

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

Investment Committee Meeting

June 2, 2020

Mr. Pyle called the meeting to order.

Present:

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

Asset Allocation Review

Ryan Sullivan and Marcia Beard, from RVK, presented the asset allocation review to the Investment Committee with the following: Recommendations - 1) Reflect the long term goal of moving the Private Equity proceeds to Direct Lending. Private Equity is now less than 1% of the portfolio and should be removed from the asset allocation; 2) Reduce the Absolute Return allocation by 4%, from 15% to 11%; Increase the Real Estate Allocation by 2% to reflect the current actual allocation within the portfolio; Options – 1) Split the remaining 2% equally between Global Equity and Fixed Income; 2) Increase Direct Lending allocation by 2%, from 7% to 9% (RVK only supports this option with a second direct lending manager.)

Mr. Sullivan said neither option materially shifts the expected return or risk of the portfolio. The IC will recommend the following asset allocation to the Retirement Board:

Asset Class	Current Target Allocation	Proposed Target Allocation
Global Equity	37	38
Fixed Income	30	31
Direct Lending	5	7
Real Estate	11	13
Absolute Return	15	11
Private Equity	2	0
Total	100	100
Expected Return	5.8	5.8
Expected Risk	8.5	8.2

Absolute Return Allocation

Ms. Beard said RVK's recommendation to reduce the allocation to Absolute Return by 4% is made in conjunction with their recommendation to terminate GMO as a global tactical asset allocation manager. Earlier this year GMO made changes to the positioning of the Benchmark Free Allocation Fund by increasing the allocation to emerging markets and value equities. On May 15th GMO made additional changes to position the fund more defensively by reducing the equities and alternative strategies and increasing the long/short equity positions. After evaluating these changes, RVK believes that the Absolute Return portfolio is best managed solely by Grosvenor. The changes made by GMO shift to a direction that is already imbedded in the proposed asset allocation and asset class structure. The current allocation to FCI and the overall asset allocation already provide a defensive position for the portfolio.

Mr. Sullivan and Mr. Woodard addressed the difference between the expected return from the proposed asset allocation, 5.8%, and the assumed rate of return for actuarial purposes, 7.25%. The expected returns are based on much shorter time periods and reflect RVK's annual capital market assumptions. Those returns are also based on passive investments and do not include any premiums for active management. The assumed rate of return is based on much longer term projections that would include multiple market cycles that could play out over multiple decades.

The IC will recommend the Retirement Board terminate GMO and allocate those funds to the proposed target asset allocation.

The next IC meeting is scheduled for August 13 following the Retirement Board meeting.