

## MINUTES

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

Thursday, November 12, 2020

Richard Smith called the meeting to order via conference call.

#### PRESENT:

Richard Smith, Member	Patrick Trysla, Member
Scott Hummel, Member	Jonathan Dilly, Attorney
Walter Bixby, Member	Sharon Blancett, Staff
Leslie Lewis, Member	Lisa Colclasure, Staff
Thomas Mills, Member	Jason Hoy, Staff
Chad Pickens, Member	James Pyle, Staff
DeJ'on Slaughter, Member	

#### SECRETARY REPORT:

##### INTRODUCTION OF DeJ'on Slaughter

Mr. Smith introduced DeJ'on Slaughter as a new member of the Retirement Board. Mr. Slaughter was appointed by the City Council for a two year term on the board, replacing Bailus Tate. Mr. Slaughter is the Business and Community Advocate at Turner Construction Company.

##### OMNIBUS MOTION

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

RESOLVED, that the Retirement Board hereby unanimously approves:  
The minutes of the previous meeting of September 10, 2020;  
The monthly financial statements for August and September 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.

##### 3<sup>rd</sup> QUARTER 2020 INVESTMENT PERFORMANCE ANALYSIS

Marcia Beard and Ryan Sullivan, from RVK, presented the September 30, 2020 Investment Performance Analysis for the Police Retirement System and Civilian Employees' Retirement System.

	3 <sup>rd</sup> Q 2020	1 Year ending 9/30/2020	3 Years ending 9/30/2020	5 Years ending 9/30/2020
<b>Police Total Fund (net)</b>	4.61%	7.72%	5.78%	7.47%
Relative Objective	3.47%	7.42%	6.28%	7.18%
Police Over/(Under) Relative Objective	1.14%	0.30%	-0.50%	0.29%
<b>Civilian Employees' Total Fund (net)</b>	4.76%	8.09%	5.89%	7.49%
Relative Objective	3.47%	7.42%	6.28%	7.18%
Civilian Employees' Over/(Under) Relative Objective	1.29%	0.67%	-0.39%	0.31%

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.

<b>Asset Class Performance (net)</b>	<b>3rd Q 2020</b>	<b>Market Value (M)</b>
Police Global Equity	8.86%	\$369.81
Civilian Global Equity	9.09%	\$63.41
MSCI ACW IM Index	8.11%	
Police Fixed Income	1.70%	\$292.08
Civilian Fixed Income	1.70%	\$51.20
Bloomberg US Aggregate Bond Index	0.62%	
Police Direct Lending	N/A	\$49.95
Civilian Direct Lending	N/A	\$7.58
Direct Lending Custom Index	N/A	
Police Real Estate	0.59%	\$117.19
Civilian Real Estate	0.61%	\$17.83
NCREIF ODCE Index	0.27%	
Police Absolute Return	5.93%	\$100.19
Civilian Absolute Return	5.93%	\$15.39
Absolute Return Custom Index	1.27%	
Police Private Equity	0.38%	\$10.01
Civilian Private Equity	0.38%	\$1.24
Private Equity Custom Index	10.34%	
Police Total Fund		\$942.00
Civilian Total Fund		\$157.81

<b>Police Fund Manager Performance (net)</b>	<b>3<sup>rd</sup> Q 2020</b>	<b>YTD 9/30/20</b>	<b>Benchmark YTD 9/30/20</b>
LSV (global large cap value)	5.10%	-13.95%	1.70%
Artisan (global large cap growth)	14.25%	27.19%	1.70%
Wellington – 2000 (U.S. small cap)	7.70%	-4.80%	-8.69%
Northern Trust ACWI (global)	8.15%	0.82%	0.48%
Wellington – Research (international small cap)	9.10%	-2.70%	-4.05%
LSV (emerging markets value)	2.60%	-18.34%	-1.16%
LSV (small cap emerging market value)	7.77%	-10.76%	-2.40%
FCI Advisors (fixed income)	1.12%	9.81%	8.04%
PIMCO (fixed income)	3.01%	1.27%	6.79%
White Oak (direct lending)	N/A	-2.21%	3.08%
Morgan Stanley (real estate)	1.06%	-0.21%	-0.75%
Prudential (real estate)	0.14%	-1.55%	-0.75%
Grosvenor (hedge fund)	5.93%	6.39%	2.81%
Abbott Capital (private equity)	13.89%	-0.71%	-6.68%
JP Morgan (private equity)	-9.04%	-6.18%	-6.68%

<b>Civilian Employees' Fund Manager Performance (net)</b>	<b>3<sup>rd</sup> Q 2020</b>	<b>YTD 9/30/20</b>	<b>Benchmark YTD 9/30/20</b>
LSV (global large cap value)	5.77%	-13.17%	1.70%
Artisan (global large cap growth)	14.17%	27.02%	1.70%
Wellington – 2000 (U.S. small cap)	7.70%	-4.80%	-8.69%
Northern Trust ACWI (global)	8.15%	0.85%	0.48%
Wellington – Research (international small cap)	9.10%	-2.70%	-4.05%
LSV (emerging markets value)	2.60%	-18.34%	-1.16%
LSV (small cap emerging market value)	7.77%	-10.76%	-2.40%
FCI Advisors (fixed income)	1.07%	9.66%	8.04%
PIMCO (fixed income)	3.01%	1.28%	6.79%
White Oak (direct lending)	N/A	-2.21%	3.08%
Morgan Stanley (real estate)	1.06%	-0.21%	-0.75%
Prudential (real estate)	0.14%	-1.55%	-0.75%
Grosvenor (hedge fund)	5.93%	6.39%	2.81%
Abbott Capital (private equity)	13.91%	-0.66%	-6.68%
JP Morgan (private equity)	-9.04%	-6.18%	-6.68%

Difference in manager performance vs. benchmark	Police 3 <sup>rd</sup> Q 2020	Police YTD 9/30/20	Civilian 3 <sup>rd</sup> Q 2020	Civilian YTD 9/30/20
LSV (global large cap value)	-2.83%	-15.65%	-2.16%	-14.87%
Artisan (global large cap growth)	6.32%	25.49%	6.24%	25.32%
Wellington – 2000 (U.S. small cap)	2.77%	3.89%	2.77%	3.89%
Northern Trust ACWI (global)	0.04%	0.34%	0.04%	0.37%
Wellington – Research (international small cap)	-1.02%	1.35%	-1.02%	1.35%
LSV (emerging markets value)	-6.96%	-17.18%	-6.96%	-17.18%
LSV (small cap emerging market value)	-4.08%	-8.36%	-4.08%	-8.36%
FCI Advisors (fixed income)	0.34%	1.77%	0.29%	1.62%
PIMCO (fixed income)	2.39%	-5.52%	2.39%	-5.51%
White Oak (direct lending)	N/A	-5.29%	N/A	-5.29%
Morgan Stanley (real estate)	0.79%	0.54%	0.79%	0.54%
Prudential (real estate)	-0.13%	-0.80%	-0.13%	-0.80%
Grosvenor (hedge fund)	2.26%	3.58%	2.26%	3.58%
Abbott Capital (private equity)	23.96%	5.97%	23.98%	6.02%
JP Morgan (private equity)	1.03%	0.50%	1.03%	0.50%

Ms. Beard said the portfolio returns for the quarter were positive and exceeded the target allocation index on both a gross and net of fees basis. For the quarter (net of fees) the Police plan gained 4.61% while the target benchmark gained 3.47%. Compared to a population of other retirement plans with assets below \$1 billion, for the quarter and one year period, the Police plan investment performance was in the top 44%, and for the five year period in the bottom 49%. Ms. Beard said the peer group includes both corporate and public plans. For the quarter (net of fees) the Civilian Employees' plan gained 4.76% while the target benchmark gained 3.47%. Compared to a population of other retirement plans with assets below \$250 million, for the quarter the Civilian Employees' plan investment performance was in the top 39%, for the one year period in the top 37% and for the five year period in the top 45%. Both portfolios are within the target allocation limits for all asset classes with the exception of Private Equity. Both plans still hold expiring Private Equity investments but the PE asset class is not included in the new asset allocation. The Police plan started the quarter with a market value of \$894.9 million, net cash flows were \$5.7 million and investment gains were \$41.3 million. The ending market value was \$942 million. The Civilian Employees' plan started the quarter with a market value of \$149.7 million, net cash flows were \$0.99 million and investment gains were \$7.1 million. The ending market value was \$157.8 million.

Ms. Beard reviewed the attribution of gains or losses. For the quarter, compared to performance against the benchmark, asset allocation added 3.5% in both plans. Tactical asset allocation, style selection, and manager skill combined added an additional 1.2% in the Police plan and an additional 1.3% in the Civilian Employees' plan. For the one year period, asset allocation added 7.4% in both plans. Tactical asset allocation, style selection, and manager skill combined added 0.3% in the Police plan and 0.7% in the Civilian Employees' plan.

## BOARD POLICY #028 – COST OF LIVING ADJUSTMENT (COLA)

Mr. Pyle said the COLA Committee was recommending adoption of the attached draft policy to formalize the process used earlier this year to determine the amount of the annual COLA. The committee wrote the policy to give the Board tools and direction when considering an annual COLA. The 75% funded ratio remains as one of the criteria to consider as well as directing the Board to consider the impact of each system's liabilities and consulting a COLA matrix, developed by the Retirement System's actuary. Mr. Pyle said both Pat Beckham, from Cavanaugh Macdonald, and Mr. Dilly had reviewed the draft policy. By adopting a new COLA policy the Board would also want to rescind Board Policy #018 - Definition of Actuarially Sound.

Mr. Pickens made the motion to adopt Board Policy #028 – Cost of Living Adjustments and rescind Board Policy #018 - Definition of Actuarially Sound. Mr. Bixby seconded the motion which passed unanimously.

## SECRETARYS UPDATE

**Investment Manager Updates** – Mr. Pyle said the transition from LSV's Emerging Markets fund to GQG Partners Emerging Markets Equity fund was completed during late October and early November. The transition from LSV's Emerging Markets Small Cap fund and Wellington's US Small Cap 2000 and International Small Cap Research funds to Wellington's Global Perspectives fund took place at the end of October and went equally as smoothly.

**Retirement System Update** – Mr. Pyle said staff has processed about 12 more retirements this year to date than at this point last year. There are at least 11 additional members planning to retire in December and that number will likely increase but it will probably not reach the 32 retirements processed last December. Appointments, year to date, are down 15 from last year in the Police plan. Separations/terminations and member deaths are about the same as this point last year between the two plans.

## BOARD MEMBER COMMENTS

Mr. Smith provided an update on KCPD budget discussions with the City and City Council and the potential impact on staffing at the Department.

## PUBLIC COMMENTS

A time was set aside for public comments.

## ADJOURNMENT

The next regularly scheduled board meeting will be December 10 at 9:00am via conference call.

## **KCPERS Policy**

### **Policy #028 – Cost of Living Adjustment**

**Adopted: November 12, 2020**

For purposes of implementing the provisions of section 86.1220 RSMo. for the Police Retirement System and section 86.1590 RSMo. for the Civilian Employees' Retirement System, the Retirement Board adopts the following cost of living adjustment (COLA) policy.

1) The Retirement System shall be considered actuarially sound for purposes described in the statutes, provided: The plan's funded ratio (actuarial value of assets/actuarial accrued liability), is at least 75% and such ratio will not fall below that level as the result of any specific COLA amount granted, as determined by the most recent actuarial valuation.

In an effort to maintain the actuarial soundness of the Retirement Systems, provide inflation protection for retired members, manage the Systems' liabilities, and control contribution amounts, the Retirement Board should consider the following items when making a determination on the Systems' ability to grant an ad hoc cost of living adjustment.

1) The actuarial impact on each system's liabilities, if specific COLA amounts are granted.

2) The Retirement Board should consult the current COLA matrix, prepared by the Retirement Systems' actuary, when determining the amount of the COLA that can be supported given the return on the actuarial value of assets and the current funded ratio reported in the most recent actuarial valuation.