

State Investment Commission

June 22, 2016

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

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on June 22, 2016 at 10:30 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 Mark Bunning, permanent proxy for Secretary William M. Landrum III, Finance and Administration Cabinet (“FAC”); W. Fred Brashear, II, 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; Steve Jones, Deputy Executive Director; Sandy Williams, Deputy Executive Director; Brian Caldwell, Hannah Partin, Kim Bechtel, Dwight Price, and Tammy McCall.

Other Guests: Ed Ross, Controller, Office of the Controller, FAC; John Chilton, State Budget Director, Office of State Budget Director; Neal Cornett, Department for Local Government; and Lorrain Ferguson, 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 March 23, 2016, meeting. A motion was made by Mr. Fred Brashear and seconded by Mr. Bill Fallon to approve the minutes as written. Motion **CARRIED**.

Treasurer Ball introduced Mr. Jones to present the **Investment Manual** Draft that was given as a handout to all members of the Commission. Mr. Jones gave a background on the creation and purpose of the Investment Manual. He reviewed the changes that were made to the draft since it was last presented to the Commission at the November 24, 2015 meeting. He asked the Commission to send any comment or changes to OFM staff before the next quarterly meeting in September 2016. The Investment Manual will be presented for approval at that time.

Bridges Pool – Mr. Jones presented the Bridges Pool report as of June 7, 2016. He explained that the Pool provides cash for the construction of the Downtown Bridges Project in Louisville. The project is coming close to completion. The reported Current Holdings consisted of one treasury note that matured on June 15, 2016, one treasury note that will mature on December 31, 2016, and cash in a treasury plus money market fund. The income generated had a book income of \$1,214,238.08 and an unrealized gain of \$11,254.16. The Projected New Cash Flow graph showed the excess cash balance available and Mr. Jones noted that the Transportation Cabinet has alternative plans to supplement funds which are not reflected in this report. There is an agreement between the federal government and the Transportation Cabinet that requires sufficient cash to go into the project for completion. Mr. Jones reported that the project was under budget and ahead of schedule.

Intermediate Pool Performance – Mr. Caldwell directed the Commission members to the Intermediate Term Pool report as of May 31, 2016. The Pool market value stood at \$2.5 billion.

The Yield to Worst was 0.87% which was slightly under the benchmark. Quality remained high at Aaa. Duration was slightly over 1 year and short of the benchmark by half a year as a defensive position for anticipated higher rates at some point in the future. 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 May 31, 2016. The allocations were basically the same as last quarter's report with the only change being a 6% decrease in Commercial Paper and a 6% increase in Treasuries. Mr. Caldwell continued with the Portfolio Performance page, which showed the performance versus the Benchmark as of May 31, 2016. He reported a slight negative return for the month of May, but the portfolio outperformed the benchmark and outperformed the 3-month time period. It was noted the portfolio has produced positive returns for all time periods and is very close to the benchmark. A short discussion followed regarding the portfolio's defensive position compared to the benchmark.

Limited Term Pool Performance – Ms. Bechtel presented the monthly performance of the Limited Term Pool compared to the Local Government Investment Pool benchmark as of May 31, 2016. The monthly performance graph showed that the Limited Term pool was slightly under the benchmark in the last month. She explained that extra cash was in the pool due to the time of year. The second page of the report listed all the securities held in the Pool as of May 31, 2016. The next page showed a breakdown of the Pool by credit rating and sector distributions. The next page provided a detail on the weighted average maturity and life plus liquidity positions. The weighted maturity was at 44.23% and the weekly liquidity was at 49.37%. The Net Asset Value graph was steady as it should be. The largest daily withdrawal as of June 22, 2016 was by the University of Kentucky Hospital on December 27, 2015. 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. After a discussion regarding the liquidity of the Pool and investment guidelines/restrictions, the Commission took no action.

Country Bank – Mr. Price presented an update on the Kentucky Bank Program as of June 10, 2016. Participating banks had to meet the following criteria to be included: 1) their loans to deposits were greater than 70%; 2) their return on assets were greater than 0.5%; and 3) their non-performing loans to capital were less than 25%. He reported that the program's participation has decreased to four banks. The Bank of Jamestown's Loans to Deposits ratio has been at 63% for the last three quarters. 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 – Ms. Partin presented the list of Corporate Credits Approved for Purchase and the list of Securities Lending Agent Approved Counterparties as of June 22, 2016. No changes had been made since the last meeting and staff requested approval. Treasurer Ball called for a motion to approve the Corporate Credit lists. Mr. Bill Fallon made a motion which was seconded by Mr. Fred Brashear. Motion **CARRIED**.

Approval of Broker-Dealer List – Ms. Partin presented the list of Primary Dealers and Non-Primary Dealers for Fiscal year 2017. There were two additions to the list: Piper Jaffray Corp. and Guggenheim Securities, LLC. Wells Fargo Securities was moved from a non-primary dealer to a primary dealer. There were four removals from the list: Arbor Research & Trading, CRT Capital Group (Chicago), Robert W. Baird & Co Inc., and Lexington Investment Company. Staff

recommended approval. Treasurer Ball called for a motion. Mr. Fred Brashear made a motion to approve which was seconded by Mr. Bill Fallon. Motion **CARRIED**.

Approval of NRSRO's – Ms. Partin presented the Nationally Recognized Statistical Rating Organizations (NRSRO) for Fiscal Year 2017. She stated that according to 200 KAR 14:011 Section 6 Investment Securities (11), the Commission must approve on an annual basis the NRSRO's that will be used in determining investment compliance for fiscal year 2017. From the list of credit rating agencies as of December 2015, staff recommended the Commission approve S&P, Moody's and Fitch. Treasurer Ball called for a motion. Mr. Bill Fallon made a motion to approve which was seconded by Mr. Fred Brashear. Motion **CARRIED**.

Compliance Reporting – Ms. Partin reported there were no compliance issues this past quarter.

There being no other business, Treasurer Ball called for a motion to adjourn. Mr. Bill Fallon made a motion which was seconded by Mr. Fred Brashear. The meeting adjourned at 11:17 a.m.

Respectfully submitted,



Ryan Barrow
Secretary