

**MINUTES OF MEETING  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
SPECIAL CALLED  
INVESTMENT COMMITTEE MEETING  
DECEMBER 19, 2024, 2:00 P.M., E.T.  
VIA LIVE VIDEO TELECONFERENCE**

At the December 19, 2024, Special Called County Employees Retirement System Investment Committee Meeting, the following Committee members were present: Dr. Merl Hackbart (Chair), George Cheatham, William O'Mara, and Betty Pendergrass. Staff members present were Ryan Barrow, Mike Lamb, Victoria Hale, Carrie Bass, Steve Willer, Brian Caldwell, Anthony Chiu, Joseph Gilbert, Phillip Cook, Sherry Rankin, and Sandy Hardin. Also in attendance were CERS CEO Ed Owens III; David Lindberg and Chris Tessman with Wilshire; and Eric Branco with Johnson, Branco, & Brennan, LLC.

1. Dr. Hackbart called the meeting to order.
2. Mr. Branco read the Legal Opening Statement.
3. Ms. Rankin called roll.
4. Ms. Rankin indicated there was no **Public Comment** (*Video 00:06:40 to 00:06:47*).
5. Dr. Hackbart introduced agenda item **Real Return Investment Recommendation** (*Video 00:06:47 to 00:27:43*). Dr. Hackbart introduced Mr. Willer and Mr. Chiu, who presented to the committee a detailed overview of the KPPA Investment Staff's investment recommendation of investing in the ITR Rail Fund, L.P., subject to contract negotiations.

Mr. Willer began the presentation with an overview and then invited Mr. Chiu to present a summary of the other Real Return strategies that were reviewed or under consideration. Mr. Willer also reviewed the CERS Pension Portfolio, highlighting the Real Return Allocations and their impact and rationale.

Mr. Chiu then presented a proposed investment by the KPPA Investment Staff in the ITE Rail Fund, L.P., an open-ended fund managed by Industrial Transportation Equipment. Mr. Chiu reviewed the details of this proposal, concluding that given the attractive risk/reward profile, compelling market opportunity, and current Real Return allocations, the Investment Staff recommends an investment of up to \$200 million. This amount would be shared among all KERS and SPRS portfolios, pending successful legal negotiations. When fully funded, this investment would represent approximately 1.0 to 1.1% of Plan assets, depending on market value fluctuations. It is anticipated that the investment would be funded by unwinding proxy positions and using existing cash, based on the specific needs of each portfolio. The expected net return for this investment is projected to be between 6% and 9%. Following the presentation, the Investment Team addressed questions posed by the committee members.

A motion was made by Mr. Cheatham and seconded by Mr. O'Mara to approve the KPPA Investment Staff's recommendation to authorize up to \$200 million investment by CERS into the ITE Rail Fund, L. P., subject to successful contract negotiations. The motion passed unanimously.

6. Dr. Hackbart introduced agenda item ***CERS Strategic Plan*** (*Video 00:27:43 to 01:23:53*). Ms. Pendergrass presented her final edits to the CERS Investment Committee Strategic Plan. She expressed her gratitude to the Investment Office, Finance Department, and Mr. Barrow for their support in creating the draft plan, which was brought before the Committee for review, discussion, edits, and approval for 2025. She explained that this is a new initiative and provided some history of the plan. Ms. Pendergrass noted that it is hoped the plan will be presented to the CERS Board in January for revisions. The aim is to finalize and approve the Strategic Plan for 2025 to 2029 at that time.

Ms. Pendergrass proceeded to review the format of the plan, which includes goals, objectives, measures, and targets. She stated that her goal with this project was for the Trustees to take a hard look at what they want to accomplish with governance for the CERS Retirement System. The Strategic Plan is intended to be updated every three (3) to five (5) years, depending on progress and any major changes that need to be addressed.

Mr. Lamb then discussed financial information he researched to determine appropriate measures. One question raised by the committee was the proportion of resources generated by the Investment Portfolio compared to contributions. Mr. Lamb reviewed charts showing a ten-year history of CERS Pension Non-Hazardous and Hazardous funds, including employer contributions, member contributions, realized gains (losses), unrealized gains (losses), interest to dividends, and benefit payments. Mr. Lamb noted that incorporating Ms. Pendergrass' guidance, they included a measure considering a five-year cumulative total for realized gains, interest, and dividends. Mr. Lamb reviewed the detailed financial data and summarized the calculations. Ms. Pendergrass emphasized the importance of retaining some investment income and realized gains to fund future benefits and manage volatility. She also wanted to track this over time. Mr. Lamb and Ms. Pendergrass will add this information to the existing cash flow report to monitor progress.

Ms. Pendergrass reviewed Objective A and noted that the five-year Geometric Average Net Investment Return (GANIR) for Tier 3 interest credits will be used to evaluate the returns in the CERS portfolios. The GANIR should range from 6.25% to 10%. Another measure is the investment cash flow from realized gains, interest, dividends, and net of fees compared to total benefits/expenses paid, suggesting a five-year rolling average between 45% and 65%.

Dr. Hackbart inquired about comparable figures from peers and the impact on the overall funding ratio. Ms. Pendergrass explained that a peer group of systems has not yet been identified. She then stated the lower percentage of 45% means more investments would pay down the unfunded liability, while a higher percentage would slow progress. This measure will be coordinated with the Actuarial Committee to align with their strategic goals.

Dr. Hackbart emphasized the importance of assessing the impact on actuarial analysis. Ms. Pendergrass agreed, noting that this would be a good discussion for January when the entire CERS Board Strategic Plan is reviewed.

Ms. Pendergrass explained that if the ranges do not reflect what is happening in the portfolio, they can be reviewed and adjusted. Over time, these ranges will be time-sensitive based on the plan's maturity. As the plan shifts from fewer Tier 1 and Tier 2 members to more Tier 3

members, who have no unfunded liability, changes will occur. Ms. Pendergrass suggested adding the membership breakdown to quarterly reporting to evaluate changes in actuarial analysis, investment monitoring, and financial assessments.

Dr. Hackbart discussed how the residual percentage, after determining employer and employee contributions, would be used to draw investment income. Ms. Pendergrass added that as the Tier 3 component grows, more contributions will stay in Tier 3 rather than pay benefits for Tier 1 and Tier 2.

Ms. Pendergrass brought up for discussion Objective A, Measure 3: “Should CERS use liability-driven investment options to fund a component of benefit payments?” After receiving input from Mr. Willer, who felt it would be difficult to implement from an economic standpoint at this time, Ms. Pendergrass recommended removing this measure from the Strategic Plan and revisiting it in the future when the numbers might be more feasible. In the meantime, Mr. Willer agreed to conduct additional research and provide more information, ensuring this remains on the radar for future consideration.

Referring back to Measure 2, Dr. Hackbart inquired, in terms of relationship, if retaining this component and setting a goal at 30% or 40% would provide input for the actuary in determining contribution rates. Ms. Pendergrass indicated this would be a question for Danny White with GRS and suggested inviting him to the January meeting to integrate investment measures with actuarial measures and targets. They could then identify overlaps and relationships to monitor and determine what can be included or highlighted from the annual valuation.

Ms. Pendergrass discussed Objective B, focusing on the Investment Policy Statement (IPS) to meet best practices and ensure fiduciary responsibilities. She highlighted some minor changes made during the August meeting, particularly in Measure 2. Ms. Pendergrass emphasized the importance of quarterly performance reporting and identifying key performance measures. Mr. Willer explained the rationale behind some target terms and the inclusion of certain reporting elements for comparison purposes.

Ms. Pendergrass asked the committee for additional key points to be included in the quarterly performance and investment reports. Mr. Cheatham suggested concise reports on a manager-

by-manager basis, at least twice a year, which aligned with Objective C, Measure 2. Mr. Willer noted the performance reporting at the current asset class level and mentioned the ongoing efforts with BNY to improve this reporting.

Mr. O'Mara inquired about the number of managers, and Mr. Willer explained the details. Mr. O'Mara suggested focusing on managers that fall below benchmarks. Ms. Pendergrass noted previous detailed reports that included thresholds for each manager. Mr. Willer added that current reports include individual manager performance against benchmarks.

Mr. Cheatham suggested also highlighting top-performing managers for potential fund reallocation. Mr. O'Mara emphasized the committee's oversight role rather than direct management. Mr. Willer agreed to consider enhancements to quarterly and annual reporting, with ongoing discussions with Wilshire and BNY.

Ms. Pendergrass discussed Objective B, Measure 2, highlighting the addition of a manager watch list to Compliance reporting, identifying managers with excellent or below-expectation performance.

Ms. Pendergrass then moved to Objective C, which aims to evaluate investment performance against actuarial analysis and strengthen risk monitoring, with input from Mr. Willer and his team. Mr. Willer provided background, emphasizing the review of benchmarks within asset allocation targets, and the need for appropriate private and public equity benchmarks. Reporting enhancements were discussed to better evaluate fund performance and risk-adjusted returns.

Ms. Pendergrass noted two types of peer groups: investment returns and systems with similar benefit structures. She emphasized the importance of comparing strategies with similar systems to generate new ideas and improve governance.

Mr. Cheatham and Mr. Lindberg discussed narrowing down the peer universe based on asset size. Dr. Hackbart noted the value of learning from peer actions and strategies, even if they are not perfectly comparable.

Mr. Cheatham introduced a concept from Wilshire’s affiliate, XTB, related to cost efficiency and investment governance. The Committee members suggested discussing this further at a future meeting.

Ms. Pendergrass then addressed Objective C. Mr. Cheatham suggested including oversight of management fees in periodic reporting. Ms. Pendergrass incorporated this into Objective C, Measure 2. They then discussed using performance and compliance reports to evaluate success and ensuring these reports are available to stakeholders on the KPPA website.

Ms. Pendergrass noted the timeline for Objectives A and C is ongoing. Regarding Objective B, the Investment Policy Statement (IPS) has set dates for 2025 and 2029, with the option for updates in interim years. Ms. Pendergrass concluded by asking for any final suggestions before moving to a motion and vote on adopting the strategic plan as revised and edited.

A motion was made by Mr. Cheatham and seconded by Ms. Pendergrass to approve the CERS Investment Committee Strategic Plan as revised and edited. The motion passed unanimously.

7. There being no further business, Dr. Hackbart called for a motion to *adjourn* the meeting. Mr. O’Mara made the motion to adjourn. Ms. Pendergrass seconded the motion. The motion passed unanimously.

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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 December 19, 2024, were approved by the County Employees Retirement System Investment Committee on February 26, 2025.

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CERS Investment Committee Chair

I have reviewed the Minutes of the County Employees Retirement System Investment Committee Meeting on December 19, 2024, for form, content, and legality.

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Office of Legal Services