MINUTES

POLICE RETIREMENT SYSTEM OF KANSAS CITY and CIVILIAN EMPLOYEES' RETIREMENT SYSTEM OF THE POLICE DEPARTMENT OF KANAS CITY
INVESTMENT COMMITTEE MEETING
Thursday, February 13, 2025

Wayne Stewart called the meeting to order.

PRESENT:

Robert Jones, Member	Jason Hoy, Staff
Wayne Stewart, Member	Ryan Sullivan, RVK
John Mueller, Member	Marcia Beard, RVK
Nate Simecek, Member	Jake Derrah, RVK
Sidney Smith, Board Member	Rob Woodard, Mariner

ASSET / LIABILITY STUDY REVIEW - RVK

Mr. Sullivan and Ms. Beard continued the discussion on the second half of the Asset/Liability Study study, which focused on stochastic analysis, which differs from deterministic modeling by incorporating the inherent volatility and uncertainty of investment returns. This approach allows for a more realistic assessment of possible funding outcomes under different investment strategies. Eight portfolio strategies were analyzed, including the current Target Allocation, from highly conservative (low risk, asset protective) to highly aggressive (high return-seeking with substantial risk). The analysis aimed to determine whether the Systems are better positioned under a strategy that pursues higher prospective returns with greater risk or one that maintains lower risk and a narrower range of potential outcomes. The study evaluated these strategies based on their impact on funding ratio, liquidity, contribution stability, and exposure to short-term investment losses.

The analysis reinforced that the current market environment presents reduced expected return opportunities, resulting in median funding outcomes generally lower than deterministic projections. Among the portfolio options, the 100% Fixed Income strategy yielded the lowest median expected funding ratio at the end of the 20-year projection period. These findings underscore that while a highly conservative approach may protect existing assets, it is not a viable long-term solution for a defined benefit plan. In contrast, all diversified portfolios, including the current Target Allocation, resulted in similar median funding outcomes, confirming that continued diversification remains the best approach for the Systems.

The study also found that none of the diversified portfolios projected extreme payout ratios over the next two decades. Even in peak scenarios, payout ratios remained around 15%, a level that does not materially hinder asset allocation decisions related to illiquid asset classes. This is particularly relevant given that both the Police and Civilian Systems currently have highly liquid investment structures for public pension plans of their size. However, the 100% Equity portfolio introduced potential concerns in the unlikely worst-case scenario, as extreme market downturns could lead to liquidity challenges.

When assessing risk and return trade-offs, the analysis showed that slightly increasing portfolio risk improved median funding outcomes and led to marginally greater worst-case one-year declines. This suggests that the benefit of taking on additional risk diminishes at higher levels of volatility. Furthermore, the cumulative cost of funding benefits is heavily influenced by investment returns. The 100% Fixed Income portfolio required the highest increase in cumulative contributions, demonstrating the challenges of a low-return environment. Even in the most optimistic scenario, this conservative strategy failed to achieve full funding, capping at a projected 95% funded ratio for Police and 99% for Civilian.

The most aggressive portfolio (100% Equity) was most likely to achieve full funding by 2044. However, it also carried the significant risk of a maximum one-year portfolio decline of 44%, representing a potential loss of nearly half of the Systems' assets. Such a severe downturn would disrupt the Systems' financial health and force reactionary investment decisions that could undermine long-term stability. The study highlighted that while aggressive strategies may appear attractive for their return potential, they can only succeed if maintained consistently over multiple decades through favorable and adverse market conditions. Given the potential for increased liquidity needs due to demographic shifts or financial pressures, sustaining such a strategy could prove challenging.

The final conclusions of the stochastic analysis reaffirmed that the system's financial position is expected to improve over the next 20 years under current plan assumptions. The study supports maintaining a well-diversified investment approach, which balances risk and return while ensuring stability in contributions and liquidity. The findings do not suggest the need for a significant shift in the risk profile of the investment programs, nor do they support an ultra-conservative approach that would limit return potential. Additionally, the study emphasized the importance of monitoring progress through periodic reviews, particularly if market conditions deteriorate or there are material changes to contribution policies or benefit structures. While the study assumes no policy changes, it notes that even minor adjustments to benefits or contributions can have a meaningful long-term impact on funding outcomes.

Overall, the stochastic analysis highlights the importance of managing downside risk while maintaining an investment strategy that allows for sustainable long-term growth. The Systems should continue to focus on strategic diversification and periodic evaluations to ensure the funding trajectory remains on course.

COMMITTEE MEMBER COMMENTS

There were no additional board member comments.

PUBLIC COMMENTS

Time was made for public comments.

ADJOURNMENT

The next regularly scheduled IC meeting is on March 3, 2025, at the Retirement System Offices.