

**MINUTES OF MEETING
COUNTY EMPLOYEES RETIREMENT SYSTEM
INVESTMENT COMMITTEE MEETING
MAY 28, 2025, 2:00 P.M., E.T.
VIA LIVE VIDEO TELECONFERENCE**

At the May 28, 2025, County Employees Retirement System Investment Committee Meeting, the following committee members were present: George Cheatham, William O'Mara, and Tommy McGraw. Staff members present were Ryan Barrow, Erin Surratt, Carrie Bass, Steve Willer, Brian Caldwell, Joe Gilbert, Ashley Gabbard, Shaun Case, Sherry Rankin, and Sandy Hardin. Also in attendance were CERS CEO Ed Owens, III; Collin Castillo with Johnson, Branco & Brennan LLP; and David Lindberg, and Chris Tessman with Wilshire.

1. The meeting of the CERS Investment Committee was called to order by Vice-Chair Mr. Cheatham, who officiated in the absence of Chair Dr. Hackbart.
2. Mr. Castillo read the Legal Opening Statement.
3. Ms. Hardin called roll.
4. Ms. Hardin noted that no *Public Comment* was received.
5. Mr. Cheatham introduced agenda item *Approval of Minutes – February 26, 2025; March 26, 2025; April 30, 2025; and May 13, 2025 (Video 00:04:24 to 00:06:32)*.

Mr. O'Mara made a motion to approve the minutes of the February 26, 2025, Investment Committee Meeting as presented. Mr. McGraw seconded the motion. The motion passed unanimously.

Mr. O'Mara made a motion to approve the minutes of the March 26, 2025, Investment Committee Meeting as presented. Mr. McGraw seconded the motion. The motion passed unanimously.

Mr. O'Mara made a motion to approve the minutes of the April 30, 2025, Investment Committee Meeting as presented. Mr. McGraw seconded the motion. The motion passed unanimously.

Mr. O'Mara made a motion to approve the minutes of the May 13, 2025, Investment Committee Meeting as presented. Mr. McGraw seconded the motion. The motion passed unanimously.

6. Mr. Cheatham introduced agenda item *Quarterly Investment Review and Update (Video 00:06:32 to 01:06:09)*. The discussion began with Mr. Lindberg's overview of the economic and market backdrop for the first quarter of 2025, noting significant volatility in the U.S. equity market. The market peaked in February, followed by a sharp decline, marking one of the rare quarters where diversified portfolios outperformed traditional 60/40 stock-bond allocations. The review highlighted that non-U.S. markets, real assets, and bonds performed relatively well, helping bolster diversified portfolios. Mr. Lindberg discussed the interest rate environment, noting fluctuations in the 10-year Treasury yield, and assessed economic indicators such as real GDP growth, which had a slight negative measure. Consumer sentiment, which had been weakened in previous months, showed a surprising positive spike, potentially reflecting market optimism regarding trade policies and economic adjustments. The overall message emphasized the importance of staying the course amid volatility, as diversification continues to support portfolio stability.

Chris Tessman from Wilshire continued with a detailed review of U.S. and global markets, highlighting key trends and performance shifts during the first quarter of 2025. The FT Wilshire 5000 Index declined by nearly 5%, with large-cap stocks outperforming small-cap stocks. A reversal was seen in growth vs. value performance, with large-cap growth down over 10%, while large-cap value rose 2.2%. This pattern repeated in small-cap stocks, driven largely by weakness in the IT and consumer discretionary sectors, which both saw double-digit declines. In contrast, financials and utilities outperformed, supporting the reversal in value over growth.

In non-U.S. markets, developed markets gained 7%, and emerging markets rose 3%, showing resilience despite concerns over tariffs. The All-Country World Index remained relatively stable, reflecting the benefits of diversification. Defensive positioning, such as minimum volatility strategies, outperformed by about 6%, reinforcing the importance of a broadly diversified portfolio.

On the fixed income side, the yield curve shifted downward, with shorter-term bonds seeing the most movement. Treasuries returned about 3%, while corporate bonds and high-yield debt showed more modest performance due to spread compression. Inflation-linked securities (TIPS) outperformed, with a 4.2% return, reflecting continued inflation concerns.

The heat map analysis illustrated a shift in performance rankings, with commodities leading at nearly 9%, followed by developed non-U.S. equity markets at 7%. U.S. equities lagged, returning -4.8% for the quarter, further emphasizing the role of diversified portfolios in stabilizing returns amid market uncertainty. While early April saw volatility, market conditions recovered post-Liberation Day, with many asset classes regaining lost ground.

Mr. Cheatham inquired about the impact of the weakening U.S. dollar on global equity returns. Mr. Lindberg from Wilshire confirmed that currency fluctuations played a significant role, pointing out that the Euro, Yen, and British Pound all gained against the dollar, positively influencing non-U.S. market performance for U.S. investors.

When asked about expectations for the dollar going forward, Mr. Lindberg noted the difficulty in predicting short-term currency movements, citing factors such as global trade uncertainties, U.S. deficit levels, and demand for long-term U.S. debt. While acknowledging the dollar's recent weakness, he emphasized that currency movements tend to revert to historical averages over time, making short-term forecasts particularly challenging. He also reinforced that diversification in global investments provides additional opportunities beyond currency considerations, strengthening portfolio resilience.

Mr. Cheatham then raised a question about cash buildup and potential allocation opportunities. Mr. Tessman from Wilshire responded, explaining that their Investment Strategy Committee carefully evaluates market conditions, and in the current uncertain environment, they have scaled back tactical positioning. While government-related investments were previously favored over credit, recent credit spread widening could create new opportunities. However, he strongly advised clients to adhere to their strategic asset allocation, as it reflects their long-term investment goals.

Shifting to global currency concerns, Mr. McGraw raised a question about the BRICS nations and their efforts to develop an alternative currency for oil trading. He specifically asked whether the U.S. administration's current dealings with India and Pakistan might slow this movement, given India's significant role in BRICS. Mr. Lindberg from Wilshire responded, stating that the replacement of the U.S. dollar as the dominant currency is not expected in the near term. He acknowledged that the issue is heavily influenced by geopolitical factors beyond traditional economic forecasting, making it difficult to predict precisely. However, he reassured the committee that this is not currently a major concern for their investment outlook. The conversation concluded with Mr. Lindberg affirming the complexity of global currency shifts.

Mr. Gilbert presented a report on public equity markets for the first quarter, noting that markets were strong at the end of 2024 but declined in mid-February due to tariff concerns. Large caps led, but value stocks outperformed growth stocks by nearly 12%. U.S. indices adjusted in response to inflation and growth concerns, while previously high-performing stocks saw significant declines.

International markets outperformed U.S. markets by over 9%, their strongest relative performance in nearly two decades, driven largely by lower-quality stocks and stimulus measures in Europe and China. This trend posed challenges for active managers who typically favor higher-quality investments.

The portfolio outperformed by 30 basis points, benefiting from international equity strength. While U.S. stock selection was strong, the non-U.S. portfolio underperformed by 20 basis points due to mixed stock selection. Over 12 months, global equity allocation declined by 1.2%, but losses narrowed to 15 basis points by April after a strong rally.

Fiscal year-to-date performance remained positive, with an outperformance of 30 basis points. Mr. Gilbert emphasized the importance of diversification, pointing out that U.S. and international markets have historically alternated leadership over decades.

Mr. Cheatham asked for clarification on the "Other" classification in the report. Mr. Willer explained that this category serves as a BNY catch-all and is not tied to specific asset classes. Instead, it reflects accruals for fees paid by BNY, and its return calculation is based on changes in account values rather than actual investment performance. He noted that the report will be refined in the next iteration, with fixed income and alternatives separated to align with asset categories, similar to the structure seen in the investment budget. Mr. Cheatham acknowledged the explanation.

Mr. Caldwell provided an update on fixed income markets, noting that core fixed income returned 272 basis points for the quarter and 183 basis points fiscal year-to-date, underperforming the benchmark by 6 basis points in the quarter but outperforming by 2 basis points fiscal year-to-date. Corporate bonds were the weakest-performing spread sector, with significant declines in March. The credit curve steepened, with intermediate and long spreads widening. Early April figures indicated core fixed income was up 40 basis points.

Liquidity remained strong, with cash returning 108 basis points for the quarter and 365 basis points fiscal year-to-date. Markets had initially priced in three rate cuts for 2025, but expectations shifted to two rate cuts, aligning with Federal guidance. Inflation concerns were heightened due to tariff uncertainty, with consumer one-year inflation expectations hitting their highest level since 1981.

Specialty credit performed well, returning just over 2% for the quarter and over 7.5% fiscal year-to-date, outperforming benchmarks by 128 and 182 basis points, respectively. High-yield spreads widened due to economic uncertainty and trade policy concerns. Lower-quality issues underperformed, reversing a three-year trend, while fallen angels outpaced rising stars with the highest fallen-angel volume since Q2 2020. Early data suggested specialty credit April returns were up 21 basis points.

Mr. Cheatham asked about duration exposure, and Mr. Willer explained that the fund remains neutral on duration overall, given ongoing market volatility. While fixed income remains attractive, it's too early to take a strong stance, though they may explore positioning as pressure on long-end rates increases. Mr. Tessman added that duration can act as a stabilizer in times of market turmoil but agreed it's difficult to predict rate movements.

Regarding the yield curve, Mr. Willer noted that the intermediate range appears favorable, with positioning near the three-to-seven-year segment. The fund has allowed its cash position to drift up, leveraging attractive cash yields in its liquidity program.

On corporate credit, Mr. Willer emphasized that high-yield spreads had remained historically tight, offering little cushion. Economic weakness, including tariff-related concerns, could apply further pressure on spreads. Mr. Lindberg echoed this view, noting that tight spreads make high-yield and specialty credit particularly sensitive to risk-return trade-offs.

The specialty credit portfolio has maintained a conservative approach to public high-yield investments, focusing on alpha generation in private credit. Mr. Willer indicated that distressed credit could present an opportunity if economic conditions deteriorate, but traditionally, their strategy prioritizes stability over aggressive positioning.

Mr. Willer provided an update on several asset classes in Mr. Chiu's absence.

Real estate markets continued to rebound, with the open-end diversified core equity index posting its second consecutive positive quarter after two years of declines. Transaction volumes across all sectors began recovering from their late-2023 lows. The real estate portfolio returned 1.61% for the quarter, surpassing its benchmark (96 basis points). The real return portfolio also performed well, returning 2.85% and exceeding its benchmark (1.86%). The largest allocation, an MLP investment, gained 6.8% during the quarter and achieved an annualized return of 24.26% over three years. Farmland and inland marine mandates also delivered solid returns.

Private equity markets continued to struggle due to higher interest rates and market uncertainty. Exit volumes remained well below 2021 levels, leading to a significant backlog of companies awaiting realization. The private equity portfolio returned 1.3% for the quarter, lagging its benchmark of 2.8%, largely due to strong public equity markets, which gained 25% in 2024.

Regarding portfolio performance, specialty credit was the strongest contributor, with managers delivering excess returns across mandates. Real return, public equity, and real estate portfolios also outperformed benchmarks, but private equity underperformed. The overweight to public equity was a modest detractor. Conversations with Wilshire focused on improving private equity benchmarking and reporting to enhance transparency.

Looking at market positioning and asset allocation, all portfolios performed well in Wilshire's peer universe, ranking in the top decile or near top quartile over one-, three-, and five-year periods. As of the end of the quarter, all asset classes were within IPS-specified ranges, with most positioning within 1% of target allocations. The overweight to global public equities was reduced, and U.S. and non-U.S. exposures were rebalanced. Fixed income yields remained volatile, with duration positioning staying close to strategic targets.

Regarding market conditions and economic outlook, volatility persisted, with sentiment-driven selloffs and rallies dominating. The S&P rose 15% from its early-April low, marking

one of its biggest rallies, but it remained below its level six months ago. Consumer confidence recorded its largest monthly jump since 2009. The Fed kept rates unchanged, maintaining a cautious stance amid tariff-related uncertainty. Moody's downgraded the U.S. credit rating, citing rising government debt and interest costs. Tariffs continue to challenge growth and inflation, but de-escalation with China has eased recession fears slightly. Market volatility is expected to remain high until policy uncertainty stabilizes.

Looking forward, fixed income continues to offer attractive yields and protection against economic downturns. Portfolio rebalancing remains a priority, and managers may slightly exceed targets in core fixed income. Equity market rotations outside of tech could provide opportunities for active managers. Preliminary performance data for April and May showed portfolios up 75–100 basis points in April and 2.5–3% month-to-date in May.

Mr. Willer provided other updates from the Office of Investments:

- **Personnel Updates:** A new senior investment analyst has been hired and will start on June 23rd. The team is excited for his contributions to ongoing initiatives. Meanwhile, recruitment continues for a senior-level private equity position. Challenges related to compensation and governance have slowed progress, leading to discussions about repositioning the role as a generalist across alternative asset classes to align with the collaborative investment office structure.
- **Investment Structuring:** After extensive efforts from KPPA staff, legal teams, and BNY, investments are now officially papered in the CERS pension's name for the first time. However, the same process for insurance assets remains pending, requiring legislative action and an IRS determination.
- **Bay Hills Fund Update:** The general partner for Bay Hills funds has been removed, and a liquidating entity is overseeing the transition. Efforts are underway to ensure a smooth management shift, and \$17 million in uninvested cash will soon be

transferred to portfolios. Longer-term, the team is assessing whether investments can be moved in-kind to KPPA's in-house management, reducing fees.

- **Portfolio Performance:** May's preliminary performance shows portfolios up 2.5–3% month-to-date, following April's gains of 75–100 basis points.
7. Mr. Cheatham introduced agenda item *Quarterly Investment Budget Update (Video 01:06:09 to 01:22:22)*. Mr. Willer reviewed the Investment Budget Update and the Pension and Insurance Investment Fees and Expenses for the nine-month period ending March 31, 2025. He noted that realized expenses totaled \$8.9 million, or 71% of the budget. Most expenses were in line, though contractual service outliers included Mercer Insight, which was a timing issue, and a delayed RFP for a new private markets consultant, now expected in fiscal 2026. Legal and auditing services remained difficult to budget due to litigation variability, but total legal expenses were within budget, with a proposed reduction of approximately \$1 million for fiscal 2026.

At the pension level, fiscal year-to-date investment fees and expenses totaled \$23.5 million, a 23% increase over the same period last year, driven by asset growth (+8%) and increased administrative expenses (+\$3 million), real return allocations (+\$5.5 million), real estate adjustments (+\$7.5 million), and specialty credit fees (+\$3.8 million). Public asset class fees appeared off due to timing, but systems continued to benefit from fee reductions in core fixed income management.

Breakdowns of fees by asset class showed private equity fees were slightly higher in CERS (44 basis points) compared to the pension (38 basis points) due to legacy investments. Real estate fee rates also differed slightly due to allocation and manager composition variations. Overall, investment fee rates were consistent with expectations.

8. Mr. Cheatham introduced agenda item *Investment Compliance Review (Video 01:11:22 to 01:21:29)*. Ms. Bass provided an update on investment compliance, confirming that all CERS investment policy guidelines were met for the quarter ending March 31, 2025. No

exceptions were noted, and all asset classes remained within their designated ranges. The quarterly proxy report was provided, in compliance with statutory requirements and accessible on the KPPA website.

She also discussed compliance officer independence, emphasizing the reliance on neutral third-party sources and internal oversight. KPPA continues its efforts to move the compliance function outside the Office of Investments to enhance independence.

Mr. Cheatham raised a question regarding monitoring brokerage accounts for investment office staff and trustees. Ms. Bass confirmed that CERS has a securities trading policy covering personal trading accounts, but it hasn't been actively monitored, as noted in a recent internal audit finding. She plans to work with Mr. Owen to revise the policy and introduce clearer reporting requirements.

Mr. Owens clarified that enforcement of the securities trading policy has traditionally been at the KPPA level, not the CERS Board. The policy revision will likely reflect this distinction. Mr. Cheatham suggested exploring third-party monitoring services used by broker-dealers, and Ms. Bass agreed to look at those options.

Regarding ethics disclosures, Ms. Bass confirmed that some KPPA staff must file with the Executive Branch Ethics Commission, similar to trustees, but not all positions require such filings. The group discussed transparency in financial disclosures.

Mr. Barrow noted that the existing policy, as written, could make advisory and brokerage compliance challenging, so broad input is being sought to refine the approach.

9. There being no further business, Mr. Cheatham *adjourned* the meeting.

The remainder of this page left blank intentionally.

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 May 28, 2025, were approved by the County Employees Retirement System Investment Committee on August 27, 2025.


CERS Investment Committee Chair

I have reviewed the Minutes of the County Employees Retirement System Investment Committee Meeting on May 28, 2025, for form, content, and legality.


Office of Legal Services