

Minutes of Meeting

September 25, 2014



MoDOT & Patrol
Employees' Retirement System



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BOARD OF TRUSTEES' MEETING

THURSDAY, SEPTEMBER 25, 2014

1:00 p.m.

**1913 William Street
Jefferson City, Missouri**

TRUSTEES PRESENT: Mr. Lloyd "Joe" Carmichael, Chair
Colonel Ron Replogle, Vice Chair
Ms. Sue W. Cox
Major J. Bret Johnson
Senator Mike Kehoe
Mr. Dave Nichols
Mr. William "Bill" Seibert
Mr. Kenneth H. Suelthaus
Mr. Todd Tyler

TRUSTEES ABSENT: Representative Shawn Rhoads

STAFF PRESENT: Mr. Scott Simon, Executive Director
Ms. Pam Henry, 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

GUESTS/PRESENTERS: Mr. Kevin Leonard, NEPC
Mr. Will Forde, NEPC
Mr. Ken Alberts, Gabriel Roeder Smith (GRS)
Mr. Bob Charlesworth, Charlesworth & Associates
Mr. Tom Trussell, Standard Insurance Company
Ms. Cindy Krowe, Standard Insurance Company
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, September 25, 2014, at the System's office located at 1913 William Street in Jefferson City, Missouri. The meeting was called to order by Mr. Carmichael pursuant to Section 104.180 of the Revised Statutes of Missouri, as amended.

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APPROVAL OF MINUTES

Upon a motion by Major Johnson, and seconded by Mr. Nichols, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on June 26, 2014.

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. Nichols, and seconded by Major Johnson, all items on the consent agenda were unanimously approved.

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DRAFT ANNUAL ACTUARIAL VALUATION – JUNE 30, 2014

– by Mr. Ken Alberts of Gabriel, Roeder, Smith & Company (GRS)

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

Mr. Alberts recommended the Board consider a rate stabilizing mechanism or accelerated funding. Mr. Suelthaus made a motion to use a contribution stabilization reserve that would result in an MPERS' combined employer contribution of 58% of pay with rates for non-uniformed and uniformed groups similar to the prior years' rates. Ms. Cox seconded the motion.

The following vote was taken:

Mr. Lloyd "Joe" Carmichael, Aye
Ms. Sue W. Cox, Aye
Major J. Bret Johnson, Aye
Senator Mike Kehoe, Aye
Mr. Dave Nichols, Aye
Colonel Ron Replogle (was not in attendance yet)
Mr. William "Bill" Seibert, Aye
Mr. Kenneth H. Suelthaus, Aye
Mr. Todd Tyler, Aye

Motion carried.

NOTE: After the meeting Mr. Alberts calculated the contribution rate, effective July 1, 2015 (for FY 2016), of 58.05% of pay for non-uniformed members and 57.76% of pay for uniformed members. The rates for FY2015 and FY2016 are shown below.

	<u>FY2015 Rate</u>	<u>FY2016 Rate</u>
MoDOT & Civilian Patrol	58.76%	58.05%
Uniformed Patrol	58.19%	57.76%

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GOVERNANCE COMMITTEE REPORT

– by Ms. Sue W. Cox, Governance Committee Chair

Ms. Sue W. Cox, Governance Committee Chair, gave a brief recap of the committee meeting held on August 28, 2014. The Committee recommended approval of minor changes to the following Governance Policies and Board Rules:

Orientation and Education Policy

Wording was added to the “trustee education program” to include individuals who are returning to the Board after a break-in-service. The requirements of Section 105.666 was revised during the 2014 legislative session which changed the prior requirement from two annual continuing education programs to six hours annually. It also states a record of Board member education shall be maintained for public record and disclosure for at least three years or until the expiration of such Board members’ term, whichever occurs first. The policy was revised to incorporate those revisions. Wording was also added to the policy to clarify this is a statutory requirement.

Funding and Contribution Rate Determination Policy

The funding policy reflects the requirements of Section 105.665. The committee has incorporated additional detail in the policies that more fully reflect the statutory requirements and the actual practices followed by the retirement system, in addition to the requirements of GASB 67/68.

Board Rule – Chapter 1 – Procedural Rules

Board Rule – Chapter 3 – Closed Plan

Board Rule – Chapter 4 – Year 2000 Plan

Board Rule – Chapter 5 – 2011 Tier of Year 2000 Plan

Several changes were made to the Board Rules because upon review, the rules repeated the statutes, and that is not the intent of Board Rules. The Board Rules are intended to clarify statutes and provide guidance to the administration of the statute, but not to regurgitate the contents of the statute.

Mr. Nichols made a motion to approve the governance policies and Board Rules as presented. Major Johnson seconded the motion. The following vote was taken:

Mr. Lloyd “Joe” Carmichael, Aye
Ms. Sue W. Cox, Aye
Major J. Bret Johnson, Aye
Senator Mike Kehoe, Aye
Mr. Dave Nichols, Aye
Colonel Ron Replogle, Aye
Mr. William “Bill” Seibert, Aye
Mr. Kenneth H. Suelthaus, Aye
Mr. Todd Tyler, Aye

Motion carried.

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CONSOLIDATION OF CONTRIBUTION RATES

– by Mr. Scott Simon, MPERS’ Executive Director

Mr. Simon stated that, from time to time, there is mention of consolidating contribution rates. Currently there are separate contribution rates for uniform and non-uniformed members. The rates for each employer are calculated using assumptions/experience specific to each group; therefore, there will always be a difference between the contribution rates for each group.

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DISABILITY PLAN DESIGN OVERVIEW

– by Mr. Scott Simon, MPERS’ Executive Director

Mr. Simon provided a summary of provisions for the disability plan and highlighted the similarities and differences between the long-term and work-related disability benefits. This review was provided to ensure the Board and the covered employers understand the disability plans and their implementation.

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INVESTMENT COMMITTEE REPORT

– by Mr. J. Bret Johnson, Investment Committee Chair

- **Revisions to MPERS’ Investment Policy**

Ms. Greta Bassett-Seymour, MPERS’ General Counsel, provided a summary of recommended changes to the Investment Policy. These changes included revising the language for investing in subsequent funds, broadening the cash/collateral guidelines to allow exposure to an approved asset class and allowing CIO the ability to invest in Non-Rated Securities as 1% of the Systems’ total fund assets.

Upon a motion made by Mr. Nichols and seconded by Mr. Seibert, the Board of Trustees unanimously approved revisions to the Investment Policy.

- **In-Depth FY2014 Investment Performance Review**

The Investment Staff, with the assistance of NEPC, presented an in-depth performance review as of June 30, 2014 and discussed each individual asset class and any relevant concerns. The Total Fund returned 17.56% for FY2014 outperforming the benchmark return of 14.47%.

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CIO INVESTMENT REPORT

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

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

Mr. Krummen stated the markets continue to benefit from the massive amounts of stimulus and liquidity in the market, which has driven volatility (the primary measure of market risk) down to pre-crisis levels. While not the only measure of an investor’s risk appetite, low volatility can lead to complacency on the part of investors and the potential to overlook macro-economic risks. Two macro risks that MPERS is closely monitoring include the potential for rising interest rates and the geo-political risk in Russia/Ukraine and the Middle East. With the combination of asset valuations at or near all-time highs and volatility at multi-year lows (which increases the risk of complacency), MPERS used this as an opportunity to re-position the portfolio closer to long-term strategic allocations. The one exception remains within the hedge fund portfolio, which MPERS expects to remain near the bottom of the permissible range for the foreseeable future. MPERS’ investment staff continue to favor other alternative asset strategies (real assets, real estate, private equity, and opportunistic debt) over hedge funds in today’s environment.

As of September 16, 2014, each of MPERS’ sub-asset class allocations are within the acceptable ranges established by the investment policy.

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2ND QUARTER & FY2014 INVESTMENT PERFORMANCE REPORT

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

Mr. Larry Krummen, Mr. Kevin Leonard and Mr. Will Forde provided a report on MPERS’ investment performance for the 2nd quarter & fiscal year 2014 investment performance. As of June 30, 2014, MPERS’ net asset value was \$1.92 billion. The one-year return as of June 30th, was 17.56%, outperforming the benchmark return of 14.47%. The system continues to achieve top quartile risk-adjusted returns relative to peers, despite the smaller global equity allocation, than most public pension plans.

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DIRECTOR’S COMMENTS

• **Audit RFP**

As a result of GASB 68, employers will need an additional opinion on MPERS’ Required Supplementary Information Schedules which normally are not provided with the annual audit. Mr. Simon stated MoDOT could have their auditor expand their review, (which would duplicate what Williams Keepers has already done for MPERS) or ask Williams Keepers to expand their audit. Mr. Simon recommended Williams Keepers expand their audit to provide this opinion. The additional cost for the opinion is estimated to be \$8,500. Upon a motion made by Mr. Suelthaus and seconded by Senator Kehoe, the Board of Trustees unanimously agreed with Mr. Simon’s recommendation and gave authority to amend the FY2015 operating budget in the amount of \$8,500.

• **Topics of Interest**

Mr. Simon encouraged Board members to suggest topics to be covered during future meetings or at the upcoming Board Workshop. The topics currently slated for the Board Workshop include fiduciary education (per statute) and an update on IT as a follow-up to the Brown Smith Wallace review.

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TRUSTEE’S COMMENTS

None.

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REPORT ON TRUSTEE EDUCATION *(Consent Agenda)*

Per the Monitoring and Reporting Policy, the Board was provided with the “*Report on Trustee Education*” for FY2014.

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MEMBERSHIP INFORMATION *(Consent Agenda)*

• **Benefit Payments and Member Data – August 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 2014 through August 2014. Via approval of the consent agenda, the Board unanimously accepted the report.

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ADJOURN

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