

## State Investment Commission

September 23, 2019

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

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on September 23, 2019 at 11:05 a.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”); and John Chilton, permanent proxy for Governor Matt Bevin.

Office of Financial Management (“OFM”) Staff Present: Ryan Barrow, Executive Director of OFM and Secretary to the Commission; Brian Caldwell, Deputy Executive Director, Daniel Auxier, Kim Bechtel, Amber Lee, and Jennifer Yount.

Other Guests: Dennis Paiva, Kentucky State Treasury; and Ed Ross Controller, 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 20, 2019 meeting. A motion was made by Director Chilton and was seconded by Ms. Hill to approve the minutes as written. Motion **CARRIED**.

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

**Intermediate Pool Performance** – Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of August 31, 2019. He reported the market value of the Pool ended in August at \$2.1 billion, which was approximately \$100 million less than July, 2019 and over \$150 million less than the month of June, 2019. The Yield to Worst stood at 1.96%, at the end of August, 2019, which was 34 basis points more than the Benchmark. The average credit quality is Aaa by Moody’s. 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 August, 2019 the portfolio had a duration of almost a year which is three fourths of a year short of the Benchmark. For June and July, 2019 the portfolio had a duration of about a year and two thirds of a year short of the benchmark. The net cash flow over the past three months had a net outflow of over \$4 million. The Portfolio Sector Allocations page gave a snapshot of how the Portfolio was diversified across the different market sectors. Mr. Caldwell reported the left side is the Intermediate Pool with benchmark on the right side. The only change since June was our Treasury allocation went down 6% to 49% with the 6% moving into Cash as maturities rolled off the portfolio to fund Road Fund outflows. All other sectors remained the same. He continued with the Portfolio Performance page, which showed the Portfolio performance versus the benchmark as of August 31, 2019. The Intermediate Pool showed a positive performance in August but not as strong as the benchmark. The main driver of under-performance is the duration mismatch with the benchmark. 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 August 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 August 2019 and the fiscal year to date. The Pool performed slightly below the benchmark at the three months, six months, and one year range. The second page of the report is the balance of the portfolio as of August 31, 2019 is \$1.3 billion up from July 2019 which was 1.2 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 Government Agency Repurchase Agreement at 40%. The next page liquidity and maturity the average for August 31, 2019 was approximately 8% with a daily liquidity of over 42% to meet cash flow needs. The Net Asset Value graph has no major divergence. The memo regarding Limited Term Pool Liquidity Analysis dated September 23, 2019, listed the largest daily withdrawals, largest weekly withdrawals and largest individual accounts in the Pool for three quarters ending August 31, 2019. The largest daily and weekly withdrawals were the Employee Health Self-Insurance. 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. She noted that fiscal year 2020 continued to follow the three year average trend. July and August 2019, showed a downward trend due to spending at the beginning of the new fiscal year, debt payments and transportation projects. The Commission took no action.

**TRAN** – Ms. Lee presented the Tax Revenue Anticipation Notes (“TRAN”) which closed on July 10, 2019, providing over \$400 million to invest. Two securities were purchased with a weighted market yield of 1.91%. The securities will mature in June of 2020 and will fund debt service. As of August 2019, market value was a little over \$406 million yielding 1.90%. This is the first TRAN since 2008. 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 23, 2019. Mr. Auxier reported there were no changes made to the either lists this quarter. Staff recommended approval as presented. Ms. Hill made a motion to accept both lists and was seconded by Director Chilton. Motion **CARRIED**.

**Benchmark Discussion** – Mr. Auxier presented information concerning the current index used for the Intermediate Pool benchmark. He noted the main objective of the Intermediate Pool is to preserve principle and maintain adequate liquidity to meet the cash flow needs of over 2,100 accounts. It is not currently managed to beat the benchmark which is provided simply as a comparable reference. Monthly returns will vary the most based on duration. The Intermediate pool will struggle to match the longer duration of the benchmark due to unstable cash flow. Cash flows between FY16 and FY17 were higher than in FY18 and FY19 as debt proceeds exceeded regular outflows. As debt proceeds were reduced, the portfolio shrank and duration dropped as

new securities brought to market could not be purchased. Mr. Auxier outlined how duration affects returns as rates rise and fall which explains the recent gap in returns between the Intermediate Pool and the benchmark. Staff is not recommending any change to the benchmark at this time. The discussion will remain open and may request a change in the future. The Commission took no action.

There being no further business, Treasurer Ball called for a motion to adjourn. Ms. Hill made a motion to adjourn and was seconded by Director Chilton. With no further business before the Commission the meeting adjourned at 11:32 a.m.

Respectfully submitted,



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Ryan Barrow  
Secretary