

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 20, 2023

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, January 20, 2022, at 10:00 a.m. All Board members were present, with the exception of Judge Douglas George, who participated for a portion of the meeting virtually via a Microsoft Team Meeting.

JFRS staff present included Bo Cracraft, Executive Director. Guests attending the meeting included Don Asfahl and Andy Means of Baird Trust Company, along with Allen Norvell of Blue & Co. In addition, Ryan Graham of Blue & Co. participated virtually via Microsoft Teams video-conferencing.

Chairman Grise called the meeting to order at 10:05 a.m.

The trustees considered the adoption of the previously distributed *Minutes* from the October 21, 2022 meeting. Upon motion by Mr. Stephen LeLaurin, seconded by Justice Daniel Venters, the Board unanimously approved the *Minutes* of the October 21, 2022 meeting.

The next item for consideration was the election of Chairs of the Board and Investment Committees. The trustees considered the election of Chair of the Board of Trustees and the Chairs of the Judicial and Legislative Investment Committees. Upon a motion by Judge Douglas George, seconded by Senator Jimmy Higdon, the Board unanimously elected Justice Daniel Venters as Chairman of the Board for the Judicial Form Retirement System.

Upon a motion by Mr. Stephen LeLaurin, seconded by Judge John Grise, the Investment Committee for the Judicial Retirement Fund unanimously elected Mr. Ben Allison as Chair of the Investment Committee of the Judicial Retirement Fund.

Upon a motion by Mr. Stephen LeLaurin, seconded by Senator Jimmy Higdon, the Investment Committee for the Legislators Retirement Fund unanimously elected Rep. 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 Venters recognized Mr. Stan Kerrick. Mr. Kerrick distributed to the trustees Lexington Investments' *Report of the Kentucky Judicial & Legislators Retirement Funds* as of December 31, 2022, dated January 20, 2022. In accordance with Board policy, the System maintains a copy of the Report.

Mr. Kerrick began with a compliance statement, which noted both plans were within their prescribed asset allocation guidelines. He also highlighted that neither plan currently had any individual equity positions that exceeded the 8% maximum weighting as of December 31, 2022. Mr. Kerrick also pointed recent activity in the portfolios. Mr. Kerrick also reviewed the dividend yield of the equity portfolio and duration of fixed income allocation and stated both complied with the investment policy. Lastly, Mr. Kerrick discussed recent transactions, which were limited to a few bond purchases, and projected cash flow in the portfolios.

Chairman Venters welcomed Baird Trust Company, who arrived and joined the meeting at 10:50 a.m. Mr. Cracraft had previously distributed copies of Baird's *Investment Review for Kentucky Judicial Retirement Fund and Kentucky Legislators Retirement Fund* dated January 20, 2023. In accordance with Board policy, the System maintains a copy of the Investment Review. Mr. Kerrick departed the meeting.

Mr. Andy Means began the quarterly review with a few comments regarding Baird's most recent quarterly Market Commentary, titled "The Pandemic Era Reset," which discussed the significant by the Federal Reserve to try to tame growing inflationary concerns. After an expected period of providing liquidity, the Fed has moved to a period of quantitative tightening, which has seen reduced liquidity and pushed interest rates higher.

While no one knows exactly how the future will go, Mr. Means highlighted a few things, both positive and negative, that are known. First on the negative side, he pointed to the tremendous amount of debt that currently sits on the federal government's balance sheet. Given a rising rate environment, more government spending will be required to service and will force some change in spending patterns going forward. In addition, Mr. Means noted a shift to quantitative tightening will likely result in a less accommodative environment for both the overall economy and stock market. Whereas easing provides liquid and serves as a tailwind, tightening serves as a headwind that will slow growth. Lastly, he pointed to increased and deteriorating relations with China, along with the geopolitical concerns that have been growing since Russia invaded Ukraine.

Moving to the positive side, Mr. Means stated that rising interest rates did enhance the attractiveness of fixed income investing. After a period where fixed income portfolios really did not offer much in the form of return, investors should expect bonds to contribute to overall portfolio returns going forward. Secondly, he stated the U.S. banking system was in a stronger position than any time over the past several decades, largely the result of changes that were instituted after the great financial crisis in 2009, and should be better able to handle any upcoming periods of stress. Lastly, the recent reset in markets also removed a lot of speculative activity that surged in 2021. This cleansing should lead to healthier markets, less excess and extreme volatility that is driven by unknown, speculative drivers.

Moving forward, Mr. Means reiterated that all recessions lead to new opportunities. The decline in prices have made some companies much more attractive, while the team also recognizes that historically, during downturns, innovative companies tend to spawn new ideas, technologies, and advances that lead future growth in the market. While the team doesn't try to predict what innovative ideas or advances will ultimately lead that change, the team does continue to emphasize owning reasonably priced, high quality companies, who are financially

strong, managed by talented leaders who have the ability to cultivate productive corporate cultures and durable business models.

In response to a question from Mr. Stephen LeLaurin regarding if the team felt a need to take a defensive posture, Mr. Means stated the team always thinks defensive and a primary goal is to protect on the downside. In order to significantly outperform over a longer term, the team wants to avoid large downturns that quickly erase value added.

In response to a question from Judge John Grise regarding potential innovations or new technological advancement, Mr. Means indicated that many existing positions in the portfolio, such as Meta, Alphabet, Apple, and Pfizer, had made huge investments either organically or through acquisitions. While he didn't rule out a new addition to the portfolio, it would have to be a high quality company, with a trusted business model and management team. The team wants to own businesses that can weather tough periods, but also have a culture of innovation and looking forward to future innovation.

In response to a question from Representative Scott Brinkman regarding Disney, the recent CEO change and current Board of Director seat contest, Mr. Means believed Bob Iger returning as CEO was great news and expressed confidence in the Mark Parker as the new Chairman of the Board. With regards to the contest for a board seat, overall, Mr. Means did not believe one seat would dramatically change the dynamic of the board and said the Baird team was very confident in the team of Iger and Parker. Currently the team views Disney as undervalued and in a position to hold.

In response to a question from Chairman Venters, regarding the portfolios lack of energy holdings, Mr. Means stated the team historically had avoided companies whose value was largely dependent on the price of a commodity, given their speculative and volatile nature. In addition, the team feels like the industry as a whole is facing a bit of headwind as many governments are trying to reduce use and production. In response to a follow up question regarding some other sources that might replace oil and gas, Mr. Means pointed to renewables, fusion, and potentially nuclear. However, he agreed that, currently, no other source was adequate and new technology will be required.

Mr. Asfahl reviewed 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. Mr. Means reviewed a snapshot of the portfolio, which included relative sector weightings, top performers and largest holdings. He also reviewed some recent attribution, pointing out that many of the more recent detractors, such as Microsoft and Apple, had been the most successful companies over a longer, 5-year period. He also pointed out that not holding energy had been the largest detractor to performance over a 1-year period, but when you considered the past five years, it had actually had a slightly additive effect.

Judge Douglas George left the meeting at 11:30 a.m.

In response to a question from Judge John Grise regarding if there were any larger concerns with regards to recent performance from technology stocks, Mr. Means pointed to a siege in demand that was created by the pandemic. Technology companies had to size up to meet the demand, but as markets and demand has drawn back in 2022, many are now having to

right size their workforce. Broadly speaking, the team see this as more of a reset to a new normal and not a fundamental problem with the underlying businesses.

In response to a question from Mr. Cracraft regarding the portfolio's holding in Meta/Facebook and recent underperformance, Mr. Means pointed to a couple of factors. First, he referenced a change in privacy policy initiated by Apple, which had significantly impacted advertisers like Facebook on apple devices. Secondly, the recent whistleblower issue has led to an overall change in sentiment amongst users and has served as a tailwind. Currently the team is in a holding pattern as they see how management responds but is not looking to add to the position.

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.

The meeting recessed for lunch at 12:05. The meeting reconvened at 12:30 p.m. Mr. Allen Norvell of Blue & Co. joined the meeting in person, while Mr. Ryan Graham of Blue & Co. joined the meeting virtually via Microsoft TEAMS. Mr. Means and Mr. Asfahl departed the meeting.

Chairman Venters recognized Mr. Cracraft, who reported on several administrative matters. The trustees discussed the items and took action when noted.

(C) FY 2022 Financial Audit Reports (Blue & Co.). Mr. Cracraft introduced Mr. Norvell and Mr. Graham, who had both joined the meeting to provide a short review of the recently completed fiscal year audit. Mr. Cracraft reminded the trustees that copies of the final reports had been provided via email in November, but copies were also included in their board materials.

Mr. Norvell and Mr. Graham provide a short review of both the Management Letter and full Audit Report. Blue & Co. issued an unmodified opinion on the Financial Statements and found no findings that required to communication under GASB.

Mr. Norvell and Mr. Graham left the meeting at 12:55 p.m.

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

November 15, 2022. Each state-administered retirement system presented annual valuation results, along with a review of fiscal year end performance and cash flow.

December 20, 2022. Each state-administered retirement system was ask to provide a summary of their holdings in cryptocurrency and Meta Holdings (aka Facebook). Mr. Cracraft noted that both LRP and JRP had a marginal holding in Meta, which was not unexpected given its position in the S&P 500 index.

January 30, 2023. Meeting was scheduled for the last Monday of month. Mr. Cracraft indicated the meeting would likely be presentation of proposed legislation expected as Part II of the Regular Session reconvenes in February.


(B) 2023 General Session. Mr. Cracraft referenced the *2023 Regular Session – Legislative Update* memo from staff included in the Board materials. He noted that I Part I of the 2023 Regular Session of the General Assembly began on Tuesday, January 3, 2023. The General Assembly met for four days before adjourning until February 7, 2023 when Part II of the shorter, 30-day, session will convene. As of the close of Part I, 200 bills were filed.

He reviewed a few pension related proposals, most notable was HB 114, which related to LRP and would close the Hybrid Cash balance plan to all new members and ultimately transfer all existing accounts to KERS. There was a healthy discussion regarding this legislation and the Board discussed next steps.

(D) Medicare Group PPO Plan Update. Mr. Cracraft provide a short verbal update. He informed the Board of some recent news that was involving Humana and Vanderbilt Medical Center and had the potential to impact a small group of JFRS retirees. Negotiations were still pending, but as of the meeting date, Vanderbilt had notified Humana participants that their insurance would not be accepted.

(E) Financial Disclosure Statements. Mr. Cracraft requested that each trustee complete a Financial Disclosure Report for calendar year 2022 on or before March 31, 2023 in order to comply with the annual mandated disclosure requirement. A copy of the disclosure had been included in the material and he noted hard copies were available to those members in attendance.


There being no further business, the meeting adjourned at 1:40 p.m.


[Daniel J venters \(Apr 25, 2023 23:18 EDT\)](#)

Judge Daniel Venters, Chairman
Judicial Form Retirement System Board of Trustees


[Ben D Allison \(Apr 25, 2023 13:55 EDT\)](#)

Mr. Ben Allison, Chairman
Judicial Retirement Fund Investment Committee


[Brad Montell \(Apr 25, 2023 13:43 EDT\)](#)

Representative Brad Montell, Chairman
Legislators Retirement Fund Investment Committee


Bo Cracraft, Executive Director