

MINUTES

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD OF TRUSTEES

July 19, 2002

The meeting was called to order by Chairperson Jarold Boettcher at 9:30 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
- Don Steffes
- Marjorie Lee Webb

Public Comment

George Goebel inquired as to how the System knew when to sell stocks.

Rob Woodard, Chief Investment Officer responded that there was no “tried and true” way to know. The Retirement System’s interest was in maintaining a disciplined exposure to a diversified group of good companies in an attempt to realize positive long-term returns.

Employee of the Quarter

Jerry Boettcher recognized Kay Gleason as employee of the quarter for the 2nd quarter of 2002. Mr. Boettcher acknowledged that Ms. Gleason goes above and beyond the scope of her job description and takes on additional duties. She fully supports the team concept in Member Services and encourages others to share the vision. Ms. Gleason provides excellent service to members and designated agents.

Organization of the Board

Vern Chesbro nominated Bruce Burditt for Chairperson of the Board. Michael Braude seconded the motion. Motion carried.

Mr. Chesbro thanked Jerry Boettcher for his service for a great year and gave him a big vote of thanks from the Board members.

Jerry Boettcher responded that it was a good year and there were a number of achievements and that he felt that he had received more than he had given. Mr. Boettcher thanked Mr. Chesbro and the entire Board for their support.

Mr. Steffes stated that he had some concerns about the language in the oath of office "...faithfully discharge the duties of my office as Trustee of the Kansas Public Employees Retirement System accordingly to the standards provided by law, solely in the interests of the members, for the exclusive purpose of providing benefits to members and their beneficiaries." This oath is based on language in the KPERS statutes. He asked that the minutes reflect his opinion that the Trustees represent not only members but also employers and the taxpayers of Kansas. Further he suggested that the Board may wish to discuss this statutory language with the Legislature to determine if it wants to reaffirm this statement.

Bruce Burditt administered the Oath of Office to all Board of Trustee members. Mr. Burditt requested that Board members express their interest in committee assignments. A tentative committee appointment list will then be mailed out in about 10 days.

Bruce Burditt appointed Michael Braude as Vice Chairperson.

Approval of Minutes

It was moved by Jerry Boettcher and seconded by Lon Pishny that the minutes of the meetings of May 17 and June 6, 2002 be approved as submitted. Motion carried.

Executive Director's Report

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck reported on investments and member services highlights. Mr. Deck reviewed current board issues and agenda items, including: long-term funding, death and disability fund, catastrophic insurance coverage, alternative investment review, custodial bank search, the information systems needs assessment project and FY 2003 budget and legislative proposals.

Investment Operations

The Chairperson recognized Rob Woodard, Chief Investment Officer. Mr. Woodard reviewed the May 2002 Performance Report, and investment activity in June and July 2002 to date. He stated that the Retirement System has a total return of -1.4 percent (not annualized) for the eleven-month period ending May 31, 2002 and -2.3 percent (not annualized) for the latest twelve months. Mr. Woodard announced a preliminary estimate of a fiscal year end return of -4.5.

The Chairperson recognized Scott Peppard, Deputy Chief Investment Officer who provided the Derivatives Report and Alternative Investment review.

Alternative Investment Portfolio Strategy Review

Bruce Burditt recognized Rob Woodard, Chief Investment Officer. Mr. Woodard gave a brief background of the RFP on the Alternative Investment Portfolio Review.

Vern Chesbro moved that the Board direct the PNC for the Alternative Investment Review to contract with Alignment Capital, under the terms discussed, to conduct a

comprehensive review of the System's Alternative Investment Portfolio with a final report provided to the Board or its Committee upon completion of the review. Lon Pishny seconded the motion. Motion carried.

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, July 18th. Ms. Webb recognized Robert Schau, Real Estate Investment Officer who reported on pending and recommended dispositions and the current deal log.

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 the disposition of the Steward's Crossing apartments under the terms discussed. Jerry Boettcher seconded the motion. Motion carried.

Marjorie Lee Webb made a motion that the Board authorize staff and Lend Lease Real Estate Investments to implement the FY 2003 asset management plans as discussed. Don Steffes seconded the motion. Motion carried.

Custodial Bank Search

The Chairperson recognized Leland Breedlove, Chief Fiscal Officer. Mr. Breedlove reviewed the status of the System's custodial bank and securities lending services competitive search.

Catastrophic Life Insurance Proposal

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck introduced Ron Dandy, Debra Brown and Roger Offerman with Security Benefit and David Cook with Milliman USA. Mr. Deck reviewed the proposed Catastrophic Life Insurance options and responded to questions. Roger Offerman responded to questions about the history of premiums for NCB terrorism insurance. SBL representatives left the meeting.

Staff made a recommendation regarding the proposal and David Cook endorsed the recommendation.

Vern Chesbro moved that the Board select Option 5 for the Catastrophic Life Insurance Coverage for Fiscal Year 2003 and direct staff to enter into the contract amendments under the terms discussed. Jerry Boettcher seconded. Motion carried.

Audit Committee Report

Bruce Burditt reported that the Audit Committee met on Thursday, July 18th. Mr. Burditt reviewed the activities of the Committee and reported that the Committee discussed plans for strengthening the System's internal audit function and considered a draft Audit Charter.

Personnel Committee Report

Bruce Burditt recognized Lon Pishny, Personnel Committee Chairperson. Mr. Pishny reported that the Personnel Committee met on Friday, July 19th and considered various personnel matters.

Mr. Pishny moved that the Board adopt the Personnel Committee's recommendations as follows: (1) Approve FY 2002 management incentive compensation and expense payments, not to exceed amounts proposed by staff, for the Retirement System's unclassified personnel, and (2) affirm action by the Retirement System's Executive Director to purchase his eligible service credit with KPERS. Michael Braude seconded. Motion carried.

Mr. Pishny announced the next Personnel Committee would be held in September.

Member Operations

The Chairperson recognized Judy Lambert, Member Services Officer. Ms. Lambert provided the monthly operations report, reviewed recent InfoLine progress, trustee-to-trustee transfer for service purchases, e-mail responses, withdrawal processing, and July retirants volume.

Monthly Financial Report

The Chairperson recognized Leland Breedlove, Chief Financial Officer. Mr. Breedlove reviewed the KPERS June 2002 (fiscal year end) financial report as well as the Senior Services Trust Fund and the Treasurer's Unclaimed Property Fund for the quarter ended June 30, 2002.

Future Board Meeting Schedule

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck presented the proposed Board meeting schedule for FY 2003.

Marjorie Lee Webb asked that the Board minutes reflect her concern that a reduction in meetings may raise a question of fiduciary duty in these troubled times.

The Board adopted the meeting schedule as proposed.

Don Steffes volunteered to host the October Board Educational and Planning Session in McPherson, KS.

Liz Miller left the meeting after this item and did not participate further.

Communications Report

The Chairperson recognized Kristen Basso, Public Information Officer. Ms. Basso reviewed various initiatives for the communication function and responded to questions by Board members.

Informational Items

Bruce Burditt announced the additional informational items included in the Board material are the Litigation Status Report and a National Association of State Retirement Administrators Investor Protections Resolution.

Actuarial Valuation Report as of December 31, 2001

The Chairperson recognized Pat Beckham, Milliman USA. Ms. Beckham who presented the December 31, 2001 Actuarial Valuation Report and responded to questions.

Jerry Boettcher moved that the Board approve the December 31, 2001 Valuation Report and certify the employer contribution rates as specified in the report to participating employers. Marjorie Lee Webb seconded the motion. Motion carried.

Long Term Funding Report

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck presented a draft of the report, "Long Term Funding Outlook: Part I", and responded to questions from Board members. Mr. Deck reported that over the next month this draft report would be finalized and then presented at the next meeting of the Joint Committee on Pensions, Investments and Benefits. The eventual goal of this process is to develop a consensus on a long-term funding plan for the Retirement System.

Old Business

There was none.

New Business

The next Board meeting is scheduled for September 20th.

The Board Meeting Adjourned at 2:10 p.m.