

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

Investment Committee Meeting

December 5, 2023

Mr. Hoy called the meeting to order.

Present:

Wayne Stewart, Member	Rob Woodard, Mariner
Bob Jones, Member	Dan Scholz, NISA Investment Advisors
Nathan Simecek, Member	David Murad, NISA Investment Advisors
Scott Hummel, Member	Ann-Marie Gehring, NISA Investment Advisors
Jennifer Weimhold, Member	Jason Hoy, Staff
John Mueller, Member	Jenn Best, Staff
Chad Pickens, Board Member	Kasey Hiltgen, Staff
Marcia Beard, RVK	Pat Beckham, Cavanaugh MacDonald
Ryan Sullivan, RVK	Aaron Chochon, Cavanaugh MacDonald

October Investment Performance Analysis - RVK

Ms. Beard and Mr. Sullivan from RVK have reported that both US and international indices suffered losses ranging from low to mid-single digits in October: the Bond markets and the S&P 500 experienced declines for the third consecutive month. However, the S&P 500 has shown positive growth in the year, returning 10.69% year-to-date. The US economy has grown, with GDP increasing at an annualized rate of 4.90%.

The Police plan reported a net loss of -1.82% after fees, with an ending market value of \$906 million, while the Civilian Employees' plan also reported a net loss of -1.88% after fees, with an ending market value of \$158 million. The target benchmark for both plans saw a loss of -1.69%.

For the one year ending in October, the Police plan has gained 2.15%, and the Civilian Employees' plan has gained 2.05% net of fees. In comparison, the target benchmark for the same time period gained 3.30%. However, both plans fell short of their fiscal year-to-date targets, with the Police plan falling short of the 6.95% target by 4.67% and the Civilian Employees' plan falling short by 4.87%.

Findings on Funded Status Volatility and Sources of Risk – Mariner & NISA Investments

During the meeting, Mr. Woodard from Mariner provided insights about the asset and liability project initiated with NISA Investments, a third-party investment manager, earlier this year. The project was started due to the significant increase in interest rates and the gradual decrease in expected returns within the public funds sector and how we might invest differently in the future should interest rates remain high. Mr. Woodard stated the goal over the last six months was to understand how assets and liabilities could be better coordinated. The objective of this analysis was not to produce immediate solutions but rather to create an analytical lens through which future decisions could be viewed.

Mr. Scholz from NISA Investments talked about their expertise in risk management and provided an overview of the project's progress. The project aims to understand the factors contributing to funded status risk and explore ways to mitigate that risk. He mentioned that the presentation would cover the basics of pension risk management, the differences between pension risk and asset risk, the sources of economic risk, and potential strategies to improve pension risk management.

Mr. Scholz identified ways funded status and contribution volatility can be reduced and discussed how modifying expected returns and the discount rate can be used to value liabilities. He also discussed the importance of measuring and understanding the impact of changes to the Asset Allocation. Still, he pointed out that those changes have had relatively minor impacts on expected returns over the years. His conclusions were tuning the portfolio to have similar sensitivities to expected return as the liability can further improve funded status volatility. A lower funded status volatility would improve various plan performance metrics, including lower variability in required contribution rates, lower variation in surplus/deficit dollar amounts, and more consistent measurements of funding adequacy.

The following IC meeting will be on February 8, 2024, at 9:00 a.m. at the Public Safety Credit Union.