

MINUTES

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

Thursday, May 14, 2020

Richard Smith called the meeting to order via conference call.

PRESENT:

Richard Smith, Member
Scott Hummel, Member
Bailus Tate, Member
Walter Bixby, Member
Robert Jones, Member
Leslie Lewis, Member
Thomas Mills, Member

Chad Pickens, Member
Patrick Trysla, Member
Jonathan Dilly, Attorney
Sharon Blancett, Staff
Lisa Colclasure, Staff
Jason Hoy, Staff
James Pyle, Staff

SECRETARY REPORT:

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 April 9, 2020;
The monthly financial statements for March 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.

RETIREMENT BOARD ELECTION UPDATE

Mr. Pickens said Mr. Smith was the only member to file for the open seat on the Retirement Board. According to the Retirement Board Election Policy when only one qualified candidate files for a position to be filled, no balloting for such position shall take place and the filed candidate shall be declared elected by the Retirement Board. Mr. Pickens made the motion to certify the election results. The motion was seconded by Ms. Lewis and passed unanimously with the exception of Mr. Smith who abstained from voting. Mr. Smith was re-elected to a three year term ending in June 2023.

RVK PUBLIC FUNDS SURVEY

Mr. Sullivan reviewed the results of the December 31, 2019 RVK Public Funds Survey. Seventy-five plans participated in the survey. Nine of the plans, including the Civilian Employees' plan, have assets less than \$500 million and six of the plans, including the Police plan, have assets between \$500 million and \$1 billion. The Police and Civilian Plans, compared to the other survey participants of similar size, were underweight stocks and overweight bonds, real estate, and other alternatives. Both plans underperformed against a 60% Russell 3000/40% Barclays US Aggregate Bond Index and the universe median for the one year, five year, and ten year periods. The two plans have generally lower portfolio risk and lower expenses than the total survey population.

Police plan – As of December 2019, 85% of the Police plan was actively managed, above the peer group average of 73%. Compared to funds of similar size, the Police plan had a lower total allocation to stocks (37% versus 56%), a greater allocation to bonds (29% versus 27%), and a greater allocation to alternative asset classes (34% versus 22%).

On a one year basis the Police plan returned 15.2% compared to 17.5% for the median. Over this period global stocks, bonds, and real estate returns met or exceeded the median and international stocks trailed the median. On a five year basis the plan returned 7.0%, compared to 7.6% for the median. On a ten year basis the plan returned 7.6%, compared to 8.8% for the median. The ten year Sharpe ratio was 1.11, above the median of 1.07.

Civilian Employees' plan – As of December 2019, 85% of the Civilian Employees' plan was actively managed, above the peer group average of 72%. Compared to funds of similar size, the Civilian plan had a lower total allocation to stocks (38% versus 56%), a greater allocation to bonds (31% versus 27%), and a greater allocation to alternative asset classes (32% versus 16%).

On a one year basis the Civilian plan returned 15.4%, compared to 17.5% for the median. Over this period, global stocks, bonds, and real estate returns met or exceeded the median and international stocks trailed the median. On a five year basis the plan returned 6.9%, compared to 7.6% for the median. On a ten year basis the plan returned 7.3%, compared to 8.8% for the median. The ten year Sharpe ratio was 1.08, above the median of 1.07.

1st QUARTER 2020 INVESTMENT PERFORMANCE ANALYSIS

Marcia Beard from RVK presented the March 31, 2020 Investment Performance Analysis for the Police Retirement System and Civilian Employees' Retirement System.

	1st Q 2020	1 Year ending 3/31/2020	3 Years ending 3/31/2020
Police Total Fund (net)	-9.60%	-2.33%	3.41%
Relative Objective	-7.34%	0.11%	4.24%
Police Over/(Under) Relative Objective	-2.26%	-2.44%	-0.83%
Civilian Employees' Total Fund (net)	-9.74%	-2.39%	3.34%
Relative Objective	-7.34%	0.11%	4.24%

Civilian Employees' Over/(Under) Relative Objective	-2.40%	-2.50%	-0.90%
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The Relative Objective is made up of 37% MSCI All Country World IM Index, 30% Bloomberg US Aggregate Bond Index, 5% ICE BofA 3 Mo T-Bill Index + 5%, 11% NCREIF ODCE Index, 15% Absolute Return Custom Benchmark, and 2% Cambridge US Private Equity Index.

Asset Class Performance (net)	1 st Q 2020	Market Value (M)
Police Global Equity	-22.86%	\$263.17
Civilian Global Equity	-22.66%	\$44.71
MSCI ACW IM Index	-22.44%	
Police Fixed Income	0.03%	\$265.03
Civilian Fixed Income	-0.18%	\$46.12
Bloomberg US Aggregate Bond Index	3.15%	
Police Direct Lending	N/A	\$51.07
Civilian Direct Lending	N/A	\$7.75
Direct Lending Custom Index	N/A	
Police Real Estate	0.29%	\$119.99
Civilian Real Estate	0.31%	\$18.25
NCREIF ODCE Index	0.75%	
Police Absolute Return	-8.50%	\$118.73
Civilian Absolute Return	-8.70%	\$18.72
Absolute Return Custom Index	-10.47%	
Police Private Equity	-0.09%	\$10.52
Civilian Private Equity	-0.09%	\$1.30
Private Equity Custom Index	5.39%	
Police Total Fund		\$828.87
Civilian Total Fund		\$137.60

Police Fund Manager Performance (net)	1 st Q 2020	Benchmark YTD 3/31/20
LSV (global large cap value)	-29.17%	-21.05%
Artisan (global large cap growth)	-12.87%	-21.05%
Wellington – 2000 (U.S. small cap)	-31.68%	-30.61%
Northern Trust ACWI (global)	-22.27%	-22.44%
Wellington – Research (international small cap)	-27.26%	-28.39%
LSV (emerging markets value)	-28.92%	-23.60%
LSV (small cap emerging market value)	-31.36%	-31.37%
FCI Advisors (fixed income)	3.40%	3.37%
PIMCO (fixed income)	-7.66%	3.15%
White Oak (direct lending)	N/A	N/A

Morgan Stanley (real estate)	0.61%	0.75%
Prudential (real estate)	0.00%	0.75%
GMO (global tactical asset allocation)	-16.05%	-13.29%
Grosvenor (hedge fund)	-5.64%	-7.27%
Abbott Capital (private equity)	0.00%	1.31%
JP Morgan (private equity)	-3.57%	1.31%

Civilian Employees' Fund Manager Performance (net)	1st Q 2020	Benchmark YTD 3/31/20
LSV (global large cap value)	-29.42%	-21.05%
Artisan (global large cap growth)	-12.86%	-21.05%
Wellington – 2000 (U.S. small cap)	-31.68%	-30.61%
Northern Trust ACWI (global)	-22.27%	-22.44%
Wellington – Research (international small cap)	-27.26%	-28.39%
LSV (emerging markets value)	-28.92%	-23.60%
LSV (small cap emerging market value)	-31.36%	-31.37%
FCI Advisors (fixed income)	3.41%	3.37%
PIMCO (fixed income)	-7.66%	3.15%
White Oak (direct lending)	N/A	N/A
Morgan Stanley (real estate)	0.61%	0.75%
Prudential (real estate)	0.00%	0.75%
GMO (global tactical asset allocation)	-16.05%	-13.29%
Grosvenor (hedge fund)	-5.64%	-7.27%
Abbott Capital (private equity)	0.00%	5.39%
JP Morgan (private equity)	-0.37%	5.39%

Difference in manager performance vs. benchmark	Police 1st Q 2020	Civilian 1st Q 2020
LSV (global large cap value)	-8.12%	-8.37%
Artisan (global large cap growth)	8.18%	8.19%
Wellington – 2000 (U.S. small cap)	-1.07%	-1.07%
Northern Trust ACWI (global)	0.17%	0.17%
Wellington – Research (international small cap)	1.13%	1.13%
LSV (emerging markets value)	-5.32%	-5.32%
LSV (small cap emerging market value)	0.01%	0.01%
FCI Advisors (fixed income)	0.03%	0.04%
PIMCO (fixed income)	-10.81%	-10.81%
White Oak (direct lending)	N/A	N/A

Morgan Stanley (real estate)	-0.14%	-0.14%
Prudential (real estate)	-0.75%	-0.75%
GMO (global tactical asset allocation)	-2.76%	-2.76%
Grosvenor (hedge fund)	1.63%	1.63%
Abbott Capital (private equity)	-1.31%	-5.39%
JP Morgan (private equity)	-4.88%	-5.76%

Ms. Beard said the portfolio returns for the quarter were negative and lagged the target allocation index on both a gross and net of fees basis. For the quarter (net of fees) the Police plan lost 9.6% while the target benchmark lost 7.34%. Compared to a population of other retirement plans with assets below \$1 billion, for the quarter, the Police plan investment performance was in the top 40%, for the one year period in the top 42% and for the five year period in the top 25%. Ms. Beard said the peer group includes both corporate and public plans. If the results for the corporate plans were removed our peer group ranking would likely be in the top 10-15% for all three comparison periods. For the quarter (net of fees) the Civilian Employees' plan lost 9.74% while the target benchmark lost 7.34%. 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 41%, for the one year period in the top 43% and for the five year period in the top 30%. Both portfolios are within the target allocation limits for all asset classes with the exception of global equities in the Police plan which, at the end of the quarter, fell below the bottom of the target range by 0.25%. Mr. Pyle said global equity investment returns in April will bring the allocation back within the target range. The Police plan started the quarter with a market value of \$930.4 million, net cash flows were \$-12.7 million and investment losses were \$88.8 million. The ending market value was \$828.9 million. The Civilian Employees' plan started the quarter with a market value of \$153.9 million, net cash flows were \$-1.46 million and investment losses were \$14.9 million. The ending market value was \$137.6 million.

Ms. Beard reviewed the attribution of gains or losses. For the quarter, compared to performance against the benchmark, asset allocation detracted 7.34% in both plans. Tactical asset allocation, style selection, and manager skill combined detracted an additional 2.26% in the Police plan and an additional 2.4% in the Civilian Employees' plan. For the one year period, asset allocation added 0.11% in both plans. Tactical asset allocation, style selection, and manager skill combined detracted 2.44% in the Police plan and 2.5% in the Civilian Employees' plan.

INVESTMENT COMMITTEE REPORT

Mr. Pickens said the Investment Committee (IC) met following the April Retirement Board meeting with Ryan Sullivan and Marcia Beard from RVK and Rob Woodard from Mariner to review the following items.

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 had 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 Update

Mr. Sullivan has been in contact with White Oak regarding the write down 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 recovering assets on 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.

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 and RVK 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 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 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.)

SECRETARYS UPDATE

Litigation Update – Mr. Dilly said the Court found in favor of the defendants Police Retirement System of Kansas City and the Board of Police Commissioners of Kansas City in the suit filed by Daniel Parker. (Ret.) Officer Parker’s request to reverse or modify the retirement determination to a duty related disability retirement was denied by the Court.

Audit Update – Mr. Hoy said the auditors from AGH were scheduled to begin their field work the week of June 1. Due to COVID-19, AGH will not be coming to the Retirement Systems office and all the audit work will be done remotely. Documents, files, financial statements and schedules normally reviewed in the office will be uploaded to AGH through a secure server. Staff has been preparing for a remote audit since early March and so far the process seems to be working well.

COVID-19 Update – Mr. Pyle said all staff are back working in the office. The common areas of the office are being sanitized on a daily basis and staff are doing a good job of social distancing. The office remains closed to visitors so contact with members is done via phone, email, or video. If a member requests a face to face meeting we are using the table and benches outside the building.

BOARD MEMBER COMMENTS

There were no additional Board member comments.

PUBLIC COMMENTS

A time was set aside for public comments.

CLOSED SESSION

Mr. Pickens made the motion to close this part of the meeting pursuant to Sections 610.021(1) RSMo, for purposes of discussing litigation. The motion was seconded by Mr. Bixby.

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. Tate	Yes
Ms. Lewis	Yes	Mr. Trysla	Yes
Mr. Mills	Yes		

ADJOURNMENT

The next regularly scheduled board meeting will be June 11 at 9:00am via conference call.

BOARD SECRETARY

CHAIRMAN