



Office of the State Treasurer

Georgia Fund 1

Participant Update

Jon Perregaux - Sr. Portfolio Manager
July 18, 2023



Topics of Discussion

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



Office of the State Treasurer

Georgia Fund 1

Participant Update

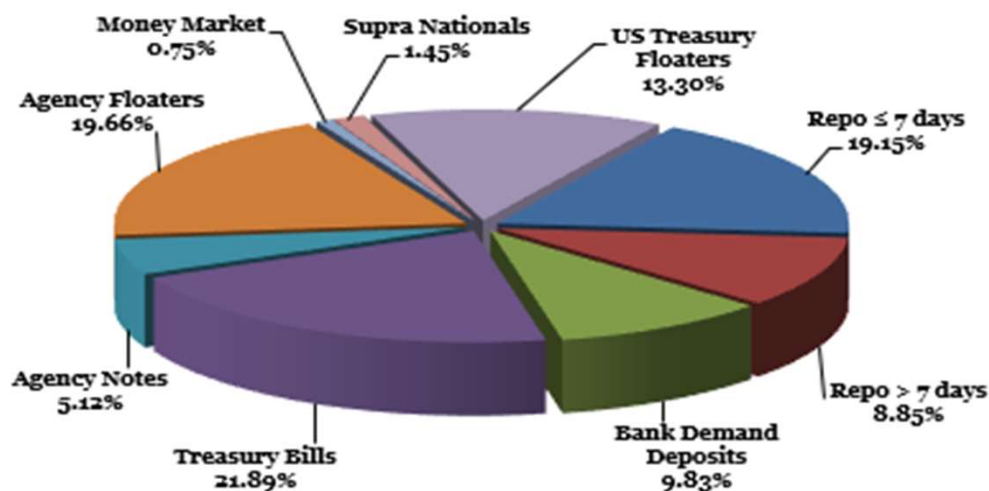
Fund Characteristics



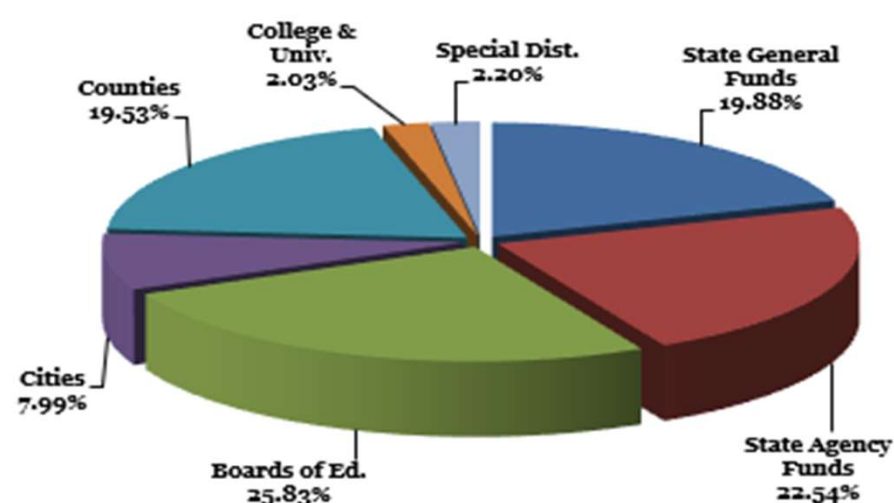
Georgia Fund 1 (GF1)

- 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
- 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⁽¹⁾.
- GF1 is rated AA+ by Fitch.
- For the month of June 2023, GF1 participants earned 5.12%⁽²⁾.
- As of June 30, 2023, GF1 assets were \$30.7 billion.
- As of June 30, 2023, the weighted average maturity (WAM) was 28 days.

Portfolio Composition



Account Holder Distribution

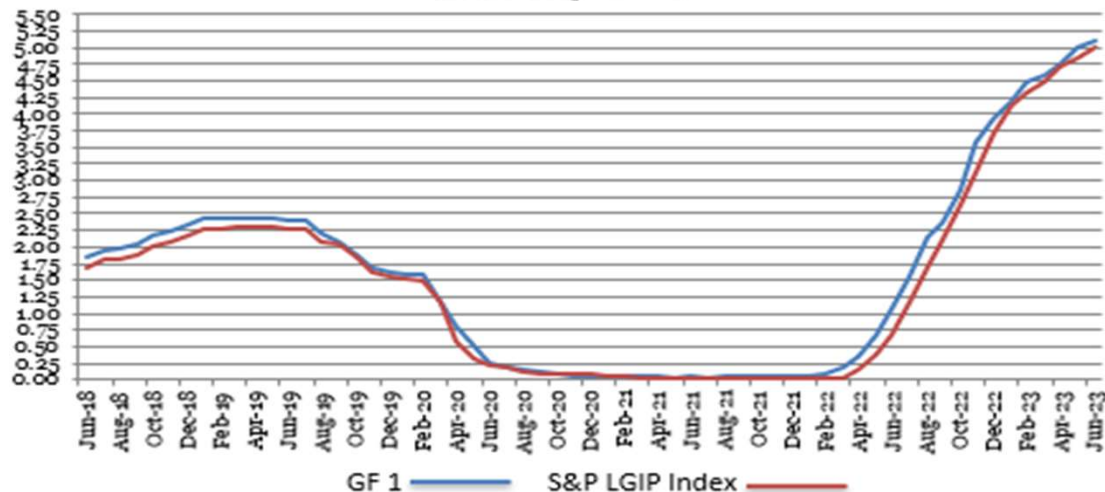


(1) Current administration fee is 5.5 basis-points. (2) Georgia Fund 1 Yield is calculated on an annualized basis.

July 11, 2023



Monthly Yield



Portfolio Strategy:

The Federal Open Market Committee (FOMC) opted to pause at the June 14th meeting leaving interest rates unchanged. The post meeting press conference revealed that the FOMC thought it would be prudent to pause and assess what impact the previous rate hikes have had before proceeding. The pause is data dependent, and it is likely that the FOMC will impose additional interest rate hikes at future meetings.

June employment data came in below expectations at +209k versus expectations of +230k. This is the first time in 15 months that the Nonfarm Payroll data came in below expectations. The unemployment Rate decreased to 3.6% down from 3.7% in May. Although headline inflation data has been trending down, core inflation (less food and energy) has remained a challenge for Chair Powell and the FOMC.

Overnight General Collateral (GC) Repurchase Agreements averaged a yield of 5.09% in June. Treasury Bill yields averaged 5.07% for 1-month maturities, 5.26% for 3-month maturities, 5.37% for 6-month maturities and 5.22% for 12-month maturities. The Treasury Bill curve offered 43-basis points of steepness as of 6/30/2023.

Jon Perregaux – Senior Portfolio

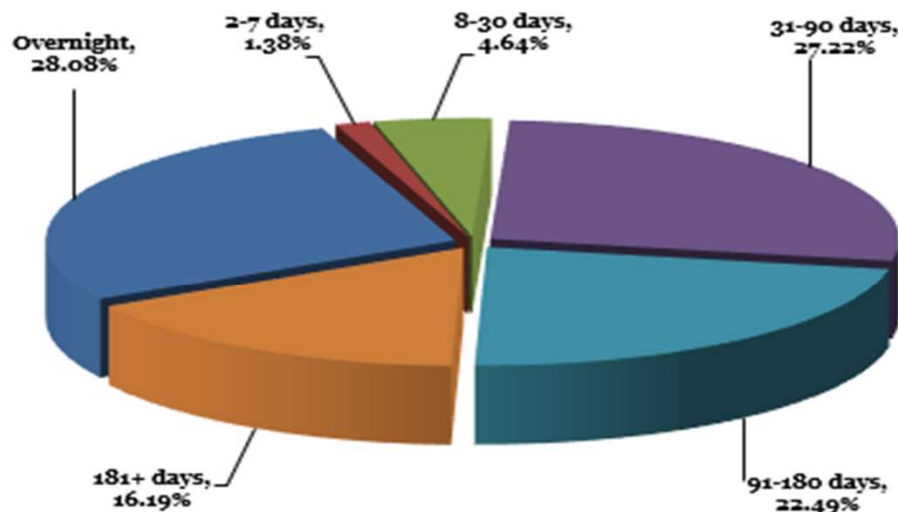
In The News:

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.

Maturity Distribution





Ga Fund 1 Risk Score

July 10, 2023



Risk Level
Strong
Neutral
Weak
Critical



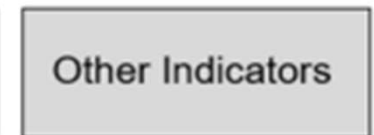
Credit Risk Level	
Interest Rates	
Liquidity	



Portfolio Management	
Investment Operations	
Customer Support	



LGIP Trust Reserve	\$54.8 Million
GF1 Portfolio Assets	\$30.7 Billion
Reverse Repo Capacity	\$19.2 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



Economic Data

- Federal Open Market Committee (FOMC)
 - May 3rd and June 14th Meeting Statement Comparison
- Employment Data – 2nd Quarter 2023
 - Nonfarm Payrolls
 - Unemployment Rate
 - Labor Participation Rate
- Inflation – 2nd Quarter 2023
 - Consumer Price Index – Headline CPI vs. Core CPI
 - Producer Price Index – Headline PPI vs. Core PPI
- Interest Rates
 - Effective Federal Funds Target Rate
 - Treasury Bills



Federal Open Market Committee

May 3rd Statement vs. June 14th Statement

May 3rd Meeting Statement

- The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to raise the target range for the federal funds rate to 5 to 5-1/4 percent. The Committee will closely monitor incoming information and assess the implications for monetary policy. In determining the extent to which additional policy firming may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.

June 14th Meeting Statement

- The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run. In support of these goals, the Committee decided to **maintain** the target range for the federal funds rate **at** 5 to 5-1/4 percent. **Holding the target rate steady at this meeting allows** the Committee **to assess additional** information and **its** implications for monetary policy. In determining the extent **of** additional policy firming **that** may be appropriate to return inflation to 2 percent over time, the Committee will take into account the cumulative tightening of monetary policy, the lags with which monetary policy affects economic activity and inflation, and economic and financial developments.



Employment Data

- Employment data remains relatively strong.
 - April Nonfarm Payroll +253k
 - May Nonfarm Payroll +339k
 - June Nonfarm Payroll +209k

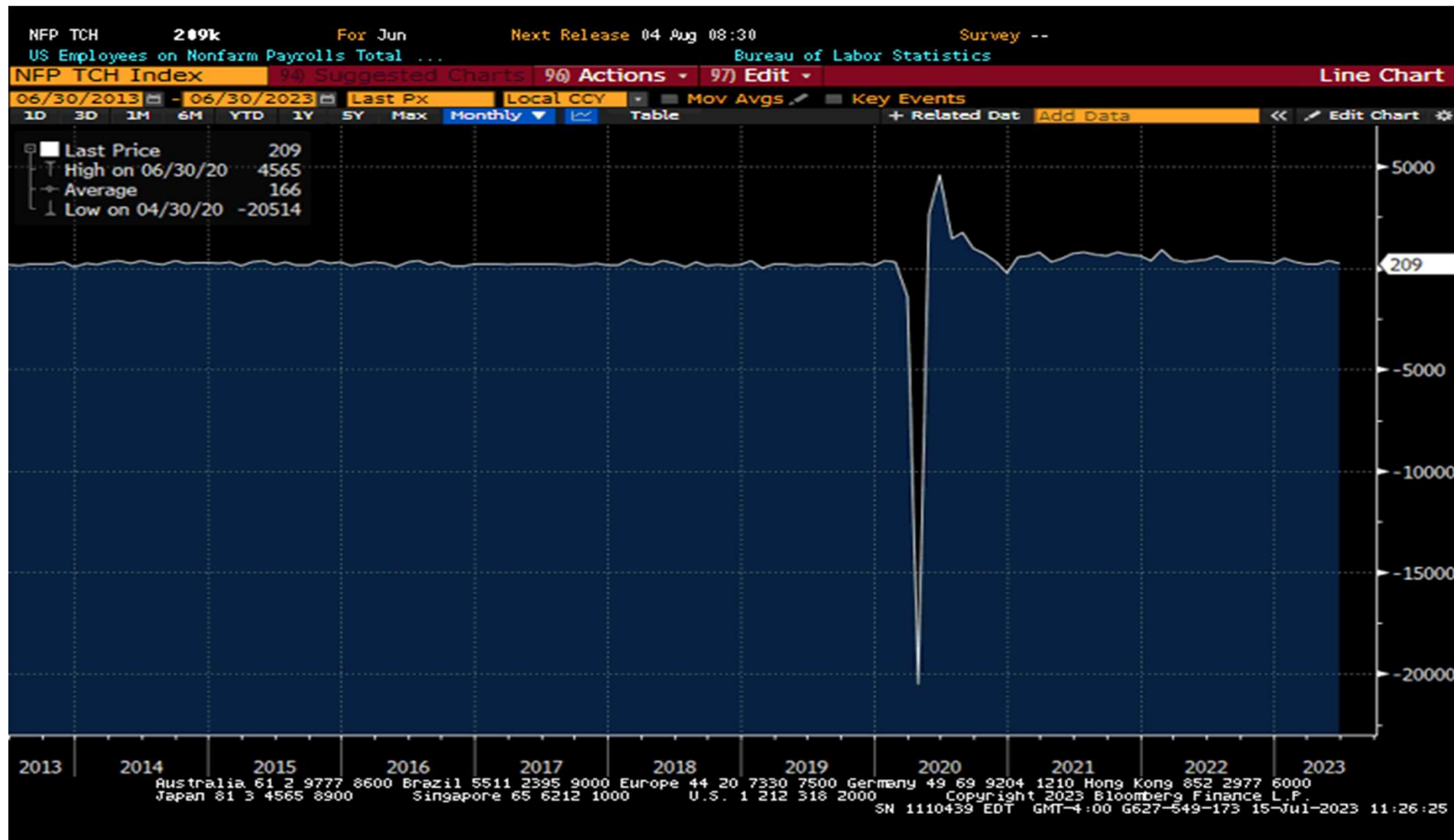
- Unemployment Rate remains low.
 - April Unemployment Rate 3.4%
 - May Unemployment Rate 3.7%
 - June Unemployment Rate 3.6%

- U.S. Labor Force Participation Rate has made slight gains over the past year but was unchanged in Q2 of 2023 and has not fully recovered after COVID.
 - April Participation Rate 62.6%
 - May Participation Rate 62.6%
 - June Participation Rate 62.6%



Nonfarm Payrolls

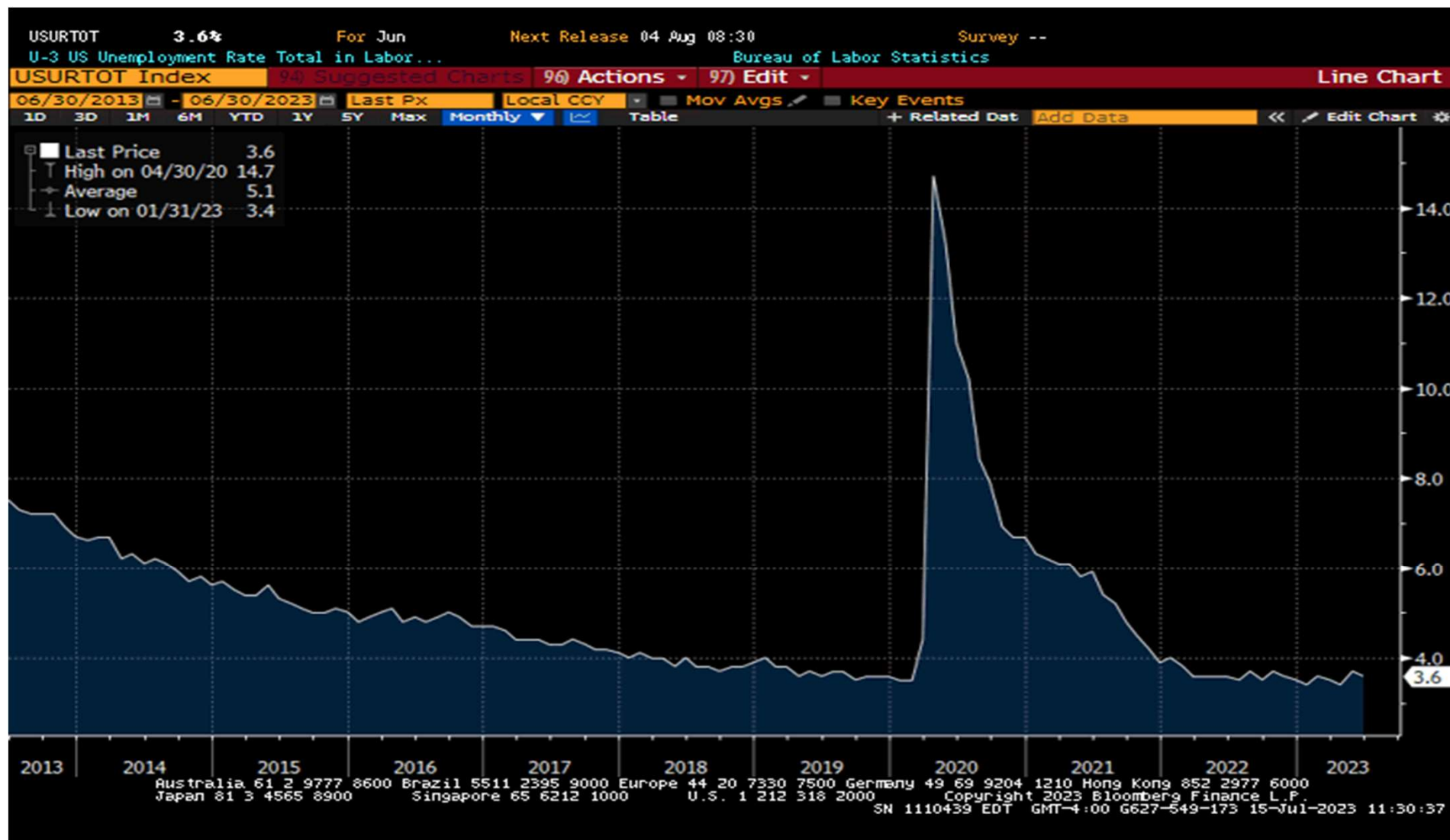
Employment data has shown consistent job gains in Q2 2023 with no immediate sign of weakness.





Unemployment Rate

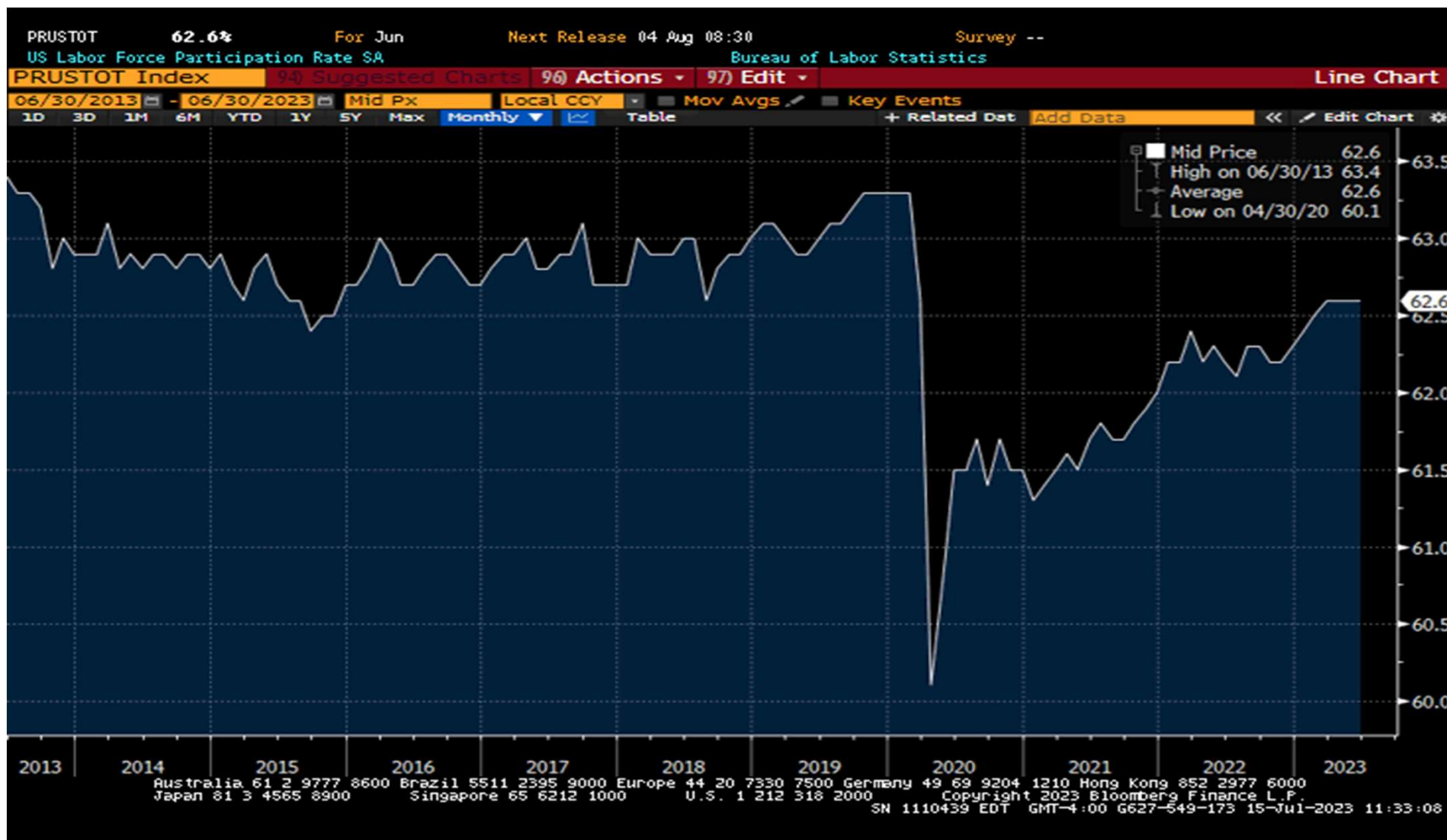
The Unemployment rate remains low at 3.6%.





Labor Participation Rate

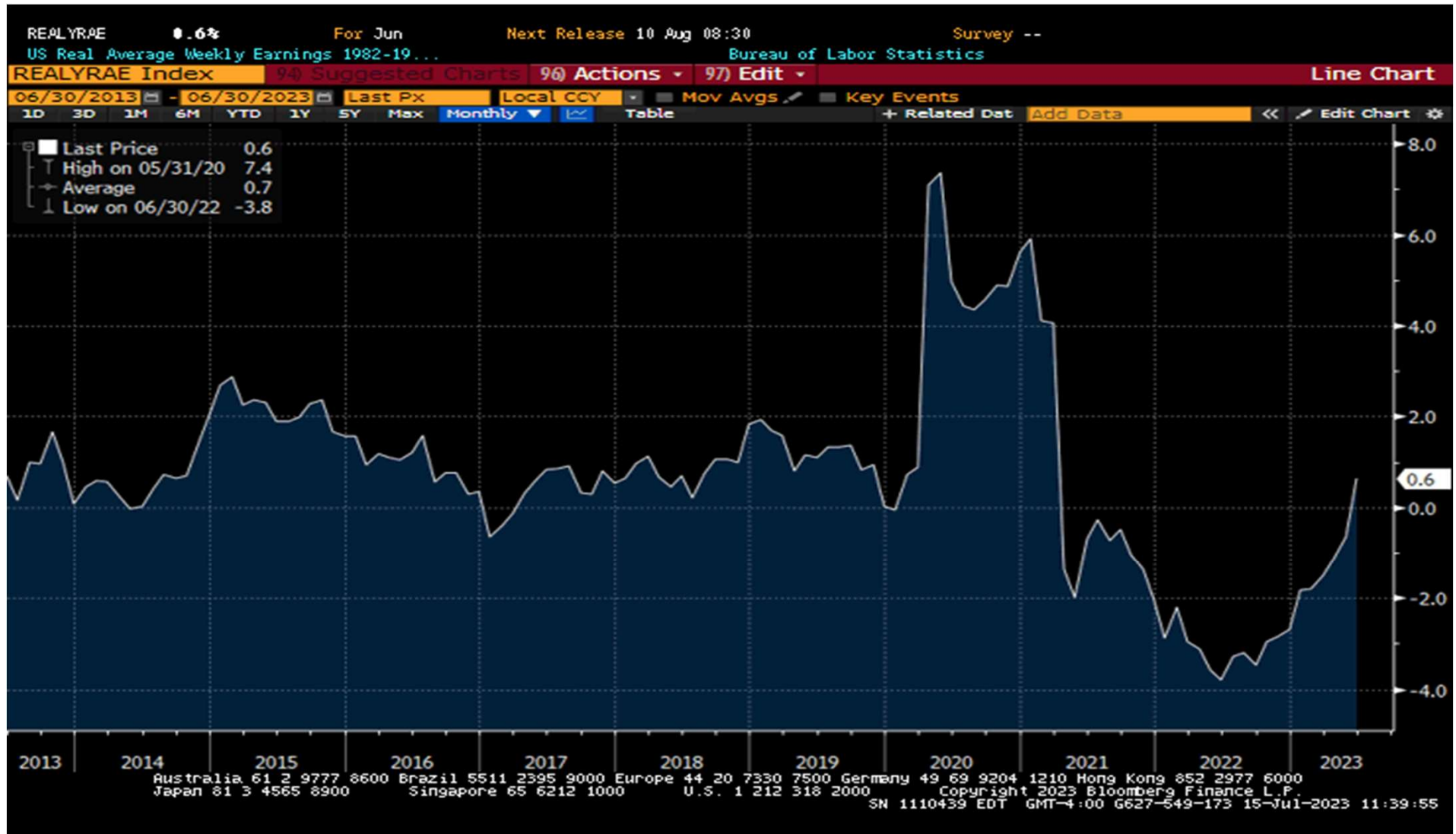
Labor Participation Rate unchanged in Q2 of 2023 at 62.6%.





Real Average Weekly Earnings

Real Average Weekly Earnings have increased to +0.6 YoY at the end of Q2 2023 vs. -1.6% YoY at the end of Q1 2023.





Inflation

- The two key inflation indicators we monitor are The Consumer Price Index (CPI) and The Producer Price Index (PPI).
- Upward inflationary pressure has trended lower but remains above the FOMC's 2.00% target.
- Headline Inflation Data:
 - CPI (YOY) as of 6/30/2023 = +3.0% vs. +5.0% as of 3/31/2023
 - PPI (YOY) as of 6/30/2023 = +0.1% vs. +2.7% as of 3/31/2023
- Core Inflation Data (Ex Food and Energy):
 - CPI Ex Food and Energy (YoY) as of 6/30/2023 = +4.8% vs. +5.6% as of 3/31/2023
 - PPI Ex Food and Energy (YoY) as of 6/30/2023 = +2.4% vs. +3.6% as of 3/31/2023
- YoY shelter +7.8%, motor vehicle insurance +16.9%, recreation +4.3%, household furnishings +3.6% and new vehicles +4.1%
- YoY overall energy -16.7%, gasoline -26.5%, natural gas -18.6%, fuel oil -36.6% and electricity +5.4%
- YoY food at home +4.7% and food away from home +7.7%



Consumer Price Index (CPI)

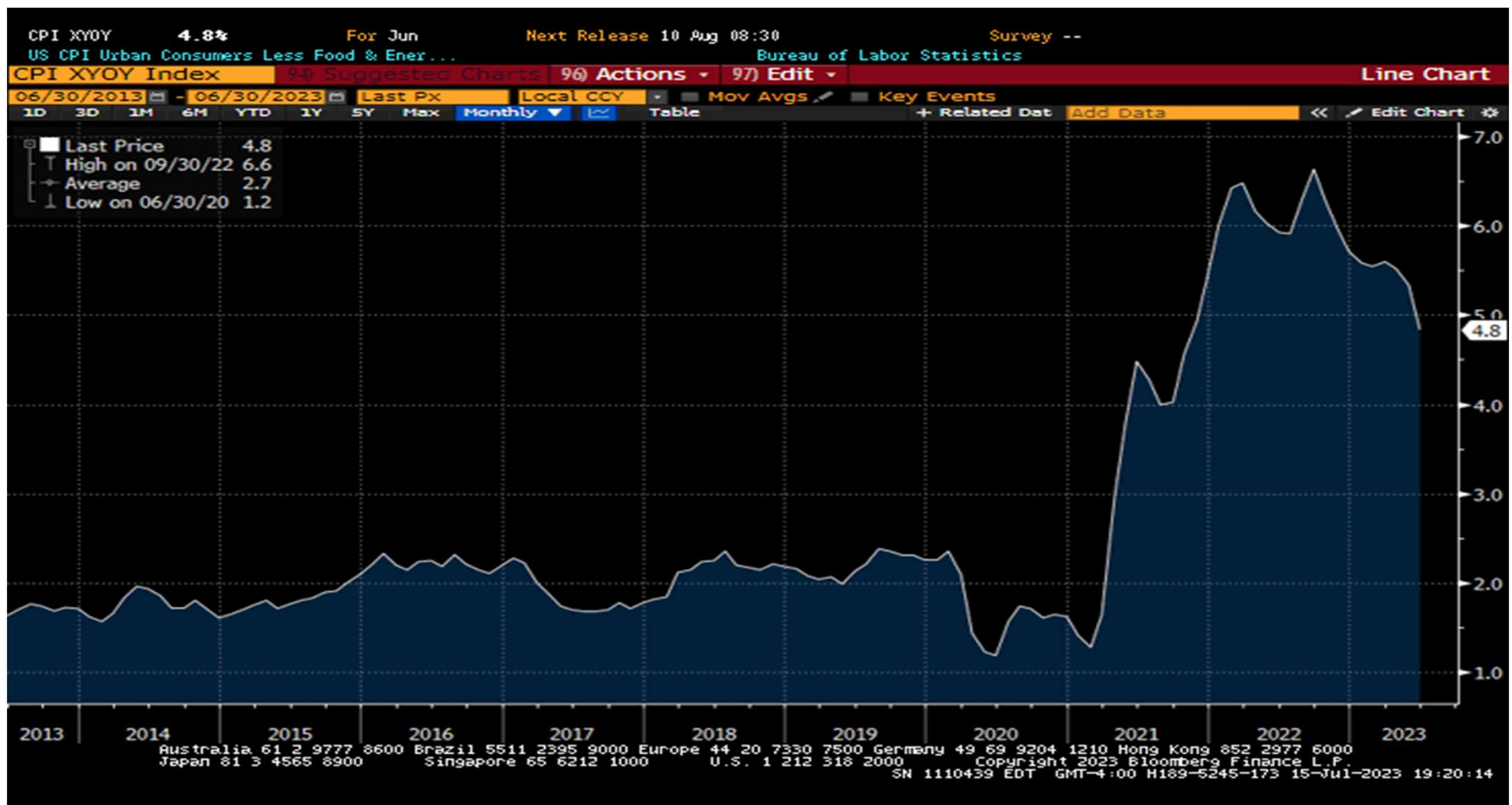
The Consumer Price Index (CPI) represents changes in prices of goods and services purchased for consumption by urban households. CPI measures price change from the perspective of the buyer or end user.





Core CPI Ex Food and Energy

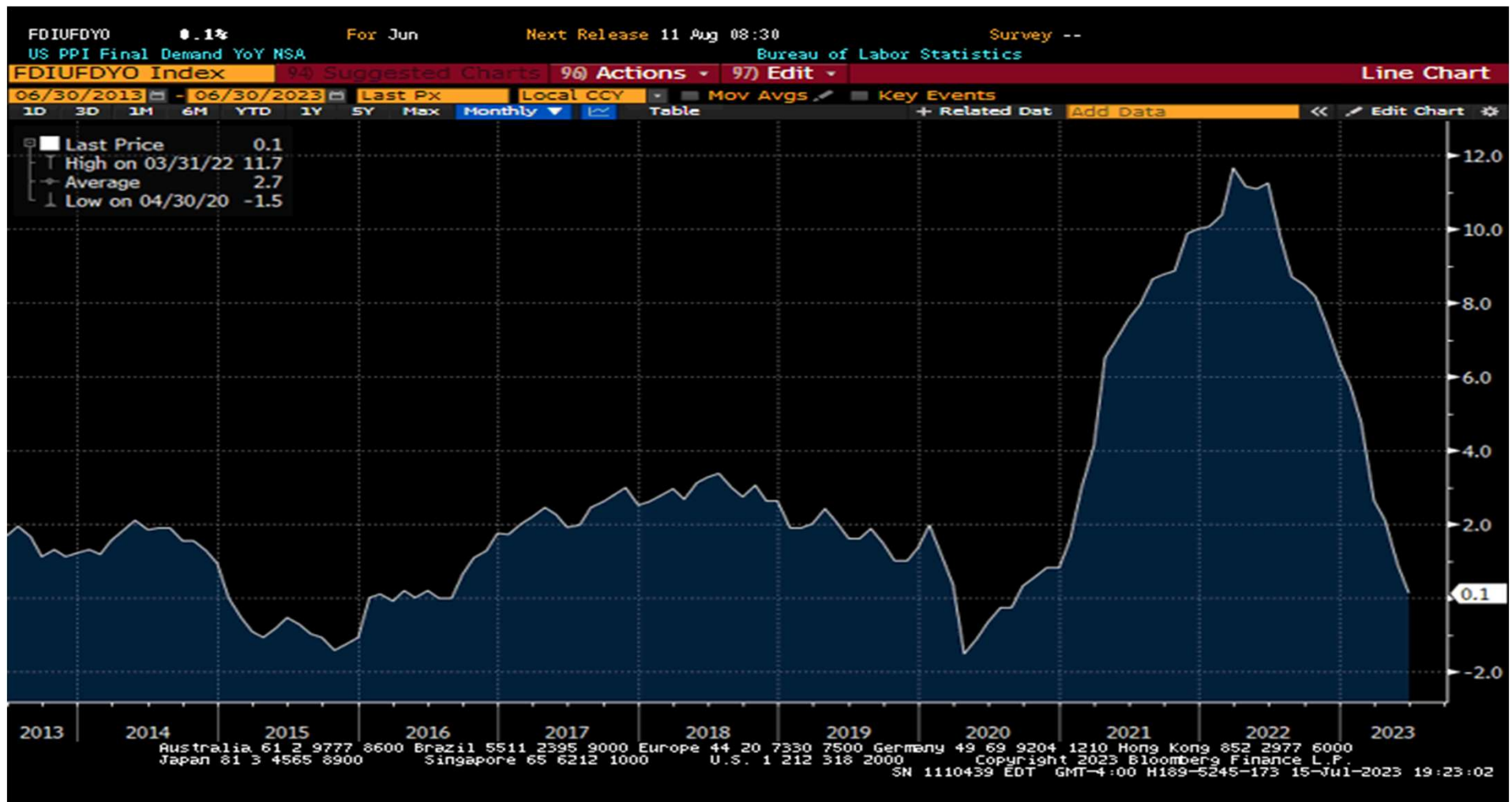
Core CPI is a means of measuring prices paid by the consumer over the longer term which leaves out some specific items, particularly those that experience volatility in their pricing.





Producer Price Index (PPI)

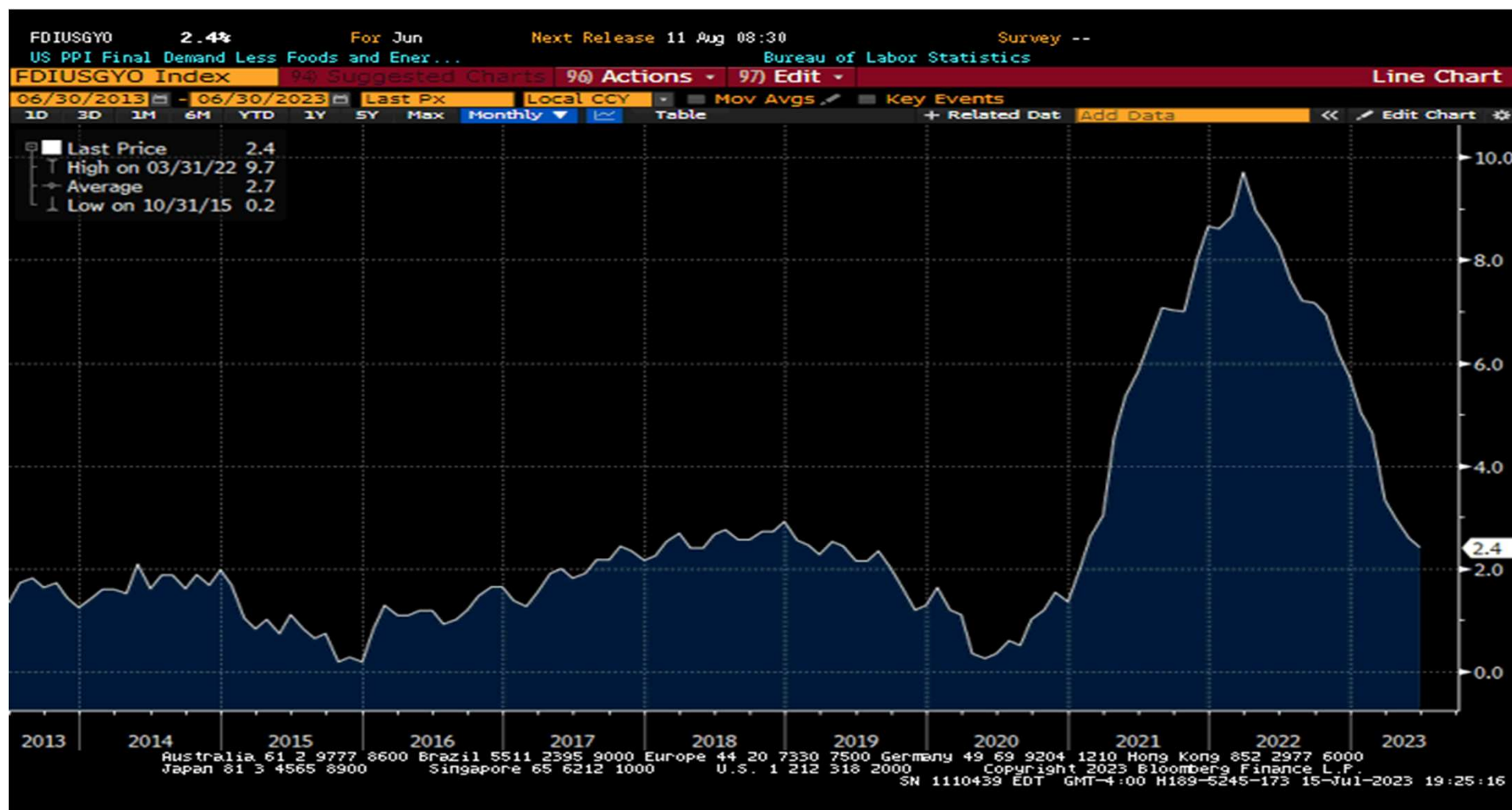
The Producer Price Index (PPI) measures changes in prices of goods as they leave their place of production. PPI measures price change from the perspective of the seller.





Core PPI Ex Food and Energy

Core PPI is a means of measuring prices charged by the producer of goods over the longer term which leaves out some specific items, particularly those that experience volatility in their pricing.





Interest Rates

- The FOMC has raised interest rates a total of 10 times during this tightening cycle increasing the Effective Federal Funds Rate (EFFR) by 500 basis points.
- The FOMC opted to pause hiking interest rates (hawkish pause) at the June 14th meeting to assess what impact the 10 previous interest rate hikes are having on the economy and the impact to future economic data.
- The FOMC stressed that they may continue raising interest rates and that their decision will be data dependent. It is important to note that when the FOMC implements changes in monetary policy it may take up to 12 months before those changes impact the economy.
- The market is currently pricing in one more 25 basis point rate hike at the July 26th meeting. 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.
- Once the FOMC is comfortable they will reach their 2% inflation target it is expected that they will leave rates higher for longer.
- 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.





6 Month Treasury Bill

6-month is the cheapest part of the curve.





12 Month Treasury Bill

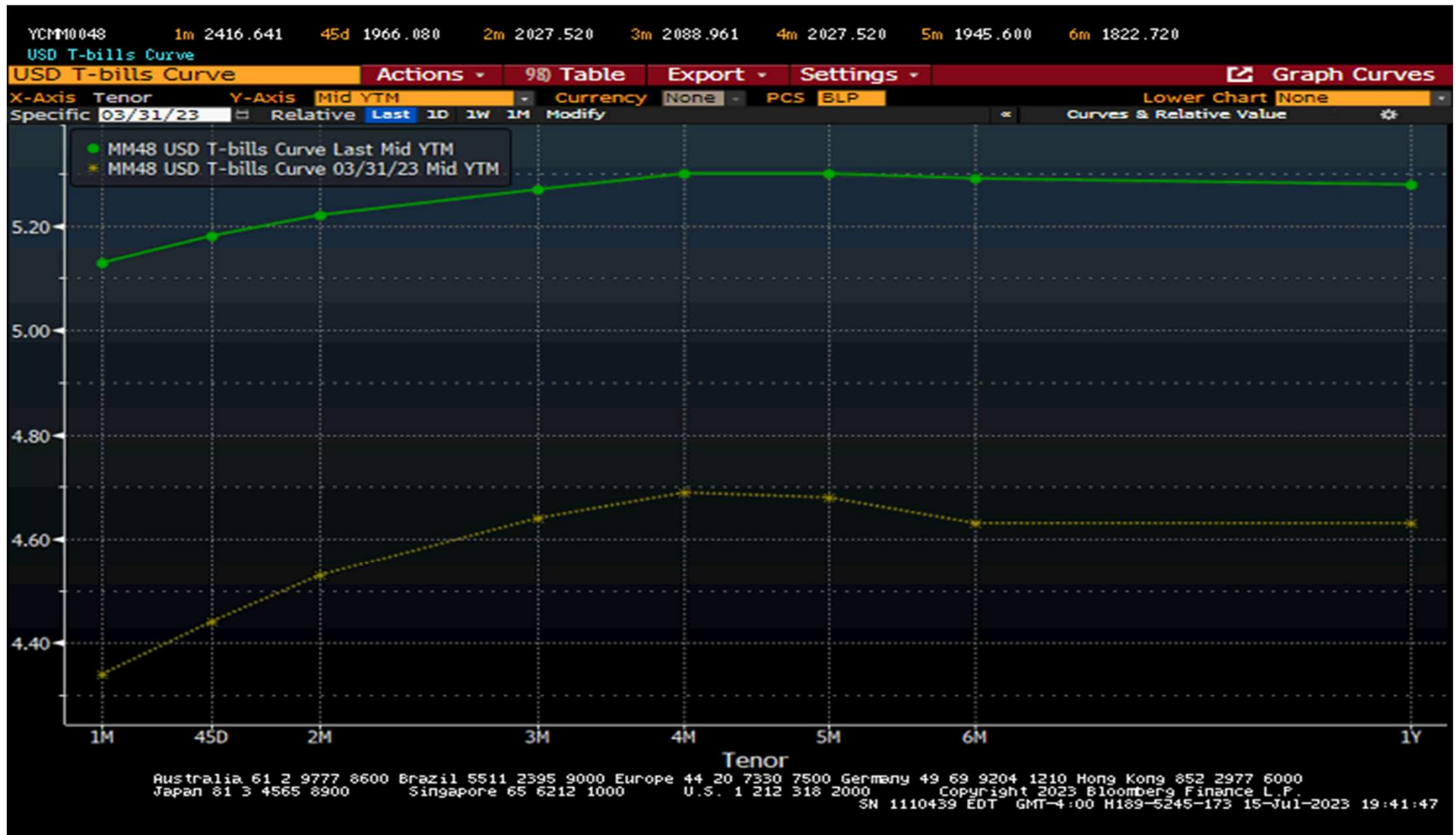
12-month yields.





Treasury Bill Curve

Treasury Bill Curve comparison – 3/31/2023 vs. 7/15/2023





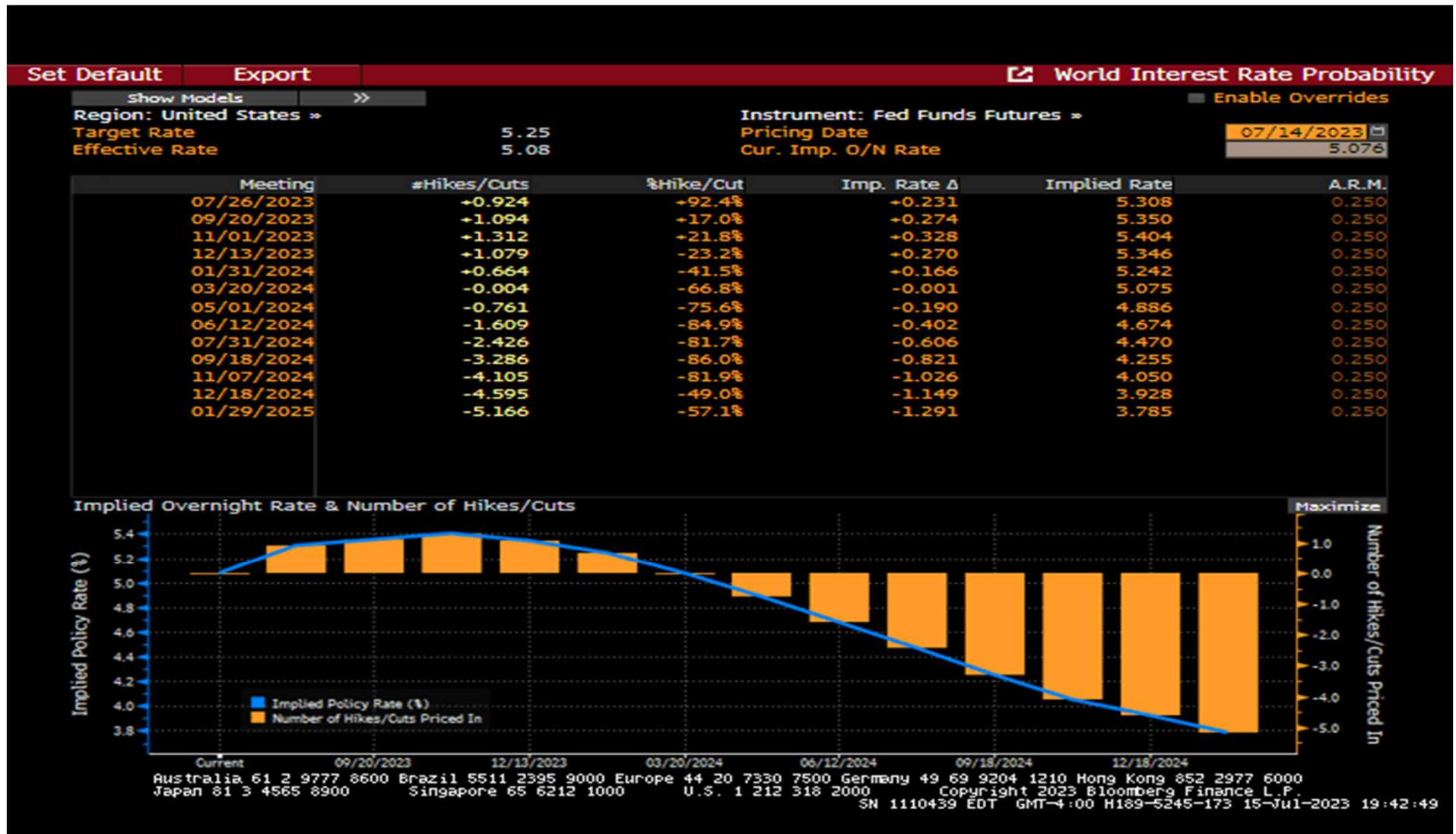
Treasury Curve (30 Year)





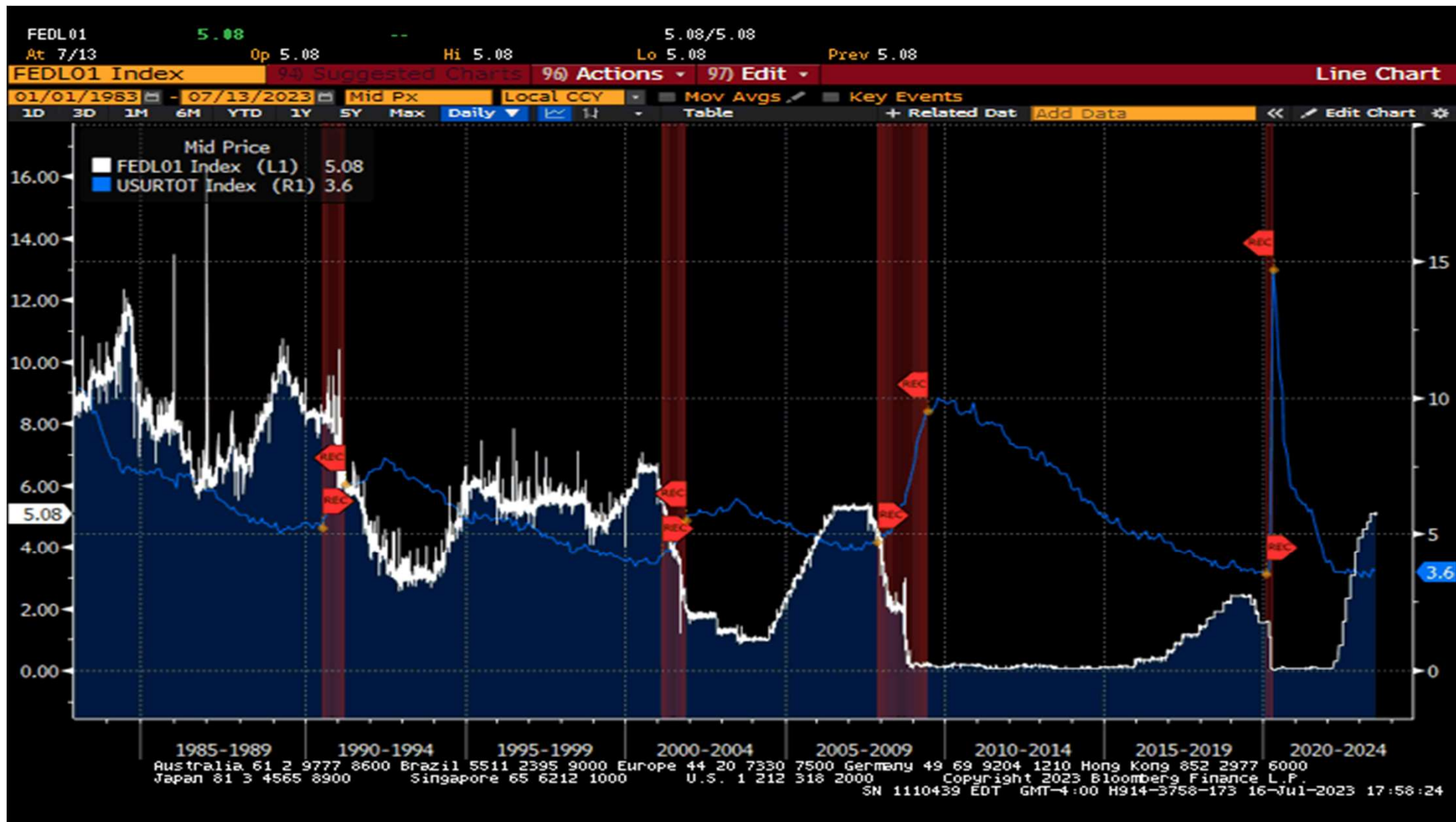
Fed Funds Futures

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





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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 continued inflation concerns.
- Maintain a primary focus on short dated o/n repo and floating rate notes and fixed maturities in the 3-month to 6-month 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.



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Georgia Fund 1

Participant Update

Fund Administration



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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 certificiant. 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.).