

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

September 21, 2018

The meeting of the Board of Trustees was called to order by Chairman Kelly Arnold at 10:18 a.m. on September 21, 2018, in the Retirement System Board Room, Topeka, Kansas.

Board members present:

- Kelly Arnold, Chairman
- Suresh Ramamurthi, Vice-Chairman
- Ernie Claudel
- Shawn Creger
- Michael Rogers
- Ryan Trader
- James Zakoura
- Jake LaTurner
- James C. Cusser

Chairman Kelly Arnold welcomed Amit Patel, Fiscal Analyst in the Kansas Legislative Research Department, and all other participants.

Chairman Kelly Arnold noted that all the Trustees have a copy of the FY 2019 Board of Trustee meeting dates, and Committee assignments.

Public Comments

There were no public comments.

Consent Agenda

The consent agenda included approval of the July 27, 2018 meeting minutes.

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

Executive Director's Report

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy reported on recent agency activities including: assisting employers with the July and August enrolling of nearly 6,700 new members and transferring 3,500 members from one participating employer to another; presenting employer webinars focused on KPERS 3 benefits; preparation for annual employer workshops planned across the state; and assisting members with online life insurance enrollments during the annual open enrollment period.

Mr. Conroy noted that Fiscal Service staff is providing investment and financial information for the Fiscal Year 2018 audit; preparing the KPERS 2018 Comprehensive Annual Financial Report; and the planning and design of a new business process management system for retirement applications and improvements to the member annual statement process. In

addition, Fiscal Services is working with KPERS' actuary, Cavanaugh Macdonald, in the preparation of the Fiscal Year 2018 GASB 67 and 68 reports. Preparation is under way for the new, biennial KPERS operating budget submission for Fiscal Years 2020 and 2021 to the Governor and the Legislature.

The Investment Division public market staff have completed the transition of the Global Inflation Linked Bond (GILB) portfolio in the real return asset class from an active mandate to a passive mandate with Blackrock and the private markets investment staff have completed due diligence for two new private equity investment recommendations. The Investment staff have prepared recommended changes for the annual review of the Statement of Investment Policy for Board consideration and individual performance objectives for Fiscal Year 2019 have been developed and discussed with each member of the Investment Division staff.

The Planning and Research staff met with legislators for KPERS overview and funding questions and responded to various legislator questions regarding funding statues, school group unfunded liabilities, and legislative service. Mr. Conroy submitted a letter to the Actuarial Standards Board in response to the proposed changes to funding measurements. Mr. Conroy made a presentation to the League of Kansas Municipalities and the Kansas Association of Counties and met with representatives of the firefighters union to discuss potential legislation for the upcoming session.

KPERS Information Technology staff successfully implemented the Microsoft Government Cloud (Office365) and the new internet web filtering technology; KPERS Continuity of Operations draft plan was provided to the Kansas Department of Emergency Management; staff continues to working on implementation of the new KPERS Disaster Recovery site; the last audit by Legislative Post Audit on information technology security gave KPERS a high marks for our network security; staff is also preparing for the October bi-annual disaster recovery test; the Division is working with the Department of Administration on a Request for Proposals for our KPERS Information Technology System (KITS) support.

The Communications team produced an issue of *Vested Interest*, the paper retiree newsletter and published August and September issues of *BenefitWise*, KPERS' active member newsletter. Staff continued to provide support for optional life insurance open enrollment, and began laying the foundation for two significant projects in FY 2019, redesigning both the member portal and the member annual statement.

Mr. Conroy made two presentations since the last Board meeting. The Legislative and Policy Committee of the Kansas League of Municipalities, and a webinar for the Kansas Association of Counties, regarding a general KPERS overview of the latest actuarial valuation, overall funding, benefits, and working after retirement. The October 18-19, 2018 Educational and Planning Meeting, which will include KPERS 101, (a basic overview), Investment Guide for new Trustees, Investment information and other helpful topics. Mr. Conroy responded to questions from the Board.

Chairman Arnold recognized Lane Wiley, Chief Information Officer, who responded to questions regarding KPERS cyber security.

Investment Operations Report

Chairperson Arnold introduced Allan Emkin, Pension Consulting Alliance. Mr. Emkin reviewed PCA's Semi-Annual Investment Performance Report for June 30, 2018 and responded to questions. He reported that the Retirement System experienced a total return of 8.7% for fiscal year 2018, outperforming the Policy Index return by 0.7%. The System's investment portfolio outperformed the median public pension fund in the peer universe over all time periods ending June 30, 2018.

Investment Performance Report

Liz Miller, Chief Investment Officer, reviewed the Investment Performance Reports for time periods ending July 31, 2018. Ms. Miller reported that the Retirement System experienced a total return of 3.3% for the calendar year to date time period (not annualized), a total return of 8.8% for the trailing one year time period, and an average annualized total return of 8.3% for the trailing five year time period. The System's total return has exceeded the Policy Index benchmark during the latest one, three, five, ten and twenty-five year time periods. Long-term returns remain robust, as the System's investment portfolio has produced an 8.3% average annualized total return over the past twenty-five years, outperforming the Policy Index by 0.6%.

Investment Market Risk Metrics Report

Chairperson Arnold introduced John Burns, Pension Consulting Alliance. Mr. Burns reviewed PCA's Investment Market Risk Metrics Report and responded to questions from the Board.

Investment Committee Report

Chairman Arnold recognized Suresh Ramamurthi, Chairman of the Investment Committee. Trustee Ramamurthi reported on the Investment Committee's meeting on September 20, 2018, and responded to questions.

Trustee Ramamurthi moved that the Board of Trustees approve a commitment of up to \$75 million to Warburg Pincus Global Growth, 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 Ramamurthi moved that the Board of Trustees approve a commitment of up to \$75 million to Vista Equity Partners Fund VII, L.P. and authorize staff to proceed with the investment pending a satisfactory and final legal review of corresponding partnership documents. Trustee Rogers seconded the motion. Motion carried.

Trustee Ramamurthi moved that the Board of Trustees approve the adoption of the amended Statements of Investment Policy, Objectives and Guidelines for the Retirement System and the Death and Disability Fund. Trustee Claudel seconded the motion. Motion carried.

Personnel Committee Report

Chairman Arnold recognized Trustee Ernie Claudel, Chairman of the Personnel Committee. The Personnel Committee met on September 21, 2018. Trustee Claudel, provided a report and responded to questions.

Trustee Claudel moved that the Board of Trustees approve the Investment staff incentive plan design as proposed by CBIZ Talent and Compensation Solutions and as recommended by the Personnel Committee. Trustee Zakoura seconded the motion. Motion carried.

Trustee Claudel moved that the Board of Trustees approve an adjustment in the salary of the Executive Director within the established Pay Grade for the position and that such adjustment be implemented as soon as practical in Fiscal Year 2019. Trustee Trader 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 September 20, 2018.

Trustee Creger moved that the Board of Trustees adopt the amendments to the KPERS 457 Plan Investment Policy Statement, dated September 20, 2018. Trustee Trader seconded the motion. Motion carried.

Fiscal Years 2020 and 2021 Budget Request

Chairman Arnold introduced Judy McNeal, Chief Fiscal Officer provided an overview of the FY 2020 and 2021 budget requests and responded to questions.

Trustee Arnold moved that the Board approve the Fiscal Year 2019, 2020, and 2021 budget request for submission to the Governor's Division of Budget and the Legislature. Trustee Rogers seconded the motion. Motion carried.

Trustee Claudel requested more information on the split of the contributions provided on TABLE 5 between employee and employer estimates for the State/schools and Local Employee/Employer Contribution. Staff indicated that the information is available and would be provided to Trustee Claudel.

Retirement System Operations

Chairman Arnold recognized Mary Beth Green, Chief Benefits Officer. Ms. Green reviewed the monthly operations report of the Benefits and Member Services Division's performance and responded to questions.

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

Trustees Trader and Claudel asked KPERS staff to research and respond at the next Personnel meeting regarding ways to measure and improve services performed in the Benefits and Members Services division for their core responsibilities, and to streamline

services such as: on-line processes, answering questions from active and retired members on a timely basis, and basic operational policies. Staff indicated that the requested information would be gathered and provided at the next Personnel Committee meeting.

Mr. Conroy stated that information regarding the CEM benchmark study on operations and how to stream line services will be provided at the October 18-19, 2018, Educational and Planning meeting.

Review of Board Policy Manual

Chairman Arnold recognized Laurie McKinnon, General Counsel. Ms. McKinnon reviewed updates to the Board Policy Manual and responded to questions.

Trustee Arnold moved that the Board of Trustees approve staff's recommended amendments to the Board Policy Manual. Trustee Creger seconded the motion. Motion passed.

Other Business

Chairman Arnold recognized Mr. Conroy, Executive Director. Mr. Conroy addressed the Board on the Department of Administration's memorandum regarding the following policy: *KAR 1-18-1a. If a mode of transportation is available and is less costly than transportation by privately-owned conveyance, mileage payments for use of privately-owned conveyance shall be limited to the cost of that other mode of transportation.* The reimbursement rate for mileage has changed from actual private mileage, to a mileage vs. rental car rate comparison, and the lesser amount would be reimbursed.

Chairman Arnold recognized Ms. McNeal who stated that this memorandum also includes Board members.

Mr. Conroy stated that legislation is required to change this policy, to enable agency directors to make the decisions on the reimbursement policies in their respective agency.

Informational Items

The Chairman called the Board's attention to the informational items behind Tab K in the Board book.

Board Self Evaluation

There was no further discussion.

Meeting adjourned

Chairman Arnold adjourned the meeting at 12:27p.m.