

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

January 17, 2020

The meeting of the Board of Trustees was called to order by Chairman Kelly Arnold at 10:05 a.m. on January 17, 2020, in the Retirement System Board Room, Topeka, Kansas.

Board members present:

- Kelly Arnold, Chairman
- Suresh Ramamurthi, Vice Chairman
- Ernie Claudel
- Ron Johnson
- Emily Hill (via phone)
- Jake LaTurner
- Brad Stratton
- Ryan Trader
- James Zakoura

Board members absent: None

Chairman Kelly Arnold acknowledged the attendance of Larry Campbell, Budget Director, Governor's Budget Division, and David Wiese, Office of Revisor of Statutes, and welcomed all participants.

Public Comments

Chairman Arnold acknowledged Alan Conroy, Executive Director. Mr. Conroy introduced and congratulate, Lane Wiley on his retirement from KPERS with a plaque for his dedicated service as the KPERS Chief Information Officer for two years, and over 33 years of service with the State of Kansas. Mr. Wiley has set a high standard of excellence with his dedicated service to KPERS. Chairman Arnold and the entire Board congratulated Mr. Wiley for his achievements.

Consent Agenda

The consent agenda included the minutes of the November 22, 2019 meeting; Appointment of a Hearing Officer for Joseph A. Bott; the annual Proxy Voting and Disclosure Report; and the new employer affiliations for KPERS, KP&F, and optional group life insurance for 2020.

Trustee LaTurner moved that the Board of Trustees adopt the consent agenda. Trustee Johnson 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 are working with employers to finalize affiliation applications for KPERS. Staff has worked to reconcile the 2019 benefit payment records with tax information, and finalizing about 125,000 of the 1099-R tax forms for printing and distribution;

contributing to the 2019 Member Annual Statement project; educational staff members are finalizing locations and presentation materials for the annual *Pre-Retirement Seminars* scheduled to begin in March 2020.

Fiscal Services staff has completed the Comprehensive Annual Financial Report (CAFR) for Fiscal Year 2019 and it has been published to the KPERS website.

The Employer Auditing Unit has completed 39 employer audits since July 1, 2019, with 92 audits in progress.

The Employer Reporting Unit has handled almost 1,400 calls and emails from employers since the last Board meeting.

The Investment Division staff completed a detailed review and discussion of each investment portfolio risk profiles. The private markets team has worked with The Townsend Group on several real investment recommendations for the January Investment Committee meeting. The public markets team has completed the annual disclosure reporting from the Retirement System's investment managers, and other investment-related vendors. The public markets team has completed the annual proxy voting audit with ISS, and prepared the annual Board memorandum on proxy voting and disclosure reporting for the January Board meeting.

The Investment Division is completing its annual review and update of the Investment Monitoring System Procedures Manual. The senior members of the investment staff have worked with Meketa Investment Group on the final stages of the asset/liability study. The Chief Investment Officer has led the process to develop the recommendation to renew the Retirement System's custodial bank contract with State Street Bank and Trust.

The Planning and Research staff has been focused on the triennial actuarial experience study and responded to requests from the Governor's Budget Division and the Legislative Research Department, and preparing for the 2020 Legislative Session.

KPERS 457 Deferred Compensation Plan staff along with the Empower, has added two local government offices to the KPERS 457 Plan. For the 2019 calendar year, 28 new joinder agreements signed. The two most recent new plans added are Jackson County and the Salina Airport Authority.

In December, KPERS 457 signed a contract amendment with Empower Retirement Services that contained a revised fee proposal that will reflect the reduction in Retirement Plan Counselors by one (1.0 bps) and also a reduction in fees based on the Plan reaching an asset level of greater than \$1.14B (0.5 bps). A fee credit will be posted to participants' accounts and the reduced fees will be reflected on participants' first quarter statements.

Information Technology Division Staff completed the annual IRS 1099-R tax notifications and the annual compensation file for the Kansas Department of Revenue. The IT staff continues to work on the technical redesign of the Member Annual Statements solutions, which is a major automation initiative.

KPERS is currently redesigning and rebuilding our data systems to allow for enhanced processing, redundancy, and reporting. Staff implemented storage enhancements and expansion in the Storage Area Network systems. Work is progressing on a project to implement new firewalls and enhanced network physical and logical design.

The Communications Team provided communications support for various projects, including the GASB 68 Report, KPERS' Comprehensive Annual Financial Report, IRS Form 1099-R mailing and Member Annual Statement collateral pieces.

The Communications staff provided annual employer communications for topics like optional insurance, IRS limits and compensation reminders, reporting preparation for Member Annual Statements, contribution rate changes, pay cycle verification, payment submission scheduling, and other topics. Staff also finished employer workshop webinars for the year, published its recording and compiled Q&A information for employers to reference. Communications also assisted the KPERS 457 team with fee reduction communications and annual communications planning for 2020.

Investment Operations

The Chairman recognized Liz Miller, Chief Investment Officer. Ms. Miller reviewed the November 30, 2019 performance report. Ms. Miller reported that the Retirement System's investment portfolio produced a total return of 15.4% for the calendar year to date time period (not annualized), trailing the Policy Index return of 16.0%. She reported that for the one year ending November 30, 2019, the System's investment portfolio achieved an 11.1% total return. 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 9.0% for the trailing ten year time period, and an 8.4% average annualized total return for the trailing 25-year time period ending November 30, 2019. The System's investment portfolio outperformed the Policy Index benchmark for all time periods of longer than one year.

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 16, 2020. Chairman Suresh Ramamurthi, Chairman of the Investment Committee provided a brief report.

Chairman Ramamurthi moved that the Board of Trustees approve the adoption of a new target asset mix, with long term asset allocation policy targets, as follows: global equity—47%; fixed income—10%; yield driven—6%; real return—11%; real estate—13%; private equity—9%; cash equivalents—4%. Trustee Zakoura seconded the motion. The motion carried.

Chairman Ramamurthi moved that the Board of Trustees approve a redemption of \$35 million from the UBS Trumbull Property Growth and Income Fund, and to authorize staff to proceed with the redemption request in a prudent manner. Trustee Claudel seconded the motion. The motion carried.

Chairman Ramamurthi moved that the Board of Trustees approve the full redemption of the System's investment in the UBS Trumbull Property Fund, and to authorize staff to pace the redemption requests in a prudent manner. Trustee Johnson seconded the motion. The motion carried.

Chairman Ramamurthi moved that the Board of Trustees direct staff to renew the Custodial Contract with State Street Bank and Trust Company in order to continue retaining State Street as the System's custodial bank services provider for the renewal period of April 1, 2020 through April 1, 2022. Trustee Trader seconded the motion. The motion carried.

Audit Committee Report

The Audit Committee met on Friday, January 17, 2020. James Zakoura, Chairman of the Committee, provided a report on the meeting and responded to questions.

KPERS Death and Disability Plan Valuation

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy explained an actuarial valuation of the KPERS Death and Disability plan is performed annually under the requirements of the Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The valuation has been performed by the Plan's actuary, Milliman.

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, 2019, and responded to questions.

Chairman Arnold moved that the Board of Trustees adopt the June 30, 2019 valuation of the KPERS Death and Disability Plan. Trustee Stratton seconded the motion. The motion carried.

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

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy introduced the Governor's Budget Director, Larry Campbell. Mr. Campbell reviewed the Governor's Budget recommendations for Fiscal Years 2020 and 2021, including a recommendation for a 25-year reamortization of the KPERS unfunded actuarial liability. Mr. Campbell responded to questions.

Trustee LaTurner suggested sending a letter to the Governor similar to letter the Board sent last year regarding the position and recommendations of the Board of Trustees's.

Chairman Arnold moved that the Board of Trustees direct the Executive Director to draft a letter to Governor Kelly, and to send a copy to appropriate people with the direction of the Board of Trustees' support to fully fund KPERS, and that the Board is against reamortization. The Board of Trustees will review letter before sending. Trustee Stratton amended motion to update and send a copy of the letter from last year. Trustee Claudel seconded the motion. The motion carried.

Discussion and Possible Action on the Actuarial Triennial Experience Study, Including Long-Term Funding Issues

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy reviewed the Actuarial Triennial Experience Study, Including Long-Term Funding Issues, and described the responsibilities for the Trustees concerning their decision, and responded to questions.

Chairman Arnold moved that the Board accept the demographic recommendations of Cavanaugh Macdonald Consulting on the Actuarial Experience Study for Calendar Years 2016 – 2018.

However, maintain the current utilized economic assumptions, which specifically includes:

- *Inflation rate of 2.75%;*
- *Real return of 5.0%.*

Trustee Claudel seconded the motion. Trustees' Kelly Arnold, Ernie Claudel, Jake LaTurner, Suresh Ramamurthi, Ryan Trader, and James Zakoura are recorded as voting yes. Trustees' Ron Johnson, Emily Hill, and Brad Stratton are recorded as voting no. The motion carried.

Trustee Claudel provided information on Retired Kansas Public Employees need for a cost-of-living adjustment (COLA).

Monthly Operations Report

Chairman Arnold recognized Mary Beth Green, Chief Benefits Officer. Ms. Green reviewed member service performance for November and December, 2019 and responded to questions.

Monthly Financial Report

Chairman Arnold recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal reviewed the preliminary December 31, 2019 financial statements, and responded to questions.

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 reviewed the document on KPERS Funding Policy and how long-term funding architecture affects financial soundness and the explanation of reamortization. Mr. Waltner respond to questions.

Presentation of the KPERS Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2019

Chairman Arnold recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal presented the highlights of the KPERS Comprehensive Annual Financial Report for Fiscal Year 2019 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.

Consideration of Renewal of Contract for Securities Litigation Counsel

Chairman Arnold recognized Laurie McKinnon, General Counsel. Ms. McKinnon provided information regarding the renewal of contract for securities litigation counsel, and responded to questions.

Chairman Zakoura moved that the Board of Trustees authorize the Executive Director to negotiate a one-year contract extension with Kaplan, Fox, & Kilsheimer LLP for securities litigation services. Trustee Claudel seconded the motion. The motion carried.

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 1:27 p.m. No binding action will be taken in the Executive Session. Trustee Johnson seconded the motion. The motion carried.

Chairman Arnold called the meeting back to order at 1:27 p.m. and announced that no binding action was taken during the executive session.

Informational Items

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

Other Business

Chairman Arnold discussed the Trustee Workshop in July, and the possibility of changing the July 2020 meeting to the following week, July 23-24, 2020, in order to accommodate new trustee's that would like to attend the Trustee Workshop. Chairman Arnold requested that Trustees review their calendars to see if the proposed dates for the July meeting would work.

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy stated that the Senate Confirmation Committee unanimously approved Trustee Emily Hill and Trustee Brad Stratton.

No other business was discussed.

Board Self Evaluation

There was no further discussion.

Chairman Arnold adjourned the meeting at 1:32 p.m.