

**STATE INVESTMENT COMMISSION**  
**MINUTES**  
**DECEMBER 9, 2025**  
**2:30 PM**

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Tuesday, December 9, 2025, in Conference Room C106 of the Transportation Cabinet Office Building by Treasurer Mark Metcalf, Kentucky State Treasury. Treasurer Metcalf asked for a roll call. Other members present were Geri Grigsby, proxy for Secretary Holly M. Johnson, Finance and Administration Cabinet (“FAC”); Anna Haydon, proxy for Office of the Controller; and Jason Jones, new Appointee for the Bluegrass Bankers Association.

Office of Financial Management (“OFM”) Staff Present: Kim Bechtel, Deputy Executive Director; Amber Lee; Daniel Auxier; Richard Osborn; Bonnie Pillow; and Aubry McDonald.

Other Guests: Alexis Larson, FAC; and Robert Gullette, State Treasurers Office.

Treasurer Metcalf verified a quorum was present, and the press was notified of the meeting.

Treasurer Metcalf conducts the swearing into office of Mr. Jason Jones at 2:32 pm. He asks Mr. Jones to raise his right hand as he read the Oath of Office; “I solemnly swear (or affirm, as the case may be) that I will support the Constitution of the United States and the Constitution of this Commonwealth, and be faithful and true to the Commonwealth of Kentucky so long as I continue a citizen thereof, and that I will faithfully execute, to the best of my ability, the office of the State Investment Commission according to law; and I do further solemnly swear (or affirm) that since the adoption of the present Constitution, I, being a citizen of this State, have not fought a duel with deadly weapons within this State nor out of it, nor have I sent or accepted a challenge to fight a duel with deadly weapons, nor have I acted as second in carrying a challenge, nor aided or assisted any person thus offending, so help me God”. Mr. Jones responded with “I do” and Treasurer Metcalf confirms that he is now sworn in and a Commissioner of the Committee and confirms he can vote in the meeting today. He then welcomes Mr. Jones.

Treasurer Metcalf called for a motion to approve the minutes from the September 9, 2025, meeting. A motion was made by Ms. Grigsby and was seconded by Ms. Haydon to approve the minutes. Motion **CARRIED**.

**Compliance Reporting** – Ms. Pillow referred to the letter in the packet and stated there were no Statute or Administrative Regulation violations during the reporting period.

**Market Overview** – Mr. Auxier directed the Commission’s attention to Attachment C, the second quarter Market Overview. He noted as seen on the right, yields on the 2-year treasury have been in a steady downtrend for the entire year, ending November around 3.50%. This drop was caused by two rate cuts already this year and a third expected December 10<sup>th</sup>. This puts yields at the lowest point since mid-2022. On the following page you can see what this looks like for the entire curve. The checkmark shape inversion still remains for now, although it’s become much shallower as

front-end rates decline. Yields across the entire curve continue to drop which has an immediate impact on our portfolios. In Fiscal Year 2025, a record of \$700 million in earnings was posted. This proved to be the high-water mark as yields and portfolio balances begin to decline in Fiscal Year 2026. While earnings will continue to be strong and historically elevated, the realities of the yield curve mean returns will fall back to more normal levels over the next couple years. The final page shows a graph of the consumer price index over the past several years. He stated while the days of 8% inflation are thankfully long gone, there's also been a failure to return to the long-run goal of 2%. In the past six months, the inflation rate sped back up to 3%. Inflation, however, is only half of the economic picture the Fed looks at. On the other side of the equation, the labor market has been slowing dramatically, with job creation plummeting and layoffs accelerating. This means you have a situation where the inflation outlook says rates shouldn't be lowered further, while the job market is demanding cuts just to stay afloat. The Fed has to decide which side of their dual mandate to prioritize. The Commission took no action.

**Cash Flow** – Mr. Osborn presented the Monthly Average Investable Balances Cash Flow Summary. Looking at the fiscal year 2026, represented by the green line, the average investable balance was around \$13.4 billion. He noted the receipts in the General Fund for August, rose 7.7% compared to August of 2024. For September, receipts fell 1.5% compared to September of 2024. For October, receipts fell 0.5% compared to October of 2024. The total Fiscal Year 2026 receipts fell by 2.3%. The Commission took no action.

**Short Term Pool** – Ms. Lee directed the Commission to Attachment E, on PDF page 19, you can see the Average Investable Balances Graph. The average investable balance in the Short Pool for the month of October was about \$5.4 billion. She then directed the Commission to the next page showing the Short Term Pool Portfolio Composition. US Treasury Debt made up about 24.4% of the portfolio, US Government Agency Debt 49.8%, Government Money Market Funds 17.1%, Repurchase Agreements 7.0%, Commercial Paper 1.4%, and Asset Back 0.2%. Page 21, the Portfolio Performance, the orange bar represents the Short Term Pool and the dark blue bar represents the benchmark. As of October 31st, the portfolio continued to perform as expected. The Commission took no action.

**Limited Term Pool** – Ms. Bechtel presented the Limited Term Pool monthly report and directed the Commission to the Limited Term Pool monthly performance graph, Attachment F on page 23. She stated for October the one month return of 0.348% slightly underperformed the benchmark B. The next page, the Limited Pool Holdings Summary, the total amortized cost as of October 31, 2025 was slightly under \$2.8 billion with a net inflow of approximately \$151 million for the month.

Ms. Bechtel directed the Commission to page 26 which detailed the Pool Ratings and Sector Distribution. The credit rating distribution percentages based on short term and long term ratings are on the left side of the page. The right side of the page, the distribution was mainly invested in U.S. Treasuries at 37.5%, government agencies at 17.9% and money market funds at 29.5% of the Pool. Moving forward to the Liquidity and Maturity page, the Limited Pool continued to stay within guidelines. As of October 31, 2025, the Weighted Average Maturity was 13 days with the last 3 month average at 14 days. The daily liquidity was 44.7% with weekly at 60.8% and remained above requirements. She then directed the Commission to page 28 for the Limited Pool, Net Asset

Value graph. The line of the shadow NAV continued to show slight fluctuations in value but has not exceeded 0.0025 level to trigger a notification to SIC.

The final document under Attachment F is the Limited Pool Liquidity Analysis detailing transactions and largest accounts in the portfolio. The largest daily withdrawals occurred in the Medicaid Benefits Fund in September and University of Kentucky General Receipts in September and October. The largest weekly withdrawals occurred in University of Kentucky General Receipts in August and September. The largest accounts for October 31, 2025, were University of Kentucky, Personnel Self-Insurance and Medicaid Benefits Fund. The staff will continue to maintain daily and weekly liquidity of 15% and 30%, respectively. The Commission took no action.

**Intermediate Pool Performance** – Mr. Auxier directed the Commission to page 32 of Attachment G, titled Intermediate Term Pool Fundamentals. August and September saw large outflows as bond proceeds continue to be spent along with House Bill 1 appropriation money flowing back out. At the bottom you will see the sector allocation. This remains largely the same as last quarter, with treasuries making up 55% of the portfolio, MMKT securities 13%, Agency securities 12%, and ABS, MBS, corporate securities, and overnight repo making up the remainder. The next page shows the portfolio's performance compared to the benchmarks. The Intermediate Pool has performed very well lately by exceeding both benchmarks for several of the time frames listed. The Commission took no action.

**Credit Considerations** – Mr. Auxier directed the Commission to the first page of Attachment H and stated that there were no changes this quarter. This item will require approval from the Commission. Treasurer Metcalf called for a motion. A motion was made by Ms. Grigsby and was seconded by Mr. Jones. Motion **CARRIED**.

**Credit Process** – Mr. Auxier directed the Commission to Attachment I, the special topic this period being credit process. He also discussed investments spreads, which forms the foundation of why we do credit analysis in the first place. He stated this would explain where the names on the credit approved list come from and what could cause names to fall off the list. Page 38 shows the three areas of credit analysis for discussion: default monitoring, credit rating agency monitoring, and industry and company analysis. On page 39 you'll see a description of how default monitoring is done. The Bloomberg Default Risk is a proprietary metric available on the Bloomberg terminal that uses several inputs to create an overall measure of how likely a company is to default over the next year. Some of the factors include share price, total debt, interest expense, and cash flow. We have a process in place to pull the default ratings for every company on our approved list and compare them to the day before. A report is produced highlighting any changes and a snippet of that can be seen below. As seen from the default chance percentages, we're talking very tiny numbers here. But if a company's creditworthiness were to begin to decline, this is one of the first places where it would start to show up in the data. The second area is the most straightforward, and that's credit rating agency monitoring. Once a year during the June meeting, the SIC approves the three Nationally Recognized Statistical Rating Organizations (or NRSROs) that are used for credit compliance over the following fiscal year. Every year the top three are Moody's, S&P, and Fitch. The regulations specify that corporate securities must be rated at least A3/A- or higher in order for us to purchase. In addition, the short-term rating must be at least A-1/P-1/F-1. If a

company falls below these ratings, they are immediately removed from the list. If one of their securities is already owned, we are obligated to inform the SIC at the next meeting and the SIC can give the authority to continue holding the security until maturity or require us to sell it. Part of the credit analysis role is monitoring the credit rating for every company on our approved list and informing the group of any changes, whether it's an upgrade or downgrade. This way everyone is aware and informed on the status of the companies on our approved list. Next, he discussed the final part of the credit analysis process being company and industry analysis. The most basic hurdle is the credit rating from the rating agencies. This is what's spelled out specifically in regulations. If companies qualify in that respect, we move on to more subjective criteria. Many companies don't issue much debt, or only issue debt in longer maturities. It doesn't do us any good to include a company on the approved list if there's never any securities available for purchase. This is even more true for commercial paper, an area of the capital markets that many companies avoid all together. If a company meets our statutory guidelines and has a significant presence in the credit market, then we drill down further. This last part is where we go the extra mile. Analyzing financial statements, ratios, operating history and trends, these are all things that the credit rating agencies do on their own. These are the factors that make up their credit rating, so in a way we capture all this analysis simply by relying on those credit ratings. But the rating agencies aren't infallible. The best example is in 2008, Lehman Brothers still had an A rating from S&P and an A2 rating from Moody's just days before they collapsed. He noted three bullet points were listed but he would add a fourth, simply following current events and news about each company. Often trouble with a company will show up here first, not in the financial statements that are only released annually or every quarter. As an example, we used to have Boeing on our approved list. We owned Boeing securities. Then in 2018 and 2019 Boeing had two very high profile plane crashes. An entire line of jets was grounded, customer orders were canceled. It took months before the rating agencies caught up and finally downgraded Boeing but we decided immediately to halt all purchases of Boeing securities while the crisis played out. Within a year Boeing had fallen below our required credit rating and was dropped from the list. If we still held Boeing securities, that would have triggered a notification to the SIC and a possible forced sale. But we were proactive and saw that coming without relying on the rating agencies. Now Boeing ended up being fine, although the credit rating still hasn't recovered years later. Nearly always there won't be a default for a company that large. But we are always vigilant that we aren't caught unaware by a sudden collapse. More recently there have been a flood of articles about auto loan defaults. So far, it's concentrated in the sub-prime market, which we don't participate in, but out of an abundance of caution we've halted all ABS purchases for the time being. Most likely there won't be a wave of prime auto loan defaults. But it never hurts to be prepared, and that's what our entire credit process ensures we are.

He then directed the Commission to the very last page showing a very brief outline of investment spreads and how that hierarchy works because. This breaks down fixed income investing to its most basic principle. He pointed out these are very rough numbers because this changes constantly based on market conditions. The actual numbers aren't important, it's the order they are in that usually stays consistent and truly matters. At the very top, you have US Treasuries. This is what's known as the risk-free rate, and it's the rate that all other spreads are based on. Now in modern times, all three major rating agencies have the US rated below AAA so there's an open question whether or not the term risk-free still applies. But since markets are still priced as if it is the risk-free rate, we'll continue to assume that's true. As you move down and take on additional risk, you also pick up additional yield or spread. Next you have US agency debt. This is backed by the full

faith and credit of the federal government and at times has very similar yields to actual treasuries. But often there is a slight yield pickup depending on which specific agency we're looking at. But still, very little risk here so very little spread. Next, are AAA rated corporates which means the largest and most creditworthy companies in the world. Microsoft, Apple, Johnson and Johnson are three examples of companies that hold at least one AAA rating. He stated Microsoft is not going to go bankrupt anytime soon. It's difficult to imagine any situation where Microsoft defaults. Thus, you're not taking on much additional risk with a Microsoft bond. I've got AAA spreads between 5-15 bps. Better than treasuries, but not by much. There was a period a couple years ago where Apple sold short-term bonds with a negative spread, meaning the market viewed that debt as safer than the debt of the United States Government. Further down we have single A corporate debt. Now we're starting to pick up a little risk. Single A companies are still very financially solid, that's considered investment grade. But we're not talking about the companies that just print money. There is some risk involved here and because of that, spreads widen. Beyond that we get into ABS and MBS, which are bundled auto/equipment loans and mortgages. It goes without saying there's more risk here, although the nature of bundling so many together is designed to negate most of that. We all remember 17 years ago when the mortgage market melted down. It can happen and so spreads need to be wider, so investors are compensated for taking on that additional risk. He was happy to answer any questions. The Commission took no action.

There being no further business, Treasurer Metcalf called for a motion to adjourn. Mr. Jones made a motion to adjourn, and Ms. Grigsby seconded. With no further business before the Commission, the meeting adjourned at 3:01 PM ET.

Respectfully submitted,

Signed by:  
  
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Secretary