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LGIP
LOCAL GOVERNMENT INVESTMENT POOL

Participant Newsletter December 31, 2019

LGIP
Investment Guidelines Compliance (12-31-19):

● Diversification:	Actual	Max.
U. S. Treasury/Agency	19%	100%
Repurchase Agreements	13%	50%
Negotiable CDs & BAs	37%	40%
Commercial Paper	30%	35%
Corporate	1%	25%
AAA Sovereign Govt	0%	10%
● Maturity Limitations:		
Average Days to Maturity	50 days	60 days

LGIP Monthly Statistics (12-31-19):

- Avg NAV: $6,344,431,000
- Active Accounts: 826
- Simple Yield: 1.74%
- Effective Yield: 1.76%
- NAV (per Share): $1.00

Quarterly Performance:

● Average Yield:	2nd Qtr FY 20	YTD FY 20
LGIP ($ weighted)	1.85%	2.08%
Institutional Money Funds[1]	1.48%	1.70%
Treasury 3-Mo. Constant Maturity[2]	1.61%	1.82%

[1]Consists of 479 institutional money market funds totaling $2.261 billion as reported by iMoneyNet as of 12-31-19.

[2]Federal Reserve Bank H.15 Release.

LGIP EM
Investment Guidelines Compliance (12-31-19):

● Diversification:	Actual	Max.
U. S. Treasury/Agency	44%	100%
Repurchase Agreements	0%	50%
Negotiable CDs & BAs	23%	45%
Commercial Paper	9%	35%
Corporate	24%	25%
AAA Sovereign Govt	0%	10%
Virginia Treasury LGIP Portfolio	0%	15%
● Duration Limitations:	0.92 years	1 Yr +/-3Mo

LGIP EM Monthly Statistics (12-31-19):

- NAV: $140,492,000
- Active Accounts: 21
- Simple Yield: 1.99%
- Yield as of 12-31-19: 1.96%
- NAV (per Share): $10.00

Quarterly Performance:

● **Total Return:**	2nd Qtr FY 20	YTD FY 20
LGIP EM	0.54%	1.07%
U.S. 1-Year Treasury Bill Index[1]	0.63%	1.31%
● Average Yield:		
LGIP EM ($ weighted)	2.13%	2.15%
U.S. 1-Year Treasury Bill Index[2]	1.56%	1.71%

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

[2]The ICE BofAML US 1-year Treasury Bill Index Yield to Maturity as of 12-31 2019.

Market and Economic News

Treasury yields increased modestly during the October to December period with the support of encouraging domestic economic data and indications for an imminent "phase 1" trade deal with China. Short interest rates with maturities of two years or less were little changed during the quarter as Fed policymakers solidified their dovish policy stance. In October, the Federal Open Market Committee ('FOMC') cut policy rates to a target range of 1.50 to 1.75 percent and held rates in that range at the December meeting. In addition, policymakers announced a rolling series of term and overnight repo operations intended to calm short-term funding markets. As a result, in contrast to the turmoil witnessed in September, repo rates have stabilized and calendar year-end was a non-event. Market observers expect yields for short-term money market funds to remain in the current narrow range during 2020, although this is largely contingent on calming geopolitical factors.

On October 30, the FOMC announced, as expected, a 25 basis points cut to policy rates, which lowered the Fed funds target rate to 1.50 to 1.75 percent. Key points highlighted in policymakers' decision to lower interest rates were weaker global growth and below target realized inflation. However, domestic economic data, particularly housing and employment, remain strong. In fact, the final reading of third quarter GDP of 2.1 percent was well above the initial estimate of 1.6 percent released in October. Lower interest rates supported the domestic housing market in the fourth quarter as a national index showed home prices accelerating after softening for most of the year. Officials' projections for economic growth in 2020 were little changed as a healthy consumer and easier financial conditions offset trade headwinds and weakness in export-oriented manufacturing.

In the press conference after the December 11 FOMC meeting, Chair Powell stated that interest rate increases would only be considered once inflation is persistently above 2 percent. Over the past decade inflation has largely run below 2 percent, and often well below that, due to a variety of domestic and global disinflationary factors. FOMC participants do not expect inflation to exceed 2 percent until at least 2021 whereas Wall Street expects inflation to remain below 2 percent over the medium term. Fed funds futures contracts are therefore pricing in virtually no change to policy rates over the next year. Of course, this outlook could change depending on the outcome of notable events next year including developments with respect to international trade and the US Presidential election.