

STATE INVESTMENT COMMISSION
MINUTES
DECEMBER 6, 2022
2:30 PM

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Tuesday, December 6, 2022, in Conference Room C106 of the Transportation Cabinet Office Building by Allison Ball, Kentucky State Treasurer. Treasurer Ball asked for a roll call. Other members present were Mr. Joe McDaniel, Acting State Controller, Office of the Controller; Elizabeth Carlin, proxy for Holly M. Johnson, Secretary, Finance and Administration Cabinet (“FAC”) and Fred Brashear, representing the Kentucky Bankers Association.

Office of Financial Management (“OFM”) Staff Present: Steve Starkweather, Deputy Executive Director of OFM; Brian Caldwell, Deputy Executive Director of Investments; Kim Bechtel; Amber Lee and Marcia Hutcherson.

Other Guests: Lorrان Ferguson, Deputy Commissioner, State Treasurer.

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

Treasurer Ball called for a motion to approve the minutes from the September 13, 2022, meeting. A motion was made by Ms. Carlin and was seconded by Mr. Brashear to approve the minutes. Motion **CARRIED**.

Compliance Reporting – Stated within the packet there were no Statute or Administrative Regulation violations during the reporting period.

Intermediate Pool Performance – Mr. Caldwell directed the Commission to the first page of attachment C, titled Intermediate Term Pool Fundamentals. He reported the market value of the pool averaged \$3.8 billion for the past three months ranging from a low \$3.7 billion in September to just under \$4 billion as the end of October. The yield continues to increase as the market prices in Federal Reserve interest rate hikes to fight inflation pressures. Mr. Caldwell directed the audience to the right side of the page under August, the Intermediate Pool, and stated the yield has gone from 3.22% to 3.87% in September and ending October at 4.18%. The average credit quality of the portfolio is AAA by Moody’s. For duration, it hovered around the one-year mark for the prior three months. For comparison purposes, he stated you can see the portfolio’s duration was in-between both referenced benchmarks in each of the three months. The portfolio had a total net inflow of \$704 million over the past three months with the majority being in August and October. The large inflow for August was due to new account openings as money was moved from COVID Relief Funds to other accounts. The inflow for October was due to a debt deal closing for \$250 million. He points out how the Portfolio Sector Allocations page gives a visual snapshot of how the portfolio is diversified across the different market sectors. The top left side is the Intermediate Pool with Benchmark A on the top right side and Benchmark B at the bottom. Stating there were no meaningful changes since the September meeting. The only changes were Agency and money market securities increased by 1% each with the resulting 2% decrease in Treasuries. All other

sectors were unchanged. He continued with the Portfolio Performance page, with performance numbers through the end of October. He noted the blue bar represents the Intermediate Pool, the red bar is benchmark A and the green bar is benchmark B. Mr. Caldwell pointed out for the month of October the portfolio lost only four basis points. Even though it was a loss, it wasn't the magnitude we've seen over the past six to twelve months. He stated the market seems to have finally taken a breather recently. Mr. Caldwell stated the Fed hiked another 75 basis points as expected, in November while signaling slower tightening as soon as December. The policy focus now shifts to how high the Fed funds rate will go and how long it will stay there. Market volatility is certainly still there but not the magnitude we've seen. As a quick side note, he stated returns for November were positive by 48 basis points. Looking across longer time periods, the Intermediate Pool has suffered negative returns out to the three-year mark. Returns are positive at the five- and ten-year time periods, as well as since inception. The portfolio has performed as intended, even with the negative returns. Mr. Caldwell stated the portfolio has performed inside the range of the two referenced benchmarks, not as bad as benchmark A but, not as good as benchmark B. The Commission took no action.

Limited Pool Performance - Ms. Bechtel presented the Limited Term Pool monthly report and directed the Commission to the Limited Term Pool monthly performance graph, attachment D, page 15. She stated that the performance graph compares the performance of the portfolio to the Benchmarks. This being the Local Government Investment Pool and the Fed Funds Rate Index. The portfolio performance underperformed for both. She then directed the commission to page 16 of the PDF, detailing the current list of securities for the Limited Pool as of the end of October. Ms. Bechtel stated that all securities are all high quality which includes the Government Money Market Funds. The total portfolio is approximately \$3.0 billion for the end of October, which is an increase of approximately \$300 million from the previous month.

The next page illustrated the Pool Ratings and Sector Distribution. The portfolio is invested in high quality assets and the Sector Distribution shows that the portfolio continues to be invested in Treasury and Government Agency Securities.

Ms. Bechtel points out the Liquidity and Maturity page, the Limited Pool continues to stay within the guidelines for Maturity and Liquidity. For October, the Weighted Average Maturity was around 35 days, and the last three-month average being around 31 days. She stated they continue to purchase securities to mature in the next several months to cover outflows. The daily liquidity was around 30% and weekly around 40% for October which is above the requirements. Ms. Bechtel directed the commission to page 19 of the PDF, showing the Net Asset Value graph of the Limited Portfolio. The line of the shadow NAV continues to show fluctuations in value but has not exceeded 0.0025 level to trigger a notification to SIC. She stated the maximum divergence did increase to 0.000574 but, is still within guidelines. This divergence occurred on July 18, 2022. She then directed the commission to turn to attachment D showing the memo detailing transactions and largest accounts in the portfolio. The largest daily withdrawals listed were outgoing wires for University of Kentucky, in September and October. The largest daily withdraws listed are outgoing wires to the University of Kentucky, in September and October. The largest accounts being the University of Kentucky, Medicaid, and Personnel Health Self Insurance account. She ended with stating the staff will continue to maintain daily and weekly liquidity of 15% and 30% respectively. The Commission took no action.

Cash Flow – Ms. Lee presented the Monthly Average Investable Balances Cash Flow Summary. The dark blue line is fiscal year 2023, at the end of October, we stood at about \$11 billion. The General Fund receipts decreased 1.7% for September, compared to September 2021. However, excluding the one-time settlement amount that occurred during September of 2021, receipts are up 15.6%. For October they increased 15.2%, compared to October 2021. This brought the year-to-date receipts up 6.5%, or excluding the one-time settlement last September, 12.1%. The Commission took no action.

Credit Considerations – Mr. Caldwell directed the Commission to the first page of attachment F and presented that there were no additions or subtractions to the list, nor were there any name changes. He asked for the Commission’s approval as presented. Treasurer Ball called for a motion. A motion was made by Mr. Brashear and was seconded by Mr. McDaniel. Motion **CARRIED**.

Additional Discussion Item(s) – Ms. Bechtel presented a brief update regarding the Custody RFP. She stated our current contract with our custodial bank has entered renewal, ending June 30, 2023. Completed documents should be distributed the first of the year. She then brought to the committee’s attention that they have been working on an Excess Liquidity Account at JP Morgan Chase. Issues occurred where the earnings credit rate was increasing, resulting in the invoice showing we are earning more than the charges incurred and will not receive the extra in earnings. We are working on a solution for this with Chase which should be resolved by the end of the month. Mr. McDaniel stated that others are seeing the same issues with their accounts as well.

There being no further business, Treasurer Ball called for a motion to adjourn. Ms. Carlin made a motion to adjourn and was seconded by Mr. Brashear. With no further business before the Commission, the meeting adjourned at 2:46 PM ET.

Respectfully submitted,

Ryan Barrow

Ryan Barrow
Secretary