April 17, 2025

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 Tuesday, April 22, 2025, at 8:30 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 and enter ID# 889 1110 3401

- (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/89911103401?pwd=rUeOCYN1M6X3WJMQXwoLD7mQpE7Myw.1
- Passcode: 739885

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Items 1 and/or 2 withdrawn from agenda if no trustee(s) request to appear remotely: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

PUBLIC COMMENTS

3. 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.

MATTERS FOR CONSIDERATION

4. Discussion and appropriate action on securitized recommendations presented by Chief Investment Officer Daryn Miller, Senior Investment Officer Geoff Nolan, and Scott Whalen, Verus – RECOMMEND THE BOARD OF RETIREMENT APPROVE SCHRODER INVESTMENT MANAGEMENT AND GUGGENHEIM PARTNERS INVESTMENT MANAGEMENT, LLC AS SECURITIZED PRODUCTS INVESTMENT MANAGERS; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW

5. Discussion and appropriate action on active U.S. large cap equity recommendation presented by Chief Investment Officer Daryn Miller, Senior Investment Analyst Rafael Jimenez, Investment Analyst Melekte Yohannes, and Brian Kwan, Verus – RECOMMEND THE BOARD OF RETIREMENT APPROVE CHILTON CAPITAL MANAGEMENT AS INVESTMENT MANAGER OF THE CHILTON CAPITAL HIGH CONVICTION EQUITY STRATEGY; AUTHORIZE CHIEF EXECUTIVE OFFICER TO SIGN, SUBJECT TO LEGAL ADVICE AND REVIEW

REFERRALS TO STAFF, ANNOUNCEMENTS, OR REPORTS

6. 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.

7. Adjournment

Date: April 22, 2025

To: Trustees, Investment Committee

From: Daryn Miller, CFA, Chief Investment Officer
Geoff Nolan, Senior Investment Officer
Jack Bowman, Senior Investment Analyst

Subject: **Securitized Products Fixed Income Strategy**

RECOMMENDATION

Staff recommends an initial investment of $150MM in the Schroder Investment Management securitized products strategy and $150MM in the Guggenheim Partners Investment Management securitized products strategy (each a "Strategy"; collectively, "Strategies"). The Strategies will pursue tailored investment mandates that invest primarily in investment grade securitized product fixed income securities. The proposed recommendation fulfills the 5% Securitized Credit Allocation of the Plan's 10% Credit allocation.

FIXED INCOME CORE ALLOCATION

The Plan's Strategic Asset Allocation (SAA) includes a 25% allocation to Fixed Income. The Fixed Income allocation is bifurcated into a 15% *Core* allocation and a 10% *Credit* allocation, each allocation serves a unique purpose in the context of the greater SAA. The Core allocation serves the primary goal of providing liquidity and risk mitigation. The Credit allocation serves the secondary objective of income generation and diversification. The 5% allocation to Securitized Products is a part of the broader Credit allocation.

In August 2023, Staff conducted a Fixed Income Strategic Review to assess the efficacy of the asset class to fulfill its role within the broader KCERA Portfolio. Staff concluded that a structural shift in the Fixed Income Portfolio was necessary to meet the objectives stated in the Investment Policy Statement (IPS) and these changes were instituted in the Plan's updated SAA. This recommendation is part of the broader reconstitution of the Fixed Income Portfolio consistent with the goal of de-risking the current portfolio to meet the objective of the asset class to mitigate risk and serve as a source of liquidity.

As of March 30th, 2025, the Total Portfolio had a market value of $6.2BN with $529MM (8.6% of Plan Assets) in Fixed Income - Credit.

SCHRODER INVESTMENT MANAGEMENT

Schroder Investment Management North America, Inc. ("Schroders", "Manager", or "Firm"), a member of the Schroders Investment Management Ltd group, is a New York, NY-based firm that specializes in, among other asset classes, structured & corporate debt, real asset debt and specialty finance. Schroder's securitized product investment strategy was originally started in 1993, and is headed by Michelle Russell-Dowe (30 years of experience).

Schroders Capital's Private Debt & Credit Alternative unit manages three different strategies totaling ~$32BN of assets as of December 31, 2024. Two of the three strategies (Structured & Corporate Credit, $15BN AUM, and Specialty Finance, $8BN AUM) are managed by the same investment team headed by Michelle Russell-Dowe, who is also co-Head of the Private Debt & Credit Alternative unit. The remaining strategy (Real Asset Debt, $9BN AUM) is managed by a separate team.

GUGGENHEIM PARTNERS INVESTMENT MANAGEMENT

Guggenheim Partners Investment Management ("Guggenheim", "Manager", or "Firm"), is subsidiary of New York, NY-based Guggenheim Partners, Inc. Guggenheim Partners is a global investment and advisory financial services firm that engages in investment banking, asset management, capital markets services, and insurance services.

Guggenheim's fixed income division manages ~$243BN (as of 12/31/24) across privates, high yield, investment grade, municipals, governments and securitized products. The securitized products strategy accounts for ~$39BN in AUM.

Guggenheim's flagship securitized product investment strategy, Opportunistic Structured Products, was originally started in 2008. The structured product strategy is overseen by Steve Brown (CIO of all of Fixed Income, Adam Bloch and Karthik Narayanan.

INVESTMENT PHILOSOPHY & PROCESS

Schroder's investment style is based on the belief that, across inefficient markets, one can outperform in the long run by focusing on one's core skills of understanding cashflows, financial contracts and optimizing structural risk / return. These core skills are supported by incorporating proprietary models, data and analytics built to assess opportunities and mitigate risks.

Guggenheim's "Core Beliefs" investment philosophy drive process and performance. These are (1) fixed income markets are inefficient, (2) value can be found beyond the benchmark, (3) applying behavioral finance principles drives better decision-making, (4) active management maximizes risk-adjusted returns, and (5) over the long term, money is made by not losing it. On a deeper level, Guggenheim's investment style is active management and finding opportunities across multiple sectors, not to be benchmark constrained, focus on team-based decision making, leverage its strengths in corporate and structured credit and, importantly, provide highly customized portfolios .

Both investment processes combine top-down considerations with bottom-up analysis. The top-down analysis incorporates an assessment of macroeconomic conditions and technical factors that can impact credit markets; this assessment results in a framework for risk positioning and sector allocation decisions. Both teams focus on identifying companies with a sustainable competitive advantage, strong management team, and the ability to generate free cash flow.

PORTFOLIO MANAGERS & TEAM

Schroders

The team at Schroders has extensive experience in the securitized space with lead PM Michelle Russell-Dowe, (lead PM, co-Head of Private Debt & Credit Alts) having ~30 years of experience and Tony Breaks, (PM, Head of Asset Based Investments), having ~25 years of experience. They are supported by a team of 20 investment professionals across research, trading and origination.

Guggenheim
The structured product strategy is overseen by PMs Steve Brown (overall CIO of Fixed Income; 19 years of experience / 14 at Guggenheim), Adam Bloch (16 / 13 years) and Karthik Narayanan (21 / 12 years). They are supported by a team of 23 professionals across research, trading and origination. As part of its belief in team-based investing, there is a 5-member investment committee that sits over the structured products' strategy and approves all new ideas going into the portfolio.

CONSIDERATIONS
Schroder's securitized product team, while they have a large support team commensurate with Guggenheim's, is headed by the lead PM, Michelle Russell-Dowe. While she has other supporting senior team members, the retirement or loss of Michelle Russell-Dowe may pose a risk to Staff's conviction in the strategy, given her pivotal role in the platform. Key person risk is a key consideration.

Guggenheim's portfolio decision making approach involves both the PMs and a 5-member Investment Committee that sits atop the portfolio. That committee has the ultimate say as to what goes into the portfolio. While a PM can decline to put an idea into the portfolio, the PM cannot override the committee's decision. Additionally, there are 3 individuals who oversee the securitized products strategy so a loss of any one of them, while significant, wouldn't impede the strategy.

VEHICLE & TERMS
Staff recommends an initial investment of $150MM with each of Schroders and Guggenheim in a Separately Managed Account (SMA) format subject to an Investment Management Agreement & Guidelines. The SMA structure is suitable given the degree of customization necessary to execute the tailored mandate.

INVESTMENT PROCESS
KCERA Staff's due diligence took place in several phases including discussions with Verus, manager screens (from initial to finalist screens), discussions with managers as well as internal investment committee meetings to discuss the results from each phase.

Verus provided support to Staff throughout the process including providing Staff with their conviction list. From that list, Staff spoke with Loomis Sayles, Double Line, TCW (incumbent securitized products manager) and Voya. In addition to Verus's list, Staff also spoke with Wellington Management along with Schroders and Guggenheim.

KCERA staff had calls with selected managers to discuss available manager strategies, KCERA's portfolio goals / objectives, portfolio permutations, and / or information requests.

As each phase progressed, and managers were removed from future screens, discussions with remaining managers and the internal investment committee delved into more granular issues such as hypothetical portfolios to match KCERA portfolio goals / objectives, alpha targets, risk assessment, guidelines, correlations between & among managers, team compositions and conviction levels.

VERUS

Verus undertook an independent assessment of both Managers to determine their institutional quality and provided a complementary memorandum that is supportive of Staff's recommendation. The Verus memorandum is appended to this document.

Benchmarking

As context, unlike other public market manager searches (e.g., large cap public equities, core fixed income), the fixed income securitized products space has no universally agreed upon benchmark upon which to undertake effective eVestment screens. The Structured Finance Association, at their most recent Las Vegas conference in February 2025, acknowledged the problem and (at long last) is forming a task force to address the issue.

SUMMARY

The recommended investment with Schroders and Guggenheim represents an attractive opportunity for the Plan to gain access to high conviction managers that has extensive expertise in structured products and a demonstrated ability to generate excess return in a consistent and repeatable manner. The investment with Schroders and Guggenheim allows the Plan to earn a return, with an appropriate level of risk, that is consistent with the objective of the Fixed Income Credit allocation.

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:	April 22, 2025
RE:	Securitized Credit Mandate

Background

KCERA's Strategic Asset Allocation includes a 10% target allocation to Credit Fixed Income, with 5% of the Total Fund dedicated to Securitized Credit. Currently, TCW Securitized Opportunities is the sole manager in this mandate. The benchmark for this mandate is 50% Bloomberg non-agency CMBS index, 33.3% Bloomberg ABS index, and 16.7% JP Morgan CLOIE AAA Index. To meet the 5% policy target, KCERA Investment Staff, with support from Verus, initiated a search for additional managers. This search has led to a recommendation to the Investment Committee to hire the following managers and strategies:

— Schroders Securitized Credit ($150M)
— Guggenheim Securitized Credit ($150M)

This memo reviews the comprehensive due diligence process that led to this recommendation, describes the recommended strategies, and affirms our favorable view of Staff's recommendation.

Evaluation and Due Diligence Process

The search analysis was conducted in several stages, including:

- Initial discussions between staff and Verus to review the mandate, strategy, search process, and recommended list of managers
- Comprehensive quantitative analysis
- Identification of seven prospective managers based on eVestment screen, focusing on consistent alpha generation
- Internal discussions and review of higher conviction strategies
- Additional due diligence interviews with four candidates
- Structural analysis with other components of the Fixed Income portfolio
- Mandate sizing analysis

Throughout these stages, staff evaluated various factors and attributes, including:

- Historical risk and return
- Investment team, philosophy, and process
- Approach to risk management
- Discreet periods of outperformance and underperformance
- Factor exposures across managers
- Inclusion and sizing of off-benchmark asset classes

Verus supported staff throughout the evaluation process by providing additional analytical and research resources.

Strategy Description - Schroders

Schroders Capital has a seasoned team that has been managing securitized strategies since the inception of the non-agency market. Hyperon Capital, founded by Lewis Raneri in 1988, was acquired by Brookfield Asset Management in 2005 and subsequently purchased by Schroders Investment Management in 2016. The team oversees more than $36 billion in assets across various strategies and bespoke solutions in fund structures and segregated mandates. With over 130 investment professionals spread across 11 global offices, they manage more than 100 different funds and mandates.

The securitized product & specialty finance team consists of 21 individuals led by Michelle Russell-Dowe. Their approach combines a flexible best ideas process, which has evolved over decades and market cycles. They incorporate proprietary models, data, and analytics to assess opportunities and mitigate risks associated with higher income securities. The team utilizes a diverse global toolkit that includes a full range of senior and subordinate securities, short and long-term financing, risk transfer, and direct lending on assets.

The product continuum for liquid securitized strategies and funds, available in a separately managed account, includes three main categories:

1. **Investment Grade Securitized Credit**: This strategy is benchmarked to the Bloomberg Securitized Index and maintains investment-grade credit quality. It invests in asset-backed securities (ABS), mortgage-backed securities (MBS), collateralized mortgage-backed securities (CMBS), and collateralized loan obligations (CLOs). Historically, it has provided an annualized excess return of 80 basis points relative to the benchmark.
2. **Mostly Investment Grade Securitized Products**: These strategies are mostly investment grade but can invest up to 20% below investment grade. They are benchmarked to the ICE BofA ABS or ABS/CMBS Index and invest in developed market ABS, MBS, CMBS, and CLOs (US only). The goal is to achieve similar volatility to the 1-5 year corporate index while delivering higher returns.
3. **Unconstrained Securitized Credit**: This strategy allows for investment across various markets and credit qualities, with a return target of T-bills plus 300 basis points. It aims for similar volatility to a mix of 50% 1-5 year corporate index and 50% 1-5 year high yield index, with a higher return target. There are no rating constraints, and the fund typically has an average rating of BBB.

The KCERA custom benchmark is composed of 50% CMBS, 33.3% ABS, and 16.7% CLO AAA. While the KCERA mandate will incorporate custom guidelines, this benchmark is most closely related to the Investment Grade Securitized Credit strategy. This strategy is an opportunistic securitized credit strategy primarily focused on generating attractive income and secondarily achieving capital appreciation. The fund seeks to employ this strategy by investing primarily in mortgage-backed securities, asset-backed securities, and loans. The fund seeks to provide attractive returns with low correlation to traditional asset classes as well as low interest rate sensitivity. The fund employs a fundamental, bottom-up, value-based approach to exploit specific market inefficiencies due to regulation and structural changes. The fund invests substantial assets in below investment grade and non-related securities and may also invest in derivatives.

Strategy Description – Guggenheim Investments

Guggenheim was founded in 1999 as a division of Guggenheim Partners. The firm has more than $243 billion in total assets across fixed income, equity, and alternative strategies. The firm has more than 220 investment professionals and 800 total employees. The average team experience of the portfolio managers is 19 years, and the firm is 55% employee owned.

The core beliefs of Guggenheim that drive their process and performance are:

1) Fixed-income markets are inefficient
2) Value can be found beyond the benchmark
3) Applying behavioral finance principles drives better decision-making
4) Active management maximizes risk-adjusted returns
5) Over the long term, money is made by not losing it

The Securitized Credit strategy is grounded on loss avoidance informed by behavioral finance principles and driven by specialization of functions. They believe the investment process helps them pursue higher returns per unit of risk and results in greater avoidance of loss for their clients. Positions are sized based on the merit of each security rather than relative to a benchmark, so the strategy is not benchmark constrained. The strategy follows a team-based process that is designed to minimize behavioral biases, mitigate drawdowns, and eliminate key person risks for the strategy.

Guggenheim has streamlined its securitized credit due diligence process into several key steps. The process begins with investment sourcing, which can range from private deals to broadly syndicated ones. The next step involves a thorough analysis of the collateral, focusing on valuation, cash flow generation, historical performance, cyclicality, and the origination landscape. Following this, a structural analysis is conducted, examining credit enhancements, bondholder rights, asset control, waterfall cash flow rules, and historical data. Additionally, Guggenheim performs servicer, manager, and equity sponsor analysis, along with stress testing that includes both linear and nonlinear scenarios. All these steps culminate in the creation of an investment proposal.

A daily review includes the deal pipeline and sector team investment meetings, which update on markets, credits, industry developments, and live deals. There are regular reviews of secondary markets and historical trends as well as credit reviews that cover market developments and provide an in-depth review of portfolio-wide holdings from a credit standpoint.

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.

Date: April 22, 2025

To: Trustees, Investment Committee

From: Daryn Miller, CFA, Chief Investment Officer
Rafael A. Jimenez, CFA, Senior Investment Analyst
Melekte Yohannes, Investment Analyst

Subject: **Active U.S. Large Cap Equity Recommendation**

RECOMMENDATION

Staff recommends a $150M investment in the Chilton Capital High Conviction Equity Strategy ("Chilton", "Manager", or "Strategy") subject to negotiating acceptable terms and conditions. The funding source for the recommended addition to the Domestic Equity allocation will be a partial redemption from the Mellon Stock Index Fund ("Mellon") which provides passive exposure to the S&P 500 through replication of the index.

This recommendation would result in the percentage of active management in the Domestic Equity allocation rising from 16.6% to 30.7% (as of March 31st, 2025). The Plan's exposure to active management in U.S. equity has historically been reserved for small cap managers, an asset class that has been considered less efficient and more attractive for active management. The state of the U.S. equity market has introduced a level of passive index risk in large cap domestic indices. Staff believes that a skilled manager can generate alpha and be expected to be compensated for taking active risk. The benchmark for the Strategy is the S&P 500.

DOMESTIC EQUITY ALLOCATION & RISK ANALYSIS

The Plan's long-term strategic asset allocation includes a 33% allocation to Global Public Equity and the allocation is benchmarked to the MSCI ACWI IMI Index. The Plan maintains dedicated regional exposure to U.S. equities within Global Public Equity and the respective allocation to Domestic Equity is underweight the benchmark. The Plan's relative positioning is a reflection of relative regional opportunities and the downside risk Staff observes from passive exposure to U.S. equity. The passive index risk arises from record levels of concentration driven by the leadership of a narrow cohort of stocks, stretched valuations, and policy uncertainty resulting in volatility at the macroeconomic and stock-specific level.

The recent dominance of mega-cap growth stocks has resulted in an unprecedented level of index concentration; as of March 31st, 2025, 34% of the S&P 500 is concentrated in the 10 stocks with the largest market capitalization. Furthermore, valuations for U.S. large cap are near record highs. As of March 31st, 2025, the trailing price-to-earnings ratio of the Russell 1000 is in the 92nd percentile, the price-to-book ratio of the S&P 500 is in the 93rd percentile, and the price-to-sales ratio of the S&P 500 is in the 93rd percentile. This level of concentration, combined with stretched valuations, can result in 1) undesired concentration and overweight positions in sectors and industries that are the result of previous performance and 2) exposure that is vulnerable to the dynamics of a changing market.

The latter has been exemplified by the recent drawdown and volatility in U.S. equity markets, which has been driven by the names that had provided positive leadership in previous years. Staff believes that less index concentration and a wider dispersion of returns between names, sectors, and market capitalization will create an attractive environment for active management.

	Current Allocation	Proposed Allocation	Proposed Trade	% of Allocation	Active or Passive
Domestic Equity					
Mellon Stock Index Fund	$739,327,705	$589,327,705	-150M	55.12%	*Passive*
PIMCO StocksPLUS	$151,799,758	$151,799,758		14.20%	*Passive*
AB US Small Cap Value Equity	$88,372,355	$88,372,355		8.27%	*Active*
Geneva Capital Small Cap Growth	$89,616,699	$89,616,699		8.38%	*Active*
Chilton High Conviction Equity		$150,000,000	+150M	14.03%	*Active*
Total Domestic Equity	$1,069,116,517	$1,069,116,517			
Active Management (%)	16.6%	30.7%			

*Market Values as of 3/31/2025

The recommended investment in Chilton will have effects on portfolio risk at both the Domestic Equity level and Total Public Equity level, which Staff has modeled and analyzed through the Venn portfolio risk analytics system. The risk and return analytics in the Appendix are based on the Proposed Allocation illustrated above.

Please find exhibits in the Appendix section at the end of this memorandum.

CHILTON CAPITAL HIGH CONVICTION EQUITY STRATEGY – ANALYSIS

Firm: Chilton Capital Management ("Chilton" or "Firm") is an independent, employee-owned investment management firm founded in 1996. The Firm is headquartered in Houston, Texas and manages approximately $2.6B in assets as of March 31st, 2025. Chilton provides investment management services to financial institutions, such as corporate retirement plans, endowments and foundations, family offices, and high-net-worth individuals. As of March 31st, 2025, 73% of the Firm's assets under management (AUM) is high-net-worth and 27% is institutional.

The Firm manages three investment strategies, including a 70% equity/30% fixed income portfolio ("Growth & Income Strategy") that counts on a 25-year track record. The High Conviction Equity Strategy is a concentrated 15-stock portfolio with an inception date of January 2017. The Strategy represents $92.7M in AUM as of March 31st, 2025.

Investment Strategy, Performance, & Outlook: Chilton's investment philosophy is centered around identifying companies with accelerating business fundamentals, such as revenue and earnings growth; the acceleration is often driven by an inflection or catalyst. The Manager believes that accelerating fundamentals result in stock price outperformance and also emphasizes valuation to provide downside protection and a qualitative assessment of the company. The qualitative assessment includes an evaluation of the company's management, customers, and competitive forces.

The Manager believes that market inefficiency and a fundamental, bottom-up approach allows them to construct a diversified portfolio that can add value through stock selection. The Strategy's objective is to provide *Core* exposure to large cap U.S. equity but recognizes that as a result of the market environment and relative stock selection, the portfolio could exhibit modest tilts toward either *Growth* or *Value*. The investment process results in a concentrated 15-stock portfolio with careful consideration for risk and exposure to at least 6 of the 11 GIC sectors. The Manager does not expect to have exposure to sectors where stock price performance is expected to be driven by macroeconomic factors such as commodities and interest rates. As a result of the Strategy's concentrated nature, the portfolio is expected to be differentiated from the benchmark and active share is expected to be elevated. Chilton determines price targets and the Strategy adds incremental value through opportunistically trimming and adding to existing positions around their target. Adherence to the investment philosophy and process has produced outperformance that is sustainable and repeatable.

The track record of investment performance demonstrates that Chilton has been able to generate solid investment results on both an absolute basis and relative to its benchmark. The team at Chilton has been able to generate alpha in periods where both Growth and Value have outperformed the broader S&P 500. The strategy has been able to achieve attractive risk-adjusted returns through consistent generation of alpha and maintaining a commensurate level of active risk. Investors in the Strategy have been able to achieve an asymmetrically positive return profile that captures more of the broader market's upside and less of the downside in the previous 3, 5, and 7-year trailing periods. Furthermore, the Strategy ranks in the 99th percentile for excess return in the previous 3, 5, and 7-year trailing period among active managers in the U.S. Large Cap Core Equity eVestment universe. The Strategy ranks in the 97th percentile for Information Ratio in the previous 3-year period, the 99th percentile in the previous 5-year period, and the 98th percentile in the previous 7-year period.

The Manager demonstrates alignment with Staff's investment thesis and expects the Strategy's active share to increase if the current market environment persists, market leadership broadens, and index concentration is reduced. Chilton expects the increase in active share to be driven by a material underweight to many of the largest index components and a shift toward the smaller components of the S&P 500.

Portfolio Management & Team: Bradley Eixmann, CFA, is the Chief Investment Officer and Senior Portfolio Manager for the Chilton Capital High Conviction Equity Strategy. Mr. Eixmann counts on over 27 years of investment experience and has held portfolio management responsibilities at different firms, including American Century Investments. Eixmann is the lead new idea generator for the Strategy and exercises trading discretion alongside Portfolio Manager, Brandon Frank. Frank joined Chilton Capital Management in 2017 and has over 26 years of investment experience. Mr. Eixmann and Mr. Frank have been the key risk-takers for the Strategy since inception in January 2017.

Robert Greenberg, CFA, CAIA, is a Senior Investment Analyst and joined Chilton in 2021. The team's objective is to develop Greenberg's skillset so that he can ultimately assume portfolio construction responsibilities, in addition to investment research responsibilities. The team consists of 5 investment professionals; Eixmann, Frank, and Greenberg are charged with research coverage and are structured as generalists to avoid any sector biases.

Risk Management: The Strategy has established a thoughtful and robust risk management framework, which Staff believes is imperative when managing a concentrated, differentiated strategy with the capacity to realize an elevated level of active risk. Chilton employs a proprietary risk management process that includes established maximum sector and single-name deviations from the benchmark, regular monitoring of factor risk, and an emphasis on valuation.

The Manager pursues a concentrated strategy yet adheres to maximum deviation from the benchmark of +/- 10% on a single-name basis. Although the Strategy has the capacity to be overweight or underweight a GIC sector by up to 30%, the deviation on a sector basis is typically in the range of +/- 15%. The Manager emphasized the importance of monitoring industry exposures in addition to sector exposures and being mindful of the correlation amongst industries. The team utilizes a fundamental factor model developed by Bloomberg to monitor the portfolio's factor risk and bifurcate risk between common factor risk (i.e., style factor tilts) and stock-specific risk. The team's objective is for at least 60% of portfolio risk to be idiosyncratic. Finally, the Strategy aims to provide meaningful downside protection through an emphasis on stock valuation when entering a position.

The Strategy's risk management framework targets a tracking error between 4% - 7% and for idiosyncratic risk to be the primary driver of returns. Adherence to the Strategy's risk protocols has been central to achieving consistent outperformance and attractive risk-adjusted returns.

VEHICLE & TERMS
Staff's recommended investment in Chilton will be structured in a separately managed account (SMA). This structure offers the Plan daily liquidity. Chilton has proposed a competitive management fee. KCERA would be a meaningful institutional investor and the recommended investment would represent a significant allocation to the Strategy; the proposed management fee reflects this.

DUE DILIGENCE PROCESS
Staff utilized eVestment to screen the universe of prospective managers in the U.S. Large Cap Core investment universe. Staff arrived at an initial list of 8 candidates based on historical performance and an emphasis on consistency in generating alpha during different trailing and rolling time periods. Staff conducted preliminary conversations with these investment managers in order to understand the team, investment philosophy, and process. Following the introductions, Staff identified the strategies that warranted further consideration through a combination of qualitative and quantitative factors. Staff conducted further diligence on 4 managers to better understand historical performance, risk considerations and style factor exposures, and environments where the strategy can be expected to under or overperform. Staff identified 2 finalists and arrived at an investment decision after thoughtful consideration of performance, investment methodology, risk management, and the alignment and ability to capitalize on Staff's investment thesis.

VERUS
Verus undertook an independent assessment of the Manager to determine their institutional quality and provided a complementary memorandum that is supportive of Staff's recommendation. The Verus memorandum is appended to this document.

SUMMARY

The recommended investment in Chilton represents an attractive opportunity for the Plan to gain access to a high conviction manager that has demonstrated the ability to generate excess return in a consistent and repeatable manner with prudent consideration for risk. As a result of the price action and heightened volatility in U.S. equity markets the previous weeks, Staff has observed that the environment for active management has become increasingly attractive. Chilton's investment strategy demonstrates alignment with Staff's investment thesis and outlook for the asset class. The investment in Chilton allows the Plan to earn a return that is consistent with the objective of the Public Equity allocation.

APPENDIX

Domestic Equity Level Risk & Return (Analysis Period October 2017 - February 2025)

Historical Performance	Current Allocation	Proposed Allocation
Excess Return (Analysis Period)	-0.26%	0.30%
Tracking Error (Analysis Period)	1.07%	1.19%
Information Ratio (Analysis Period)	-0.22	0.24

Global Public Equity Level Risk & Return (Analysis Period January 2020 - February 2025)

Historical Performance	Current Allocation	Proposed Allocation
Excess Return (Analysis Period)	0.57%	0.95%
Tracking Error (Analysis Period)	1.38%	1.45%
Information Ratio (Analysis Period)	0.33	0.55

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: April 22, 2025
RE: Active U.S. Large Cap Equity

Background
KCERA's Strategic Asset Allocation includes a 33% target allocation to Global Equity, which is benchmarked to the MSCI ACWI IMI Index. The current domestic equity asset class is 18.0% of the portfolio (as of 2/28/2025) and includes four managers: Mellon DB SL Stock Index Fund (12.5%), PIMCO StocksPLUS (2.6%), AB US Small Cap value Equity (1.5%), and Geneva Capital Small Cap Growth (1.5%). Following an investigation into several strategies in the active large cap universe, KCERA Staff plans to reallocate $150 million (~2.4% of the portfolio) from Mellon DB SL Stock Index Fund to the following U.S. Large Cap Equity investment strategy:

- Chilton Capital High Conviction Equity Strategy

This memo reviews the comprehensive due diligence process that led to this recommendation, describes the recommended strategy, and affirms our favorable view of Staff's recommendation.

Evaluation and Due Diligence Process
The search analysis was conducted in several stages, including:
- Initial discussions between staff and Verus to review the mandate, strategy, search process, and recommended list of managers
- Comprehensive quantitative analysis
- Identification of eight prospective managers based on eVestment screen, focusing on consistent alpha generation during different trailing and rolling time periods
- Internal discussions and review of higher conviction strategies
- Additional due diligence interviews with four candidates

Throughout these stages, staff evaluated various factors and attributes, including:
- Historical risk and return
- Investment team, philosophy, and process
- Approach to risk management
- Discreet periods of outperformance and underperformance
- Factor exposures across managers
- Alignment and ability to capitalize on staff's investment thesis

Verus supported staff throughout the evaluation process by providing additional analytical and research resources.

Strategy Description

Chilton Capital Management is an independent, employee-owned investment firm founded in 1996, with its headquarters in Houston TX. As of March 31st, the firm manages $2.6 billion in assets, including $92.7 million in the High Conviction Equity Strategy, which was launched on January 1, 2017. Chilton provides investment services to a diverse clientele, including financial institutions, corporate retirement plans, benefit trusts, foundations, endowments, family offices, and high-net-worth individuals. As of March 31st, 2025, 73% of the Firm's assets under management are high-net worth and 27% are institutional.

Chilton Capital Management believes that equity markets have inefficiencies that skilled managers can exploit to achieve exceptional returns. Their philosophy emphasizes that sustainable and repeatable outperformance requires a clearly articulated, disciplined, and consistent investment process. The three main tenets of their process are:

1. **Accelerating business fundamentals**: Revenue and earnings growth driven by a meaningful business catalyst is essential. Chilton believes the direction of a company's growth is more important than the absolute level.
2. **Valuation**: This is a top-performing style factor over many decades and provides consistent results over time, including during expansionary and recessionary periods.
3. **Price momentum**: This tends to persist and supports the generation of alpha.

Chilton invests in companies that show accelerating or inflecting improvements in revenues or other fundamental indicators, combined with attractive relative valuations. Their qualitative assessments include evaluating the quality of company management, the health of customers, competitive forces, and market opportunities.

Chilton Capital Management defines risk as the probability of permanent loss of capital, rather than short-term volatility. Their risk management process is embedded across multiple dimensions, including a quality-focused investment approach, strict adherence to their investment process, and thorough due diligence on each holding. Each recommendation details downside risk and the portfolio maintains low turnover. The target tracking error range for this strategy is 4-7%, with the majority of returns expected to be driven primarily by stock-specific risk.

The Chilton Capital High Conviction Equity strategy is a focused equity approach that holds a maximum of 15 stocks, with individual positions typically ranging from 5% to 10% and a maximum position size of 15%. This strategy aims to outperform the S&P 500, net of management fees, over a market cycle. Chilton invests in U.S. domestic common stocks, including American Depository Receipts (ADRs). The portfolio's securities have a minimum market capitalization of $10 billion. For diversification, the portfolio generally includes securities from at least six of the eleven GICS sectors, and significant tactical shifts are made to capitalize on market dislocations and stock mispricing

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 decision to invest $150 million in the Chilton Capital Management High Conviction Equity strategy and source those funds from the passive Mellon DB SL Stock Index Fund.