

MINUTES
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES

April 19, 2002

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

Board members present: Jarold Boettcher, Chairperson
 Michael Braude
 Bruce Burditt, Vice Chairperson
 Vern Chesbro
 Liz Miller
 Lon Pishny
 Tim Shallenburger
 Don Steffes
 Marjorie Lee Webb

Public Comment

In early April Sonny Scroggins, Bias Busters of Kansas, requested to speak to the Board at the April 19th meeting and was listed on the agenda under the Public Comment item. Mr. Scroggins became ill before the meeting and asked Glenn Deck, Executive Director, to distribute a copy of his prepared remarks. A copy was distributed to all Board members at the meeting.

Employee of the Quarter

Jerry Boettcher recognized Florence Morris and Kay Simecka as Employees of the Quarter for the first quarter of 2002. Mr. Boettcher acknowledged Ms. Morris's and Ms. Simecka's dedication and dependability that contributed to significant improvements in the annual employer contribution reporting process this year.

Approval of Minutes

It was moved by Bruce Burditt and seconded by Liz Miller that the minutes of the meetings of February 15 and 26,2002, be approved as printed. Motion carried.

Executive Director's Report

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck reported on current legislative matters, the Catastrophic Life Insurance issue, and the progress on the annual statement /employer reporting project. Mr. Deck complimented the team effort of Member Services, Fiscal Services and Information Resources in improving, producing and mailing the 2001 annual statements.

Investment Operations

The Chairperson recognized Rob Woodard, Chief Investment Officer. Mr. Woodard reviewed the February 2002 Performance Report, and investment activity in March and April 2002 to date. He stated that the Retirement System has a total return of -3.3 percent (not annualized) for the eight month period ending February 28,2002 and -3.4 percent (not annualized) for the latest twelve months.

Mr. Woodard reported on the outcome of the Western Asset Contract Negotiations, Outstanding Derivatives Exposure Report and Alternative Investment Update. Mr. Woodard announced that there would be an Alternative Investment Committee meeting next month.

Mr. Woodard recognized Scott Peppard, Deputy Chief Investment Officer and Cheri Woolsey, Fixed Income Investment Officer who provided an Internal Management Review of the portfolios managed by the Investment staff.

Implementation of Asset Allocation

Jerry Boettcher recognized Rob Woodard, Chief Investment Officer. Mr. Woodard provided a presentation on a plan for Implementation of the Asset Allocation adopted by the Board in September of 2001.

Bruce Burditt moved that staff be authorized to implement the asset allocation strategy adopted by the Board in September 2001, as discussed. Liz Miller seconded the motion. Motion carried.

Publicly Traded Securities Committee

The Chairperson recognized Liz Miller, Publicly Traded Securities Committee Chairperson. Ms. Miller reported on the Publicly Traded Securities Committee meeting held on Thursday, April 18th.

Real Estate Committee

The Chairperson recognized Marjorie Lee Webb, Real Estate Committee Chairperson. Ms. Webb reported on the Real Estate Committee meeting held on Thursday, April 18th. Ms. Webb recognized Robert Schau, Real Estate Investment Officer who reviewed real estate acquisitions. Mr. Schau introduced Steve Walker of Lend Lease Real Estate Investments who provided information on real estate market values and returns.

Marjorie Lee Webb made a motion that the Board authorize Lend Lease Real Estate Investments to proceed with the analysis and due diligence of the subject properties noted in this month's deal log. Final authority to consummate an investment in any of these properties is contingent upon receipt of satisfactory recommendations from staff and the System's consultant, and delivery of a final due diligence report. Don Steffes seconded the motion. Motion carried.

Marjorie Lee Webb made a motion that the Board authorize staff and Lend Lease Real Estate Investments to proceed with disposition of the Festival at Hyannis Center, under the terms discussed. Michael Braude seconded the motion. Motion carried.

Marjorie Lee Webb made a motion that the Retirement System authorize the engagement of Cushman Wakefield to provide the separate account real estate appraisals under the terms discussed. Bruce Burditt seconded the motion. Motion carried.

Rob Woodard distributed a memorandum containing proposed updated leverage language for the System's Statement of Investment Policy, Objectives and Guidelines, based on the discussion at the April 18th Real Estate Committee meeting.

Marjorie Lee Webb made a motion that the Board authorize staff to increase the leverage limitation on the core separate account portfolio to 40 percent from 25 percent and the limitation on multi-family properties to 60 percent, utilizing property specific, non-recourse financing, and the leverage policy be reviewed annually as to appropriate loan to value ratios and debt service coverage ratios. Michael Braude seconded the motion. Motion carried. 7 - yes, - 2 - no (Miller and Shallenburger)

Lon Pishny moved that the System's Statement of Investment Policy, Objectives and Guidelines be amended to incorporate the following statement regarding the use of leverage in the real estate portfolio:

"The Board acknowledges that leverage, when prudently applied and with consideration of the potential risks associated with its use, has the potential to enhance value within the real estate portfolio. Accordingly, the Board directs staff to, and holds staff accountable for, carefully monitoring and annually reporting to the Board the conditions that impact the portfolios existing or proposed use of leverage. These conditions include, but are not limited to, the relative health of the asset class, the expected impact of leverage on the projected risks and returns of the portfolio and the relative attractiveness and availability of credit. The Board, through this Policy, expects to utilize leverage as a sophisticated institutional investor, recognizing the Board's role as fiduciaries and the importance of the System to its members."

Mike Braude seconded the motion. Motion carried. 8 - yes, - 1 - no (Shallenburger)

Catastrophic Event Life Insurance Coverage

The Chairperson recognized Joan Hancock, General Counsel. Ms. Hancock reviewed the Catastrophic Event Life Insurance Coverage memorandum of April 5th and responded to questions.

Information Systems Consultant Acquisition

The Chairperson recognized John Oliver, Chief Information Officer. Mr. Oliver provided a presentation on the Information System Consultant Acquisition project history, the RFP process and the staff's recommendation.

Bruce Burditt moved that the Executive Director execute a contract with MTG Management Consultants for information systems consultant services under the terms discussed. Liz Miller seconded the motion. Motion carried. 8 - yes, - 1 - no (Shallenburger)

Administrative Appeals

The Chairperson recognized Laurie McKinnon, Assistant General Counsel who reviewed the Presiding Officer's Initial Orders in the Richard J. Garafano and Thomas J. Jordan appeals.

Bruce Burditt moved that the Board adopt the Presiding Officer's Initial Orders and direct the Executive Director to draft two final orders containing the decisions of the Board, one for each case. The orders are to be signed by the Chairperson and served on the parties by the Executive Director in accordance with the provisions of the Kansas Administrative Procedure Act. Michael Braude seconded the motion. Motion carried.

Ms. McKinnon reviewed the status of the administrative appeal of the widow of Alvin C. Soukup, Jr.

Bruce Burditt moved that staff be authorized to contract with the Office of Administrative Hearings for assignment of a hearing officer at this time, for purposes of hearing the administrative appeal of the widow of Alvin C. Soukup, Jr. Lon Pishny seconded the motion. Motion carried.

Strategic Business Plan Presentation

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck provided a presentation of the final draft of KPERS Strategic Business Plan and responded to questions.

Litigation Status Report

The Chairperson recognized Tom Murray of Barber, Emerson Law Firm, and Gene Schiltz of Robert F. Coleman and Associates who participated by phone.

Mr. Schiltz reported that the Mike Russell settlement agreement was signed and mailed, and that the Supreme Court had issued an opinion this morning rejecting KPERS' appeal in the Kutak-Rock case. Mr. Schiltz also provided the status of the Linde Thompson case.

Legislative Issues

The Chairperson recognized Jack Hawn, Deputy Executive Director. Mr. Hawn provided a current update on legislative issues. Mr. Hawn provided a handout on the 3rd quarter 2002 school employer contribution transfer issue.

Member Operations

The Chairperson recognized Judy Lambert, Member Services Officer. Ms. Lambert provided the monthly operations report, distributed current copies of a new PLSO brochure, Pre-Retirement Seminar booklet, KPERS and KP&F Annual Statement Guides. Ms. Lambert and Leland Breedlove, Fiscal Services Officer reviewed improved annual statement procedures.

Monthly Financial Report

The Chairperson recognized Leland Breedlove, Chief Financial Officer. Mr. Breedlove reviewed the KPERS March 2002 financial report.

Old Business

There was none.

New Business

Jerry Boettcher reminded the Board that in July it will need to reorganize and elect a new Chairperson.

The Board Meeting Adjourned at 1:45 p.m.