COMMONWEALTH OF VIRGINIA
Department of the Treasury
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Participant Newsletter September 30, 2024

LGIP
Investment Guidelines Compliance (09-30-24):

● Diversification:	Actual	Max.
U. S. Treasury/Agency	15%	100%
Repurchase Agreements	15%	50%
Negotiable CDs & BAs	36%	40%
Commercial Paper	30%	35%
Corporate	0%	25%
AAA Sovereign Govt	4%	10%
● Maturity Limitations:		
Average Days to Maturity	32 days	60 days

LGIP Monthly Statistics (09-30-24):

- Avg NAV: $12,747,847,681
- Active Accounts: 888
- Simple Yield: 5.27%
- Effective Yield: 5.40%
- NAV (per Share): $1.00

Quarterly Performance:

● Average Yield:	1st Qtr FY 25	YTD FY 25
LGIP ($ weighted)	5.36%	5.36%
Institutional Money Funds[1]	4.99%	4.99%
Treasury 3-Mo. Constant Maturity[2]	5.22%	5.22%

[1]Consists of 455 institutional money market funds totaling $3.7 trillion as reported by iMoneyNet as of 09-30-24.

[2]Federal Reserve Bank H.15 Release.

LGIP EM
Investment Guidelines Compliance (09-30-24):

● Diversification:	Actual	Max.
U. S. Treasury/Agency	43%	100%
Repurchase Agreements	0%	50%
Negotiable CDs & BAs	35%	45%
Commercial Paper	13%	35%
Corporate	1%	25%
AAA Sovereign Govt	0%	10%
Virginia Treasury LGIP Portfolio	8%	15%
● Duration Limitations:	0.86 years	1 Yr +/-3Mo

LGIP EM Monthly Statistics (09-30-24):

- NAV: $218,454,745
- Active Accounts: 37
- Simple Yield: 4.26%
- Yield as of 09-30-24: 4.25%
- NAV (per Share): $10.03

Quarterly Performance:

	1st Qtr FY 25	YTD FY 25
● **Total Return[1]:**		
LGIP EM	1.90%	1.90%
U.S. 1-Year Treasury Bill Index[2]	2.04%	2.04%
● Average Yield:		
LGIP EM ($ weighted)	4.26%	4.26%
U.S. 1-Year Treasury Bill Index[3]	4.38%	4.38%

[1]Periodic return

[2]The annual performance benchmark is BofA Merrill Lynch U.S. 1-year Treasury Bill Index + 15 bps

[3]The ICE BofAML US 1-year Treasury Bill Index Yield to Maturity as of 09-30-2024

Market and Economic News

The Federal Reserve formally began a pivot to lower policy rates with the announcement of a sizable 50 basis points reduction of benchmark rates at the September meeting of the FOMC. The accompanying statement highlighted rising confidence in sustainable progress towards the Committee's inflation objective. Fed commentary continued to reflect a growing focus on employment trends, which were described as now presenting a risk equal to inflation in the context of the Fed's dual mandate.

This was borne out in the summary of economic projections (the "SEP") released alongside the September FOMC statement. The median GDP forecast was little changed while expectations for PCE inflation were reduced for the coming year. Median expectations of the policy rate declined 70 basis points to 3.4 percent, implying at least six 25 basis points cuts from the current level of the fed funds rate. This is much lower than the 4.1 percent rate

forecast as recently as June. The median forecast includes further 50 basis points reduction in 2026 before projected policy rates stabilize at 2.9 percent.

The term “data dependent” has become an evergreen component of public comments from FOMC members. The decision to front-load rate cuts with a reduction of 50 basis points, rather than a more conservative 25 basis points, was influenced by shifts in employment trends. Employment data, however, remain very much in flux. September’s employment report from the Bureau of Labor Statistics showed broad-based strength relative to expectations, accompanied by upward revisions to each of the previous two payrolls reports.

Futures markets are now suggesting policy rates approximately 150 basis points lower (to a range of 3.25 to 3.50 percent) by the end of calendar 2025. As a short duration money market portfolio, the stable value LGIP yield will reflect the directional moves of Fed policy rates, albeit with a slight lag depending on the overall maturity profile of the fund.

Credit Commentary

Uncertainty surrounding the timing and pace of the Federal Reserve’s rate-cutting cycle has characterized much of the past year, with markets pricing in reductions well into 2025. Interest rates drive not only the immediate yield of the securities in which we invest, but the future earnings powers of the underlying businesses as well. Declining rates may exert modest narrowing pressure on banks’ net interest margins but may prove helpful in cushioning upcoming refinancing needs among commercial borrowers, an area experiencing additional scrutiny in light of post-pandemic real estate demand and normalizing credit quality. Capital levels remain ample for largest banks and is expected to be augmented in the intermediate term as new regulatory requirements take effect.

Additionally, resilient employment numbers, moderating inflation metrics, and sustained demand within multiple cyclical areas of the economy have supported the outlook for many corporate security issuers. We continue to actively monitor market conditions and adjust our investments accordingly to maintain our goals of safety of principle, liquidity, and return. To that end, a strengthening fundamental picture at pharmaceutical maker Eli Lilly & Company has led to its addition to our portfolio of allowable investments, replacing Pfizer which has seen its competitive position decline.

LGIP Survey

Thank you for your responses to the LGIP Customer Service Survey as of September 30, 2024. We are in the process of reviewing the responses. As always, if you have any questions, please feel free to contact us at 800-643-7800 (toll free in Virginia) or 804-786-1156.