

MINUTES

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD OF TRUSTEES

March 19, 2004

The meeting was called to order by Chairperson Michael Braude at 8:30 a.m., in the Retirement System Boardroom, Topeka, Kansas.

Board members present:

- Michael Braude, Chairperson
- Liz Miller, Vice Chairperson
- Jarold Boettcher
- Bruce Burditt
- Lynn Jenkins
- Marjorie Lee Webb (By Phone)
- Doug Wolff

Guests attending the meeting were Terry Jochems, President and Betty Morgan, Past President of KNEA Retired and 8 members of the association.

The Board, staff and guests observed a moment of silence in memory of Jane Steffes, wife of Board Member, Don Steffes. Ms. Steffes passed away March 9, 2004.

Public Comment

Michael Braude introduced Betty Morgan, Past President of KNEA Retired who stated her appreciation to the KPERS Board and staff for assistance to the association.

Employee of the Quarter

Michael Braude announced Steve Wesley as the employee of the first quarter of 2004.

Approval of Minutes

It was moved by Liz Miller and seconded by Bruce Burditt that the minutes of the meeting of January 16, 2004 be approved as submitted. Motion passed.

Executive Director's Report

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck introduced Alberta Rea as the System's new internal auditor and commended KPERS staff on their participation in Project Topeka. In addition, Mr. Deck announced that a Publicly Traded Securities Committee meeting has been scheduled for June 3rd. Through the initiative of former KPERS Board member, Vern Chesbro, the featured speaker at this meeting will be Wayne Angell, former member of the Board of Governors of the Federal Reserve System.

Mr. Deck provided a summary report on major issues, including: legislative activities, a death and disability report to be presented later in the meeting, the information system replacement project, and the status of the annual statement mailing. Mr. Deck announced that KPERS has received a letter from Security Benefit Life providing formal notice of their intent to withdraw as our third party administrator for disability benefits. Mr. Deck responded to questions.

Investment Operations

The Chairperson recognized Rob Woodard, Chief Investment Officer. Mr. Woodard reviewed the January 31, 2004 Performance Report. He reported that the Retirement System had a total return of 14.1 percent (not annualized) for the fiscal year-to-date and 1.6 percent for the calendar year to date. Mr. Woodard also reviewed preliminary numbers through February.

Mr. Woodard announced that the System had been notified by Wellington Management Company that the SEC has initiated an investigation into that firm's trading and allocation policies and practices. As such Wellington has been placed on probation and will receive a heightened level of oversight as the details of this investigation unfold. Further, Mr. Woodard reviewed information regarding a lawsuit by the New Jersey Attorney General against PIMCO parent Allianz and three related companies. PIMCO was also placed on probation pending additional information. Finally, Mr. Woodard updated information regarding Alliance Capital.

Mr. Woodard then reviewed information regarding the topic of global security risk and recent announcements by the SEC of increased resources to help public pension systems identify companies with business dealings in countries that the US State Department has labeled as "rogue nations".

Mr. Woodard announced the resignation of Tim Miller, Investment Operations Analyst, and thanked him for his service to KPERS.

The Chairperson recognized Scott Peppard, Deputy Chief Investment Officer. Mr. Peppard provided the derivatives and foreign exchange contracts report activity for January – February 2004 and responded to questions.

Investment Consulting Services

Michael Braude recognized Rob Woodard, Chief Investment Officer. Mr. Woodard reviewed the Investment Consulting Services RFP process and introduced representatives of each finalist, Pension Consulting Alliance (PCA) and EnnisKnupp and Associates.

Allan Emkin and Neal Rue, of PCA, provided their Investment Consulting Services presentation and responded to questions.

Kevin Vadolder, Steve Cummings and Lori Crosley, of EnnisKnupp, provided their Investment Consulting Services presentation and responded to questions.

Rob Woodard reviewed the current consulting services and fees in comparison to the proposals submitted. Bruce Burditt and Doug Wolff provided comments on the PNC Committee's evaluation of the proposals.

The Board discussed the prospect of developing agreements with both firms for investment consulting services. Under this arrangement PCA would be the Board's general consultant and EnnisKnupp would provide project-specific services.

Bruce Burditt moved that the Board authorize the PNC to negotiate consulting services agreements with both PCA and Ennis, under the terms discussed, with total general retainer fees not to exceed \$250,000. Liz Miller seconded the motion. Motion passed.

Elected Board Position Vacancy

Marjorie Lee Webb joined the meeting at 10:45 a.m. by phone.

Michael Braude recognized Liz Miller, member of the Review Committee. Ms. Miller provided information on the Committee's five finalists and announced the Committee's recommendation.

Liz Miller moved that Jody Boeding be appointed to fill the unexpired term of the non-school elected position on the Board of Trustees. Marjorie Lee Webb seconded the motion. Motion passed.

Real Estate Investments

Michael Braude recognized Bob Schau, Real Estate Investment Officer. Mr. Schau introduced Dan Bradley, AEW Capital Management, who provided a report on the potential acquisition of The Estates at Wellington Green and responded to questions.

Marjorie Lee Webb moved that the Board authorize AEW Capital Management to proceed with the analysis and due diligence of the property noted in this month's deal log. Final authority to consummate an investment is contingent upon receipt of a satisfactory recommendation from staff and the System's consultant, and delivery of a final due diligence report. Jarold Boettcher seconded the motion. Motion passed.

Bob Schau provided a current real estate activity report and reviewed the Commerce Plaza I and II economic status. Mr. Bradley reviewed AEW's recommendation on this property and recent discussions with the lender. Mr. Schau, Mr. Bradley and Allan Emkin responded to questions.

Marjorie Lee Webb moved that the Board authorize AEW Capital Management to withhold debt service payments for Commerce Plaza I and II for economic consideration as discussed, and that the Board be immediately apprised if there is a change in the climate of negotiations. Jarold Boettcher seconded the motion. Motion passed.

Marjorie Lee Webb left the meeting at 11:10 a.m.

Information Systems Replacement Project

Michael Braude recognized John Oliver, Chief Information Officer. Mr. Oliver provided a report on the status of information systems replacement project and responded to questions.

Liz Miller moved that 1) a Procurement Negotiating Committee (PNC) of Glenn Deck, John Oliver, Leland Breedlove, and Judy Lambert be appointed for the Information System Replacement Project and 2) the PNC be authorized to publish a RFP for this project once the project is approved by the Executive Chief Information Technology Officer. Jarold Boettcher seconded the motion. Motion passed.

Employer Council Appointments

The Chairperson recognized Mary Beth Green, Planning and Research Officer. Ms. Green reviewed the proposed Employer Council appointments and responded to questions.

Liz Miller made a motion that the Board appoint the recommended candidates for the specified terms to the Employer Council. Bruce Burditt seconded the motion. Motion passed.

Doug Wolff left the meeting at 11:30 a.m.

Publicly Traded Securities Committee Report

The Chairperson recognized Jarold Boettcher, Chairperson of the Publicly Traded Securities Committee. Mr. Boettcher provided a report of the Committee meeting of March 18th.

Audit Committee Report

The Chairperson recognized Bruce Burditt, Chairperson of the Audit Committee. Mr. Burditt provided a report of the Committee meeting held on March 18th.

Legislative Report

Michael Braude recognized Glenn Deck, Executive Director. Mr. Deck provided a report on the status of the KPERS budget, legislative agenda and reviewed SB 381, regarding a change in designation of beneficiaries for KPERS members. He announced KPERS participation in the House Select Committee on Pensions meeting today at 1:30 p.m.

Member Operations

The Chairperson recognized Judy Lambert, Member Services Officer. Ms. Lambert provided the monthly operations report and reported on the status of the annual statements mailing, scheduled pre-retirement seminars, the upcoming optional group life

insurance enrollment, an additional project to update inactive member addresses, and the preparations for July retirements, along with extensive cross training of staff.

Monthly Financial Report

The Chairperson recognized Leland Breedlove, Chief Financial Officer. Mr. Breedlove reviewed the February 29, 2004 financial statements.

Long-Term Retirement Funding Update

Michael Braude recognized Glenn Deck, Executive Director. Mr. Deck provided a report on the status of long-term funding issues and responded to questions.

Rob Woodard, Chief Investment Officer, presented a summary of the activities to date in the investment of the pension obligation bond proceeds and responded to questions.

Death and Disability Fund

Michael Braude recognized Glenn Deck, Executive Director, who provided a summary of the financial status of the Death and Disability Fund (Fund). Mr. Deck stated that he believed that addressing the funding and plan design issues for this Fund should be the System's highest priority now that significant progress has been made on long-term retirement funding.

Mr. Deck introduced Dan Skwire and Pat Beckham of Milliman USA. Dan Skwire provided a report of the Death and Disability Fund's actuarial valuation at June 30, 2003 and responded to questions.

Mr. Deck presented a timeline for the completion of various tasks on the Death and Disability Program and responded to questions.

Old Business

There was no old business.

New Business

There was no new business.

The meeting adjourned at 1:40 p.m.