

**State Investment Commission**  
June 20, 2019  
2:30 p.m. ~ Room 182 ~ Capitol Annex  
Frankfort, Kentucky

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on June 20, 2019 at 2:30 p.m. in Room 182 of the Capitol Annex by Allison Ball, Kentucky State Treasurer. Treasurer Ball asked for a roll call. Other members present were Melinda Hill, permanent proxy for Secretary William M. Landrum III, Finance and Administration Cabinet (“FAC”); John Chilton, permanent proxy for Governor Matt Bevin; 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; Sandy Williams, Deputy Executive Director, Kim Bechtel, Amber Lee, Daniel Auxier, and Tammy McCall.

Other Guests: Dennis Paiva, Kentucky State Treasury; Ed Ross Controller, Office of the Controller; and Janice Tomes, Deputy State Budget Director, Office of State Budget Director.

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

Treasurer Ball called for a motion to approve the minutes from the March 21, 2019 meeting. A motion was made by Mr. Brashear and was seconded by Mrs. Hill to approve the minutes as written. Motion **CARRIED**.

**Compliance Reporting** – Mr. Barrow stated there were no violations during the period of March 1, 2019 – May 31, 2019.

**Intermediate Pool Performance** – Mrs. Lee directed the Commission to the Intermediate Term Pool report as of May 31, 2019. She reported that the market value of the Pool ended in May at \$2.5 billion, which was approximately \$100 million less than April, 2019 and consistent with the month of March, 2019. The Yield to Worst stood at 2.31%, at the end of May, 2019, which was 24 basis points more than the Benchmark. The average credit quality is Aaa by Moodys. The portfolio had a duration of about one year plus or minus about a quarter of a year and in the foreseeable future should be less than the Benchmark. At the end of May, 2019 the portfolio had a duration of almost a year which is two thirds of a year short of the Benchmark. The net cash flow over the past three months had a net inflow of about \$174 million. The Portfolio Sector Allocations page gave a snapshot of how the Portfolio was diversified across the different sectors of the fixed income market as of May 31, 2019. Ms. Lee reported the Corporate Sector was reduced by 3% as maturities rolled off and dollars were reinvested in the Treasury and Agency sectors resulting in a 3% increase for Agencies with the balance going to Treasuries. All other sectors remained the same. She continued with the Portfolio Performance page, which showed the Portfolio performance versus the benchmark as of May 31, 2019. The Intermediate Pool showed a positive performance in May but not as strong as the benchmark. Treasuries rallied over the past few months and because the portfolio’s duration is shorter than the benchmark, underperformance occurred for time-periods inside one year. However, over longer periods, represented by the three, five and ten year returns, performance was in-line with the benchmark.

**Limited Pool Performance** - Ms. Bechtel presented the Limited Term Pool monthly report as of May 31, 2019, and directed the Commission to the Limited Term Pool monthly performance graph. She reported that the Limited Term Pool outperformed the benchmark in May 2019. The Pool performed slightly below the benchmark at the 3-months, 6-months, fiscal year to date, and one-year range. The second page of the report listed all the securities held in the Pool as of May 31, 2019, with a total amount of approximately \$1.7 billion. The next page illustrated a breakdown of the Pool by credit rating and sector distributions. She noted the portfolio's high quality ratings. The largest group holding in the sector distribution is Government Agency Debt at 38%. The next page provided a detail on the weighted average maturity and life plus liquidity positions. Ms. Bechtel reported the weighted average maturity is slightly up to 14 days and the daily liquidity is down to 36%. The Net Asset Value graph was steady and within the range that is required. The memo regarding Limited Term Pool Liquidity Analysis dated June 20, 2019, listed the largest daily withdrawals, largest weekly withdrawals and largest individual accounts in the Pool for three quarters ending May 31, 2019. The largest daily and weekly withdrawals were the Medicaid Revolving Trust, UK General Receipts, and Medicaid Benefits Fund. The largest individual accounts in the portfolio were the Personnel Health Self-Insurance Fund followed by the Kentucky Permanent Pension Fund and the UK General Receipts 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.

**Credit Considerations** – Mr. Auxier presented the list of Corporate Credits Approved for Purchase and the list of Securities Lending Agent Approved Counterparties as of June 20, 2019. Mr. Auxier reported there were no changes made to the either lists this quarter. Staff recommended approval as presented. Mr. Brashear made a motion to accept both lists and was seconded by Ms. Hill. Motion **CARRIED**.

**Approval of NRSRO's** - Mr. Auxier presented the Nationally Recognized Statistical Rating Organizations (NRSRO) for Fiscal Year 2020. Staff recommended the Commission approve S&P, Moody's and Fitch as the NRSROs used in determining investment compliance for Fiscal Year 2020. Treasurer Ball called for a motion. Ms. Hill made a motion to approve and was seconded by Mr. Brashear. Motion **CARRIED**.

**Approval of Broker-Dealer List** – Mr. Auxier presented the list of Primary Dealers and Non-Primary Dealers for Fiscal year 2020. He also presented the handout, Process for Creating the Approved Broker-Dealer List. He explained the requirements of a broker-dealer and the process for placement on the list. He noted Bank of America Securities, Inc. replaced Merrill Lynch, Pierce, Fenner & Smith Inc. Staff recommended approval. Treasurer Ball called for a motion. Mr. Brashear made a motion to approve and was seconded by Ms. Hill. Motion **CARRIED**.

**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. She noted that fiscal year 2019 continued to follow the 3-year average trend. From July to November 2018, the graph showed a downward trend due to spending at the beginning of the new fiscal year and many active transportation projects. From December 2018 to June 2019, the graph showed an upward trend due to corporation and individual tax receipts as well as bond proceeds. Fiscal year 2019 was below the 3-year average due to the budget for the year and less debt issuance. The Commission took no action.

Mr. Barrow gave an update regarding new appointments to the Commission. Currently, Fred Brashear is attending for the Kentucky Bankers Association and the appointment for the Bluegrass Bankers Association is vacant. The Governor's office reported they were still awaiting nominations from both associations.

There being no further business, Treasurer Ball called for a motion to adjourn. Mr. Brashear made a motion and was seconded by Ms. Hill. The meeting adjourned at 2:55 p.m.

Respectfully submitted,



Ryan Barrow  
Secretary