

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

January 22, 2021

The meeting of the Board of Trustees was called to order by Chairman Kelly Arnold at 9:32 a.m. on January 22, 2021, in the Retirement System Board Room, Topeka, Kansas.

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

Board members absent: None

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

Oath of Office

Laurie McKinnon, General Counsel, administered the Oath of Office to KPERS new trustee, State Treasurer Lynn Rogers. Treasurer Rogers was appointed by Governor Laura Kelly to replace former Trustee/Treasurer Jake LaTurner who was elected to the U.S. Congress. Mr. Rogers is a statutory member of KPERS' Board of Trustees. Chairman Arnold welcomed Trustee Rogers to the Board.

Public Comments

There were no public comments.

Consent Agenda

The consent agenda included the minutes of the November 20, 2020 meeting; the annual Proxy Voting and Disclosure Report; and the New Affiliations for 2021.

Trustee Stratton moved that the Board of Trustees adopt the consent agenda. Trustee Claudel seconded the motion. The motion passed.

Executive Director's Report

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy introduced Derek Smith, Technology Support Consultant. Mr. Smith was recently hired and will be facilitating the electronic and virtual aspects for the Board meetings and will assist the Trustees with any issues with the Diligent Board Book applications.

Mr. Conroy also stated that the Senate Confirmation Committee approved Trustee James Zakoura for an additional four years to serve on the Board of Trustees.

Mr. Conroy reported on recent agency activities including:

KPERS continues to monitor the COVID-19 situation and follows the recommendations of the Governor, Department of Administration, and Shawnee County Commission guidelines.

With the continued increase in COVID-19 cases, the KPERS front lobby was closed to the public on November 23, and will remain closed through February 26, 2021. Members may call the office to communicate with one of our counselors, attend virtual meetings with our counselors, and use the drop box at the front doors to turn in documents.

Benefits and Member Services staff have been working with employers to finalize affiliation applications for the Kansas Public Employees Retirement System (6 new employers and 4 mergers), the Kansas Police & Fire Retirement System (3 employers) and optional life insurance coverage (5 employers), effective January 1, 2021. Staff members also have been collaborating with staff from various other divisions to reconcile the 2020 benefit payment records and tax withholding to finalize nearly 130,000 IRS 1099-R tax forms for printing and distribution.

During November and December, staff were involved with the design phase of the Member Annual Statement modernization project and have now turned their attention to writing test scripts for the user acceptance testing phase. The education team conducted 32 virtual one-on-one member counseling sessions, and, working with the Communications team, presented virtual employer workshops with 534 employer representatives participating and virtual pre-retirement webinars.

Fiscal Services completed the 2020 Comprehensive Annual Financial Report (CAFR) and it was published on the KPERS website on December 22, 2020. The Employer Auditing Unit completed 33 employer audits since July 1 with 56 in progress. The Employer Reporting Unit handled over 1,500 calls and emails from employers since the last Board meeting.

Investment Division staff have continued to work from home and stay safe in the pandemic environment. The private markets staff implemented the add on noncore real estate investment which was approved by the Board in November. The private markets staff have been conducting due diligence and working with Mercer to prepare a private equity investment recommendation for the January 2021 Investment Committee meeting. The public markets staff have been working to finalize the annual disclosure and proxy voting report and a presentation about fiduciary oversight for public markets assets for the January Investment Committee meeting.

Planning and Research has been focused on legislative preparation. Staff prepared and presented materials to the Joint Committee on Pensions, Investments, and Benefits and prepared webinar information for Keeping the Kansas promise. Staff has also been working with KPERS actuarial firm Cavanaugh Macdonald on various cost studies related to reamortization and benefit plan design changes requested by the Department of Wildlife, Parks, and Tourism and for legislation introduced early in the 2021 session.

The KPERS 457 team, with the help of Empower, has added one additional local government employer to the KPERS 457 Plan. The most recent plan added is the Valley Center Recreation Commission, which opened both a 457 plan and a 401(a) plan. This brings the total number of joiners signed to twenty-six for the year. Empower will continue to work with new plan members to facilitate the signing of participants and funding of the plans.

With the expiration of the federal CARES Act's coronavirus distributions on December 30, 2020, KPERS 457 had 189 participants that elected to take a distribution of funds from their accounts. In addition, there were four participants that elected to take loans with another five participants electing to take loan deferrals on existing loan repayments. In late December, Congress passed a \$900 billion-dollar COVID relief bill. This bill did not extend any of these provisions.

The Information Technology Division focused on several areas since the last Board meeting. The security awareness training for the entire office was configured and deployed to staff to take the training. Staff assisted in the successful conclusion of the Legislative Post Audit Division Information Technology Security Audit. The agency also had the firm Optiv conduct a Security Strategic Assessment and security penetration test on the member and employer web portals. In addition, staff has been involved in Microsoft Azure Administration training classes.

Information Technology staff started the process of deploying additional Teams Calling (soft phones) capabilities to the staff. The entire staff will eventually have the opportunity to receive Teams Calling capabilities. Staff has also been assisting with the technology needs associated with the new office space for the Investment Division and the subsequent office relocations throughout the agency. The Division coordinated the Fall disaster recovery test, which was successful. Staff also updated network switches and access points at the Lawrence Business Continuity Site.

Staff continues to be focused on the Member Annual Statement Proof of Concept activities. This project is the first part of the Pension Administration System modernization project.

The Communications team finalized the communications plan and began developing collateral pieces for April's Board of Trustees election. Staff is also providing support for technical projects associated with providing secure online and phone voting or a paper ballot. There is an independent review committee that the Executive Director appoints which will meet in February. There will be an election on the School District side only. The Non-school side has Trustee Trader as the only one on the ballot, so no election will be held for that position.

Communications partnered with Benefits and Member Services to provide pre-retirement webinars for the quarter. For Calendar Year 2020, KPERS offered 24 pre-retirement webinars with 2,745 members attending. In addition, the team is working on a comprehensive project

targeted to this same audience. Interested members will be able to sign up for ongoing content to help them be fully prepared when their retirement date arrives. This also includes an assessment of all our pre-retirement touchpoints and publications.

Other significant projects include the IRS 1099-R tax form mailing project and support for the Comprehensive Annual Financial Report. The team published the quarterly KPERS 457 employer eNews and kicked off a discussion for the KPERS 457 brand refresh project.

Mr. Conroy participated in one virtual presentation since the last Board meeting. He presented a KPERS Basics webinar in early December for the group, *Keeping the Kansas Promise*.

Staff conducted the annual United Way and Community Health Care Charities fund-raising campaign. The total raised for these two worthy causes was \$1,870.

Due to the pandemic we were not able to hold our annual Holiday Luncheon. For those staff members in the office, they were able to pick-up a boxed lunch from Chick-Fil-A.

Staff again this year supported *Hope for the Holidays*, which assists young adults who recently aged-out of the foster care system. The staff provided numerous gift cards totaling \$1,540.

Trustee Claudel requested comparison information for those members who attend pre-retirement seminars in person and those that attended a virtual seminar. Mr. Conroy stated that information was available and would be provided to Trustee Claudel.

Investment Operations

The Chairman recognized Liz Miller, Chief Investment Officer. Ms. Miller reviewed the November 30, 2020 performance report. Ms. Miller reported that the Retirement System's investment portfolio produced a total return of 8.6% for the calendar year to date time period (not annualized), outperforming the Policy Index return of 7.8%. She reported that for the one year ending November 30, 2020, the System's investment portfolio achieved a 10.6% 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 a 7.9% average annualized total return for the trailing 25-year time period ending November 30, 2020. The System's investment portfolio outperformed the Policy Index benchmark for all time periods reported.

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 21, 2021. Chairman Suresh Ramamurthi, Chairman of the Investment Committee, provided a brief report.

Chairman Ramamurthi moved that the Board of Trustees approve the termination of the Brookfield REIT mandate and approve the transition of the assets managed by Brookfield to CenterSquare in a timely and prudent manner. Trustee Johnson seconded the motion. The motion carried.

Chairman Ramamurthi moved that the Board of Trustees approve a commitment of up to \$60 million to JMI Equity Fund X, L.P. and authorize staff to proceed with the investment pending a satisfactory and final legal review of corresponding partnership documents. Trustee Rogers seconded the motion. The motion carried.

Audit Committee Report

The Audit Committee met on Thursday, January 21, 2021. James Zakoura, Chairman of the Committee, provided a report on the meeting and responded to questions.

Personnel Committee Report

Chairman Arnold recognized Trustee Ernie Claudel, Chairman of the Personnel Committee. The Personnel Committee met on Friday, January 22, 2021. Trustee Claudel provided a report and responded to questions.

Trustee Claudel moved that the Board of Trustees approve the creation of two position classifications - an Information Security and Compliance Coordinator and a Procurement Officer and assigning them to the proposed pay grades as recommended by the Executive Director. Trustee Stratton seconded the motion. The motion carried.

KPERS Death and Disability Plan Valuation

Chairman Arnold introduced Tasha S. Kahn, FSA, MAAA, Principal, Millman, Inc. Ms. Kahn presented an annual report on the Death and Disability Plan Valuation as of June 30, 2020. The 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*. Ms. Kahn responded to questions.

Chairman Arnold moved that the Board of Trustees adopt the June 30, 2020 valuation of the KPERS Death and Disability Plan. Trustee Hill seconded the motion. The motion carried.

Report and Review of Governor's Budget Recommendations for KPERS for Fiscal Years 2021 and 2022

Chairman Arnold recognized Jarod Waltner. Mr. Walter presented a report and review of the Governor's Budget Recommendations for KPERS Fiscal Years 2021 and 2022. Mr. Waltner stated that the Chairperson for Joint Committee on Pensions, Investments, and Benefits and the House Insurance and Pensions Committee will be Representative Steven Johnson. The Chairperson for the Senate Financial Institutions and Insurance Committee will be Senator Jeff Longbine. Mr. Waltner stated that the Governor's Budget Report contains recommendations for the KPERS operating budget, including the modernization initiative, as well as a recommendation to reamortize the State/School legacy unfunded actuarial liability. Mr. Waltner responded to questions.

Retirement System Operations Report

Chairman Arnold recognized Mary Beth Green, Chief Benefits Officer. Ms. Green reviewed member service performance for November and December, 2020 and responded to questions.

Retirement System Financial Report

Chairman Arnold recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal reviewed the preliminary December 31, 2020 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, 2020

Chairman Arnold recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal presented the highlights of the KPERS Comprehensive Annual Financial Report for Fiscal Year 2020 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.

Legislative Post Audit Information Technology Security Audit

Chairman Arnold recognized John Cahill, Chief Information Officer. Mr. Cahill stated as required by law the Legislative Post Audit Committee Information Technology Security audits are confidential and not subject to public view. Mr. Cahill recommended that the Board go into Executive Session to review the Legislative Post Audit findings.

Chairman Arnold moved that we recess into executive session to receive the Legislative Post Audit Committee Information Technology Security Audit under K.S.A. 75-4319(b). The following personnel are included in the session: members of the Board, and staff members Alan Conroy, John Cahill, and Noble Morrell. We will reconvene the open meeting in the Board Room at 1:15 p.m. No binding action will be taken in the Executive Session. Trustee Claudel seconded the motion. The motion carried.

Chairman Arnold called the meeting back to order at 1:15 p.m. and announced that no binding action was taken during the executive session.

Review of Initial Order

Chairman Arnold recognized Kathleen Billings, Staff Attorney. Ms. Billings reviewed the Initial Order regarding the appeal of Mark Lytle and responded to questions.

Trustee Claudel moved the Board inform the Executive Director of its decision to accept the Presiding Officer's Initial Order of the Mark Lytle 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 Zakoura seconded the motion. Trustee Rogers voted no. The motion carried.

Informational Items

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

Other Business

Chairman Arnold continued the discussion regarding sending a letter to the Governor similar to letter the Board sent last year regarding the position and recommendations of the Board of Trustees regarding reamortization.

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 policy makers with the direction of the Board of Trustees' with any amendments determined by the Board of Trustees. The Board of Trustees will review letter before sending. Trustee Claudel seconded the motion. The motion carried.

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy stated that the Joint Committee on Pensions and Investments Committee meeting in December 2020 recommended not to reamortize prior to the 10 year mark, presently the legacy Unfunded Actuarial Liability will extinguish in 2023, unless a recommendation comes from the Board of Trustees.

Trustee Johnson moved that the prior motion be tabled until another meeting is scheduled and a decision on the contents of the letter to the Governor will be determined. Trustee Stratton seconded the motion. The motion carried.

Chairman Arnold Farewell Comments

Trustee Claudel stated he was honored to make a presentation to Chairman Arnold as this will be his last meeting as the Board of Trustees' Chairman. On behalf of the Board, Trustee Claudel presented Chairman Arnold with a plaque to honor his years of service. Trustee Claudel congratulated Chairman Arnold for his years of outstanding service on behalf of the retirees, beneficiaries, and members as he has served on the Board of Trustees.

Mr. Conroy also honored Chairman Arnold. Mr. Conroy noted that Chairman Arnold has served on the Board of Trustees since March 2013. During his tenure Chairman Arnold has

made or seconded 170 motions, approved funding of investing \$5.2 billion, and during Chairman Arnold's tenure the Trust Fund has grown over \$6 billion. Mr. Conroy thanked Chairman Arnold who has served the Board of Trustees with distinction and honor.

Chairman Arnold thanked the Board of Trustees and Executive Director Conroy for the time that he has served on the Board. He stated KPERS is a great organization with outstanding staff, and it has been a privilege to serve on the Board of Trustees. He stated that he will stay on as a Trustee until a new trustee is assigned by the Governor. However, he will step down as Chairman officially, and he assigned Vice Chairman Suresh Ramamurthi as the Chairman of the Board, until the July 2021 Board meeting when the Board will elect the Chairman of the Board for Fiscal Year 2022.

Vice Chairman Ramamurthi thanked Chairman Arnold for his outstanding service to the Board of Trustees.

No other business was discussed.

Board Self Evaluation

There was no further discussion.

Chairman Arnold adjourned the meeting at 1:24 p.m. Trustee Claudel seconded the motion. The motion carried.