

STATE INVESTMENT COMMISSION
MINUTES
JUNE 15, 2021
2:00 PM

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Tuesday, June 15, 2021, at 2:00 PM ET via ZOOM video teleconference by Allison Ball, Kentucky State Treasurer. Treasurer Ball asked for a roll call. Other members present were Elizabeth Carlin, proxy for Holly M. Johnson, Secretary, Finance and Administration Cabinet (“FAC”); and W. Fred Brashear, II, 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, Daniel Auxier, Kim Bechtel, Amber Lee and Aubry McDonald.

Other Guests: Brian Ingle, Division Director, 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 March 23, 2021, meeting. A motion was made by Mr. Brashear and was seconded by Ms. Carlin to approve the minutes as written. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow stated there were no Statute or Administrative Regulation violations during the period of March 1, 2021 – March 31, 2021. He noted the Federal Relief Aid was put into money markets which is prudent to invest in high grade, short-term and high liquidity. He states this was a similar investment strategy as the last amount of money that was received from the Federal Government. Mr. Barrow just wanted to flag this but reiterated no Regulation or Statute was broken.

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 May just under \$3 billion and in-line with both April and March at around \$3 billion, as well. The yield was 21 basis points at the end May, which matched Benchmark A and was 14 basis points more than Benchmark B. He stated the average credit quality of the portfolio is AAA by Moody’s. At the end of May, duration was 1.35, which represents about a year and four months and right in-between both Benchmarks A and B. Over the past three months, the portfolio averaged \$30 million outflow with a total of \$91 million going out over that time period. 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. Mr. Caldwell stated, the only meaningful difference since we last met in February was a 6% increase to Treasuries, now representing 70% of the portfolio. The 6% came from a reduction in money market securities of 3%, with the remaining 3% coming from ABS, Cash and Agency of 1% each. The remaining two sectors, Corporates and Mortgage-Backed, were unchanged. 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. Stating very small returns for the past year as represented by time periods under 1 year which are unannualized. Mr. Caldwell noted, while returns have been small, at least they have been positive versus Benchmark A having negative returns for the 1, 3 and 6 month time periods. For time periods greater than 1 year, the portfolio performed slightly better than Benchmark B again, represented by the green bar. And when compared to Benchmark A, under-performance for the 3 Year time period but very much in-line with all other time periods listed. 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. She reported that rates are slightly under the benchmark, due to continuing investment and shorter maturities. She stated short term rates have been negative due to the amount of cash that has hit the market with the money sent by the Federal Government. She then directed the commission to page 16 of the PDF, detailing the current list of securities that are held in the portfolio. Ms. Bechtel stated that they are all high quality which includes a Government Money Market Fund. The total portfolio is approximately \$2.1 billion for the end of May, 2021, which is an increase of \$300 million from the previous month.

The next page illustrated the Credit Rating Distribution as of the end of May, 2020. The portfolio is invested in high quality asset and the Sector Distribution shows that the portfolio continues to be invested in Government Agency Securities.

Ms. Bechtel points out the Limited Pool continues to stay within the guidelines. For May, the weighted average maturity was around 8%, and the last three month average being around 15%. She states since there hasn't been much availability to securities to purchase limit, pool cash has been invested in money market funds that have daily liquidity. The daily liquidity was around 70% and weekly around 85% for May which continues to be well above the requirements. Ms. Bechtel directed the commission to page 19 of the PDF, showing the net asset value graph of the Limited Pool. The line of the shadow NAB 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 and weekly withdraws listed were to the University of Kentucky, in March and May and to the Medicaid Benefits Fund, in March. The largest individual accounts, Personnel Health Self-Insurance being the largest, followed by the University of Kentucky and Medicaid Benefits Fund. She ended with stating the staff will continue to maintain daily and weekly liquidity of 15% and 30% respectively.

Treasurer Ball asked about the influx of Federal dollars and what to do with them, questioning should they be segregated or invested. She then asks if OFM feels comfortable with how to handle this and have they gotten enough direction from the Treasury. Mr. Barrow states going with a fairly conservative approach driven by the lack of cash flow knowledge. He states it's more about how the money is going to be spent, since never doing this before there isn't really a "blue print" to

follow. He states the money market does not produce much yield but, it is the most protected and is what drove this decision. He then states with inflation driving up rates taking duration risk is not something we want to do without a good feel of where the cash is spent. Treasurer Ball then brings up the grant money and if it is segregated then the interest will have to go back to Federal level and if it is not segregated then the interest is kept. Ms. Carlin confirms Treasurer Ball's statement as being true but still may be some uncertainty. The Commission took no action.

Cash Flow – Ms. Lee presented the Monthly Average Investable Balances Cash Flow Summary graph chart stating in May 2021 \$1.3 billion was received from the American Rescue Plan Act which was invested across four treasury money market mutual funds. The General Fund receipts, for the end of May were up 56.7% compared to last May. The General and Road Fund receipts for fiscal year to date are up 14.3% and 0.9% respectively. The Commission took no action.

Credit Considerations – Mr. Auxier directed the Commission to the first page of attachment F and presented that there was a change to the Corporate Credit approved list and noted IBM was removed this past quarter due to a downgrade that places them below our minimum standard. He stated there were no other changes this past quarter. Treasurer Ball called for a motion. A motion was made by Mr. Brasher to approve both lists and was seconded by Ms. Carlin. Motion **CARRIED**.

Approval of NRSRO's – Mr. Auxier presented the Nationally Recognized Statistical Rating Organizations ("NRSRO") for fiscal year 2022 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 2022. Treasurer Ball called for a motion. A motion was made by Mr. Brasher to approve both lists and was seconded by Ms. Carlin. Motion **CARRIED**.

Broker-Dealer List – Mr. Auxier presented the list of Primary Dealers and Non-Primary Dealers for Fiscal year 2022. He noted there are not changes this year recommended approval of the list as presented. 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**.

There being no further business, Treasurer Ball called for a motion to adjourn. Mr. Brashear made a motion to adjourn and was seconded by Ms. Carlin. With no further business before the Commission, the meeting adjourned at 2:17 PM ET.

Respectfully submitted,



Ryan Barrow
Secretary