

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

May 10, 2019

The Board of Trustees of the Kentucky Judicial Form Retirement System (JFRS), 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, May 10, 2019, at 9:55 a.m. All Board members were present. Ms. Donna Early, Executive Director, was also present. Mr. Donald L. Asfahl and Mr. John C. Watkins of Hilliard Lyons Trust Company and Mr. Wesley J. Wickenheiser of Findley, Inc. attended at the times noted in these *Minutes*.

Chairman Grise called the meeting to order. The trustees then considered the adoption of the previously distributed *Minutes* of the January 25, 2019 meeting. Upon motion by Judge George, seconded by Justice Venters, the Board unanimously approved the *Minutes* of the January 25, 2019 meeting.

At Ms. Early request the trustees considered *Agenda* Item V.F. Upon motion by Mr. Donahue, seconded by Judge Paisley, the Board went into closed session at 10:05 a.m. for consideration of a personnel matter. The meeting reconvened at 10:12 a.m. upon motion by Mr. Donahue, seconded by Judge Paisley. Chairman Grise reported:

Upon motion by Judge George, seconded jointly by Mr. Donahue and Representative Collins, the Board of Trustees unanimously adopted the following Resolution:

**RESOLVED**, That Ms. Moody shall receive a salary increase of two and one-half (2-1/2%) percent effective July 1, 2019.

Chairman Grise recognized Ms. Early, who reported on administrative matters. The trustees discussed the items and took action as noted.

(A) Public Pension Oversight Board (PPOB). Ms. Early gave a brief summary of the PPOB meetings since the last JFRS meeting.

- **February 25, 2019.** The presentation of each state-supported retirement system/plan included an investment and cash flow quarterly update. JFRS' PowerPoint presentation was provided to the trustees via email on February 25. Mr. Donahue attended the meeting on behalf of the trustees.

- **March 25, 2019.** LRC staff presented a legislative update and biennial investment review. Mr. Donahue attended the meeting on behalf of the trustees.
- **April 22, 2019.** The director and the actuary for the Kentucky Retirement System (KRS) reported the results of its 2019 Actuarial Experience Study.

(B) 2019 Regular Session of the General Assembly. Following distribution to the trustees, Ms. Early posted on the System's website the *Summary* of legislation (passed and proposed) during the 2019 Regular Session of the General Assembly affecting the System and the Plans it administers.

(C) 2017 SB 104. Pursuant to action taken by the trustees at its January 25, 2019 meeting, Mr. Pauw (the System's legal counsel) contacted KRS concerning JFRS' inclusion in the SB 104 private letter ruling (PLR) request from the Internal Revenue Service. Mr. Pauw is working with counsel (both in-house and outside) for KRS in drafting the PLR.

(D) *2019-2020 Personal Service Contracts for Professional Services.*

1. Investment Management – Pursuant to action at the January 25, 2019 meeting, an offer was extended to Hilliard Lyons Trust Company for management and counsel services to the Kentucky Judicial Retirement Fund and the Kentucky Legislators Retirement Fund, within the confines of the *Investment Policy Statement* dated January 29, 2016, for a period from July 1, 2019 through June 30, 2020, with two one-year extensions, for a fee of eight (8) basis points of the market value of the funds under management. Hilliard Lyons accepted, and a contract has been executed by the parties.
2. Actuarial – The current actuarial contracts with Findley extend through June 30, 2020; thus, no action is necessary at this time.
3. Auditing – An RFP issued in early 2018 resulted in JFRS contracting with MCM CPAs & Advisors for auditing services for the period July 1, 2018 through June 30, 2019, at the annual fee of \$17,750.00. The contract provides: *Upon mutual agreement, this Personal Service Agreement shall be eligible for two (2) annual renewals.* Ms. Early recommended that JFRS ask MCM to extend the contract for FY 2019-2020. Following discussion, upon motion by Judge George, seconded jointly by Representative Collins and Mr. LeLaurin, the following Resolution was unanimously adopted by the Board of Trustees of the Judicial Form Retirement System.

**RESOLVED,** That an offer shall be extended to MCM CPAs & Advisors to contract for auditing services with the Kentucky Judicial Form Retirement System for fiscal year 2019-2020 at the same terms and conditions of the July 12, 2018 *Contract*. Every effort is to be made to negotiate the 2019-2020 fee at the 2018-2019 level; however, a 10% increase is authorized to consummate the *Contract*, if necessary.

4. Custodian – Ms. Early reminded the trustees that State Street is the Funds’ custodian. The Commonwealth of Kentucky and State Street are the parties to the current contract, which commenced on July 1, 2011. The Commonwealth extended the 2011 contract for a two-year period beginning July 1, 2019, through June 30, 2021. The 2019 extension includes services to JFRS as a named agency of the Commonwealth. Upon motion by Judge Paisley, seconded by Representative Collins, the following Resolution was unanimously adopted by the Board of Trustees of the Judicial Form Retirement System.

**RESOLVED**, That the Judicial Form Retirement System will continue to participate as a named agency in the Commonwealth of Kentucky’s custodian contract with State Street. Said participation is in accordance with the Commonwealth’s extension of the 2011 contract for a two-year prior beginning July 1, 2019 and terminating June 30, 2021.

(E) APA Special Examination. Ms. Early reported that in response to her May 8, 2019 request for a timetable on the issuance of the APA’s special examination, the APA’s office responded: *Once the report draft is complete the APA will provide JFRS a response period to review a draft before release, and will coordinate with you for the period when that time comes. We don’t have a release date set at this time and don’t normally publicize one.*

The meeting recessed at 10:45 a.m., and reconvened at 10:55 a.m. The representatives of Hilliard Lyons Trust Company were present when the meeting reconvened.

Chairman Grise reminded the trustees that a scheduling conflict prohibited Mr. Kerrick from attending today’s meeting. He then noted for the record that *Lexington Investment’s Report as of March 31, 2019* was distributed to the trustees on April 25, 2019. In accordance with Board policy, the System maintains a copy of the *Report*. As stated on page one of the *Report*, each Plan is within its prescribed allocation guidelines.

Chairman Grise welcomed Mr. Asfahl and Mr. Watkins of Hilliard Lyons Trust Company. Mr. Asfahl distributed Hilliard Lyons’ *Investment Review for Kentucky Judicial Retirement Fund and Kentucky Legislators Retirement Fund* dated May 10, 2019. In accordance with Board policy, the System maintains a copy of the *Investment Review*.

Before beginning the investment-related presentation, Mr. Asfahl noted that Mr. Watkins works closely with Mr. Andy Means, and advised that Mr. Watkins and Mr. Means will now share the task of writing Hilliard’s Market Commentary. They will also share in Hilliard’s participation and investment presentations at future meetings.

Mr. Watkins reviewed his article, In Defense of Intelligent Share Buybacks. He started by asking the question, what to do with excess cash flow? A buy back can create or destroy value. In discussing when buybacks make sense, he quoted from the article: *Shares should be purchased only when they are trading at a discount to the company’s intrinsic value per share*. He concluded his analysis by reiterating Hilliard’s commitment to continue to search for, and invest in, high-quality companies run by excellent management.

Mr. Asfahl next highlighted the various items in the Economic Statistics, noting that the first quarter in most categories has been the best in 8/10 years. In discussing the various charts and graphs, he pointed out that page five illustrates just how difficult it is to predict economic growth. A handout, **Strong Start to 2019**, was distributed. The data in the handout reflects the volatility going forward.

Mr. Asfahl 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, 2019, which review included asset allocation, equity top performers, largest holdings, fixed income included duration, yield, and additions. Mr. Watkins added to the discussion with an overview of the portfolios, detailing purchases and sales since the last meeting, and elaborating on Hilliard's position for owning General Electric.

Mr. Asfahl concluded Hilliard's presentation by reviewing and evaluating the performance of each fund recognizing that the funds outperformed the designated benchmarks in a majority of the time periods.

The meeting recessed for lunch at 12:05 p.m., and reconvened at 12:45 p.m. Mr. Wickenheiser joined the trustees, Mr. Asfahl and Mr. Watkins for lunch and was present when the meeting reconvened. The representatives of Hilliard Lyons left shortly before the meeting reconvened.

Chairman Grise recognized Mr. Wickenheiser of Findley, Inc. He distributed to the trustees a copy of Findley's *Kentucky Judicial Form Retirement System Actuarial Update* dated May 10, 2019. In accordance with Board policy, the System maintains a copy of the *Update*.

Mr. Wickenheiser began by listing his Agenda items. He introduced the members of the Findley service team, and stated that he, as Lead Consultant, has been with Findley (or its predecessor company) for 16 years. The valuation process will include eight valuations, specifically, the pension and medical components of the traditional and hybrid plans for both Judicial and Legislators. He explained Actuarial Standards of Practice #51 and discussed "what's new" for this cycle and going forward, focusing primarily on the upcoming *Experience Analysis*, and its potential impact on the assumptions of each plan.

Mr. Wickenheiser reviewed the current actuarial assumptions and methods. His only recommendation was a slight change to the health care assumption. Following discussion, upon motion by Justice Venters, seconded by Mr. LeLaurin, the Investment Committee for the Judicial Retirement Fund unanimously adopted the following Resolution:

**RESOLVED**, That the previously adopted **actuarial methods** shall be utilized in the preparation of the July 1, 2019, pension and medical valuations of the defined benefit and hybrid cash balance plans, and that the previously adopted **actuarial assumptions** shall also be utilized in the 2019 valuations, except that the health care assumption shall incorporate the Getzen Model and the 2013 SOA Yamamoto study.

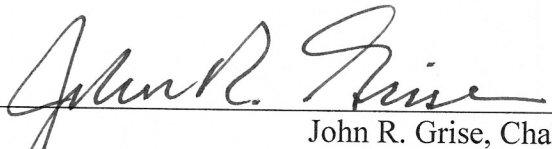
Upon motion by Senator Bowen, seconded by Representative Collins, the Investment Committee for the Legislators Retirement Fund unanimously adopted the following Resolution:

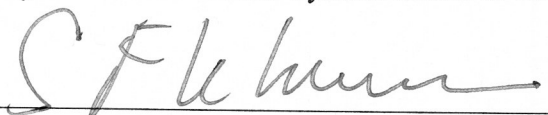
**RESOLVED**, That the previously adopted **actuarial methods** shall be utilized in the preparation of the July 1, 2019, pension and medical valuations of the defined benefit and hybrid cash balance plans, and that the previously adopted **actuarial assumptions** shall also be utilized in the 2019 valuations, except that the health care assumption shall incorporate the Getzen Model and the 2013 SOA Yamamoto study.

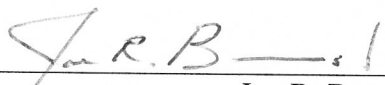
Mr. Wickenheiser concluded his presentation by noting that the last pages of his *Update* included a summary of GASB disclosures, and other relevant data, of the plans for fiscal years 2017 and 2018.

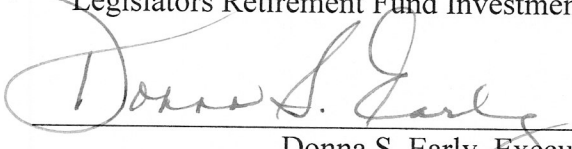
The trustees will meet next on July 26, 2019.

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

  
\_\_\_\_\_  
John R. Grise, Chairman  
Judicial Form Retirement System Board of Trustees

  
\_\_\_\_\_  
Stephen F. LeLaurin, Chairman  
Judicial Retirement Fund Investment Committee

  
\_\_\_\_\_  
Joe R. Bowen, Chairman  
Legislators Retirement Fund Investment Committee

  
\_\_\_\_\_  
Donna S. Early, Executive Director