

MINUTES
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES

July 22, 2022

The meeting of the Board of Trustees was called to order by Chairperson James Zakoura, at 10: 02 a.m. on July 22, 2022, in the Retirement System Board Room, Topeka, Kansas.

Board members present: James Zakoura, Chairperson
 Ron Johnson, Vice-Chairperson
 Ernie Claudel
 Emily Hill
 Ryan Trader
 Brad Stratton
 Sam Williams
 Jo Yun

Board member absent: Lynn Rogers

Chairperson James Zakoura welcomed Eileen Ma and David Wiese, Revisor of Statutes, Melissa Renick, and Steven Wu, Kansas Legislative Research Department, Jeff Arpin, Division of the Budget and all other participants.

Organization of the Board

Each July, as required by law, the Board of Trustees conducts an annual meeting at which the new trustees take an oath of office (if any), elect a chairperson to serve for the coming fiscal year, and approve a meeting schedule.

Trustee Johnson nominated James Zakoura to serve as Board Chairperson. Trustee Trader seconded the motion. There were no other nominations. The nomination for James Zakoura to serve as Board Chairperson carried unanimously of those Trustees present and voting.

Chairperson Zakoura thanked members of the Board for their confidence in his leadership and announced that he would appoint as Vice Chairperson, Ron Johnson. He also stated that the present Committee Chairs are to serve during Fiscal Year 2023.

Trustee Claudel moved that the Board of Trustees approve the Fiscal Year 2023 Board and Committee meeting schedule except for the dates of the September meetings as presented by staff. Trustee Johnson seconded the motion. Motion carried.

The organization of the Board also included the Board of Trustees Certification of Investment Holdings, which required a signature by each Board member.

Public Comments

Chairperson Zakoura stated that Mr. Clarence "Sonny" Scroggins, a retired KPERS member, provided to the Board of Trustees a commemorative plaque which displayed a collage of pictures of the reenactment of the African-Americans from Kansas and Missouri who fought during the Civil War as part of the 1st Kansas Colored Volunteer Infantry. The 1st Kansas Colored Volunteer Infantry fought at the Battle of Island Mound. The battle has national significance because it was the first time Black soldiers engaged in combat during the Civil War. This year marks the 1st Kansas Colored Volunteer Infantry's 160-Year Anniversary of establishment in 1862. Chairperson Zakoura gratefully received the gift of the commemorative plaque.

Consent Agenda

The consent agenda included approval of the May 20, 2022, Board meeting minutes; the Investment Power of Attorney Certificates; the new affiliation for KPERS Optional Group Life Insurance for the Stafford County Conservation District and the City of Columbus; and the appointment of a Hearing Officer for the Russell Mildward and the City of Derby appeals.

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

Executive Director's Report

Chairperson Zakoura 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:

Benefits and Member Services staff members, working with Information Technology, Fiscal Services and Project Management staff members, implemented a new contact center solution in early May. As they completed the transition, call center staff responded to 96 percent of nearly 16,000 calls received during May and June.

Staff members also successfully processed 1,540 retirement applications for new retirees and survivors and finalized more than 800 applications for members retiring in July. Staff members are participating in various special projects and technology initiatives, including the Modernization Project and Data Governance. The Education staff are currently conducting workshops for new employer representatives and are planning the Fall 2022 employer educational programs that also will include in-person presentations.

The Fiscal Services Employer Auditing Unit has completed 83 employer audits during fiscal year 2022. Seventy-one reports have been issued and 12 are in management review. The Auditing Unit is also working with KPERS Internal Audit staff on 69 Fiscal Year 2022 Governmental Accounting Standards Board (GASB 68) audits.

The Employer Reporting Unit has a dedicated InfoLine number and Fiscal Staff email account to help KPERS employers with any questions they have on reporting information to KPERS. The Employer Reporting Unit handled approximately 8,000 calls and emails from employers since the last Board meeting.

The Moss-Adams audit of the KPERS 457 plan for Calendar Year 2021 and the CliftonLarsonAllen (CLA)'s fiscal year 2022, SOC 1 Type 2 (security) audit of the Death and Disability plan are completed. Both with no findings.

The Communications Team provided communications and change management support for the Pension Administration Modernization project. Leadership has used the five-part "Let's Talk Mod" email series to KPERS staff to clarify the "what and why" of the project as well as address their top concerns from the town hall meetings earlier this year.

Staff has reviewed kpers.org for the final html pages on the entire site for last edits. Staff worked with Information Technology on a new web hosting arrangement for the current website and after training, went live with GitHub and CloudFlare in June.

The Modernization Project is reaching the conclusion of Phase 1: Analyze & Retool, and staff is about to embark on Phase 2: Improve. The key activities of Phase 1 included: Content Analysis; Process Analysis; Metrics; Software Life Cycle (SLC); Application Life Cycle Management; Project Management Plan; and Data Structure Documentation.

Investments staff conducted due diligence meetings with two real estate firms and have been working with The Townsend Group to prepare two investment recommendations for the July Investment Committee meeting. Staff has virtually attended annual investor meetings and held review meetings with several of the private markets investment managers. Legal reviews and executed documents for all of the private equity and real estate commitments that the Board approved in May have been completed.

Investment staff also conducted their first quarter 2022 Barra asset class risk review, and the second quarter 2022 public market investment manager reviews are being scheduled. The Chief Investment Officer's responsibilities have been transitioned to the Interim Chief Investment Officer.

Information Technology staff is working with Sagitec on a scanned documents clean-up project. Staff also migrated the public KPERS website to a new hosting service to reduce unexpected outages with the prior hosting service.

The Information Technology staff also conducted a quarterly Phishing email campaign in May. There were zero clicked links and the highest number of reported Phishing emails. Based on the Optiv Security findings from their last security assessments, staff has been working on security related fixes to our Member and Employer portals. Optiv Security validated our remediation of their findings.

The Planning and Research staff has been working on the 12/31/2021 Actuarial Valuation Report. Staff has responded to several requests, including the Society of Actuaries' mortality study, and a request from North Carolina State University for data of retiree benefit elections, with particular focus on cash balance plan members.

Staff continues to work with our data stewards on the first data governance projects related to Optional Group Life Insurance (OGLI) and member address data. Data governance is now being included in the modernization discussions for how staff can leverage our data governance efforts to aid in the modernization effort.

The KPERS 457 team has added four more local government offices to the KPERS 457 plan. The most recent additions to the KPERS 457 plan are USD 216 Deerfield, the Douglas County Housing Authority, the City of Burlingame, and a new 401(a) plan was added for Southeast Kansas Mental Health Center. This brings the total number of joinders signed to ten for the year. Empower will continue to work with new plan members to facilitate the enrollment of participants and funding of the plans.

Investment Operations Report

Chairperson Zakoura recognized Bruce Fink, Interim Chief Investment Officer. Mr. Fink reviewed the May 31, 2022, investment performance report. Mr. Fink reported that the Retirement System's investment portfolio produced a total return of -0.6 % for the fiscal year to date time period (not annualized), outperforming the Policy Index by 2.9 %. He reported that for the one year ending May 31, 2022, the System's investment portfolio achieved a 0.6% total return, outperforming the Policy Index by 2.8%. Mr. Fink also reported on longer term investment performance results, reporting that the Retirement System's investment portfolio produced an average annualized total return of 9.9% for the trailing three-year time period, 9.3% for the trailing ten-year time period, and 7.6% for the trailing 25-year time period ending May 31, 2022. The System's investment portfolio outperformed the Policy Index benchmark for all time periods reported. Mr. Fink commented on the difficult market conditions experienced during calendar year 2022, and he responded to questions.

The Chairperson recognized Aysun Kilic, Meketa Investment Group. Ms. Kilic reviewed the organization's Investment Market Risk Metrics Report and responded to questions.

Investment Committee Report

The Investment Committee met on July 21, 2022. Emily Hill, Chairperson of the Investment Committee, reported on the Investment Committee's meeting, and responded to questions.

Trustee Hill moved that the Board of Trustees approve an additional commitment of up to \$125 million to LaSalle Property Fund, L.P. and authorize staff to proceed with the investment pending a satisfactory and final legal review of corresponding partnership documents. Trustee Stratton seconded the motion. The motion carried.

Trustee Hill moved that the Board of Trustees approve a commitment of up to \$65 million to EQT Exeter Industrial Value Fund VI, 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

Chairperson Zakoura recognized Trustee Ernie Claudel, Chairperson of the Personnel Committee. The Personnel Committee met on July 21, 2022. Trustee Claudel provided a report and responded to questions.

Trustee Claudel moved that the Board of Trustees approve an adjustment in selected staff salaries for Fiscal Year 2023 as requested by the Executive Director and that the adjustments be made effective as soon as possible. Trustee Trader seconded the motion. The motion carried.

Trustee Claudel moved that the Board of Trustees approve an adjustment in the base salary for the Interim Chief Investment Officer as requested by the Executive Director. This increase will be in effect beginning July 10, 2022, and end upon the starting employment date of a new Chief Investment Officer. Trustee Yun seconded the motion. The motion carried.

Trustee Claudel moved that the Board of Trustees approve an adjustment in the salary of the Executive Director based on performance and that such adjustment be made effective as soon as possible. Trustee Trader seconded the motion. The motion carried.

Audit Committee Report

Chairperson Zakoura recognized Trustee Ron Johnson, Chairperson of the Audit Committee. Trustee Johnson provided a report on the Audit Committee held on July 22, 2022 and responded to questions.

Trustee Johnson moved that the Board of Trustees approve the second of two one-year contract extensions with CliftonLarsonAllen, LLP for the System's annual financial audit, the GASB 68 report, and the SOC 1 Type 2 report to be delivered no later than December 31, 2023. Trustee Williams seconded the motion. The motion carried.

Status Report on Pension Administration System Modernization

Chairperson Zakoura recognized Susan Hancock, Project Manager. Ms. Hancock provided a report of the status on Pension Administration System Modernization, which included the key accomplishments, improvements, changes made to the project since last year, and potential challenges. Ms. Hancock and Alan Conroy, Executive Director, responded to questions.

Retirement System Operations

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

Actuarial Valuation Report

Chairperson Zakoura recognized KPERS' consulting actuary Pat Beckham, FSA, EA, FCA, MAAA, Principal and Consulting Actuary with Cavanaugh Macdonald. Ms. Beckham presented the December 31, 2021, Actuarial Valuation. The Report included the investment return assumption being lowered from 7.75% to 7.0%, selected re-amortization of the unfunded actuarial liability, the KPERS 3 interest crediting rate being lowered from 6.25% to 6.0% and the KPERS 3 annuity interest rate being lowered from 5.75% to 5.0%. The net investment return of 15.7% on market value of assets resulted in a 10.9% return on actuarial assets. The liability experience varied by group, but the aggregate actuarial loss of \$147 million was realized, largely due to higher salaries than expected based on actuarial assumptions.

Ms. Beckham noted that the statutory contributions rates for State/School and Local remain at the full Actuarial Required Contribution rate. The Total System funded ratio decreased from 73% last year to 72% this year as a result of the assumption changes. The total unfunded actuarial liability increased from \$8.5 billion last year to \$9.8 billion this year. The additional employer contributions of \$1.125 billion that were authorized by the 2022 Legislature and approved by the Governor were reflected in the out-year actuarial projections. Ms. Beckham responded to questions.

Trustee Claudel moved that the Board accept the December 31, 2021, Actuarial Valuation as presented. Trustee Hill seconded the motion. The motion carried.

Extension of Outside Disability Appeals Legal Counsel

Chairperson Zakoura recognized Laurie McKinnon, General Counsel. Ms. McKinnon reviewed a proposed two-year contract extension with Vincent Cox of Cavanaugh, Biggs and Lemon P.A. for the purpose of providing KPERS with representation in long-term disability appeals. Ms. McKinnon responded to questions.

Chairperson Zakoura moved that the Board of Trustees direct staff to renew KPERS' contract with Vincent Cox of Cavanaugh, Biggs and Lemon to represent the Retirement System in long-term disability appeals. Trustee Johnson seconded the motion. The motion carried.

Extension of KPERS Long-Term Disability Administration Contract

Chairperson Zakoura recognized Laurie McKinnon, General Counsel. Ms. McKinnon reviewed the contract renewal for services with Davies Life & Health, Inc. (f/k/a/ Disability Management Services, Inc.) Davis Life & Health, Inc. provides both KPERS and KP&F third-party disability administration services. Ms. McKinnon proposed that both contracts be extended until December 31, 2026. It is staff's intent to issue an RFP for these services at the end of these extensions. Ms. McKinnon responded to questions.

Chairperson Zakoura moved that the Board of Trustees authorize staff to renegotiate the terms of its contracts with Davies Life & Health, Inc. and upon successful completion of such renegotiation, continue the contracts for one renewal period. Trustee Stratton seconded the motion. The motion carried.

Other Business

Chairperson Zakoura recognized Alan Conroy, Executive Director. Mr. Conroy discussed the Board of Trustees receiving updated reports as needed on the Modernization Project. He stated that the Board of Trustees will receive the Modernization Project FY 2024 Budget request to be presented to the Governor and the 2023 Legislature at the Board of Trustees meeting in September 2022. The update of the completion of Phase 1, and progress of Phase 2, will be presented at the October Educational and Planning Session.

Chairperson Zakoura stated that the Board will decide how frequently they would like to receive updates on the Modernization project following the progress report at the Board of Trustees meeting in September 2022.

Mr. Conroy reminded the Board members to review the dates for the Board meeting in September, and to respond with which dates they are available. He also stated that Board members received an October Educational and Planning Session questionnaire if they would like to respond.

Trustee Claudel presented information to the Board of Trustees from the Kansas Coalition of Public Employees and Kansas Association of Retired School Personnel (KCPR).

Informational Items

The Chairperson called the Board's attention to the informational items behind Tab N in the Board book.

Board Self Evaluation

There was no further discussion.

Meeting Adjourned

Trustee Trader moved to adjourn the meeting at 2:05 p.m. Trustee Hill seconded the motion. The motion carried.