

State Investment Commission

December 18, 2018

3:00 p.m. ~ Room 182 ~ Capitol Annex
Frankfort, Kentucky

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on December 18, 2018 at 3:01 p.m. in Room 182 of the Capitol Annex by Allison Ball, Kentucky State Treasurer. Treasurer Ball asked for a roll call. Other members present were Melinda Hill, permanent proxy for Secretary William M. Landrum III, Finance and Administration Cabinet (“FAC”); and John Chilton, permanent proxy for Governor Matt Bevin.

Office of Financial Management (“OFM”) Staff Present: Ryan Barrow, Executive Director of OFM and Secretary to the Commission; Sandy Williams, Deputy Executive Director, Brian Caldwell, Deputy Executive Director, Kim Bechtel, Amber Lee, Daniel Auxier, and Tammy McCall.

Other Guests: O.J. Oleka, Kentucky State Treasury; Ed Ross, Controller, Office of the Controller; Greg Mullins, J.P. Morgan; and Bradley Terryn, J.P. Morgan. Eileen Roberts, J.P. Morgan, attended via conference phone.

Treasurer Ball verified that a quorum was present and that the press was notified of the meeting.

Treasurer Ball called for a motion to approve the minutes from the September 25, 2018 meeting. A motion was made by Ms. Hill and was seconded by Director Chilton to approve the minutes as written. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow presented the Bloomberg Compliance Reporting memorandum and stated there were no violations during the period of September 1, 2018 to November 20, 2018.

Intermediate Pool Performance - Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of November 30, 2018. He reported that the market value of the Pool hovered around \$2.3 billion over the last three months, yielding 2.61% at the end of November 2018, which was slightly under the benchmark by 10 basis points. The average credit quality was Aaa by Moodys. The portfolio had a Duration of just under three-quarters of a year or 10 months short of the benchmark. Over the last 3 months the Portfolio had approximately \$2.8 million Net Cash Inflow. The Portfolio Sector Allocations page gave a snapshot of how the Portfolio was diversified across the different sectors of the fixed income market as of November 30, 2018. Mr. Caldwell reported there were no meaningful changes with approximately 10% allocated to asset-backed securities, money market, cash, corporates and mortgage-backed securities and the balance in U.S. treasuries. He continued with the Portfolio Performance page, which showed the Portfolio performance versus the benchmark as of November 30, 2018. The Intermediate Pool showed a positive performance for November but below the benchmark by 14 basis points. For time periods out to 10 years the performance was better than the benchmark, and only 7 basis points under the benchmark since inception.

Limited Pool Performance - Ms. Bechtel presented the Limited Term Pool monthly report as of November 30, 2018, and directed the Commission to the Limited Term Pool monthly performance graph. She noted that the Limited Term Pool performance in November was slightly above the benchmark and the 3-month mark shows the Pool slightly below the benchmark. The second page of the report listed all the securities held in the Pool as of November 30, 2018, with a total amount

slightly above \$1.7 billion. The next page illustrated a breakdown of the Pool by credit rating and sector distributions. She noted the high quality ratings and that the government agency debt and repurchase agreements are a significant piece of the sector distributions. The next page provided a detail on the weighted average maturity and life plus liquidity positions. Ms. Bechtel reported the Limited Pool is short because of the time of year and the daily liquidity is high for easy access to cash if needed. The Net Asset Value graph was steady and within the range that is required. The memo regarding Limited Term Pool Liquidity Analysis dated December 18, 2018, listed the largest daily withdrawals, largest weekly withdrawals and largest individual accounts in the Pool. The largest daily and weekly withdrawals were for UK General Receipts. The largest individual accounts in the portfolio were the Employee Self-Insurance Fund followed by UK General Receipts Fund and the Kentucky Permanent Pension Fund. The daily liquidity requirement as set forth by the Commission is 15% and the weekly liquidity requirement is 30%. Staff recommended maintaining the current liquidity requirements of the Pool requiring no action from the Commission. The Commission took no action.

Credit Considerations – Mr. Auxier presented the list of Corporate Credits Approved for Purchase and the list of Securities Lending Agent Approved Counterparties as of December 18, 2018. Mr. Auxier reported there were no companies added to the Corporate Credits Approved for Purchase and General Electric Company was removed on October 2, 2018. There were no changes made to the Securities Lending Agent Approved Counterparties. Staff recommended approval as presented. Director Chilton made a motion to accept both lists and was seconded by Ms. Hill. Motion **CARRIED**.

Cash Flow – Ms. Lee presented the Monthly Average Investable Balances Cash Flow Summary graph chart, which compares the last three years averages to the current fiscal year. She reported the cash flow was still on trend for fiscal year 2019. July through November followed a downward trend due to spending at the beginning of the year and due to transportation projects that were under construction. The Commission took no action.

Trading Limits - Ms. Bechtel reviewed the current trading limits that was approved in September 2017 and the proposed trading limits that was being presented for approval. The proposed request was to combine the following security types of US Treasury notes, US Agency Notes and Money Market Securities, for both the Money Market Trader and the Portfolio Manager. The daily limit for the Money Market Trader would be \$150,000,000 and the daily limit for the Portfolio Manager would be \$200,000,000. Ms. Bechtel noted that this request brings the trading limits more in line with the Bloomberg Compliance Manager. Treasurer Ball called for a motion to approve. Ms. Hill made a motion to approve the Trading Limits as presented, and was seconded by Director Chilton. Motion **CARRIED**.

Depository Banking Services – Mr. Mullins, Mr. Terryn, and Ms. Roberts (via conference call), from J.P. Morgan, made a presentation to the Commission. Mr. Mullins gave a summary of the relationship between the Commonwealth and J.P. Morgan. Ms. Roberts discussed current trends in government, receivables, and payables; how J.P. Morgan has helped to support the Commonwealth in the last few years; and how they can continue to support the Commonwealth. A hard copy of the presentation was provided to the Commission.

Other Business – Mr. Barrow stated if there was any topic or matter that the Commission would like to see on the next meeting's agenda, to let him know and he would arrange it. Treasurer Ball

recommended that when two new banking members are appointed to the Commission, it would be good to revisit the information provided in the last few meetings, for informational purposes.

There being no further business, Treasurer Ball called for a motion to adjourn. Ms. Hill made a motion and was seconded by Director Chilton. The meeting adjourned at 3:58 p.m.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read "Ryan Barrow", written over a horizontal line.

Ryan Barrow
Secretary