

INVESTMENT MANAGEMENT AGREEMENT (Stable Value)

_____ (“Investment Manager”)

BOARD OF TRUSTEES OF THE KENTUCKY PUBLIC
EMPLOYEES’ DEFERRED COMPENSATION AUTHORITY
on behalf of the
Kentucky Public Employees’ 401(k) Deferred Compensation Trust
Kentucky Employees’ 457 Deferred Compensation Trust (2012)
Kentucky Public Employees’ Deferred Compensation Authority Deemed IRA Trust
January 1, 2027

EXHIBIT B

I. INVESTMENT OBJECTIVES

The general objectives for investment management of the Fixed Contract Fund (“Fund”) will be as follows:

- A. To strive for preservation of principal and interest income reasonably obtained under prevailing market conditions.
- B. To strive to maintain liquidity for plan-permitted, participant-initiated inter-fund transfers and withdrawals.
- C. To strive for credited rates that move generally in the direction of prevailing market rates.

II. VALUATION AND REPORTING

The assets of the Fund will be valued and reported in accordance with the provisions of and amendments to, if any, Statement of Financial Accounting Standards No. 107, American Institute of Certified Public Accountants Statement of Position 94-4, and other standards of financial accounting and reporting, if any, applicable to the Plans and the Fund’s investments.

Investment performance of the Fund on a book value basis will be supplied as requested by the Board, but at least quarterly, as described in Section VII.

Changes in economic conditions, market benchmark compositions, plan investment options and the timing and magnitude of cash flows may require altering these broad market benchmarks or weightings from time to time. If these conditions are temporary, it is assumed that over time, conditions will reverse themselves and allow the benchmark to remain valid. If, for some reason conditions affecting performance versus this benchmark

become permanent, Investment Manager and the Authority agree to review the market value performance measurement benchmark and make appropriate adjustments.

Performance comparisons will be provided on a quarterly basis or more frequently if requested by the Board.

III. APPROVED INVESTMENTS

In general, the assets may be various high quality fixed income investments that, when covered by benefit responsive investment contracts as described below, are intended to provide stable account values. All investments shall be limited to investment contracts where the Plan has a security interest.

A. Investment Contracts

Investment contracts selected for the Fund are those that are deemed acceptable by the Investment Manager considering creditworthiness, contract features, and administrative capabilities at the time of purchase. Investment contracts contain provisions requiring the issuing institution to provide plan-permitted liquidity from the Fund as needed to satisfy participant-initiated withdrawal requests without reflecting changes in capital value in the amounts withdrawn; provided that the withdrawals are made in accordance with the terms of the contracts as described (without limitation) in Section IV.

(i) Separate Account Contracts.

Approved separate account contracts may be purchased from insurance companies. The investment performance of these contracts is typically related to a portfolio of investments held inside the separate account contract. The assets are held in a separate account of the issuer and are protected from other creditors of the issuer. The acceptable assets held in separate account contracts are described in Section III.B.

Investment in separate account contracts may only be made upon prior written consent of the Board.

(ii) Security Backed Investment Contracts (synthetic GICs).

Approved security backed investment contracts (synthetic GIC's, or "wrap" contracts) may be purchased from insurance companies, banks, or other financial institutions. The investment performance of one of these contracts is typically related to a portfolio of investments held in the Fund covered by the contract. The acceptable assets are described in Section III.B.

B. Acceptable Assets

Acceptable assets are U.S. dollar denominated publicly or privately issued fixed, floating or variable rate obligations of the following entities or types:

- (i) U.S. Treasury
- (ii) U.S. Agency or Government-Sponsored Entity
- (iii) Mortgage pass-through securities (MBS), including To-Be-Announced (TBA) mortgage rolls:
- (iv) Structured securities issued by various kinds of trusts, such as:
 - a. Commercial mortgage-backed securities (CMBS);
 - b. Collateralized mortgage obligations (CMO);
 - c. Asset-backed securities (ABS);
- (v) U.S. or non-U.S. Corporations;
- (vi) Municipalities;
- (vii) Trusts, including but not limited to, trust preferred securities, asset-backed securities, and REMICs;
- (viii) Units of separate accounts available through separate account benefit responsive contracts offered by insurance companies, as approved by Investment Manager and consented to by the Board;
- (ix) shares of regulated investment companies;
- (x) Foreign government entities;
- (xi) Mortgage backed collateral;
- (xii) Short-term investments (maturing, or invested in instruments maturing, in less than 12 months), including:
 - a. U.S. Treasury and U.S. agency-issued securities;
 - b. Certificates of deposit and bankers' acceptances of U.S. banks;
 - c. Commercial paper;
 - d. Bank or other financial institution short-term investment accounts, including such accounts maintained by the Plan's trustee bank;
- (xiii) Repurchase agreements, provided that they are no longer than 90 days and have collateral that is marked to market daily;
- (xiv) Other securities not listed above that are or become represented in the indices applicable to the Fund, provided that other constraints in these guidelines are not violated.

IV. INVESTMENT CONTRACT PROVISIONS

It is understood that:

- A. the investment contracts described in Section III generally provide book-value coverage for participant-initiated withdrawals made in accordance with the terms of the Plan and the investment contracts;

- B. the terms of the investment contracts generally reflect the composition of the participants and the Plan sponsor, and the provisions of the Plan, at the time they are purchased (unless subsequently modified by the parties to such contracts);
- C. certain events affecting the Plan sponsor (including, without limitation, asset sales, downsizings, early retirement programs) or the Plan (including, without limitation, amendments, design changes, changes in the investment options offered):
 - (i) require notice to contract issuer;
 - (ii) may result in a change in payments or in future returns under the investment contract;
 - (iii) may result in the loss of the book-value accounting treatment for the fixed income assets covered by the investment contract, which could cause the Fund to lose book value if the market value of these assets is lower than their book value; or
 - (iv) may permit the issuer to wind down or terminate the contract, which could result in a loss of the book value accounting treatment of the wrapped assets, which could cause the Fund to lose book value if the market value of these assets is lower than their book value; and
- D. each of these investment contracts may include provisions allowing the issuer thereof, at any time in its sole discretion, to require that
 - (i) the Fund becomes partially or entirely invested in more conservative investments than otherwise provided in these Investment Guidelines, along with progressively declining durations (the “Immunization Guidelines”) and
 - (ii) the assets of the Fund continue to be invested in accordance with the Immunization Guidelines throughout the remaining term of the contract, which term may not expire until the market value of the assets of the Fund equals or exceeds the book value of the assets of the Fund.

V. **INVESTMENT CONSTRAINTS**

A. **Credit and Diversification**

- (1) Separate account contract issuers must be approved by the Investment Manager at the time of purchase and accepted by the Board prior to investment. The maximum percentage of the Fund invested with a separate account contract issuer shall not exceed 25% at the time of purchase. Any exception to the maximum must be approved by the Board in writing.
- (2) Security backed investment contract issuers (“wrap issuers”) must be approved by the Investment Manager at the time of purchase. The maximum percentage of the Fund invested with a security backed investment contract issuer shall not

exceed 25% at the time of purchase. Any exception to the maximum must be approved by the Board in writing.

- (3) Acceptable assets as described in Section III.B above must be rated at least investment grade (BBB- or equivalent by S&P, Moody's, or other nationally recognized statistical rating agency (NRSRO)) at the time of purchase. Short-term investments as provided in Section III.B (xii) above must be rated at least A-1/P-1 at time of purchase. In the case of a split-rated security, the higher rating applies.
- (4) The minimum average credit quality of the Fund's investments must be Aa3/AA- by Moody's, S&P, or other NRSRO.

Investment Manager's credit matrix will change periodically in response to market conditions. Currently the following constraints apply, at the time of purchase:

	<u>Maximum</u>
Exposure by book value wrap	25%
Exposure by security/Issuer	5%
Exposure per external manager	35%
Total externally managed limit	100%

Investment Manager will seek to maintain at least 50% allocation to outside managers and manage the overall Fund duration consistent with these Investment Objectives and Guidelines. From time to time, the allocation to external managers will vary slightly from the 50% minimum target allocation due to market conditions or unique liability needs for the Fund.

B. Duration

The Fund shall normally be managed with a weighted average duration of not less than two nor more than four years. Short-term investments must be included in the calculation of the portfolio's duration. While a range of two to four years is indicated, the account will be managed opportunistically, consistent with the investment objectives set forth above.

C. Other Constraints

Derivatives shall not be used in the Fund. Traditional investment contracts, such as GIC's and BIC's, shall not be used in the Fund.

D. Sector Constraints

The Fund must be maintained within the following sector limits:

<u>Sector</u>	<u>Maximum</u>
Treasury Securities	100%
Agency Securities, excluding MBS securities	100%
Asset Backed Securities	30%

Agency Mortgage Backed Securities	50%
Non-agency Mortgage Backed Securities	10%
Commercial Mortgage Backed Securities	20%
Traditional Investment Contracts, e.g. GICs, BICs	0%
Corporate Bonds and Notes	75%
Total Combined Allocation to Corporates ABS, CMBS, and Non-Agency MBS, Municipal Securities and Foreign Government Debt	75%
U.S. dollar denominated Foreign Corporate and Sovereign Bonds	50%

VI. LIQUIDITY MANAGEMENT

In addition to holding short-term investments or other fixed income vehicles allowing ready access to cash for plan participant liquidity needs, Investment Manager may utilize other liquidity tools such as reverse repurchase agreements, lines of credit, and other appropriate borrowing arrangements on behalf of the Plan. These vehicles may be used as short-term measures to provide cash as needed for honoring plan participant withdrawal and transfer requests.

VII. PERFORMANCE STANDARD

Investment Manager's performance shall be compared to the two benchmarks listed below.

A. Book Value Return. The book value return of the Fund shall be compared to:

- iMoneyNet Money Market Institutional Index

Over a 5 year period, the Investment Manager should produce net returns that exceed the benchmark by 150 basis points for the money market index.

B. Market Value Return. The market value return of the Fund shall be compared to the blended index, as follows:

5%	Bloomberg Barclays Capital U.S. 3-month Treasury Bellwether Index
45%	Blended Short-Term Bond Index*
30%	Blended Intermediate Bond Index*
20%	Blended Core Bond Index*

* see below for component details

- 45% Blended Short Term Bond Index (consisting of the following percentages of Bloomberg U.S. Bond indices):
 - 25% 1-3 Year U.S. Treasury
 - 10% U.S. MBS

- 10% 15 Year MBS
 - 15% CMBS ERISA eligible AAA 1-3.5
 - 5% ABS Floating Rate Aaa
 - 25% Aaa ABS*
 - 10% USD Corporate Bond 1-5 Year
- 30% Blended Intermediate Bond Index (consisting of the following percentages of Bloomberg U.S. bond indices):
 - 30% Intermediate U.S. Treasury
 - 25% U.S. MBS
 - 5% CMBS ERISA eligible AAA
 - 30% UDS Corporate Bond 1-5 Year
 - 10% Intermediate Corporate
- 20% Blended Core Bond Index (consisting of the following percentages of Bloomberg U.S. bond indices):
 - 15% 1-5 U.S. Treasury
 - 20% Intermediate U.S. Treasury
 - 25% U.S. MBS
 - 5% CMBS ERISA eligible AAA
 - 35% Intermediate U.S. Corporate Investment Grade
- 5% Bloomberg US. Treasury Bellwether 3-month Index

*As of November 1, 2022, the Blended Short Term Bond Index replaced the Bloomberg ABS AAA index with the Bloomberg ABS AAA ex. Stranded Cost Utility Index. Effective on that date, the composition of the ABS AAA index changed and the composition of the ABS AAA ex. Stranded Cost Utility Index is substantially similar to the ABS AAA index prior to the November 1 date.

VIII. EXCEPTIONS

Exceptions to the Investment Objectives and Guidelines may be made only by the Board upon delivery of written exceptions to Investment Manager.

IX. AMENDMENTS

Amendments to the Investment Objectives and Guidelines may be made only in accordance with Section 8.1 of the Investment Management Agreement.

(Investment Manager)

By: _____

Title: _____

Date: _____

**KENTUCKY PUBLIC EMPLOYEES’
DEFERRED COMPENSATION
AUTHORITY BOARD OF TRUSTEES**
on behalf of the Kentucky Public
Employees’ 401(k) Deferred Compensation
Trust, Kentucky Employees’ 457 Deferred
Compensation Trust (2012), and Kentucky
Public Employees’ Deferred Compensation
Authority Deemed IRA Trust

By: _____
Joe McDaniel, Authorized Signatory

Title: _____
Chairman of the Board

Date: _____