



**County Employees Retirement System  
Investment Committee – Special Meeting  
August 15, 2024, at 10:00 AM ET  
1270 Louisville Road, Frankfort, KY/Facebook Live**

**AGENDA**

- |                               |                                       |
|-------------------------------|---------------------------------------|
| <b>1. Call to Order</b>       | <b>Merl Hackbart</b>                  |
| <b>2. Opening Statement</b>   | <b>Eric Branco</b>                    |
| <b>3. Roll Call</b>           | <b>Sherry Rankin</b>                  |
| <b>4. Public Comment</b>      | <b>Sherry Rankin</b>                  |
| <b>5. Strategic Planning*</b> | <b>Ed Owens<br/>Betty Pendergrass</b> |
| <b>6. ADJOURN</b>             | <b>Merl Hackbart</b>                  |

***\*Committee May Take Action***



**STRATEGIC PLANNING PROCESS**  
**INVESTMENT COMMITTEE**

**1. GOVERNANCE**

- a. **Work with the Office of Investments and the Office of the CFO to establish a Senior Risk Officer (SRO) Department for increased transparency on CERS investment related issues. Fourth Quarter 2025**
- b. **Establish through the Investment Policy Statement (IPS) guidelines for the ratio between CERS assets managed internally and the size of the Investment office staffing levels. Third Quarter 2024**
- c. **Better define the role of the CERS Investment Consultant related to new investment strategies/managers and asset allocation. First Quarter 2025**

**2. ORGANIZATIONAL EXCELLENCE**

- a. **Strengthen and standardize CERS quarterly investment performance reporting for enhanced transparency. First Quarter 2025**
- b. **Develop and establish quantitative scoring against relevant benchmarks for CERS assets that are managed internally. First Quarter 2025**

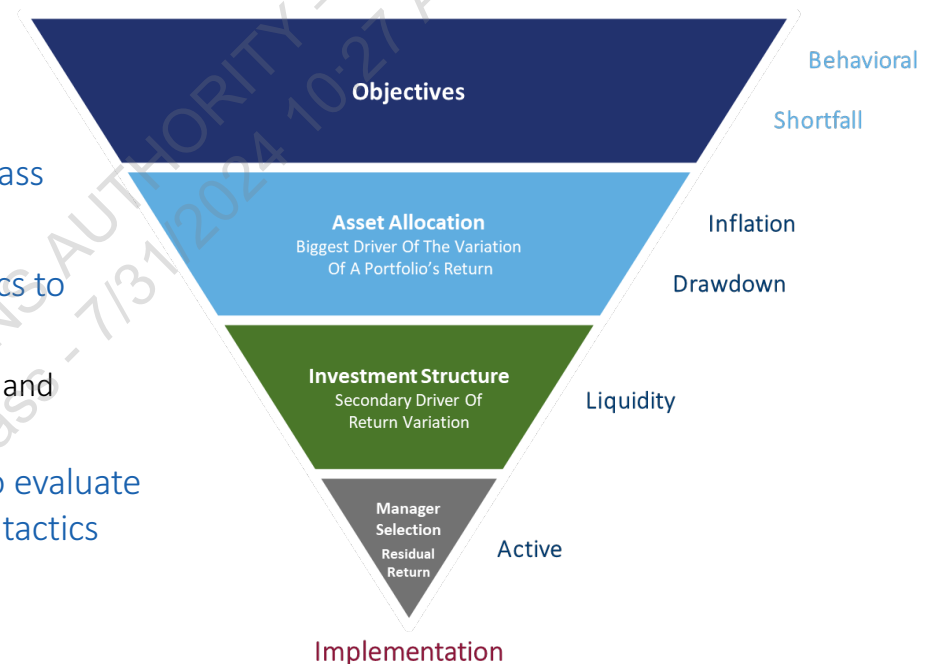
**3. CUSTOMER SERVICE DELIVERY**

**4. INFRASTRUCTURE AND KEY RESOURCES**

- a. **Establishment of Senior Risk Management Department. Fourth Quarter 2025**

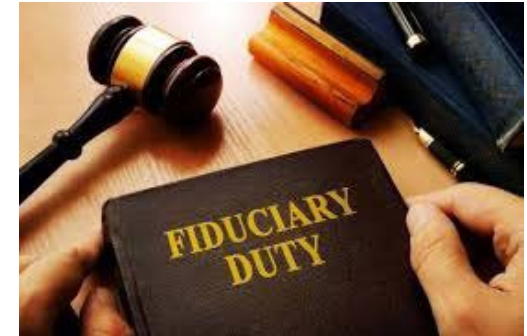
## Investment Decision Making Framework

- Establish investment philosophy
- Establish appropriate asset allocation policy
- Determine investment objectives for each asset class
  - Target value-add, active risk level
- Select appropriate investment strategies and tactics to achieve investment objectives
  - Asset class benchmarks, structures for asset classes, and implementation activities
- Establish monitoring and evaluation procedures to evaluate the success of investment program strategies and tactics
- Risk management should play a role in each step



## Fiduciary Responsibilities

- Fiduciaries have a "Duty of Loyalty"
  - A fiduciary shall discharge his or her duties with respect to a pension plan solely in the interest of the participants and beneficiaries and for the exclusive purpose of providing benefits to participants and their beneficiaries\*
- Prudent Person Rule
  - A fiduciary must act "with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims.
- Duty to Monitor
  - The fiduciary is under a continuing duty to monitor the service provider and their investment results
- Duty of Disclosure
  - The core of a fiduciary's responsibility is the duty to disclose material information, which may even include possible changes to the plan that are under "serious consideration"



**Goal 2** *Investment* Enhance investment management to support prudent portfolio performance and compliance oversight.

<b>Objective A. Define timeline for asset-liability studies and development of asset allocation goals.</b>	
1)	Measure: . Target: .
2)	Measure: . Target: .
3)	Measure: . Target: .
<b>Objective B. Define policy for use of investment income for paying benefits.</b>	
1)	Measure: How much should be allocated to Tier 1 members? Target:
2)	Measure: How much should be allocated to Tier 2 members? Target:
3)	Measure: How should earnings on Tier 3 be allocated to member accounts and benefits? Target:
<b>Objective C. Outline benchmarks to evaluate investment performance versus actuarial analysis.</b>	
1)	Measure: Do investment gains exceed or fall below actuarial assumptions? Target:
2)	Measure: How does asset allocation affect investment performance? Target:
3)	Measure: Target:

<b>Goal 2. How Will the CERS Board Evaluate Success</b>	
1)	Performance and compliance reports provide key information for CERS Investment Committee and Board of Trustees oversight.
2)	Performance and compliance reports are readily available to stakeholders on the KPPA website.

GOAL/OBJECTIVE	2024	2025	2026	2027	2028
<b>Goal 2. <i>Investment</i> Enhance investment management to support prudent portfolio performance and compliance oversight.</b>					
1)					
2)					
3)					
4)					



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Investment Strategic Questions:

- 1) What are the key objectives for CERS investment management?
- 2) How much of total revenues should come from Investments?
- 3) How should the Committee identify risks for governance and investment management?
- 4) How should the Committee mitigate those risks?
- 5) How should Committee evaluate investment risks?
- 6) How should Committee balance investment return targets with risk?
- 7) How should we protect/enhance Tier 3 performance and benefits?
- 8) How often should CERS ask for an asset liability study?
- 9) What level of management and performance fees are optimal for investment performance?
- 10) What are the key monitoring activities that the Committee can use to provide oversight?
- 11) What key indicators do Committee Members review in the monthly and quarterly reports?
- 12) What additional investment reporting could improve governance?
- 13) Should CERS own their investment assets?
- 14) Should CERS combine the Investment and Finance committees?
- 15) Can we improve public communications about CERS investment strategy and performance?

CERS Investment Committee Meeting - Special Called - Strategic Planning

CERS Historical Actuarial Summary

Note: To simplify the summary, the data is only the nonhazardous pension information. Investment asset allocation for the hazardous and nonhazardouse system are basically the same and the discount rates have also been the same for both plans.

FYE 6/30	Discount Rate Assumption	Total Actuarial Accrued Liability (in millions)	Actuarial Value of Assets (1) (in millions)	Funded Status	Investment Market Value (in millions)	Actual Investment Earnings		
						10-yr returns	20-yr returns	Since Inception
2000	8.25%	\$ 4,453.2	\$ 6,729.6	151.12%	N/A	13.33%	N/A	N/A
2001	8.25%	\$ 4,900.1	\$ 6,910.5	141.03%	N/A	11.81%	N/A	N/A
2002	8.25%	\$ 5,492.6	\$ 6,883.3	125.32%	\$ 4,127	10.10%	N/A	N/A
2003	8.25%	\$ 4,417.6	\$ 5,286.6	119.67%	\$ 4,175	9.30%	N/A	N/A
2004	8.25%	\$ 4,936.4	\$ 5,187.8	105.09%	\$ 4,613	10.59%	11.30%	N/A
2005	8.25%	\$ 5,385.2	\$ 5,059.2	93.95%	\$ 4,894	9.65%	10.40%	N/A
2006	7.75%	\$ 6,179.6	\$ 5,162.9	83.55%	\$ 5,191	8.88%	9.76%	N/A
2007	7.75%	\$ 6,659.4	\$ 5,467.8	82.11%	\$ 5,813	8.08%	9.91%	N/A
2008	7.75%	\$ 7,304.2	\$ 5,731.5	78.47%	\$ 5,432	5.60%	9.61%	N/A
2009	7.75%	\$ 7,912.9	\$ 5,650.8	71.41%	\$ 4,331	2.25%	7.91%	N/A
2010	7.75%	\$ 8,459.0	\$ 5,546.8	65.57%	\$ 4,820	3.11%	8.10%	N/A
2011	7.75%	\$ 8,918.1	\$ 5,629.6	63.13%	\$ 5,577	5.49%	8.60%	N/A
2012	7.75%	\$ 9,139.6	\$ 5,547.2	60.69%	\$ 5,373	5.99%	8.01%	9.36% *
2013	7.75%	\$ 9,378.9	\$ 5,637.1	60.10%	\$ 5,781	6.60%	8.60%	9.40% *
2014	7.75%	\$ 9,772.5	\$ 6,117.1	62.60%	\$ 6,507	6.78%	8.01% *(2)	9.60% *
2015	7.50%	\$ 10,740.3	\$ 6,474.8	60.29%	\$ 6,417	6.05%	7.94% *(2)	9.35% *
2016	7.50%	\$ 11,076.5	\$ 6,535.3	59.00%	\$ 6,106	5.01%	6.94% *(2)	9.02%
2017	6.25%	\$ 12,803.5	\$ 6,764.9	52.84%	\$ 6,687	4.88%	6.47% (2)	9.27%
2018	6.25%	\$ 13,191.5	\$ 7,019.0	53.21%	\$ 7,019	6.22%	5.91% (2)	9.15%
2019	6.25%	\$ 14,356.1	\$ 7,049.6	49.11%	\$ 7,160	8.86%	5.50% (2)	9.05%
2020	6.25%	\$ 14,610.9	\$ 7,220.6	49.42%	\$ 7,027	7.37%	5.22% (2)	8.82%
2021	6.25%	\$ 14,894.9	\$ 7,715.9	51.80%	\$ 8,566	7.98%	N/A (2)	9.24%
2022	6.25%	\$ 15,674.2	\$ 8,148.9	51.99%	\$ 7,964	7.32%	6.64% (2)	8.82%
2023	6.50%	\$ 15,296.0	\$ 8,571.0	56.03%	\$ 8,694	7.27%	6.93% (2)	8.88%

(1) Actuarial asset value includes a 5-yr smoothing of investment gains/losses

\* KRS Total Fund--separation by system was not reported

(2) From monthly June reports, except 2021 which was not generated

Sources: Annual Actuarial Valuation reports and Annual Comprehensive Financial Reports



**CERS NONHAZARDOUS FINANCIAL SUMMARY\***

Fiscal years 2014 thru 2023  
(in thousands)

FISCAL YEAR	FY 2023		FY 2022		FY 2021		FY 2020		FY 2019	
	AMOUNT	PCT	AMOUNT	PCT	AMOUNT	PCT	AMOUNT	PCT	AMOUNT	PCT
<b>Additions:</b>										
Member contributions	\$ 147,769	8.9%	\$ 186,648	63.8%	\$ 165,698	6.8%	\$ 168,994	24.1%	\$ 159,064	16.6%
Employer contributions	697,680	42.0%	606,807	207.5%	472,228	19.5%	475,416	67.8%	393,453	41.0%
Net investment appreciation	637,413	38.4%	(637,765)	-218.1%	1,648,520	68.1%	(77,193)	-11.0%	274,803	28.7%
Investment earnings	178,004	10.7%	136,769	46.8%	135,711	5.6%	133,875	19.1%	119,755	12.5%
Other	(30)	0.0%	(60)	0.0%	(1)	0.0%	5	0.0%	11,845	1.2%
<b>Total Additions</b>	<b><u>1,660,836</u></b>	<b>100.0%</b>	<b><u>292,399</u></b>	<b>100.0%</b>	<b><u>2,422,156</u></b>	<b>100.0%</b>	<b><u>701,097</u></b>	<b>100.0%</b>	<b><u>958,920</u></b>	<b>100.0%</b>
<b>Deductions:</b>										
Benefits	894,351	95.0%	858,261	95.3%	826,749	95.9%	795,960	95.5%	766,221	95.5%
Refunds	23,263	2.5%	19,789	2.2%	13,862	1.6%	14,918	1.8%	14,387	1.8%
Administrative	24,128	2.6%	22,670	2.5%	21,767	2.5%	22,305	2.7%	21,659	2.7%
<b>Total Deductions</b>	<b><u>941,742</u></b>	<b>100.0%</b>	<b><u>900,720</u></b>	<b>100.0%</b>	<b><u>862,378</u></b>	<b>100.0%</b>	<b><u>833,183</u></b>	<b>100.0%</b>	<b><u>802,267</u></b>	<b>100.0%</b>
<b>Net Increase/(Decrease) in Net Position</b>										
	719,094		(608,321)		1,559,778		(132,086)		156,653	
Net Position, beginning	<u>8,062,346</u>		<u>8,670,667</u>		<u>7,110,889</u>		<u>7,242,975</u>		<u>7,086,322</u>	
Net Position, ending	<u><u>\$8,781,440</u></u>		<u><u>\$8,062,346</u></u>		<u><u>\$8,670,667</u></u>		<u><u>\$7,110,889</u></u>		<u><u>\$7,242,975</u></u>	

\*Source: KPPA annual financial reports

**CERS NONHAZARDOUS FINANCIALS**

Fiscal years 2014 thru 2023

(in thousands)

FISCAL YEAR	FY 2018		FY 2017		FY 2016		FY 2015		FY 2014	
	AMOUNT	PCT	AMOUNT	PCT	AMOUNT	PCT	AMOUNT	PCT	AMOUNT	PCT
<b>Additions:</b>										
Member contributions	\$ 160,370	14.5%	\$ 150,714	11.4%	\$ 133,987	34.8%	\$ 133,637	23.9%	\$ 122,459	9.1%
Employer contributions	358,017	32.3%	333,554	25.3%	284,106	73.8%	298,564	53.3%	324,231	24.0%
Net investment appreciation	477,218	43.1%	688,184	52.2%	(111,343)	-28.9%	(7,218)	-1.3%	757,252	56.2%
Investment earnings	101,159	9.1%	137,717	10.4%	70,544	18.3%	117,787	21.0%	138,279	10.3%
Other	11,187	1.0%	9,158	0.7%	7,687	2.0%	16,954	3.0%	6,109	0.5%
<b>Total Additions</b>	<b><u>1,107,951</u></b>	<b>100.0%</b>	<b><u>1,319,327</u></b>	<b>100.0%</b>	<b><u>384,981</u></b>	<b>100.0%</b>	<b><u>559,724</u></b>	<b>100.0%</b>	<b><u>1,348,330</u></b>	<b>100.0%</b>
<b>Deductions:</b>										
Benefits	726,568	95.5%	687,460	95.3%	651,247	95.2%	615,335	95.1%	582,850	94.7%
Refunds	14,608	1.9%	14,430	2.0%	13,754	2.0%	13,524	2.1%	14,286	2.3%
Administrative	19,595	2.6%	19,691	2.7%	19,384	2.8%	18,212	2.8%	18,615	3.0%
<b>Total Deductions</b>	<b><u>760,771</u></b>	<b>100.0%</b>	<b><u>721,581</u></b>	<b>100.0%</b>	<b><u>684,385</u></b>	<b>100.0%</b>	<b><u>647,071</u></b>	<b>100.0%</b>	<b><u>615,751</u></b>	<b>100.0%</b>
<b>Net Increase/(Decrease) in Net Position</b>										
	347,180		597,746		(299,404)		(87,347)		732,579	
Net Position, beginning	<u>6,739,142</u>		<u>6,141,396</u>		<u>6,440,800</u>		<u>6,528,147</u>		<u>5,795,568</u>	
Net Position, ending	<u><u>\$7,086,322</u></u>		<u><u>\$6,739,142</u></u>		<u><u>\$6,141,396</u></u>		<u><u>\$6,440,800</u></u>		<u><u>\$ 6,528,147</u></u>	

\*Source: KPPA annual financial reports