

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

March 20, 2020

The meeting of the Board of Trustees was called to order by Chairman Kelly Arnold at 10:33 a.m. on March 20, 2020, in the Retirement System Board Room, Topeka, Kansas.

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

Board members absent:                    none

Chairman Kelly Arnold welcomed Representative Steven Johnson (via telephone) and all other participants.

**Public Comments**

There were no public comments.

**Consent Agenda**

The consent agenda included approval of minutes for the January 16 and 17, 2020 meeting; consideration of KPERS 3 and Deferred Retirement Option Program (DROP) Interest Credits; and the appointment of a Hearing Officer for the Matthew Simpson, Sandra Smith, and Hui Chan Un appeals.

*Chairman Arnold moved that the Board of Trustees adopt the consent agenda. Trustee Stratton seconded the motion. The motion carried.*

**Executive Director's Report**

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy presented Trustee Trader with a KPERS receiving blanket and burp cloth for the recent birth of his baby.

Mr. Conroy reported on recent key activities at KPERS. Highlights of the activities include:

The agency has been proactive in dealing with The COVID-19 (coronavirus) situation. Staff is closely monitoring information from the Kansas Department of Health and Environment and the Kansas Department of Administration. External investment consultants have been

directed to not travel to Topeka and instead conduct meetings electronically. KPERS' investment staff has postponed any professional development meetings. The Governor has issued an Executive Order for all state offices to close for a two week period of time. KPERS also has an Advanced Leave Policy that allows employees to borrow against future leave if they have, or need to care for a family member with a communicable illness like COVID-19.

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.

Fiscal Services staff has published the Governmental Accounting Standards Board (GASB) 68 report for June 30, 2019, which is available on the KPERS website for participating employers. The GASB 75 reports for June 30, 2019 are published and available to KPERS employers.

The Employer Auditing Unit has completed 40 multi-year employer audits since July 1, 2019, with 103 in progress. The Auditing Unit is also working with Internal Audit staff on 70 FY 2020 GASB 68 audits.

The Employer Reporting Unit has handled almost 1,300 calls and emails from employers since the last Board meeting.

Planning and Research staff has focused primarily on Legislative matters. Since the January Board meeting, Planning and Research staff has completed 11 fiscal notes, 13 bill summaries, nine pieces of bill testimony, three committee presentations and three other memos for committee meetings.

The Investment Division has developed an implementation plan for the new target asset mix approved by the Board in January, and has initiated the asset class review process with Meketa Investment Group. The private markets investment staff has worked with The Townsend Group to revise the 2020 Real Estate Pacing Plan in light of the new, higher target allocation for real estate. The private markets investment staff has completed due diligence on three investment recommendations for the March 19, 2020 Investment Committee meeting. The public markets investment staff has completed fourth quarter 2019 portfolio and performance review calls with all of the System's investment managers who manage publicly-traded investment mandates. The public markets investment staff has prepared an investment recommendation for the yield driven asset class for the March 19, 2020 Investment Committee meeting. The CIO and staff have completed annual firm reviews with each of the System's investment consulting firms.

The Investment Division staff have contacted the System's custodial bank, investment consultants, and investment managers to gather information on each firm's business continuity plan in the event of a widespread coronavirus outbreak. Investment Staff have utilized a Barra coronavirus stress test to analyze possible implications for the System's investment portfolio. Investment staff are monitoring any potential impact of the coronavirus situation on the System's investments. The CIO is working with IT to ensure that all Investment Division staff have the ability to access all necessary information remotely, should the need arise to work from home for an extended period.

Information Technology staff continue to enhance and monitor our network security and functional capabilities. With an external partner, staff completed the annual external security network vulnerability and application penetration testing. The Division also began a network redesign project to more securely segment protected information. Staff also created a new Secure Application Development policy to ensure application development processes meets defined standards and KPERS developers are required to attend training on these standards.

The KPERS 457 team, with the help of Empower, has added seven additional local government offices to the KPERS 457 Plan. The most recent plans added include Jewell County, the Kansas Association of Counties, Plainville Memorial Library, Independence Library, Ellis Recreation Commission, the Grant County Recreation Commission and Consolidated Water District No. 2 of Fort Scott, Kansas. Empower will continue to work with new plan participants to facilitate the opening and funding of the plans.

The Communications Team worked on several projects to better inform our members and employers and to assist the other KPERS business units in carrying out their duties. Significant effort was directed to the March 2020 launch of the new Member Annual Statements. Some specific activities included:

- Prepared and distributed the retiree newsletter to 93,000 benefit recipients in early February.
- Completed publication and form updates required by the federal SECURE Act.
- Assisted with Pre-Retirement webinars with sessions for KPERS 1, KPERS 2, and KP&F members nearing retirement. More than 1,500 members attended over 5 sessions.
- Assisted with the Designated Agent/Employer Orientation webinar.
- Supported Fiscal Services with the communication and publishing for the Governmental Accounting Standards Board (GASB) 68 and 74.
- Assisted KPERS 457 staff with their employer newsletter and general participant communication.
- Launched a new funding section on kpers.org for members to assist them in understanding the basics of how KPERS is funded. In addition, a funding webinar was held for members and retirees.
- Commissioned an external review of the staff financial wellness program in anticipation of the 2020 release for State employees that will help them qualify for a discount on their health insurance premiums.
- Began planning for the 2020 Optional Life Insurance Open Enrollment in September and October.

Alan Conroy, Executive Director recently made presentations to outside groups including:

- Kansas Legislative Policy Group,
- Kansas State Council of Fire Fighters, and
- Kansas Association of Retired School Personnel.

The KPERS Employee Committee for Project Topeka (local food bank) hosted several agency events to raise funds for the charity. Approximately \$2,200 was raised for Project Topeka, which will help support restocking the local food pantries. In addition, 1,255 food items were donated which weighed 1,064 pounds. KPERS' campaign is part of the larger annual community campaign during the month of February.

### **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, 2019. He reported that the Retirement System experienced a total return of 17.5% for calendar year 2019. Mr. Emkin reported that the System's total investment portfolio outperformed the Median Public Fund over all time periods of one year and longer.

Mr. Emkin reported that the System's average annualized total return over the ten years ending December 31, 2018, was 9.0%, which exceeded the Policy Index benchmark by 0.7%. He noted that the System's decision to employ active management in the international equity space has added significant value over time. 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 stated the Investment Committee met on Thursday, March 19, 2020. Chairman Arnold provided a report and responded to questions.

*Chairman Arnold moved that the Board of Trustees approve the termination of the Tortoise MLP mandate, and that the MLP portfolio be liquidated in a timely and prudent manner, with the assets rebalanced accordingly, and that the KPERS Yield Driven Benchmark be changed to a 75% weight in the Bloomberg Barclays High Yield 2% Issuer Cap Index and a 25% weight in the MSCI U.S. REIT Index, effective April 1, 2020. Trustee Trader seconded the motion. The motion carried.*

*Chairman Arnold moved that the Board of Trustees approve a commitment of up to \$50 million to Ares Corporate Opportunities Fund VI, 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.*

*Chairman Arnold moved that the Board of Trustees approve a commitment of up to \$200 million to CBRE U.S. Core Partners, L.P. and authorize staff to proceed with the investment in one or more tranches through 2020 pending a satisfactory and final legal review of corresponding partnership documents. Trustee Stratton seconded the motion. The motion carried.*

*Chairman Arnold moved that the Board of Trustees approve a commitment of up to \$50 million to Waterton Residential Property Venture XIV, 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 20, 2020. Trustee Johnson, acting Chairman of the Committee, provided a report and responded to questions.

### **Deferred Compensation Committee Report**

The Deferred Compensation Committee met on Thursday, March 19, 2020. Trustee Ryan Trader, Chairman of the Deferred Compensation Committee provided a report on the Deferred Compensation meeting, and responded to questions.

### **Personnel Committee Report**

The Personnel Committee met on Friday, March 20, 2020. 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 2019 as calculated by CBIZ Talent & Compensation Solutions and as recommended by the Executive Director. Trustee Trader seconded the motion. The motion carried.*

### **Status Report on 2020 Legislative Session**

Chairman Arnold recognized Jarod Waltner, Planning and Research Officer. Mr. Waltner provided a summary and Status Report of the current KPERS related legislation in the 2020 Legislative Session.

### **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 2020, preliminary financial information reflecting the Retirement System's financial activities for FY 2020, and responded to questions.

## **Review of Initial Order**

Chairman Arnold recognized Kathleen Billings, Staff Attorney. Ms. Billings gave a brief overview of the Initial Order and suggested that if the Board chooses to direct that a Final Order be made, adopting the Presiding Officer's Initial Order, the Board might render its Final Order in the following manner:

*Chairman Arnold moved that the Board inform the Executive Director of its decision to accept the Presiding Officer's Initial Order of the Michelle Johnson 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 Johnson seconded the motion. The motion passed.*

## **Other Business**

Chairman Arnold reviewed the change of the July meeting to July 23–24, 2020.

## **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 11:56 a.m.