

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

**August 2, 2024**

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 offices of Baird Trust Company, 500 West Jefferson Street, Louisville, KY 40202 on Friday, August 2, 2024, at 10:00 a.m. All board members were present. JFRS staff present included Bo Cracraft, Executive Director and Rebecca Stephens (virtual attendee). Guests joining the meeting included Don Asfahl, John Watkins, and Andy Means of Baird Trust Company, along with Danny White, Janie Shaw, and Krysti Kiesel of Gabriel Roeder & Smith (GRS). Guests attending the meeting virtually via video conference included Tracey Garrison and Larry Lowe of Humana, Inc.

Chairman Venters called the meeting to order at 10:02 a.m. He began by welcoming Chief Justice Laurance VanMeter, who was recently appointed to join the Board and replace Judge John Grise upon the end of his third consecutive term.

The Trustees considered the adoption of the previously distributed *Minutes* of the April 19, 2024 meeting. Upon motion by Representative Brad Montell, seconded by Judge Douglas George, the board unanimously approved the *Minutes* of the April 19, 2024 meeting.

Chairman Venters recognized Mr. Cracraft, who notified the Board that Stan Kerrick, Lexington Investment Partners, was not going to make the meeting. He noted for the record a copy of *Lexington Investment's Compliance Report as of June 30, 2024* was included in the materials distributed in advance. Mr. Cracraft highlighted page one of the report, which noted that each plan was within its prescribed allocation and policy guidelines. In accordance with policy, JFRS maintains a copy of the *Report*.

Chairman Venters welcomed Mr. Don Asfahl, Mr. Andy Means, and Mr. John Watkins of Baird Trust Company, who joined the meeting at 10:12 a.m. Mr. Cracraft referenced copies of Baird's *Investment Review for Kentucky Judicial Retirement Fund and Kentucky Legislators Retirement Fund* dated August 2, 2024, which were included in the materials distributed in advance. In accordance with Board policy, the System maintains a copy of the *Investment Review*.

Mr. Means began the review with a few comments regarding Baird's quarterly Market Commentary, titled "Artificial Intelligence Revisited," which was a follow up to the team's

commentary from one year earlier. AI continues to impact and disrupt markets, with businesses exploring ways to deploy and implement into their operations. But with most new and innovated developments, it is hard to know or predict how that is going to impact growth and profitability. Mr. Means emphasized a desire of Baird to be careful and mindful of the “Gates Law,” which highlights investors tendency to overestimate the impact of technology in the short term, while underestimating the effect in the long run. Mr. Means emphasized Baird’s desire to think very long term, with a business owner mindset, so the team continues to focus on investing in strong companies led by strong management teams who they believe will invest and allocate capital in a prudent and profitable manner.

Mr. Asfahl reviewed several economic statistics and discussed recent employment and consumer spending trends. He noted that recent data was not as strong as expected and markets appeared to have fully priced in an October rate cut of 50 basis points. Lastly, he highlighted the level of volatility being experienced on the fixed income side, where rates dropped to under four percent.

Mr. Asfahl continued with a review of current asset allocation, annual estimated income, and the current yield on the JRP legacy portfolio. Mr. Watkins reviewed a snapshot of the equity portfolio, which included relative sector weightings, top, and largest holdings. He pointed out the team had exited their position in Pfizer early in the quarter, using proceeds from the sale to increase their weight in GE Vernova. Progressive Insurance continues to be one of the funds strongest performers and Mr. Asfahl informed the Board the stock was trimmed during the quarter to remain within investment policy guidelines. Mr. Watkin stated proceeds from the sale of Progressive were added to Carmax, which is a company who has faced a bit of a down cycle but remained profitable and is well positioned to gain market share going forward.

In response to a few questions from trustees regarding Carmax and the team’s decision to add to the current holding, Mr. Means highlighted that much of the recent negativity with Carmax is really the result of a once-in-a-lifetime up cycle experienced during COVID within the used car industry. Demand for used cars were at all-time highs and so Carmax performed extremely well, but at a level that could not be sustained long term. Supply on the new vehicle side has increased, so naturally the used car market has been impacted and Carmax as one of the larger names has been overly punishing in the opinion on Baird. Longer term, Baird likes where this company is positioned and believes the management team has it poised to capture market share. And those factors give the team reason to be patient and confident to invest while the company is a little beaten up.

In response to a question from Mr. Allison with regard to the team’s decision to add to GE and Disney a few quarters ago, versus exiting their position in Pfizer now, Mr. Watkins pointed to a lack of confidence in the management team as the primary difference. In addition, the team is very positive on GE Vernova, so having an opportunity to replace with a strong alternative was another factor. In response to a follow up question regarding other healthcare companies, Mr. Watkins noted that Johnson & Johnson was the only company that currently met all three of the team criteria of business, management, and price.

Mr Watkins closed out his comments with a review of recent sector attribution and individual contributors to portfolio returns. He noted over the shorter, 1-year period, the team's decision to not hold NVDA had significantly detracted from performance relative to the benchmark. He acknowledged the company had performed extremely well, but noted semiconductors were historically very volatile and something the team generally did not hold. The team has concern about the cyclical nature of the business and their inability to predict with any confidence if the company can sustain those levels of cash flow going forward. Lastly, as it related to individual stock contributions, Mr. Watkins drew attention to Apple, which was a bottom contributor one quarter ago and now the second largest contributor. He also highlighted the trailing 5-year period and noted only a few stocks had negatively impacted performance, while the top contributors had performed two and three multiples better than the index.

Mr. Asfahl continued the presentation with a short review of the fixed income portion of the portfolio. He highlighted the quality and intermediate investment horizon and reiterated Baird's belief that staying on the shorter end from a maturity standpoint gives investors approximately 95% of the return with about half the risk.

Mr. Asfahl continued the presentation with a review of recent performance and the portfolios' risk statistics. Mr. Asfahl also quickly highlighted the cash balance plans, which currently have a very similar risk and return profile. He reminded the trustees that all account held identical equity portfolios, while the two cash balance portfolios utilized a basket of ETFs to try and best mirror the fixed income allocations. Over the shorter, 1-year period, the ETFs had slightly outperformed the legacy portfolios.

Chairman Venters recognized Mr. Cracraft to discuss one additional investment related topic. Mr. Cracraft informed the Board that JFRS staff, in coordination with Baird, had completed the annual cash balance interest credit calculation. He reminded the trustees that the base annual interest rate is 4%, but the member and plan shared any upside at a 75/25 split, based on the Plans' trailing 5-year plan. For the period ending June 30, 2024, the annual interest credit (guarantee + upside sharing) was calculated as 9.59% for JRP and 9.50% for LRP.

The meeting recessed for lunch at 11:40 and reconvened at 12:30 p.m. Mr. Asfahl, Mr. Means, and Mr. Watkins departed the meeting.

The next item on the agenda was an Actuarial Update provided by Gabriel Roeder & Smith (GRS). Mr. Cracraft recognized Mr. Danny White, Ms. Janie Shaw, and Ms. Krysti Kiesel of GRS. He reminded the trustees that GRS had assumed the role of actuary for JRP and LRP effective with the beginning of the current fiscal year. Mr. Cracraft highlighted how smooth the transition had been and noted GRS had spent several hours with staff in Frankfort earlier in the week. GRS was on hand for the meeting to provide an introduction, review recent valuation results, and outline upcoming projects.

Mr. White began with a short introduction of the GRS team supporting JFRS. Ms. Janie Shaw and Ms. Krysti Kiesel would serve as consulting actuaries, while Mr. White would act as

reviewing actuary. He highlighted that all three individuals were credentialed actuaries, and each brought significant experience working with other public pension plans, including those that included Judges and/or Legislators. He expressed excitement with the opportunity to work with JFRS and the Board of Trustees.

Ms. Kiesel continued with a brief review of the most recent funding valuations, which were performed as of July 1, 2023. As part of the transition, GRS was able to replicate the total pension and OPEB liabilities within less than 1% of the total calculated by the prior actuary, which was very close and well within actuarial standards. She noted that both of the OPEB plans had significant surplus assets, with the pension funds both fully funded as of the 2023 valuation date.

Ms. Shaw continued with a short review of upcoming projects and a quick review of key assumption. First, she noted work would soon begin with regard to the 2024 GASB Valuations, which are performed primarily for accounting purposes. She reminded the trustees that both JRP and LRP only conducted roll-forward valuations every other year for the primary purpose of calculating a net pension liability or asset, which is then reported in the financial statements of the Commonwealth. Secondly, GRS was also preparing to conduct an Experience Study in the spring or summer of 2025. Ms. Shaw noted this is a statutory requirement and would include a review of both economic and demographic assumptions utilized by both plans. She highlighted a few key assumptions, such as investment return, expected salary growth, retirement age, and mortality assumptions as important assumptions that would be reviewed.

In response to a question from Representative Brinkman with regard to how often a plan might change mortality tables, Mr. White stated that most plans tend to change tables every 4-5 years in line with experience studies. He noted in the past, plans largely relied on just actual plan experience, so every 5 years or so they would do a study, then adjust their tables accordingly. And depending on the plan size or experience, there could be pretty significant actuarial impacts on a plan. However, he stated most plans had recently moved to incorporate “improvement scales,” which combined actual plan data with an expected change or trend into the future. Adding this expected component has proven to minimize the impact of changes from experience study to experience study. Lastly, Mr. White noted that when JFRS adopted new tables in 2020, an improvement scale was incorporated.

The next agenda item was a review of 2025 Retiree Health Insurance. Chairman Venters recognized Mr. Cracraft, who referenced the *2025 Retiree Health Insurance – KEHP and Medicare Advantage Plan Premiums* staff memo that was included in the meeting materials and outlined proposed rates for the upcoming plan year.

Mr. Cracraft began with a discussion on the Kentucky Employees Health Plan (KEHP), in which retirees and dependents who are under the age of 65 participate. He informed the Board that after fairly significant rate increases over the past couple of years, premiums for 2025 were staying the same as 2024. Given the unchanged rates, any financial or actuarial impact should be minimal and largely based just on the number of members participating.

Following a discussion, Judge Douglas George made a motion, seconded by Mr. Stephen LeLaurin, to utilize the Kentucky Employees' Health Plan (KEHP) to provide non-Medicare eligible retirees and dependents health insurance coverage with a monthly contribution level for each classification (single, parent-plus, couple, family) equivalent to the Living Well PPO plan premium. The percentage of payment by the respective Plan is dependent upon the retiree's years of service and any balance will be deducted from the retiree's monthly benefit. If a retiree failed to comply with the 2024 Living Well promise, the \$40.00 monthly KEHP assessment will be the member's responsibility and deducted from their monthly allowance.

Next, Mr. Cracraft recognized Ms. Tracey Garrison and Mr. Larry Lowe of Humana, Inc. Ms. Garrison and Mr. Lowe had joined the meeting virtually via videoconference. Mr. Cracraft reminded the trustees that Humana provides a Medicare Advantage PPO plan which is utilized by retirees and dependents of JFRS who have reached the age of 65. Mr. Cracraft informed the Board that there were a few significant changes occurring within the Medicare space and as a result, premiums for JFRS were expected to increase over 40% in 2025. Much of the impact is due to recent federal legislation. He believed it would benefit the Board to have Humana join the meeting to discuss the changes, while also providing the Board with some alternative considerations, if desired.

Ms. Garrison began Humana's presentation with an update on recent Rate and Plan Changes. First, she highlighted an annual process conducted by the Centers for Medicare & Medicaid Services (CMS) to review and set Medicare Advantage rates of pay. She indicated that expected rates for the 2025 plan year were not expected to climb as much as recent trends in total medical cost, which was creating a gap and placing pressure on plan premiums. Secondly, and more impactful, were changes occurring with regard to Part D and prescription drug plans. As a result of the Inflation Reduction Act (IRA), effective January 2025, Part D is being significantly redesigned. Most notably is the establishment of a \$2,000 annual out-of-pocket cap on spending (versus \$8,000 in 2024) which increases the financial liability faced by Part D plan sponsors and employers offering Group Medicare plans, such as JFRS. With limited ability to change underlying benefits, the increased liability is leading to significant premium increases. In the case of JFRS, the expected rate is expected to climb to just over \$530 per month.

Next, Ms. Garrison provided a few alternative plan designs the Board could consider and how changes to a plan's deductible, co-pays, co-insurance, or max out of pockets could impact monthly premiums. She highlighted that the current JFRS plan was a high-quality plan, with a very small deductible and no copayments, which as expected, was highly utilized by members. She stated that several plan sponsors had moved to a no-deductible plan but offset that with small co-payments for physician and specialist visits. Other sponsors had decided to increase the plan's deductible and created some small co-pays to more costly services, such as emergency room visits.

There was a lengthy discussion amongst trustees regarding the Medicare plans, the increased premiums, and alternatives provided by Humana. Staff provided the Board with an

estimated annual cost increase from the changes in premiums and acknowledge there would definitely be a negative impact actuarially given the 2023 funding valuations were based on the significantly lower premiums.

Following the discussion, Chief Justice Laurance VanMeter made a motion, seconded by Mr. Stephen LeLaurin, to renew its hospital and medical insurance contract with Humana for the 2025 plan year, and to set the 2025 monthly contribution level at \$533.09, which includes supplement dental and vision coverage. The motion passed unanimously.

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

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

**April 22, 2024** – Each state-administered retirement system was on the agenda and provided an investment update.

**May 20, 2024** – JFRS was not on the agenda, but did attend the meeting. The only agenda item was related to KERS Nonhazardous participation and House Bill 8 Reporting.

Mr. Cracraft noted the Oversight Board did not meet in June or July and expected the August meeting to include fiscal year investment and cash flow reviews.

(B) Open Records Request. Mr. Cracraft reminded the Board of their approved Open Record Request Policy and provided a verbal update on a couple of requests that staff received. He stated the requests were made by a local attorney and related to a legal decision made in the past involving a retired member. He informed the Board that staff worked with Alan Pauw, the agency's third-party legal partner, to respond to the requests but acknowledged significant information being requested was private in nature and required redaction. Given the requirement to redact much of the information, Mr. Cracraft expected additional steps would be taken with regard to this situation. He promised to update the Board in the future, if needed.

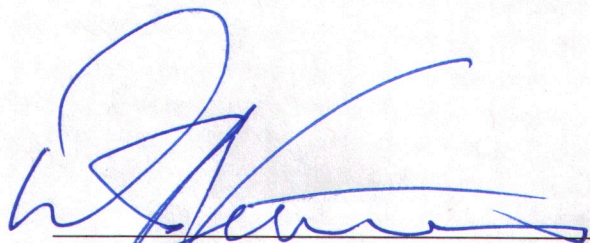
(C) EOY Processing/Annual Financial Audit. Mr. Cracraft provided an update on the fiscal year end activities. He informed the Board that staff was very close to closing out the year financially and is hoping to quickly start the annual financial process. He also noted staff was working on a budget request, annual member statements, and gathering the actuarial valuation data.

(D) Member Self Service Portal Project. Mr. Cracraft provided an update on the final stage of the Pension Administration Software (MARC) Project. He informed the Board that staff had met with Milliman a week ago and initiated the process of activating an online member self-service portal. He stated that staff would introduce to active members first, then slowly open to

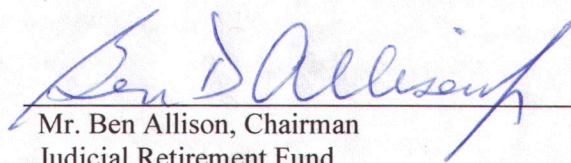


retirees who would like to use. With regard to new cash balance members, the portal can be very useful as members can check balances, run estimates, and share documents in a secure manner.

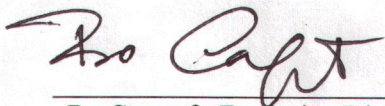
There being no further business, the meeting adjourned at 1:53 p.m.



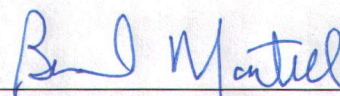
Justice Daniel Venters, Chairman  
Board of Trustees



Mr. Ben Allison, Chairman  
Judicial Retirement Fund  
Investment Committee



Bo Cracraft, Executive Director



Representative Brad Montell, Chairman  
Legislators Retirement Fund  
Investment Committee