

MINUTES
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES

July 24, 2020

The meeting of the Board of Trustees was called to order by Chairman Kelly Arnold, at 10:04 a.m. on July 24, 2020, in the Retirement System Board Room, Topeka, Kansas.

Board members present: Kelly Arnold, Chairman
 Ernie Claudel
 Emily Hill (via telephone)
 Ron Johnson
 Ryan Trader
 Jake LaTurner (via telephone)
 Brad Stratton
 James Zakoura (via Zoom)

Board member absent: Suresh Ramamurthi, Vice Chairman

Chairman Kelly Arnold welcomed Representative Steven Johnson, (via Zoom), Melissa Renick, and Steven Wu, Kansas Legislative Research Department, (via Zoom), and all other participants.

Organization of the Board

Trustee Johnson nominated Kelly Arnold to continue to serve as Board Chairman. Trustee Trader seconded the motion. There were no other nominations. The nomination for Kelly Arnold to serve as Board Chairman carried.

Chairman Arnold thanked members of the Board for their confidence in his leadership, and announced that he would appoint the Vice Chairperson and Chairs of the Board Committees before the next board meeting.

Trustee Stratton moved that the Board of Trustees approve the Fiscal Year 2021 Board and Committee meeting schedule as presented by staff. Trustee Claudel seconded the motion. Motion carried.

Public Comments

There were no public comments.

Outstanding Service Award

Chairman Arnold recognized Alan Conroy, Executive Director, who congratulated Adam Sester, IT Security Analyst II, as the KPERS Outstanding Service Award recipient for the period of August 2020 through November 2020 for his exemplary accomplishments. Mr. Conroy stated that Adam is a tremendous asset to KPERS members, and to the KPERS team.

Chairman Arnold recognized Mr. Sester, and congratulated him for consistently demonstrating KPERS' core values of excellent customer service, innovation, respect, and teamwork.

Consent Agenda

The consent agenda included approval of the May 22, 2020 Board meeting minutes; the new affiliation for KPERS Optional Group Life Insurance; and the appointment of a Hearing Officer for Elizabeth A. Phillips' appeal.

Trustee Claudel moved the Board of Trustees adopt the consent agenda. Trustee Trader seconded the motion. Motion carried.

Executive Director's Report

Chairman Arnold recognized Alan Conroy, Executive Director. Mr. Conroy reported on some of the recent key activities at KPERS, and responded to questions. Highlights of some of the activities included:

In regards to the COVID-19 pandemic, the main focus of the agency has been for staff to continue to provide essential services to carry out our fiduciary duties. Included on KPERS activities related to the pandemic since the last Board meeting are the following:

- On May 22, 2020 - KPERS building opened to the public.
 - Safety measures for the lobby put in place (plexiglass)
 - Signage and floor markings placed in the lobby and front doors reminding staff and visitors of KDHE guidelines regarding social distancing
- KPERS has continued to follow Governor Kelly's recommendations in her Ad Astra Plan to open the State as well as Shawnee County's guidelines.
 - Provide personal protection equipment (PPE) to staff
 - Maintain social distancing
 - Health screening of staff continues
- Staff continue to work remotely if able until at least August 3, 2020.
- KDHE travel guidelines are followed – if employees travel to a high-risk area, they are not allowed to return to the office for 14 days.
- Procedures established for staff who have, or are being tested for COVID19, or who have been exposed to someone with COVID-19, or who is being tested for COVID-19.
- As of now, there have been no staff members who have tested positive for COVID-19.
- Starting on July 6, in accordance with the directive from the Department of Administration, staff must wear facemasks when they are away from their desks or not able to maintain 6 feet between them and another person.

After a competitive bid process, the consulting firm of Segal was selected to assist KPERS with a pension administration system assessment. The three-month assessment will occur in three phases:

1. An assessment of the current state of the KPERS' pension administration business and technology environment.
2. A comparison of KPERS' current state with industry best practices.

3. Provide specific guidance and recommendations on how to achieve KPERS' goals of serving our members more efficiently.

It is anticipated that Segal will be able to provide the pension administration system assessment at the Board meeting in September.

During the months of May and June, Benefits and Member Services staff successfully processed 1,299 retirement applications for new retirees. Currently, staff members are finalizing 730 applications for members retiring in July (with initial benefit amounts payable on July 31). Infoline representatives responded to 97 percent of 14,339 incoming telephone calls during May and June, and staff handled nearly 3,900 email requests.

As the Division continues to navigate changes related to the COVID-19 pandemic, the educational staff is working on plans for the Fall 2020 employer programs, with emphasis on webinars and remote presentations. Staff members also have been implementing the defined benefit changes within the Coronavirus Aid, Relief and Economic Security (CARES) Act and evaluating work practices and protocols to minimize exposure for employees and visitors. Finally, staff members have been participating in various special projects and technology initiatives, including planning and testing for the Fall 2020 optional life insurance open enrollment periods. Staff also are participating in the LexisNexis identity verification project, the Segal pension system assessment, and Legislative Post Audit's performance audit of the Deferred Retirement Option Program (DROP).

The Employer Auditing Unit has completed 91 multi-year employer audits during Fiscal Year 2021 with 83 in progress. The Auditing Unit is also working with KPERS' Internal Audit staff on 70 Fiscal Year 2020 GASB 68 audits.

The Employer Reporting Unit has handled almost 900 calls and emails, over 9,000 payroll reports, over 1,300 adjustments to member records and 109 enrollments for new working after retirement employees.

Moss-Adams audited calendar year 2019 for the KPERS 457 plan, issued July 8, 2020. CliftonLarsonAllen (CLA) is conducting its second SOC 1 Type 2 audit of the Death & Disability plan. CLA has also begun the annual financial audit of the KPERS pension plan and the audit of the System's GASB 68 report for our employers. All audits are being conducted remotely due to COVID-19 restrictions.

The Communications Team continued with a number of COVID-19 related projects, including office signage, internal communications to help with prevention and a "Back-to-the-Office" video to show staff what to expect when returning to the office for those who had been working remotely.

Staff is preparing to launch new, targeted versions of our quarterly pre-retirement webinars in late July. Historically, KPERS has offered one version for anyone within five years of retirement. The new presentations are designed to provide a countdown for those within 12 months of their retirement date and a broad planning overview for those who are further out.

The Communications staff also continued to provide support for optional life insurance open enrollment with materials for members, online enrollment function testing and employer communication.

The public markets investment staff completed first quarter performance and portfolio review calls with all the System's external investment managers. The gradual liquidation of the System's MLP portfolio has continued, and the liquidation of the System's bank loan portfolio has commenced. The transition of 10% of the System's passive international equity portfolio to the active international equity managers is also in progress.

The private markets investment staff completed a virtual due diligence process with an existing general partner in the noncore real estate portfolio. The Deputy Chief Investment Officer for Private Markets has been leading an effort, working with Mercer Alternatives, to conduct a portfolio construction review process for the System's private equity portfolio.

Information Technology staff continues to assist staff with virtual meeting applications in response to the COVID-19 pandemic as well as placement of new laptops to help facilitate working remotely for selected staff. Staff has renewed the annual agreement with Sagitec for the KPERS retirement application and renewed the contracts for the Business Continuity site in Lawrence and the Disaster Recovery site.

The Division's Application Development Team, in conjunction with Sagitec, continues to focus on updates and revisions to the current pension administration system. The effort also includes the revamping of the Member Annual Statement process and improvements to the Optional Group Life Insurance Program. Staff has also been supportive of activities for the enhanced Identity Verification with vendor LexisNexis.

Planning and Research has focused primarily on the Request for Proposal (RFP) for the assessment of the pension administration system and participating in the assessment meetings. Staff continues to work with Legislative Post Audit on the program audit for the Deferred Retirement Option Program (DROP). Staff also worked to finalize the 2020 Legislative Session documents and started the budget narrative process for the FY 2021 and FY 2022 budget cycle.

The KPERS 457 team, with the help of Empower, has added two additional local government offices to the KPERS 457 Plan. The two most recent plans added are the Stafford Recreation Commission and USD 400, Smoky Valley schools. Empower will continue to work with new plan members to facilitate the signing of participants and funding of the plans.

Earlier this year, the federal government approved the CARES act providing \$2 trillion in aid for people and organizations affected by the pandemic. Provisions of the CARES act were made available to retirement plan providers. KPERS 457 opted into provisions allowing for in-service distributions and higher loan maximums for participants affected by the pandemic. In addition, there is a mandatory provision waiving required minimum distributions for the remainder of the calendar year. In early May, KPERS 457 and Empower hosted an Employer webinar to inform them of the CARES Act and the provisions that could benefit their participants.

Investment Operations Report

The Chairman recognized Liz Miller, Chief Investment Officer. Ms. Miller reviewed the May 31, 2020 investment performance report. Ms. Miller reported that the Retirement System's investment portfolio produced a total return of -5.1% for the calendar year to date time period (not annualized). She reported that for the one year ending May 31, 2020, the System's investment portfolio achieved a 3.6% total return. Ms. Miller also reported on longer term investment performance results, reporting that the Retirement System's investment portfolio produced an average annualized total return of 5.3% for the trailing three year time period, 5.4% for the trailing five year time period, 8.5% for the trailing ten year time period, and a 7.8% average annualized total return for the trailing 25-year time period ending May 31, 2020. The System's investment portfolio outperformed the Policy Index benchmark for all time periods reported of three years and longer.

The Chairman recognized Ryan Lobdell, Meketa Investment Group. Mr. Lobdell reviewed the organization's Investment Market Risk Metrics Report and responded to questions.

Investment Committee Report

The Investment Committee met on July 23, 2020. James Zakoura, Vice Chairman of the Investment Committee, reported on the Investment Committee's meeting, and responded to questions.

Trustee Zakoura moved that the Board of Trustees approve a commitment of up to \$50 million to AEW Partners Real Estate Fund IX, L.P., 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.

Personnel Committee Report

Chairman Arnold recognized Trustee Ernie Claudel, Chairman of the Personnel Committee. The Personnel Committee met on July 24, 2020. Trustee Claudel, provided a report and responded to questions.

Trustee Claudel moved that the Board of Trustees approve selected promotions within the Investment Division staff as recommended by the Personnel Committee and the Executive Director and that such promotions be implemented as soon as practical. Trustee Trader seconded the motion. The motion carried.

Trustee Claudel moved that the Board of Trustees approve the creation of an additional professional position for Public Markets within the Investment Division as determined by the Executive Director, and the creation of a new Investment Analyst for Private Markets position within the Investment Division, both as recommended by the Personnel Committee and the Executive Director. Trustee Stratton seconded the motion. The motion carried.

Trustee Claudel moved that the Board of Trustees compensation adjustments in selected unclassified staff salaries for Fiscal Year 2021, as recommended by the Personnel Committee and that such adjustments be implemented as soon as practical in Fiscal Year 2021. Trustee Johnson seconded the motion. The motion carried.

Audit Committee Report

Chairman Arnold recognized Trustee Ryan Trader, Acting Chairman of the Audit Committee. Trustee Trader provided a report on the Audit Committee held on July 23, 2020, and responded to questions.

Report on Governor Kelly's Fiscal Year 2021 Budget Allotments

Chairman Arnold recognized Jarod Waltner, Planning and Research Officer. Mr. Waltner provided a report of the Governor Kelly's Fiscal Year 2021 budget allotments. Mr. Waltner noted the Governor's imposition of a moratorium on the KPERS Death and Disability employer contributions. He responded to questions regarding the budget allotments.

Retirement System Operations

Chairman Arnold recognized Mary Beth Green, Chief Benefits Officer. Ms. Green reviewed the monthly operations report of the Benefits and Member Services Division's performance and responded to questions.

The Chairman recognized Judy McNeal, Chief Fiscal Officer. Ms. McNeal reviewed the monthly financial report and responded to questions.

Actuarial Valuation Report

Chairman Arnold recognized KPERS' consulting actuary Pat Beckham, FSA, EA, FCA, MAAA, Principal and Consulting Actuary with Cavanaugh Macdonald. Ms. Beckham presented the December 31, 2019 Actuarial Valuation, and responded to questions.

Chairman Arnold recognized Representative Steven Johnson, Vice-Chairman, and Representative Jim Kelly of the Joint Committee on Pensions, Investments, and Benefits (via Zoom). Representative Johnson asked questions regarding the contribution rates, and Ms. Beckham responded to the questions.

Chairman Arnold recognized Allan Emkin, Meketa Investment Group. Mr. Emkin answered questions regarding the capitol market assumptions, fixed income returns, and adjustments for the expected rate of return.

Chairman Arnold moved that the Board accept the December 31, 2019 Actuarial Valuation as presented. Trustee Hill seconded the motion. Motion carried.

Status Report on Litigation

Chairman Arnold recognized Laurie McKinnon, General Counsel. Ms. McKinnon provided a report on current KPERS appeals and litigation issues.

Chairman Arnold moved that the Board recess into executive session to discuss confidential information regarding KPERS' Litigation 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, Julie Baker, Elizabeth Miller, Bruce Fink, and outside legal counsel Thomas Murray and Tammy Somogy, Lathrop Gage, LLP. We will reconvene the open meeting

in the Retirement System Board Room at 1:05 p.m. No binding action will be taken in the Executive Session. Trustee Claudel seconded the motion. The motion carried.

Chairman Arnold reconvened the meeting at 1:05 p.m. and announced that no binding action was taken in the executive session.

Other Business

There was no other business.

Informational Items

The Chairman called the Board's attention to the informational items behind Tab K in the Board book.

Board Self Evaluation

There was no further discussion.

Meeting Adjourned

Chairman Arnold adjourned the meeting at 1:08 p.m.