

**STATE INVESTMENT COMMISSION**  
**MINUTES**  
**MARCH 11, 2025**  
**2:30 PM**

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Tuesday, March 11, 2025, in Conference Room C106 of the Transportation Cabinet Office Building by Sam Burchett, proxy for Treasurer Mark Metcalf, Kentucky State Treasury. Mr. Burchett asked for a roll call. Other members present were Geri Grigsby, proxy for Secretary Holly M. Johnson, Finance and Administration Cabinet (“FAC”); Controller Joe McDaniel, Office of the Controller; Mark Johnson, representing the Kentucky Bankers Association; and Paul Goodpaster, representing the Bluegrass Bankers Association.

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

Other Guests: Alexis Larson, FAC; and Randall Royer and Teresa Walker, Office of Policy and Audit.

Mr. Burchett verified a quorum was present, and the press was notified of the meeting.

Mr. Burchett called for a motion to approve the minutes from the December 5, 2024, meeting. A motion was made by Ms. Grigsby and was seconded by Mr. McDaniel 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. She noted there was a very small item that sat off alarms but did not affect compliance at all. Kim Bechtel then explained that Bloomberg made a small change with the original “U.S.” being changed to United States of America. This set off a compliance alert and emails were sent stating that we were out of compliance on treasuries and agencies. This was more of a false positive, no rules were broken, and it was fixed easily.

**Market Overview** – Mr. Auxier directed the Commission’s attention to Attachment C, the first quarter Market Overview. He noted a month ago it seemed like we were headed towards an uneventful update for today but that has changed over the past month. One month ago, the 2-year treasury was at 4.35%, a level it had hovered around for the previous three months. From that point on it has essentially been in freefall and as of this morning sits at 3.90%, the lowest level since early October. The primary cause for this has been economic policy, specifically the threat of tariffs. The belief early on was that an all-out trade war wouldn’t actually happen. It seems now that belief was misguided as the US has announced a wide range of global tariffs and other countries have immediately retaliated. This has dramatically increased the perceived odds of an economic slowdown and possible recession, sending yields across the curve tumbling as it’s now believed the Federal Reserve will have to cut interest rates more quickly than planned to counter

the brewing trade war. He then directed the Commission to the following page, where you will see the entire yield curve. Until the Fed cuts rates again, the curve will remain inverted on the short end, although the inversion is much less dramatic than it was a year ago. The two/ten spread, the most common measure of overall inversion, flipped positive last quarter and has expanded to 21 basis points this month. Other than on the very short end, yields largely fell across the curve during the past quarter. The final page includes a chart of the headline inflation rate and how it's changed over the past five years. Mr. Auxier pointed out that you can see that major progress in reducing inflation began in late 2022 and continued until the middle of 2024, when inflation suddenly began to tick back upwards. This has caused a pause in rate cuts for now as the Fed waits to see further progress towards the long-term 2% goal. The Commission took no action.

**Cash Flow** – Mr. Osborn presented the Monthly Average Investable Balances Cash Flow Summary. Looking at the fiscal year 2025, represented by the red line, the average investable balance was around \$14.7 billion. He noted the receipts in the General Fund for November, rose 5.1% compared to November of 2023. For December, receipts rose 4.5% compared to December of 2023. For January, receipts rose 4.9% compared to January of 2024. This brings year to date receipts up 2.2%. The Commission took no action.

**Short Term Pool** – Ms. Lee directed the Commission to Attachment E, on PDF page 17, you can see the Average Investable Balances Graph. The average investable balance in the Short Pool for the month of January was about \$6.5 billion, up nearly \$500 million since October. She then directed the Commission to the next page showing the Short Term Pool Portfolio Composition as of January 31st. US Treasury Debt made up about 34.5% of the portfolio, US Government Agency Debt 32%, Government Money Market Funds 24%, Repurchase Agreements 7%, Commercial Paper 1.5%, and Asset Back 1%. Page 19, the Portfolio Performance, the orange bar represents the Short Term Pool and the dark blue bar represents the benchmark. As of January 31st, the portfolio remained in-line with the benchmark. 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 22. She stated for January the one month return of 0.361% slightly underperformed the benchmarks. The next page, the Limited Pool Holdings Summary, the total amortized cost as of January 31, 2025, was slightly under \$3.0 billion with a net outflow of approximately \$57 million for the month.

Ms. Bechtel directed the Commission to page 24 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 25%, government agencies at 32% and money market funds at 34% of the Pool. Moving forward to the Liquidity and Maturity page, the Limited Pool continued to stay within guidelines. As of January 31, 2025, the Weighted Average Maturity was 33.5 days with the last three month average at 24.8 days. The daily liquidity was 41.9% with weekly at 45.3% and remained above requirements. She then directed the Commission to page 26 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 Trust and Benefits in November 2024 and University of Kentucky Accounts in November 2024 and January. The largest weekly withdrawals occurred in Medicaid Account in November 2024 and University of Kentucky Accounts in November 2024 and January. The largest accounts for January 31<sup>st</sup> 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 30 of Attachment G, titled Intermediate Term Pool Fundamentals. He stated the pool balance has continued to drift downward as the funds from the State Prop deal in October continue to flow out. The balance will jump dramatically at the end of this month when the newest State Prop deal closes and nearly \$850 million is deposited in the pool. Below that we have the sector allocation which remains largely the same with slight increases to ABS, MBS, and Corporate securities. On the following page you will see Intermediate Pool performance. The pool continues to perform well and even exceeds both benchmarks for the three month, six month, and one year time frames. 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. Mr. Burchett called for a motion. A motion was made by Mr. Johnson and was seconded by Mr. Goodpaster. Motion **CARRIED**.

**Compliance Overview** – Ms. Bechtel directed the Commission to Attachment I, Compliance Overview. She then gave a brief overview of the compliance process and how we have checks in place to make sure all guidelines are met whether its internal policies, regulations and/or statute. She noted the three different certain levels to look at, first being the Trading Limits. These limits were just increased in December. Next, she explained the Security Type Limits. These being credit ratings, maturity restrictions and issuer limits. She then directed the Commission to page 41 of the PDF, titled Bloomberg Compliance Manager. Here you can see all of the rules within the system. From there, if a violation happens warning will be sent out to make everyone aware of what is happening. One type of violation being if a trade is place above a user's limit. If a trade is needed to be placed above one's limit, then a verbal email from the director would be needed to override the rule. Last, Pool Level Limits which are calculated and reported daily. Mr. Goodpaster asked a few questions and Ms. Bechtel answered. The Commission took no action.

There being no further business, Mr. Burchett called for a motion to adjourn. Ms. Grigsby made a motion to adjourn which was seconded by Mr. Goodpaster. With no further business before the Commission, the meeting adjourned at 3:06 PM ET.

Respectfully submitted,

Signed by:  
  
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 Secretary