

KANSAS BOARD OF REGENTS
Retirement Plan Committee (RPC)
MINUTES
March 21, 2023

The March 21, 2023, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order at 12:30 p.m.

Members Participating:

Regent Harrison-Lee, Chair	Doug Ball, PSU	Emily Breit, FHSU
Dipak Ghosh, ESU	Werner Golling, WSU	Ted Juhl, KU
Adrienne Kordalski, KUMC	Jay Stephens, KSU	Madi Vannaman, KBOR

President Muma was not able to participate. Participating from Advanced Capital Group were consultants Brad Tollander and Justin Dorsey, and Patrick Larson, head of the Fixed Income Investment Management Department. Participating from TIAA, Blake Earl, Senior Relationship Manager and Brendan Horgan, Managing Director Institutional Investment Strategy; from Voya, John O'Brien, Regional Vice President, and Cindy Delfelder, Relationship Manager; and from the Board Office: Gage Rohlf, John Yeary and Julene Miller.

Minutes

Jay Stephens moved to approve the minutes from the September 8, 2022, meeting. Following a second by Werner Golling, the motion carried.

ACG Semi-Annual Report

Patrick Larson provided information about the current state of the banking system and developments that precipitated the recent second and third largest bank failures in U.S. history, along with related Federal Reserve actions. There is very minimal exposure on the fixed income side for the funds in the KBOR lineups and this likely will not significantly impact the investments. Additionally, regulators seemingly have put together a fairly complete solution for the bank runs.

Jay Stephens asked if the recordkeepers planned any communication on this topic to participants. John O'Brien indicated that Voya is not planning on a formal communication but will be prepared to address questions from any clients who have questions regarding exposure for their specific holdings as well as providing additional information on the website. Blake Earl stated that information is shared with clients as needed when representatives meet or speak with them.

Brad Tollander provided a recap of the fourth quarter 2022 market as well as ACG's semi-annual analysis for the Mandatory and Voluntary Plans.

Evaluation of TIAA and Voya Funds - Watch List Review

TIAA— both Mandatory and Voluntary Plan Lineups

A. Royce Opportunity Institutional (Small Cap Value Option) (Mandatory Plan assets in fund = \$12.0M or 0.3% of TIAA Assets and 831 participants; Voluntary Plan assets in fund = \$359K or 0.5% of TIAA Assets and 249 participants) placed on Watch at Fall 2021 RPC Meeting.

Updates since the Fall 2022 RPC Meeting: The management team maintains their commitment to the original fund strategy following Boniface Zaino's return to senior advisor status. Average manager tenure as of year-end 2022 is 1.6 years. Holdings-based style charts were covered showing time periods prior to and post management departure in 2021 that support the fact that the investment style of the fund has not changed. 61% of the portfolio is currently in micro-cap names, while the current category average allocation to microcap is 7%.

ACG Recommendation: Remain on Watch. The short tenure of the current management team warrants monitoring to ensure the team can execute the strategy successfully over time. Review at the Fall 2023 RPC Meeting.

B. Allspring Growth Institutional (Large Cap Growth Option) (Mandatory Plan assets in fund: \$28.2M or 0.8% of assets and 721 participants; Voluntary Plan assets in fund: \$248K or 0.4% of assets and 66 participants) placed on Watch at Fall 2022 RPC Meeting.

Updates since the Fall 2022 RPC Meeting: As of year-end 2022, ten-year returns remain in the bottom quintile of the group while risk-adjusted returns remain in the bottom quartile of peers. The fund's focus on traditional growth stocks and sectors detracted from performance results in 2022 as large cap value style outperformed the large cap growth style by over 21%. Compared to its large cap growth peers, the fund maintained 19% underweight to large blend holdings and a 4% underweight to large value holdings both detracted from performance relative to the Russell 3000 Growth index during this period. Only one semi-annual period has passed since the Watch recommendation, and the fund management and style remain consistent.

ACG Recommendation: Remain on Watch. Review at the Fall 2023 RPC Meeting.

C. TIAA-CREF Mid-Cap Growth Institutional (Mid-Cap Growth Option) (Mandatory Plan assets in fund: \$16.4M or 0.5% of assets and 1,181 participants; Voluntary Plan assets in fund: \$310K or 0.5% of assets and 243 participants) placed on Watch at Fall 2022 RPC Meeting.

Updates since the Fall 2022 RPC Meeting: An above-median 4th quarter boosted near-term returns slightly and the fund no longer ranks in the bottom decile of peers over any trailing period. Near- and long-term returns remain in the bottom quartile of peers. Stock selection continues to drive underperformance, particularly in industrials and consumer discretionary.

ACG Recommendation: Remain on Watch. Review at the Fall 2023 RPC Meeting.

Voya – both Mandatory and Voluntary Plan Lineups

A. American Beacon Small Cap Value R5 (Small Cap Value Option) (Plan assets in fund = \$4.1M or 0.5% of Voya Assets and 356 participants; Plan assets in fund = \$405K or 1.3% of Voya Assets and 131 participants) placed on Watch at the Spring 2022 Meeting.

Update since the Fall 2022 RPC Meeting: Additional Named Manager Change with Brandywine, one of the five current sub-advisors, appointed an additional manager on its sleeve of the strategy, likely in preparation for a manager retirement. This most recent change is part of a long series of personnel changes since this fund's initial Watch recommendation, including the abrupt departure of former CEO Gene Needles, who helped make decisions on subadvisor retention, in April 2022. Separately from the subadvisor mix change, the Newton and Barrow Hanley sleeves have had manager retirements and replacements within the trailing year. Each of the five subadvisors manages approximately 20% of strategy assets.

American Beacon has been owned by a private equity consortium, including majority owner Kelso & Company, since 2015. Kelso & Co. are now looking to sell their position and have been looking for a buyer since 2021. While no sale has been announced as of this writing, a sale could result in further changes to offerings or personnel.

ACG Recommendation: Replace. Voya has recommended several changes to fund lineup options to be presented during the Spring 2023 RPC Meeting, including this fund.

Ted Juhl asked about the reset on Voya's fee structure which was one of the reasons provided for the number of fund lineup changes it recommended. Brad Tollander stated that going forward, 8 basis points is the required revenue and that will be spread across all participants and all balances. Before fee leveling, participants that were in funds that paid revenue share saw this revenue share go back to the recordkeeper to help pay for the

plan's recordkeeping and administrative expenses. As a result, participants that were in non-revenue generating funds were essentially not paying any of these services. Fee leveling changed that. Going forward all KBOR participants with either Voya or TIA that happen to be invested in revenue generating funds will have the revenue sharing rebated back to them. In the case of Voya, each participant is being assessed an 8-basis point charge on their account to pay for the recordkeeping and plan administrative expenses. This provides complete transparency to participants.

B. VY® Invesco Global I (Global Stock Option) (Mandatory Plan assets in fund = \$20.6M or 2.6% of fund assets and 1,572 participants; Voluntary Plan assets in fund = \$791K or 2.5% of fund assets and 322 participants). *Current Investment Lineup Recommendation as of 12/31/2022*

Near-Term Performance: The fund underperformed the MSCI World Index by 14.2% in calendar year 2022 and by 7.0% in 2021 and ranks in the bottom decile of its peer group on a trailing one-, three-, and five-year basis. Performance has ranked in the worst percentile on one-year basis for two consecutive semi-annual RPC reports. KBOR currently measures this fund against a world large-cap stock blend index and peer group, but the fund has consistently held a growth investment style which was sharply out of favor in 2021 and 2022. Relative to a world large cap growth peer group, however, performance still ranks in the bottom quartile on a trailing one-, three-, and five-year basis while ten-year returns rank in the 71st percentile. Relative to either benchmark, stock selection in U.S. stocks drove the majority of recent underperformance.

Strategy Alteration: In 2019, longtime lead manager Rajeev Bhaman retired, and his successor John Delano became sole manager. Delano kept the fund's core strategy intact and had worked with Bhaman for several years, alleviating initial concerns over the succession. However, Delano adjusted to the investment process to allow a higher percentage of the portfolio to be dedicated to top holdings and allowing much higher active weights relative to the benchmark. As of this writing, 52% of the fund's allocation is now in the top ten holdings. This adjustment has allowed the scale of recent underperformance relative to benchmark and peers.

ACG Recommendation: Replace. While typically funds placed on Watch remain on Watch for multiple quarters before a replacement recommendation, the scale of underperformance warrants evaluation of alternative options.

Voya: Vanguard Target Date Series – both Mandatory and Voluntary Plan Lineups

Effective July 8, 2022, the 2015 vintage was retired and mapped into the Income vintage of the series.

Vanguard launched a 2070 vintage of the fund series which was added to the Plan on July 10, 2022. This series is expected to be appropriate for those aged 16–21 entering the work force.

The RPC voted on the ACG recommendations for the funds on watch with the TIAA funds to remain on watch and the Voya funds to be replaced. Dipak Ghosh moved to accept all the recommendations and, following a second by Jay Stephens, the motion carried.

Noting that much of the new contributions to the Plans are going into lifecycle funds, Werner Golling asked about the Plans' lifecycle funds relative to like funds offered by other large mutual fund companies. Brad Tollander noted that other lifecycle index products, like BlackRock, have a glide path that goes "to-retirement" while the Vanguard glidepath, as well as the TIAA Lifecycle glidepath, go "through-retirement" meaning they will continue to gradually decrease the equity exposure (become more conservative) as a participant progresses into retirement. Fidelity also has a passively managed target date series that is on-par with the Vanguard series that has a slightly different glidepath but goes "through-retirement". The KBOR Plans have very well-diversified holdings. Brad noted that the tracking error on the Vanguard Target Date funds is higher than the tracking error of other index funds, and that is the result of its very tight rebalancing thresholds back in early 2020 when the markets were down over 30% in a matter of weeks because of the pandemic. The significant sell-off experienced during this period meant Vanguard was no longer able to fully rebalance its target date funds simply with incoming cashflows into the funds. Instead, it was forced to sell stocks/bonds at depressed levels to get back to a neutral allocation. They have since relaxed these rebalancing guardrails to better align with competitors in the industry and as a result tracking error for the funds continues to improve.

Manager Searches - Other recommended fund lineup changes

A. TIAA Non-Proprietary Funds – share class changes

KBOR Mandatory and Voluntary Plans

Non-Proprietary Funds: Current & Alternate Share Classes, Expense Ratios, & Revenue Sharing

A	B	C	D	E	F
Investment Product Name	Ticker	Share Class	Total Revenue Sharing Paid (bps)	Prospectus Net Expense Ratio	NET COST (E - D)
T. Rowe Price Capital Appreciation	PRWCX		0.15	0.68	0.53
T. Rowe Price Capital Appreciation	TRAIX	Institutional	0.00	0.57	0.57
Allspring Growth	SGRNX	Institutional	0.15	0.75	0.60
Allspring Growth	SGRHX	R6	0.00	0.70	0.70
Vanguard Mid Cap Index ⁽¹⁾	VIMAX	Admiral	0.00	0.05	0.05
Vanguard Mid Cap Index	VMCIX	Institutional	0.00	0.04	0.04
AB Small Cap Growth	QUAIX	I	0.15	0.84	0.69
AB Small Cap Growth	QUAZX	Z	0.00	0.76	0.76
Dodge & Cox International Stock	DODFX	I	0.10	0.62	0.52
Dodge & Cox International Stock	DOXFX	X	0.00	0.52	0.52

⁽¹⁾ Share class change would only impact the Voluntary Plan. The Institutional Share Class is currently available in the Mandatory Plan.

ACG Recommendation: Move to the fund with the lowest prospectus net expense ratio, for the following reasons:

- * **KBOR would be in the lowest expense ratio fund**
- * **Revenue sharing is a contractual arrangement that can go away**
- * **Timing difference between the accrual of the revenue share and actual crediting to participants**

Brad Tollander provided an example using the T. Rowe Price Capital Appreciation fund. With an asset balance of \$1.7M and 391 participants, the potential four basis point savings equated to \$1.74 revenue share which would go back to the participants. Since it is paid out quarterly, participants could expect \$0.43 per quarter. With the lower share class, participants will see the lower expense ratio and not have to wait on the revenue credit.

Jay Stephens moved to accept ACG’s recommendation to move to the TIAA non-proprietary funds with the lowest prospectus net expense ratio. After a second from Werner Golling, the motion passed.

B. TIAA Proprietary Funds – share class changes

KBOR Mandatory and Voluntary Plans

Proprietary Funds: Current & Alternate Share Classes, Expense Ratios, & Record Keeping Offset

A	B	C	D	E	F
Investment Product Name	Ticker	Share Class	Record Keeping Offset (bps)	Prospectus Net Expense Ratio	NET COST (E - D)
CREF Money Market	QCMMIX	R3	0.10	0.18	0.08
CREF Money Market	QCMMFX	R4	0.00	0.06	0.06
CREF Core Bond Account	QCBMIX	R3	0.10	0.22	0.12
CREF Core Bond Account	QCBMFX	R4	0.00	0.10	0.10
CREF Inflation-Linked Bond	QCILIX	R3	0.10	0.17	0.07
CREF Inflation Linked Bond	QCEQFX	R4	0.00	0.05	0.05
CREF Social Choice	QCSCIX	R3	0.10	0.19	0.09
CREF Social Choice	QSCCFX	R4	0.00	0.07	0.07
CREF Stock	QCSTIX	R3	0.10	0.23	0.13
CREF Stock	QCSTFX	R4	0.00	0.11	0.11
CREF Growth	QCGRIX	R3	0.10	0.21	0.11
CREF Growth	QCGRFX	R4	0.00	0.09	0.09
CREF Equity Index	QCEQIX	R3	0.10	0.16	0.06
CREF Equity Index	QCILFX	R4	0.00	0.04	0.04
CREF Global Equities	QCGLIX	R3	0.10	0.22	0.12
CREF Global Equities	QCGLFX	R4	0.00	0.10	0.10

ACG Recommendation: Table for now and evaluate further.

**** Implementing these changes will require a contract change to the Mandatory Plan.***

**** It would not require a contract change to the current Voluntary Plan.***

**** The RPC Sub-Committee should fully review the implications of a contract change before acting.***

Brad Tollander stated that changing the Mandatory contract would result in going away from the 3% minimum guarantee to a 1% minimum guarantee for the TIAA Traditional fund. Also, participants cannot be forced to move assets from the former contract to the new contract. Adrienne Kordalski moved to accept ACG's recommendation to table the TIAA proprietary fund share class changes for further evaluation. After a second from Dipak Ghosh, the motion passed.

C. Voya Funds

Voya proposed changes to a variety of funds. ACG reviewed the proposals and agreed with all but two. ACG did not agree with adding a Foreign Blend Index fund to both Plans, because the current option (Vanguard Total Int'l Stock Index Adm.) has an emerging market exposure which adds to the cost, but also provides better diversification. ACG did not agree with Voya's proposal to add a Foreign Small/Mid Value fund to both Plans because that fund is offered in the TIAA lineup and participant assets are only 0.017% in the Mandatory Plan and 0.2% in the Voluntary Plan. ACG agreed with Voya's other proposals.

Adriane Kordalski moved to support ACG's proposed change recommendations. After a second by Werner Golling, the motion passed, and ACG then provided specific recommendations on each of the proposed changes.

Large Cap Value – The BlackRock Equity Dividend Institutional fund is currently available in both Plans and the JPMorgan Equity Fund R5 also is available in the Voluntary Plan. ***ACG recommendation for both Plans: JP Morgan Equity R6.*** Rationale: This fund has had a long-tenured lead portfolio manager since 2004. The investment process is consistent with the focus on quality companies with reasonable dividend payout ratios and reasonable valuations. It has strong trailing performance results and strong consistency of performance as measured by rolling (3- and 5-year) returns, Sharpe ratio and information ratio. This fund is closed to new investors, but the Board Plans would be allowed to move from the R5 to R6 share class in the Voluntary Plan and to replace the BlackRock Equity Dividend Fund in the Mandatory Plan.

Large Cap Growth – The Voya Large Cap Growth Port. I is currently available in both Plans. ***ACG recommendation for both Plans: T. Rowe Price All-Cap Opportunities I.*** Rationale: This fund has consistently outperformed relative to the Russell 1000 Growth Benchmark and large-cap growth peers. It has strong five- and seven-year risk-adjusted and down-market capture ratios. The highest active share of funds evaluated is 71¹. Portfolio Manager Justin White took over in 2016 after eight years as a highly respected technology and telecommunications analyst for TRP. The modest asset base of \$8.3 billion should not impact fund execution.

Large Cap Blend – The American Funds Fundamental Invs. R6 is currently available in both Plans. ***ACG recommendation: stay with American Funds Fundamental Investors R6 and review again at the Spring 2024 RPC meeting.*** Based strictly on backward looking performance results, the ACG commented that the might question this recommendation. The fund's three- and five-year results trail both the benchmark and median peer group manager by wide margins. The fund maintains a larger foreign equity exposure than its peers. At year-end, this allocation disparity was 16% (fund = 19% foreign, peer = 3% foreign). This overweight benefitted the fund in 2022 as foreign equities outpaced domestic equities, however in the four prior calendar years domestic equities outperformed which contributed to the fund's performance issues on a three- and five-year basis. Based

¹ ACG explained that high active share means the portfolio manager is deviating from its prospectus benchmark in terms of its holding and the weight of those holdings in the fund as compared to the benchmark. For example, an index fund that holds the exact same holding in the same weights as the benchmark index will have an active share of 0. If you are going to pay a premium for active management, we would prefer to see a higher active share which suggests the manager is doing something different from the index in terms of stock or sector selection.

on ACG's long-term capital market assumptions, it opined that the long-term outlook for foreign equities continues to look brighter than that of domestic equities. If true, the larger allocation to foreign equities should be a tailwind for performance. Jay Stephens asked what the asset total was in this fund. Brad Tollander responded \$66M, or 8.4% of the Mandatory Plan assets, and 1,550 participants.

Small Cap Value – The American Beacon Small Cap Value R6 is currently available in both Plans. **ACG recommendation for both Plans: Undiscovered Managers Behavioral Value R6.** Rationale: This fund has the lowest overall 3- and 5-year correlations to the existing Plan options and has a long-tenured manager dating back to 2005. The high active share is 92. It has a slightly higher standard deviation of returns, but shareholders have been rewarded in terms of excess performance with strong trailing results relative to both the benchmark and median peer group manager. The fund has a solid three- and five-year rolling Sharpe- and information ratios and strongest cumulative 10-year performance results (growth of a dollar).

Foreign Large Value – this would be a new addition to both Plans. **ACG recommendation for both Plans: Schwab Fundamental International Large Company Index.** Rationale: This index fund is priced competitively at 0.25%. It tracks the Russell RAFI (Research Affiliates Fundamental Index® Strategy), investing in large companies found in developed countries (e.g., United Kingdom, Japan, Germany, etc.), but will exclude all companies in the US Large Company Index. The fund has strong consistency of performance as measured by its rolling three-year returns. Over the past 13 years, consisting of 155 rolling three-year periods with one-month steps, the fund ranked in the 1st quartile of its peers 54% of the time and in the 2nd quartile 33% of the time. The fund only ranked below median in 13% of the periods. It also has solid five- and seven-year risk/return as well as up- and down-market capture ratios.

Emerging Market Equity – The Invesco Developing Markets R6 is currently available in both Plans. **ACG recommendation for both Plans: Fidelity Emerging Markets K.** Rationale: The majority of assets in this fund are invested in companies located in emerging market countries. It is a good diversifier due to lower correlations to many of the existing investment options in the Plans. The fund has strong trailing performance relative to both the benchmark and median diversified emerging market manager. The deep research team includes 20 emerging market equity analysts and 10 emerging market debt analysts.

Global Large-Cap Growth – The VY Invesco Global Portfolio Initial is currently available in both Plans. **ACG recommendation for both Plans: T. Rowe Price Global Stock Institutional.** Rationale: This fund has a long-tenured manager, with over 10 years at the helm, and during this time has outpaced the benchmark and median peer group manager in nine of the previous 10 calendar years. It has top quartile three- and five-year rolling returns, Sharpe ratio and information ratio, and strong five- and seven-year risk/reward as well as up- and down-market capture. With a modest asset base of \$5 billion, it provides flexibility to invest across the market cap range.

Large Cap Value Index – Voya does not currently offer an index fund in this category. TIAA does, and it is the most popular large value offering in the Voluntary Plan as a percentage of assets. **ACG recommendation for the Voluntary Plan: Vanguard Value Index Admiral.** Rationale: This fund has greater style purity relative to the Fidelity Large Value Index. It has a longer-tenured management team. It is a slightly better diversifier to most of the other funds in the Voya lineup based on lower correlation of returns on a one-, three-, and five-year basis.

Large Cap Growth Index - Voya does not currently offer an index fund in this category. TIAA does, and it is the most popular large value offering in the Voluntary Plan as a percentage of assets. **ACG recommendation for the Voluntary Plan: Vanguard Growth Index Admiral.** Rationale: This fund has a greater style purity relative to the Fidelity Large Growth Index. It has a longer-tenured management team. It is a slightly better diversifier to most of the other funds in the Voya lineup based on lower correlation of returns on a one-, three-, and five-year basis.

Adrienne Kordalski moved to support ACG's recommendations for Voya lineup changes to the Mandatory and Voluntary Plans and to stay with American Funds Fundamental Investors R6. After a second by Doug Ball, the

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motion passed.

Blake Earl, TIAA, and John O'Brien, Voya, confirmed that implementation of these changes will be effective July 3, 2023, or as soon thereafter as practicable, if the Board of Regents approves the RPC recommendations for fund line-up changes.

Secure 2.0

Justin Dorsey provided an overview of Secure Act legislation (Setting Every Community Up for Retirement Enhancement). Administrative provisions are applicable to public plans, but the investment provisions are voluntary. Adrienne Kordalski moved that the topic be tabled for future discussion. After a second by Jay Stephens, the motion was passed.

Good of the Order

1. RPC members for subcommittee - A subcommittee of the RPC will be convened to meet this summer with TIAA and Voya representatives, as well as the investment consultant, to discuss various items impacting the Retirement Plans. The goal will be to dive deep into a variety of topics and then to share information with the entire RPC at this fall's meeting. Among the topics to be discussed are evolving trends and regulatory changes including Secure Act 2.0, what provisions are required to be implemented and what are optional; discussion about any necessary Plan documentation updates; TIAA proprietary fund share class changes.

Jay Stephens and Adrienne Kordalski who served on the RPC subcommittee for the investment consultant, have agreed to continue, and Werner Golling will join them.

Executive Session

At 2:48 Jay Stephens moved, followed by the second of Dipak Ghosh to recess into executive session to discuss matters deemed confidential in the attorney-client relationship and confidential data relating to financial affairs or trade secrets of a corporation, partnership, or other third-party business. The subject and purpose of executive session is to discuss legal matters with legal counsel. The session should last approximately 15 minutes and shall include the members of the body, KBOR Staff Affiliate Madi Vannaman, KBOR General Counsel John Yeary, and KBOR Associate General Counsel Gage Rohlf.

At 3:03 the meeting returned to open session, and the meeting was adjourned.

Next RPC meeting:

The next regular RPC meeting is scheduled for September 2023, date to be announced, beginning at 12:30 p.m.