

**MINUTES OF MEETING  
KENTUCKY RETIREMENT SYSTEMS  
INVESTMENT COMMITTEE MEETING  
NOVEMBER 3, 2021, 10:00 A.M., E.T.  
VIA LIVE VIDEO TELECONFERENCE**

At the November 3, 2021 Kentucky Retirement Systems Investment Committee Meeting, the following Committee members were present: Prewitt Lane (Chair), Keith Percy, John Cheshire, III, Joseph Grossman, Pamela Thompson and Lynn Hampton. Also in attendance were CEO John Chilton and Trustee Larry Totten. Staff members present were David Eager, Steven Herbert, Michael Board, Victoria Hale, Rebecca Adkins, Ashley Gabbard, Erin Surratt, Steve Willer, Anthony Chiu, Joseph Gilbert, Jared Crawford, Sherry Rankin and Carol Johnson.

Prewitt Lane called the meeting to order and Carol Johnson called roll.

Prewitt Lane introduced agenda item *Public Comment*. Carol Johnson stated that no public comments were submitted.

Prewitt Lane introduced agenda item *Approval of Minutes August 24, 2021*. John Cheshire moved and was seconded by Keith Percy to approve the minutes as presented. The motion passed unanimously.

Prewitt Lane introduced agenda item *Investment Policy Statement*. Steven Herbert thanked everyone for their hard work on revising the Investment Policy Statement, particularly John

Chilton, Prewitt Lane and Victoria Hale. Steven Herbert stated that the Investment Policy Statement is a similar document to the previous KRS Investment Policy Statement with the main change being that references to the County Employees Retirement System have been removed and the statute references have been updated. Steven Herbert pointed out that in the update to Section B. on page 11 of the Investment Policy Statement the Investment Committee must consist of at least three (3) Trustees appointed by the Governor and that additional members may be appointed by the Board Chair. Steven Herbert pointed out that in a change on page 23 of the Investment Policy Statement the provider of the index used to be named there; however, the index provider went out of business so the specific naming of an index provider was eliminated altogether. Steven Herbert stated that the Investment Committee will be replacing the index provider and that he is currently looking at several different indexes. Steven Herbert stated that he will be presenting his recommendation to the Investment Committee soon. Steven Herbert further stated that by removing the specific name of the index that it will allow the Investment Committee to choose a new index provider without having to change the Investment Policy Statement. Steven Herbert pointed out that on page 14 of the Investment Policy Statement the asset allocations remained the same, except that the County Employees Retirement System pieces were removed. Steven Herbert stated that there was some discussion on the naming of the categories of asset classes and changing the asset classes to more traditional names. Steven Herbert stated that it would be a change that the Investment Committee can address at a future meeting. Steven Herbert stated that he would not recommend changing the asset allocations at this time, but it can be addressed at a later date if necessary. Steven Herbert recommended that the Investment Committee vote to approve the new Investment Policy Statement since the Investment Committee of the County Employees Retirement System will be voting on its Investment Policy Statement soon and this

will give both Boards a new policy. Prewitt Lane asked if there was a motion to approve the Investment Policy Statement. Joseph Grossman moved and John Cheshire seconded the motion. Prewitt Lane called for a roll call vote. Carol Johnson called roll and the motion was unanimously adopted. Victoria Hale called a point of order. Victoria Hale asked Carol Johnson whether or not Joseph Grossman is actually on the Investment Committee. Carol Johnson responded that Joseph Grossman was not on the Investment Committee according to the KPPA website. Victoria Hale then asked Keith Percy whether or not Joseph Grossman was appointed to the Investment Committee. Keith Percy stated that there were some recent changes on the committees and that he needed to research the matter to see if he was removed from the Investment Committee, but that he did not believe so. David Eager stated that he would see if there was an error when the KPPA website was updated. John Cheshire then made the motion to approve the Investment Policy Statement and Keith Percy seconded the motion. Victoria Hale stated that a roll call vote was taken and that a new vote was not necessary.

Prewitt Lane introduced agenda item *Performance Report*. Steven Herbert stated that the performance report is a work in progress. Steven Herbert stated that due to the Boards split that staff are working to ensure that staff reports on these returns properly from a three plan perspective with there being two plans in the KRS Performance Report. Steven Herbert further stated that the performance report is being created from a direct feed from BNY Mellon and it has been his desire to have a single source reporting tool. Steven Herbert explained that this is why it is taking a long time in terms of getting this report together and there are a lot of data checks. Steven Herbert further stated that it may seem one dimensional at the moment, but that it is not how the report is going to be and further informed the Committee members that this data feed will roll into our risk

management and risk reporting program as well as several things will be going on our centralized research management system. Steven Herbert stated that the Committee members will soon be provided a deeper look at these portfolios and that he will be proposing actionable items based on this work. Steven Herbert stated that the current performance report will give the Committee members an idea of how the funds are doing in terms of performance. Steven Herbert stated that a capital markets update is currently missing from the report, but will be coming as well and proceeded to give a verbal review of the capital markets and how they affected the portfolios. Steven Herbert stated in terms of the market itself, global growth and the economy slowed during the first quarter. Steven Herbert stated that some of the reasons for the slowdown were upstream supply restrictions and dampened production which did effect the returns in most asset classes, if not all. Steven Herbert further stated that it was the first negative quarter for global equity since 2020, but only slightly negative. Steven Herbert stated that developed markets were flat to slightly down and emerging markets globally were down substantially. Steven Herbert stated that this was due to the rising risks of China effecting that region of the world and that China is experiencing a bit of a growth slow down. Steven Herbert further stated that China's trading partners were hit hard and have gone into negative territory with emerging markets down 8%. Steven Herbert stated that supply issues also had an effect on commodity, energy and industrial metal prices, but for some reason it had little effect on precious metals, agriculture and livestock. Steven Herbert stated that inflation will likely remain high in the near term though policy makers say it is only temporary. Steven Herbert stated that the yield curve steepened slightly and that caused bonds to perform flat to down. Steven Herbert stated that global equities are roughly down 1% and developed markets were flat so the 1% was caused by the emerging markets being down 8%. Steven Herbert stated that private equity was up 11%. Steven Herbert stated that we outperformed

and most of that is due to what we did on the active side of the non-U.S. portfolio. Steven Herbert then reviewed the report itself with the Committee members. Steven Herbert started with the non-hazardous fund within KERS and informed the Committee members that staff are going to have a rollup with one total for KERS reflecting the two funds within the KERS plan, but for now the Hazardous and Non-Hazardous funds will be shown separately. Steven Herbert stated that the total portfolio for the quarter outperformed slightly by about ten (10) basis points and for the year it outperformed by roughly eighty (80) basis points. Steven Herbert stated that the investments continue to have positive returns on a total basis and staff is pleased with that. Steven Herbert stated that the next page in the report is asset allocations. Steven Herbert stated that it is the same story as the last quarter when looking at the over weights and under weights. The plan is overweight to the liquidity category and underweight to the diversification category, which is real return and real estate. Steven Herbert stated that the underweight is improving ever so slowly since capital calls were received from Harrison Street which posted on September 30, 2021. In October 2021 an amount went into some of Harrison Street's real estate fund. Steven Herbert also stated that Prologis is finally starting to make capital calls which is more of a logistics/industrial portfolio for real estate. Steven Herbert stated that allocation misalignment will improve naturally but that staff are also looking for new strategies and new funds for real estate. Steven Herbert further stated that the real return allocation will grow given the new TIPS trading platform is ready to go and that staff also has the ability to trade ETFs in commodities if needed. Steven Herbert stated that the KERS non-hazardous non-U.S. equities return is outperforming on the downside and that it is due to having active managers in that space. Steven Herbert recommended that KRS increase active managers in that space as the markets get more volatile and he believes this will allow KRS to outperform if it is done correctly, especially in a

market correction. Steven Herbert also pointed out that private equity and core fixed income each had a good quarter, which continued to carryover to a good year in terms of performance. Steven Herbert further stated that KERS also did well in the high yield portfolios and had positive active returns this quarter, which carried over to year to date. Steven Herbert stated that the KERS hazardous fund had similar numbers with positive returns for the quarter with only a slight outperformance due to a different allocation for this portfolio. Steven Herbert stated that this fund still has a slight under performance for the year. Steven Herbert stated that the KERS hazardous fund is underweight to real estate and real return and overweight to liquidity, including some over weights to equities and some under weights to private equity. Steven Herbert stated that staff are looking to get those in balance as quickly as they can. Steven Herbert stated that the KERS hazardous fund outperformed in non-U.S. equities, private equity, high yield and core fixed income. Steven Herbert then reviewed the State Police pension plan and stated that again there are similar allocations as to the hazardous fund on the KERS side but it is a little bit more risky so far this quarter. Steven Herbert stated that there was a bigger outperformance from an active manager point of view. Steven Herbert stated that the outperformance was due to non-U.S. equities, high yield and core fixed income. Steven Herbert asked if there were any questions. Larry Totten stated that for the past two meetings we have been reviewing investment returns on a quarterly basis, but up until March they were reported on a monthly basis. Larry Totten asked if staff were going to report only on quarterly returns or will the Board again see them reported on a monthly basis? Steven Herbert stated that they are currently working on the monthly reports and that staff will be backfilling those reports to April forward. Steven Herbert stated that they will be added to the KPPA website as soon as they are available. Steven Herbert reviewed the State Police insurance portfolio and stated that it is laid out in the same format as the other funds

so he would just show some of the top line numbers. Steven Herbert reviewed the allocation page and pointed out that cash is much less in this portfolio. Steven Herbert further stated that fixed income and liquidity strategies are slightly overweight and diversified strategies is underweight, which staff are working towards in terms of the earlier comments made on real return and real estate. Steven Herbert then reviewed the top line performance for the plan and stated that the plan is outperforming slightly for the quarter, which gives it a slight outperformance for the year to date. Steven Herbert stated that it is the same story for this plan and that the outperformance was due to non-U.S. equities, high yield, core fixed income and private equity on the absolute side. This was provided for informational purposes only.

Prewitt Lane introduced agenda item *Axiom Investors Selection Update*. Prewitt Lane stated that staff were looking for a non-U.S. small cap equity provider. Prewitt Lane stated that Joe Gilbert and Wilshire researched the managers and chose to recommend hiring Axiom Investors. Prewitt Lane stated that within a day of hiring Axiom one of their executives had left the firm which threw up a red flag, but it turned out that the executive was an administrative person and not a decision maker. Prewitt Lane further stated that Joe Gilbert continued to monitor whether or not this departure affected the firm. Prewitt Lane then turned the presentation over to Joe Gilbert. Joe Gilbert stated that in August staff brought the strategy to the Committee for its consideration, however, that afternoon, after the Committee meeting, staff were informed that the Operations President would be leaving Axiom at the end of the calendar year. Joe Gilbert stated that the announcement caused some concern. Joe Gilbert stated that the following day staff presented the strategy to the CERS Investment Committee who expressed some concerns. Joe Gilbert stated that the CERS Investment Committee stated that it would approve Axiom with the contingency

that staff needed to monitor the situation and report back at the next meeting with any findings. Joe Gilbert stated that he was happy to report that at this time there were no issues from a business risk perspective at Axiom and they have actually added six new accounts to the strategy that was approved by the Committee in August. Joe Gilbert further stated that assets under management in the strategy have remained consistent at 1.2 billion and the strategy did not lose any accounts since the announcement of that impending departure. Joe Gilbert stated that staff feel that this has shown that the departure did not affect the firm. Joe Gilbert stated that staff has reached an agreement as to how the strategy would operate. Joe Gilbert stated that it is his general philosophy to try to allow the manager to set its own guidelines because the manager is the one who has determined how the strategy needs to be ran and that is who were are employing. Joe Gilbert further stated that sometimes staff do have to add some additional guardrails to make it comply with the Investment Policy Statement or to make staff feel comfortable with the amount of risk being taken. Joe Gilbert stated that we feel that we were able to strike a nice balance by giving them the flexibility to manage the strategy the way that they would like to do so while at the same time putting up enough guardrails to make staff feel comfortable that we were ensuring proper diversification in the strategy. Joe Gilbert stated that we have started negotiating an investment management agreement with Axiom. Joe Gilbert said this sometimes can go a little quicker than others, but this one is going to be a little more difficult as far as agreeing on a few terms. Joe Gilbert stated that more than likely both legal groups need to get together to speed that process up. Joe Gilbert stated that accounts have been opened at the custodial bank and those have been set up as far as from a reporting perspective or performance as well as how the assets are unitized. Joe Gilbert stated that this is done at BNY Mellon. Joe Gilbert urged the Committee to move forward to fund this mandate and that staff hopes to do so within the next few weeks, but it will depend on



how fast the legal process moves. Joe Gilbert stated that staff has the funding sources and staff will be able to move forward in funding the actual strategy itself as soon as the contract is signed. This was provided for informational purposes only.

Keith Percy addressed the Committee to clear up whether or not Joseph Grossman is actually on the Committee. Keith Percy stated that Joseph Grossman was appointed to the Investment Committee at the very beginning of the Board year and that he was inadvertently removed from the website when some Committee adjustments were made in the past month. Keith Percy reaffirmed that Joseph Grossman is currently on the Investment Committee and asked Carol Johnson to add him to the roll and mark him as present.

There being no further business, Lynn Hampton moved and was seconded by Keith Percy to adjourn the meeting at 10:52 a.m. The next meeting of the Kentucky Retirement Systems Investment Committee is scheduled for 10:00 a.m. on February 1, 2022. Copies of all documents presented are incorporated as part of the minutes of the Kentucky Retirement Systems Investment Committee meeting held November 3, 2021.

### **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 of the Board of Trustees of the Kentucky Retirement Systems, do certify that the Minutes of the meeting held on August 24, 2021 were approved by the Kentucky Retirement Systems Investment Committee on November 3, 2021.

A handwritten signature in black ink, appearing to be 'C. [unclear] [unclear]', written over a horizontal line.

Committee Chair

I have reviewed the Minutes of the Kentucky Retirement Systems Investment Committee Meeting on November 3, 2021 for form, content, and legality.

A handwritten signature in black ink, appearing to be 'MBS', written over a horizontal line.

Office of Legal Services