County Employees Retirement System
Board of Trustees – Special Meeting
March 26, 2025, at 2:30 pm ET (1:30 pm CT)
Live Video Conference/Facebook Live

AGENDA

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

***Board May Take Action**

KENTUCKY PUBLIC PENSIONS AUTHORITY

INVESTMENTS

To: CERS Investment Committee

From: Anthony Chiu, Deputy CIO

Date: March 26, 2025

Subject: Investment Recommendation – Arctos American Football Fund

KPPA Investment Staff is proposing an additional investment of up to $30 million in the Arctos American Football Fund (“AAFF” or the “Fund”) contingent on successful IMA negotiations. This investment would result in an additional 5 bps fee concession for all of CERS’s assets invested on the Arctos platform. This fee break would result in an initial management fee saving of approximately $79 thousand per year for the CERS portfolios based on the existing total commitments to the Arctos Sports Fund II and the AAFF. This additional investment would also move the portfolios incrementally closer to their target exposures for the Real Return asset class while providing additional exposure to an investment with compelling economics, favorable standalone risk-adjusted returns, inflation sensitivity and low return correlations to the current Real Return portfolios as well as the broader overall portfolio. .

In February 2023, KPPA committed $250 million (including co-investment) to Arctos Sports II (“Arctos II” or “Fund II”), which had a final close in April 2024 at more than $4 billion (including co-investment). When KPPA made its commitment, the NFL was the only one of the major US sports leagues that had not approved institutional private equity investment in its teams. However, based on media reports and discussions, it appeared that the NFL had been observing and studying the other leagues’ experiences with institutional investment - and Staff was confident that the Arctos Sports II investment would eventually include NFL exposure. As of 9/30/24 Fund II was marked at 1.5x gross and includes stakes in the Utah Jazz, Philadelphia 76ers / New Jersey Devils, and Los Angeles Dodgers among its top positions.

In February 2025, CERS committed $70 million to the Arctos American Football Fund. The NFL recently announced that it would open to private equity investment, with a very select group of four investors provisionally approved: Arctos, Ares, Sixth Street, and a consortium that includes Blackstone, Carlyle, and CVC. While the league’s guidelines were similar to the other US leagues, the NFL had some additional requirements, including at least $2 billion of committed capital and a maximum of 10% ownership in any single team. Arctos created AAFF to invest in multiple NFL franchises and additional sports assets. Arctos believes the AAFF could be substantially deployed over the next 12-18 months.

Conclusion: Staff is recommending an additional investment of up to $30 million to be shared among all CERS plans. When fully funded, this would represent an additional ~0.13% of assets and provide ~0.45 – 0.60% NFL exposure to each plan (depending on fluctuations in market value).

Investment and Terms Summary

Type of Investment:	Real Return
Structure:	GP / LP
Management Fee:	Years 1-5: 1.75% on committed capital Thereafter: 1.25% on invested capital, net of write-offs and distributions
Performance Fee:	20% over an 8% preferred return
Purpose:	Capture the long-term valuation growth of scarce NFL league and team assets, which are backed by sizable contracted cash flow streams and profitability.
Risks:	Equity, Liquidity, Lack of Control, Valuation, Key Person
Exp. Net Return:	8% - 12%

Arctos American Football Fund (AAFF)

Up to $100 Million Recommendation

- CERS approved commitment: $70 million
- [redacted]
- $30 million of additional capacity is available to CERS
- Arctos believes AAFF could be deployed across 3-4 investments over the next 12-18 months

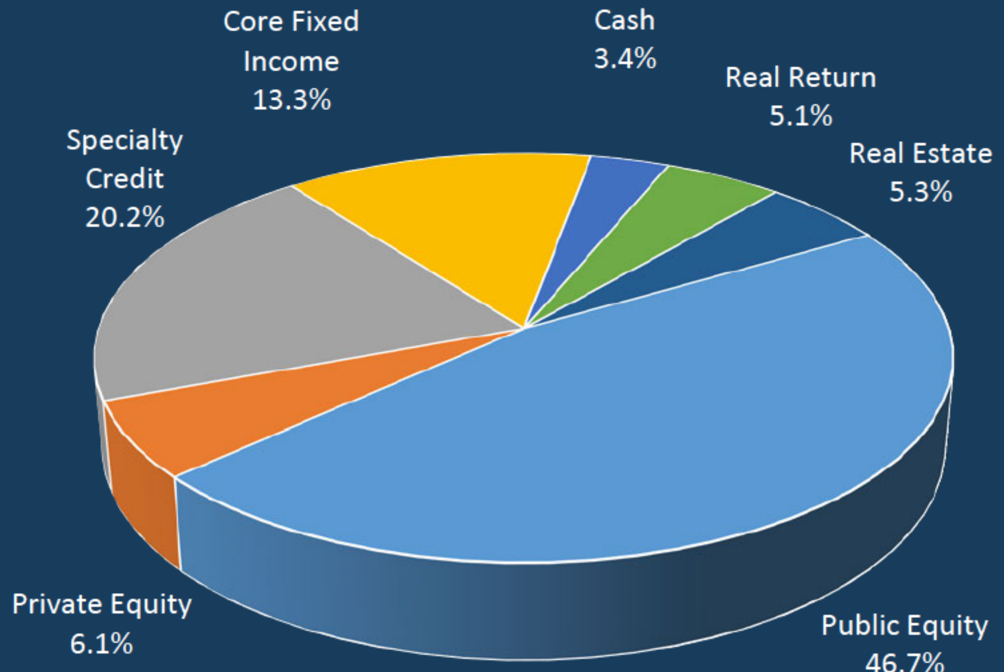
Additional Commitment ($ MM)	Additional Portfolio Weight (%)
$5	0.03%
$25	0.13%

- CERS savings:
  - [redacted]

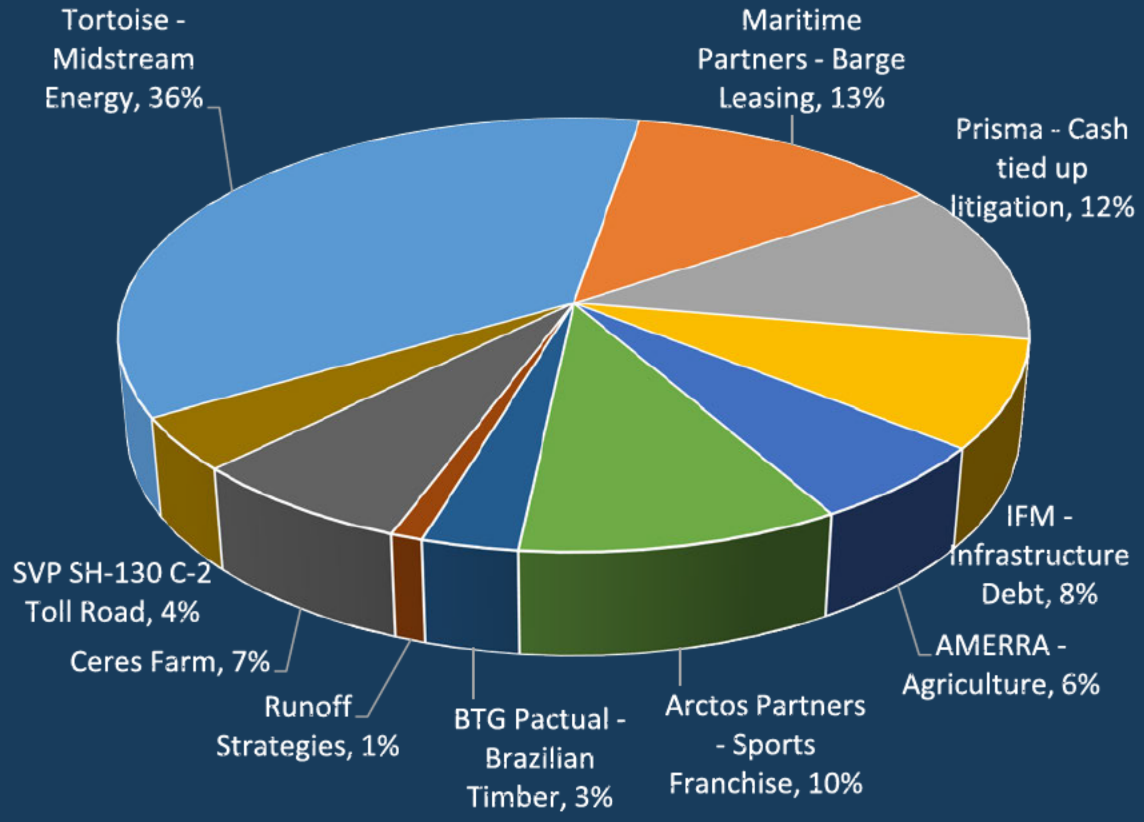
CERS County Employees Retirement System

Real Return Allocation Today

Current Asset Allocation*



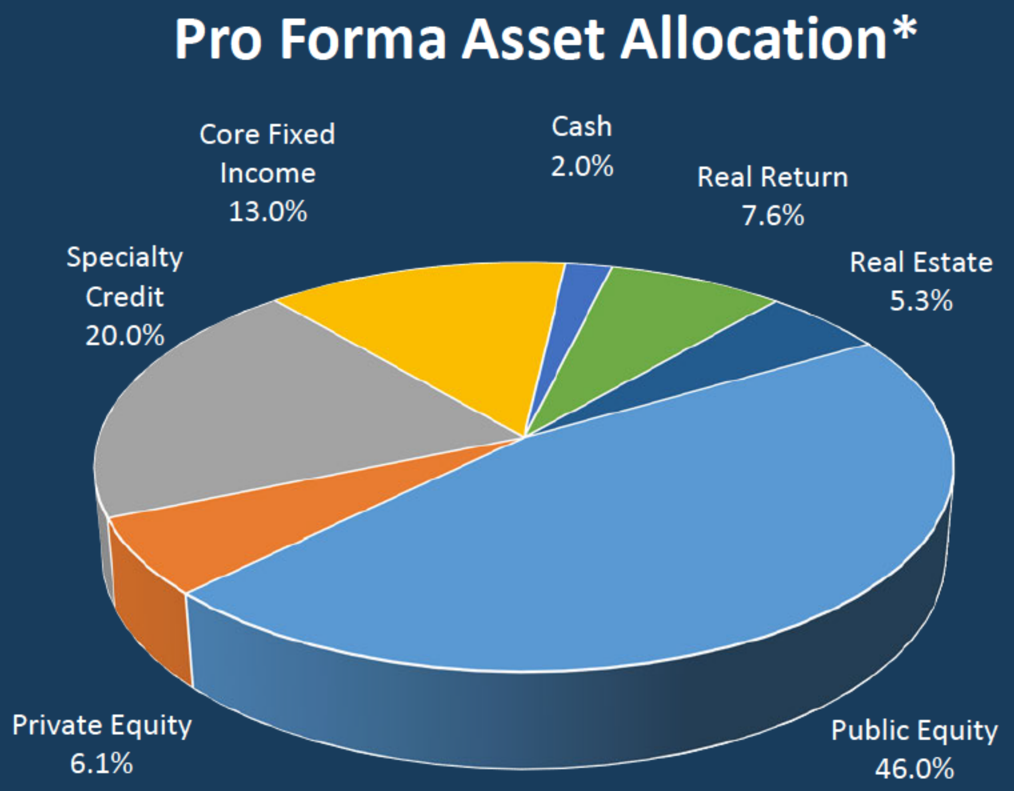
Current Real Return Allocation*

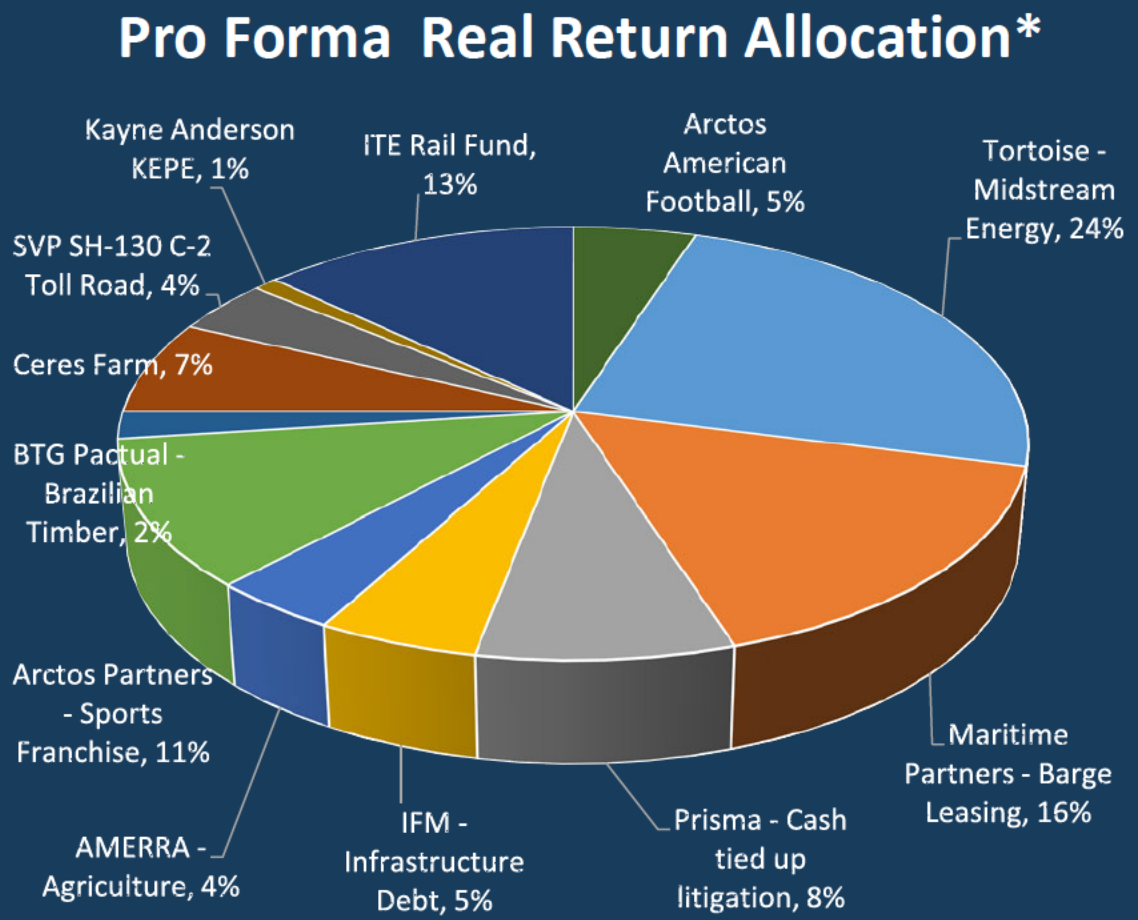


*CERS Pension as representation

CERS County Employees Retirement System

Pro Forma Real Return Allocation





*CERS Pension as representation

CERS County Employees Retirement System

To:	CERS Investment Committee
From:	Anthony Chiu, Deputy CIO
Date:	February 26, 2025
Subject:	Investment Recommendation – Arctos American Football Fund

KPPA Investment Staff is proposing an investment in the Arctos American Football Fund ("AAFF" or the "Fund") contingent on successful IMA negotiations. Based in Dallas, Arctos Sports Partners ("Arctos" or the "Firm") provides liquidity and strategic capital to the owners of major professional sports franchises, with a focus on what they call the United States' Big 5 sports leagues - Major League Baseball ("MLB"), the National Basketball Association ("NBA"), the National Hockey League ("NHL"), Major League Soccer ("MLS"), and the National Football League ("NFL"). This mandate would be part of the Real Return asset allocation.

In February 2023, KPPA committed $250 million (including co-investment) to Arctos Sports II ("Arctos II" or "Fund II"), which had a final close in April 2024 at more than $4 billion (including co-investment). When KPPA made its commitment, the NFL was the only one of the major US sports leagues that had not approved institutional private equity investment in its teams. However, based on media reports and discussions, it appeared that the NFL had been observing and studying the other leagues' experiences with institutional investment - and Staff was confident that the Arctos Sports II investment would eventually include NFL exposure.

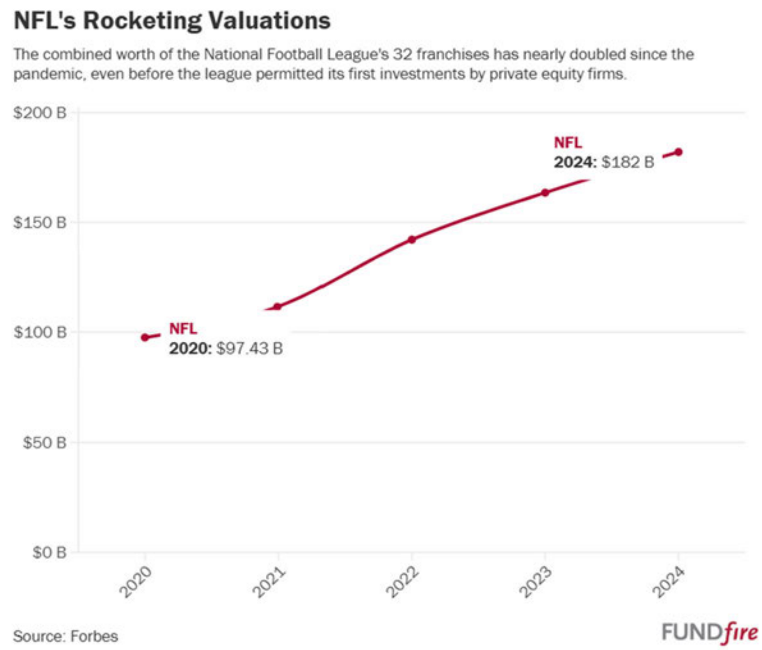
In August 2024, the NFL announced that it would open to private equity investment, with a very select group of four investors provisionally approved: Arctos, Ares, Sixth Street, and a consortium that includes Blackstone, Carlyle, and CVC. While the league's guidelines were similar to the other US leagues, the NFL had some additional requirements, including at least $2 billion of committed capital and a maximum of 10% ownership in any single team.

Arctos created AAFF to invest in multiple NFL franchises and additional sports assets. In December, the first private equity investments in NFL teams were approved and announced, including Arctos's investment with the Buffalo Bills.

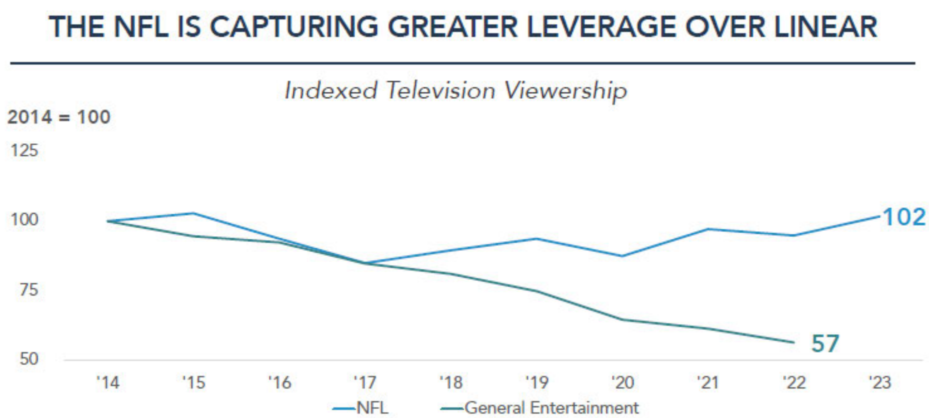
KPPA will have a small indirect investment in AAFF through Arctos II, and Staff is proposing an additional investment in AAFF to have a more meaningful exposure to the unique asset that is the NFL. This proposed investment will also help all KPPA plans continue to move toward their Real Return target allocations and replace the existing proxy real asset exposures in portfolios.

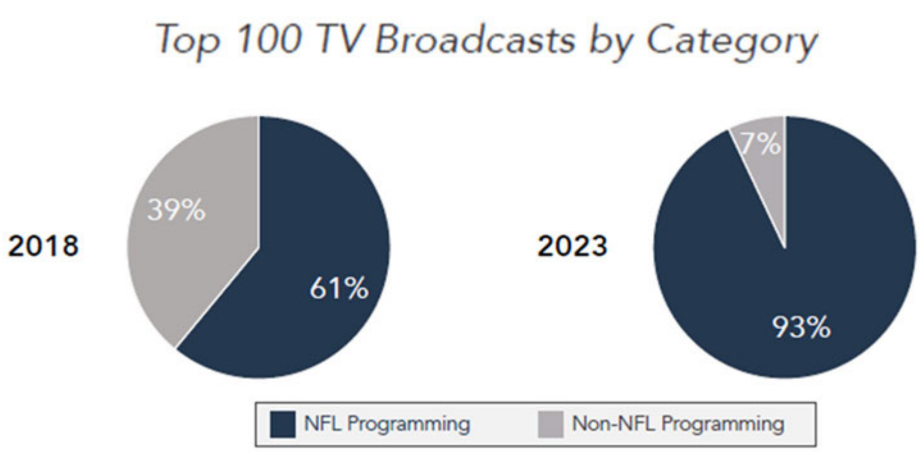
Investment Opportunity:

As with any investment, valuation is a key driver of future returns. And as discussed 2 years ago during the Arctos II approval process, a potential key risk for this strategy is that Arctos is providing liquidity to sellers of vanity assets that are underpinned by consumer and corporate spending near a market top.

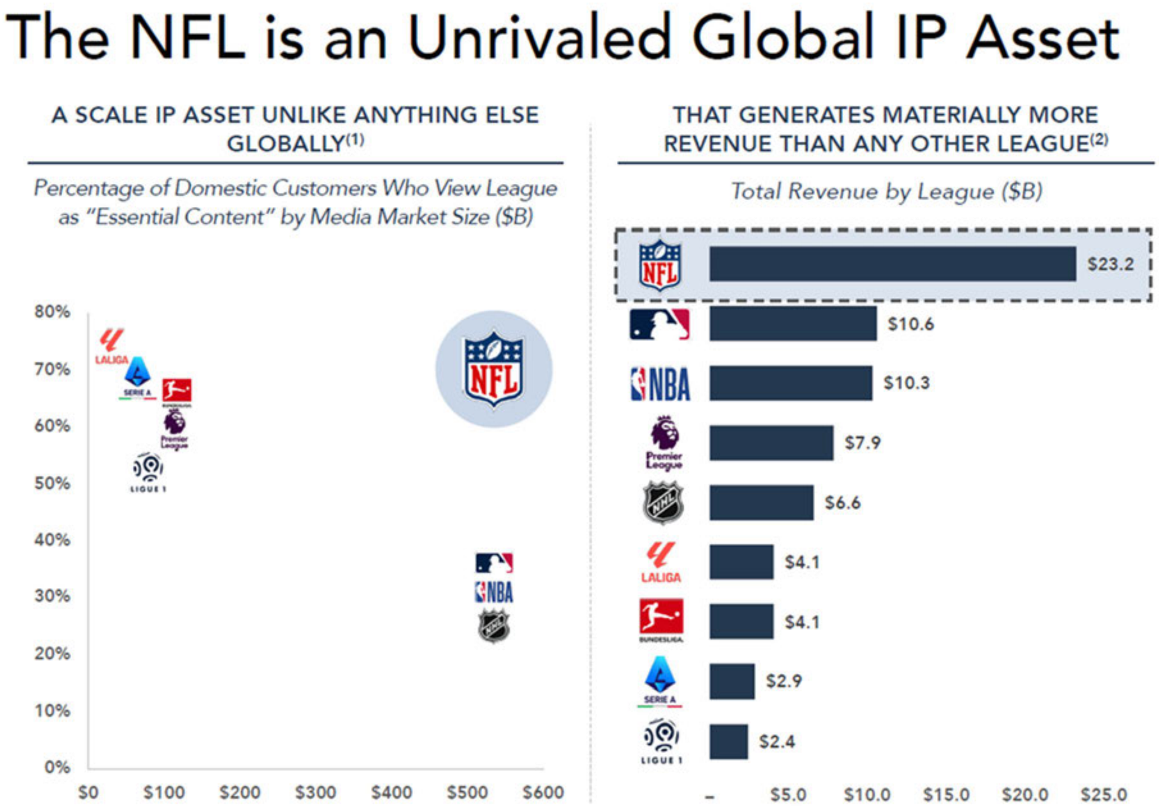


Subsequent to our commitment, US major league sports team valuations have continued to rise, but this has been fundamentally underpinned by their increasingly valuable media rights. Today people have essentially infinite choices for content consumption, and the resulting fragmentation of consumer attention has made live sports one of the few assets that can reliably deliver audiences at scale. The charts below show just how far the viewership for scripted and other produced shows has fallen compared to sports in just the past 5 to 10 years.





Thus, both linear television networks and streaming providers **<u>need</u>** premium sports content – TV networks simply for survival and streaming services for subscriber growth. And among sports leagues, the NFL is literally in a league of its own for the fan interest and revenue that it drives.



The resulting cash flow streams (which are contracted and growing) combined with the scarcity of the underlying assets (the last NFL expansion team added was Houston in 2002, more than 20 years ago) make this a compelling real asset exposure for KPPA.

Performance:

Fund	Vintage	Size ($ MM)	Net IRR	Net Multiple
Arctos Sports I	2020	$2,137	19%	1.5x
Arctos Sports II	2022	$3,445	18%	1.3x

Source: Arctos as of 9/30/24

As of 9/30/24, Fund I is marked at 1.7x gross, with key positions including Sacramento Kings, Houston Astros, Golden State Warriors, and Tampa Bay Lightning. Fund II is marked at 1.5x gross and includes stakes in the Utah Jazz, Philadelphia 76ers / New Jersey Devils, and Los Angeles Dodgers among its top positions.

Conclusion: Staff is recommending an investment of $70 million to be shared among all CERS plans. When fully funded, this would represent an additional ~0.3% of assets and provide ~0.35 – 0.50% NFL exposure to each plan (depending on fluctuations in market value).

<u>Investment and Terms Summary</u>

Type of Investment: Real Return

Structure: GP / LP

Management Fee: Years 1-5: 1.75% on committed capital
Thereafter: 1.25% on invested capital, net of write-offs and distributions

Performance Fee: 20% over an 8% preferred return

Purpose: Capture the long-term valuation growth of scarce NFL league and team assets, which are backed by sizable contracted cash flow streams and profitability.

Risks: Equity, Liquidity, Lack of Control, Valuation, Key Person

Exp. Net Return: 8% - 12%