

**STATE INVESTMENT COMMISSION
MINUTES
DECEMBER 8, 2021
2:30 PM**

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Wednesday, December 8, 2021, at 2:30 PM ET 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. Edgar C. Ross, State Controller and Executive Director, Office of the Controller, Elizabeth Carlin, proxy for Holly M. Johnson, Secretary, Finance and Administration Cabinet (“FAC”) and Paul Goodpaster, representing the Bluegrass Bankers Association.

Office of Financial Management (“OFM”) Staff Present: Ryan Barrow, Executive Director of OFM and Secretary to the Commission; Brian Caldwell, Deputy Executive Director, Daniel Auxier, Kim Bechtel, Amber Lee and Aubry McDonald.

Other Guests: Brian Ingle, Division Director, State Treasurer and Korey Sallee, Legislative Research Committee (“LRC”).

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 29, 2021, meeting. Mr. Ross noted there needed to be a word change within the minutes. A motion was made by Ms. Carlin to make the change and was seconded by Mr. Ross. A motion was made by Mr. Goodpaster and was seconded by Mr. Ross to approve the minutes with the noted change. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow stated 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, starting on PDF page 10, titled Intermediate Term Pool Fundamentals. He reported the market value of the pool ended in November just under \$2.9 billion and in-line with both October and September. The yield was 42 basis points at the end of November, which was a little less than Benchmark A by 7 basis points but 21 basis points more than Benchmark B. He stated for the prior 2 months, there were very similar differences with the Intermediate Pool landing between the 2 referenced benchmarks. And as a reminder, the composition of the reference benchmarks is listed below. The average credit quality of the portfolio is AAA by Moody’s. At the end of November, duration was 1.31, placing it right in-between both Benchmarks A and B. Over the past three months, the portfolio was pretty flat on a net basis with only \$5.9 million inflow. He points out how the Portfolio Sector Allocations page gives a visual snap shot 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 the main difference since we last met in September was a 4% increase to Treasury sector, representing 67% of the portfolio as of November. The 4% came from a reduction in Agency, Cash and ABS sectors.

The other three sectors, Corp, MBS and Money Market Securities were unchanged. He continued with the Portfolio Performance page, with Performance numbers through the end of November. 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 there was very slight negative return for November of three basis points and negative returns for the three-month, six-month, fiscal year to date and one year time periods. He stated it's been a tough market for fixed income over the last few months and the Intermediate Pool was no exception, even with a duration of only a year, there is still interest rate risk in the portfolio. As inflation worries escalate and expectations of rate hikes going forward, market values have suffered. However, this is a good reminder to look at longer term performance instead of short-term time periods which tend to be much more volatile. And, as you can see, the three-year, five-year, ten-year and since inception return numbers are consistent with the benchmarks and positive. 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. 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. She reported that rates are slightly under the benchmark, due to continuing investment in shorter maturities. She stated treasury rates continue to stay low for the short maturity dates. 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 November. Ms. Bechtel stated that all securities are all high quality which includes the Government Money Market Funds. The total portfolio is slightly under \$2.1 billion for the end of November, which is an increase of approximately \$50 million from the previous month.

The next page illustrated the Pool Ratings and Sector Distribution. The portfolio is invested in high quality asset 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 November, the Weighted Average Maturity was around 13 days, and the last three-month average being around 14 days. She stated now that it is December, we have purchased securities to mature in 2022 in preparation for calendar year end, while continuing to maintain cash to cover any outflows. The daily liquidity was around 45% and weekly around 64% for November which continues to be 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 be straight which means there have been no issues with the value of the securities in the portfolio. 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 to the University of Kentucky, in September and October. The largest weekly withdrawals were also total wires to the University of Kentucky, in September and November. The largest individual accounts are the University of Kentucky, Personnel Health Self-Insurance and Medicaid Benefits 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 including Federal Relief Funds. She stated the graph looks a little different, removing the two-year

average line and added each fiscal year separately, for a better visual. The green line is the current fiscal year 2022, starting the year at just over \$8 billion. At the end of November, we stood at a \$7.6 billion. General Fund receipts rose 35% for September including a onetime legal settlement payout, excluding the settlement, receipts still rose 14.8% over September 2021. For October, receipts rose 10.5%, compared to October 2020 and brought the year-to-date receipts up 17.6%. She stated there was a slight downturn for November. The General Fund Receipts posted a quarterly gross of 20%, which is a rare occurrence to see double digit growth. For reference Mr. Goodpaster referred to the 2020 line and asked if it was safe to say the impact of the pandemic, based on stimulus and a few other things, has been the difference between the dark blue line and green line. Mr. Caldwell confirmed that to be true. Mr. Ross added the General Fund has been very positive this year. Mr. Goodpaster asked is there is an anticipation of how long that cash will be sitting in bank or investment accounts. Mr. Caldwell stated we have received \$3.2 and spent \$2.4, already so the money is going out. In terms of how quick and when he directed that would be a question for another group. Mr. Goodpaster and Treasure Ball then touched on the stimulus checks being staggered and there is a time frame on when they need to be spent. Mr. Goodpaster stated that it is safe to believe that we will be back close to the dark blue line and somewhat back to normal. Treasure Ball stated that was a good question presented by Mr. Goodpaster. The Commission took no action.

Credit Considerations – Mr. Auxier directed the Commission to the first page of attachment F and presented that there was no change to the Corporate Credit approved list this past quarter and the list remained the same. Treasurer Ball called for a motion. A motion was made by Mr. Goodpaster to approve both lists and was seconded by Ms. Carlin. Motion **CARRIED**.

There being no further business, Treasurer Ball called for a motion to adjourn. Mr. Goodpaster made a motion to adjourn and was seconded by Ms. Carlin. With no further business before the Commission, the meeting adjourned at 2:47 PM ET.

Respectfully submitted,



Ryan Barrow
Secretary