

State Investment Commission
September 22, 2016
1:00 p.m. ~ Room 182 ~ Capitol Annex
Frankfort, Kentucky

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on September 22, 2016 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”); Nate Haney, proxy for Governor Matthew Bevin; and William Fallon, President & CEO, The Bankers’ Bank of Kentucky, Frankfort, Kentucky.

Office of Financial Management (“OFM”) Staff Present: Steve Jones, Deputy Executive Director; Sandy Williams, Deputy Executive Director; Brian Caldwell, Hannah Partin, Kim Bechtel, Dwight Price, and Tammy McCall.

Other Guests: Ed Ross, Controller, Office of the Controller, FAC; 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 June 22, 2016, meeting. A motion was made by Mr. Mark Bunning and seconded by Mr. Bill Fallon to approve the minutes as written. Motion **CARRIED**.

Treasurer Ball introduced Mr. Jones to present the **Investment Manual** Draft that was given as a handout to all members of the Commission. Mr. Jones stated one change was made to the Investment Manual since the last meeting. “Division of Accounts” was changed to “Division of Statewide Accounting”, which occurred twice in the manual. Treasurer Ball called for a Motion to Adopt the Investment Manual. Mr. Nate Haney made a motion which was seconded by Mr. Bill Fallon. Motion **CARRIED**.

Bridges Pool – Mr. Jones presented the Bridges Pool report as of September 14, 2016. He explained that the Pool provides cash for the construction of the Downtown Bridges Project in Louisville. The Pool started with a balance of \$650 million and now holds a balance of \$9,589,909.12. The current holdings are invested in a money market mutual fund. The income generated had a book income of \$1,288,396.30. Mr. Jones reported that the Pool is expected to be depleted before the end of the 2016.

Intermediate Pool Performance – Mr. Caldwell directed the Commission members to the Intermediate Term Pool report as of August 31, 2016. The Pool market value stood slightly under \$2.4 billion. The Yield to Worst was 0.85% which was 5 points better than the benchmark. Quality remained high at Aaa. Duration was slightly over 1 year and short of the benchmark by a third of a year. 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, 2016. There was no meaningful change since the last report in June. Mr. Caldwell continued with the Portfolio Performance page, which showed the performance versus the Benchmark as of August 31, 2016. He reported a slight negative return for the month of August, but the total portfolio outperformed

the benchmark by approximately 5 basis points. It was noted the portfolio has produced positive returns for periods greater than a year and very close to the benchmark.

Limited Term Pool Performance – Ms. Bechtel presented the monthly performance of the Limited Term Pool compared to the Local Government Investment Pool benchmark as of August 31, 2016. The monthly performance graph showed that the Limited Term pool was slightly above the benchmark. The second page of the report listed all the securities held in the Pool as of August 31, 2016, with a total balance of approximately \$1.3 billion. The next page showed 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 noted that the portfolio was very liquid, due in part to significant cash outflows that happen this time of the year. The weighted average maturity was down at approximately 30 days. The Net Asset Value graph was steady as it should be. The largest daily withdrawals as of September 22, 2016, included the annual Turnpike Authority bond payment made at the end of June. The largest weekly withdrawal was the University of Kentucky. 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 members and staff discussed the total cash position of the Limited Term Pool. The Commission took no action.

Country Bank – Mr. Price presented an update on the Kentucky Bank Program as of September 9, 2016. He stated there are four banks still participating in the program. The Bank of Jamestown is the only bank considered out of compliance with the program's requirements because the Loans to Deposits ratio has been at 63% in the last year. Mr. Price stated that all four participating banks are well collateralized and there was no risk to the Commonwealth. The Commission took no action.

Credit Considerations – Ms. Partin presented the list of Corporate Credits Approved for Purchase and the list of Securities Lending Agent Approved Counterparties as of September 22, 2016. No changes had been made since the last meeting and staff requested approval. Treasurer Ball called for a motion to approve the Corporate Credit lists. Mr. Mark Bunning made a motion which was seconded by Mr. Bill Fallon. Motion **CARRIED**.

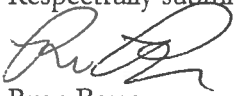
Broker/Dealer List – Ms. Partin explained that Lexington Investment Company and Arbor Research & Trading were removed from the approved Broker/Dealer List at the last SIC meeting, June 22, 2016, because those entities did not comply with the administrative regulations under 200 KAR 14:011, Section 10. Upon further review from Staff, it was found that both companies were actively approved at the time the current regulation was adopted and went into effect on September 4, 2016. Therefore, both could have been grandfathered in as approved and not removed from the list at the last meeting. Ms. Partin stated that, if the Commission wanted to add both entities back onto the approved Broker/Dealer List, a motion to revise the list would be required. Otherwise, the approved Broker/Dealer List would remain as submitted on June 22, 2016. Treasurer Ball called for a motion to revise the List of Approved Broker/Dealers for Fiscal Year 2017 as amended to include Lexington Investment Company and Arbor Research & Trading. Mr. Nate Haney made a motion to approve which was seconded by Mr. Bill Fallon. Motion **CARRIED**.

Compliance Reporting – Ms. Partin stated there were no compliance issues to report this past quarter.

State Investment Commission -- Minutes
September 22, 2016
Page 3

There being no other business, Treasurer Ball called for a motion to adjourn. Mr. Nate Haney made a motion which was seconded by Mr. Mark Bunning. The meeting adjourned at 1:25 p.m.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ryan Barrow", written in a cursive style.

Ryan Barrow
Secretary