

MINUTES
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES

March 22, 2019

The meeting of the Board of Trustees was called to order by Chairman Kelly Arnold at 10:34 a.m. on March 22, 2019, in the Retirement System Board Room, Topeka, Kansas.

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

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

Chairman Kelly Arnold welcomed all participants.

Public Comments

There were no public comments.

Outstanding Service Award

Chairman Arnold presented Shawn Nix, System Software Analyst III, and Dawn Nichols, Senior Administrative Assistant, each with an Outstanding Service Award. Chairman Arnold congratulated Mr. Nix and Ms. Nichols for consistently exhibiting KPERS Core Values of service, accountability, innovation, and teamwork.

Chairman Arnold recognized Alan Conroy, Executive Director, who also congratulated Mr. Nix and Ms. Nichols for their accomplishments and great service to KPERS members, and to the KPERS team.

Shawn was nominated for this award because of his outstanding work ethic and dedication to KPERS. In the last several months he played an integral role on the KPERS Information Technology System (KITS) upgrade and modernization project. Shawn worked for months gleaning information from our staff and Sagitec to define the new architecture platform. He developed standards and processes to make future builds easier.

Dawn was nominated because she is an exemplary face of KPERS, treating every customer with great respect and consideration. She is positive and helpful with everyone she comes in contact with, and always accepts any assignment with a willing attitude. Dawn is a great asset to the Benefits and Member Services Division. She played a vital part in implementing the new business process management system for post-retirement death claims.

Consent Agenda

The consent agenda included approval of minutes for the January 18, 2019 meeting; consideration of KPERS 3 and Deferred Retirement Option Program (DROP) Interest Credits; and the appointment of a Hearing Officer for the Daniel B. Jarvis and Mark Lytle appeal cases.

Trustee Rogers moved that the Board of Trustees adopt the consent agenda. Trustee Zakoura seconded the motion. The motion carried.

Executive Director's Report

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy reported on recent key activities at KPERS. Highlights of the activities include:

Benefits and Member Services staff members responded to approximately 18,000 incoming phone calls from members and employers in January and February, with many calls related to changes in the federal tax withholding for retirees and distribution of 122,000 1099-R tax forms. Staff finalized presentation materials and logistical arrangements for the annual Pre-Retirement Seminars.

Benefits and Members Services staff completed quality control reviews of the 2018 Member Annual Statements, which are currently being distributed to all active members. The Division is working with Information Technology staff to finalize a business process management tool for handling retirement applications.

Fiscal Services staff has published the GASB 68 report for June 30, 2018, which is available on the KPERS website for participating employers. The GASB 75 reports for June 30, 2018 are published and available to KPERS employers. After consideration following their presentation to the Procurement Negotiating Committee, CliftonLarsonAllen LLP was recommended to be chosen as KPERS' financial auditing firm.

Planning and Research staff has focused primarily on Legislative matters. Staff has attended 29 Committee meetings, provided testimony on 16 bills, and produced two budget presentations. Planning and Research has also provided information to individual legislators on KPERS long-term funding, cost of living adjustments, retirement benefit payments, and information on various bills. Staff has also been working with employers and employees on questions about working after retirement.

The Investment staff in public markets completed fourth quarter 2018 meetings or conference calls with all of the System's investment managers to review investment performance results and portfolio strategy. The private markets investment staff conducted due diligence meetings with representatives of two private equity firms and one non-core real estate firm in preparation for investment recommendations for the March Investment Committee meeting.

The entire Investment Division staff met with representatives of Pension Consulting Alliance (PCA), Pavilion Alternatives Group, and The Townsend Group in an offsite meeting in mid-February.

All of the Investment Division staff participated in a quarterly review of Barra risk statistics for each of the System's asset classes and investment portfolios, including both public and private markets assets.

Information Technology staff completed a major planned infrastructure upgrade project to modernize our server operating systems, web, application, document imaging, and database systems in both our test and production environments. KPERS Information Technology staff are also collaborating with Microsoft on a data center assessment project, which will provide detailed performance, security, and cloud readiness information for the KPERS data center environment. Staff worked with Fiscal Services staff to begin a pilot of Amazon Connect, a cloud based call center software. Staff has provided information to support work on the SOC II Type I compliance and is in the process of implementing a digital process automation software to meet a number of audit compliance requirements. Staff members have also worked to complete annual processes including Member Annual Statements, 1099-R production, and tax letters.

The Communications team has invested significant resources in a major project on member engagement. KPERS intends to transform the way members are engaged, further tailoring messages by age and career stage with automated milestone communications, a new member web portal and redesigned annual statements. In addition, the Communications team also provided support for several publications.

The team also worked with Planning and Research to revamp communication tactics for the legislative session: new web hub, new legislative summaries for all bills affecting KPERS, new email layout and distribution process for daily updates and various topical issue briefs.

The recent presentations that Mr. Conroy has made to outside groups include:

- Kansas County Treasurers Association;
- Kansas State Council of Fire Fighters; and
- Kansas Fraternal Order of Police.

The KPERS Employee Committee for Project Topeka (local food bank) hosted several agency events to raise funds for the charity. Over \$2,250 was raised for Project Topeka, which will help support restocking the local food pantries. KPERS' campaign is part of the larger annual community campaign during the month of February.

Mr. Conroy stated the Educational and Planning Session will be held on October 17-18, 2019 (tentatively). The Educational and Planning Session will provide in-depth information on specific topics, including a pre-meeting educational session for any possible new Trustees; the asset/liability study and the actuarial triennial experience study; and the review of the KPERS Five-Year Strategic Plan. Options for the meeting location and the format most beneficial to the Board of Trustees could be discussed by the Board members at the appropriate time.

Chairman Arnold stated that he would like to hold an informal discussion at the end of the meeting in order to give direction on what location hold the Educational and Planning meeting in October 2019.

Investment Operations Report

The Chairman recognized Allan Emkin, Meketa Investment Group. Mr. Emkin reviewed a Semi-Annual Investment Performance Report for the System's investments for time periods ending December 31, 2018. He reported that the Retirement System experienced a total return of -2.6% for calendar year 2018, outperforming the Policy Index benchmark return of -4.1% by 1.5%. Mr. Emkin reported that the System's total investment portfolio outperformed the Policy Index benchmark over all time periods measured, and also outperformed the Median Public Fund over all time periods measured, during both positive and negative market environments.

Mr. Emkin noted that 2018 was an unusual year, in that the least risky publicly-traded asset class (cash equivalents) produced the highest total return. The Retirement System's allocations to private equity, real estate, and infrastructure contributed positive returns to the portfolio in 2018, as did the System's currency overlay program. Mr. Emkin reported that the System's average annualized total return over the ten years ending December 31, 2018, was 9.5%, which exceeded the Policy Index benchmark by 0.6%. Mr. Emkin responded to questions from Board members.

The Chairman recognized Ryan Lobdell, Meketa Investment Group. Mr. Lobdell reviewed the organization'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 stated the Investment Committee met on Thursday, March 21, 2019. Trustee Creger provided a report and responded to questions.

Trustee Creger moved that the Board of Trustees approve a commitment of up to \$50 million to TA XIII, 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. The motion carried.

Trustee Creger moved that the Board of Trustees approve a commitment of up to \$50 million to Platinum Equity Capital Partners V, 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. The motion carried.

Trustee Creger moved that the Board of Trustees approve a commitment of up to \$50 million to AEW Senior Housing Investors IV, 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. The motion carried.

Audit Committee Report

The Audit Committee met on Friday, March 22, 2019. Trustee Rogers, Chairman of the Committee, provided a report and responded to questions.

Deferred Compensation Committee Report

The Deferred Compensation Committee met on Thursday, March 21, 2019. Chairman Arnold recognized Shawn Creger, Chairman of the Deferred Compensation Committee. Trustee Creger provided a report on the Deferred Compensation meeting, and responded to questions.

Personnel Committee Report

The Personnel Committee met on Friday, March 22, 2019. Trustee Claudel, Chairman of the Committee, provided a report and staff responded to questions.

Trustee Claudel moved that the Board of Trustees approve the payment of incentive compensation awards to the eligible investment staff for calendar year 2018 as calculated by CBIZ Talent & Compensation Solutions and as recommended by the Executive Director. Trustee Creger seconded the motion. The motion carried.

Recommendation for KPERS External Financial Auditor

Chairman Arnold recognized Judy McNeal. Ms. McNeal provided a report on the recommendations for a KPERS External Financial Auditor, and responded to questions.

Chairman Arnold recognized Paul Niedermuller, Principal with CliftonLarsonAllen, LLP. Mr. Niedermuller provided a presentation on CliftonLarsonAllen, LLP, and responded to questions.

Trustee Rogers moved that the Board of Trustees direct staff to enter into negotiations with CliftonLarsonAllen, LLP for financial auditing services as provided in K.S.A. 75-37,132(h), subject to staff negotiations of a satisfactory contract. Trustee Claudel seconded the motion. The motion carried.

Status Report on 2019 Legislative Session

Chairman recognized Alan Conroy, Executive Director. Mr. Conroy provided a summary and Status Report of the current KPERS related legislation in the 2019 Legislative Session. Mr. Conroy noted that the first piece of legislation to reach the Governor's desk this session was SB 9, authorizing the transfer of \$115 million to the KPERS Trust Fund for reduced contributions from FY 2016. The bill passed both chambers unanimously, and was signed by the Governor on March 8, 2019. The bill was printed in the March 14, 2019, *Kansas Register* and the funds were transferred to KPERS on March 14, 2019. Mr. Conroy responded to questions.

Chairman Arnold directed Alan Conroy to draft a thank you letter from the Board of Trustees to the Governor and members of the Legislature regarding the efforts to unanimously pass SB 9.

Contract Extension for Actuarial Services with Cavanaugh Macdonald

Chairman Arnold recognized Laurie McKinnon, General Counsel. Ms. McKinnon provided an overview of the contract extension for actuarial services with Cavanaugh MacDonald, and responded to questions.

Chairman Arnold moved that the Board direct staff to negotiate a 19-month extension of the actuarial services contract with Cavanaugh Macdonald Consulting ending July 31, 2020. The Board directed staff to start the RFP process for a new consulting actuary and have a proposed finalists by the November 22, 2019, Board Meeting. Trustee LaTurner seconded the motion. The motion carried.

Retirement System Monthly Operations Report

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

Monthly Financial Report

Chairman Arnold recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal reviewed the February 28, 2019, preliminary financial reports reflecting the Retirement System's financial activities for FY 2019, and responded to questions.

Other Business

The Board members discussed options for location and format of the Education and Planning meeting in October 2019.

The Board discussed attending the NCTR Trustee Workshop in July 2019. The Board directed staff to send the Board members information regarding location and dates for the NCTR Trustee Workshop.

Informational Items

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

Board Self Evaluation

There was no further discussion.

Meeting Adjourned

Chairman Arnold adjourned the meeting at 1:11 p.m.