

MEMORANDUM

To: Representative Steven Johnson, Chairperson
House Pensions and Benefits Committee

From: Alan D. Conroy, Executive Director *A.D.C.*
Faith Loretto, Planning and Research Officer *FL*

Date: January 23, 2013

Subject: KPERS Investments

At the House Pensions and Benefits Committee meeting on January 23, KPERS provided the Committee with several items related to information previously requested by members of the Committee. During the Committee discussion that followed, additional information was requested about KPERS' investments, other states' pension plans, and a cost study for HB 2333. The following attachments provide information related to those requests.

KPERS' Investments

Representative Virgil Weigel inquired about KPERS' investment holdings, their weightings, performance, and international allocations.

- Attachment A provides highlights of a KPERS investment performance report as of November 30, 2012 (latest available). It includes --
 - Tables setting out the performance of each asset class for various time periods relative to their benchmarks (gross returns and returns net of fees)
 - A summary page for each asset class with observations regarding performance, the name of each investment manager, the investment manager's style (active or passive), and the proportion of the asset class invested by each investment manager.

A copy of the full report is available at <http://www.kpers.org/reportsinvperformance.htm>.

- Attachment B provides an overview of KPERS' assets on a global basis. It contains a chart showing the top 10 countries to which KPERS investments are allocated, by currency.

Other State's Pension Plans

At the January 16 meeting of the Committee, KPERS distributed a table summarizing KPERS' key attributes and comparing them to 10 other states' pension systems, including membership, employer and employee contributions, benefit multiplier, unfunded actuarial liability, funded ratio, market value of assets, and assumed rate of return. At the request of Representative Jim Howell, the table has been expanded to include --

- Normal retirement eligibility and vesting criteria
- The pension's unfunded actuarial liability as a percent of gross domestic product (GDP) and per capita.

House Pensions & Benefits

Date: 1-28-13

Attachment # 1



HB 2333 Cost Study

The Committee also reviewed the June 2012 valuation of 2012 Sub HB 2333 prepared by KPERS's consulting actuary, Cavanaugh MacDonald. At that time, you noted there are some small fluctuations in the employer contribution rates over the out years of the cost study. More specifically, the rates projected under HB 2333 decline from FY 2021 (14.78%) through FY 2041 (1.11%), and then begin to increase incrementally through the end of the projection period (to 1.58%). Moreover, for the period FY 2046 through FY 2056, the HB 2333 rate is marginally higher than the projected rates under the current plan. After visiting with Cavanaugh MacDonald about this question, we would offer the following observations:

- The two projections (current plan and HB 2333) actually reflect different populations (due to different retirement eligibility and assumptions), different liabilities and different assets.
- Contribution rates in the early years of the cost study reflect primarily Tier 1 members and, to a lesser extent, Tier 2 members in both the current plan and HB 2333 projections. Over time, the projections for the current plan are based on membership consisting of Tier 2 members, while the HB 2333 projections increasingly represent the Tier 3 (cash balance plan) membership.
- Tier 2 and Tier 3 members are covered by two very different plan designs. The characteristics and the funded status of the Tier 2 defined benefit plan and the Tier 3 cash balance plan are different, as is the unfunded actuarial liability (UAL).
- With a different UAL/Surplus, the UAL contribution rate for each is also different (see the UAL payment on Exhibit B1).
- Therefore, the two plans would not be expected to move exactly in parallel to each other over multiple decades.
- Projections over this extended period are not meant to provide precise, concrete rates. Instead, actuarial projections should be used to provide a picture of general trends and general comparisons between alternatives over the lengthy periods reflected in the cost study.
- Minor variations in the interplay among the many assumptions and variables used in such a cost study will affect actuarial projections.
- Therefore, the variations within the HB 2333 rates and in comparison to the existing (Tier 2) plan are not of a magnitude that can be considered meaningful over that long of a term. For example, the UAL payments in the later years are less than 0.5%.

In comparing the two plans, the key take away is that, *given this set of assumptions*, the long-term cost of the two plan designs is close to the same. However, as you noted during Committee discussion, the two plans have very different risk profiles. Under a different set of assumptions (for example, a different investment return assumption), they would behave quite differently, with the cash balance plan providing mechanisms to share the impact of changing experience with the members.

I would be glad to respond to any other questions you may have about these topics or provide additional information upon request.

Attachments

**KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
ASSET CLASS RELATIVE RETURN COMPARISON
GROSS OF FEES**

Attachment A

	Net Asset Value*	<u>Time Weighted Total Return</u>		<u>Annualized Time Weighted Total Return</u>					
		<u>Latest Quarter</u>	<u>Fiscal YTD</u>	<u>Calendar YTD</u>	<u>Latest 1 Year</u>	<u>Latest 3 Years</u>	<u>Latest 5 Years</u>	<u>Latest 10 Years</u>	
Total Portfolio**	\$13,567.8	2.8%	6.0%	12.7%	13.1%	9.4%	2.4%	7.8%	
<i>Policy Index</i>		2.8%	5.6%	11.8%	12.5%	9.4%	2.9%	7.8%	
<i>Consumer Price Index</i>		0.4%	1.1%	1.8%	1.8%	2.1%	1.8%	2.4%	
Domestic Equity Portfolio	4,497.7	1.8%	5.5%	15.6%	16.5%	12.5%	1.9%	7.0%	
<i>Russell 3000 Index</i>		1.6%	5.2%	15.0%	16.0%	11.8%	1.7%	6.9%	
International Equity Portfolio	3,830.2	6.3%	10.3%	15.4%	14.0%	5.6%	-3.5%	8.6%	
<i>KPERRS Int'l Equity Benchmark</i>		6.1%	9.9%	12.9%	11.7%	3.4%	-3.7%	8.9%	
Fixed Income Portfolio	2,614.6	2.0%	4.5%	10.4%	11.8%	9.0%	8.2%	7.5%	
<i>KPERRS Fixed Income Benchmark</i>		0.9%	2.6%	5.5%	6.7%	6.2%	6.3%	6.2%	
Real Return Portfolio	1,034.0	1.8%	4.0%	7.7%	8.2%	9.4%	7.2%	8.1%	
<i>KPERRS Real Return Benchmark</i>		1.9%	3.5%	7.7%	7.7%	8.3%	6.5%	7.7%	
Real Estate Portfolio	1,120.1	0.6%	1.2%	9.2%	10.0%	11.3%	-1.3%	8.1%	
<i>KPERRS Real Estate Benchmark</i>		2.4%	2.7%	9.8%	13.4%	14.4%	5.4%	10.8%	
Alternative Investments	362.9	0.2%	1.0%	9.6%	6.5%	14.3%	4.7%	10.5%	
<i>KPERRS Alt Inv Benchmark</i>		2.7%	6.6%	17.8%	19.0%	14.8%	4.8%	8.0%	
Cash Equivalents Portfolio	108.3	0.1%	0.2%	0.3%	0.3%	0.4%	1.2%	2.2%	
<i>Merrill Lynch 0-1 Yr. Treasury Index</i>		0.1%	0.1%	0.2%	0.2%	0.3%	1.0%	2.0%	

* Manager Active Reserves, which are managed by Payden & Rygel, are included in the manager's asset class Net Asset Values.
See Appendix A for KPERRS custom benchmark definitions and additional footnotes.

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
ASSET CLASS RELATIVE RETURN COMPARISON
NET OF FEES

Attachment A

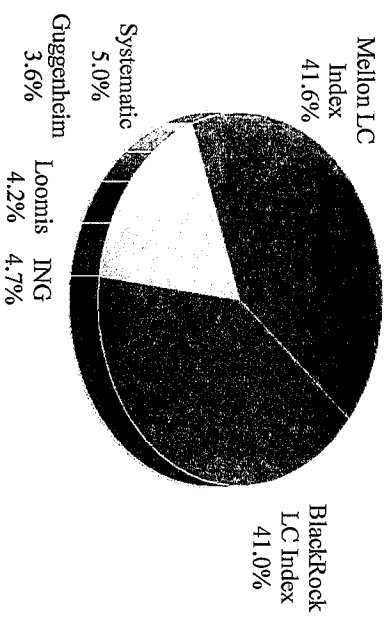
	Net Asset Value*	<i>Time Weighted Total Return</i>			<i>Annualized Time Weighted Total Return</i>			
		(Millions)	Latest Quarter	Fiscal YTD	Calendar YTD	Latest 1 Year	Latest 3 Years	Latest 5 Years
Total Portfolio**	\$13,567.8	2.8%	5.9%	12.5%	12.8%	9.1%	2.2%	7.6%
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<i>KPERS Real Estate Benchmark</i>		2.4%	2.7%	9.8%	13.4%	14.4%	5.4%	10.8%
Alternative Investments	362.9	0.1%	1.0%	9.6%	6.5%	13.8%	4.4%	10.3%
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Cash Equivalents Portfolio	108.3	0.1%	0.1%	0.2%	0.2%	0.3%	1.1%	2.1%
<i>Merrill Lynch 0-1 Yr. Treasury Index</i>		0.1%	0.1%	0.2%	0.2%	0.3%	1.0%	2.0%

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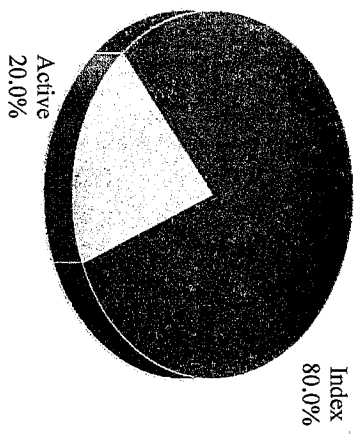
**KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM
Domestic Equity Diversification by Manager/Style
Total Domestic Equity Net Asset Value: \$4,497.7 Million
November 30, 2012**

- The domestic equity portfolio returned 1.8% during the quarter outperforming the Russell 3000 Index by 20 basis points. Two active managers outperformed their index during the quarter and the other two active managers underperformed their index.
- On a calendar year basis the domestic equity portfolio is up 15.6% outperforming the benchmark by 60 basis points.
- The domestic equity portfolio has outperformed its benchmark for all time periods shown.

Current Position



Target Allocation



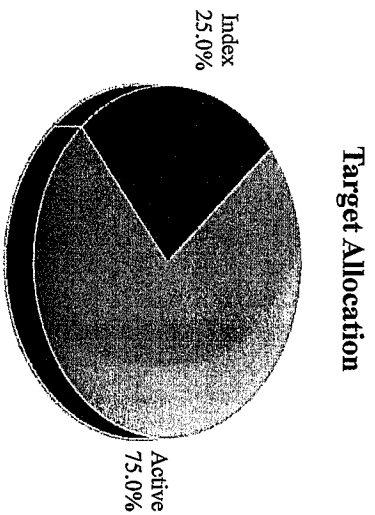
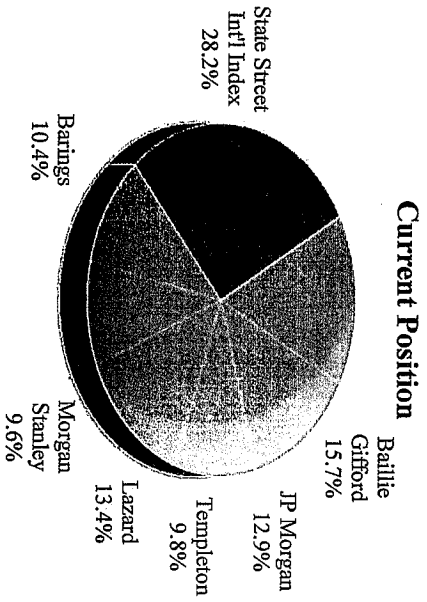
Manager	Style
Mellon Capital Management	Large Cap Index
BlackRock LC Index	Large Cap Index
ING Small Cap Core	Active
Loomis Sayles SMID	Active
Guggenheim SMID Value	Active
Systematic Mid Value	Active

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Total Intl Equity Net Asset Value: \$3,830.2 Million

November 30, 2012

- The international equity portfolio outperformed the benchmark during the quarter by 20 basis points with a total return of 6.3%.
- Four of the active managers outperformed the index during the quarter, while two of the managers underperformed the benchmark. Templeton and Baillie Gifford continued their trend of outperformance both returning 7.3%. JP Morgan and Lazard had slight outperformance both returning 6.2%. Barings struggled during the quarter with a return of 4.5%, while Morgan Stanley trailed the index narrowly, returning 5.9%.
- The international equity portfolio has outperformed its benchmark for the calendar year to date, as well as the trailing one, three and five year time periods.



Manager	Style
State Street Intl Index	Index
Baillie Gifford	Active
JP Morgan	Active
Templeton	Active
Lazard	Active
Morgan Stanley	Active
Barings	Active

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Attachment A

Total Fixed Income Net Asset Value: \$2,614.6 Million

November 30, 2012

- The fixed income portfolio produced a total return of 2.0% for the trailing quarter, beating the benchmark by 1.1%. The strategic fixed income managers produced the strongest returns during the quarter. The fixed income portfolio has outperformed its benchmark for all time periods shown.
- All three core-plus portfolios have outperformed their benchmark for the time periods shown. The outperformance this year was driven by a combination of duration management, security selection in spread sectors, and overweighting spread sectors relative to the benchmark.
- The Pimco Diversified Income (strategic) portfolio underperformed the benchmark by 150 bps for the calendar year-to-date time period, although still with a strong absolute return of 13.1%. The underperformance was due to the manager's more cautious stance in investment grade credit and in high yield.



Manager	Style
Loomis, Sayles	Strategic
Western Asset Mgmt	Strategic
PIMCO Diversified Income	Strategic
T. Rowe Price	Core-Plus
Mackay Shields	Core-Plus
PIMCO	Core-Plus

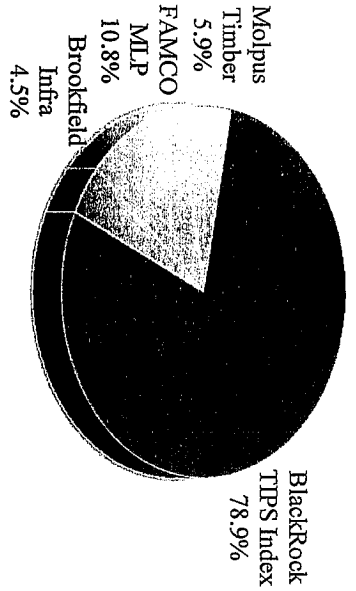
KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

Real Return Diversification by Manager/Style

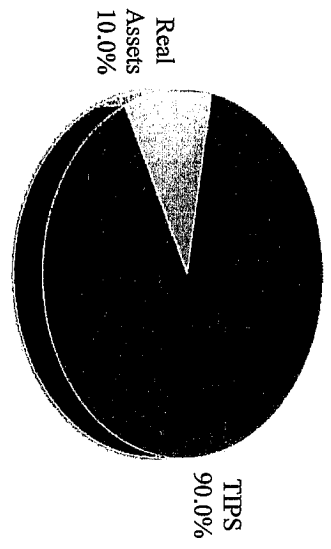
Total Real Return Net Asset Value: \$1,034.0 Million
November 30, 2012

- The total real return portfolio trailed the benchmark slightly for the three months ending November 30th, as strong performance in the MLP portfolio was offset by weaker returns from infrastructure and timber investments.
- The System's new Global Inflation Linked Bond portfolio was funded in November, with \$100 million from the U.S. TIPS portfolio.

Current Position



Target Allocation



Manager	Style
BlackRock	TIPS Index
Brookfield Infrastructure	Real Assets
Molpus Timber Investment	Real Assets
FAMCO MLP Investment	Real Assets

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM

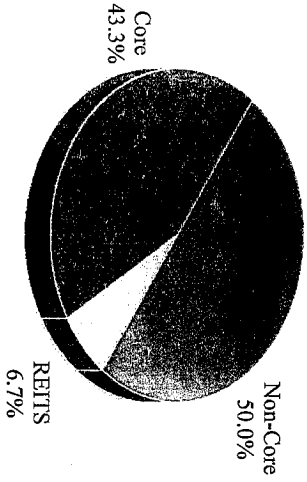
Attachment A

Total Real Estate Net Asset Value: \$1,120.1 Million

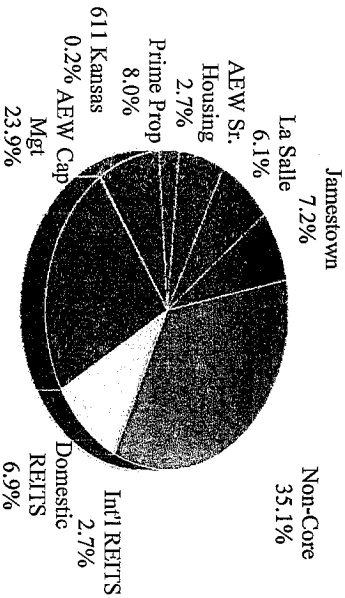
November 30, 2012

- The System's core real estate managers underperformed the benchmark during the trailing three months. On a calendar year to date basis, all of the core managers except AEW have outperformed the benchmark, driven primarily by strong performance from Jamestown Premier and LaSalle Property Fund.
- Non-core real estate investments continue to trail the benchmark, primarily due to "legacy" investments in the non-core portfolio.
- Domestic REITs lagged the broader U.S. equity market in November and for the latest three months. Only one of the System's three domestic REIT managers outperformed for the quarter. International REITs produced a strong return, with Brookfield's international REIT portfolio outpacing the benchmark for the quarter and calendar year to date, as well as trailing one year.

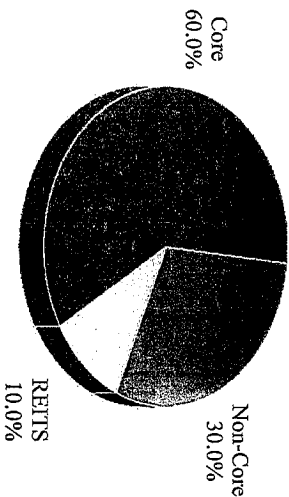
Current Committed



Current Invested



Target Allocation



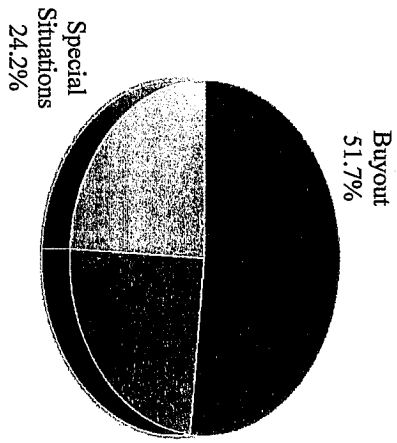
Manager	Style
AEW Capital Mgmt.	Core
Prime Property Fund	Core
AEW Senior Housing	Core
La Salle Property Fund	Core
Jamestown Premier Fund	Core
UBS Trumbull Fund	Core
KPERS Non-Core	Non-Core
Brookfield	Global ex U.S. REITs
Domestic REITs	REITs

KANSAS PUBLIC EMPLOYEES RETIREMENT SYSTEM Private Equity Program (PEP) Diversification by Style

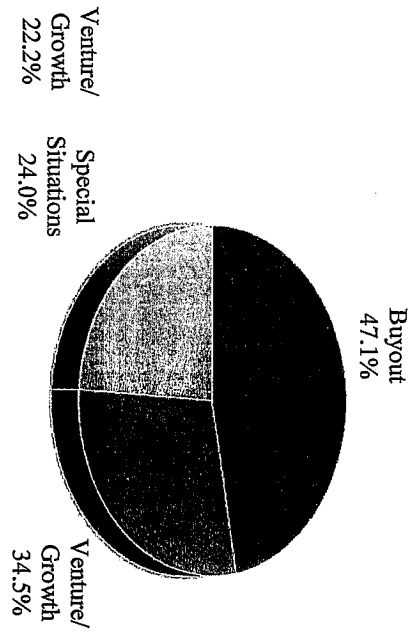
Total Commitments: \$703.3 Million
Total Net Asset Value: \$270.3 Million
November 30, 2012

- During 2012, the System committed \$200 million across four new private equity investments. On a calendar year to date basis, the PEP portfolio made contributions of \$85.3 million and received distributions totaling \$27.7 million.

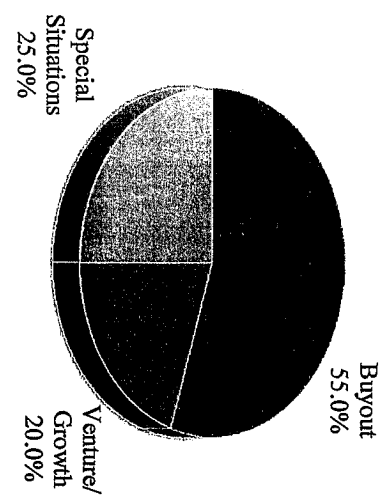
Current Committed



Current Invested

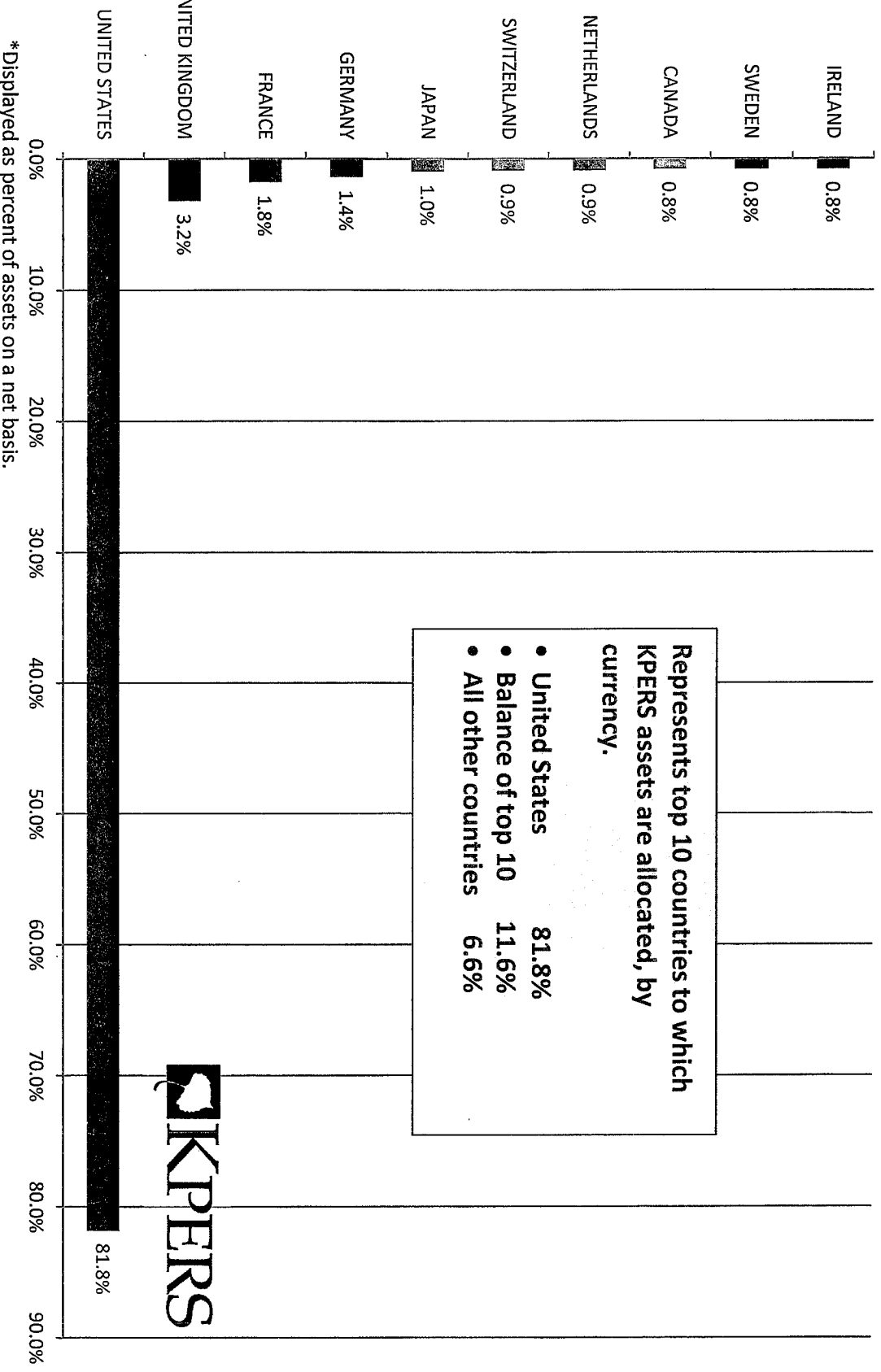


Target Allocation



Style	Target
Buyout	55%
Special Situations	25%
Venture / Growth	20%

Country Exposure: Top 10 (Percent of Assets as of December 31, 2012)*



Represents top 10 countries to which KPERs assets are allocated, by currency.

- United States 81.8%
- Balance of top 10 11.6%
- All other countries 6.6%



* Displayed as percent of assets on a net basis.

