

State Investment Commission

June 25, 2018

2:30 p.m. ~ Room 182 ~ Capitol Annex
Frankfort, Kentucky

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on June 25, 2018 at 2:30 p.m. in Room 182 of the Capitol Annex by Dennis Paiva, proxy for Allison Ball, Kentucky State Treasurer. Mr. Paiva asked for a roll call. Other members present were Melinda Hill, permanent 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: Donavon McClure, Kentucky State Treasury; and Katherine Halloran, Legislative Research Commission.

Mr. Paiva verified that a quorum was present and that the press had been notified of the meeting.

Mr. Paiva called for a motion to approve the minutes from the March 22, 2018 meeting. A motion was made by Ms. Hill and was seconded by Mr. Fallon 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 March 1, 2018 to May 31, 2018.

Personnel Update – Mr. Barrow reported that the Investment group in OFM is fully staffed. The Accounting group is now fully staffed after adding Jeanne Campbell and Spencer Rodgers. The Debt group still has one more position to fill.

Intermediate Pool Performance - Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of May 31, 2018. The Pool market value changed very little from last meeting, still hovering around \$2.3 billion. The yield at the end of May stood at 2.18%. The average credit quality was Aaa by Moodys. The portfolio had a Duration of 0.68, which equals about eight months. The Net Cash Outflow for the 3 months ending in May had a \$5 million net inflow. 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, 2018. Mr. Caldwell reported there were no real meaningful changes in the last three months with each sector being within 2% from the last report. He continued with the Portfolio Performance page, which showed the Portfolio performance versus the benchmark as of May 31, 2018. The Intermediate Pool showed a positive performance for May but slightly below the benchmark by 8 basis points. The main driver for under performance was due to have a short duration as treasury rates rallied due to the geopolitical benevolence of new governments in Spain and Italy, along with talks of a trade war with China. For all other time periods listed, performance was better and more in line with the benchmark.

Limited Pool Performance - Ms. Bechtel presented the Limited Term Pool monthly report as of May 31, 2018, and directed the Commission to the Limited Term Pool monthly performance graph. She noted that the Limited Term Pool performance was tracking right on the benchmark which is the Local Government Investment Pool. The second page of the report listed all the securities held in the Pool as of May 31, 2018. Ms. Bechtel noted that the balance of the portfolio for May was above \$2 billion. The next page illustrated 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. Ms. Bechtel noted that the Limited Pool is being kept short due to projected Federal increases as well as providing liquidity during tax receipt and disbursement cycles. The Daily Liquidity was at 44% and the Weighted Average Maturity was at 18%. The Net Asset Value graph was steady and within the range that is required. The memo regarding Limited Term Pool Liquidity Analysis dated June 25, 2018, listed the largest daily withdrawals, largest weekly withdrawals and largest individual accounts in the Pool. The largest daily and weekly withdrawals were for Medicaid and University of Kentucky. The largest individual accounts in the portfolio were the Employee Self-Insurance Fund followed by the University of Kentucky. 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.

Credit Considerations – Mr. Auxier presented the list of Corporate Credits Approved for Purchase and the list of Securities Lending Agent Approved Counterparties as of June 25, 2018. Mr. Auxier reported there was no change to the Corporate Credits list from last meeting, other than a name change for the Bank of Tokyo-Mitsubishi UFJ to MUFG Bank LTD/NY. He reported that the Securities Lending Agent Approved Counterparties list also had no change from the last meeting, other than a name change for RBS Securities Inc. to NatWest Markets Securities Inc. Staff recommended approval as presented. Ms. Hill made a motion to accept both lists and was seconded by Mr. Brashear. Motion **CARRIED**.

Approval of NRSRO's - Mr. Auxier presented the Nationally Recognized Statistical Rating Organizations (NRSRO) for Fiscal Year 2019. Staff recommended the Commission approve S&P, Moody's and Fitch as the NRSROs used in determining investment compliance for Fiscal Year 2019. Mr. Paiva called for a motion. Mr. Fallon made a motion to approve which was seconded by Ms. Hill. Motion **CARRIED**.

Approval of Broker-Dealer List – Mr. Auxier presented the list of Primary Dealers and Non-Primary Dealers for Fiscal year 2019. He noted some names were removed that had not been used in a long time. The names removed are Arbor Research and Trading, BB&T Securities, Piper Jaffray Corp., and Wedbush Securities Inc. There was also the name change of RBS Securities Inc. to NatWest Markets Securities Inc. Staff recommended approval. Mr. Paiva called for a motion. Mr. Brashear made a motion to approve and was seconded by Mr. Fallon. Motion **CARRIED**.

Cash Flow – Ms. Lee presented the Monthly Average Investable Balances Cash Flow Summary graph chart, which compares the last three years averages to the current fiscal year. The graph showed that fiscal year 2018 was continuing to follow the 3-year average trend. She noted there was a downward trend from July to November 2017 because of spending that happened at the beginning of the new fiscal year and cash outflow due to many transportation projects. The upward trend from December 2017 to June 2018 was due to corporation and individual tax receipts as well as bond proceeds. The chart showed more spending in April 2018 due to a teachers' retirement payment and a debt payment that happened about the same time. There was no concern and the Commission took no action.

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There being no further business, Mr. Paiva called for a motion to adjourn. Mr. Fallon made a motion and was seconded by Mr. Brashear. The meeting adjourned at 2:45 p.m.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'R. Barrow', is written over the typed name.

Ryan Barrow
Secretary