

**MINUTES  
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM  
BOARD OF TRUSTEES**

November 16, 2018

The meeting of the Board of Trustees was called to order by Chairman Kelly Arnold at 9:33 a.m. on November 16, 2018, in the Retirement System Board Room, Topeka, Kansas.

Board members present:            Kelly Arnold, Chairman  
   Ernie Claudel  
   Shawn Creger  
   Michael Rogers  
   Ryan Trader (via phone)  
   James Zakoura  
   Jake LaTurner (via phone)

Board members absent:            Suresh Ramamurthi, Vice-Chairman  
   James C. Cusser

Chairman Kelly Arnold welcomed all participants.

**Public Comments**

There were no public comments.

**Outstanding Service Award Presentation**

Chairman Arnold recognized Tracy Brull as the recipient of the KPERS Outstanding Service Award for the period of December 2018 through March 2019. Chairman Arnold congratulated Ms. Brull for consistently demonstrating KPERS' core values of service, innovation, and providing a high level of customer service to our employers.

Chairman Arnold recognized Alan Conroy, Executive Director, who also congratulated Ms. Brull for her accomplishments. Mr. Conroy stated that Ms. Brull is a tremendous asset to the Fiscal Service team as she services the KPERS employers, and is always willing to accept new challenges as part of the KPERS Team.

**Consent Agenda**

The consent agenda included approval of the September 21, 2018 and October 18-19, 2018 meeting minutes.

*Trustee Rogers moved the Board of Trustees adopt the consent agenda. Trustee Creger seconded the motion. Motion carried.*

## **Executive Director's Report**

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy reported on recent agency activities including:

Benefits and Member services staff conducted 59 Employers Workshops with approximately 760 employer representatives in attendance; conducted ten pre-retirement seminars with approximately 1,000 members in attendance; assisted members with online enrollments of optional group life insurance during the annual open enrollment period; collaborated with the Information Technology staff on the beginning phase of a business process management system for processing applications for retirement benefits.

Fiscal Service staff received an unqualified opinion from the outside auditor, CliftonLarson Allen on the System's financial statements for Fiscal Year 2018. Staff is currently working with the Communications staff to publish the System's 2018 Comprehensive Annual Financial Report.

The Investment Division staff coordinated with the external presenters to provide six presentations for the October 18-19, 2018 Board Educational and Planning Session. The Investment Division staff met with representatives of PCA, Pavilion Alternatives Group, and the Townsend Group at a full day offsite meeting.

The Planning and Research staff assisted the Executive Director in preparing the agency testimony for the Joint Committee on Pensions, Investments, and Benefits meeting, provided information for presentations to the Silver Haired Legislature, Kansas Association of School Boards, Kansas Association of School Business Officials, and Kansas Association of American Educators.

The Information Technology staff continues to enhance and monitor our network security and functional capabilities. Staff implemented upgrades, including Microsoft's Teams collaborations platform, and new software to monitor and ensure software licensing compliance. Staff completed the Continuity of Operations project, and moved KPERS Disaster Recovery site from Denver to a new site located in the caverns of Lenexa, Kansas.

The Communications team assisted with the pre-retirement webinars and distributed monthly Enewsletters. They surveyed newsletter recipients for interests and satisfaction levels. Communications staff also assisted with the Optional Group Life Insurance open enrollment which was completed successfully.

KPERS 457 Deferred Compensation and Empower staff attended a KPERS 457 strategic planning meeting in Overland Park, Kansas. The results of the 2017 and 2018 campaigns were reviewed, along with overview updates from Empower as priorities and analysis needs for setting the roadmap of the 2019 goals. Staff completed the 11-week legacy beneficiary file conversion project. BTCO, Inc. in Wichita scanned all legacy paper files and delivered 37,775 pdf. files for electronic storage. Two additional employers completed joinder agreements to participate in the KPERS 457 plan, bringing the year-to-date total of 25 additional employers and over 3,800 eligible employees.

Mr. Conroy made presentations to the Kansas Association of School Business Officers, the Kansas Association of School Boards, the Silver Haired Legislature, the Kansas Association of American Educators, and the Joint Committee on Pensions, Investments, and Benefits. Mr. Conroy attended the National Council on Teacher Retirement's annual meeting in Washington D.C., and completed his term on Governmental Accounting Standards Advisory Council to the Governmental Accounting Standards Board.

KPERS' staff participated in the Employee Appreciation Week on October 29 through November 2, 2018, hosted by the Executive Committee. Mr. Conroy responded to questions from the Board.

### **Investment Operations Report**

The Chairman recognized Bruce Fink, Deputy Chief Investment Officer for Public Markets. Mr. Fink reviewed the September 30, 2018, Investment Performance Report. He reported that the Retirement System experienced a total return of 4.3% for the calendar year to date (not annualized), 8.2% for the trailing one year, 10.3% for the trailing three years and 8.0% for the trailing five years ending September 30, 2018. The twenty-five year average annualized total return of the System's investment portfolio was 8.1% as of September 30, 2018. Mr. Fink reported that the investment performance of the Retirement System's total investment portfolio has exceeded both the Policy Index return and the actuarial return assumption for the one year, three year, five year, ten year and twenty-five year time periods ending September 30, 2018.

Mr. Fink reviewed the performance of the System's active international equity managers. The report included a review of the investment managers' performance against both risk and return metrics, as stated in the Statement of Investment Policy, Objectives and Guidelines. Eric Wigginton, Investment Officer for Public Markets, reported on the performance of the System's Yield Driven investment managers and the passive domestic and international equity managers. Daniel Wadsworth, Assistant Investment Officer for Public Markets, reported on the performance of the System's core fixed income and real return investment managers

Chairman Arnold recognized John Burns of Pension Consulting Alliance (PCA). Mr. Burns reviewed PCA's Investment Market Risk Metrics Report and responded to questions.

### **Investment Committee Report**

Chairman Arnold recognized Shawn Creger, Vice-Chairman of the Investment Committee. Trustee Creger reported on the Investment Committee's meeting on Thursday, November 15, 2018, and responded to questions.

*Trustee Creger moved that the Board of Trustees approve a commitment of up to \$75 million to FS Equity Partners VIII, L.P. and authorize staff to proceed with the investment pending a satisfactory and final legal review of corresponding partnership documents. Trustee Zakoura seconded the motion. Motion carried.*

*Trustee Creger moved that the Board of Trustees approve a commitment of up to \$60 million to Prologis Targeted U.S. Logistics Fund, L.P. and authorize staff to proceed with the investment*

*pending a satisfactory and final legal review of corresponding partnership documents . Trustee Claudel seconded the motion. Motion carried.*

### **Deferred Compensation Plan Committee Report**

Chairman Arnold recognized Shawn Creger, Chairman of the Deferred Compensation Committee. Mr. Creger provided a report of the Deferred Compensation Committee meeting held on November 15, 2018.

*Trustee Creger moved that the Board of Trustees place the Vanguard Selected Value Investment Fund on watch status. Trustee Rogers seconded the motion. Motion carried.*

### **Audit Committee Report**

Chairman Arnold recognized Michael Roger, Chairman of the Audit Committee. Mr. Rogers provided a report of the Audit Committee meeting held on Friday, November 16, 2018, and responded to questions.

### **Possible Legislation for Consideration by the Next Session of the Legislature**

Chairman Arnold recognized Jarod Waltner, Planning and Research Officer. Mr. Waltner provided a report on the information on possible legislation for consideration by the next Session of the Legislature, and responded to questions. Mr. Waltner highlighted that any possible changes in the Board's authority for procurement in the areas such as printing services, central mail, Board and staff travel, office materials and supplies, and contractual services would help ensure that the Board's fiduciary responsibilities to the KPERS Trust Fund are carried out in the most efficient and cost-effective manner available.

Chairman Arnold recognized Kristen Basso, Communications Officer who responded to questions regarding the ability to have other options for negotiations on printing services and recent experience with the State Division of Printing.

*Chairman Arnold moved that the Board direct staff to pursue the introduction of legislation during the 2019 session to include additional oversight of the procurement and negotiation of contracts and services under the existing delegated authority of the Board when it is in the best interest of the Trust Fund. Trustee Creger seconded the motion. Motion carried.*

### **Retirement System Operations**

Chairman Arnold recognized Mary Beth Green, Chief Benefits Officer. Ms. Green reviewed the Key Performance Measures of the Benefits and Member Services Division and responded to questions.

The Chairman recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal reviewed the October monthly financial reports and responded to questions.

The Chairman recognized Jarod Waltner, Planning and Research Officer. Mr. Waltner responded to the question regarding the process for establishing the employer contribution rates.

Chairman Arnold called for a recess for a lunch break at 11:26 a.m.

Lunch was served to members of the Board of Trustees, and all participants.

Chairman Arnold called the meeting to resume at 11:42 a.m.

### **Appointment of a Procurement Negotiating Committee for Outside Disability Appeals Legal Counsel**

Chairman Arnold recognized Laurie McKinnon, General Counsel. Ms. McKinnon provided a review on the appointment of a Procurement Negotiating Committee for Outside Disability Appeals Legal Counsel.

*Chairman Arnold moved that the Board recess into executive session to discuss confidential litigation information regarding KPERS' litigation under the K.S.A. 75-4319(b). The following personnel are included in the session: members of the Board and staff members Alan Conroy, Laurie McKinnon, Kathleen Billings, Julie Baker, and Mary Beth Green. We will reconvene the open meeting in the Retirement System Board Room at 12:07 p.m. No binding action will be taken in the Executive Session. Trustee Claudel seconded the motion. Motion carried.*

Chairman Arnold reconvened the public meeting at 12:07 p.m. and announced that no binding action was taken in the executive session.

*Chairman Arnold moved to extend the executive session regarding confidential litigation matters until 12:15 p.m. with the Board members and the same staff members as included in the previous executive session. Trustee Creger seconded the motion. Motion carried.*

Chairman Arnold called the meeting back to order at 12:15 p.m. and stated that no binding action was taken in the executive session.

*Trustee Rogers moved that the Board of Trustees authorize a Procurement Negotiating Committee consisting of Alan Conroy, Laurie McKinnon, Kathleen Billings and Mary Beth Green to develop and publish a Request for Proposals for legal counsel to represent KPERS in disability appeals as provided in K.S.A. 74-4904(2) and related sections. Trustee Zakoura seconded the motion. Motion carried.*

### **Review of Initial Orders**

Chairman Arnold recognized Kathleen Billings, Staff Attorney. Ms. Billings reviewed the Jeffrey DeBell Initial Order and respond to questions.

*Chairman Arnold moved the Board inform the Executive Director of its decision to accept the Presiding Officer's Initial Order of the Jeffrey DeBell appeal and delegate to the Executive Director the authority to draft a Final Order containing the Board's decision, thereafter to be approved and signed by the Chairperson and to be served on the parties by the Executive Director in accordance with the provisions of the Kansas Administrative Procedure Act. Trustee Creger seconded the motion. Motion carried.*

## **Status Report on Appeals and Litigation**

Chairman recognized Laurie McKinnon, General Counsel. Ms. McKinnon provided a report on current KPERS appeals and litigation issues.

*Chairman Arnold moved that the Board recess into executive session to discuss confidential litigation information regarding KPERS' litigation under the K.S.A. 75-4319(b). The following personnel are included in the session: members of the Board and staff members Alan Conroy, Laurie McKinnon, Kathleen Billings, Julie Baker, Elizabeth Miller, Bruce Fink and outside legal counsel Thomas Murray and Tammy Somogy, Lathrop and Gage, LLP. We will reconvene the open meeting in the Retirement System Board Room at 12:35 p.m. No binding action will be taken in the Executive Session. Trustee Creger seconded the motion. Motion carried.*

Chairman Arnold called the meeting back to order at 12:35 p.m. and announced that no binding action was taken in the executive session.

## **Informational Items**

Chairman Arnold called the Board's attention to the informational items behind Tab L in the Board book.

## **Other Business**

### **Board Self Evaluation**

There was no further discussion.

## **Meeting adjourned**

Chairman Arnold adjourned the meeting at 12:38 p. m.