

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

January 25, 2019

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, January 25, 2019, at 10:15 a.m. All Board members, except Chairman Grise and Judge Paisley, were present. Ms. Early, Executive Director, and Mr. Kerrick of Lexington Investment, were also present. Mr. Asfahl and Mr. Means of Hilliard Lyons Trust Company attended at the times noted in these *Minutes*.

Chairman LeLaurin called the meeting to order. The trustees then considered the adoption of the previously distributed *Minutes* of the October 26, 2018 meeting. Upon motion by Justice Venters, seconded by Judge George, the Board unanimously approved the *Minutes* of the October 26, 2018 meeting.

The next order of business was the report of Lexington Investment Company. Chairman LeLaurin recognized Mr. Kerrick. Mr. Kerrick distributed to the trustees Lexington Investment's *Report of the Kentucky Judicial & Legislators Retirement Funds* as of December 31, 2018, dated January 25, 2019. In accordance with Board policy, the System maintains a copy of the *Report*. After a brief review of the current economy, Mr. Kerrick advised that each Plan is within its prescribed allocation guidelines. He then examined the rates of return in the Performance Analysis for each fund, pointing out that there are lots of negative numbers, but in comparison to the benchmarks, the Funds' negative numbers are less than the benchmarks except for the three-month period. He noted that the positive numbers reflect that the Funds outperformed the benchmarks.

When Mr. Kerrick concluded his review of the Portfolio Statements, discussions followed regarding computerized trading (management by algorithms), maturities and cash flow. He completed his presentation with a review of the Cash Reconciliation Report and the Brokerage Fees Report.

The meeting recessed at 11:10 a.m., and reconvened at 11:20 a.m. Mr. Kerrick left the meeting when it recessed, and the representatives of Hilliard Lyons Trust Company were present when the meeting reconvened.

Chairman LeLaurin welcomed Mr. Asfahl and Mr. Means of Hilliard Lyons Trust Company. Mr. Asfahl distributed Hilliard Lyons' *Investment Review for Kentucky Judicial Retirement Fund and Kentucky Legislators Retirement Fund* dated January 25, 2019. In accordance with Board policy, the System maintains a copy of the *Investment Review*.

Before beginning the investment-related presentation, Mr. Asfahl outlined some details concerning Hilliard Lyons' recent merger with Baird, noting that Hilliard had returned to an employee owned firm following its previous partnerships with PNC and then Houchens Industries. He stated that several hundred Hilliard employees bought into Baird. The new Louisville-based trust company will be Baird's largest regional firm.

Mr. Means reviewed his article, The Importance of Emotional Stability in Investing. He quoted from the article: *emotional stability is crucial in trying to achieve long-term investment success*. He reiterated Hilliard's philosophy that prudent investment must concentrate on the underlying intrinsic value of the business. Every now and then the stock market does something that is not connected to business realities underneath – fifty to ninety percent of trading is run by computers and on a short-term basis. We avoid these pitfalls by taking a long-term business approach to investments and searching for excellent companies.

Mr. Asfahl next reviewed the Economic Statistics, and discussed the various charts and graphs in the booklet. He 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 December 31, 2018, which review included asset allocation, equity top performers, and largest holdings.

Mr. Means reminded the trustees that at the last meeting, Hilliard was granted the discretion to reduce the allocation percentage of Apple. Without any action on Hilliard's part, Apple is now a little over 6% – the market traded it back for us. He noted that investment in Apple is not on the product side. Rather, investment in Apple is because of the ecosystem. Mr. Means and Mr. Asfahl discussed General Electric, and renewed its belief that GE's returns will be good going forward.

An analysis and assessment by Mr. Asfahl of fixed income included duration, yield, and additions. After noting that the objective is to generate the best return with the least risk, Mr. Means concluded Hilliard's presentation by reviewing and evaluating the performance of each fund.

The meeting recessed for lunch at 12:25 p.m., and reconvened at 1:00 p.m. Mr. Asfahl and Mr. Means left shortly before the meeting reconvened.

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

Before considering the items set forth in *Agenda* Item V, Ms. Early asked the trustees to consider investment counseling services. She stated that an unintended omission on her part was the reason that this matter was not on the *Agenda*. The investment management contract with Hilliard Lyons Trust Company expires on June 30, 2019. There are no extensions. Waiting until the next meeting to discuss the contract could present timing problems in the event either the Committees and/or Hilliard Lyons chose not to continue its current relationship – this

would necessitate an RFP for July 1 services, which would be impossible to have in place in that short a time.

The investment counseling and management services for the assets of the two retirement plans were reviewed and discussed. Upon motion by Justice Venters, seconded by Mr. LeLaurin, on behalf of the Investment Committee for the Judicial Retirement Fund, and by Judge George, seconded by Mr. LeLaurin, on behalf of the Investment Committee for the Legislators Retirement Fund, both Committees unanimously adopted the following resolution:

RESOLVED, That an offer shall be 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. The fee for services shall be eight (8) basis points of the market value of the funds under management. Upon agreement between the parties, this contract may be extended for **two one-year periods** in accordance with the contract's 2019-2020 terms and conditions. If Hilliard Lyons Trust Company agrees, the Investment Committee for the Judicial Retirement Fund shall enter into a *Personal Service Contract* with Hilliard Lyons Trust Company; the Investment Committee for the Legislators Retirement Fund agrees to utilize the services and shall participate in the payment of its proportionate share of the fee.

(A) JFRS Board Membership. Ms. Early reported that the statutes provide that if a JFRS trustee was a member of one of the plans in the system when appointed and subsequently ceases to be a member of that plan, a vacancy shall thereupon be deemed to exist on the board. Senator Bowen, a member of the Legislators Retirement Plan, retired on December 31, 2018; he was reappointed by President Robert Stivers on December 28, 2018, for the unexpired term ending June 30, 2020. Justice Venters, a member of the Judicial Retirement Plan, retired on January 6, 2019; he was reappointed by Chief Justice John Minton on January 7, 2019, for the unexpired term ending June 30, 2020.

(B) JFRS Legislative Committee. Ms. Early recommended that the JFRS Board consider establishing a Legislative Committee for the expressed purpose of reviewing and/or sponsoring proposed legislation on an as-needed basis. Following discussion, upon motion by Judge George, seconded by Mr. LeLaurin, the Board unanimously adopted the following resolution:

RESOLVED, That a JFRS Legislative Committee, consisting of three trustees, is established to serve on an as-needed basis and until further action of this Board. The Committee is charged with monitoring pending legislation and is granted the authority on behalf of the JFRS Board to devise strategies to address pending legislation. The Committee, in consultation with the System's executive director, tax attorney and actuary, is also charged with suggesting legislative proposals for consideration and approval by the entire Board. The members are Senator Bowen, Justice Venters and Mr. Donahue.

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

- **November 26, 2018.** The presentation of each state-supported retirement systems/plans included an actuarial and financial update. JFRS provided the PPOB with a five-year *Schedule of Funding Progress and State Contributions* and an annual and first quarter 2019 fiscal year *Statement of Changes in Net Position* (cash flow) for the Judicial Retirement Plan and the Legislators Retirement Plan. In addition to in-house staff of the state retirement systems/plans, Edward Koebel of Cavanaugh Macdonald, provided additional actuarial data on behalf of Teachers Retirement.
- **December 17, 2018.** LRC staff presented PPOB's recommendations and annual report. The Kentucky Retirement Systems discussed agency participation issues.
- **No January 2019 meeting.**

(D) 2019 Regular Session of the General Assembly. Ms. Early reported that 255 bills have been filed since the 2019 Session began on January 11. She reviewed the bills, specifically, SB 38, HB 15, 55, 58, 74 and 126, that may have an impact on JFRS. She advised that Representative Nemes confirmed that he will file the legislation concerning statutory contributions to the Judicial Retirement Plan on February 5.

(E) 2017 SB 104. Ms. Early reported that a private letter ruling (PLR) from the Internal Revenue Service (IRS) is required before a member of the defined benefit (DB) plan can transfer his/her account to the hybrid cash balance (HCB) plan. This option is only available to 44 Judicial Retirement Plan (JRP) members and 19 Legislators Retirement Plan (LRP) members. The IRS filing fee is \$30 thousand, with \$3 thousand for each add on. Ms. Early shared the information she had obtained from her consultations with Mr. Blackwell, Executive Director, Office of Legal Services, Kentucky Retirement Systems, and with Mr. Pauw, the JFRS tax attorney. Following discussion, upon motion by Judge George, seconded by Senator Bowen, on a vote of five to one, the Board adopted the following Resolution:

RESOLVED, That JRP and LRP join with the retirement plans administered by the Kentucky Retirement System (KRS) in filing a PLR request to authorize the statutory changes created in 2017 SB 104. Mr. Pauw is authorized to prepare and submit necessary JRP and LRP statistical data for inclusion in the PLR request. Ms. Early is authorized to negotiate a reasonable shared filing fee with KRS.

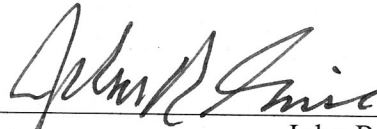
(F) Actuarial and Audit Reports (KRS 21.440). On the trustees' behalf, in accordance with KRS 21.440(1) and (2), Ms. Early reported that she filed the actuarial and audit reports with Legislative Research Commission and posted all reports to the system's website.

(G) APA Special Examination. Ms. Early reported that on December 10, 2018, she asked Auditor Harmon's office when it anticipated issuing its findings as a result of its special examination of JFRS. Amy Fisher responded: *As indicated in our initial letter of*

engagement dated August 22, 2018, the APA is conducting examination procedures for KRS, KTRS, and JFRS. It is anticipated that findings and recommendations from these examinations will be released together. At this time we are still in the process of fieldwork; as such, we do not have a report issuance date at this time.

The trustees will meet next on April 26, 2019.

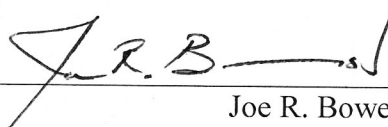
There being no further business, the meeting adjourned at 2:10 p.m.



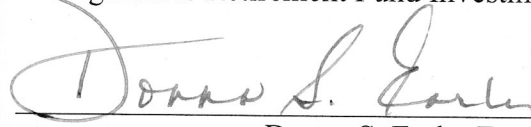
John R. Grise, Chairman
Judicial Form Retirement System Board of Trustees



Stephen F. LeLaurin, Chairman
Judicial Retirement Fund Investment Committee



Joe R. Bowen, Chairman
Legislators Retirement Fund Investment Committee



Donna S. Early, Executive Director