[2]Federal Reserve Bank H.15 Release.

Market and Economic News

During the March to June quarter, shorter dated rates increased, driven primarily by the current cycle of Fed policy rate tightening, while longer yields declined on persistent market concerns regarding long term economic growth expectations. The Federal Reserve increased policy rates 25 basis points at the most recent meeting, as expected, raising the effective fed funds target range to the 1.00-1.25 percent level. The FOMC has now raised rates four times since late 2015, suggesting policymakers' conviction of a fairly robust domestic economic recovery. LGIP's daily yield change has mirrored Fed actions during this time period, increasing approximately 100 basis points (1.00 percent). The shallower path of rate hiking, approximately 25 basis points per quarter versus prior tightening cycles, is mostly a reflection of stubbornly low inflation compared to previous recoveries. While market participants do not expect the Fed to raise rates at the upcoming July meeting, fed funds futures contracts are currently pricing an approximate 50 percent chance of a hike by the end of the year, most likely at the September or December meeting. The Fed is also expected to embark on some form of balance sheet size (currently well over $4.0 trillion) reduction during the second half of 2017, which would represent a form of monetary tightening in addition to rate hikes.

Following the Fed's decision to increase the fed funds rate during the June meeting, most of the focus by market participants was on the accompanying addenda to the statement, which included a new document attempting to clarify the Fed's plans for balance sheet reduction, permitting a small but increasing amount of assets on the balance sheet to mature each month without reinvestment, along with the standard Summary of Economic Projections (SEP). In her post-statement press conference, Chair Yellen reiterated that the reduction in the Fed balance sheet will be "gradual and predictable" although the final size of the balance sheet "will be larger than what was seen before the financial crisis." With respect to the SEP, the forecast for the fed funds rate at year-ends 2017 and

2018 remained 1.25-1.5 percent (one more hike this year) and 2.0-2.25 percent, respectively, despite reduced expectations for core PCE inflation to 1.7 percent from 1.9 percent for 2017.

FOMC participants believe that, although domestic economic growth has generally been weaker than was expected at the beginning of 2017, it is strong enough, particularly given the low 4.4 percent unemployment rate. The most recent estimate of first quarter domestic GDP growth printed at 1.4 percent (quarter-on-quarter). Estimates of first quarter growth have been ticking slightly upwards lately, reportedly driven by better personal consumption data, the largest contributor to GDP, and exports. Meanwhile, the widely followed official New York Fed (Nowcast) and Atlanta Fed (GDPNow) forecasts of second quarter real GDP growth are indicating an acceleration from the first quarter, 2.0 and 2.7 percent, respectively. Inflation remains below the Fed's target level of 2 percent, and has caused a few policymakers to question the Fed's current tightening cycle. Market analysts have attributed stagnant inflation readings (the most recent month-on-month CPI print showed a 0.1 percent decline in prices) to a number of factors, including the low labor force participation rate (equals labor slack), weak wage growth, tight financial conditions, and low productivity growth.

Local Government Investment Pool Extended Maturity Portfolio

As many of you are already aware, we will launch the LGIP Extended Maturity ('LGIP EM') fund on July 19 as a new investment option for public finance officials. The LGIP EM portfolio will offer a one-year average maturity investment alternative for those Virginia public entities who wish to invest monies not needed for daily liquidity. The new fund complies fully with the Local Government Investment Pool Act of the Code of Virginia. It is structured to complement the existing LGIP portfolio and shares the investment objectives in priority order of safety, liquidity, and return. The LGIP EM is expected to be rated AAAf/S1 by Standard & Poor's and the performance benchmark is the Bank of America Merrill Lynch U.S. 1-Year Treasury Bill Index plus 15 basis points.

Please feel free to contact us with any questions regarding this new alternative investment option.