

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

March 25, 2022

The meeting of the Board of Trustees was called to order by Chairperson James Zakoura at 9:49 a.m. on March 25, 2022, in the Retirement System Board Room, Topeka, Kansas.

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

Board members absent:           none

Chairperson James Zakoura welcomed Representative Steven Johnson, David Wiese, Revisor of Statutes Office, Jeff Arpin, Division of the Budget, and all other participants.

**Public Comments**

Chairperson Zakoura recognized Alan Conroy, Executive Director. Mr. Conroy introduced Clarence "Sonny" Scroggins, a retired KPERS member and community activist, who addressed the Board members asking for the KPERS Board not to include KPERS investments in organizations that are associated with Russia, since the invasion of Ukraine. He also asked that KPERS not invest in pharmaceutical companies that sell opioids.

Chairperson Zakoura acknowledged a letter written on March 24, 2022, by Edward P. Cross, President of Kansas Independent Oil and Gas Association. The letter was distributed to all Trustees urging Board members to divest from investments with entities boycotting energy companies.

Mr. Conroy also noted that several KPER members emailed or called him expressing their concern of the investment holdings in Russia. A few KPERS members expressed concern of investment holdings in China as well.

**Outstanding Service Awards**

Chairperson James Zakoura recognized Alan Conroy, Executive Director. Mr. Conroy congratulated Breanna Briggs, Administrative Specialist in Benefits and Member Services, and Candace Blythe, Senior Investment Accountant in Fiscal Services as the recipients of the KPERS Outstanding Service Award for the period of April 2022 through July 2022. Mr.

Conroy stated that Breanna Briggs and Candace Blythe consistently excel at demonstrating KPERS Core Values of integrity, service, accountability, and respect.

Alan Conroy, Executive Director, and Chairperson James Zakoura awarded Breanna Briggs and Candace Blythe with an Appreciation Plaque, congratulating them for their accomplishments and great service to KPERS members, and to the KPERS team.

### **Consent Agenda**

The consent agenda included the approval of Board minutes for the January 21, 2022, meeting, the consideration of KPERS 3 and Deferred Retirement Option Program (DROP) Interest Credits, and information on Withdrawal of Affiliation Application by the Crawford County Rural Water District #4.

*Trustee Stratton 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 recent agency activities including:

The KPERS COVID -19 update since the January Board meeting includes Governor Kelly's directive for State agencies to have employees return to work on January 3, 2022, and as of the close of business on February 18, 2022, Governor Kelly discontinued the requirement that visitors and employees wear masks in State office buildings making it a recommendation only.

Benefits and Member Services staff members handled nearly 19,600 incoming phone calls and more than 4,000 emails from members and employers. Staff also held in-person consultations with more than 400 members and survivors who visited the Retirement System's offices.

Staff members also processed 971 retirement applications for new retirees during January and February. The Educational staff presented virtual Pre-Retirement Seminars to more than 900 members approaching retirement, and various virtual training sessions for more than 700 employer representatives. Some staff members participated in special projects including Requirement's sessions related to the Modernization project.

The Fiscal Services Division published the 2021 Governmental Accounting Standards Board (GASB) 68 report to the KPERS website on February 18, 2022. GASB 75 reports were made available to our employers on February 10, 2022.

The Employer Auditing Unit completed 49 employer audits since July 1, 2021, with 39 in progress. The Employer Auditing Unit also has been working on employer payroll information in conjunction with Internal Audit for the 69 employers chosen for the Fiscal Year 2022 GASB 68 audit.

The Employer Reporting Unit has handled over 1,800 calls, emails, and certifications. Fiscal Services staff members have been participating in Requirement's sessions for both the Modernization project and the Data Governance initiative.

The Planning and Research staff has worked on legislative issues including 20 fiscal notes, 21 bill summaries, 15 pieces of testimony on 12 bills, budget testimony, and overview presentations to three committees. Other legislative projects include requests for information on working after retirement, KP&F plan design, cost of living adjustments, additional funding scenarios and the Deferred Retirement Option Program (DROP).

Planning and Research staff worked on the Data Governance project, including the CATCH on setting up the data governance framework and documents and training the data stewards.

The private markets investment staff have conducted due diligence meetings with a private equity firm and a core real estate firm and have been working with Mercer Alternatives and The Townsend Group to prepare two investment recommendations for the March Investment Committee meeting. Staff has also completed legal reviews and executed documents for the private equity and real estate commitments that the Board approved in January.

The public markets investment staff have completed 4th Quarter 2021 review meetings with all of the System's investment managers for the publicly-traded asset classes. The entire Investment team met with representatives of Meketa Investment Group and currency management firm Adrian Lee in mid-February to discuss a variety of topics, including Meketa's 2022 capital market assumptions, the outlook for the US dollar, and detailed portfolio stress testing analysis results. Staff has been closely monitoring the Russia/Ukraine situation and any impact on the System's investment portfolio and have been in contact with the System's international equity managers during this period of heightened global market volatility.

The Information Technology staff performed KPERS' quarterly Phishing campaign, which, along with continued training brings visibility to security vulnerabilities and helps protect KPERS from attacks. The team has completed the gap assessment for Ransomware readiness and is developing a work plan to address the gaps in preparedness. Annual security training for all KPERS staff concluded on January 31.

The application development and database teams are focused on the Modernization project and supporting the KITS systems. Application developers are working on documentation for the modernization co-development process and legacy documentation. The development team is researching application testing tools and the database administrators have completed the KITS data analysis in preparation for modernization data cleansing.

The KPERS 457 team has added three more local government offices to the KPERS 457 plan. This brings the total number of joinders signed to four for the year. Empower will continue to work with new plan members to facilitate the enrollment of participants and funding of the plans.

The Communications Team worked with HealthQuest (State employee health plan) to extend their partnership with a new webinar and KPERS' financial literacy program is in progress for the second year.

The Communications Department worked on several projects such as employee "change readiness" associated with the modernization project, KPERS' new data governance project and data stewards' recognition, Project Topeka, KPERS IT help desk, employee service awards and others.

The Project Management Office continues to engage in KPERS' modernization effort. Requirement's analysis yielded over 2,600 requirements, and now KPERS is in negotiation with our software vendor to determine how to approach design. To support this strong focus on quality design, KPERS has consolidated project managers and business analysts under the Project Management Office.

Alan Conroy, Executive Director, made presentations to the Kansas State Council of Fire Fighters and the Kansas State Board of Education. Mr. Conroy provided testimony several times to legislative committees during the 2022 Session of the Legislature, including the general overview of KPERS with information on funding presented to the Senate Ways and Means Committee on January 27, 2022. Mr. Conroy responded to questions.

### **Investment Operations Report**

Chairperson Zakoura 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, 2021. He reported that the Retirement System experienced a total return of 16.1% for calendar year 2021, which exceeded the Policy Index benchmark by 1.8%. Mr. Emkin reported that the System's investment portfolio has outperformed the Policy Index benchmark over the trailing one year, three-year, five-year and ten-year time periods by 1.8%, 0.3%, 0.5%, and 0.7%, respectively.

Mr. Emkin reported that the Retirement System's investment portfolio produced an average annualized total return of 15.0% over the three years ending December 31, 2021, outperforming the Policy Index by 0.3%, with a lower risk level than the Policy Index, and that these results ranked favorably in the peer universe for public pension plans. Mr. Emkin reviewed the decline in the expected return forecast for the System's investment portfolio going forward, given the high levels of current equity market valuations and the historically low levels of interest rates. Mr. Emkin responded to questions from the Board.

Chairperson Zakoura recognized Aysun Kilic, Meketa Investment Group. Ms. Kilic reviewed the organization's Investment Market Risk Metrics Report and responded to questions.

### **Investment Committee Report**

The Investment Committee met on Thursday, March 24, 2022. Trustee Emily Hill, Chairperson of the Committee, provided a report and responded to questions.

*Trustee Hill moved that the Board of Trustees approve a commitment of up to \$40 million to Warburg Pincus Global Growth 14, L.P. and authorize staff to proceed with the investment*

*pending a satisfactory and final legal review of corresponding partnership documents. Trustee Stratton seconded the motion. The motion carried.*

*Trustee Hill moved that the Board of Trustees approve an additional commitment of up to \$125 million to CBRE U.S. Core Partners, LP 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.*

### **Audit Committee Report**

The Audit Committee met on Friday, March 25, 2022. Trustee Ron Johnson, Chairperson of the Committee, provided a report and responded to questions.

### **Deferred Compensation Committee Report**

The Deferred Compensation Committee met on Thursday, March 24, 2022. Trustee Brad Stratton, Acting Chairperson of the Deferred Compensation Committee, provided a report and responded to questions.

### **Personnel Committee Report**

The Personnel Committee met on Thursday, March 24, 2022. Trustee Claudel, Chairperson of the Committee, provided a report and staff responded to questions.

*Trustee Ernie Claudel moved that the Board of Trustees approve the payment of incentive compensation awards to the eligible investment staff for Calendar Year 2021 as calculated by CBIZ Talent & Compensation Solutions and as recommended by the Personnel Committee and the Executive Director. Trustee Hill seconded the motion. The motion carried.*

### **Review and Discussion of KPERS Investments in Russia**

Chairperson Zakoura recognized Alan Conroy, Executive Director. Mr. Conroy opened the discussion of KPERS investments in Russia since the invasion of Ukraine by the government of Russia on February 24, 2022. Mr. Conroy stated that this would be the first time should the Board decide to take fiduciary action to divest because of external events. In the past divestment directives would come through the legislative process, and the KPERS staff would follow that directive. Mr. Conroy noted that several other public pension plans have acted on their respective investment holdings in Russia, one example being the Missouri public pension plans to liquidate their investment holdings in Russia in a timely and prudent manner, and to prohibit any future investments in Russia, if possible considering federal sanctions.

Chairperson Zakoura recognized Chief Investment Officer Elizabeth Miller, who presented an overview of the Retirement System's current investments in Russia. Ms. Miller reported that as of February 25, 2022, the System's investments in Russian securities totaled \$35.9 million, which was 0.14% of total assets. The System's investments in Russia were held in the international equity portfolio. Ms. Miller reported that all major index providers either have removed Russian securities from their indexes or are in the process of doing so. Ms. Miller reported that it is not currently possible to liquidate Russian equity securities, since the Russian equity market is closed to foreign investors, and trading has been suspended in

the ADRs and GDRs of Russian companies. Ms. Miller reminded the Board that its fiduciary duty and the provisions of K.S.A. 74-4921(3) require the Board to make investment decisions that are based on risk and return considerations, and that historically, any divestment actions have been mandated by state statute and implemented by the Board and Investment Staff.

Chairperson Zakoura recognized Allan Emkin, Meketa Investment Group. Mr. Emkin reviewed two background memorandums from Meketa Investment Group on Russia. Mr. Emkin said that the circumstances are extraordinary and urged the Board to view the Russia situation as an investment issue only, divorced from politics. Mr. Emkin mentioned that many of Meketa's clients are looking at the same issues and considering what is the right action to take as a prudent and thoughtful fiduciary. Mr. Emkin, Ms. Miller, and Laurie McKinnon, General Counsel responded to questions from the Board. Following extensive Board discussion, the following motion was made:

*Chairperson Zakoura moved that the Board of Trustees direct staff to liquidate the Retirement System's investments in Russian securities in a timely and prudent manner, as market conditions permit, and to ensure that no new investments in Russian securities are made by the System's investment managers, unless and until the Board directs that the Russian divestment mandate is lifted. Trustee Rogers seconded the motion.*

Discussion followed. Trustee Claudel made a motion to table the motion until the May Board meeting. There was no second. The motion failed.

Discussion followed. Trustee Stratton made a motion to amend the motion under consideration.

An amended motion was made:

*Trustee Stratton moved that the Board of Trustees ensure that no new investments in Russian securities are made by the System's investment managers, unless and until the KPERS Investment staff and their advisors, advise the Board to do so. Trustee Trader seconded the motion.*

*Discussion of the amendment followed. Chairperson Zakoura called for a vote on the amendment to the motion. Six Board members voted in favor, Trustee Claudel, Trustee Trader, Trustee Rogers, Trustee Hill, Trustee Stratton, and Trustee Yun. Three voted against the amendment, Trustee Williams, Trustee Johnson, and Chairperson Zakoura. The amendment motion carried.*

*Discussion continued and the motion was further amended:*

*Trustee Stratton moved that the Board of Trustees ensure that no new investments in Russian securities are made by the System's investment managers unless and until the KPERS Investment staff and their advisors, advise the Board to do so. Trustee Trader seconded the motion.*

*Chairperson Zakoura called for a vote on the amended motion. Six Board members voted in favor of the amended motion, Trustee Claudel, Trustee Trader, Trustee Rogers, Trustee Johnson, Trustee Hill, and Trustee Stratton. Three voted against the amended motion; Chairperson Zakoura, Trustee Williams, and Trustee Yun. The amended motion carried.*

## **Continued Discussion and Information on the Actuarial Investment Assumed Rate of Return – Part 1**

Chairperson Zakoura recognized Alan Conroy, Executive Director, Jarod Waltner, Planning and Research Officer, and Pat Beckham, Principal and Consulting Actuary, Cavanaugh Macdonald. Mr. Conroy reviewed the Investment Rate Assumption information, and the five scenarios that Trustees submitted at the January 21, 2022, Board meeting.

Mr. Waltner reviewed the actuarial cost projections based on comparison of first 5 years of funding projections under various investment return assumptions including: 7.0% no reamortization; 7.0% with 22-year reamortization; 7.5 to 7.05% over three years with 15-year reamortization; 6.75 with 15-year reamortization; and 7.25 to 6.75% over three years with 15-year reamortization.

### **Long-Term Economic Outlook**

Chairperson Zakoura recognized Alan Conroy, Executive Director. Mr. Conroy welcomed Esther L. George, President and Chief Executive Officer of the Federal Reserve Bank of Kansas City. Mr. Conroy introduced Trustee Stratton, who asked the Trustees to present a brief biography of their Board membership. Trustee Stratton stated that Ms. George represents the Tenth District on the Federal Open Market Committee, which has authority over U.S. Monetary policy. Ms. George has held the position of President and Chief Executive Officer of the Federal Reserve Bank of Kansas City since October 1, 2011, and she hosts the Federal Reserve Bank of Kansas City's annual Jackson Hole Economic Symposium.

Ms. George discussed the long-term economic outlook. She stated that the Federal Reserve has a long run strategy to the economy and the monetary policies. She discussed economic disruptions due to the pandemic; the "unprecedented" time of our economy; the labor market; retail sales; disruption of the supply chains; consumption; workforce; retirees not returning to the workforce; and personal income growth due to stimulus check, enhanced unemployment benefits, and the rapid recovery following the pandemic; supply chains; inflation; and high interest rates due to the Russian conflict with Ukraine. Ms. George responded to questions.

## **Continued Discussion and Information on the Actuarial Investment Assumed Rate of Return – Part 2**

Chairperson Zakoura recognized Pat Beckham, Principal and Consulting Actuary, Cavanaugh Macdonald. Ms. Beckham presented information and recommendations on the actuarial assumed rate of investment return; the impact of lowering the investment return assumption: reamortization of the unfunded actuarial liability; and illustration of alternate amortization policies. Ms. Beckham responded to questions.

Chairperson Zakoura recognized Representative Steven Johnson. Representative Johnson presented comments regarding the actuarial assumed rate of investment return and responded to questions.

Discussion followed. Following is the motion:

*Trustee Stratton moved that Board of Trustee authorize KPERS staff and advisors to begin the process to set investment return assumptions rate to a range of 6.75% to 7.0% to take affect the next evaluation date with final board approval at the May 20, 2022, Board meeting. Trustee Johnson seconded the motion. The motion carried. Trustee Claudel voted no.*

### **The Retirement System Monthly Operations Report and Retirement System Monthly Financial Report**

Chairperson Zakoura stated that the written Retirement System's monthly operations report, and the Retirement System's monthly financial report will be reviewed by the Trustees in their Diligent Board Books.

### **Overview and Status Report on Working After Retirement**

Chairperson Zakoura stated that the Overview and Status Report on Working After Retirement will be reviewed at the Board's May 20, 2022, meeting.

### **Status Report on the 2022 Legislative Session, Including the KPERS Operating Budget**

Chairperson Zakoura stated that the summary and Status Report of the 2022 Legislative Session, including the KPERS operating budget will be reviewed at the Board's May 20, 2022, meeting.

### **Selection of Securities Litigation Counsel**

Chairperson Zakoura recognized Laurie McKinnon, General Counsel. Ms. McKinnon provided an overview of the process for contracting with securities litigation counsel. Ms. McKinnon introduced the staff members of Kaplan, Fox, & Kilsheimer, who appear via Zoom and briefly spoke to the Board. The members of the Procurement Negotiating Committee recommended the contract for securities litigation counsel to be awarded to Kaplan, Fox & Kilsheimer LLP. Ms. McKinnon responded to questions.

*Trustee Stratton moved that the Board of Trustees authorize staff to engage the law firm of Kaplan Fox & Kilsheimer LLP for the purpose of providing KPERS with securities litigation services, subject to staff negotiation of a satisfactory contract. Trustee Rogers seconded the motion. The motion carried.*

### **Review of Initial Orders**

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

*Chairperson Zakoura moved that the Board recess into executive session to discuss confidential member information regarding the Presiding Officer's Initial Orders in the Richelle Popevis appeal under K.S.A. 75-4319(b). The following persons are included in the executive session: members of the Board and staff members Alan Conroy, Laurie McKinnon, Kathleen Billings and Mary Beth Green. We will reconvene the open meeting in the Retirement System Board Room at 3:50 p.m. No binding action will be taken in the Executive Session.*

Chairperson Zakoura called the meeting back to order at 3:50 p.m. and announced that no binding action was taken in the executive session.

*Trustee Trader moved that the Board inform the Executive Director of its decision to accept the Presiding Officer's Initial Order of the Hui Chan Un 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 Rogers seconded the motion. The motion carried.*

*Trustee Claudel moved that the Board inform the Executive Director of its decision to accept the Presiding Officer's Initial Order of the Richelle Popevis 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 Rogers seconded the motion. The motion carried.*

*Trustee Yun moved that the Board inform the Executive Director of its decision to accept the Presiding Officer's Initial Order of the Matthew Simpson 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 Rogers seconded the motion. The motion carried.*

### **Other Business**

There was no other business discussed.

### **Informational Items**

Chairperson Zakoura 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**

*Trustee Rogers moved to adjourn the meeting at 3:58 p.m. Trustee Trader seconded the motion. The motion carried.*