

**MINUTES OF MEETING  
COUNTY EMPLOYEES RETIREMENT SYSTEM  
INVESTMENT COMMITTEE MEETING  
NOVEMBER 8, 2021, 2:00 P.M., E.T.  
VIA LIVE VIDEO TELECONFERENCE**

At the November 8, 2021 County Employees Retirement System Investment Committee Meeting, the following Committee members were present: Dr. Merl Hackbart (Chair), George Cheatham, II, Jerry Powell, and Dr. Martin Milkman. Staff members present were David Eager, Steven Herbert, Victoria Hale, Rebecca Adkins, Ashley Gabbard, Erin Surratt, Steve Willer, Anthony Chiu, Joseph Gilbert, Jared Crawford, Chris Johnson, Sherry Rankin and Carol Johnson. Also in attendance were CEOs John Chilton and Ed Owens, Trustee Betty Pendergrass, Danny White and Janie Shaw from GRS, Eric Branco from Johnson, Bowman, Branco, LLP and Craig Morton, David Lindberg and Chris Tessman from Wilshire.

Dr. Hackbart called the meeting to order and Victoria Hale read the opening statement.

Dr. Hackbart introduced agenda item *Roll Call*. Carol Johnson called roll and pointed out that several Committee members had not yet joined the meeting. Therefore, Dr. Hackbart stated that they would move to item six of the agenda and again call roll at a later time during the meeting.

Dr. Hackbart introduced agenda item *Actuarial Sensitivity Analysis*. Dr. Hackbart introduced Danny White with GRS to present the Actuarial Sensitivity Analysis to the Committee. Mr. White stated that in the previous Actuarial Committee meeting there was discussion of the actuarial valuation results and that if Committee members had not seen that report that it will be presented

at the next full Board meeting. Mr. White stated that in terms of this Investment Committee meeting that Ed Owens reached out to GRS and asked it to provide some additional sensitivity analysis. Mr. White stated that he refers to it as additional since there is already some information that is provided to the Legislative Research Commission regarding sensitivity to changes in the interest rates, payroll growth assumptions and inflation assumptions. Mr. White stated that this is considered additional supplementary information specific to CERS. Mr. White stated that what Mr. Owens had asked for was a sensitivity in the discount rate plus or minus twenty-five (25) basis points and fifty (50) basis points and that he wanted to see a larger difference in the information provided to the Legislative Research Commission, which KPPA has plus or minus one percent (1%). Mr. White stated that if you look on page four of GRS' presentation that this looks to be a plus or minus fifty (50) basis points change in the discount rate for the non-hazardous fund. Mr. White stated that at the very bottom of the page you can see what the impact is on the funded ratio and unfunded liability, pension and insurance combined, as well as the actuarial determined rate. Mr. White stated that if the actuarially determined rate was decreased it would increase the contribution rate by about 3.9% and if there was an increase in the assumed rate of return it would result in a decrease in the contribution rate of 3.9%. Mr. White stated that it looks to be a plus or minus one (1) billion in unfunded liability. Mr. White said at the bottom of page six is similar information and that a plus or minus fifty (50) basis points is about a 7% change in the contribution rate and again about \$500,000 in the unfunded liabilities. Mr. White further stated that interest rates in terms of the investment return assumption should be relatively stable from year to year; however, back in 2017 we saw some rather large changes, which he thought were necessary. Mr. White stated that interest rates have been stable since then. Mr. White stated that while the return assumption is important what is ultimately going to drive the contribution rates are the actual

returns. Ed Owens stated that he would like to make sure that everyone is clear about what the PPOB and statute requires is a sensitivity analysis of one hundred (100) basis points either up or down so where we are now that would be 7.25 all the way down to 5.25. Mr. Owens stated that what he asked GRS to do was to give a little finer cut than what is required by statute and what the difference would be if the discount interest rate only moved twenty-five (25) basis points either way or what the difference would be if the discount interest rate only moved fifty (50) basis points either way. Mr. Owens stated that is what is reflected here. Dr. Hackbart stated that it is his understanding that GRS would be finalizing the actuarial assessment in December which provides information for the employers. Mr. White stated that it is his understanding that the actual valuation assessment report will be provided to the CERS Board in November for review and then be presented to the Board in December for adoption. David Eager stated that GRS will need to present it to the PPOB as well. Mr. White stated that KPPA staff will provide the valuation assessment to the LRC the following week and that it will possibly be presented to the PPOB in November. Mr. White stated that the next PPOB meeting is scheduled for November 22, 2021, but the agenda for that meeting has not been established.

Dr. Hackbart introduced agenda item *Quarterly Performance Report*. Steven Herbert reminded everyone that this is the beginning phases of reporting on the plans as they were split in April. Mr. Herbert stated that this report was meant to give the Committee members an idea of the format and the actual top line numbers and in no way is the report complete or perfect. Mr. Herbert stated that staff are building this with a direct feed from BNY Mellon in terms of all of the data, the transactions and the holdings and this is going to: (a) look better; (b) that same feed is building out to our risk system, which will make for better investing and for better reporting up to the Board on

the risks that are being taken; and (c) that same feed will build out to the research management system that is used for investment management searches. Mr. Herbert stated that these reports will have capital market updates in them in the near future and he is currently working on that. Therefore, Mr. Herbert stated that he would give the capital markets update verbally and then walk through some of the pages of the report that he believes need to be highlighted. Mr. Herbert started with the capital markets update and stated that the global growth of the economies slowed in the third quarter. Mr. Herbert stated that upstream supply restrictions dampened a lot of production and disrupted the supply chain distributions, which caused the first negative quarter for global equities since 2020. Mr. Herbert stated that equities in developed markets were basically flat to slightly down and the rising risk to China affected that whole region of the world, which caused emerging markets into a steeper negative territory of about 8% in terms of equity returns for the quarter. Mr. Herbert stated that supply issues had an effect on commodity prices in different ways and that energy and industrial metal prices climbed quite bit, but had less affect on precious metals, agriculture and livestock. Mr. Herbert stated that inflation remains elevated and will likely continue to do so in the near term as supply and demand remains a problem for the economy, but policy makers are still saying this is a temporary distortion. Mr. Herbert stated the yield curve steepened as bonds were slightly positive for the quarter and private equity was up by 11%. Mr. Herbert then moved to page 25 of Board Books which shows the total for the CERS plan. Mr. Herbert stated that the approximate total for CERS is 8.6 billion dollars. Mr. Herbert stated that the quarter return of 1.2% slightly outperformed the Investment Policy Statement benchmark of 1.1% and outperformed for the year and on some of the longer term numbers as well. Mr. Herbert stated that page 38 of Board Books shows the total for the CERS Insurance and CERS plan. Mr. Herbert stated that the plan slightly outperformed due to the outperformance on the downside in

non-U.S. equities. Mr. Herbert stated that the plan also outperformed in high yield bonds and had a strong positive nominal return in private equity. Mr. Herbert stated that on page 30 is the CERS hazardous fund performance. Mr. Herbert stated that it is the exact same story and outperformed on the downside in non-U.S. equities, high yield bonds and had a strong private equity return. Mr. Herbert pointed out the asset allocation among asset classes on page 31 of Board Books and this is similar to what we talked about last time. Mr. Herbert stated for the quarter that the plan was slightly overweight in core fixed income and are underweight in real return and real estate and those are naturally coming up. Mr. Herbert stated that there were some real estate capital calls after this report and that Harrison Street called some capital. Mr. Herbert further stated that Prologis is going to do so as well in the coming weeks. Mr. Herbert stated that they need to start actively conducting searches in these two asset classes as well as reinvesting in TIPS for inflation protection. Mr. Herbert then reviewed pages 32 and 33 of Board Books and stated that it is in the same format and that you can see the way the assets grow over time. Mr. Herbert then reviewed page 36 of Board Books and stated that the outperformance by ten (10) basis points comes from the outperformance on the non-U.S. equities on the downside, high yield bonds and private equity. Mr. Herbert stated that on page 42 of Board Books the asset allocations are over allocated in bonds and under allocated to real return and real estate. Mr. Herbert stated that this will come up naturally and staff are actively looking to fill these spaces. Mr. Herbert asked if anyone had any questions. Dr. Hackbart said that Mr. Herbert had previously stated that the new information system would hopefully be fully implemented by the first of the year and asked if that is still on schedule? Mr. Herbert replied that it was his expectation, but he will see if the vendor can do it. Dr. Hackbart asked if that would include historical data as well. Mr. Herbert replied yes. Dr. Milkman asked if the real estate is going to take care of itself without any asset reallocation since the price of real

estate is increasing or are staff going to try and add some money into there? Mr. Herbert replied that staff are going to be adding some money into real estate, but it is not really an increase since staff are adding money through investments that were approved earlier in the year for additional money to current managers. This was provided for informational purposes only.

Dr. Hackbart introduced agenda item *Axiom Update*. Dr. Hackbart stated that the Committee had decided to add Axiom as a fund manager, but that there were some issues to be looked at and some information to be collected before moving forward. Dr. Hackbart then introduced Joe Gilbert to give the Axiom update. Mr. Gilbert stated that Axiom is a manager that staff brought to the Investment Committee for consideration back in August for a non U.S. small cap active mandate. Mr. Gilbert stated that staff had presented Axiom to the KRS Investment Committee the day prior to the August CERS Investment Committee meeting, and that afternoon, after the KRS Investment Committee meeting, staff became aware that a gentleman by the name of Kurt Polk, President of Axiom's Operations Department, had announced his decision to leave the firm at the end of this calendar year. Mr. Gilbert stated that he informed the CERS Investment Committee of this as well during the August CERS Investment Committee meeting. Mr. Gilbert stated that there were some concerns as to what that might do from a business risk perspective. Mr. Gilbert stated that staff did not believe that it would be an issue since it did not touch on the investment side and that the direct leads of those operation departments, such as compliance, distribution, and marketing were going to remain the same. Mr. Gilbert stated that it was decided that staff should continue to monitor that situation and they have done that. Mr. Gilbert stated that the strategy has remained stable from an assets under management perspective, which amounts to approximately 1.2 billion dollars, and that Axiom has not lost any clients. Mr. Gilbert stated that they have actually added a few accounts

since August so things look good from an Axiom business perspective. Mr. Gilbert stated that as far as the current standing with KPPA/CERS staff have worked with the manager Axiom and have agreed to guidelines that staff thinks will allow them to manage the strategy as it was intended to be managed, while at the same time providing guardrails that staff think need to be there to maintain sufficient diversification within the product. Mr. Gilbert stated that staff have been working on an investment management agreement, but there are a few sticking points to work on and they are scheduled to discuss them next week. Mr. Gilbert stated that staff have established the new accounts at the custodial bank as far as their schematic and formatting for the unitization so staff can allocate appropriately to the manager. Mr. Gilbert stated that given the original conviction in the manager and the fact that there have been no issues to date with Axiom from a business risk perspective staff plan to continue to move forward and hope the Committee will agree with that. Mr. Gilbert stated that staff are hopeful that the funding will take place this calendar year, but it is somewhat up in the air as to the legal side of things. Mr. Gilbert stated that the funding sources have been made aware that they are the funding sources so once staff are able to get the paperwork done staff will be able to move relatively quickly to get the account up and running. This was provided for informational purposes only.

Dr. Hackbart then asked if the other Committee members were able to join the meeting. Carol Johnson stated that four members are in attendance now and asked Dr. Hackbart if he would like for her to call roll. Dr. Hackbart replied that the CERS Investment Committee now has a quorum and roll call will proceed. Ms. Johnson called roll.

Dr. Hackbart introduced agenda item *Public Comment*. Ms. Johnson stated that no public comments were submitted.

Dr. Hackbart introduced agenda item *Approval of Minutes August 25, 2021*. George Cheatham, II moved and was seconded by Jerry Powell to approve the minutes as presented. The motion passed unanimously.

Dr. Hackbart introduced agenda item *Investment Policy*. Dr. Hackbart thanked everyone for their hard work and contributions with finalizing the Investment Policy Statement and he wanted to specially recognize Ed Owens and Steven Herbert for their work in finalizing some details to the revised Investment Policy Statement. Dr. Hackbart stated that Trustees and staff have been working pretty aggressively on the asset class matrix, which is on page five of the Investment Policy Statement. Dr. Hackbart stated that at the last meeting the focus was on the various components of the Investment Policy Statement and since then work has been on the asset class allocation matrix. Dr. Hackbart stated that the major changes are to the terminology and what we have tried to do was to utilize terms which would have a common understanding to not only to the KRS and CERS Boards, but also to the general public for better transparency. Dr. Hackbart provided as an example that there have been transitions in corporate structures and that quite possibly the prior designation of U.S. equity verses international equity may not be as meaningful anymore. Dr. Hackbart stated that what is being recommended is to simply use public equity and private equity as the two components of the equity bucket. Dr. Hackbart further stated that for the fixed income allocation there is fixed income, core fixed income and specialty credit, then cash and the last term was adjusted to inflation protected and real estate and real return. Dr. Hackbart



stated that the percentages are slight adjustments from the original matrix or allocation designations that this has been worked on since the transition of CERS and the development of CERS. Dr. Hackbart stated that CERS had been using the old KRS asset allocation guidelines so this is probably the major change although the changes are great in terms of terminology with some adjustments in percentages since the last meeting. Dr. Hackbart stated that Steven Herbert and Ed Owens worked hard to adjust the terminology in the Investment Policy Statement to reflect the terminology used in the asset allocation matrix and that was a change that had to be made after CERS had finalized the recommended matrix. Dr. Hackbart stated that the version that is being presented is the version which included the edits and adjustments and terminology changes so that there is consistency between the allocation matrix and the presentation in the Investment Policy Statement. Dr. Hackbart stated that the changes to the Investment Policy Statement and asset allocation matrix were reviewed with Wilshire as well. Dr. Hackbart asked Steven Herbert, Ed Owens and Betty Pendergrass if there was anything they would like to add? Mr. Owens stated that he would like to thank Steven Herbert, David Lindberg and Craig Morton for the work that they did by looking at the asset allocation designations, putting it on the efficient frontier and coming up with allocations that shows a strong thirty-year return for these asset allocation designations. Dr. Milkman asked Mr. Owens why there is no target allocation to cash. Mr. Owens stated that Mr. Herbert would be a better person to answer that question. Mr. Herbert stated that there is always going to be cash and part of the recommendation to bring the target allocation to zero was knowing that there is always going to be cash. Mr. Herbert stated that cash is the least risky asset and you are really not going to get a return out of it and there will be short term exposure in the core fixed income allocation that is almost as liquid as cash or cash equivalent. Dr. Hackbart asked if there was a motion to approve this edited and adjusted version of the Investment Policy

Statement so that it may be presented at the next full CERS Board meeting on Wednesday. Mr. Powell moved and Dr. Milkman seconded the motion. The motion passed unanimously.

Dr. Hackbart introduced agenda item *Cybersecurity Awareness Training*. Chris Johnson introduced himself and stated that he is the Information Security Officer at Kentucky Public Pensions Authority. Mr. Johnson stated that security training is a must due to the fact of the ever growing cybersecurity threats. Mr. Johnson stated that cybersecurity attacks jumped tremendously in 2020 due to Covid-19 and that the attacks are not slowing down. Mr. Johnson stated that Know Be 4 is a company that specializes in security training on the latest threats and KPPA has utilized their services for the past three years. Mr. Johnson stated that they have performed quarterly trainings and phishing campaigns. Mr. Johnson stated that the first of the four training modules is Social Engineering. Mr. Johnson stated that executives and trustees names are forward facing so they are more likely to be focused on so staff want to help them identify what it might look like if they were to become a target. The second training is a feature that staff utilizes and refer to it as the Phish Alert Button. Mr. Johnson stated that if someone receives an email and something does not feel right about it then they can just click that button and it will automatically send the email to the security team for review. Mr. Johnson stated that when the security team initially put this training together they did not take into account the various ways that the trustees access email so there is limited use of the Phish Alert Button to the Outlook client as well as the Outlook web access. Mr. Johnson stated that he spoke with Ms. Pendergrass to identify a couple of different options for the trustees to make it easy for them to get their KPPA email in a safe manner. Mr. Johnson stated that this is a work in progress and hopefully soon his team will have a good solid solution that is secure and easily available to the trustees to access KPPA email. Mr. Johnson stated

that the Phish Alert training will ask trustees to click on what mail system they use and please be informed that KPPA uses Outlook Exchange and they will want to click on the blue button. Mr. Johnson stated that the third training features one of the most famous hackers, Kevin Mitnick, who now educates businesses on how to protect themselves from hackers. Mr. Johnson stated that social engineering is the new hottest technique hackers are using since security systems have come a long way in blocking internet threats so they are turning to the human factor to try to play on people's emotions. Mr. Johnson stated that this training will help alert trustees to that. Mr. Johnson stated that the fourth training is basic Internet Security When You Work From Home. Mr. Johnson stated that he provided this training to staff when Covid-19 hit and everyone began working from home and that it is just good basic information. Mr. Johnson stated that he will be sending out an email with an attachment with additional information to help trustees know what to expect from the training and when it will be available. Mr. Johnson told the trustees to feel free to reach out with any questions or concerns that they might have regarding these training modules. This was provided for informational purposes only.

Dr. Hackbart pointed out that the material provided by Wilshire is contained on page 71 of Board Books, but that it is not a part of the agenda for today. Dr. Hackbart stated that this information was provided for informational purposes and he encouraged the Committee members to review the material.

There being no further business, Dr. Hackbart asked if there was a motion to adjourn the meeting. Dr. Milkman moved and was seconded by Mr. Cheatham to adjourn the meeting at 2:50 p.m. The next meeting of the County Employees Retirement System Investment Committee is scheduled for

2:00 p.m. on February 9, 2022. Copies of all documents presented are incorporated as part of the minutes of the County Employees Retirement System Investment Committee meeting held November 8, 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 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 25, 2021 were approved by the County Employees Retirement System Investment Committee on November 8, 2021.

  
Committee Chair

I have reviewed the Minutes of the County Employees Retirement System Investment Committee Meeting on November 8, 2021 for form, content, and legality.

  
Office of Legal Services