

State Investment Commission

September 25, 2018

1:00 p.m. ~ Room 182 ~ Capitol Annex
Frankfort, Kentucky

The State Investment Commission (“SIC” or “the Commission”) meeting was called to order on September 25, 2018 at 1:00 p.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”); and John Chilton, permanent proxy for Governor Matt Bevin.

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, Deputy Executive Director, Kim Bechtel, Amber Lee, Daniel Auxier, and Tammy McCall.

Other Guests: Dennis Paiva, Kentucky State Treasury; Ed Ross, Controller, Office of the Controller; and Keith Armstrong, State Street.

Treasurer Ball verified that a quorum was present and that the press was notified of the meeting.

Treasurer Ball called for a motion to approve the minutes from the June 25, 2018 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 presented the Bloomberg Compliance Reporting memorandum and stated there were no violations or alerts during the period of June 1, 2018 to August 31, 2018.

Intermediate Pool Performance - Mr. Caldwell directed the Commission to the Intermediate Term Pool report as of August 31, 2018. The Pool market value was approximately \$2.3 billion, slightly down from June and July. The yield was 2.34%, slightly above the benchmark by 16 basis points. The weighted average credit quality was Aaa by Moodys. The portfolio had a Duration of 0.77, about three-quarters of a year or 10 months short of the benchmark. During the last 3 months the Portfolio had a \$408 million Net Cash Outflow. The June outflow was for debt service and the August outflow was for the Road Fund. The Portfolio Sector Allocations page gave a snapshot of how the Portfolio was diversified across the different sectors of the fixed income market as of August 31, 2018. Mr. Caldwell reported that treasury allocations increased by 4%. He continued with the Portfolio Performance page, which showed the Portfolio performance versus the benchmark as of August 31, 2018. The Intermediate Pool showed a positive performance for August but slightly below the benchmark by 6 basis points. For all other time periods shown, performance was better or in line with the benchmark. Treasurer Ball remarked that the Intermediate Pool’s sector allocations looked different than the benchmark sector allocations and asked if that was a concern. Mr. Caldwell stated there was no concern because the funds were allocated within the major sectors of the fixed income market and the yield was close to the benchmark. Director Chilton asked who held the Commonwealth’s cash and its interest paid on the holdings. Mr. Caldwell answered that the Commonwealth’s depository bank is J.P. Morgan. The invested excess cash not needed at J.P. Morgan, is held at State Street, the Commonwealth’s custody bank. J.P. Morgan pays the Commonwealth interest on the holdings up to the bill, which is referred to as a compensated balance.

Limited Pool Performance - Ms. Bechtel presented the Limited Term Pool monthly report as of August 31, 2018, and directed the Commission to the Limited Term Pool monthly performance graph. She noted that the Limited Term Pool performance was slightly outperforming 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 August 31, 2018. 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 the Limited Pool was being kept very liquid for numerous reasons. This time of year more money is being paid out than coming in due to the tax receipts structure. Also, the federal reserve has a meeting scheduled the day after this meeting and staff wishes to take advantage of any tax increases if and when they happen. The Net Asset Value graph was steady and within the range that is required. The memo regarding Limited Term Pool Liquidity Analysis dated August 31, 2018, listed the largest daily withdrawals, largest weekly withdrawals and largest individual accounts in the Pool. The largest daily and weekly withdrawals were for Employee Health Self-Insurance and Medicaid, respectively. The largest individual accounts in the portfolio were the Employee Self-Insurance Fund followed by UK General Receipts 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.

Credit Considerations – Mr. Auxier presented the list of Corporate Credits Approved for Purchase and the list of Securities Lending Agent Approved Counterparties as of September 25, 2018. Mr. Auxier reported no additions were made and no names were removed from either list since the last SIC meeting. Staff recommended approval as presented. Ms. Hill made a motion to accept both lists and was seconded by Director Chilton. 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. She reported that so far fiscal year 2019 has followed the three-year average downward trend for July and August due to spending that included debt service payments and transportation projects. The Commission took no action.

Custody Banking Services – Mr. Keith Armstrong (in person) and Mr. Bill Collins (via conference call) from State Street made a presentation to the Commission. Mr. Armstrong explained the global services that State Street provides to the different client sectors of asset managers, asset owners, official institutions, and insurance companies. Mr. Collins, Relationship Manager for the Commonwealth, discussed the service structure and governance model for the Commonwealth and the core services State Street provides as the custody bank. A hard copy of the presentation was provided in the meeting materials.

Other Business – Mr. Barrow mentioned that J.P. Morgan, the general depository bank for the Commonwealth, would be asked to come to the next meeting, if possible, to make a presentation and explain their services to the Commonwealth.

There being no further business, Treasurer Ball called for a motion to adjourn. Director Chilton made a motion and was seconded by Ms. Hill. The meeting adjourned at 1:34 p.m.

Respectfully submitted,

A handwritten signature in blue ink, appearing to read 'R. Barrow', is written over the text 'Respectfully submitted,'.

Ryan Barrow
Secretary