



**County Employees Retirement System  
Investment Committee – Special Meeting  
January 24, 2024 at 2:00 PM ET  
Live Video Conference/Facebook Live**

**AGENDA**

- |  |                                      |
|--|--------------------------------------|
| <b>1. Call to Order</b>  | <b>Dr. Merl Hackbart</b>             |
| <b>2. Opening Statement</b>  | <b>Legal Services</b>                |
| <b>3. Roll Call</b>  | <b>Sherry Rankin</b>                 |
| <b>4. Public Comment</b>   | <b>Sherry Rankin</b>                 |
| <b>5. Approval of Minutes* -- November 28, 2023</b>                                  | <b>Dr. Merl Hackbart</b>             |
| <b>6. Preliminary Quarterly Performance Update</b>                                   | <b>Steve Willer</b>                  |
| <b>7. Real Assets Investment Manager<br/>Recommendation—Saba Capital Management*</b> | <b>Steve Willer<br/>Anthony Chiu</b> |
| <b>8. ADJOURN</b>  | <b>Dr. Merl Hackbart</b>             |

*\*Committee Action May Be Taken*

**MINUTES OF MEETING  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MEETING  
NOVEMBER 28, 2023, 2:00 P.M., E.T.  
VIA LIVE VIDEO TELECONFERENCE**

At the November 28, 2023, County Employees Retirement System' (CERS) Investment Committee Meeting, the following Committee members were present: Dr. Merl Hackbart (Chair), George Cheatham, and William O'Mara. Staff members present were David Eager, Erin Surratt, Victoria Hale, Steve Willer, Anthony Chiu, Brian Caldwell, Joseph Gilbert, Katie Park, Sherry Rankin, and Phillip Cook. Also in attendance were CERS CEO Ed Owens, III, Eric Branco with Johnson, Bowman, Branco LLP and David Lindberg, Craig Morton, Chris Tessman, and Ned McGuire with Wilshire.

Dr. Hackbart called the meeting to order.

Mr. Branco read the Legal Opening Statement.

Ms. Rankin called roll.

There being no *Public Comment*, Dr. Hackbart introduced agenda item *Approval of Minutes – August 30, 2023 (Video 00:09:10 to 00:09:57)*. A motion was made by Mr. O'Mara and seconded by Mr. Cheatham to approve the August 30, 2023, minutes as presented. The motion passed unanimously.

Dr. Hackbart introduced agenda item *Investment Office Quarterly Update* (Video 00: 00:09:58 to 00:36:19). Mr. Willer presented plan performance data for the quarter ending September 30, 2023, for CERS Nonhazardous and CERS Hazardous. The resources and personnel required to manage additional assets in-house was discussed. Dr. Hackbart suggested that an analysis to determine the financial impact and potential cost savings be completed soon. Mr. Cheatham added that risk considerations should also be studied. The Committee expressed that the topic warrants significant in-depth discussion in the future. Lastly, Mr. Willer reported that there were no compliance violations as of the end of September 2023 and that the Proxy Voting Report had been posted to the KPPA website.

Dr. Hackbart introduced agenda item *Asset Allocation Study Update* (Video 00:36:20 to 02:19:40). David Lindberg, Craig Morton, Chris Tessman, and Ned McGuire with Wilshire presented the Asset Allocation Study. There was extensive discussion surrounding the study. Dr. Hackbart requested an overview of specialty credit to better understand how it is managed. Dr. Hackbart stated that there was no deadline to make an adjustment to the asset allocation; therefore, the Committee wished to continue their discussion in January 2024 with Dr. Milkman present.

There being no further business, Dr. Hackbart *adjourned* the meeting.

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## CERTIFICATION

I do certify that I was present at this meeting, and I have recorded above the action of the Committee on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in connection with this meeting.

\_\_\_\_\_  
Recording Secretary

I, as Chair of the County Employees Retirement System Investment Committee of the Board of Trustees of the County Employees Retirement System, do certify that the Minutes of the meeting held on November 28, 2023, were approved by the County Employees Retirement System Investment Committee on January 24, 2024.

\_\_\_\_\_  
CERS Investment Committee Chair

I have reviewed the Minutes of the County Employees Retirement System Investment Committee Meeting on November 28, 2023, for form, content, and legality.

\_\_\_\_\_  
Office of Legal Services

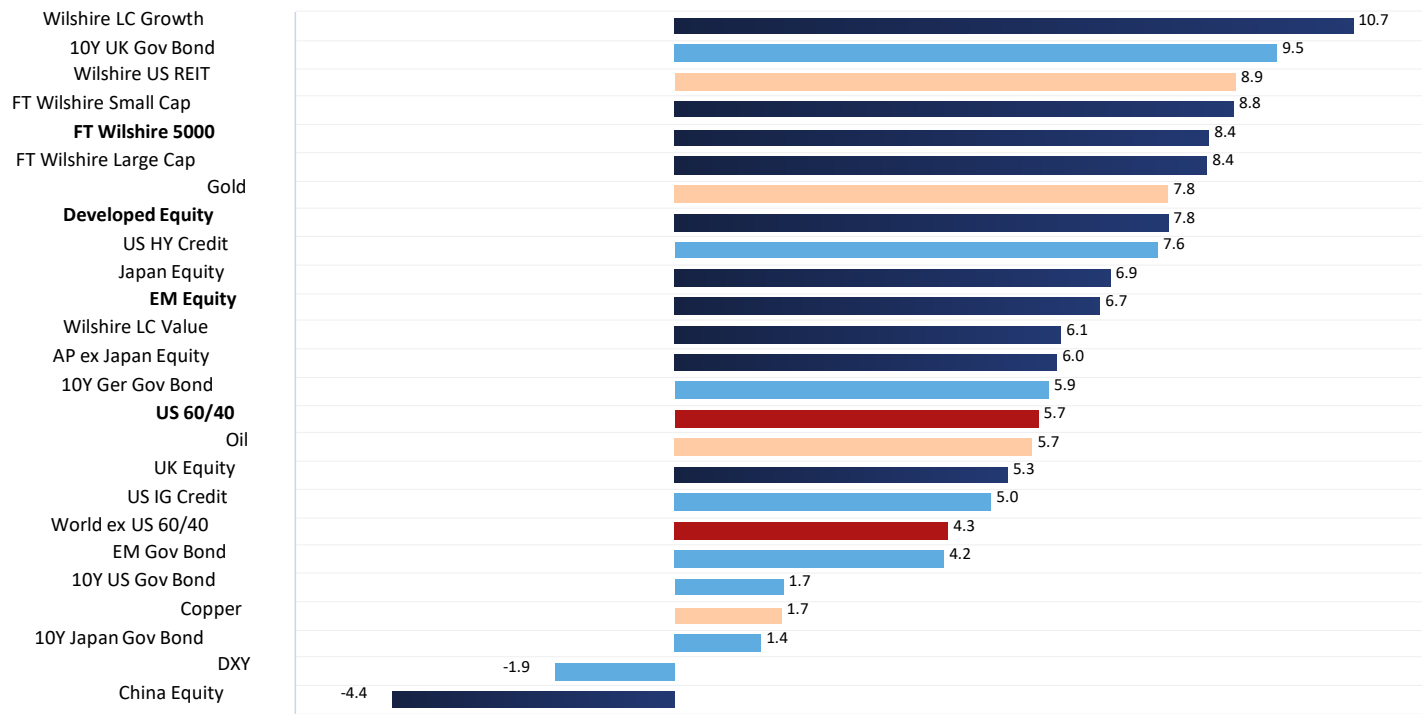


# CERS Investment Committee Preliminary Performance Update

January 24, 2024

# Asset Class Performance

Jun 30 – Dec 31, 2023 (6M) USD TR



Data Sources: Wilshire Indexes, FactSet and Refinitiv. Data as of December 31, 2023

## Asset Class Performance

Asset Class Returns - Best to Worst						Annualized 5-Year as of 12/23
2018	2019	2020	2021	2022	2023 YTD	
T-Bills 1.9%	U.S. Equity 31.0%	U.S. Equity 20.8%	REITs 46.2%	Commodities 16.1%	U.S. Equity 26.1%	U.S. Equity 15.4%
Core Bond 0.0%	REITs 25.8%	Emrg Mrkts 18.7%	Commodities 27.1%	T-Bills 1.3%	Developed 18.9%	Developed 8.7%
U.S. TIPS -1.3%	Developed 22.7%	U.S. TIPS 11.0%	U.S. Equity 26.7%	High Yield -11.2%	REITs 16.1%	REITs 7.6%
High Yield -2.1%	Emrg Mrkts 18.9%	Developed 8.3%	Developed 11.8%	U.S. TIPS -11.8%	High Yield 13.4%	Commodities 6.1%
REITs -4.8%	High Yield 14.3%	Core Bond 7.5%	U.S. TIPS 6.0%	Core Bond -13.0%	Emrg Mrkts 10.3%	High Yield 5.4%
U.S. Equity -5.3%	Core Bond 8.7%	High Yield 7.1%	High Yield 5.3%	Developed -14.0%	Core Bond 5.5%	Emrg Mrkts 4.1%
Commodities -11.2%	U.S. TIPS 8.4%	T-Bills 0.7%	T-Bills 0.0%	U.S. Equity -19.0%	T-Bills 5.1%	U.S. TIPS 3.2%
Developed -13.4%	Commodities 7.7%	Commodities -3.1%	Core Bond -1.5%	Emrg Mrkts -19.7%	U.S. TIPS 3.9%	T-Bills 1.9%
Emrg Mrkts -14.2%	T-Bills 2.3%	REITs -7.9%	Emrg Mrkts -2.2%	REITs -26.8%	Commodities -1.3%	Core Bond 1.1%

Data Sources: Bloomberg

Note: Developed asset class is developed equity markets ex-U.S., ex-Canada. Data as of December 31, 2023

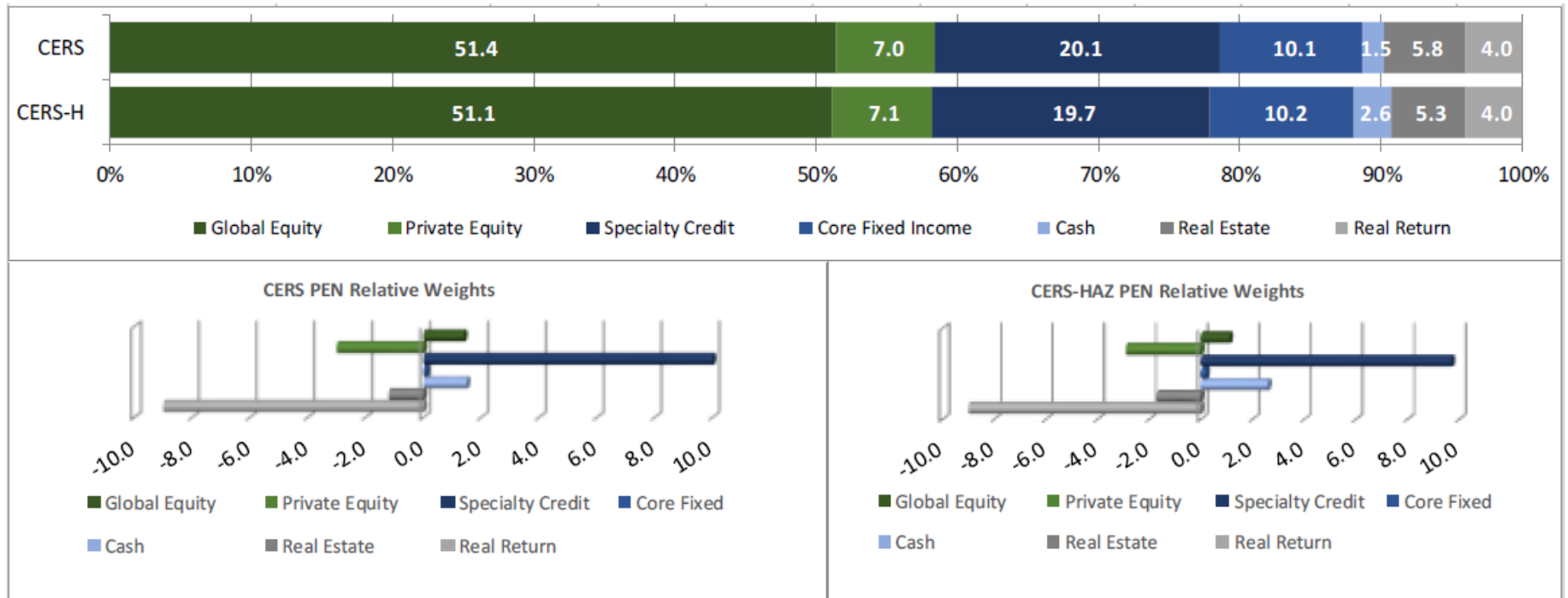
## Preliminary Performance Estimates\*

***PRELIMINARY*** - CERS & CERS-HAZ - PENSION FUND PLAN NET RETURNS - 12/31/23												
Plan	Market Value	Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	30 Years	ITD	
<b>CERS</b>	<b>9,090,530,179.09</b>	<b>3.09</b>	<b>6.56</b>	<b>5.04</b>	<b>13.26</b>	<b>6.17</b>	<b>8.60</b>	<b>6.88</b>	<b>6.64</b>	<b>7.78</b>	<b>8.87</b>	
KY Ret. CERS Plan IPS Index		2.48	6.45	5.50	15.21	5.76	8.30	6.61	6.57	7.70	8.89	
<b>CERS- H</b>	<b>3,194,445,613.33</b>	<b>3.15</b>	<b>6.68</b>	<b>5.16</b>	<b>13.44</b>	<b>6.14</b>	<b>8.55</b>	<b>6.87</b>	<b>6.64</b>	<b>7.78</b>	<b>8.87</b>	
KY Ret. CERS Haz Plan IPS Index		2.48	6.45	5.50	15.21	5.76	8.30	6.61	6.57	7.70	8.89	
***PRELIMINARY*** - KPPA PENSION FUND UNIT - NET RETURNS - 12/31/23 - PROXY PLAN ASSET PERFORMANCE												
Structure		Month	3 Months	Fiscal YTD	1 Year	3 Years	5 Years	10 Years	20 Years	30 Years	ITD	
<b>PUBLIC EQUITY</b>		<b>5.33</b>	<b>11.17</b>	<b>6.67</b>	<b>21.12</b>	<b>5.06</b>	<b>11.49</b>	<b>7.66</b>	<b>7.30</b>	<b>8.70</b>	<b>10.25</b>	
MSCI ACWI		4.80	11.03	7.26	22.20	5.25	11.31	7.66	7.24	8.47	10.11	
<b>PRIVATE EQUITY</b>		<b>0.57</b>	<b>0.73</b>	<b>3.45</b>	<b>8.34</b>	<b>15.63</b>	<b>12.51</b>	<b>12.90</b>	<b>11.52</b>		<b>11.70</b>	
Russell 3000 + 3%(Qtr Lag)		-4.32	-2.35	6.58	23.46	12.44	12.18	14.51	11.64		11.87	
<b>SPECIALTY CREDIT</b>		<b>1.53</b>	<b>3.15</b>	<b>5.87</b>	<b>10.91</b>	<b>6.71</b>	<b>6.71</b>				<b>6.18</b>	
50% BB US HY / 50% Morningstar LSTA Lev'd Ln		2.69	5.02	7.07	13.42	3.91	5.62				4.53	
<b>CORE FIXED INCOME</b>		<b>3.75</b>	<b>6.63</b>	<b>5.41</b>	<b>7.32</b>	<b>0.50</b>	<b>3.00</b>	<b>2.85</b>			<b>2.79</b>	
Bloomberg US Aggregate		3.83	6.82	3.37	5.53	-3.31	1.10	1.81			1.76	
<b>CASH</b>		<b>0.46</b>	<b>1.41</b>	<b>2.55</b>	<b>4.53</b>	<b>2.07</b>	<b>1.89</b>	<b>1.41</b>	<b>1.79</b>	<b>2.73</b>	<b>3.34</b>	
FTSE Treasury Bill-3 Month		0.47	1.41	2.80	5.26	2.25	1.91	1.26	1.42	2.37	2.96	
<b>REAL ESTATE</b>		<b>-0.49</b>	<b>-1.28</b>	<b>-3.88</b>	<b>-9.98</b>	<b>8.48</b>	<b>8.42</b>	<b>9.12</b>	<b>7.83</b>	<b>6.46</b>	<b>6.45</b>	
NCREIF NFI-ODCE Net 1 Qtr in Arrears Index^		-2.10	-2.10	-4.93	-12.88	6.19	4.72	7.19	6.64	7.45	6.25	
<b>REAL RETURN</b>		<b>-1.12</b>	<b>1.52</b>	<b>6.29</b>	<b>11.29</b>	<b>10.86</b>	<b>8.53</b>	<b>5.29</b>			<b>5.14</b>	
US CPI +3%		0.05	0.75	2.44	6.14	9.54	7.75	4.34			4.17	

\* Preliminary Performance as of December 31, 2023



# Preliminary Allocation Estimates\*



\* Preliminary Allocations as of December 31, 2023

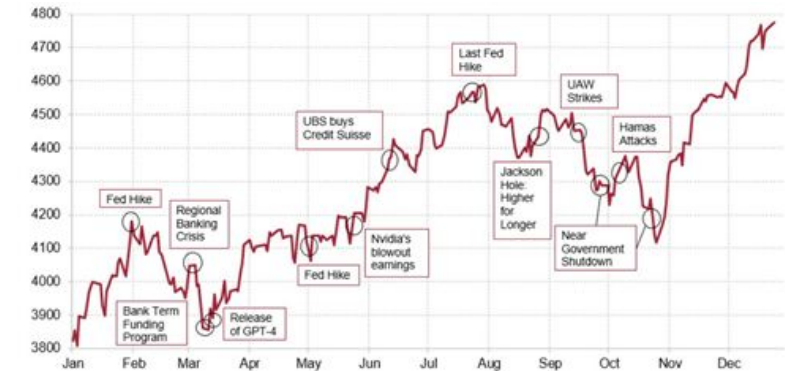
# Performance Highlights Fiscal YTD\*

## Public Equities

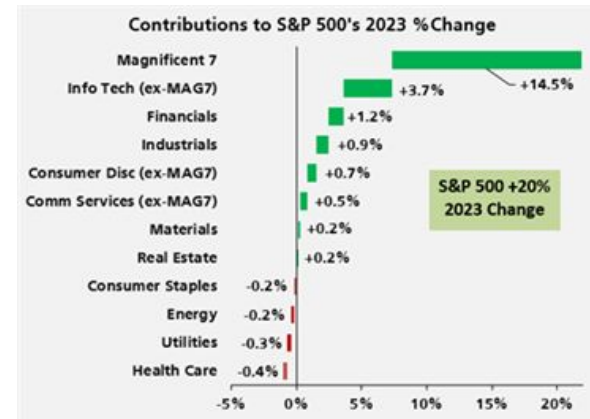
- Public Equity portfolio produced a return of 6.67% for the 6 months ending December 31<sup>st</sup>, underperforming the benchmark return of 7.26%
- The US Portfolio returned 7.93% vs 8.43% for the Russell 3000
  - While all individual strategies outperformed their respective benchmarks with the exception of the Microcap strategy, the portfolio's larger exposure to small and midcap drove relative underperformance
- The NonUS Portfolio produced a return of 4.77% versus 5.98% for the ACWI Ex-US index
  - Performance at the individual strategy was mixed as markets whipsawed with weakness in growth-oriented strategies in the 1<sup>st</sup> quarter which largely reversed in the 2<sup>nd</sup> quarter
  - The Portfolio's modest overweight to Emerging Markets was a drag on performance as Developed outpaced Emerging
    - MSCI EAFE 5.97% vs MSCI EM 4.71%

\* Preliminary Performance as of December 31, 2023

S&P 500 in 2023



Source: Haver Analytics, Rosenberg Research



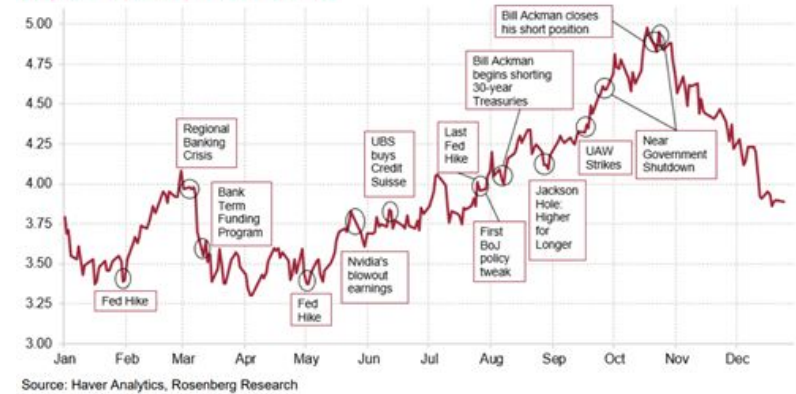
# Performance Highlights Fiscal YTD\*

## Core Fixed Income

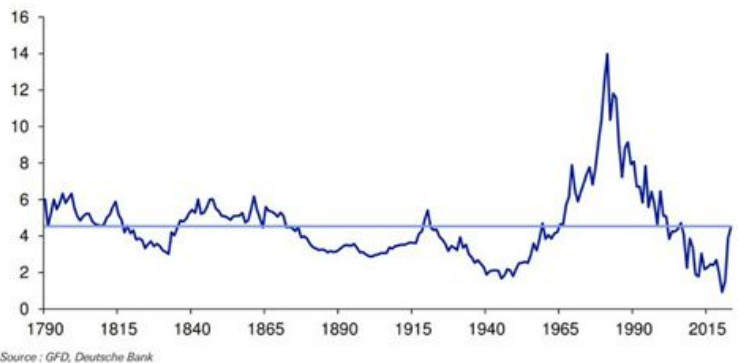
- Core Fixed Income staged a remarkable recovery in the 2<sup>nd</sup> quarter following the significant selloff experienced during the 1<sup>st</sup> quarter
- The rally in rates that started in November picked up steam to close the year as the FOMC offered a surprising lack of pushback against dovish market expectations at their December meeting with the FED's communication about the likely course of monetary policy becoming decidedly less hawkish.
- Markets immediately turned their attention to anticipating rate cuts starting in March with a total of six in 2024, well ahead of the FED's projected three cuts
- The Core Fixed Income Portfolio continued its strong performance, producing a return of 5.41% for the 6 months ending December 31<sup>st</sup>, outperforming the Bloomberg Aggregate Index by 204 basis points
- YTD relative outperformance was driven by Staff's tactical duration positioning of the portfolio
- The internally managed Core Portfolio was the strongest performer in the overall Core allocation, producing 20 basis points of excess return

\* Preliminary Performance as of December 31, 2023

10-year Treasury Yield in 2023



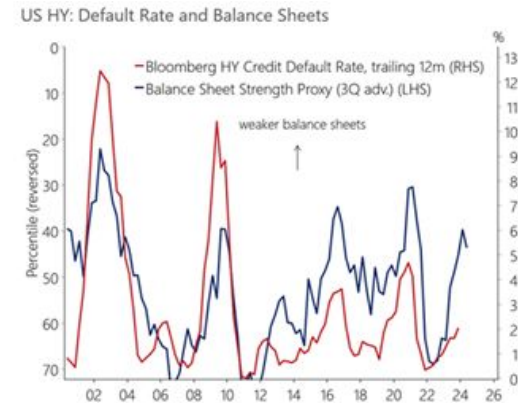
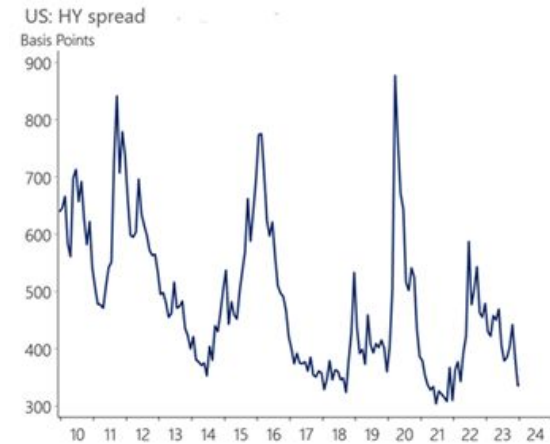
10yr US Govt. yields back to average for the first time since 2007



# Performance Highlights Fiscal YTD\*

## Specialty Credit Fixed Income

- The Specialty Credit portfolio had a strong start to the Fiscal Year, with preliminary performance of 5.87% for the 6 months ending December 31<sup>st</sup> compared to the blended benchmark performance of 7.07%. Performance for the portfolio is still preliminary as final valuations for December have not been received and relative performance is expected to improve once these valuations are finalized.
- Leveraged Loans trailed High Yield Bonds as they benefited less from the rally in rates and failed to keep pace with spread tightening
- The High Yield option adjusted spread (OAS) tightened 71 basis points for the quarter and 67 basis points fiscal year-to-date to 323
- Consistent with the risk on environment, lower quality bonds outperformed with CCCs returning 9.60% FYTD while Bs returned 7.91% and BBs produced returns of 6.94%
- The most recent balance sheet data continued to show modest improvements in High Yield fundamentals, driven by stronger profitability, liquidity positions and default rates remaining subdued



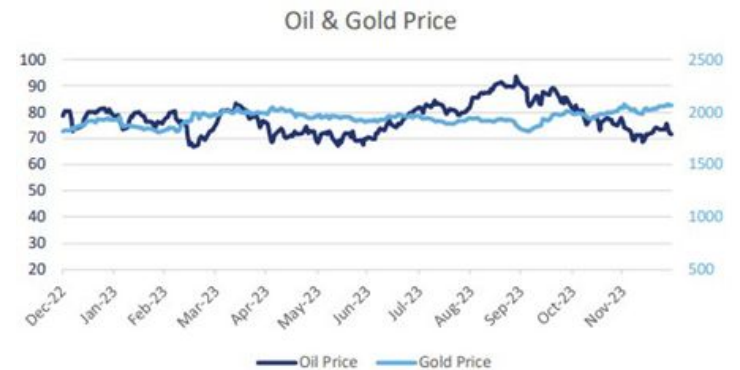
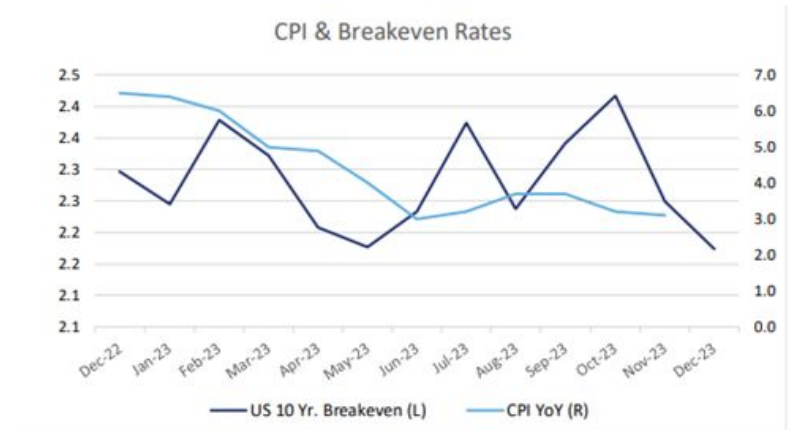
\* Preliminary Performance as of December 31, 2023

# Performance Highlights Fiscal YTD\*

## Real Return- Real Estate – Private Equity

- Real Estate and Real Return performance was mixed through the first six months of the fiscal year but were largely able to end the period well bid with expectations that inflation had been beaten and rates were poised to continue their downward trajectory
- The Real Return portfolio produced a return of 6.29% for the 6-month period ending December 31<sup>st</sup>, significantly outperforming the custom benchmark which returned 2.44%
  - Outperformance has been paced by the portfolio’s MLP exposure which returned over 12% during the period as strong cash flows, disciplined capex and consolidation have continued to benefit the industry
- Broad commodities were down for the period with the Bloomberg Commodities Index falling almost 3% and were down almost 8% for the LTM. Despite declining 21% during the quarter Oil was able to return almost 6% FYTD, Gold rallied 12% during the quarter on rising rate cut optimism reversing 6 months of declines, ending up almost 8% FYTD
- The Real Estate portfolio produced an estimated return of -3.88% for the six months ending December 31<sup>st</sup> versus the benchmark return of -4.93% as markdowns continued
- Public market real estate staged a powerful rally in the quarter, with the US REIT index up over 16% pushing FYTD returns to almost 8%

\* Preliminary Performance as of December 31, 2023



# Performance Highlights Fiscal YTD\*

## Private Equity

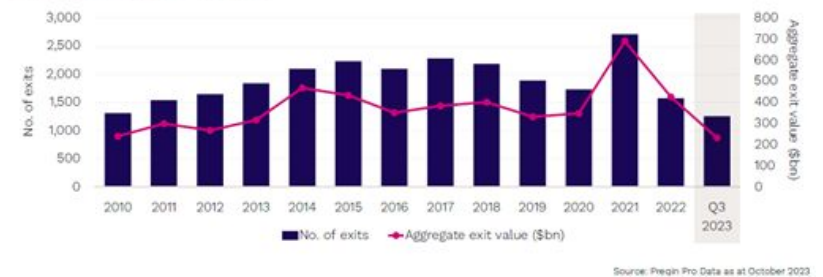
- The Private Equity portfolio produced an estimated return of 3.45% for the six months ending December 31<sup>st</sup> compared to the benchmark return of 6.58%. Performance for the portfolio is preliminary as final valuations for December have not been received for all investments and relative performance is expected to improve once these valuations are finalized.
- Short-term performance relative to benchmark (Russell 3000 + 3% based on a quarter lag) continued to suffer from alignment timing mismatches
- Capital remained scarce as GPs faced a more arduous fundraising environment with constrained capital allocations from LPs as a result of limited distributions and already full allocations
- 2023 proved to be the worst year for Private Equity deal activity since 2016, with selling activity falling to its lowest point in over a decade
  - Private Equity capital deployment in the US declined by 29.5% YOY
  - Value derived from US exits fell by 26.4% YOY and by 73% from 2021 levels

\* Preliminary Performance as of December 31, 2023

PE deal activity



Annual global private equity-backed exits



## Investment Highlights Fiscal YTD

- Investment activity occurred across asset classes for the first half of the Fiscal Year as managers called committed capital and Staff rebalanced portfolios
  - Across a number of legs Staff was able to rebalanced the Core Fixed Income during the period, moving the duration of the overall portfolio from 3 years short to flat relative to the benchmark index
    - The benchmark for the Loomis portfolio was updated to the Bloomberg US Aggregate Index from the Bloomberg US Intermediate Aggregate Index
    - A total of \$1,925MM was transferred from the Lord Abbett Short Duration Credit portfolio, \$996.5MM to the existing external Core portfolios and \$928MM to the new internally managed Core Portfolio
    - The Lord Abbett account is in wind down, holding a single CMBS security and will be closed and the agreement terminated once the security is sold or matures
  - Specialty Credit managers continued to find compelling opportunities, deploying over \$150MM during the period including the first capital calls for the new Adams Street Fund and Co-Investment vehicle approved in 2023
  - A total of almost \$300MM was called and invested by Real Return managers, the majority of which was the initial investment for Arctos and Maritime Partners, managers approved in 2023
  - Rebalancing and investing activity in Public Equities totaled \$150MM as Staff managed exposures across cap weights and geographies while aligning individual portfolios
- The first Proxy Voting Report was posted to the KPPA website





# **CERS Investment Committee**

## **Real Return Recommendation – Saba Capital**

January 24, 2024



## Top Candidate Characteristics – Saba Capital

### Closed-End Funds Separately Managed Account *\$175 Million Recommendation*

Saba Capital Management (“Saba”) is a New York-based investment firm founded in 2009 focused on relative value and arbitrage strategies. The firm was founded by Boaz Weinstein, who was previously co-head of the Global Credit Trading business at Deutsche Bank. Saba utilizes its credit analysis and trading background to arbitrage dislocations and hedge risk across capital structures and markets.

Since 2013, the firm has been investing in listed closed-end funds and investment trusts that trade at sizable discounts to net asset value (NAV). Saba selectively pursues activism and legal judgments to unlock shareholder value and monetize the discount to NAV.

During 2023, Saba won legal judgments or helped closed discounts related to funds managed by BlackRock, Brookfield, Franklin Templeton, and Goldman Sachs, among others.

This investment would provide exposure to listed equity and fixed income securities at a discount, including meaningful exposure to real assets through the energy, utilities, materials, and infrastructure sectors.

### Due Diligence Summary

Date of First KPPA Meeting

1/28/2020 (Conference)

Date of Subsequent Meetings

3/3/2023 (Call)

4/24/2023 (Call)

6/26/2023 (Call)

8/2/2023 (Onsite – NYC)

8/22/2023 (Call)

10/11/2023 (Virtual)

10/31/2023 (Call)

12/7/2023 (Call)

Date of Operational Due Diligence Report

6/28/2023

Date of Consultant Manager Report

7/7/2023

Legal Negotiation Initiated

8/18/2023

Comparable Strategies Reviewed

10 (closed end funds)



## Executive Summary

Saba | Capital

**Saba is a registered investment advisor focused on relative value strategies. The Firm seeks to profit from dislocations between credit and equity instruments and deliver convex returns, particularly in volatile markets.**

**Saba has \$4.7 billion in AUM and 51 employees, including 15 investment professionals.<sup>1</sup>**

- Saba was founded in 2009 by Boaz Weinstein, who was previously co-head of the Global Credit Trading business at Deutsche Bank, where he managed a team of approximately 650 people. Boaz is known for pioneering a number of credit relative value and capital structure investing strategies.
- Boaz's 28 years of experience in relative value credit strategies deeply informs Saba's investment philosophy.
- Saba's investment team has been at the forefront of hedging tail risk and arbitraging dislocations between bonds, loans, structured credit, and derivatives across capital structures and term structures.
- Saba uses a rigorous investment process that combines quantitative models with fundamental and technical analysis.
- Saba began investing in investment trusts/closed-end funds in 2013 and is the industry leader in activism and relative value trading, currently managing a ~\$5.1 billion<sup>2</sup> portfolio.
- Saba pursues activism where corporate actions may be an effective tool to unlock shareholder value and monetize the discount to NAV.
- Saba has a diverse institutional investor base, including funds of funds, pensions, foundations, endowments, family offices and HNW individuals.

<sup>1</sup>As of 1/1/2024. <sup>2</sup>Long exposure of closed-end funds owned firm-wide as of 12/31/2023. Nothing here is a guarantee or assurance of successful or profitable outcomes.

## Firm Overview

Saba | Capital

### Founded in 2009, Saba manages \$4.7 billion in several Funds:

- Multi-Strategy Relative Value (Flagship)
- Tail Hedge
- Closed-End Fund Arbitrage

### SABA CAPITAL MANAGEMENT, L.P.

Founded in 2009

#### FLAGSHIP<sup>1</sup>

Launched: 4/2009  
Strategy AUM: \$1,580mm

#### TAIL HEDGE

Launched: 4/2011  
Strategy AUM: \$1,510mm

#### CLOSED-END FUND ARBITRAGE<sup>2</sup>

Launched: 10/2015  
Strategy AUM: \$1,030mm

#### EXCHANGE LISTED (Tickers: CEFS, BRW)

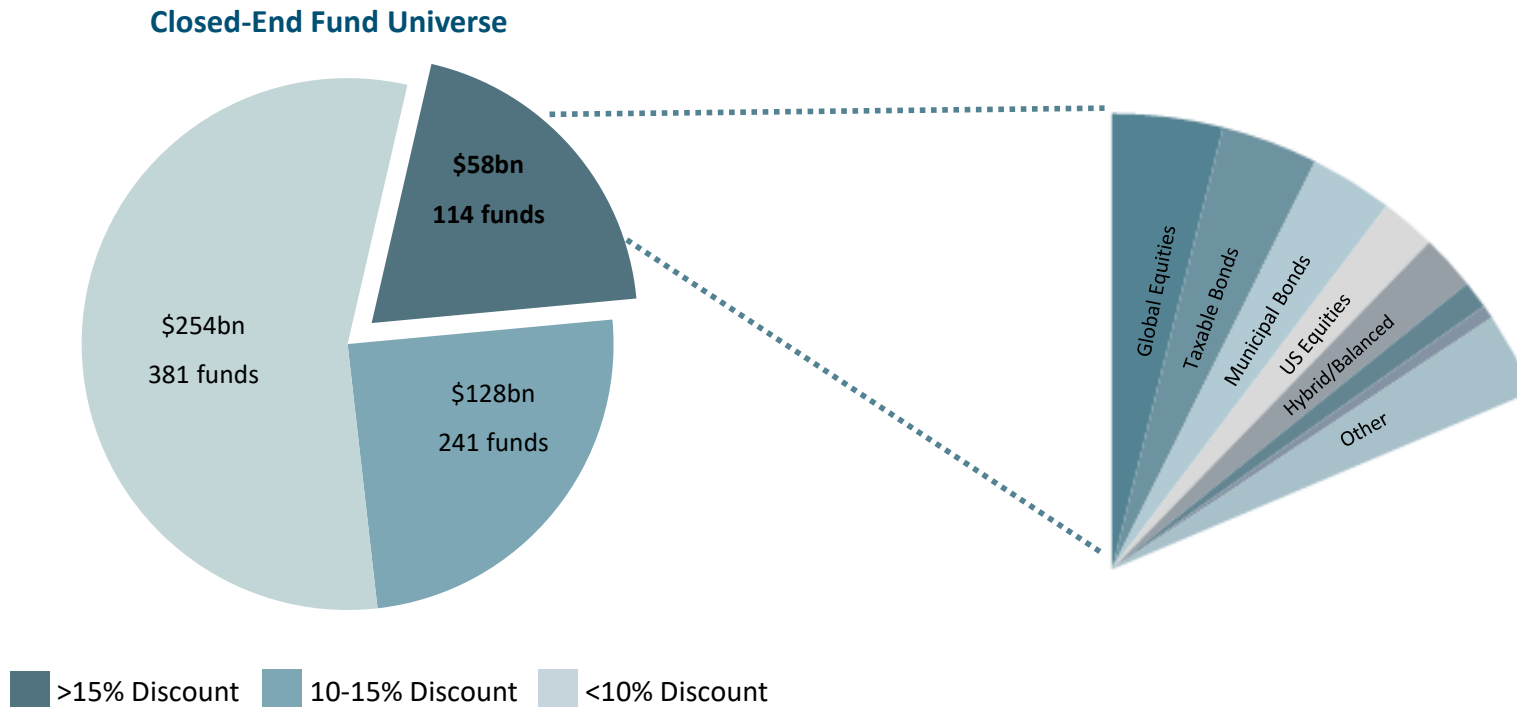
Launched: 3/2017, 6/2021  
Strategy AUM: \$515mm

<sup>1</sup>Includes funds of one for Flagship as well as funds and accounts for sub-strategies not currently available for investment.

<sup>2</sup>Strategy AUM includes AUM for Saba's sub-advised Fund, The Saba Closed-End Funds ETF (CEFS).  
AUM estimated as of 1/1/2024.

## Current Closed-End Fund Universe<sup>1</sup>

- The closed-end fund universe is substantial with over \$440 billion AUM across 735+ funds globally
- Currently, at least \$58 billion market value of CEFs trade at a discount to NAV greater than 15%
  - The opportunity to own assets at double digit discounts is diversified across equities, corporate credit, municipal bonds and more



<sup>1</sup>Includes all active listed closed-end funds in USD, GBP, AUD and CAD, excluding interval funds and funds where asset class is Private Equity or Real Estate and for which current and historical data is available on Bloomberg. As of 11/30/2023. Sources: Saba, Bloomberg, Bloomberg Fund Screening Tool (FSRC). Statements about the investment universe or pipeline are not a guarantee that certain investments will be available, or that such investments will be profitable.

## Bloomberg 2023 Global Activism Review

Saba | Capital

By All Campaigns

## Top Activists of 2023

By \$1b+ Only

Activist	Total Campaigns	Activist	\$1b+ Campaigns
<b>Saba Capital Management</b>	<b>64</b>	Elliott Investment Management	15
Elliott Investment Management	17	Dalton Investments LLC	7
Nippon Active Value Fund	12	Starboard Value LP	7
Dalton Investments LLC	10	ValueAct Capital Management	7
Murakami Funds	10	<b>Saba / Align / Ancora (tie)</b>	<b>6</b>
Oasis Management	10	Inclusive Capital	5

Investment Companies  
& EMEA REITs  
Sales Desk Note  
21<sup>st</sup> June 2023



## From Jefferies market communication on the UK CEF market

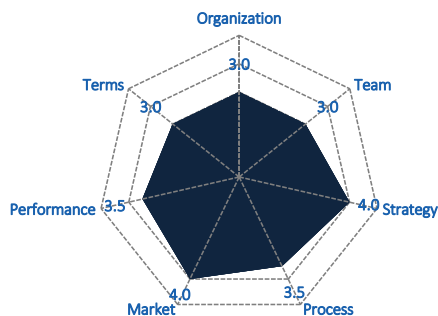
*“The investment trusts sector has become fat on cheap money and it needs to adapt. There are also too many funds. Many are obsolete because they could be equally well managed in an open-ended wrapper. Many are sub-scale and trade at permanent discounts. But that doesn’t mean that there aren’t many good ones run by first-class management teams which have sufficient scale and liquidity not only to survive but thrive. **Activist capital is probably required to catalyse the creative destruction necessary to shift the sector into a healthier position better tailored to the buy-side’s needs.**”*

Source: Bloomberg. For Fiscal Year 2023. League table rankings may vary between quarterly/year-end publications and data found on the Bloomberg Professional Service. While Saba believes that the information from Bloomberg L.P. and its suppliers was obtained from reliable sources, it cannot guarantee its accuracy. Information contained herein is not a rating or endorsement by any third party.

# Saba Closed End Fund Strategy

## Preliminary Diligence

<b>Investment Type</b>	Primary
<b>Firm AUM (M)</b>	\$4,700
<b>Strategy AUM (M)</b>	\$1,030
<b>Firm Inception</b>	2009
<b>Fund Inception</b>	2015
<b>Asset Class</b>	Multi-Asset
<b>Sector</b>	Closed End Fund Arbitrage
<b>Geographic Focus</b>	Global
<b>Subscriptions</b>	Monthly
<b>Redemptions</b>	Quarterly
<b>Notice</b>	65 days
<b>Lock-Up</b>	None
<b>Gate</b>	25% quarterly
<b>Management Fee</b>	0.75%
<b>Performance Fee</b>	25%
<b>Preferred Return</b>	1.5x iShares iBoxx High Yield Corporate Bond ETF Class USD Inc



Past performance is not indicative of future results.

### Firm Overview

Saba Capital (“Saba” or “the Firm”) is an alternative asset manager focused on relative value strategies. As of December 2023, the Firm employs 51 individuals and is headquartered in New York. The Firm was founded in 2009 by Boaz Weinstein as a lift-out of the Deutsche Bank proprietary credit trading group. Saba manages nearly \$5 billion across four core strategies: the flagship multi-strategy hedge fund, tail hedging, closed-end fund arbitrage, and SPACs. The closed end fund arbitrage strategy is managed by Partner and Portfolio Manager Paul Kazarian, who joined the Firm in 2013 from RBC, where he served as a Director in the Global Arbitrage and Trading Group.

### Investment Strategy

Saba’s Closed End Fund Arbitrage strategy is offered to investors through separate accounts, funds of one, and several commingled vehicles – most notably, Saba Capital CEF Opportunities 1 – in both a long-only and market neutral approach. The strategy focuses on the purchase of shares/interests in closed end funds and investment trusts at significant discounts to NAV to capture incremental yield relative to the underlying instruments, which include bonds, loans, and equity securities. Discounts are often driven by differences in cost structures and liquidity, retail flows, changes in regulations, and market dislocations.

Investments are intended to generate positive returns through positive performance of the underlying and narrowing of the discount. Additionally, Saba looks to pursue an activist approach in special situations where corporate actions (liquidation, tendering, open-ending) can drive value and monetize the discount. The strategy generally holds 40-80 closed-end funds and will generally be a long-only/long-biased portfolio, though Saba has discretion to hedge as deemed necessary.

### Track Record

Oct 2015 – Dec 2023	Saba CEF Opps 1 Onshore LP	HFRI Relative Value Index	Bloomberg US High Yield
<b>Ann. Return</b>	10.19%	4.22%	5.61%
<b>Ann. Volatility</b>	14.91%	4.66%	8.03%
<b>Correlation</b>	-	0.86	0.89
<b>Beta</b>	-	2.76	1.65
<b>Alpha</b>	-	-1.44%	0.92%

Source: Saba Capital, Bloomberg, HFRI. Saba performance calculated using equivalent fee structure of proposed SMA.

### Investment Merits

- Employee-owned firm with experienced and tenured senior team
- Experienced manager and industry leader in CEF activism
- Favorable market dynamics
- Meaningful track record across a number of market environments

### Investment Concerns

- Concentrated ownership structure
- Lean dedicated team to the CEF arbitrage strategy
- Regulatory risk as it pertains to UK Investment Trusts
- Mark-to-market risk during periods of market stress

### Key Investment Personnel

Name	Title	Experience
Paul Kazarian	Portfolio Manager	RBC, Merrill Lynch
Boaz Weinstein	Founder, CIO	Deutsche Bank
Pierre Weinstein	Portfolio Manager	Deutsche Bank, Soc Gen



## KENTUCKY PUBLIC PENSIONS AUTHORITY



### INVESTMENTS

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To: CERS Investment Committee

From: Anthony Chiu, Deputy CIO

Date: January 24, 2024

Subject: Investment Recommendation – Saba Capital Closed-End Funds strategy

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KPPA Investment Staff is proposing a separate account investment with Saba Capital Management (“Saba” or the “Firm”). Based in New York, Saba is pursuing a value and activist strategy targeting listed closed-end funds (“CEF” or “CEFs”) that are trading at significant (>15%) discounts to their net asset value (“NAV”).

Currently there are more than 735 closed-end funds globally with \$440 billion of assets under management. These funds are retail investment products that are sold (not bought) through the wealth management channel and largely consist of portfolios of listed securities. Equity and fixed income funds each comprise around 40% of the market, with the rest in real assets funds that hold companies in sectors such as utilities, energy, materials, and infrastructure.

As a result of the asset allocation that took effect in 2022, KPPA’s target portfolio weight for Real Return was increased to either 10% or 13%, depending on the underlying plan. After a sizable Putnam mandate was terminated in 2022, KPPA’s plans each had around a 2-3% allocation to Real Return. This proposed investment would help the plans continue moving toward target weights and be fully invested during the first half of 2024.

In identifying this investment opportunity, KPPA staff utilized a competitive search process in accordance with the Investment Policy Statement and Investment Procurement Policy in its search for strategies that provide favorable stand-alone risk-adjusted returns, low correlations to the existing portfolio, and a propensity for positive real returns across the cycle.

#### **Business / People:**

Saba was founded in 2009 by Boaz Weinstein to focus on relative value and arbitrage strategies. Boaz was previously co-head of Global Credit Trading at Deutsche Bank, where he worked for 11 years and led a team of over 600 people. Saba Capital was a liftout of the proprietary credit trading group that Boaz started and utilizes its credit analysis and trading background to arbitrage dislocations and hedge risk across capital structures and markets. At the beginning of 2024, Saba had \$4.7 billion of assets under management and a team of 51, including 15 investment professionals.

Saba’s flagship fund allocates flexibly across market opportunities. In the firm’s early years, it was perhaps most famous for the “London whale” trade, in which Saba noticed and took advantage of a market anomaly in the credit default swaps market that turned out to be the result of a JPMorgan trader’s oversized “hedging” positions.

Saba began trading CEFs in 2013 shortly after Paul Kazarian joined from RBC Capital Markets, where he had worked in proprietary trading and bond ETF arbitrage for 6 years. While Boaz is Saba’s Chief Investment Officer, Paul has primary responsibility for CEFs and is the key person on this strategy. Paul is solely dedicated to CEFs and makes day-to-day decisions with close oversight from Boaz.

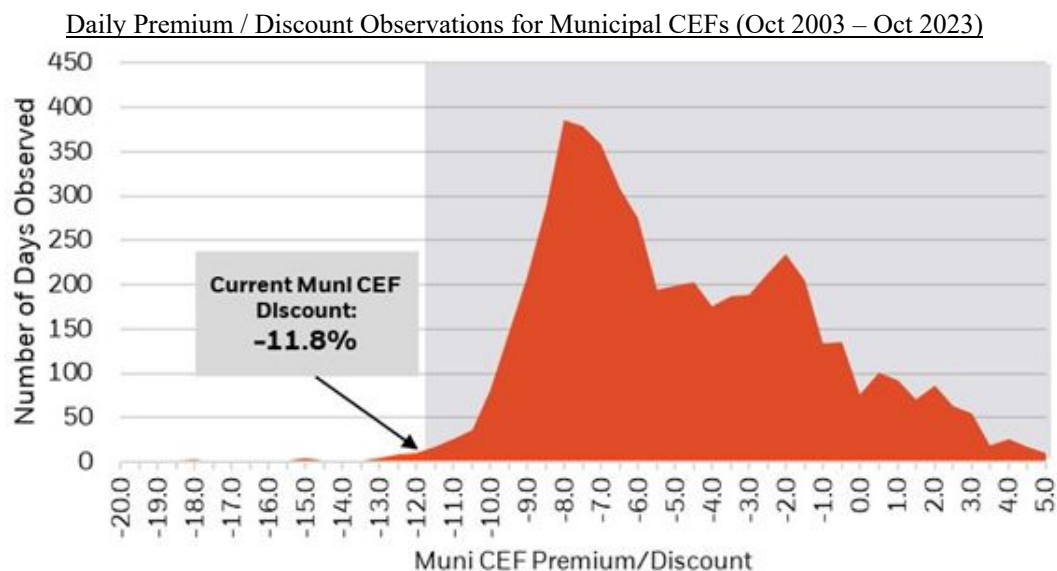


Pierre Weinstein (no relation) has worked with Boaz since 2005 at Deutsche Bank, where he managed the equity derivatives, international convertible bond and SPAC arbitrage strategies. He joined Saba at launch in 2009 and worked on CEFs more when Saba was first getting involved. Pierre spends a large majority of his time on convert and volatility arbitrage but still contributes to the CEF strategy as well.

### Investment Process and Portfolio:

Because CEFs are sold and not bought, they do not have a naturally consistent source of demand. As a result, when investors look to sell, a discount is typically required to clear the market. Since the underlying assets of CEFs are often listed and straightforward to value, the 10-year median discount for CEFs is 7% as of November 2023.

However, market and investor sentiment can significantly influence the discount toward the 13-15% levels that start to interest Saba. The Federal Reserve's interest rate hikes and 2022's market rout have helped push CEF discounts to historically wide levels. For example, in October 2023 municipal CEF discounts were near the widest levels seen over the past 20 years, as shown below.



Sources: BlackRock, Morningstar

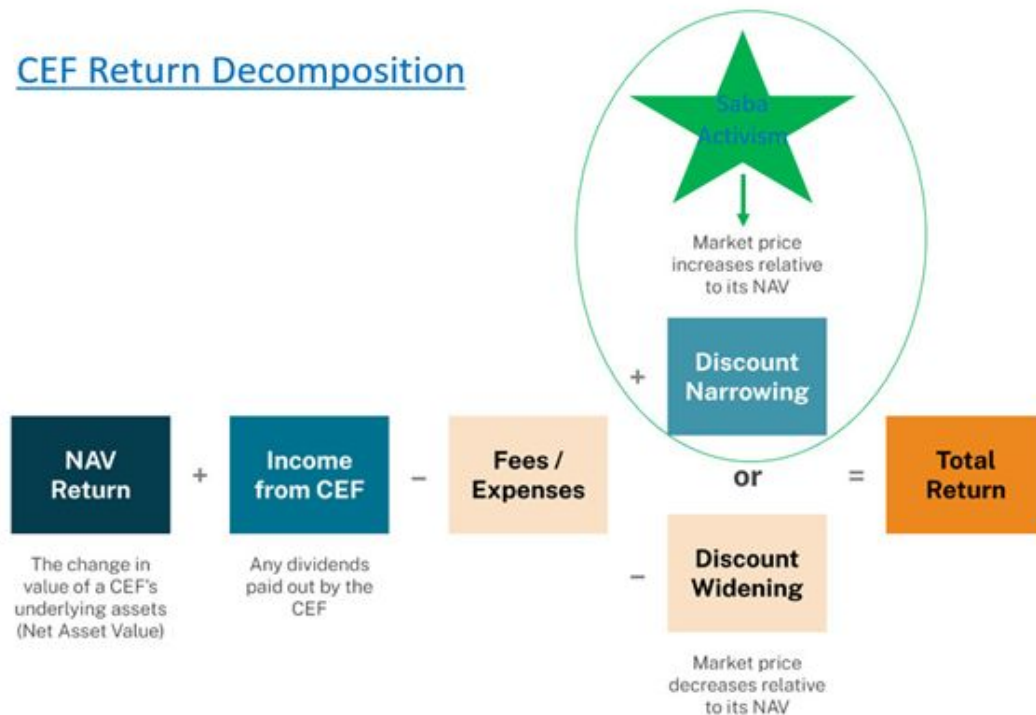
Saba first started investing in CEFs in 2013 and currently has over \$5 billion of long exposure across the firm in what on the surface appears to be a thinly traded market. However, a combination of steady daily buying and block trades has allowed Saba to accumulate meaningful positions in dozens of CEFs.

While buying assets inexpensively can be a good investment strategy, discounts can also persist indefinitely, especially if maintaining the status quo serves the interest of the asset manager. In the case of closed-end funds, the fund manager can instantly close the discount if they choose. Tendering for shares, merging with an open-end fund, or simply liquidating the underlying assets will do the job – but also reduce the manager's fee income. So that is unlikely without a catalyst.

Thus, the second part of Saba's strategy is activism. Saba has taken 92 corporate actions since 2015 that have resulted in a partial or full monetization of the discount to NAV. Since January 2021, Saba was the lead activist on 28 of the 29 corporate actions it undertook and currently has 13Ds filed (>5% ownership) in 53 different closed-end funds.



## CEF Return Decomposition



An example of Saba catalyzing action is Salient Midstream & MLP Fund (SMM), which traded at a 19% discount at the beginning of November 2021 when Saba filed their initial 13D. Saba nominated Paul and Pierre for SMM board membership at Salient's annual meeting in late June 2022. The following week the fund's trading was halted and Salient agreed to merge SMM into Salient MLP & Energy Infrastructure Fund (SMLPX), its open-end mutual fund. As shown below, about 2/3 of the discount was closed immediately when the merger was announced, with the remainder occurring when the merger closed.

## SALIENT MIDSTREAM & MLP FUND ANNOUNCES PLANNED REORGANIZATION



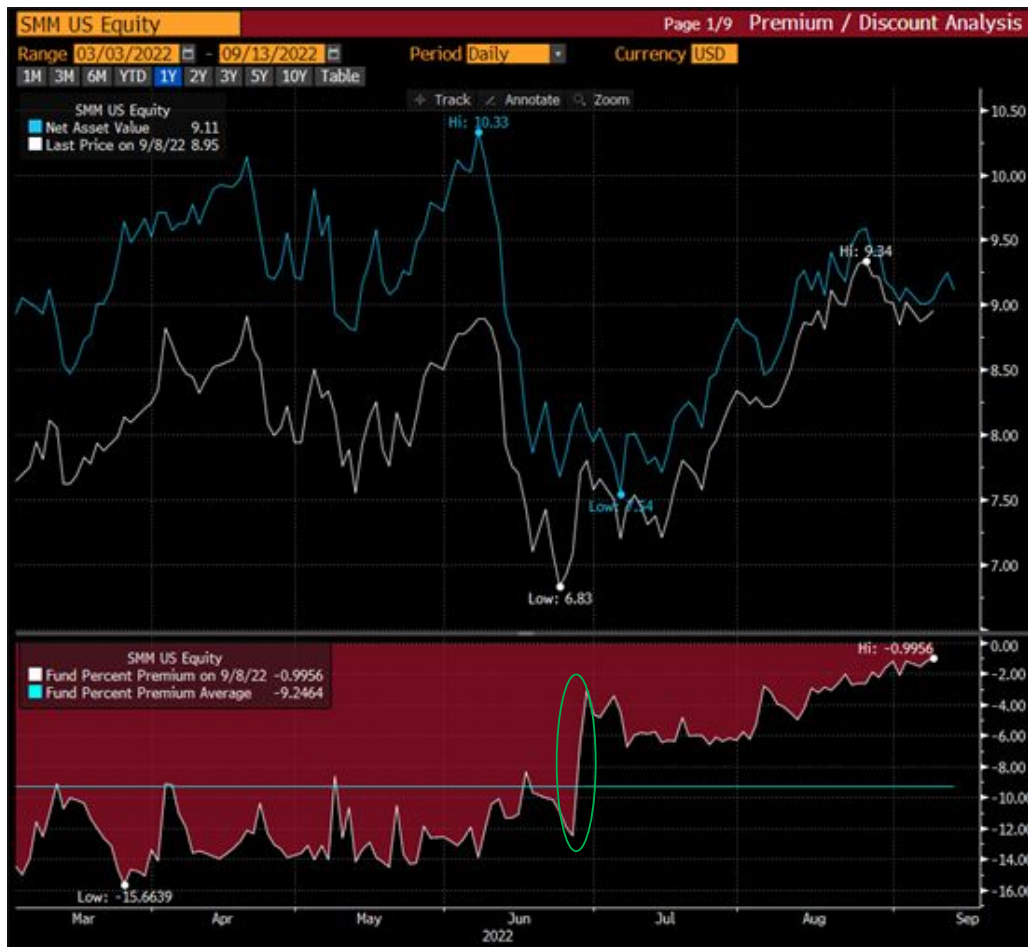
NEWS PROVIDED BY  
**Salient Partners, L.P.** →  
 28 Jun, 2022, 12:26 ET

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HOUSTON, June 28, 2022 /PRNewswire/ -- Salient Midstream & MLP Fund (the "Fund") (NYSE: **SMM**) announced today that its Board of Trustees determined to reorganize SMM into Salient MLP & Energy Infrastructure Fund ("SMLPX") (the reorganization of SMM into SMLPX is the "Reorganization"). SMLPX is an open-end fund that is a series of Salient MF Trust with approximately \$849 million in net assets and is also managed by Salient Capital Advisors, LLC, the investment adviser of SMM, using a similar investment strategy.

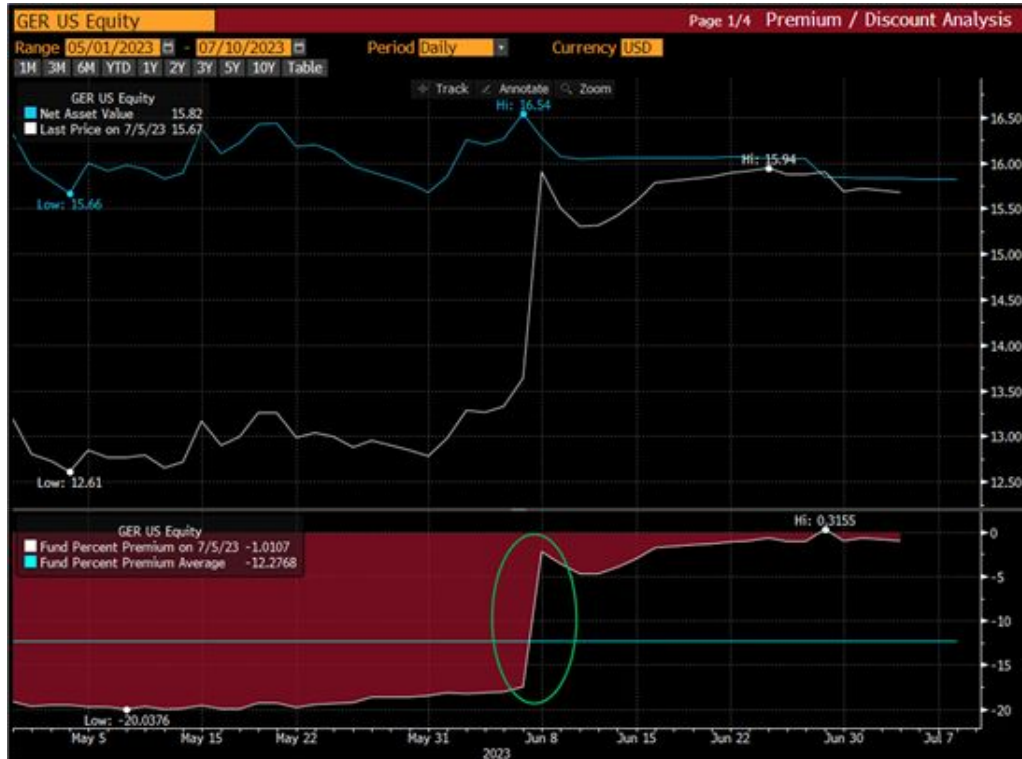
After careful consideration of a variety of factors and alternatives, the Board of Trustees determined that it would be in the best interest of shareholders to merge SMM into SMLPX.



With Saba’s growing activity and success, CEF managers that find Saba as a top holder of their funds have occasionally been proactive in improving shareholder value. For example, Saba initiated a position in the Goldman Sachs MLP and Energy Renaissance fund (GER) in 1Q 2022 and became the fund’s largest holder by the end of 1Q 2023. But before Saba even engaged, Goldman announced in early June that it was liquidating the fund, which instantly closed the fund’s 20% discount to NAV.

### Goldman Sachs Asset Management Announces Liquidation of Goldman Sachs MLP and Energy Renaissance Fund

New York, NY, June 7, 2023 — Goldman Sachs Asset Management (“GSAM”), investment adviser for the Goldman Sachs MLP and Energy Renaissance Fund (the “Fund”) (NYSE: GER), announced today that the Fund’s Board of Trustees, at the recommendation of GSAM, has approved a plan of liquidation and dissolution (the “Plan”) for the Fund. Under the Plan, which is effective today, the Fund will begin the process of liquidating portfolio assets and unwinding its affairs in an orderly fashion over time. The Plan is not subject to shareholder approval.



Many CEF managers have been less cooperative, which has led to a significant amount of litigation. Saba has sued and recently won judgments against managers including BlackRock, Eaton Vance, and Nuveen that have implemented provisions that limit Saba’s shareholder voting rights.

Saba believes their activist trades typically span 1 to 1.25 years from inception to exit. However, with litigation some campaigns could stretch to 2 years or more – and could end up with a legal loss at the end. Additionally, the sentiment dynamics mentioned above that are a feature of the CEF landscape could cause additional discount widening, volatility, and negative returns in the short to medium term.

However, we believe Saba’s approach of finding assets at discount and creating value through activism is likely to continue having success, and today’s historically wide discounts provide an attractive entry point. Saba seems to share that belief as well, with its flagship fund having increased its exposure to CEFs from 9% at the end of 2021 to 46% at the end of November 2023.

**Performance:**

Fund	1 yr	3 yr	5 yr	Since Inception	Inception Date
Saba CEF Opportunities 1	17.8%	7.3%	12.3%	10.7%	Oct-15
60/40 Portfolio	17.7%	4.7%	10.0%	8.9%	
S&P Real Assets Index	7.8%	3.9%	5.9%	5.1%	

Source: Bloomberg, Saba Capital as of 12/31/2023

Since inception in October 2015, Saba’s closed-end fund strategy has outpaced a blended equity and fixed income portfolio (which comprises the majority of the CEF universe) as well as a real assets benchmark.

**Conclusion:** Given the attractive economics and compelling market opportunity, Staff is recommending an investment of \$175 million to be shared among all CERS plans pending successful investment management agreement negotiations. When fully funded, this would represent an additional ~1.0-1.1% of plan assets (depending on fluctuations in market value). It is anticipated this investment would be funded by existing cash or the unwinding of proxy positions based on the specific needs of each plan.

Investment and Terms Summary

**Type of Investment:** Real Return

**Structure:** Separate Account

**Management Fee:** 0.75%

**Performance Fee:** 25% over a benchmark (60/40 portfolio)

**Purpose:** Provide CERS with exposure to listed real asset, fixed income, and equity securities at a discount. Earn yield and monetize closed-end fund discounts through successful shareholder activism and litigation.

**Risks:** Volatility, Liquidity, Key Person, Legal

**Exp. Net Return:** 8% - 12%

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