

Executive Team:

Dominic D. Brown, CPA, CFE
Chief Executive Officer

Daryn Miller, CFA
Chief Investment Officer

Jennifer Zahry, JD
Chief Legal Officer

Matthew Henry, CFE
Chief Operations Officer



Board of Retirement:

Phil Franey, Chair
David Couch, Vice-Chair
Deon Duffey
Juan Gonzalez
Joseph D. Hughes
Jordan Kaufman
Rick Kratt
John Sanders
Tyler Whitezell
Dustin Contreras, Alternate
Chase Nunneley, Alternate
Robb Seibly, Alternate

October 2, 2024

Members, Board of Retirement
Employee Bargaining Units
Requesting News Media
Other Interested Parties

Subject: Meeting of the Kern County Employees' Retirement Association Investment Committee

Ladies and Gentlemen:

A meeting of the Kern County Employees' Retirement Association Investment Committee will be held on Monday, October 7, 2024 at 10:00 a.m. in the KCERA Boardroom, 11125 River Run Boulevard, Bakersfield, California, 93311.

How to Participate: Listen to or View the Board Meeting

To listen to the live audio of the Board meeting, please dial one of the following numbers (for best audio a landline is recommended) and enter ID# 882 8777 4240

- (669) 900-9128; U.S. Toll-free: (888) 788-0099 or (877) 853-5247

To access live audio and video of the Board meeting, please use the following:

- <https://us02web.zoom.us/j/88287774240?pwd=LltdZsfuiRFmsimVVEe4ZxdJRftoxc.1>
- Passcode: 390193

Items of business will be limited to the matters shown on the attached agenda. If you have any questions or require additional service, please contact KCERA at (661) 381-7700 or send an email to administration@kcera.org.

Sincerely,

Dominic D. Brown
Chief Executive Officer

Attachments

AGENDA:

All agenda item supporting documentation is available for public review on KCERA's website at www.kcera.org following the posting of the agenda. Any supporting documentation that relates to an agenda item for an open session of any regular meeting that is distributed after the agenda is posted and prior to the meeting will also be available for review at the same location.

**AMERICANS WITH DISABILITIES ACT
(Government Code §54953.2)**

Disabled individuals who need special assistance to listen to and/or participate in the meeting of the Board of Retirement may request assistance by calling (661) 381-7700 or sending an email to administration@kcera.org. Every effort will be made to reasonably accommodate individuals with disabilities by making meeting materials and access available in alternative formats. Requests for assistance should be made at least two (2) days in advance of a meeting whenever possible.

CALL TO ORDER

ROLL CALL (IN PERSON)

AB 2449 REMOTE APPEARANCE(S)

Items 1 and/or 2 withdrawn from agenda if no trustee(s) request to appear remotely:

1. JUST CAUSE CIRCUMSTANCE(S):
 - a) The following Trustee(s) have notified the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code § 54953).
 - NONE
 - b) Call for Trustee(s) who wish to notify the Committee of a "Just Cause" to attend this meeting via teleconference. (See Government Code § 54953) – RECEIVE/HEAR REQUEST(S); NO COMMITTEE ACTION REQUIRED
2. EMERGENCY CIRCUMSTANCE(S):
 - a) The following Trustee(s) have requested the Committee approve their attendance of this meeting via teleconference due to an "Emergency Circumstance." (See Government Code § 54953).
 - NONE
 - b) Call for Trustee(s) requesting the Committee approve their attendance of this meeting via teleconference due to an "Emergency Circumstance". (See Government Code § 54953) – TAKE ACTION ON REQUEST(S) FOR REMOTE APPEARANCE DUE TO EMERGENCY CIRCUMSTANCE

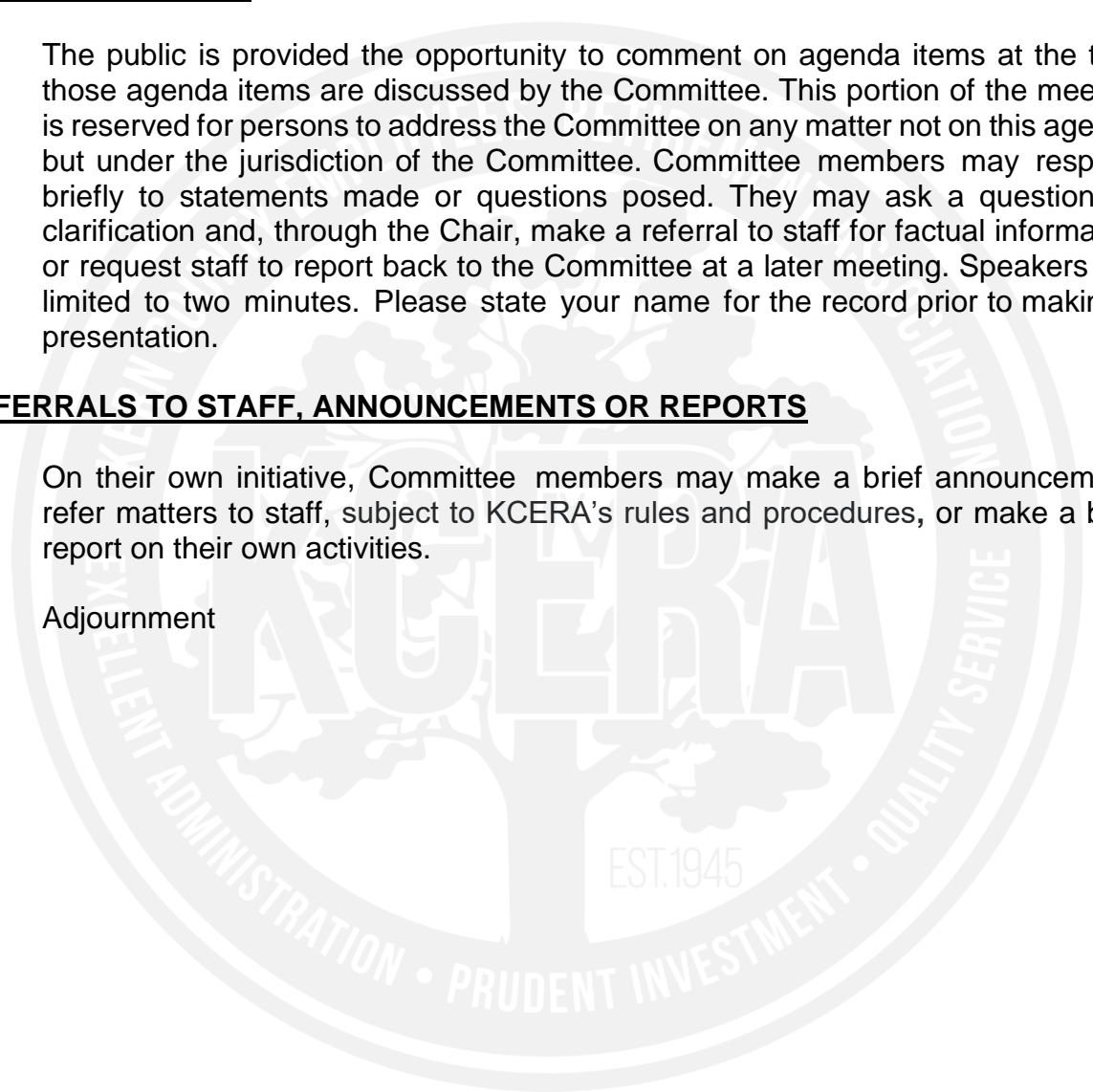
3. [Discussion and appropriate action on bank loans recommendation presented by Chief Investment Officer Daryn Miller, CFA, Senior Investment Officer Geoff Nolan, and Scott Whalen, CFA, Verus – RECOMMEND THE BOARD OF RETIREMENT INVEST \\$180MM IN KKR US BROADLY SYNDICATED LOAN FUND; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW](#)

PUBLIC COMMENTS

4. The public is provided the opportunity to comment on agenda items at the time those agenda items are discussed by the Committee. This portion of the meeting is reserved for persons to address the Committee on any matter not on this agenda but under the jurisdiction of the Committee. Committee members may respond briefly to statements made or questions posed. They may ask a question for clarification and, through the Chair, make a referral to staff for factual information or request staff to report back to the Committee at a later meeting. Speakers are limited to two minutes. Please state your name for the record prior to making a presentation.

REFERRALS TO STAFF, ANNOUNCEMENTS OR REPORTS

5. On their own initiative, Committee members may make a brief announcement, refer matters to staff, subject to KCERA's rules and procedures, or make a brief report on their own activities.
6. Adjournment



Date: October 7, 2024

To: Trustees, Investment Committee

From: Daryn Miller, CFA, Chief Investment Officer
Geoff Nolan, Senior Investment Officer
Melekte Yohannes, Investment Analyst



Subject: Bank Loan Recommendation

RECOMMENDATION

Staff recommends a \$180MM investment in the KKR US Broadly Syndicated Loan Fund (“Fund”). The Fund will pursue a bank loan investment mandate, and will be part of KCERA’s (“Plan”) Fixed Income allocation, specifically the Credit sleeve.

FIXED INCOME CREDIT ALLOCATION

The Fixed Income allocation is comprised of two sleeves, the Core sleeve and the Credit sleeve. As stated in the Plan’s Investment Policy Statement (“IPS”), Fixed Income has primary and secondary objectives. The primary objective is to provide “liquidity as well as risk mitigation”, this goal is generally met by the Core sleeve. The secondary objectives are “income generation and diversification” which are generally met by the Credit sleeve.

In August 2023, Staff conducted a Fixed Income Strategic Review to assess the efficiency of the Fixed Income portfolio. Staff concluded that a structural shift in the Fixed Income allocation was necessary to meet IPS objectives. The Strategic Review resulted in changes that were incorporated during the 2023 Asset Liability Study.

Within Credit, the new target structure includes Bank Loans, EMD (hard currency), and Securitized mandates, and eliminates the current High Yield mandate in exchange for Bank Loans.

As of August 31, 2024, the KCERA Fixed Income portfolio had \$1.2BN dollars allocated between Core and Credit. Approximately \$526MM or 43.4% of the Fixed Income portfolio is allocated to Credit, which represents an 8.8% of Plan assets with a policy target allocation of 10%.

The funding source for the Bank Loan mandate is a full redemption of the Western Asset Management (“WAMCO”) High Yield mandate. The Board approved the termination of the WAMCO high yield account on September 11, 2024.

Proposed Allocation

	Current Allocation	Proposed Allocation	Proposed Trade	% of FI Portfolio	% of Plan
Fixed Income Credit Exposure					
Western High Yield	\$174,545,000		-175M	14.45%	2.90%
KKR US BSL		\$180,000,000	+180M	14.80%	2.99%
Cash		(\$5,000,000)	-5M		

*Market Values as of 8/31/2024

BACKGROUND

Kohlberg Kravis Roberts & Co. (KKR)

Kohlberg Kravis Roberts & Co. is a leading firm in the private equity and credit space. Founded in 1976, KKR has expanded with a global presence with offices in Europe, Asia, and North Americas with multiple strategies. KKR has over ~\$578BN in assets under management (“AUM”) across various strategies. As of March 31, 2024, the KKR Credit Platform manages ~\$232BN comprised of Leverage Credit (~\$130BN), Private Credit (~\$93BN) and Strategic Investments (~\$9BN). The bank loan strategy recommended today is under the Leveraged Credit umbrella.

KKR entered the US Bank Loans space with the launch of the U.S. bank loan strategy in 2011. The US broadly syndicated loan fund, a commingled fund, was launched in 2022.

Investment Thesis & Process

The strategy provides access to a unique credit exposure in a high conviction actively managed portfolio with a manager who has posted a top-tier performance track record.

The team follows a disciplined investment process that prioritizes capital preservation and income throughout the market cycle by investing in a diversified portfolio of broadly syndicated senior secured loans and floating rate notes of US issuers.

The team follows a well-run investment process that combines global macro and sector level views from the KKR macro team, with bottom-up issuer and sector level underwriting. The portfolio managers (“PM”), marry macro and issuer level views with insights from the portfolio construction & quantitative teams.

Portfolio Managers & Team:

The KKR Leveraged Credit team has an experienced team with the PMs as well as senior analysts having long tenures through various market cycles. The same portfolio management team has led the Leveraged Credit platform since 2008.

Jermiah Lane (lead PM and Partner) joined KKR in 2005 and was dedicated solely to credit research until 2015. In 2015, he took over as lead PM and now is assisted by co-PM with Dima Mostovoy.

Dima Mostovoy (Managing Director) has been the co-PM of Bank Loan Strategy (with J. Lane) since

2018 and assists Mr. Lane with portfolio management and screening credits.

Both PMs have credit research backgrounds and are supported by 19 Sector Analysts and 14 Generalist Analysts. Analysts are risk (i.e., asset class) and fund agnostic which provides the flexibility to work across the credit platform. Additional support is provided by 5 traders, 5 Portfolio Construction / Quantitative team members and 10 Product Specialists.

The Leveraged Credit team is also supported by other divisions of the KKR Credit Platform (total of ~230 investment professionals) with access to the broader KKR organization (e.g., private equity, etc.) to gain valuable insights on companies, sectors and macroeconomic trends.

Risks and Considerations

Credit Risk: The bank loan strategy will invest in non-investment grade issuers. As such, the risk of default and / or loss from these non-investment grade investments is higher than if the mandate were an investment grade corporate or US treasury mandate. As context, the WAMCO High Yield mandate also invests in non-investment grade.

Liquidity: The bank loan market has an extended settlement period of 3-4 weeks. In contrast, other fixed income instruments (e.g., corporate bonds) settle one day after the trade date. As such, this mandate is not intended to be used for liquidity purposes, which is consistent with the Fixed Income structure and IPS objectives

KCERA INVESTMENT PROCESS

The Fixed Income Strategic Review resulted in a goal to structurally shift the Fixed Income portfolio. As part of the fixed income structural change, the Credit sleeve was assessed for changes. Staff conducted due diligence on a universe of Bank Loan managers, which resulted in a universe of ~100 managers. The universe was narrowed to an initial group of 7 investment managers utilizing several eVestment screens to identify managers in the top quartile of returns on a rolling basis and showing a high level of consistency. In addition, as part of the KCERA Investment process Verus provided Staff with their high conviction list and after discussion, some of the Verus manager names were added to the diligence process.

The search was further narrowed to a group of 4 investment managers after conducting preliminary interviews with managers. Staff conducted further diligence to rank order the remaining managers and reach a finalist cohort. The finalists were Oak Hill Advisors (OHA) and KKR. Staff conducted additional qualitative and quantitative analyses on the finalists, conducting multiple calls to understand the managers' credit underwriting process. Additionally, Staff assessed the return characteristics of each manager by credit cohort to ensure appropriate risk measures.

Vehicle and Terms

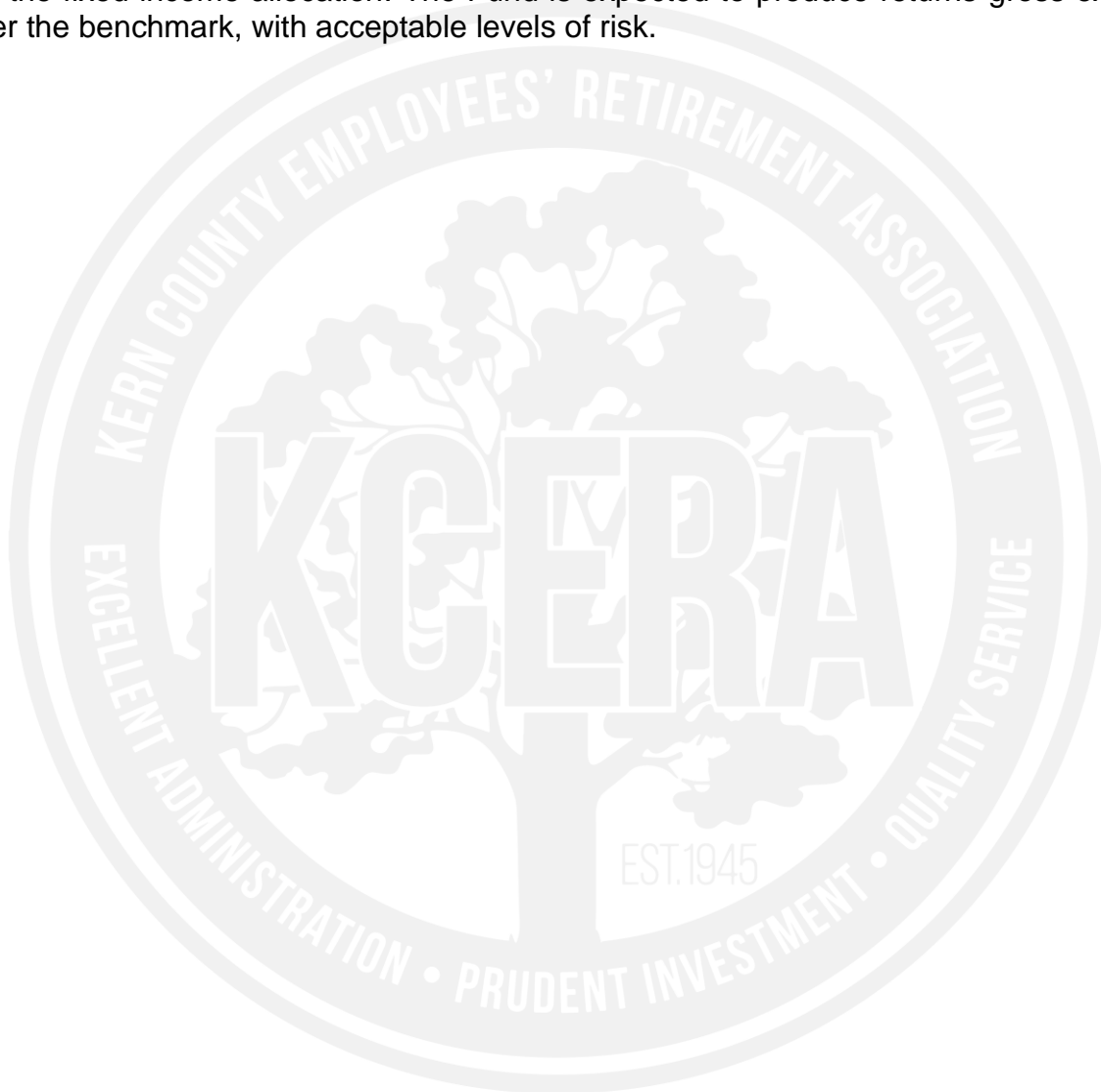
Staff recommends investment with KKR in a fund structure. The investment would be in Class A Founder Shares. These shares have a management fee of 25 bps. The fund has weekly redemptions with a 30–45-day settlement period.

Consultant Recommendation

Verus, the Plan's general investment consultant, undertook an independent assessment and has provided a recommendation memo that is supportive of Staff's recommendation. The memo has been provided to the Board.

CONCLUSION

This is an attractive investment opportunity with an institutional quality manager that should be a positive addition to the fixed income allocation. The Fund is expected to produce returns gross excess of 75 - 100 bp over the benchmark, with acceptable levels of risk.



Memorandum

To: Investment Committee, Kern County Employees' Retirement Association
From: Brian J. Kwan, CFA, CAIA, Managing Director and Senior Consultant
Scott J. Whalen, CFA, CAIA, Managing Director and Senior Consultant
Date: October 7th, 2024
RE: Bank Loan Mandate

Background

KCERA's Strategic Asset Allocation includes a 10% target allocation to Credit, a portion of which (initially \$180 million or approximately 3% of the Total Fund) is dedicated to Bank Loans. There is currently no dedicated Bank Loan exposure in the KCERA portfolio. Earlier this year KCERA Investment Staff (with support from Verus) initiated a search to fulfill the dedicated Bank Loan mandate. The search process has culminated in a recommendation to the Investment Committee to hire the following manager and strategy to fulfill the mandate:

- Kohlberg Kravis Roberts & Co. US Broadly Syndicated Loan Fund

This memo provides a review of the comprehensive due diligence process that led to the recommendation, a description of the recommended strategy, and a statement affirming our favorable view of Staff's recommendation.

Evaluation and Due Diligence Process

A thorough search analysis was carried out in multiple stages, including:

- A review of eVestment's database of Bank Loan investment managers and strategies;
- Deep quantitative analysis;
- Internal discussions and a review of higher conviction strategies;
- Due diligence interviews with 4 semi-finalist candidates;
- Additional due diligence interviews with 2 finalist candidates;
- Structure analysis with other components of the Fixed Income portfolio; and
- Mandate sizing analysis.

Through these stages, Staff assessed various factors and attributes, including:

- Historical risk and return;
- Investment team, philosophy, and process;
- Approach to risk management;
- Discreet periods of out and underperformance; and
- Factor exposures across managers.

Verus supported Staff through the evaluation process by providing additional analytical and research resources.

Strategy Description

Kohlberg Kravis Roberts & Co. (“KKR”) is a global investment firm based in New York, NY with offices across North America, Europe, and Asia. Founded in 1976, KKR was originally focused on private equity, and has since expanded across, real estate, infrastructure, and credit. KKR Credit, which manages the Bank Loan Fund, was established in 2004 and has approximately \$220 billion in credit assets (as of 12/31/2023).

The US Broadly Syndicated Loan Fund (“Bank Loan Fund”) strategy is based on a fundamentally-driven investment philosophy that emphasizes deep credit underwriting and rigorous financial analysis. The approach incorporates characteristics from both credit and private equity underwriting, aiming to exploit market inefficiencies in assessing credit risk. The strategy focuses on three key elements:

1. **Proprietary Sourcing:** leveraging the entire firm, including private equity deal teams, capital market professionals, operating professionals, consultants, senior management at portfolio companies, and KKR’s advisor network.
2. **Capital Preservation:** emphasizing the importance of avoiding losses, the strategy requires a detailed fundamental memo for each potential investment, including a comprehensive stress test. Investments are approved only if they pass this stress-test analysis.
3. **Buying & Selling Discipline:** Each investment decision is based on a clear investment thesis. The due diligence process involves analysis and input from various KKR teams and advisors. Investments are regularly reviewed, and positions are adjusted based on updated credit reports and financial performance.

The investment approach primarily focuses on income generation but also seeks opportunities for capital appreciation through dislocated trading at discounted prices.

Analysts cover 1-3 industry sectors, make investment recommendations, and monitor companies within their sectors, utilizing both internal models and third-party research systems. Analysts identify attractive assets and collaborate with portfolio managers to present ideas to the Investment Committee, which approves credits for the Approved Credit List.

The team reviews each credit in its portfolio during quarterly meetings, emphasizing outsized and focused positions, and will exit positions if they no longer serve investor interests. The strategy mitigates risk through detailed credit analysis, focusing on business drivers, regulatory risks, and capital structure. Liquidity and technical risks are also carefully assessed. Financial projections are updated regularly, and stress testing is performed to ensure robust risk management.

Verus Position

Based on our review of the evaluation and due diligence work of Staff and the independent work conducted by Verus, we are supportive of Staff’s recommendation.

*Past performance is no guarantee of future results. This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward-looking information will be achieved. Investing entails risks, including possible loss of principal.
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