

**STATE INVESTMENT COMMISSION
MINUTES
SEPTEMBER 29, 2021
2:30 PM**

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Wednesday, September 29, 2021, at 2:30 PM ET via ZOOM video teleconference 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”), W. Fred Brashear, II, representing the Kentucky Bankers Association and Paul Goodpaster, representing the Bluegrass Bankers Association, to be sworn in under item 2.

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 conducts the swearing into office of Mr. Paul Goodpaster, virtually at 2:32 pm. She asks Mr. Goodpaster to raise his right hand as she read the Oath of Office; “I solemnly swear (or affirm, as the case may be) that I will support the Constitution of the United States and the Constitution of this Commonwealth, and be faithful and true to the Commonwealth of Kentucky so long as I continue a citizen thereof, and that I will faithfully execute, to the best of my ability, the office of the State Investment Commission according to law; and I do further solemnly swear (or affirm) that since the adoption of the present Constitution, I, being a citizen of this State, have not fought a duel with deadly weapons within this State nor out of it, nor have I sent or accepted a challenge to fight a duel with deadly weapons, nor have I acted as second in carrying a challenge, nor aided or assisted any person thus offending, so help me God”. Mr. Goodpaster responded with “I do” and Treasurer Ball confirms that he is now sworn in and a commissioner of the committee and confirms he can vote in the meeting today. She then welcomes Mr. Goodpaster and gives him a few minutes to say a few words of hello.

Treasurer Ball called for a motion to approve the minutes from the June 15, 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 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 August just under \$2.9 billion and in-line with both July and June. The yield was 19 basis points at the end of August, which was a little less than Benchmark A by 9 basis points but 10 basis points more than Benchmark B. He stated for the prior 2 months, July and June, there were very similar differences with the Intermediate Pool landing between the 2 referenced benchmarks. And, the composition of the reference benchmarks are listed below. The average credit quality of the portfolio is AAA by Moody's. At the end of August, duration was 1.39, which represents about a year and three months and right in-between both Benchmarks A and B. Over the past three months, the portfolio averaged \$118 million outflow with the majority of that happening in June with a debt service payment before fiscal year-end. 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 June was a 7% increase to Money Market Securities, representing 11% of the portfolio as of August. The 7% came from a reduction in Treasuries, as we had maturities roll off to fund Road Fund outflows and we parked the cash in money market securities. Every other sector, ABS, Corp, Cash, MBS and Agencies were unchanged. 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 there was very slight negative return for August of two basis points but positive, small returns for the three-month, six-month, fiscal year to date and one year time periods. With the Federal Reserve holding interest rates at zero since the pandemic started in early 2020, he stated we can see that reflected in the total return numbers. For time periods greater than one year, the portfolio performed in-between the two benchmarks. 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 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 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 \$1.9 billion for the end of August, 2021, which is an increase of \$50 million from the previous month.

The next page illustrated the Credit Rating Distribution as of the end of August 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 August, the weighted average maturity was around 25%, and the last three-month average being around 26%. She states since the fiscal year has started they have purchased securities to mature on large outflow days and place less cash in Government Money Market Funds. The daily liquidity was around 27% and weekly around 40% for August 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 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 Medicaid Benefits Fund, in June, the Turnpike Authority, in June and the University of Kentucky, in July. The largest weekly withdrawals listed were to the Medicaid Benefits Fund, in June, the University of Kentucky, in July and the Turnpike Authority, in July. The largest individual accounts, the University of Kentucky, Personnel Health Self-Insurance 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 one portfolio that has the \$50 million increase and that is an unusual amount. Ms. Bechtel stated it is not unusual to see some increases, \$50 million is considered small in this case. Mr. Barrow added the University of Kentucky does move money in and out quite a bit and that is why they are monitored. The Commission took no action.

Cash Flow – Ms. Lee presented the Monthly Average Investable Balances Cash Flow Summary including Federal Relief Funds for July and August, followed the two-year downward trend due to spending at the beginning of the new fiscal year including debt payments and transportation projects. Revenues continue to be up with the General and Road Fund receipts for fiscal year to date at 10.4% and 2.8% respectively. Treasure Ball asks about the steep dip and wanted confirmation that this was due to the influx of Federal Dollars and the spending of Federal Dollars. Mr. Caldwell confirmed that to be true. 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. Ross. 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 2:45 PM ET.

Respectfully submitted,



Ryan Barrow
Secretary