



Office of the State Treasurer

Georgia Fund 1

Participant Update

Jon Perregaux - Sr. Portfolio Manager
October 18, 2022



Good Afternoon

Thank you for joining us today!



Topics of Discussion

- GA Fund 1 Characteristics
- Economic / Market Update
- Interest Rates
- Inflation
- Strategy



Office of the State Treasurer

Georgia Fund 1

Participant Update

Fund Characteristics



Office of the State Treasurer

RESPONSIBILITIES:

Invests the State's general funds, the local government investment pools, and other separately managed accounts for the state and its agencies.

POLICY:

It is the policy of the State Depository Board that the Treasurer of the Office of the State Treasurer invest all funds prudently, considering first the probable safety of capital and then probable income, while meeting daily cash flow requirements and conforming to all statutes governing the investment of public funds.

INVESTMENT OBJECTIVES:

- **Preservation of Principal:** Investments shall be managed in a manner that seeks to ensure preservation of principal in each portfolio of investments.
- **Liquidity:** Each portfolio shall remain sufficiently liquid to ensure the funding of all cash needs reasonably anticipated given the profile of each respective portfolio.
- **Investment Income:** Each portfolio shall be managed with the objective of obtaining a favorable market rate of return.
- **Diversification:** To reduce overall portfolio risks while maintaining market rates of return, investments in each portfolio shall be diversified to eliminate risk of loss from an over concentration in a specific maturity, issuer (including repurchase agreement dealers), and security or class securities.



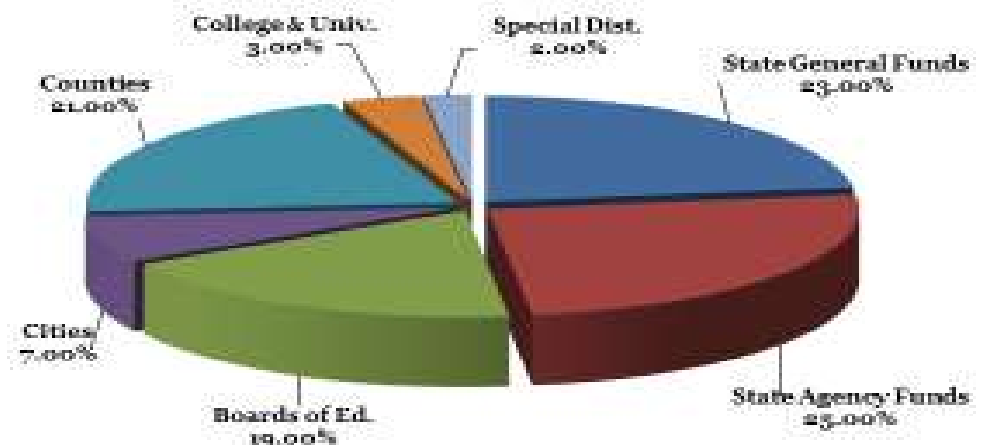
Georgia Fund 1 (GF1)

- 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 investment 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 September 2022, GF1 participants earned 2.37%⁽²⁾.
- As of September 30, 2022, GF1 assets were \$24.4 billion.
- As of September 30, 2022, the weighted average maturity (WAM) was 33 days.

Portfolio Composition



Account Holder Distribution



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

October 6, 2022



Monthly Yield



Portfolio Strategy:

The September 21st FOMC meeting concluded with the Fed raising interest rates by 75-basis-points. This marks the fifth time the Fed has increased interest rates in 2022. The FOMC continues to raise interest rates to slow the economy and bring inflationary pressures down. The next scheduled FOMC meeting is on December 14th and the market is expecting the Fed to increase rates by another 75-basis points.

September employment data was positive with the headline Nonfarm Payrolls number coming in at +263k versus expectations of +255k. The Unemployment Rate decreased to 3.5%, down from 3.7% in August. The employment data remains a key metric to watch as the FOMC continues to raise interest rates. Any meaningful deterioration in the employment data will be a signal for the Fed to stop raising rates. Gasoline prices are rising again but we won't see the impact to CPI until next month when the October CPI data is released.

Rates in the short end of the curve continue to increase. Overnight General Collateral (GC) Repurchase Agreements averaged a yield of 2.45% in September. Treasury Bill yields averaged 2.43% for 1-month maturities, 3.11% for 3-month maturities, 3.70% for 6-month maturities and 3.83% for 12-month maturities. The Treasury Bill curve offered 128-basis points of steepness as of 9/30/2022.

Jon Perregaux – Senior Portfolio Manager

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:

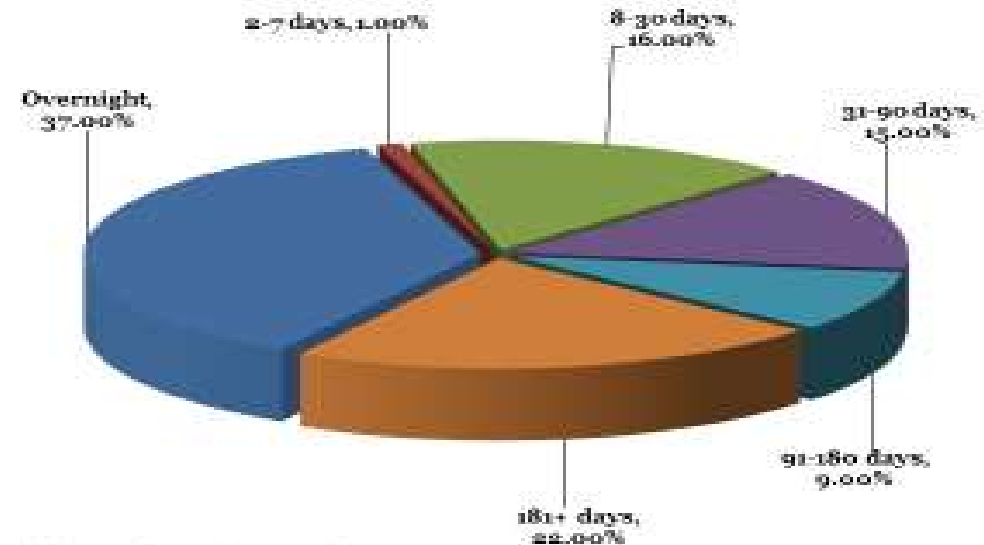
Additional information on the Georgia Fund 1 (GF1) holdings can be found on the website at <https://ost.georgia.gov/gf1-holdings-reports>. Holdings are updated quarterly. Other state portfolio holdings are listed on the website, as well.

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.

GF1 Participants - Please join us on October 18th at 1:30 PM for a webinar hosted by the OST Investments Team. We will be discussing the impact of higher interest rates and inflation. Watch your email for an invitation to join the webinar through Microsoft Teams.

Maturity Distribution





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'.

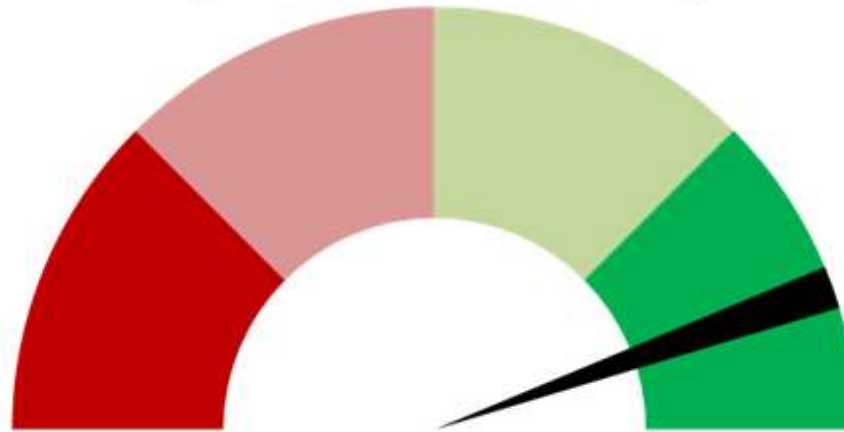
KEY RATING DRIVERS

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.



Ga Fund 1 – October 11, 2022

Ga Fund 1 Risk Score



Risk Level

Strong

Neutral

Weak

Critical

Investments



Credit Risk Level



Interest Rates



Liquidity



Management



Portfolio Management



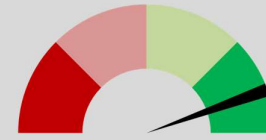
Investment Operations



Customer Support



Capital &
Liquidity



LGIP Trust
Reserve

\$47.0 Million

GF1 Portfolio
Assets

\$24.2 Billion

Reverse
Repo
Capacity

\$19.4 Billion

Other Indicators

Cyber Insurance



Fraud Insurance



E&O Insurance



Stress Testing





Office of the State Treasurer

ost.georgia.gov


An official website of the State of Georgia. [How you know](#)

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Welcome

Welcome to the website of the Georgia Office of State Treasurer (OST). We are the cash and investment manager for the State of Georgia, preserving both capital and public trust by managing Georgia's cash resources efficiently and conservatively. Last year, OST generated \$21.9 million in interest for state and local governments. We recognize that the money we hold belongs to the taxpayers of Georgia, and we manage it with honesty, integrity, and the highest ethical standards until it is needed to be used in their interests.

Message from

Steve McCoy, State Treasurer

[More](#)

News

JUNE 30, 2022

Treasury Notes

Treasury Notes is published periodically to provide insight into the primary functions and responsibilities of the Office of the State Treasurer (OST) as well as detailed information on cash flows and investment management.

[Read more](#)

OCTOBER 28, 2021

GF1 e-Resolution Webinar

Thank you to all our attendees of the GF1 e-Resolution Webinar. If you missed the webinar or would like to re-watch, please click below.

[GF1 e-Resolution Webinar Video](#)

[Read more](#)

MARCH 09, 2021

Fitch Ratings Has Assigned a 'AAAF/'S1' Rating to Georgia Fund 1

Fitch Ratings has assigned a 'AAAF' International Fund Credit Quality Rating (FCQR) and a 'S1' Fund Market Risk Sensitivity Rating (MRSR) to Georgia Fund 1, a local government investment pool managed by the Office of the State Treasurer (OST) of Georgia. As of Nov. 30, 2020, the pool had approximately \$22.6 billion in invested securities.

[Read more](#)

At Your Service...

[Statewide Merchant Card Services](#)

[Allotment Request Intranet System \(ARIS\)](#)

[Internet Participant Access System \(IPAS\)](#)

[Georgia Secure Deposit Program \(SDP\)](#)


Georgia Fund 1 (GF1)

GF1 is a conservative, efficient, and liquid investment alternative for counties, municipalities, public colleges and universities, boards of education, special districts, state agencies, and other authorized entities.

Fitch Ratings Has Assigned a 'AAAF/'S1' Rating to GF1

[GF1 e-Resolution Request](#)

[About Georgia Fund 1](#)



Ga Fund 1 Risk Score

October 17, 2022

Investments	Management	Capital & Liquidity	Other Indicators
Credit Risk Level: Low	Portfolio Management: Strong	Liquid Asset Base: Strong	Clear Separation: Strong
Interest Rate: Low	Investment Oversight: Strong	Asset Valuation: Strong	Investment: Strong
Liquidity: Low	Chairman Support: Strong	40% Public Assets: Strong	Asset Separation: Strong
		2021 Return: Strong	Asset Separation: Strong
		2022 Return: Strong	Asset Separation: Strong



Office of the State Treasurer

Georgia Fund 1

Participant Update

Economic Update

Interest Rates and Inflation



Economic Data

- Federal Open Market Committee (FOMC)
 - September 21st Meeting Statement
- Employment Data
 - Nonfarm Payrolls
 - Unemployment Rate
 - Labor Participation Rate
- Inflation
 - Consumer Price Index (CPI)
 - Producer Price Index (PPI)
- 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 21st Statement Highlights

- Job gains have been robust in recent months, and the unemployment rate has remained low.
- Inflation remains elevated, reflecting supply and demand imbalances related to the pandemic, higher food and energy prices, and broader price pressures.
- Russia's war against Ukraine is causing tremendous human and economic hardship.
- The Committee seeks to achieve maximum employment and inflation at a rate of 2.00% over the longer run.
- The Committee decided to raise the target range for the federal funds rate to 3.00% to 3.25% and anticipates that ongoing increases in the target rate will be appropriate.
- In assessing the appropriate stance of monetary policy, the Committee will continue to monitor the implications of incoming information for the economic outlook.

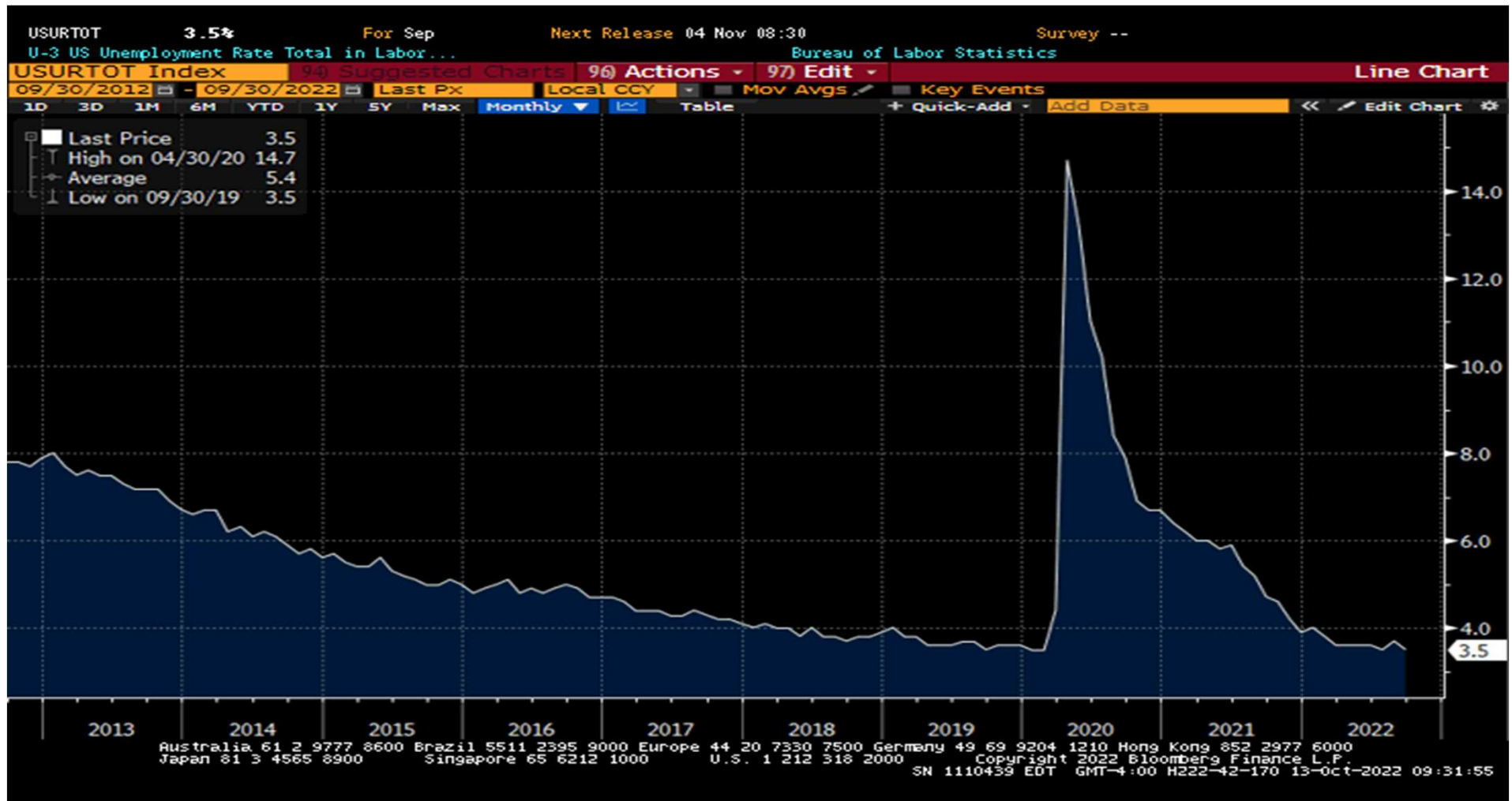


Employment Data

- Employment data has been relatively strong.
- Unemployment Rate remains low at 3.5%.
- U.S. Labor Force Participation Rate has not fully recovered after COVID.
- Although hourly earnings have increased in recent months the labor force is actually making 3.8% less compared to a year ago when inflation is factored in.



Unemployment Rate





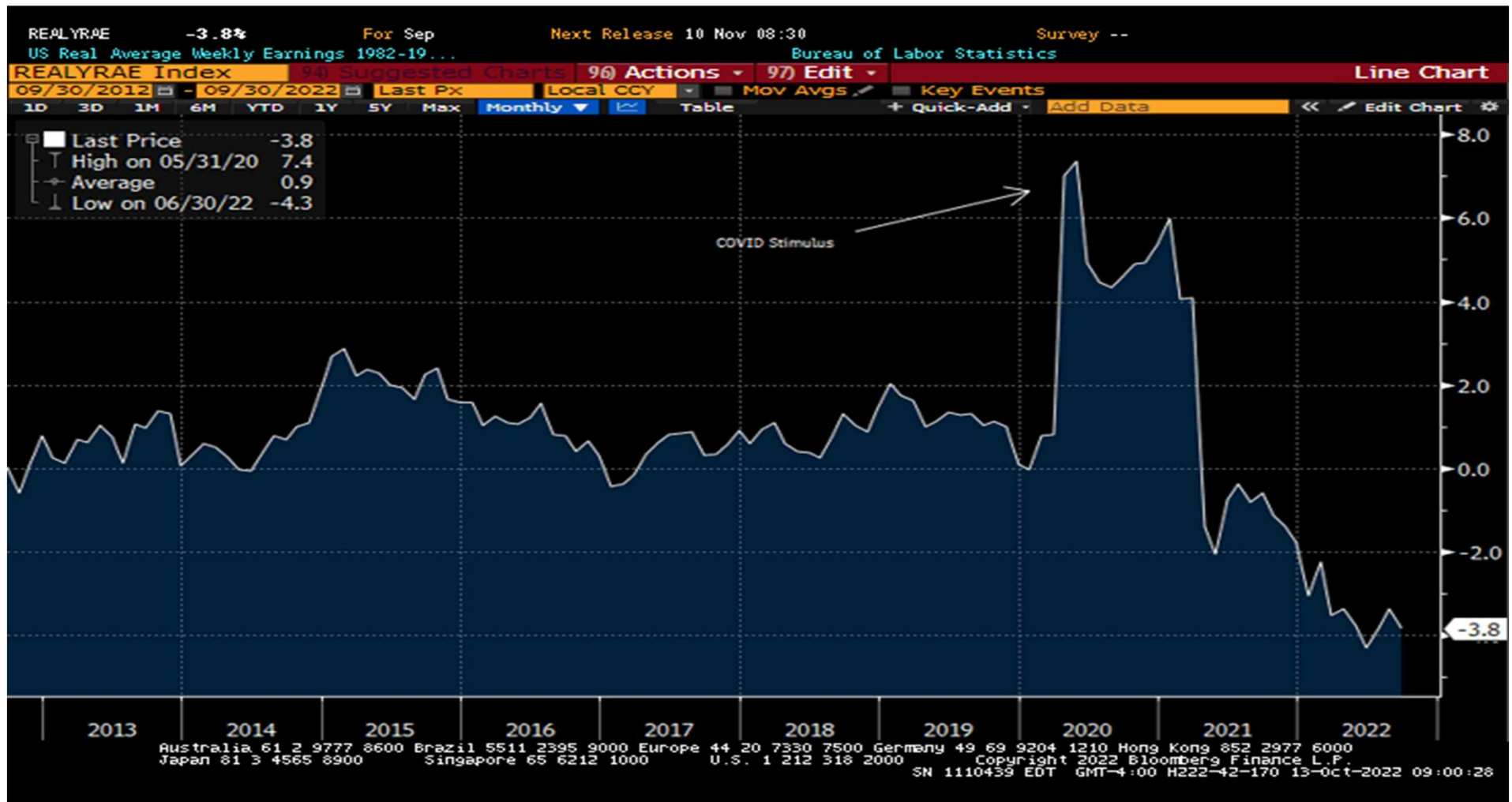
Labor Participation Rate





Real Average Weekly Earnings

Real Average Weekly Earnings are down -3.8% YOY when factoring in the impact of inflation.





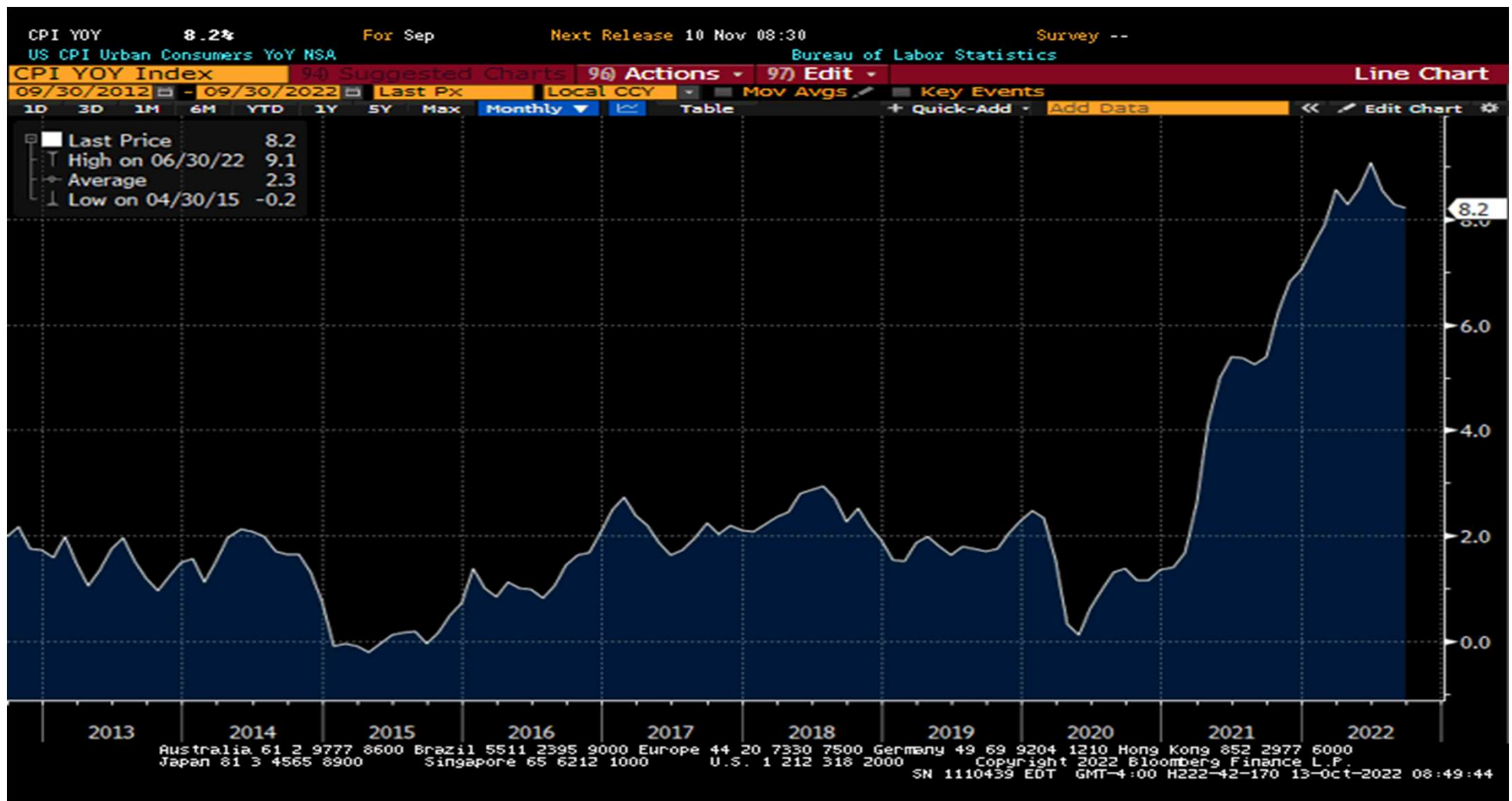
Inflation

- We have not seen upward inflationary pressure this strong since the early 1980's
- The two key inflation indicators we watch are The Consumer Price Index (CPI) and The Producer Price Index (PPI)
- Major factors contributing to high inflation:
 - Excessive Federal Stimulus
 - Supply Chain Disruptions
 - War in Ukraine
- The FOMC's target rate for inflation is 2.00%
 - CPI as of 9/30/2022 = +8.2% (YOY)
 - PPI as of 9/30 /2022 = +8.5% (YOY)
- U.S. Real Average Weekly Earning down -3.8% (YOY) as of 9/30/2022



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)

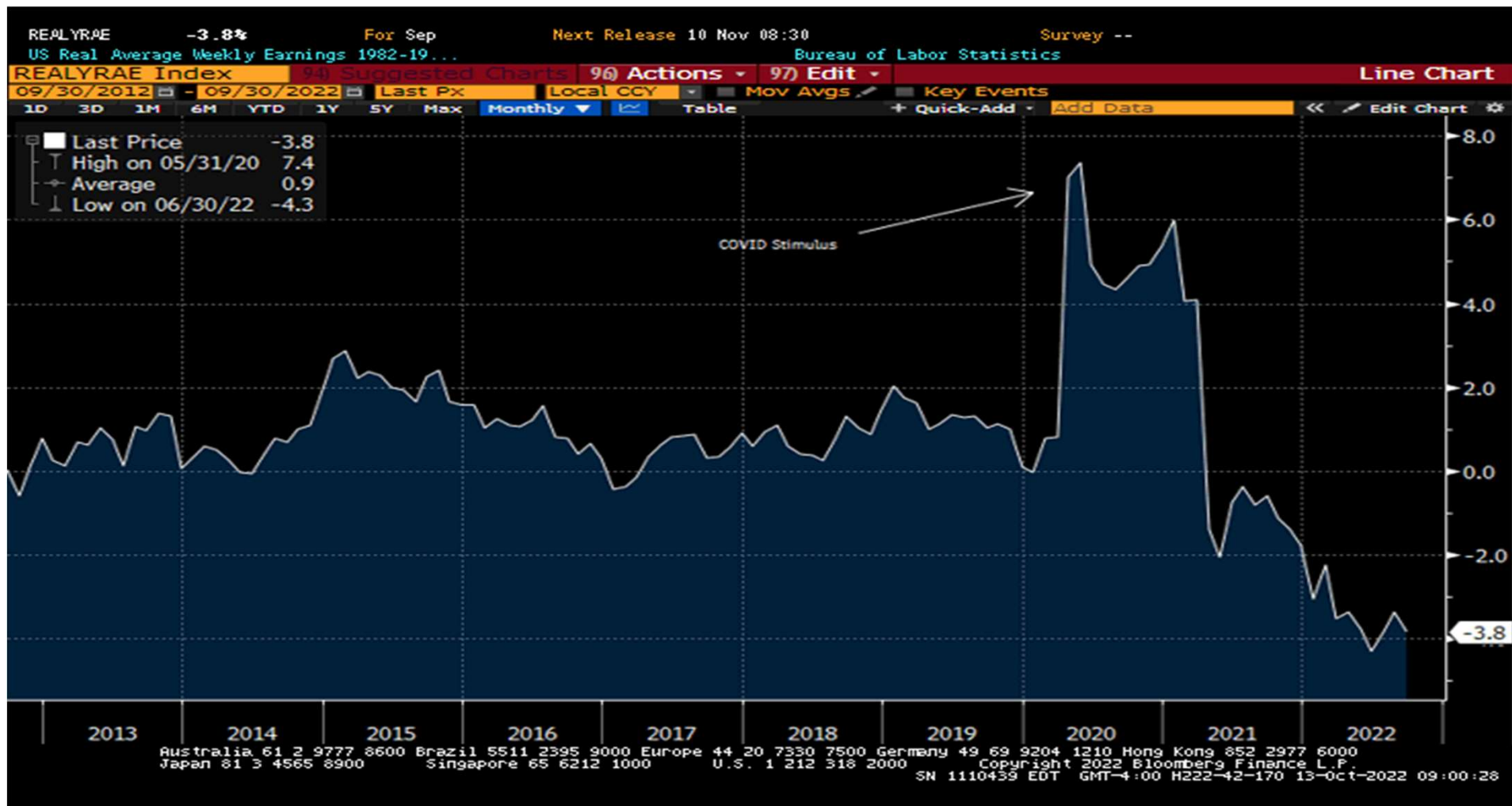
The Producer Price Index (PPI) measures changes in prices of goods as they leave their place of production. PPI measures price change from the perspective of the seller.





Real Average Weekly Earnings

Real Average Weekly Earnings are down -3.8% YOY when factoring in the impact of inflation.





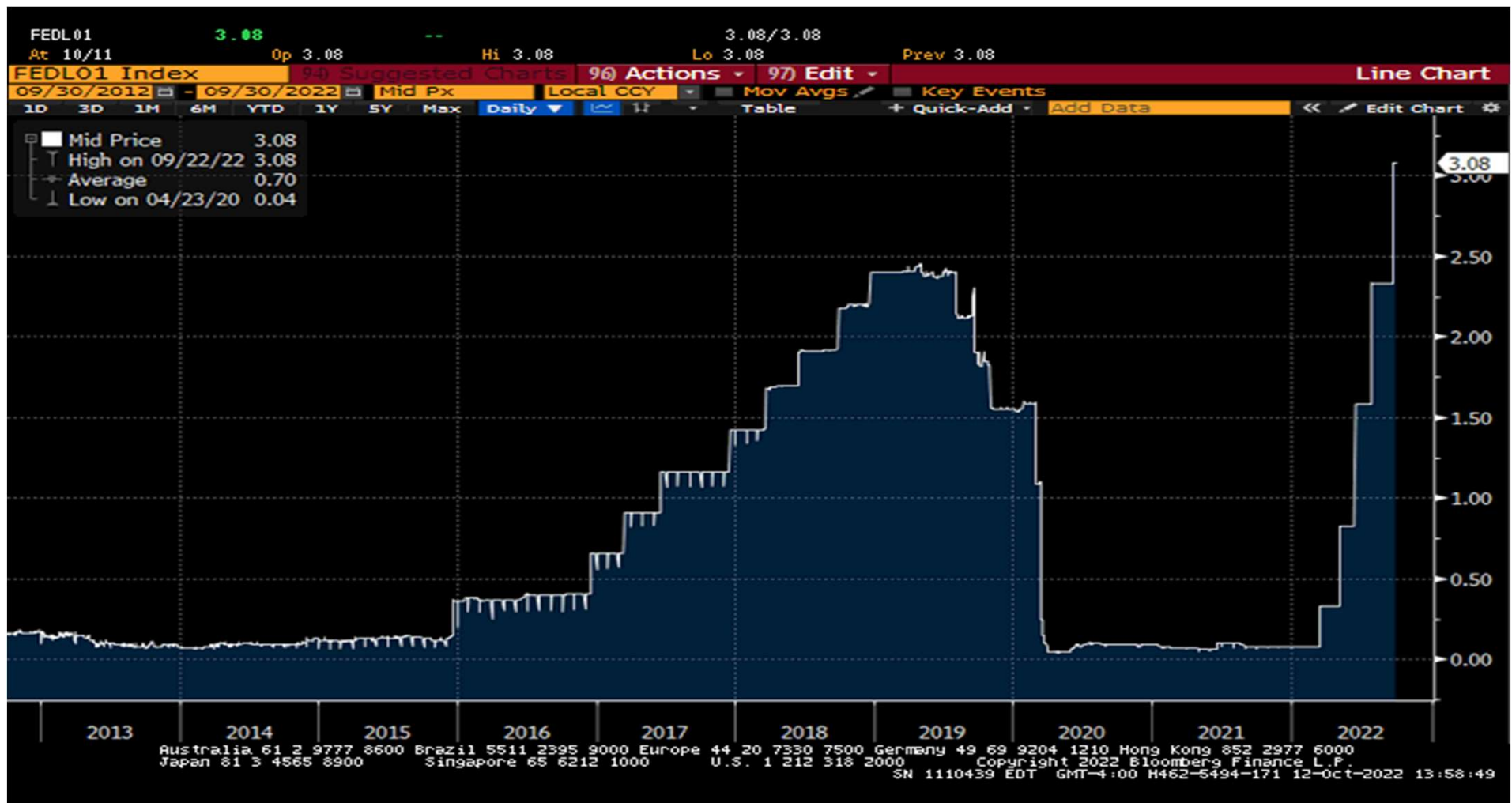
Interest Rates

- The FOMC has raised interest rates 5 times in 2022 increasing the Effective Federal Funds Rate (EFFR) by 300 basis points.
- We believe that the FOMC is not done raising interest rates yet and expect further increases.
- 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 the proper Fiscal Policy in place.
- The EFFR is currently at a 15 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

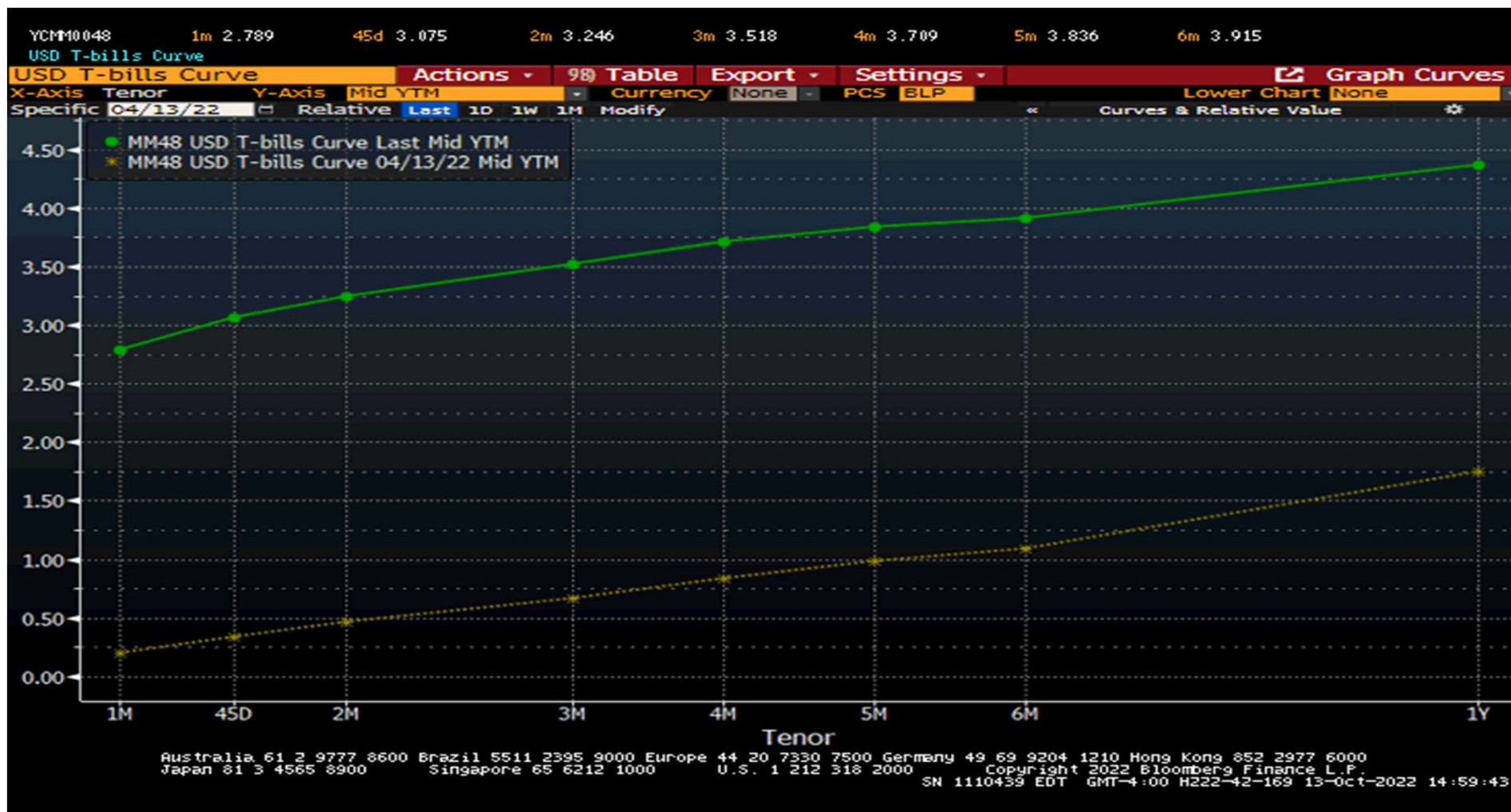
Yields have increased in response to higher inflation and Monetary Policy change from the FOMC.





Treasury Bill Curve

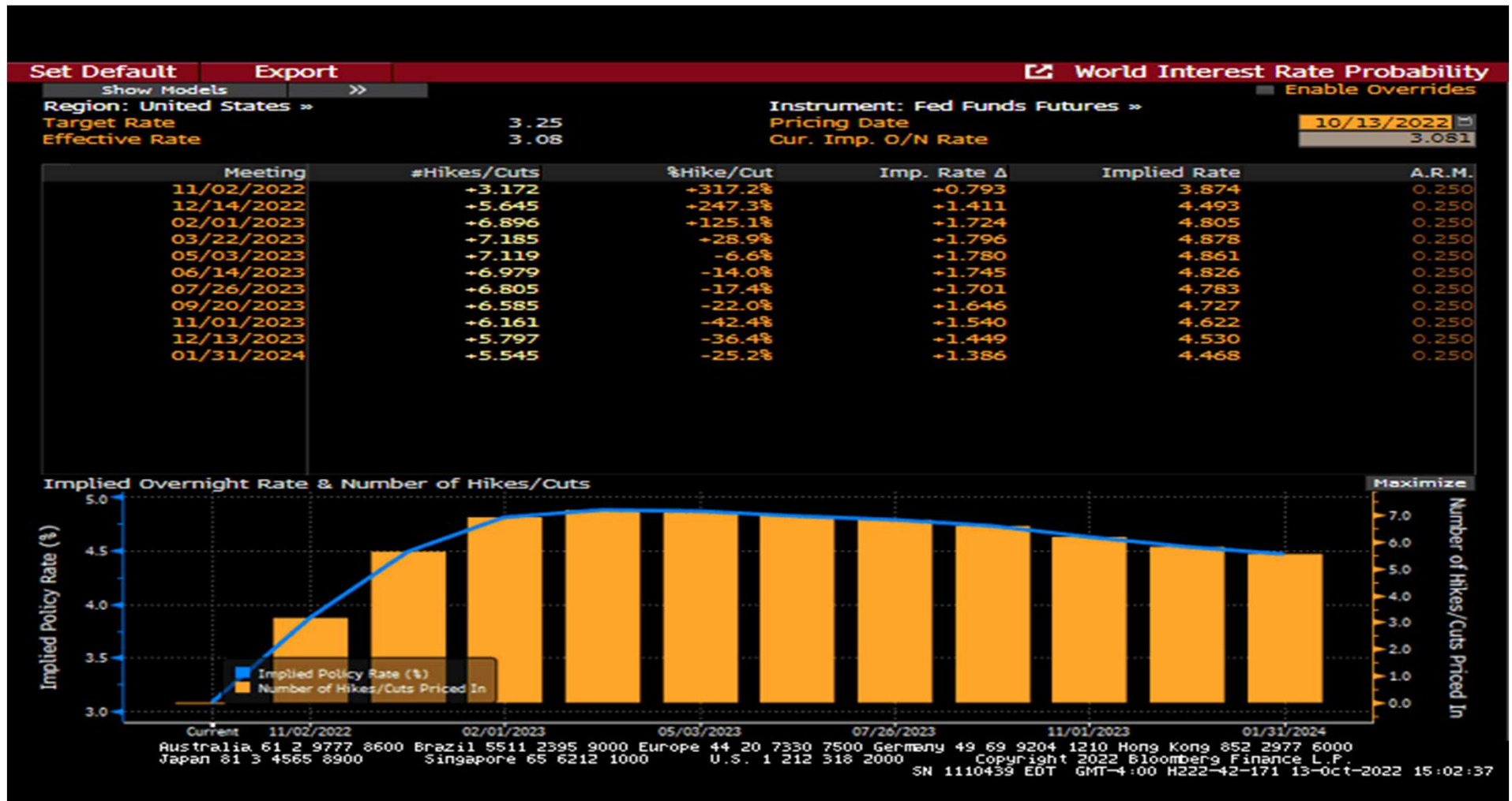
6-month Treasury Bill Curve comparison – 4/13/2022 vs. 10/13/2022





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

- Defensive strategy in anticipation of higher rates.
- Keep Weighted Average Maturity (WAM) low.
- Performing breakeven analysis to determine relative value.
- Overnight Repurchase Agreements
- Floating Rate Notes



Breakeven Analysis

6-month Treasury Bill offered at 4.25% vs. Overnight Repurchase Agreement offered at 3.00%.

GAP BREAKEVEN ANALYSIS

TERM DAYS **182** START DATE **10/13/22** END DATE **4/13/23**
HEAD/TAIL CENTER DATE **12/ 1/22** CD BASIS - ACT **360**
DISCOUNT BASIS - ACT **360**

ENTER A RATE FOR TWO OF THE THREE PERIODS

	CD RATE	CD RATE	DISC RATE	DISC RATE	DAYS
TERM		4.359		4.265	182
HEAD		3.012	3.000		49
TAIL		4.835	4.750		133

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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 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
Financial Analyst

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.

Matthew Gilbert
Financial Analyst

Mr. Gilbert joined the Office of the State Treasurer in May of 2022. His primary responsibilities include investment operations and special research projects as assigned. Prior to joining OST, Matthew worked at Henssler Financial as an Intern Research Analyst. He also worked as a Student Equity Analyst for the Kennesaw State University Student Managed Investment Fund. Matthew graduated from Kennesaw State University in May of 2022 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.).