

MINUTES

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

BOARD MEETING

Thursday, May 11, 2023

Chad Pickens called the meeting to order.

PRESENT:

Chad Pickens, Member
Scott Hummel, Member
Walter Bixby, Member
Robert Jones, Member
Leslie Lewis, Member
Wayne Stewart, Member
Patrick Trysla, Member

Jonathan Dilly, Attorney
Jennifer Best, Staff
Lisa Colclasure, Staff
Kasey Hiltgen, Staff
Jason Hoy, Staff
James Pyle, Staff

SECRETARY REPORT:

RETIREMENT BOARD ELECTION UPDATE AND BALLOT APPROVAL

Mr. Hummel said two candidates had filed for the open seat on the Retirement Board, which is currently held by (Ret.) Chief Richard Smith. The two candidates are Sergeant Chad Pickens and Captain Nate Simecek. Mr. Hummel reviewed the draft ballot that Survey and Ballot Systems will mail to all members on June 5th. Members will be able to vote via mail, phone, and website. The candidates' profiles will be printed on the back of the mailed ballots and available with the website ballots. Mr. Hummel made the motion to approve the 2023 Retirement Board Election Ballot. The motion was seconded by Mr. Stewart and passed unanimously.

INVESTMENT COMMITTEE UPDATE

Mr. Stewart reviewed the April 18th, 2023, trip to visit LSV and Grosvenor in their Chicago, Illinois, offices. Mr. Stewart and Mr. Hoy discussed the agenda and topics presented in the meetings, relaying the overall value of the trip.

1st QUARTER 2023 INVESTMENT PERFORMANCE ANALYSIS

Mr. Sullivan and Ms. Beard presented the December 31, 2023, Investment Performance Analysis for the Police Retirement System and Civilian Employees' Retirement System.

	1st Qtr	1 Year Ending	3 Years Ending	5 Years Ending
	2023	3/31/2023	3/31/2023	3/31/2023
Police Total Fund (net)	2.94%	-4.52%	7.95%	4.73%
Relative Objective	3.40%	-3.33%	7.09%	5.18%
Over/(Under) Relative Objective	-0.46%	-1.19%	0.86%	-0.45%
Civilian Employees' Total Fund (net)	2.92%	-4.42%	8.07%	4.78%
Relative Objective	-3.40%	-3.33%	7.09%	5.18%
Over/(Under) Relative Objective	-0.48%	-1.09%	0.98%	-0.40%

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.

<u>Asset Class Performance (net)</u>	<u>1st Qtr 2023</u>	<u>Market Value</u>
Police Global Equity	6.31%	\$ 340.31
Civilian Global Equity	6.31%	\$ 57.97
MSCI ACW IM Index	6.95%	
Police Fixed Income	2.96%	\$ 270.76
Civilian Fixed Income	2.87%	\$ 50.71
Bloomberg US Aggregate Bond Index	2.96%	
Police Direct Lending*	-2.72%	\$ 63.06
Civilian Direct Lending*	-2.72%	\$ 10.62
Direct Lending Custom Index*	2.08%	
Police Real Estate	-1.80%	\$ 154.86
Civilian Real Estate	-1.80%	\$ 26.09
NCREIF ODCE Index	-3.33%	
Police Absolute Return	1.82%	\$ 109.01
Civilian Absolute Return	1.82%	\$ 16.75
Absolute Return Custom Index	2.31%	
Police Private Equity*	-0.55%	\$ 5.22
Civilian Private Equity*	-0.56%	\$ 0.66
Private Equity Custom Index*	1.03%	
Police Total Fund		\$ 943.62
Civilian Total Fund		\$ 163.69

*Performance as of 12/31/2022

<u>Police Fund Manager Performance (net)</u>	<u>1st Qtr 2023</u>	<u>Benchmark YTD 3/31/2023</u>
LSV (global large cap value)	3.63%	7.73%
Artisan (global large cap growth)	9.15%	7.73%
Northern Trust ACWI (global)	6.87%	6.95%
Wellington (global small cap)	6.98%	4.24%
GQG (emerging markets)	3.44%	3.96%
FCI Advisors (fixed income)	3.15%	3.17%
PIMCO (fixed income)	2.56%	2.96%
White Oak (direct lending)*	-2.72%	2.08%
Morgan Stanley (real estate)	-1.24%	-3.33%
Prudential (real estate)	-2.36%	-3.33%
Grosvenor (hedge fund)	1.82%	2.31%
Abbott Capital (private equity)*	0.00%	1.03%
JP Morgan (private equity)*	-2.20%	1.03%

*Performance as of 12/31/2022

Civilian Employees' Fund Manager Performance (net)	1st Qtr 2023	Benchmark YTD 3/31/2023
LSV (global large cap value)	4.08%	7.73%
Artisan (global large cap growth)	9.05%	7.73%
Northern Trust ACWI (global)	6.98%	6.95%
Wellington (global small cap)	7.02%	4.24%
GQG (emerging markets)	3.44%	3.96%
FCI Advisors (fixed income)	3.06%	3.17%
PIMCO (fixed income)	2.56%	2.96%
White Oak (direct lending)*	-2.72%	2.08%
Morgan Stanley (real estate)	-1.24%	-3.33%
Prudential (real estate)	-2.36%	-3.33%
Grosvenor (hedge fund)	1.82%	2.31%
Abbott Capital (private equity)*	0.00%	1.03%
JP Morgan (private equity)*	-2.20%	1.03%
*Performance as of 12/31/2022		

Difference in manager performance vs. benchmark	Police 1st Qtr 2023	Civilian 1st Qtr 2023
LSV (global large cap value)	-4.10%	-3.65%
Artisan (global large cap growth)	1.42%	1.32%
Northern Trust ACWI (global)	-0.08%	0.03%
Wellington (global small cap)	2.74%	2.78%
GQG (emerging markets)	-0.52%	-0.52%
FCI Advisors (fixed income)	-0.02%	-0.11%
PIMCO (fixed income)	-0.40%	-0.40%
White Oak (direct lending)*	-4.80%	-4.80%
Morgan Stanley (real estate)	2.09%	2.09%
Prudential (real estate)	0.97%	0.97%
Grosvenor (hedge fund)	-0.49%	-0.49%
Abbott Capital (private equity)*	-1.03%	-1.03%
JP Morgan (private equity)*	-3.23%	-3.23%
*Performance as of 12/31/2022		

Mr. Sullivan reviewed capital markets performance and trends from Q1 2023. He said the portfolio returns for the quarter were positive but underperformed the target allocation index on a net-of-fees basis. Both the Police plan and Civilian Employees' plan met the Total Fund Investment Policy Guideline of outperforming the target allocation index for the five-year period ending in March 2023. Neither plan met the global equity composite objective of performing at the fortieth (40th) percentile or better.

For the quarter, net of fees, the Police plan gained 2.94%, while the target benchmark gained 3.40%. 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 13%, for the one-year period in the top 25%, and for the five years in the bottom 23%. For the quarter, net of fees, the

Civilian Employees’ plan gained 2.92%, while the target benchmark gained 3.40%. 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 top 21%, and for the five-year period in the bottom 26%.

The Police plan started the quarter with a market value of \$929 million, net cash flows were \$-12.7 million, and investment gains were \$27.4 million. The ending market value was \$943.6 million. The Civilian Employees’ plan started the quarter with a market value of \$160.3 million, net cash flows were \$-1.3 million, and investment gains were \$4.7 million. The ending market value was \$163.7 million.

The attribution of gains or losses for the quarter were as follows: compared to performance against the benchmark, asset allocation added 3.40% in both plans. Tactical asset allocation, style selection, and manager skill combined subtracted 0.46% from the Police plan and 0.47% from the Civilian Employees’ plan. For the one-year period, asset allocation subtracted 3.33% in both plans. Tactical asset allocation, style selection, and manager skill combined subtracted 1.20% from the Police plan and 1.09% from the Civilian Employees’ plan.

ACTUARIAL EXPERIENCE STUDY

Pat Beckham and Aaron Chochon from Cavanaugh Macdonald reviewed the set of economic assumptions and actuarial methods with the Board. Ms. Beckham said the investment return assumption is the most powerful one used in the experience study and actuarial valuation. Mr. Chochon and Ms. Beckham reviewed the current economic assumptions with the board and projections with the proposed change to the economic assumptions.

Ms. Beckham recommended the following changes to the current economic assumptions: lower the assumed investment rates of return, which are currently set at 7.2% for the Police plan and 7.05% for the Civilian Employees’ plan to 6.5% following a phase-in schedule over five years. Ms. Beckham also recommended increasing the assumption for administrative expenses from .6% to 1.0% of payroll for the Police Plan. Based on conversations in the April and May Board Meetings, the recommendation was for both Plans to follow the same phase-in plan.

Valuation Date	Investment Return Assumption
2023	6.95%
2024	6.85%
2025	6.75%
2026	6.65%
2027	6.50%

Mr. Pickens motioned to adopt the recommended changes to the economic assumptions presented by Cavanaugh Macdonald. Mr. Hummel seconded the motion, which passed unanimously.

SECRETARY UPDATE

Introduction of Kasey Hiltgen

Mr. Hoy introduced Kasey Hiltgen. Ms. Hiltgen comes to the Retirement Systems from SSC Auditors and Advisors. Ms. Hiltgen started on April 17, 2023, and fills the role of Pension Systems Accountant.

Deferred Compensation Committee Appointments

Mr. Pickens said now that both Mr. Pyle and (Ret.) Major Robin Houston have left the Deferred Compensation Committee. The Retirement Board must appoint two new members to the Deferred Compensation Committee. One member from the Retirement System staff and one retired member of either the Police Plan or Civilian Employees' Plan. Mr. Pickens said that Mr. Stewart has spoken with several candidates and that (Ret.) Lt. Col. Roger Lewis would accept the role of the retired member. Mr. Pyle recommended that Mr. Hoy fill the Retirement Systems staff member role. Mr. Pickens motioned to appoint Mr. Lewis and Mr. Hoy to the Deferred Compensation Committee. Mr. Jones seconded the motion, which passed unanimously.

MAPERS Conference Update

Mr. Hoy reviewed the July 12th – 14th conference dates and agenda for the Lake of the Ozarks conference.

James Pyle Retirement

Mr. Hoy said there will be a retirement party for Mr. Pyle on May 23rd at the Retirement Systems offices from 2 – 4 pm. Mr. Hoy thanked Mr. Pyle for 23 years of successful service, contributions, and mentoring throughout his time at the Retirement Systems. Mr. Hoy highlighted the significant increase in investable assets and benefit payments to plan members during Mr. Pyle's tenure and how his faithful stewardship will have a lasting impact for decades.

BOARD MEMBER COMMENTS

There were no additional board member comments.

PUBLIC COMMENTS

Time was made for public comments.

OMNIBUS MOTION

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

RESOLVED, that the Retirement Board hereby unanimously approves:

The minutes of the previous meeting of April 13, 2023;

The monthly financial statements for March 2023;

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.

ADJOURNMENT

The next regularly scheduled board meeting will be June 8 at 9:00 am at the Greater KC Public Safety Credit Union, 2800 E. 14th Street.

BOARD SECRETARY

CHAIRMAN