

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 19, 2024**

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 via video-conference utilizing Microsoft Teams on Friday, January 19, 2024, at 10:00 AM. All Board members participated with the exception of Senator Jimmy Higdon.

JFRS staff present included Bo Cracraft, Executive Director and Rebecca Stephens, Retirement Programs Administrator. Guests attending the meeting included Don Asfahl, Andy Means, and John Craddock of Baird Trust Company.

Chairman Venters called the meeting to order at 10:01 a.m.

The trustees considered the adoption of the previously distributed *Minutes* from the October 20, 2023 meeting. Upon motion by Judge Douglas George, seconded by Mr. Stephen LeLaurin, the Board unanimously approved the *Minutes* of the October 20, 2023 meeting.

Chairman Venters welcomed Baird Trust Company, who had joined the virtual meeting. Mr. Cracraft had previously distributed copies of Baird's *Investment Review for Kentucky Judicial Retirement Fund and Kentucky Legislators Retirement Fund* dated January 19, 2024. In accordance with Board policy, the System maintains a copy of the Investment Review.

Mr. Andy Means began the quarterly review with a few comments regarding Baird's most recent quarterly Market Commentary, titled "Climbing the Wall of Worry," which highlighted how often the stock market moves contrary to perceived wisdom and that the recently completed calendar year of 2023 was a great proof case. While the consensus was largely negative entering the year, investors saw markets climb and the S&P 500 deliver an astounding return of 26%. While no one knows exactly how the future will go, Mr. Means noted that achieving long term and attractive returns can be achieved by diligently researching and selecting high-quality stocks and bonds that are fundamentally sound, led by strong leadership teams, and durable through economic cycles. Mr. Means explained this is Baird's philosophy and why they are patient and don't trade as often as other investors. Instead, they seek to build portfolios that are prepared for uncertain futures, while able to grow in times of opportunity.

Looking to the future, Mr. Means indicated the team is working hard to keep up with the rapidly changing world, especially as it relates to the advent of artificial intelligence ("AI"). He noted just how drastically the internet changed our world, with some industries and established business not prepared or eliminated. The Baird team does not want to get too comfortable or stuck in the past, so they are trying to keep an open mind and researching opportunities. He

emphasized the team will not change their risk profile or tolerance levels, but must be aware that a trap of not preparing for impact of new technology is real.

In response to a question from Mr. Cracraft regarding any specific examples of trying to remain open minded, Mr. Means noted nothing dramatic or new was on the horizon. However, he noted how active Alphabet, Apple, and Microsoft had been recently and a confidence that all three companies will likely have a significant impact. He also noted that many believe AI could drastically change or disrupt industries. While the team is not top down, understanding those potential changes help evaluate companies.

In response to a question from Judge John Grise regarding the recent passing of Charlie Munger and who, if anyone, might become that voice of reason to investors, Mr. Means acknowledged how impactful and thoughtful Mr. Munger had been to the investor community and the Baird Trust Equity team. He noted that Warren Buffett was still active and mentioned a few business leaders, such as Jamie Dimon, as thought leaders. Given the length and advent of technology, much of Mr. Munger's school of thought was well documented and established, so Mr. Means expressed belief that his voice would continue to speak for many years to come.

Mr. Asfahl reviewed several economic statistics and highlighted the consensus is that inflation is beginning to decline. He noted that December results were a little higher than expected, but most still believe the Fed will begin to ease in April and the target range for inflation is approximately 2 to 2.5%. In addition, Mr. Asfahl discussed recent S&P 500 performance and pointed out that the top 10 companies had accounted for 75% of total return in 2023.

Next, Mr. Asfahl reviewed current portfolio 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. Means reviewed a snapshot of the equity portfolio and highlighted relative sector weightings, top performers and recent portfolio attribution. The portfolio's largest weighting continued to be within the financial sector, with consumer discretionary, industrials, and communication services also being sectors in which the portfolio was overweight. The portfolio is underweight in technology, however, Mr. Means pointed out that tech related companies such as Google and Meta are not classified as such in the S&P 500 and can be misleading. He reiterated the portfolio is based solely on stock selection as evidenced by no holding in five sectors.

Mr. Means also reviewed some recent attribution, pointing out that financials had really bounced strongly in the most recent quarter, but remained one of the bottom performers over the 1-year period. Over the longer term, the portfolio had added value in all but two sectors. Looking at stock level attribution, he noted that Pfizer continued to struggle and had been severely punished. He noted the company had not projected demand very well in a post-covid world and thus recent results missed estimates. And consistent with comments from Mr. Asfahl earlier, the biggest names, such as Microsoft, Google, and Apple were also the leaders from a performance point of view.

In response to a question from Mr. Allison regarding Schwab and their recent purchase of TD Ameritrade, Mr. Means stated the transition went well and should be considered a success. Schwab effectively retained all clients, but did spend quite a bit on ensuring the transition was

smooth and efficient. Longer-term, there are a lot of growth opportunities with the additional capital, and management has a history of allocating well. As a result, the team is excited about the holding.

In response to a question from Mr. Allison regarding the wide range of performance from banks, Mr. Means started by stating that Jamie Dimon really separated himself as the best big bank CEO and that was evidenced by JP Morgan's performance. However, overall, Mr. Means expressed belief that the bank was undervalued broadly, and he noted the portfolio's other holdings, while small in weighting, were being held because the team believes there is opportunity there.

In response to a question about Disney and recent changes occurring with the company, Mr. Means stated the team was not real enamored with Nelson Peltz's proxy contest to grab a seat on the Board. It is not productive and Mr. Peltz has no real experience or knowledge when it comes to Disney, so the team will be voting with management. As for recent changes within the business itself, he pointed to significant cost reductions and a renewed focus on content quality rather than quantity. Mr. Means also highlighted the streaming side of the business, which is expected to reach break-even in 2024. Lastly, how the firm positions ESPN will be interesting to watch as well as the industry continues to evolve from the old cable-bundle model.

Next, Mr. Jon Craddock began a discussion of fixed income markets and a review of the current portfolios. He began with a short review of the 2023 calendar year, which included 100 basis points of rate hikes, a mini bank crisis, and then a massive rally during the final quarter which saw 10-year treasury rates drop a full percentage point from their previous highs. He noted volatility had definitely increased more recently and the team was cautiously looking at opportunities. He said the team doesn't tend to remain neutral from a duration standpoint and doesn't like to take a lot of risk there but were seeing some good rates a little further out on the longer end of maturities. Mr. Craddock concluded his comments with a review of the portfolio's bond holdings, 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.

Mr. Asfahl closed the Baird presentation with a review of LRP assets and both Cash Balance portfolios, which closely mirrored the performance of JRP.

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 December 31, 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 October JFRS Board meeting.

**November 20, 2023.** All three plans were asked to present Actuarial Valuation results. The only other agenda item was a short discussion of one proposed piece of legislation that was related to TRS and unpaid days missed due to religious holidays. Staff included a copy of my very short deck of slides for your review.

**December 11, 2023.** JFRS was not on the agenda. The only agenda item included a discussion of a few legislative proposals that were expected in the 2024 session, but did not have any impact on JFRS plans.

**January 22, 2024.** Meeting is scheduled for Monday. An agenda had not been received as of the meeting date. Staff expects to present at the February meeting with calendar year end cash flow and investment results.

(B) 2024 General Session. Mr. Cracraft referenced the *2024 Regular Session – Legislative Update* memo from staff included in the Board materials. He noted the 60-day 2024 Regular Session of the General Assembly began on Tuesday, January 2, 2024. He reviewed a few pension related proposals, but as of the meeting date no legislation that directly impacted either JFRS plan had been introduced.

(C) 2022-2023 Personal Service Contracts. Mr. Cracraft reviewed the following personal service contracts and the Board took action where noted.

**Investment Management.** The June 16, 2022 Personal Service Contract with Baird Trust Company was set to expire as of June 30, 2024. Mr. Cracraft indicated the contract contained an option to extend for two additional two-year periods beginning on July 1, 2024.

The investment counseling and management services for the assets of the two retirement plans were reviewed and discussed. Judge Douglas George made a motion on behalf of the Investment Committee for the Judicial Retirement Fund, which was seconded by Mr. Ben Allison; Representative Brad Montell made a motion on behalf of the Investment Committee for the Legislative Retirement Fund, which was seconded by Representative Mr. Stephen LeLaurin to extend an offer to Baird Trust Company for management and counsel services for Judicial Form Retirement System's plan assets for the period of July 1, 2024 through June 30, 2026 under the same terms and conditions. The motion passed unanimously.

**Audit Services.** Mr. Cracraft reminded the Board that staff issued an RFP for audit services in 2022. At that time a contract was awarded to Blue & Co, dated August 9, 2022. This contract is set to expire June 30, 2024, but does provide that that Board could extend for one additional two-year period.

After a short discussion, Judge Douglas George made a motion, seconded by Mr. Judge John Grise, to offer Blue & Company a 2-year extension of the August 9, 2022 investment management contract for the period of July 1, 2024 through June 30, 2026 under the terms and conditions as outlined in the August 2022 contract. The motion was unanimously adopted. The motion passed unanimously.

**Actuarial Consulting.** Both the Investment Committee for the Judicial and Legislators Retirement Funds entered into a contract with Findley, Inc. (now known as USI) on June 26, 2018 for actuarial services which expired on June 30, 2020. The contract provided for two additional one-year extensions, which were executed in June of 2020 and 2022. With no remaining extensions, Mr. Cracraft indicated JFRS should probably issue a Request for Proposal(RFP) and bid out the services.

After a short discussion, Representative Brad Montell made a motion, seconded by Representative Scott Brinkman, to issue a RFP for actuarial services in accordance with the Commonwealth's Model Procurement Code. The motion passed unanimously.

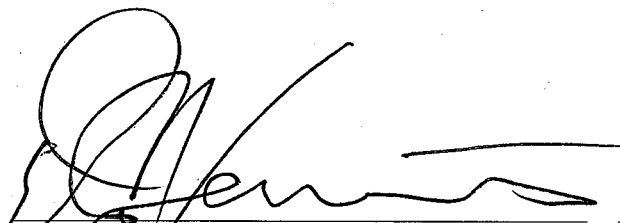
**Custodian.** State Street remains the custodian of the Funds. The Commonwealth of Kentucky issued a RFP in 2023 and awarded State Street a new contract, which included services to JFRS as a named agency of the Commonwealth.

Following discussion, it was the consensus of the trustees that JFRS continue to participate in the Commonwealth's custodian contract with State Street.

(C) FY 2023 Financial Audit Reports (Blue & Co.). Mr. Cracraft informed the Board that copies of the 2023 Audit Reports were included in the Board materials. He reminded the Board that upon receipt in November 2023, the reports were emailed to each trustee.

(D) Financial Disclosure Statements. Mr. Cracraft requested that each trustee complete a Financial Disclosure Report for calendar year 2023 on or before March 31, 2024 in order to comply with the annual mandated disclosure requirement. A copy of the disclosure was included in the material. He noted hard copies were available to those members in attendance.

There being no further business, the meeting adjourned at 11:51 a.m.



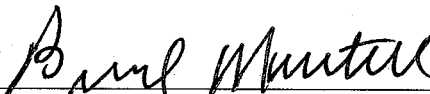
Justice Daniel Venters, Chairman  
Board of Trustees



Mr. Ben Allison, Chairman  
Judicial Retirement Fund Investment  
Committee



Bo Cracraft, Executive Director



Representative Brad Montell, Chairman  
Legislators Retirement Fund Investment  
Committee