

State Investment Commission

September 18, 2017

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

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on September 18, 2017 at 3:01 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”); Director John Chilton, proxy for Governor Matthew G. Bevin; and W. Fred Brashear, II, President and CEO, Hyden Citizens Bank, Hyden, Kentucky.

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: Ed Ross, Controller, 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 June 29, 2017, meeting. A motion was made by Mr. Bunning and seconded by Mr. Brashear to approve the minutes as written. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow presented the memorandum regarding Bloomberg Compliance Reporting for the period of June 1, 2017 thru August 31, 2017. He reported there were no violations or alerts during the last quarter.

Intermediate Pool Performance - Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of August 31, 2017. The Pool market value was just under \$2.4 billion. The Yield to Worst was 1.35%, which is in line with the benchmark. Credit quality is Aaa. Duration was about a year at 1.01% and running seven months 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 August 31, 2017. He noted the only change from last quarter is a decrease in the agency allocation from 5% to 3%, due to some securities that were called away. Mr. Caldwell continued with the Portfolio Performance page, which showed the Portfolio performance versus the Benchmark as of August 31, 2017. He stated the Pool has matched or performed better than the benchmark from the 5-year mark to date. The long-term performance greater than 5-years is in line with the benchmark.

Limited Pool Performance - Ms. Bechtel presented the Limited Term Pool monthly report as of August 31, 2017. She directed the Commission to the Limited Term Pool monthly performance graph which showed that the Pool was performing slightly above the Local Government Investment Pool benchmark. The second page of the report listed all the securities held in the Pool as of August 31, 2017, with a total balance slightly below \$1.6 billion. The balance had decreased from last quarter from \$1.8 billion, but Ms. Bechtel stressed that fluctuations were normal this time of year. 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 the Pool was very liquid at this

time in order to meet overall cash flows that are occurring across state government and will continue to remain liquid until the beginning of the New Year. The Net Asset Value graph was steady as it should be. The memo regarding Limited Term Pool Liquidity Analysis dated September 18, 2017, listed the largest daily withdrawals, largest weekly withdrawals and largest individual accounts in the Pool. The largest daily and weekly withdrawals was the Employee Self-Insurance 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 September 8, 2017. She reported the Bank of Columbia did not roll repo at the beginning of September; therefore, has left the program. There are now only three banks participating in the program. The Bank of Jamestown's Loans to Deposits ratio decreased this quarter to 68%, which is 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 September 18, 2017. He reported there were no changes to the corporate credit or security lending counterparties since the last meeting. Staff recommended approval as presented. Mr. Bunning made a motion and was seconded by Mr. Brashear. Motion **CARRIED**.

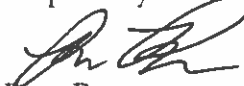
Cash Flow – Ms. Bechtel presented the Monthly Average Investable Balances Cash Flow Summary graph chart. The chart compares the last three years averages to fiscal year 2017. The chart was presented for informational purposes only and required no action from the Commission.

Trading Limits - Ms. Bechtel presented the proposed trading limits and requested approval for two Portfolio Managers (Kim Bechtel and Brian Caldwell) and two Money Market Traders (Amber Lee and Daniel Auxier). Another change to the trading limits from the last approval are the securities types listed for a money market trader and their purchasing limit which was increased to \$50,000,000. Treasurer Ball called for a motion to approve. Mr. Brashear made a motion to approve the Trading Limits as presented, and was seconded by Mr. Bunning. Motion **CARRIED**.

Broker-Dealer Approval Process – Mr. Auxier distributed to the Commission members the Process for Creating the Approved Broker-Dealer List handout. He gave a short presentation that included the relevant statute and regulations, and the list of qualifications from which a broker-dealer must meet before it is added to the list for approval.

There being no other business, Treasurer Ball called for a motion to adjourn. Mr. Brashear made a motion and was seconded by Director Chilton. The meeting adjourned at 3:22 p.m.

Respectfully submitted,



Ryan Barrow
Secretary