

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

April 22, 2022

The Board of Trustees of the Kentucky Judicial Form Retirement System (JFRS), the Investment Committee for the Kentucky Judicial Retirement Plan (JRP), and the Investment Committee for the Kentucky Legislators Retirement Plan (LRP), convened at the Administrative Office of the Courts, 1001 Vandalay Drive, Frankfort, Kentucky 40601 on Friday, April 22, 2022, at 10:00 a.m. All Board members were present.

JFRS staff present included Bo Cracraft, Executive Director, and Rebecca Stephens, Retirement Programs Administrator. Guests attending the meeting included Stan Kerrick of Lexington Investments, Inc. and Don Asfahl and John Watkins of Baird Trust Company. Guests attending the meeting virtually via Microsoft Teams video-conferencing included Andy Means of Baird Trust Company.

Chairman Grise called the meeting to order at 10:04 a.m.

The trustees considered the adoption of the previously distributed *Minutes* from the January 21, 2022 meeting. Upon motion by Justice Daniel Venters, seconded by Judge Douglas George, the Board unanimously approved the *Minutes* of the January 21, 2022 meeting.

The next item for consideration was the election of a Chair for the Legislators Retirement Plan Investment Committee. Mr. Cracraft acknowledged the untimely passing of Senator Joe Bowen, which created not only a vacant trustee seat but also the Investment Chair position for LRP. Upon a motion by Mr. Stephen LeLaurin, seconded by Representative Scott Brinkman, the Investment Committee for the Legislators Retirement Fund unanimously elected Representative Brad Montell as Chair of the Investment Committee of the Legislative Retirement Fund.

The next order of business was the report of Lexington Investments LLC. Chairman Grise recognized Mr. Stan Kerrick. Mr. Kerrick distributed to the trustees Lexington Investments' *Report of the Kentucky Judicial & Legislators Retirement Funds* as of March 31, 2022, dated April 22, 2022.

Mr. Kerrick began with an overview of recent performance. He noted the most recent quarter saw equity and fixed income markets both produce negative returns for the first time in several quarters as investors reacted to concerns over rising inflation coupled with the conflict occurring in Ukraine. Mr. Kerrick pointed out short-term relative performance had slightly lagged that of the blended benchmark, but the portfolio continued to provide strong absolute and above-benchmark returns for all trailing periods beyond 3-years.

Next, Mr. Kerrick briefly discussed the portfolio holdings as well as transactions that occurred during the quarter. He highlighted a full portfolio rebalance that occurred during the first week of January as the team at Baird tried to rebalance closer to target and reduce the portfolio's total equity exposure. He also pointed out a couple cash withdrawals initiated by staff to meet monthly benefit payments.

Lastly, Mr. Kerrick provided a few compliance statements and stated the Plans were within their prescribed asset allocation guidelines and did not have any individual holdings that currently exceeded the 8% limit. He also confirmed more than half of the portfolio had consistently paid dividends.

In response to questions regarding portfolio cash balances, Mr. Kerrick noted the LRP portfolio did have a higher cash balance than JRP at quarter end, but this was largely due to timing and cash needs of JFRS staff. Both portfolios had a bond mature towards the very end of the quarter, but staff also moved cash out of JRP to meet benefits, which served to reduce cash in that portfolio. Staff did not take any cash from LRP and Baird did not reinvest prior to the end of March.

Chairman Grise welcomed Mr. Don Asfahl and Mr. John Watkins of Baird Trust Company, who joined the meeting at 10:46 a.m. Mr. Andy Means, also of Baird Trust, joined the meeting virtually via Microsoft Teams. Mr. Cracraft had previously distributed copies of Baird's *Investment Review for Kentucky Judicial Retirement Fund and Kentucky Legislators Retirement Fund* dated April 22, 2022

Mr. John Watkins began the quarterly review with a few comments regarding Baird's most recent quarterly market commentary, titled "Investing in Uncertain Times," which highlighted the amount of uncertainty and pessimism that had entered markets. Mr. Watkins pointed to the Federal Reserve's policy shift to combat rising inflation and Russia's invasion of Ukraine as the two primary factors leaving investors uneasy. Uncertainty generally brings with it market volatility, which he stated was very much on display during the most recent quarter. In closing, Mr. Watkins emphasized that regardless of how investors feel, in truth, they always face an uncertain future. Moreover, the team at Baird Trust does not, nor will they, ever try to predict future markets. Instead, Mr. Watkins reiterated the team would continue to focus on their strategy of seeking to be long-term owners of good, strong, and profitable companies.

Mr. Asfahl reviewed several economic statistics, current asset allocation, annual estimated income, and the current yield on the JRP legacy portfolio. He discussed the fixed income portfolio and schedule of maturities.

In response to a question from Representative Brad Montell regarding workforce participation rates as compared to pre-COVID, Mr. Asfahl responded that rates were still a little lower than prior to the pandemic, but much closer.

In response to a question from Representative Scott Brinkman regarding the Federal Reserve's upcoming meeting, Mr. Asfahl stated the markets seem to have priced in another 50 basis point change. Another quarter point would be a surprise, but not out of the realm of possible decisions.

In response to a question from Chairman Grise regarding the unpredictable nature of oil prices, Mr. Watkins pointed to intervention and new technology as two primary factors. He also pointed out that while short term volatility has occurred, the team believed long-term oil prices faced a head wind as alternative sources of energy continue to rise.

Next, Mr. Watkins reviewed a snapshot of the portfolio, which included relative sector weightings, attribution, top performers and largest holdings. He emphasized sector weightings were not the result of any macro or top-down decisions, but rather completely driven by the underlying stocks. He pointed out the portfolio was currently overweight to discretionary, financials, communication services, and industrials, versus underweights to technology and health care.

In response to a question from Mr. LeLaurin regarding if the team ever had moments where they thought top-down decisions should be considered, Mr. Watkins stated the team really had not had such moments. He said there are times when the portfolio has reached a sector relative weight policy limit and the team is required to reduce exposure, but that is really the only circumstance where sector weights are discussed as part of the portfolio construction process.

In response to a question from Chairman Grise regarding Disney, its recent management decisions, and ultimate stock performance, Mr. Watkins opened by stating the team would prefer that companies not take political stands and wished management teams could just focus on running their business. However, he noted that we live in very interesting times and lines have very much become blurred. Secondly, with regards the stock's negative performance, Mr. Watkins emphasized that performance is not always indicative of a company's actual business outlook. The company was facing quite a bit of negative momentum during the short term and was also one of the most impacted companies by the pandemic. He referenced amusement park shutdowns, limitations on foreign travel and restricted capacity. Longer term, the investment team is still confident in the company, its team, and long term growth prospectives.

Next, Mr. John Watkins highlighted recent performance attribution and noted that one stock, Home Depot, had contributed to most of the relative underperformance. He discussed some of the factors contributing to the company's negative performance, mostly related to investor sentiment that rising rates and inflation would hinder remodeling and consumer spending as fewer people take on projects.

In response to a question from Chairman Grise regarding Facebook's recent performance, Mr. Watkins stated the company had recently faced some headwind primarily driven by an advertising and data access change initiated by Apple. In short, Apple has restricted access to some user data on their products, so Facebook no longer has access to data that enables more targeted advertising. This has slowed growth for Facebook and so the price has had to adjust to a new model. In response to a follow up question from Justice Venters regarding what Apple would gain from the change, Mr. Watkins stated it was really two fold. First, Apple prides itself on privacy, so this decision looks like further defense of user privacy. Secondly, it gives their own advertising business, which is a new line of business for Apple, a competitive advantage over Facebook's advertising model.

Lastly, at the request of Mr. Cracraft, Mr. Watkins and Mr. Asfahl discussed the equity portfolio proxy voting policy and stance on Environmental, Social, and Governance (ESG)

investing. Mr. Cracraft noted the Public Pension Oversight Board was set to meet on the following Monday and JFRS staff had been asked to discuss both topics. Mr. Watkin reviewed the team's proxy voting process. He stated the team was using Glass Lewis, which is a third party provider, to execute trades and gain research, but that he personally reviewed any proxy proposal where Baird's policy differed from Glass Lewis's. He noted a few minor situations and stated that there had been multiple times when the team voted differently than the research provided by Glass Lewis.

Mr. Asfahl discussed ESG investing and acknowledged the recent Russia invasion had only further pushed the discussion. He highlighted the equity team's desire to be long-term business owners and finding companies that can be held for decades. He emphasized that the team did not use any ESG related factors to screen potential investments, but that many of the companies held in the portfolio did rate highly with many ESG managers. He pointed to a need of companies, who plan to be around for a long time, to be good business citizens. This means they cannot solely focus on shareholders, but must also consider other stakeholders, such as employees, cities, and local governments.

Mr. Asfahl concluded the presentation with a short review of the fixed income portion of the portfolios, a summary of risk statistics, as well as trailing period performance of the portfolios. He advised that the portfolios were well-positioned, continued to produce strong risk adjusted results, and had outperformed the blended index over each measured period.

Lastly, Mr. Asfahl quickly reviewed allocation, returns, and holdings for the LRP legacy portfolio and two smaller Cash Balance portfolios. He referenced the Board's recent decision to diversify the portfolios and pointed to the most recent quarterly performance as evidence of how performance of the two portfolios had tightened.

Mr. Asfahl, Mr. Watkins, and Mr. Mean's all left the meeting at 11:58 a.m. and the meeting recessed for lunch.

The meeting reconvened at 12:25 p.m. Chairman Grise recognized Mr. Cracraft, who reported on several administrative matters. The trustees discussed the items and took action when noted.

(A) Public Pension Oversight Board (PPOB). Mr. Cracraft gave a summary of PPOB meetings since the January JFRS Board meeting.

February 23, 2022 – JFRS was not on the agenda. The only agenda item related to KPPA and House Bill 8 reporting requirements for employers who utilizes contracted employees.

March 7, 2022 – JFRS was not on the agenda. TRS staff provided a review of the plans sick-leave provisions and LRC Staff provided a semi-annual investment review as of June 30, 2021.

The **April Meeting** was set to meet on Monday, April 25. JFRS was on the agenda and has been asked to provide an update on investment performance, proxy voting, and the system's ESG policies.

(B) 2022 General Session. Mr. Cracraft referenced the *2022 Regular Session – Legislative Update* memo from staff included in the Board materials. He discussed the recently adjourned regular session, which was quiet concerning retirement bills, but did highlight that a few interesting bills were passed during the final days of the session.

(C) Audit Services RFP. Mr. Cracraft noted that the Board approved a RFP for audit services during the January meeting. He indicated staff had posted a RFP in March, which ended during the first half of April, but staff was not pleased with the number of responses. He indicated to the Board that he was going to request information again and hoped to attract a few more responses so the Board could better evaluate options going forward.

(D) 2022-2023 Personal Service Contracts. Mr. Cracraft provided a verbal update to follow up on action taken by the Board during the January meeting. He informed the Board that a new contract had been agreed to with Baird Trust Company and extensions had been agreed to with Finley for actuarial services. Lastly, the Commonwealth's contract with State Street for custody services, which includes JFRS as a named agency, had one year remaining.

(E) SB 104 Implementation. Mr. Cracraft provided a verbal update regarding staff's implementation of Senate Bill 104. He reminded the Board of the legislation, which provided post-2008 members of LRP and JRP a one-time option to voluntarily elect participation in the cash balance plan. He informed the trustees that staff had drafted and sent a letter to each eligible member regarding their right. He called attention to the letter, which was included in the Board materials. He indicated that staff did not expect most members to have interest in the option, but did expect some may call into the office to discuss.

(F) Office & Technology Update. Mr. Cracraft provided a couple of updates. First, he provided a quick update on the pension administrative software project. He informed the Board that contract negotiations had taken a little longer than he planned, but were close. He plans to provide quarterly updates with each meeting to keep the Board up to date. Secondly, he told the Board that staff was updating the office with some gently used commercial furniture that was purchased from a local business who was moving out of the office. This is part of the overall plan to update the agency and modernize the office, while making the space more functional for staff.

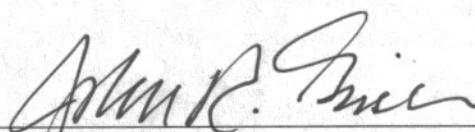
(G) Administrative, Budget, & Personnel. Mr. Cracraft referenced the *Administrative & Personnel Update – FY23 Budget Salary Increases* memo that was included in the Board materials. He referenced the most recent biennial budgets that had been adopted by the General Assembly and salary increments for public and elected officials that were included. He quickly reviewed the memo, how the budget increases applied to JFRS and asked the board to provide more feedback on how he should implement.

Upon motion by Justice Daniel Venters, seconded by Representative Stephen LeLaurin, the Board unanimously agreed to go into Executive Session for the purpose of discussing personnel and confidential member information of employees. The motion passed unanimously.

Upon motion by Judge Douglas George, seconded by Justice Daniel Venters, the Board unanimously agreed to come out of Executive Session. No action was taken in Executive Session.

Upon motion by Judge Douglas George, seconded by Justice Daniel Venters, the Board unanimously authorized providing staff raises as outlined in the Judicial Branch budget, which included a \$2,000 increase to the base salaries of both full time employees, plus a 8% increase in salary or hourly rate of all three current JFRS staff members effective 07/01/2022. The motion passed unanimously.

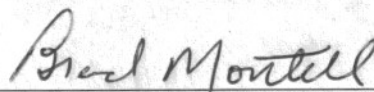
There being no further business, the meeting adjourned at 2:01 p.m.



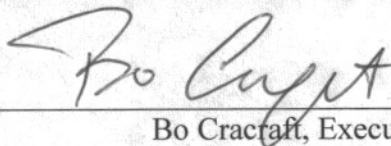
Judge John R. Grise, Chairman
Judicial Form Retirement System Board of Trustees



Stephen F. LeLaurin, Chairman
Judicial Retirement Fund Investment Committee



Brad Montell, Chairman
Legislators Retirement Fund Investment Committee



Bo Cracraft, Executive Director