

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

January 21, 2022

The meeting of the Board of Trustees was called to order by Chairperson James Zakoura at 9:35 a.m. on January 21, 2022, in the Retirement System Board Room, Topeka, Kansas.

Board members present: James Zakoura, Chairperson
 Ron Johnson, Vice Chairperson
 Ernie Claudel
 Emily Hill (via Zoom)
 Lynn Rogers
 Brad Stratton
 Ryan Trader
 Sam Williams
 Jo Yun

Board members absent: None

Chairperson James Zakoura welcomed David Wiese, Office of Revisor of Statutes (via Zoom), Eileen Ma, Office of Revisor of Statutes (via Zoom), Melissa Renick, Kansas Legislative Research (via Zoom), Steven Wu, Kansas Legislative Research (via Zoom), Andrew Finzen, Kansas Legislative Research (via Zoom), Jeff Arpin, Division of the Budget (via Zoom), and all other participants.

Public Comments

Chairperson Zakoura recognized Alan Conroy, Executive Director. Mr. Conroy stated a written letter of information was placed on the desks of the Trustees from Ken Kennedy, a KPERS retiree urging the Board to take positive action to support a cost-of living adjustment for KPERS retirees.

Consent Agenda

The consent agenda included the minutes of the November 19, 2021, meeting; the annual Proxy Voting and Disclosure Report; the New Affiliations for 2022; and the Appointment of Hearing Officer for Curtis Nicholson.

Trustee Claudel moved that the Board of Trustees adopt the consent agenda. Trustee Rogers seconded the motion. The motion carried.

Executive Director's Report

Chairperson Zakoura 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:

Governor Kelly directed State agencies to have employees return to work on January 3, 2022. At that time, KPERS staff who had been working from home returned to the office. Staff who have been approved to work from home under the KPERS Remote Work Policy may work from home up to two days per week.

In total there were 41 staff that tested positive for COVID-19 between November 2020 and January 21, 2022. All staff are either recovering at home or have recovered.

KPERS continues to take precautions to prevent the spread of COVID-19. Staff should perform a daily self-health screening. Masks are required when employees are out of their work area, and extra cleaning of the building during the day.

KPERS follows the Kansas Department of Health and Environment's and the Department of Administration's guidelines for staff who have been exposed to or are being tested for COVID-19. This information was updated on January 11, 2022, to coincide with the new CDC guidance.

Benefits and Member Services staff have been working with employers to complete affiliation applications for the Kansas Public Employees Retirement System. Staff member have received 13,000 incoming phone calls and responded to 3,000 email requests. Staff members assisted 400 members and survivors who physically visited the Retirement System's office during the months of November and December.

Staff members also have been working with other divisions to reconcile calendar year 2022 benefit payment records and tax information to finalize approximately 131,400 1099-R tax forms for printing and distribution. Staff members have been participating in numerous requirement sessions for the Modernization Project, preparations for the 2021 Member Annual Statement project, the Data Governance initiative and preparing to issue the 2022 tax withholding notices.

Fiscal Services has completed the 2021 Annual Comprehensive Financial Report (ACFR) which was published to the KPERS website on December 17, 2021.

The Employer Auditing Unit has completed 31 employer audits since July 1, 2021, with 45 in progress and an additional 20 assigned.

The Employer Reporting Unit has handled over 1,900 calls and emails from employers since the last Board meeting.

The private markets investment staff conducted due diligence meetings with two private equity firms and one noncore real estate firm. Staff members have been working with Mercer to prepare three investment recommendations for the January Investment Committee meeting. The public markets investment staff have completed the annual disclosure reporting process, as well as the annual proxy voting audit process. The entire investment staff have been engaged in the annual review and update of the Investment Monitoring System Procedures manual.

Planning and Research staff has been working on legislative preparation and the data governance project. Staff also prepared materials and presented to the Joint Committee on Pensions, Investments, and Benefits and the Senate Republican Caucus. Planning and

Research staff has also been working with consulting actuaries Cavanaugh Macdonald on various cost studies related to additional funding.

The KPERS 457 team has added five more local government offices to the KPERS 457 plan, including Dodge City Community College, Kansas Workers Risk Cooperative for Counties, the cities of Clearwater and Valley Falls, and the Horton Housing Authority. This brings the total number of joinders signed to sixteen for the year.

The Division of Information Technology has been focusing on moving some operations to the cloud for the infrastructure team. Staff has signed a contract with NICE CX1 to implement a new cloud-based contact center.

The Security staff has remediated the Log4J Exploit. The exploit was rated a 10 out of 10 on the Common Vulnerability Scoring System.

The KPERS security vendor, Optiv, performed and completed the security assessment for the Member and Employer web portals and the perimeter penetration testing, which is designed to evaluate the overall KPERS security posture.

The Application Development and Database team is participating in the requirements meeting for the KAPS modernization project. Staff has been working on documentation for System Development Life Cycle (SDLC), modernization co-development, and as-is documentation. The developers are also working with the Sagitec team to support the KITS legacy system.

KPERS continues the search for Deputy Chief Information Officer to replace Max Williams, who will be retiring in April 2022.

In the area of internal communications, staff continued executing KPERS' internal communications plan, revamping the way we recognize employees for their career service awards, and designed branded facemasks for employees. We also began working on communications for the new data governance program and further efforts on change readiness associated with the modernization initiative.

Staff members provided ongoing communications support for the annual 1099-R tax form project, developed a new video about KPERS' deferred retirement option program (DROP), and began planning for new optional life insurance benefits coming soon. Staff members assisted with the completion of the 2021 efforts with the State's Health Quest program to provide a financial literacy program for State employers enrolled in employee health insurance.

Staff has continued to work on the final design stages of the kpers.org website to incorporate user feedback and began building the actual website, including technical efforts, coding, and cascading style sheet development.

The communications team distributed employer emails on annual processes like service quarter verification, employer rate certifications, and optional life insurance. Staff also had various ad hoc topics affecting members and employers including pre-retirement seminar invites and miscellaneous operational messages. Staff also continued with support to implement our brand refresh, including efforts to develop a new tagline for all KPERS 457 communications. We also supported member and employer webinar communications and

2022 planning. In addition, we provided communications support for the annual financial report project and the modernization initiative.

The Modernization Project is close to completing requirements analysis and moving to conceptual design. Many details have been defined in requirements analysis, but two strategic areas of focus remain: (1) How will the system best meet the needs of the Communications Department so that Communications can proactively engage members to help them prepare for retirement, and (2) How will KPERS design IT processes and platforms to ensure success in Modernization and support long-term support of the system by KPERS IT?

Alan Conroy, Executive Director participated in three outside presentations since the last Board meeting, all legislative related. He made a general KPERS presentations on current topics to the Joint Committee on Pensions, Investments, and Benefits, the Senate Republican Caucus, and the House Committee on Insurance and Pensions.

Due to the pandemic KPERS did not hold the annual Holiday Luncheon. However, staff with their astonishing giving spirit adopted, and provided gifts for 20 Head Start families from the Sheldon Head Start School here in Topeka. The Head Start Program serves Pre-K children and provides a wide variety of services that are vital to boost the school readiness of low-income children. The Sheldon Head Start Program and the 20 families were very appreciative of the gifts.

Investment Operations

The Chairperson recognized Liz Miller, Chief Investment Officer. Ms. Miller reviewed the November 30, 2021, investment performance report. Ms. Miller reported that the Retirement System's investment portfolio produced a total return of 13.6% for the calendar year to date time period (not annualized), outperforming the Policy Index return of 10.5%. She reported that, for the one year ending November 30, 2021, the System's investment portfolio achieved a 16.6% total return, outperforming the Policy Index return of 14.0%. 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 10.2% 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, 2021. The System's investment portfolio outperformed the Policy Index benchmark for all time periods reported.

The Chairperson recognized Aysun Kilic, Meketa Investment Group. Ms. Kilic reviewed Meketa's Capital Markets Outlook and Risk Metrics Report and responded to questions.

Investment Committee Report

The Investment Committee met on Thursday, January 20, 2022. Acting Chairperson Brad Stratton, of the Investment Committee, provided a brief report.

Trustee Stratton moved that the Board of Trustees approve a commitment of up to \$24 million to New Enterprise Associates 18, L.P. and up to \$16 million to NEA 18 Venture Growth Equity, L.P., and to authorize staff to proceed with the investments pending a satisfactory and final legal

review of corresponding partnership documents. Trustee Johnson seconded the motion. The motion carried.

Trustee Stratton moved that the Board of Trustees approve a commitment of up to \$40 million to Green Equity Investors IX, L.P., and to authorize staff to proceed with the investment pending a satisfactory and final legal review of corresponding partnership documents. Trustee Williams seconded the motion. The motion carried.

Trustee Stratton moved that the Board of Trustees approve a commitment of up to \$65 million to EQT Exeter Industrial Core-Plus Fund IV, LP, and to authorize staff to proceed with the investment pending a satisfactory and final legal review of corresponding partnership documents. Trustee Yun seconded the motion. The motion carried.

Trustee Stratton 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, 2022 through April 1, 2024. Trustee Claudel seconded the motion. The motion carried.

Audit Committee Report

The Audit Committee met on Thursday, January 20, 2022. Ron Johnson, Chairperson of the Committee, provided a report on the meeting and responded to questions.

Personnel Committee Report

Chairperson Zakoura recognized Trustee Ernie Claudel, Chairperson of the Personnel Committee. The Personnel Committee met on Friday, January 21, 2022. Trustee Claudel provided a report and responded to questions.

Trustee Claudel moved that the Board of Trustees approve the adoption of the updated pay grades for positions as recommended by the Executive Director and CBIZ Compensation Consulting as a result of the classification and compensation study that was recently completed and that such pay grades be implemented at the beginning of Fiscal Year 2023, or as soon thereafter as practical. Trustee Trader seconded the motion. The motion carried.

KPERS Death and Disability Plan Valuation

Chairperson Zakoura recognized Tasha S. Kahn, FSA, MAAA, Principal, Millman, Inc. Ms. Kahn introduced Maxwell Berube, FSA, MAAA, Actuary, Milliman, Inc., and Jack Chmielewski, FSA, MAAA, EA, Milliman, Inc. Ms. Kahn, Mr. Berube, and Mr. Chmielewski presented an annual report on the Death and Disability Plan Valuation as of June 30, 2021. 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, Mr. Berube, and Mr. Chmielewski responded to questions.

Chairperson Zakoura moved that the Board of Trustees adopt the June 30, 2021 valuation of the KPERS Death and Disability Plan. Trustee Rogers seconded the motion. The motion carried.

Discussion and Review as Requested by the Joint Committee on Pensions, Investments, and Benefits Regarding a Cost-of-Living Adjustment for KPERS Retirees

Chairperson Zakoura recognized Alan Conroy, Executive Director and Jarod Waltner, Planning and Research Officer. Mr. Conroy stated that the Joint Committee on Pensions, Investments, and Benefits met in December and requested that the KPERS Board of Trustees review retiree cost-of-living adjustments and provide a recommendation to the 2022 Legislature. Mr. Conroy presented the cost-of-living adjustment history.

Mr. Waltner presented the funding of benefit changes, the cost-of-living adjustment projected costs and considerations.

Mr. Conroy discussed the options to present to the Joint Committee on Pensions, Investments, and Benefits regarding the cost-of-living adjustments for KPERS retirees.

Trustee Rogers moved that the Board of Trustees adopt as written in Option # 2 to the Joint Committee on Pensions, Investments, and Benefits – Recommend a Pre-Funding Cost-of-Living Adjustment - KPERS Board of Trustees recognizes the length of time our retirees and beneficiaries have gone without a cost-of-living adjustment. The last permanent cost-of living adjustment granted was in 1998. Currently, 88% of retirees have never received a cost-of-living adjustment. We recommend the Legislature provide a meaningful cost-of-living adjustment to deserving KPERS retirees. In granting the adjustment, the Legislature should review the impact of inflation on retiree benefits since the last adjustment and consider those who have been most affected. However, any cost-of-living adjustment granted by the Legislature should be fully funded (paid in advance) to avoid increasing KPERS' unfunded actuarial liabilities. The funding soundness of the Trust Fund remains the top priority of the Board.

*Trustee Stratton moved to amend the recommendation by adding the word **one-time** in the following sentence. We recommend the Legislature provide a meaningful **one-time** cost-of-living adjustment to deserving KPERS retirees. Trustee Yun seconded the motion. The motion carried. Trustee Claudel voted no.*

Trustee Rogers moved that the Board of Trustees adopt as written in Option # 2 to the Joint Committee on Pensions, Investment, and Benefits – Recommend a Pre-Funded Cost-of-Living Adjustment - KPERS Board of Trustees recognizes the length of time our retirees and beneficiaries have gone without a cost-of-living adjustment. The last permanent cost-of living adjustment granted was in 1998. Currently, 88% of retirees have never received a cost-of-living adjustment. We recommend the Legislature provide a meaningful onetime cost-of-living adjustment to deserving KPERS retirees. In granting the adjustment, the Legislature should review the impact of inflation on retiree benefits since the last adjustment and consider those who have been most affected. However, any cost-of-living adjustment granted by the Legislature should be fully funded (paid in advance) to avoid increasing KPERS' unfunded actuarial liabilities. The funding soundness of the Trust Fund remains the top priority of the Board. Trustee Yun seconded the motion. The motion carried. Trustee Claudel voted no.

Continued Discussion and Information on the Actuarial Investment Assumed Rate of Return

Chairperson Zakoura recognized Alan Conroy, Executive Director. Mr. Conroy reviewed the Investment Return Assumption Scenarios.

Mr. Conroy also reviewed the guardrails for the actuary to maintain a funded ratio of at least 70%. The current statutory cap on annual increase in employer contribution of 1.2% would not be imposed, and to keep peak employer contribution in the current 13% to 14% range, the amortization schedules, actuarial cost projections, and to use reamortization as a last resort to mitigate the impact of the change and maintain the first three guardrails.

Mr. Waltner presented the scenarios for the amortization schedules and maintain existing amortization schedule. He also reviewed the comparison of projected employer contribution rates under various investment return assumptions using the four scenarios. Mr. Waltner responded to questions.

Chairperson Zakoura recognized Pat Beckham, FSA, EA, FCA, MAAA, Principal and Consulting Actuary, Cavanaugh Macdonald. Ms. Beckham reviewed the comparison of projected funded ratio, recommending a 6.75% investment return assumption starting in the 12/31/2021 valuation with 22-year reamortization. Ms. Beckham responded to questions.

Chairperson Zakoura recognized Allan Emkin, Managing Principal, Meketa Investment Group. Mr. Emkin confirmed the recommendation that was presented by Ms. Beckham. Mr. Emkin responded to questions.

Mr. Conroy reviewed the scenarios the Board members would like to review at the March 25, 2022 Board meeting:

Scenario 1 - Trustee Johnson – An example of a 6.75% investment return assumption starting in the 12/31/2021 valuation, and reamortize the entire unfunded actuarial liability over 15 years.

Scenario 2 - Trustee Stratton – An example of a 7.0% investment return assumption starting in the 12/31/2021 valuation.

Scenario 3 - Trustee Hill – An example of a 7.0% investment return assumption starting in the 12/31/2021 valuation without the reamortization. And an example of a 7.0% investment return assumption starting in the 12/31/2021 valuation, and reamortize the entire unfunded actuarial liability over 15 years.

Scenario 4 - Trustee Zakoura- An example of 7.05% investment return assumption starting in the 12/31/2021 valuation, and reamortize the entire unfunded actuarial liability over 15 years.

Scenario 5 - Trustee Trader – An example with 6.75%, 7.0%, and 7.25% investment return assumption starting in the 12/31/2021 valuation, and reamortize the entire unfunded actuarial liability over 15 years.

Retirement System Operations Report

Chairperson Zakoura recognized Mary Beth Green, Chief Benefits Officer. Ms. Green reviewed member service performance for November and December 2021 and responded to questions.

Retirement System Financial Report

Chairperson Zakoura recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal reviewed the preliminary December 31, 2021, financial statements and responded to questions.

Report and Review of Governor's Budget Recommendations for KPERS for Fiscal Year 2022 and 2023

Chairperson Zakoura recognized Jarod Waltner, Planning and Research Officer. Mr. Walter presented a report and reviewed the Governor's Budget Recommendations for KPERS Fiscal Years 2022 and 2023. Mr. Waltner stated that the Governor's Budget Report contains recommendations for the KPERS operating budget, including the modernization initiative and to pay the remaining balance of the delayed employer contribution payments from FY 2017 and FY 2019. Mr. Waltner responded to questions.

Improving Member Communication – Member Satisfaction Survey

Chairperson Zakoura recognized Alan Conroy, Executive Director. Mr. Conroy introduced Emily Wilson, Communications Specialist. Ms. Wilson reviewed the 2021 Communications survey. The Communications Division conducted an annual survey to assess member satisfaction with KPERS' communications, preferred communication channels, and frequency of those communications. Ms. Wilson responded to questions.

Presentation of KPERS Summary Overview for Policy Makers

Chairperson Zakoura recognized Jarod Waltner, Planning and Research Officer. Mr. Waltner reviewed the sample welcome letter and attachment *KPERS Fast Facts*, which will be sent to the 2022 Legislature. Mr. Waltner respond to questions.

Presentation of the KPERS Annual Comprehensive Financial Report for the Fiscal Year Ended June 30, 2021

Chairperson Zakoura recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal presented the highlights of the KPERS Annual Comprehensive Financial Report for Fiscal Year 2021 and responded to questions.

Sample Legislative Activity Report on KPERS Related Issues

Chairperson Zakoura 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.

Review of Initial Order

Chairperson Zakoura recognized Kathleen Billings, Staff Attorney. Ms. Billings reviewed the Initial Order regarding the appeal of Sue Wilson and responded to questions.

Trustee Zakoura moved the Board inform the Executive Director of its decision to accept the Presiding Officer's Initial Order of the Sue Wilson 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 Chairperson and to be served on the parties by the Executive Director in accordance with the provisions of the Kansas Administrative Procedure Act. Trustee Williams seconded the motion. The motion carried.

Informational Items

The Chairperson called the Board's attention to the informational items behind Tab Q in the Board book.

Other Business

Chairperson Zakoura recognized Trustee Rogers. Trustee Rogers stated that Alan Conroy, Executive Director, will provide documents on the history of working after retirement. Trustee Rogers would like to discuss at a future meeting the viewpoint of the Board, as there is a high need for substitutes and teachers in the school system.

No other business was discussed.

Board Self Evaluation

There was no further discussion.

Trustee Trader adjourned the meeting at 2:40 p.m. Trustee Johnson seconded the motion. The motion carried.