

**MINUTES OF MEETING
KENTUCKY RETIREMENT SYSTEMS
SPECIAL CALLED INVESTMENT COMMITTEE MEETING
DECEMBER 20, 2022, 10:00 A.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the December 20, 2022 Kentucky Retirement Systems' (KRS) Special Called Investment Committee Meeting, the following Committee members were present: C. Prewitt Lane (Chair), John Cheshire, Ramsey Bova, David Adkins, and Pamela Thompson. Staff in attendance included KRS CEO John Chilton, CERS CEO Ed Owens, III, Rebecca Adkins, Erin Surratt, Victoria Hale, Steve Willer, Anthony Chiu, Joseph Gilbert, Jared Crawford, Brian Caldwell, Shaun Case, Ashley Gabbard, Katie Park, and Sherry Rankin. Others in attendance included Marc Friedberg, David Lindberg, Chris Tessman, and Craig Morton with Wilshire Advisors, LLC.

Mr. Lane called the meeting to order.

Ms. Hale read the Opening Statement.

Ms. Rankin called roll.

There being no *Public Comment* submitted, Mr. Lane introduced agenda item *Approval of Real Return Investment Managers*. Mr. Lane thanked all attendees for their participation in the meeting and asked Mr. Steve Willer to further introduce the Real Return Search and Recommendation Summary. Mr. Steve Willer stated that the presented recommendations are the culmination of a competitive search process to identify strategies that provide both favorable and standalone risk-adjusted returns as well as positively correlated to inflation. Further, Mr. Willer advised that the search process across assets included a wide spectrum of potential opportunities; asset classes, different managers and structures for those asset classes researched. The presented mandates were the most compelling opportunities from an asset and mandate perspective, said Mr. Willer. Deputy Chief Investment Officer, Anthony Chiu reported that he and the Office of Investments had been following the presented opportunities for approximately two to three years. He reviewed the three

\$75 million investment opportunities: Ceres Farms LLC, American Rivers Fund, and Arctos Sports Partners II with the KRS Investment Committee.

Ceres Farms, LLC.

Ceres Partners, LLC is a South Bend, Indiana-based firm founded in 2007 targeting investment in US row crop farmland, primarily in the Midwest. Mr. Chiu stated that this opportunity is attractive because farmland is scarce and because Ceres Partners, LLC is a rental business; 80% of their rent is collected from farmer tenants upfront in the spring prior to crops being planted. Other positives include contracted cash flow and passive land appreciation, said Mr. Chiu. Mr. Willer added that the \$75 million would be spread across all the pension and insurance plans on a percent basis based on market conditions. Ms. Bova asked if Ceres Partners, LLC finances land purchases or purchases with cash. Mr. Chiu advised that the land purchases are made with cash as there is little leverage to finance the land. Further, Ms. Bova referenced the unlevered yield of 5% mentioned in the meeting materials for this agenda item and asked what the yield would be after financing costs. Mr. Chiu advised that the yield would be under 10%; however, he does not expect more than 5%. Additionally, Ms. Bova asked what Ceres Partners, LLC paid on average per acre for farmland in 2022. Mr. Chiu stated that a little over \$5,000 per acre was the average cost. Mr. Adkins asked if Ceres Partners, LLC is involved in any conservation efforts. Mr. Chiu stated that Ceres Partners, LLC has sold farms/wetlands in the past to support the conservation and provides solar leasing options on one-third of their land which provides additional income. Further, Mr. Adkins asked if the held land has any wind-powered energy generation and how Ceres Partners, LLC insures their crops. Crops are insured through subsidies provided by the Federal Government, said Mr. Chiu. Mr. Adkins asked if any adverse market conditions could arise from wealthy investors outbidding small/family-owned farms looking to purchase additional land. Mr. Chiu stated that this is not a concern or threat as Ceres Partners, LLC often partners with small farms. Mr. Willer reiterated that this is a characteristic which makes the fund unique and worth considering. Mr. Chilton asked if the funds would be invested in a new LLC and with others. Mr. Chiu advised that Ceres Partners, LLC is an open-end fund; therefore, the investment would have exposure to the entire portfolio. Mr. Chilton also asked what type of investment reporting would be received from the fund. Typically, the fund would release a quarterly investment report, said Mr. Chiu. Lastly, Mr. Chilton asked if a contract agreement had

been executed. Mr. Chiu reported that the KPPA Office of Legal Services was in the process of contract negotiations with all three investment funds being presented. Mr. Willer added that these recommended investments are contingent upon successful contract negotiations. Ms. Hale advised that she actively working on these negotiations.

American Rivers Fund

Maritime Partners is a New Orleans-based firm founded in 2015 targeting investment that provides leasing solutions to the United States inland marine transportation industry governed by the Merchant Marine Act of 1920. Mr. Chiu stated that these leases are contractually strong and that the vessels transport essential goods. Mr. Chilton asked what the current demand is for barges. Mr. Chiu reported that there is a steady demand for barges and tugboats as many shipyards have closed. Mr. Willer added that supply chain issues and the cost of steel have been barriers to new producers and competition. Mr. Chiu stated that this is also an open-end fund. Mr. Chilton asked for a breakdown of the management fees. The fees are 2% on investment capital and 20% carried over the hurdle, said Mr. Chiu.

Arctos Sports Partners II

Arctos Sports Partners is a Dallas-based investment firm founded in 2019 targeting investments in the professional sports industry. The Firm seeks to provide strong, uncorrelated returns by purchasing a diversified portfolio of non-control stakes in professional sports franchises at attractive valuations, as well as providing bespoke liquidity solutions and structured growth capital to major professional sports franchises and their owners. Mr. Willer added that there would be a coinvest available in the future and would be better economic terms, should the recommended investment move forward. Mr. Lane asked Mr. Chiu to describe the structure of Arctos Sports Partners II for the Committee. He advised that the recommendation is like a typical private equity fund, however, the term is undetermined. Ms. Bova asked if the Committee members would be able to review the investment agreements for each recommendation. Ms. Hale advised that she reviewed all agreements thoroughly and is in the negotiations process. Further, Ms. Hale stated that she will report to the Committee if negotiations are unsuccessful and why. Mr. Adkins asked if the management fees for these investments are prudent, reasonable, and align with the fiduciary duty of the Committee. Mr. Friedberg with Wilshire Advisors, LLC. advised that they work

diligently to negotiate the best fees and features which meet the alignment of the client. Ms. Hale added that the fees were typical based on past investments and not out of the ordinary or extreme. Mr. Adkins also asked if there should be any concern with the people KRS would be investing regarding their propriety, past business practices, corporate citizenship, and investment in the community. Mr. Adkins asked for assurance that these players represent the type of integrity that KRS seeks. Mr. Willer stated that the Office of Investments does their due diligence and checks references with suppliers, clients, former employees, people in the business etc. He advised that there were no red flags identified during these checks and Mr. Chiu commented that many of these reference checks were stellar. Mr. Friedberg reported that operational background checks through a third-party are also conducted. Representations are also required by each, said Ms. Hale.

Mr. Adkins made a motion to approve, subject to successful contract negotiations, Ceres Farms, LLC, Maritime Partners American Rivers Fund, and Arctos Sports Partners Fund II as Real Return Investment Managers for KRS as presented. Mr. Cheshire seconded the motion. Ms. Bova opposed; however, the motion carried.

There being no further business, Mr. Cheshire made a motion to adjourn and was seconded by Mr. Adkins. The motion passed unanimously.

Copies of all documents presented are incorporated as part of the minutes of the Kentucky Retirement Systems Investment Committee meeting held December 20, 2022.

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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, 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 December 20, 2022 were approved by the Kentucky Retirement Systems Investment Committee on February 14, 2023.


Committee Chair

I have reviewed the Minutes of the Kentucky Retirement Systems Special Called Investment Committee Meeting on December 20, 2022 for form, content, and legality.


Office of Legal Services