QUARTERLY UPDATE JULY 2022

SOUTH CAROLINA
LOCAL GOVERNMENT INVESTMENT POOL

South Carolina Local Government Investment Pool

Curtis M. Loftis, Jr., Treasurer

Administered by South Carolina State Treasurer's Office

TREASURER'S MESSAGE

Curtis M. Loftis, Jr.
Treasurer

With recent fluctuations in the market and rapidly changing rates, I understand that you may be exploring other investment options. Yet, I want to encourage you to stay the course and remind you of why investing in LGIP remains the most attractive option during this time of uncertainty.

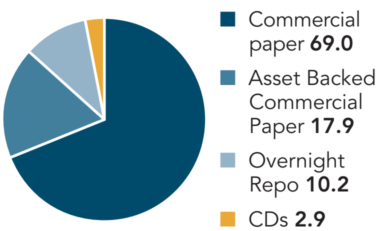
As the Federal Reserve continues to raise rates, LGIP is well positioned to immediately benefit from each Fed hike.

- 2022 year-end expectations from the June FOMC meeting project the median Fed Funds rate range to be 3.4%, an increase from the 1.9% projected at the March meeting.
- The remaining projected rate hikes in September, November and December of 2022 in combination with the pool's short weighted average maturity enables the pool's yield to reset quickly following each rate hike.
- Beyond the competitive yield, the LGIP has the benefits of daily liquidity at par, professional management and portfolio diversification.

Our experienced and professional team of investment advisors are ready to answer any questions you may have regarding your investments and help allay concerns about this rising rate environment. Thank you again for your continued support and participation in LGIP.

LGIP AT A GLANCE

PORTFOLIO COMPOSITION (%)
AS OF 6/30/22



JUNE 30, 2022

- Pool Balance: $10,051,532,643.70
- LGIP Rate: 1.26%

LGIP PARTICIPANT BREAKDOWN

- 40 Counties
- 97 Municipalities
- 71 School Districts
- 64 Special Purpose Districts
- 12 Disability and Special Needs
- 8 Council of Government

HIGHLIGHTS

- LGIP is an investment mechanism administered by South Carolina's State Treasurer to provide local governments an opportunity to acquire maximum returns on investments by pooling available funds with funds from other political subdivisions.
- LGIP seeks to preserve capital through prudent management and sound investment policies. LGIP offers participants an investment option for operating capital consistent with their investment time horizons.

PORTFOLIO OVERVIEW AS OF 6/30/22

- Weighted Average Maturity: 26 Days
- Weighted Average Life: 61 Days

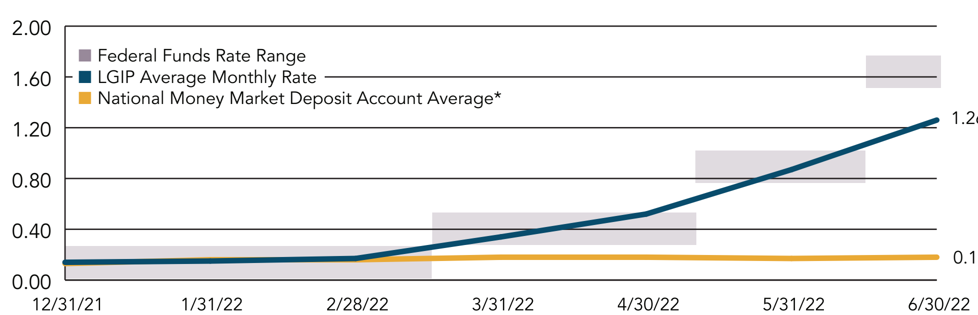
iPAS allows participants to stay up to date on account information, including transactions.

Visit the iPAS website here:
https://lgip.sc.gov/iPAS/login.ipas

Visit the LGIP website here:
https://www.treasurer.sc.gov/what-we-do/for-governments/local-government-investment-pool

LGIP MONTHLY RATE (%)

Continued increases to the target range of the fed funds rate should spark a rise in yield for the LGIP. The Pool has already taken advantage of higher rates from the previous rate hikes that have resulted in an increase to the monthly yield.



Commentary

The second quarter of 2022 confirmed that the U.S. Federal Reserve has made reducing inflation its top priority. After a modest 25 basis-point liftoff of the fed funds target range from the zero bound to 0.25-0.50% in March, the Federal Open Market Committee raised rates by 50 basis points in May and 75 basis points in June. These moves took the target range to 1.5-1.75%. In both cases, policymakers announced a concomitant lifting of the Reverse Repo Facility level, keeping it at 5 basis points above the floor of the new range. The Treasury yield curve rose, but its front end remained depressed due to high demand partly stemming from a flight-to-quality instigated by the Russian invasion of Ukraine, which worsened during the quarter. The Fed also began to allow a set amount of U.S. Treasuries and mortgage-backed securities to roll off its balance sheet rather than reinvest the proceeds.

Despite the Fed's aggressive tightening, inflation continued to rise over the reporting period. The Consumer Price Index and the Personal Consumption Expenditures Index increased in May to 8.6% and 6.3%, respectively, on an annualized basis. Inflation expectations continued to grow, as well, adding urgency to the Fed's approach, though exogenous issues such as soaring energy prices, stubborn supply-chain snarls and China's Covid-related lockdown hindered its plans. The quarter ended with the risk of a recession growing as a result of the Fed's campaign against inflation and nascent signs of economic slowdown.

The SIFMA Municipal Swap Index experienced large swings in the quarter due to the seasonal nature of the summer cashflows in the municipal market. It opened at 0.51%, rose as high as 0.98% and ended the quarter at 0.91%.

At the end of the quarter, yields on 1-, 3-, 6- and 12-month U.S. Treasuries were 1.03%, 1.67%, 2.49% and 2.80%, respectively; the 1-, 3-, 6- and 12-month Bloomberg Short-Term Bank Yield Index rates (BSBY) were 1.62%, 2.24%, 2.87% and 3.54%, respectively; the 1-, 3-, 6- and 12-month London interbank offered rates were 1.80%, 2.29%, 2.90% and 3.56%, respectively, and the SIFMA Municipal Swap Index yield was 0.91%.

Local Government Investment Pools (LGIPs) are expected to avoid proposed money market fund reforms

While LGIPs and money market funds can have similar investment goals, there are unique features of LGIPs that place them in a category of their own. With the new proposed amendments to Rule 2a-7 of the Investment Company Act of 1940 by the U.S. Securities and Exchange Commission (SEC) officially released last December, the unique governance of LGIPs is particularly important.

The new set of proposed rules were prompted by liquidity and asset flow concerns some money market funds exhibited during the 2020 market turbulence. Conversely, LGIPs recognized steady cash flows and liquidity needs during that same time.

Formal oversight is at the foundation of how LGIPs and money market funds differ. LGIPs are not subject to U.S. Securities and Exchange Commission (SEC) supervision. Oversight for LGIPs comes from sponsorship and governance purview of State Treasurers or Comptrollers with state statutes controlling investment permissibility. GASB provides the framework for accounting methodologies.

This oversight is rooted in the cash flow of LGIPs. Money within an LGIP is pooled state money and therefore does not cross state lines so does not enter interstate commerce. This distinct difference exempts LGIPs from congressional oversight as detailed in Article 1, Section 8, Clause 3 of the United States Constitution.

Prior to 2016, GASB literature referenced rules specific to 2a-7 funds but removed the reference and set its own criteria or LGIPs after 2016 SEC money market reforms. Similar to 2016, the proposed SEC rules are meant to address a comprehensive range of investors, beyond that of typical LGIP investors supporting the idea that rules governing each set of investment products will continue to deviate.

Contact Information

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If you have any questions about LGIP please email sto.lgip@sto.sc.gov

**MMDA rates are for $50,000 minimum (APYs).*
Portfolio composition is subject to change.
An investment in LGIP is not insured or guaranteed by any government or government agency.
For more complete information, see the investment policy and information statement at treasurer.sc.gov.