

MINUTES OF THE JOINT MEETING
OF THE BOARD OF TRUSTEES OF
THE KENTUCKY JUDICIAL FORM RETIREMENT SYSTEM,
THE INVESTMENT COMMITTEE FOR THE
KENTUCKY JUDICIAL RETIREMENT FUND,
AND THE INVESTMENT COMMITTEE FOR THE
KENTUCKY LEGISLATORS RETIREMENT FUND

April 22, 2016

The Board of Trustees of the Kentucky Judicial Form Retirement System, the Investment Committee for the Kentucky Judicial Retirement Fund, and the Investment Committee for the Kentucky Legislators Retirement Fund, convened in Meeting Room B at the Administrative Office of the Courts, 1001 Vandalay Drive, Frankfort, Kentucky, on Friday, April 22, 2016, at 10:05 a.m. All Board members, except Judge Paisley, were present. Also present were Ms. Donna Early, Executive Director, Mr. Stan Kerrick of Lexington Investment Company, and Ms. Jennifer Black Hans, Legislative Committee Analyst for the LRC Public Pension Oversight Board (PPOB). Mr. Wes Wickenheiser of Bryan, Pendleton, Swats & McAllister, and Mr. Donald Asfahl and Mr. Andrew Means of Hilliard Lyons Trust Company, attended at the times noted in these Minutes.

In Judge Paisley's absence, Judge VanMeter presided – after calling the meeting to order, Chairman VanMeter introduced Ms. Black Hans and explained her association with the PPOB.

The adoption of the *Minutes* of the January 29, 2016 meeting was considered. Following discussion, upon motion by Representative Collins, seconded by Mr. Blackwell, the *Minutes* of the January 29, 2016 meeting were unanimously approved.

Chairman VanMeter introduced Mr. Kerrick, and invited him to begin his presentation. Mr. Kerrick distributed Lexington Investment's *Performance Report as of March 31, 2016*. In accordance with Board policy, a copy of the *Report* will be maintained in the offices of the System. Mr. Kerrick summarized the Judicial Fund's Performance Analysis, noting that on balance, the performance turned out much better than we ever anticipated. He reviewed the Cash Reconciliation Report, stating that the cash/records at State Street balance with the Hilliard Lyons' reports. He referred the members to page eight of the booklet for a listing of the quarterly brokerage fees paid to Lexington Investment Company. Mr. Kerrick reviewed the same reports for the Legislators Fund, explaining that the difference in the performance between the two Funds was asset allocation, specifically because the SPDR's were held for a substantially longer period of time by the Legislators Fund.

The meeting recessed at 11:00 a.m., and reconvened at 11:10 a.m., at which time Mr. Kerrick had left the meeting and the representatives of Hilliard Lyons Trust Company were present.

Chairman VanMeter welcomed Mr. Asfahl and Mr. Means, and asked that they give a brief overview of their management of the investments of the two retirement funds for the benefit of Ms. Black Hans. Mr. Asfahl began by noting that Hilliard Lyons Trust Company had enjoyed a relationship with the Judicial and Legislators Retirement Funds in excess of 20 years. Mr. Means explained that both funds have a balanced account at 70% equities and 30% fixed income, and represent high quality companies with a secure and durable cash flow. Hilliard Lyons does not invest in alternative investments; we prefer wealth by virtue of the long term, with low turnover. In equities, we own (and recommend) between 30 and 35 companies at any given time. Hilliard Lyons is not a typical Wall Street investor. Ms. Black Hans asked why they did not invest in hedge funds – Mr. Asfahl responded that number one, the fees are way too high, and number two, they are computer driven, not priced every day, tied to money markets and generally not attractive in the short term.

Hilliard Lyons' *Investment Review for: Kentucky Judicial Retirement Fund & Kentucky Legislators Retirement Fund dated April 22, 2016*, was distributed to the members. In accordance with Board policy, a copy of the *Investment Review* will be maintained in the offices of the System. Mr. Means reviewed his article, *Money Movers Were Busy in Q1*; the Economic Statistics and the various charts following the article were reviewed by Mr. Asfahl.

Mr. Asfahl and Mr. Means next reviewed the investment activity for the Judicial Retirement Defined Benefit and Hybrid Cash Balance accounts and the Legislators Retirement Defined Benefit and Hybrid Cash Balance accounts through March 31, 2016, which review included asset allocation, equity top performers and largest holdings. In reviewing the holdings by allocation and target ranges, the members were advised that for the second quarter that a stock, specifically, Home Depot, had exceeded the allowable percentage of market value at 8%. The investment guidelines provide that upon notification, the Committee shall prescribe a course of action. Following discussion, the members concluded no specific direction to sell was required as Hilliard Lyons is aware of the percentage and would exercise its discretion to sell sufficient shares in order to comply with the guidelines if and when it is prudent to do so.

Mr. Asfahl presented an analysis and assessment of the fixed income portion of the portfolio – there is minimal credit risk and all investments are rated AA, no maturities beyond ten years and the duration is 3.4 years, with an average coupon of 3.81. In seeking value it is critical that we are defensively postured to take advantage of a rising interest rate environment. However, it has been eight months since we have made any changes. Mr. Asfahl concluded Hilliard Lyons' presentation with a summary of the Funds' performance.

The meeting adjourned for lunch at 12:15 p.m. When the meeting reconvened at 12:40 p.m., the representatives of Hilliard Lyons had left the meeting and Mr. Wickenheiser was present.

Chairman VanMeter recognized Mr. Wickenheiser of Bryan, Pendleton, Swats & McAllister, and invited him to begin his presentation. Mr. Wickenheiser distributed a booklet titled *Kentucky Judicial Form Retirement System Actuarial Update* dated April 22, 2016. A copy of the *Update* will be maintained in the offices of the System.

Mr. Wickenheiser began by reviewing the state contributions and unfunded liabilities reported in the 2015 actuarial valuations. He noted that the results for the defined benefit and hybrid cash balance accounts for each Plan were reported separately. He asked the Committees if they would prefer a single report – it was the consensus of the members that separate reporting be continued. He discussed retiree medical benefits and cost-of-living adjustments before reviewing the 2015 GASB disclosures for each plan. Mr. Wickenheiser concluded his presentation with a review of the 2015 actuarial assumptions and methods – inasmuch as the 2016 valuations (GASB Disclosure Reports) will use a “roll-forward” method that relies on the 2016 data and assumptions, no action was necessary regarding the assumptions and methods. Changes to assumptions and methods, if any, will be recommended and made applicable to the 2017 funding valuations.

Mr. Wickenheiser left the meeting at 1:45 p.m. Chairman VanMeter recognized Ms. Early, who reported on the following administrative matters. Discussion and action was taken as noted.

(1) 2016 Session of the General Assembly. Ms. Early distributed a *Summary of 2016 Legislation* to the trustees. She summarized the following bills to be enacted on July 12, 2016 and which have a direct impact on the System: SB 113, the System’s housekeeping bill, made technical and clerical changes to current statutes governing the Plans; HB 238 provides for additional information to be included in an actuarial analysis of proposed legislation; HB 271 requires the disclosure of benefit data to the Public Pension Oversight Board; HB 306, the Judicial Budget Bill, includes funding of the Judicial Retirement Plan at the state contribution determined by the Plan’s actuary; and HB 499, the Legislators Budget Bill, includes funding of the Legislators Retirement Plan at the state contribution determined by the Plan’s actuary. Ms. Early pointed out that HB 443 (identified in the proposed legislation) was a proposal (recommended by the Actuary and supported by the Board) to change the past service liability funding formula for the Plans – it is hoped that the introduction of this bill will start the dialog for a much-needed change.

(2) Web Site, kjfrs.ky.gov. Ms. Early stated that she has received some positive feedback since the web site went live, and that Administrative Office of the Courts and the Legislative Research Commission were willing to post a link on their sites. Ms. Hardesty suggested a modification/clarification to the performance reports. She noted that the posted reports represent the returns of the funds under management by Hilliard Lyons Trust Company – to the lay person it may appear that the reports represent total returns. Ms. Early acknowledged that Ms. Hardesty was correct and that she would set about to make an adjustment to accurately identify the posted performance reports.

(3) Personal Service Contracts, Fiscal Year 2016-2017. Based on action of the Board at its last meeting, the following *Personal Service Contracts* have been entered into for fiscal year 2016-2017. The Auditor of Public Accounts will perform the System’s audit as of June 30, 2016, at an estimated fee, which is not negotiable, between \$40 and \$45 thousand. Hilliard Lyons Trust Company will serve as Investment Counsel at a fee of eight (8) basis points for funds under management in both the defined benefit and hybrid cash balance accounts; the contract contains a provision for two one-year extensions at the same fee. Bryan, Pendleton,

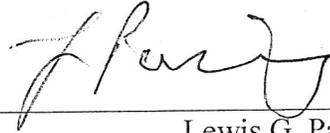
Swats & McAllister will provide actuarial services for a two-year period at a cost of \$41,000 to the Judicial Fund and \$38,500 to the Legislators Fund, plus per calculation/consulting fees as required.

(4) Public Pension Oversight Board. Ms. Early stated that the next meeting of the PPOB is scheduled for Monday, April 26, 2016. Among the Agenda items is the discussion of HB 238 and HB 271. Chairman Paisley and Chairman VanMeter continue to represent the Board at the PPOB meetings – all members are welcomed to attend the PPOB meetings.

(5) Board Membership. Ms. Early advised that the terms of all current Board members will expire on June 30, 2016; consequently she prepared letters of notification to the respective appointing authorities. After consulting with the members about subsequent service, each notification letter, except the one to President Stivers, included a recommendation for the re-appointment of the designated member. President Stivers' appointee, Senator Winters, asked that Ms. Early inform President Stivers that Senator Winters would contact him personally to discuss his future service. To the Board's disappointment, Senator Winters advised *that he very much enjoyed his time on the Board; however, travel to and from Murray was taking its toll on his health and time away from home was becoming more and more challenging. Thus, he removed his name from consideration for reappointment by President Stivers.* Board members expressed appreciation and best wishes to their colleague.

The Board and Committees will meet next on Friday, July 22, 2016, at the Administrative Office of the Courts, Frankfort, Kentucky.

There being no further business, the meeting adjourned at 2:10 p.m.



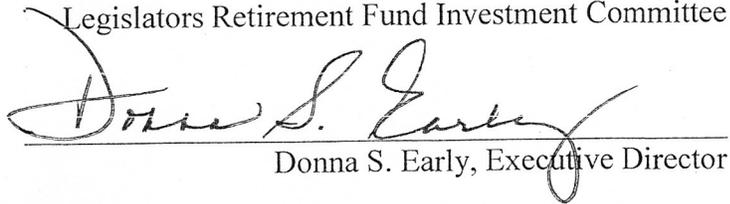
Lewis G. Paisley, Chairman
Judicial Form Retirement System Board of Trustees



Laurance B. VanMeter, Chairman
Judicial Retirement Fund Investment Committee



Hubert Collins, Chairman
Legislators Retirement Fund Investment Committee



Donna S. Early, Executive Director