

Police Retirement System of Kansas City, Missouri, and Civilian Employees' Retirement System of the  
Police Department of Kansas City, Missouri

Investment Committee Meeting

February 8, 2024

Mr. Stewart called the meeting to order.

Present:

Wayne Stewart, Member	Rob Woodard, Mariner
Bob Jones, Member	Jason Hoy, Staff
Nathan Simecek, Member	Marcia Beard, RVK
Scott Hummel, Member	Ryan Sullivan, RVK
John Mueller, Member	

**December Investment Performance Analysis - RVK**

Ms. Beard and Mr. Sullivan from RVK have reported that In December, global equity markets sustained their recovery, with most US and international indices showing gains ranging from mid-single digits to low-double digits. Small-cap stocks notably outperformed large-cap stocks in the US market. Bond markets also rallied, registering a 3.83% return according to the Bloomberg US Aggregate Bond Index. Both stocks and bonds benefited from easing inflationary pressures, declining yields, and positive economic indicators, such as a robust labor market. The Federal Reserve maintained interest rates unchanged for the third consecutive meeting, with expectations of rate cuts in 2024, while inflation moderated to 3.10% year-over-year in November. In specific market performances, the S&P 500 and MSCI EAFE indices returned 4.54% and 5.31%, respectively, with emerging markets returning 3.91%. Bonds performed well, too, with the Bloomberg US Aggregate Bond Index outperforming the Bloomberg US Treasury Intermediate Term Index. Other asset classes, such as public real estate, private equity, and absolute return strategies, also posted positive returns. Conversely, crude oil prices experienced a decline of 5.67% during the month, contributing to a year-over-year decrease of 10.73%.

The Police plan reported a net gain of 3.00% after fees, achieving an ending market value of \$984.0 million, while the Civilian Employees' plan also saw a net gain of 3.05% after fees, reaching an ending market value of \$173.1 million. Despite a target benchmark gain of 2.60%, both plans surpassed expectations. For the one-year period ending in December, the Police plan boasted a 9.11% gain, and the Civilian Employees' plan achieved an 8.96% net of fees. Although slightly below the target benchmark's one-year gain of 9.26%, both plans demonstrated robust performance, notably outperforming their fiscal year-to-date targets. The Police plan exceeded its 6.95% target by 2.16%, while the Civilian Employees' plan outperformed by 2.01%.

## **2024 Investment Committee Planning**

The committee discussed the planning process for the upcoming year, focusing on conducting an asset-liability study and peer analysis and addressing risk tolerance and trustee education. The committee emphasized the importance of conducting a thorough asset-liability study to manage risk, optimize returns, identify gaps or mismatches between assets and liabilities, and refine the investment strategy accordingly. Educational initiatives will enhance committee members' understanding of investment strategies, risks, and opportunities, fostering informed decision-making. These initiatives aim to inform the development of an effective investment strategy for the upcoming year, enabling the committee to navigate the investment landscape with agility, foresight, and alignment.

### **Peer Review**

Mr. Sullivan reviewed the Peer Review study, analyzing the asset allocations and performance of top-performing peers and peers with similar equity beta to KCPERS to understand better how returns were generated. He stated that the top-performing plans over the last ten years did not generate their returns through extraordinary public market returns. Instead, their returns were driven by asset allocation. These plans allocated less to public fixed income and more to private equity than KCPERS, which explains their performance differential.

Peers with similar levels of equity beta to KCPERS performed in line with the overall peer group, with a median return of 8.1% over the ten years. These peers had similar levels of public equity but less public fixed income compared to KCPERS. They also had a higher allocation to private equity, which helped them generate returns with lower equity beta. The peers with similar equity beta and the overall peer group underperformed broad US equity markets over the last ten years.

Mr. Sullivan cited that the lack of a private equity allocation can largely explain the underperformance of KCPERS relative to peers. He emphasized that a decision to allocate to private equity should consider risk tolerance, liquidity needs, transparency concerns, and fees. Mr. Sullivan also noted that this analysis is backward-looking, and what worked in the past may not work as well in the future. Other investment opportunities, such as private credit, may be able to bridge the performance gap without utilizing private equity.

The following IC meeting will be on March 5, 2024, at 9:00 a.m. at the Retirement Systems Office, 9701 Marion Park Drive.