The State Investment Commission ("SIC" or "the Commission") meeting was called to order on December 7, 2016 at 2:00 p.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 Mark Bunning, permanent proxy for Secretary William M. Landrum III, Finance and Administration Cabinet ("FAC"); W. Fred Brashear, III, President & CEO, Hyden Citizens Bank, Hyden, Kentucky; and William Fallon, President & CEO, The Bankers’ Bank of Kentucky, Frankfort, Kentucky.

Office of Financial Management ("OFM") Staff Present: Ryan Barrow, Executive Director of OFM and Secretary to the Commission; Sandy Williams, Deputy Executive Director; Brian Caldwell, Kim Bechtel, Dwight Price, and Tammy McCall.

Other Guests: Ed Ross, Controller, Office of the Controller, FAC; Dennis Piava, Kentucky State Treasury; Joseph Santoro, Deutsche Bank AG; Frank Gambino, Deutsche Bank AG; and Anthony Toscano, Deutsche Bank AG.

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 September 22, 2016, meeting. A motion was made by Mr. Bunning and seconded by Mr. Fallon to approve the minutes as written. Motion CARRIED.

**Compliance Reporting** – Mr. Barrow presented the Memorandum regarding Bloomberg Compliance Reporting stating there were no violations for the period of August 1 thru October 31, 2016. He explained that going forward this report will be added to the meeting packet as an informational item. If a compliance violation or false positive occurs, it will be presented to the Commission as a discussion item.

**Personnel Update** - Mr. Barrow informed the Commission that Steve Jones left OFM and took a position outside of state government. Hannah Partin left OFM to take another position within state government. He was actively seeking replacements for both positions. Treasurer Ball asked when the replacements would be hired. Mr. Barrow answered that interviews for the Deputy Executive Director position were being scheduled and hoped to have a replacement in a month. He stated that Ms. Partin’s position was currently being advertised, would close in a week and hoped to have a replacement in a couple of months.

**Bridges Pool** – Mr. Caldwell presented the Bridges Pool report as of October 31, 2016. The balance of the Pool was approximately $9.5 million held in a State Street Treasury Plus Money Market Fund. He reported that the Pool was expected to be depleted by the end of December 2016. Mr. Barrow reminded the Commission that there were other sources for the Downtown Bridges Project besides this Pool. There were also federal dollars that were apportioned and cash provided from the Transportation Cabinet. The project is ahead of schedule and below budget.
Intermediate Pool Performance - Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of October 31, 2016. The Pool market value stood slightly under $2.6 billion. The Yield to Worst was 0.85% which was slightly under the benchmark. Quality remained high at Aaa. Duration was slightly over one year and short of the benchmark by -0.39% or approximately five months. 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 October 31, 2016. He noted a higher than normal Cash component of 24%, represented by 8% Cash and 16% Money Market. The increase in cash was to fund the debt service for November. Mr. Caldwell continued with the Portfolio Performance page, which showed the performance versus the Benchmark as of October 31, 2016. He reported small positive returns for one month, 3 month and fiscal year to date, but better than the benchmark having negative returns over the same time period. He noted the portfolio has produced positive returns for periods greater than one year and very close to the benchmark. Mr. Caldwell noted that this information was put together prior to November month end and mentioned that November was a tough month for the Intermediate Pool. He stated that the results of the presidential race created a surprise to the market and the market adjusted accordingly. For November, the portfolio had a negative return of 21 basis points; however, it out-performed the benchmark by 14.

Limited Pool Performance - Ms. Bechtel presented the monthly performance of the Limited Term Pool compared to the Local Government Investment Pool benchmark as of October 31, 2016. The second page of the report listed all the securities held in the Pool as of October 31, 2016, with a total balance slightly under $1.7 billion. The next page illustrated a breakdown of the Pool by credit rating and sector distributions, showing the portfolio consists of high quality diversified assets. The next page provided a detail on the weighted average maturity and life plus liquidity positions. Ms. Bechtel stated that the portfolio stays rather liquid this time of year. The weighted average maturity is under a month. The Net Asset Value graph was steady as it should be. The memo regarding Limited Term Pool Liquidity Analysis dated December 7, 2016, listed the largest daily withdrawals, largest weekly withdrawals and largest individual accounts in the Pool. The largest weekly withdrawal was the University of Kentucky. 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 - Mr. Price presented an update on the Kentucky Bank Program as of November 29, 2016. He reported that The Bank of Jamestown had a Loans to Deposits ratio of 68%, just slightly below the required 70%. If their improvement continues there will be no banks out of compliance next quarter. Mr. Price stated that all four participating banks are well collateralized and there was no risk to the Commonwealth. The Commission took no action.

Credit Considerations – Mr. Caldwell presented the list of Corporate Credits Approved for Purchase and the list of Securities Lending Agent Approved Counterparties as of December 7, 2016. Staff requested to add MUFG Securities Americas Inc. to the approved list. The following were asked by Staff to be removed: Healthcare of Ontario Pension, Invesco Mortgage REIT, Navy Federal Credit Union, Protective Life Insurance Co., and Wedbush Securities, Inc. These were counter-parties for a bilateral repo which is no longer active. Mr. Caldwell presented the Securities Lending Agent Approved Counterparties as of December 7, 2016. He noted that the following companies were listed as No REPO: BMO Capital Markets, Bank of Nova Scotia, BNP Paribas Prime Brokerage, Inc., BNP Paribas Securities Corp., JP Morgan Securities LLC, and RBC Capital Markets LLC. Because of internal exposure limits of $200 million per broker dealer for REPO, the Commonwealth is currently
using or potentially could use these specific counterparties, so Staff has chosen to limit the securities lending agents in using these names, otherwise the $200 million limit would be breached. Staff recommended approval. Mr. Fallon made a motion which was seconded by Mr. Brashear. Motion CARRIED.

Trading Limits - Ms. Bechtel stated that due to the personnel changes previously reported, the proposed Trading Limits remove Steve Jones and Hannah Partin and maintain the three Senior Portfolio Managers. There is no Junior Portfolio Manager nor Money Market Trader listed at this time. There being no discussion, Treasurer Ball called for a motion to approve. Mr. Bunning made a motion to approve the Trading Limits as presented, and was seconded by Mr. Brashear. Motion CARRIED.

Securities Lending Program – Treasurer Ball recognized three representatives from Deutsche Bank who were in attendance to give a presentation on Agency Securities Lending. Mr. Gambino, Mr. Toscano, and Mr. Santoro introduced themselves and a handout of the presentation was distributed. Mr. Gambino highlighted current events and what was happening within Deutsche Bank. Mr. Santoro discussed the securities lending processes, gave an overview of their agency securities lending program, and provided a general overview of the range of services offered by Deutsche Bank. Mr. Toscano discussed trading, what Deutsche Bank has accomplished for the Commonwealth, and their plan going forward.

There being no other business, Treasurer Ball called for a motion to adjourn. Mr. Fallon made a motion which was seconded by Mr. Brashear. The meeting adjourned at 2:50 p.m.

Respectfully submitted,

[Signature]

Ryan Barrow
Secretary