

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

October 25, 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, October 25, 2019, at 10:10 a.m. All Board members, except Judge Paisley, were present. Ms. Donna Early, Executive Director, and Mr. Stan Kerrick of Lexington Investment Company, were also present. Mr. Donald L. Asfahl and Mr. John Watkins of Hilliard Lyons Trust Company, and Mr. Alan Pauw, 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 July 26, 2019 meeting. Upon motion by Judge George, seconded by Chairman Bowen, the Board unanimously approved the *Minutes* of the July 26, 2019 meeting.

The next order of business was the report of Lexington Investments LLC. Chairman Grise recognized Mr. Kerrick. Mr. Kerrick distributed to the trustees Lexington Investments' *Report of the Kentucky Judicial & Legislators Retirement Funds* as of September 30, 2019, dated October 25, 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 compared to the benchmarks, both funds did very well, noting that the equities outperformed the benchmarks in each of the time frames. He reiterated that the portfolio of each fund is best described as conservative, and are not heavily laden with big growth companies, except for the Apple holding which is heavily weighted, but still within the guidelines. He discussed the various economic influences impacting performance. Mr. Kerrick reviewed the Portfolio Statement, Cash Reconciliation Report and the Brokerage Fees Report for each fund. During this review, discussions ensued concerning the funds' various holdings.

Mr. Kerrick explained and then entertained questions concerning the change in name and personnel of his company.

The meeting recessed at 10:55 a.m., and reconvened at 11:05 a.m. Mr. Asfahl and Mr. Watkins joined the meeting at this time.

Chairman Grise recognized Chairmen LeLaurin and Bowen to discuss the proposed *Investment Policy Statement*. Chairman LeLaurin began by acknowledging and expressing appreciation to Mr. Asfahl, Mr. Kerrick, Mr. Pauw and his fellow trustees for their assistance and valuable participation in revising the *Statement*. Chairman LeLaurin reviewed the proposed draft and the substantive revisions. He and Chairman Bowen invited questions. Following discussion, upon motion by Chairman LeLaurin, seconded by Justice Venters, on behalf of the Investment Committee for the Judicial Retirement Fund, and by Chairman LeLaurin, seconded by Chairman Bowen, on behalf of the Investment Committee for the Legislators Retirement Fund, the following resolution was unanimously adopted by both Committees:

RESOLVED, That Chairman LeLaurin on behalf of the Investment Committee for the Judicial Retirement Fund, and Chairman Bowen on behalf of the Investment Committee for the Legislators Retirement Fund, shall execute the *Investment Policy Statement* dated October 25, 2019. The *Statement* shall be delivered to Hilliard Lyons for consideration and execution.

Following passage of the motion, Chairman LeLaurin, Chairman Bowen and Mr. Asfahl executed the *Statement*. Ms. Early was instructed to provide a fully-executed copy to Hilliard Lyons, and to timely post the *Statement* on the system's website.

Upon conclusion of this *Agenda* item at 11:20 a.m., Mr. Kerrick left the meeting.

Chairman Grise recognized 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 October 25, 2019. In accordance with Board policy, the System maintains a copy of the *Investment Review*.

Mr. Watkins began Hilliard's Market Commentary presentation by reviewing his article, "Risk: Fear it? Or manage it?" The discussion turned to General Electric. Mr. Watkins was asked if he would buy GE. His response: *when we don't sell, we are re-buying it every single day. We think GE can come to something great.*

Mr. Asfahl next highlighted the various items in the Economic Statistics. He discussed the various charts and graphs, particularly the charts detailing the yield curves.

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

During the investment review, more thorough discussions involved Berkshire, Bank of America and Harley Davidson.

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.

The meeting recessed for lunch at 12:20 p.m., and reconvened at 12:50 p.m. Mr. Pauw was present when the meeting reconvened and Mr. Asfahl and Mr. Watkins had departed.

Chairman Grise welcomed Mr. Pauw, legal counsel to the Board and Committees. Upon motion by Judge George, seconded by Representative Collins, the Board went into closed session at 12:55 p.m. for discussion and consideration of legal services. The meeting reconvened at 1:20 p.m. upon motion by Judge George, seconded by Representative Collins. Chairman Grise reported that Mr. Pauw will provide additional information to the board; thus, this matter is tabled to the next board meeting for further action. Mr. Pauw left the meeting at 1:25 p.m.

The Investment Committees reviewed and discussed its relationship with Lexington Investment Company, now Lexington Investments LLC. Upon motion by Chairman LeLaurin, seconded by Justice Venters, on behalf of the Investment Committee for the Judicial Fund, and by Chairman Bowen, seconded by Chairman LeLaurin, on behalf of the Investment Committee for the Legislators Fund, both Committees unanimously adopted the following resolution.

RESOLVED, That the Investment Committee for the Judicial Retirement Fund and the Investment Committee for the Legislators Retirement Fund confirms and continues its current arrangement with Lexington Investments LLC. Specifically, that in exchange for a brokerage fee of \$0.05 per share for equity trades and a negotiated fee for fixed income trades, Lexington Investments LLC provides to the Committees quarterly performance valuations, indices for use in the measurement of performance, and other investment related data such as asset allocation and compliance reports. Mr. Kerrick attends quarterly meetings of the Committees. The parties shall revisit this arrangement on an as-needed and/or annual basis.

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 summary of the PPOB meetings since the last JFRS meeting.

- **July** – no meeting.
- **August 26, 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 August 20. Chairman LeLaurin and Mr. Donahue attended the meeting on behalf of the trustees. Chairman LeLaurin participated in the presentation and was very helpful in fielding questions concerning Hybrid fixed income and corresponding benchmark, and providing supplemental information to PPOB via emails. As explained by Chairman LeLaurin, PPOB's question and concern was being addressed by a change to the IPS, recommended by investment counsel at the last JFRS meeting.

- **September 23, 2019.** Auditor Harmon presented the *APA's Special Examination of Certain Policies, Procedures, Controls, and Transparency Compliance Activities of Retirement Systems in Kentucky*. The Kentucky Retirement System and the Teachers Retirement System responded to the APA's findings. Trustees Venters, Bowen, LeLaurin and Donahue attended the meeting on behalf of JFRS.

(B) Compliance with 2016 HB 271, 2017 SB 107 and KRS 21.440. Ms. Early briefly explained and reported on statutorily-mandated reports and filings.

1. 2016 HB 271 requires that data pertaining to all state retirees and active members is to be compiled (with name and social security number redacted) in one document for submission to PPOB. The Teachers Retirement System (TRS) compiles the report on behalf of all state-supported retirement plans or systems. JFRS submitted its data to TRS on October 10, 2019.
2. 2017 SB 107. JFRS is still awaiting a response from the IRS to the joint Private Letter Ruling (PLR) request with the Kentucky Retirement System (KRS). Implementation is dependent upon a favorable PLR.
3. Copies of the audit, actuarial valuations and all investment reports were filed with the Legislative Research Commission (LRC) on October 18, 2019 to comply with KRS 21.440 and KRS 42.615.
4. Trustees' copies of year-end reports and financial data are available for pick up following the meeting.

(C) 2020 Hospital and Medical Insurance Contribution Level – Medicare Eligible. To avoid a conflict of interest, Justice Venters, Judges Paisley and George, and Chairman Bowen did not participate in the discussion or consideration of the 2020 hospital and medical insurance coverage to be provided to Medicare eligible JFRS recipients of Judicial Retirement Plan and/or Legislators Retirement Plan benefits. By email or telephone, the remaining trustees unanimously approved Ms. Early's recommendation to renew the 2019 contract with Humana for a Medicare Advantage PPO plan at a monthly premium of \$316.16 for calendar year 2020. She asked the Board to consider formal ratification of its previous action.

Upon motion by Chairman LeLaurin seconded by Representative Collins the **Board of Trustees of the Judicial Form Retirement System** unanimously ratifies the prior board action to renew its hospital and medical insurance contract with Humana for calendar year 2020, and to set the 2020 monthly contribution level at \$316.16 for each JFRS Humana Medicare Advantage plan policyholder.

(D) *APA Special Examination.* The APA's examination concluded that JFRS was in compliance with SB 2 regarding transparency, and that a negligible amount, specifically \$1,352.00 over a 26-month period was paid to deceased retirees and not recouped from the decedents' estates. Following discussion, the board determined that no action was necessary in response to the APA's recommendations concerning verification of death. Mr. Early will inform the board as soon as an invoice is received from the APA.

(E) *2020 Regular Session of the General Assembly – Budget Requests.* Ms. Early distributed her proposed 2020-2022 appropriation requests for the Judicial Retirement Plan to be included in the judicial budget bill, and for the Legislators Retirement Plan to be included in the legislative budget bill. She explained the calculations and then informed the trustees that LRC's Office for Budget Review contacted her to suggest that the administrative expenses provided by KRS 21.540(1) should be included in the Actuarial Required Contribution (ARC) – the funding requirement determined by the plans' actuary. Ms. Early stated that while this has not been JFRS' practice, she is of the opinion that the suggestion is a reasonable interpretation of the statute, and that compliance would not be unreasonable, and in the long-run would be more easily executed within the budget process. If the Board concurs, it will be necessary that Findley, the Fund's actuary be asked to amend its July 1, 2019 valuations to include the respective administrative costs in the applicable ARC requests.

Following discussion, upon motion by Justice Venters, seconded by Mr. Donahue, the following Resolution was unanimously adopted by the Investment Committee for the Judicial Retirement Fund:

RESOLVED, That Ms. Early's 2020-2022 proposed budget requests for the Judicial Retirement Defined Benefit Plan and the Judicial Retirement Hybrid Cash Balance Plan are approved. At the request of the LRC's Office for Budget Review, the Actuarial Required Contribution shall represent both the benefit and insurance funding determined by the plan's actuary and the administrative expenses provided by KRS 21.540(1) and KRS 21.550. Consequently, Ms. Early is instructed to ask the plan's actuary to amend the 2019 Valuations.

Following discussion, upon motion by Chairman Bowen, seconded by Representative Collins, the following Resolution was unanimously adopted by the Investment Committee for the Legislators Retirement Fund:

RESOLVED, That Ms. Early's 2020-2022 proposed budget requests for the Legislators Retirement Defined Benefit Plan and the Legislators Retirement

Hybrid Cash Balance Plan are approved. At the request of the LRC's Office for Budget Review, the Actuarial Required Contribution shall represent both the benefit and insurance funding determined by the plan's actuary and the administrative expenses provided by KRS 21.540(1) and KRS 21.560. Consequently, Ms. Early is instructed to ask the plan's actuary to amend the 2019 Valuations.

(F) 2020 Regular Session of the General Assembly – Report of Legislative Committee. The members of the Committee, Justice Venters, Senator Bowen and Mr. Donahue, and Chairman LeLaurin met on September 23, 2019. Following discussion it was the consensus that the Investment Committee shall continue to consult with and/or suggest appropriate and timely legislation, and to voice and support adequate funding. Justice Venters will ask Representative Nemes to consider re-filing 2019 HB 206, a bill to calculate retirement contribution and credit for district judges temporarily assigned as special judges to serve in family court.

(G) Election of Board and Committee Chairs. The next item for consideration was the election of Chairs of the Board and Investment Committees. Upon motion by Chairman LeLaurin, seconded by Judge George, the Board of Trustees of the Judicial Form Retirement System unanimously adopted the following Resolution:

RESOLVED, That Judge Grise is hereby elected Chair of the Board of Trustees of the Judicial Form Retirement System.

Upon motion by Justice Venters, seconded by Mr. Donahue, the Investment Committee for the Judicial Retirement Fund unanimously adopted the following Resolution:

RESOLVED, That Chairman LeLaurin is hereby elected Chair of the Investment Committee for the Judicial Retirement Fund.

Upon motion by Judge George, seconded by Chairman LeLaurin, the Investment Committee for the Legislators Retirement Fund unanimously adopted the following Resolution:

RESOLVED, That Chairman Bowen is hereby elected Chair of the Investment Committee for the Legislators Retirement Fund.

(H) Annual Update – Fiduciary Responsibilities and Liabilities, Computing a Board of Investment Committee Quorum. Ms. Early reminded the trustees that during the latter part of August 2019, by email or telephone, the JFRS trustees considered and unanimously approved her recommendation establishing a procedure to follow in determining a quorum. She asked the Board to consider formal ratification of its previous action.

Upon motion by Mr. Donahue, seconded by Representative Collins, the **Board of Trustees of the Judicial Form Retirement System** unanimously ratifies the

prior Board action that, in the absence of statutory or constitutional directives, the Board adopts sections 500, 501, 502 and 503 of Chapter 44 of *Mason's Legislative Manual* as the procedural rules concerning questions relating to having a quorum for voting purposes on matters before the System and the Investment Committees within the System.

(I) Annual Update – Fiduciary Responsibilities and Liabilities, Fiduciary Liability Insurance. Mr. Early reported that at the last meeting she was instructed to obtain a risk analysis as well as any other information or data for the trustees to use when next considering policy limits for fiduciary liability insurance. Ms. Early recommended that this item be deferred to a future meeting for the following reasons:

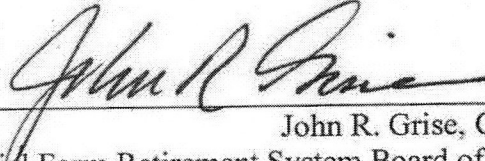
1. The Department of Insurance will be submitting an RFP (in accordance with the Model Procurement Code) in the spring of 2020 for coverage commencing October 1, 2020. Since the board is contemplating coverage limits of either \$10 million or \$20 million, the RFP could include both coverage limits.
2. JFRS has the benefit of its legal counsel's opinion, but is awaiting a report from Assistant Director Thompson with the State Risk and Insurance Service Division.
3. JFRS is also awaiting receipt of the 2019 policy. As noted by Mr. Pauw, a thorough review of the policy will be helpful.

Following discussion, it was the consensus that the Department of Insurance 2020 RFP include policy coverage limits of \$10 million and \$20 million for fiduciary liability insurance, and that this matter be deferred until all information, including responses to the RFP, are available, for the board's benefit in making a fully-informed decision.

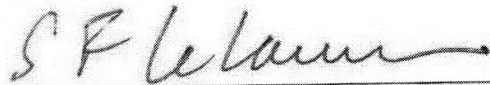
Continuing with the *Agenda* item Annual Update – Fiduciary Responsibilities and Liabilities, Mr. Donahue discussed Open Records and Open Meetings Laws. He prepared a PowerPoint for use during his presentation. The System maintains a copy of the PowerPoint. (Chairman Bowen left the meeting at 2:20 p.m.) Mr. Donahue's presentation was informative and educational. The topics were timely and useful. He advised that he had shared with Ms. Early a software program that could be used in the event it is necessary that the trustees meet by video teleconference. When discussing *Closed Sessions*, Mr. Donahue recognized Justice Venters, who advised that Ms. Early asked that he review the statutes regarding closed session to determine if JFRS is accurately reporting closed session activity in its *Minutes*. Justice Venters concluded that JFRS is in compliance, and referred to the closed session directives previously discussed by Mr. Donahue. Mr. Donahue ended his Power Point presentation with a discussion of the Open Records Act, exemptions and response time. He concluded his report by informing the trustees that there have been no changes to the annual report on fiduciary responsibilities and liabilities he presented at the JFRS meeting on October 26, 2018.

The trustees tentatively scheduled its 2020 quarterly meetings. The trustees will meet next on January 17, and thereafter on April 24, July 24 and October 23.

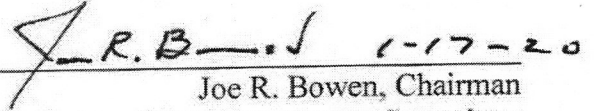
There being no further business, the meeting adjourned at 2:45 p.m.



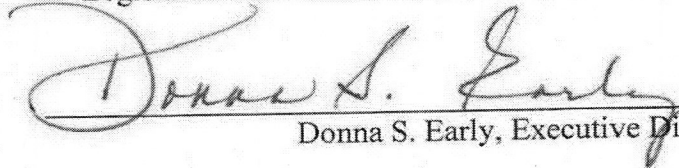
John R. Grise, Chairman
Judicial Form Retirement System Board of Trustees



Stephen F. LeLaurin, Chairman
Judicial Retirement Fund Investment Committee



Joe R. Bowen, Chairman
Legislators Retirement Fund Investment Committee



Donna S. Early, Executive Director