

**MINUTES
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
BOARD OF TRUSTEES
EDUCATIONAL AND PLANNING MEETING**

October 17, 2024

Chairperson James Zakoura called the meeting to order at 10:32 a.m. in the Capitol Federal Conference Room, Johnson County Community College (JCCC), 12345 College Boulevard, Overland Park, Kansas.

Board Members Present: James Zakoura, Chairperson
 Ernie Claudel, Vice-Chairperson
 Emily Hill
 Steven Johnson
 Brad Stratton
 Ryan Trader (Friday, October 18, 2024)
 Jo Yun

Board Members Absent: Derek Kreifels
 Sam Williams

Welcome and Overview of Meeting Agenda

Chairperson James Zakoura welcomed guests in attendance: Representative Nick Hoheisel, Senator Michael Fagg, David Wiese, Revisor of Statutes Office, and Scott Taylor, Empower Retirement. Chairperson Zakoura also welcomed Jeff Arpin, Division of the Budget, Eileen Ma, Revisor of Statutes Office, Steven Wu and Mike Ditch, Kansas Legislative Research Department, and Jake O’Shaughnessy, SageView, who attended virtually, and all other participants.

Comparison of Public Pension Plans, Including KPERS

Chairperson Zakoura introduced Jarod Waltner, Planning and Research Officer. Mr. Waltner introduced Alex Brown, Research Manager, National Association of State Retirement Administrators (NASRA). Mr. Brown provided an overview of the Public Pension Trends including public pension funding level updates from fiscal year 2001 – 2023; change in actuarial value of assets and liabilities; investment return assumptions; effects of inflation on public pension; and change in payroll growth from fiscal year 2002 – 2023.

KPERS Strategic Plan Update – Fiscal Year 2025

Chairperson Zakoura introduced Jarod Waltner, Planning and Research Officer. Mr. Waltner provided an update on the Strategic Plan for fiscal year 2025. The current strategic plan covers the five-year period of fiscal year 2021 – fiscal year 2025. The strategic goals were updated in the most recent strategic plan to include sound funding, prudent investments, quality service, reliable and secure data, and talent management. Mr. Waltner responded to questions.

Trends in Cost-of-Living Adjustments in Selected Other Public Pension Plans

Chairperson Zakoura recognized Vice-Chairperson Ernie Claudel. Vice-Chairperson Claudel reviewed the cost-of-living (COLA) KPERS benefit increase history; financial effects related to salary; recent legislation that impacted KPERS retirees; KPERS funding and underfunding history; average KPERS benefits for state and school members; trends on the COLA adjustments; and needed improvements for KPERS 3. Vice-Chairperson Claudel responded to questions.

Chairperson Zakoura, adjourned the meeting for a lunch break at 12:06 p.m.

Lunch was made available to the Board of Trustees and participants.

KPERS 3 Opportunities for Improvements

Chairperson Zakoura introduced Jarod Waltner, Planning and Research Officer. Mr. Waltner reviewed KPERS 3 and the opportunities for improvements. KPERS members who joined on and after January 1, 2015, include 55% of all active KPERS members. There are over 5,000 new KPERS members each year. Mr. Waltner discussed the KPERS 3 Cash Balance Plan and how it works. The Legislative Post Audit reviewed the KPERS 3 design and reported "KPERS 3 gives employees less flexibility, requires them to share some financial risk, and generally provides lower benefits than other plans evaluated."

The 2024 Legislature introduced bills in the House and Senate to move all or a group of KPERS 3 members back to KPERS 2. No legislation passed during 2024, but several legislators stated they plan to continue plan design discussions during the 2025 Legislative Session.

Overview and Impact of Possible Expansion of the Deferred Retirement Option Program (DROP) to KPERS Members

Chairperson Zakoura recognized Mary Beth Green, Deputy Executive Director for Modernization and Chief Benefits Officer. Ms. Green reviewed the deferred retirement option program (DROP). It allows Kansas Police and Fire members to accumulate retirement benefits while actively employed. The program was created by the 2015 legislature initially for the Kansas Highway Patrol, added the Kansas Bureau of Investigation in 2019, and all KP&F members in 2023. These members have a choice to participate for three to five years with their employer's approval. DROP allows KP&F members to continue to work and earn salary while building up a lump-sum account for retirement. Once a retirement option selection is made at the beginning of DROP it is irrevocable. Participation has increased significantly since DROP was extended to all eligible KP&F members and employers in 2023. Ms. Green responded to questions.

Chairperson Zakoura recognized Pat Beckham, Consulting Actuary, and Bryan K. Hoge, Consulting Actuary, CavMac. Ms. Beckham reviewed the financial analysis for KP&F members and comparison of DROP vs continued accruals.

Mr. Hoge reviewed the information of the key DROP design elements; contributions during DROP; costing the impact of proposed DROP; cost study on DROP for KPERS; current retirement rates; and cost study results for State/School.

Impact of the New 25% Alternatives Investment Cap

Chairperson Zakoura recognized Bruce Fink, Chief Investment Officer. Mr. Fink reviewed the impact of the new 25% alternative investment cap. In 2022, consideration to address the 15% statutory cap on alternative investments and to conduct an asset/liability study were introduced to the Board. In 2023, the final asset/liability study recommendation was presented and approved. The 15% alternatives cap remained in place, until the cap on alternative investments was increased from 15% to 25% during the 2024 Legislative Session. The increase to a 25% cap on alternative investments allowed the Retirement System to benefit from broader diversification. Mr. Fink summarized the asset allocation decisions resulting from the asset allocation and demonstrated how utilizing a portion of the higher alternative cap improved the expected long-term risk/return posture of the fund. It increased diversification and has allowed the System to materially reduce expected risk of its private markets portfolio. Passage of the bill to increase the alternatives cap to 25% allowed the System to structure a more efficient portfolio, reducing expected risk while maintaining/improving return, to the long-term benefit of the System.

Legislative Outlook for KPERS Issues in the 2025 Legislature

Chairperson Zakoura recognized Representative Nick Hoheisel, Chairperson, House Financial Institutions and Pensions Committee, Senator Michael Fagg, Vice-Chairperson, Senate Financial Institutions and Insurance Committee, and Representative Rui Xu, Ranking Minority Member, House Financial Institutions and Pensions Committee.

Senator Michael Fagg stated that he was elected to the Kansas Senate in 2020. His business career was in community banking, and he was involved in investments and loans. Senator Fagg stated that he is on four committees, Chairperson, Utilities and Energy, Vice Chairperson, Financial Institutions, and Insurance, Senate Ways and Means and Agriculture and Natural Resources. He also serves on the Joint Committee on Pensions, Investments and Benefits.

Senator Fagg stated that the legislature was successful getting the alternatives cap to 25%. He stated that one of the issues he will be focusing on is the KPERS unfunded liability, instead of implementing enhancements.

Representative Nick Hoheisel was elected to the House of Representatives in 2019 and is presently serving as the Chairperson of the House Financial Institutions and Pensions Committee, serves on the Transportation, Utilities and Energy, Taxation Committees.

Representative Hoheisel stated that the House wanted to give the authority to the Board for the alternatives cap, but made a compromise with the Senate for a 25% alternatives cap. He stated that property taxes will be one of the big issues in the 2025 Legislative Session. He also stated that the legislators will be discussing KPERS 3, to find a solution that is fiscally responsible. He stated that last year there were conversations of switching KPERS 3 members to KPERS 2, however, those conversations have stalled due to the high fiscal notes associated with making that change.

Representative Rui Xu stated that he was elected to the House of Representatives in 2019 and has serves as a ranking member of the House Financial Institutions and Pensions Committee.

He stated that he has supported improvements to KPERS 3 and a COLA. He stated that removing the taxes on Social Security, will benefit all retirees, so more of the focus can be on making improvements to KPERS 3.

Representative Xu, Representative Hoheisel, and Senator Fagg responded to questions.

Global Macroenvironment Update

Chairperson Zakoura recognized Bruce Fink, Chief Investment Officer. Mr. Fink introduced Tony Charles, Managing Director, Morgan Stanley. Mr. Charles provided an overview of the global macroenvironment; geopolitical risks heightened; China facing growth challenges; US economy resilient by moderating; inflation on sustainable path towards federal target; election outcome likely to have limited market impact; structural trends will shift demand patterns; global housing shortage; aging population – shifting living preference; population migration patterns shifting; global de-polarization will likely relocate manufacturing; supply chain resiliency; artificial intelligence; and work from home – office demand; and high quality assets. Mr. Charles responded to questions.

Chairperson Zakoura adjourned the meeting at 5:12 p.m.

Dinner at Grand Street Café, 8815 Renner Blvd., Lenexa, KS

A dinner was held at the Grand Street Café, for the Board of Trustees, guests, and staff.

Friday, October 18, 2024

Chairperson James Zakoura called the meeting to order at 8:36 a.m. and welcomed all participants located in the Capitol Federal Conference Room, Johnson County Community College, 12345 College Boulevard, Overland Park, Kansas.

Kansas Open Meetings Act and Review of Board Best Practices

Chairperson Zakoura recognized Laurie McKinnon, General Counsel. Ms. McKinnon presented an overview of the Kansas Open Meeting Act and board best practices. Ms. McKinnon presented the applicable elements of the Open Meetings Act to Board of Trustee meetings and reviewed a list of board best practices according to public pension associations and governmental agencies. Ms. McKinnon responded to questions.

Private Equity Valuations and Returns

Chairperson Zakoura recognized Dean Roney, Deputy Chief Investment Officer for Private Markets. Mr. Roney introduced Amy Ridge, Mercer Alternatives, and Richard Pugmire, Mercer Alternatives.

Mr. Roney presented the private equity overview, including the benefits of private equity, higher expected returns, diversification, inefficient markets, and active management strategy, broad equity market and observations, and KPERS' specific portfolio.

Ms. Ridge reviewed fund life cycle and PEP portfolio, pacing model forecast, J-Curve illustration, valuation changes at realization. She stated that PEP has approximately \$1.3 billion of unfunded commitments as of September 30, 2024. The unfunded commitments balance has increased from \$786 million as of September 30, 2023, due to the increased pacing target in 2024.

Mr. Pugmire reviewed the valuation observations practiced within private markets investment management and compared the value of a realized "exited" individual portfolio company investment within a fund to the recent carrying value for that portfolio company reported by the General Partner.

Mr. Roney reviewed the PEP historical benchmark difference on a 1-year and 3-year returns, KPERS private equity portfolio versus its benchmark. The performance of the PEP portfolio compared to its benchmark over longer periods of time of relative performance to the benchmark for the 10-year returns. The passage of the bill to increase the alternatives cap to 25% allowed the System to structure a more efficient portfolio, reducing expected risk while maintaining/improving return, to the long-term benefit of the System.

Mr. Roney, Ms. Ridge, and Mr. Pugmire responded to questions.

Review of the 7% Assumed Rate of Return

Chairperson Zakoura recognized Bruce Fink, Chief Investment Officer. Mr. Fink reviewed the information of the experience of the 7% assumed rate of return. The actuarial assumed rate of return represents a long-term expectation for the System, which the portfolio is structured to achieve. Of the four longer-term returns reported, the 7% assumption has been achieved over all periods. The gross return, through September 2024, on the System's portfolio has been 8.5% post the 2016 change, 3.7% from the change in 2021. While a review of the System's return experience post these changes are important, there are observations that should be made concerning improvements in the risk posture of the System that accompany a lower actuarial assumed rate of return for the System. Mr. Fink responded to questions.

Cash Flow Forecasting and Needs of the Trust Fund

Chairperson Zakoura recognized Bruce Fink, Chief Investment Officer. Mr. Fink reviewed the information of the cash flow forecasting and needs of the Trust Fund. The cash flow model has four major components and uses data over various timeframes including monthly operations, contributions, benefit payments, and expenses. Establishing the target allocation for cash in the portfolio is a trade-off between minimizing the need to sell risk assets, with the associated cost and market risk, against the lower yields typically earned on cash equivalent investments. The System has established a 3% cash target for the total fund which serves to provide a sufficient buffer for situations when cash needs are exceptionally high while maintaining adequate coverage for the next three months benefit payments. While a lower cash target is a possibility, given the cash forecast for the System, it would likely require more frequent rebalancing transactions and may result in falling below the desired benefit coverage multiple. Ultimately, the cash management program is structured to fulfill the "No Fail Mandate", to never miss a benefit payment. Mr. Fink responded to questions.

KPERS Five-Year Opportunities Outlook Roundtable

Chairperson Zakoura recognized Alan Conroy, Executive Director. Mr. Conroy explained the process of the KPERS five-year opportunities outlook roundtable. The format allowed Trustees to visit briefly with selected members of the KPERS Executive Team. Trustees were stationed in groups of two and various members of the Executive Committee came to each table and were available to briefly review their respective duties and responsibilities and to answer questions from the Board members.

Chairperson Zakoura adjourned the meeting at 12:22 p.m. and participants attended a concluding Educational and Planning Session lunch.