

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

**July 26, 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, July 26, 2019, at 10:00 a.m. All Board members were present. Ms. Donna Early, Executive Director, and Mr. Stan Kerrick of Lexington Investment Company, were also present. Mr. Donald L. Asfahl and Mr. Andrew Means of Hilliard Lyons Trust Company 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 May 10, 2019 meeting. Upon motion by Judge Paisley, seconded by Mr. Donahue, the Board unanimously approved the *Minutes* of the May 10, 2019 meeting.

The next order of business was the report of Lexington Investment Company. Chairman Grise recognized Mr. Kerrick. Mr. Kerrick distributed to the trustees Lexington Investment's *Report of the Kentucky Judicial & Legislators Retirement Funds* as of June 30, 2019, dated July 26, 2019. In accordance with Board policy, the System maintains a copy of the *Report*.

Mr. Kerrick first 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 the funds outperformed the benchmarks in all time periods for the total portfolio and equities, and only slightly underperformed the benchmarks in a few time periods for the fixed income and cash. He discussed the various economic influences impacting the performance, particularly tariffs, immigration, job numbers, declining growth, volatility and interest rates. He concluded this portion of his report by reminding the trustees that the Federal Reserve will meet next week and the consensus in the financial sector is that interest rates will be lowered as much as 50 basis points and there could be another rate change later in the year.

Mr. Kerrick reviewed the Portfolio Statements, Cash Reconciliation Report and the Brokerage Fees Report for each fund. During his review, discussions ensued concerning Allergan's possible acquisition of AbbVie, General Electric and Harley Davidson.

The meeting recessed at 11:15 a.m., and reconvened at 11:20 a.m. Mr. Kerrick left the meeting when it recessed.

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.

- **May 20, 2019.** The director for the Kentucky Retirement System reported on alternative methods for prorating employer liabilities and contributions.
- **June 24, 2019.** The presentation of each state-supported retirement systems/plans included an investment and cash flow quarterly update. JFRS' PowerPoint presentation was provided to the trustees via email on June 20. During Ms. Early's presentation, she was asked for an explanation of why the employer contributions to the Legislators Retirement Plan had declined substantially in fiscal year 2019. She explained that the employer contributions for fiscal year 2019 only included state funding for administrative costs. She stated that there was no appropriation for retirement funding during the current biennium, and she took this opportunity to voice the importance of adequately funding a retirement benefit and expressed concern for the retirement plan if this practice continues. Mr. Donahue attended the meeting on behalf of the trustees, and likewise voiced his concern for the health of a retirement plan if state appropriations are suspended.
- **July.** No meeting.

Mr. Donahue then led a discussion with his colleagues concerning the potential impact a lack of adequate funding has on the status of a retirement plan and the fiduciary responsibility of the board to make known those unintended consequences to the appropriate parties.

(B) 2019 Special Session of the General Assembly. The session convened on July 19, 2019 and adjourned on July 24, 2019. The legislation passed during the special session had no impact on the Judicial Retirement Plan nor the Legislators Retirement Plan.

(C) 2019-2020 Personal Service Contract for Auditing Services. Pursuant to action at the May 10, 2019 meeting, an offer was extended to MCM CPAs & Advisors for auditing services for the Kentucky Judicial Form Retirement System, within the confines of the current *Personal Service Contract* dated July 12, 2018, for a period from July 1, 2019 through June 30, 2020. MCM accepted, and a contract has been executed by the parties. Financial data and reports are being provided to MCM, and MCM will be in the JFRS office the week of September 9 to do their on-site examinations of JFRS records.

(D) APA Special Examination. Earlier this week Auditor Harmon's office advised Ms. Early that the APA will provide its draft report as concerns JFRS electronically to her at 9:00 a.m. on August 14, 2019, with a response due at 4:00 p.m. on August 16, 2019. The APA stated that *because the report will be a draft document it will be watermarked as draft and*

*should be treated in a confidential manner*, and asked that the draft be shared *only with those individuals necessary to formulate a response*. It was the consensus of the trustees that the draft be shared with the entire Board and that the Board would act in concert to formulate an appropriate response.

(E) JFRS Legislative Committee. The members of the Committee, Justice Venters, Senator Bowen and Mr. Donahue, will schedule a meeting during the month of September to discuss various legislative proposals. The Committee will make its recommendations, if any, to the board at the October meeting. If a legislative package is approved, this timeline will enable JFRS sufficient opportunities to consult with the PPOB and to obtain a sponsor of the legislation for consideration during the 2020 Regular Session of the General Assembly.

(F) 2017 SB 104 – IRS Private Letter Ruling. Pursuant to action taken by the trustees at its January 25, 2019 meeting, Mr. Pauw (the System’s legal counsel) coordinated with counsel (both in-house and outside) for the Kentucky Retirement System (KRS) in preparing the SB 104 private letter ruling (PLR) request from the Internal Revenue Service. The request dated July 24, 2018 is on behalf of the JFRS (specifically, the two plans administered by JFRS) and KRS (specifically, the six plans administered by KRS). The IRS filing fee will be shared jointly by JFRS and KRS. A copy of the PLR request will be digitally distributed to the trustees.

(G) JFRS Legal Counsel. Upon motion by Judge Paisley, seconded by Justice Venters, the Board went into closed session at 11:45 a.m. for discussion and consideration of JFRS employment of legal counsel. The meeting reconvened at 12:20 p.m. upon motion by Justice Venters, seconded by Judge Paisley. Chairman Grise instructed Ms. Early to invite Alan Pauw to come to the October meeting.

The meeting recessed for lunch at 12:25 p.m., and reconvened at 1:00 p.m. Mr. Asfahl and Mr. Means joined the trustees for lunch and were present when the meeting reconvened.

Chairman Grise welcomed the representatives of Hilliard Lyons Trust Company. Mr. Asfahl distributed Hilliard Lyons’ *Investment Review for Kentucky Judicial Retirement Fund and Kentucky Legislators Retirement Fund* dated July 26, 2019. In accordance with Board policy, the System maintains a copy of the *Investment Review*.

Before beginning the investment-related presentation, Mr. Asfahl and Mr. Means reviewed and discussed Hilliard’s relationship with Baird.

Hilliard’s market commentary for this quarter is an article written by Mr. Means titled, Don’t Fight the Fed. His article focuses on the impact the decisions of the Federal Reserve have on the stock market. He highlighted explanations and consequences of interest rate fluctuations. In the last section of his article, **tuning into the signal, tuning out the noise**, Mr. Means reaches the following conclusion: *We think it is a mistake to let the news of the day drive investment decisions. In our rapidly changing world, it is vital that we remain disciplined and steadfast in our strategies to help you achieve your investment goals.*

Mr. Asfahl next highlighted the various items in the Economic Statistics. He discussed the various charts and graphs, particularly the charts detailing the US job market and inflation expectations.

Mr. Asfahl and Mr. Means 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 June 30, 2019, which review included asset allocation, equity top performers, largest holdings, fixed income, yield and additions.

During the investment review, questions by the trustees triggered discussions concerning CarMax, O'Reilly and General Electric.

During the review of the Hybrid Cash Balance accounts, Mr. Asfahl recapped the information in his previously distributed email of July 24, 2019, and he recommended that the Investment Committees amend the *Investment Policy Statement* to change the allowed bond ETF and the performance benchmark. Following discussion, Mr. LeLaurin, Chair of the Investment Committee for the Judicial Retirement Fund, agreed to draft the new language, and to make other revisions, if necessary, in consultation with Senator Bowen, Chair of the Investment Committee for the Legislators Retirement Fund, and Mr. Asfahl.

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

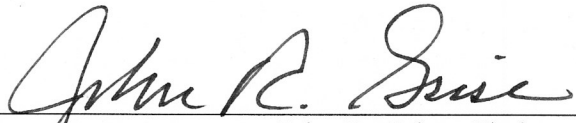
(H) *Fiduciary Liability Insurance*. Ms. Early reminded the trustees that in July 2018, JFRS elected to continue its fiduciary liability insurance with coverage limits of \$20 million through September 2020, and that it would revisit the matter in July 2019 for the purpose of determining liability for the next biennium. Insurance premiums will be included in the JFRS 2020-2022 budget requests as projected operating expenses. Until fiscal year 2017-2018, the coverage level was \$10 million. The premium for \$20 million coverage is almost double the premium for \$10 million coverage. The trustees agreed that a risk analysis would be helpful in evaluating coverage limits. They instructed Ms. Early to obtain an analysis and any other appropriate information or data for their use and benefit when next considering this item.

(I) *2020 Health Insurance, Non-Medicare Eligible Retirees*. To avoid a conflict of interest, Justice Venters and Judge George did not participate in the discussion or consideration of the 2020 hospital and medical insurance coverage to be provided to non-Medicare eligible recipients of Judicial Retirement Plan and/or Legislators Retirement Plan benefits. Ms. Early distributed confidential schedules received from the Department of Insurance regarding 2020 premiums and comparisons to 2019 premiums. Discussion followed, which included the projected premium amounts, liability to the plans, medical insurance actuarial assumptions used for retirement purposes, and the newly implemented assessment for failure to comply with the Living Well Promise. Upon motion by Judge Paisley, seconded by Mr. LeLaurin, the following Resolution was unanimously adopted:

**RESOLVED**, That the 2020 hospital and medical insurance coverage for Non-Medicare eligible retirees and eligible dependents of the Judicial Retirement Plan and the Legislators Retirement Plan for each type of coverage (single, couple, parent plus and family) shall be provided through the Kentucky Employees' Health Plan (KEHP), and the 2020 monthly contribution level for each classification of coverage shall be equivalent to the 2020 monthly premium for a Living Well PPO plan. The percentage of payment by the respective plan is dependent upon the retiree's years of service. The balance, if any, is deducted from the retiree's monthly benefit. If a retiree failed to comply with the 2019 Living Well promise, the 2020 KEHP monthly assessment of \$40.00 shall also be deducted from the retiree's benefit payment.

The trustees will meet next on October 25, 2019.

There being no further business, the meeting adjourned at 2:25 p.m.



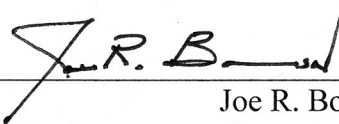
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John R. Grise, Chairman  
Judicial Form Retirement System Board of Trustees




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Stephen F. LeLaurin, Chairman  
Judicial Retirement Fund Investment Committee



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Joe R. Bowen, Chairman  
Legislators Retirement Fund Investment Committee



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Donna S. Early, Executive Director