



**MoDOT & Patrol Employees' Retirement System
1913 William Street, Jefferson City, Missouri**

A G E N D A

Governance Committee Meeting

**Friday, August 7, 2020
1:00 p.m. via Webinar**

This meeting will take place via electronic means.

Committee members have been pre-registered*

[Click here to register for the webinar](#)

1. Minutes from June 8, 2020 Governance Committee meeting
2. Select Governance Consultant

*Governance Committee Members (Cox, Bernskoetter, Brinkmann & Broniec)

Minutes of Governance Committee Meeting
June 8, 2020
11:00 a.m.
via Webinar

Committee Members Present:

Sue Cox, Committee Chair
Senator Mike Bernskoetter (joined at 11:35)
Robert Brinkmann
Sgt. Matt Broniec

Other Attendees:

Scott Simon, Executive Director
Greta Bassett-Seymour, Assistant Executive
Director & General Counsel
Larry Krummen, Chief Investment Officer
Lois Wankum, Executive Assistant II

Committee Members Absent:

None

Other Board Members Present:

Representative Sara Walsh

Ms. Cox called the meeting to order.

Approval of Minutes

Sgt. Broniec made a motion to approve committee minutes from the April 22, 2020 committee meeting and Mr. Brinkmann seconded. The minutes were unanimously approved by the Committee.

Review of Governance Consultant Proposals

Mr. Simon stated he received official proposals from Cortex, Aon, and Funston Advisors for governance consulting. The proposals were due by June 2, 2020. Mr. Simon provided the Committee with an overview of the proposals.

The Committee discussed the proposals and asked Mr. Simon to obtain additional detail in order to better understand the significant variance in cost between the three firms. Once that is understood, a more “apples-to-apples” comparison could better facilitate the decision..

Mr. Brinkmann made a motion to adjourn. Senator Bernskoetter seconded. All voted in favor and the meeting was adjourned.



MoDOT & Patrol Employees' Retirement System

TO: MPERS' Governance Committee
FROM: Scott Simon, Executive Director
DATE: July 22, 2020
SUBJECT: Governance Consultant Recommendation Follow-Up

At the last meeting, the committee asked me to obtain additional detail in order to support an “apples-to-apples” comparison of the prospective bids received for a review of MPERS’ governance practices. In order to achieve that end, I asked the executive team to join me in follow-up discussions with each consultant. I am pleased to say the redirect was insightful. Before I get to those conclusions, let me restate the defined scope of this project. The following denotes the key components of this request along with the abbreviated checklist noting cost and deliverables.

1. **Documentation Review:** Review MPERS’ current [governance and investment policies](#) and related materials to gain an understanding of MPERS’ current policy framework.
2. **Compliance Review:** Review recent board and committee meeting minutes (one year or more as necessary) to assess how closely the Board’s practices align with its governance policies.
3. **Tailored Survey Instrument:** Complete a board self-evaluation survey and make reasonable adjustments to reflect any specific needs or priorities the System may have. The survey should allow board members to assess and comment on various aspects of the Board’s practices and performance.
4. **Administration of Self-Evaluation Survey:** Administer the above survey using an online format. Tabulate the survey results and use them to help guide the follow-up interviews as necessary.
5. **Preparation of Findings & Workshop Design:** Based on the above documentation review, survey, and interviews, design a board workshop to address any findings and recommendations and provide any education that may support the discussions.
6. **Executive Director Review:** Facilitate and administer the annual performance review of the executive director with guidance from the Board Chair and Vice Chair.
7. **Workshop:** Deliver an onsite workshop for the Board on November 19, during which the consultant will facilitate discussion and self-evaluation. The goal of the workshop will be to develop a consensus on any steps to be taken to enhance Board performance and/or the governance of the System.
8. **Succession Planning:** Review the System’s succession plan for executive staff and provide feedback and recommendations as necessary.

Official proposals were received (see attached) and are summarized on the following page.

Funston Advisory Services LLC

- ✓ Formed in 2010
- ✓ Public Pension Plan Experience
- ✓ Proposal meets deliverables noted above
- ✓ Fees and Expenses \$90,000 (best and final proposal)
 - Represents an estimated 200 hours at \$450/hour

Aon

- ✓ Fiduciary services unit established in 2004
- ✓ Public Pension Plan Experience
- ✓ Proposal meets deliverables noted above
- ✓ Fees and Expenses \$74,350 (no change)
 - Represents an estimated 120 hours at \$600/hour

Cortex Applied Research

- ✓ Founded in 1991
- ✓ Public Pension Plan Experience
- ✓ Proposal meets deliverables noted above
- ✓ Fees and Expenses \$24,500 (no change)
 - Represents an estimated 100 hours at \$250/hour

As suggested at the June 8, 2020 committee meeting, the executive team followed up with each firm to discuss the scope and manner in which they would provide their services. While the number of hours and cost per hour prescribed does explain a considerable amount of the variance in cost for the three proposals, there is more to it than that. What is not apparent from the written bids are two key points:

1. Cortex submitted an aggressive bid in order to reengage a former client and to facilitate the use of a new, local employee.
2. Funston described a process that is significantly more comprehensive than the other bidders.

Cortex was the last governance consultant utilized by MPERS and was instrumental in putting in place the current governance framework. That prior relationship provides Cortex with a meaningful advantage relative to the other bidders, a point that was recognized by the competition during these talks. Tom Ianuuci from Cortex acknowledged his bid was very aggressive and utilized a substantially lower hourly rate (roughly \$250/hour rather than his normal rate of \$485/hour) because he wants to renew the prior relationship with MPERS and wishes to cultivate his clientele in Jefferson City. He currently advises PSRS and has previously advised MOSERS. He also wants to take advantage of his relatively new relationship with Jake McMahon (former general counsel at MOSERS) who resides in mid-Missouri and is familiar with the local plans, including MPERS. In my view, Jake is a good addition to the Cortex team; however, he is new to the consultant side of the equation and would be testing the waters, so to speak, with the MPERS engagement. Jake would perform a support role and would be subordinate to Tom.

Funston Advisory Services is the only bidder that does not have any prior relationship with MPERS. As a result, they will require additional time to gain a deeper understanding of the organization and the Board. This explains part of the additional time denoted in the proposal, but it does not capture the level of detail described during our recent conversations. I realize this is a bit vague, but in talking

with Funston (Rick and Randy, the primary consultants) we understood that there would be a greater degree of engagement and more comprehensive investigation that is not apparent on the face of the written proposal. They will be starting from scratch with MPERS and will apply an all-inclusive process to diagnose the framework for leading, prevailing, and lagging practices. Funston's approach appears to include an extra step relative to the other bidders, which again accounts for some of the additional time. Funston, for example, will survey and interview MPERS' key consultants as part of the 360-degree approach, which is not something to be performed by the other bidders. Funston also claimed a 95% adoption rate of changes and improvements that result from their engagement. Funston will not only provide a report of key findings, but they will also provide a roadmap for improvement. Another component to Funston's services that separates their proposal from the others is what they call "risk intelligent solutions." Enterprise risk management (ERM) is another service and key foundational component to their business model. This is not part of the project we solicited services for; however, it seems clear to me during discussions that their focus on risk would carry over to their governance consulting, which is another explanation for their higher bid.

During the recent committee meeting, a trustee questioned how much had been spent previously on this sort of service. This historical data may be useful for this decision. MPERS paid Ennis Knupp (now Aon) \$86,000 over 2008 and 2009. These costs were primarily for the initial development of MPERS' governance policy framework. During 2011 and 2012, Cortex was paid a total of \$105,868. This covered a variety of services including further development of governance policy, strategic planning, fiduciary and other education.

I appreciate the Committee's interest in exploring the variance in cost for these proposals. The additional research has proved enlightening. I remain confident in each of the respondent's credentials, references, and the general work to be performed. Cost is clearly an important factor but it is not the only factor. A more robust analysis and fresh review may be necessary and/or ideal. Regardless, of which consultant is selected, it is important to remember that research has shown good governance to not only improve the functionality of an operation but it also adds return to investment performance. Improvement in either area would likely offset the cost of this project over time.

It is my hope this additional information will assist the Committee in deciding how to move forward on this matter. If there are additional questions or clarifications that would be useful, please let me know in advance of the meeting if possible so that those matters can be addressed effectively.