

State Investment Commission

June 29, 2017

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

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on June 29, 2017 at 11:00 a.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”); Director John Chilton, proxy for Governor Matthew G. Bevin; W. Fred Brashear, II, President and CEO, Hyden Citizens Bank, Hyden, Kentucky; and William Fallon, President and CEO, The Bankers’ Bank of Kentucky, Frankfort, Kentucky.

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, Kim Bechtel, Amber Lee, Daniel Auxier, Mendy Adkins, Jetta Collett and Tammy McCall.

Other Guests: Ed Ross, Controller, Office of the Controller, FAC; Dennis Piava, Kentucky State Treasury; and OJ Oleka, 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 March 23, 2017, meeting. A motion was made by Mr. Brashear and seconded by Mr. Fallon to approve the minutes as written. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow presented the memorandum regarding Bloomberg Compliance Reporting for the period of March 1, 2017 thru May 31, 2017. A compliance alert was triggered due to a downgrade of a Kentucky security. The alert was a false positive and Bloomberg Compliance Manager was updated to reflect the proper credit rating compliance rule for obligations issued by the Commonwealth or any entity within the Commonwealth. There was no compliance violation.

Personnel Update - Mr. Barrow reported there was some personnel changes in the Accounting Group within OFM and asked each new employee to introduce themselves. Daniel Auxier reported he started in OFM in April. He was hired to work in the Investment group; but because of personnel shortages, he has been helping in the Accounting group and will transition to Investments in July. Melinda Adkins informed the Commission she also started in April and is carrying out the duties of Cash Accountant. Jetta Collett stated she was excited to return to OFM as the Accounting Manager.

Audit Findings – Mr. Barrow reported an issue found by the auditor surrounding the personnel transitions reported to the Commission. He stated it is OFM’s standard procedure to send an email to COT upon the separation of an employee to remove their access to OFM’s network. COT requires a specific form be attached to the email and that form was not attached to a couple of the emails. The procedure is now corrected and will be monitored and checked on a yearly basis.

Intermediate Pool Performance - Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of May 31, 2017. The Pool market value was just under \$2.87 billion. The Yield to Worst was 1.34%, which closely lined up with the benchmark. Credit quality is Aaa. Duration was

about a year at 1.07% and running about half a year short of the benchmark. 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 May 31, 2017. He noted an allocation increase to ABS of 2% that was matched by a lower allocation to MBS of 2%. Mr. Caldwell continued with the Portfolio Performance page, which showed the Portfolio performance versus the Benchmark as of May 31, 2017. He stated the Pool continued to perform well over the short term given the rise in interest rates. The long-term performance is in line with the benchmark. He noted the main driver of recent performance has been the short duration position as well as the allocation to spread product as corporates, ABS and mortgage securities.

Mr. Bunning asked and Mr. Caldwell confirmed that the short duration allows the Commonwealth to do better than the benchmark because of the ability to reinvest as the rates go up. Director Chilton asked what was in the benchmark. Mr. Caldwell answered it is comprised of 70% Treasuries (1 to 3 years), 15% cash and 15% mortgages.

Limited Pool Performance - Ms. Bechtel presented the Limited Term Pool monthly report as of May 31, 2017. She directed the Commission to the Limited Term Pool monthly performance graph which compared the Pool to the Local Government Investment Pool benchmark. The second page of the report listed all the securities held in the Pool as of May 31, 2017, with a total balance slightly above \$1.8 billion. The next page illustrated a breakdown of the Pool by credit rating and sector distributions, showing the portfolio consists of high quality diversified assets. The next page provided a detail on the weighted average maturity and life plus liquidity positions. Ms. Bechtel reported that daily liquidity was about 50% and would remain liquid due to the rate increase at the middle of the month and the approaching fiscal year end. The Net Asset Value graph was steady as it should be. The memo regarding Limited Term Pool Liquidity Analysis dated June 29, 2017, listed the largest daily withdrawals, largest weekly withdrawals and largest individual accounts in the Pool. The largest daily and weekly withdrawals were the same as last quarter, the Med Assessment Revolving Trust Fund. The largest individual account in the portfolio was the same as last quarter, 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 presented an update on the Kentucky Bank Program as of June 16, 2017. She reported that The Bank of Jamestown's Loans to Deposits ratio increased this quarter to 69%, just slightly below the required 70%. She confirmed the program is well collateralized and there was no risk to the Commonwealth. The Commission took no action.

Credit Considerations – Mr. Caldwell presented the list of Corporate Credits Approved for Purchase and the list of Securities Lending Agent Approved Counterparties as of June 29, 2017. He reported that Bank of America N.A. was removed as a repo counterparty and was replaced by Guggenheim Securities, LLC. The following were removed due to short-term ratings being below the A1P1 requirement for the limited pool: BB&T Corp, BP PLC, Caterpillar Inc., and JPMorgan Chase & Co. There was no change to the securities counterparties. Staff recommended approval as presented. Mr. Fallon made a motion and was seconded by Mr. Brashear. Motion **CARRIED**.

Approval of NRSRO's - Mr. Caldwell presented the Nationally Recognized Statistical Rating Organizations (NRSRO) for Fiscal Year 2018. He stated that according to 200 KAR 14:011 Section 6 Investment Securities (11), the Commission must approve on an annual basis the NRSRO's that will be used in determining investment compliance for fiscal year 2018. From the list of credit rating

agencies as of December 2015, staff recommended the Commission approve S&P, Moody's and Fitch. Treasurer Ball called for a motion. Mr. Bill Fallon made a motion to approve which was seconded by Mr. Fred Brashear. Motion **CARRIED**.

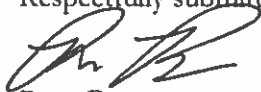
Approval of Broker-Dealer List – Mr. Caldwell presented the list of Primary Dealers and Non-Primary Dealers for Fiscal year 2018. There were no additions or deletions from the list approved last year. Staff recommended approval. Treasurer Ball called for a motion. Mr. Fred Brashear made a motion to approve which was seconded by Mr. Bill Fallon. Motion **CARRIED**.

Cash Flow – Ms. Bechtel presented the Monthly Average Investable Balances Cash Flow Summary graph chart. Information for this chart was taken from the Investable Balances chart that is sent out in the monthly SIC investment reports. The chart compares the last three years averages to fiscal year 2017 (minus the month of June). The balances included reflect all agency money, university money, and any debt issuances that go into the portfolios and are invested. The cash flow in fiscal year 2017 follows very closely to the last three years except for the month of February. Ms. Bechtel noted there was a large debt issuance in February that spiked the cash flow. Treasurer Ball asked and Ms. Bechtel confirmed that the chart would be presented again at the next meeting.

Other Business – Mr. Barrow informed the Commission that the Cash Flow chart is a permanent addition to the SIC meeting packet. He also mentioned that some revolving topics for discussion or presentations might be added to future meetings such as regulation changes, or repo market contracts. He asked the Commission to let OFM staff know of any topics of interest they would like addressed at a meeting.

There being no other business, Treasurer Ball called for a motion to adjourn. Mr. Bunning made a motion and was seconded by Mr. Fallon. The meeting adjourned at 11:25 a.m.

Respectfully submitted,



Ryan Barrow
Secretary