

STATE INVESTMENT COMMISSION
MINUTES
MARCH 23, 2021
11:00 AM

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Tuesday, March 23, 2021, at 11:00 AM 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”); John T. Hicks, State Budget Director, Office of the State Budget Director (“OSBD”), permanent proxy for Governor Andy Beshear; 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: Edgar C. Ross, State Controller and Executive Director, Office of the Controller and 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 December 15, 2020, meeting. A motion was made by Ms. Carlin and was seconded by Mr. Brashear to approve the minutes as written. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow stated there were no notifications from Bloomberg Compliance nor any violations during this 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 February a little over \$3 billion, which was higher than January at \$2.9 and December, at \$2.8 billion. The yield was 22 basis points at the end February, which was very close with Benchmark A and 13 basis points more than Benchmark B. For the prior two months, January and December, yield was in-line with the Benchmark A and slightly more than Benchmark B. He stated the average credit quality of the portfolio is AAA by Moody’s. At the end of February, 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 \$119 million inflow with a total of \$358 million coming 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 inflow of cash allowed them to increase their allocation to the Treasury and Agency sectors by 3% each. The remaining sectors were unchanged or slightly lower, by only 1% to 2%, since our last meeting in December. 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. Stating the last week of February was tough for fixed income portfolios as worries about inflation caused a strong sell-off with the ten year Treasury rate spiking close to 50 basis points for the month. Even with a much shorter duration than the ten year Treasury, the Intermediate Pool was not able to dodge the sell-off with a slight loss for February and the three month time period but, did perform slightly better than Benchmark A, but not as good as Benchmark B with very small positive returns. For time periods one year and longer, the portfolio matched or performed slightly better than Benchmark B again, represented by the green bar. Compared to Benchmark A, obvious under-performance because of the duration mismatch.

Treasurer Ball asked if there were any concerns with the fixed income. Brian sated he had no concerns at all. 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 are still very low with very little return. 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 slightly above \$1.8 billion for the end of February, 2021, which is an increase of \$200 million from the previous month.

The next page illustrated the Credit Rating Distribution as of the end of February, 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 February, the weighted average maturity was around 20%, and the last three month average being around 15%. She states they had the opportunity to take some of the maturities further out, which slightly increased the average maturity. The daily liquidity was around 33% and weekly around 40% for February which continues to be above the requirements. Ms. Bechtel stated that they like this graph to be boring, which means there are not any issues. 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 again, to the University of Kentucky. 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. The Commission took no action.

Cash Flow – Ms. Lee presented the Monthly Average Investable Balances Cash Flow Summary graph chart stating there is a little different look than last time. She stated they have now included federal relief money, after it was suggested they do so last meeting. In April 2020 just under \$1.6 billion was received which was invested across four treasury money market mutual funds. In

January 2021 an additional \$254 million was dedicated to rent relief and as of February 2021 just under \$1.4 billion had been used, leaving a balance of \$482 million. Ms. Lee stated that so far, the month of December has had the most spending of the Federal Relief money, as the deadline was extended. She also mentioned that General and Road Fund receipts at fiscal year to date are at 5.6% and 0.3% respectively. The month of December really stood out with General Fund receipts up 16.1% for the month compared to last December. Director Hicks made the comment regarding the past American Rescue Plan Act. The U.S. Treasury is allocating approximately \$2.6 billion to the Commonwealth of Kentucky. Within 60 days of the certification they will release at least half of that in an initial deposit, and 12 months thereafter, the other half. The Commission took no action.

Credit Considerations – Mr. Auxier presented that there was one minor change to the Corporate Credit approved list and noted Cantor Fitzgerald is now being used as a counter party and have been added to the list as, approved for repo only. He stated there were no other changes this past quarter. Treasurer Ball asked for confirmation that they were on the list previously and have worked with them in the past. Mr. Caldwell confirmed that to be true. A motion was made by Mr. Brasher to approve both lists and was seconded by Director Hicks. Motion **CARRIED**.

There being no further business, Treasurer Ball called for a motion to adjourn. Ms. Carlin made a motion to adjourn and was seconded by Mr. Brasher. With no further business before the Commission, the meeting adjourned at 11:13 AM ET.

Respectfully submitted,



Ryan Barrow
Secretary