

State Investment Commission

March 22, 2018

1:00 p.m. ~ Room 182 ~ Capitol Annex
Frankfort, Kentucky

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on March 22, 2018 at 1:00 p.m. in Room 182 of the Capitol Annex by Allison Ball, Kentucky State Treasurer. The Treasurer asked for a roll call. Other members present were Mark Bunning, permanent proxy for Secretary William M. Landrum III, Finance and Administration Cabinet (“FAC”); John Chilton, permanent proxy for Governor Matt Bevin; W. Fred Brashear, II, representing the Kentucky Bankers Association; and William L. Fallon, representing the Bluegrass 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: Jennie Wolfe, Office of the Controller, FAC; and Dennis Paiva, Kentucky State Treasury.

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

Treasurer Ball called for a motion to approve the minutes from the December 19, 2017, meeting. A motion was made by Mr. Fallon and seconded by Mr. Brashear to approve the minutes as written. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow presented the Bloomberg Compliance Reporting memorandum and stated there were no violations or alerts during the period of December 1, 2017 thru February 28, 2018.

Intermediate Pool Performance - Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of February 28, 2018. The Pool market value was a little over \$2.3 billion, yielding just over 2% and slightly under the benchmark by 8 basis points. The average credit quality was Aaa by Moodys. Duration was 0.87, which translates to about 10 and a half months and running three quarters of a year short of the benchmark. The Pool had about \$48 million in Net Cash Outflow for the 3 months ending in February. The Portfolio Sector Allocations page gave a snapshot of how the Portfolio is diversified across the different sectors of the fixed income market as of February 28, 2018. The treasury allocation was replenished in the last three months from 41% in November to 48% at the end of February. All other sectors were within 1-2% from the last report. Mr. Caldwell continued with the Portfolio Performance page, which showed the Portfolio performance versus the benchmark as of February 28, 2018. The Intermediate Pool showed a small gain in February. Recent performance out to the 1-year mark was strong compared to the benchmark. There was a slight out performance for the previous 3-5 years and the longer time period basically in line with the benchmark.

Limited Pool Performance - Ms. Bechtel presented the Limited Term Pool monthly report as of February 28, 2018, and directed the Commission to the Limited Term Pool monthly performance graph. She noted that the 1 month performance was right on the benchmark which is the Local Government Investment Pool. The second page of the report listed all the securities held in the Pool as of February 28, 2018. Ms. Bechtel noted that the total portfolio for February was slightly over \$1.9, which was a significant increase from the last report of approximately \$1.6 billion in November. Two

contributing factors were that the University of Kentucky had debt proceeds and tuition money that were deposited into the portfolio. The next page illustrated a breakdown of the Pool by credit rating and sector distributions. The next page provided a detail on the weighted average maturity and life plus liquidity positions. Ms. Bechtel reported that their goal is to manage the daily liquidity at 15% or above and it stayed very liquid through the Fall of 2017. During this reporting period, the liquidity went from 71% down to 50%. The Net Asset Value graph was steady and within the range that is required. The memo regarding Limited Term Pool Liquidity Analysis dated March 22, 2018, listed the largest daily withdrawals, largest weekly withdrawals and largest individual accounts in the Pool. The largest daily and weekly withdrawals were for Medicaid. The largest individual account in the portfolio was the Employee Self-Insurance 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.

Country Bank - Ms. Lee reported that all banks are meeting the requirements of the program. She also gave a brief summary of the requirements of the Country Bank program. There are currently three banks in the program: Clinton Bank, Bank of Jamestown, and United Cumberland. Bank of Columbia left the program in September.

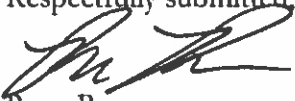
Credit Considerations – Mr. Auxier presented the list of Corporate Credits Approved for Purchase and the list of Securities Lending Agent Approved Counterparties as of March 22, 2018. He reported that the five additions that were added at the last meeting have proved to be very beneficial to the portfolio. Mr. Auxier noted that the Corporate Credits list format was changed. The Money Market Securities column was added (which is primarily short-term commercial paper or CDs) and the third column was renamed Notes (which is the longer term corporate securities). There were no additions or removals in this reporting period. Staff recommended approval as presented. Mr. Brashear made a motion to accept both lists and was seconded by Mr. Fallon. Motion **CARRIED**.

Cash Flow – Ms. Bechtel 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 current year is slightly below the three-year average but basically following the same pattern. There was no concern and the Commission took no action.

Other Business – Mr. Barrow reported to the Commission the plans to upgrade the CAMRA accounting software alongside the eMARS upgrade, which is the state accounting system. He presented an Upgrade Planner 2018 that gave a tentative timeline for both upgrades. The goal is to launch the updated CAMRA processing in July 2018.

There being no further business, Treasurer Ball called for a motion to adjourn. Mr. Fallon made a motion and was seconded by Mr. Brashear. The meeting adjourned at 1:27 p.m.

Respectfully submitted,



Ryan Barrow
Secretary