

Minutes of Meeting

September 26, 2013



MoDOT & Patrol
Employees' Retirement System



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BOARD OF TRUSTEES' MEETING

THURSDAY, SEPTEMBER 26, 2013

11:00 a.m.

**1913 William Street
Jefferson City, Missouri**

TRUSTEES PRESENT: Major J. Bret Johnson, Chair
Mr. Lloyd "Joe" Carmichael, Vice Chair
Senator Mike Kehoe
Mr. Kelley Martin
Mr. Dave Nichols
Colonel Ron Replogle
Representative Shawn Rhoads
Mr. Bob Sfreddo
Mr. Roger D. Stottlemire
Mr. Kenneth H. Suelthaus
Mr. Todd Tyler

TRUSTEES ABSENT: None

STAFF PRESENT: Mr. Scott Simon, Executive Director
Ms. Pam Henry, Assistant Executive Director
Mr. Larry Krummen, Chief Investment Officer
Mr. Omar Davis, General Counsel
Ms. Lois Wankum, Executive Assistant
Ms. Jennifer Even, Chief Financial Officer

GUESTS/PRESENTERS: Mr. Ken Alberts, Gabriel Roeder Smith & Co.
Mr. Mike Oldelehr, Williams-Keepers LLC
Mr. Kevin Leonard, NEPC
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 26, 2013, 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. Carmichael, and seconded by Mr. Stottlemire, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on June 20, 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. Stottlemire, and seconded by Colonel Repogle, all items on the consent agenda were unanimously approved.

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WELCOME REPRESENTATIVE SHAWN RHOADS AND MR. DAVE NICHOLS TO THE BOARD OF TRUSTEES

The Chairman welcomed Representative Shawn Rhoads and Mr. Dave Nichols to the MPERS Board of Trustees. Representative Rhoads was appointed on July 19, 2013 and replaces Representative Don Phillips and Mr. Dave Nichols replaced Mr. Kevin Keith as the Director of MoDOT effective July 1, 2013.

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EXPRESSION OF THANKS TO MR. RUDY FARBER FOR HIS SERVICE TO THE BOARD OF TRUSTEES

The Board expressed appreciation to Mr. Rudy Farber for his dedication and service to the MPERS Board of Trustees. Mr. Farber had served on the MPERS’ Board since May 6, 2009.

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INVESTMENT COMMITTEE REPORT

– by Mr. Joe Carmichael, Investment Committee Chair

- **Revisions to MPERS' Investment Policy**
– by Mr. Omar Davis, MPERS' General Counsel

The Investment Policy outlines the purpose and objectives of the investment function and summarizes the roles and responsibilities of service providers that play a key part in the management of the System's investment program. Mr. Davis recommended several changes to the Investment Policy. While most changes were minor, others had a larger impact on the Investment Program, such as defining the role of specialty consultants and removing the concentration constraints for equities and fixed income.

Upon a motion made by Mr. Suelthaus and seconded by Mr. Carmichael, the Board of Trustees approved revisions to the Investment Policy.

In addition, Mr. Martin requested the Purpose and Objective Section - "Guiding Principles" and "Investment Beliefs" be placed on the next Investment Committee meeting agenda for further reflection.

- **Governance Policy Updates**
– by Mr. Scott Simon, MPERS' Executive Director

Mr. Simon proposed including the investment staff's existing incentive compensation policy to the System's Governance Policy. Currently, investment staff incentive compensation is documented through memos of understanding. By moving the investment incentive compensation to the Governance Policy, it will be more transparent. Furthermore, the proposal clarifies that the policy applies to all investment personnel. Within the proposal, incentive compensation levels were lowered for certain positions which reduced cost to the Plan.

Upon a motion made by Mr. Carmichael, and seconded by Mr. Nichols, the Board of Trustees unanimously approved the proposal.

- **Global Equity Restructuring**
– by Mr. Kevin Leonard, NEPC

NEPC, MPERS' investment consultant, presented a review of the System's global equity portfolio. The review included recommendations for a global equity restructuring. The global equity review included analyzing current investment managers as well as identifying new managers for consideration. NEPC detailed its approach for analyzing the current investment managers which focused on both qualitative and quantitative factors. A review of how risk was being utilized in the global equity portfolio was beneficial to deciding which managers to retain, pare back, terminate and hire. Over the past several months, staff and NEPC have worked closely on a plan to restructure the System's global equity portfolio which would bring the portfolio more in line with NEPC's current views on asset allocation. The restructure is scheduled to take place in the next couple of weeks.

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CIO INVESTMENT REPORT

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

- **Fiscal Year 2013 Investment Performance**

FY 2013 investment performance of 13.42% outperformed the policy benchmark by 3.37%. The total plan 10-year performance is 7.38%. MPERS’ one, three and ten-year returns all rank in the top quartile of NEPC’s public fund peer universe.

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

Mr. Krummen stated they continue to remain at or near the lowest permissible range in fixed income given the rising interest rate environment.

As of September 15, 2013, each of MPERS’ sub-asset class allocations are within the acceptable ranges established by the investment policy.

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2ND QUARTER 2013 INVESTMENT PERFORMANCE REPORT

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

Mr. Larry Krummen and Mr. Kevin Leonard provided a report on MPERS’ investment performance for the 2nd quarter of calendar year 2013. As of June 30, 2013, MPERS’ net asset value was \$1.67 billion.

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MASTER TRUST/GLOBAL CUSTODIAN SERVICES

– by Mr. Scott Simon, MPERS’ Executive Director

Northern Trust has fulfilled the role of master custodian to the System since 2003. The master custodian’s role is to provide various safekeeping services, housing securities, collecting income and principal, receiving and delivering securities, calculating investment performance etc. In December 2013, the agreement with Northern Trust is up for renewal. Staff with NEPC’s help, conducted a Request for Information from several custodial banks and reviewed the services and prices offered from each respondent. Mr. Simon recommended the retention of Northern Trust as MPERS’ Master Custodian. Northern remains highly competitive from a cost perspective and is able to provide the level of service required.

Upon a motion made by Mr. Martin, and seconded by Mr. Sfreddo, the Board of Trustees unanimously approved to continue the custodial relationship with Northern Trust and renew the contract for three years with two one-year extensions.

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AUDIT COMMITTEE REPORT

– by Mr. Ken Suelthaus, Audit Committee Chair

Mr. Suelthaus stated the Audit Committee met on September 23, 2013 to review staff’s proposal related to the recent IT assessment. The proposal included hiring Huber & Associates to provide desktop maintenance and Levi, Ray and Shoup, Inc. as server host. Year after year, the System’s information technology structure has come under scrutiny of the external auditors, the proposal addressed this issue.

As recommended by the Committee, Mr. Suelthaus made a motion to 1) accept the proposal from Levi, Ray & Shoup (LRS) for the line of business applications and 2) accept the proposal from Huber & Associates for the desktop applications.

Mr. Martin seconded the motion and the Board of Trustees unanimously approved the recommendation.

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PRELIMINARY ANNUAL ACTUARIAL VALUATION – JUNE 30, 2013

– 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 preliminary actuarial valuation results which were previously furnished for the Board's review and consideration.

Mr. Alberts recommended implementing a contribution rate, effective July 1, 2014 (for FY 2015), of 58.76% of pay for non-uniformed members and 58.19% of pay for uniformed members.

The Executive Director concurred with the actuary’s recommendation. Mr. Sfreddo motioned to approve the recommended contribution rates. Mr. Nichols seconded.

The following vote was taken:

- Major J. Bret Johnson, Aye
- Mr. Lloyd “Joe” Carmichael, Aye
- Senator Mike Kehoe, (not present during vote)
- Mr. Kelley Martin, Aye
- Mr. Dave Nichols, 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

Motion carried. The rates for FY2014 and FY2015 are shown below.

	<u>FY2014 Rate</u>	<u>FY2015 Rate</u>
MoDOT & Civilian Patrol	54.25%	58.76%
Uniformed Patrol	55.23%	58.19%

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**PRELIMINARY RESULTS OF ANNUAL AUDIT FOR
FISCAL YEAR ENDED JUNE 30, 2013**

– by Mr. Mike Oldelehr of Williams-Keepers, LLC

Mr. Mike Oldelehr of Williams-Keepers, LLC, presented the audit for the fiscal year ended June 30, 2013. In the opinion of Williams-Keepers, LLC, the financial statements present fairly, in all material respects, the plan net assets of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System as of June 30, 2013, and the changes in plan net assets for the year then ended, in conformity with generally accepted accounting principles.

Upon a motion made by Colonel Replogle, and seconded by Mr. Stottlemire, the Board of Trustees accepted the annual audit for fiscal year ended June 30, 2013.

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DIRECTOR'S COMMENTS

- **Committee Assignments**

Each Board member was provided with an updated copy of committee appointments due to turnover of Board members. Below is the updated list of appointments:

Audit Committee

Kenneth Suelthaus - *Chair*
Major Bret Johnson
Kelley Martin
Colonel Ron Replogle

Budget Committee

Major Bret Johnson – *Chair*
Joe Carmichael
Representative Shawn Rhoads
Colonel Ron Replogle

Governance Committee

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

Investment Committee

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

- **Certificate of Incumbency**

Mr. Scott Simon requested authority to delegate the Chief Investment Officer and the Chief Financial Officer as persons authorized to act with respect to certain affairs of their offices. The Board unanimously agreed to this request.

- **Board Self-Evaluation and Executive Director Evaluation**

Mr. Simon stated the Board's Self-Assessment and the Executive Director's Annual Evaluation will be forthcoming for their completion. The evaluations will be discussed at the Board Workshop on November 21, 2013.

- **Non-State Sponsored Insurance Premium Deductions**

Mr. Simon stated MPERS has been deducting for non-state sponsored insurances. According to the statutes governing the plan, MPERS' is only authorized to deduct premiums for State sponsored plans and therefore will discontinue the other deductions. The Met Life/BMA (Patrol) premiums were no longer withheld as of September 1, 2013. Effective January 1, 2014, the premiums for Voluntary Life (MoDOT), Conesco/Washington National (Patrol), and Central United Life/Manhattan Insurance Group (MoDOT) will no longer be withheld from the retirees benefit payments.

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TRUSTEE'S COMMENTS

None.

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MEMBERSHIP INFORMATION *(Consent Agenda)*

- **Benefit Payments and Member Data – August 2013**

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 August 2013. 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 September 26, 2013, to approve minutes of the June 20, 2013 meeting regarding personnel administration regarding particular employees. Upon a motion made by Mr. Stottlemyre and seconded by Mr. Carmichael to convene in closed session, the following roll call vote was taken:

Major J. Bret Johnson, Aye
Mr. Lloyd "Joe" Carmichael, Aye
Senator Mike Kehoe, (not present during vote)
Mr. Kelley Martin, Aye
Mr. Dave Nichols, Aye
Colonel Ron Replogle, Aye
Representative Shawn Rhoads, Aye
Mr. Bob Sfreddo, Aye
Mr. Roger D. Stottlemyre, Aye
Mr. Kenneth H. Suelthaus, Aye
Mr. Todd Tyler, Aye

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ADJOURN

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