

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:

David Couch, Chair
Dustin Contreras, Vice-Chair
Phil Franey
Ajaib Gill
Joseph D. Hughes
Jordan Kaufman
Rick Kratt
John Sanders
Tyler Whitezell
Chase Nunneley, Alternate
Robb Seibly, Alternate
3rd Member (Vacant)

August 21, 2025

Trustees, Board of Retirement
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 Wednesday, August 27, 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# 860 3818 1530:

- (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/86038181530?pwd=9uWaQVQ7LEXa67WXWUBnHPuFoNsaSs.1>
- Passcode: 690740

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. [Response to referral regarding Currency/Foreign Exchange management](#) presented by Chief Investment Officer Daryn Miller, Investment Officer Rafael Jimenez, and Investment Consultants Brian Kwan and Scott Whalen, Verus – HEAR 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



Currency Management

Presented by:

Daryn Miller, CFA

Chief Investment Officer

Rafael A. Jimenez, CFA

Investment Officer



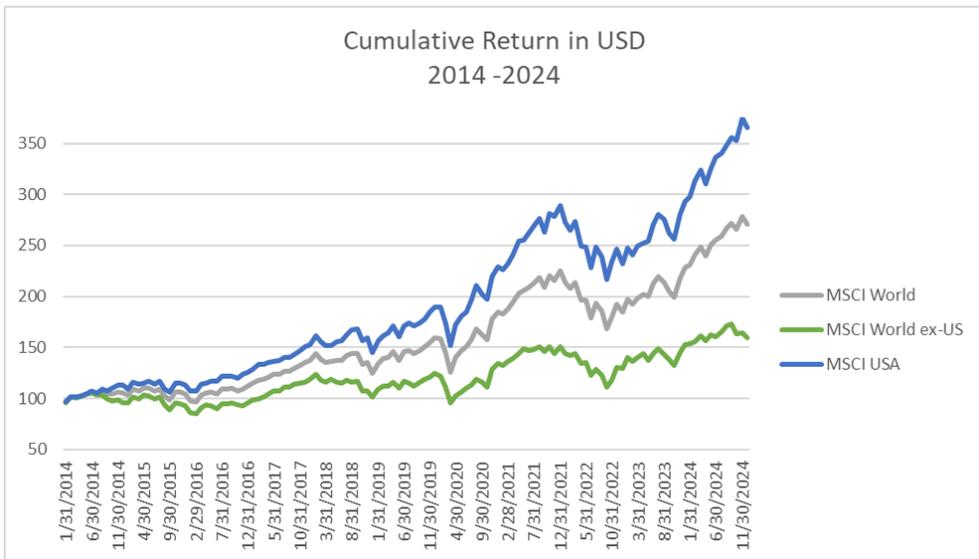
Executive Summary

- Staff has been conducting diligence on understanding and implementing a currency management program and has had two conversations with the trustees of the Board of Retirement and Investment Committee
- **September 2024** > Staff introduced currency management to the Board. The conversation provided an overview of the level of foreign currency (FX) risk inherent in the Plan's International Equity and Emerging Markets Debt Portfolio. Staff established that FX risk is *uncompensated* because FX exposure is a source of volatility with an unknown return profile; the Board referred further research to the Investment Committee.
- **December 2024** > Staff provided a framework to take purposeful FX risk and generate an incremental return above an unhedged benchmark. Staff identified two prospective currency managers who agreed to manage a **live** paper portfolio based on program guidelines.
 - Staff has closely monitored the portfolios to better understand investment process, performance in distinct market environments, drivers of return, and cash flow considerations*
- Staff intended to bring an active currency manager recommendation to a Board of Retirement meeting in Q1 or Q2
- **However**, Staff believes the risks of a currency management program outweigh the potential benefits in the current market environment

**An overview of performance can be found in the Appendix*

Historical Strength of the US Dollar

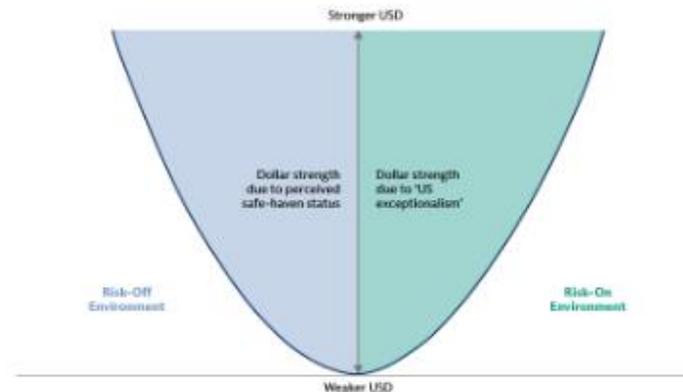
Can investors identify the expected drivers of strength and weakness? What factors contributed to the last period of Dollar Dominance?



- The US Dollar appreciated sharply against a basket of Developed Market currencies between 2014 – 2024 & can be attributed to:
 - The relative return of US risk assets
 - The structural role in the global economy; bolstered by safe-haven characteristics
- US Equity returned an annualized 12.5% between 2014-2024; outperforming the 4.4% return of International Developed Markets
- US Fixed Income offered an attractive yield in the low-interest rate environment that prevailed
- The narrative of *US Exceptionalism* resulted in meaningful **capital flows** that reinforced the Dollar’s trajectory



Dollar Smile dynamics illustrated



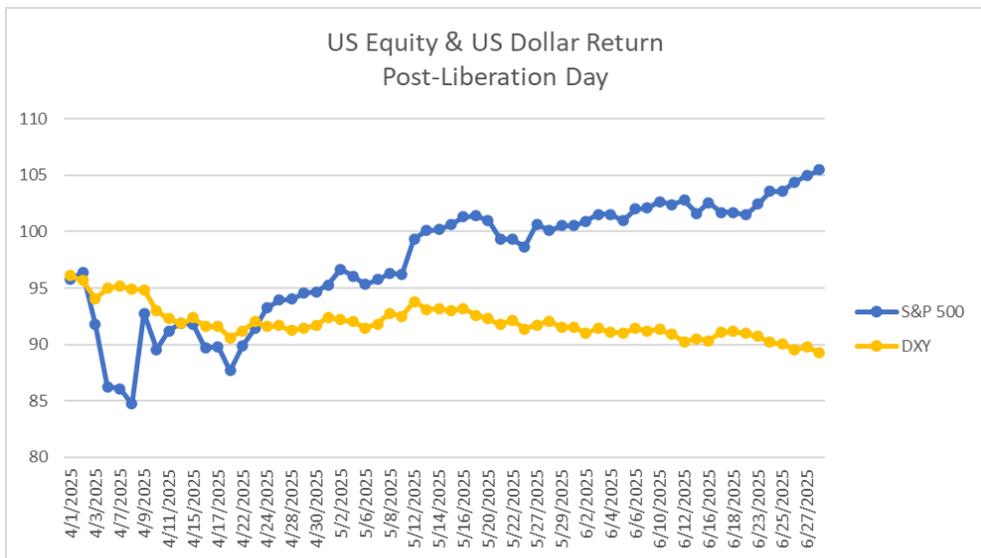
Source: Goldman Sachs Asset Management. For illustrative purposes only.

The Dollar benefitted from its role as the world’s reserve currency and its safe-haven characteristics during periods of global uncertainty.

*The Dollar also exhibited strength during periods of US cyclical outperformance; this relationship is explained by the **Dollar Smile Theory**.*

Historical Strength of the US Dollar

What factors contributed to the last period of Dollar Dominance? Are we at the start of a potential inflection point?



- The US Dollar has declined significantly in 2025, and it is *possible* that the factors that contributed to historical Dollar strength have reversed course
 - The weakness is uncharacteristic during a period of heightened global uncertainty
- The departure from safe-haven behavior can be attributed to broad uncertainty around **US policy**
- Staff recognizes it is very difficult to predict currency direction and attribute FX movement to specific variables
- Dollar weakness *could be* less driven by the announcement of tariffs and more by the uncertainty around implementation, durability, and implications for the US economy
- The relationship between US Equity and the Dollar following the announcement of reciprocal tariffs in April is telling
 - The Dollar sustained its level post-Liberation Day, potentially supported by the notion that tariffs would reduce import demand
 - Equities contracted sharply and recovered losses as announcements were dialed back; equities have been agnostic to evolving trade rhetoric
 - The walk-back in tariffs has been constructive for equities but not for the Dollar, potentially indicative of Dollar weakness

The narrative of US Exceptionalism has been challenged in 2025, and International Developed Market Equity has outperformed the S&P 500 by over 12%.

This shift in relative performance can be attributed to greater uncertainty around US policy and improved investment sentiment outside the US.

IDEV is a proxy for the performance of the MSCI World ex-US IMI Index

Historical Strength of the US Dollar

Are we at the start of a potential inflection point?

- Factors that *may* contribute to a continuation of Dollar weakness include domestic and external considerations, in addition to fundamental considerations, such as valuation:

Domestic Considerations that support the thesis of an inflection in Dollar strength include:

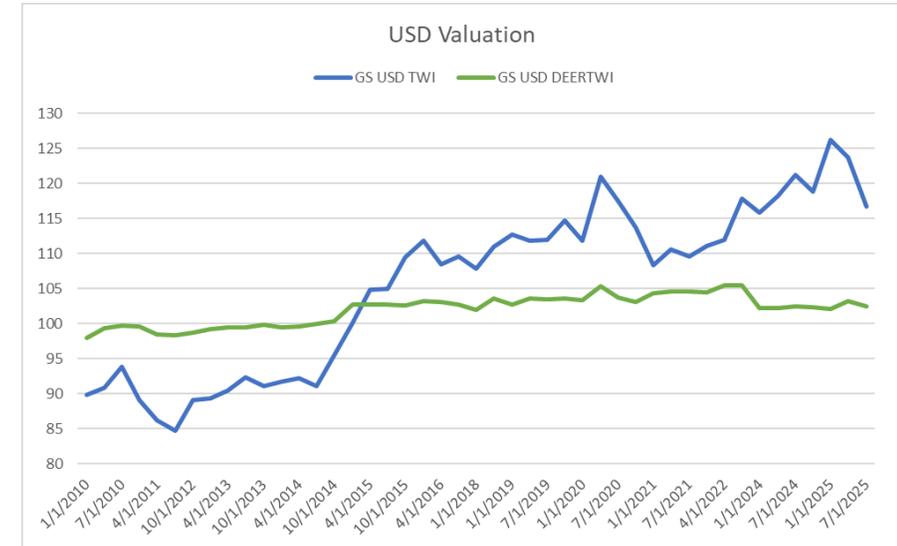
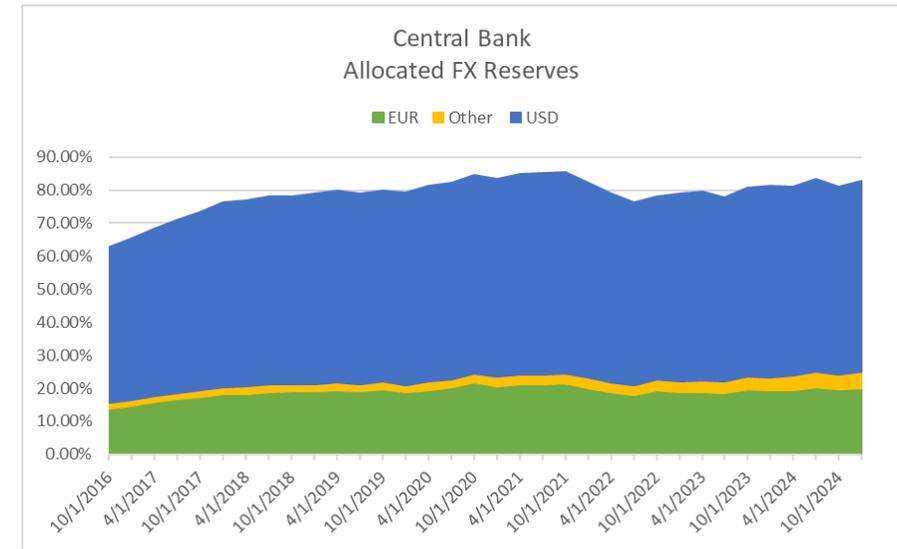
- Heightened policy uncertainty and the implications for economic outlook
- The country's fiscal sustainability and substantial budget deficit
- Concern over the Federal Reserve's ability to maintain independence

External Considerations are factors that are outside the scope of domestic governance and policy-making. The prevailing themes that may result in further Dollar weakness include:

- The status of the Dollar as the world's prominent reserve currency
- The potential gradual rebalancing in global allocations; motivated by relative performance of International Markets and concern over US credibility
- An increase in the magnitude foreign investors hedge Dollar exposure

It is worth noting that Staff expects any reallocation of global assets to be gradual and incremental. Similarly, the Dollar is not expected to lose its role as reserve currency but continued central bank diversification is anticipated.

Fundamental Considerations: Purchasing Power Parity (PPP) suggests that based on the principle of the *Law of One Price*, the Dollar appears to be overvalued. **However**, valuation alone has not been a catalyst for currency depreciation.



Sources: IMF, Macrobond, Goldman Sachs Asset Management, PIMCO
 GS USD TWI measures the Dollar's trade-weighted value against a basket of currencies
 GS USD DEERTWI incorporates an augmented PPP framework to measure trade-weighted value



Historical Strength of the US Dollar

What are the potential tailwinds for US Dollar strength?

- Staff recognizes that while it is difficult to predict the direction of a currency with certainty, there are factors that *could* result in Dollar appreciation:
 - **US Economic Growth** > The Dollar could be supported by a robust and accelerating US economy, especially if the domestic economy is growing at a higher rate than other G10 economies. Economic growth may attract capital investment that supports the Dollar.
 - **Interest Rate Differentials** > The US Federal Reserve has maintained the policy interest rate elevated relative to other Developed Market central banks and higher interest rates can attract foreign investment and support valuations.
 - **US Exceptionalism** > It is possible for the theme of US Exceptionalism to persist, potentially bolstered by innovation in sectors such as mega-cap technology. Although the domestic equity market is trading near record-high valuation, US outperformance could persist if earnings growth continues to expand.
 - It is worth noting that there is no evidence to suggest international investors are meaningfully re-allocating away from US assets
 - International investors have continued to be net purchasers of US Treasuries

What are the market developments to monitor in the near-term time horizon?

- The direction of future monetary policy *can be* a catalyst to monitor:
 - A dovish Federal Reserve and more accommodative policy can spur economic growth and increase the risk appetite of investors
 - A more accommodative Federal Reserve and the Chair appointment can result in concern over central bank independence

Constructing a Currency Management Program

What are the implications of a weak US Dollar for a currency hedging program?

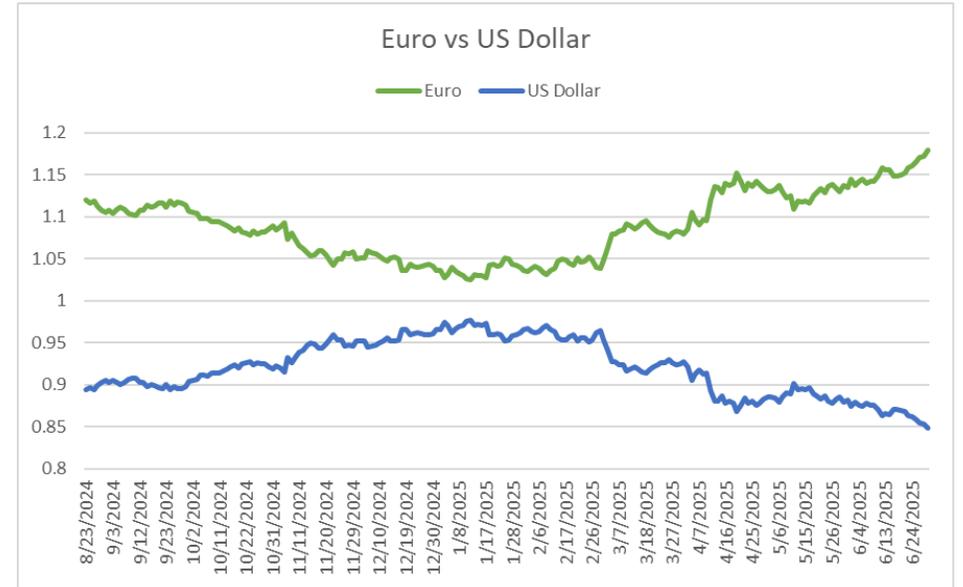
- The **0% Dynamic Benchmark** begins with unhedged exposure to the *Embedded FX* and opportunistically increases the hedge ratio during periods of expected local currency weakness (conversely, US Dollar strength)
 - The starting point of an unhedged benchmark allows for upside participation in a weak Dollar environment
 - The program can provide downside protection by hedging currencies expected to depreciate in a strong Dollar environment

How is a hedging program expected to perform in a strong Dollar environment?

- In periods of FX weakness, hedges are expected to generate a positive excess return
- In this scenario, the program captures less than 100% of FX downside

How is a hedging program expected to perform in a weak Dollar environment?

- In periods of FX strength, hedges are expected to detract from relative performance and the best alternative would be unhedged currency exposure
- In this scenario, the program cannot capture more than 100% of FX upside
- A currency hedging program is **asymmetric** because it can only generate an incremental return in a strong Dollar environment
 - The program can capture less than 100% of FX downside but it cannot capture more than 100% of FX upside



The Euro weakened heading into the end of 2024 and the program was positioned to generate excess return by hedging the exposure. The Euro has strengthened significantly through the first half of 2025; the program is unable to generate a return above the benchmark.

The Dollar strengthened ahead of the election, potentially reflecting the expectation of stronger economic growth spurred by Trump's pro-business agenda.

Currency Program Performance

How does the performance in a strong Dollar environment compare to a weak Dollar environment?

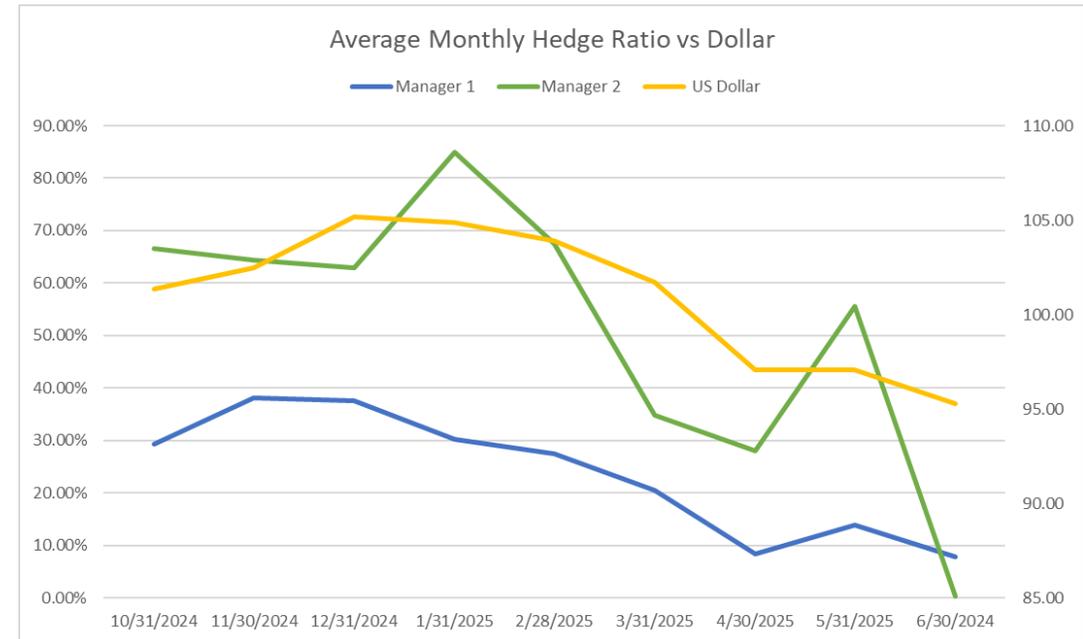
- Staff gained conviction in two prospective managers who have been managing a live paper portfolio beginning in mid-October
- Staff has closely monitored the portfolios and receiving real-time data has helped Staff analyze and interpret the performance of a currency program in **differentiated** Dollar environments
- The relative return of a currency program reflects the manager's skill in determining the optimal Hedge Ratio
- The performance of the paper portfolios demonstrates the **asymmetric** return profile of a currency hedging program

Strong Dollar Environment

- The relative return of **both** managers was positive from portfolio inception through the end of 2024
- The manager with a *higher* average monthly hedge ratio outperformed

Weak Dollar Environment

- The relative return of **both** managers was negative year to date through June 30th, 2025
- The manager with a *lower* average monthly hedge ratio outperformed but was unable to generate an incremental return



The performance of the Dollar is the inverse return of the FX portfolio embedded in the MSCI World ex-US Index. The Dollar appreciated **+5.03%** from inception to 12/31/2024 and depreciated **-10.09%** in 2025 through 6/30/2025.

There is a meaningful positive correlation between the return of a hedging program and the return of the Dollar.



Currency Outlook & Recommendation

Where do we expect the Dollar to go? What does this outlook mean for program implementation?

- Staff firmly believes in the virtue of a currency management program and is confident that a program can be structured to take purposeful currency risk and generate an incremental return in an environment where the implications of US Policy are clear
- Although it is impossible to predict the direction of a currency with certainty; Staff has conviction that the downside risk for the US Dollar is elevated
- Staff expects the Dollar to remain volatile in the short-term and while it may strengthen intermittently (or even reverse course more permanently), the current macroeconomic environment presents more headwinds than tailwinds to Dollar performance
- The outlook hinders a currency management program's ability to achieve the dual objective of taking purposeful risk and generating a return above the embedded FX portfolio
- Staff recommends pausing the Currency Management initiative indefinitely and will continue to monitor macroeconomic developments; Staff believes unhedged exposure will preserve diversification benefits and allow the extent of FX appreciation to flow to the Public Equity Portfolio

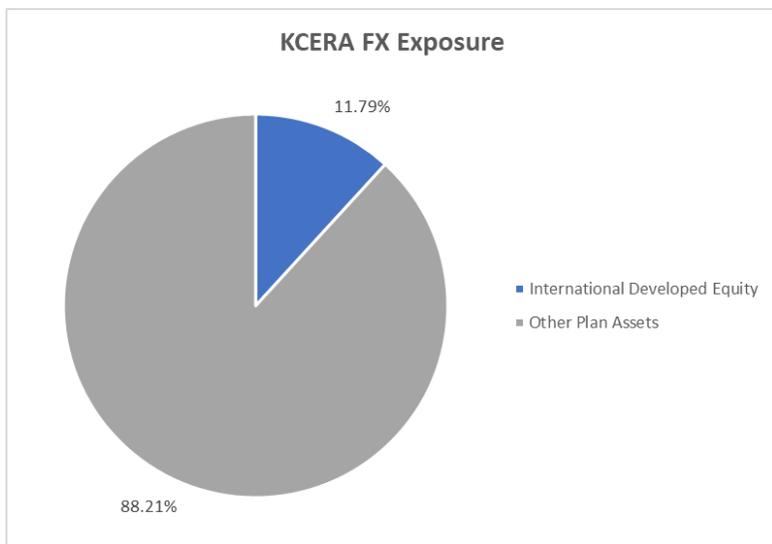
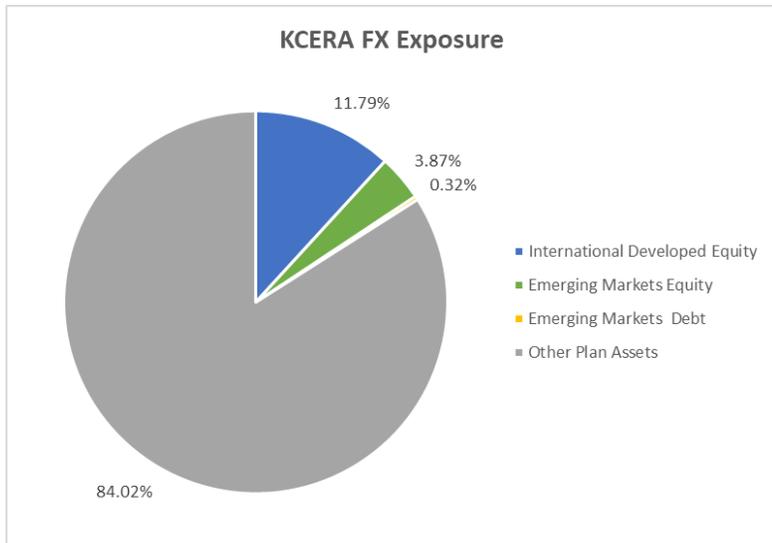
Questions



Appendix

KCERA Foreign Currency (FX) Exposure

How much FX exposure is in the KCERA Portfolio?



- As of June 30th, 2025, 16.0% of the KCERA Portfolio's assets were denominated in a foreign currency
 - International Developed Equity 11.8%
 - Emerging Markets Equity 3.9%
 - Emerging Markets Debt 0.3%
- The return of these asset classes can be separated into the return earned on foreign securities and the gain or loss from FX exposure relative to the US Dollar (USD)
- Fixed Income managers tend to form an assessment on FX and incorporate their view into investment decisions
 - As part of the broader Fixed Income reconstitution, the KCERA Portfolio will move to *hard currency* EM Debt exposure denominated in USD
 - As of June 30th, 2025, the hard currency transition has largely been completed
- Equity managers tend to be agnostic to FX and do not incorporate a view into investment decisions

*As of June 30th, 2025

KCERA Foreign Currency (FX) Exposure, cont.

How much FX volatility is the Plan's International Developed Equity Portfolio exposed to?

What benchmark is representative of the exposure?

- As of June 30th, 2025, the Market Value of the International Developed Equity Portfolio was \$759M and represents 11.8% of Total Plan Assets
- The MSCI World ex-US Index can be used to represent the Plan's FX exposure
 - The Plan maintains an **overweight** to the Japanese Yen because of the dedicated Japanese Equity mandates
- The Plan's risk from FX exposure, using the MSCI World ex-US Index as a proxy, is 7.39% at the International Developed Equity Level and 0.87% at the Total Plan Level
 - FX represents 8.2% of the Plan's 10.6% aggregate volatility

	Currency	MSCI World ex-US Currency Exposures (%)	Individual Currency Risk (%)	Contribution to Total FX Risk (%)
EUR	Euro	31.58%	8.54%	2.70%
JPY	Japanese Yen	19.31%	10.66%	2.06%
GBP	British Pound	12.97%	7.68%	1.00%
CAD	Canadian Dollar	11.38%	6.16%	0.70%
CHF	Swiss Franc	8.47%	9.25%	0.78%
AUD	Australian Dollar	6.12%	9.70%	0.59%
DKK	Danish Krone	2.03%	8.73%	0.18%
SEK	Swedish Krona	3.23%	10.97%	0.35%
HKD	Hong Kong Dollar	1.77%	1.31%	0.02%
SGD	Singapore Dollar	1.54%	5.48%	0.08%
ILS	Israeli Shekel	0.87%	11.75%	0.10%
NOK	Norwegian Krone	0.56%	10.61%	0.06%
NZD	New Zealand Dollar	0.17%	9.92%	0.02%
Total (FX Corr. = 1)			8.65%	
Total (implied FX Corr.)			7.39%	

Sources: MSCI, Record Financial Group, and DB Autobahn
Individual Currency Risk based on one-month implied volatility
Volatility as of June 30th, 2025

Should FX Exposure be Managed?

What are the components of International Equity return?

*What is the **Embedded Currency Portfolio**? Are investors compensated for FX risk?*

- The return of International Equity can be separated into R_{LC} (the return equity managers earn on foreign securities) and R_{FX} (the gain or loss from foreign currency exposure)
- FX exposure is an uncompensated risk because it is a source of volatility and has an unknown long-term expected return
- In periods of a strengthening US Dollar, hedging FX exposure can outperform an unhedged approach
- In periods of US Dollar weakness, leaving FX exposure unhedged will allow gains to flow to the Portfolio

Calendar Year	World ex-US, USD Return	World ex-US, Local Return	Embedded FX Return	Embedded FX Vol.
2008	-45.21%	-41.40%	-6.49%	10.03%
2009	29.68%	21.57%	6.67%	9.47%
2014	-6.74%	3.62%	-10.00%	5.03%
2015	-5.44%	1.44%	-6.79%	6.30%
2016	-0.13%	3.47%	-3.48%	7.06%
2017	21.03%	11.70%	8.35%	4.14%
2018	-16.40%	-13.27%	-3.60%	4.97%
2019	18.97%	18.11%	0.73%	4.24%
2020	5.17%	-1.18%	6.43%	5.65%
2021	10.13%	16.66%	-5.60%	4.86%
2022	-16.59%	-9.49%	-7.85%	8.61%
2023	14.77%	12.64%	1.89%	7.01%
2024	2.03%	9.56%	-6.87%	6.49%
2025	17.02%	6.23%	10.16%	5.32%
Total Annualized	2.99%	4.73%	-1.66%	6.32%

The **cumulative** return of the MSCI World ex-US Index in local currency is approximately **+30%** higher than the return of the Index denominated in USD between January 2014 and June 2025

- This demonstrates that over the past 11.5 years, Dollar strength has been a headwind to performance for international investors

Sources: MSCI, Mesirow Currency Management

Total Annualized data between January 2014 and June 2025

Annual volatility of FX Basket in MSCI World ex-US Index measured by Standard Deviation

KCERA Program Guidelines

What is the framework for a program that achieves the Plan's objectives?

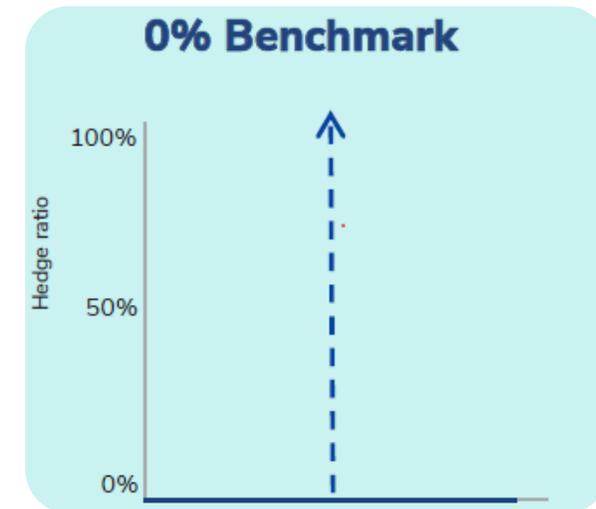
- Staff determined that an active approach to currency hedging permits a currency manager to **take purposeful risk** and **generate an incremental return**
 - These objectives, relative to the benchmark, can only be achieved when the manager has an open hedge position that is Long USD / Short FX
- Staff proposed the following program guidelines and has been monitoring the performance of two prospective managers managing a live paper portfolio to this mandate

Hedge Ratio Benchmark: A **Dynamic** Hedge Ratio Benchmark is designed to adjust the hedge ratio through time, with the goal of providing downside protection while allowing for upside participation. The **0% Benchmark** starts with unhedged exposure and increases the hedge ratio opportunistically in periods of expected Dollar strength / FX weakness. In a period of Dollar depreciation and FX appreciation, unhedged exposure allow FX gains to flow through.

Tracking Error Target: The level of tracking error dictates the amount of active risk that a currency manager can assume. The optimal tracking error should allow the manager to express their view with sufficient magnitude & ensure risk-taking is judicious.

Forward Contract Maturity: A laddered maturity structure helps mitigate the risk of large adverse negative cash flows.

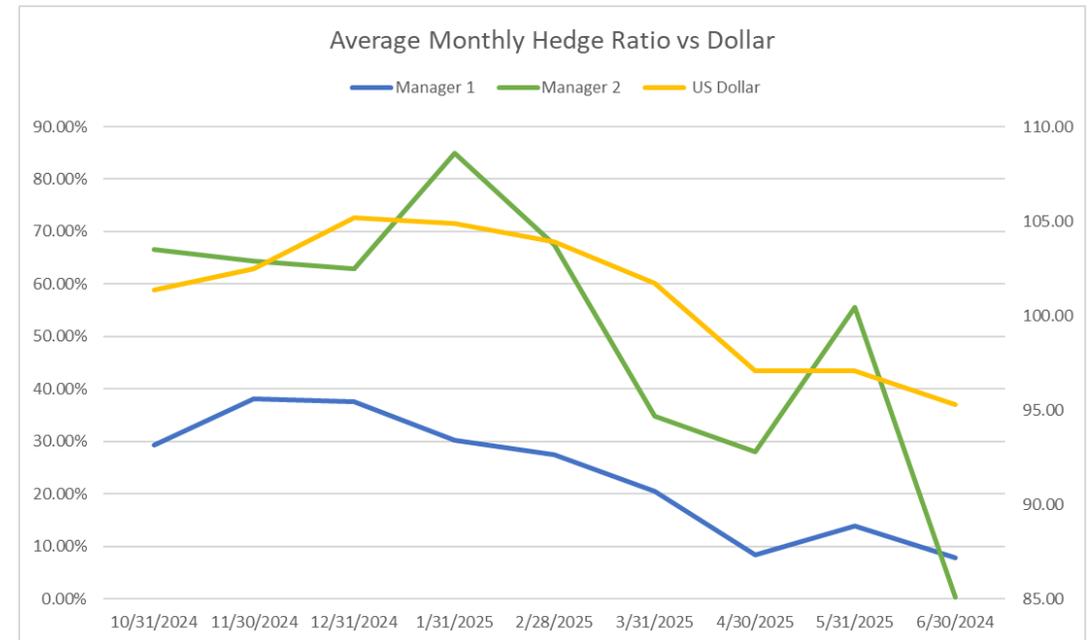
Equity Exposure Benchmark:	MSCI World ex-US Index
Hedge Ratio Benchmark:	0%
Tracking Error Target:	4%
Forward Contract Maturity:	3-Month Laddered



Currency Program Performance

*How have the prospective currency managers performed?
How does the performance in a strong Dollar environment compare to a weak Dollar environment?*

- Receiving real-time data has helped Staff analyze and interpret the performance of a currency program in distinct environments
- The relative return of a currency program reflects the manager’s skill in determining the optimal Hedge Ratio
 - Manager 1 maintained an average monthly Hedge Ratio of 24%
 - Manager 2 maintained an average monthly Hedge Ratio of 52%
- Manager 2 outperformed Manager 1 by 1.50% from inception through the end of 2024
- Manager 1 outperformed Manager 2 by 3.27% in 2025 through June 30th
 - The relative return of **both** Managers is negative in this period
- Manager 1 has generated an excess return of +0.65% from inception through 6/30/2025, translating to a cumulative positive cashflow of \$4.8M
- Manager 2 has generated an excess return of -1.24% from inception through 6/30/2025, translating to a cumulative negative cashflow of -\$9.9M
- Manager 1 and Manager 2 have successfully captured more of the embedded FX upside than less of the downside
 - In a strong Dollar environment, Manager 1 captured 67% of the FX downside and Manager 2 captured 38%
 - In a weak Dollar environment, Manager 1 allowed 89% of the FX upside to flow to the portfolio and Manager 2 allowed 54%



The performance of the Dollar is the inverse return of the FX portfolio embedded in the MSCI World ex-US Index. The Dollar appreciated **+5.03%** from inception to 12/31/2024 and depreciated **-10.09%** in 2025 through 6/30/2025. There is a meaningful positive correlation between the return of a hedging program and the return of the Dollar.