

State Investment Commission

March 21, 2019

11:00 a.m. ~ Room 182 ~ Capitol Annex
Frankfort, Kentucky

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on March 21, 2019 at 11:00 a.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 Ed Ross, proxy for Secretary William M. Landrum III, Finance and Administration Cabinet (“FAC”); John Chilton, permanent proxy for Governor Matt Bevin; and W. Fred Brashear, II, representing the Kentucky Bankers Association.

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

Other Guests: Dennis Paiva, Kentucky State Treasury.

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 December 18, 2018 meeting. A motion was made by Mr. Brashear and was seconded by Mr. Ross to approve the minutes as written. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow stated there were no violations during the period of December 1, 2018 to February 28, 2019.

Intermediate Pool Performance - Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of February 28, 2019. He reported that the market value of the Pool ended in February at \$2.3 billion, which was consistent with January and approximately \$200 million more than the month of December 2018. The Yield to Worst continued to hover around 2.6%, which has averaged around 14 basis points more than the Benchmark over the last three months. The average credit quality is Aaa by Moodys. At the end of February, the portfolio had a duration of .90, representing about one year and narrowing the difference to just three-quarters of a year short of the benchmark; thereby, extending the duration by three months from December 2018 when the duration was .068. The net cash flow in December 2018 had approximately \$162 million go out, but then reversed in January with an inflow of approximately \$192 million. February was flat for the month seeing only about \$14 million coming in, totaling approximately \$44 million of inflow over the last three months. 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 February 28, 2019. Mr. Caldwell reported the mortgage backed securities and treasury sectors increased by 3% since last meeting to extend the portfolio duration. Asset backed securities and agency sectors increased 1%, which was funded by a reduction in money market securities by 8%. He continued with the Portfolio Performance page, which showed the Portfolio performance versus the benchmark as of February 28, 2019. The Intermediate Pool showed a positive performance in February of 20 basis points, which was 10 basis points better than the benchmark. The portfolio showed a positive performance in the 3-month, 6-month and fiscal year-to-date time periods, but underperformed the benchmark. For the periods of 1-year to 10-years, the performance was better than the benchmark, and slightly under the benchmark since inception.

Limited Pool Performance - Ms. Bechtel presented the Limited Term Pool monthly report as of February 28, 2019, and directed the Commission to the Limited Term Pool monthly performance graph. She reported that the Limited Term Pool performance in February was equal to the benchmark. The 3-month, 6-month and fiscal year to date shows the Pool performed slightly below the benchmark. The second page of the report listed all the securities held in the Pool as of February 28, 2019, with a total amount of approximately \$1.8 billion. The next page illustrated a breakdown of the Pool by credit rating and sector distributions. She noted the portfolio's high quality ratings and that treasury and agency securities represent a majority of the sector distributions. The next page provided a detail on the weighted average maturity and life plus liquidity positions. Ms. Bechtel noted the Limited Pool still has a high daily liquidity 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 March 21, 2019, listed the largest daily withdrawals, largest weekly withdrawals and largest individual accounts in the Pool for three quarters ending February 28, 2019. The largest daily and weekly withdrawals were for UK General Receipts. The largest individual accounts in the portfolio were the Personnel Health 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 March 21, 2019. Mr. Auxier reported there were no changes made to the either lists this quarter. Staff recommended approval as presented. Mr. Brashear made a motion to accept both lists and was seconded by Mr. Ross. 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 noted the cash flow from December 2018 up to February 2019 was moving upward but still following 3-year average trend line. Treasurer Ball asked for an explanation for the difference in February 2019 from the 3-yr average. Ms. Lee stated there was a significant cash flow difference in February 2017 that made the trend look higher than what it truly has been in the last three years. Ms. Bechtel added that lower debt balances and debt issuances have an effect on the balance. Mr. Caldwell stated that the Turnpike Authority of Kentucky did not issue debt this year where they usually have in the past. Mr. Barrow confirmed that bond deals can drastically change the trend lines and added that some reserve accounts were swept which can also influence the balances. Therefore, the combination of not borrowing money and having little or no reserves can make a deviation seem larger than it actually is. The Commission took no action.

New Member Update and Orientation – Mr. Barrow brought up the discussion regarding new member orientation. He mentioned that in the past one of OFM's staff members would meet individually with each new member and give an introduction to the Commission. The Commission was asked if they preferred an individual meeting for orientation or a meeting that involved the whole group at one time. He also presented a handout that listed suggested topics a new member would be informed about during an orientation or introduction. Mr. Brashear stated that the individual meeting he had was very informative and the material he was given was clear about the process and the intent of the Commission. Director Chilton mentioned that having presentations or discussions about a

subject at the end of each meeting is very helpful. It was mentioned by OFM Staff that an expanded discussion regarding broker/dealer relationships might be added to next quarter's meeting.

There being no further business, Treasurer Ball called for a motion to adjourn. Director Chilton made a motion and was seconded by Mr. Ross. The meeting adjourned at 11:18 a.m.

Respectfully submitted,

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

Ryan Barrow

Secretary