LGIP
Investment Guidelines Compliance (06-30-22):

- Diversification:
  - U. S. Treasury/Agency: 25% (Actual), 100% (Max.)
  - Repurchase Agreements: 10% (Actual), 50% (Max.)
  - Negotiable CDs & BAs: 31% (Actual), 40% (Max.)
  - Commercial Paper: 32% (Actual), 35% (Max.)
  - Corporate: 0% (Actual), 25% (Max.)
  - AAA Sovereign Govt: 2% (Actual), 10% (Max.)

- Maturity Limitations:
  - Average Days to Maturity: 37 days (Actual), 60 days (Max.)

LGIP EM
Investment Guidelines Compliance (06-30-22):

- Diversification:
  - U. S. Treasury/Agency: 44% (Actual), 100% (Max.)
  - Repurchase Agreements: 0% (Actual), 50% (Max.)
  - Negotiable CDs & BAs: 29% (Actual), 45% (Max.)
  - Commercial Paper: 11% (Actual), 35% (Max.)
  - Corporate: 10% (Actual), 25% (Max.)
  - AAA Sovereign Govt: 6% (Actual), 10% (Max.)
  - Virginia Treasury LGIP Portfolio: 0% (Actual), 15% (Max.)

- Duration Limitations: 0.85 years (Actual), 1 Yr +/- 3Mo (Max.)

LGIP Monthly Statistics (06-30-22):

- Avg NAV: $10,073,103,000
- Active Accounts: 834
- Simple Yield: 1.15%
- Effective Yield: 1.15%
- NAV (per Share): $1.00

Quarterly Performance:

- Average Yield:
  - LGIP ($ weighted): FY 22 0.83% FY 22 0.31%
  - Institutional Money Funds¹: FY 22 0.48% FY 22 0.14%
  - Treasury 3-Mo. Constant Maturity²: FY 22 1.10% FY 22 0.13%

¹Consists of 489 institutional money market funds totaling $3.1 trillion as reported by iMoneyNet as of 06-30-22.
²Federal Reserve Bank H.15 Release.

LGIP EM Monthly Statistics (06-30-22):

- NAV: $310,288,000
- Active Accounts: 33
- Simple Yield: 0.83%
- Yield as of 06-30-22: 0.94%

Quarterly Performance:

- Total Return:
  - LGIP EM: FY 22 -0.16% FY 22 -1.20%
  - U.S. 1-Year Treasury Bill Index¹: FY 22 -0.12% FY 22 -0.70%

¹The annual performance benchmark is BofA Merrill Lynch U.S. 1-year Treasury Bill Index + 15 bps.
²The ICE BofAML US 1-year Treasury Bill Index Yield to Maturity as of 06-30 2022.

Market and Economic News

In June, the Federal Open Market Committee (‘FOMC’) raised policy rates by 0.75 percent to a range of 1.50 percent to 1.75 percent, which was the largest single policy rate increase since 1994. The super-sized hike was a direct result of May’s unexpectedly high CPI reading of 8.6 percent that exceeded expectations. Price increases were primarily driven by headline food and energy prices but core components such as commodities and autos also contributed. Prior to that data release, the market had been expecting that the FOMC would raise rates by 0.50 percent in June as they had in May.

Market expectations have shifted up to another 0.75 percent hike for the late July meeting and are a coin toss between a 0.50 percent and a 0.75 percent hike in September. Every FOMC participant now expects policy rates to be in the range of 3.0 to 4.0 percent by year-end. The Fed is expected to tighten slightly more in early 2023 before easing somewhat in mid-2023 and into 2024, attempting to engineer an economic ‘soft landing’ as higher rates impact consumer demand. Current futures markets suggest that longer term policy rates will eventually stabilize in the 2.75 percent to 3.00 percent area.
Such a rapid pace of tightening policy rates, and tighter financial conditions overall, has led to a broader discussion on the outlook for the U.S. economy and, in particular, whether a recession is imminent. Chair Powell recently acknowledged rising risks of an economic contraction but stated that the FOMC’s focus is on restoring price stability at all costs. The recently published minutes of the June FOMC meeting indicated ‘[FOMC] participants judged that a significant risk now facing the committee was that elevated inflation could become entrenched if the public began to question the resolve of the committee to adjust the stance of policy as warranted,’ in addition to recognizing ‘that policy firming could slow the pace of economic growth for a time, but they saw the return of inflation to 2 percent as critical to achieving maximum employment on a sustained basis.’

Given the short average maturity profile of the LGIP, portfolio yields will continue to respond quickly to higher Fed policy rates. If current market expectations expressed through futures markets are accurate, we expect the LGIP portfolio yield to be well above 3.00 percent by the end of 2022.

**LGIP EM Portfolio Update Q2**

Trends from the first quarter of calendar 2022 continued as the one year US Treasury Bill yield rose from 1.60 percent at the end of March to 2.77 percent at the end of June. Policy makers remain determined to stamp out above-trend inflation through a historically aggressive path of tighter monetary policy. Credit spreads remain wide by historical standards and the portfolio yield stepped higher during the quarter as securities were reinvested. Our position on the direction of interest rates has not changed and the LGIP EM portfolio average maturity remains shorter than the benchmark. Despite our shorter duration positioning, the LGIP EM share price declined from March to June as a result of rising interest rates. We did not realize any losses during the quarter and expect that over time the LGIP EM share price will stabilize and move higher.