

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

July 19, 2019

The meeting of the Board of Trustees was called to order by Chairman Kelly Arnold, at 9:45 a.m. on July 19, 2019, in the Retirement System Board Room, Topeka, Kansas.

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

Board member absent: Suresh Ramamurthi, Vice Chairman
 James C. Cusser
 James Zakoura

Chairman Kelly Arnold welcomed Reed Holwegner, Kansas Legislative Research Department, and David Wiese, Revisor of Statutes Office, and all other participants.

Oath of Office

Laurie McKinnon, General Counsel, administered the Oath of Office to new trustee Ron Johnson. Mr. Johnson replaces former Trustee Shawn Creger, and was appointed by Speaker of the House, Ron Ryckman, Jr. Mr. Johnson is a statutory member of KPERS' Board of Trustees. Chairman Arnold welcomed Trustee Johnson to the Board.

Organization of the Board

Trustee Jake LaTurner nominated Kelly Arnold to continue to serve as Board Chairman. Trustee Trader seconded the motion. There were no other nominations. The nomination for Kelly Arnold to serve as Board Chairman carried.

Chairman Arnold thanked members of the Board for their confidence in his leadership, and announced that he would appoint the Chairs of the Board Committees before the next board meeting.

Trustee Arnold moved that the Board of Trustees approve the Fiscal Year 2020 Board and Committee meeting schedule as presented by staff. Trustee Rogers seconded the motion. Motion carried.

Public Comments

Chairman Kelly Arnold acknowledged Mr. Clarence "Sonny" Scroggins, a retired KPERS member who addressed the Board members. Mr. Scroggins stated that the Board has been

very helpful in the past, and asked for the KPERS Board not to include KPERS investments in organizations that are associated with dictators (e.g., Sudan and Nigeria), pharmaceutical companies that sell opioids, and gun manufacturers. Mr. Scroggins read from a book titled, *Barack Obama: Quotable Wisdom*. Mr. Scroggins then presented Mr. Alan Conroy, Executive Director, with the book for staff office use. Mr. Scroggins presented the Board members with information regarding Nelson Mandela Day, which was July 18, 2019; a news article "Kansas Senate approves Sudan divestiture," from March 15, 2007; and a History Preservation Award presented to Mr. Scroggins on July 11, 1994.

Outstanding Service Award

Chairman Arnold recognized Carmen Torres, Senior Administrative Specialist in Benefit and Members Services and Jamie Rose, Senior Auditor in Fiscal Services as the recipients of the KPERS Outstanding Service Award for the period of August 2019 through November 2019. Chairman Arnold congratulated Ms. Torres and Ms. Rose for consistently demonstrating KPERS' core values of service, innovation, and teamwork.

Chairman Arnold recognized Alan Conroy, Executive Director, who also congratulated Ms. Torres and Ms. Rose for their accomplishments. Mr. Conroy stated that Ms. Torres and Ms. Rose are a tremendous asset to KPERS members, and to the KPERS team.

Consent Agenda

The consent agenda included approval of the May 17, 2019 meeting minutes; and the new affiliation for KPERS Optional Group Life Insurance.

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

Executive Director's Report

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy reported on some of the recent key activities at KPERS, and responded to questions. Highlights of some of the activities included:

Benefits and Member Services' staff members have successfully processed nearly 1,400 retirement applications for members retiring in May and June. These are the first applications managed with the new business process management system implemented in spring 2019. During May and June, the InfoLine customer service representatives responded to 99 percent of 16,500 incoming telephone calls and more than 2,400 payments were processed for members withdrawing their contributions and interest.

The Educational team is focused on planning the content and locations for the Fall 2019 Employer Workshops. Staff members are participating in implementation activities for legislative changes, especially those related to (1) the two-year waiting period for direct support workers at community developmental disability organizations, (2) modifications to working after retirement rules, and (3) adding the Kansas Bureau of Investigation as an employer in the pilot Deferred Retirement Option Program.

The Fiscal Services working along with CliftonLarsonAllen (CLA) who selected 70 employers for the annual Governmental Accounting Standards Board, Statement 68 (GASB 68) 2019 audits, completed those audits, which were sent to Internal Audit for review. In addition, the Employer Auditing Unit has completed and issued 88 standard employer audits during Fiscal Year 2019. The employer audits included some of our largest employers, including USD 259 Wichita, USD 260 Derby, USD 233 Olathe and USD 229 Blue Valley.

Fiscal Services' Employer Auditing Unit and Employer Reporting Unit have handled approximately 1,600 calls and emails from employers since the last Board meeting.

Moss Adams completed the Calendar Year 2018 audit of the KPERS 457 Deferred Compensation Plan and issued an unqualified audit opinion on its financial statements. The report was issued June 25, 2019.

The Communications staff completed its first session of the pilot session for KPERS' 12-week, self-paced staff financial wellness program. A second session launched in July. Staff is working with the State's HealthQuest Program to offer credits to state employees toward their health insurance premiums for program completion.

As part of phase 1 of the member engagement initiative, the Communications team began two new major projects: 1) Simplify annual statements for all member groups; and 2) Redesign the member web portal to support KPERS' brand.

The Private Markets investment staff has completed due diligence with one private equity firm and one non-core real estate investment firm in preparation for investment recommendations for the July Investment Committee meeting. The Deputy CIO for Public Markets conducted a due diligence meeting in the offices of one of the System's active international equity investment managers, and developed an investment recommendation for the July Investment Committee meeting. All of the Investment Division staff participated in a quarterly "deep dive" review of Barra risk statistics for each of the System's asset classes and investment portfolios, including both public and private market assets.

Investment Division staff met with representatives of Meketa Investment Group and Cheiron in an offsite meeting in June, which focused on the development of risk philosophies and decision factors for the next stage of the asset/liability study. Cheiron also reviewed its asset/liability modeling methodology with investment staff. The senior management of the Investment Division continues to work closely with Meketa Investment Group on the asset/liability study project. The CIO is working with EFL Associates on the recruitment of potential candidates to fill the Deputy CIO for Private Markets position.

Information Technology staff continue to enhance and monitor our network security and functional capabilities. Staff completed a major planned upgrade to our data center virtual server management system. This upgrade creates a more secure, robust, and configurable environment. This project also included an upgrade to the software solution used to replicate our systems to our Disaster Recovery site. Staff implemented an upgrade of our Endpoint security software and participated in an Office365 cloud security assessment review and training.

The Division worked with the Fiscal Services Division to provide data and Information Technology security controls to the contracted vendor for the SOC 1 Type 2 audit. Staff also

implemented a Business Process Management tool to create online forms and processes to meet audit requirements.

Information Technology staff completed the mandated Legislative Post Audit IT Security Assessment report. The Division implemented the 2019 approved legislative initiatives. (working after retirement, optional membership date for certain employees of the community developmental disabilities organizations, and an expansion of the KP&F Deferred Retirement Option Program) into our information technology systems.

The Division is designing a data reporting system to increase efficiencies for a number of business requirements and a new process to securely deploy code faster and more accurately. Staff also contributed to the annual projects for the 2018 Actuary files, 1099R files and the Census Data Files. In addition, the Division is actively engaged in a number of agency priority projects including redesign of the KPERS Member Web Portal, the KPERS calculators and Member Annual Statements.

Planning and Research has been working on the 12/31/2018 valuation report. Staff has worked with the Information Technology Division on the KITS updates that were necessary due to the legislation passed during the 2019 session. Staff was also involved in meetings with the Community Development Disability Organizations (CDDOs) and answering the questions those employers had ahead of the new waiting period rules passed during 2019.

The KPERS 457 team, with the help of Empower, has added Brown County to the list of local government offices joining the KPERS 457 Plan. Since the beginning of the calendar year there have been 16 new employers electing to become participating employers in the KPERS 457 Plan.

KPERS 457 staff has also acquired a library of all the electronic presentations that Empower retirement plan counselors use in workshops and seminars. Staff has assisted in the review and editing of these presentations in an effort to ensure our message is being delivered as intended.

Investment Operations Report

The Chairman recognized Liz Miller, Chief Investment Officer. Ms. Miller reviewed the May 31, 2019 performance report. Ms. Miller reported that the Retirement System's investment portfolio produced a total return of 7.6% for the calendar year to date time period (not annualized), exceeding the Policy Index return of 7.4% by 0.2%. She reported that for the one year ending May 31, 2019 the System's investment portfolio achieved a 3.3% total return, beating the Policy Index total return of 2.4% by 0.9%. 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 9.7% for the trailing ten year time period, and an 8.2% average annualized total return for the trailing 25-year time period ending May 31, 2019. The System's investment portfolio outperformed the Policy Index benchmark for all time periods reported.

The Chairman recognized Ryan Lobdell, Meketa Investment Group. Mr. Lobdell reviewed the organization's Investment Market Risk Metrics Report and responded to questions.

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy acknowledged Shannon Kuehler; and honored her for completing her professional designation as a Chartered Alternative Investment Analyst (CAIA). Mr. Conroy congratulated Ms. Kuehler for her accomplishment.

Investment Committee Report

The Investment Committee met on July 18, 2019. Kelly Arnold, Acting Chairman of the Investment Committee, reported on the Investment Committee's meeting, and responded to questions.

Chairman Arnold moved that the Board of Trustees approve the termination of the Franklin Templeton international equity mandate, and the reallocation of the assets in amounts which will result in approximately 21% of the international equity asset class being allocated to each of three active international equity managers (Baillie Gifford, JP Morgan, and Lazard), with 17% allocated to Wellington and 20% to the State Street passive international equity mandate. Trustee Rogers seconded the motion. The motion carried.

Chairman Arnold moved that the Board of Trustees approve a commitment of up to €45 million (Euro) to Montagu VI, L.P. 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.

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

Personnel Committee Report

Chairman Arnold recognized Trustee Ernie Claudel, Chairman of the Personnel Committee. The Personnel Committee met on July 19, 2019. Trustee Claudel, provided a report and responded to questions.

Trustee Claudel moved that the Board of Trustees approve to the reassignment of the Applications Development Supervisor position to a higher pay grade as recommended by the Personnel Committee. Trustee Trader seconded the motion. The motion carried.

Trustee Claudel moved that the Board of Trustees approve compensation adjustments in selected unclassified staff salaries for Fiscal Year 2020, as recommended by the Personnel Committee and that such adjustments be implemented as soon as practical in Fiscal Year 2020. Trustee Johnson seconded the motion. The motion carried.

Trustee Claudel stated they also positively evaluated the Executive Director, Alan Conroy, and thanked him for his excellent work.

Audit Committee Report

Chairman Arnold recognized Trustee Michael Rogers, Chairman of the Audit Committee. Trustee Rogers provided a report on the Audit Committee held on July 18, 2019, and responded to questions.

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.

District Court Decision and Order in *Johnson v. KPERS*

Chairman Arnold recognized Kathleen Billings, Staff Attorney. Ms. Billings reviewed the information regarding the District Court decision in *Johnson v. KPERS* and responded to questions.

Honoring Trustee Michael Rogers

Chairman Arnold recognized Trustee Michael Rogers; and presented him a plaque for his dedicated service to the state of Kansas. Trustee Rogers served on the Board of Trustees for KPERS over four years, beginning September 2015. Chairman Arnold stated that Trustee Rogers provided great service to KPERS on the Audit Committee, where he served as Chairman since 2016. Several Trustees thanked Trustee Rogers on his advice, expertise, and candor in his dedicated service. Alan Conroy, Executive Director, also thanked Trustee Rogers on behalf of the KPERS staff for his patience, guidance, and expertise in his dedicated service to the state of Kansas as he served on the Board of Trustees.

Actuarial Valuation Report

The Chairman recognized KPERS' consulting actuary Pat Beckham, FSA, EA, FCA, MAAA, Principal and Consulting Actuary with Cavanaugh Macdonald. Ms. Beckham presented the December 31, 2018 Actuarial Valuation, and responded to questions.

The Chairman recognized Dr. Brent Banister, FSA, EA, MAAA, FCA, and Chief Actuary with Cavanaugh Macdonald. Dr. Banister presented the December 31, 2018 Actuarial Valuation Report, and responded to questions.

Chairman Arnold recognized Representative Steve Johnson, Vice-Chairman of the Joint Committee on Pension, Investments, and Benefits is in attendance via conference call.

Chairman Arnold moved that the Board accept the December 31, 2018 Actuarial Valuation as presented. Trustee Rogers seconded the motion. Motion passed.

Other Business

There was no other business.

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 1:41 p.m.