County Employees Retirement System
Board of Trustees – Special Meeting
December 19, 2024, at 3:30 pm ET (2:30 pm CT)
Live Video Conference/Facebook Live

AGENDA

1.	**Call to Order**	**Lisle Cheatham**
2.	**Opening Statement**	**Eric Branco**
3.	**Roll Call**	**Sherry Rankin**
4.	**Public Comment**	**Sherry Rankin**
5.	**Chairman's Corner**	**Lisle Cheatham**
6.	**Investment Committee** a. **Real Return Investment Recommendation***	**Dr. Merl Hackbart** **Steve Willer** **Anthony Chiu**
7.	**Closed Session***	**Eric Branco**
8.	**Adjourn**	**Lisle Cheatham**

***Board May Take Action**

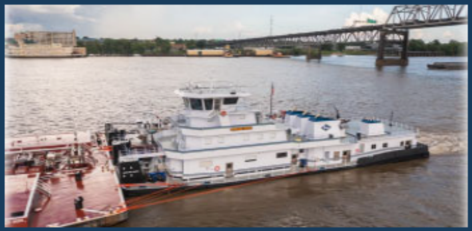
CERS Investment Committee

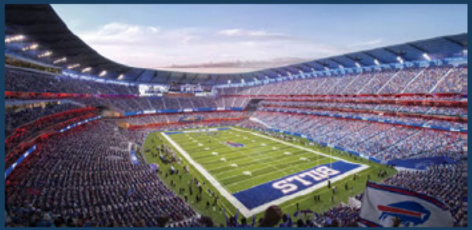
Real Return Recommendation

December 19, 2024

Other Real Return Strategies Reviewed / In Consideration

- Transportation leasing: Recommending new railcar investment and addition to existing inland marine investment
- Sports: Currently in diligence
- Production-focused energy: Approved and funded continuation vehicle Oct 2024; additional calls and meetings held
- Energy credit / energy secondaries: Initial calls
- Mining credit: Continued evaluation
- Timberland: Continued evaluation
- Infrastructure: Continued evaluation
- Dedicated Commodities: Ongoing





CERS
County Employees Retirement System

Top Candidate Characteristics – ITE Rail

Up to $200 Million Recommendation

Founded in 2014, Industrial Transportation Equipment ("ITE" or the "Firm") is a New York-based investment firm focused on the leasing of cash-generating transportation assets. Historically, the Firm has primarily been invested in railcars, but it has also been building exposure in aviation, intermodal container, and inland marine assets.

The firm is led by co-founders Jason Koenig and David Smilow and employs 55 professionals across investments, asset management, operations, and back-office roles at its New York, Chicago, and St. Louis offices. The team is supplemented by affiliated operating platforms that ITE has acquired from American Railcar Industries, The Andersons, and Sumitomo Mitsui that include hundreds of employees and a nationwide maintenance and repair network.

This investment would provide exposure to an attractive, resilient lease income stream that also provides upside optionality, inflation-hedging characteristics, and diversification from public equity and fixed income assets.

Due Diligence Summary

Date of First KPPA Meeting
12/4/2019 (Aksia conference)

Date of Subsequent Meetings
2/23/2021 (Call)
6/15/2021 (Call)
1/11/2022 (Call)
2/2/2022 (Call)
3/16/2022 (Call)
8/30/2022 (Call)
8/13/2024 (Call)
9/23/2024 (Call)
11/21/2024 (Call)
12/9/2024 (Onsite – Chicago)

Date of Operational Due Diligence Reports
10/30/2023, 8/21/2024

Date of Consultant Manager Reports
10/28/2022, 1/25/2023, 9/12/2024

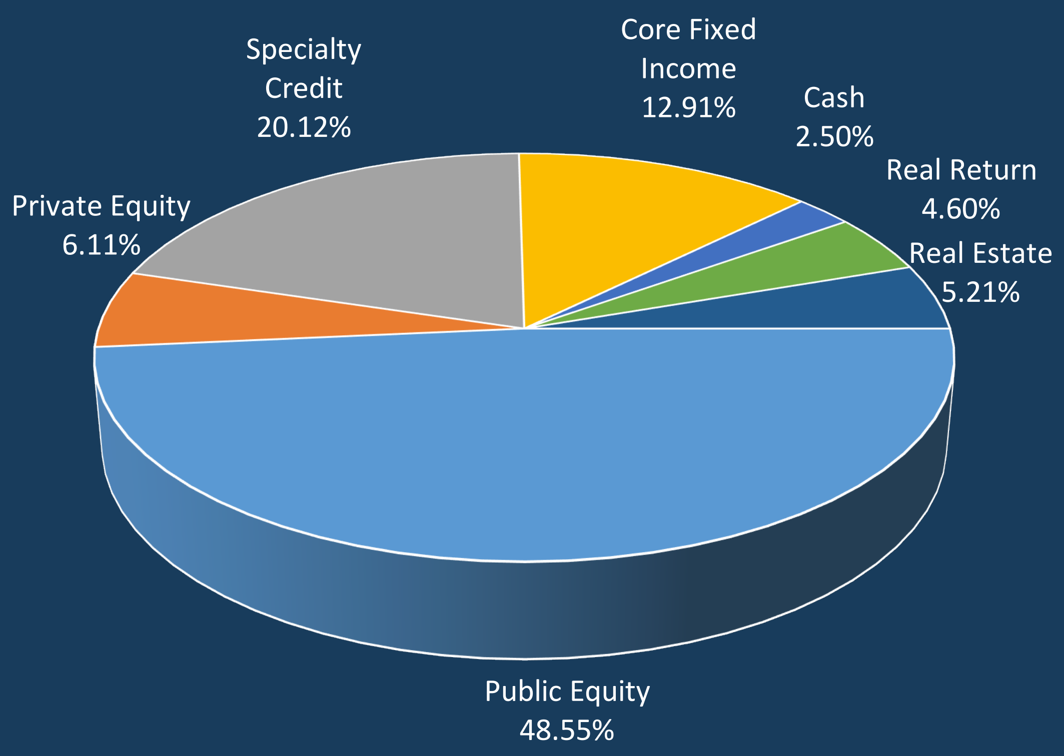
Legal Negotiation Initiated
11/15/2024

Comparable Strategies Reviewed
8 (transportation and infrastructure-related funds)

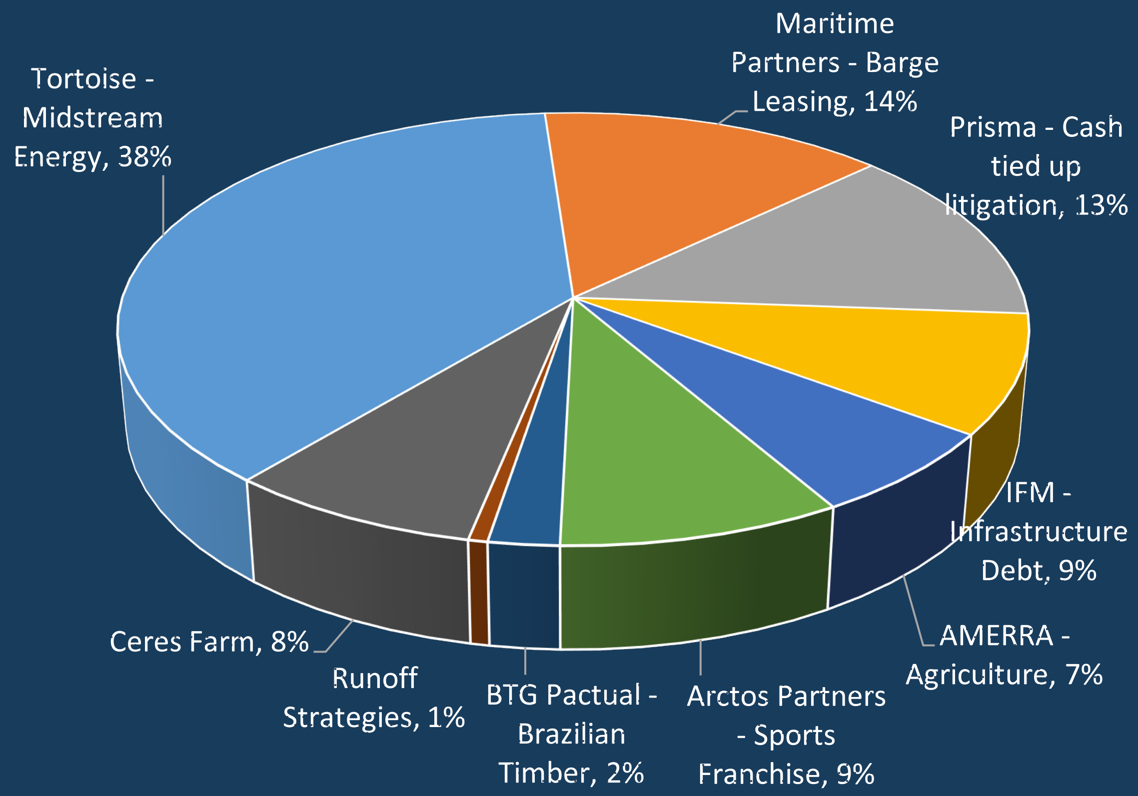
CERS
County Employees Retirement System

Real Return Allocation Today

Current Asset Allocation*



Current Real Return Allocation*

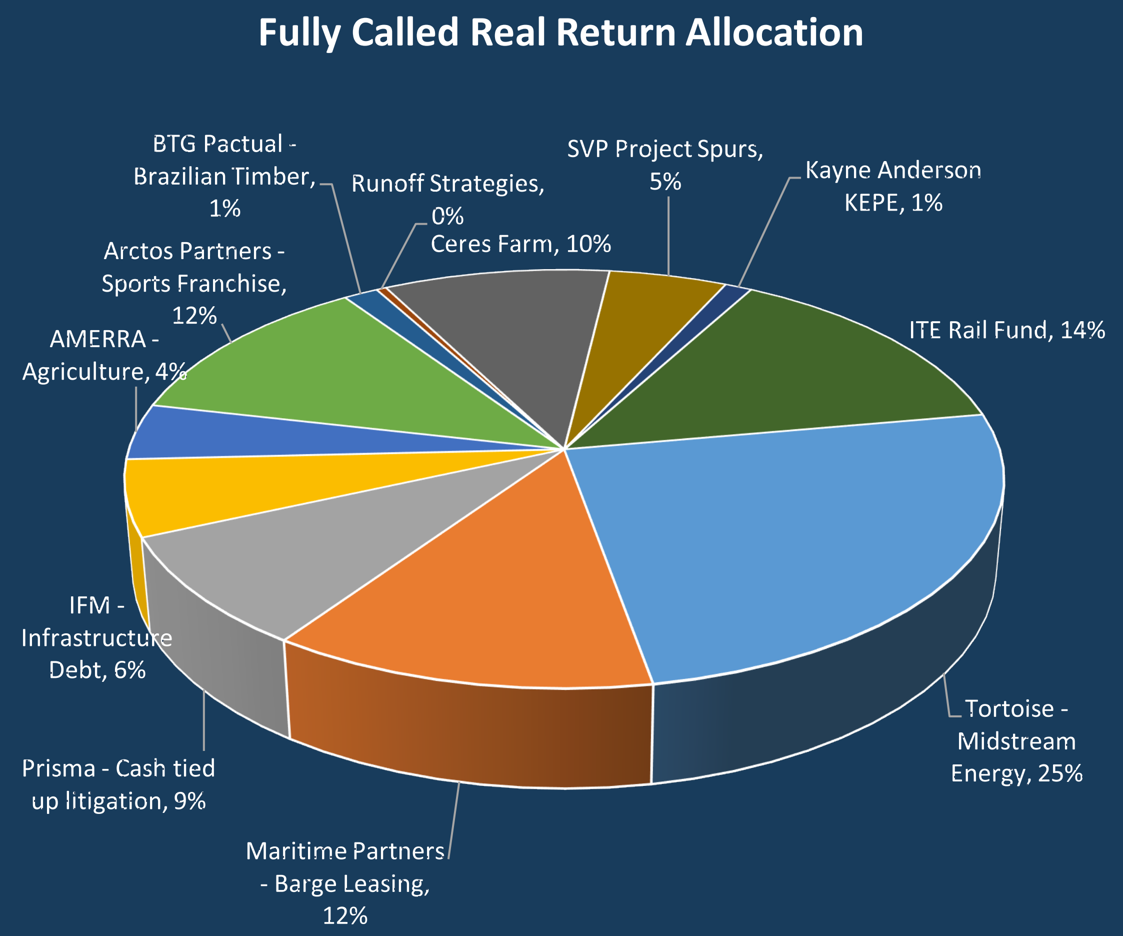


*CERS Pension as representation

CERS
County Employees Retirement System

Impact and Rationale

- Unique investment opportunity in diversified, hard to replicate asset with defensive characteristics and downside protection create a resilient strategy
- Favorable expected risk-adjusted return from stable and growing cash flows that mitigate inflation
- Low return correlations to current Real Return investments and the broader overall public and private portfolio
- Strong alignment with the General Partner
- Dominant position within the industry provides favorable economies of scale with wholly owned repair and maintenance network platform providing data advantage that benefits portfolio management and underwriting
- Will get the CERS Portfolios 1.0 – 1.1% closer to Real Return target weights with short funding window and would be funded through cash and rebalancing of overweight asset classes



KENTUCKY PUBLIC PENSIONS AUTHORITY

INVESTMENTS

To: CERS Investment Committee

From: Anthony Chiu, Deputy CIO

Date: December 19, 2024

Subject: Investment Recommendation – ITE Rail Fund

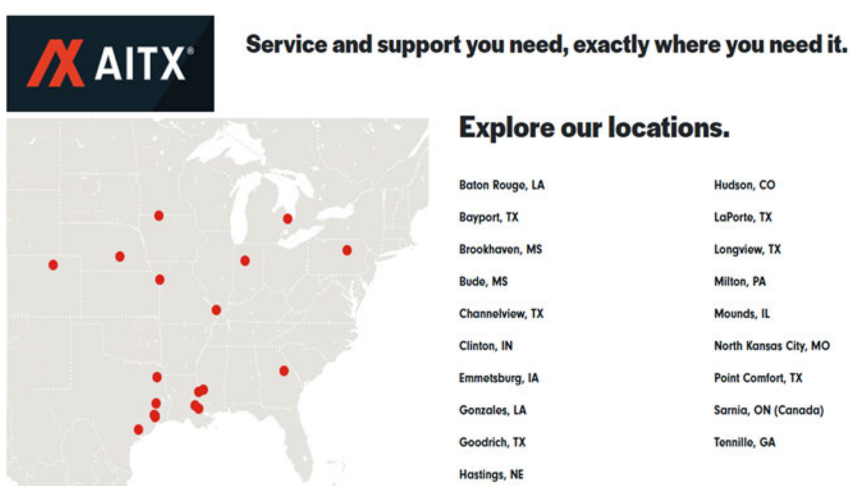
KPPA Investment Staff is proposing an investment in the ITE Rail Fund, L.P. (the “Rail Fund” or “Fund”), an open-end fund managed by Industrial Transportation Equipment (“ITE” or the “Firm”). Based in New York with offices in Chicago and St. Louis, ITE primarily leases railcars for the transportation of over 500 dry and liquid cargoes such as food, fuel, cars, sand, metals, and chemicals.

The Firm launched in 2014 and as of 9/30/24 owns ~122,000 railcars with an estimated value of $9.3 billion. ITE has grown its fleet by building vessels, buying through the secondary market from banks and non-bank lessors, as well as acquiring other lessors.

Business / People:
ITE was co-founded in 2014 by Jason Koenig and David Smilow with Jim Unger as the Senior Rail Operating Partner. Unger co-founded American Railcar Industries and served as its CEO from 1995 to 2009 and brought ITE access to key rail industry talent and relationships in a relatively small industry where those are essential. This is similar to other real asset areas we have evaluated in recent years (such as farmland and inland marine transportation) where deal sizes are smaller and exposure often must be aggregated gradually.

Like other lessor and asset manager entrants, ITE started by sourcing railcars from manufacturers and fleet owners that needed cash and/or balance sheet relief. However, ITE has differentiated itself through industry relationships and operational capabilities that distinguish it from competitors that are more reliant on larger players like Greenbrier or Trinity for both railcars and their servicing.

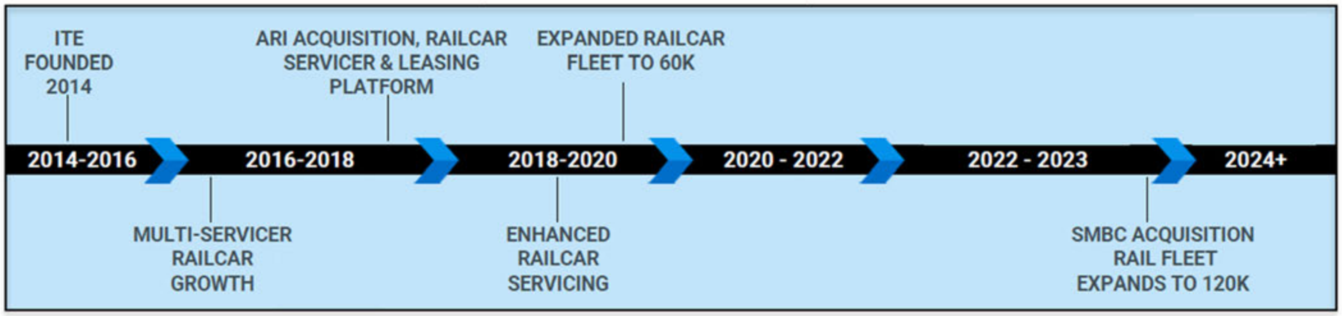
A key inflection point for ITE occurred in late 2018 when the Fund acquired American Rail Industries (ARI) from activist investor Carl Icahn. ITE was a logical buyer given Unger’s experience building and leading ARI, and the deal more than doubled ITE’s fleet to 27,000 railcars and included nine repair facilities across the US.



ARI’s railcar leasing and repair was rebranded to American Industrial Transport (AITX), which is the affiliate of ITE that directly interfaces with lessee clients like BNSF Railway, Exxon, or Cargill. These additions gave the Rail Fund a national presence and a way to reduce maintenance and repair costs for its assets.

Subsequently, two other major acquisitions have provided step function growth for the Rail Fund's portfolio: (1) the acquisition of the Andersons, Inc. (Nasdaq: ANDE) railcar leasing business in August 2021, which added nearly 20,000 railcars and (2) the November 2023 acquisition of Sumitomo Mitsui's rail services group, which included a fleet of over 50,000 railcars as well as an experienced team and longtime customer relationships.

ITE Rail Fund Timeline



Investment Process and Portfolio:

ITE leases its fleet of railcars to a diverse set of over 1,000 lessees that transport more than 500 different commodities. Covered hoppers (49% of the Fund's ~122,000 vessels) and tank cars (36%) comprise the vast majority of the Rail Fund's fleet.

The Fund's leases are multi-year take-or-pay contracts that are typically only modified in bankruptcy. Like any leasing business, non-payment of rent is a primary risk, and the Fund mitigates that by diversifying across counterparties, commodities, asset age, and lease term expiration.

Unlike our inland marine investment, the Rail Fund has very little customer concentration. As of 9/30/24, the Fund's top 10 lessees are renting just 12% of the fleet by value, with the top 2 lessees comprising 2.2% and 1.5% of the total fleet, respectively.

Additionally, almost half of the on-lease fleet is contracted with investment grade companies, and over 85% of the fleet's lessees are rated. Write-offs as a percentage of annual revenues have typically been well below 1%, except for 2019 and 2020 when they rose to 1.7-1.8% due to energy industry weakness and the fund's exposure to frac sand transportation.

ITE believes it has learned from its frac sand experience, with "virtually all" of the Fund's bankrupt lessees to date coming from that sector. As a result, ITE has significantly diversified the Fund by commodity and selectively tilted away from ones they view as less economically favorable, like coal or frac sand. As of 9/30/24, the Fund's top commodity carried by value is grain, which comprises less than 5% of the Fund. The Top 10 commodities by value represent less than 25% of fund exposure.

Fleet age is actively managed as well, with approximately half the fleet under 10 years old. Railcars can typically return their cost basis through income in 8-12 years on an unlevered basis, or within 4-7 years if levered. Ideally, ITE would like to receive its cost back before the first lease renewal. Since railcars can have a useful life of up to 50 years, additional leasing cash flows can be significant, although the lease rate is likely to decline with asset age.

Finally, the Fund has staggered lease expirations with a goal of around 15-20% of leases rolling off in any given year. With this setup, ~80-85% of the Fund's cash flows are known on January 1 each year, while re-setting leases can provide some upside. For example, publicly traded GATX reports a Lease Price Index (LPI) that measures the percentage change between the average renewal lease rate and the average expiring lease rate for its North American railcar fleet. For the first three quarters of 2024, the LPI has been +33%, +29%, and +27%, respectively, indicating that lease rates likely still have room to rise for the next several quarters.

Given this consistent cash flow, the Rail Fund's strategy is one that can bear some leverage. The Fund targets 2:1 leverage (67% LTV) and has generally been between 60-65% since inception, which they believe is less than industry peers who are at 70-90% LTVs.

Performance:

Fund	1 yr	3 yr	5 yr	Since Inception	Inception Date
ITE Rail Fund	11.0%	10.6%	10.1%	10.7%	Oct-14

Source: ITE as of 9/30/24

Over the long term we are interested in accessing two main sources of return: (1) mid-single digit annual income from asset leasing and (2) modest appreciation as lease rates and vessel replacement costs increase with inflation.

Conclusion: Given the attractive risk/reward profile, compelling market opportunity, and current Real Return allocations, Staff is recommending an investment of $200 million to be shared among all CERS portfolios pending successful legal negotiations. When fully funded, this would represent an additional ~1.0 – 1.1% of Plan assets (depending on fluctuations in market value).

Investment and Terms Summary

Type of Investment: Real Return

Structure: Open end

Management Fee: [redacted] of net asset value

Performance Fee: [redacted] of profits above [redacted]

Purpose: Capture current income and inflation exposure from railcar lease payments

Risks: Key Person, Leverage, Liquidity

Exp. Net Return: 6 - 9%

*No placement agents have been involved or will be compensated as a result of this recommendation.

Investor Presentation

ITE Rail Fund L.P.

As of September 30, 2024

Disclaimer

This document is not an offer to sell or the solicitation of an offer to purchase an interest in any fund managed by ITE Management L.P. or any of its affiliates (collectively, "ITE"). Any such offer or solicitation will only be made by means of a Private Placement Memorandum furnished by ITE and only in those jurisdictions where permitted by law.

Hypothetical returns are not indicative of future results and are based upon certain models, assumptions, historical data and assessments made by ITE and third-party research that, in each case, ITE considers reasonable under the circumstances as of the date hereof. It is necessarily speculative, hypothetical, and inherently uncertain in nature, and it can be expected that some or all of the models, assumptions, historical data and assessments underlying the hypothetical returns contained herein will not materialize and/or that actual events and consequences thereof will vary materially. Among the assumptions made by ITE in calculating hypothetical returns are: (i) the initial lease period; (ii) the additional lease renewal utilization rate; (iii) the equipment cost and cash yield; (iv) the residual value of the underlying asset; (v) the approximate useful life and (vi) certain macroeconomic conditions such as interest rate levels. Inclusion of target net returns herein should not be regarded as a representation or guarantee regarding the reliability, accuracy or completeness of such information, and neither ITE nor any fund is under any obligation to revise such returns after the date provided to reflect the occurrence of future events. Risk information and models will promptly be made available upon request.

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ITE: Industrial Transportation Equipment

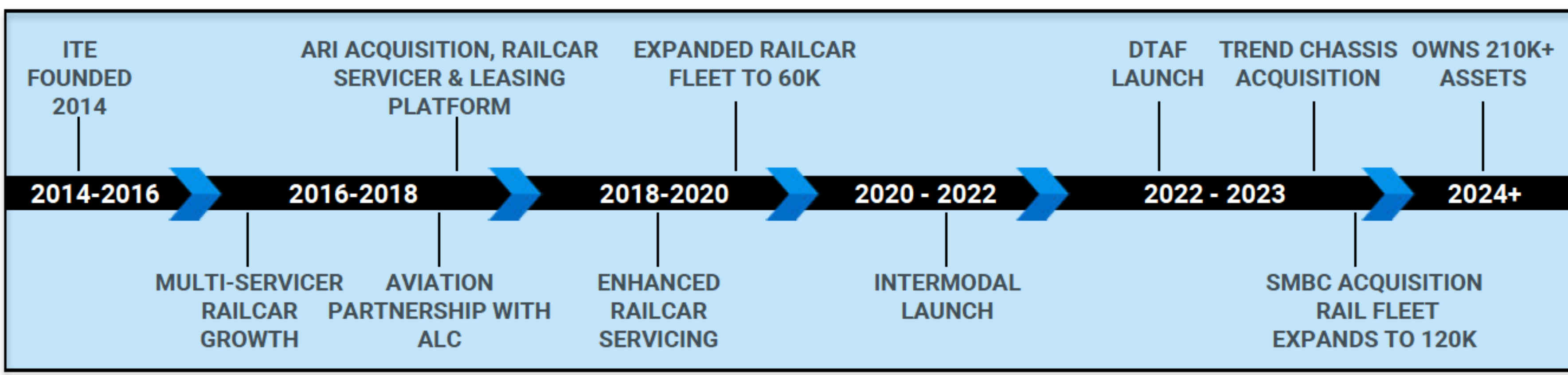
ITE OVERVIEW — EXPERT OWNER & OPERATOR

- Leading owner and operator of real assets focused on industrial transportation leasing
- Manage over $10B[1] in hard asset value with a dedicated 60+ person team
- Unique combination of operating focus, portfolio management and proprietary data-centric approach to maximize investor value
- Independent firm aligned with investors and employees with a commitment to deep investor partnerships and strong firm culture
- 10-yr track record of stability and steady growth, including Covid period

RAIL OVERVIEW — HIGH-PERFORMING, RAILCAR FLEET

- Productive fleet of ~122K freight railcars valued at $9.3B
- Longstanding operational roots and relationships with railcar manufacturers, regional operators and over 1,000 lessees
- Operates American Industrial Transport's (AITX) railcar maintenance and servicing network
- Diversified portfolio of railcars across type, commodity, age, lessee, partner, and lease expiration

DEDICATED TRANSPORTATION PLATFORM, BUILT OVER 10-YEARS



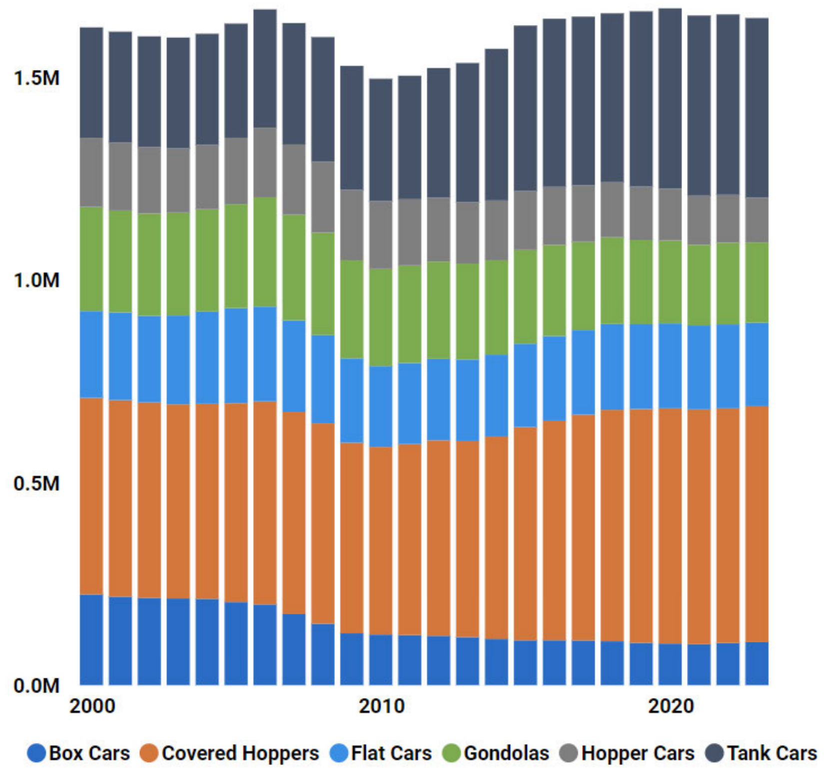
Information as of September 30, 2024, unless otherwise noted. [1]Rail Car, Container, and Barge Data as of May, Chassis Data as of March, and Aviation Data as of July.

Railcars as an Asset Class

Railcar assets are critical, cash generating, and stable, hard assets with long durations.

STABLE CASH FLOW	• High utilization rates throughout cycles; generally stable lease rates; economically critical to industrial shippers
DOWNSIDE PROTECTION	• Critical asset of the North American economy with long useful life; residual value; historically, negligible credit losses
TAX EFFICIENT	• Tax regulation allows for accelerated depreciation; deferred taxes; potential for pass through tax benefits
MACRO DRIVERS	• Correlation to GDP and population growth; inflation protection; low correlation to public and private markets
ESG FRIENDLY	• Rail is an energy efficient mode of transport - 75% lower greenhouse emissions than trucks; 4x more fuel efficient than trucks; 1 train carries the freight of several hundred trucks

NORTH AMERICAN FLEET RAILCAR SIZE

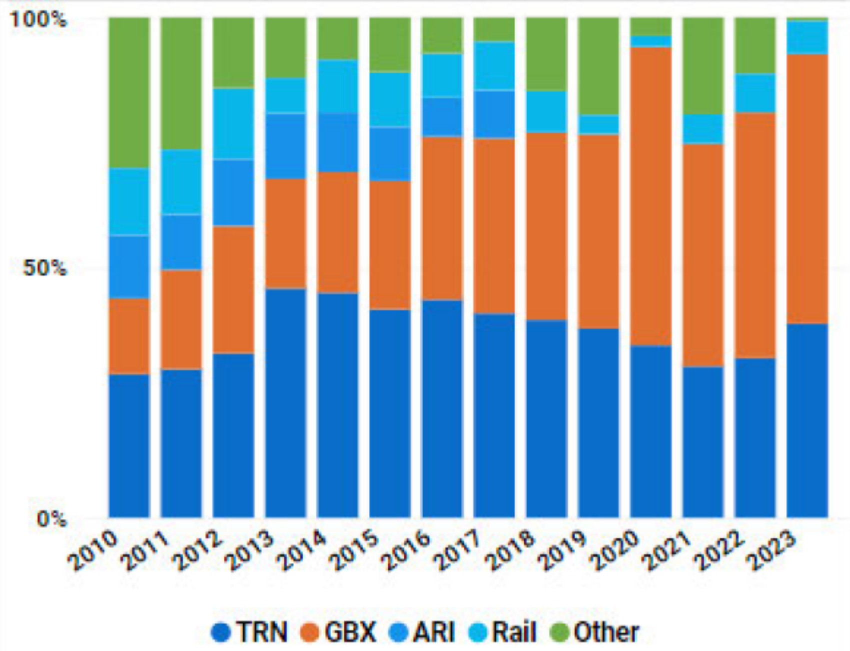


Source: Association of American Railroads, 2021. While ITE believes ESG factors can enhance long term value, ITE does not pursue an ESG based investment strategy nor does ITE consider itself a manager focused on ESG issues or an impact fund sponsor and does not market itself or its funds based on environmental or social standards. Any references to the environmental, social or governance represent standards or improvements made within a portfolio investment and are not provided as an indication of ITE's environmental stewardship. ITE chooses investment projects based on an investment objective which seeks to generate superior risk adjusted returns and does not pursue an ESG based strategy or limit its investments to those that meet specific ESG criteria.

Railcar Leasing: Industry Supply and Demand

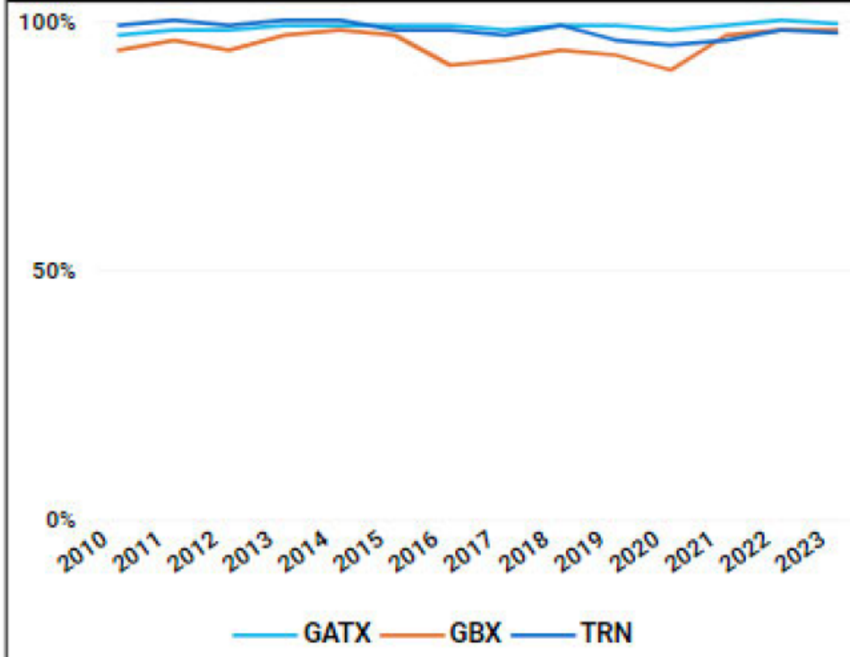
The North American railcar fleet has been quite stable historically due to the balanced supply and demand characteristics of the industry.

RAILCAR DELIVERIES BY MANUFACTURER*



Historically, five manufacturers have manufactured the railcars delivered in the US. With GBX's acquisition of AITX in 2019, four manufacturers now dominate the market adding even more discipline to the introduction of permanent supply. Moreover, manufacturers build mainly against firm orders (like the aircraft space), and not to meet speculative demand, reducing the risk of overcapacity.

UTILIZATION RATES



Demand for leased railcars has been historically stable (see on-lease percentages of major railcar fleets above) due to the critical nature of railcars to North American industry and because the supply of railcars is relatively balanced and typically comes down in recessionary periods (as highlighted on pg. 7). Therefore, lessees would prefer to keep cars on-lease (even if they are stored) vs. risk not having access to the cars. Moreover, lessees are responsible for lease payments on all cars under lease, even those stored.

Source: ITE Research. *TRN (Trinity Industries Inc), GBX (The Greenbrier Companies), ARI (American Railcar Industries) now AITX, RAIL (Freight ar America), UTLX (Union Tank Car), and NSC (National Steel Car). Charts left to right, Chart 1: ITE, FTR, and company filings; Chart 2: ITE and company filings.

Railcar Leasing: Industry Players

Major industry players include owners/operators, railcar manufacturers, railroads & end users.

Over the past 10+ years, railcar ownership has continued to shift in favor of lessors as railroads and shippers prefer the financial flexibility to use their balance sheet elsewhere creating an active market for new and existing railcar purchases.

RAIL INDUSTRY PLAYERS

- 7 Class I & 660 Shortline Railroads
- 5 National Manufacturers
- Over 150 Railcar Owner/Operators
- +2,000 Lessees/ Shippers

	LESSOR	CARS	%	COMMENTS
1	Lessor 1	135,000	8%	Bank-owned operating lessor with railcar and locomotive fleet.
2	Lessor 2	123,000	8%	Bank-owned operating lessor with railcar and locomotive fleet.
3	**ITE Management**	**121,572**	**8%**	**Independent owner of diversified railcar fleet with nationwide servicing capabilities.**
4	Lessor 4	120,000	8%	Railcar manufacturer with tank car lease fleet and nationwide servicing capabilities.
5	Lessor 5	110,000	7%	Global diversified leasing company with sizable railcar leasing.
6	Lessor 6	109,000	7%	Railcar manufacturer with lease fleet and nationwide servicing capabilities.
7	Lessor 7	40,000	3%	Railcar operating lessor with nationwide servicing capabilities.
8	Lessor 8	20,000	1%	Railcar operating lessor with nationwide servicing capabilities.

Values are estimates based on company filings, ITE Research and company websites.

ITE: Investment Model

We combine our depth as transportation operators with sophisticated portfolio and risk management using data-driven decisions to build a cycle-agnostic portfolio targeting stable, mid-teens, cash-yielding returns.

OPERATIONAL FOCUS

- Emphasis on deep operational expertise
- Operating partners and partnerships provide industry knowledge and sourcing relationships

+

PORTFOLIO MANAGEMENT

- Active portfolio management across assets
- Focus on reducing volatility and managing risk and cash flow

+

DATA & ANALYTICS

- Proprietary data aggregation and synthesis
- Drives decision across exposure mitigation, valuations, and other strategic evaluation criteria

LONG-TERM DURABILITY

OPERATING DIVERSIFICATION	ASSET DIVERSIFICATION	CASH FLOW DIVERSIFICATION
multiple servicing and sourcing partners	*assets, types, age, commodities, lessee, term, credit, and more*	*long-term contracts and staggered leases*

Values are estimates based on company filings, ITE Research and company websites.

ITE Rail: Diversification

~122K Railcars

Average Age: 11 Years (Value)

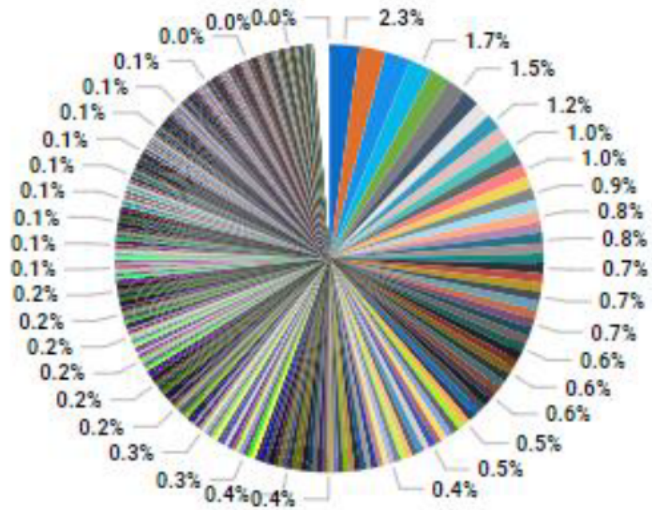
Renewal Rate: 84.2%

1022 Unique Lessees

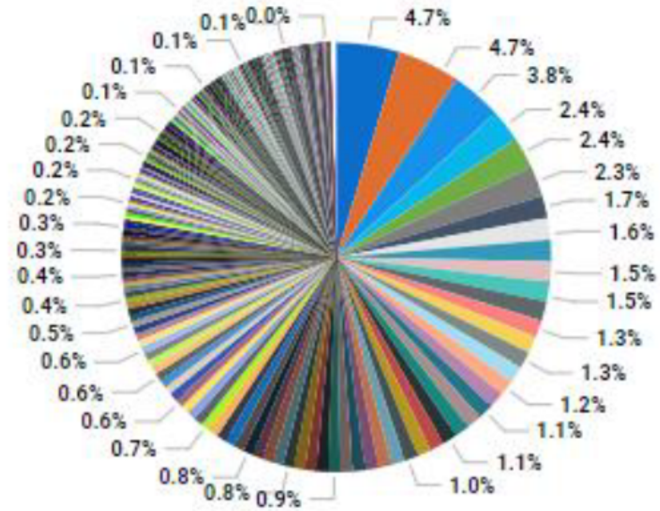
528 Unique commodities

~9.5B Delivered Fleet Value

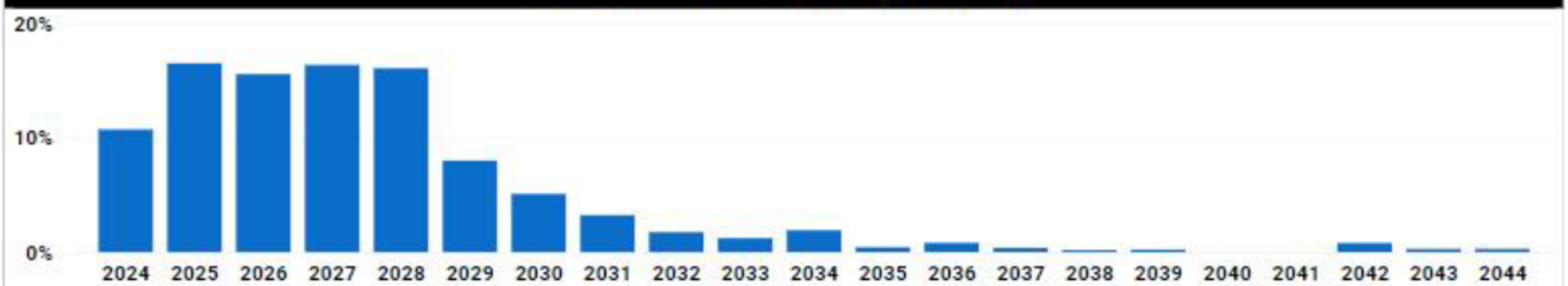
FLEET BY LESSEE (BY VALUE)



FLEET BY COMMODITY (BY VALUE)



LEASES EXPIRING EACH YEAR (BY VALUE)



Source: ITE Research.

Portfolio Construction

ITE

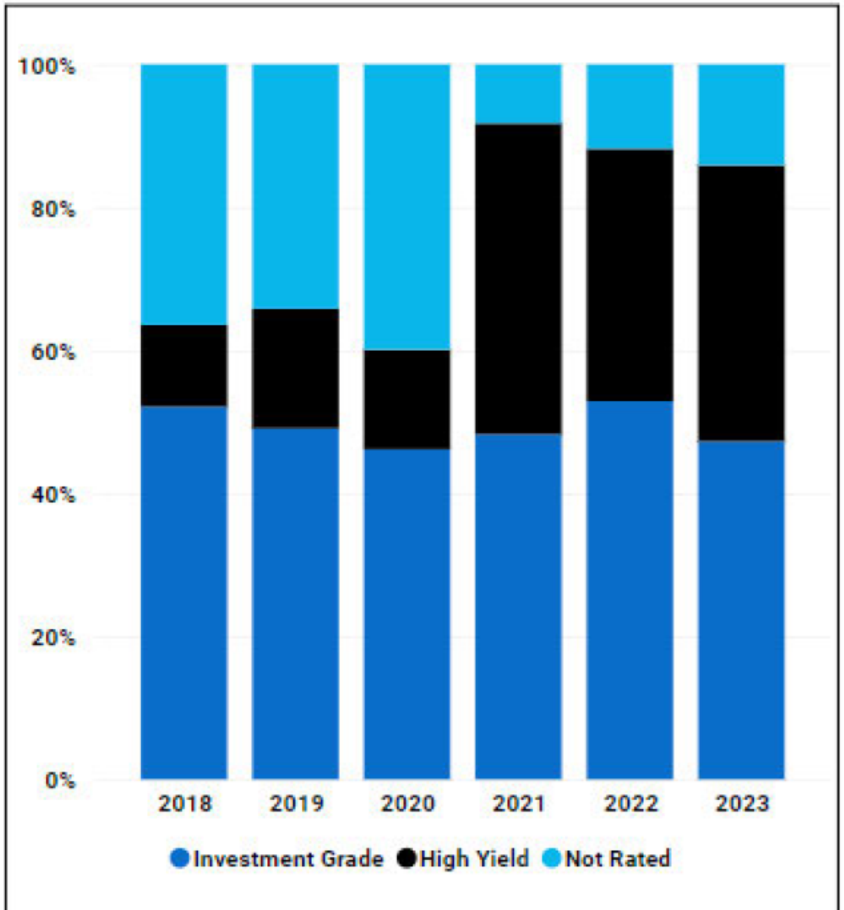
ITE Rail constructs a diversified portfolio of railcars across five main characteristics to mitigate volatility and risks. Rail Fund has purchased ~122K freight railcars totaling ~9.5B in asset value since its initial closing in September 2014.

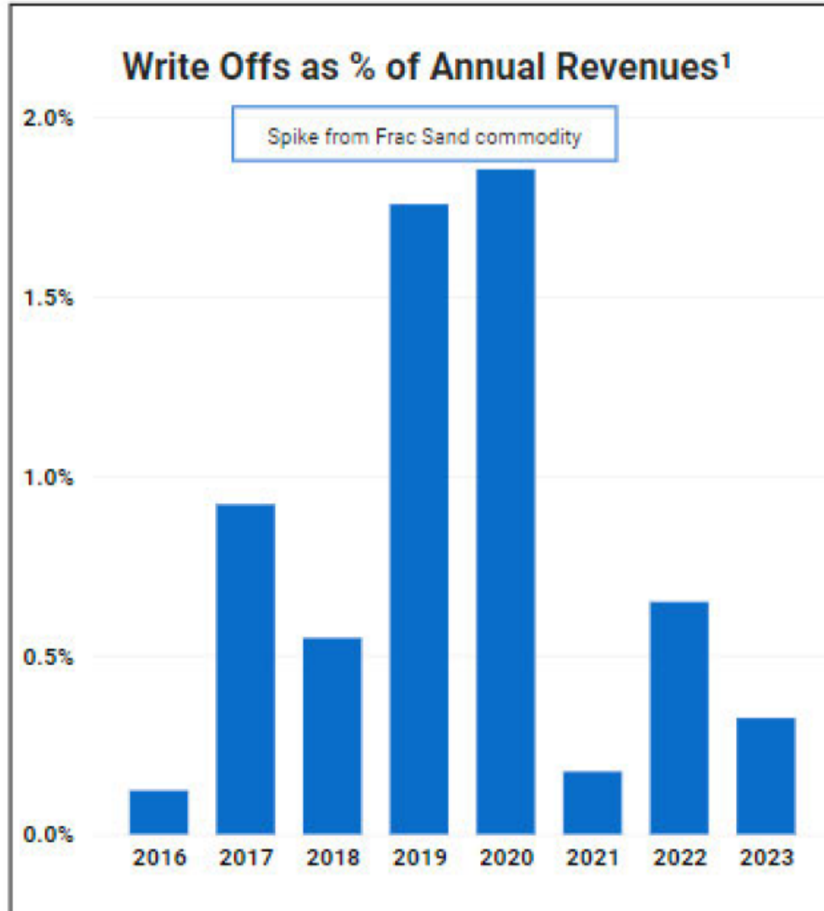
TYPE	• Differentiated cars including tank cars, gondolas, hoppers, and autoracks with little to no exposure to box cars and intermodal.
COMMODITY	• Diversified across 528 different commodities to mitigate industry-specific risks.
AGE	• Railcar ages range from - years old with a weighted average age of 11 years by value and 17 years by number.
LESSEE	• Concentration: Diversified customer base includes 1022 lessees over 3.3K leases. • Credit Quality: 47.3%[1] of the on-lease fleet is investment grade.
LEASE EXPIRATION	• Staggered lease expiration with less than 17.2% by value rolling off in any given year. • Average remaining lease term is 3.1 years.

Source: ITE research.[1] As of 12/31/2023

Fleet Characteristics: Credit Quality

As of Q4 2023, approximately 85.9% of the fleet's lessees have a rating and 47.3% of the fleet's lessees are investment grade.





Source: ITE research. [1] As of 12/31/2023. Prior to Q2 2021, in instances where a lessee did not have a public credit rating itself but was owned by a parent with a public, investment grade, corporate family rating, ITE ascribed the parent's rating to the unrated, subsidiary lessee. Beginning in Q2 2021, ITE implemented Standard and Poor's Credit Analytics rating model to assign ratings to all lessees that do not have public credit ratings, including the aforementioned unrated subsidiaries. As a result, certain lessees that had previously been recognized as investment grade through their respective parents are now assigned model-generated investment grade credit ratings.

INVESTMENT REVIEW

ITE Rail Fund

Background

Wilshire has been requested to review ITE Rail Fund (the "Fund") and provide a written analysis outlining the merits and concerns of the investment opportunity along with verification that such investment is deemed prudent and consistent with market standards. Wilshire is providing a description of the Fund which relies on information provided by the investment manager and includes: i) a summary of the investment opportunity and ii) Wilshire's view of the investment merits and concerns for the Fund. Wilshire's view is based on a preliminary assessment of the Fund's organization, team, strategy, process, performance, terms, and market in which it is investing. Wilshire notes that the current view is limited with respect to the amount of due diligence that was performed on the Fund.

At-A-Glance

Organization		Process		Terms	
Team		Market		ESG	
Strategy		Performance			

Above or consistent with market standards

Below market standards with some concerns

Below market standards with material concerns and/or insufficient information

Confirmation

Wilshire's review confirms that an investment in ITE Rail Fund is considered prudent, of institutional quality, and generally consistent with market standards.

Investment Summary

Firm Overview

Founded in 2014, Industrial Transportation Equipment Management ("ITE" or the "Firm") is an alternative investment firm focused on investing in real assets in the transportation industry. The Firm has specialization in Rail, Intermodal Containers, and Aviation and is led today by two co-founders, David Smilow and Jason Koenig. ITE employs 55 professionals across investment and asset management, asset operations, and back-office operations including ITE Labs (an in-house data-driven technology platform). ITE's team is augmented by operating platforms the Firm has acquired, adding hundreds of employees and a nationwide maintenance and repair network. The Firm has offices in New York, Chicago, and St Louis.

Investment Strategy

ITE Rail Fund (or the "Fund") will manage a portfolio of freight rail cars and related assets. ITE will primarily purchase rail cars that are on-lease and will seek to build a portfolio that is diversified by car type, commodity carried, lessee, length and expiration of leases, and age of car. Broad diversification allows the Fund to mitigate volatility and risks. Currently, the portfolio is comprised of approximately 120,000 rail cars and diversified across over 526 different commodities, over 1,000 lessees, rail cars ranging from 1 to 50 years old with a weighted average age of 6 years by value, and with approximately 75% of the rated fleet as investment grade. The Fund seeks to generate stable and predictable cash flows through strong lease contracts that are take-or-pay, long-dated, and priced at fixed rates throughout the term. To source opportunities, ITE uses its large network of partners including manufacturers, operating lessors, and servicers. The Fund also owns American Industrial Transport's ("AITX") rail car maintenance and servicing network with 15 maintenance facilities and over 540 employees, which is used to service existing assets by providing ongoing maintenance and repairs. The Fund targets 2:1 leverage on an asset-level and uses asset-backed loans and securitizations on a non-recourse basis through SPVs that contain portfolios of rail cars.

Key Investment Personnel

Name	Title	Experience
David Smilow	Founder	Jefferson National Financial, TeleBanc, Goldman Sachs
Jason Koenig	Founder	Hale Capital Partners, Avenue Capital, Versa Capital Partners
Peter Appel	Head of Rail	Jefferson National Financial, TeleBanc

Opportunity Summary

Investment Type	Primary
Currency / AUM (B)	USD / 2.9
Term	Open-ended
Inception Year	2014
Geographic Focus	North America
Strategy	Other Infrastructure
Industry	Industrials
Investment Size (M)	$5 - $100
Number of Investments	120,000+
Subscriptions	[redacted]
Redemptions	[redacted]
Notice	[redacted]
Lockup Period	[redacted]
Gate	[redacted]
GP Commitment*	[redacted]
Target Return	10% - 12% net IRR
Management Fee	[redacted] on NAV
Carry / Hurdle	[redacted] / [redacted]

*GP Commitment is to ITE Rail and ITE Intermodal Funds.

Track Record Summary

Since inception in 2014, the Firm has purchased over 120,000 rail cars totaling over $8.9 billion in asset value. Today, the Firm is a top 10 owner of freight rail cars in North America. Currently, ITE manages over $3.0 billion in investor commitments in the Fund. As of December 31, 2023, the Firm has achieved an unlevered gross cash yield of [redacted]

Fund	Year	AUM ($B)	ITD (%)	ITD ROI
ITE Rail	2014	2,877	10.7%	2.5x

Source: ITE Management as of December 31, 2023.

Investment Merits

- Organizational specialization & platform resources
- Portfolio construction & diversification quality
- Due diligence insight & monitoring

Investment Concerns

- Firm ownership distribution
- Modest use of leverage
- Underlying asset correlation/sensitivity to GDP

