

MINUTES
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES

September 18, 2020

The meeting of the Board of Trustees was called to order by Chairman Kelly Arnold at 9:00 a.m. on September 18, 2020, in the Retirement System Board Room, Topeka, Kansas.

Board members present: Kelly Arnold, Chairman
 Suresh Ramamurthi, Vice Chairman (via telephone)
 Ernie Claudel
 Ron Johnson
 Emily Hill (via telephone)
 Jake LaTurner (via telephone)
 Brad Stratton
 Ryan Trader
 James Zakoura

Board members absent: none

Chairman Kelly Arnold welcomed David Weise, Revisor of Statutes Office (via Zoom), and Steven Wu, Kansas Legislative Research Department, (via Zoom) and all other participants.

Public Comments

There were no public comments.

Consent Agenda

The consent agenda included approval of the July 24, 2020, meeting minutes, and the Power of Attorney for Investment Transactions Certificates.

Trustee Stratton moved the Board of Trustees adopt the consent agenda. Trustee Johnson seconded the motion. Motion carried.

Executive Director's Report

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

The consulting firm of the Segal Group, Inc. was selected to assist KPERS with a pension administration system assessment. The assessment by Segal is now completed. Staff involved with the current pension administration system provided considerable information to Segal to assist them in their assessment work.

KPERS has continued to monitor the COVID-19 situation since the July Board Meeting:

- As of now, there have been no staff members who have tested positive for COVID-19.
- Staff continues to work remotely if able until at least October 5, 2020.

- KPERS has continued to follow Governor Kelly's recommendations in her Ad Astra Plan to open the State and Shawnee County's guidelines:
 - Maintain social distancing;
 - Health screening of staff continues;
 - Masks are required when you are out of your work area; and
 - Extra cleaning of the building during the day.
- Procedures established for staff that have or are being tested for COVID19, or have been exposed to someone with COVID-19.

Benefits and Member Services Division assisted employers with enrolling nearly 4,450 new members and transferring 2,400 members from one participating employer to another. Staff also processed retirement applications for 1,238 new retirees or survivors and responded to 97 percent of nearly 17,000 incoming phone calls.

The Education team has been conducting virtual Pre-Retirement Seminars for members approaching retirement, and collaborated with the Communications staff to offer a new seminar to members within 12 months of retirement.

The Fiscal Services staff and the external auditor CliftonLarsonAllen (CLA) completed the second SOC 1 Type 2 audit of the KPERS Disability Plan's census data for participating employers through the period July 1, 2019 through June 30, 2020.

The Employer Auditing Unit has completed five standard employer audits since July, with 85 in progress. This unit has also completed 63 GASB 68 audits with seven still in progress.

The KPERS 457 team, with the help of Empower, has added five additional local government employers to the KPERS 457 Plan. The four most recent plans added are the Holton Housing Authority, the City of Bronson, the City of Hillsboro, and the City of Canton, bringing the total number of joinders signed to 16 so far this year. Empower will work with new plan members to facilitate the signing of participants and funding of the plans.

The KPERS 457 staff continues to monitor participant activity related to Coronavirus-related loans and distributions. The deadline for requesting Coronavirus-related loans is September 22, 2020, unless extended via a new financial aid package from the federal government.

In late August, staff held the annual strategic planning meeting with Empower. KPERS 457 staff along with select KPERS executives attended a virtual meeting hosted by Empower to discuss the goals and direction for the KPERS 457 Plan in 2021.

The public markets investment staff completed second quarter performance and portfolio review calls with all of the System's external investment managers. The System's MLP portfolio has been fully liquidated. The liquidation of the System's bank loan portfolio is in progress and the transition of assets to the Strategic Fixed Income managers is nearly complete. The transition of 10% of the System's passive international equity portfolio to the active international equity managers is nearly complete.

Investment Division staff continue to participate in a high volume of conference calls, webinars, and virtual meetings with the System's investment consultants, investment managers, general partners, and other service providers, in order to effectively monitor the

rapidly changing investment environment and its impact on the System's investment portfolio. Staff continues to closely monitor asset allocation relative to current targets. The Investment Division continues to communicate internally and facilitate teamwork through frequent conference calls, regular Investment staff Zoom meetings, and daily email and phone communications.

The Information Technology Division focused on several areas since the last Board meeting. Staff attended Azure and Lexis Nexus Threat Matrix training. In addition, IT staff provided the requested information to the Legislative Post Audit for their KPERS IT Security Audit.

Regarding infrastructure work, staff upgraded firewalls and provided electrical and network data drop locations for the first floor staff office areas. Staff replaced one rack of batteries for the data center UPS and in the Board Room, and added a USB connector from the audio/video system to the podium, for use with web conferencing systems. Staff is currently assessing InfoLine vendors and continuing to deploy new laptops and monitors within KPERS so selected staff could work remotely if their job duties permit working off-site.

The Communications Team has been active in the following areas:

Member Annual Statements: KPERS redesigned our member annual statement for this year, simplifying content based on member engagement research from last year and to better align with KPERS' brand.

Optional Life Insurance: Continued to provide support for optional life insurance open enrollment. This year, staff has increased marketing for the text function and webinars, our second year for both. Open enrollment runs throughout September and October for different member groups. Members can enroll using their online KPERS account or with a paper form.

Pre-Retirement Webinars: The Communications Team (along with Benefits and Member Services) launched new, targeted versions of our pre-retirement presentations. The new presentations provide a countdown for those within 12 months of their retirement date, and a broader overview for those who are further out. Over 90% of attendees who responded to the post-survey gave the webinars a 4 or 5 star rating out of 5 stars for helpfulness.

Communications Assessment: As part of the agency-wide information system and member engagement assessment project with Segal, the Communications Team participated in a "10-keys" assessment for the communications program. The assessment provided a top-to-bottom review, including strategy, brand, kpers.org, and our other ongoing communications efforts. The Team received a total score of 80%, with our brand and website being our strongest areas.

Planning and Research has been the ongoing work with Segal on the pension administration system assessment and putting together the budget narrative for the upcoming budget cycle. Staff has also been working with the actuary on cost estimate information for the Department of Corrections and more generally to prepare for the upcoming legislative session, prepared testimony for the Legislative Post Audit Committee meeting, and a presentation to the League of Kansas Municipalities.

Executive Director, Alan Conroy has made one presentation (virtual) since the last Board meeting. The presentation was to the Legislative and Policy Committee of the Kansas League of Municipalities. The presentation was a general KPERS overview touching on the latest actuarial valuation, overall funding, benefits, and working after retirement.

Mr. Conroy also virtually attended the National Association State Retirement Administrators annual meeting.

The Board Educational and Planning Session in October will be held in the KPERS Board Room. An optional KPERS 101 will take place the morning of Thursday, October 8, 2020. The Educational and Planning Session is scheduled to be from 1:00 p.m. until 5:00 p.m. on October 8, 2020. The Session on Friday, October 9, 2020, will be from 8:30 a.m. until approximately 12:15 p.m.

Investment Operations Report

Chairperson Arnold introduced Allan Emkin, Meketa Investment Group. Mr. Emkin reviewed Meketa's Semi-Annual Investment Performance Report for June 30, 2020 and responded to questions. He reported that the Retirement System experienced a total return of 2.1% for fiscal year 2020, underperforming the Policy Index return by 0.3%. The System's investment portfolio outperformed the median public pension fund in the peer universe over all time periods of six months and longer ending June 30, 2020. For the three year, five year, and ten year time periods ending June 30, 2020, Mr. Emkin noted that the Retirement System's investment portfolio outperformed both the Policy Index and the median public pension fund.

Elizabeth Miller, Chief Investment Officer, reviewed the Investment Performance Reports for time periods ending July 31, 2020. Ms. Miller reported that the Retirement System experienced a total return of -0.1% for the calendar year to date time period (not annualized), a total return of 4.9% for the trailing one year time period, and an average annualized total return of 6.4% for the trailing three year time period. Long-term returns remain robust, as the System's investment portfolio has produced an 8.7% average annualized total return over the past ten years, outperforming the Policy Index by 0.3%. Over the trailing twenty-five year time period, the System's investment portfolio has produced a 7.8% average annualized total return, exceeding the Policy Index by 0.4%.

Chairperson Arnold recognized Ryan Lobdell, Meketa Investment Group. Mr. Lobdell reviewed Meketa's Investment Market Risk Metrics Report and responded to questions from the Board.

Investment Committee Report

Chairman Arnold recognized Trustee Suresh Ramamurthi, Chairman of the Investment Committee. The Investment Committee met on September 17, 2020. Trustee Ramamurthi provided a report and responded to questions.

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 18, 2020. Trustee Claudel provided a report and responded to questions.

Trustee Claudel moved that the Board of Trustees approve the creation of position classifications for a Fraud Analyst, Information Technology Project Manager, and Senior Fiscal Analyst and assigning them to the proposed pay grades as recommended by the Executive Director. Trustee Stratton seconded the motion. Motion carried.

Deferred Compensation Plan Committee Report

Chairman Arnold recognized Ryan Trader, Chairman of the Deferred Compensation Committee. Mr. Trader provided a report of the Deferred Compensation Committee meeting held on September 17, 2020.

Trustee Trader moved that the Board of Trustees approve the second one-year contract extension with SageView Advisory Group, LLC for the calendar year January 1st through December 31st, 2021 for investment consulting services for the KPERS 457 Plan. Trustee Johnson seconded the motion. The motion carried.

Trustee Trader moved that the Board of Trustees direct staff to arrange for distribution, prior to the end of Calendar Year 2020, \$500,000 from the Unallocated Plan Asset Fund in the form of credits to participant accounts on a pro rata basis based on the participants account balance as of September 30, 2020. Trustee Hill seconded the motion. The motion carried.

Trustee Trader moved that the Board of Trustees adopt the proposed amendments to the Kansas Public Employees Deferred Compensation Plan Document allowing for provisions adopted under both the federal Secure and Cares Acts as well as the amendment permitting pro rata credits to participants based upon their account balance in the KPERS 457 Plan from the Unallocated Plan Assets Account. Trustee Johnson seconded the motion. The motion carried.

KPERS Pension Administration System Assessment Report

Chairman Arnold recognized Alan Conroy, Executive Director, who introduced Jeff Mills, Vice President, Senior Consultant, Segal Group, Inc. Mr. Mills presented the Pension System Assessment Report. He reviewed the report and discussed the software and tools used to determine benefits and interact with members and employers, as the current system affects every aspect of membership and employer interaction. The information contained within the system is foundational to be able to provide retirement benefits, crediting of employee and employer contributions, retirement estimates, and death benefits. The estimated cost for the modernization project totals an estimated \$20.6 million through Fiscal Year 2025. The estimated total project cost includes additional staffing expenditures of \$3.5 million or approximately \$800,000 per year. Mr. Mills responded to questions.

Trustee Zakoura moved that the Board of Trustees support the improvement of the pension administration system along with the costs for such enhancement and appropriate additional staffing to assist in carrying out the enhancement be included within the KPERS operating budget request to the Governor and the 2021 Legislature. Trustee Claudel seconded the motion. Motion carried.

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.

Overview of Board Election Process

Chairman Arnold recognized Kristen Basso, Communications Officer. Ms. Basso reviewed the Board of Trustees Election process, which includes the election of two of the nine Board members. The candidates selected must include one school member and one non-school member, which can be either an active or a retired KPERS member. Ms. Basso responded to questions.

Review of Legislative Post Audit Report on the Kansas Police and Fire Retirement System Deferred Retirement Option Program

Chairman Arnold recognized Mary Beth Green, Chief Benefits Officer, and Mr. Jarod Waltner, Planning and Research Officer. Ms. Green and Mr. Waltner reviewed the Legislative Post Audit Report on the Kansas Police and Fire Retirement System Deferred Retirement Option Program. The audit finding determined that the Deferred Retirement Option Program appeared to be helping agencies retain experienced staff without increasing cost to the employer or to KPERS. The current plan design already includes most of the cost saving elements utilized by other public plans. Ms. Green and Mr. Waltner responded to questions.

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 Stratton moved that the Board of Trustees approve staff's recommended amendments to the Board Policy Manual. Trustee Claudel seconded the motion. Motion carried.

Fiscal Years 2022 Budget Request

Chairman Arnold recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal gave an overview of the FY 2021, 2022, and 2023 budget request, including the enhancement of the pension administration system, and responded to questions.

Trustee Claudel moved that the Board approve the Fiscal Year 2021, 2022, and 2023 budget request for submission to the Governor's Division of Budget and the Legislature. Trustee Trader seconded the motion. Motion carried.

Review of Initial Orders

Chairman Arnold recognized Kathleen Billings, Staff Attorney. Ms. Billings reviewed the initial orders and responded to questions.

Trustee Zakoura moved that the Board inform the Executive Director of its decision to accept the Presiding Officer's Initial Order in the Richard L. Cross 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 Chairman and to be served on the parties by the Executive Director in accordance with the provisions of the Kansas Administrative Procedure Act. Trustee Trader seconded the motion. The motion carried.

Other Business

No other business was discussed.

Informational Items

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

Board Self Evaluation

There was no further discussion.

Meeting adjourned

Chairman Arnold adjourned the meeting at 12:33 p.m.