

**STATE INVESTMENT COMMISSION**  
**MINUTES**  
**JUNE 21, 2022**  
**2:30 PM**

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Tuesday, June 21, 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. 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 Fred Brashear, representing the Kentucky 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 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 March 15, 2022, meeting. A motion was made by Mr. Brashear 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 averaged \$3.2 billion for the past three months ranging from a low \$2.9 billion in March to just under \$3.4 billion as the end of May. The yield continues to increase as the market prices in Federal Reserve interest rate hikes to fight inflation pressures. Mr. Caldwell stated he would speak more about this issue when we get to the performance page. He directed the audience to the right side of the page under March, the Intermediate Pool, and stated the yield has gone from 181 basis points to 212 basis points in April and ending May at 208 basis points. The average credit quality of the portfolio is AAA by Moody’s. Not much movement in duration for the portfolio over the past three months as we averaged almost a year and a half and ended May at 1.42. 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 net inflow of \$443 million over the past three months with the majority being in April and May having inflows of 249 million and 182 million, respectively. The large inflow for April was due to a debt deal closing for \$100 million and a new account for \$120 million. For May, most of the inflow was due to Road Fund receivables from the Federal government. 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 in allocations with all referenced sectors being within 1% since our last report in March. He continued with the Portfolio Performance page, with performance numbers through the end of May. 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 May was a slight reprieve from the prior nine months of negative monthly returns posting a positive 41 basis points for the month. Performance in March alone, which was down 1% and the worst one-month performance since July 2003, helped cause the cascading effect of negative returns out to the one-year mark. 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. Longer-term performance for the Pool as represented by the three, five, ten and since inception dates, is positive and closely matching the benchmarks. He stated the Federal Reserve began raising rates at the March meeting, increasing the Fed Funds rate by 25 basis points, and indicated more rate increases over the coming months. After the March meeting, it became apparent that inflation was a bigger problem than the Fed and much of the market expected. The prospect of a faster policy shift emerged quickly with the size of future rate hikes changing from 25 to 50 basis point increments being priced in the market. Mr. Caldwell stated, in fact, they rose rates 50 basis points in May to 75. With the Consumer Price Index printing the highest number in 40-years at 8.6% for May just a few weeks ago, the Fed only a few days later raised rates 75 basis points moving the rate to 1.5%, the largest rate increase since 1994. Now, markets have priced in a Fed Funds rate of 3.5% at the end of 2022, with the expectation they will move 75 basis points again, in both July and September, bringing the rate to 3% with the remaining 50 basis point balance split between meetings in May and December. Mr. Caldwell stated rates have been extremely volatile over a short time. When we started the year, the two-year Treasury was yielding 73 basis points. Just last week that same two-year Treasury was 343 basis points, a 270-point difference. 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 while slightly underperformed in comparison to the Fed Funds Rate Index. She reported that the portfolio performed the same as the Local Government Investment Pool but the same as the Fed Funds Rate Index. She then directed the commission to page 17 of the PDF, detailing the current list of securities for the Limited Pool as of the end of May. Ms. Bechtel stated that all securities are all high quality which includes the Government Money Market Funds. The total portfolio is slightly over \$2 billion for the end of May, which is a decrease of approximately \$300 million from the previous month. The difference is due to a delay in posting a large deposit in eMars which also affected the daily liquidity for the month of May.

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 Maturity but not on Liquidity. For May, the Weighted Average Maturity was around 35 days, and the last three-month average being around 30 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 12% and weekly around 22% for May which is below the requirements but are anticipating a deposit of \$270 million that was sent on May 27<sup>th</sup> to post to eMars by month end but did not actually post until June 1st. Ms. Bechtel directed the commission to page 20 of the PDF, showing the Net Asset Value graph of the Limited Portfolio. The line of the shadow NAV shows some fluctuations in value but has not exceeded 0.0025 level to trigger a notification to SIC. She stated the maximum divergence of 0.000349 but, is still within guidelines. This divergence occurred on April 15, 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 for Medicaid in March and for wires to the University of Kentucky, in March and May. 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. The green line is the current fiscal year 2022, started in July just over \$8 billion and at the end of May, we stood at about \$10.3 billion. In May 2022, we received nearly \$1.1 billion from the American Rescue Plan Act, the State Local Fiscal Recovery Fund. The General Fund receipts increased 9.0% for March, 34.9% for April and 0.9% for May. This brought the year-to-date receipts up 14.8%. April also had the highest monthly amount of receipts ever reported at \$1.84 billion. 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. Brashear to approve both lists and was seconded by Mr. Ross. Motion **CARRIED**.

**Approval of NRSRO's** – Mr. Auxier presented the Nationally Recognized Statistical Rating Organizations (“NRSRO”) for fiscal year 2023 chart stating this approval process is done once a year during the June meeting. Staff recommended the Commission approve S&P, Moody's and Fitch as the NRSROs used in determining investment compliance for Fiscal Year 2023. Treasurer Ball called for a motion. A motion was made by Ms. Carlin to approve both lists and was seconded by Mr. Brashear. Motion **CARRIED**.

**Broker-Dealer List** – Mr. Auxier presented the list of Primary Dealers and Non-Primary Dealers for Fiscal year 2023. A short presentation was prepared outlining the process to provide more clarification of how the list is created and maintained. He noted there are no additions or changes to list this year but, only a name change from BMO Capital Markets Corporation and recommended approval of the list as presented.

Ms. Carlin presented a question regarding procedures done for integrity other than looking at the four elements within the KAR. Mr. Auxier stated that they only look at what is listed within the regulation and confirmed by the Federal Reserve. Treasurer Ball called for a motion. A motion was made by Mr. Ross to approve both lists and was seconded by Mr. Brashear. Motion **CARRIED**.

There being no further business, Treasurer Ball called for a motion to adjourn. Mr. Brashear made a motion to adjourn and was seconded by Mr. Ross. With no further business before the Commission, the meeting adjourned at 2:55 PM ET.

Respectfully submitted,

*Ryan Barrow*  
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Ryan Barrow  
Secretary