

**MINUTES OF MEETING
KENTUCKY PUBLIC PENSIONS AUTHORITY
MEETING VIA LIVE VIDEO TELECONFERENCE
SEPTEMBER 8, 2021 AT 10:00 AM**

At the meeting of the Board of the Kentucky Public Pensions Authority held on September 8, 2021 the following members were present: Keith Peercy, John Cheshire, Campbell Connell, Dr. Merl Hackbart, Prewitt Lane, William O'Mara, Betty Pendergrass, and Jerry Powell. Other Trustees present were Lynn Hampton, Larry Totten and George Cheatham. Staff members present were KRS CEO John Chilton, CERS CEO Ed Owens, Rebecca Adkins, Erin Surratt, Michael Board, Steven Herbert, Victoria Hale, Connie Davis, Kristen Coffey, Ann Case, Shaun Case, Phillip Cook, Glenna Frasher and Sherry Rankin.

Mr. Peercy called the meeting to order.

Mr. Board read the Legal Opening Statement.

Ms. Rankin called roll and advised that there was one *Public Comment* submitted.

The following was submitted by Jim Carroll, president of Kentucky Government Retirees: "On behalf of stakeholders, I commend the KPPA staff and board for the outstanding investment performance of the entire portfolio in the fiscal year ending June 30. We believe the unprecedented gains provide a window of opportunity. As the board is aware, it has been a decade since KPPA retirees last received a cost-of-living adjustment. Even in a low-inflation environment, retirees have lost about 14% of their purchasing power in the last 10 years. Kentucky Government Retirees intends to seek legislation that will earmark a small percentage of the record investment gains for the payment of a modest annual COLA that would terminate after several years. We note that past COLAs were fiscally unsounded and contributed to the system's liabilities. They were granted even during years of disastrous investment losses and even during years when employer contributions fell far short of the actuarially required amount. We believe our proposed temporary COLA is far more fiscally sound. In the interest of transparency, we are informing you of our intent as we look toward the 2022 session. Thank you"

Mr. Peercy introduced agenda item *Approval of Minutes – May 26, 2021*. Ms. Pendergrass had a couple of edits. On page 2 of the minutes, second paragraph, there is a reference of a "trust" and that should be edited to be plural and reflect "Trusts". And at the top of page 3 of the minutes, the

end of the third line, should read “now that the boards have split”. Ms. Pendergrass made a motion and Mr. Cheshire seconded to approve the minutes with those minor edits.

Mr. Peercy introduced agenda item *Approval of KPPA ByLaws*. Mr. Board indicated that the board possibly voted on ByLaws at one of the meetings held in the Spring; however, there were some edits and amendments that were requested and those have now been made and these are being brought back before the Board for approval. Mr. Board stated that the main section that was amended was Section 3 regarding litigation defense for Trustees and employees of KPPA, County Employees Retirement Systems and Kentucky Retirement Systems. For clarity purposes, Mr. Board feels it necessary for the Board to vote on these ByLaws again with the amended section included. Mr. Peercy stated that he felt like discussions were previously held regarding this Section to include “former” Trustees and employees. Ms. Pendergrass pointed out a spelling error also in Section 3, and agreed with Mr. Peercy regarding the addition of “former” Trustees and employees to this section. Mr. Cheshire recalled that discussions on this subject had occurred in the past. Mr. Powell indicated that this is essentially the stance the Board takes presently. Mr. Peercy stated that it has never been in writing and always left up to interpretation, so he feels it is necessary to add this language to the ByLaws. Mr. Board indicated that he will make that addition as well as, list both Trustees and Board members, since CERS and KRS have Trustees, but KPPA has Board Members. Mr. Peercy asked if the Board wishes for these edits to be made and brought back to the next meeting, or to take a vote to include these edits. Ms. Pendergrass stated she felt these were editorial and Mr. Cheshire agreed. Mr. Cheshire made a motion and Mr. Lane seconded to approve the KPPA ByLaws with the suggested edits. The motion carried unanimously.

Mr. Peercy introduced agenda item *Approval of KPPA Conflict of Interest Policy*. Ms. Bass stated that the Office of Legal Services is recommending that the KPPA Board review and adopt the KPPA Conflict of Interest Policy and KPPA Conflict of Interest Statement. While the Kentucky Retirement Systems Board of Trustees and the County Employees Retirement System Board of Trustees may adopt separate conflict of interest statements for their respective Boards, it is recommended that this Board also adopt a Conflict of Interest Policy. Ms. Pendergrass made a motion and Mr. O’Mara seconded to approve the KPPA Conflict of Interest Policy as presented. Ms. Pendergrass asked if these statements should be signed now and renewed in December, or just initially sign them in December. Ms. Bass responded that they expect to get these signed in December.

Mr. Peercy introduced agenda item *Discussion of CERS and KRS Investment Policies*. Mr. Herbert

began by indicating this discussion pertains to the administrative investment policies that sit at the bottom of both of the bigger policy statements of both the CERS and KRS Boards. There are currently nine of them, they are separate, and we wanted to address them. He stated that on July 14th, the CERS Investment Committee proposed that these separate administrative investment policies apply to the KPPA Board since KPPA staff is the administrative arm that carries those out on behalf of the plans. He indicated that the Committee suggested he review these policies and make any changes and bring those to this Board for a vote. He stated that the process is taking longer than anticipated, however, the initial drafts of these policies are now complete. He did indicate that one of the issues that was holding up the process was the evolving realization that without adjustments to the respective ByLaws of CERS and KRS, these policies will need to be approved and ratified by five committees and/or boards. Those being KPPA Board, CERS Board, KRS Board, CERS Investment Committee and KRS Investment Committee. He stated that in addition there are some protocol issues as how to enact this, so out of the abundance of caution, he is not asking for a vote at this time but is asking the Board for direction on whether to move forward and how to proceed. Ms. Pendergrass indicated that the Investment Committees make recommendations to the Boards and the Boards approve, so therefore you would have three possible signatures. Ms. Hale stated that on the Investment Committees, all of the policies are approved by the committees and the Boards ratify them. So, in the past all of the investment policies have been signed by the chairs of the Investment Committees as well as the chair of the respective Boards. Mr. Herbert stated that another complication is that one of these documents isn't an actual policy but rather a detailed process for Investment staff to take once a manager is hired. He indicated that this possibly should just be a process on the Investment Staff level and not as a policy. Mr. Herbert recommends that a small change in each of the Trust Boards ByLaws would accomplish this in the most efficient manner. Mr. O'Mara stated that he understands the problem that has been brought before the Board, however, he questions what changes to the ByLaws would be needed in Mr. Herbert's recommendation. Mr. Herbert answered that the change would be that each of the Trust Boards that have oversight of their respective beneficiaries, CERS and KRS, would in their ByLaws give that administrative function to the KPPA Board which currently does not have that oversight. Ms. Hale added that the current ByLaws for both CERS and KRS indicate that they can dictate the authority and that is what would be required. Because right now, in both Boards ByLaws they list specific things for the Investment Committee, and all the various committees, and they retain authority over the policies. Ms. Hale indicated that if they wish to delegate these policies to KPPA, they can do so, but the easiest way would be to put the delegation actually in the ByLaws. If that takes place, then it would only come before the

KPPA Board for a vote and signature. Mr. Hebert gave an example using the Brokerage Policy and indicated if the Investment Staff indicated a change was needed with a brokerage firm, and currently it would have to go before the CERS Investment Committee, KRS Investment Committee, the CERS Board and KRS Board before that change could be implemented. He is asking that the respective Boards delegate that policy authority to the KPPA Board in order to narrow down the processes contained in these policies. Ms. Pendergrass voiced her concern about whether or not we leave investment management to the purview of the CERS Board and the KRS Board, and not KPPA. She stated that the statutes in her mind are very clear that CERS manages its own investments. Therefore, if we change language in the ByLaws, she doesn't want to create a back door where KPPA takes over CERS investment management. Mr. Herbert indicated that KPPA still has to express an interest in having the authority and oversight of the administrative policies. Ms. Pendergrass offered a suggestion of having the administrative policies adopted by each of the Boards of Trustees, making sure that the language is exactly the same, so that staff that are actually doing the investments will not have to sort through the differences. Mr. Hebert stated that is also an option, but indicated that his preference would be to have these administrative policies managed by the KPPA Board. Mr. Connell stated that since KPPA doesn't have an Investment Committee, wouldn't there need to be involvement with an Investment Committee to review administrative policies concerning investment activity. Mr. Herbert indicated that he had voiced that concern, however, the current legal structure it is not required. Ms. Pendergrass stated that in looking at the ByLaws for CERS, under the committee responsibilities for Investment Committees, it states that the CERS Investment Committee shall have authority to implement the Investment Policies, adopted by the Board. It does not say create the policies or approve the policies, the Board is adopting the policies. Mr. Connell raised a question of whether it would be beneficial to have joint investment committee meetings regarding these types of issues. Mr. Cheshire stated that having to go through five entities in order to be functional is problematic. Mr. O'Mara asked Mr. Herbert for a brief description of what type of procedures you are referring to versus policy, as he believe the setting of the policy and implementing procedures may have differences. Mr. Herbert answered that they are Brokerage Policy, Investment Transaction Policy, Manager and Placement Agent Statement of Disclosure Policy, Proxy Voting Policy, Real Estate Policy, Securities Lending Policy, Securities Litigation Policy, Trading Policy, and Investment Procurement Policy with addendum. Mr. Herbert used the Brokerage Policy as an example, where the investment staff selects a broker and executes transactions. There is a process listed to get the brokerage approved and accept competitive bids. So approval would need to be sought and the various Boards would have to review and approve the bids before the investment staff could move

forward. Ms. Pendergrass suggested that this issue may need to be brought back before the respective Investment Committees for further review on how to proceed on this matter. She stated that we have some new Trustees who have not had the opportunity to review these policies, nor have they had time to dig into them to find out what these policies actually do. She suggests taking this matter back before the respective Investment Committees, to allow them make recommendations to their Boards, and then the Boards can send a recommendation to the KPPA Board. Dr. Hackbart questioned if it would be possible for a small special committee appointed with members of both CERS and KRS, along with Mr. Herbert, to work through this and then have those recommendations go to their respective Investment Committees. Mr. Percy asked if we would need anyone other than the respective Investment Committee chairs to work with Mr. Herbert on this Ad Hoc committee. Mr. Lane offered that certainly he and Dr. Hackbart could make themselves available to Mr. Herbert for follow-up on this matter. Mr. Powell indicated that he felt like the respective CEOs should also be involved in those meetings. Mr. Percy stated that Mr. Lane, Dr. Hackbart, Mr. Owens, and Mr. Chilton would work with Mr. Herbert to come up with some policies that we could bring to a vote before the Board.

Mr. Percy announced that the agenda item *Ratification of the Joint Audit Committee Charters*. Ms. Coffey began by stating that the Joint Audit Committee met on August 26, 2021, and are asking the Board to ratify the Charter for the Division of Internal Audit Administration. Due to some edits, the Charter for the Joint Audit Committee will need to be taken back before the Committee prior to being presented to the Board. Ms. Pendergrass made a motion and Mr. Cheshire seconded to ratify the Charter for the Division of Internal Audit Administration. The motion passed unanimously.

Mr. Percy introduced agenda item *Ratification of the Amendments to Regulations*. Ms. Bass outlined the purpose behind the Amendments to the Regulations concerning Disability procedures, Fred Capps Memorial Act and Purchase Service Credit that the Office of Legal Services is requesting that the KPPA Board ratify. She explained that these are all day-to-day administrative functions that were set to expire at the end of July. She noted that typically these are presented to the Board for approval to file the amendments with the Legislative Research Commission, however, due to time constraints and with the many Board and Committee meetings already in progress, the amendments were filed and the Office of Legal Services is now asking for ratification of the Board. Ms. Pendergrass made a motion and Mr. Powell seconded to table this matter to the next KPPA meeting. Due to the timing of the release of the material to the Trustees, there wasn't

sufficient time to properly review the material. A vote occurred, all voted yes, with the exception of Mr. Connell. The motion carried.

Mr. Peercy introduced agenda item *Administrative Expenses Methodology*. Ms. Adkins began by indicating that one of the responsibilities of the KPPA Board is to define how administrative expenses will be allocated to each of the plans. Per statute, it comes out of the Pension Plans, so that is the five plans consisting of CERS hazardous, CERS Non-hazardous, KERS hazardous, KERS hazardous, and SPRS. Ms. Adkins reviewed the current allocation calculation and how the expenses are allocated based on membership as of the last fiscal year ending June 30, 2020. Ms. Pendergrass asked if the Ad Hoc Committee which was formed assist with the analysis given here. She indicated that Mr. Lane and Mr. O'Mara were appointed to an Ad Hoc committee to look at how to determine direct and indirect expenses that need to be allocated to each system and to assist in developing a written policy going forward. Ms. Adkins apologized for her oversight and indicated that she would reach out to Mr. Lane and Mr. O'Mara for a meeting and asked that the two items, Allocation of Administrative Expenses and Allocation of Board Separation Expenses, be tabled to a later date.

Mr. Peercy introduced agenda item *Quarterly Financial Reports*. Ms. Rebecca Adkins noted the new format splitting the report to show all five plans. She indicated that these unaudited reports are for Fiscal Year ending June 30, 2021. She reviewed the Combining Statement of Fiduciary Net Position of the Pension Funds and Insurance Funds, Combining Statement of Changes of Fiduciary Net Position of the Pension and Insurance Funds, Administrative Expenses Fourth Quarter Budget to Actual Analysis for the Fiscal Year ending June 30, 2021, Contribution Reports for both the Pension Fund and Insurance Fund separated out by the three systems, Outstanding Invoices, and Penalty Waivers Report. Mr. O'Mara asked about the Fiscal Year 2022 Administrative Budget and when will that be presented to the KPPA Board. Ms. Adkins indicated that it was probably something that should have been presented today. She stated that traditionally it is not something we have done, but agrees that it is something that should be done. Ms. Adkins also stated that since we are proposing a new biennium proposed budget for 2023 and 2024, which also needs to be brought to the Board. Mr. O'Mara asked about the timeline, does the Board see it before it is submitted, or is it after the fact and reviewed as informational only, or is it reviewed and approved by the Board. Ms. Adkins indicated that it was her intent to bring it to the Board prior to the submission, but that might require a special called meeting. Ms. Pendergrass stated that the ByLaws indicate that the Board is going to approve it. Mr. O'Mara then asked about the deadline

for submission as he is unfamiliar with the process. Ms. Adkins answered that it is due the end of October. Mr. O'Mara then asked if work is currently being done on it. Ms. Adkins indicated that work has not yet begun as information is needed from Finance Cabinet that hasn't been received to date. Mr. Percy added that the majority of that is 18A salaries and fringe benefits and it's not something discretionary for KPPA. Ms. Adkins agreed and indicated that is about 81% of the budget. Mr. O'Mara responded that his focus is turned to the line item, Major Legislative Implementation to the tune of \$7.7 million. He noted that this figure is in this budget and last year's budget and nothing has been paid. Mr. O'Mara questioned if this was part of the allocation conversation that the subcommittee is supposed to have, or if it is independent. He stated that of a budget of \$48 million, a line item of \$7.7 million is worthy of discussion. Ms. Adkins indicated that the subcommittee will be discussing the whole \$48 million budget, including all of the line items. Ms. Adkins added that the \$7.7 million line item for Major Legislative Implementation was added back in 2016 to 2017, when then Governor Bevin was looking at making some huge changes in a relatively short amount of time to the pension systems and we were in the middle of a budget cycle. At that time it was determined that for the amount of work that was being suggested, an outside vendor would have to be brought in to implement those changes in that time frame, so that amount was added to the budget at that time. Ms. Adkins indicated that it has remained on the budget since then to have it in case we needed it and didn't want to have to go and asked for it again. In years past, we had it allocated across the divisions where those funds would be spent, such as salaries, IT, etc., but it was decided to pull it out and keep it separate in order to help monitor it more closely.

Mr. Keith Percy introduced agenda items-- *Legislative Updates and KPPA Updates*. Due to Mr. Eager's absence, Ms. Adkins reported on his behalf. She indicated that Representative Jerry Miller has agreed to sponsor our Housekeeping Bill again this year. Ms. Adkins indicated that COLAs is on the agenda for the Public Pension Oversight Board's October meeting and KPPA has been asked to join in those discussions at that meeting. Ms. Adkins reported that our staffing is looking better. We tend to hover around 250, but recently had dipped down into the 235 range. We are currently at 243, and by the middle of this month will be back to our average of around 250. There is a cap of 270 total employees. Ms. Adkins indicated that work is still being performed regarding the implementation of 484 and House Bill 9. Ms. Adkins reported that the government newsletter has been distributed. KPPA sends a newsletter to all legislators that contains key pieces of information and that letter was sent out at the end of August, and a member newsletter will be sent out soon. Ms. Adkins reported that the Actuary, GRS Consulting, has the data and is working on

those numbers to report soon. The audit is proceeding on schedule. Finally, Ms. Adkins reported that the Annual Report and the SAFR are on track

Mr. Peercy introduced agenda item – *New Business*. There being no new business to discuss, this agenda item was passed.

Mr. Peercy introduced agenda item – *Closed Session*. Mr. Lane made a motion and Mr. Connell seconded to go into closed session for the purpose of discussion active litigation. The motion passed unanimously.

Mr. Peercy read the following closed session statement:

A motion having been made in open session to move into a closed session for a specific purpose, and such motion having carried by majority vote in open, public session, the Board shall now enter closed session to consider litigation, pursuant to KRS 61.810(1)(c), because of the necessity of protecting the confidentiality of the System's litigation strategy and preserving any available attorney-client privilege.

There being no action taken in closed session. Ms. Betty Pendergrass made a motion and was seconded by Mr. Powell to adjourn the meeting. The motion passed unanimously.

Copies of all documents presented are incorporated as part of the Minutes of the KPPA Board held September 8, 2021 except documents provided during a closed session conducted pursuant to the openmeetings act and exempt under the open records act.

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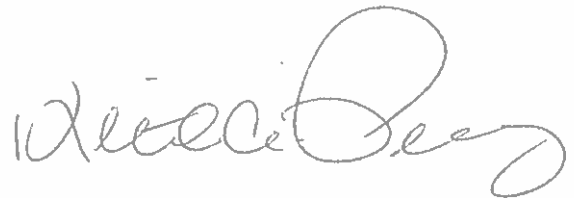
CERTIFICATION

I do certify that I was present at this meeting, and I have recorded the above actions of the Board on the various items considered by it at this meeting. Further, I certify that all requirements of KRS 61.805-61.850 were met in conjunction with this meeting.



Recording Secretary

We, the Chair of the Board of Kentucky Public Pensions Authority and Executive Director, do certify that the Minutes of Meeting held on September 8, 2021 were approved on November 17, 2021.



KPPA Board Chair

Executive Director

I have reviewed the Minutes of the September 8, 2021 Kentucky Public Pensions Authority Board Meeting for content, form, and legality.



Executive Director Office of Legal Services