

WEST VIRGINIA

BOARD OF TREASURY INVESTMENTS

CALENDAR NOTE

Board Meeting
August 11, 2022

OPERATING REPORT

JUNE 2022

Board of Treasury Investments

315 70th Street, SE
Charleston WV
25304
(304) 340-1564
www.wvbt.com

Board of Directors

Riley M. Moore,
State Treasurer,
Chairman

James C. Justice II,
Governor

John B. McCuskey,
State Auditor

Vacant,
Appointed by the
Governor

Mark A. Mangano,
Esq. Attorney
Appointed by the
Governor

Executive Staff

Executive
Director

Kara K. Hughes,
CPA, MBA, CFE,
CGIP

Chief Financial
Officer

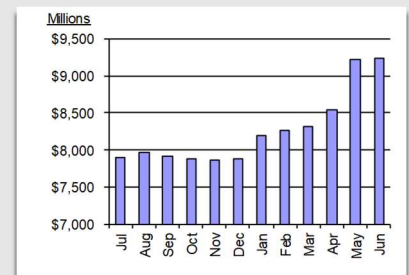
Karl Shanholtzer,
CFA, CPA, CIA

Total Net Assets Under Management

\$9,234,695,000

Last Month
\$9,228,127,000

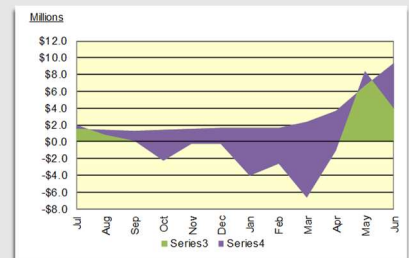
Beginning of Fiscal Year
\$8,119,584,000



Net Assets for the Past 12 Months

Total Net Income & Changes in Fair Value

Fiscal Year
(\$1,858,000)



Monthly Net Income & Changes in Fair Value for the Past 12 Months

Money Market Pools

As of June 30, 2022

| <u>Pool</u> | <u>30-Day Avg. Yield *</u> | <u>W.A.M. **</u> | <u>Net Assets</u> |
|-----------------------|----------------------------|------------------|-------------------|
| WV Money Market | 1.2131% | 21 Days | \$8.1 Billion |
| WV Gov't Money Market | 0.9098% | 19 Days | \$232.1 Million |

* Yields represent the simple money market yield net of fees.

** W.A.M. is the weighted average maturity.

WEST VIRGINIA BOARD OF TREASURY INVESTMENTS

THE ECONOMIC STATE

JUNE 2022

Official Bear Market

Nowhere to Hide

If this past spring was a bear market fling, the start of summer made things official. The breadth and depth of losses across markets in June was striking and tied a bow on the worst first half of a calendar year for the S&P 500 since 1970. The markets continue to react to headline CPI, at its highest level since 1981 and the increases in interest rates. Fixed income did little to soften the blow because of the dramatic rise in rates, with core bonds down by more than -10% year-to-date. Even commodities turned red for the month, although that may be a harbinger for constructive developments for inflation and markets.

Fixed Income

The Federal Reserve hiked rates for a third time this year – this time by 0.75% - which is now reflected in short term Treasury yields, but intermediate and longer-term yields were rather stagnant month over the month. Reflecting increasing acceptance of slower growth in the face of higher rates, we saw a ferocious rate rally the last few weeks of June, with the 10-year yield topping out at nearly 3.5% mid-month before closing the month just below 3.0%. A positive for the total returns of bonds in the second half of 2022 and into 2023 is the yield of the Aggregate Index is up approximately 2% in the first six months of the year.

Along the same narrative of growth concerns, high yield bonds were down -6.7% in the month. Interestingly, Treasury Inflation Protected Securities (TIPS) fell -3.2% in the month and have generated significant negative returns year-to-date, reflecting uncertainty on future growth and inflation. It will be very interesting to watch this tug-of-war in the second half of the year and the impact on future decisions for the Fed.

Equities

After a respite in May, the month of June was negative across all equity markets around the globe apart from China. June saw a slight improvement in performance of growth stocks relative to value stocks, aided in part by the rally in bond yields in the latter half of the month, but more dramatically by a sell-off in energy stocks on the back of lower spot oil prices later in the month. Energy stocks were down approximately -17% for the month, while maintaining gains over +30% year-to-date. Developed markets and emerging market equities continue in negative territory although emerging markets are now outperforming U.S. markets year-to-date (-17.6% vs -20%). Current valuations now reflect a decline in the forward earnings outlook (P/E of 17x vs P/E of 19x at Q1 and 21x at year end). The question for investors is, as earnings reports roll in over the coming weeks, does this reflect enough of a decline in valuations to warrant a buying opportunity?

Looking Ahead

Even with historically low consumer confidence survey numbers, given the positive fundamentals of many parts of the economy, it may be hard to fathom that the second half will repeat the double-digit negative performance of the public markets we experienced in the first half of 2022. That being said, the question remains how much of the growth slowdown has the equity market priced in? As we discussed in the equity review, earnings reports in the next several weeks should give us a bell weather look at the second half environment. Other areas to watch for clues to a bottom include; continued signs of inflation easing, some positive news on the Ukraine crisis, and stability in supply chain issues (maybe helped by China reopening).

West Virginia Board of Treasury Investments Financial Highlights as of June 30, 2022

WV Short Term Bond Pool

Rates of Return for the Past 12 Months *Net of All Fees*

| <u>July 1 - Jun 30</u> | <u>Return</u> | <u>Net Assets At Jun 30 (In Millions)</u> |
|------------------------|---------------|---|
| 2022 | (3.4%) | \$ 691.8 |
| 2021 | 1.4% | \$ 818.3 |
| 2020 | 4.5% | \$ 813.1 |
| 2019 | 4.5% | \$ 737.8 |
| 2018 | 1.1% | \$ 709.5 |

Prior to July 2007, the WV Short Term Bond Pool was known as the Enhanced Yield Pool

WV Short Term Bond Pool Rates of Return

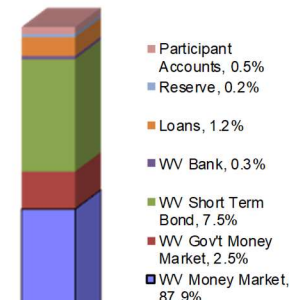
*Past 12 Months
July 1 - June 30*



Summary of Value and Earnings *(In Thousands)*

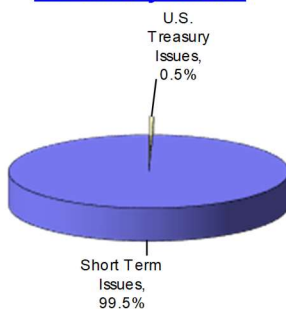
| <u>Pool</u> | <u>Net Asset Value</u> | <u>June Net Income (Loss)</u> | <u>Fiscal YTD Net Income (Loss)</u> |
|-----------------------|------------------------|-------------------------------|-------------------------------------|
| WV Money Market | \$ 8,113,154 | \$ 8,191 | \$ 21,535 |
| WV Gov't Money Market | 232,113 | 174 | 419 |
| WV Short Term Bond | 691,805 | (4,601) | (26,135) |
| WV Bank | 20,206 | 6 | 113 |
| Loans | 115,095 | 134 | 1,713 |
| Reserve | 20,007 | 19 | 65 |
| Participant Accounts | 42,315 | (1) | 432 |
| | <u>\$ 9,234,695</u> | <u>\$ 3,922</u> | <u>\$ (1,858)</u> |

Percent of Total Net Asset Value

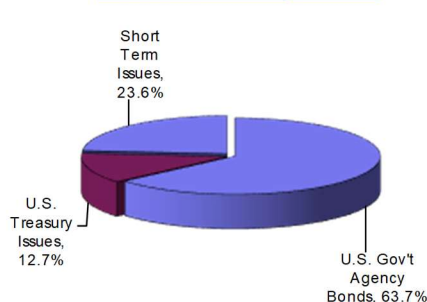


Securities by Type for Operating Pools *(Percentage of Asset Value)*

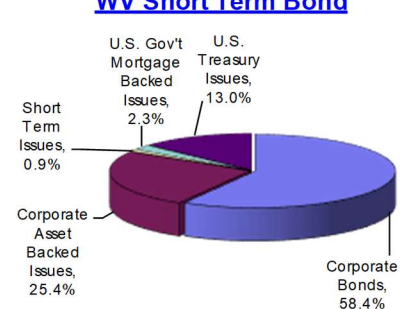
WV Money Market



WV Gov't Money Market



WV Short Term Bond



WEST VIRGINIA BOARD OF TREASURY INVESTMENTS
SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION – UNAUDITED
JUNE 30, 2022

(IN THOUSANDS)

| | WV Money Market Pool | WV Government Money Market Pool | WV Short Term Bond Pool | WV Bank Pool | Other Pools | Participant Directed Accounts | Total |
|---|-------------------------|---------------------------------------|-------------------------------|-----------------|-------------|-------------------------------------|--------------|
| Assets | | | | | | | |
| Investments: | | | | | | | |
| At amortized cost | \$ 8,145,595 | \$ 234,095 | \$ - | \$ 20,178 | \$ 134,950 | \$ - | \$ 8,534,818 |
| At fair value | - | - | 689,880 | - | - | 42,275 | 732,155 |
| Other assets | 3,403 | 47 | 3,018 | 30 | 157 | 41 | 6,696 |
| Total assets | 8,148,998 | 234,142 | 692,898 | 20,208 | 135,107 | 42,316 | 9,273,669 |
| Liabilities | | | | | | | |
| Accrued expenses, dividends payable & payables for investments purchased | 35,844 | 2,029 | 1,093 | 2 | 5 | 1 | 38,974 |
| Total liabilities | 35,844 | 2,029 | 1,093 | 2 | 5 | 1 | 38,974 |
| Net Position | | | | | | | |
| Held in trust for investment pool participants | 8,113,154 | 232,113 | 691,805 | - | - | - | 9,037,072 |
| Held in trust for individual investment account holders | - | - | - | 20,206 | 135,102 | 42,315 | 197,623 |
| Total net position | \$ 8,113,154 | \$ 232,113 | \$ 691,805 | \$ 20,206 | \$ 135,102 | \$ 42,315 | \$ 9,234,695 |
| Additions | | | | | | | |
| Investment income: | | | | | | | |
| Interest and dividends | \$ 4,127 | \$ 84 | \$ 1,193 | \$ 6 | \$ 155 | \$ 14 | \$ 5,579 |
| Net (amortization) accretion | 4,374 | 97 | (275) | - | - | (1) | 4,195 |
| Provision for uncollectible loans | - | - | - | - | - | - | - |
| Total investment income | 8,501 | 181 | 918 | 6 | 155 | 13 | 9,774 |
| Investment expenses: | | | | | | | |
| Investment advisor, custodian bank & administrative fees | 310 | 7 | 45 | - | 2 | - | 364 |
| Total investment expenses | 310 | 7 | 45 | - | 2 | - | 364 |
| Net investment income | 8,191 | 174 | 873 | 6 | 153 | 13 | 9,410 |
| Net realized gain (loss) from investments | - | - | - | - | - | - | - |
| Net increase (decrease) in fair value of investments | - | - | (5,474) | - | - | (14) | (5,488) |
| Net increase (decrease) in net position from operations | 8,191 | 174 | (4,601) | 6 | 153 | (1) | 3,922 |
| Participant transaction additions: | | | | | | | |
| Purchase of pool units by participants | 1,118,272 | 41,763 | - | - | - | - | 1,160,035 |
| Reinvestment of pool distributions | 8,191 | 173 | 811 | - | - | - | 9,175 |
| Contributions to individual investment accounts | - | - | - | 9 | 14 | - | 23 |
| Total participant transaction additions | 1,126,463 | 41,936 | 811 | 9 | 14 | - | 1,169,233 |
| Total additions | 1,134,654 | 42,110 | (3,790) | 15 | 167 | (1) | 1,173,155 |
| Deductions | | | | | | | |
| Distributions to pool participants: | | | | | | | |
| Net investment income | 8,191 | 174 | 873 | - | - | - | 9,238 |
| Net realized gain (loss) from investments | - | - | - | - | - | - | - |
| Total distributions to pool participants | 8,191 | 174 | 873 | - | - | - | 9,238 |
| Participant transaction deductions: | | | | | | | |
| Redemption of pool units by participants | 1,129,236 | 7,373 | 7,800 | - | - | - | 1,144,409 |
| Withdrawals from individual investment accounts | - | - | - | 10,009 | 904 | 2,027 | 12,940 |
| Total participant transaction deductions | 1,129,236 | 7,373 | 7,800 | 10,009 | 904 | 2,027 | 1,157,349 |
| Total deductions | 1,137,427 | 7,547 | 8,673 | 10,009 | 904 | 2,027 | 1,166,587 |
| Net increase (decrease) in net position from operations | (2,773) | 34,563 | (12,463) | (9,994) | (737) | (2,028) | 6,568 |
| Inter-pool transfers in | - | - | - | - | - | - | - |
| Inter-pool transfers out | - | - | - | - | - | - | - |
| Net inter-pool transfers in (out) | - | - | - | - | - | - | - |
| Change in net position | (2,773) | 34,563 | (12,463) | (9,994) | (737) | (2,028) | 6,568 |
| Net position at beginning of period | 8,115,927 | 197,550 | 704,268 | 30,200 | 135,839 | 44,343 | 9,228,127 |
| Net position at end of period | \$ 8,113,154 | \$ 232,113 | \$ 691,805 | \$ 20,206 | \$ 135,102 | \$ 42,315 | \$ 9,234,695 |