

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 17, 2020**

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 Vandelay Drive, Frankfort, Kentucky, on Friday, January 17, 2020, at 10:00 a.m. All Board members, except Chairman LeLaurin, were present. Ms. Donna Early, Executive Director, and Mr. Stan Kerrick of Lexington Investment Company, were also present. Mr. Donald L. Asfahl and Mr. Andy Means 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 October 25, 2019 meeting. Upon motion by Chairman Bowen, seconded by Representative Collins, the Board unanimously approved the *Minutes* of the October 25, 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 December 31, 2019, dated January 17, 2020. In accordance with Board policy, the System maintains a copy of the *Report*.

Mr. Kerrick noted that earnings have been good, and that a strong market has shrugged off many of the outlying influences and external factors. He next examined the rates of return in the Performance Analysis for each fund, pointing out that we experienced excellent performance and outperformed the benchmarks. 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 entertained questions that generated economic fundamentals, corporate economy, and 5G technology discussions. He concluded his presentation with a review of the prescribed allocation guidelines, reminding the Investment Committee members that in late December 2019, Hilliard Lyons advised them (as required by the *Investment Policy Statement*) both the Microsoft and Apple holdings in each fund exceeded the 8% equity market guideline. Each Committee concurred in Hilliard Lyons' recommendation that the positions not be reduced at this time.

The meeting recessed at 10:50 a.m., and reconvened at 11:00 a.m.

Chairman Grise announced that the Board would next consider *Agenda* Item IV. Upon motion by Judge George, seconded by Judge Paisley, the Board went into closed session at 11:00 a.m. for discussion and consideration of legal services. The meeting reconvened at 11:30 a.m. Upon motion by Justice Venters, seconded by Judge Paisley, the JFRS Board of Trustees adopted the resolution below. When the vote was called, five trustees voted yes, Mr. Donahue voted no, and Chairman Bowen abstained.

**RESOLVED**, That the Board authorizes Chairman Grise to execute a *Letter Agreement for Services* with Mr. Alan D. Pauw, now affiliated with McBrayer PLLC, for continuation of his current legal representation which the Board has consistently used since the year 2000. The *Letter Agreement* shall include a provision restricting access to JFRS records/files.

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.

- **October 28, 2019.** LRC staff presented its semi-annual investment review for all the state-supported retirement systems/plans. LRC's PowerPoint was provided to the trustees via email on October 25.
- **November 25, 2019.** The presentation of each state-supported retirement system/plan included an actuarial and financial update. JFRS' PowerPoint presentation was provided to the trustees via email on November 22. Chairman LeLaurin and Mr. Donahue attended the meeting on behalf of the trustees. Chairman LeLaurin participated in the presentation which included a discussion of a JFRS proposal to amend the funding statute for the Judicial and Legislators Retirement Plans.
- **December 16, 2019.** PPOB discussed its legislative recommendations and its annual report. Chairman LeLaurin attended the meeting on behalf of JFRS.

(B) *2020-2021 Personal Service Contracts*.

1. **Investment Management.** The May 10, 2019 *Personal Service Contract* with Hilliard Lyons Trust Company contains an option to extend the contract for two one year periods commencing July 1, 2020 under the same terms and conditions at a fee of eight basis points. Inasmuch as a past potential conflict of interest no longer exists for Chairman Grise, all members participated in the discussion of extending the Hilliard Lyons's contract. Upon motion by Justice Venters, seconded by Judge Paisley, on behalf of the Investment

Committee for the Judicial Retirement Fund, and upon motion by Chairman Bowen, seconded by Representative Collins, on behalf of the Investment Committee for the Legislators Retirement Fund, both Committees unanimously adopted the following resolution.

**RESOLVED**, That in accordance with the provisions of the May 10, 2019 investment management contract with Hilliard Lyons Trust Company, an offer shall be tendered to Hilliard Lyons for an extension of the contract for the period, July 1, 2020 through June 30, 2021. The extension shall be under the same terms and conditions of the May 10, 2019, except that it shall be within the confines of the *Investment Policy Statement* dated October 25, 2019. If Hilliard Lyons Trust Company agrees, the Investment Committee for the Judicial Retirement Fund shall enter into a *Personal Service Contract Extension* 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.

2. **Actuarial** – The Investment Committee for the Judicial Retirement Fund entered into a contract with Findley, Inc. on June 26, 2018 for actuarial services. The Investment Committee for the Legislators Retirement Fund also entered into a contract with Findley, Inc. on June 26, 2018 for actuarial services. The contracts expire on June 30, 2020; however, each contract provides that the contract, upon agreement by both parties, can be extended for two two-year periods.

Following review and discussion, upon motion by Mr. Donahue, seconded by Judge Paisley, the Investment Committee for the **Judicial Retirement Fund** unanimously adopted the following resolution:

**RESOLVED**, That in accordance with the provisions of the June 26, 2018 contract for actuarial services with Findley, Inc., an offer shall be tendered to Findley, Inc. for an extension of the contract for the period, July 1, 2020 through June 30, 2022. The extension shall be under the same terms and conditions of the June 26, 2018 contract, except that the experience study shall be deleted from the required services and the fee shall be adjusted accordingly.

Following review and discussion, upon motion by Mr. Donahue, seconded by Chairman Bowen, the Investment Committee for the **Legislators Retirement Fund** unanimously adopted the following resolution:

**RESOLVED**, That in accordance with the provisions of the June 26, 2018 contract for actuarial services with Findley, Inc., an offer shall be tendered to Findley, Inc. for an extension of the contract for the period, July 1, 2020 through June 30, 2022. The extension shall be under the same terms and conditions of the

June 26, 2018 contract, except that the experience study shall be deleted from the required services and the fee shall be adjusted accordingly.

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.* The contract was extended to June 30, 2020 on May 16, 2019, at the same fee; thus, there is one remaining extension. Ms. Early recommended that JFRS tender an offer to MCM to extend its contract for FY 2020-2021. Following discussion, upon motion by Mr. Donahue, seconded by Representative Collins, 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 2020-2021 at the same terms and conditions of the July 12, 2018 *Contract*. Every effort is to be made to negotiate the 2020-2021 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. Following discussion, it was the consensus of the trustees that JFRS continue to participate in the Commonwealth’s custodian contract with State Street.

(C) APA Special Examination. Ms. Early reported that the APA’s fee of \$16,086.00 for the special examination was paid on December 19, 2019. After considering the APA’s recommendation as to the overpayment of a retirement benefit, the Board instructed the Executive Director to use her discretion in recoupment of a potential overpayment of benefits with a mindful effort to comply with the APA’s recommendation and in-office policy and procedure.

(D) Financial Disclosure Statements. After distributing blank forms to the trustees, Ms. Early requested that each trustee’s **Financial Disclosure Report** for calendar year 2019 be returned to the JFRS office on or before March 31, 2020 in order to comply with the annual mandated disclosure requirement. She noted that a trustee who also serves as a state court judge or legislator can file a copy of his statutorily required disclosure form in lieu of the JFRS form.

(E) Board Membership and Terms. Ms. Early advised that all trustees’ terms will expire on June 30, 2020. The statutes provide that a trustee cannot serve more than three

consecutive terms. She acknowledged Representative Collins valued service to the board before noting that he on June 30, 2020, he would complete his third term and thus is prohibited from re-appointment. Ms. Early will timely notify the appointing authorities of the need for appointment and/or re-appointment of the JFRS trustees.

(F) *2020 Regular Session of the General Assembly*. Of the bills filed thus far in the legislative session, Ms. Early stated that she is tracking 20 bills having a potential impact on JFRS. Of that number, she has requested an actuarial analysis on two bills to comply with KRS 6.350. She further advised that Representative Nemes agreed to request a bill draft for a change to the funding statute governing the retirement plans. She received a draft of the proposal yesterday, January 16; thereafter, she requested an actuarial analysis from the plans' actuary.

The meeting recessed for lunch at 12:10 p.m., and reconvened at 12:40 p.m. Mr. Asfahl and Mr. Means were present at this time, having previously joined the trustees for lunch.

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 January 17, 2020. In accordance with Board policy, the System maintains a copy of the *Investment Review*.

Mr. Means began Hilliard's Market Commentary presentation by reviewing his article, "This Time It's Different." The issues raised in his article affirmed his statement that the old economic rules that used to govern are not panning out.

Mr. Asfahl next highlighted the various items in the Economic Statistics. He discussed the various charts and graphs, concluding with an informative review of the next year and next quarter's performance following a plus 20% year, for the 19 years since 1950.

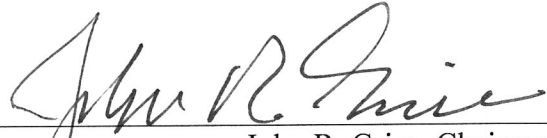
Mr. Asfahl and Mr. Means reviewed the investment activity for the Judicial Retirement Defined Benefit and Hybrid Cash Balance accounts and the Legislators Retirement Defined Benefit and Hybrid Cash Balance accounts through December 31, 2019, which review included asset allocation, equity top performers, largest holdings, fixed income, yield and additions.

During the investment review, a more thorough discussion involved Apple and Microsoft, and the rationale for Hilliard not recommending reduction when the holdings exceeded the investment allocation guidelines.

Mr. Asfahl next reviewed and evaluated the outstanding performance of each fund. He stated that the returns have exceeded the actuarial rate of return assumption, and all the funds have performed well in the last ten to 12 years of this bull market. He concluded the presentation with a discussion of the Risk Statistics.

The trustees will meet next on April 24, 2020.

There being no further business, the meeting adjourned at 1:55 p.m.



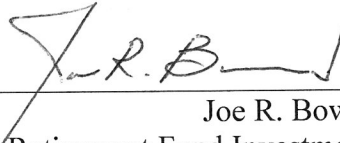
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John R. Grise, Chairman  
Judicial Form Retirement System Board of Trustees



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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