MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
INVESTMENT COMMITTEE MEETING
AUGUST 27, 2025, 2:00 P.M., E.T.
VIA LIVE VIDEO TELECONFERENCE

At the August 27, 2025, County Employees Retirement System Investment Committee Meeting, the following committee members were present: Dr. Merl Hackbart, George Cheatham, William O'Mara, and Jim Tony Fulkerson. Staff members present were Ryan Barrow, Rebecca Adkins, Michael Lamb, Carrie Bass, Steve Willer, Brian Caldwell, Joe Gilbert, Ian Blaiklock, Nathan Goodrich, Phillip Cook, Sherry Rankin, and Sandy Hardin. Also in attendance were CERS CEO Ed Owens III; Eric Branco with Johnson, Branco & Brennan LLP; and David Lindberg, Chriss Tessman, Craig Morton, John Patterson, and Marc Friedberg with Wilshire.

1. The meeting of the CERS Investment Committee was called to order by Dr. Hackbart.

2. Mr. Branco read the Legal Opening Statement.

3. Ms. Hardin called roll.

4. Ms. Hardin noted that no ***Public Comment*** was received.

5. Dr. Hackbart introduced agenda item ***Approval of Minutes –May 28, 2025 (****Video 00:07:02 to 00:08:06).*

   Mr. O'Mara made a motion to approve the minutes of the May 28, 2025, Investment Committee Meeting as presented. Mr. Cheatham seconded the motion. The motion passed unanimously.

   Given the full agenda, Dr. Hackbart proposed an adjustment to the agenda to advance two action items for timely discussion. He noted that he would need to step away briefly at 3:00 p.m., at which time Mr. Cheatham, Vice Chair, would assume facilitation responsibilities for the meeting. Please note that while the minutes are transcribed in the order of the originally submitted agenda, time stamps reflect the actual sequence of discussion.

6. Mr. Cheatham introduced agenda item ***Forward Looking Economic Outlook*** *(Video 01:26:08 to 01:59:08).* The discussion began with Mr. Morton's overview of the economic and market backdrop in the second quarter of 2025, highlighting equity market volatility, strong GDP growth, and observations in consumer spending. He discussed the high valuations in the U.S. equity market, interest rate expectations, and the impact of tariffs. He also provided insights on consumer confidence, inflation trends, and employment data - noting improvements in goods inflation, persistent high services inflation, and concerns about the reliability of the employment data.

Dr. Hackbart rejoined the meeting and resumed his duties as Chair.

Referring to the U.S. dollar performance, Mr. Morton explained that the second quarter was one of the worst-performing periods for the U.S. dollar since the 1970s. The depreciation benefited non-U.S. equity investors and made U.S. exports more attractive.

Mr. Tessman discussed the impact of tariffs on federal revenue, mentioning that companies have mostly absorbed the cost increases, but consumers may eventually experience higher prices. He estimated that about two-thirds of the tariff costs might be absorbed by producers. Mr. Willer added that the Federal Reserve Bank of St. Louis has data on tariffs and their impact on revenue, noting that the second-quarter revenue was $266 billion.

Mr. Tessman continued with a comprehensive review of U.S. and global markets, highlighting notable trends and performance shifts during the second quarter of 2025. He presented capital market returns, citing strong results in both U.S. and international equity markets, along with positive performance in fixed income investments. He also reviewed the asset class assumptions and answered questions from the Committee members.

7. Dr. Hackbart introduced agenda item ***Fiscal Year CERS Investment Reporting*** *(Video 01:59:08 to 02:23:42).* Mr. Chiu began by reviewing the Pension and Insurance Portfolio Performance. He noted a rebound in portfolio performance late in the fiscal year, with pension and insurance returning approximately 6.3%, driven by strong public and private equity results. Market conditions were marked by volatility and uncertainty, with public equities reaching record highs and spreads tightening. Seven of eight managers outperformed their benchmarks, and the overall portfolio exceeded its benchmark by over 130 basis points. Specialty credit underperformed by 70 to 75 basis points due to higher exposure to leveraged loans, which did not benefit from spread tightening as much as high yield. Wilshire's assumptions suggest attractive returns for credit and high yield, though caution is warranted given historically tight spreads. For the full fiscal year, the pension portfolio returned 11.65%, and the insurance portfolio matched its benchmark at 11.27%, with pension portfolio outperformance totaling approximately $55 million. Specialty credit, real return—driven by energy exposure—and real estate all exceeded benchmarks, with real estate outperforming by nearly 350 basis points and specialty credit by over 100 basis points. A non-U.S. public equity overweight also added value. Private equity continued to pose challenges amid the public/private market mismatch, and benchmarking continues to be complex. The team remains focused on optimizing risk-reward rather than simply filling allocations. A dual benchmark approach is being considered—short-term for performance optics and long-term for fund behavior—with public market equivalents likely to be the standard.

   Internal portfolios remained aligned with expectations and objectives, with a focus on obtaining risk exposure in a cost-effective manner. Fee sensitivity continues to be a priority, and the internal portfolios are managed very inexpensively. Proxy portfolios are in place for real estate and real return, while the team identifies illiquid exposures to which capital may be committed. Additionally, the Scientific Beta portfolios were retired in June, and that capital has since been transitioned to new large cap U.S. public equity managers.

   Mr. Chiu then reviewed asset class gross performance at the individual portfolio level, including CERS and CERS Hazardous, based on BNY data. While only gross performance is currently available, efforts are underway to present results on a net-of-fees basis in future reporting. The presentation showed tight dispersion across asset class performance, reflecting similar risk objectives across plans despite some differences in allocations and individual investments. Private equity was noted as the primary outlier due to varying allocations over time, which has led to differing fund results and some impact on overall performance comparisons.

Mr. Chiu proceeded to review performance highlights across several asset classes, including public equities, core fixed income, specialty credit fixed income, liquidity, private capital, real estate, real return, and private equity. Total fund attribution reflected value added by nearly all managers, except for private equity, where most holdings remain legacy positions. In all other areas, active management has delivered positive alpha, reinforcing the value of active strategies over low-cost public market exposure. Mr. Chiu also presented the Plan Sponsor Peer Group Analysis and the Asset Allocation Compliance report, followed by a review of capital calls and distributions. He noted a recent enhancement implemented in response to a prior request from Mr. Cheatham during a Finance Committee meeting: capital flows are now subtotaled by asset class, allowing for clearer visibility into portfolio-level cash movements.

Mr. Cheatham asked for perspectives on energy and utilities, including assets like gold and Bitcoin as potential inflation hedges. Mr. Morton acknowledged Bitcoin's limited institutional adoption but emphasized the broader strategy of investing in scarce assets. He added that energy and infrastructure opportunities depend heavily on manager selection and strategy, with both traditional and green energy playing important roles. Private investments tied to data center demand may offer more compelling opportunities than public equities.

Mr. Cheatham raised the issue of transmission infrastructure, citing a need to replace approximately 100,000 miles of lines annually. Dr. Hackbart noted that while funding had been included in the infrastructure bill, it has since been reduced. Mr. Chiu acknowledged the challenge of accessing direct transmission investments but pointed to existing exposure through private managers and funds focused on industrials, power assets, and midstream energy. He also highlighted investments in high-utilization assets such as farms, sports teams, and barges, which offer consistent cash flow and limited vacancy risk. He added that while core real estate funds may offer potential exposure to data centers, no investments have been made to date. Overall, the team continues to explore opportunities in energy and infrastructure, focusing on assets with reliable demand and long-term value.

8. Dr. Hackbart introduced agenda item ***Investment Budget/Compliance Update*** *(Video 02:23:42 to 02:26:28).* Mr. Chiu presented the Investment Budget Update and the Pension and Insurance Investment Fees and Expenses for the nine-month period ending June 30, 2025. He reported that overall expenses remained in line with the fiscal year expectations, with approximately 89% of the budgeted amount spent, despite legal expenses exceeding $3 million. Notably, 88% of the legal and audit budget was utilized. While legal expenses are expected to remain elevated in the coming fiscal year, they are projected to be lower than the prior year. Consulting services expenditures were also consistent with expectations, with 82% of the budget spent. However, the allocation for a new private markets consultant remains unfulfilled and is slated for consideration in the next fiscal cycle. Contractual services totaled $3.6 million, representing 101% of budget, primarily driven by custody fees. Mr. Chiu noted an increase in monetization proposals from data providers and index vendors, suggesting that costs in this area may continue to rise.

   At the pension level, investment fees and expenses rose by $20 million, a 14% increase compared to the prior year, primarily due to performance fees resulting from strong market performance. Real estate fees and expenses increased by $7 million, with approximately two-thirds attributed to accrued performance fees, reversing some of the negative accruals from previous years. Private equity saw a $2.5 million increase in general expenses and nearly $5 million in additional performance fees. Administrative expenses rose by $2.7 million, largely due to legal costs. Public equity expenses increased by approximately $2 million, driven by market appreciation. The only notable decline was in specialty credit, where performance-based fees decreased.

Investment Compliance Review *(Video 02:26:28 to 02:27:05).* Dr. Hackbart noted that he had reviewed the report and confirmed that all standard issues typically examined were in compliance. Given the report's straightforward nature, he suggested there was no need for further discussion unless Ms. Bass had specific items to highlight. Ms. Bass concurred, indicating there was nothing significant to report.

9. Dr. Hackbart introduced agenda item ***Private Equity Investment Recommendation*** *(Video 00:08:06 to 00:40:02)* Mr. Chiu presented a private equity investment recommendation from KPPA Investment Staff for a proposed commitment to Strategic Value Special Situations Fund VI ("Fund VI"), managed by Strategic Value Partners ("SVP"). Fund VI is a $6.5 billion distressed debt fund targeting investments in North America and Europe. Mr. Chiu emphasized SVP's consistent performance across its first five drawdown funds dating back to 2008, its operationally intensive approach, and favorable market conditions driven by rising interest rates. Notably, the Fund offers discounted fees, enhancing its appeal amid a growing opportunity set created by pressure on highly leveraged companies. Mr. Chiu noted the Investment Staff recommended a $100 million investment in Strategic Value Special Situations Fund VI, to be allocated across all CERS plans pending successful legal negotiations. The investment is expected to be funded from existing cash based on the specific needs of each plan and when fully funded, would represent approximately 0.5% of plan assets, subject to market fluctuations.

   After a brief discussion during which Mr. Willer and Mr. Chiu addressed questions from the Committee, Mr. Cheatham made a motion to approve an investment of up to $100 million of the Private Equity allocation into the Strategic Value Situation Fund VI, subject to successful contract negotiations, as presented. Mr. Fulkerson seconded the motion. The motion passed unanimously.

10. Dr. Hackbart introduced agenda item ***Investment Policy Statement Amendment*** *(Video 00:40:02 to 01:26:08).* Mr. Owens provided an overview of the Investment Policy Statement (IPS), emphasizing its dynamic nature and the need for periodic updates. The

proposed amendment seeks to refine the language and introduce clearer procedures for managing requests from general partners related to existing closed-end investments.

Key points of the amendment include:

- Removing the term “continuation vehicle” to clarify the funds will not be transferred into another vehicle.
- Giving Mr. Willer the authority to sign on behalf of CERS when a general partner makes a request for an existing closed-end vehicle investment.
- Adding a requirement for staff to notify the consultant whenever they receive such a request.
- Allowing the consultant to conduct independent research and provide a memo to the Committee.
- Ensuring that the Committee, Board Chair, and Investment Committee Chair, and CEO can sign off on continuation requests, with two of the three signatures required.
- Addressing concerns raised by KPPA Legal staff about a previous continuation request with the council ultimately determining that the actions were within policy.

Mr. Owens concluded that the amendment aims to improve oversight and ensure that the Committee and Board can continue to be good stewards of investments.

Following Mr. Owens review of the amendment, Mr. Fulkerson made a motion to approve the amendment to the Investment Policy Statement as presented. Mr. Cheatham seconded the motion.

A robust discussion ensued regarding the proposed amendment to the Investment Policy Statement, during which several questions were raised concerning the appropriate scope and language of the amendment.

** During the discussion, Dr. Hackbart, Chair, departed the meeting.**

Mr. Cheatham, Vice Chair, assumed the role of presiding officer.

Following the discussion, Mr. O'Mara made a motion to table the item previously seconded by Mr. Cheatham. Mr. Fulkerson seconded the motion. During the ensuing discussion, Mr. Cheatham recommended that Mr. Owens, Wilshire staff, Mr. Willer, and Mr. Branco convene to draft a revised amendment incorporating more precise and pertinent language. He emphasized the importance of using targeted language rather than broad or generalized statements. Upon completion, the revised amendment would be presented to the CERS Investment Committee for review and consideration.

Upon conclusion of the discussion, the motion was unanimously approved.

11. There being no further business, Mr. Cheatham ***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.

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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 August 27, 2025, were approved by the County Employees Retirement System Investment Committee on November 25, 2025.

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CERS Investment Committee Chair

I have reviewed the Minutes of the County Employees Retirement System Investment Committee Meeting on August 27, 2025, for form, content, and legality.

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Office of Legal Services