

**MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES MEETING
NOVEMBER 10, 2021 AT 2:00 P.M. ET
VIA LIVE VIDEO TELECONFERENCE**

At the meeting of the County Employees Retirement System Board of Trustees held on November 10, 2021 the following members were present: Betty Pendergrass (Chair), Dr. Patricia Carver, George Cheatham, JT Fulkerson, Dr. Merl Hackbart, Dr. Martin Milkman, William O'Mara, and Jerry Powell. Staff members present was Ed Owens, III, CERS CEO, John Chilton, KRS CEO, David Eager, Rebecca Adkins, Erin Surratt, Michael Board, Steven Herbert, Connie Davis, Ashley Gabbard, D'Juan Surratt, Vicki Hale, Kristen Coffey, Elizabeth Smith, Ann Case, Jared Crawford, Joe Gilbert, Steve Willer, Sherry Rankin, Shaun Case, Phillip Cook, and Glenna Frasher. Others present included Joseph Bowman with Johnson Bowman and Branco; Danny White and Janie Shaw with GRS Consulting; David Lindberg, Chris Tessman and Craig Morton with Wilshire; and Ryan Graham with Blue and Company.

Ms. Pendergrass called the meeting to order and read the Legal Opening Statement.

Ms. Rankin took Roll Call. There was no public comment received.

Ms. Pendergrass introduced agenda item *Trustee Recognition*. Ms. Pendergrass stated that we recently had a couple of retirements of long-time serving members that we would like to recognize today. The first one is for Mr. Joe Brothers, who came to the Board with significant school board experience and provided some valuable insights during his term. The second recognition is for Mr. David Rich, who was an elected CERS Trustee with public safety experience and his inputs were extremely valuable over the years that he served on the Board. Mr. Powell added his gratitude to both of these gentlemen for their dedication and service, not only to the Board, but more importantly to the members.

Ms. Pendergrass introduced agenda item *Approval of Minutes – September 29, 2021*. Mr. Fulkerson made a motion and Dr. Hackbart seconded to approve the minutes as presented. The motion carried unanimously.

Ms. Pendergrass introduced agenda item *CERS Finance Committee Report*. Mr. Fulkerson stated that the CERS Finance Committee met on November 3, 2021. He reported that this committee approved the following applications for classification as hazardous duty positions: Shelby County Fiscal Court (3 EMT positions), Adair County Fiscal Court (1 Emergency Management Director), City of Taylor Mill (1 Assistant Fire Chief), and City of Murray (1 Assistant Fire Chief). Mr. Fulkerson made a motion and Dr. Milkman seconded to ratify the approval of these requests for hazardous duty classification. The motion carried unanimously.

Ms. Pendergrass introduced agenda item *CERS Actuarial Committee Report*. Dr. Carver stated that the CERS Actuarial Committee met on November 8, 2021. She indicated that no actions were taken by the committee that need ratification from the Board. However, she indicated that Danny White and Janie Shaw from GRS Consulting are going to present a report on the actuarial valuation results. Mr. White began by explaining that the actuarial evaluation is a snapshot of the census data collected as of June 30, 2021, asset information as of 2021, actuarial assumptions adopted by the Board to calculate liabilities. These are all used to determine the funding status of the plan and the contribution rates based on the funding policies established by a combination of the Board and by Statute, which is what you will see presented today. The byproducts from performing an actuarial valuation include accounting information for the annual report and for the participating employers and legislators. Mr. White gave a brief overview of the legislation that passed in 2021 that had an effect on this valuation, being SB 169. He indicated that it was just had a slight effect on this valuation. Regarding the demographics, he stated that the active membership declined across all funds, CERS non-hazardous had a 1.4% decrease in covered payroll, and CERS hazardous had a 1.7% increase in covered payroll. Mr. White then stated that the highlight of this valuation was the 25% return on market value of assets and all systems shared in that gain. Mr. White continued by reviewing the required employer contributions, stating that the recommended contribution rates reflect the CERS phase-in provisions, which limit the increases in the contribution rates to 12% over the prior fiscal year. Ms. Pendergrass commented about reaching an end of the phase-in. She stated that there were some concerns among employers beginning in 2018 that we were going to increase rates by 12% each year. The Statute was exactly written that way, but, what she feels is more important is that Statute anticipated a possible 10 year period to phase-in those increases. We have accomplished that phase-in over the course of five years which is half of what the Statute anticipated. Ms. Pendergrass stated that this was outstanding news and she wanted to emphasize to our employers that the 12% fear is now gone.

Mr. White agreed and stated for at least one more year.

Mr. White then reviewed the required employer contributions in dollar amounts, the change in required employer contributions, and the unfunded actuarial accrued liability for both CERS Hazardous and Non-Hazardous plans. He then reviewed the active membership count and the covered payroll on those members, and the retired membership count and the pension benefit distributions. Mr. White showed the Funding Results for the pension and insurance for both the Hazardous and Non-Hazardous plans. Dr. Hackbart asked if Mr. White has the actuarial determined rate for the past decade. Mr. White answered that he does, but not handily available, but believes that it is in the annual report. Ms. Pendergrass stated that those tables can be found in the back pages of the Annual Report. Ms. Adkins said that those are also in the back of the summary of the Annual Report. Mr. Cheatham asked if those reports will be distributed to the Trustees. Ms. Pendergrass responded that the printed report is usually not ready until close to the end of December or early January. Drafts of those reports will be presented at our meeting in December. Ms. Pendergrass said that both reports will be sent to the Trustees and she believes that the Trustees may have already been asked if they want the whole 200+ page annual report and the summary report, or just the summary report. Ms. Adkins stated that the summary report will most likely not be ready until the middle of January. Due to the delay in the annual report, it is causing a delay in the summary report. Mr. White indicated that if anyone wanted to see one earlier rather than later, that last year's report can be found on the KPPA website. Dr. Hackbart indicated that he felt that having the historical data would for the December meeting would be useful. Ms. Pendergrass stated that those tables could be pulled for that meeting.

Mr. White followed by the projection assumptions charts that show the unfunded liability versus the funded ratio and the contribution dollars versus the rate of pay for both pension and insurance for both CERS Hazardous and CERS Non-Hazardous. Mr. White concluded by giving the closing comments on the 2021 valuation results indicating the favorable investment experience improved the funded status and lowered the required contribution effort across all funds. The actuarially determined contribution rates are now fully phased in. Finally, it is imperative the participating employers continue contribution the actuarially determined contributions in each future year to improve the system's financial security.

Ms. Pendergrass introduced agenda item *CERS Investment Committee Report*. Dr. Hackbart stated that the Investment Committee met on November 8, 2021. He indicated that the committee approved the Investment Policy Statement and will be bringing that before the board to be ratified at this meeting. The committee also reviewed the actuarial sensitivity analysis for the CERS pension and insurance funds, the quarterly performance reports, and an update on the status of the Non-US Small Cap Equity Manager. Dr. Hackbart started with a review of the Investment Policy Statement and stated that this document provides an overall framework for the investments of the CERS assets. Dr. Hackbart reviewed the Asset Allocation Guidelines section of the policy and reviewed the changes that have made to the terminology used in this section. Dr. Hackbart made a motion and Mr. Fulkerson seconded to adopt the CERS Investment Policy Statement.

Dr. Hackbart introduced Mr. Herbert to give the review of the quarterly performance reports. Mr. Herbert began by indicating that these reports are a work in progress, but these will give you the format and will give you the actual performance for the quarter and some long-term numbers as well. He reviewed the highlights of the performance reports for the quarter. Ms. Pendergrass stated that she wanted to carry over a question that came up in the KRS Investment Committee meeting and that is the monthly reports that we were receiving up until March 2021 quarter that included a narrative about underlying market conditions and other investment management policies that effected our returns and then a table of returns that included all the way back to its inception. She asked when can we expect to have those monthly reports back as those were very useful and important to our stakeholders and they are asking about those monthly reports. Mr. Herbert indicated that he has a few of them almost complete and will continue to work on those to bring those back for the members and stakeholders. Mr. Powell added that he had also been receiving questions about the monthly reports and many have expressed an interest to have those return. He also indicated that not only were those posted on the website, many have indicated that they had received emails regarding those in the past. He felt like possibly Mr. Gilbert or Mr. Sparks in Communication were involved in getting those out to those that wanted them. Mr. Herbert indicated that he would get to work on those and get them back on track.

Mr. Herbert introduced Mr. Gilbert to give an update on the Axiom Investors. Mr. Gilbert gave a brief overview of the work to date on the search for the Non-US Small Cap Equity mandate and the current status with the negotiations with Axiom Investors.

Ms. Pendergrass introduced agenda item *Joint Audit Committee*. Ms. Pendergrass stated that this is a topic that we will be returning to on December 1, 2021 with more details. The external audit is almost complete and the auditors are moving forward on that project. We will have a more detailed financial statement at the December 1 meeting. Ms. Pendergrass announced that the Joint Audit Committee is scheduled to meet again on November 30, 2021, to discuss the audit report and encouraged the Trustees to watch that meeting if you would like to hear some of the details and discussions prior to bringing it back to the full board on December 1, 2021.

Ms. Pendergrass stated at the Joint Audit Committee held on November 4, 2021, the committee took action on the purchase of infrastructure and application security assessment, updates to the Charter for the Joint Audit Committee, and meetings dates and times for the committee for the calendar year 2022 as well as a Special Called meeting to be held on November 30, 2021.

Ms. Pendergrass began with the request by the technology and security staff of KPPA to approve the expenditure of up to \$70,000 on an infrastructure assessment. She stated that this is an annual project and is anticipated in our budget documents. Mr. Fulkerson made a motion and Mr. Cheatham seconded to approve the requested expenditure. The motion passed unanimously.

Ms. Pendergrass then reviewed the Charter for the Joint Audit Committee. She indicated that a few minor adjustments were made to the terminology and we needed some legal research on some personnel policies that were included within the Charter. The committee has reviewed these revised sections and recommends approval of the Joint Audit Committee Charter. Dr. Hackbart made a motion and Mr. Powell seconded to approve the Charter for the Joint Audit Committee. The motion passed unanimously.

Ms. Pendergrass reviewed the memorandum regarding the Joint Audit Committee Dates and times for the 2022 calendar year. Mr. Powell made a motion and Mr. Cheatham seconded to approve the meeting dates and times for the Joint Audit Committee meetings for the 2022 calendar year. The motion passed unanimously.

Ms. Pendergrass introduced Ms. Coffey to discuss any internal audit projects. Ms. Coffey stated they are working a quite a few projects and recently completed a project on the Security Access and that report was given to the Audit Committee. She indicated the full report is in the board

books for the Joint Audit Committee and encourages the Trustees to review that information if they would like to see the results of that audit.

Ms. Pendergrass introduced agenda item *Closed Session*. Mr. Powell made a motion and Dr. Milkman seconded to go into closed session for the purpose of litigation. The motion passed unanimously.

Ms. Pendergrass read the following closed session statement, "A motion having been made in open session to move into a closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Board shall now enter close session to consider litigation, pursuant to KRS 61.810(1)(c), because of the necessity of protecting the confidentiality of the Systems' litigation strategy and preserving any available attorney-client privilege".

Ms. Pendergrass stated that there was no action taken on the discussions from closed session.

Mr. Powell made a motion and Mr. Fulkerson seconded to adjourn the meeting. The motion passed unanimously.

Copies of all documents presented are incorporated as part of the Minutes of the Board of Trustees held November 10, 2021 except documents provided during a closed session conducted pursuant to the open meetings act and exempt under the open records act.

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CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Trustees 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 conjunction with this meeting.


Recording Secretary

I, the Chair of the Board of Trustees of the County Employees Retirement System, do certify that the Minutes of Meeting held on November 10, 2021 were approved on December 1, 2021.


Chair of the Board of Trustees

I have reviewed the Minutes of the November 10, 2021 Board of Trustees Meeting for content, form, and legality.


Executive Director
Office of Legal Services