

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 18, 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 Administrative Office of the Courts, 1001 Vandalay Drive, Frankfort, Kentucky 40601 on Friday, October 18, 2024, at 10:00 a.m. All Board members, with the exception of Representative Scott Brinkman were present. Senator Jimmy Higdon participated via Microsoft Teams video-conferencing.

JFRS staff present included Bo Cracraft, Executive Director. Guests attending the meeting included Don Asfahl, Andy Means, and Derek Bonifer 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 August 2, 2024 meeting. Upon motion by Mr. Stephen LeLaurin, seconded by Judge Douglas George, the Board unanimously approved the *Minutes* of the August 2, 2024 meeting.

The first 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 Chief Justice Laurance VanMeter, 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 Chief Justice Laurance VanMeter, 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.

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 September 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 *Compliance Report*.

Chairman Venters welcomed Don Asfahl and Andy Means from Baird Trust, who joined the meeting at 10:10 a.m. Mr. Cracraft previously distributed copies of *Baird's Investment Review for Kentucky Judicial Retirement Fund and Kentucky Legislators Retirement Fund* dated October 18, 2024. In accordance with Board policy, the System maintains a copy of the *Investment Review*.

Mr. Don Asfahl began the review by informing the Trustees of his plan to retire at the end of the 2025 summer after more than fifty years in the industry. He introduced Derek Bonifer, who was a Senior Portfolio Manager with the fixed income team. Mr. Bonifer had joined Baird Trust three years ago after spending time at PNC Bank. Mr. Asfahl highlighted Mr. Bonifer's 25 years of investing experience and previous working relationships with several members of the Baird team, including John Craddock, Baird Trust's Director of Fixed Income.

Next, Andy Means drew attention to their most recent Market Commentary, titled "Focusing on What Matters." He noted how current investors find themselves with what seems like a never-ending stream of information, which can be overwhelming and at times, distracting. The key is to tune out information that is perishable or noise, while focusing on information that truly matters or what will have a real impact on a business. The equity team at Baird wants to have a long-term business owner mindset and that tends to focus their attention on information they believe will have a long shelf life. Information that will drive long-term investment outcomes and not short-term or distracting news that might impact Wall Street for a few days. Baird is not stock traders or pickers, but rather business analysts seeking to identify companies and management teams they can partner with for a long time, potentially decades.

Mr. Means noted the current investment environment and how strong equities had performed over the past couple of years. He acknowledged that it felt like equities were optimistically priced and that there was some risk, however he also pointed to the expectation for interest rates to be cut and how historically that positively impacted equity markets. In the end, he reminded the Trustees that Baird was not going to try to predict the future, but rather continue focusing on companies the team believes will perform in any scenario.

Mr. Asfahl reviewed several economic statistics before turning to current asset allocations, annual estimated income, and the current yield on the 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. He quickly discussed recent sector attribution, noting that the portfolios largest overweight had served to add value over all time periods, while the portfolios underweight to technology has detracted a bit. At a stock selection standpoint, he highlighted Progressive and GE Vernova as two very strong performers over the past year and noted that only two stocks, Disney and Carmax, had detracted from performance over the trailing 5 year period.

In response to a question from Mr. Cracraft regarding the team's recent decision to add to the position of Carmax, Mr. Means stated Carmax, like most used car dealers, was facing a macro headwind and the question they find themselves asking is how long will that last. He

reiterated how much the team believes there is long-term potential for the company, but it was currently a real test of patience.

In response to a question from Mr. Ben Allison regarding JP Morgan versus other banks such as Wells Fargo and US Bancorp, Mr. Means identified Jamie Dimon as the primary difference driving recent results. Mr. Dimon has differentiated himself in the space, while US Bancorp and Wells Fargo both, for different reasons, had not performed as well as expected. Mr. Means noted that both banks were years into new management transitions. Baird was encouraged by recent activity with Wells Fargo, while US Bancorp was a bit more disappointing, and the team was definitely losing patience.

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 11:40 a.m. The meeting reconvened at 12:15 p.m. and Mr. Asfahl, Mr. Means, and Mr. Bonifer departed at that time.

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 informed the trustees of one PPOB meetings since the August JFRS Board meeting.

August 27, 2024 – Each state-administered retirement system provided a quarterly investment and cash flow update. A copy of JFRS' presentation was included in the Board materials.

Mr. Cracraft indicated the PPOB did not meet in September and was scheduled to meet on October 22, 2024. JFRS was on the agenda for October and had been asked to provide a short presentation on membership and benefit information.

(B) 2024 Actuarial Valuations. Mr. Cracraft referenced GASB valuations for LRP and JRP, which had been completed and were included in the meeting materials. While he stated the reports were still in draft form, Mr. Cracraft indicated no changes were expected unless recommended by the Board.

Mr. Cracraft highlighted a few important items with regards to the valuations. First, he reminded the trustees that these valuations were completed for accounting purposes and utilized a roll-forward method to calculate a Net Pension Liability or Asset (NPL or NPA). Secondly, given the GASB method required the use of actual market value, versus the smoothed approach used for funding purposes, volatility in results was often evident. He referenced how funding ratios could jump significantly during periods of strong positive or negative investment results. Lastly, as it related to the OPEB or medical insurance funds, he reminded the Board that 2025 projected premiums, which had increased quite a bit on the Medicare side, were not reflected in

this data. Overall, he stated that all four plans (pension and insurance for both JRP and LRP) had reported Net Pension Assets.

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

(C) 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.

(D) Open Records Request Update. Mr. Cracraft referenced a discussion from the August meeting and informed the Board that staff had received a Subpoena Duces Tecum to produce some information that had been previously requested but was redacted due to privacy and open record laws. Mr. Cracraft indicated that staff was working with the agency's third-party legal counsel, Mr. Alan Pauw, and planned to respond with all requested documents by the required deadline.

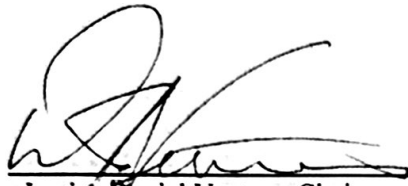
(E) Death Benefit Review. Mr. Cracraft referenced a letter from Mr. Alan Pauw, related to Line of Duty Benefits, included in the meeting materials. As a result of the recent death of Judge Kevin Mullins, Mr. Pauw was asked to review the Fred Capps Memorial Act (KRS 61.621) and give an opinion on whether it could be interpreted to apply to JFRS plans. In addition, if deemed appropriate to apply, staff sought input as to what steps or process required for the Board to determine if an incident was deemed "duty-related" as defined in KRS 61.621.

Following a lengthy discussion, the Board agreed that Fred Capps Memorial Act benefits could be applied to JRP and LRP members, however additional information would be needed to make a final determination on the specific event in question. Staff was directed to gather additional information and the Board agreed to meet at a later date for the purpose of making a final determination.

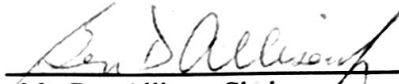
(E) 2025 Regular Session. Mr. Cracraft noted the shorter, 30-day, session was expected to begin on the first Tuesday in January. As of the meeting, staff were unaware of any pension legislation that would materially impact either LRP and JRP, nor did they have any specific housekeeping language in mind.

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There being no further business, the meeting adjourned at 12:54 p.m.



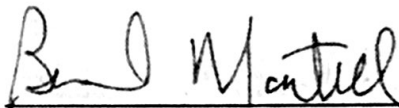
Justice Daniel Venters, Chairman
Board of Trustees



Mr. Ben Allison, Chairman
Judicial Retirement Fund Investment
Committee



Bo Cracraft, Executive Director



Representative Brad Montell, Chairman
Legislators Retirement Fund Investment
Committee