

STATE INVESTMENT COMMISSION
MINUTES
MARCH 12, 2024
2:30 PM

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Tuesday, March 12, 2024, in Conference Room C106 of the Transportation Cabinet Office Building by Robert Gullette, proxy for Kentucky State Treasurer Mark Metcalf. Mr. Gullette asked for a roll call. Other members present were Holly M. Johnson, Secretary, Finance and Administration Cabinet (“FAC”); Mark Johnson representing the Kentucky Bankers Association; and Paul Goodpaster, representing the Bluegrass Bankers Association.

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

Other Guests: Robert Long, Office of General Counsel; and Jordan Pennington, State Treasury.

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

Mr. Gullette called for a motion to approve the minutes from the December 13, 2023, meeting. A motion was made by Mr. Goodpaster and was seconded by Ms. Johnson to approve the minutes. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow referred to the letter in the packet and stated there were no Statute or Administrative Regulation violations during the reporting period. He did state a false positive but no violation was given and a tweak was made in Bloomberg for correction.

Market Overview – Mr. Auxier directed the Commission’s attention to Attachment C, Market Overview. He stated three months ago it seemed all but certain that the first rate cut was imminent but now the Federal Reserve is saying there’s no hurry to cut and they are content to sit back and be patient. As of this morning, traders have a 76% chance priced in that the first cut will occur by the June meeting. Stronger than expected economic growth and a job market that remains surprisingly robust, have both contributed to pushing back the first cut. He directed the Commission to the chart showing the yield on the two-year treasury and the dramatic swings it has undergone the past several months as sometimes conflicting economic data rolled in and changed the narrative on where the economy was at.

The next page showed the current yield curve as it stood on March 4th. The curve remains sharply inverted and yields across the board remain roughly the same as they were last quarter. The most popular metric for measuring inversion is the spread between the two year and the ten year, and that currently sits at 35bps, a bit tighter than last quarter. Once rate cuts begin, the short-end of the curve will fall rapidly and the inversion will begin to correct itself. With all our portfolios possessing relatively short duration compared to the entire curve, the inversion continues to provide a strong boost to earnings. FYTD our portfolios have posted \$438 million in earnings with

four months remaining. In the month of January, the General Fund alone posted a record investment gain of over \$27 million.

Mr. Auxier then directed the Commission to the final page of the market update showing the headline consumer price index over the past five years. There has been a dramatic improvement from the highs of 2022, yet inflation appears to have stabilized above 3%, which is still above the long-run target of 2%. The primary question going forward remains when will the Fed begin to cut rates. As more and more data rolls in showing inflation remaining stubbornly elevated, the potential date of that first cut keeps getting pushed back. The Commission took no action.

Cash Flow – Mr. Osborn presented the Monthly Average Investable Balances Cash Flow Summary. Looking at the fiscal year 2024, represented by the red line, the average investable balance stood at about \$13 billion. He noted the receipts in the General Fund for December, rose 5.1% compared to December of 2022. January, receipts rose 4.4% compared to January of 2023. February, receipts fell 6.5% compared to February of 2023. This brings the year-to-date receipts up 3.0%. 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 for fiscal years 2022 to 2024. Looking at fiscal year 2024, represented by the red bar, you can see that the average investable balance for February was \$6.5 billion. The next page shows the Short Term Pool Portfolio Composition as of February 29th. US Treasury Debt made up about 34% of the portfolio, US Government Agency Debt 41%, Government Money Market Funds 21%, and Repurchase Agreements less than 4%. She then directed the Commission to page 19 of the PDF, Portfolio Performance and showed numbers as of February 29th. The orange bar represents the Short Term Pool and the dark blue bar represents the benchmark, which is the Fed Funds Rate Index. As you can see, the portfolio slightly underperformed the benchmark for the one and three month time periods, as well as the inception date of July 2022 but outperformed the benchmark for the six month fiscal year to date and one year time periods. 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 the one month return of 0.45% outperformed the two benchmarks while the remaining time period returns were slightly lower. The next page, the Limited Pool Holdings Summary, the total amortized cost as of February 29, 2024 was approximately \$3.1 billion with a net inflow of \$390 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 23%, government agencies at 43% and money market funds at 26% of the Pool. Moving forward to the Liquidity and Maturity page, the Limited Pool continued to stay within guidelines. As of February 29, 2024, the Weighted Average Maturity was 26 days with the last three-month average at 21 days. The daily liquidity was 35% with weekly at 40% 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 maximum divergence continued to be 0.0005871 which occurred on November 23, 2022, and remained within the guidelines.

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 Accounts in February and December. The largest weekly withdrawals occurred in the Medicaid and University of Kentucky Accounts in February and December. On the second page of the memo, the largest accounts for February 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. The balance dipped slightly over the past three months which is entirely normal for this time of year as outflows exceeded deposits. Market yield and duration remain in between both benchmarks as expected. At the bottom you will see the sector allocation compared to both benchmarks. The biggest item to note is the reduction of treasury securities, which stood at 67% a year ago, and a corresponding increase in higher yielding agency and corporate securities. The results of this shift can be seen on the next page, Intermediate Pool performance. The orange bar represents the Intermediate Pool. As you can see, the Intermediate Pool has outperformed both benchmarks for the three month, six month, and one year timeframes. This will not last forever however as the longer duration of benchmark A will eventually pay dividends as rates fall and the yield curve normalizes. For now, the shift away from treasuries into other asset classes has paid off with improved returns. The Commission took no action.

Credit Considerations – Mr. Auxier directed the Commission to the first page of Attachment H and presented that there were no changes in this quarter, and he asked for the Commission's approval as presented. Mr. Gullette called for a motion. A motion was made by Mr. Johnson and was seconded by Mr. Goodpaster. Motion **CARRIED**.


SEC Rule 144a – Mr. Barrow directed the Commission to page 35, a memo regarding Revised Rule 144A Investment Guidance. He stated that in 2020, the Securities and Exchange Commission ("SEC") adopted amendments to the "qualified institutional buyer" definition in Rule 144A under the Securities Act to expand the list of entities that are eligible to qualify as qualified institutional buyers. Now, this includes "governmental bodies" that meet the \$100 million threshold set for entities to qualify as a qualified institutional buyer. As a governmental body, this final rule makes OFM an entity eligible to qualify as a qualified institutional buyer. Based on the SEC's final rule and statement of intent, it is evident that the prior guidance advising OFM to refrain from purchasing restricted securities is no longer. As a governmental body, OFM is an entity eligible to qualify as a qualified institutional buyer under Rule 144A(a)(1)(i)(J) and if able to meet other threshold requirements may purchase restricted securities. This memo recognizes rescinding the order allowing OFM to purchase restricted securities. The Commission took no action.

Custody Banking Services – Mr. Gullette directed the Commission to the screen where a presentation was given by Mr. William Claxton, Vice President of State Street Bank. Mr. Claxton touched briefly on the Custody Banking Services and how they provide investment services for

the Commonwealth. A printout of the presentation was given to all members. Commission took no action.

There being no further business, Mr. Gullette called for a motion to adjourn. Mr. Goodpaster made a motion to adjourn which was seconded by Mr. Johnson. With no further business before the Commission, the meeting adjourned at 3:04 PM ET.

Respectfully submitted,

DocuSigned by:

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Secretary