

STATE INVESTMENT COMMISSION
MINUTES
SEPTEMBER 9, 2025
2:30 PM

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Tuesday, September 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”); Controller Joe McDaniel, Office of the Controller; and Mark Johnson, Appointee for the Kentucky Bankers Association.

Office of Financial Management (“OFM”) Staff Present: 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 Robert Gullette, State Treasurers Office.

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

Treasurer Metcalf called for a motion to approve the minutes from the June 10, 2025, meeting. A motion was made by Mr. McDaniel and was seconded by Ms. Grigsby 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 that high volatility continues to be the story as you can see in the chart as the 2-year treasury reacted to the latest developments concerning tariffs and rate cuts over the past few months. After months of uncertainty surrounding the Fed, weak job reports have finally helped to solidify expectations for at least one cut during this month’s meeting on the 17th and an additional two by the end of the year. This has helped push the two-year treasury down to 3.50% as of this morning. It was only seven months ago that the two-year sat around 4.30% so there has been a dramatic shift in sentiment since then. He then directed the Commission to the following page showing the current treasury yield curve. Since June, yields across the curve have fallen but the drop was more pronounced on the shorter end. While the inversion persists, it is slowly starting to fade as rates finally drop. Rates remain historically elevated across the curve and this has had an enormous effect on our portfolio earnings. Fiscal Year 2024 set a record of \$670 million in earnings across all three portfolios. This record was eclipsed again in Fiscal Year 2025 as final earnings came in just above \$700 million. He noted it’s highly unlikely that performance will be repeated in Fiscal Year 2026 as rates start to come down, but earnings should continue to be very strong. The final page of the market update is on page 13 showing the latest inflation data. You can see that while progress has somewhat stalled out on getting back to 2%, the overall trend remains downward. The prediction that tariffs would cause a huge spike in inflation just hasn’t

materialized in the data yet, lending evidence to the case for reducing rates. He stated two main areas the Fed looks at when determining where to take rates next are the job market and the inflation rate. Currently we have an environment where inflation, while not at 2%, at least appears stable below 3%. Combine that with a job market that is clearly weakening, and you can see why a rate cut this month is all but guaranteed and more later this year are seeming likely. 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 \$15.7 billion. For Fiscal Year 2026, as represented by green point, the average investable balance was around \$15.3 billion. He noted the receipts in the General Fund for May, rose 10.2% compared to May of 2024. For June, receipts rose 3.2% compared to June of 2024. For July, receipts fell 12.7% compared to July of 2024. The total Fiscal Year 2025 receipts rose by 0.8%. 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 July was just over \$6.2 billion, which is about \$1 billion less than the average investable balance for June. This was due to more spending that typically happens at the beginning of the fiscal year along with about \$720 million dollars being transferred from the Budget Reserve Trust Fund in the short-term pool to the intermediate pool related to House Bill 1 spending passed in Fiscal Year 2024. She then directed the Commission to the next page showing the Short Term Pool Portfolio Composition. US Treasury Debt made up about 46.2% of the portfolio, US Government Agency Debt 34.4%, Government Money Market Funds 12.1%, Repurchase Agreements 10.0%, Commercial Paper 0.4%, and Asset Back 0.5%. Page 19, the Portfolio Performance, the orange bar represents the Short Term Pool and the dark blue bar represents the benchmark. The portfolio slightly underperformed the benchmark for the 3-year and since inception date of July 2022 but outperformed the benchmark for all other time-periods listed. 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 July the one month return of 0.36% slightly underperformed the benchmarks. The next page, the Limited Pool Holdings Summary, the total amortized cost as of July 31, 2025, was slightly over \$2.6 billion with a net outflow of approximately \$454 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 49%, government agencies at 23% and money market funds at 16% of the Pool. Moving forward to the Liquidity and Maturity page, the Limited Pool continued to stay within guidelines. As of July 31, 2025, the Weighted Average Maturity was 28 days with the last three month average at 27 days. The daily liquidity was 28.2% with weekly at 35.8% 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 Personnel Health Insurance and University of Kentucky in July and Medicaid Benefits in June. The largest weekly withdrawals occurred in Personnel Health Insurance in July and Medicaid Benefits in both May and June. The largest accounts for July 31, 2025, were University of Kentucky, Personnel Self-Insurance and KLEFPF 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 as has been the trend for the past few years, monthly cash flows follow the usual pattern, just with larger amounts as the portfolio balance has doubled in the past five years. May and June saw net outflows as the funds from the latest state prop deal continued to flow back out as expected. July saw large inflows as \$720 million was transferred from the Budget Reserve Trust Fund into the Intermediate Pool as a part of the HB1 appropriations made during the last budget session. He then directed the Commission to the bottom of the page showing the portfolio sector allocation. He noted this remains largely the same with treasury allocation hovering around 50%, agency allocation at 22%, with Corporates, ABS, MBS, and cash securities filling up the remainder. On the next page you will see Intermediate Pool performance. The past year has been a very good one for the portfolio as the Pool exceeded both benchmarks by a significant amount for the past 12 months. With a balance of around \$5.5 billion, this outperformance translates to millions of dollars in extra earnings over what falling in between both benchmarks as expected would produce. 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. Johnson. Motion **CARRIED**.

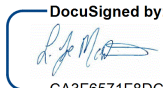
Cash Flow Process – Ms. Bechtel directed the Commission to Attachment I, Daily Cash Flow process. She briefly discussed where the investment balances have been stating liquidity is vital when investing state funds and a variety of information is used to project the amount of cash that is needed. She then directed the Commission to the chart on page 35 showing the Daily Cash Flow amounts from Fiscal Year 2023 to Fiscal Year 2025. This included three portfolios with three different liquidity needs. There are significant inflows and outflow during certain times of the year which are managed by purchasing securities as well as, using repo money funds to meet liquidity requirements of each portfolio. The next page showed Cash Flow projections for Fiscal Year 2026. Each portfolio manager monitors the liquidity from the individual portfolios as well as working as a team to make sure cash needs are met. She stated that since amounts and timing can vary it is vital that we stay in various liquid investments to stay flexible for participant needs. When incoming cash is invested, looking at months, even years in advance to invest but the actual timing or amount may not be known until the week or even the month of. Realization of this can change of an instant and anything can happen. The Commission took no action.

Monthly Reports – Ms. Bechtel directed the Commission to Attachment J on page 38, the Monthly Investment Income Report. She stated the report details the value and duration of the

portfolios as well as the earnings for each. She noted the investment group recently moved to a new portfolio analytics system and will be working on a few changes to the report. During this time a reevaluation of current information placement will be looked at. The Commission took no action.

There being no further business, Treasurer Metcalf called for a motion to adjourn. Ms. Grigsby made a motion to adjourn, and Mr. Johnson seconded. With no further business before the Commission, the meeting adjourned at 3:12 PM ET.

Respectfully submitted,

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Secretary