

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

January 18, 2019

The meeting of the Board of Trustees was called to order by Chairman Kelly Arnold at 10:09 a.m. on January 18, 2019, in the Retirement System Board Room, Topeka, Kansas.

Board members present:                    Kelly Arnold, Chairman  
    Ernie Claudel  
    Jake LaTurner  
    Michael Rogers  
    Ryan Trader  
    James Zakoura

Board members absent:                    Shawn Creger  
    James C. Cusser  
    Suresh Ramamurthi

Chairman Kelly Arnold acknowledged the attendance of Eileen Ma, Kansas Office of Revisor of Statutes and Reed Holwegner, Kansas Legislative Research Department and welcomed all participants.

**Public Comments**

Chairman Arnold acknowledged Alan Conroy, Executive Director. Mr. Conroy introduced and congratulated Shannon Kuehler, Senior Investment Analyst for Private Markets, on a recent recognition within her profession. Shannon has been recognized for her professional skills, and was recently honored by being named as one of Trusted Insight's 2018 Top 30 Institutional Investors in the Midwest. Chairman Arnold congratulated Shannon for her achievements.

Chairman Arnold congratulated Mr. Conroy on his accomplishment of 40 years of state service. Mr. Conroy earned his 40 years of state service award on September 5, 2018, and was recognized at the KPERS All Agency Meeting on January 4, 2019. Mr. Conroy was hired as the KPERS Executive Director in February 2012. Mr. Conroy's leadership has affirmed his dedication to serving KPERS members and has created a place where employees feel valued. Several Board members congratulated Mr. Conroy, and expressed their gratitude for his dedicated service. Mr. Conroy stated that it has been an honor to serve the State of Kansas and the 300,000 plus KPERS members. Chairman Arnold thanked Mr. Conroy for his 40 years of service to the State of Kansas, and especially the years he has spent with KPERS.

**Consent Agenda**

The consent agenda included the minutes of the November 16, 2018 meeting; Appointment of Hearing Officer for Diana Wilson, Debra Cox, and Shelley Wells; the annual Proxy Voting and Disclosure Report; and the new employer affiliations for KPERS, KP&F and optional group life insurance for 2019.

*Trustee Claudel moved that the Board of Trustees adopt the consent agenda. Trustee Trader seconded the motion. The motion passed.*

## **Executive Director's Report**

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

Benefits and Member Services staff have been working with employers to finalize affiliation applications for KPERS. Staff has worked to reconcile the 2018 benefit payment records with tax information, and finalizing about 120,000 1099-R tax forms for printing and distribution; contributing to the 2018 Member Annual Statement project; and working with technology staff to implement a business process management system for processing benefit applications from new retirees.

Along with members of the Communications team, staff members presented five *Pre-Retirement Webinars* for members and 18 *Employer Workshop Webinars* during November and December. Education staff also are planning the content and locations for the upcoming Spring 2019 *Pre-Retirement Seminars*.

Fiscal Services staff received an unqualified opinion on the System's Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2018 and it has been published to the KPERS website.

The Investment Division staff completed a detailed review and discussion of portfolio risk metrics for each of the System's asset classes and component investment portfolios. The senior management of the Investment Division has been working with PCA to develop a timeline and project plan for the System's 2019 Asset/Liability Study. The Investment Division staff have also been working to review and update the Investment Monitoring Procedures notebook, which is an annual effort.

The Planning and Research staff worked with various KP&F member groups on possible legislation (DROP, benefit cap, disability definition) and with the Department of Wildlife, Parks and Tourism on possible affiliation with KP&F for some of its staff. Staff provided information for individual legislators, members, researchers, and organizations related to funding, investments, and benefits. Staff also provided KPERS budget information to the Governor's Division of the Budget and the Kansas Legislative Research Department and collaborated with the Communications team on a new format for the KPERS internal legislative updates and the external KPERS legislative page.

KPERS staff and Empower are finalizing the 2019 plan goals and communication calendar. Focus will continue to be placed on adding eligible employers, increasing actively contributing participations, and increasing the deferral amounts of on-going participants.

Final disposition of legacy (VOYA) paper beneficiary forms has been completed. All legacy beneficiary files have been converted to electronic format, and the original documents were shredded through a secure off-site vendor.

KPERS Information Technology staff continue to enhance and monitor our network security and functional capabilities. Staff has completed a planned major upgrade of both our server infrastructure, databases and our web applications. KPERS IT staff worked with our external partner, Optiv, to complete an independent network perimeter scan of the KPERS network.

The KPERS IT Division began annual review of KPERS IT Security Policies and have begun annual online IT security training for all KPERS employees. The Division is also leading a redesigned data governance program for the agency.

The Communications Department produced three member newsletters, two for active members and one for retirees. In addition to KPERS information, the active newsletter continues to provide information to increase financial literacy with the goal of eventual retirement readiness.

Staff also provided communications support for two new employer web portal features, the member annual statement project and finished with this year's employer workshop webinars.

Staff conducted several United Way and Community Health Care Charities fund-raising events for two weeks in November. The total raised for these two worthy causes was approximately \$3,800.

On December 14, 2018, the staff enjoyed the annual Holiday Luncheon. Staff also collected clothing and toys for donations to Doorstep, a local emergency assistance center.

### **Investment Operations**

The Chairman recognized Liz Miller, Chief Investment Officer. Ms. Miller reviewed the November 30, 2018 performance report. Ms. Miller reported that the Retirement System's investment portfolio produced a total return of 1.3% for the calendar year to date time period (not annualized), exceeding the Policy Index return of -0.3% by 1.6%. She reported that for the one year ending November 30, 2018, the System's investment portfolio achieved a 2.4% total return, beating the Policy Index total return of 1.0% by 1.4%. Ms. Miller also reported on longer term investment performance results, reporting that the Retirement System's investment portfolio produced an average annualized total return of 10.2% for the trailing ten year time period, and an 8.0% average annualized total return for the trailing 25-year time period ending November 30, 2018. The System's investment portfolio outperformed the Policy Index benchmark for all time periods reported.

The Chairman recognized Ryan Lobdell, Pension Consulting Alliance. Mr. Lobdell reviewed PCA's Investment Market Risk Report and responded to questions.

### **Investment Committee Report**

The Investment Committee met on Thursday, January 17, 2019. Chairman Arnold provided a brief report in the absence of Suresh Ramamurthi, Chairman of the Investment Committee.

*Chairman Arnold moved that the Board of Trustees approve an additional commitment of up to \$65 million to Prime Property Fund, LLC, and authorize staff to proceed with the investment pending a satisfactory and final legal review of corresponding partnership documents. Trustee Zakoura seconded the motion. The motion carried.*

*Chairman Arnold moved that the Board of Trustees approve a commitment of up to \$100 million to the Axiom infrastructure fund, AxInfra US II LP, and authorize staff to proceed with the investment pending a satisfactory and final legal review of corresponding partnership documents. Trustee Trader seconded the motion. The motion carried.*

## **Audit Committee Report**

The Audit Committee met on Friday, January 18, 2019. Michael Rogers, Chairman of the Committee, provided a report and responded to questions.

## **Personnel Committee Report**

The Personnel Committee met on Thursday, January 17, 2019. Ernie Claudel, Chairman of the Committee, provided a report and responded to questions.

*Trustee Claudel moved that the Board of Trustees adopt the updated salary ranges for investment staff as recommended by CBIZ Talent & Compensation Solutions as a result of the investment compensation study that was recently completed and as further recommended by the Executive Director and that such salary ranges be implemented at the beginning of Fiscal Year 2020. Trustee Trader seconded the motion. The motion carried.*

## **KPERS Death and Disability Plan Valuation**

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy introduced Daniel D. Skwire, FSA, Principal, Millman, Inc., and Jacob Efron, FSA, MAAA, Milliman, Inc. Mr. Skwire and Mr. Efron presented an annual report on the Death and Disability Plan Valuation as of June 30, 2018, and responded to questions.

## **Overview of Investment Asset Liability Study and Actuarial Triennial Experience Study Timelines**

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy presented a report on the Investment Asset Liability Study and Actuarial Triennial Experience Study timeline and described the responsibilities for the Trustees concerning the study, and responded to questions.

## **Tentative Report and Review of Governor's Budget Recommendations for KPERS for Fiscal Years 2019, 2020, and 2021**

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy introduced Jarod Waltner, Planning and Research Officer. Mr. Waltner stated that the Governor is implementing a one year budget. Mr. Walter provided a report on the Governor's Budget recommendations for KPERS for Fiscal Years 2019 and 2020, and responded to questions.

*Trustee LaTurner moved that the Board of Trustees allow Alan Conroy, Executive Director, to draft a letter to the Governor consistent with the Board's comments. Trustee Trader seconded the motion. The motion carried.*

## **Presentation of KPERS Summary Overview for Policy Makers**

Chairman Arnold recognized Jarod Waltner, Planning and Research Officer, who presented a KPERS Summary Overview for Policy Makers. Mr. Waltner stated the document is a designed as an overview of what services KPERS provides and key facts about KPERS. Trustee Claudel stated

that he would like the Board members to receive any updates to this document. Mr. Waltner respond to questions.

### **Presentation of the KPERS Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2018**

Chairman Arnold recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal presented the highlights of the KPERS Comprehensive Annual Financial Report for Fiscal Year 2018 and responded to questions.

### **Sample Legislative Activity Report on KPERS Related Issues**

Chairman Arnold recognized Jarod Waltner, Planning and Research Officer. Mr. Waltner provided a summary of current legislative issues pertaining to KPERS, discussed up-to-date e-mail communications of KPERS' legislative activities and responded to questions.

Chairman Arnold recognized Representative Steven Johnson. Representative Johnson provided information regarding the reamortization of the unfunded actuarial liability issue, and responded to questions. Trustee LaTurner thanked Representative Johnson for attending the meeting, and appreciated his leadership in the legislature.

### **Monthly Operations Report**

Chairman Arnold recognized Mary Beth Green, Chief Benefits Officer. Ms. Green reviewed member service performance and responded to questions.

### **Monthly Financial Report**

Chairman Arnold recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal reviewed the preliminary December 31, 2018 financial statements, and responded to questions.

### **Review of Initial Orders**

Chairman Arnold recognized Kathleen Billings, Staff Attorney. Ms. Billings, reviewed the Initial Order in the Herbert Llewellyn appeal, and responded to questions.

*Chairman Arnold moved that the Board inform the Executive Director of its decision to reject the Presiding Officer's Initial Order of the Herbert Llewellyn appeal, and delegate to the Executive Director the authority to draft a Final Order containing the Board's decision to remand the case back to the Presiding Officer to hold a fact-finding hearing, thereafter to be approved and signed by the Chairman and to be served on the parties by the Executive Director in accordance with the provisions of the Kansas Administrative Procedure Act. Trustee Zakoura seconded the motion. The motion passed.*

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

Chairman Arnold 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, and Bruce Fink. We will reconvene the open meeting in the Retirement System Board Room at 1:35 p.m. No binding action will be taken in the Executive Session. Trustee Claudel seconded the motion. The motion carried.*

*Open session resumed and Chairman Arnold again moved that the Board continue in 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, and Bruce Fink. We will reconvene the open meeting in the Retirement System Board Room at 1:45 p.m. No binding action will be taken in the Executive Session. Trustee Trader seconded the motion. The motion carried.*

Chairman Arnold called the meeting back to order at 1:45 p.m. and announced that no binding action was taken in the executive session.

*Chairman Arnold moved that the Board provide KPERS' Executive Director, Alan D. Conroy, with the authority to participate in the Smith v. KPERS settlement conference and to accept such terms as considered appropriate. Trustee Trader seconded the motion. The motion carried.*

### **Personnel Committee**

*Chairman Arnold moved that the Board of Trustees recess into executive session at 1:47 p.m. for 3 minutes to discuss confidential personnel matters under K.S.A. 75-4319(b). The following persons are included in the executive session: members of the Board, Alan Conroy, Executive Director, Julie Baker, Human Resources Director, and Elizabeth Miller, Chief Investment Officer. We will reconvene the open meeting in the KPERS Board Room at 1:50 p.m. No binding action will be taken in the executive session." Trustee Trader seconded the motion. The motion carried.*

Chairman Arnold called the meeting back to order at 1:50 p.m. and announced that no binding action was taken in the executive session.

*Trustee Claudel moved that the Board of Trustees change the effective date of the Investment Staff Incentive Plan that was approved at the September 21, 2018, meeting to January 1, 2018 from January 1, 2019, with the first possible payment to be presented to the Personnel Committee for consideration at the March 2019 meeting." Trustee Trader seconded the motion. The motion carried.*

### **Informational Items**

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

### **Other Business**

No other business was discussed.

### **Board Self Evaluation**

There was no further discussion.

Chairman Arnold adjourned the meeting at 1:51 p.m.