

STATE INVESTMENT COMMISSION
MINUTES
MARCH 15, 2022
2:30 PM

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Tuesday, March 15, 2022, via Zoom conference call 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”); Fred Brashear, 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 and Secretary to the Commission; Brian Caldwell, Deputy Executive Director of Investments; Daniel Auxier; Kim Bechtel; Amber Lee; Steven Starkweather, Deputy Executive Director of Debt; Melissa Perry 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 December 8, 2021, meeting. A motion was made by Mr. Ross and was seconded by Mr. Goodpaster 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 has hovered just over \$2.9 billion for the past three months and the yield increased significantly over same time frame. He directed the audience to the right side of the page under December, the Intermediate Pool, and stated the yield has gone from 50 basis points to 91 basis points in January and ending February at 118 basis points. Because of the volatility in rates recently, we will see the market value affects in the return numbers for the portfolio. He stated there is good and bad for rising interest rates. Good in the sense that we are able to invest new cash at higher rates, earning more interest. The bad is current holdings will fall in market value. Which is bond math 101, as interest rates rise, prices fall. Mr. Caldwell stated he would speak more about this issue when we get to the performance page. The average credit quality of the portfolio is AAA by Moody’s. At the end of February, duration was 1.46 and very close to the same for January at 1.43. The slight increase in duration from 1.25 in December to 1.43 in January was a result of moving money out of money market into Agency securities as rates rose. And, for comparison purposes he stated, you can see the portfolio’s duration was in-between both

referenced benchmarks in each of the three months. Over the past three months, the portfolio had a net inflow of \$109 million. The majority of that was in February due to increases in the Road Fund and UK accounts. 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 they lowered the allocation to money market securities and increased the Agency sector by 8% taking advantage of rising interest rates. That was the only main difference since last reported in December and all remaining sectors were basically unchanged. He continued with the Portfolio Performance page, with Performance numbers through the end of February. 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 that there are a lot of negative numbers out to the one year point. As expected, 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, even though those returns were negative as well. The monthly negative performance for December, January and February alone has caused the six-month, Fiscal year to date and one-year numbers to be negative as of February. Longer-term performance for the Pool is positive with the three-, five- and ten-year numbers being in the one percent range and closely matching the benchmarks. He stated this is a great example of marked to market portfolios such as the Intermediate Pool experiencing short-term market volatility, but not long-term losses. The market has not been kind to fixed income investors over the last three months. Starting the year, the market expected the Federal Reserve to begin raising interest rates 25 basis points at four meetings during 2022, going from zero to one percent. He stated when one of the Board members mentioned they could potentially raise rates 50 basis points at one meeting catching the market by surprise, the market began selling off, meaning interests rates rose. In reference to how much they rose, the two-year Treasury started the month of December at 55 basis points. At the end of February, the rate was 143 basis points, a difference of 88 basis points. Mr. Caldwell stated that was a 90 basis point move over a three month period. That's a shock to the system when expectation was for 100 basis point movement to happen over 12 months, not three.

Treasurer Ball asked Mr. Caldwell if he has any concerns for which he stated he did not and that this is just market fluctuation that happens and nothing to worry about. 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 the portfolio performed slightly better than the Local Government Investment Pool but the same as the Fed Funds Rate Index. She stated short-term treasury rates are rising in anticipation of upcoming rate movement during the scheduled fed meetings. 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 February. Ms. Bechtel stated that all securities are all high quality which includes the Government Money Market Funds. The total portfolio is slightly under \$2.3 billion for the end of February, which is an increase of approximately \$254 million from the previous month. The difference is due to a substantial increase in one of the University of Kentucky accounts which was anticipated this time of year.

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 February, the Weighted Average Maturity was around 28 days, and the last three-month average being around 24 days. She stated they have continued to purchase securities to mature in several months, while continuing to maintain cash to cover any outflows. The daily liquidity was around 29% and weekly around 38% for February 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 stated the maximum divergence of 0.00023 occurred in March of 2020. The slight movement that happened last month didn't exceed that maximum divergence that has been listed over the past two years. 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 and Medicaid Benefits, in December. The largest weekly withdrawals were also total wires to the University of Kentucky, in December and January and Medicaid Benefits, in December. 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.

Treasurer Ball asked Ms. Bechtel what would happen if we did go past the 0.0025. Ms. Bechtel stated that there would be a notification and it could be brought in front of the SIC Commission for a decision of what to do. The Commission took no action.

Cash Flow – Ms. Lee presented the Monthly Average Investable Balances Cash Flow Summary. The green line is the current fiscal year 2022, at the end of February, we stood at about \$8.6 billion. For the General Fund we continued to see monthly double digit percentage growth through January. For December receipts rose 10.4% compared to December of 2020. For January, receipts rose 12.7% and marked the sixth consecutive month of double-digit percentage growth. This has not occurred since Fiscal Year 1991. In February, receipts rose 4.7%, and brought the year-to-date receipts up 14.2%. Collections for February 2022 are also the largest on record for the month of February. 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 Mr. Brashear. Motion **CARRIED**.

Treasurer Ball presents **Resolution 2022-01**:


A RESOLUTION OF THE STATE INVESTMENT COMMISSION OF THE COMMONWEALTH OF KENTUCKY ABSTAINING FROM DIRECT RUSSIAN INVESTMENTS UNTIL U.S. SANCTIONS ON RUSSIA HAVE BEEN LIFTED

Treasurer Ball presented Resolution 2022-01 for the approval of the State Investment Commission of the Commonwealth of Kentucky to abstain from direct Russian Investments until U.S. sanctions on Russia have been lifted. Effective March 15, 2022. Staff recommends approval.

Mr. Ross points out the fifth “whereas” is misspelled. A motion to amend was made by Ms. Carlin to fix the spelling error and seconded by Mr. Ross. A motion to approve as amended was made by Ms. Carlin to approve Resolution 2022-01 was seconded by Mr. Brashear. 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 Mr. Brashear. With no further business before the Commission, the meeting adjourned at 2:48 PM ET.

Respectfully submitted,



Ryan Barrow
Secretary