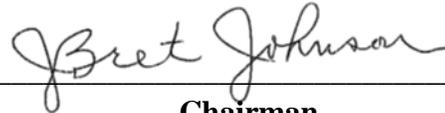


## CERTIFICATION

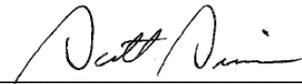
We, Colonel J. Bret Johnson, Chairman, and Scott Simon, Executive Director, Board of Trustees, MoDOT & Patrol Employees' Retirement System, hereby certify that the foregoing are full, true, and complete minutes of the meeting of the Board held on September 29, 2016 in Jefferson City, Missouri, as approved by said Board at its meeting held November 17, 2016.

IN TESTIMONY WHEREOF, we have hereto set our hands and affixed the seal of said Board on November 17, 2016.



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**Chairman**



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**Executive Director**

# Minutes of Meeting

September 29, 2016





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**BOARD OF TRUSTEES' MEETING**

**THURSDAY, SEPTEMBER 29, 2016**

**1:00 p.m.**

**Closed Session (11:30-12:30)**

**1913 William Street  
Jefferson City, Missouri**

**TRUSTEES PRESENT:** Colonel J. Bret Johnson, Chair  
Ms. Sue W. Cox, Vice Chair  
Mr. John Briscoe  
Mr. Patrick McKenna  
Mr. Mike Pace  
Representative Shawn Rhoads (via phone)  
Senator Dave Schatz (via phone)  
Mr. William "Bill" Seibert  
Major Kemp Shoun  
Mr. Gregg Smith  
Mr. Todd Tyler

**TRUSTEES ABSENT:** None

**STAFF PRESENT:** Mr. Scott Simon, Executive Director  
Mr. Greg Beck, Assistant Executive Director  
Mr. Larry Krummen, Chief Investment Officer  
Ms. Greta Bassett-Seymour, General Counsel  
Ms. Jennifer Even, Chief Financial Officer  
Ms. Lois Wankum, Executive Assistant II

**GUESTS/PRESENTERS:** Mr. Kevin Leonard, NEPC  
Mr. Will Forde, NEPC  
Mr. Ken Alberts, GRS  
Ms. Heidi Barry, GRS  
Mr. Mike Winter, Legislative Consultant  
Mr. Bob Charlesworth, Charlesworth & Associates

A regularly scheduled meeting of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) was held on Thursday, September 29, 2016, at the System's office located at 1913 William Street in Jefferson City, Missouri. The meeting was called to order by Colonel Johnson pursuant to Section 104.180 of the Revised Statutes of Missouri, as amended.

\* \* \* \* \*

**VOTE TO CLOSE MEETING**

The Board voted to close its meeting on September 29, 2016, citing Sections 610.021(3) and (13), RSMo., *Personnel administration regarding particular employees*. Upon a motion made by Mr. Pace and seconded by Mr. Smith to convene in closed session, the following roll call vote was taken:

- Colonel J. Bret Johnson, Aye
- Ms. Sue W. Cox, Aye
- Mr. John Briscoe, Aye
- Mr. Patrick McKenna, Aye
- Mr. Mike Pace, Aye
- Representative Shawn Rhoads, Aye
- Senator Dave Schatz, Aye
- Mr. William “Bill” Seibert, Aye
- Major Kemp Shoun, Aye
- Mr. Gregg Smith, Aye
- Mr. Todd Tyler, Aye

A motion to return to Open Session was made by Mr. Seibert and seconded by Mr. Smith. By unanimous vote of all Trustees present, the Board of Trustees returned to Open Session.

\* \* \* \* \*

**OPEN MEETING**

**APPROVAL OF MINUTES**

Upon a motion by Mr. Pace, and seconded by Mr. Tyler, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on June 23, 2016.

The Chair and Executive Director were authorized and directed to sign and certify said minutes and to file same in the office of the Executive Director.

\* \* \* \* \*

**CONSENT AGENDA**

To make the most efficient use of Retirement Board meeting time and to ensure the Trustees are well informed on issues requiring their action, the Executive Director prepares in advance and submits to the Trustees, items consisting of advice, opinions, and recommendations related to subjects on the Board meeting agenda. Items considered by staff to be of a routine or non-controversial nature are placed on the consent agenda. During the meeting, items may be removed from the consent agenda at the request of any one Trustee. Items not removed from the consent agenda are approved with a single motion and a unanimous vote by a quorum of the Trustees in attendance.

Minutes reflecting approval of items on the consent agenda are singly reported herein and thus, are intermingled with minutes reflecting action on related subjects as discussed. Reference to “consent agenda” is made in each minute approved via the process described above. Minutes reflecting action on items removed from the consent agenda and openly discussed reflect the open discussion and the vote thereon.

No items were removed from the consent agenda. Upon a motion by Mr. Smith and seconded by Mr. McKenna, all items on the consent agenda were unanimously approved.

\* \* \* \* \*

## INVESTMENT COMMITTEE REPORT

Mr. Krummen stated the Investment Committee met prior to the Board meeting and discussed the following items:

- **Anti-Terrorism Policy**

Mr. Larry Krummen provided an update of MPERS' Anti-Terrorism Policy reporting that MPERS has a policy in place that is designed to monitor lists provided by the federal government for publically traded companies that may support terrorism, while not punishing companies that have international operations.

- **Open Discussion on MPERS' Liquidity Profile**

At the Board meeting held on June 23, 2016, the Board was provided with results of the Liquidity Study. At that time, the Board directed staff to review options that might enhance the overall liquidity profile of the fund. NEPC and staff reviewed with the Board a number of potential changes to MPERS' targeted asset allocation. NEPC believes the current asset allocation is appropriate given the expected liquidity needs and did not recommend a change.

- **Timber Update**

Mr. Larry Krummen provided an update of MPERS' timber program reporting that the System has made two additional purchases in the 3rd quarter. The timber program is generating a lot of ideas and opportunities and staff continues to evaluate new opportunities as they arise.

\* \* \* \* \*

## CIO INVESTMENT REPORT

– by Mr. Larry Krummen (MPERS), Mr. Kevin Leonard & Mr. Will Forde (NEPC)

- **Fiscal Year 2016 Investment Performance Report**

Mr. Larry Krummen, Mr. Kevin Leonard and Mr. Will Forde provided a report on MPERS' investment performance for the quarter ending June 30, 2016. As of June 30, 2016, MPERS' net asset value was \$1.96 billion. The portfolio posted an even 1.0% return in fiscal year 2016. MPERS' return of 1.00% still ranked in the top 34% of public funds. As of September 15<sup>th</sup>, MPERS' fiscal year to date return stands at an estimated 1.60%. MPERS' three- and five-year returns rank in the top 1% and 2% of the public fund peer universe, and the ten-year return ranks in the top 27% while having a risk profile that is lower than 74% of the peer group..

- **Current Asset Allocation Overview/Positioning Relative to Targets**

It has been a relatively quiet quarter in terms of asset allocation changes, as financial markets gradually traded higher following the Brexit-induced sell-off in late June. The current allocation to cash is up to \$75 million, or 3.75 % of assets.

\* \* \* \* \*

**ANNUAL ACTUARIAL VALUATION – JUNE 30, 2016**

*– by Mr. Ken Alberts and Ms. Heidi Barry of Gabriel, Roeder, Smith & Company (GRS)*

Mr. Ken Alberts and Ms. Heidi Barry of Gabriel, Roeder, Smith & Company (GRS), the actuarial firm retained by the retirement system, discussed with the Board of Trustees the actuarial valuation results, which were previously furnished for the Board's review and consideration.

The annual actuarial valuation is designed to measure the overall financial condition of the retirement system. During FY2016, the funding status of MPERS increased from 52.9% to 55.5%. The annual valuation also provides the basis for determining employer contribution rates for the next fiscal year, which must be certified by the Board to the employers (MoDOT and MSHP) by October 1.

During a period when investment returns were low relative to actuarial assumptions, one would normally expect contributions rates to increase and the funded status to drop. This was not the case for this period due to the Board's decision in September 2014 to adopt the contribution rate stabilization reserve fund. This fund served to further accelerate the funding of MPERS and offer downside protection when returns are lower than anticipated. The contribution rate is comprised as illustrated in the following table.

FY2018 Employer Contribution Rates Expressed as % Active Payroll for Total Benefits	
Normal Cost	11.72%
Unfunded Liability	44.55%
Expenses	<u>1.20%</u>
Subtotal	57.47%
Disability Insurance	<u>0.53%</u>
Total	58.00%

The normal cost is the real cost of benefits. This contrasts with the unfunded liability, which is the “catch up” payment for those benefits that were not properly funded in the past.

Mr. Alberts recommended the contribution rate, effective July 1, 2017 (for FY 2018), to remain at 58.00% of pay for both non-uniformed members and uniformed members.

The Executive Director concurred with the actuary's recommendation. Mr. Pace made a motion to approve the recommendation. Ms. Cox seconded. The following vote was taken:

- Colonel J. Bret Johnson, Aye
- Ms. Sue W. Cox, Aye
- Mr. John Briscoe, Aye
- Mr. Patrick McKenna, Aye
- Mr. Mike Pace, Aye
- Representative Shawn Rhoads (via phone), Aye
- Senator Dave Schatz (via phone), Aye
- Mr. William “Bill” Seibert (no longer in attendance)
- Major Kemp Shoun, Aye
- Mr. Gregg Smith, Aye
- Mr. Todd Tyler, Aye

Motion carried. The rates for FY2018 will remain the same as FY2017 as shown on the next page:

	<u>FY2017 Rate</u>	<u>FY2018 Rate</u>
MoDOT & Civilian Patrol	58.00%	58.00%
Uniformed Patrol	58.00%	58.00%

\* \* \* \* \*

**AUDIT COMMITTEE REPORT**

• **Pre-Audit Meeting with Williams-Keepers**

Mr. Simon reported the Audit Committee met with Williams-Keepers prior to the Board meeting on June 23, 2016. The purpose of the meeting was for the committee to be more engaged in the audit process and to develop a direct connection between the committee and the auditor, minimizing staff involvement and promoting greater transparency for the committee regarding staff's ability to support a sound audit experience.

\* \* \* \* \*

**PLANS FOR ENTERPRISE RISK MANAGEMENT (ERM) PROGRAM**

*– by Mr. Greg Beck, MPERS' Assistant Executive Director*

Mr. Beck stated he will facilitate the enterprise risk management program (ERM) that is in the FY2017 Business Plan. The program is intended to assist MPERS in continuing on its path to providing benefits and investing in an efficient and low-risk operational environment.

\* \* \* \* \*

**NOVEMBER BOARD EDUCATIONAL WORKSHOP**

*– by Mr. Scott Simon, MPERS' Executive Director*

Mr. Simon stated the Board Educational Workshop and MPERS' Board Meeting will be held on November 17<sup>th</sup>, at the Meadow Lake Acres Country Club in New Bloomfield, Missouri.

\* \* \* \* \*

**DIRECTOR'S COMMENTS**

• **Milestone Service Anniversaries**

Mr. Simon and the Board recognized staff for milestone anniversaries for years of service with the State of Missouri. Ms. Lois Wankum (30 years), Scott Simon (20 years) and Ms. Tammy Kroll (10 years).

• **Governance Committee**

Mr. Simon stated the Governance Committee will meet sometime in November to review revisions to the Board Governance Policies and Board Rules.

• **Presentations**

Mr. Simon stated the benefits staff has been busy conducting Benefit Basics presentations to members and he and Mr. Greg Beck have also made a couple of those presentations.

• **Cleanup Legislation**

Mr. Simon informed the Board MPERS has cleanup legislation to be introduced for the next session and advised Senator Dave Schatz and Representative Shawn Rhoads he will be asking for their assistance.

- **2016 State of Missouri Compensation & Benefits Study**

Mr. Simon stated the results of the 2016 State of Missouri Compensation & Benefits Study were recently released. Mr. Simon stated upon his review of the defined benefit component of the study, he is unclear how they determined the value of the benefit and is skeptical if they used the appropriate cost.

- **Update from the Assistant Executive Director**

Mr. Greg Beck indicated he and other staff members recently attended the PensionGold Teaming Conference at the LRS headquarters in Springfield, Illinois.

\* \* \* \* \*

**TRUSTEES' COMMENTS**

None.

\* \* \* \* \*

**REPORT ON TRUSTEE EDUCATION – FY2017** *(Consent Agenda)*

Per the Monitoring and Reporting Policy, the Board was provided with the “*Report on Trustee Education*” for FY2017. Via approval of the consent agenda, the Board unanimously accepted the report.

\* \* \* \* \*

**REPORT OF UNAUDITED PRELIMINARY FINANCIAL STATEMENT  
FISCAL YEAR TO DATE AS OF JUNE 30, 2016** *(Consent Agenda)*

The Board reviewed the financial statements of the System showing total investments (on an accrual basis) at market value of \$1,982,820,836 as of June 30, 2016. This is an increase of \$34.5 million from the value of 1,948,297,980 as of March 31, 2016.

Via approval of the consent agenda, the Board unanimously accepted the reports and directed that they be filed in the office of the Executive Director.

\* \* \* \* \*

**MEMBERSHIP INFORMATION** *(Consent Agenda)*

- **Benefit Payments and Member Data – August 2016**

The Executive Director provided current member and benefit data to the Board. Via approval of the consent agenda, the Board unanimously accepted the reports.

\* \* \* \* \*

**RETIREMENT INCEPTIONS** *(Consent Agenda)*

The Executive Director provided the Board with a summary of retirement inceptions for the months of July 2016 through August 2016. Via approval of the consent agenda, the Board unanimously accepted the report.

\* \* \* \* \*

**ADJOURN**

A motion to adjourn was made by Ms. Cox and seconded by Mr. Smith. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.

\* \* \* \* \*