



# **Office of the State Treasurer**

## **Georgia Fund 1**

### **Participant Update**

**Jon Perregaux - Sr. Portfolio Manager**  
**April 18, 2023**



# Topics of Discussion

- Investments
  - GA Fund 1 Portfolio Characteristics
  - Economic / Market Update
    - Silicon Valley and Signature Bank
  - Inflation
  - Interest Rates
  - Strategy
- Fund Administration
- Q&A Session



# **Office of the State Treasurer**

## **Georgia Fund 1**

### **Participant Update**

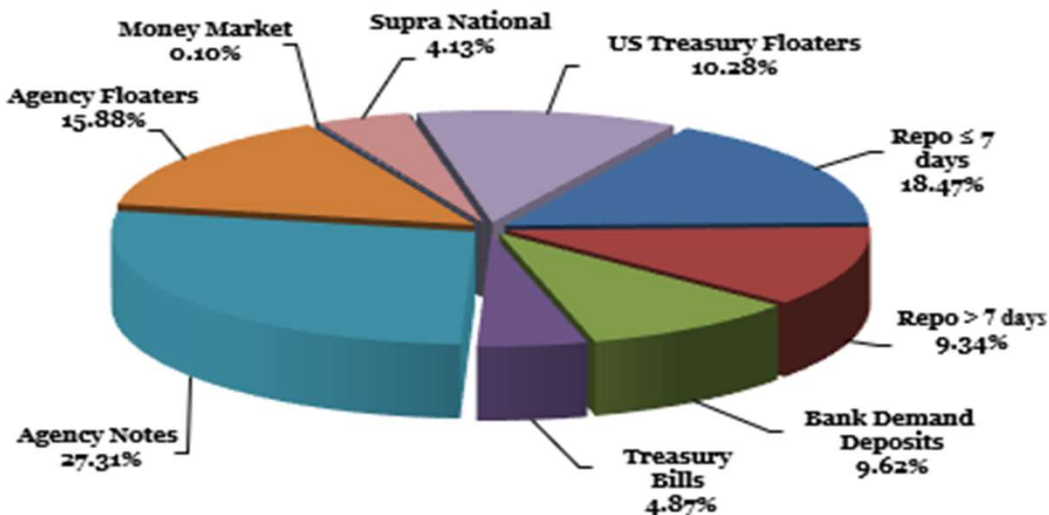
## **Fund Characteristics**



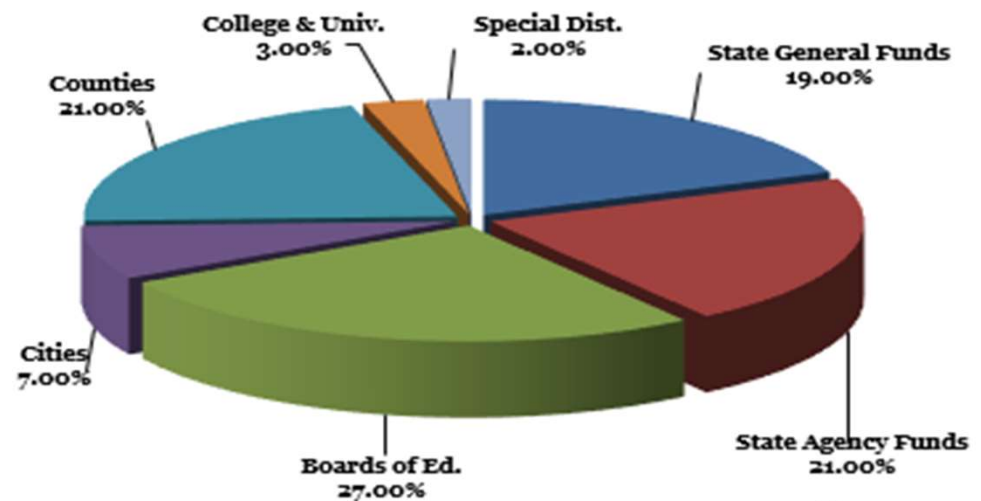
# Georgia Fund 1 (GF1)

- O.C.G.A. § 36-83-1 to § 36-83-8 authorizes Georgia local governments and other eligible entities to invest funds in Georgia Fund 1 (“GF1”). GF1 is managed in trust by the Office of the State Treasurer.
- Eligible participants must complete a resolution authorizing investments to participate in the pool. The resolution and other documents can be found on our website at [www.ost.georgia.gov](http://www.ost.georgia.gov)
- GF1 is managed to maintain a constant net asset value (NAV) of \$1.00.
- Yield is calculated on an actual/365-day basis net of administrative fee<sup>(1)</sup>.
- GF1 is rated AA+ by Fitch.
- For the month of March 2023, GF1 participants earned 4.58%<sup>(2)</sup>.
- As of March 31, 2023, GF1 assets were \$30.6 billion.
- As of March 31, 2023, the weighted average maturity (WAM) was 22 days.

## Portfolio Composition



## Account Holder Distribution

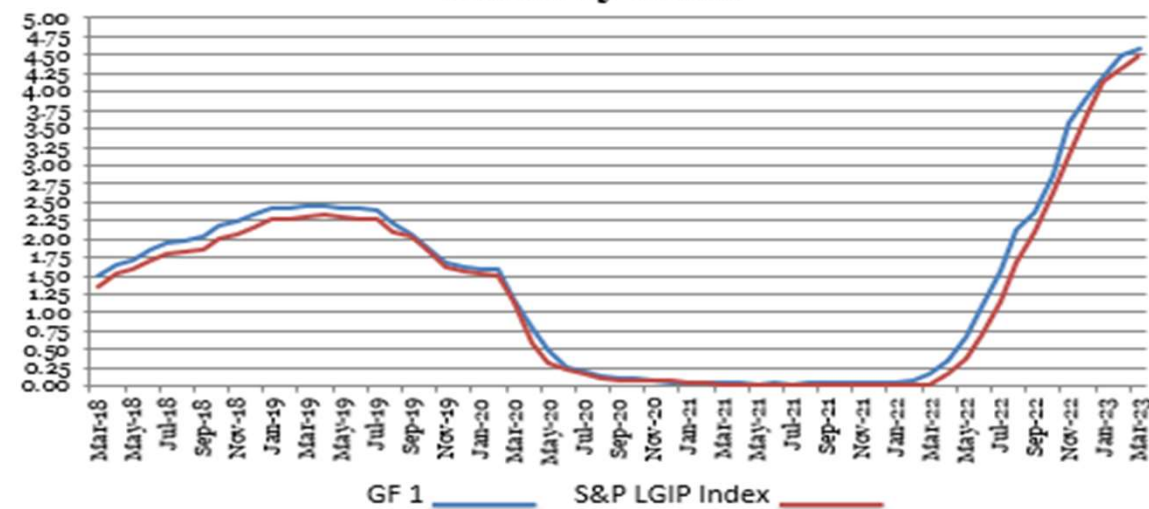


April 5, 2023

(1) Current administration fee is 5.5 basis-points. (2) Georgia Fund 1 Yield is calculated on an annualized basis.



## Monthly Yield



## Portfolio Strategy:

There was a lot of activity in the market during the month of March. We started the month with upward pressure on rates and the market expecting a 50 basis-point rate hike at the March 22<sup>nd</sup> FOMC meeting. Those dynamics quickly changed on March 10<sup>th</sup> when news broke that the Federal Deposit Insurance Corporation (FDIC) was taking control of Silicon Valley and Signature Bank. Rates fell considerably on the news as investors pulled money out of riskier sectors seeking the safety of U.S. Treasuries. Ultimately, the FOMC raised interest rates by 25 basis-points and reassured the market that the banking system is strong and systemic disruptions should not occur due to additional rate hikes.

March employment data beat expectations with the headline Nonfarm Payrolls number coming in at +236k versus expectations of +230k. The Unemployment Rate fell to 3.5%, down from 3.6%. Headline CPI data trended lower in March coming in at +5.0% (YoY) down from +6.0% (YoY) posted for February.

Overnight General Collateral (GC) Repurchase Agreements averaged a yield of 4.63% in March. Treasury Bill yields averaged 4.25% for 1-month maturities, 4.72% for 3-month maturities, 4.90% for 6-month maturities and 4.61% for 12-month maturities. The Treasury Bill curve offered 29-basis points of steepness as of 3/31/2023. Jon Perregaux – Senior Portfolio Manager

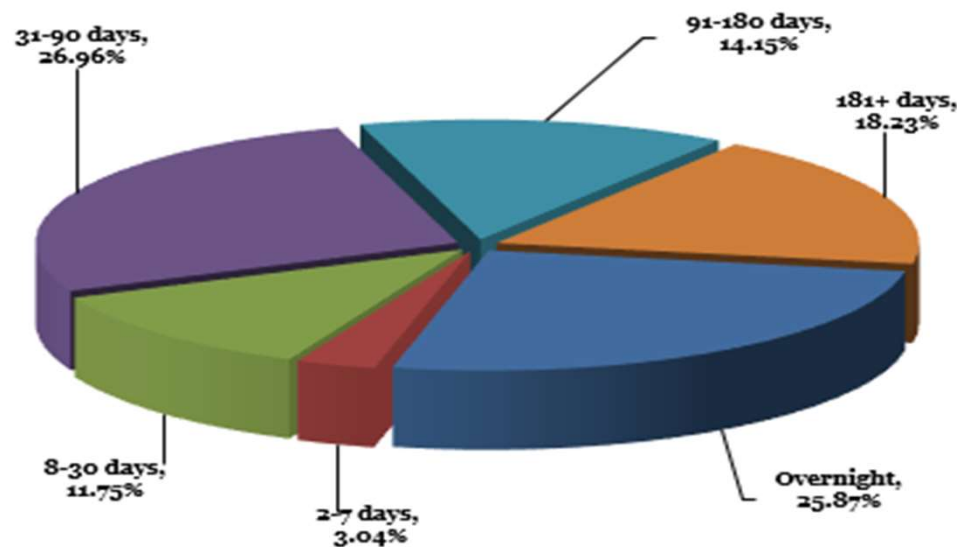
## In The News:

Additional information on the Georgia Fund 1 (GF1) holdings can be found on the website at <https://ost.georgia.gov/gf1-holdings-reports>. Holdings are updated quarterly. Other state portfolio holdings are listed on the website, as well.

In order to initiate a deposit or withdrawal from a GF1 account, an authorized user must call our office or log on to the secure Internet Participant Access System (IPAS) before 2:00pm on the business day preceding the day you want funds transferred to or from your account.

For GF1 investment related questions, please direct inquiries to Jon Perregaux, Senior Portfolio Manager, at 404-232-1498 or [Jon.Perregaux@treasury.ga.gov](mailto:Jon.Perregaux@treasury.ga.gov).

## Maturity Distribution



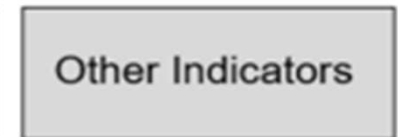


# Ga Fund 1 Risk Score

## April 17, 2023



Risk Level
Strong
Neutral
Weak
Critical



Credit Risk Level	
Interest Rates	
Liquidity	

Portfolio Management	
Investment Operations	
Customer Support	

LGIP Trust Reserve	\$57.5 Million
GF1 Portfolio Assets	\$30.9 Billion
Reverse Repo Capacity	\$26.7 Billion

Cyber Insurance	
Fraud Insurance	
E&O Insurance	
Stress Testing	



# AAA / S1 Rated by Fitch Ratings

## RATING ACTION COMMENTARY

# Fitch Affirms Georgia Fund 1 at 'AAAf'/'S1'

Thu 25 Aug, 2022 - 5:08 PM ET

Fitch Ratings - New York - 25 Aug 2022: Fitch Ratings has affirmed Georgia Fund 1's International Fund Credit Quality Rating (FCQR) at AAAf and Fund Market Risk Sensitivity Rating (MRSR) at 'S1'.

## KEY RATING DRIVERS

The ratings reflect Fitch's review of the pool's investment and credit guidelines, and the portfolio's credit quality and diversification. The AAAf FCQR indicates the highest underlying credit quality (or lowest vulnerability to default). The 'S1' rating indicates a very low sensitivity to market risk.



# OST Website

<https://ost.georgia.gov/>

- GA Fund 1 Monthly Disclosure
- GA Fund 1 Risk Score
- GA Fund 1 Fitch Rating Letter



# **Office of the State Treasurer**

## **Georgia Fund 1**

### **Participant Update**

**Economic Update**

**Interest Rates and Inflation**



# SIVB and SBNY Failure

- Silicon Valley and Signature Banks were shut down by federal regulators in early March due to inadequate liquidity and insolvency.
- These developments were not viewed as systemic banking sector issues as SIVB and SBNY had a unique / non-diverse client base and poor management style.
- Yields fell as a flight to quality ensued and investors moved out of riskier sectors into the safety of U.S. Treasuries.
- To shore up the banking system, the Federal Reserve announced the Bank Term Funding Program (BTFP) which will provide banks with emergency funding if needed to meet withdrawal activity.
- Market concerns subsided and yields started to rebound as investor confidence increased and it was evident that this was not a systemic issue.
- The March 22<sup>nd</sup> FOMC statement noted: The U.S. banking system is sound and resilient.



# Economic Data

- Federal Open Market Committee (FOMC)
  - February 1<sup>st</sup> and March 22<sup>nd</sup> Meeting Statement Comparison
- Employment Data – 4<sup>th</sup> Quarter 2022
  - Nonfarm Payrolls
  - Unemployment Rate
  - Labor Participation Rate
- Inflation – 4<sup>th</sup> Quarter 2022
  - Consumer Price Index (CPI)
  - Producer Price Index (PPI)
- Interest Rates
  - Effective Federal Funds Target Rate
  - Treasury Bills



# Federal Open Market Committee

## February 1<sup>st</sup> Statement vs. March 22<sup>nd</sup> Statement

### February 1<sup>st</sup> Meeting Statement

- Recent indicators point to modest growth in spending and production. Job gains have been robust in recent months, and the unemployment rate has remained low. Inflation has eased somewhat but remains elevated.
- Russia's war against Ukraine is causing tremendous human and economic hardship and is contributing to elevated global uncertainty. The Committee is highly attentive to inflation risks.
- The Committee decided to raise the target range for the federal funds rate to 4.50% to 4.75%.

### March 22<sup>nd</sup> Meeting Statement

- Recent indicators point to modest growth in spending and production. Job gains have **picked up** in recent months and are running at a robust pace; the unemployment rate has remained low. Inflation remains elevated.
- **The U.S. banking system is sound and resilient. Recent developments are likely to result in tighter credit conditions for households and businesses and to weigh on economic activity, hiring, and inflation. The extent of these effects is uncertain. The Committee remains highly attentive to inflation risks.**
- The Committee decided to raise the target range for the federal funds rate to **4.75% to 5.00%**.



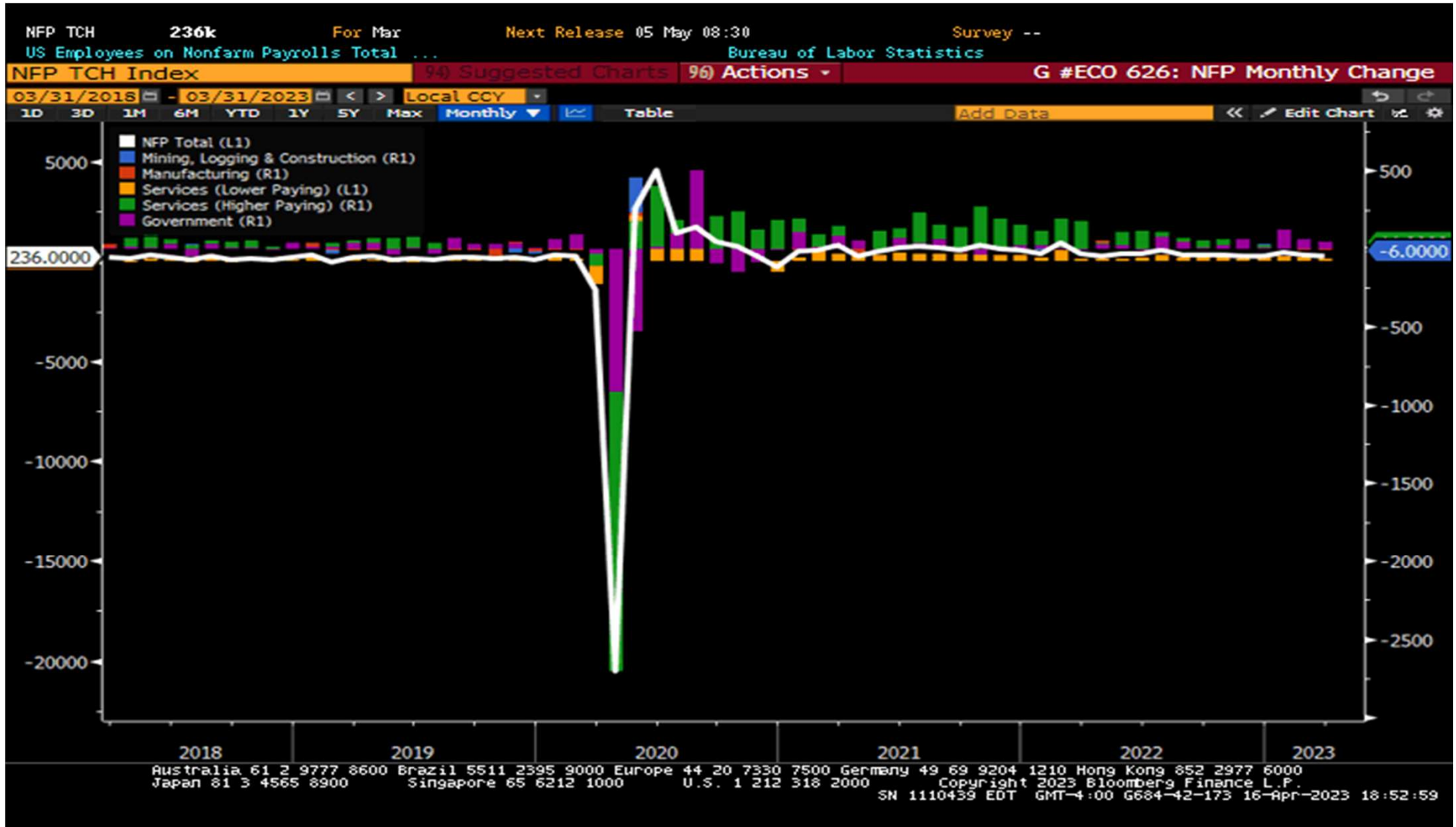
# Employment Data

- Employment data remains relatively strong.
  - January Nonfarm Payroll +517k
  - February Nonfarm Payroll +311k
  - March Nonfarm Payroll +236k
  
- Unemployment Rate remains low.
  - January Unemployment Rate 3.4%
  - February Unemployment Rate 3.6%
  - March Unemployment Rate 3.5%
  
- U.S. Labor Force Participation Rate is making gains but not fully recovered after COVID.
  - January Participation Rate 62.4%
  - February Participation Rate 62.5%
  - March Participation Rate 62.6%



# Nonfarm Payrolls

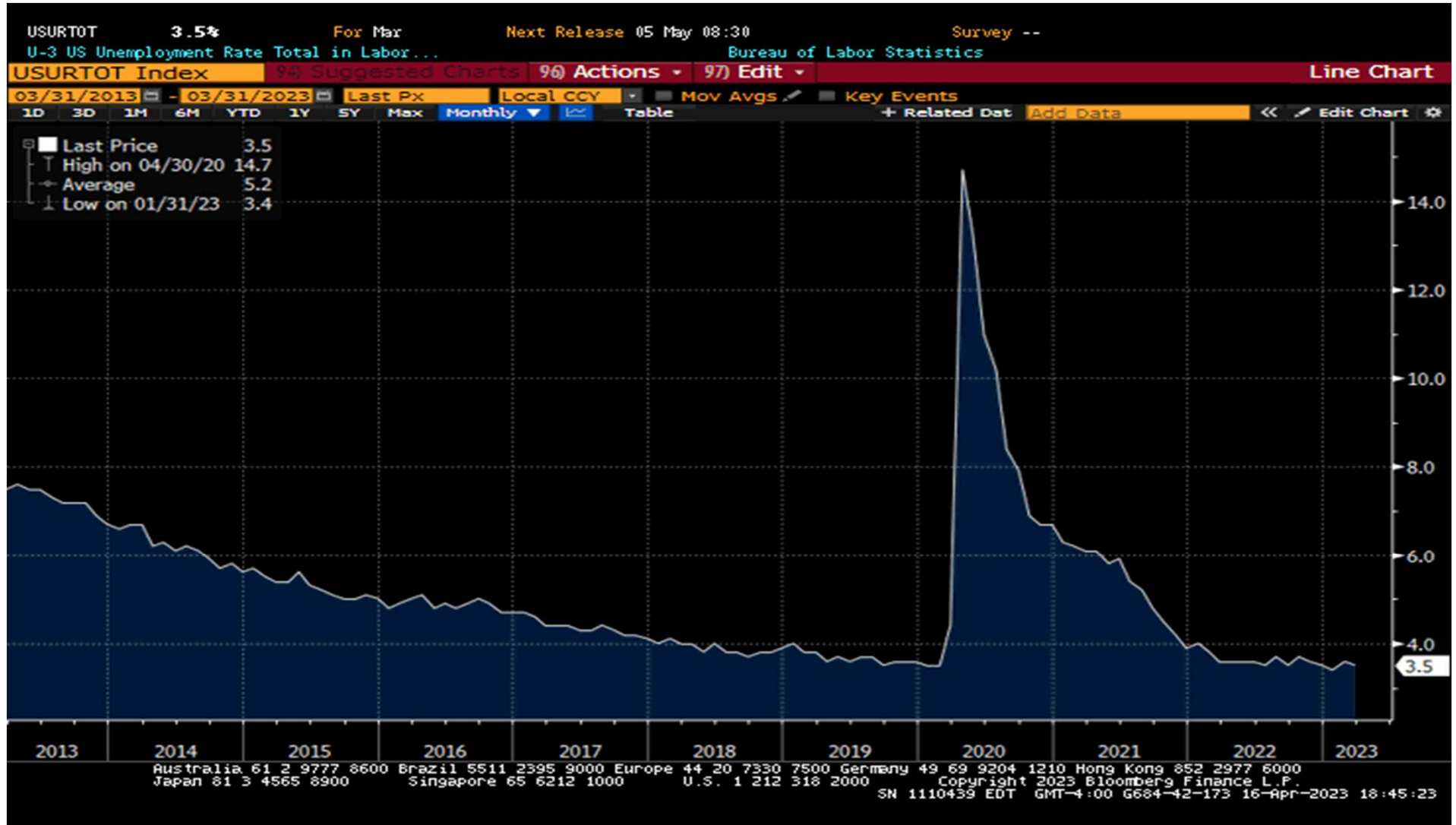
Recent job gains attributed to Government and Low Paying Service Sectors.





# Unemployment Rate

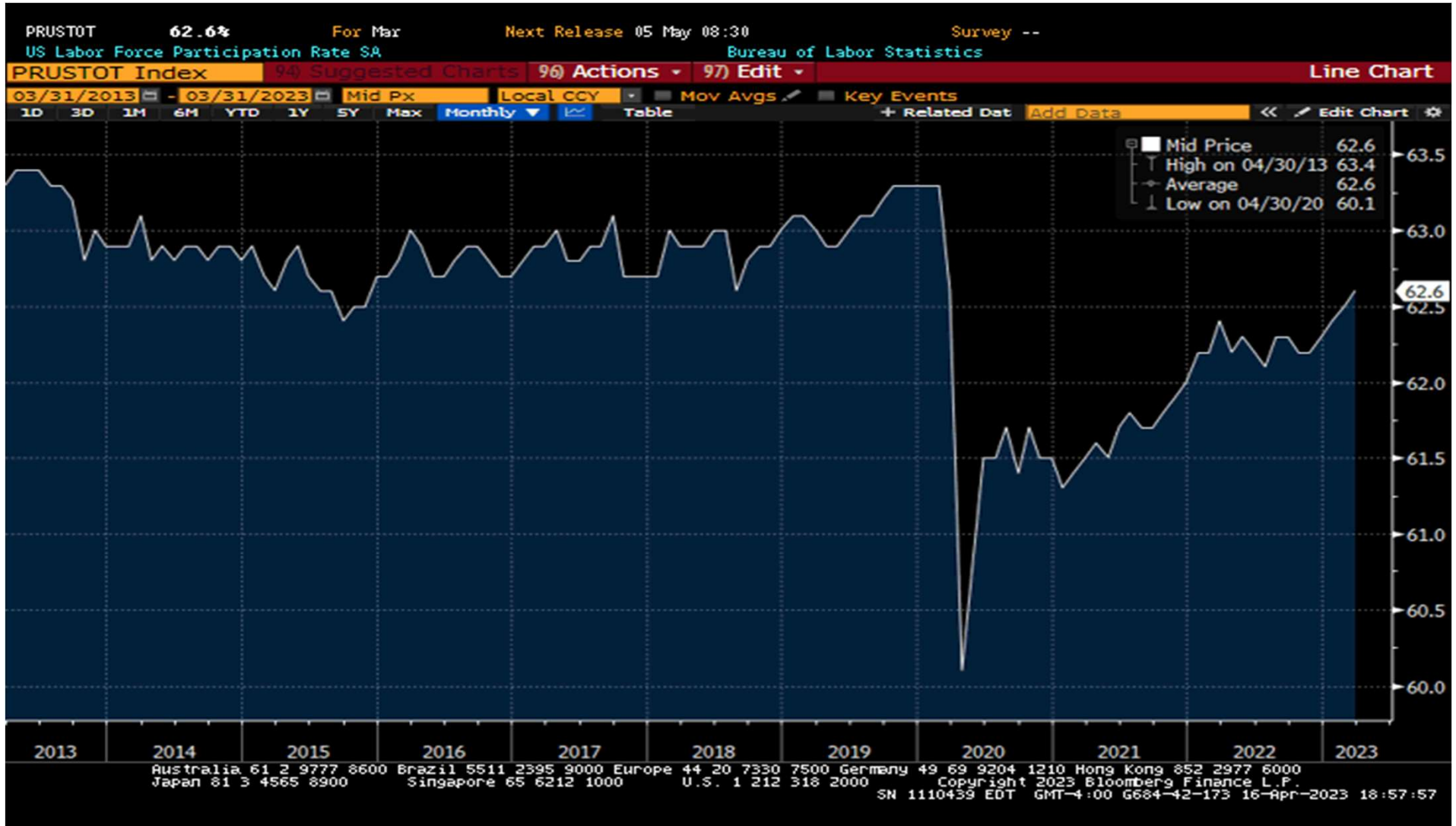
The Unemployment rate remains low at 3.5%.





# Labor Participation Rate

Labor Participation Rate increased in Q-1 of 2023 from 62.3% (Q-4 2022) to 62.6% (Q-1 2023).





# Real Average Weekly Earnings

Real Average Weekly Earnings have increased to -1.6% YoY at the end of Q1 2023 vs. -3.1% YoY at the end of Q4 2022.





# Inflation

- The two key inflation indicators we monitor are The Consumer Price Index (CPI) and The Producer Price Index (PPI).
- Upward inflationary pressure has started to subside but remains above the FOMC's 2.00% target.
- Major factors contributing to high inflation:
  - Excessive Federal Stimulus
  - Supply Chain Disruptions
  - War in Ukraine
  - Rising shelter costs
- The FOMC's target rate for inflation is 2.00%
  - CPI as of 3/31/2023 = +5.0% (YOY) vs. 6.5% as of 12/31/2022
  - PPI as of 3/31/2023 = +2.7% (YOY) vs. 7.4% as of 12/31/2022



# Consumer Price Index (CPI)

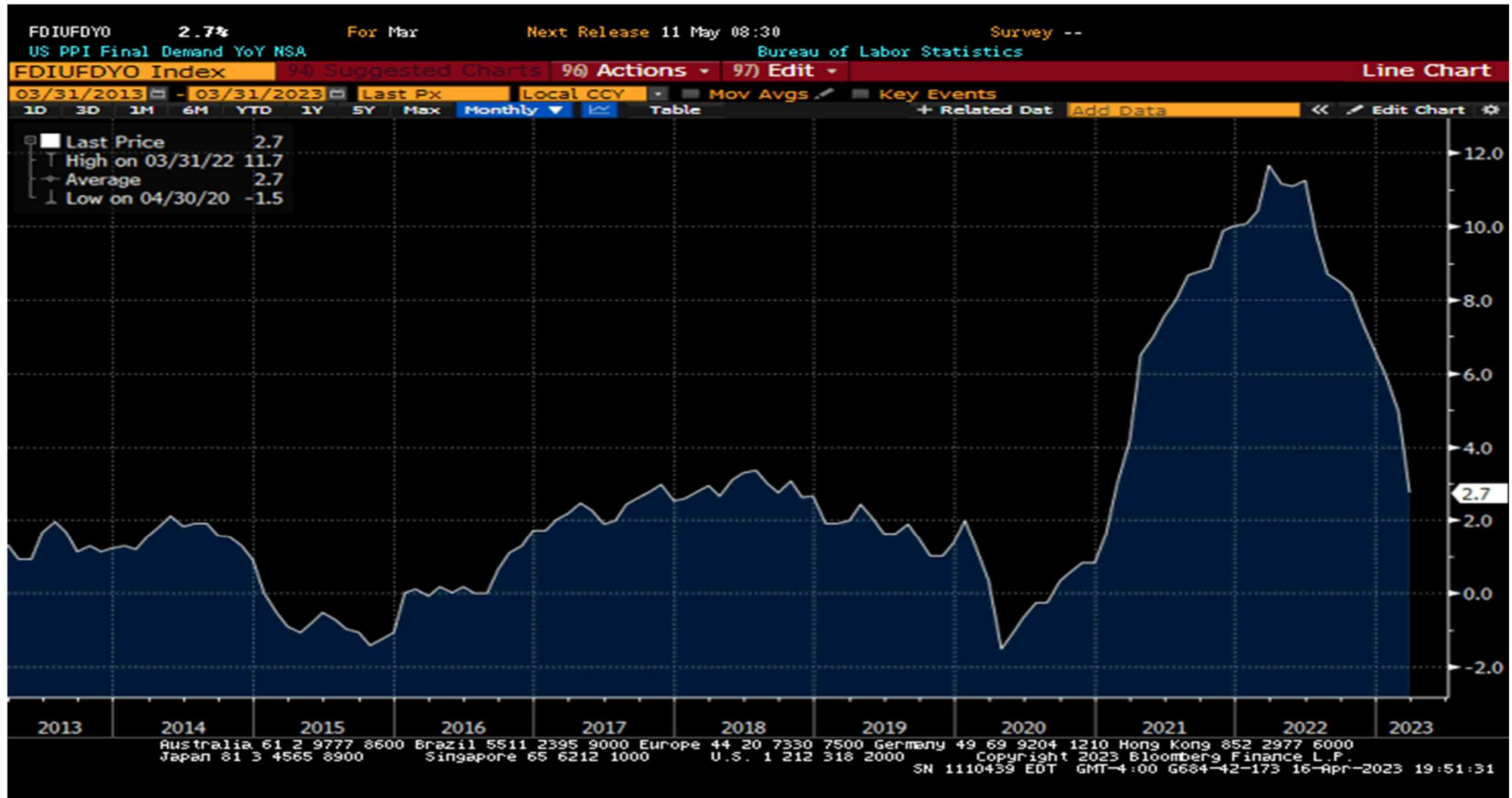
The Consumer Price Index (CPI) represents changes in prices of goods and services purchased for consumption by urban households. CPI measures price change from the perspective of the buyer or end user.





# Producer Price Index (PPI)

The Producer Price Index (PPI) measures changes in prices of goods as they leave their place of production. PPI measures price change from the perspective of the seller.





# Interest Rates

- The FOMC has raised interest rates 9 times during this tightening cycle increasing the Effective Federal Funds Rate (EFFR) by 475 basis points.
- The FOMC has aggressively raised interest rates to slow the economy, which in theory should bring down inflation.
- There is currently a dislocation between the FOMC and the Market as to the direction of interest rates. Chair Powell of the FOMC has publicly said there will not be interest rate cuts for the remainder of 2023 yet the Market is currently pricing in approximately 50 basis points in cuts by the end of 2023.
- The market is currently pricing in one more 25 basis point rate hike before the FOMC pauses. Strong employment data and a change in the trajectory of inflation data may cause the FOMC to continue raising interest rates longer to reach their 2.00% inflation target.
- The EFFR is currently at a 16 year high.



# Effective Federal Funds Rate

The Effective Federal Funds Rate (EFFR) is the interest rate banks charge other institutions for lending excess cash to them from their reserve balances on an overnight basis.





# 3 Month Treasury Bill

3-month yields appear to be reaching their peak.





# 6 Month Treasury Bill

6-month yields have come down from their peak but climbing back.





# 12 Month Treasury Bill

12-month yields have come down from their peak but climbing back.





# Treasury Bill Curve

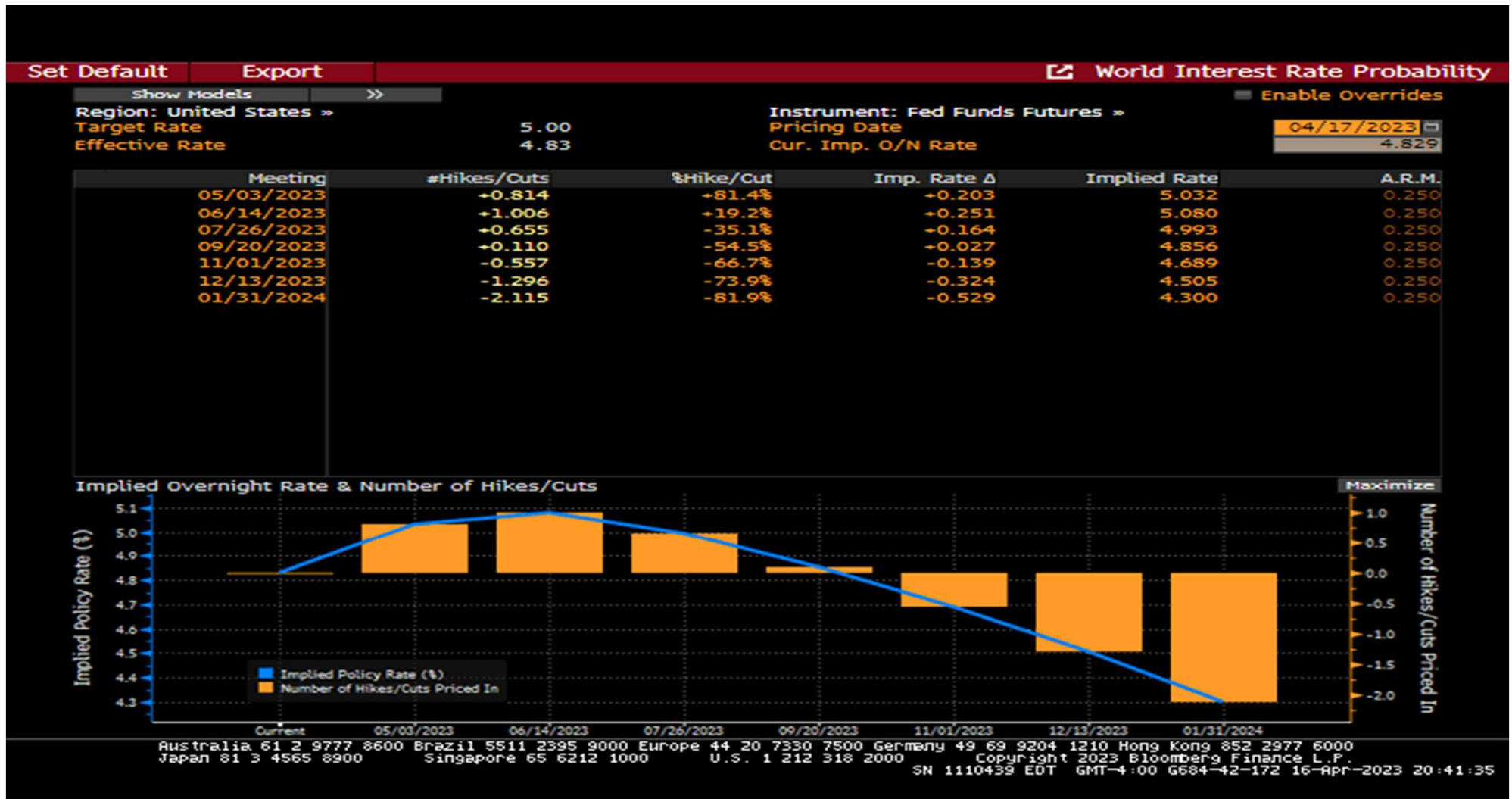
Treasury Bill Curve comparison – 01/01/2023 vs. 4/17/2023





# Fed Funds Futures

The slide shows the probability of future interest rate hikes or cuts based on the Fed Funds Futures Market.





# Correlation between EFFR, Unemployment and Recession





# **Office of the State Treasurer**

## **Georgia Fund 1**

### **Participant Update**

**Strategy**



# Strategy

- Remain defensive to higher interest rate environment – FOMC appears to be close to pausing rate hikes however could continue raising rates due to strong employment data and inflationary concerns.
- Maintain a primary focus on short dated o/n repo and floating rate notes and fixed maturities in the 3 month or shorter part of the curve.
- Look for longer dated opportunities that are adequately priced. Factoring in additional interest rate hikes.
- Perform breakeven analysis to determine relative value.



# **Office of the State Treasurer**

## **Georgia Fund 1**

### **Participant Update**

## **Fund Administration**



# **Office of the State Treasurer**

## **Georgia Fund 1**

### **Participant Update**

## **Personnel**



## **Steve McCoy**

### **Georgia State Treasurer**

The Treasurer serves as cash management officer for Georgia on behalf of the State Depository Board responsible for managing over \$40 billion of state and local government investments; approving banking services for state agencies; overseeing the Path2College and Georgia Stable 529 savings plans; administering Secure Deposit Program for collateralizing public deposits; and managing the Local Government Investment Pool Trust. McCoy serves on boards of the Georgia State Financing and Investment Commission, State Depository Board, State Properties Commission, Georgia Building Authority, Georgia Higher Education Savings Plan, Georgia ABLE Program Corporation, and the state's pension funds. McCoy has served as State Treasurer from 1993-1997, 2011-2019, and was reappointed in 2020. He also served as Chief Investment Officer for the Office of the State Treasurer. McCoy has extensive private sector experience in public finance and investments. As a Managing Director of Lehman Brothers' Public Finance Division, McCoy managed the Southeast Region. He later served as president of an SEC registered investment advisory firm and assisted in the development and oversight of six 529 college savings plans. Mr. McCoy earned a B.B.A. in Finance from the University of Georgia and an M.B.A. from Georgia State University.

## **Scott Austensen**

### **Deputy State Treasurer, Investments and Banking**

Mr. Austensen has been at the Office of the State Treasurer since August of 2015, currently serving as Deputy State Treasurer, Investments and Banking. Reporting to Scott are 3 portfolio managers (2 of them CFAs with combined investment experience of over 60 years), and 3 financial analysts. Scott is the chair of the OST Credit Committee and Vice-chair of the OST Investment Committee. Scott has oversight of OST external Investment managers (currently Invesco), and responsibility for external Program Manager investments for P2C (TIAA), and ABLE (Ohio Treasurer's Office). Scott also directs the activities of our external investment consultant. Scott is a Chartered Financial Analyst, Charter holder (CFA), and CIPM certificant. Prior to this role he served as the Chief Financial Officer for the GA Department of Education. Before beginning work with the State of Georgia, he worked in corporate finance at BellSouth, and in several large banks. He also served over four years in U.S. Army Intelligence as a Commissioned Officer. Scott earned a B.A. with dual majors in Economics and Business Administration, and a German Minor, from McDaniel College in Westminster, MD. Following his military service, he earned a Master in International Business Studies from the University of South Carolina in Columbia, SC.



**Jon Perregaux**  
**Senior Portfolio Manager**

Mr. Perregaux joined the Office of the State Treasurer in August of 2020. He started his career at PFPC Inc., where he was a Senior Unit Manager responsible for operational and custodial activities. Jon then progressed to a fixed income portfolio management and trading role at Bank of America where he spent 16 years, focusing on short duration Separately Managed Accounts and 2a7 Registered Funds. In addition to his portfolio management responsibilities, Jon also ran the Municipal Bond and Cross-Over strategies for Bank of America's Separately Managed Account Group. After leaving Bank of America in 2016, Jon accepted a Senior Portfolio Manager position at State Street Global Advisors where he focused on the management of over \$180 billion Treasury, Government and Prime fixed income portfolios. Jon is a graduate of Becker College and has a B.S.

**Lee Poage**  
**Portfolio Manager**

Mr. Poage joined the Office of the State Treasurer in July of 2020. Lee has over 20 years of Banking and Finance experience ranging from Portfolio Management to Risk Management. He spent 5 years with Bank of America in Capital Markets operations and Portfolio Management. In 2005, Lee began working for SunTrust, now Truist, in roles including Portfolio Management managing Money Market Mutual Funds and as a Market Risk Manager within Corporate Treasury overseeing the bank portfolio and mortgage capital markets. Lee was also with Wells Fargo in Risk Management validating Investment Portfolio and Mortgage models prior to joining OST. Mr. Poage received a B.S. in Finance from Virginia Tech and is a Chartered Financial Analyst, Charter holder (CFA).

**Mark Jones**  
**Portfolio Manager**

Mr. Jones joined the Office of the State Treasurer in May of 2002 as a Portfolio Manager. Prior to joining the State Treasurer's office, Mark had over 22 years of relevant Securities Trading and Portfolio Management experience at various financial institutions including National Bank of Georgia, Barnett Banks and Bank South. Mr. Jones earned a B.A. in Sociology from St. Lawrence University in Canton, New York and earned his M.B.A. in Finance with a concentration in banking and investments from Florida State University.



**Angela Roberts**  
**Portfolio Assistant**

Ms. Roberts joined the Office of the State Treasurer in August 2002. Prior to joining OST, Angela had over 22 years of accounting related experience (AP, AR, Grant Administration) at various institutions including Georgia Power and the IRS. In August 2002, she accepted the position of Funds Administrator with the Office of the State Treasurer. Ms. Roberts has served in the role as the Portfolio Assistant since September of 2005.

**Vinny Rosamilia**  
**Senior Financial Analyst**

Mr. Rosamilia joined the Office of the State Treasurer in April of 2020. Vinny works closely with the Portfolio Assistant and has oversight of three Financial Analysts, who manage Fund Administration and Portfolio Investment Operations. Vinny works directly with the Portfolio Managers and OST Management to assign and oversee research tasks. Vinny graduated from Kennesaw State University in May of 2020 with a B.B.A in Finance.

**Cody Cruse**  
**LGIP Director**

Mr. Cruse joined the Office of the State Treasurer in March of 2020. Cody is responsible for the primary support to the Senior Portfolio Manager (for GF1). His primary responsibilities involve investor relations (as directed by the Senior Portfolio Manager) and participant management. Cody graduated from Kennesaw State University in July of 2020 with a B.B.A. in Finance.

**Cain Beatty**  
**Financial Analyst**

Mr. Beatty joined the Office of the State Treasurer in July of 2022. His primary responsibilities include investment operations and special research projects as assigned. Cain worked as a Student Equity Analyst for the Kennesaw State University Student Managed Investment Fund. Cain is expected to graduate in May of 2023 with a B.B.A in Finance from Kennesaw State University.

**Note:**

OST investments has 3 additional staff members who are primarily responsible for LGIP Support Services (GF1 participant transactions, account documentation, etc.).