

# Minutes of Meeting

February 27, 2014



MoDOT & Patrol  
Employees' Retirement System



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<b>Adjourn</b>	



**BOARD OF TRUSTEES' MEETING**

**THURSDAY, FEBRUARY 27, 2014**

**1:00 p.m.**

**1913 William Street  
Jefferson City, Missouri**

**TRUSTEES PRESENT:** Major J. Bret Johnson, Chair  
Mr. Lloyd "Joe" Carmichael, Vice Chair  
Colonel Ron Replogle  
Representative Shawn Rhoads  
Mr. Bob Sfreddo  
Mr. Roger D. Stottlemire  
Mr. Kenneth H. Suelthaus (via telephone)  
Mr. Todd Tyler

**TRUSTEES ABSENT:** Senator Mike Kehoe  
Mr. Dave Nichols

**STAFF PRESENT:** Mr. Scott Simon, Executive Director  
Ms. Pam Henry, Assistant Executive Director  
Mr. Larry Krummen, Chief Investment Officer  
Ms. Lois Wankum, Executive Assistant

**GUESTS/PRESENTERS:** Mr. Kevin Leonard, NEPC  
Mr. Will Ford, NEPC  
Mr. Mike Winter, Legislative Consultant

A regularly scheduled meeting of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) was held on Thursday, February 27, 2014, at the System's office located at 1913 William Street in Jefferson City, Missouri. The meeting was called to order by Major Johnson pursuant to Section 104.180 of the Revised Statutes of Missouri, as amended.

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**APPROVAL OF MINUTES**

Upon a motion by Mr. Stottlemire, and seconded by Colonel Replogle, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on November 21, 2013.

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.

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## **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. Sfreddo, and seconded by Mr. Carmichael, all items on the consent agenda were unanimously approved.

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## **LEGISLATION**

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

Mr. Simon stated the legislative proposals are developing quite slowly this year relative to most years. Only a handful of retirement bills have been presented and only a few of those have implications for MPERS. Below are a few of the bills:

### HB 1217 Affects Public Plans

This bill specifies certain unlawful transfers or assignments of pension benefits.

### HB 1244 Affects MOSERS

This proposal eliminates retirement benefits for individuals becoming members of the General Assembly or becoming a statewide elected official for the first time on or after January 1, 2015.

### HB 1473 Affects MOSERS

This proposal requires that members to the General Assembly for the first time on or after January 1, 2015, be covered by a defined contribution retirement plan.

## HB 1682 Affects MPERS and MOSERS

This act, first proposed last year, would establish a hybrid plan for employees and elected officials becoming employed on and after January 1, 2015. The defined benefit structure would be very similar to the current structure of the 2011 Tier, but utilize a multiplier of 1% rather than 1.7% and includes 5 years vesting rather than 10. The benefit structure would also include a defined contribution component that would include an employee contribution of 1% along with an employer contribution of 3%.

## HB 1800 Affects MPERS and MOSERS

This proposal is a result of recent litigation applicable to MOSERS. Although the courts found in favor of MOSERS, this clarifies what should happen if a member has applied for retirement, made all necessary elections, designated beneficiaries, but dies prior to their annuity starting date. Under current law, the application and elections are null and void if a member dies prior to the annuity starting date. This proposal would make the application and election valid unless there is an eligible surviving spouse or children, whom automatically receive survivor benefits.

## HB 1882 Affects Public Plans

This proposal updates or modifies the role public pension plans in Missouri have with regard to the Joint Committee on Public Employee Retirement and updates certain other provisions governing how public plans operate.

## SB 550 Affects Public Plans

This proposal would affect participants in systems created by the state of Missouri, who are found guilty of certain felonies specified in the act and committed in connection with their employment. It forfeits retirement benefits based on the service rendered on and after the enactment of this bill.

## SB 823 Affects Public Plans

This proposal would affect participants in systems created by the state of Missouri, who are found guilty of certain felonies specified in the act and committed in connection with their employment. It forfeits retirement benefits based on the service rendered on and after the enactment of this bill.

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### **AUDIT COMMITTEE REPORT**

*– by Mr. Ken Suelthaus, Audit Committee Chair*

- **Actuary Contract Extension**

Mr. Simon proposed extending the GRS contract, which is due to expire on June 30, 2014, for an additional year, since we are currently in the middle of implementing new reporting for GASB Statements 67 and 68, which demands considerable familiarity with our System. Mr. Simon noted that an additional extension is likely to be recommended next year as the new requirements will not be completed by end of FY 2015. A motion was made by Mr. Suelthaus, and seconded by Colonel Replege, to extend the contract for one year, which will now expire on June 30, 2015. Motion carried by unanimous vote of all Trustees present.

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## **GOVERNANCE COMMITTEE REPORT**

*– by Mr. Roger Stottlemire, Governance Committee Chair*

Mr. Roger Stottlemire, Governance Committee Chair, gave a brief recap of the committee meeting held on December 23, 2013. The Committee recommended approval of changes to the following Governance Policies:

### ***Executive Director Evaluation Process and Criteria***

The policy has been updated to remove the separate process currently provided for reviewing “objective criteria”, clarifies that a Summary of Accomplishments will be submitted to the Board for the Executive Director’s review process, and moved the review process from November to September.

### ***Executive Director Performance Evaluation Form***

A new format has been chosen. It is believed that this new document captures all of the factors included in the original document, just in a different format from the current process.

### ***Board Self-Evaluation Policy***

After updating the above listed policies, it was noted this policy coincides with the timing of the Executive Director review; however it was decided this evaluation should take place during the annual Board Workshop.

Mr. Stottlemire made a motion to approve the governance policies as presented. Mr. Sfreddo seconded the motion. The following vote was taken:

Major J. Bret Johnson, Aye  
Mr. Lloyd “Joe” Carmichael, Aye  
Colonel Ron Replogle, Aye  
Representative Shawn Rhoads, Aye  
Mr. Bob Sfreddo, Aye  
Mr. Roger D. Stottlemire, Aye  
Mr. Kenneth H. Suelthaus, Aye  
Mr. Todd Tyler, Aye

The Board of Trustees unanimously approved revisions to the above listed policies.

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## **BUDGET COMMITTEE REPORT**

*– by Major Bret Johnson, Budget Committee Chair*

The Governance Policy requires a budgetary review twice a year – once when the budget is approved by the Board and a second time, at mid-year, to illustrate whether expenses are coming in as anticipated. Major Johnson reported the Budget Committee was provided with mid-year numbers of the System’s budget as of December 31, 2013. A new category was added for IT costs instead of including those costs with the Equipment/Furniture category. There are some unexpected IT transition equipment costs, but those costs will be offset by reductions elsewhere in the budget. Due to the departure of the System’s General Counsel, increased legal costs are expected. All expenses were found to be within the budgeted allowances.

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**INVESTMENT COMMITTEE REPORT**

*– by Mr. Joe Carmichael, Investment Committee Chair*

• **NEPC 2014 Assumptions and Actions for Clients**

Mr. Carmichael stated Mr. Eric Knudsen of NEPC presented the NPEC 2014 Assumptions and Actions for Clients to the Investment Committee.

**4<sup>TH</sup> QUARTER 2013 INVESTMENT PERFORMANCE REPORT**

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

Mr. Larry Krummen and Mr. Kevin Leonard provided a report on MPERS’ investment performance for the 4<sup>th</sup> quarter of calendar year 2013. As of December 31, 2013, MPERS’ net asset value was \$1.79 billion. The system performed well in 2013, finishing the year with a 14.96% return (10<sup>th</sup> percentile compared to peers). The benchmark returned 12.55%. Achieving top quartile risk-adjusted returns is quite impressive for a fund that has a much smaller global equity allocation than most public pension plans.

**CIO INVESTMENT REPORT**

*– by Mr. Larry Krummen, MPERS’ Chief Investment Officer*

• **Asset Allocation Overview/Positioning Relative to Targets**

Mr. Krummen stated it’s been a busy start to 2014 in terms of positioning the investment portfolio. January’s equity market selloff was used as an opportunity to increase MPERS’ equity exposure. The markets also welcomed the appointment of Janet Yellen, who calmed investor fears by pledging the Fed’s continued support of the economy. With the increased clarity and transparency around the Fed’s intentions, Mr. Krummen believes the risk of tapering is fully priced into the markets and has been selectively increasing MPERS’ fixed income exposure. The real estate allocation was also increased through a \$23 million secondary acquisition of two real estate funds. These actions collectively reduced MPERS’ cash position to roughly 1% of assets, relative to 4.6% at year end.

As of February 17, 2014, each of MPERS’ sub-asset class allocations are within the acceptable ranges established by the investment policy.

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**ELECTION OF CHAIR**

In accordance with State Statute Section 104.170 RSMo., Mr. Joe Carmichael was elected as Chair of the Board for a one-year term.

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**ELECTION OF VICE CHAIR**

In accordance with State Statute Section 104.170 RSMo., Colonel Ron Replogle was elected as Vice Chair of the Board for a one-year term.

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## **TRUSTEE CODE OF CONDUCT AND CONFLICTS OF INTEREST ACKNOWLEDGEMENT**

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

The MPERS Board Governance Policy provides that Trustees shall provide a written acknowledgement that they have received the Trustee Code of Conduct and Conflicts of Interest Policy annually. Each Board member was provided with an acknowledgement form to sign.

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### **DIRECTOR'S COMMENTS**

- **New Hires**

Mr. Simon introduced two new employees to the Board. Mr. Bobby Hagedorn began employment with MPERS as a Senior Investment Officer on November 26, 2013. Mr. Jamie Mullen joined MPERS as an Intermediate Benefit Specialist on January 13, 2014.

- **General Counsel Vacancy**

Mr. Simon stated 27 resumes have been received for the General Counsel position. Additional questions have been sent to 6-7 of those applicants to help narrow the field, and their responses are due back tomorrow. Staff will then select applicants to be interviewed.

- **Trustee Election**

Mr. Simon stated the trustee election for active and retiree elected trustee representatives will begin soon. The notification to members announcing the nomination period was sent on March 3<sup>rd</sup> and the deadline for nominations is March 28<sup>th</sup>. The voting period will begin on April 30<sup>th</sup> and will run through May 22<sup>nd</sup>. This election will debut MPERS new electronic voting platform. Active employees will vote electronically; however, retirees will receive a paper ballot with the option of voting electronically. It is hopeful the election will experience greater participation under this platform, not to mention boost future utilization of MPERS' website. The electronic medium will help manage future costs of the system.

- **Comprehensive Annual Financial Report (CAFR)**

Each Board member was provided a copy of the FY2013 CAFR.



- **Committee Assignments**

Each Board member was provided with an updated copy of committee appointments due to the election of a new chair and vice-chair. Below is the updated list of appointments:

**Audit Committee**

Kenneth Suelthaus – *Chair*  
Major Bret Johnson  
Colonel Ron Replogle

**Budget Committee**

Joe Carmichael – *Chair*  
Colonel Ron Replogle  
Representative Shawn Rhoads  
Todd Tyler

**Governance Committee**

Roger Stottlemire – *Chair*  
Dave Nichols  
Bob Sfreddo  
Todd Tyler

**Investment Committee**

Joe Carmichael – *Chair*  
Senator Mike Kehoe  
Dave Nichols  
Bob Sfreddo  
Roger Stottlemire

- **Internal Audit**

Mr. Simon indicated an internal audit revealed a few cases where provisions of the law were misapplied. The law clearly indicates the corrections should be made and Mr. Simon stated if Board members are contacted by any of the members affected, to simply advise them of the appeal process.

- **Electronic Board Packets**

Mr. Simon asked Board members for feedback on the utilization of electronic Board packets that was used for this meeting. Since no members had any issues with using this version, Mr. Simon indicated the electronic version will continue to be used for future meetings.

- **Board Meeting Dates**

The April Board meeting is tentatively on the schedule for April 24<sup>th</sup>. Unless something changes on the legislative front, Mr. Simon indicated there currently is no need for that meeting to be held; unless the Board feels otherwise. Mr. Carmichael stated it may be beneficial to conduct a meeting via conference call to receive an update on investments. Mr. Krummen stated audited numbers won't be available at that time, but an update can be provided. Mr. Carmichael stated information should be sent to the Board and, if needed, a conference call could be held. Board members were asked to keep their calendars open for the meeting scheduled at 1:00 p.m. on April 24<sup>th</sup>.

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**TRUSTEE'S COMMENTS**

- **General Counsel Vacancy**

Mr. Carmichael stated this employee is also counsel to the Board of Trustees and thought the Board should have some input in the hiring process. Major Johnson stated when he was chair of the Board, he had offered to be part of the interview panel. Mr. Sfreddo made a motion for Major Johnson to sit in on the interviews. Colonel Replogle seconded the motion. Motion carried by unanimous vote of all Trustees present.

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**DETERMINATION OF ANNUAL COST-OF-LIVING  
ADJUSTMENT AMOUNT FOR RETIREES AND BENEFICIARIES** (*Consent Agenda*)

Mr. Simon informed the Board that Sections 104.103 and 104.1045 of the Revised Statutes of Missouri require an annual cost-of-living adjustment (COLA) to be determined in January of each year, based upon the percentage increase in the Consumer Price Index for All Urban Consumers (CPI-U) over the preceding calendar year. This amount will be used in calculating the annual benefit increases for retirees and survivors. The COLA for calendar year 2014 will be 1.172%.

2013 Average Index .....	232.957	% of Increase (2012 to 2013).....	1.465%
2012 Average Index .....	<u>229.594</u>	80% of CPI-U .....	1.172%
Increase in CPI-U .....	4.654		

Calculation:  $(232.957 - 229.594) / 229.594 = 1.465 \times 80\% = 1.172\%$

**Closed Plan**

Members (or their survivors), who were hired prior to August 28, 1997 and retired under the “Closed Plan,” are guaranteed an annual 4% COLA (not to exceed 5%) until the accumulated COLAs equal 65% of their initial benefit amount. Therefore, the cost-of-living increase to be applied to the October 2014 benefit is 4% for members whose 65% cost-of-living cap has not been reached.

Members (or their survivors), who were hired on or after August 28, 1997 and retired under the “Closed Plan,” or who have reached their 65% COLA cap, will receive a COLA in 2014 of 1.172%.

**Year 2000 Plan**

Members who retired under the Year 2000 Plan (or their survivors) will receive a COLA of 1.172% in 2014. Their annual COLA rate is 80% of the CPI-U (not to exceed 5%).

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**REPORT OF QUARTERLY FINANCIAL STATEMENT –  
OCTOBER 2013 to DECEMBER 2013** (*Consent Agenda*)

The Board viewed the financial statements of the System showing total investments (on an accrual basis) at market value of \$1,789,077,812 as of December 31, 2013. This is an increase of \$153.4 million from the value of 1,635,709,115 as of September 30, 2013.

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.

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

• **Benefit Payments and Member Data – January 2014**

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

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

The Executive Director provided the Board with a summary of retirement inceptions for the months of July 2013 through January 2014. Via approval of the consent agenda, the Board unanimously accepted the report.

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**VOTE TO CLOSE MEETING**

The Board voted to close a portion of its meeting on February 27, 2014, to approve minutes of the November 21, 2013 meeting concerning personnel administration regarding particular employees. Upon a motion made by Mr. Stottlemyre and seconded by Colonel Replogle to convene in closed session, the following roll call vote was taken:

Major J. Bret Johnson, Aye  
Mr. Lloyd "Joe" Carmichael, Aye  
Colonel Ron Replogle, Aye  
Representative Shawn Rhoads, Aye  
Mr. Bob Sfreddo, Aye  
Mr. Roger D. Stottlemyre, Aye  
Mr. Todd Tyler, Aye

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**ADJOURN**

A motion to adjourn was made by Colonel Replogle and seconded by Representative Rhoads. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.