COMMONWEALTH OF VIRGINIA
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Participant Newsletter September 30, 2022

LGIP
Investment Guidelines Compliance (09-30-22):

	Actual	Max.
● Diversification:		
U. S. Treasury/Agency	25%	100%
Repurchase Agreements	11%	50%
Negotiable CDs & BAs	36%	40%
Commercial Paper	27%	35%
Corporate	0%	25%
AAA Sovereign Govt	1%	10%
● Maturity Limitations:		
Average Days to Maturity	39 days	60 days

LGIP EM
Investment Guidelines Compliance (09-30-22):

	Actual	Max.
● Diversification:		
U. S. Treasury/Agency	44%	100%
Repurchase Agreements	0%	50%
Negotiable CDs & BAs	27%	45%
Commercial Paper	17%	35%
Corporate	8%	25%
AAA Sovereign Govt	4%	10%
Virginia Treasury LGIP Portfolio	0%	15%
● Duration Limitations:	0.81 years	1 Yr +/-3Mo

LGIP Monthly Statistics (09-30-22):

- Avg NAV: $9,324,658,000
- Active Accounts: 829
- Simple Yield: 2.58%
- Effective Yield: 2.61%
- NAV (per Share): $1.00

Quarterly Performance:

	1st Qtr FY 23	YTD FY 23
● Average Yield:		
LGIP ($ weighted)	2.17%	2.17%
Institutional Money Funds[1]	1.81%	1.81%
Treasury 3-Mo. Constant Maturity[2]	2.75%	2.75%

[1]Consists of 492 institutional money market funds totaling $3.0 trillion as reported by iMoneyNet as of 09-30-22.

[2]Federal Reserve Bank H.15 Release.

LGIP EM Monthly Statistics (09-30-22):

- NAV: $337,148,000
- Active Accounts: 38
- Simple Yield: 1.82%
- Yield as of 09-30-22: 2.12%
- NAV (per Share): $9.80

Quarterly Performance:

	1st Qtr FY 23	YTD FY 23
● Total Return:		
LGIP EM	-0.24%*	-0.24%*
U.S. 1-Year Treasury Bill Index[1]	-0.02%	-0.02%

*estimated

	1st Qtr FY 23	YTD FY 23
● Average Yield:		
LGIP EM ($ weighted)	1.47%	1.47%
U.S. 1-Year Treasury Bill Index[2]	3.34%	3.34%

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

[2]The ICE BofAML US 1-year Treasury Bill Index Yield to Maturity as of 09-30 2022.

Market and Economic News

On September 21, the Fed raised interest rates by 75 basis points for the third consecutive time since early May to a target rate range of 3.00 percent to 3.25 percent. In the Summary of Economic Projections ('SEP', attached to the September Fed decision statement), the FOMC forecasted a peak 4.60 percent median policy rate in 2023, which was perceived to be a bit more hawkish than had previously been expected. Official monetary policy actions continue to be driven by the price stability side of the Fed's dual mandate, trying to tamp down inflation that's persisted near its highest levels since the 1980s.

Little more than six months ago, the Fed's policy rate range was 0.00 percent to 0.25 percent, flirting with the 'zero lower bound.' Short-term fixed income rates are now around the highest levels seen in over 20 years. Market prognosticators are viewing higher, or more restrictive, policy rates as more likely to push the US economy into recession next year, which has contributed to a broad-based downturn in overall financial market sentiment.

Commenting on the possibility of recession during the FOMC post-meeting press conference, Fed Chair Powell acknowledged that a soft landing is becoming more difficult, especially if “policy has to be more restrictive or restrictive for longer.” As LGIP Program funds add incremental yield by investing in corporate credit issuers, assessing the impact of economic turbulence is extremely important. Constant monitoring, a short maturity profile, sector and geographic diversification benefits, and the highest credit ratings among issuers in our approved investments list make the LGIP Program one of the safest destinations to place funds while receiving a competitive return in the difficult current investment environment.

Futures markets currently point to another 75 basis points hike at the next meeting ending November 2 followed by a 50 basis points hike at the meeting ending December 14. While not a guarantee of performance going forward, if Fed forward guidance and futures markets are accurately predicting the Fed’s policy rates path, the yield on the LGIP daily fund could approach 4.50 to 5.00 percent by mid-2023.

As forecasts for monetary policy shifted higher in the quarter we saw a commensurate increase in yields and decline in the LGIP EM fund share price. Market expectations for a period of higher-for-longer interest rates would continue to be a headwind for the fund, however the distributed yield has increased notably. As the fund reinvests in higher yielding securities the increase in monthly income should help to cushion movement in the share price. Our overall duration position remains shorter than the benchmark. We expect that the share price will gradually move higher although material share price appreciation will likely only occur when the financial markets are convinced the Fed has come to a consensus on a peak policy rate.