

MINUTES

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM BOARD OF TRUSTEES

January 17, 2003

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

Board members present:

- Bruce Burditt, Chairperson
- Michael Braude, Vice Chairperson
- Jarold Boettcher
- Vern Chesbro
- Lynn Jenkins
- Liz Miller
- Don Steffes
- Marjorie Lee Webb

Jarold Boettcher led the Board, staff and guests in the Pledge of Allegiance.

Oath of Office for New Trustee

Bruce Burditt administered the Oath of Office to new Trustee, State Treasurer Lynn Jenkins.

Resolution of Appreciation for Tim Shallenburger

Michael Braude moved that the Resolution of Appreciation for Tim Shallenburger's service on the Board of Trustees be approved. Marjorie Lee Webb seconded the motion. Motion passed.

Public Comment

There was no public comment.

Approval of Minutes

It was moved by Michael Braude and seconded by Jarold Boettcher that the minutes of the meeting of November 15, 2002 be approved as submitted. Motion passed.

Executive Director's Report

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck welcomed Lynn Jenkins to KPERS Board of Trustees and Laurie McKinnon as KPERS new general counsel and commented on Joan Hancock's outstanding service as general counsel to KPERS the past 10 years. Mr. Deck reported on membership satisfaction surveys, the life insurance recommendation and legislative topics, as well as reviewed the November

Joint Committee on Pensions, Investments and Benefits meeting issues. Mr. Deck reported on individual meetings with legislative leadership and distributed an issue-briefing document. Mr. Deck reviewed major Board issues and a KPERS Papers edition timeline.

Member Operations

The Chairperson recognized Judy Lambert, Member Services Officer. Ms. Lambert provided the monthly operations report and reported on field services activities of added workshops for new Designated Agents (DA's), Kansas Police and Firemen's Retirement System (KP&F) DA workshops, and pre-retirement seminars starting in March. Ms. Lambert reported on the January tax form deadlines, annual reporting timelines and plans for annual statements to be mailed in March.

Litigation Status Report

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

Michael Braude moved at 9:07 a.m. that the Board recess into executive session to consult with the Board's counsel concerning litigation and reconvene the open meeting in the Retirement System Boardroom at 9:17 a.m. Marjorie Lee Webb seconded the motion. Motion passed. The Chairperson directed Glenn Deck, Executive Director; Joan Hancock, General Counsel; Laurie McKinnon, Assistant General Counsel; Tom Murray, Barber Emerson Law Firm; and Eugene J. Schiltz, Robert F. Coleman and Associates, attend the executive session for the purpose of aiding the Board in its discussions.

The Board reconvened in the Boardroom of the Kansas Public Employees Retirement System at 9:17 a.m.

Monthly Financial Report

The Chairperson recognized Leland Breedlove, Chief Financial Officer. Mr. Breedlove reviewed the KPERS December 31, 2002 financial report as well as the December 31, 2002 financial reports for the Senior Services Trust Fund and Treasurer's Unclaimed Property Trust Fund.

Membership Satisfaction Survey Results

The Chairperson recognized Mary Beth Green, Management Systems Analyst. Ms. Green provided a report on the membership retirement process satisfaction survey and announced plans to survey for annual statement and Info-Line satisfaction.

Investment Operations

The Chairperson recognized Rob Woodard, Chief Investment Officer. Mr. Woodard reviewed the November 30, 2002 Performance Report and provided preliminary numbers for December and January. He stated that the Retirement System has a total return of

-2.7 percent (not annualized) for the one year period ending November 30, 2002 and -4.7 percent for the latest twelve months. Mr. Woodard also reviewed reports for the Treasurer's Unclaimed Property Fund and the Senior Services Fund.

Mr. Woodard reported that the System has placed two investment managers, Loomis Sales and Western Asset Management on probation for 90 days beginning January 1, 2003. Loomis' probation was due to the retirement of the System's portfolio manager, Joe Whitbread. Western Asset was placed on probation due to a violation of the System's Statement of Policy, Objectives and Guidelines regarding derivatives. The nature and reconciliation of the violation were discussed with the Board and staff anticipates no further action will be taken.

The Chairperson recognized Scott Peppard, Deputy Chief Investment Officer. Mr. Peppard provided the Outstanding Derivatives Exposure Report for the months ended November 30, 2002 and December 31, 2002 and the Commission Recapture Report for FY 2002.

Annual Review of Statement of Investment Policy, Objectives and Guidelines

The Chairperson recognized Rob Woodard, Chief Investment Officer. Mr. Woodard reviewed the proposed changes in the Statement of Investment Policy, Objectives and Guidelines. Michael Braude moved that the Board adopt the amended Statements of Policy, Objectives and Guidelines for the Retirement System, the Treasurer's Unclaimed Property Fund, the Kansas Endowment for Youth, and the Senior Services Trust Fund. Jarold Boettcher seconded the motion. Motion passed.

Alternative Investment Committee

Bruce Burditt recognized Don Steffes, Alternative Investment Committee Chairperson. Mr. Steffes provided a report of the Committee meeting held on January 16th and the discussions regarding the independent review of the Alternative Investment Portfolio.

Real Estate Committee Report

Bruce Burditt recognized Marjorie Lee Webb, Chairperson of the Real Estate Committee. Ms. Webb provided a report of the Committee meeting on held January 16th. Ms. Webb recognized Bob Schau, Real Estate Investment Officer. Mr. Schau reviewed the deal log, noting that the Avalon property listed on the deal log contemplated the establishment of a joint venture with the Tennessee Consolidated Retirement System. Staff discussed the potential positives and negatives of such an arrangement and answered questions.

Marjorie Lee Webb moved 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 or 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 passed. 7- yes 1- no (Miller)

Audit Committee Report

The Chairperson recognized Michael Braude, Chairperson of the Audit Committee. Mr. Braude provided a report of the Committee meeting held on January 16th and introduced Brad Koehn, of Berberich Trahan & Co., who conducted the Financial and Compliance Audit Report. Mr. Koehn reported that the Financial and Compliance Audit Report was an unqualified opinion on the financial statements and there were no compliance or internal control findings. It was presented to the Legislative Post Audit Committee in December. Mr. Braude reported that it was the recommendation of the Committee to delay hiring an internal auditor until May 2003 in anticipation of obtaining an unclassified position.

Group Life Insurance Contract Award

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck provided a report on the steps taken in the Group Life Insurance Contract Selection Process by the Procurement Negotiating Committee (PNC). The proposals were evaluated on various factors including: financial stability of the insurance company, premium rates and expense charges, customer service capabilities, electronic interface capabilities, and relevant experience. After extensive evaluation and interviews the PNC concluded that Minnesota Mutual Life Insurance Company's proposal was the best proposal and recommended that they be awarded the contract.

Mike Braude moved that Minnesota Mutual Life Insurance Company be selected as the contractor for the KPERS Basic and Optional Life Insurance Services commencing on July 1, 2003, for an initial term ending December 31, 2006, contingent upon successful conclusion of negotiations for the final terms of an agreement. Jarold Boettcher seconded the motion. Motion passed.

Don Steffes left the meeting at this point.

Death and Disability Program Annual Valuation Report

The Chairperson recognized Patrice Beckham, Milliman USA who presented the actuarial valuation report on the death and disability program.

The Chairperson recognized Leland Breedlove, Chief Financial Officer. Mr. Breedlove distributed a report on the projected death and disability fund balance and fund status through FY 2005 and reviewed the report.

A discussion was held on communications to the Legislature and Budget Division on the deteriorating financial condition of the death and disability fund and the need to develop a plan to ensure the financial stability of this fund.

Michael Braude moved that the Board accept Milliman USA's valuation report on the KPERS Death and Disability program, including the recommended premiums and fees to be paid to Security Benefit Life Insurance Company. Vern Chesbro seconded the motion. Motion passed.

Disability Program Review

The Chairperson recognized Glenn Deck, Executive Director. Mr. Deck provided a report on a proposal and timetable for an independent review of KPERS' disability programs.

Michael Braude moved that the Board authorize a Procurement Negotiating Committee consisting of Glenn Deck, Judy Lambert, Leland Breedlove, and Mary Beth Green to develop and publish a Request for Proposals for consulting services for an independent review of KPERS' disability programs with a finalist recommendation to be presented for Board consideration at the May 2003 meeting. Jarold Boettcher seconded the motion. Motion passed.

Appointment of Hearing Officer

The Chairperson recognized Laurie McKinnon, Assistant General Counsel. Ms. McKinnon reviewed the requests for administrative appeals by Carl Carlson and Carol Dahn.

Michael Braude moved that staff be authorized to contract with the Office of Administrative Hearings for assignment of a hearing officer at this time, for the purpose of hearing the administrative appeals of Carl Carlson and Carol Dahn. Vern Chesbro seconded the motion. Motion carried.

New Employer Affiliations

The Chairperson recognized Leland Breedlove, Chief Financial Officer. Mr. Breedlove provided the New Employer Affiliations Report and responded to questions.

Michael Braude moved that the Board approve the affiliation of entities completing the requirements for affiliation effective January 1, 2003. Staff has determined that all listed entities meet the IRS requirements for participating employers in a qualified governmental pension plan. Continued affiliation is contingent on each listed entity continuing to meet the IRS requirements for participating employers in a qualified public pension fund. Jarold Boettcher seconded the motion. Motion passed.

Informational Items

Bruce Burditt announced that the informational items included in the Board material were a Corporate Governance Report, Public Employee Retirement Transition Planning Committee Report, and an Employer Council Meeting Summary.

Old Business

There was no old business

New Business

Vern Chesbro and Jarold Boettcher announced that their terms had expired on January 15, 2003 and that it had been a pleasure to serve on the KPERS Board of Trustees.

Meeting adjourned at 12:05 p.m.