

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 1, 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 offices of Baird Trust Company, 500 West Jefferson Street, Louisville, KY 40202 on Friday, August 1, 2025, at 10:00 a.m. All board members were present with the exception of Judge Douglas George. JFRS staff present included Bo Cracraft, Executive Director. Guests joining the meeting included Don Asfahl, John Watkins, Derek Bonifer, and Andy Means of Baird Trust Company, along with Janie Shaw and Krysti Kiesel of Gabriel Roeder, Smith & Company (GRS).

Vice Chairman Allison called the meeting to order at 10:03 a.m.

The Trustees considered the adoption of the previously distributed *Minutes* of the April 25, 2025 meeting. Upon motion by Senator Jimmy Higdon, seconded by Representative Brad Montell, the board unanimously approved the *Minutes* of the April 25, 2025 meeting.

Mr. Allison recognized Mr. Cracraft, who informed the Board of a slight change in the agenda. Given some time constraints, staff was going to have the Board consider a few items of business to start the meeting. He began by referencing a *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 as of the date of the meeting final rates had not been provided by the Department of Employee Insurance. After two years of seeing rates remaining level, the Department of Employee Insurance (DEI) had advised that increases were expected for the 2026 plan year and could be significant. Mr. Cracraft discussed the possible impact of rate increases on the funding level of staff. While difficult to estimate the actuarial impact any rate increase might have long term, staff did not expect increases would dramatically impact funding levels. First, the group of under 65 participants for both JRP and LRP were small relative to the Medicare side of benefits. Secondly, the most recent funding valuations, conducted as of July 1, 2023, did utilize 2024 rates and included a modest growth rate which would account for a portion of these increases. Mr. Cracraft noted that while the liability might increase, recent investment experience should serve to minimize the net actuarial impact.

Following a discussion, Representative Brad Montell 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 2025 Living Well promise, the \$40.00 monthly KEHP assessment will be the member's responsibility and deducted from their monthly allowance. The motion passed unanimously.

Chairman Justice Daniel Venters arrived and joined the meeting at 10:20 a.m.

Next, Mr. Cracraft reviewed the proposed premiums for the Humana Medicare Advantage plan, which retirees and dependents who have reached the age of 65 and older utilize. After a significant increase in 2025, which exceeded 44%, due to changes made on the Part D side by the Inflation Reduction Act (IRA), the proposed premium for 2026 was set to climb just under five percent to \$558.09. Mr. Cracraft noted this level of increase was very much in line with prior experience in 2022-2024. In addition to the renewal of 2025 benefits, staff asked Humana to also provide premium cost information for adding a basic hearing benefit to the Medicare plans. Mr. Cracraft acknowledged that increasing benefits at any level needed to be considered carefully but noted that vision and dental had been added in the past and other state sponsored plans had added similar benefits over the past couple of years. Regarding the potential impact of the premium increases on the funding level of staff, Mr. Cracraft did expect the plans would see a pretty significant increase in actuarial liability given the dramatic increase in premium, over 50% in total, since the plan's most recent valuation in 2023. However, much like the under 65 side, recent investment performance will definitely offset, but the ultimate impact won't be known until 2025 valuations are finished.

There was a discussion amongst the trustees regarding the Medicare plans and adding a hearing benefit. Following the discussion, 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 2026 monthly contribution level at \$558.47, which would include a basic hearing benefit. The motion passed unanimously.

The next item of business was a review of the Board's fiduciary insurance and a new quote for the Board's annual policy, which was set to expire at the end of September. Mr. Cracraft referenced a copy of the quote, which was included in the materials distributed in advance of their meeting. He reminded the trustees this policy was last bid in 2022, during a period where the number of providers had dropped significantly, and none were willing to provide single policies exceeding \$10 million. JFRS had total coverage of \$20 million, however that coverage was split across two \$10 million policies, one serving as primary and the second known as "excess coverage," for those rare instances where a plan exceeded the primary \$10 million threshold. In 2022, the Board considered several options and ultimately chose to increase the policy deductible from \$5k to 50k, which resulted in much lower premiums annually and also

allowed for the agency to adopt a 3-year locked rate policy.

Mr. Cracraft noted the final year of that policy was set to expire in 2025. He had recently received a new quote, with the same deductible and another three year locked in rate. As expected, the total premium was increasing from three years ago, but just 6.4% in total.

Following a discussion among the trustees, Justice VanMeter made a motion, seconded by Representative Brad Montell, to renew the systems Fiduciary Insurance policy with Assured Partners at a cost of \$61,523.02 with an annual deductible of \$50,000 for the period of October 1, 2025 through October 1, 2028. The motion passed unanimously

The next item on the agenda was results from the 2025 Actuarial Experience Study. Mr. Cracraft referenced a presentation titled, *2025 Experience Study*, that was included in the material provided prior to the meeting. Mr. Cracraft reminded the Trustees that this study was required by Statute to be performed once every five years and was a formal review of both demographic and economic assumptions. He recognized Ms. Janie Shaw and Mrs. Krysti Kiesel from Gabriel Roeder & Smith (GRS) who were in attendance to present.

Mrs. Kiesel began by highlighting the importance of a plan's actuarial valuation to determine required contributions, the current financial condition, and a review of trends in data. Projecting a plan's liability relies on a number of assumptions, but over time those assumption will change or be revised along with the population of members and actual economic results. Over time, regardless of what assumptions are used, the true cost of benefits will be borne out of actual experience, but assumptions help develop reasonable decision making and budgeting over time.

Next, Mrs. Kiesel highlighted the primary economic and demographic assumptions that were reviewed during the study. She called attention to individual salary increase assumption as the most notable and stated it was the only suggested change that would materially impact the liability and required contribution. Given recent raises provided over the last four years, they suggested slightly revising the assumption upward, which means the plan would assume a slightly higher salary for members and thus a higher benefit at retirement. GRS was suggesting a few other changes to items such as the Cash Balance Interest Credit, Mortality, Retirement, and Termination rates, however the impact was very small and made not material impact.

Following a discussion, Mr. Ben Allison made a motion on behalf of the Investment Committee for the Judicial Retirement Fund, which was seconded by Mr. Stephen LeLaurin, and Representative Brad Montell made a motion on behalf of the Investment Committee for the Legislative Retirement Fund, which was seconded by Representative Scott Brinkman, to adopt the new proposed assumptions as recommended by GRS in response to the 2025 Experience Study. These new assumptions would be incorporated the July 1, 2025 biennial funding valuations. The motions passed both committees unanimously.

The meeting recessed for lunch at 11:25 a.m. and reconvened at 11:50 a.m. Mrs. Kiesel and Mrs. Shaw departed the meeting.

Chairman Venters welcomed Mr. Don Asfahl, Mr. Derek Bonifer, Mr. Andy Means, and Mr. John Watkins of Baird Trust Company, who joined the meeting. Mr. Cracraft referenced copies of Baird's *Investment Review for Kentucky Judicial Retirement Fund and Kentucky Legislators Retirement Fund* dated August 1, 2025, which were included in the materials distributed in advance.

Mr. Means began the review with a few comments regarding Baird's quarterly Market Commentary, titled "This Time It's Different, But Key Lessons Endure," which highlighted the difficult task of balancing new trends being employed in today's markets with traditional rules of investing that have been proven over long periods. Ignoring history completely will likely lead to peril, however some aspects of today's world do differ from the past, so recognizing which rules are foundation and which aren't is the difficult task of investors.

Mr. Means highlighted historic *reversion-to-the-mean* strategies as one example. During the pre-internet investment era, many successful investors bought companies when valuations were near the bottom of their historical ranges and sold when valuations approached the high end in a repeatable cycle. And this disciplined approach proved successful, largely due to an economy constrained by geography and limited communications. However, in a post-internet era, where geographic boundaries are shattered and global markets can be accessed by the click of a button, companies who can take advantage of the new reach can grow faster and longer and higher than ever before. Investors must recognize this difference and use it to their advantage. That said, investors can't ignore certain bedrock investing lessons from the past completely either. Having a long-term ownership mindset, practicing price discipline, relying on fundamental financial analysis, and trying to separate emotion and invest rationally are all fundamental principles that Baird believes still hold true in today's market.

Looking ahead, current markets are incredibly interesting, but also extremely challenging for investors. Artificial intelligence provides what many believe could be another transformative platform, similar to the internet, while heightened geopolitical tensions, historically high sovereign debt loads, substantial budget deficits in the U.S. serve as genuine risks.

In response to a question from Representative Montell regarding AI and how Baird balances the increase in productivity versus the loss of jobs, Mr. Means acknowledged it was hard to tell just yet. He pointed to the past, where the loss of jobs has always been replaced by newer jobs, but that definitely did not happen over night given the need to educate and train. It's a good question that Baird continues to study and discuss.

In response to a question from Mr. Allison, regarding the post-internet era and if it had led the team to change their mindset a little on holding period and/or price targets, Mr. Means stated the team is cautious with regards to price, and they don't want to overpay, but in the

current digital economy, growth rates have increased and lasted longer than in the past so price targets have changed and valuations have grown.

Mr. Bonifer reviewed several economic statistics and discussed recent employment and consumer spending trends. He highlighted that investors had experienced several substantial revisions on the employment side, large enough to cause some concern on that front. He noted the Fed had met recently and decided to leave rates unchanged, however they were still wrestling with inflation, which was still above their two percent target.

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 reminded the trustees that all sector weightings were the output of Baird's bottom-up process. The team was not making any macro-level decisions or bets. He drew attention to the portfolio's information technology holdings, which is pretty underweight to the index. He said this might look or feel like a bet, but that was not the case. He noted that the portfolio had significant investment in Apple, Microsoft, and TE Connectivity. In addition, the team holds Meta, Google, and Amazon, which a lot of folks might consider technology investments, but are actually considered Communication services and Consumer Discretionary by S&P. The underweight to IT was being driven almost entirely by the team's decision to not hold NVIDIA and Broadcom, which are two large holdings of the index.

In response to a question from Mr. LeLaurin regarding GE's recent strong performance and any pressure felt to exit the position when it struggled for close to a decade, Mr. Means acknowledged it was felt almost daily, both from clients but also internally. He noted the team doesn't mind being questioned and it forces the team to have conviction, continually evaluate the business, and really believe in what they are saying about the company. They don't always get it right, but in the case of GE it has really benefited client portfolios.

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 NVIDIA 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. He drew attention to the longer term, 5-year results and noted that all sectors in which the team had a zero weight to had added value. Lastly, as it related to individual stock contributions, Mr. Watkins pointed out a few of the bottom contributors were Amazon and Danaher, which were both recent additions to the portfolio. The only long term holding with a negative return was Carmax, which continued to face a pretty stiff headwind with high rates and used car prices still at above average levels. Baird still believes in the leadership team and believes the business has a great culture and business model. They just happen to be stuck in the midst of a significant macro event that has definitely impacted price.

Mr. Asfahl continued the presentation with a short review of the fixed income portion of the portfolio. He highlighted a few recent maturities July that the team had reinvested. The team remains committed to their philosophy of staying on the shorter end of the maturity spectrum, which 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 accounts held identical equity portfolios, while the two cash balance portfolios utilized a basket of ETFs to try and best mirror the fixed income allocations.

Justice Laurance VanMeter departed the meeting at 12:30 p.m.

In response to a few questions with regards to the number of companies the equity team was currently following, Mr. Means stated the team probably has research on about 200 or so companies. He indicated the team generally wouldn't consider companies with a market cap lower than 10-15 billion. And in most cases, the team has followed the company for years before investment occurs. He pointed to Danaher as a recent example. The team had been tracking for close to 5 years and liked the business model, management team, but from a price point it didn't make sense until recently when an opportunity arose.

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 5-year trailing return of each plan. For the period ending June 30, 2024, the annual interest credit (guarantee + upside sharing) was calculated as 11.52% for JRP and 11.45% for LRP.

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 28, 2025 – Each state-administered retirement system was on the agenda and provided an investment update. Mr. Cracraft noted a copy of staff's presentation was included in meeting materials.

July 29, 2025 – JFRS was not on the agenda, but did attend the meeting. The meeting consisted of follow-up discussion to a few legislative proposals that were passed during the 2025 Regular Session.

(B) State Street Compliance and Performance Tool. Mr. Cracraft informed the Trustees that this item was a follow up to a discussion held during the April 2025 Board meeting. For

over thirty years, JFRS has partnered with Lexington Investment Partners, led by Stan Kerrick, for the purpose of trade execution, compliance monitoring, and performance analysis. In this partnership, Mr. Kerrick had served as the sole investment broker for both plans, while also providing the Board with quarterly compliance and investment performance services. During the April 2025 meeting, staff informed the Board that Mr. Kerrick's availability was becoming more limited and while other personnel from Lexington Partners had continued to effectively provide broker services, they were not equipped to provide compliance services and/or performance reporting. As a result, staff began a process of evaluating other tools or partnerships that JFRS could utilize in the future.

Mr. Cracraft highlighted two primary options that staff had researched. First, JFRS had reached out to the agency's custodian, State Street, who has some existing tools that could be utilized. A primary advantage of this option was the fact that State Street already had most of the needed data, so implementation would be easier and likely more cost effective. Alternatively, staff had also reached a few dedicated investment software tools that staff could use to track and monitor the portfolios. Mr. Cracraft noted that staff would have to manage these systems, load data, and that in some cases they were very expensive and required periodic license agreements. Given the size of JFRS and the limited number of total portfolios, staff decided to further investigate tools offered by the plan's custodian, State Street.

Mr. Cracraft provided a summary of the tools offered by State Street. The compliance monitoring tool is an integrated product that allowed clients to quickly analyze portfolios or funds relative to specific guidelines, requirements, or regulations. A wide range of tests including concentration limits, prohibited securities and/or industries, credit ratings, portfolio comparisons to benchmarks, counterparty exposure, and global exposure could be conducted. The tool could deliver compliance monitoring on a daily or monthly basis, with tests performed at security, portfolio or composite level. For instance, if a single equity holding in either JRP or LRP reached the 8% policy restriction, staff would be receiving an alert from the system. The performance and analytics solution offers comprehensive analysis using industry-standard methodologies to calculate daily or monthly performance across all asset types and down to an individual security level detail. In addition, to performance measurement, the solution can also provide trailing period attribution, portfolio characteristics, peer comparison, and various risk-adjusted comparisons. Standard or custom reports can be generated to quickly and transparently assess underlying portfolio performance.

Mr. Cracraft noted that State Street's performance analytic tools were impressive, but given he noted JRP and LRP were both solely invested in one managed account each, so much of the reporting from State Street was going to look effectively the same as that provided by Baird Trust. The tool has the ability to aggregate results across multiple managed accounts (invested across various regions/asset classes) to calculate total plan level performance and characteristics, but most of this would not relate to JFRS current portfolios, which are all domestic and across just two primary asset classes. Given the added cost of performance, Mr. Cracraft was recommending the Board initially begin by focusing attention on the compliance side. If the

portfolios changed or additional budget funds were available, the performance component could be added at a later.

Lastly, Mr. Cracraft also suggested the Board reconsider or renegotiate their current broker arrangement if they did decide to transition to State Street on the compliance side. He noted that JFRS had historically paid a slightly higher commission rate in exchange for the additional services, so reducing the commission could help offset some of the added expense to add compliance tools with State Street.

Following a discussion, Representative Brad Montell made a motion, seconded by Mr. LeLaurin, that staff begin the process of adding daily Investment Compliance tracking provided by State Street for \$10,400 per year. The motion passed unanimously.

(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.

There being no further business, the meeting adjourned at 1:46 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