



# **Office of the State Treasurer**

## **Georgia Fund 1**

### **Participant Update**

**Jon Perregaux - Sr. Portfolio Manager**  
**October 17, 2023**



# Topics of Discussion

- Investments
  - GA Fund 1 Portfolio Characteristics
  - Economic / Market Update
    - Federal Open Market Committee (FOMC)
    - Employment
    - Inflation
    - Interest Rates
    - Geopolitical Conflicts
  - Portfolio Strategy
- Fund Administration
- Q&A Session



# **Office of the State Treasurer**

## **Georgia Fund 1**

### **Participant Update**

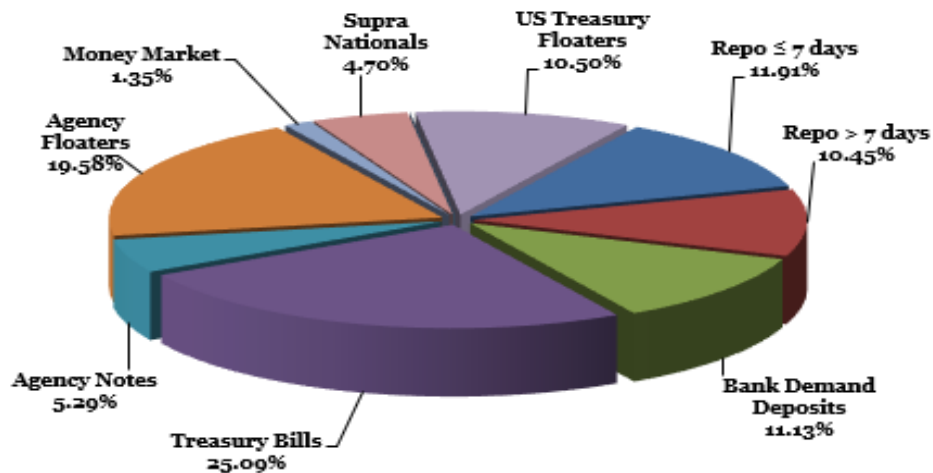
## **Fund Characteristics**



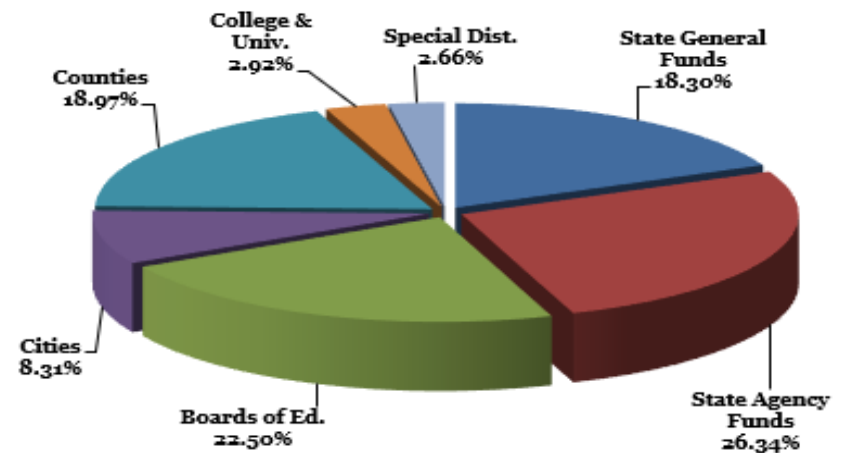
# Georgia Fund 1 (GF1)

- 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](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 September 2023, GF1 participants earned 5.37%<sup>(2)</sup>.
- As of September 30, 2023, GF1 assets were \$29 billion.
- As of September 30, 2023, the weighted average maturity (WAM) was 30 days.

## Portfolio Composition



## Account Holder Distribution

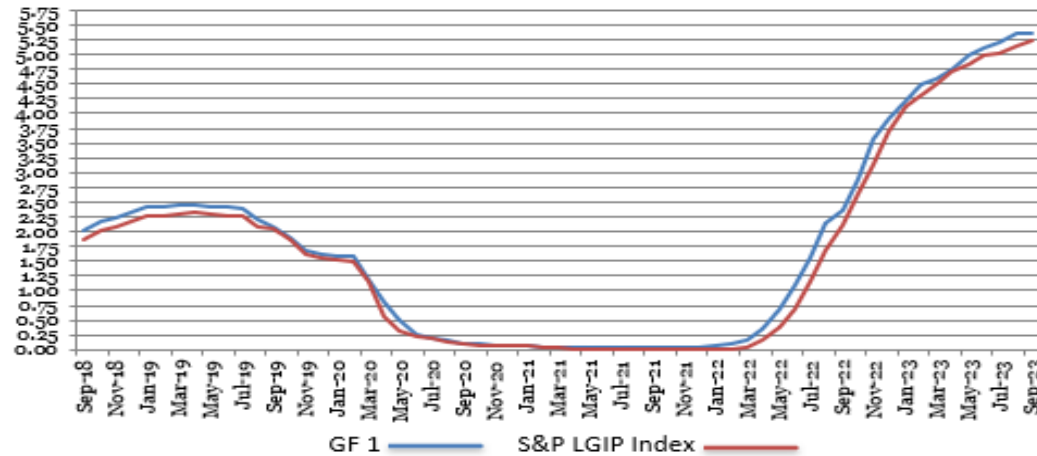


October 10, 2023

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



## Monthly Yield



## Portfolio Strategy:

After increasing interest rates by 25 basis point at the July 26<sup>th</sup> meeting, the Federal Open Market Committee (FOMC) opted to pause at the September 20<sup>th</sup> meeting. The FOMC is in a data dependent mode and may impose additional tightening if we see a resurgence in inflation. The current consensus is that the FOMC is done and will keep interest rates elevated for a period of time until the data shows that inflation has been tamed.

September employment data beat expectations coming in at +336k versus expectations of +170k. The unemployment rate remained at 3.8%. Inflation remains a problem for the FOMC. After several consecutive monthly declines in the data, inflation started to trend up slightly due to increases in energy and shelter prices. September Headline CPI YoY is expected to come in at +3.6% vs. +3.7% in August and expectations for Headline PPI YoY is +1.6 versus +1.6% in August. Any significant upward divergence from expectations may prompt the FOMC to further increase interest rates.

Overnight General Collateral (GC) Repurchase Agreements averaged a yield of 5.31% in September. Treasury Bill yields averaged 5.37% for 1-month maturities, 5.45% for 3-month maturities, 5.52% for 6-month maturities and 5.42% for 12-month maturities.

Jon Perregaux – Senior Portfolio

Georgia Fund 1 deposits are not guaranteed or insured by any bank, the FDIC, the Federal Reserve Board, the State of Georgia or any other agency.

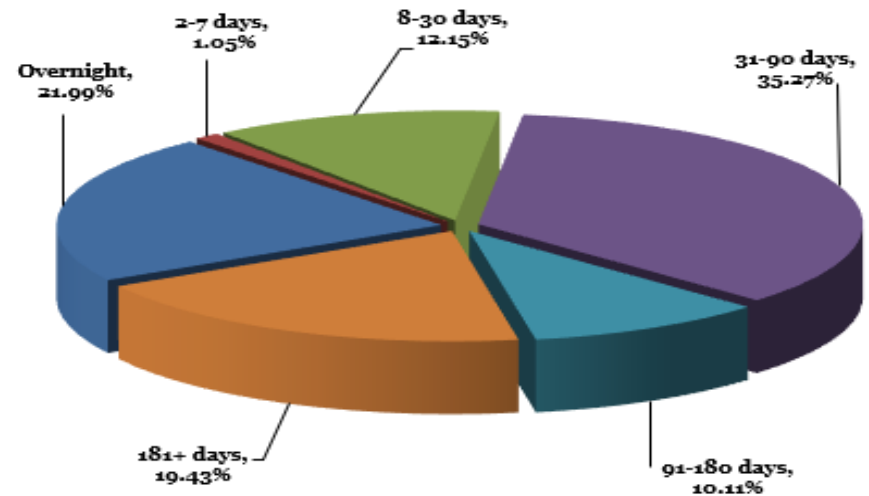
## In The News:

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).

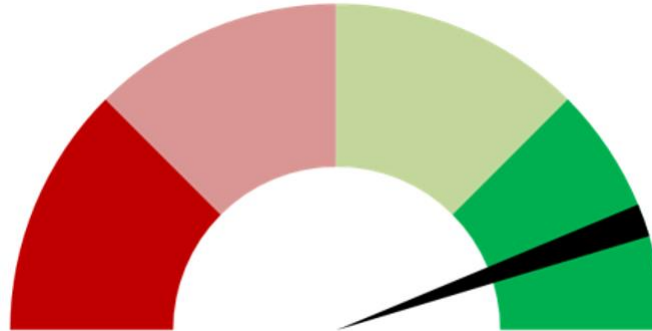
## Maturity Distribution





# Ga Fund 1 Risk Score

## October 10, 2023



Risk Level
Strong
Neutral
Weak
Critical

### Investments



Credit Risk Level



Interest Rates



Liquidity



### Management



Portfolio Management



Investment Operations



Customer Support



### Capital & Liquidity



LGIP Trust Reserve

\$53.3 Million

GF1 Portfolio Assets

\$28.9 Billion

Reverse Repo Capacity

\$18.3 Billion

### Other Indicators

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)
  - September 20<sup>th</sup> Meeting Statement Highlights
- Employment Data – 3<sup>rd</sup> Quarter 2023
  - Nonfarm Payrolls
  - Unemployment Rate
  - Labor Participation Rate
- Inflation – 3<sup>rd</sup> Quarter 2023
  - Consumer Price Index (CPI) – Headline CPI YoY
  - Producer Price Index (PPI) – Headline PPI YoY
- Interest Rates
  - Effective Federal Funds Target Rate
  - Treasury Bills



# FOMC

## Federal Open Market Committee

- The FOMC consists of twelve members who are responsible for setting Monetary Policy to influence the availability and cost of money and credit to help promote national economic goals.

### September 20<sup>th</sup> Statement Highlights

- Recent indicators suggest that economic activity has been expanding at a solid pace.
- Job gains have slowed in recent months but remain strong, and the unemployment rate has remained low.
- The U.S. banking system is sound and resilient.
- Tighter credit conditions for households and businesses are likely to weigh on economic activity, hiring, and inflation. The effect of these effects remains uncertain.
- The Committee seeks to achieve maximum employment and inflation at the rate of 2 percent over the longer run.
- The Committee decided to maintain the target range for the federal funds rate at 5.25 to 5.50 percent.
- The Committee will continue to assess additional information and its implications for monetary policy.
- In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook.



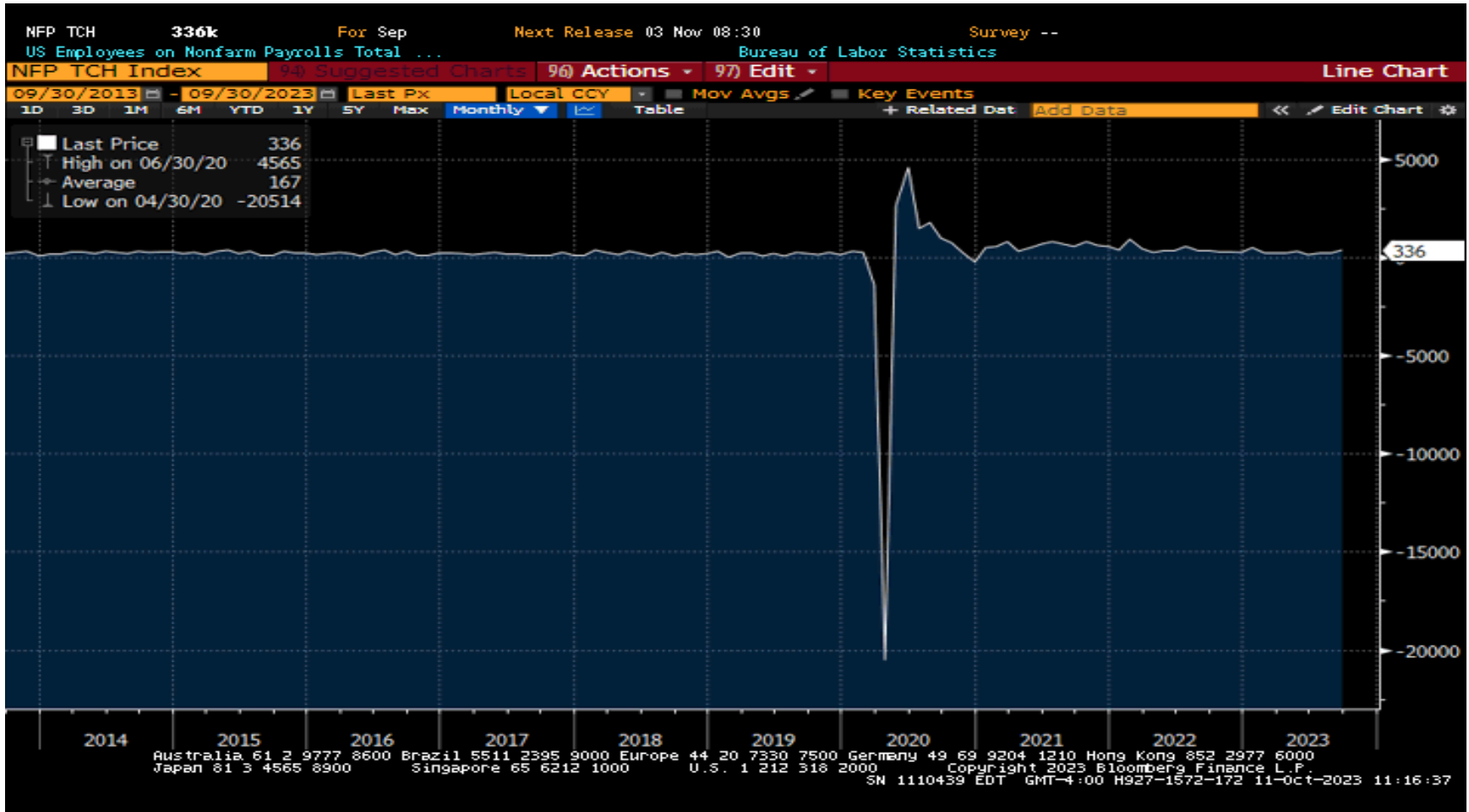
# Employment Data

- Employment data remains relatively strong.
  - July Nonfarm Payroll +187k
  - August Nonfarm Payroll +187k
  - September Nonfarm Payroll +336k
- Unemployment Rate remains low.
  - July Unemployment Rate 3.5%
  - August Unemployment Rate 3.8%
  - September Unemployment Rate 3.8%
- 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.
  - July Participation Rate 62.6%
  - August Participation Rate 62.8%
  - September Participation Rate 62.8%



# Nonfarm Payrolls

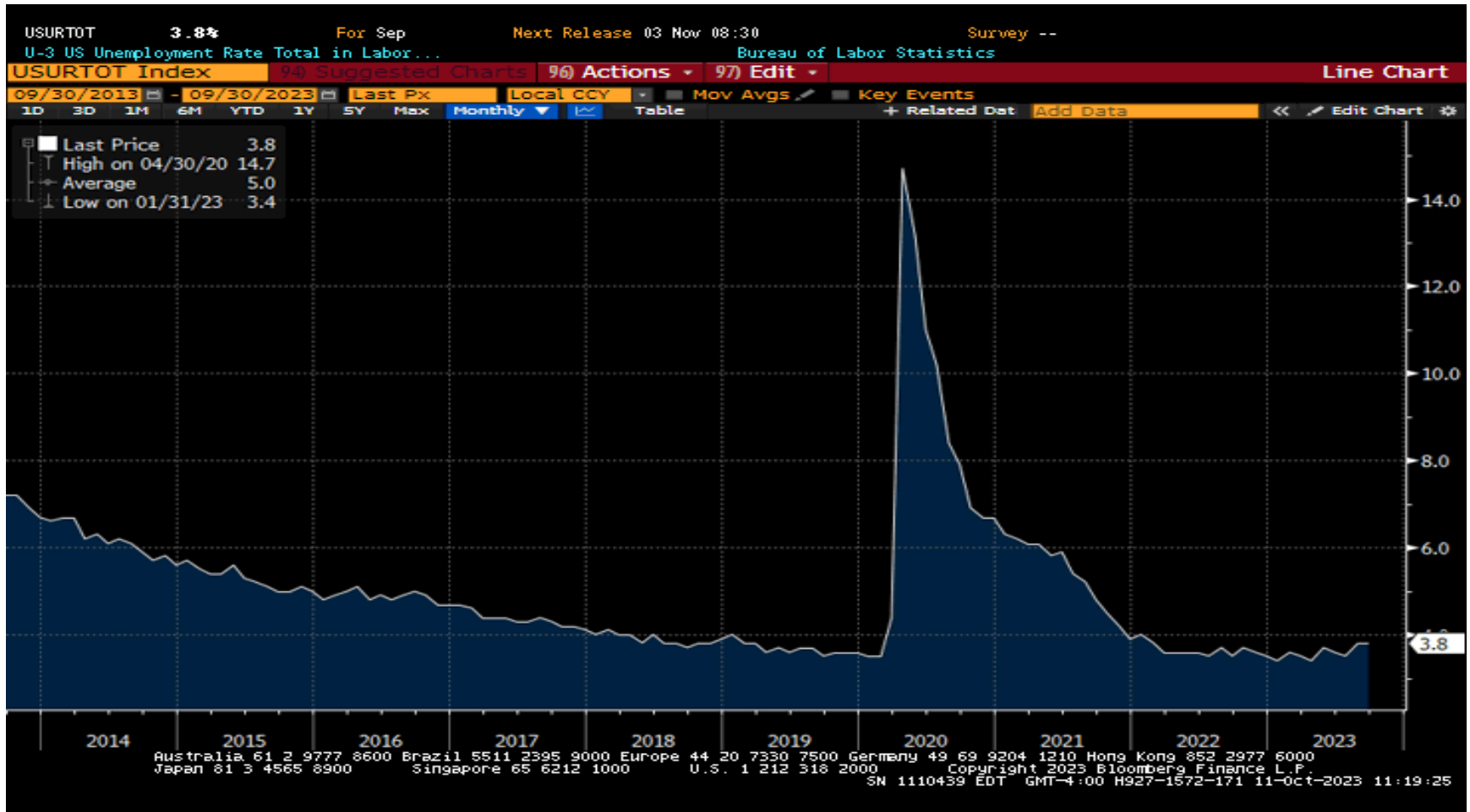
Employment data has shown consistent job gains in Q3 2023 however underlying data paints a different picture.





# Unemployment Rate

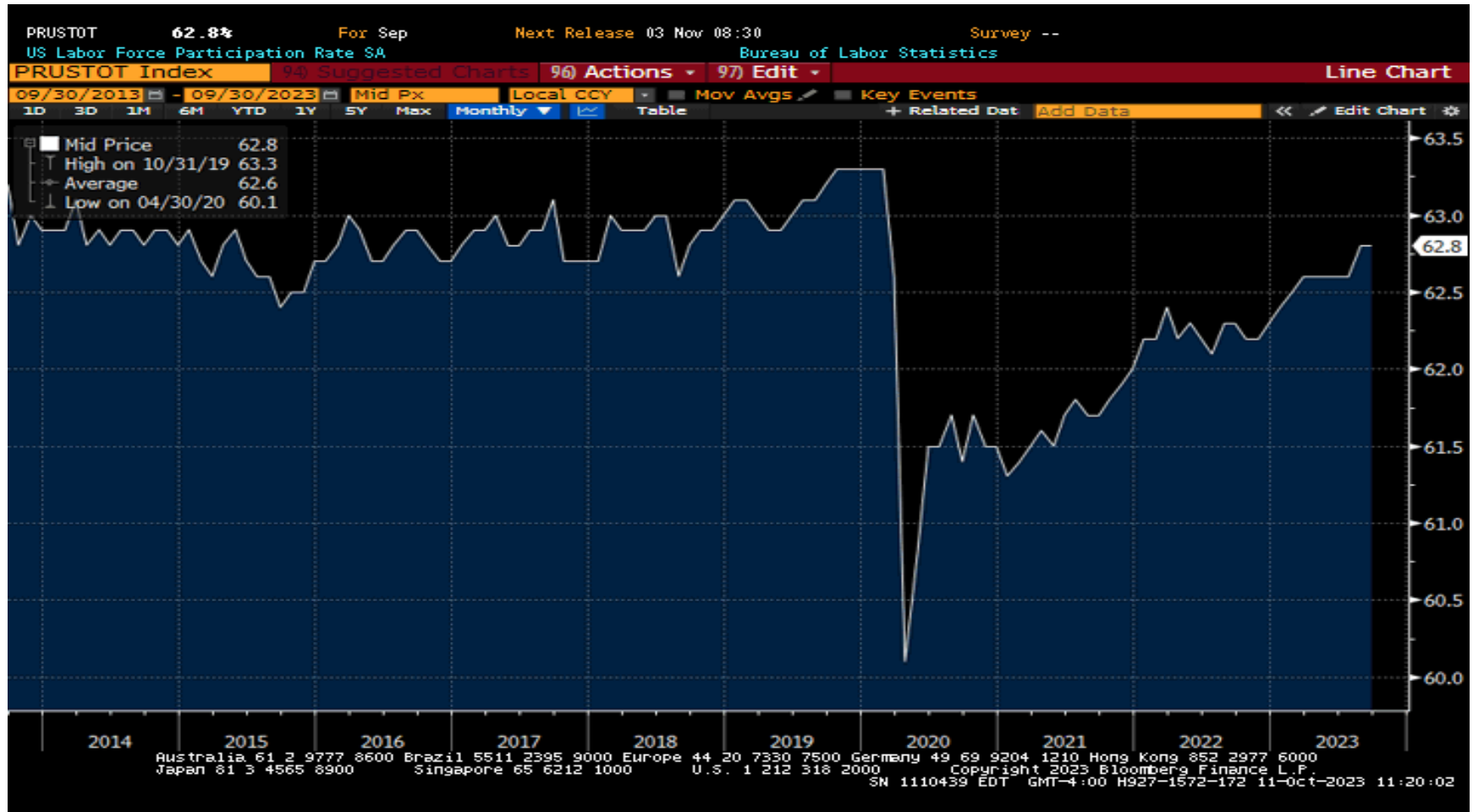
The Unemployment rate remains low at 3.8%.





# Labor Participation Rate

Labor Participation Rate remains below pre-COVID levels.





# Real Average Weekly Earnings

Real Average Weekly Earnings decreased to -0.1 YoY at the end of Q3 2023 vs. +0.7% YoY at the end of Q2 2023.







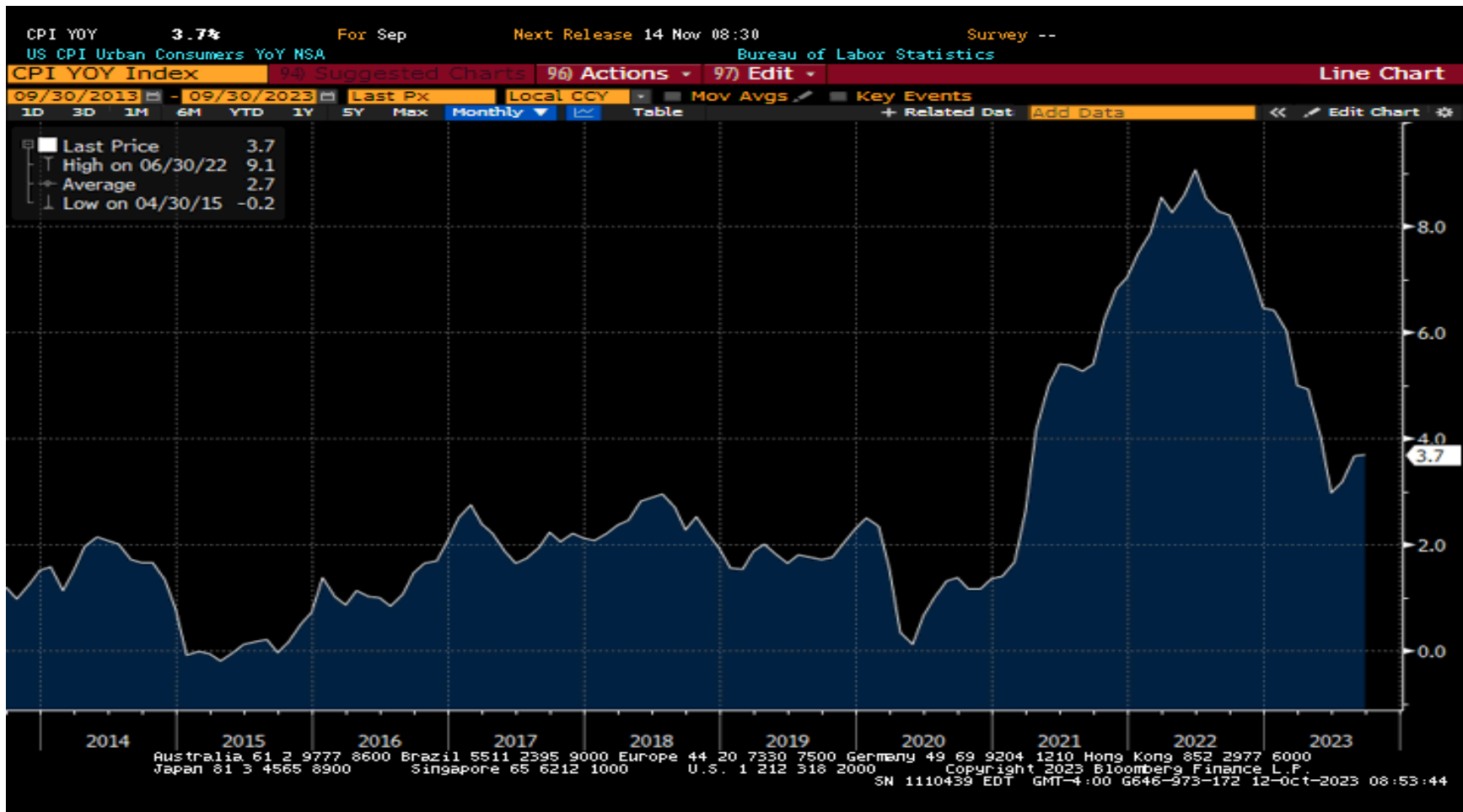
# Inflation

- 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 and heading back up.
- Headline Inflation Data:
  - CPI (YOY) as of 6/30/2023 = +3.0% vs. +3.7% as of 9/30/2023
  - PPI (YOY) as of 6/30/2023 = +0.1% vs. +2.2% as of 9/30/2023
- YoY shelter +7.2%, motor vehicle insurance +1.3%, medical care -2.6%, new vehicles +2.5% and used cars and trucks -8.0%
- YoY overall energy -0.5%, gasoline +3.0%, natural gas -19.9%, fuel oil -5.1% and electricity +2.6%
- YoY food at home +2.4% and food away from home +6.0%



# Consumer Price Index (CPI)

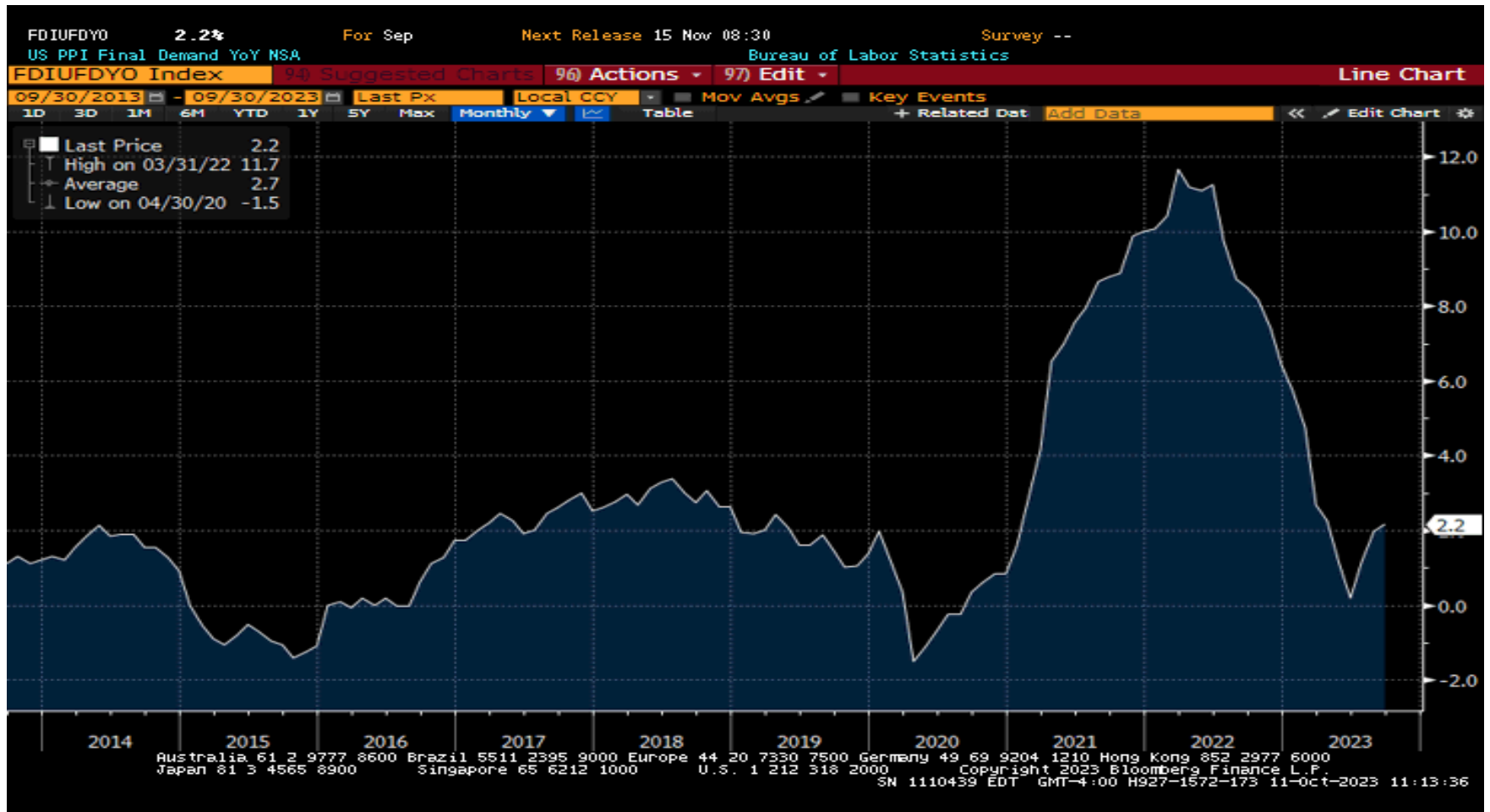
The Consumer Price Index (CPI) represents changes in prices of goods and services purchased for consumption by urban households. CPI measures price change from the perspective of the buyer or end user.





# 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 11 times since March of 2022 increasing the Effective Federal Funds Rate (EFFR) by 525 basis points.
- The FOMC appears to be close to the end of this tightening cycle but remain cautious of additional tightening given the inflation data.
- The FOMC has aggressively raised interest rates to slow the economy, which in theory should bring down inflation.
- The FOMC has implemented Monetary Policy change by raising interest rates and decreasing their balance sheet (Quantitative Tightening) – It is difficult for these actions to take hold without proper the Fiscal Policy in place.
- A change in monetary policy can take up to 12 months before it has an impact on the economy.
- The EFFR is currently at a 16 year high.



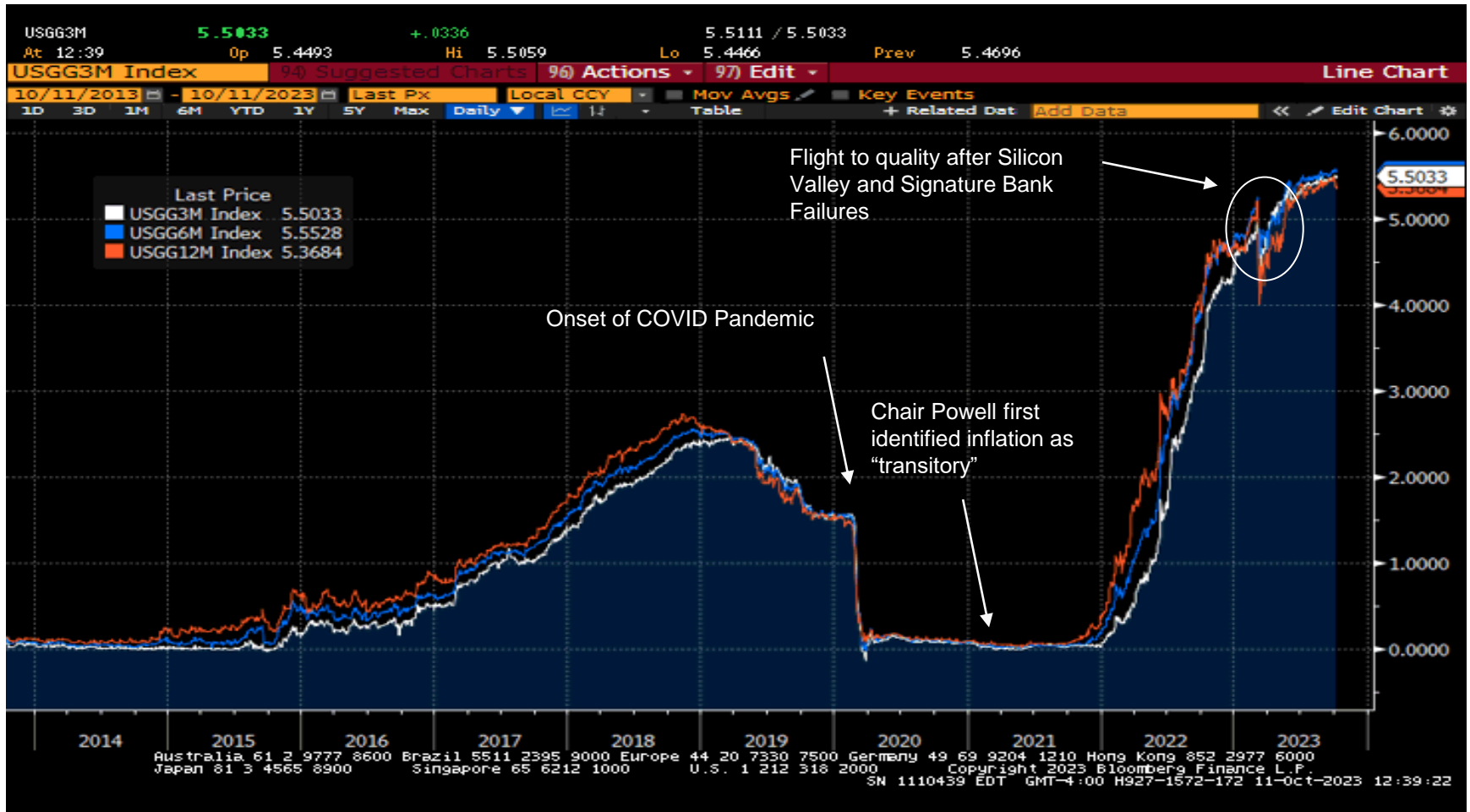
# Effective Federal Funds Rate

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 6-Month and 12-Month Treasury Bill Comparison





# Treasury Bill Curve







# Treasury Curve (30 Year)

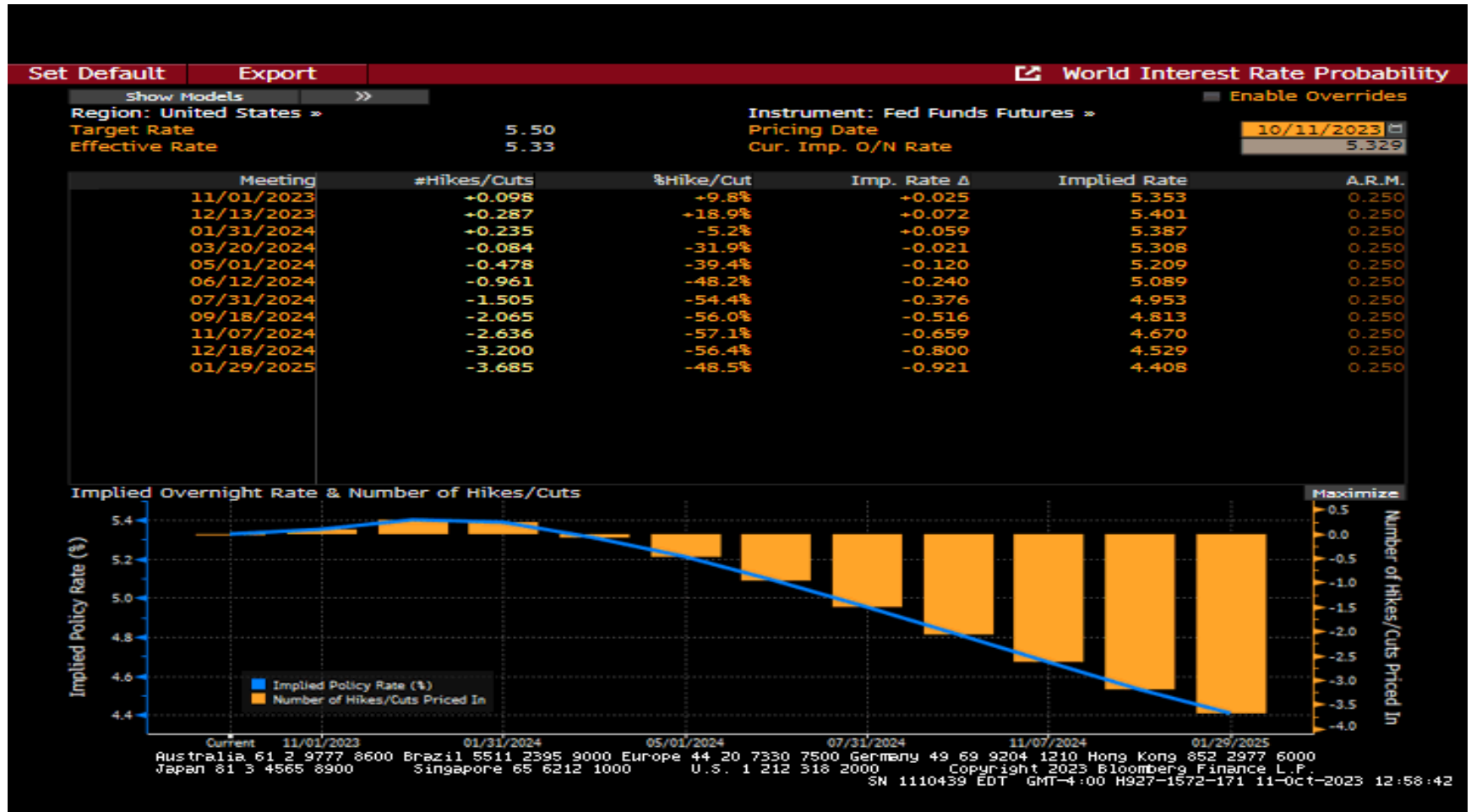






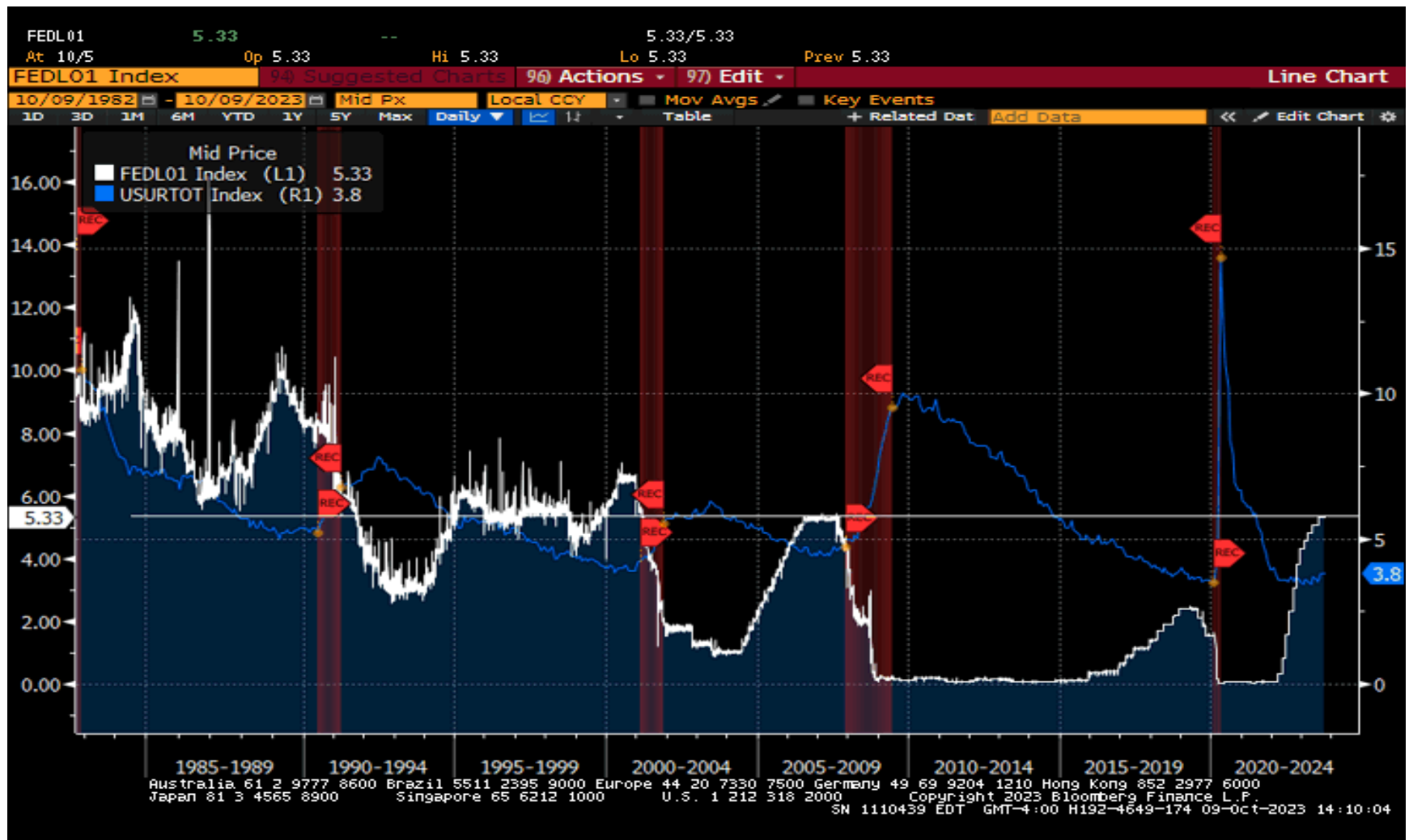
# Fed Funds Futures

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





# **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 continued inflation concerns.
- Target a 10% to 15% weighting in overnight repurchase agreements.
- Increase weighting of fixed maturities in the 3-month to 6-month part of the curve.
- Look for longer dated opportunities that are adequately priced. Factoring in the possibility of additional interest rate hikes.
- Perform breakeven analysis to determine relative value.



# **Office of the State Treasurer**

## **Georgia Fund 1**

### **Participant Update**

**Fund Administration**



# Georgia Fund 1 Prime Training

**Expected Roll-out Date: Wednesday, November 1, 2023.**



# Pre-Qualifying Training Modules

The completion of the following Pre-Qualifying Training Modules are required before opening an account in the Georgia Fund 1 Prime (GF1 Prime) pool for Authorized Representatives of the Participant who are authorized to deposit funds for investment into GF1 Prime.

*These courses are available to all local and state governments*

## 1. Introduction to GF1 Prime (1 Hour)

- I. An overview of short-term liquidity investing that covers topics such as:
  - What are the money markets?
  - In general, what types of securities are utilized in short-term liquidity products?
  - More specifically, what types of securities will the GF1 Prime LGIP invest in?
  - What are the risks associated with investing in GF1 Prime (including Interest Rate Risk, Credit Risk, Credit Party, Liquidity, Duration, etc.)
  - Who is the investment manager of GF1 Prime?
  - Highlight the similarities and differences between GF1 and GF1 Prime (for example, GF1 can meet a participant's primary liquidity needs, and GF1 Prime can offer a slightly higher yield to a participant's invested strategic cash).

## 2. Introduction to GF1 Prime Participant Account Trading / Reporting Interface (1 Hour)

- I. A tutorial of the online system that GF1 Prime participants will use to securely execute all business needs associated with managing your GF1 Prime accounts. This training includes the following topics:
  - Processing Deposit and Withdrawal Transactions
  - Performing inquiries on your accounts and viewing transaction history
  - Preparing reports
  - Reviewing Electronic Monthly Statements, Summary Statements, and Customized Summary Statements



# Optional Training Modules

The following optional training modules are available to all local and state governments.

## 1. Phishing and Cybersecurity Awareness (1 Hour 20 Minutes)

- I. This course is designed to provide a comprehensive overview of cybersecurity awareness issues and to equip you with the knowledge of the fundamentals of cybersecurity. At the end of this course, you will learn best practices on how to protect yourself and your organization from security threats and what to do if a security breach occurs.

## 2. How to Federal Reserve Impacts the Market (4 Hours 10 Minutes)

- I. Part 1 (1 Hour)
  - Part One of a four-part online series focusing on how the Federal Reserve impacts the markets. Part One reviews who the Federal Reserve is and the actions they took to control the speed and health of the U.S. economy in times of financial crisis.
- II. Part 2 (1 Hour)
  - Part Two of a four-part online series focusing on how the Federal Reserve impacts the markets. Part Two examines how the Federal Reserve is structured. It also reviews monetary policy and how it is implemented.
- III. Part 3 (1 Hour)
  - This course is Part Three of a four-part online series focusing on how the Federal Reserve impacts the markets. Part three looks at the economic data that influences the Fed's decisions.
- IV. Part 4 (1 Hour 10 Minutes)
  - This course is Part Four of a four-part online series focusing on how the Federal Reserve impacts the markets. Part Four outlines two schools of thought on government intervention into the markets, as well as the perceived benefits and drawbacks of Federal Reserve actions that influence the markets.





# **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.).