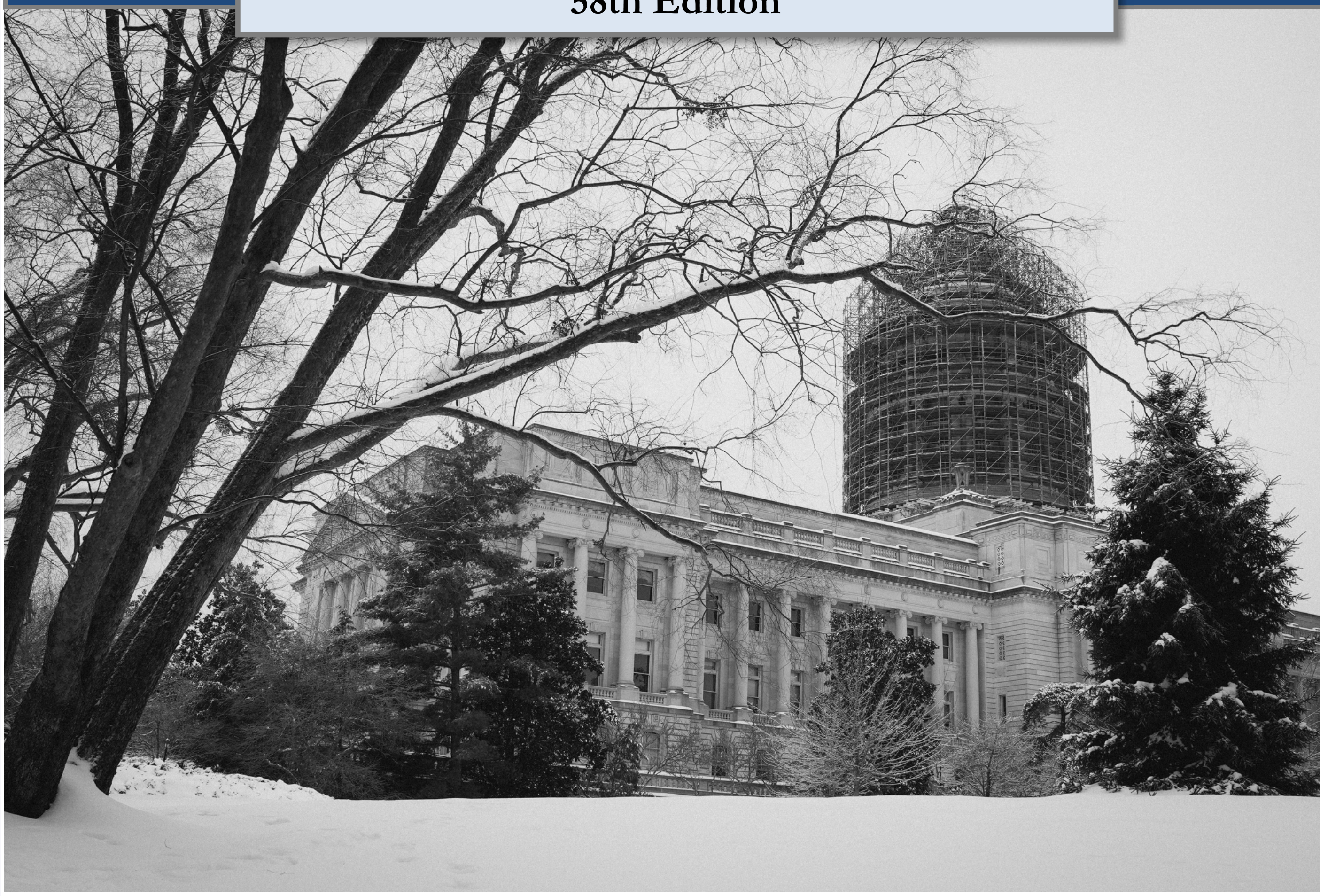
COMMONWEALTH OF KENTUCKY

KENTUCKY ASSET/LIABILITY COMMISSION

SEMI-ANNUAL REPORT

For the period ending December 31, 2025

58th Edition



Andy Beshear, Governor of the Commonwealth of Kentucky

Holly M. Johnson, Secretary of the Finance and Administration Cabinet

Robert K. Miller, Executive Director, Office of Financial Management

Prior copies of this report:

https://finance.ky.gov/Office-of-the-Controller/Office-of-Financial-Management/Pages/alco-semi-annual-reports.aspx

The Commonwealth's Annual Comprehensive Financial Report (ACFR):

https://finance.ky.gov/office-of-the-controller/office-of-statewide-accounting-services/financial-reporting-branch/Pages/annual-comprehensive-financial-reports.aspx

The Municipal Securities Rulemaking Board (MSRB)

Electronic Municipal Market Access (EMMA):

http://emma.msrb.org/

Commonwealth of Kentucky Investor Relations:

https://bonds.ky.gov/

Office of Financial Management (OFM):

https://ofm.ky.gov

TEAM KENTUCKY™

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INTRODUCTION

The Kentucky Asset/Liability Commission ("ALCo" or the "Commission") presents its 58th semi-annual report to the Capital Projects and Bond Oversight Committee and the Interim Joint Committee on Appropriations and Revenue pursuant to KRS 56.863 (11) for the period beginning July 1, 2025 through December 31, 2025.

Provided in the report is the current structure of the Commonwealth's investment and debt portfolios and the strategy used to reduce both the impact of variable revenue receipts on the budget of the Commonwealth and fluctuating interest rates on the interest-sensitive assets and interest-sensitive liabilities of the Commonwealth.

Factors on both the state and national level had an impact on activity during the reporting period. The most significant factors were:

On the national level

- The Federal Reserve Board of Governors lowered the Federal Funds Rate to a target range of 3.50 percent to 3.75 percent during the second half of 2025.
- The unemployment rate ended 2025 at 4.4 percent, an increase of 0.3 percent from June 2025.
- The annual rate of economic growth, as measured by the gross domestic product ("GDP"), increased during the second half of 2025. The seasonally adjusted annual growth rate was 4.4 percent in the third quarter and 1.4 percent in the fourth quarter.
- Inflation continued to decline in the second half of 2025, with the core consumer price index ("CPI") rate (ex-energy and food) ending December at 2.6 percent, down from 2.9 percent in June 2025..

On the state level

- General Fund receipts totaled $7,825.0 million for the first six months of Fiscal Year ("FY") 2026, representing a 0.7 percent decrease over the same period in FY 2025. The official General Fund revenue estimate for FY 2026 calls for General Fund revenues to decline by 1.3 percent. Based on year to date collections, General Fund revenue receipts can fall 1.9 percent for the remainder of the fiscal year and still meet the official estimate of $15,498.9 million.
- Road Fund receipts totaled $920.2 million for the first six months of FY 2026, representing a 0.2 percent increase over the same period in FY 2025. The official Road Fund revenue estimate for FY 2026 calls for Road Fund revenues to decline by 1.0 percent. Based on year to date collections, Road Fund revenue receipts can fall 2.2 percent for the remainder of the fiscal year and still meet the official estimate of $1,844.0 million.
- Kentucky non-farm employment rose by 0.7 percent in the second quarter of FY 2026 compared to the second quarter of FY 2025.
- Educational services employment was the fastest growing employment sector in the second quarter of FY 2026, growing 2.4 percent over the second quarter of FY 2025.
- Kentucky personal income rose by 4.7 percent in the second quarter of FY 2026 compared to the second quarter of FY 2025 and has grown in 18 consecutive quarters.
- Kentucky wages and salaries income, the largest income component, grew 4.3 percent in the second quarter of FY 2026 compared to the second quarter of FY 2025.
- The current Budget Reserve Trust Fund balance is a material credit improvement for the Commonwealth. However, large unfunded pension liabilities continue to put stress on the Commonwealth's credit rating.

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State Investment Commission

The State Investment Commission ("SIC") is responsible for investment oversight. The Commission is composed of the State Treasurer (Chair), the Secretary of the Finance and Administration Cabinet, the State Controller, and two Gubernatorial Appointees.

The Commission's investment objectives are threefold: preservation of principal, maintenance of sufficient liquidity to meet cash flow needs, and maximation of returns.

The Office of Financial Management serves as staff to the SIC and conducts investment activities in accordance with KRS 42.500 and 200 KAR 14:011, 14:081, and 14.091.

Market Overview

After holding rates steady during the first half of the year, the Federal Open Market Committee ("FOMC") resumed its campaign to normalize interest rates by cutting the federal funds rate three consecutive times in September, October, and December, bringing the target range to 3.50 percent to 3.75 percent. The Committee cited continued progress toward its 2 percent inflation objective and emerging signs of labor market softening. Although the unemployment rate remained relatively stable at 4.4 percent, monthly non-farm payroll growth slowed to near zero over the course of the year. The pace of balance sheet runoff slowed in the second half of the year, resulting in a year-end Federal Reserve balance sheet of $6.64 trillion, down slightly from $6.66 trillion at the end of June. .

The FOMC has been balancing competing data points when deciding whether or not to continue cutting rates. While the job market has softened and could benefit from additional stimulus that lower rates would provide, progress towards the long-term goal of 2 percent inflation has stalled, and tariffs present a potential risk of renewed upward pressure on prices. Most market analysts expect at least two additional cuts in 2026. However, recent commentary suggests rates could remain on hold if inflation begins to trend upward.

GDP growth rebounded significantly since the negative print in the first quarter, strengthening the argument that the economy may not necessarily need additional rate relief and that controlling inflation should remain the primary focus.

Employment

In addition to inflation data, the FOMC closely monitors the monthly job report as a key indicator of economic conditions. 2025 was a critical year as market participants observed carefully for signs of stress in the labor market. Although the unemployment rate rose modestly from 4.1 percent in June to 4.4 percent in December, the more significant concern was the sharp slowdown in job creation.

Total non-farm payroll growth for 2025 came in at 181,000 jobs, or just over 15,000 a month. This was the worst year for job creation since 2020, when pandemic-related lockdowns erased millions of positions. Real income growth remained flat, increasing 1.1 percent for the year.

Job openings have been on a steady downtrend since 2022 and that continued in 2025 by declining to 6.5 million by year-end, down from 7.4 million in June. The persistently low Labor Force Participation Rate ("LFPR") dipped midyear but recovered to 62.4 percent by

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December, compared to 62.5 percent at the beginning of the year. Similar to the period following the 2008 financial crisis, the LFPR post-2020 has not fully recovered to pre-pandemic levels.

Inflation

Progress towards the 2 percent inflation goal slowed in the second half of the year. The headline CPI shot back up to 3 percent in September, before easing to 2.7 percent in December. While still respectable compared to the 9 percent inflation rate recorded in 2022, inflation remains above the long-term objective of 2 percent. The FOMC's preferred inflation gauge, core personal consumption expenditures ("PCE"), strips out more volatile categories like food and energy to present a more accurate picture of price increases. Of particular concern, core PCE showed little improvement between June and December and ended the year at 3.0 percent, its highest reading in over a year. If inflation returning to 2 percent is a necessary requirement for additional rate cuts, recent data suggests that outcome may not be reality for a while. Combined with a stagnant job market, the FOMC faces a challenge in balancing its dual mandate of maximum employment and price stability.

Economic Growth

After a negative first quarter, GDP growth needed a strong rebound in the second half of the year. Growth accelerated to a robust 4.4 percent in the third quarter before slowing to 1.4 percent in the fourth quarter. This resulted in an average growth rate of 1.9 percent for the second half of the year, up from 1.6% in the first half . These figures were materially affected by the October government shutdown, which subtracted over a full percentage point from fourth quarter growth. Without that headwind, overall second-half growth would have been considerably stronger. This accelerated growth during the latter part of the year prompted economists to modestly revise upward their GDP projections for 2026. Consumption, the largest contributor to GDP, strengthened in the second half and was a primary driver of growth. Net exports, which had been a significant contributor in the second and third quarters, declined sharply in the fourth quarter.

Interest Rates

After 100bps of rate cuts in the second half of 2024, the FOMC held rates steady during the first half of 2025 as it evaluated incoming economic data. This changed in the second half of the year as the normalization of rates continued with three additional 25bps cuts, bringing the federal funds target range down to 3.50 percent to 3.75 percent. Expectations for rate cuts in 2026 vary, with markets pricing in an average of two additional cuts. Some traders anticipate only one cut, while others speculate that the Fed could hold rates steady throughout the year if inflation remains above the 2 percent target.

Yields on Treasury securities and corporate bonds experienced reduced volatility in the second half of the year and declined across the curve. The two-year Treasury yield ended June at 3.71 percent and finished the year at 3.47 percent, a decline of 24 basis points. Longer term yields declined more modestly, with the 10-year Treasury yield falling from 4.23 percent to 4.17 percent by year- end. With three additional federal funds rate cuts in the second half, the yield curve inversion has all but disappeared. One or two additional cuts in 2026 could restore

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a more typical upward-sloping yield curve for the first time in years.

Equities

After experiencing extreme volatility in the first half of the year due to trade policy, equity markets advanced strongly in the second half to continually set new all-time highs. The S&P 500 ended the year with a 16 percent gain, while the tech-heavy NASDAQ gained over 20 percent, marking the third year in a row that gains have exceeded 20%.

Concerns about market concentration in large technology stocks persisted toward year-end, and performance was largely flat during the final two months of the year. The rapid expansion of artificial intelligence has driven technology valuations sharply higher over the past three years, leading to growing concerns about elevated valuations and the potential formation of an asset bubble. These factors could present a headwind to additional gains in 2026.

Outlook

The FOMC remains strongly committed to returning inflation to the 2 percent long-term objective. In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook. The Committee's assessments incorporate a broad range of information, including readings on inflation and inflation expectations, wages, other measures of labor market conditions and financial and international developments.

In conjunction with the FOMC meeting held on December 10, 2025, meeting participants submitted their projections of the most likely outcomes for GDP, the unemployment rate, and inflation for each year from 2026 to 2028, as well as for the longer run.

For 2026, the median forecast for GDP, unemployment rate and inflation is 2.3 percent, 4.4 percent and 2.4 percent, respectively. The expected Federal funds rate at the end of 2026 is 3.4 percent.

For 2027, the median forecast for GDP, unemployment rate and inflation is 2.0 percent, 4.2 percent and 2.1 percent, respectively. The expected Federal funds rate at the end of 2027 is 3.1 percent.

For 2028, the median forecast for GDP, unemployment rate and inflation is 1.9 percent, 4.2 percent and 2.0 percent, respectively. The expected Federal funds rate at the end of 2028 is 3.1 percent.

Additionally, longer run projections are 1.8 percent for GDP, 4.2 percent for unemployment and 2.0 percent inflation with an expected Federal funds rate of 3.0 percent.

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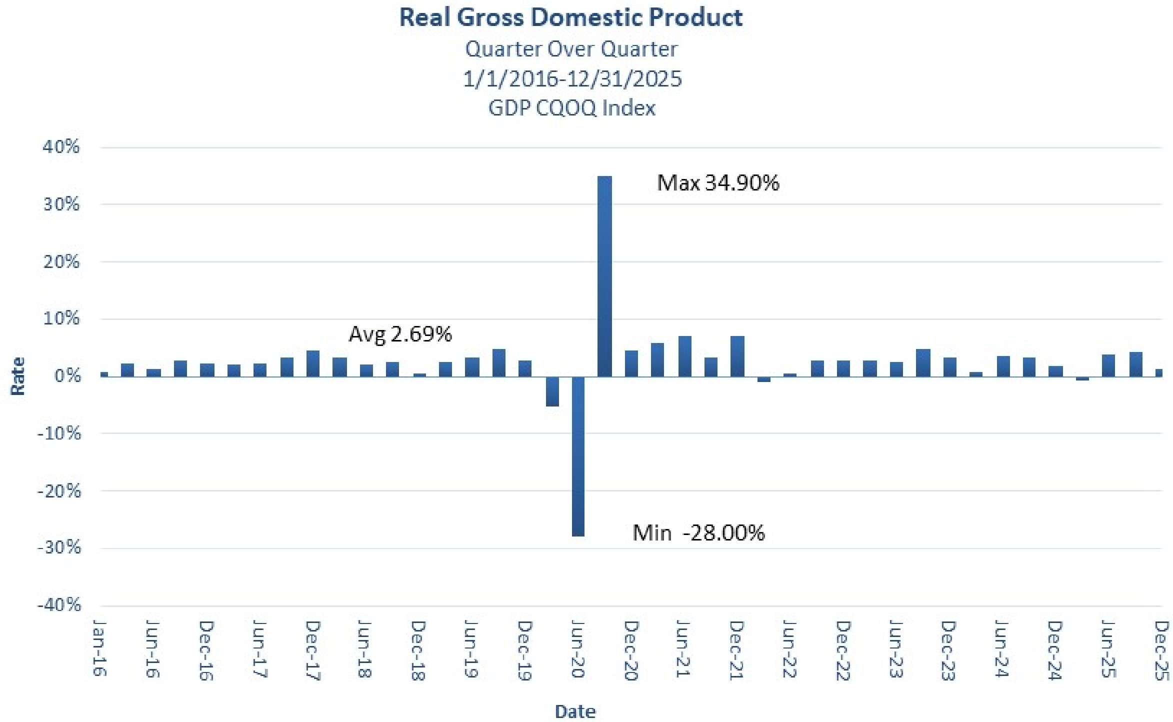
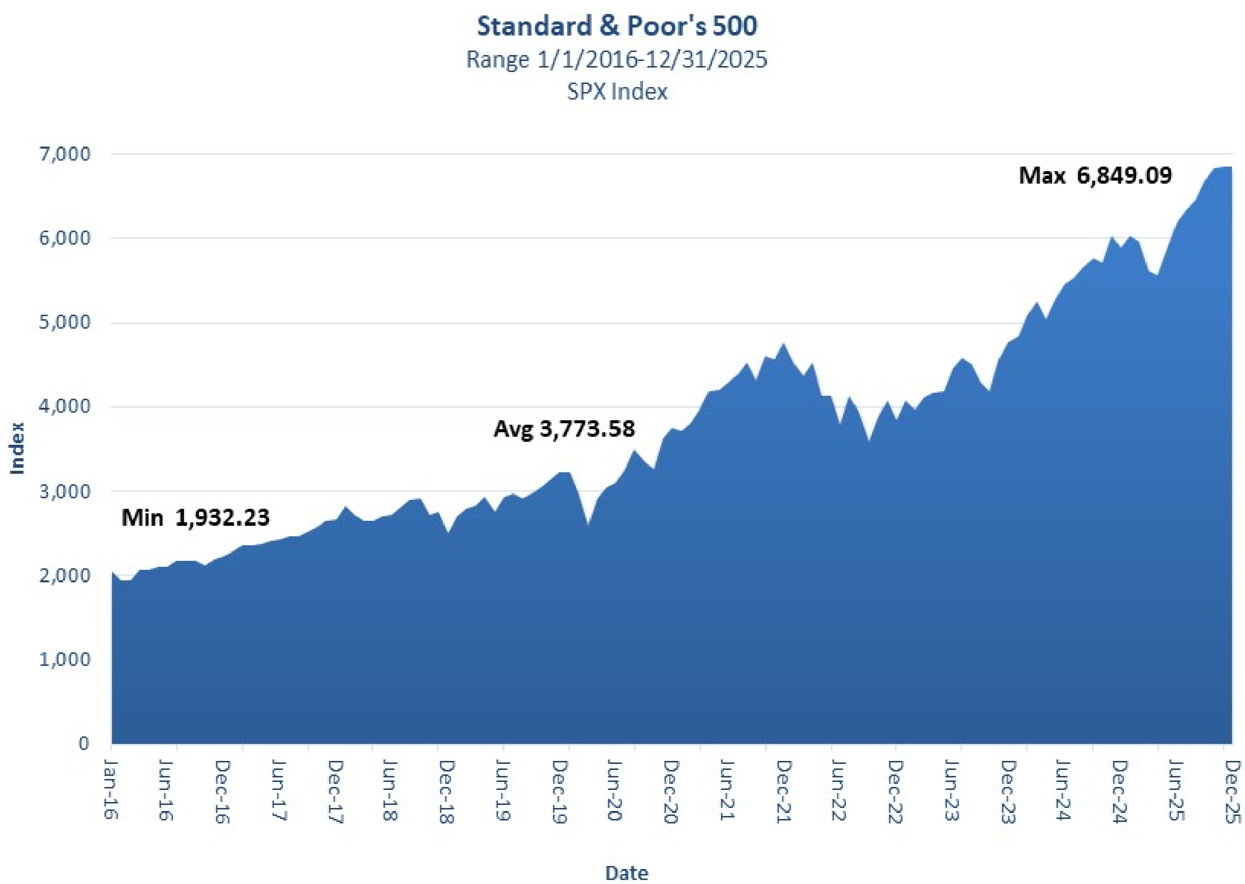
Real Gross Domestic Product & Standard & Poor's 500





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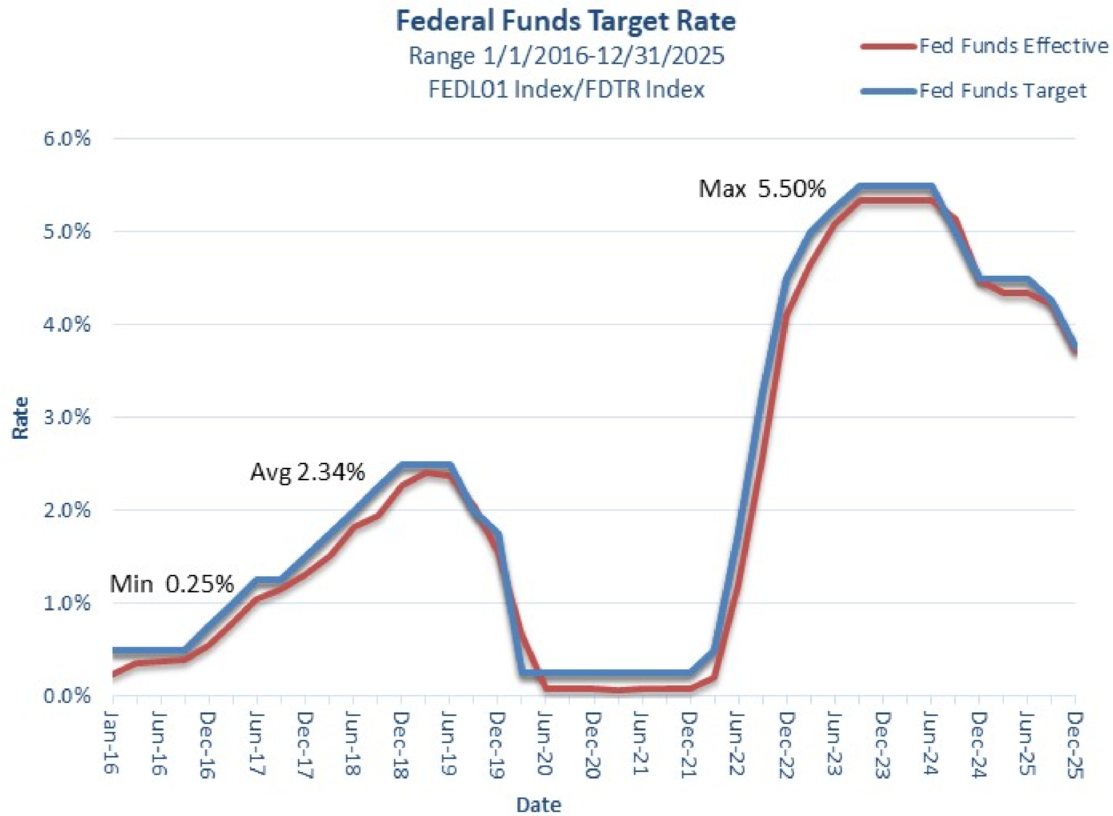
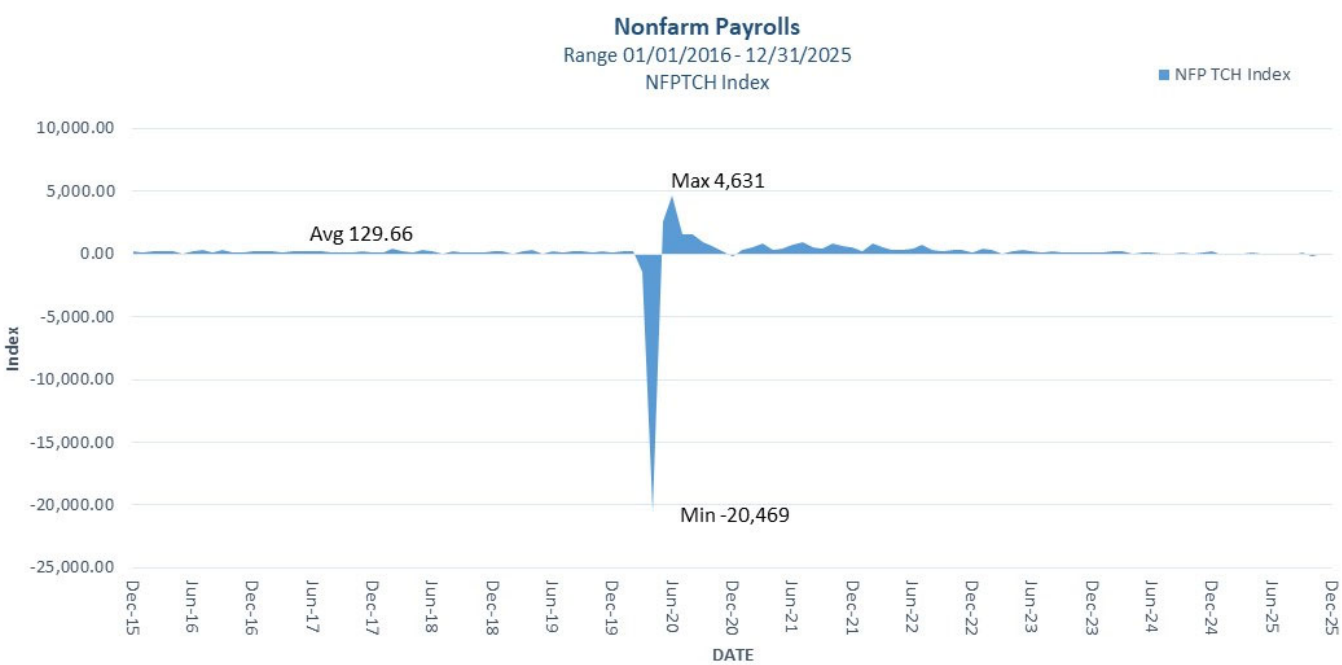
Federal funds Target Rate & NonFarm Payrolls





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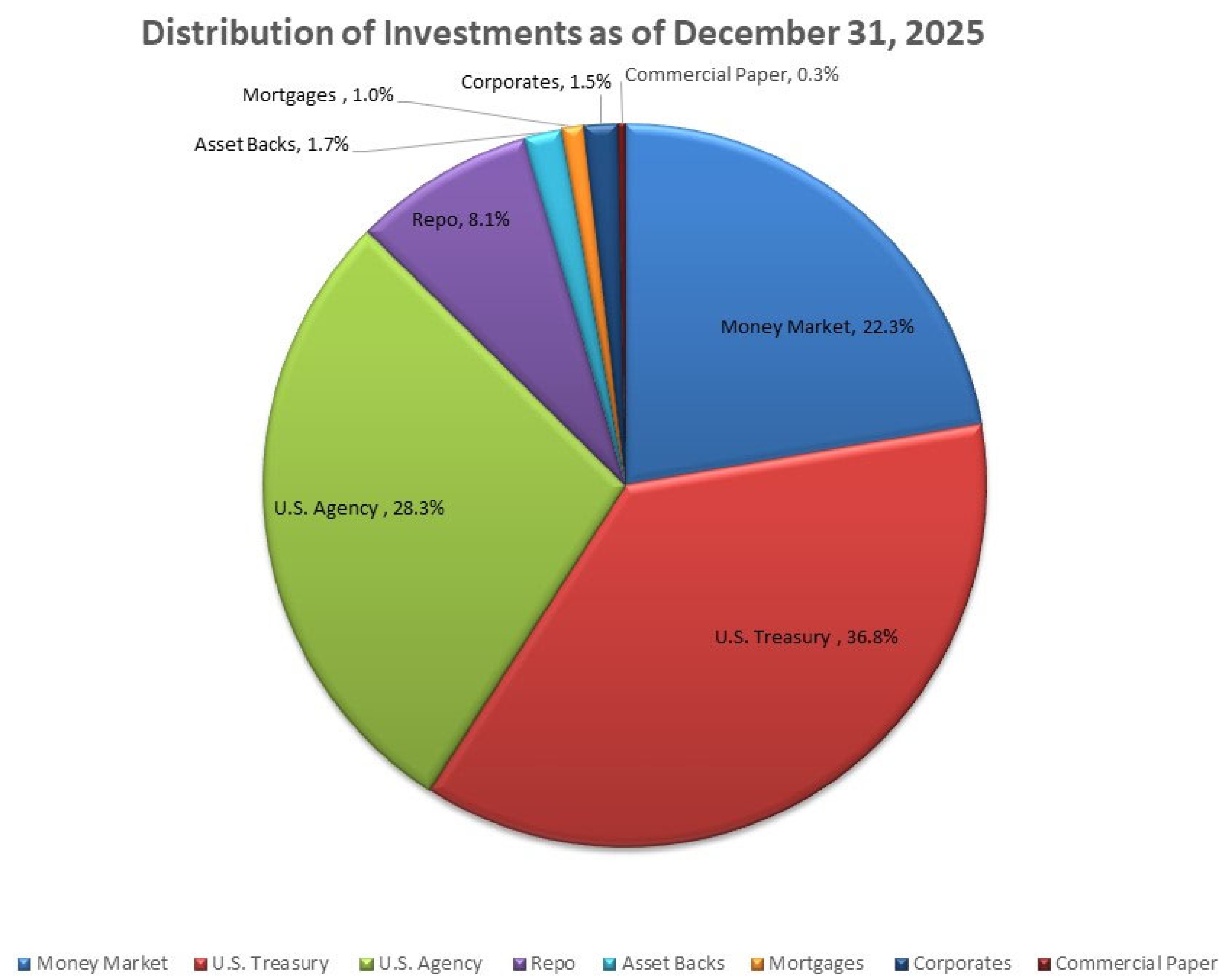
Portfolio Management

For six months ending December 31, 2025, the Commonwealth's combined investment portfolio was approximately $14.8 billion. The portfolio was invested in U.S. Treasury Securities (36.8%), U.S. Agency Securities (28.3%), Mortgage-Backed Securities (1.0%), Repurchase Agreements (8.1%), Corporate Securities (1.5%), Asset-Backed Securities (1.7%), Commercial Paper (0.3%), and Money Market Securities (22.3%). The portfolio had a market yield of 3.72 percent and an effective duration of 0.41 years.

The total portfolio is broken down into three investment pools. As of December 31, 2025, balances were $6.3 billion in the Short Term Pool, $2.6 billion in the Limited Term Pool, and $5.9 billion in the Intermediate Term Pool.



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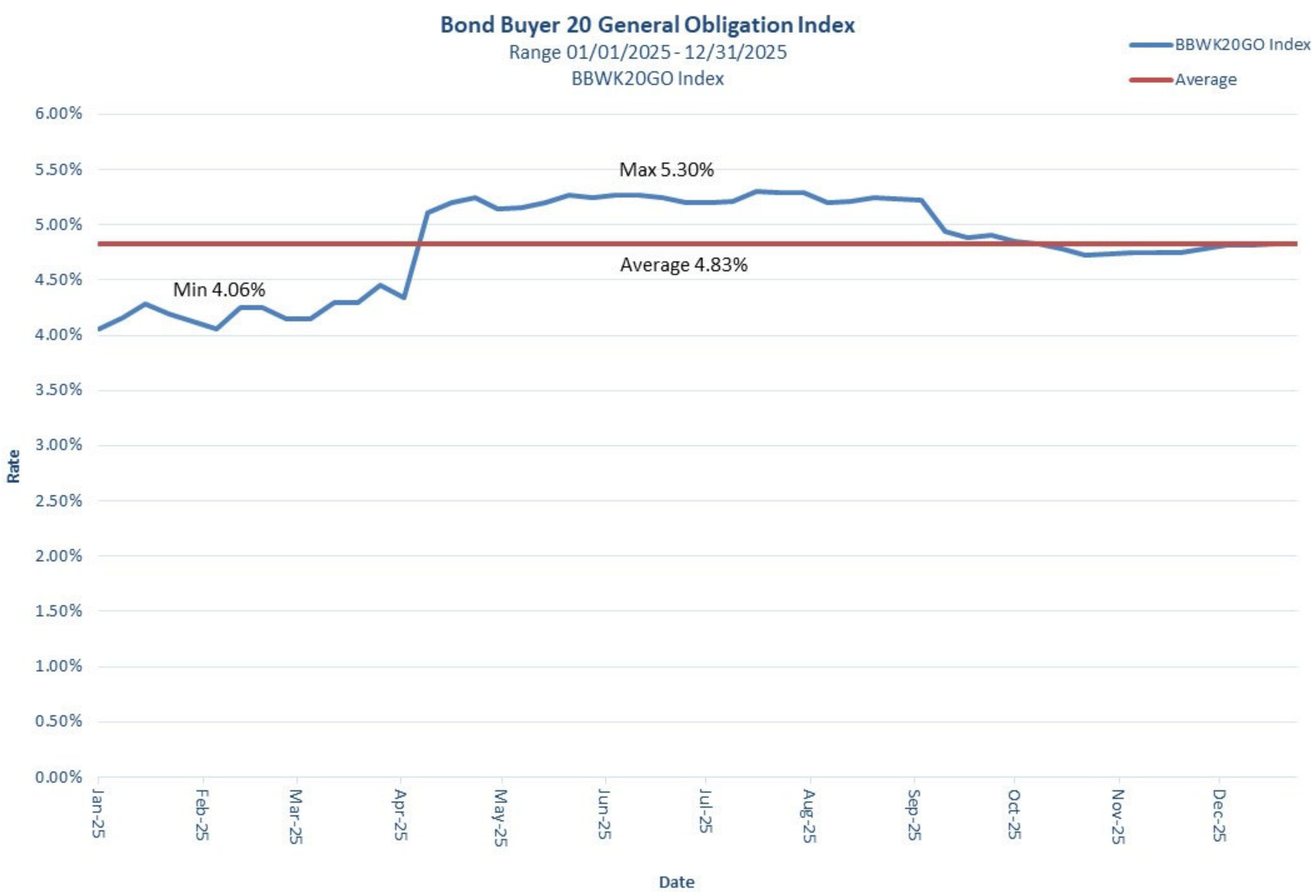
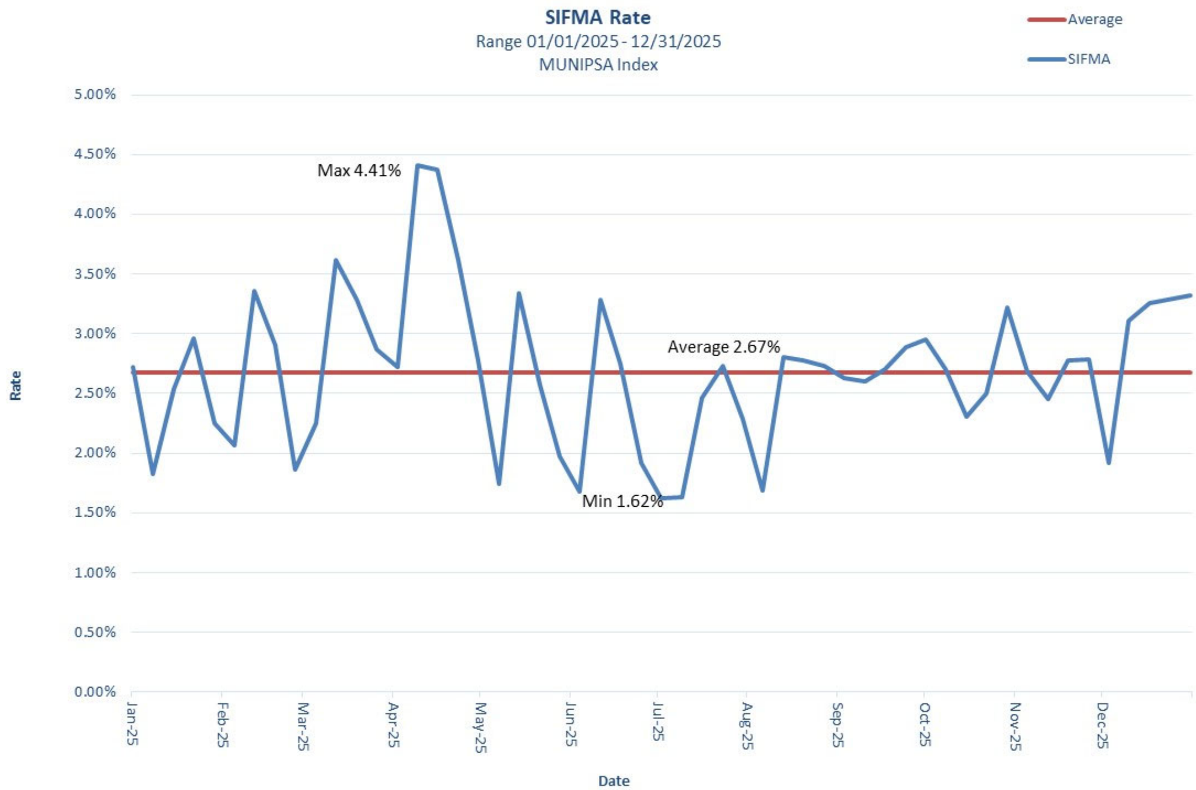
Tax-Exempt Interest Rates and Relationships

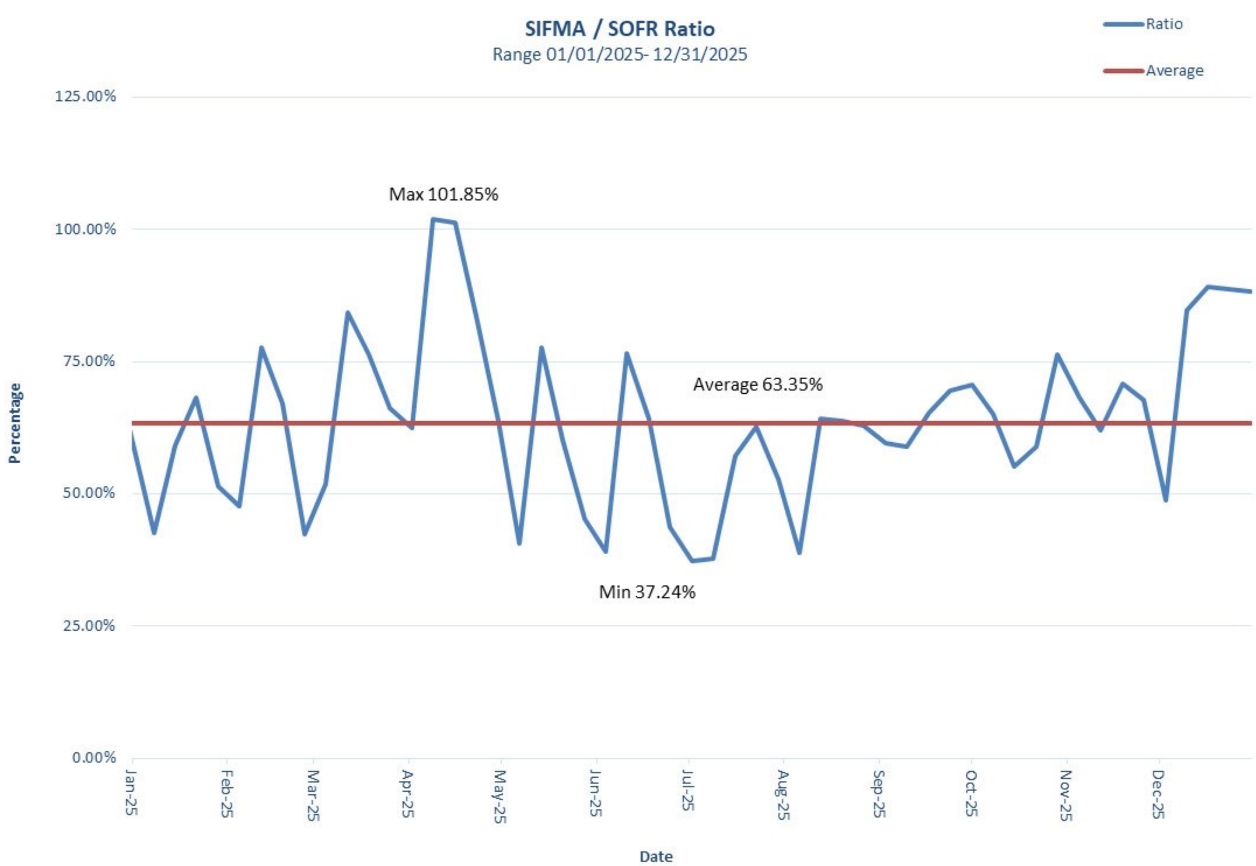
The Bond Buyer 20 General Obligation Index averaged 4.83 percent for calendar year 2025. The index reached a high of 5.30 percent in July 2025 and a low of 4.06 percent in January 2025.

The Securities Industry and Financial Markets Association ("SIFMA") Municipal Swap Index averaged 2.68 percent for calendar year 2025, with a high of 4.41 percent on April 9, 2025, and a low of 1.62 percent on July 2, 2025. The 30-day Secured Overnight Financing Rate ("SOFR") averaged 4.24 percent for calendar year 2025. During the year, SOFR reached a high of 4.42 percent in September 2025 and a low of 3.66 percent in December 2025. During the same period, the SIFMA index traded relative to 30-day SOFR at a high of 101.85 percent on April 9, 2025, a low of 37.24 percent on July 2, 2025, and averaged 63.35 percent for the calendar year.



SIFMA & SIFMA/SOFR Ratio





CREDIT MANAGEMENT

Mid-Year Reflection

Credit

The second half of 2025 saw progress stall in bringing inflation closer to the long-range objective of 2 percent, with inflation ending December at 2.7 percent, unchanged from June. Despite the lack of progress on reducing inflation, the Federal Reserve voted to cut the Federal Funds rate three times in the second half of 2025, lowering the target range to 3.50 percent to 3.75 percent. A primary factor behind these decisions was that the significant inflationary impact initially expected from tariffs did not materialize, providing the Fed the cover they needed to continue moving rates closer to neutral. One area where inflationary pressures from trade policy could be seen is in producer prices, which increased from 2.7 percent in June to 3.4 percent by year -end.

After a disappointing first half of the year, GDP growth stabilized in the second half, with gains of 4.4 percent in the third quarter and 1.4 percent in the fourth quarter, resulting in a full-year growth off 2.2 percent. Personal income remained stable during the final six months of the year, while consumer spending rose slightly, helping support the GDP growth. In what has become expected every quarter now, household debt continued its steady climb to record highs. Delinquency rates across all types of consumer loans also increased, reaching the highest level since 2017.

Non-financial corporations followed a similar trend, with total corporate debt exceeding $22 trillion in the second half of 2025. Despite increased debt levels, the ratio of corporate debt to GDP declined during the period due to strong GDP growth. After a strong first half of the year, corporate debt issuance declined slightly in the second half but remained robust. Investment grade again represented the majority of issuance, though high-yield corporate debt issuance also remained strong in both the third and fourth quarters. Corporate bankruptcies continued to rise at the fastest pace in 15 years, with 717 filings through November, an increase of 14 percent over the previous year.

Volatility in corporate bond spreads declined in the second half after significant swings earlier in the year. Overall, spreads declined slightly and ended the year close to where they were at the end of 2024. The Senior Loan Officer Opinion Survey on Bank Lending Practices reported that lending standards for businesses generally tightened, while demand either increased or remained flat across all categories. For households, lending standard were largely unchanged, but demand weakened across most loan categories.

Credit Process

Our credit strategy invests in creditworthy corporate issuers having a long-term rating of A3/A-/A- or better as rated by Moody's, S&P, or Fitch, with the lowest rating among the three used to determine credit rating compliance. The strategy focuses on adding value through a disciplined approach in the credit selection process. Through independent research and prudent diversification across industries and issuers, our goal is to deliver consistent longer-term investment performance over U.S. Treasuries.

CREDIT MANAGEMENT

Default Monitoring

The Bloomberg credit risk model is our primary tool for monitoring default risk. The default likelihood model is based on the Merton distance-to-default ("DD") measure, along with additional economically and statistically relevant factors. Firms are assigned a default risk measure that provides a high-level summary of their credit health through an explicit mapping of default likelihood to default risk.

A daily report is generated using our approved list and their peers enabling us to track market activity in selected names, including Credit Default Swaps ("CDS").

We use a combination of top-down and bottom-up approaches in our investment process. The top-down approach focuses on understanding the current (and future) business cycle, or the "big picture" of the economy and financial environment, in order to identify attractive industries. Once these industries are identified, a bottom-up approach is utilized, with Portfolio Managers focusing on specific company fundamentals to select the strongest companies within each sector.

Fundamental analysis is then performed by looking at competitive position, market share, operating history and trends, management strategy and execution, and financial statement ratio analysis.

Approved List

Once analysis has been completed, the State Investment Commission approves the list on a quarterly basis. During the second half of 2025, no names were added or removed from the Corporate Credits Approved list. The Corporate Credits Approved list as of December 2025 is located in Appendix A.

DEBT MANAGEMENT

Authorized but Unissued Debt Summary

The current State Budget includes authorized debt service for more than $5.18 billion of projects supported by the General Fund, Agency Fund, Road Fund, and Federal Fund, which were approved during prior sessions of the General Assembly. This pipeline of projects is anticipated to be financed through a number of future bond transactions. The timing of these financings will depend on factors managed by and between the project sponsors, the Office of the State Budget Director and the Office of Financial Management.

As of December 31, 2025, the balance of prior bond authorizations of the General Assembly dating from 2010 through 2025 that are subject to state intercept totals $5,180.99 million. Of this amount, $3,284.19 million is supported by the General Fund, $1,584.30 by the Agency Fund, $12.50 by Road Fund appropriations, and $300.00 million by the Federal Highway Trust Fund through Grant Anticipation Revenue Vehicle Bonds.

The following table summarizes, in aggregate, the authorized but unissued debt of the Commission as described in this section.

Summary of Authorized but Unissued Debt by Fund Type As of December 31, 2025:

Legislative Session (Year)	General Fund (millions)	Agency Fund (millions)	Road Fund (millions)	Federal Fund (millions)	TOTAL (millions)
2010	$ 14.24	$ 17.50	-		$ 31.74
2012	1.60	-	$ 12.50		14.10
2014	4.63	-	-		4.63
2016	15.51	-	-		15.51
2018	130.28	-	-		130.28
2019	26.08	-	-		26.08
2020-2021	253.60	26.11	-		279.71
2022-2024	858.46	147.80	-	$ 150.00	1,156.26
2024-2026	2,538.80	1,392.89	-	150.00	4,081.69
Bond Pool Proceeds	(559.01)	-	-	-	(559.01)
TOTAL	$ 3,284.19	$ 1,584.30	$ 12.50	$ 300.00	$ 5,180.99

Looking Forward

The Commission continues to monitor the municipal bond interest rate market and, together with other relevant market data, evaluates whether interim or variable rate financing would provide an economic advantage in conjunction with fixed rate bonds.

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Ratings Update

The rating agencies continually monitor the Commonwealth's budgetary policies and financial performance in areas such as revenue, the economy, pensions, and debt management. Pension unfunded liabilities continue to place downward pressure on the Commonwealth's credit ratings.

During the current reporting period, the Commonwealth's ratings were either affirmed or unchanged.

The Ratings Picture at December 31, 2025:

	Moody's	S & P	Fitch	Kroll
General Obligation Issuer Rating (GO)	Aa2	A+	AA	AA-
General Fund Appropriation Rating (GF)*	Aa3	A	AA-	A+
Road Fund Appropriation Rating (RF)*	Aa2	A	AA-	AA-
Federal Highway Trust Fund Appropriation Rating*	A2	AA	A+	-

*Not all outstanding bonds are rated by every rating agency.

DEBT MANAGEMENT

Cash Management Strategies

Cash management strategies are dependent on market conditions and prevailing interest rates. Historical alternatives are listed below:

Tax and Revenue Anticipation Notes (“TRANs”)

TRANs can provide liquidity or leverage the difference between taxable and tax-exempt interest rate markets to create economies that provide a financial benefit to the Commonwealth.

No TRANs were issued during the reporting period.

Inter-Fund Borrowing

Cash in one fund is loaned to another fund experiencing a short-term cash flow shortfall. Historically, funds have been loaned to the short-term fund (General Fund).

As of December 31, 2025 the total available liquid resources available to the General Fund was $14.797 billion.

Bond Anticipation Notes (“BANs”)

A short-term interest-bearing security issued in advance of a larger, future bond issue. BANs are typically issued to provide interim financing for projects until long-term bonds are issued.

No BANs were issued during the reporting period.

Notes or Direct Loans (“Notes”)

"Funding notes" means notes issued under the provisions of KRS 56.860 to 56.869 by the commission for the purpose of funding:

(a) Judgments, with a final maturity of not more than ten (10) years; and

(b) The finance or refinance of obligations owed under KRS 161.550(2)

"Project notes" are notes issued under the provisions of KRS 56.860 to 56.869 by the commission with a final maturity of not more than twenty (20) years for the purpose of funding authorized projects, which may include bond anticipation notes.

No Notes were issued during the reporting period.

Synthetic Fixed Rate

Synthetic Fixed Rate is an alternative to traditional fixed-rate borrowing in which funds are borrowed at a variable rate basis then an interest rate swap is used to effectively convert the borrowing to a fixed rate.

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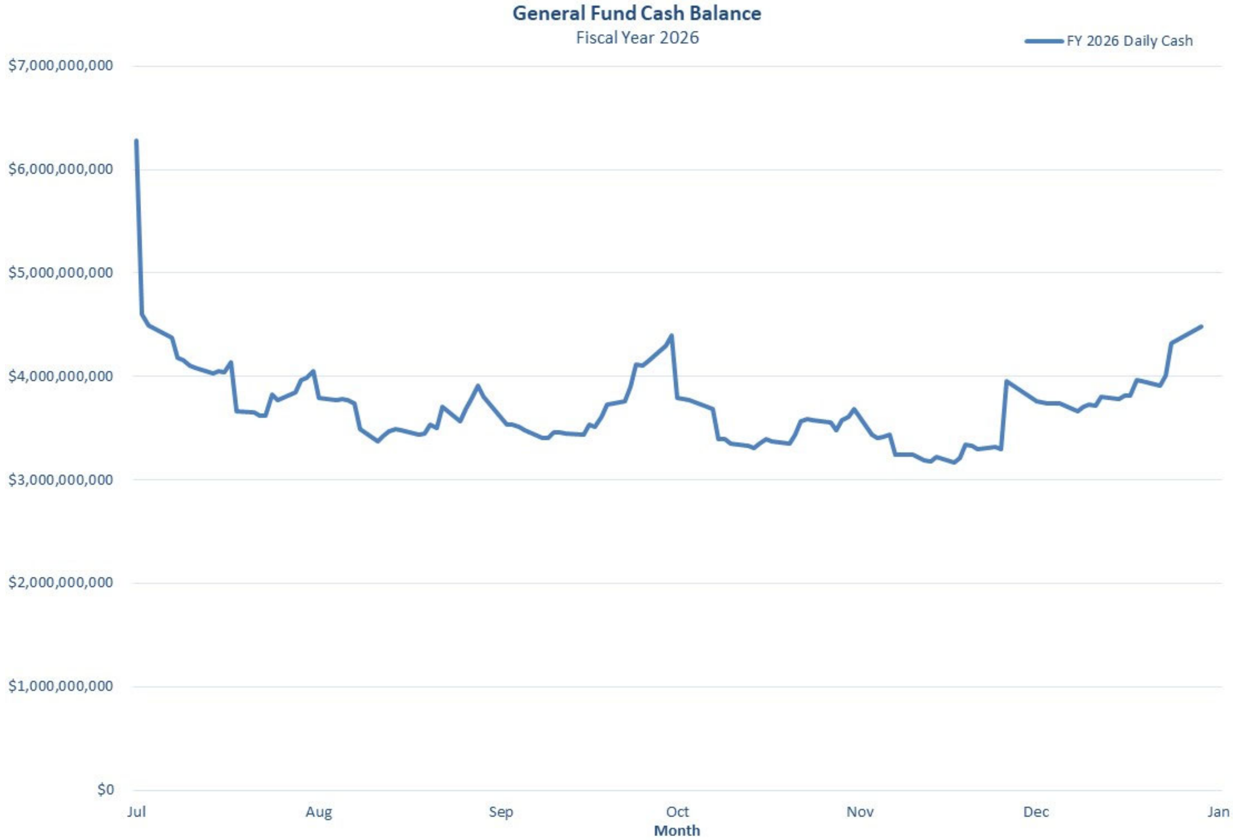

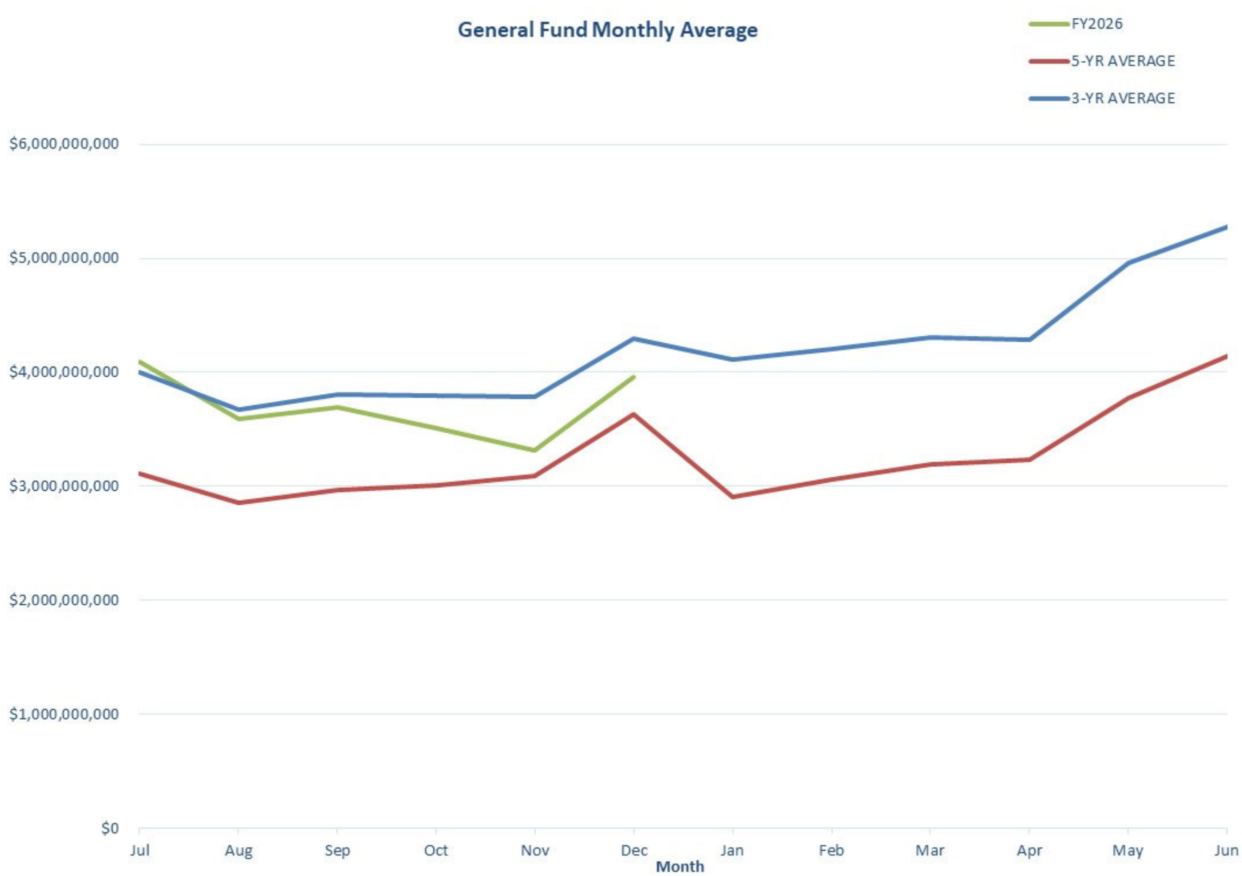

DEBT MANAGEMENT

ALCo Financial Agreements

As of May 3, 2021, ALCo retired all remaining outstanding financial agreements.

Asset/Liability Model

General Fund

The total State Property and Buildings Commission ("SPBC") debt portfolio as of December 31, 2025 had $4.452 billion of bonds outstanding, with a weighted average coupon of 4.93 percent and a weighted average life of 8.9 years. The average coupon reflects continued investor preference for tax-exempt callable premium bonds in the current market, which price at yields lower than par or discount coupon bonds. Of the total outstanding debt, the $2.547 billion callable portion had a weighted average coupon of 4.90 percent. The SPBC debt structure has 33.30 percent of principal maturing within 5-years and 57.70 percent of principal maturing within 10-years, reflecting the amortization structure of recent SPBC issuances and the reduced amount of principal remaining in longer dated maturities.

The General Fund had a maximum balance of $6.277 billion on July 1, 2025, and a low of $3.172 billion on November 17, 2025. The average and median balances were $3.718 billion and $3.681 billion, respectively. Returns on investable balances are impacted by investment earnings, fees, and mark-to-market rules on the underlying investments.

From a liability management perspective, total Commonwealth General Fund debt service, net of credits, is expected to be $564.992 million for FY 2026. In addition to the Commonwealth General Fund debt service, General Fund debt service of $9.811 million will be provided for an Eastern State Hospital financing that was first issued through the Lexington-Fayette Urban County Government in 2011. Also, General Fund debt service of $10.355 million will be provided for the 2015 and 2018 Certificates of Participation (related to the two Commonwealth State office Building projects). These projects are separately identified because they are not direct obligations of the Commonwealth, but they are General Fund supported.

SPBC 133

On November 13, 2025, SPBC closed $775,000,000 par of Revenue Bonds, Project No. 133 Series A ("Series A") and $165,430,000 par of Revenue Refunding Bonds, Project No. 133 Series B ("Series B") for a total General Fund offering of $940,430,000.

Series A provided permanent financing for approximately $853 million of General Fund supported capital projects authorized over multiple budget sessions of the General Assembly and achieved an All-In True Interest Cost of 3.861 percent. Series B refunded certain outstanding SPBC Bonds and achieved an All-In True Interest Cost of 2.881 percent and net present value savings of $9,339 million, or 5.142 percent of refunded par.

The bonds were sold on a tax-exempt basis through a negotiated sale with BofA Securities, Inc. serving as underwriter and Kutak Rock LLP as bond counsel. The bonds received ratings of Aa3 and AA- from Moody's Investors Service, Inc. and Fitch Ratings, respectively.

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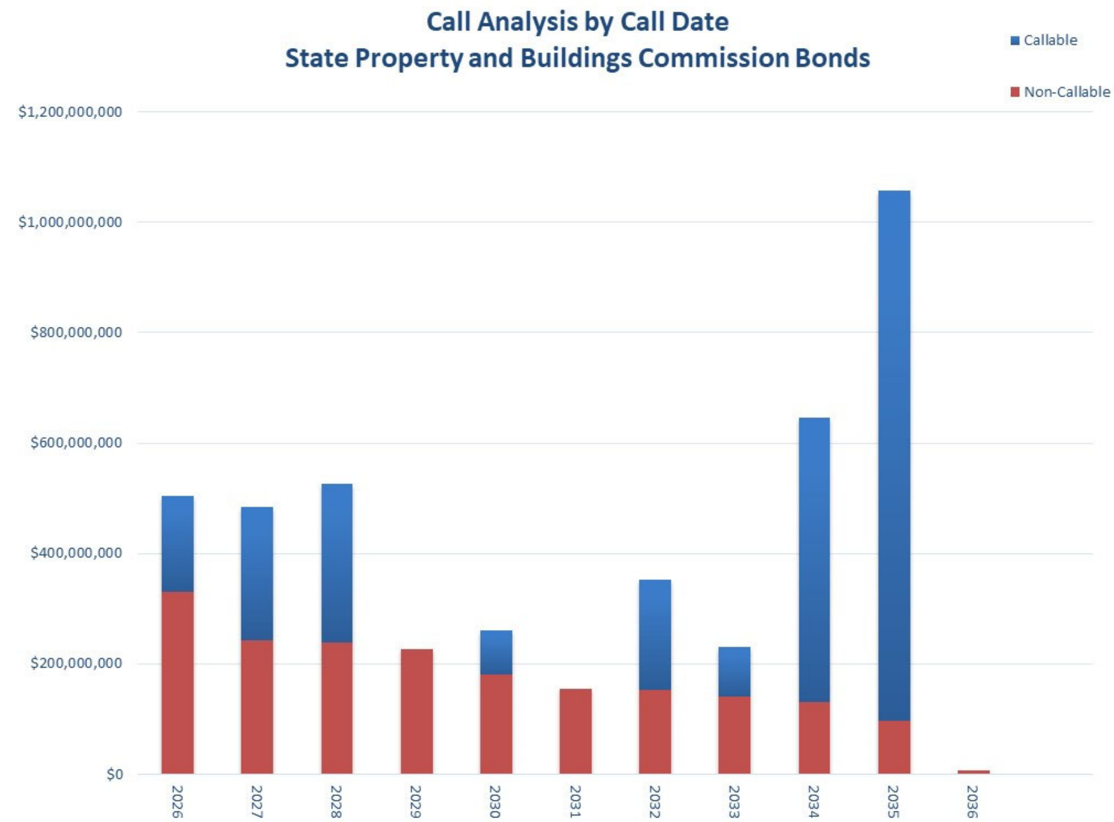

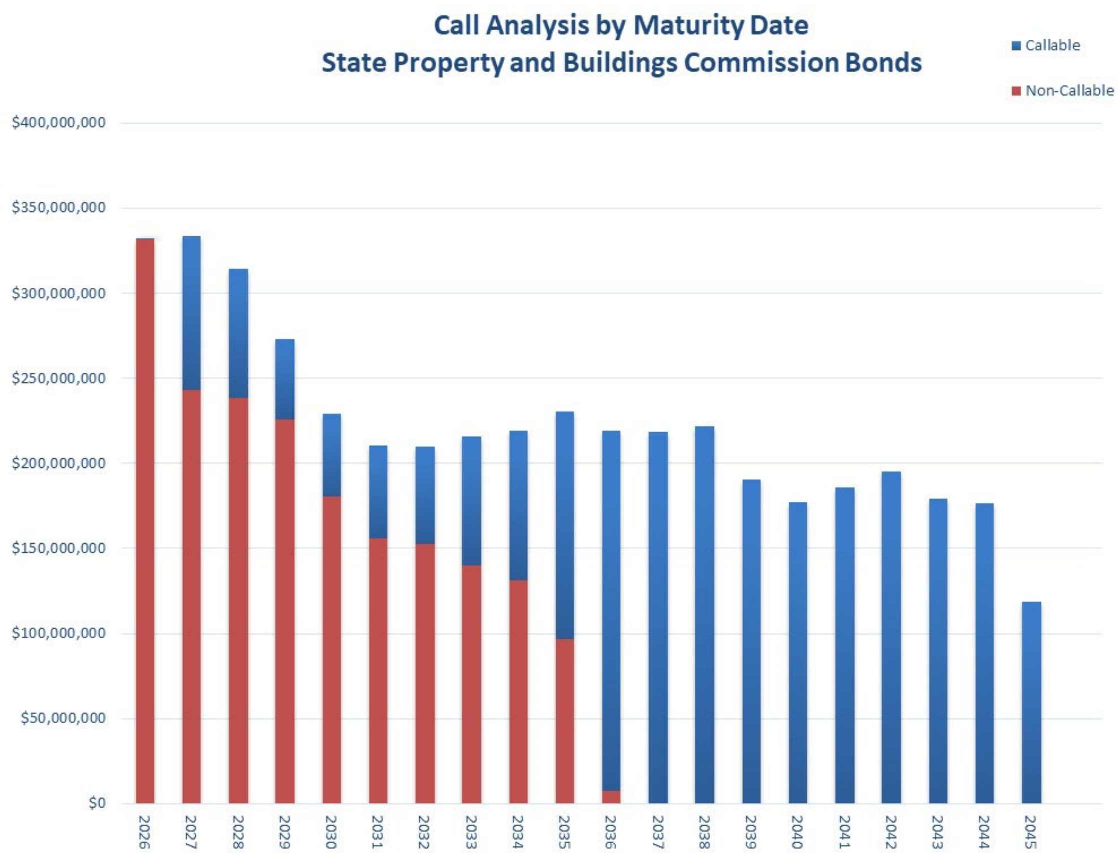

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Looking Forward

Since January 1, 2018, federal tax law has prohibited tax-exempt advanced refunding bonds. In response, the Commonwealth has expanded its evaluation methods for identifying potential refunding candidates. The Commonwealth now considers and has executed advance refundings of its municipal bonds on a taxable basis through a forward delivery of tax-exempt bonds, convertible taxable to tax-exempt bonds, and tender and exchange transactions. Additional diligence and financial modeling are necessary to ensure economic savings in these transactions.

Road Fund

The net Road Fund average daily cash balance for the first half of Fiscal Year 2026 was $201 million, compared to $299 million for the first half of Fiscal Year 2025. The Road Fund cash was invested in the Intermediate Term Investment Pool, which had a duration of 0.72 years as of December 31, 2025.

The Road Fund earned $4.00 million on a cash basis for the first half of Fiscal Year 2026, compared to $8.84 million for the first half of Fiscal Year 2025. Road Fund earnings decreased year over year due to lower short-term rates. The continued relatively low level of investable balances at certain times during the fiscal year limits the investment opportunities.

As of December 31, 2025, the Turnpike Authority of Kentucky ("TAK") had $550.5 million of bonds outstanding with a weighted average coupon of 4.45% and an average life of 4.03 years.

Road Fund debt service expected to be paid in Fiscal Year 2026 is $117.30 million, resulting in a net interest margin (investment income earned year-to-date less debt service paid) of negative $113.30 million. This negative margin stems from the level of investable balances as well as the limited callability of fixed-rate obligations on the liability side.

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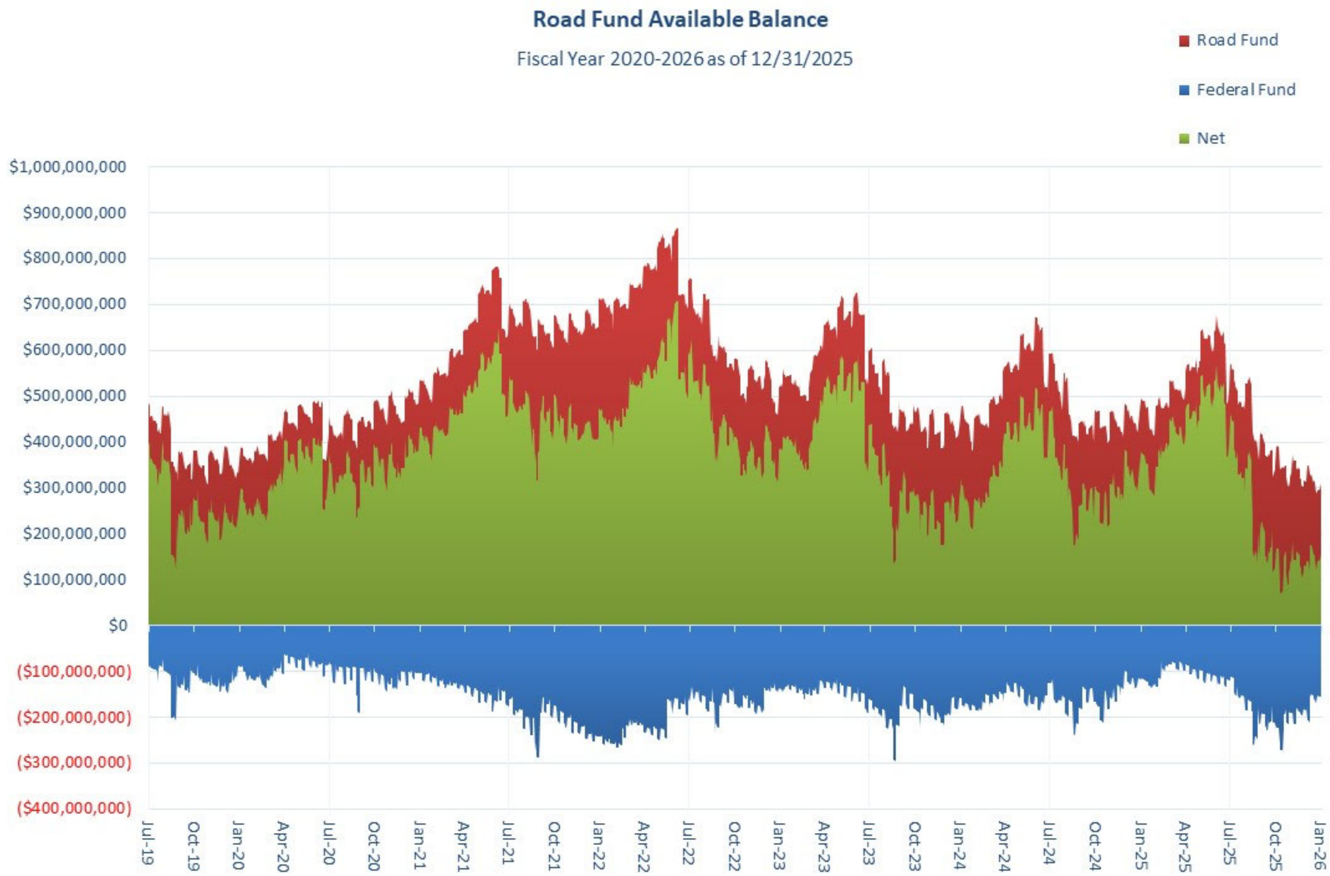


SUMMARY

During the reporting period for the 58th semi-annual report, the FOMC lowered the federal funds rate three times in the second half of 2025, reducing the target range to 3.50 percent to 3.75 percent. The FOMC has been balancing competing economic signals when determining whether to continue cutting rates, including a softening labor market that could benefit from lower rates, while inflation progress toward the 2 percent inflation target has stalled and tariffs pose potential upside risks to inflation. Treasury yields declined modestly and market volatility eased during the period, with the 2-year Treasury yield falling from 3.71 percent to 3.47 percent and the 10-year yield declining slightly from 4.23 percent to 4.17 percent. As a result of the rate cuts, the yield curve inversion has largely disappeared, and market expectations generally anticipate 1 – 2 additional rate cuts in 2026.

The cost of capital across the Commonwealth remained higher than the low-rate environment that existed prior to 2022. As a result of large cash balances, the state has maximized the benefit of the spread difference between tax-exempt borrowing and taxable investments to achieve investment returns.

ALCo's approach to managing the Commonwealth's interest-sensitive assets and interest-sensitive liabilities has provided flexibility and savings in financing the Commonwealth's capital construction program. ALCo continues to analyze potential opportunities for savings and evaluate new financing structures, which offer the Commonwealth the ability to diversify risk within its portfolio while taking advantage of market demand for various new or unique products. The Commission also continues to monitor municipal bond market conditions and evaluate whether the interim financing program may provide an economic advantage when used in conjunction with fixed-rate bonds.

The balance of prior bond authorizations of the General Assembly from 2010 – 2025 totals more than $5.18 billion, with outstanding debt of $4.45 billion for SPBC, $876.33 million for SFCC, $78.0 million for ALCo GARVEEs, $9.85 million for ALCo bonds, and $550.54 million for Turnpike bonds. All bonds are continually monitored for potential refunding opportunities.

APPENDIX

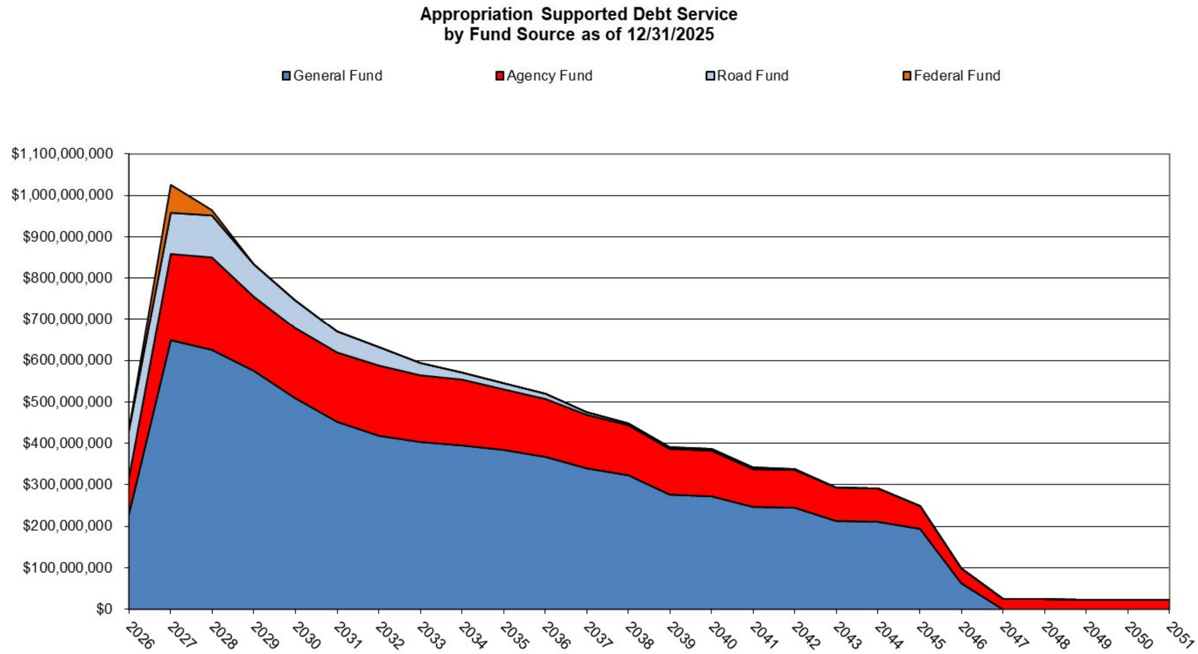
APPENDIX A

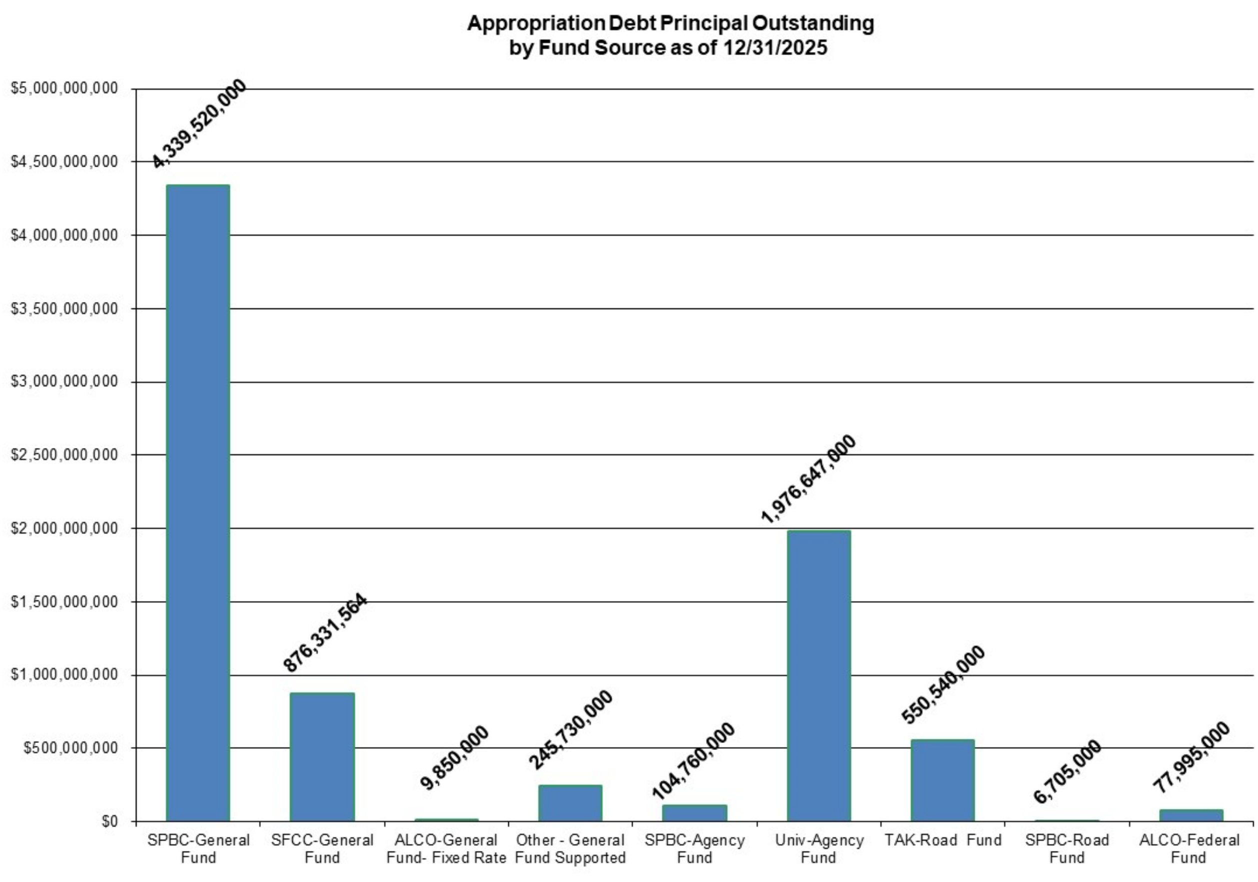
Corporate Credits Approved For Purchase

12/9/2025

Company Name	Repurchase Agreements	Commercial Paper	Bonds
Apple Inc		Yes	Yes
Bank of America	Yes	No	No
Bank of Montreal	Yes	Yes	Yes
Bank of Nova Scotia	Yes	Yes	Yes
Bank of Tokyo-Mitsubishi UFJ		Yes	Yes
Berkshire Hathaway Inc		Yes	Yes
BNP Paribas Securities Corp	Yes	Yes	Yes
BNY Mellon NA		Yes	Yes
Canadian Imperial Bank of Comm		Yes	Yes
Cantor Fitzgerald	Yes	No	No
Chevron Corp		Yes	Yes
Cisco Systems Inc		Yes	Yes
Cooperatieve Rabobank		Yes	Yes
Cornell University		Yes	No
Costco Wholesale Corp		Yes	Yes
Deere & Co		Yes	Yes
Exxon Mobil Corp		Yes	Yes
Guggenheim Securities, LLC	Yes	No	No
Home Depot Inc		Yes	Yes
IBRD - World Bank		Yes	Yes
Johnson & Johnson		Yes	Yes
Linde PLC		Yes	Yes
Merck and Co Inc		Yes	Yes
Microsoft Corp		Yes	Yes
MUFG Bank Ltd/NY		Yes	Yes
Natixis SA/New York		Yes	Yes
Nestle Finance International		Yes	Yes
PepsiCo Inc		Yes	Yes
Pfizer Inc		Yes	Yes
Procter & Gamble Co/The		Yes	Yes
Royal Bank of Canada	Yes	Yes	Yes
Royal Dutch Shell PLC		Yes	Yes
Salvation Army		Yes	No
State Street Corp		Yes	Yes
Sumitomo Mitsui Trust Bank		Yes	Yes
Swedbank AB		Yes	Yes
Texas Instruments Inc.		Yes	Yes
Toronto-Dominion Bank/The		Yes	Yes
Total Energies		Yes	Yes
Toyota Motor Corp		Yes	Yes
Wal-Mart Stores Inc		Yes	Yes

APPENDIX B





*This data does not include debt issued for judicial center projects and paid for by the Administrative Office of the Courts in the Court of Justice or debt issued by the Lexington -Fayette Urban County Government for the Eastern State Hospital.

APPENDIX C

COMMONWEALTH OF KENTUCKY
ASSET/LIABILITY COMMISSION
SCHEDULE OF NOTES OUTSTANDING
AS OF 12/31/2025

FUND TYPE SERIES TITLE		AMOUNT ISSUED	DATE OF ISSUE	MATURITY DATE	PRINCIPAL OUTSTANDING
General Fund Project & Funding Notes					
2021 General Fund Refunding Project Notes		$113,940,000	5/2021	11/2027	$9,850,000
	FUND TOTAL	**$113,940,000**			**$9,850,000**
Federal Hwy Trust Fund Project Notes					
2024 Refunding Notes FHTF		$107,040,000	6/2024	9/2026	$56,375,000
2025 Refunding Notes FHTF		$21,720,000	6/2025	9/2027	$21,620,000
	FUND TOTAL	**$128,760,000**			**$77,995,000**
ALCo NOTES TOTAL		**$242,700,000**			**$87,845,000**

REPORT PREPARED BY:

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Creating Financial Value for the Commonwealth

TEAM KENTUCKY