COMMONWEALTH OF VIRGINIA
Department of the Treasury
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Participant Newsletter March 31, 2017

Investment Guidelines Compliance (3-31-17):

• Diversification:	Actual	Max.
U. S. Treasury/Agency	22%	100%
Repurchase Agreements	12%	50%
Negotiable CDs & BAs	37%	40%
Commercial Paper	29%	35%
Corporate	0%	25%
AAA Sovereign Govt	0%	10%
• Maturity Limitations:	40 days	60 days

Monthly Statistics:

- Avg NAV: 3,247,000,000
- Active Accounts: 769
- Simple Yield: 0.88%
- Effective Yield: 0.89%

Quarterly Performance:

• Average Yield:	3rd Qtr FY 17	FY 17
LGIP	0.84%	0.67%
Institutional Money Funds[1]	0.37%	0.24%
Treasury 3-Mo. Constant Maturity[2]	0.60%	0.44%

[1]Consists of 483 institutional money market funds totaling $1,650.1 billion as reported by iMoneyNet as of 3-31-17.

[2]Federal Reserve Bank H.15 Release.

Market and Economic News

Investors in the short-term markets are finally beginning to receive some relief from the extremely low interest rate environment of the past eight to nine years. At the March meeting, the Federal Reserve raised policy rates 25 basis points, to the 0.75-1.00 percent range. The FOMC has increased rates three times since December 2015 and is currently expected to continue to ratchet policy rates higher at a roughly 25 basis-points-per-quarter pace for the next few years. Even though the Federal Reserve is expected to gradually increase rates, this is the first tightening cycle experienced by the markets since June 2006. Managing the maturities of LGIP portfolio investments to coincide with firming monetary conditions has allowed the LGIP's yield to track increases in underlying policy rates fairly closely.

At the March FOMC meeting the Committee updated the Summary of Economic Projections (SEP), the median end-of-year Federal funds target interest rate for 2017 is 1.4 percent, suggesting a total of three 25 basis point hikes this year. According to implied probabilities calculated from Fed Funds futures contract prices, there is approximately a 63 percent chance of a rate hike by the June FOMC meeting.

The US economy has remained on a consistent pace of gradual recovery. Targeted Federal Reserve employment and price stability metrics have moved broadly in-line with mandated goals. The most recently released estimate of fourth quarter 2016 GDP growth indicated the economy grew at an annual rate of 2.1 percent, beating the expectation of 2.0 percent and improving on the prior estimate of 1.9 percent growth. Importantly, the personal consumption component drove the improvement, increasing 3.5 percent on a year-on-year basis. The economy added fewer jobs in March than consensus expectations; however, the Unemployment Rate dropped to 4.5 percent from 4.7 percent. This is the lowest level since May 2007. The conflicting aspects of the report are most likely weather related and transitory.

As always, please feel free to contact LGIP staff anytime regarding any questions.