

STATE INVESTMENT COMMISSION
MINUTES
SEPTEMBER 13, 2022
2:32 PM

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Tuesday, September 13, 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”), 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 and Aubry McDonald.

Other Guests: Brian Ingle, Division Director, State Treasurer, Brittany Warford, General Counsel, State Treasurer, Alex Fisher, FAC, Korey Sallee, Legislative Research Committee (“LRC”), Jeffrey Sundheimer, JP Morgan, Karl Lamar, JP Morgan and Greg Mullins, JP Morgan.

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 June 21, 2022, meeting. A motion was made by Mr. Brashear and was seconded by Ms. Carlin 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 \$3.4 billion for the past three months ranging from a low \$3.1 billion in June to just under \$3.8 billion as the end of August. 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 June, the Intermediate Pool, and stated the yield has gone from 272 basis points to 275 basis points in July and ending August at 322 basis points. The average credit quality of the portfolio is AAA by Moody’s. For duration, under June, it has moved from 1.46 to 1.29 in July and finished August at 1.15. 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 \$417 million over the past three months with the majority being in August, with June and July netting only \$30 million outflow. The large inflow for August was due to new account openings as money was moved from COVID Relief Funds to other accounts. 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 the only meaningful changes since May was an increase of 6% to money market securities making the total allocation 9%. All other sectors were within 1%. He continued with the Portfolio Performance page, with performance numbers through the end of August. 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 August was another tough month for fixed income portfolios. In fact, it's been a very tough twelve months. Over the past year, only two of the twelve months had positive returns, May, and July. He stated the Intermediate Pool has suffered negative returns for all time periods out to the one-year mark and now, even the three-year number is slightly negative with a ten-basis point loss thanks to March alone, which was down 1%. Returns are positive at the five-year, ten year and since inception time periods. Mr. Caldwell stated the portfolio has performed as intended, even with the negative returns. 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. Chair Powell, during his late-August Jackson Hole speech, underscored the Fed's singular focus on inflation, saying the pain from higher interest rates is preferable to the "far greater pain" from failing to restore price stability. Powell's speech and further hawkish Fed commentary sent asset prices lower as markets realized a "softish landing" is increasingly unlikely. Mr. Caldwell stated, in June, he was hoping to say things have calmed down at this meeting but, that is certainly not the case, and he expects volatility to continue through at least the end of the year, if not longer. Treasurer Ball asked for Mr. Caldwell to explain the loss showing on page 11 from June 30, 2022, to which he stated was due to a debt service payment that was done for that month. Mr. Caldwell had no concerns and stated these results were unfortunately all due to the recent market conditions. 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. The portfolio performance underperformed for both. 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 August. Ms. Bechtel stated that all securities are all high quality which includes the Government Money Market Funds. The total portfolio is approximately \$2.7 billion for the end of August, which is an increase of approximately \$200 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 but not on Liquidity. For August, the Weighted Average Maturity was around 28 days, and the last three-month average being around 28 days. She stated they continue to purchase securities to mature in the next several months to cover outflows. The daily liquidity was around 31% and weekly around 29% for August which is above the requirements. 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 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 Medicaid and Turnpike in June and University of Kentucky, in August. 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 dark blue line is fiscal year 2023, at the end of August, we stood at about \$11 billion. The General Fund receipts increased 9.7% for July, compared to July 2021. For August they increased 6.6%, compared to August 2021. This brought the year-to-date receipts up 8.2%. The Commission took no action.

Credit Considerations – Mr. Auxier directed the Commission to the first page of attachment F and presented that the only thing to note was a name change to Total Services Energy, Inc. on the Corporate Credit approved list. Other than that, there were no additions or subtractions to the list. Treasurer Ball called for a motion. A motion was made by Ms. Carlin to approve both lists and was seconded by Mr. Ross. Motion **CARRIED**.

Depository Banking Services – Mr. Mullins, Mr. Lamar and Mr. Sundheimer, from JP Morgan, made a presentation to the Commission. Mr. Mullins gave a summary of the relationship between the Commonwealth and J.P. Morgan. Mr. Sundheimer and Mr. Lamar discussed current trends in government, receivables, and payables; how J.P. Morgan has helped to support the Commonwealth in the last few years; and how they can continue to support the Commonwealth. A hard copy of the presentation was provided to the Commission.

There being no further business, Treasurer Ball called for a motion to adjourn. Mr. Ross made a motion to adjourn and was seconded by Mr. Brashear. With no further business before the Commission, the meeting adjourned at 3:18 PM ET.

Respectfully submitted,

Ryan Barrow

Ryan Barrow
Secretary