

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

October 20, 2023

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 at the Administrative Office of the Courts, 1001 Vandalay Drive, Frankfort, Kentucky 40601 on Friday, October 21, 2023, at 10:30 a.m. All Board members, with the exception of Mr. Ben Allison and Senator Jimmy Higdon, were present. Mr. Stephen LeLaurin participated via Microsoft Teams video-conferencing.

JFRS staff present included Bo Cracraft, Executive Director, and Rebecca Stephens, Retirement Programs Administrator. Guests attending the meeting included Don Asfahl and John Watkins of Baird Trust Company. Mr. Alan Pauw, of McBrayer PLLC also participated when noted below via Microsoft Teams video-conferencing.

Chairman Venters called the meeting to order at 10:02 a.m. The trustees considered the adoption of the previously distributed *Minutes* from the July 14, 2023 meeting. Upon motion by Judge Douglas George, seconded by Representative Scott Brinkman, the Board unanimously approved the *Minutes* of the July 14, 2023 meeting.

Chairman Venters recognized Mr. Cracraft, who informed the Board that Mr. Alan Pauw, of McBrayer, LLC had joined the meeting virtually via Microsoft Teams. Due to Mr. Pauw availability, Mr. Cracraft suggested the Board adjust the order of agenda items to consider Item E – Disability Retirement Application while Mr. Pauw was available.

(E) Disability Retirement Review. Mr. Cracraft noted the System received an *Application for Disability Retirement Benefits* from a member of JRP. He informed the Board that KRS 21.410 governs disability benefits for the Judicial Retirement Plan and places authority with the Board (not staff) to decide whether a member can retire for disability purposes.

Upon motion by Representative Brad Montell, seconded by Representative Scott Brinkman, the Board unanimously agreed to go into Closed Session at 10:06 a.m. for the purpose of discussing personnel and private health information of a member. The motion passed unanimously.

Upon motion by Representative Scott Brinkman, seconded by Judge John Grise, the Board unanimously agreed to return from Closed Session at 10:42 a.m. No action was taken while in Closed Session.

Following the discussion held in closed session, Judge Douglas George made a motion, seconded by Judge John Grise, to approve the *Application for Disability Retirement Benefits Case #2023-01* contingent upon receiving a *Certified Statement of Disability* from Dr. Don Stevens, Norton Cancer Institute, who the JFRS Board of Trustees appointed as a qualified physician in compliance with KRS 21.410(1). In addition, the Board adopted a 2-year periodic review of Case #2023-01, with the first review scheduled for the January 2026 quarterly meeting.

Mr. Alan Pauw departed the meeting at 10:45 a.m. The next order of business was a quarterly update from Baird Trust Company.

Chairman Venters welcomed Don Asfahl and John Watkins, who arrived and joined the meeting at 10:45 a.m. Mr. Cracraft previously distributed copies of Baird's *Investment Review for Kentucky Judicial Retirement Fund and Kentucky Legislators Retirement Fund* dated October 20, 2023. In accordance with Board policy, the System maintains a copy of the *Investment Review*.

Mr. John Watkins began the quarterly review with a few comments regarding Baird's most recent Market Commentary, titled "The Challenges and Rewards of Holding." He began by sharing a few popular quotes concerning the value of waiting and holding stocks over time. He also reiterated the team's belief that growing wealth over time was most effective when investors could own shares in successful business and hold them for many years. He referenced a few holdings that Baird had owned for over a decade and the profound impact compound interest had on the stock price of those companies.

However, Mr. Watkins admitted that idea sounds very simple in theory, but was difficult in practice given the short-term attention spans of investors and volatile nature of stock prices. Most investors are unable to ignore the noise and distractions that always appear and often sell based on short time periods of wild price fluctuations. Mr. Watkins highlighted many unsettling aspects of the current environment and acknowledged the team did not know exactly how markets would react. However, uncertainty is a constant in the investment business and why Baird tries to remain focused on their overall investment philosophy of being long-term business owners.

In closing, Mr. Watkins noted that patience has historically been a strength of the Baird investment team and the large cap equity strategy. He acknowledged there have been cases where the choice to hold on to a company during a period of uncertainty had led to negative results. However, he further stated the cases where it led to long-term and compounding growth significantly outweighed those mistakes and was a primary driver for the portfolios' long-term performance. Business results do not move in straight lines, and companies experience periods of headwinds, but an "in and out" mentality is not Baird's approach.

Mr. Asfahl reviewed several economic statistics before turning to current asset allocations, annual estimated income, and the current yield on the JRP/LRP legacy portfolios. He discussed the fixed income portfolio and schedule of maturities. Mr. Watkins reviewed a snapshot of the equity portfolio and highlighted relative sector weightings, top performers and recent portfolio attribution. He pointed out the financial sector, which has been the largest weighting in the portfolio for several quarters, and drew attention to the technology sector, which

is slightly underweight at this time relative to several years ago. He pointed out that Progressive Corp was the largest holding, but the company's practice of reporting monthly results had led to recent volatility. Lastly, he referenced recent top and bottom contributors.

In response to a question from Judge John Grise regarding JP Morgan's ability to perform in an environment where most banks were struggling, Mr. Watkins stated JPM was clearly the best run and managed bank in the world. He gave much of the credit to Jamie Dimon and the Bank's management but noted they benefited from taking on a shorter book of debt, which led to returns as rates quickly and significantly increased.

In response to a question from Representative Scott Brinkman regarding Progressive and its more recent introduction to residential insurance, Mr. Watkins stated the company had added exposure. The company was still primarily driven by the automobile business, but it was adding real estate exposure through acquisition, both residential and commercial. Given the recent natural disasters, especially in coastal regions, the home insurance business has been quite a bit more volatile.

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 the portfolios were well-positioned, continued to produce strong risk adjusted results, and outperformed the blended index over each measured time period.

The meeting recessed for lunch at 11:55 a.m. The meeting reconvened at 12:30 p.m.

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 John Grise, seconded by Representative Brad Montell, the Board unanimously elected Justice Daniel Venters as Chairman of the Board for the Judicial Form Retirement System.

Upon a motion by Judge Douglas George, seconded by Mr. Stephen LeLaurin, 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 Representative Scott Brinkman, seconded by Mr. Stephen LeLaurin, 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 a quarterly compliance report from Lexington Investments LLC. Chairman Venters recognized Mr. Cracraft, who notified the board that Stan Kerrick, Lexington Investment Partners, was not able to attend the meeting. He noted for the record that *Lexington Investment's Compliance Report as of September 30, 2023* was included in meeting materials distributed to the Trustees in advance. Mr. Cracraft highlighted page one of the *Report*, noting that each plan is within its prescribed allocation and policy guidelines. In accordance with Board policy, the System maintains a copy of the *Report*.

Chairman Venters 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 July JFRS board meeting.

August 22, 2023 – Each state-administered retirement system provided a quarterly investment and cash flow update. A copy of JFRS’ presentation was included in the Board materials.

September 26, 2023 – JFRS was not on the agenda. The Kentucky Compensation Authority provided an annual update and two public retiree advocate groups presented COLA recommendations. State Treasurer Allison Ball also intended and provided an update on the Restricted Financial Institutions/Energy Boycott List.

Mr. Cracraft indicated the PPOB was scheduled to meet on October 26, 2023, but JFRS was not on the agenda or asked to present any information.

(B) 2023 Actuarial Valuations. Mr. Cracraft stated that funding valuations for LRP and JRP were completed and DRAFT copies were included in the meeting materials. While the reports were still in draft form, Mr. Cracraft indicated no changes were expected unless recommended by the Board.

Mr. Cracraft informed the Board that Wesley Wickenheiser, of USI, Inc., was unable to join the meeting, however, staff had met with both Mr. Wickenheiser and Matt Widick to review results of the 2023 Valuation and prepare a few staff comments. Mr. Cracraft called attention to a few slides summarizing the results. First, concerning funding levels, he noted that all four plans (insurance and pension) had reached a funding level of 100%, and had an actuarial value of assets that exceeded the accrued liability. Regarding contributions, while all the plans were fully funded, the JRP pension plan did have a very small, recommended contribution. He reminded the trustees of a recent change in the Plans’ amortization policy, to amortize both the surplus assets and unfunded liabilities over a closed 20-year window. Lastly, he reviewed the Plans’ membership totals.

In response to a question from Judge John Grise regarding the 1% insurance contribution, Mr. Cracraft confirmed any change in how those funds were collected or allocated would require a statutory change. He also confirmed that specific to the JRP plan, the 1% insurance contribution received from the members exceeded the cost of providing the benefit, known as Normal Cost.

Mr. Cracraft informed the Board that staff would direct USI to finalize these reports and copies would be forwarded to the System’s auditors and LRC staff as required by statute.

(C) 2024 General Session. Mr. Cracraft referenced the *2024 Regular Session – Proposed Legislative Plan* memo from staff included in the Board materials. He began by reviewing staff’s proposed budget request, which was largely driven by the actuarial valuations just reviewed.

Mr. Cracraft also reviewed the proposed restricted fund request, which is staff's estimated administrative expenses. He provided a comparison to prior fiscal years and as budgeted through the next two fiscal years. He noted that expenses had increased modestly over the past couple of years due to salary increases, the agency's investment in technology, and inflation but over a five-year period, the trend had been managed reasonably and total retirement costs had declined to help offset some of those increases.

Following a discussion, Judge Douglas George made a motion on behalf of the Investment Committee for the Judicial Retirement Plan, which was seconded by Mr. Stephen LeLaurin, to adopt staff's 2024-2026 proposed budget request for the Judicial Retirement Plan. Representative Scott Brinkman made a motion on behalf of the Investment Committee for the Legislators Retirement Plan, which was seconded by Representative Brad Montell, to adopt staff's 2024-2026 proposed budget request for the Legislators Retirement Plan.

In addition to the budget, Mr. Cracraft discussed a few legislative topics, included vesting, annual interest credits, and potential health insurance benefit considerations for cash balance members in the future. Mr. Cracraft did not suggest any specific housekeeping legislation for the 2024 session.

(D) Fiscal Year 2024 Audit. Mr. Cracraft provided a brief verbal update of the audit, which he stated should be completed by early November. Thus far, he was unaware of any issues and was confident the report would be free of any material or significant findings. He advised the Trustees that staff would forward a copy via email as soon as the final report was received.

There being no further business, the meeting adjourned at 1:14 p.m.



[Daniel J Venters \(Feb 10, 2024 22:03 AST\)](#)

Justice Daniel Venters, Chairman
Board of Trustees



[Ben D Allison \(Feb 9, 2024 13:38 EST\)](#)

Mr. Ben Allison, Chairman
Judicial Retirement Fund Investment
Committee



Bo Cracraft, Executive Director



[Brad Montell \(Feb 9, 2024 14:12 EST\)](#)

Representative Brad Montell, Chairman
Legislators Retirement Fund Investment
Committee