



JUDICIAL FORM RETIREMENT SYSTEM

QUARTERLY UPDATE

PUBLIC PENSION OVERSIGHT BOARD – AUGUST 22, 2023



DANIEL VENTERS, CHAIR
BOARD OF TRUSTEES

BEN ALLISON, CHAIR
JUDICIAL RETIREMENT INVESTMENT COMMITTEE

W. BRAD MONTELL, CHAIR
LEGISLATORS RETIREMENT INVESTMENT COMMITTEE

BO CRACRAFT
EXECUTIVE DIRECTOR



INVESTMENT PERFORMANCE

As of June 30, 2023

Investment Performance									
As of June 30, 2023									
		MV	FY23	1 Year	3 Years	5 Years	10 Years	20 Years	30 Years
JRP	Defined Benefit	\$552.9M	15.1%	15.1%	12.4%	11.2%	10.7%	8.6%	8.8%
	Cash Balance	\$3.8M	15.4%	15.4%	10.1%	9.6%	-	-	-
	Benchmark ¹		13.7%	13.7%	9.5%	9.2%	9.6%	8.0%	8.5%
LRP	Defined Benefit	\$159.9M	15.5%	15.5%	12.6%	11.2%	10.8%	8.6%	8.8%
	Cash Balance	\$1.0M	15.2%	15.2%	10.0%	9.5%	-	-	-
	Benchmark ¹		13.7%	13.7%	9.5%	9.2%	9.6%	8.0%	8.5%

Returns are Net of Fees with exception of 20-year and 30-Year. Cash Balance portfolios inception date is June 1, 2015

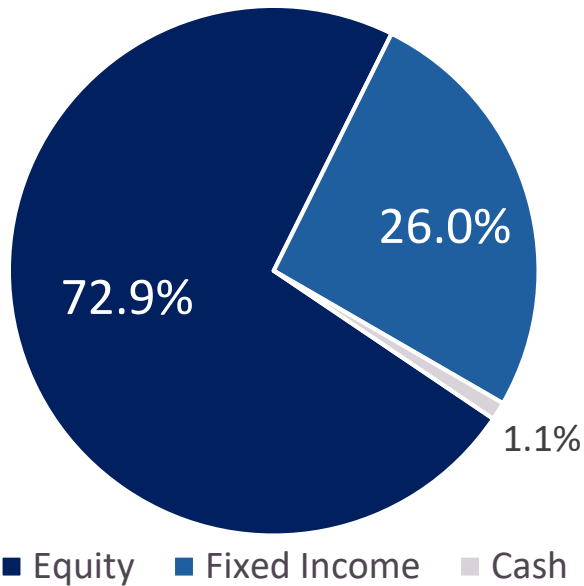
¹ Benchmark is 70% S&P 500 Index + 30% Barclays Intermediate Government/Credit Index (compounded monthly)



ASSET ALLOCATION

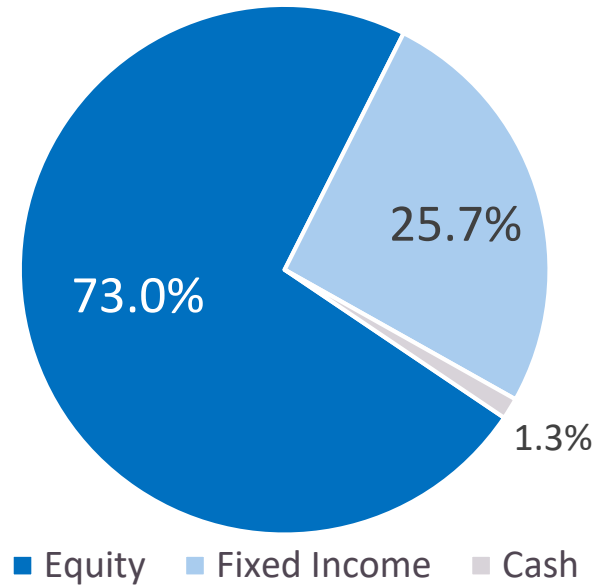
As of June 30, 2023

J JUDICIAL RETIREMENT PLAN



JRP			
	Actual	Target	Range
Equity	72.9%	70.0%	60%-80%
Fixed Income	26.0%	30.0%	20%-40%
Cash	1.1%	0.0%	

L LEGISLATORS RETIREMENT PLAN



LRP			
	Actual	Target	Range
Equity	73.0%	70.0%	60%-80%
Fixed Income	25.7%	30.0%	20%-40%
Cash	1.3%	0.0%	



CASH FLOW

Fiscal Year ending June 30, 2023
compared to June 30, 2022

	Judicial Retirement Plan		Legislators Retirement Plan	
<i>12 Months ending June 30</i>	FY2022	FY2023	FY2022	FY2023
<i>Member Contributions</i>	\$2.593	\$2.152	\$0.271	\$0.224
<i>Employer Contributions/Appropriations</i>	\$7.148	\$4.982	-	-
<i>Investment Income (Net of Inv. Expense)</i>	<u>\$10.050</u>	<u>\$13.839</u>	<u>\$2.832</u>	<u>\$2.832</u>
Total Cash Inflows	\$19.790	\$20.973	\$3.103	\$4.033
<i>Benefit Payments/Refunds</i>	\$26.890	\$28.941	\$6.122	\$6.390
<i>Administrative Expense</i>	<u>\$0.393</u>	<u>\$0.372</u>	<u>\$0.249</u>	<u>\$0.248</u>
Total Cash Outflows	\$27.283	\$29.314	\$6.371	\$6.638
Net Cash Flow - BEFORE Asset Gain/(Losses)	(\$7.493)	(\$8.340)	(\$3.268)	(\$2.605)
<i>NCF Ratio (before Asset G/L)</i>	-1.29%	-1.63%	-1.93%	-1.76%
<i>Realized & Unrealized Asset Gains/(Losses)</i>	(\$64.596)	\$61.003	(\$17.808)	\$17.508
Net Cash Flow – AFTER Asset Gain/(Losses)	(\$72.089)	\$52.663	(\$21.076)	\$15.126
<i>Beginning of Period</i>	\$582.345	\$510.256	\$168.968	\$147.893
<i>End of Period</i>	\$510.256	\$562.919	\$147.893	\$163.019

• **Current Budget & Projected Employer Costs**

		FY2024 <i>Current</i>	FY 2025* <i>Projected</i>	FY2026* <i>Projected</i>
JRP	Employer Cost	\$5,305,585	-	-
	% of Payroll	25.2%	-	-
LRP	Employer Cost	-	-	-
	% of Payroll	-	-	-

• **Employer Fund Trend** *(in millions)*

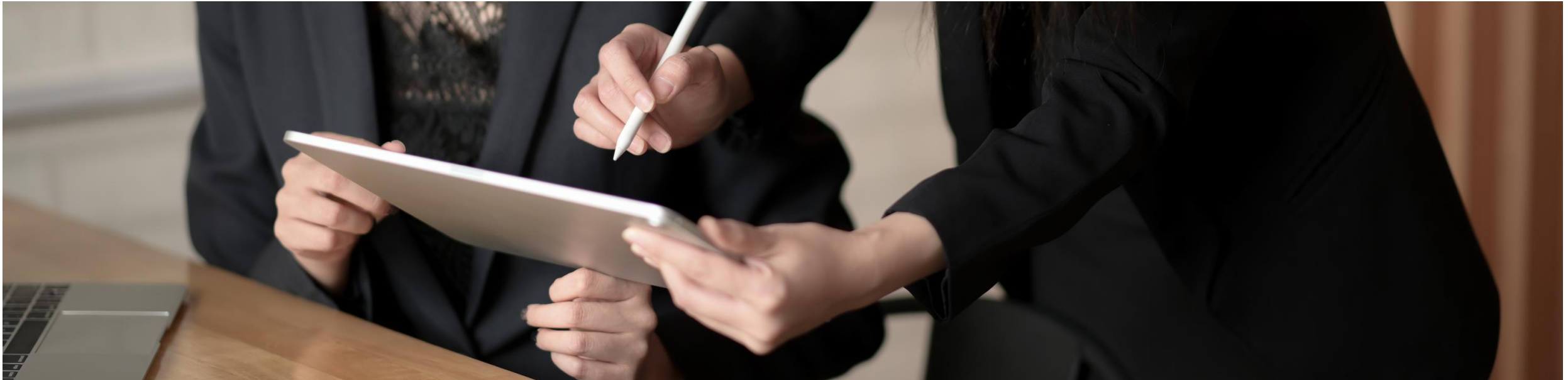
		FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25*	FY26*
JRP	Employer Funds	\$13.76	\$14.37	\$8.73	\$8.73	\$6.57	\$7.10	\$4.98	\$5.31	-	-
LRP	Employer Funds	\$2.68	\$2.61	\$0.31	\$0.31	-	-	-	-	-	-

* 2025-2026 Projected Employer Cost based on 2021 Funding Valuation 30-year Projections



APPENDIX

Baird Trust Co – July 2023 Market Commentary





Andrew W. Means, CFA®
Managing Director
Director of Equity Investments



John C. Watkins III, CFA®
Director
Equity Portfolio Manager

The Dawn Of Artificial Intelligence

“AI will change the way people work, learn, travel, get health care, and communicate with each other.” – Bill Gates

One constant throughout history has been technological innovation that changes the way humans live, work, and interact. In the past 50 years, the personal computer (PC), the internet, and the smart phone all ushered in dramatic changes to our lives. Today, the development of artificial intelligence (AI) is seen as the next potentially life-changing innovation for business and society at large. In fact, many of today’s smartest technologists (Bill Gates, Satya Nadella, Sundar Pichai, among others) believe the impact of AI will be as transformational over the next few decades as that of the internet over the past 25 years.

Investment in AI technology is nothing new; some tech companies have been pursuing it behind the scenes for many years. Discussions about its implications had been mostly limited to computer scientists and other leading technology thinkers. However, the recent release of OpenAI’s ChatGPT large language model (LLM) was the critical turning point that brought AI into the mainstream, reaching over 100 million monthly active users just two months after its launch. Most people can all of a sudden use AI directly and imagine the positive and negative impacts it could have on society.

According to OpenAI, ChatGPT is an AI-powered chatbot that uses deep learning techniques to generate human-like responses to text inputs in a conversational manner. Since its release, AI has become part of popular culture, and the potential use cases employing AI are expanding rapidly. While there has been a rush to accelerate the development and release of any and all AI technology, important discussions are beginning on how to properly regulate this powerful new technology.

AI's Definition and Business Implications

We asked OpenAI's ChatGPT to define AI for us, and here is part of the answer:

Artificial Intelligence (AI) refers to the field of computer science and technology that focuses on creating intelligent machines that can perform tasks that typically require human intelligence. It involves developing algorithms and systems capable of simulating human cognitive abilities, such as learning, reasoning, problem-solving, perception, and language understanding.

Thinking back over the last 25 years, it is hard to overstate the impact the internet has had on both businesses and society. And if the prognostications and hype about AI are correct, the next several decades could see additional profound disruption.

The rise of the internet impacted virtually every industry. It proved to be a destructive force to the newspaper business as well as brick-and-mortar retailing. On the other hand, it enabled massive worldwide growth opportunities for businesses that effectively harnessed the power of the internet. Businesses that utilized the advantages of the internet have grown faster and larger than anything comparable in history. Looking back on these dynamics raises a key question: What industries of today could be destroyed by AI, and where might investors find enormous opportunities for growth?

It is easy to come up with dozens of exciting use cases for AI. Some examples might be reducing language barriers, performing faster and more accurate fraud detection, increasing worker productivity by more quickly synthesizing large amounts of information, expediting pharmaceutical drug discovery, and a more personalized user experience through AI assistants. In addition to these use cases we are able to conceive of, there will likely be many implications or outcomes that our brains simply cannot even come up with today. These are likely to be the true game changers.

Our Approach to AI

We often make the point that the future is highly uncertain and unpredictable. It is important to keep this in mind when thinking about the long-term implications of AI – both good and bad. The hard reality is that we simply have no idea exactly how the future will play out. It is possible that AI today may be badly overhyped, or it may turn out to be more impactful than we ever thought possible.

From our standpoint as investors with a long-term business-owner mindset, we approach AI the same way we approach all future uncertainty. In fact, our thinking about AI is similar to the way we grappled with the dawn of the internet era 25 years ago.

If AI is as transformative over the next decade as is currently predicted, it will have profound implications for many businesses, including our portfolio companies. The most successful businesses will likely figure out ways to integrate AI into their operations and use it to enhance their core competitive advantages. The best management teams will do everything in their power to harness this new technology. However, the businesses that are slow to adapt to a changing world or even ignore AI risk falling behind and seeing their businesses erode.

Our research process is driven by continuous learning, diligent research, and insatiable curiosity. We will continue to spend countless hours learning everything we can about AI and its implications for different businesses across all industries. Just as the internet created massive headwinds for industries like newspapers and tailwinds for other industries, we must strive to find the winners and avoid the losers from this AI revolution.

Additionally, we must keep an open mind about the future possibilities of AI while retaining a healthy amount of skepticism. New technologies can generate enormous hype that eventually leads to disappointment. The technology bubble of the late 1990s is a great example of a speculative period that ended with painful losses for many investors who got caught up with the unbounded optimism and hype. Even though the internet did transform nearly every aspect of our lives, it took decades to play out. When it comes to a new, potentially world-changing technology, it is especially important to remain open-minded given the unpredictability of the future. That said, we will be vigilant to deal in facts and avoid unfounded hype.

Remaining Disciplined on Valuation

While keeping an open mind, we must not abandon our valuation discipline when making investment decisions. New technologies early in their growth curve have the potential to lure undisciplined investors into taking excessive risk by paying extraordinarily high prices for unproven businesses. We see this as incredibly risky given our belief that predicting the ultimate winners in a new industry is extremely difficult. Even a terrific, growing business with superb management can be a terrible investment if the price paid for it is too high.

Our valuation discipline aims to create a margin of safety for our clients, and we think it has helped us minimize large, permanent losses over the last 30 years. One of our most important pillars is to try to avoid any kind of speculative risks that could lead to the destruction of capital. While this risk posture may feel uncomfortable in the short-term during periods of exciting new technological innovation, we are unwavering in our valuation discipline.

Over the past decade, it has been difficult to keep up with the major stock market indices without owning some of the leading technology companies that have benefitted mightily with the growth of the internet. While we don't know whether the promise of AI will create a similar dynamic over the coming decade, we are open to that possibility. Many of our portfolio companies are already using AI or are experimenting with its capabilities. Going forward, we will be working hard to identify businesses that will benefit greatly from AI while also meeting our time-tested investment criteria – business, management, and price.

Today is an exciting time to be an investor. AI has the potential to bring about extraordinary developments over the coming years and decades. We don't know exactly how it will play out, but, as always, we are dedicated to our goal of compounding your wealth at an attractive rate for many years into the future. We at Baird Trust are humbled and thankful for the unwavering support from you, our valued clients.

Baird Trust Company ("Baird Trust"), a Kentucky state chartered trust company, is owned by Baird Financial Corporation ("BFC"). It is affiliated with Robert W. Baird & Co. Incorporated ("Baird"), (an SEC-registered broker dealer and investment advisor), and other operating businesses owned by BFC. Past performance is not a predictor of future success. All investing involves the risk of loss and any security may decline in value. This is not intended as a recommendation to buy or sell any security and views expressed may change without notice. Baird Trust does not provide tax or legal advice. This market commentary is not meant to be advice for all investors. Please consult with your Baird Financial Advisor about your own specific financial situation.

©2023 Robert W. Baird & Co. Incorporated. MC-1175151.