

**Blue Grass Airport  
Addendum Three  
Investment Management Services**

**Clarification to RFP**

We would like for all firms who submit a proposal to include five copies of the proposal and submit one copy electronically. Electronic copies may be emailed to Ben Harward, [bharward@bluegrassairport.com](mailto:bharward@bluegrassairport.com).

Also, the selected Investment Firm will be required to meet with the Airport's Finance and Audit Committee once a year to discuss prior year performance as well as confirm the Airport's investments are in compliance with the investment policy.

**Questions**

1.) Are there different durations for different types of investments?

*BGA Response:* Average duration for all investments for the last two years are: FY 2016, 3.09 years and FY 2015, 3.89 years. Airport will work with selected investment management firm on cash flow.

2.) Different investment policy for different funds?

*BGA Response:* We follow the Airport's investment policy for all funds. The Airport's investments policy is to invest funds in accordance with the provisions of KRS 66.480.

3.) Investment policy being in compliance with mortgage backed?

*BGA Response:* To be clear, the answer provided is not quoted from legal counsel but is the Airport's position on owning and purchasing mortgage backed securities. The Airport holds investments in mortgage backed securities in government-sponsored enterprises (GSEs) such as Fannie Mae and Freddie Mac which have the implied backing of the U.S. Government. The Airport would not be allowed to buy mortgage backed securities through private label/non-agency means. It is our interpretation that these agency/corporation obligations are qualified investments under KRS 66.480 (1) (c) 1-8.

4.) Who is the current custodian of the funds and are you open to change custodians?

*BGA Response:* Bank of New York for Debt Service Funds and Community Trust for General Funds and Passenger Facility Funds. Investor can use own custodian but need to include fees with proposal.

5.) What is the benchmark used by Airport for comparison?

*BGA Response:* Barclays 1-5 Index fund used currently for the debt service reserve accounts. The Airport will work with the selected Investment firm on benchmarks for other funds.

6.) Portfolio balances to remain stable?

*BGA Response:* It is expected that the current balances (\$11 million in PFC, \$7 million in General Funds and \$7 million in Debt Service Reserve Funds) are expected to remain stable. The Airport will work with selected Investment Firm on projected cash flows to help manage funds appropriately.

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7.) We are governed by the OCC and as a banking institution is exempt from having to file as an RIA. Does the fact that our status as not being an RIA preclude us from investment management of the Blue Grass Airport assets?

*BGA Response:* It is the Airport's interpretation of Section 975 of the Dodd-Frank act, that an investment advisor must be a Registered Investment Advisor (RIA) to manage municipal bond funds. Unless you can provide documentation otherwise, you would not be allowed to invest the Airport's debt service reserve funds and would therefore be precluded from bidding/managing the Airport's investment portfolio.

8.) The IPS states a maximum allocation to (1)(e), (f), and (h) of 20%- does this apply only to the total asset pool, or to each of the accounts? (For example, could the Debt Service portfolio run 25% in KY Municipals, but the overall exposure of the total assets remain under 20%?)

*BGA Response:* To be conservative, we would apply this rule to each account and therefore, to the entire pool of assets.

9.) Can you provide a cash flow forecast for each account and how each might impact the investment portfolio?

*BGA Response:* Per the pre-proposal meeting, cash flows will be provided by the Airport to the selected advisor on a regular on-going basis.

10.) In the IPS, under the specific investment objective section, it mentions the investment "shall provide a reasonable rate of total return with...emphasis placed upon the preservation of the capital assets". Under Point B, it states the portfolio should remain "sufficiently liquid to enable the LFUCAB to meet operating requirements that might be reasonably anticipated...by matching investment maturities with forecast cash flow requirements." These seem to be somewhat conflicting in nature...a total return framework versus a cash flow matching framework. Do the objectives differ based upon the specific account? What is the overarching investment objective for the LFUCAB portfolio?

*BGA Response:* The Airport desires to obtain a reasonable rate of return within the constraints of the Investment Policy Statement. Cash flow needs or surpluses will be communicated to the investment advisor in a timely manner in order to avoid the need to prematurely cash-out investments (prior to maturity).

11.) Is there any allowance for corporate credit investments, and if not, would the Committee be open to permitting such investments?

*BGA Response:* The Airport's investment policy has to be compliant with KRS Statute 66.480 and, as such, no corporate credit investments would be permitted.