

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

April 25, 2025

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, April 25, 2025, at 10:00 a.m. All Board members, with the exception of Mr. Stephen LeLaurin, were present. JFRS staff present included Bo Cracraft, Executive Director. Guests attending the meeting included Don Asfahl, Derek Bonifer and John Watkins of Baird Trust Company and Alan Pauw of McBrayer, PLLC.

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

The trustees considered adoption of previously distributed *Minutes* from the January 17, 2025 meeting. Upon motion by Judge Douglas George, seconded by Mr. Ben Allison, the Board unanimously approved the *Minutes* of the January 17, 2025 meeting.

The next order of business was a quarterly investment review. Chairman Venters welcomed Baird Trust Company, who arrived and joined the meeting at 10:07 a.m. Mr. Cracraft had previously distributed copies of Baird's *Investment Review for Kentucky Judicial Retirement Fund and Kentucky Legislators Retirement Fund* dated April 25, 2025. In accordance with Board policy, the System maintains a copy of the Quarterly Investment Review.

Mr. John Watkins began with a review of Baird's most recent market commentary, titled "Investing Through Uncertainty," which highlighted the volatile market environment in the first quarter of 2025. Uncertainty has been a recurring topic over the years and the most recent quarter served to remind investors the world and future is always uncertain, regardless of fact if investors recognize it or not. Mr. Watkins pointed to tariffs as the largest contributor, but he acknowledged Baird was still trying to determine how impactful tariffs would ultimately be on the underlying businesses the team had invested in.

In response to a question from Chairman Venters regarding recent markets and how dramatic prices had moved, Mr. Watkins stated the team tries, as best they can, to ignore market prices. Historically, given all the high frequency trading, markets do not accurately reflect a stocks true value and often overreact during periods of negativity or high volatility. Having a long-term focus has clearly added value, especially as the team focuses on owning businesses that have a proven track record of handling periods of uncertainty.

In response to a question from Judge George with regards to any new potential holdings, Mr. Watkins referenced recent purchases of Amazon and Danaher as two prime examples. Both are very attractive and are companies the team would have liked to hold for quite some time, but until recently, they did not meet the price threshold.

Mr. Bonifer reviewed several economic statistics and highlighted recent consumer activity. With regards to the tariff discussion, he did provide recent data regarding exports and pointed to the U.S. as one of the lowest exporting countries. He acknowledge this could put some pressure on other countries to negotiate or react to the new administration's recent decisions. Lastly, he referenced recent volatility, but reminded the Board that intra-year declines are often not reflective of calendar year results. He pointed to 2022 and 2023 as examples, where markets had short periods where markets declined over 10% during both years, but markets ended up just over 20% in both instances. This was another good example that investing is more about time in the market, rather than trying to time the market. Next, Mr. Asfahl continued with a review of current asset allocations, annual estimated income, and the current yield on the portfolios.

Next, Mr. Watkins reviewed a snapshot of the portfolio, which included relative sector weightings, attribution, top performers and largest holdings. He reminded the trustees that the portfolio would look significantly different than the index they were trying to outperform but emphasized sector weightings were completely driven by stock selection and not a top-down decision. He noted that allocations do not tend to change overnight but will change over time and he referenced information technology, which was overweight just a year or so ago, as a prime example. He also drew attention to the top 10 performers, which notably included only one of the magnificent 7 stocks (Apple) that have dominated much of the discussion over the past couple of years. He also highlighted that almost all of the portfolio's recent top performers, with the exception of O'Reilly, were stocks the team had held for over 20+ years.

Lastly, Mr. Watkins discussed a few of the recent additions to the portfolio. The team had decided to exit US Bancorp after holding for 28 years and a compounded annual return of just over 7%. In addition, the team trimmed Progressive, GE Aerospace, and Berkshire Hathaway after recent performance. They used these proceeds to add a new name, while adding to a few existing holdings. First, the team added Danaher as a new holding. This is a company the team had been watching for over five years and recent volatility provided an attractive entry point value wise. In addition, the team added to Disney and Omnicom, two positions that have struggled a bit, but the team still has long term confidence and believed the recent market correction provided an opportunity. Lastly, in early April, after the close of the quarter, the team trimmed Fastenal and O'Reilly to fund the introduction of Amazon into the portfolio. Amazon is well known, and a company Baird has tracked for over 20 years, but a lack of profit and price points had been hurdles until recently.

In response to a question from Mr. Allison regarding Google, Mr. Watkins stated the team was being patient and believed there was much left to determine there. AI is definitely a concern, but also an opportunity. The search business had actually grown in the face of AI and YouTube continued to provide strong results. And with regards to the recent DOJ activity and antitrust concerns, Baird doesn't have an opinion but did express confidence that the sum of the parts would be worth quite a bit more than the current value as a whole. Similar to GE and their recent spin-off activity, if Alphabet was split, it likely would be profitable for investors.

Mr. Bonifer continued 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 noted the portfolio had several bonds maturing over the last half of the year and that many of those bonds would be reinvested at close to 4 or 5% yields. He said the team would work with JFRS staff and depending on cash needs, look to also extend out term wise, closer to 2035 or so. Lastly, Mr. Asfahl quickly reviewed allocation, returns, and holdings for the LRP legacy portfolio and two smaller Cash Balance portfolios.

The meeting recessed for lunch at 11:45.

The meeting reconvened at 12:15 p.m. Mr. Asfahl, Mr. Bonifer, and Mr. Watkins left the meeting. Chairman Venters recognized Mr. Cracraft, who welcomed Mr. Alan Pauw from McBrayer, PLLC to the meeting. Mr. Cracraft referenced the *Medicare Part B Reimbursement Review* memo from staff included in the Board materials. He noted this was a topic that had been discussed informally a few times, but the Board had not done a full review. In response, Mr. Cracraft had enlisted Mr. Pauw to assist with a review of the statutory language and the plans administration of benefits.

The next agenda item was Reports by the Executive Director. Mr. Cracraft reported and the trustees took action when noted.

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

January 27, 2025 – JFRS was not on the agenda. A handful of proposed legislative changes were discussed.

February 24, 2025 – JFRS was not on the agenda. A handful of proposed legislative changes were discussed.

March 2025 – The Oversight Board did not meet in March.

The **April Meeting** is set to meet on Monday, April 28. JFRS was on the agenda and had been asked to provide an update on investments and cash flow.

(B) 2025 General Session. Mr. Cracraft referenced the *2025 Regular Session – Legislative Update* memo from staff included in the Board materials. He discussed the recently adjourned regular 30-day session, which saw only one bill pass that directly related to JFRS.

Mr. Cracraft highlighted Senate Bill 183, which was another bill related to the fiduciary duties and proxy voting. The bill amended statute related to the fiduciary duties to further define some terms related to proxy voting and added a required economic analysis in any event JFRS votes on a shareholder-sponsored proposal that is not consistent with the recommendation of management order to demonstrate that a vote against management's recommendation is solely in the interest of the retirement plan members and beneficiaries. Mr. Cracraft noted that would be unusual for Baird to vote in opposition of management, but possible and in that event this bill would require some additional research and analysis.

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(C) Administrative, Budget, & Personnel. Lastly, Mr. Cracraft referenced the recently passed budget bills pass by the General Assembly. He informed the Board that all three branch budget bills included language that provides a three percent (3%) salary increase for each eligible employee effective July 1, 2025. He reviewed the impact on JFRS administrative cost if a similar raise was provided to the agency's two current employees.

Upon motion by Senator Jimmy Higdon, seconded by Representative Brad Montell, the board unanimously authorized providing staff with a 3% increase in salary or hourly rate of all two current JFRS staff members effective July 1, 2025.

Upon motion by Justice Daniel Venters, seconded by Representative Scott Brinkman, the Board unanimously agreed to go into Closed Session at 1:10 a.m. for the purpose of discussing legal matters or potential litigation.

Upon motion by Justice Laurance VanMeter, seconded by Judge Douglas George, the Board unanimously agreed to return from Closed Session at 1:23 a.m. No action was taken while in Closed Session.

There being no further business, the meeting adjourned at 1:24 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