

**MINUTES OF MEETING  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MEETING  
NOVEMBER 22, 2022 AT 2:00 P.M., E.T.  
VIA LIVE VIDEO TELECONFERENCE**

At the meeting of the County Employees Retirement System Investment Committee held on November 22, 2022, the following Committee members were present: Dr. Merl Hackbart (Chair), George Cheatham, Dr. Martin Milkman, William O'Mara, and Jerry Powell. Staff members present were Erin Surratt, Victoria Hale, Steve Willer, Joseph Gilbert, Jared Crawford, Anthony Chiu, Lucas Fields, Ashley Gabbard, Katie Park, Phillip Cook, and Sherry Rankin. Also in attendance were KRS CEO John Chilton, CERS CEO Ed Owens, III, CERS Trustee Betty Pendergrass, and David Lindberg and Craig Morton with Wilshire Advisors, LLC.

Dr. Hackbart called the meeting to order.

Ms. Hale read the Legal Opening Statement.

Ms. Rankin took Roll Call.

There being no *Public Comment* submitted, Dr. Hackbart introduced agenda item *Approval of Minutes – August 31, 2022*. A motion was made by Dr. Milkman and seconded by Mr. Powell to approve the August 31, 2022 minutes as presented. The motion passed unanimously.

Dr. Hackbart introduced agenda item *Letter from State AG/State Treasurer*. Dr. Hackbart advised the Committee that a letter was received by Mr. Eager from the State Attorney General (AG) and

State Treasurer regarding the ESG Statement and ESG Policy. The letter dated October 31, 2022, requested follow up to indicate the degree to which the systems are following statutory requirements for issues regarding ESG, said Dr. Hackbart. Further, Dr. Hackbart stated that CERS CEO Ed Owens, III, drafted a response to the State Attorney General (AG) and State Treasurer on behalf of CERS. Mr. Owens presented the drafted response to the CERS Investment Committee. He stated that the Opinion of the Attorney General 22-05, which was attached to the letter, also discussed proxy voting; therefore, the drafted response addressed proxy voting. Mr. Owens advised that he and KRS CEO John Chilton desired to draft a joint response letter from both CERS and KRS. Mr. Owens stated that he and Mr. Chilton will work with the KPPA Division of Communications to edit the letter to be signed by CERS and KERS and to incorporate any edits requested by Trustees. If approved by the CERS Investment Committee, the letter would be presented to the CERS Board of Trustees on December 5, 2022 for final approval, said Mr. Owens. Mr. Powell made a motion to approve the response to the October 31, 2022 letter received from the Kentucky Attorney General and the State Treasurer regarding CERS' ESG practices with modifications. Dr. Milkman seconded the motion and the motion pass unanimously.

Dr. Hackbart introduced agenda item *CERS Investment Policy*. Mr. Steve Willer presented a red-lined version of the CERS Investment Policy including changes in sections II. Responsibilities – D. Investment Managers, III. Asset Allocation Guidelines, and V. Additional Items – Leverage. There was discussion regarding the process for the selection and recommendation of investment managers; specifically, how many managers would be recommended to the CERS Investment Committee and CERS Board of Trustees by the Office of Investments. Mr. Cheatham requested that the Office of Investments provide two to three investment managers to be considered by the

Committee to ensure transparency. Mr. Willer advised that the recommendation provided would be for one manager best suited to manage the funds; however, the Committee would be provided detailed documentation regarding the managers reviewed and why the recommended manager was selected. Mr. Powell added that in the past, several managers were recommended to the Investment Committee for consideration. Dr. Milkman asked how many managers would be interviewed by the Committee. Mr. Willer stated that the Committee would make that decision. Mr. O'Mara agreed that the Office of Investments should provide three options to the CERS Investment Committee for consideration. Mr. Willer reiterated that he and his team would recommend their top choice and provide detailed information on each manager and documentation regarding the due diligence process; however, the Committee may decide to select the recommended manager or select another manager. Dr. Hackbart asked Mr. Willer to explain under what circumstances a new manager would be required. Mr. Willer stated that there are a variety of reasons that selection of a new manager would be beneficial. Mr. Cheatham stated that he would like the Committee to review more than one/all managers who pass the due diligence process of the Office of Investments. Mr. Willer agreed and stated that he would make further revisions to this section of the CERS Investment Policy. Mr. Willer moved on to III. Asset Allocation Guidelines. There was discussion regarding the period in which Investment Staff must adjust allocations and bring the assets into compliance. Mr. Cheatham suggested that the period be changed to 12 months instead of 18 months. Mr. Willer reminded the Committee that changes to allocations can take a significant amount of time as changes are asset and market dependent and capital is called judiciously. Dr. Hackbart suggested that further discussion of the Investment Policy Statement amendments be tabled to a Special Called Meeting of the CERS Investment Committee to discuss D. Investment

Managers and III. Asset Allocation Guidelines. Mr. Cheatham asked Dr. Hackbart to work with Mr. Willer to make further revisions of the language in those sections.

Dr. Hackbart introduced agenda item *CERS Procurement Policy*. Mr. Willer presented a red-lined version of the CERS Procurement Policy and briefly reviewed the amendments in 2. External Manager Selection, 3. Co-Investment Opportunities, 4. External Investment Consultant Selection, 5. Procurement of Investment Analytical, Professional, Research and Technical Services and 6. Contract Renewal. Mr. O'Mara asked if the 5. Procurement of Investment Analytical, Professional, Research and Technical Services section was in line with standard procurement processed. Ms. Hale advised that investment contracts are outside of 45A, therefore, does not have to follow the procurement policy of the Commonwealth. The policy will be reviewed by the Finance Cabinet and CERS Finance Committees as well, said Ms. Hale. Dr. Hackbart stated that a Special Called Meeting of the CERS Investment Committee would be scheduled to further discuss the CERS Investment Policy and Procurement Policy. Dr. Milkman stated that the presented changes to the Procurement Policy are reasonable and asked Mr. O'Mara to comment. Mr. O'Mara was pleased that the Finance Cabinet would also review the policy. Mr. Cheatham expressed concern that the CERS Board of Trustees would not have oversight over/approve the procurement of goods and services. Ms. Adkins reminded Mr. Cheatham that spending is reported to the CERS Board of Trustees in the Trust Budget. Mr. O'Mara asked Ms. Adkins to confirm that CERS and KRS Investment Committees would review budget to actuals and variances quarterly. Ms. Adkins confirmed. Mr. O'Mara stated that reporting the percentage of budget may be discussed at that time. Dr. Milkman moved to approve the amendments to the CERS Procurement Policy as presented to be taken to the CERS Board of Trustees for ratification. There was no second to the

motion and the motion failed. Dr. Hackbart advised that the item would be placed on the agenda for the upcoming Special Called Meeting of the CERS Investment Committee.

Dr. Hackbart introduced agenda item *Wilshire Market Overview*. Mr. David Lindberg with Wilshire Advisors, LLC. presented a Capital Market Update (Meeting Materials, pp. 62-73).

\*\*\*Dr. Hackbart exited and asked Mr. Ed Owens to conduct the meeting in his place. \*\*\*

Mr. Craig Morton with Wilshire Advisors, LLC. gave an Economic/Market Activity presentation (Meeting Materials, pp. 74-85).

Mr. Owens introduced agenda item *Investment Office Quarterly Update*. Mr. Willer presented the Investment Office Quarterly Update. Despite volatility, the plans held up well relative to the peer universe, said Mr. Willer. The CERS nonhazardous pension plan returned -2.96% and the CERS hazardous plan returned -2.97%, outperforming their IPS benchmarks by 177 and 178 basis points respectively. Mr. Willer reported that the CERS insurance plans performed similarly with returns of -3.04% for CERS hazardous and -3.03% for CERS nonhazardous. The largest drivers of outperformance across plans included strong relative performance in public equity allocations, private equity allocations, and the core fixed income allocation. Mr. Willer stated that several potential real assets mandates would be brought to the Committee soon for funding consideration. Mr. Willer added that a Special Called Meeting of the CERS Investment Committee would likely be scheduled to discuss the management of an internal portfolio once the new Investment Policy Statement (IPS) language is finalized. Next, Mr. Willer reviewed the Plan Sponsor Peer Group

Analysis – Multi Statistics as provided by Wilshire Advisors, LLC. Mr. Willer provided a brief update on staffing within the KPPA Office of Investments. He reported that the new Senior Investment Analyst position is with the Personnel Cabinet and Non-Merit Portal awaiting the necessary signatures. Additionally, he advised that the job description for the Private Equity Portfolio Manager position would be posted soon in various publications. Once filled, Mr. Willer stated that he will begin the recruitment for a Junior Investment Analyst position to be hired in the first quarter of 2023. The Office of Investments is also looking to downsize into a new office space in Louisville, said Mr. Willer. Mr. Powell asked how the search for new office space would impact the search for an employee disaster relief location. The Louisville office location includes disaster relief and training spaces, but these may not be needed anymore, said Mr. Willer. Ms. Adkins added that the Louisville office disaster relief space was used once prior to the covid-19 pandemic and that work from home options can now be utilized for disaster relief. One office space and a server room would suffice for an offsite disaster relief location; therefore, there is no need for the 4,300 square feet Louisville office.

Mr. Owens introduced agenda item *Trust Budget*. Mr. Steve Willer stated that the Trust Budget would be reported to the CERS and KRS Investment Committees on a quarterly basis to increase transparency. He advised that the presented Trust Budget would also be presented to the Public Pension Oversight Board (PPOB). Mr. Willer briefly reviewed the Trust Budget with the CERS Investment Committee. Mr. Powell expressed that the listing and description for each service vendor clarified the Trust Budget line items. Mr. Cheatham suggested that yearly subtotals be added to the Trust Budget report. Mr. Cheatham expressed concern that the proposed budgeted amount for BNYM Custodial Fees is substantially higher than past year actuals. Mr. Willer stated

that this budget is a work in progress and will become increasingly accurate overtime. Ms. Adkins advised that there was discussion regarding moving unqualified money directly into BNY Mellon out of JP Morgan at the time the 2023 budget was being created. This would require additional accounting work by BNY Mellon, so a cushion was included in the budget to account for this work, should it be needed during the fiscal year. Mr. Cheatham asked where the fees for JP Morgan are listed within the presented Trust Budget. Ms. Adkins advised that the JP Morgan fees are included in the Miscellaneous line item of the Administrative Budget. However, Staff will present to the KPPA Board of Trustees a request to add that item to the Trust Budget. Mr. Lindberg with Wilshire Advisors, LLC. reported that their fees had been revised and would provide Mr. Willer with the updated amount soon.

Dr. Owens introduced agenda item *Proxy Voting*. Mr. Joe Gilbert presented the Proxy Voting Policy Update to the Committee. Mr. Willer stated that Staff is seeking clarification regarding the conflicting language between what has been adopted as the CERS Proxy Policy and the proxy policy which has been drafted and signed. Changes to the Investment Policy Statement (IPS) language will be discussed at a future Special Called CERS Investment Committee meeting and Special Called CERS Board of Trustees meeting, said Staff.

A motion was made by Mr. Powell and seconded by Mr. O'Mara to adjourn the meeting. The motion passed unanimously.

## 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 22, 2022 were approved by the County Employees Retirement System Investment Committee on February 22, 2023.

  
Committee Chair

I have reviewed the Minutes of the County Employees Retirement System Investment Committee Meeting on November 22, 2022 for form, content, and legality.

  
Office of Legal Services