

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

**June 26, 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 via Video-Conference utilizing Microsoft Teams on Friday, June 26, 2020, at 10:00 a.m. All Board members, except Lewis G. Paisley, participated. Rebecca Stephens, Interim Executive Director, and Mr. Stan Kerrick of Lexington Investment Company, also participated.

Chairman Grise called the meeting to order. He welcomed new Board member, former Rep. Brad Montell, appointed by House Speaker David Osborne on June 3, 2020, to replace former Rep. Hubert Collins. Collins resigned the Board on May 31, 2020. His appointment was to expire on June 30, 2020. Each trustee, along with Mr. Kerrick and Mrs. Stephens, provided an introduction of themselves to Mr. Montell. The trustees considered the adoption of the previously distributed *Minutes* of the January 17, April 9, and April 13 meetings. Upon motion by Mr. A.C. Donahue, second by Mr. Bowen, the Board unanimously approved the *Minutes* of the January 17 meeting. Upon motion by Mr. Bowen, second by Mr. Donahue, the Board unanimously approved the *Minutes* of the April 9 meeting. Upon motion by Mr. Bowen, second by Mr. LeLaurin, the Board unanimously approved the *Minutes* of the April 13 meetings.

Chairman Grise advised the Board that Mrs. Stephens worked a small amount of hours in excess of 40 hours per week. He approved the extra hours via her timesheets. The extra hours were credited as accumulated compensatory time. Sen. Bowen made a motion to revise the original terms of Mrs. Stephens' employment arrangement to approve the compensatory hours worked in excess of 40 per week. Justice Venters seconded the motion. The motion passed unanimously.

The next order of business was the report of Lexington Investments LLC. Chairman Grise recognized Mr. Kerrick. Mrs. Stephens previously e-mailed Lexington Investments' *Report of the Kentucky Judicial & Legislators Retirement Funds* as of March 31, 2020 and May 31, 2020, to the trustees. In accordance with Board policy, the System maintains a copy of the *Reports*.

Mr. Kerrick noted that the market has seen the best and worst of times. With record high unemployment rates and record low interest rates caused by the Covid-19 Pandemic, both portfolios took a toll. He examined the Performance Analysis and rates of return of each fund as of March 31, 2020, and again as of May 31, 2020. The performance on May 31, 2020, had moved to the positive, up 4.65% from being down by 8.05% at the end of March. He explained both funds saw continued improvement in the fixed income allocation. During this review, discussions arose concerning the funds' allocations to fixed income and equities. Mr. Kerrick explained that an adjustment recently occurred as a result of both Microsoft and Apple holdings in each fund exceeding the 8% equity market guideline. Mr. Kerrick advised the holdings reached 10%, therefore, Hilliard Lyons reduced the holdings to the 8% target. Mr.

Kerrick explained the Funds are both allocated at 76% Equity and 24% Fixed Income and reminded the Board that the allocation is at the discretion of the Funds' investment manager.

Mr. Kerrick left the video-conference. The meeting recessed at 11:07 a.m., and reconvened at 11:15 a.m.

Chairman Grise took a moment to recognize Mr. Steve LeLaurin for his support to the System as a result of Ms. Donna Early's untimely death. He expressed his sincere appreciation for the effort and time committed by Mr. LeLaurin to assist the System with the unexpected transition. The Board concurred with Chairman Grise and expressed their appreciation as well.

Chairman recognized Mrs. Stephens, who reported on administrative matters. The trustees discussed the items and took action as noted.

(A) Public Pension Oversight Board (PPOB). Mrs. Stephens gave a summary of the PPOB meetings since the last JFRS meeting.

- **February 24, 2020.** 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 e-mail. Mr. Donahue attended the meeting on behalf of the trustees. Ms. Early explained that JFRS has two separate investment committees that report to one board. In response to a question from Sen. Higdon regarding how the Legislative Fund did during the present budget with the absence of appropriations, Ms. Early stated that JFRS had been successful due to having the funds to invest but she reminded the PPOB members that this was a snapshot in time and a longer term should be considered with future appropriations. Mr. Donahue added that while the Legislative Fund did well, it may have been more successful if the ARC was paid. Ms. Early advised that the funding level was nearly 100% in the pension and that the insurance fund was greater than 100% funded. Ms. Early also explained that when a member retires from more than one state-administered retirement system, reciprocity applies and enables the use of all salary to determine the benefit in each plan.
- **June 1, 2020.** 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 e-mail. Mr. LeLaurin attended the meeting on behalf of the trustees and provided the asset allocation information and advised of JFRS' investment manager's investment strategy. Mrs. Stephens discussed the cash flow and provided an update related to the COVID-19 procedures being followed. Mrs. Stephens advised that expenses were higher as a result of the APA Audit from 2019 as well an increase in actuarial expenses due to analysis that was provided for potential legislation during the 2020 General Assembly.
- Mrs. Stephens advised that a PPOB meeting is not scheduled for July.

(B) 2020-2021 Personal Service Contracts.

1. **Letter Agreement for Services.** Mrs. Stephens advised the Board that the Agreement between JFRS and Mr. Alan D. Pauw was executed on June 5, 2020, for fiscal year 20-21. The Agreement contains a specific requirement that McBrayer, PLLC will restrict access to all paper documents and e-documents maintained on the user drive of the file server of Mr. Pauw's former firm to Mr. Pauw's use and to his clerical and paralegal's use with his permission. The Agreement also specifies that in the event there is a future transfer of his user drive to McBrayer LLC's cloud-based document access system, the firm will restrict access to JFRS related documents to Mr. Pauw, his staff, and any attorneys who help with JFRS matters and only with his permission.
2. **Investment Management** – At the January meeting, Donna advised that the May, 10, 2019, contract with Hilliard Lyons Trust Company contained an option to extend the contract for two 1 year periods commencing July 1, 2020 under the same terms and conditions at a fee of 8 basis points. The Board resolved to extend 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. Mr. Alan Pauw worked on behalf of the Board with Hilliard Lyons to execute a contract with Hilliard Lyons on June 8, 2020. The contract is good through June 30, 2021.
3. **Auditing** - A contract extension was executed between MCM CPAs & Advisors for auditing services through June 30, 2021. The extension was executed on May 21, 2020, at the previous year's annual rate of \$17,750.00.
4. **Actuarial** - A contract extension was executed between Findley, Inc. and both Investment Committees on May 21, 2020. The contract is good through June 30, 2022.

(C) 2020 Regular Session of the General Assembly.

1. **HB 355 – Legislative Branch Budget** – one year budget bill with no appropriations in the 20-21 year to LRP. No pension benefit increases.
2. **HB 356 – Judicial Branch Budget** – one year budget bill with **\$7,147,500** appropriated for JFRS – Judicial Retirement Benefits. The Board requested \$7,555,200.00.

Both budget bills specify that the administrative expenses shall be paid out of an administrative account which shall be funded by transfers of the necessary moneys, in appropriate ratio, from the funds provided for in KRS 21.550 and KRS 21.560. Also, per the *Minutes* of October 25, 2019 Quarterly Board Meeting, Ms. Early advised 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 Contributions (ARC) – the funding requirement determined by the Plans' Actuary. As a result, the Board approved Ms. Early's budget request for 20-22 and resolved that the ARC shall represent both the benefit and insurance funding determined by the Plans' Actuary AND the administrative expenses provided in KRS 21.540(1) and KRS 21.550. As a result, the Plans' Actuary amended the 2019 Valuations.

There was discussion about the Board crafting a statement to the Legislature concerning the underfunding of the Legislator Retirement Plan. The statement should be read at the next Public Pension Oversight

Board Meeting. Chairman Judge Grise requested Investment Committee Chairmen Mr. LeLaurin and Senator Bowen prepare a draft statement for presentation to the next meeting of the Board of Trustees.

3. **HB 156**, effective 7/14/2020, is an act relating to Uniform Fiduciary Access to Digital Assets Act. Establishes KRS Chapter 395A to enact the Revised Uniform Fiduciary Access to Digital Assets Act framework for the management and disposition of digital assets upon death or incapacitation; designates application to personal representatives, conservators, agents with powers of attorney, and trustees; lists documentation required to access the content of electronic communications and to access non-content digital records; applies fiduciary duties and authority to digital assets; provides compliance guidelines for the custodians of digital records; and provides that the chapter may be cited as the Revised Uniform Fiduciary Access to Digital Assets Act (2015). A digital asset is an e-record in which an individual has a right or interest. The Act does not exempt retirement or benefit plans from applicability. Mrs. Stephens will work with the System's Legal Counsel to determine what compliance requirements, if any, exist.

*(D) Fiduciary Liability and Crime Insurance*

Mrs. Stephens advised that the Crime Insurance Policy was renewed for July 1, 2020 through June 30, 2021, and the premium of \$663.74 was paid.

The current policy for the System's Fiduciary Liability Insurance expires on September 30, 2020. Prior to Ms. Early's death, she worked closely with the Finance & Administration Cabinet (FAC) to create bid specifications for the Fiduciary Liability Insurance. When Mrs. Stephens sought assistance from FAC, she was advised that the FAC would not provide services for procuring the insurance nor provide approval as JFRS is part of the Judicial Cabinet. Mrs. Stephens explained her lack of Model Procurement under KRS Chapter 45A is limited. There was discussion around securing the insurance through a competitive bidding process. Mrs. Stephens advised she would reach out to some of her contacts who may help her determine the best next steps.

*(E) Private Letter Ruling from IRS*

*SB 104* of the 2017 General Assembly allows for a member in the defined benefit plan to make an irrevocable election to transfer his/her account to the hybrid cash balance plan. The System and Kentucky Retirement Systems (KRS) jointly requested a Private Letter Ruling from the Internal Revenue Service. A favorable Ruling was issued on February 13, 2020. The Ruling cost \$33,000, and JFRS reimbursed KRS for one-half of the cost. There was discussion around the notification process for this irrevocable election. Mrs. Stephens advised that the System shall provide calculations to the member to

assist them in making their decision. The Board requested the communication be specific, advising that certain assumptions were used for the calculations and to implore the member to seek advice from a qualified financial planner, and to not discount the warning of the irrevocable election.

*(F) JFRS Administration and Future Modernization*

Mrs. Stephens communicated her understanding that JFRS has been an independent organization since its inception in 1960. She explained that the personnel administration, salary, and benefits are handled through the Commonwealth's Personnel Cabinet. JFRS utilizes services provided by the Commonwealth Office of Technology and the Commonwealth's financial accounting system, eMARS. JFRS' data and calculators for pension projections are maintained in a Microsoft Access program that was created 22 years ago with no current support for the application.

Mrs. Stephens previously inquired with Chairman Grise and Investment Committee Chairman LeLaurin if JFRS should consider placing JFRS under the umbrella of the Administrative Office of the Courts (AOC) for administrative and technical support while maintaining its independent agency status. Mrs. Stephens suggested that JFRS consider hiring additional staff to meet the needs of JFRS and to support the needed technical modernization.

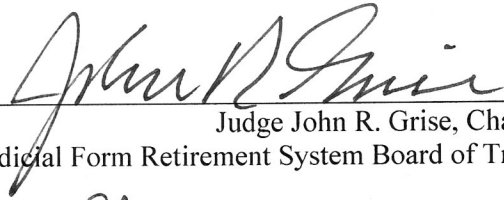
Mrs. Stephens advised that as a result of the above inquiry, Chairman Grise and Investment Committee Chairman LeLaurin and Mrs. Stephens participated in a video conference with AOC Director, Ms. Laurie Dudgeon, Ms. Jenny Laferty, AOC Director of Office of Finance and Administration, and Ms. Carole Henderson, AOC Budget Director. It was suggested that if JFRS is interested in AOC assisting with administrative and technical functions, the Board may want to consider a Memorandum of Understanding or a Memorandum of Agreement between JFRS and AOC. It was discussed that AOC, with the already established relationship with JFRS, could provide assistance with the administrative functions being currently provided by the Personnel Cabinet of the Executive Branch, could provide technical assistance with services currently being provided by the Finance Cabinet of the Executive Branch, and can replace and upgrade technology equipment and services being provided by the Commonwealth Office of Technology of the Finance Cabinet.

Investment Committee Chair Bowen asked if the JFRS Board has sole authority to make the decision. The Board recommended that Chairman Grise and Investment Committee Chairman LeLaurin and Mrs. Stephens perform further research for the next meeting. Justice Venters stressed that if JFRS pursues the arrangement with AOC, JFRS should remain an independent organization. AOC, having no control over JFRS, should serve as a liaison only for administrative and technical support.

Justice Venters asked for an update on JFRS' search for a permanent Executive Director. Chairman Grise advised that Mrs. Stephens will draft a position description and provide a breakdown of the job duties.

The trustees will meet in July on a date yet to be determined.

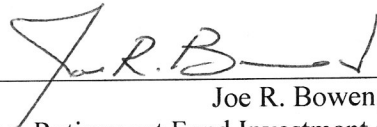
There being no further business, the meeting adjourned at 12:55 p.m.



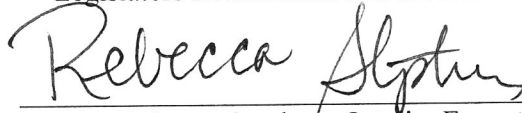
Judge John R. Grise, Chairman  
Judicial Form Retirement System Board of Trustees



Stephen F. LeLaurin, Chairman  
Judicial Retirement Fund Investment Committee



Joe R. Bowen, Chairman  
Legislators Retirement Fund Investment Committee



Rebecca Stephens, Interim Executive Director