

**MINUTES OF MEETING
KENTUCKY RETIREMENT SYSTEMS
INVESTMENT COMMITTEE MEETING
MAY 22, 2025, 11:30 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the May 22, 2025, Regular Meeting of the Kentucky Retirement Systems' (KRS) Investment Committee, the following Committee members were present: Prewitt Lane, David Adkins, Ramsey Bova, and Pamela Thompson. Staff members present were Ryan Barrow, Rebecca Adkins, Erin Surratt, Victoria Hale, Carrie Bass, Anthony Chiu, Brian Caldwell, Joe Gilbert, Phillip Cook, Sandy Hardin, and Sherry Rankin. Others in attendance included KRS CEO John Chilton as well as David Lindberg and Chris Tessman with Wilshire Advisors, LLC.

1. Mr. Lane called the meeting to order.
2. Ms. Hale read the Opening Statement.
3. Ms. Rankin took Roll Call.
4. Ms. Rankin reported there were no *Public Comments*.
5. Mr. Lane introduced agenda item *Approval of Minutes – February 19, 2025, and April 29, 2025*. A motion was made by Ms. Bova to approve the minutes of the February 19, 2025, and the April 29, 2025, meetings. Mr. Adkins seconded the motion. During discussion, a typographical error was noted, and it was agreed that the correction would be made. The motion passed unanimously.
6. Mr. Lane introduced agenda item *Investment Review and Update (Video 00:06:42 to 00:30:19)*. Mr. Chiu provided a first-quarter market overview, noting minimal movement in U.S. stocks and interest rates and a temporary rise in gold that did not impact overall allocation. Private credit is projected to outperform private equity over the next decade, aligning with the team's investment strategy targeting returns between 5.25% and 6.5%.

The pension portfolio performance remained in line with or above benchmarks, though private equity lagged due to timing factors following two years of strong stock market returns. Real estate contributed positively, while public equity and fixed income met or exceeded benchmarks.

For internal portfolio management, the team has used proxy investments to maintain target allocations in private markets, ensuring the KRS plans stay on track while awaiting capital calls and new investment opportunities.

BNY introduced a new gross-basis breakdown of asset class performance, highlighting historical underinvestment in private equity for KRS pensions. This lower allocation resulted in somewhat reduced returns compared to other asset classes but offers insights into long-term investment impacts.

Mr. Joe Gilbert reviewed first-quarter market performance, highlighting how optimism surrounding 2024 election-driven tax and deregulation policies initially fueled market gains. However, tariff concerns in mid-to-late February triggered a market retracement and flight to quality, leading value stocks to outperform growth stocks for the first time in a while. High-beta stocks, including the "Mag 7," saw declines, while international markets performed well, benefiting from NATO-related defense spending, Germany's stimulus package, and China's late-2024 stimulus efforts.

The portfolio ended the March 31 quarter down 1.3%, though its tilt toward non-U.S. equities provided 30 basis points of downside protection. While six of seven stock selection strategies outperformed in the U.S., international markets had mixed results, with larger negative tail risks. Over the 12-month period, the portfolio was down 120 basis points, largely due to an underweight in U.S. equities. However, April and May saw a rebound, driven by tariff relief discussions. This improvement narrowed the one-year performance gap to 17 basis points behind the benchmark, with long-term results remaining positive net of fees. Overall, the portfolio remained resilient despite volatility, and Mr. Gilbert welcomed questions before transitioning to Mr. Brian Caldwell's credit update.

Mr. Brian Caldwell reviewed core fixed income performance, noting that the Federal Reserve held rates steady but downgraded growth projections while raising inflation expectations. Yields declined across maturities, with the 2-to-10-year yield curve holding steady at a 32-basis-point spread. Core fixed income returned 272 basis points for the quarter and 483 basis points fiscal year to date, slightly underperforming its benchmark for the quarter but outperforming for the fiscal year. Corporate bonds underperformed relative to Treasuries, with a notable decline in March, while intermediate and long credit spreads widened.

Liquidity performance showed that cash returned 108 basis points for the quarter and 365 basis points fiscal year to date. Market expectations for interest rate cuts in 2025 decreased from three to two, aligning with Federal Reserve guidance. Inflation expectations among consumers surged due to tariff uncertainty, though Chair Powell of the Federal Reserve suggested these effects would be temporary.

In specialty credit fixed income, the portfolio returned just over 2% for the quarter and over 7.5% fiscal year to date, outperforming the benchmark. Economic uncertainty and trade concerns widened public high-yield spreads, with lower-quality bonds underperforming. In a notable shift, fallen angels (investment-grade bonds downgraded to high yield) outpaced rising stars (upgraded bonds) for the first time in three years, with the highest fallen angel volume since Q2 2020.

Mr. Lane and Mr. Caldwell discussed fallen angels and credit rating downgrades, specifically noting that Moody's recently downgraded our country's credit rating to AA+, following earlier downgrades by S&P (2011) and Fitch (2023). Despite the headlines, Mr. Lane emphasized that the country remains a premier global credit with no significant market impact, though the downgrade sparked discussions across business channels.

Mr. Chiu reported that core real estate funds have begun recovering after seven quarters of decline, with two funds calling capital for acquisitions and the third focusing on redeeming non-core assets. Alternative real estate sectors like self-storage, medical offices, and senior

living are gaining traction. Though projected returns remain modest (5.5%–6.5%), real estate offers income stability and portfolio diversification.

In real return investments, the team has focused on securing contracted cash flows in midstream energy, farmland, and essential services. MLPs have led sector growth since their COVID-driven crash, and data centers and energy infrastructure remain key investment areas due to rising power demands.

Regarding private equity, fundraising and transactions remain slow, with few exits and wide bid-ask spreads. Many funds are closing below targets, and the team maintains light exposure due to higher interest rates making deal structuring more difficult.

The Plan Sponsor Peer Group Analysis showed that the KERS Pension Plan continues to deliver strong risk-adjusted returns, ranking in the top decile for risk-reward metrics. Over one- and three-year periods, the plan achieved top-quartile performance, though its five-year ranking was lower due to strong equity market performance during that timeframe. Historically, the plan tends to perform better when equities are weaker due to its lower risk profile and underfunding considerations.

In the Asset Allocation Compliance review, the team confirmed that most asset classes are now within allowable ranges, thanks to the effective use of proxy investments. This strategy has helped bring allocations closer to targets. Mr. Lane acknowledged that previous policy changes led to temporary non-compliance in certain asset categories but emphasized that the new phased approach ensures better transition management. Moving forward, the Board and Investment Committee will remain actively involved in adjusting asset mix policies.

Mr. Chiu highlighted that adjustments in private markets take time, but the proxy investment approach has been successful in maintaining exposure while gradually aligning with strategic goals. Overall, the team expressed confidence in the current trajectory and welcomed questions from committee members.

7. Mr. Lane introduced agenda item ***Quarterly Investment Budget Update***. (Video 00:30:19 to 00:36:06). Mr. Chiu reviewed the Investment Budget Update and the Pension and Insurance Investment Fees and Expenses for the nine (9) month period ending March 31, 2025. He reported that year-to-date expenses are in line, with approximately 70% of the \$9 million budget spent. Some variances exist, including Mercer's timing issue and a delayed private markets consultant RFP, which is now expected in the next fiscal year. Legal and auditing costs remain unpredictable due to litigation, though a reduction is planned for fiscal 2026.

At the pension level, expenses are 23% higher than the prior year, while assets have grown 8%. Increases stem from administrative costs, private markets, and performance fee reversals, with core fixed income benefiting from internal portfolio management, leading to a 12% year-over-year fee reduction despite asset growth.

The Investment Fees and Expenses breakdown highlighted that performance fees fluctuate based on market conditions. A discussion followed regarding legal contracts and budget overruns, specifically Intelligent Management Solutions, which was later clarified as expert witness fees for litigation. Mr. Lane reminded the committee regarding the budget, higher performance fees reflect strong returns, making them an acceptable expense.

8. Mr. Lane introduced agenda item ***Investment Compliance Review*** (Video 00:36:06 to 00:39:44). Ms. Bass provided a quarterly investment compliance update, confirming that all policies and guidelines were followed for the period ending March 31, 2025, with no exceptions to report. Asset allocations remained within their target ranges, and the quarterly proxy voting report, compliant with KRS 61.650(7)(d) and 61.645(19), has been posted to the website.

She also revisited a previous discussion on the independence of the compliance officer position, clarifying that quarterly reports are based on neutral third-party data and undergo internal and external audits. She emphasized that the compliance officer has a direct reporting line to the committee, a process expected to be codified in future investment policy statement updates.

While a legislative effort to create a separate finance office for Compliance did not pass, KPPA continues to work toward ensuring compliance independence.

9. There being no further business, Mr. Lane *adjourned* the meeting.

Copies of all documents presented are incorporated as part of the minutes of the Kentucky Retirement Systems' Investment Committee meeting held on May 22, 2025.

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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 Kentucky Retirement Systems Investment Committee, do certify that the Minutes of the meeting held on May 22, 2025, were approved by the Kentucky Retirement Systems Investment Committee on August 20, 2025.

Committee Chair

I have reviewed the Minutes of the Kentucky Retirement Systems Investment Committee Meeting on May 22, 2025, for form, content, and legality.

Office of Legal Services