

## MINUTES

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

Thursday, August 12, 2021

Richard Smith called the meeting to order via conference call.

#### PRESENT:

Richard Smith, Member

Scott Hummel, Member

Robert Jones, Member

Walter Bixby, Member

Leslie Lewis, Member

Chad Pickens, Member

DeJ'on Slaughter, Member

Wayne Stewart, Member

Jonathan Dilly, Attorney

Jennifer Best, Staff

Lisa Colclasure, Staff

James Pyle, Staff

#### SECRETARY REPORT:

##### INTRODUCTION OF WAYNE STEWART

Mr. Smith welcomed (Ret.) Major Wayne Stewart to the Retirement Board. Mr. Stewart was elected to a 3-year term on the Retirement Board. He holds the seat designated for a retired member of the Police Retirement System.

##### INVESTMENT COMMITTEE REPORT

Mr. Pickens said the Investment Committee (IC) met on August 3 with Ryan Sullivan and Marcia Beard from RVK, and Rob Woodard from Mariner, to review the following items:

##### **PIMCO Income Fund Review**

Emmanuel Roman, Joachim Fels, Daniel Ivascyn, and Ken Chambers provided a portfolio review of the PIMCO Income Fund. Mr. Roman provided a firm update and said PIMCO was focused on investing to continually upgrade technology and cybersecurity. He sees investment opportunities in private credit and real estate and PIMCO is increasing their focus on those asset classes.

Mr. Fels provided an economic outlook and said he is noticing peaks in economic growth, fiscal stimulus, monetary policy, and inflation. He said growth has shifted from expenditures on goods and equipment to services and entertainment following the release of the COVID vaccines. In addition to the infrastructure stimulus package, it's possible one more stimulus package could be considered by Congress. Mr. Fels said core inflation at 3.5% should not be unexpected following the release of vaccines. The bulk of inflationary pressure is limited to automobiles and travel/entertainment. Wage inflation has been relatively low in part because unemployment numbers are declining. He is looking to 2022 or later before the Federal Reserve raises interest rates.

Mr. Chambers said the Income Fund is up 2.5% year to date through July while the Barclay's US Aggregate benchmark is still negative for the year.

Mr. Ivascyn reviewed the portfolio characteristics and said the Income Fund needs and uses a wide variety of investment options to build a resilient portfolio. In the higher yielding sectors Mr. Ivascyn is being selective in Emerging Markets and non-agency mortgages. In the higher quality sectors, investments include U.S. Agency Mortgage Backed Securities and financials while being cautious on generic credit.

### May 2021 Investment Portfolio Analysis

Ms. Beard and Mr. Sullivan reviewed the May 2021 Investment Performance Analysis. Mr. Sullivan reviewed the May capital markets flash report which showed positive returns for stock, bonds, and alternatives. Ms. Beard said the Police plan gained 0.98% net of fees in May and had an ending market value of \$1.044 billion. The Civilian Employees' plan gained 1.03% net of fees and had an ending market value of \$175.7 million. The target benchmark for both plans gained 0.71%. For the one year period ending in May, the Police plan gained 20.6% net of fees and the Civilian Employees' plan gained 20.8% net of fees. The target benchmark for the same time period gained 16.0%.

The next IC meeting, scheduled for September 7 at 9:00am via conference call.

### 2<sup>nd</sup> QUARTER 2021 INVESTMENT PERFORMANCE ANALYSIS

Marcia Beard and Ryan Sullivan, from RVK, presented the June 30, 2021 Investment Performance Analysis for the Police Retirement System and Civilian Employees' Retirement System.

	2 <sup>nd</sup> Q 2021	1 Year ending 6/30/2021	3 Years ending 6/30/2021
<b>Police Total Fund (net)</b>	4.05%	19.63%	9.33%
Relative Objective	3.90%	16.13%	9.19%
Police Over/(Under) Relative Objective	0.15%	3.50%	0.14%
<b>Civilian Employees' Total Fund (net)</b>	4.08%	19.66%	9.43%
Relative Objective	3.90%	16.13%	9.19%
Civilian Employees' Over/(Under) Relative Objective	0.18%	3.53%	0.24%

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, 11% Absolute Return Custom Benchmark.

Asset Class Performance (net)	2 <sup>nd</sup> Q 2021	Market Value (M)
Police Global Equity	6.30%	\$419.48
Civilian Global Equity	6.41%	\$68.99
MSCI ACW IM Index	7.18%	
Police Fixed Income	2.39%	\$320.30
Civilian Fixed Income	2.37%	\$57.83

Bloomberg US Aggregate Bond Index	1.83%	
Police Direct Lending*	2.76%	\$53.88
Civilian Direct Lending*	2.76%	\$8.18
Direct Lending Custom Index*	1.25%	
Police Real Estate	3.85%	\$137.42
Civilian Real Estate	3.88%	\$23.15
NCREIF ODCE Index	3.68%	
Police Absolute Return	3.08%	\$109.45
Civilian Absolute Return	3.08%	\$16.82
Absolute Return Custom Index	1.23%	
Police Private Equity*	9.86%	\$10.00
Civilian Private Equity*	9.86%	\$1.24
Private Equity Custom Index*	10.88%	
Police Total Fund		\$1,051.03
Civilian Total Fund		\$177.01
*Lagged results from March 31, 2021		

<b>Police Fund Manager Performance (net)</b>	<b>2<sup>nd</sup> Q 2021</b>	<b>YTD 6/30/21</b>	<b>Benchmark YTD 6/30/21</b>
LSV (global large cap value)	4.27%	18.72%	13.05%
Artisan (global large cap growth)	8.77%	7.08%	13.05%
Northern Trust ACWI (global)	7.14%	12.51%	12.68%
Wellington (global small cap)	5.22%	16.26%	15.43%
GQG (emerging markets)	5.38%	4.11%	7.45%
FCI Advisors (fixed income)	2.61%	-2.12%	-1.96%
PIMCO (fixed income)	2.01%	1.84%	-1.61%
White Oak (direct lending)*	2.76%	2.76%	1.25%
Morgan Stanley (real estate)	2.78%	4.74%	5.64%
Prudential (real estate)	4.82%	6.69%	5.64%
Grosvenor (hedge fund)	3.08%	1.60%	4.69%
Abbott Capital (private equity)*	9.92%	9.92%	11.41%
JP Morgan (private equity)*	16.98%	16.98%	11.41%
*Lagged results from 3/31/2021			

<b>Civilian Employees' Fund Manager Performance (net)</b>	<b>2<sup>nd</sup> Q 2021</b>	<b>YTD 6/30/21</b>	<b>Benchmark YTD 6/30/21</b>
LSV (global large cap value)	4.69%	19.34%	13.05%
Artisan (global large cap growth)	8.89%	6.94%	13.05%
Northern Trust ACWI (global)	7.21%	12.63%	12.68%
Wellington (global small cap)	5.22%	16.26%	15.43%
GQG (emerging markets)	5.38%	4.11%	7.45%
FCI Advisors (fixed income)	2.60%	-2.12%	-1.96%

PIMCO (fixed income)	2.01%	1.84%	-1.61%
White Oak (direct lending)*	2.76%	2.76%	1.25%
Morgan Stanley (real estate)	2.78%	4.74%	5.64%
Prudential (real estate)	4.82%	6.69%	5.64%
Grosvenor (hedge fund)	3.08%	1.60%	4.69%
Abbott Capital (private equity)*	9.99%	9.99%	11.41%
JP Morgan (private equity)*	16.98%	16.98%	11.41%
*Lagged results from 3/31/2021			

Difference in manager performance vs. benchmark	Police 2 <sup>nd</sup> Q 2021	Police YTD 6/30/21	Civilian 2 <sup>nd</sup> Q 2021	Civilian YTD 6/30/21
LSV (global large cap value)	-3.47%	5.67%	-3.05%	6.29%
Artisan (global large cap growth)	1.03%	-5.97%	1.15%	-6.11%
Northern Trust ACWI (global)	-0.04%	-0.17%	0.03%	-0.05%
Wellington (global small cap)	-0.46%	0.83%	-0.46%	0.83%
GQG (emerging markets)	0.33%	-3.34%	0.33%	-3.34%
FCI Advisors (fixed income)	0.19%	-0.16%	0.18%	-0.16%
PIMCO (fixed income)	0.18%	3.45%	0.18%	3.45%
White Oak (direct lending)*	1.51%	1.51%	1.51%	1.51%
Morgan Stanley (real estate)	-0.90%	-0.90%	-0.90%	-0.90%
Prudential (real estate)	1.14%	1.05%	1.14%	1.05%
Grosvenor (hedge fund)	1.18%	-3.09%	1.18%	-3.09%
Abbott Capital (private equity)*	-1.49%	-1.49%	-1.42%	-1.42%
JP Morgan (private equity)*	5.57%	5.57%	5.57%	5.57%
*Lagged results from 3/31/2021				

Mr. Sullivan reviewed capital markets performance and trends from Q2 2021. 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 low ranking against peer plans should not be unexpected based on the asset allocation of the portfolio. Risk adjusted performance, as measured by the Sharpe Ratio, showed both the Police plan and Civilian Employees' plan as top decile performers. Both plans met the Total Fund Investment Policy Guidelines for the five year period ending in June 2021. The global equity composite did not meet the objective of performing at the fortieth (40<sup>th</sup>) percentile or better. Each of the asset classes met the return objective of exceeding the benchmark, net of fees, with the exception of absolute return and private equity. For the quarter, net of fees, the Police plan gained 4.05% while the target benchmark gained 3.90%. 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 11%, for the one year period in the bottom 8%, and for the five year period in the bottom 16%. For the quarter, net of fees, the Civilian Employees' plan gained 4.08% while the target benchmark gained 3.90%. 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 11%, for the one year period in the bottom 10% and for the five year period in the bottom 21%. Both portfolios are within the target

allocation limits for all asset classes with the exception of Private Equity. The Police plan started the quarter with a market value of \$1.0 billion, net cash flows were \$-9.0 million and investment gains were \$41.2 million. The ending market value was \$1.05 billion. The Civilian Employees' plan started the quarter with a market value of \$171.1 million, net cash flows were \$-1.0 million and investment gains were \$7.0 million. The ending market value was \$177.0 million.

Ms. Beard reviewed the attribution of gains or losses. For the quarter, compared to performance against the benchmark, asset allocation added 3.90% in both plans. Tactical asset allocation, style selection and manager skill combined added 0.15% in the Police plan and 0.18% in the Civilian Employees' plan. For the one year period, asset allocation added 16.1% in both plans. Tactical asset allocation, style selection, and manager skill combined added 3.5% in both plans.

#### SECRETARYS UPDATE

**Actuarial Valuation and Audit Update** – Ms. Colclasure said staff was reviewing the first draft of the Civilian Employees' plan valuation and will respond with comments to Cavanaugh Macdonald next week. The first draft of the Police plan valuation should also arrive next week.

Mr. Pyle said staff is awaiting the first drafts of the Police plan and Civilian Employees' plan audits but regular updates with auditors from AGH indicate they are on track to provide draft audits in the next few weeks. We are not expecting any audit adjustments to the April financial statements.

**Pre-Retirement Seminars** – Mr. Pyle said staff from Retirement, Benefits, Personnel Records, and Nationwide held four Pre-Retirement Seminars for law enforcement and civilian members who were eligible to retire. A total of 68 Police plan and 21 Civilian Employees' plan members attended the seminars.

Retirement System Medical Board – Mr. Pyle said Dr. Chris Fevurly is retiring from medical practice in September. Staff is working to find a new physician to serve on the Medical Board to complete medical evaluations for disability retirements due to a physical injury or illness.

#### BOARD MEMBER COMMENTS

There were no additional Board member comments.

#### PUBLIC COMMENTS

A time was set aside for public comments.

#### OMNIBUS MOTION

Ms. Lewis made the following motion, seconded by Mr. Pickens. Motion passed unanimously.

RESOLVED, that the Retirement Board hereby unanimously approves:  
The minutes of the previous meeting of June 10, 2021;  
The monthly financial statements for May and June 2021;

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.

CLOSED SESSION

Mr. Smith made the motion to close this part of the meeting pursuant to Section 610.021(13) RSMo, for purposes of discussing staff performance appraisal. The motion was seconded by Mr. Pickens.

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

Mr. Bixby	Yes	Mr. Pickens	Yes
Mr. Hummel	Yes	Mr. Smith	Yes
Mr. Jones	Yes	Mr. Stewart	Yes
Ms. Lewis	Yes		

ADJOURNMENT

The next regularly scheduled board meeting will be September 9 at 9:00am in the South Patrol Division Multipurpose Building Conference Room.

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BOARD SECRETARY

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CHAIRMAN