

State Investment Commission

December 19, 2017

11:00 a.m. ~ Room 182 ~ Capitol Annex

Frankfort, Kentucky

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on December 19, 2017 at 11:00 a.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 Melinda Moore Hill, proxy for Secretary William M. Landrum III, Finance and Administration Cabinet (“FAC”); W. Fred Brashear, II, representing the Kentucky Bankers Association; and William L. Fallon, representing the Bluegrass 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, Kim Bechtel, Amber Lee, Daniel Auxier, and Tammy McCall.

Other Guests: Ed Ross, Controller, Office of the Controller, FAC; and Dennis Paiva, 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 September 18, 2017, meeting. A motion was made by Mr. Fallon and seconded by Mr. Brashear to approve the minutes as written. Motion **CARRIED**.

Compliance Reporting – Mr. Barrow presented the Bloomberg Compliance Reporting memorandum and stated there were no violations or alerts during the period of September 1, 2017 thru November 30, 2017.

Intermediate Pool Performance - Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of November 30, 2017. The Pool market value was just under \$2.4 billion. The Yield to Worst was 1.60% with a Credit quality of Aaa. Duration was at 0.87 which equals about 10 and a half months and running three quarters of a year short of the benchmark. The line item Net Cash Flow was added to the report to show the monthly net cash flow for the Intermediate Term Pool. In November, the Pool had just under \$71 million net cash outflow and for the three months ending in November the net cash outflow was approximately \$42 million. 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 November 30, 2017. He noted one change from last quarter was a reduction in the treasury allocation by 8% represented by an increase to cash and money market securities. Mr. Caldwell continued with the Portfolio Performance page, which showed the Portfolio performance versus the Benchmark as of November 30, 2017. He stated that although the Pool lost money in November it was very small and the Pool has performed better than the benchmark up to the 10-year mark.

Limited Pool Performance - Ms. Bechtel presented the Limited Term Pool monthly report as of November 30, 2017. She directed the Commission to the Limited Term Pool monthly performance graph and said to expect to see an increase in the yield next quarter due to the Federal Reserve’s move this month to raise the interest rates. The second page of the report listed all the securities held in the Pool as of November 30, 2017. Ms. Bechtel noted that the holdings had decreased by

approximately \$5 million since last meeting which was typical this time of year because of the outflows. The next page illustrated a breakdown of the Pool by credit rating and sector distributions. She noted there was an increase in municipal debt by 100 since the last meeting, which was typical for this time of year. The next page provided a detail on the weighted average maturity and life plus liquidity positions. Ms. Bechtel reported that liquidity was still up due to the guesswork in the timing of the federal reserve moves and it being the end of the year. The Net Asset Value graph was steady and within the range that is required. The memo regarding Limited Term Pool Liquidity Analysis dated December 19, 2017, listed the largest daily withdrawals, largest weekly withdrawals and largest individual accounts in the Pool. The largest daily and weekly withdrawals were the UK General Receipts. 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 Commission took no action.

Country Bank - Ms. Lee presented an update on the Kentucky Bank Program. She reported that as of September 30, 2017, the Bank of Jamestown's Loans to Deposits ratio came in at 74%, which is above the required 70%. She confirmed the program is well collateralized and there was no risk to the Commonwealth. 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 December 19, 2017. He reported five additions to the list: Cornell University, Natixis SA/NY, Nestle Finance International, Praxair Inc., and Salvation Army. He noted their additions were due to their large presence on the commercial paper market. Staff recommended approval as presented. Mr. Brashear made a motion and was seconded by Mr. Fallon. Motion **CARRIED**.

Cash Flow – Ms. Bechtel presented the Monthly Average Investable Balances Cash Flow Summary graph chart, which compares the last three years averages to fiscal year 2018. She noted that November 2017 was lower than the previous three fiscal years. The reasons for this was that debt issuances were down, there was an increase in retirement payments, and revenues were lower than expected. She stated that cash flow was cyclical and that this was normal. The Commission took no action.

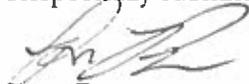
Credit Process – Mr. Auxier distributed to the Commission members the Credit Evaluation and Approval Process handout and gave a short presentation on the process taken to add names to the Corporate Credit approved lists.

Other Business – Mr. Brashear reported to the Commission as an informational item that the Kentucky Bankers Association (“KBA”) approved a Resolution on December 15, 2017, urging for a meaningful resolution to the pension programs. It was delivered to the Governor and to the legislative leadership. He stated that KBA understands the pension programs’ complexity and how it impacts individual lives, but KBA is greatly concerned for several reasons. One concern is the significant potential for a credit rating downgrade and the significant impact it would have on Kentucky banks’ capital. When comparing other states issues in the marketplace, such as Ohio’s, with a Kentucky issue, there is approximately a 60 basis point difference in pricing that costs the Commonwealth. He also stated that comparable issues of Kentucky and Illinois are being priced the same, which brings concern since Illinois’ ratings have not been as favorable as Kentucky’s in the past. The Resolution was forwarded to the editorial boards of the Lexington Herald and Louisville Courier Journal. He added that if the members had any questions, they could contact Ballard Cassady or John Cooper of the

Kentucky Bankers Association. Treasurer Ball thanked Mr. Brashear for the report on KBA's actions and where they stood on this issue.

There being no further business, Treasurer Ball called for a motion to adjourn. Ms. Hill made a motion and was seconded by Mr. Fallon. The meeting adjourned at 11:20 a.m.

Respectfully submitted,



Ryan Barrow
Secretary