

STATE INVESTMENT COMMISSION
MINUTES
SEPTEMBER 08, 2020
11:00 AM

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on Tuesday, September 08, 2020, at 11:01 AM ET via ZOOM video teleconference by Allison Ball, Kentucky State Treasurer. Treasurer Ball asked for a roll call. Other members present were Geri Grigsby, permanent proxy for Holly M. Johnson, Secretary, Finance and Administration Cabinet (“FAC”); John T. Hicks, State Budget Director, Office of the State Budget Director (“OSBD”), permanent proxy for Governor Andy Beshear; 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, Sandy Williams, Deputy Executive Director, Daniel Auxier, Kim Bechtel, Amber Lee, and Jennifer Yount.

Other Guests: Josh Rayborn, Office of the Kentucky State Treasurer; Katherine Halloran, Legislative Research Commission (“LRC”); Julia Wang, LRC; and Edgar C. Ross, State Controller and Executive Director, Office of the Controller.

Treasurer Ball verified a quorum was present, and the press was notified of the meeting.

Treasurer Ball called for a motion to approve the minutes from the June 03, 2020, meeting. A motion was made by Mr. Brashear and was seconded by Director Hicks to approve the minutes as written. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow stated there were no Statute or Administrative Regulation violations during the period of May 01, 2020 – August 31, 2020. He noted the OFM Staff Internal Guideline per the Investment Manual of \$200 million maximum limit on repurchase agreements and money market mutual funds. In March, a repurchase agreement counterparty stopped doing overnight repo due to the market conditions related to COVID-19. OFM was forced to move the amount to the only other counterparty willing to do overnight repurchase agreement trade, causing us to exceed the \$200 million limit with one counterparty. This will continue to be ongoing until an additional counterparty can be found. In April, \$1.6 billion Federal Relief Aid was sent to the Commonwealth. OFM invested those proceeds across four money market mutual funds resulting in breaking the \$200 million limit per mutual fund. As of August 31, this applies to three money market mutual funds.

Intermediate Pool Performance – Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of August 31, 2020. He reported the market value of the pool ended in August a little over \$2.5 billion, which was about the same for July and \$100 million more than June. The Yield to Worst stood at 0.22%, at the end of August 2020, which was between benchmark A and benchmark B. The prior two months were in line with the benchmarks. The average credit quality is Aaa by Moody’s. At the end of August, duration stood at 0.85 or approximately ten months of

a year, which was shorter than Benchmark A and Benchmark B. The net cash flow over the past three months had a net outflow of \$201 million. The Portfolio Sector Allocations page gave a snapshot of how the portfolio is diversified across the different market sectors. The top left side is the Intermediate Pool with Benchmark A on the top right side and Benchmark B at the bottom. Money Market Securities allocation increased to 11% from 6% due to a Treasury maturing on the 31st to pay debt service the next day, so we parked the cash in money market. All other sectors were basically unchanged since our last report in June. He continued with the Portfolio Performance page, which showed the Portfolio performance versus the benchmarks as of August 31, 2020. The Intermediate Pool was flat for the month of August and, for all periods listed, performed slightly better than Benchmark B, represented by the green bar. Compared to Benchmark A, evident underperformance over longer periods because of the duration mismatch being about half a year.

Limited Pool Performance - Ms. Bechtel presented the Limited Term Pool monthly report as of August 31, 2020, and directed the Commission to the Limited Term Pool monthly performance graph. She reported that rates are currently very low. The Limited Term Pool slightly underperformed the benchmark in August 2020. The pool performed below the benchmark at the three months, six months, the fiscal year to date, and one year range. The second page of the report is the balance of the portfolio, as of August 31, 2020. The total of the portfolio is over \$1.6 billion. In June, it was under \$1.8 billion. The next page illustrated a breakdown of the pool by credit rating and sector distributions. The largest group holding in the sector distribution is Treasury Debt at 41%; these are High-Quality Assets; we are not currently purchasing Commercial Paper. The next page, liquidity and maturity, the average as of August 31, 2020, was approximately 25.44% with daily liquidity and weekly liquidity of 37.62%. The Net Asset Value graph had no major divergence. The memo regarding Limited-Term Pool Liquidity Analysis dated September 08, 2020, listed the largest daily withdrawals, largest weekly withdrawals, and largest individual accounts in the pool for three months ending August 31, 2020. The largest daily and weekly withdrawals were Personnel Health Self-Insurance Fund. The largest individual account in the portfolio was the Personnel Health 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.

Cash Flow – Ms. Lee presented the Monthly Average Investable Balances Cash Flow Summary graph chart, which compared the last three years averages to the current fiscal year. The past two months continued to follow close to the past three years average trend line. This is to be expected at the beginning of a new fiscal year with spending on debt payments and transportation. Cares balance was not included in the cash flow to give a better picture of the typical movement. The Commission took no action.

TRAN – TRAN – Ms. Lee presented the Tax Revenue Anticipation Notes (“TRAN”), which closed on July 10, 2019, providing over \$400 million to invest. The TRAN Pool matured on June 25, 2020, with \$412 million in maturing securities used to pay the \$411 million debt service, netting the Commonwealth about \$1 million. 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 September 08, 2020. Mr. Auxier reported a change to the Corporate Credit Approved List. With the economic downturn continuing, four more names were dropped from the list. They are PNC, HSBC, UBS, and Wells Fargo. We did not own any securities in these names when they were dropped, so no further action was required. The Securities Lending Approved Counterparties List remained unchanged. Staff recommended approval as presented. Mr. Brashear asked what prompts removal from the list. Mr. Auxier advised the top three levels of the rating scale, meaning A- or A3 is the lowest acceptable credit rating. For the short-term, we use F-1 and P-1. If a company drops to BBB+ or F-2/P-2, they are immediately dropped from the list. Treasurer Ball called for a motion to approve both lists. A motion was made by Director Hicks to approve both lists and was seconded by Ms. Grigsby. Motion **CARRIED**.

There being no further business, Treasurer Ball called for a motion to adjourn. Mr. Brashear made a motion to adjourn and was seconded by Director Hicks. With no further business before the Commission, the meeting adjourned at 11:18 AM ET.

Respectfully submitted,



Ryan Barrow
Secretary