



# Washoe County Investment Committee

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# Fixed Income Process



- **Multi-faceted** process focuses on each of the four components of fixed income portfolio construction.
- **Disciplined approach** to control risk in each phase of the process.
- **Generate superior risk-adjusted returns** over time.\*

\*The information ratios for all six institutional fixed income composites are positive for the last 3-year, 5-year, and since inception time periods, as calculated by Evestment Analytics. Information ratio is defined as "A measure of the risk-adjusted returns of a financial asset or portfolio relative to a certain benchmark." Please see the GIPS<sup>®</sup> Reports for additional information regarding composite performance.

# Fixed Income Process: Strategy Overview

## Duration

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**Neutral to Long:** With the Fed shifting their bias towards cutting rates, we've begun moving the duration position in our accounts from neutral to neutral / long.

## Curve Position

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**Bullet** – We're moving our curve position from laddered to bulleted as we expect the trend to be a renormalization of the curve.

## Sector Rotation

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- **Overweight:** Governments, Municipals, ABS, Agency-CMBS
- **Underweight:** Class B and C Office, Corporates, Callables

## Security Selection

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In the current volatile rate environment, we continue to favor securities with well-structured cash flows and limited optionality. Market dislocations continue to create opportunities within certain segments of the securitized space.

# Washoe County Portfolio Analysis

As Of Date

09/09/24

## CURRENT PORTFOLIO

Class	Mkt Val Port	Market Value (%) Port	Market Value (%) Benchmark**	Contribution to Duration
<b>Total</b>	<b>\$ 868,306,592.00</b>	<b>100.0%</b>	<b>100.0%</b>	<b>1.58</b>
0 - 1 yrs*	\$ 469,124,391.00	54.0%	21.89%	0.22
1 - 3 yrs	\$ 216,456,226.00	24.9%	47.13%	0.42
3 - 5 yrs	\$ 128,280,060.00	14.8%	28.52%	0.54
5 - 7 yrs	\$ 54,445,915.00	6.3%	1.69%	0.39
7+	\$ -	0.0%	0.77%	0.00

	Duration
Benchmark Duration**:	<b>2.28</b>
Portfolio Duration:	<b>1.58</b>

## PROPOSED PORTFOLIO

Class	Mkt Val Port	Market Value (%) Port	Market Value (%) Benchmark**	Contribution to Duration
<b>Total</b>	<b>\$ 868,306,592.00</b>	<b>100.0%</b>	<b>100.0%</b>	<b>2.29</b>
0 - 1 yrs	\$ 319,124,391.00	36.8%	21.89%	0.15
1 - 3 yrs	\$ 236,456,226.00	27.2%	47.13%	0.50
3 - 5 yrs	\$ 248,280,060.00	28.6%	28.52%	1.17
5 - 7 yrs	\$ 64,445,915.00	7.4%	1.69%	0.46
7+	\$ -	0.0%	0.77%	0.00

# Washoe County Portfolio Analysis

## CURRENT PORTFOLIO

Class	Mkt Val Port	Market Value (%) Port
<b>Total</b>	<b>\$ 868,306,592.00</b>	<b>100.0%</b>
ABS	\$ 65,883,795.00	7.6%
Agency	\$ 305,078,294.00	35.1%
Cash	\$ 32,185,318.00	3.7%
Financial Institutions	\$ 79,988,943.00	9.2%
Industrial	\$ 75,157,742.00	8.7%
Treasury	\$ 185,012,500.00	21.3%
LGIP	\$ 125,000,000.00	14.4%

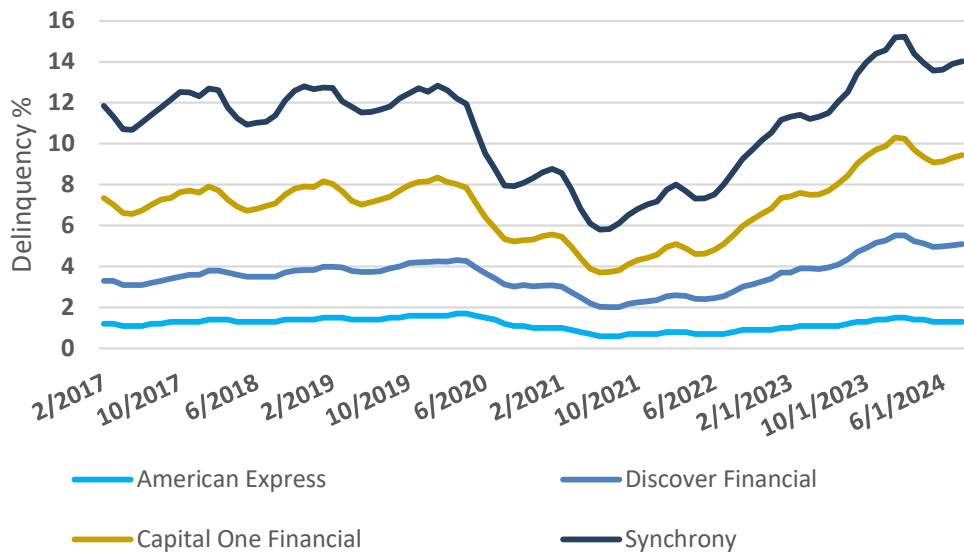
## PROPOSED PORTFOLIO

Class	Mkt Val Port	Market Value (%) Port
<b>Total</b>	<b>\$ 868,306,592.00</b>	<b>100.0%</b>
ABS	\$ 78,147,593.28	9.0%
Agency CMBS	\$ 178,002,851.36	20.5%
Agency	\$ 173,661,318.40	20.0%
Cash	\$ 21,707,664.80	2.5%
Financial Institutions	\$ 78,147,593.28	9.0%
Industrial	\$ 78,147,593.28	9.0%
Treasury	\$ 173,661,318.40	20.0%
LGIP	\$ 86,830,659.20	10.0%

# Credit Card ABS Concentration

Description	Card Issuer	Base Current	% of Market Value	Base Market
AMXCA 2021-1 A	American Express	9,000,000	1.1%	\$ 8,955,810
AMXCA 2022-2 A	American Express	7,826,000	1.0%	\$ 7,769,653
BACCT 2023-1 A	Bank of America	15,000,000	1.9%	\$ 15,160,800
COMET 2021-3 A	Capital One	10,000,000	1.2%	\$ 9,953,900
COMET 2022-2 A	Capital One	10,000,000	1.2%	\$ 9,933,800
DCENT 2023-1 A	Discover	10,000,000	1.2%	\$ 10,022,000
SYNIT 2023-1 A	Synchrony	4,000,000	0.5%	\$ 4,086,520
		<b>65,826,000</b>	<b>8.1%</b>	<b>\$ 65,882,483</b>

Credit Card Delinquency Rates By Issuer



Source: Bloomberg, FDIC.

- All asset backed securities (ABS) in the portfolio are backed by consumer credit card debt.
- We recommend diversifying ABS sectors and selling higher risk credit card ABS.

# Discount Bond – Accretion vs. No Accretion

Bond Details	
Par Value	\$1,000,000
Purchase Price	\$0.95
Annual Coupon	5%
Market Yield	6%
Term	5 Years

## Accretion

Period	Book Value	Coupon Income	Accretion of Discount (Income)	Total Income
Purchase	\$ 950,000			
Year 1	\$ 960,000	\$ 50,000	\$ 10,000	\$ 60,000
Year 2	\$ 970,000	\$ 50,000	\$ 10,000	\$ 60,000
Year 3	\$ 980,000	\$ 50,000	\$ 10,000	\$ 60,000
Year 4	\$ 990,000	\$ 50,000	\$ 10,000	\$ 60,000
Year 5	\$ 1,000,000	\$ 50,000	\$ 10,000	\$ 60,000

Maturity at Par	\$ 1,000,000	Income During Bond Term	\$ 300,000
Gain/Loss at Maturity	\$ -	Income / (Loss) at Maturity	\$ -
		Total Income	\$ 300,000

- Smooth income over the life of the bond.
- No gain or loss realized at maturity.

## No Accretion

Period	Book Value	Coupon Income	Accretion of Discount (Income)	Total Income
Purchase	\$ 950,000			
Year 1	\$ 950,000	\$ 50,000	\$ -	\$ 50,000
Year 2	\$ 950,000	\$ 50,000	\$ -	\$ 50,000
Year 3	\$ 950,000	\$ 50,000	\$ -	\$ 50,000
Year 4	\$ 950,000	\$ 50,000	\$ -	\$ 50,000
Year 5	\$ 950,000	\$ 50,000	\$ -	\$ 50,000

Maturity at Par	\$ 1,000,000	Income During Bond Term	\$ 250,000
Gain/Loss at Maturity	\$ 50,000	Income / (Loss) at Maturity	\$ 50,000
		Total Income	\$ 300,000

- Not enough income realized over the life of the bond.
- Lump sum gain reported at maturity.

# Premium Bond – Amortization vs. No Amortization

Bond Details	
Par Value	\$1,000,000
Purchase Price	\$1.05
Annual Coupon	5%
Market Yield	4%
Term	5 Years

## Amortization

Period	Book Value	Coupon Income	Amortization of Premium (Expense)	Total Income
Purchase	\$ 1,050,000			
Year 1	\$ 1,040,000	\$ 50,000	\$ (10,000)	\$ 40,000
Year 2	\$ 1,030,000	\$ 50,000	\$ (10,000)	\$ 40,000
Year 3	\$ 1,020,000	\$ 50,000	\$ (10,000)	\$ 40,000
Year 4	\$ 1,010,000	\$ 50,000	\$ (10,000)	\$ 40,000
Year 5	\$ 1,000,000	\$ 50,000	\$ (10,000)	\$ 40,000

Maturity at Par	\$ 1,000,000	Income During Bond Term	\$ 200,000
Gain/Loss at Maturity	\$ -	Income / (Loss) at Maturity	\$ -
		Total Income	<b>\$ 200,000</b>

- Smooth income over the life of the bond.
- No gain or loss realized at maturity.

## No Amortization

Period	Book Value	Coupon Income	Amortization of Premium (Expense)	Total Income
Purchase	\$ 1,050,000			
Year 1	\$ 1,050,000	\$ 50,000	\$ -	\$ 50,000
Year 2	\$ 1,050,000	\$ 50,000	\$ -	\$ 50,000
Year 3	\$ 1,050,000	\$ 50,000	\$ -	\$ 50,000
Year 4	\$ 1,050,000	\$ 50,000	\$ -	\$ 50,000
Year 5	\$ 1,050,000	\$ 50,000	\$ -	\$ 50,000

Maturity at Par	\$ 1,000,000	Income During Bond Term	\$ 250,000
Gain/Loss at Maturity	\$ (50,000)	Income / (Loss) at Maturity	\$ (50,000)
		Total Income	<b>\$ 200,000</b>

- Too much income realized over the life of the bond.
- Lump sum loss reported at maturity.



# Examples in the Portfolio

## Discount Bond

Issuer	Ticker	Units	Purchase Yield	Original Price	Original Cost	Net Accumulated Accretion	Unrealized Gain/Loss	Market Price	Base Market Value	Gain if Sold
APPLE INC	AAPL 1.2% 02/08/2028	7,000,000.00	4.02%	\$ 87.67	\$ 6,136,550	\$ 253,696	\$ 13,564	\$ 91.48	\$ 6,403,810	\$ 267,260

Purchased below par

Built-up accretion income that has not yet been realized

Consists of the accretion income and market value gain

## Premium Bond

Issuer	Ticker	Units	Purchase Yield	Original Price	Original Cost	Net Accumulated Amortization	Unrealized Gain/Loss	Market Price	Base Market Value	Loss if Sold
MICROSOFT	MSFT 2.7% 02/12/2025	4,670,000.00	0.75%	\$ 107.05	\$ 4,999,235	\$ (320,578)	\$ (39,572)	\$ 99.34	\$ 4,639,085	\$ (360,150)

Purchased above par

Built-up amortization expense that has not yet been realized

Consists of the amortization expense and market value loss

# Portfolio Unrealized Gains and Losses

## No Amortization/Accretion

<b>Current Market Value</b>	<b>\$814,936,402</b>
<b>Portfolio Original Cost</b>	<b>\$823,933,493</b>
<b>Net Unrealized Gain / (Loss)</b>	<b>(\$8,997,091)</b>

## Amortization/Accretion

<b>Current Market Value</b>	<b>\$814,936,402</b>
<b>Portfolio Original Cost</b>	<b>\$823,933,493</b>
<b>Realized Amortization and Accretion</b>	<b>\$3,931,330</b>
<b>Adjusted Book Value</b>	<b>\$827,864,823</b>
<b>Net Unrealized Gain / (Loss)</b>	<b>(\$12,928,421)</b>

## Sell

Identifier	BCM_Ticker	Original Cost	Base Current Units	Coupon	Annual Coupon Income	Purchase Yield	Original Price	Accumulated Amortization/Accretion	Base Market Value	Gain / Loss on Sale
3136G43D3	FNMA 0.81% 09/25/2028	\$ 8,518,700	10,000,000	0.81%	\$ 81,000	3.85%	85.187	373,961.09	\$ 8,810,600	\$ 291,900
3135G0X24	FNMA 1.625% 01/07/2025	\$ 7,384,437	7,120,000	1.63%	\$ 115,700	0.84%	103.714	(250,674.92)	\$ 7,068,238	\$ (316,199)
		<b>\$ 15,903,137</b>	<b>17,120,000.00</b>		<b>\$ 196,700</b>	<b>2.60%</b>			<b>\$ 15,878,838</b>	<b>\$ (24,299)</b>

## Buy

Original Cost	Base Current Units	Coupon	Annual Coupon Income	Purchase Yield	Original Price	Accumulated Amortization/Accretion	Base Market Value
\$ 15,900,000	15,900,000	4.25%	\$ 675,750	4.25%	100.000	0.00	\$ 15,900,000
			<b>\$ 675,750</b>	<b>4.25%</b>			

Annual Coupon Income	Purchase Yield	Gain / Loss on Sale
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Portfolio Impact: \$ 479,050 1.65% \$ (24,299)

