

State Investment Commission

November 26, 2019

10:30 a.m. ~ Room 182 ~ Capitol Annex
Frankfort, Kentucky

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on November 26, 2019, at 10:30 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”); 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; 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 September 23, 2019 meeting. A motion was made by Ms. Hill and was seconded by Director Chilton to approve the minutes as written. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow stated there were no violations during the period of September 1, 2019 – October 31, 2019.

Intermediate Pool Performance – Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of October 31, 2019. He reported the market value of the pool ended in August at \$2.4 billion, which was approximately \$180 million more than September and August 2019, \$175 million due to a bonds sale closing at the end of October 2019. The Yield to Worst stood at 1.77%, at the end of October 2019, which was 15-18% basis points more than the Benchmarks Mr. Caldwell directed the Commission to the attachment showing the addition of Benchmark B for comparison purposes only. It does not change the portfolio. 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 benchmarks. At the end of October 2019, the portfolio had a duration of a year. For September 2019, the portfolio had a duration of about a year short of the benchmark at 0.88 and August at 0.85. The net cash flow over the past three months had a net outflow of \$90 million; this does not include the \$175 million from the bond sale at the end of October. 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 A on the right side and Benchmark B on the bottom. Cash was used to increase our agency allocation by 5% and increase treasury allocation by 3% with a matching reduction in MBS. He continued with the Portfolio Performance page, which showed the Portfolio performance versus the benchmarks as of October 31, 2019. The Intermediate Pool was in-line with the benchmarks by the one month number starting on the left of the page. During

the three months and six months, was in-line with benchmark B. Over longer periods, represented by the one, three, five, and ten-year returns, the pool outperformed the benchmarks.

Limited Pool Performance - Ms. Bechtel presented the Limited Term Pool monthly report as of October 31, 2019, and directed the Commission to the Limited Term Pool monthly performance graph. She reported the Limited Term Pool slightly underperformed the benchmark in October 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 October 31, 2019 it is \$1.5 billion up from September 2019 which was \$1.4 billion and August 2019 which was \$1.3 billion. This is due to University of Kentucky beginning school and tuition being paid. The next page illustrated a breakdown of the pool by credit rating and sector distributions. The largest group holding in the sector distribution is Other Municipal Debt at 36%. The next page liquidity and maturity the average as of October 31, 2019 was approximately 3% with a daily liquidity of over 78%. This is the time of the year the inflows typically do not match the outflows. The Net Asset Value graph has no major divergence. The memo regarding Limited Term Pool Liquidity Analysis dated November 26, 2019, listed the largest daily withdrawals, largest weekly withdrawals, and largest individual accounts in the pool for two months ending October 31, 2019. The largest daily and weekly withdrawals were the UK General Receipts. 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 fiscal year 2020 continued to follow the three-year average trend. August, and September 2019, showed a downward trend due to spending at the beginning of the new fiscal year, debt payments, and transportation projects. Due to bond proceeds, October 2019 did not show a downward trend. 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 October 2019, the market value was a little over \$408 million yielding 1.58%. On the left shows, the Sector Allocations on the right are the returns. The return for one month was 0.16%, and for three months and fiscal year to date has remained at 0.48%. 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 November 26, 2019. Mr. Auxier reported there were no changes made to either list this quarter. Staff recommended approval as presented. Mr. Brashear made a motion to accept both lists and was seconded by Ms. Hill. Motion **CARRIED**.

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 10:47 a.m.

Respectfully submitted,



Ryan Barrow
Secretary