

## MINUTES

### POLICE RETIREMENT SYSTEM OF KANSAS CITY and CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF KANSAS CITY BOARD MEETING

Thursday, February 11, 2021

Richard Smith called the meeting to order via conference call.

#### PRESENT:

Richard Smith, Member  
Scott Hummel, Member  
Walter Bixby, Member  
Robert Jones, Member  
Leslie Lewis, Member  
Patrick Trysla, Member

Jonathan Dilly, Attorney  
Sharon Blancett, Staff  
Lisa Colclasure, Staff  
Jason Hoy, Staff  
James Pyle, Staff

#### SECRETARY REPORT:

##### 2021 RETIREMENT BOARD ELECTION DIRECTOR

Mr. Smith said Mr. Jones had agreed to serve as election director for the 2021 Retirement Board election. The designated seats currently held by Mr. Hummel, Mr. Mills and Mr. Pickens are up for election this year.

##### ACTUARIAL UPDATE

Mr. Smith and Mr. Pyle said they had talked with Pat Beckham, from Cavanaugh Macdonald, following the November Board meeting discussion about potential budget cuts to the KCPD. Ms. Beckham said she prepared an example of the impact that reduced payroll could have on the Retirement Systems, using the current Police plan valuation. The example assumed 130 fewer active members and a projected FY2022 payroll reduction of \$6.5 million. The total accrued liability, market and actuarial value of assets, and the unfunded actuarial accrued liability do not change. The Total Normal Cost decreases by \$1.6 million and member contributions decrease by \$750,750, both because of lower payroll. The net impact to the Employer Normal Cost is a decrease of \$899,175. The amortization of the Unfunded Actuarial Accrued Liability does not change. The impact on total contributions to the Police plan would have been through the reduction in the Employer Normal Cost. She said modeling the current valuation for the Civilian Employees' plan would produce similar results with the Total Normal Cost and member contributions decreasing and the net impact being a reduction in the Employer Normal Cost.

Ms. Beckham said receiving City contributions as a fixed dollar amount rather than as a percentage of payroll serves the plans well in a time of declining payroll. The fixed dollar method ensures that contributions do not fluctuate with payroll and that the plans receive the required contributions to pay down the amortization of the Unfunded Actuarial Accrued Liability.

##### INVESTMENT COMMITTEE REPORTS

Mr. Pyle said the Investment Committee met following the November Retirement Board meeting to review recommendations from RVK to update the Investment Policy Statement.

The updates reflect changes to the target asset allocation, investment manager roster, and bonds that are downgraded below a BBB rating. Mr. Hummel said the IC supports the recommended changes and made the motion to adopt the following changes to the Investment Policy Statement:

1) Section V. Investment Return Objectives and Benchmarks – Asset Class Objectives – Fixed Income – Core separate account fixed income managers shall only purchase bonds with a rating equal to or above BBB (or equivalent). In the event a core separate account fixed income manager holds a security that is downgraded below the minimum rating a sale is not mandated. The decision to continue to hold the security is at the discretion of the manager, but subject to prompt notification to the client. Reasonable efforts will be made by that manager to ensure, over time, that all portfolio holdings are rated BBB or higher; however, the manager should also consider the potential impact to the portfolio during periods of market distress and manage the portfolio in a manner that is intended to maximize risk-adjusted return in accordance with the portfolio’s objective.

2) Appendix B – Asset Class Target Allocations - Update the asset classes, asset class target allocation and target benchmark which were adopted in September 2020. Update the Manager list by removing GMO Global Tactical, LSV Emerging Markets, LSV Emerging Markets Small Cap, Wellington US Small Cap, and Wellington International Small Cap, and adding GQG Partners Emerging Markets and Wellington Global Perspectives. Update the Total Absolute Return Benchmark and the Total Fund Benchmark.

Mr. Bixby seconded the motion which passed unanimously.

In January the IC met with Kenneth Abrams, Anna Lunden, and Matthew McKenna from Wellington for a portfolio review of the Global Perspectives (GP) fund. Total assets in the GP fund are \$3.8 billion with the Police plan investment totaling \$69 million and the Civilian Employees’ plan investment totaling \$12 million. The IC also reviewed the November 2020 Investment Performance Analysis where both plans gained 5.5% net of fees for the month and outperformed the target benchmark of 5.2%. The IC discussed changes to the monthly and quarterly Investment Performance Analysis reports. Future reports will focus on net rather than gross of fee returns. Returns for the Police plan will be measured against plans with assets greater than \$1 billion and RVK will provide one quarter lagged results for White Oak direct lending investments, similar to the performance results reported for Abbott Capital and JP Morgan private equity investments.

In February the IC met with Chulantha De Silva and Laura Clement from GQG Partners for a firm introduction and portfolio review of the Emerging Markets Equity fund. Total assets in the EM fund are \$22 billion with the Police plan investment totaling \$40 million and the Civilian Employees’ plan investment totaling \$7 million. The IC also reviewed the December 2020 Investment Performance Analysis where both plans gained 2.7% net of fees for the month and outperformed the target benchmark of 2.1%. Ryan Sullivan, from RVK, reviewed the RVK Capital Markets Assumptions for 2021. Mr. Sullivan said the long term return assumptions, for all asset classes, will be flat or lower than RVK’s Q1 2020 assumptions. RVK uses a 20 year horizon for their long term assumptions and beginning valuations are a critical factor in the return projections. Since current returns for most asset classes have been high, we should expect future returns to be lower. Mr. Pyle said equity

and fixed income rebalancing took place in January with redemptions from Artisan and Northern Trust and transfers into FCI and PIMCO.

#### 4<sup>th</sup> QUARTER 2020 INVESTMENT PERFORMANCE ANALYSIS

Marcia Beard and Mr. Sullivan, from RVK, presented the December 31, 2020 Investment Performance Analysis for the Police Retirement System and Civilian Employees' Retirement System.

	4 <sup>th</sup> Q 2020	1 Year ending 12/31/2020	3 Years ending 12/31/2020	5 Years ending 12/31/2020
<b>Police Total Fund (net)</b>	7.55%	11.09%	7.38%	8.63%
Relative Objective	6.41%	10.17%	7.53%	8.14%
Over/(Under) Relative Objective	1.14%	0.92%	-0.15%	0.49%
<b>Civilian Employees' Total Fund (net)</b>	7.59%	11.45%	7.49%	8.66%
Relative Objective	6.41%	10.17%	7.53%	8.14%
Over/(Under) Relative Objective	1.18%	1.28%	-0.04%	0.52%

The Relative Objective is made up of 38% MSCI All Country World IM Index, 31% Bloomberg US Aggregate Bond Index, 7% ICE BofA 3 Mo T-bill Index + 5%, 13% NCREIF ODCE Index, and 11% Absolute Return Custom Benchmark.

Asset Class Performance (net)	4 <sup>th</sup> Q 2020	Market Value (M)
Police Global Equity	15.59%	\$422.25
Civilian Global Equity	15.33%	\$72.46
MSCI ACW IM Index	15.70%	
Police Fixed Income	1.79%	\$297.39
Civilian Fixed Income	1.84%	\$52.51
Bloomberg US Aggregate Bond Index	0.67%	
Police Direct Lending	N/A	\$50.57
Civilian Direct Lending	N/A	\$7.68
Direct Lending Custom Index	5.70%	
Police Real Estate	0.73%	\$118.05
Civilian Real Estate	0.76%	\$17.97
NCREIF ODCE Index	1.10%	
Police Absolute Return	7.24%	\$107.50
Civilian Absolute Return	7.24%	\$16.52
Absolute Return Custom Index	1.26%	
Police Private Equity	-0.08%	\$9.25
Civilian Private Equity	-0.09%	\$1.15
Private Equity Custom Index	11.04%	
Police Total Fund		\$1,007.11
Civilian Total Fund		\$169.13

<b>Police Fund Manager Performance (net)</b>	<b>4th Q 2020</b>	<b>YTD 12/31/20</b>	<b>Benchmark YTD 12/31/20</b>
LSV (global large cap value)	18.79%	2.22%	15.90%
Artisan (global large cap growth)	10.58%	40.64%	15.90%
Northern Trust ACWI (global)	15.67%	16.62%	16.25%
Wellington (global small cap)	N/A%	N/A%	16.33%
GQG (emerging markets)	N/A%	N/A%	18.31%
FCI Advisors (fixed income)	0.48%	10.33%	8.93%
PIMCO (fixed income)	4.46%	5.79%	7.51%
White Oak (direct lending)*	1.25%	0.47%	6.16%
Morgan Stanley (real estate)	1.47%	1.26%	0.34%
Prudential (real estate)	0.00%	-1.55%	0.34%
Grosvenor (hedge fund)	7.24%	14.15%	9.80%
Abbott Capital (private equity)*	9.46%	11.20%	3.35%
JP Morgan (private equity)*	12.02%	1.35%	3.35%
*Lagged results from 9/30/2020			

<b>Civilian Employees' Fund Manager Performance (net)</b>	<b>4th Q 2020</b>	<b>YTD 12/31/20</b>	<b>Benchmark YTD 12/31/20</b>
LSV (global large cap value)	17.94%	2.41%	15.90%
Artisan (global large cap growth)	10.49%	40.34%	15.90%
Northern Trust ACWI (global)	15.67%	16.65%	16.25%
Wellington (global small cap)	N/A%	N/A%	16.33%
GQG (emerging markets)	N/A%	N/A%	18.31%
FCI Advisors (fixed income)	0.45%	10.16%	8.93%
PIMCO (fixed income)	4.46%	5.79%	7.51%
White Oak (direct lending)*	1.25%	0.47%	6.16%
Morgan Stanley (real estate)	1.47%	1.26%	0.34%
Prudential (real estate)	0.00%	-1.55%	0.34%
Grosvenor (hedge fund)	7.24%	14.15%	9.80%
Abbott Capital (private equity)*	9.43%	11.27%	3.35%
JP Morgan (private equity)*	12.02%	1.35%	3.35%
*Lagged results from 9/30/2020			

Difference in manager performance vs. benchmark	Police 4 <sup>th</sup> Q 2020	Police YTD 12/31/20	Civilian 4 <sup>th</sup> Q 2020	Civilian YTD 12/31/20
LSV (global large cap value)	4.83%	-13.68%	3.98%	-13.49%
Artisan (global large cap growth)	-3.38%	24.74%	-3.47%	24.44%
Northern Trust ACWI (global)	-0.03%	0.37%	-0.03%	0.40%
Wellington (global small cap)	N/A%	N/A%	N/A%	N/A%
GQG (emerging markets)	N/A%	N/A%	N/A%	N/A%
FCI Advisors (fixed income)	-0.34%	1.40%	-0.37%	1.23%
PIMCO (fixed income)	3.79%	-1.72%	3.79%	-1.72%
White Oak (direct lending)*	-0.02%	-5.69%	-0.02%	-5.69%
Morgan Stanley (real estate)	0.37%	0.92%	0.37%	0.92%
Prudential (real estate)	-1.10%	-1.89%	-1.10%	-1.89%
Grosvenor (hedge fund)	0.37%	4.35%	0.37%	4.35%
Abbott Capital (private equity)*	0.03%	7.85%	0.00%	7.92%
JP Morgan (private equity)*	2.59%	-2.00%	2.59%	-2.00%
*Lagged results from 9/30/2020				

Ms. Beard said the portfolio returns for the quarter were positive and exceeded the target allocation index on a net of fees basis. She said the rankings against peer managers should not be unexpected based on the asset allocation of the portfolio and the outperformance of the equity markets in the fourth quarter. For the quarter (net of fees) the Police plan gained 7.55% while the target benchmark gained 6.41%. Compared to a population of other retirement plans with assets below \$2 billion, for the quarter, the Police plan investment performance was in the bottom 16%, for the one year period in the bottom 39%, and for the five year period in the bottom 33%. Ms. Beard said the new peer group includes only public plans with assets between \$1 and \$2 billion. For the quarter (net of fees) the Civilian Employees' plan gained 7.59% while the target benchmark gained 6.41%. Compared to a population of other public retirement plans with assets below \$250 million, for the quarter the Civilian Employees' plan investment performance was in the bottom 17%, for the one year period in the bottom 48% and for the five year period in the bottom 36%. Both portfolios are within the target allocation limits for all asset classes with the exception of Private Equity. In January both plans rebalanced the equity and fixed income portfolios and those changes are not reflected in this report. The Police plan started the quarter with a market value of \$943.6 million, net cash flows were \$-7.6 million and investment gains were \$71 million. The ending market value was \$1.007 billion. The Civilian Employees' plan started the quarter with a market value of \$158 million, net cash flows were \$-0.83 million and investment gains were \$11.9 million. The ending market value was \$169.1 million.

Ms. Beard reviewed the attribution of gains or losses. For the quarter, compared to performance against the benchmark, asset allocation added 6.4% in both plans. Tactical

asset allocation, style selection, and manager skill combined added an additional 1.1% in the Police plan and an additional 1.2% in the Civilian Employees' plan. For the one year period, asset allocation added 10.2% in both plans. Tactical asset allocation, style selection, and manager skill combined added 0.9% in the Police plan and 1.3% in the Civilian Employees' plan.

#### SECRETARYS UPDATE

##### **Annual Financial Disclosure Statements**

Mr. Pyle reviewed the 2020 Financial Disclosure Statements which are completed by Board members and Retirement Systems staff as part of Board Policy #021 – Code of Conduct and Gifts.

##### **Sharon Blancett Retirement**

Mr. Pyle said Ms. Blancett is planning to retire at the end of April. While this is exciting and well deserved for Sharon it is a huge loss for those of us at the Retirement Systems. We will sorely miss her friendship, attention to the smallest details, institutional memory, and most of all her dedication to our members.

#### OMNIBUS MOTION

Mr. Trysla made the following motion, seconded by Mr. Hummel. Motion passed unanimously.

RESOLVED, that the Retirement Board hereby unanimously approves:  
The minutes of the previous meeting of November 12, 2020;  
The monthly financial statements for October, November, and December 2020;  
The payment of bills as listed in the Secretary's Reports for this meeting;  
The return of contributions to those persons, who have resigned or terminated service, as listed in the Secretary's Reports for this meeting;  
The purchases and sales of assets as listed in the Secretary's Reports for this meeting;  
The payment or commencement of pensions or other benefits as listed in the Secretary's Reports for this meeting; and  
Any purchases of creditable service as listed in the Secretary's Reports for this meeting.

#### BOARD MEMBER COMMENTS

There were no additional Board member comments.

#### PUBLIC COMMENTS

A time was set aside for public comments.

#### CLOSED SESSION

Mr. Bixby made the motion to close this part of the meeting pursuant to Sections 610.021(1) RSMo, for purposes of discussing litigation. The motion was seconded by Ms. Lewis.

The following board members were present and voted to go into closed session as follows:

Mr. Bixby	Yes	Ms. Lewis	Yes
Mr. Hummel	Yes	Mr. Smith	Yes
Mr. Jones	Yes	Mr. Trysla	Yes

ADJOURNMENT

The next regularly scheduled board meeting will be March 11 at 9:00am via conference call.

---

BOARD SECRETARY

---

CHAIRMAN