

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

Investment Committee Meeting

April 9, 2020

Mr. Pickens called the meeting to order via conference call.

Present:

Chad Pickens, Member	Ryan Sullivan, RVK
Scott Hummel, Member	Marcia Beard, RVK
Robert Jones, Member	Robert Woodard, Mariner
Tom Mills, Member	Jason Hoy, Staff
Brian Bartch, Member	Jim Pyle, Staff
John Mueller, Member	

February 2020 Investment Portfolio Analysis

Ms. Beard reviewed the February 2020 Investment Performance Analysis. The Police plan lost 2.52% for the month and 2.53% net of fees and had an ending market value of \$898.0 million. The Civilian Employees' plan lost 2.55% for the month and 2.57% net of fees and had an ending market value of \$149.2 million. The target benchmark for both plans lost 2.40%. For the one year period ending in February, the Police plan gained 6.24% net of fees and the Civilian Employees' plan gained 6.33% net of fees. The target benchmark for the same time period gained 6.9%.

Grosvenor Line of Credit

Mr. Pyle said Grosvenor has accessed the \$11m self-funded line of credit authorized last fall by the Retirement Board. With the current market conditions, Grosvenor has been contacted by several high quality hedge funds that have previously been closed for new investments. Grosvenor has committed to those funds on behalf of the Retirement Systems. Investments took place over a 10 day period ending on April 9. This is not an increase in the allocation to Grosvenor and as they unwind existing hedge fund investment the \$11m will be returned to the Retirement Systems.

Direct Lending and Real Estate Update

Mr. Sullivan has been in contact with White Oak regarding the workout process for defaulted loans in the Fixed Income fund. He said it is not unusual for White Oak to experience defaults in the portfolio. White Oak has a very strict definition of a default and historically, they have a very good track record of working out defaulted loans. Mr. Sullivan said White Oak uses a third party, on a quarterly basis, to update the valuation of each loan. He said over the short term, with these market conditions, RVK expects White Oak to identify additional loans that fall into their criteria for default.

Ms. Beard said RVK's Real Estate team has been monitoring the current markets impact on core real estate funds. RVK expects Q1 returns to be flat to slightly negative and transaction volume to decrease. Many of the real estate transactions completed in Q1 were negotiated in 2019. The full impact of decreased transactions will not be felt until Q2 and beyond.

Fixed Income Credit Quality

Mr. Woodard and Mr. Pyle said they talked with Peter Greig, at FCI, about the potential downgrading of some of the BBB rated bonds held by FCI. The Retirement System's Investment Policy Statement addresses the purchase of BBB rated bonds but does not address how FCI should manage those bonds in the event of a downgrade. Mr. Greig said they would prefer to manage the portfolio through the downgrades rather than have to immediately sell the downgraded bonds. Mr. Woodard, Mr. Sullivan, and Ms. Beard all said that is the process they would recommend for the Retirement Systems and all their clients.

Dislocated Debt

Ms. Beard said RVK is monitoring investment opportunities related to dislocated debt. Fund managers are rapidly bringing products to market to take advantage of dislocated bonds as a result of COVID 19's impact on corporate and agency bonds. While the Retirement Systems do not have an allocation to distressed or dislocated debt, RVK wanted to make sure the IC knew about potential opportunities. Ms. Beard said RVK could prepare education materials for the IC but that a decision about funding an allocation would need to take place prior to the next Retirement Board meeting.

(Following to the meeting, Mr. Pyle, Ms. Beard, Mr. Sullivan, and Mr. Woodard had several conversations about the asset allocation process and how an immediate decision to invest in dislocated bonds would disrupt that process; how difficult it would be to make an investment at an amount that would have a meaningful impact on portfolio returns; and how recent actions by the Federal Reserve will likely impact the return potential of dislocated bond funds. As a result, the IC will not be requesting additional education on dislocated debt.)

The next IC meeting will follow the May 14 Retirement Board meeting.