County Employees Retirement System
Board of Trustees – Special Meeting
April 30, 2025, at 2:30 pm ET (1:30 pm CT)
Live Video Conference/Facebook Live

AGENDA

1.	**Call to Order**	**Lisle Cheatham**
2.	**Opening Statement**	**Eric Branco**
3.	**Roll Call/Public Comment**	**Sherry Rankin**
4.	**Chairman's Corner**	**Lisle Cheatham**
5.	**Investment Committee**	**Dr. Merl Hackbart**
	a. Investment Office Recommendation*	**Steve Willer** **Investment Office**
6.	**Adjourn**	**Lisle Cheatham**

***Board May Take Action**

CERS Investment Committee

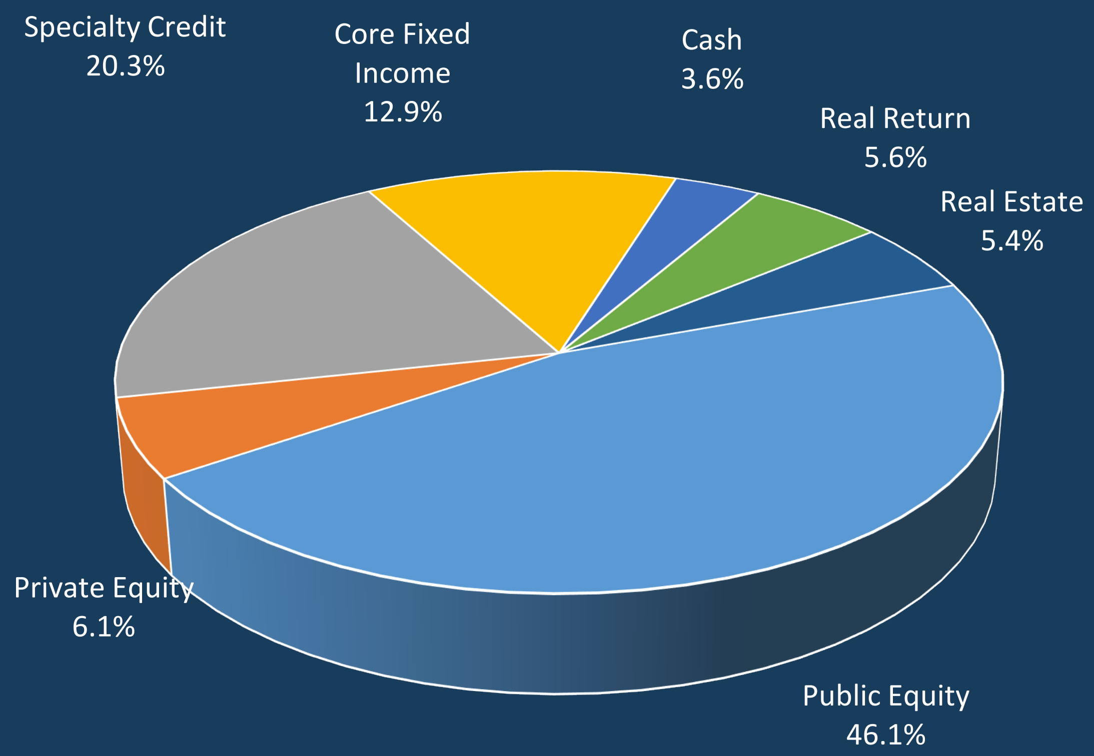
Real Return Recommendation

Kayne Private Energy Income Fund III

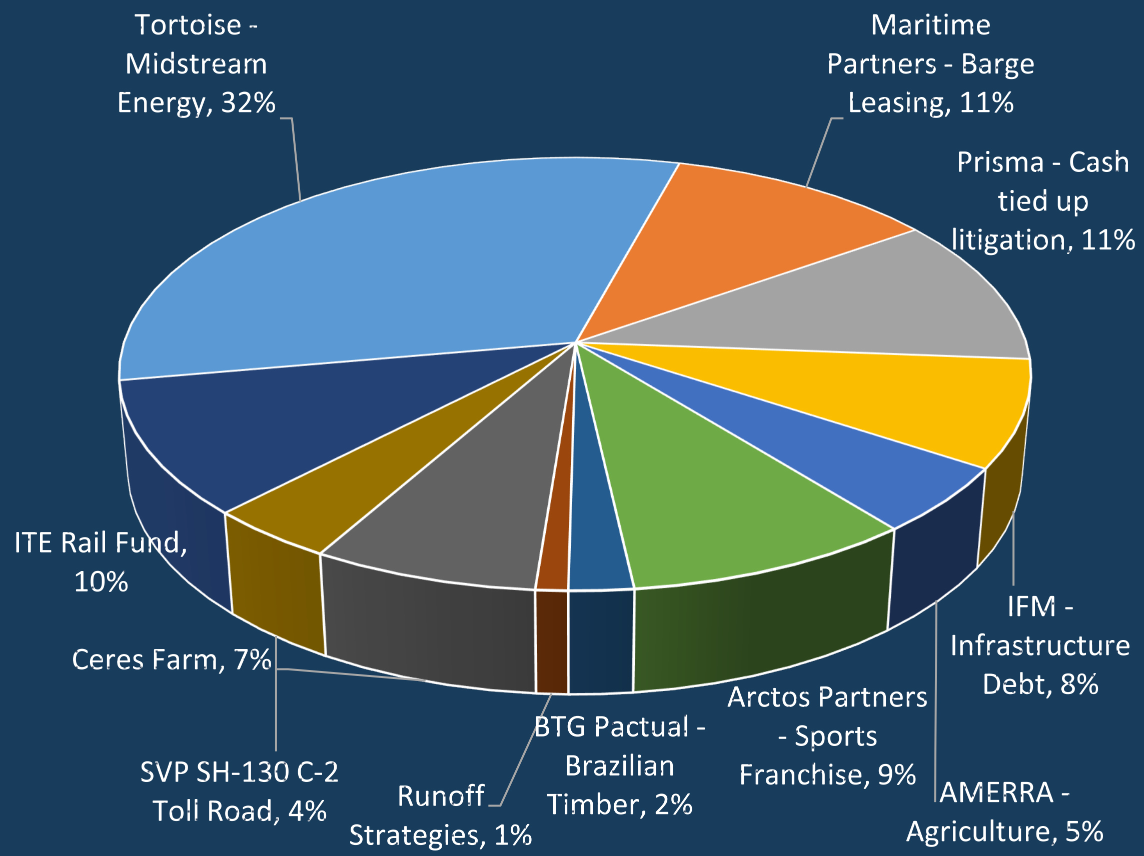
April 30, 2025

Real Return Allocation Today

Current Asset Allocation*



Current Real Return Allocation*

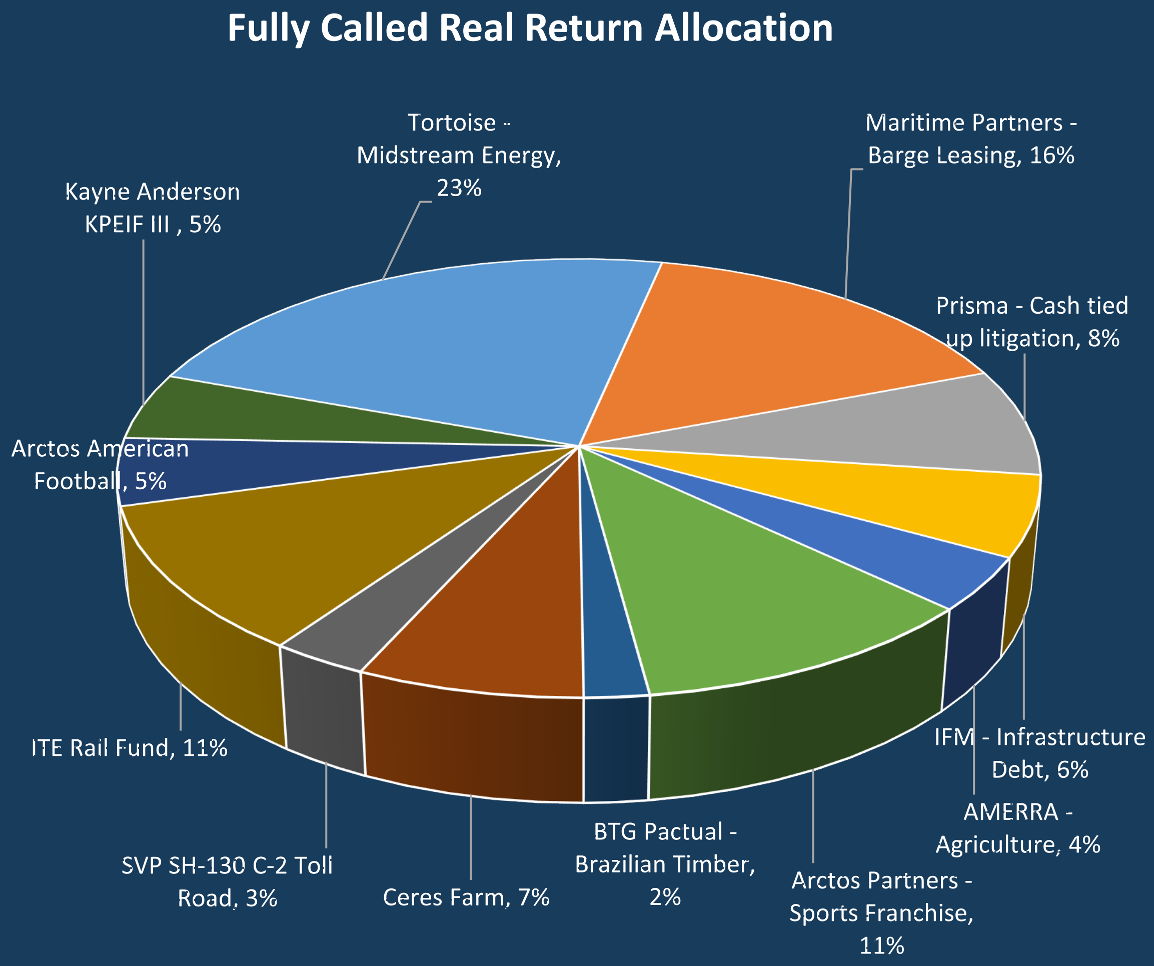


***CERS Pension Portfolio for representation**

CERS
County Employees Retirement System

Impact and Rationale

- Opportunity to gain exposure to attractive and hedged cash flows from US energy assets at lower entry valuations, with some upside optionality on commodity prices from asset terminal
- Differentiated strategy with favorable expected risk-adjusted return with asymmetric upside potential
- Significant distribution yield profile that allows the investment to quickly de-risk while providing high levels of liquidity
- Low return correlations to current Real Return investments and the broader overall public and private portfolio
- Experienced and successful team and strong alignment with the General Partner
- Will move the CERS Portfolios closer to their Real Return target weights within short funding window



County Employees Retirement System

KENTUCKY PUBLIC PENSIONS AUTHORITY

INVESTMENTS

To:	CERS Investment Committee - CONFIDENTIAL
From:	Anthony Chiu, Deputy CIO
Date:	April 30, 2025
Subject:	Investment Recommendation – Kayne Private Energy Income Fund III

KPPA Investment Staff is proposing an investment with Kayne Anderson ("Kayne" or the "Firm") in its Kayne Private Energy Income Fund III ("KPEIF III," "Fund III," or the "Fund"), contingent on successful IMA negotiations.

In October 2024, CERS approved an investment in a continuation vehicle ("CV") for Kraken Resources, LLC ("Kraken"), a private oil and gas company producing in the Williston Basin along the border of North Dakota and Montana. This was one of three assets remaining in Kayne Anderson Energy Fund VII ("KAEF 7" or "Fund 7"), a 2015 vintage fund managed by a different Kayne team where KPPA comprised $100 million of the $2.1 billion of committed capital.

Kraken is also the first investment in KPEIF III, comprises ~8% of committed capital, and has already returned 14% of cost after 6 months.

Description	Date	Amount ($MM)	% Committed Capital
Kraken CV Commitment	Nov-24	$17.2	100.0%
Income Distribution	Dec-24	$1.3	7.4%
Income Distribution	Apr-25	$1.1	6.2%
Total Income		**$2.3**	**13.6%**

Fund III has made two additional commitments to date that continue its strategy of acquiring oil and gas assets that are currently in production and generating free cash flow that can be hedged and distributed to investors. In January 2025, FourPoint Resources acquired over 125,000 acres in Utah's Uinta Basin from Ovintiv (NYSE: OVV). Fund III has also committed capital to Riverbend Energy Group to target opportunities in the Midland Basin. This partnership is with a management team that Kayne has successfully worked with three times previously.

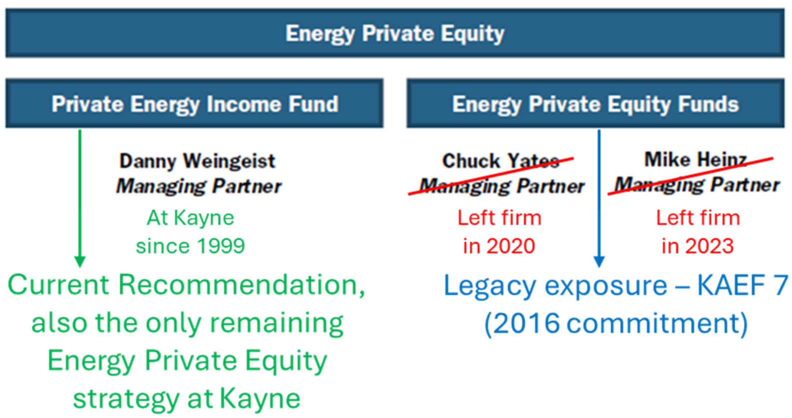
Kayne is also in discussions to work again with the teams from 89 Energy and Terra Energy Partners, which both had exits in 2025 to Validus Energy and Wincoram / Stone Ridge Energy, respectively.

This investment opportunity is a time-sensitive one, as the Fund has been in the market for more than two years and is having its final close at the end of April.

Staff believes Fund III will provide an attractive risk-adjusted return with low correlation to CERS' existing overall portfolio and provide complementary exposure with the existing Real Return allocation. Following the most recent asset allocation update, the CERS portfolios are still modestly under their target weights for the Real Return asset class. The proposed investment would help the plans continue moving toward their Real Return target weights, as Fund III is already over 30% called and allow Staff to continue to wind down the proxy investments. Kayne projects that the Fund will be at least 50% invested by the end of 2025.

Investment Process and History:

KAEF 7's original managing partner departed the firm in 2020, and Fund 7 was consolidated under the Private Energy Income team which had split off within Kayne in 2014 to pursue a strategy that was more focused on current production, cash flow, and returning income to investors.

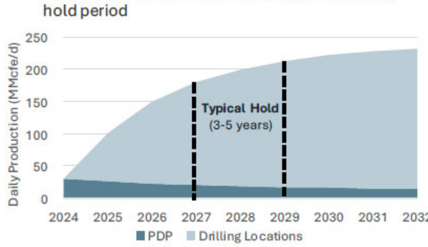


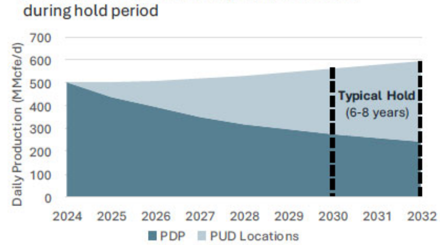
The decision by Managing Partner Danny Weingeist and his team to pursue the Energy Income strategy proved prescient, as KPEIF I and II are top quartile performers that largely avoided the widespread losses across the energy industry that occurred in the latter part of the 2010s. As a result, a focus on producing assets has become more mainstream among the few energy firms that survived and are still active at scale.

Kayne Private Energy Income Funds Platform

Old Energy PE Model vs. New Energy PE Model

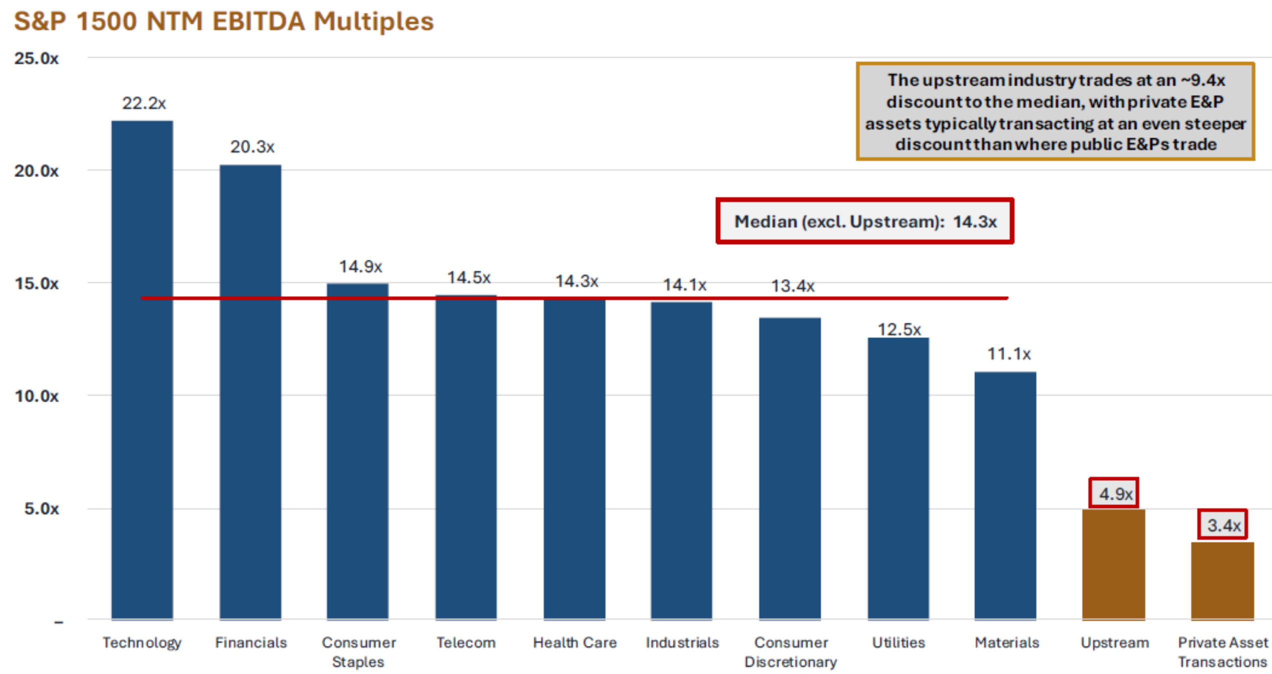
	Old Energy PE Model	New Energy PE Model
Strategy Description	» "Lease and Drill" strategy focused on acquiring and proving up undeveloped acreage	» PDP acquisition strategy targeting large, mature producing assets with low base decline rates
Value Allocation	» Primarily attributable to undeveloped reserves	» Primarily attributable to producing reserves
Financing Sources	» Acquisition costs and drilling capital primarily funded with equity	» Acquisition costs and drilling capital (if relevant) funded with a mix of debt, equity and free cash flow
Distribution Profile	» Zero equity distributions, entirely dependent on exit valuation to generate returns	» Strong equity distribution yield significantly reduces dependence on exit valuation
Free Cash Flow Generation	» Zero or minimal free cash flow generation	» Substantial free cash flow generation
Ability to Hedge	» Minimal ability to hedge commodity price risk	» Ability to hedge commodity price risk
Growth Profile	» Significant forecasted production growth during hold period	» Zero to modest production growth forecasted during hold period





Another tailwind for Fund III is the near-trough valuations in energy today, especially when compared to the concentration of tech stocks that have driven the market higher in recent years.

Public E&Ps currently trade at a significant discount to the broader market



As a result, Kayne believes these lower valuation levels have made conditions today even more attractive than the energy downturn of the late 2010s, as shown below.

Today's transactions have even more attractive risk-adjusted return profiles

Illustrative Investment Profiles

	Initial (2016 – 2020)	Current[1] (2021+)
Base Case Returns		
Gross IRR	~18%	~25%
Gross ROI	~2.0x	~2.5x
Distribution Profile		
5-Year Average Yield	8% – 10% annually	20% – 30% annually
ROI During Hold Period	~0.50x (25% of total return)	~1.50x (60% of total return)
Entry Multiples & Leverage		
NTM EBITDA Multiple	5.0x – 6.0x	2.5x – 3.5x
Leverage Ratio at Acquisition	2.5x – 3.0x	1.0x – 1.5x

Performance:

Fund	Vintage	Size ($ MM)	Gross IRR	Gross Multiple	Net IRR	Net Multiple
KPEIF I	2014	$1,550	21%	2.4x	18%	2.1x
KPEIF II	2018	$1,700	36%	2.2x	30%	1.9x
KPEIF III	2024	$2,100	NM	1.1x	NM	NM

Source: Kayne as of 12/31/24

Conclusion: Given Fund III's attractive cash flow profile, hedged commodity price risk strategy, the compelling market opportunity, and the portfolios' current Real Return allocations, Staff is recommending that CERS increase its exposure to KPEIF's strategy by investing up to $100 million in the Fund. The investment will be shared among all C plans pending successful legal negotiations and would represent an additional ~0.5% - 0.6% exposure (depending on fluctuations in market value). It is anticipated this investment would be funded by existing cash based on the specific needs of each plan.

<u>Investment and Terms Summary</u>

Type of Investment:	Real Return
Structure:	GP / LP
Term:	10 years, with 2 one-year extensions with Advisory Committee consent
Management Fee:	Years 1-5: 1.10% on committed capital Thereafter: 1.25% on lower of cost or NAV
Profit Sharing:	15% of profits above an 8% preferred return
Purpose:	Gain exposure to attractive and hedged cash flows from US energy assets, with some upside optionality on commodity prices from asset terminal value
Risks:	Commodity price volatility, operating partners, regulatory risk, higher than expected costs, illiquidity
Expected Net Return:	12-14%
Projected Annualized Distribution Yield:	8-10%

*No placement agents have been involved or will be compensated as a result of this recommendation.