

Minutes of Meeting

June 23, 2016





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BOARD OF TRUSTEES' MEETING

THURSDAY, JUNE 23, 2016

1:00 p.m.

**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
Senator Dave Schatz (via phone at 1:10 p.m.)
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

GUESTS/PRESENTERS: Mr. Kevin Leonard, NEPC
Mr. Will Forde, NEPC
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, June 23, 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.

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APPROVAL OF MINUTES

Upon a motion by Ms. Cox, and seconded by Mr. Tyler, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on February 25, 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.

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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. Briscoe and seconded by Representative Rhoads, all items on the consent agenda were unanimously approved.

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WELCOME MR. GREG BECK TO MPERS STAFF

The Board welcomed Mr. Greg Beck, who joined the MPERS staff on April 4, 2016. Mr. Beck replaces Pam Henry, who retired March 1, 2016.

Prior to joining MPERS, Greg was the Chief Auditor at (MOSERS) the Missouri State Employees' Retirement System for 15 years. His experience provides him insight into all aspects of a public pension system from investments, to information technology, to member records and everything in between.

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INVESTMENT COMMITTEE REPORT

– by Mr. Mike Pace, Investment Committee Chair

• Incentive Compensation

The Investment Committee approved a change to the incentive compensation policy for investment staff.

The committee recommended the Staff Compensation Policy be modified to combine the third and fourth paragraph of the Incentive Compensation section and eliminate the following sentence:

In order for the employee to earn this Performance Incentive, the Fund must have earned an amount that exceeds what the Fund would have earned had it been invested in the Fund's Total Policy Index. ~~In addition to this performance hurdle, the incentive compensation will not be paid in years where the absolute return of MPERS' investment portfolio is negative.~~ Employees must be employed for the entire fiscal year in which the Performance Incentive is being considered. A sample step-by-step illustration of how to calculate MPERS' Total Policy Index shall be maintained by the Executive Director and made available for inspection.

Mr. Smith made a motion to adopt the recommendation and Mr. Seibert seconded the motion. The following vote was taken:

Colonel J. Bret Johnson, Aye
Mr. John Briscoe, Aye
Ms. Sue W. Cox, Aye
Mr. Patrick McKenna, Aye
Mr. Mike Pace, Aye
Representative Shawn Rhoads, Aye
Senator Dave Schatz (not yet in attendance)
Mr. William "Bill" Seibert, Aye
Major Kemp Shoun, Aye
Mr. Gregg Smith, Aye
Mr. Todd Tyler, Aye

Motion carried to revise the Incentive Compensation section of the Staff Compensation Policy.

- **Liquidity Study**

Mr. Pace requested Mr. Krummen summarize the results of the Liquidity Study. Mr. Krummen stated NEPC and staff recommended the adoption of a new asset allocation that would reduce MPERS' allocation to Hedge Funds from 15% to 10% and a redistribution of that 5%. The reduction to Hedge Funds would be offset by increasing the targeted allocation to Real Assets and Opportunistic Debt from 5% to 7.5% each.

Mr. McKenna requested the Opportunistic Debt be broken out as a separate benchmark/allocation. Mr. Krummen and his staff were directed to come back to the Investment Committee/Board with other options that might enhance the overall liquidity profile of the fund. The options would include reducing the hedge funds portfolio with more liquid securities to be discussed at a future meeting.

Mr. Pace made a motion to accept the recommendation of NEPC and staff in addition to the special request, to be effective January 1, 2017. Mr. McKenna seconded the motion. The following vote was taken:

Colonel J. Bret Johnson, Aye
Mr. John Briscoe, Aye
Ms. Sue W. Cox, Aye
Mr. Patrick McKenna, Aye
Mr. Mike Pace, Aye
Representative Shawn Rhoads, Aye
Senator Dave Schatz (not yet in attendance)
Mr. William "Bill" Seibert, Aye
Major Kemp Shoun, Aye
Mr. Gregg Smith, Aye
Mr. Todd Tyler, Aye

Motion carried.

- **MPERS' Proxy Voting Report**

Proxy voting is the authority (right) offered to a shareholder to influence corporate actions. It's the System's fiduciary responsibility to vote proxies in the best interest of the plan's participants. Mr. Krummen indicated investment staff has verified that each of MPERS' investment managers have successfully filed their proxy voting reports during calendar year 2015.

- **Timber Update**

Mr. Larry Krummen provided an update of MPERS' Timber program reporting the System has successfully sold two tracks from the Virginia/northeast North Carolina purchase that it made earlier this year and received the distributions from that sale in early June. MPERS continues to source opportunities for this portfolio.

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CIO INVESTMENT REPORT

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

- **Investment Performance Report for Quarter Ending March 31, 2016**

Mr. Larry Krummen, Mr. Kevin Leonard and Mr. Will Forde provided a report on MPERS' investment performance for the quarter ending March 31, 2016. As of March 31, 2016, MPERS' net asset value was \$1.96 billion. MPERS' investment staff is estimating a return of 1.25% for the portfolio and a 0.73% policy benchmark return. MPERS' one-, three-, and five-year returns rank in the top 1% or 2% of the public fund peer universe. Mr. Krummen anticipates the majority of public pension funds in the U.S will have flat or slightly negative returns for the soon to be ending fiscal year.

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

MPERS' exposure to Master Limited Partnerships (LMPs) was increased, the traditional fixed income allocation was reduced towards the lower end of the permissible range and will continue to build up a cash position in hopes of a better entry point in the future. MPERS' remains underweighted to the target allocation to hedge funds, offset by overweights to real assets, real estate, and private equity. The current allocation to cash is roughly \$30 million, or 1.5 % of assets.

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BUDGET COMMITTEE REPORT

– by Colonel Bret Johnson, Committee Chair

- **FY2017 Budget**

Colonel Johnson reported the Budget Committee met with MPERS staff on May 16, 2016 to review the proposed budget. Colonel Johnson gave a brief overview of each budget category and summarized the increases and decreases in each budget category. Mr. Simon provided additional comments and discussed the following items with the Board:

○ **Fiduciary Liability Insurance**

The Budget Committee recommended cancellation of the current fiduciary insurance policy effective the end of this fiscal year and to self-insure the system in the event of a fiduciary claim against MPERS. If the self-insured option is chosen, the committee recommended an additional \$5,000 be added to the budget to increase the Director’s and Officers’ liability coverage. The Board discussed the risks associated with self-insuring for this coverage. Mr. McKenna stated he is concerned and doesn’t fully understand what the implications to the road fund could be in the event of a lawsuit.

○ **Indemnification Policy**

A modification to the Indemnification Governance Policy is needed to reflect a self-insurance option, a cap for defense costs and a recommended assignment of funds to pay for said defense costs.

Mr. Simon also presented a 10-year budget comparison to illustrate the operations budget has actually decreased in that 10-year period. Per the Board policy, the Travel Expense Report was also provided.

Mr. Tyler made a motion to accept the Budget Committee’s recommendation to approve the FY2017 Budget as presented, with the addition of \$5,000 for the Director’s and Officers’ insurance and the changes to the Indemnification Governance Policy as presented. Representative Rhoads seconded the motion. The following vote was taken:

- Colonel J. Bret Johnson, Aye
- Mr. John Briscoe, Aye
- Ms. Sue W. Cox, Aye
- Mr. Patrick McKenna, Nay
- 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

Motion carried.

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LEGISLATIVE UPDATE

– by Mr. Scott Simon, MPERS’ Executive Director

Mr. Simon stated there were no bills passed this legislative session that directly impact MPERS and provided the Board with a highlight of a few bills he anticipates seeing again next year. Mr. Simon stated he appreciated the assistance of Mr. Mike Winter, Senator Dave Schatz and Representative Rhoads during the last legislative session.

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RISK CONSULTANT REPORT

– by Mr. Scott Simon, MPERS’ Executive Director & Mr. Bob Charlesworth (Charlesworth & Associates)

As Mr. Simon mentioned at the last Board meeting, Standard Insurance, the company that administers MPERS’ disability program, has agreed to continue the present premium (0.53% of monthly payroll) for disability coverage through June 30, 2020.

The Claim Fluctuation Reserve (CFR) feature will capture positive claim experience and help contain premium costs and provide protection when there are more claims than expected. Mr. Charlesworth stated it could also provide a decrease in costs or a financial tool on future premium negotiations.

Mr. Charlesworth indicated he is pleased with the current rate and will continue to provide an annual review of claims data to validate the rating and the premiums to ensure the rate remains competitive for the four-year period.

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MPERS’ BUSINESS PLAN – FY2017, 2018 and 2019

– by Mr. Scott Simon, MPERS Executive Director

MPERS’ Business Plan for Fiscal Years 2017, 2018 and 2019 was presented to the Board.

In a motion made by Ms. Cox, and seconded by Mr. McKenna, the Board unanimously approved MPERS’ Business Plan for Fiscal Years 2017, 2018 and 2019.

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DIRECTOR’S COMMENTS

- **Update from the Assistant Executive Director**

Mr. Beck provided the Board with an update of his activities and a summary of the responses to a recent survey of MPERS members.

- **Credit Union Deductions**

Mr. Simon stated credit union deductions have historically been deducted from a member’s benefit payment and redirected to their credit unions. The practice began long ago when MPERS governing statutes did not have explicit direction regarding the practice. Over the years, MPERS governing statutes have changed and now provide explicit guidance on the payment deductions. Specifically, MPERS statutes authorize deductions for state-sponsored medical and life insurance as well as for the state’s charitable campaign. No other deductions are allowed. As a result, Mr. Simon stated MPERS will no longer recognize deductions for credit unions after December 30, 2016. Mr. Simon clarified members will be allowed to direct deposit their entire monthly benefit payments to all financial institutions with valid routing numbers, including credit unions and that **only the deductions** to credit unions will stop.

- **Local Retirement Systems Modify Economic Return Assumption**

Mr. Simon stated MOSERS and PSRS/PERS have both lowered their return assumptions. MOSERS was lowered to 7.65% and PSRS/PEERS lowered their return to 8%.

- **MAPERS Conference**

Mr. Simon stated several Board members have registered for the Missouri Association of Public Employee Retirement Systems (MAPERS) Conference at Tan-Tar-A Resort in Osage Beach, Missouri on July 13-15, 2016.

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TRUSTEE’S COMMENTS

- **Investment Staff Recognition**

Mr. McKenna gave recognition to the investment staff for remaining in the top 1% of the peer universe and indicated the change to the Staff Compensation Policy should reflect the Board’s appreciation of their efforts.

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REPORT ON TRUSTEE EDUCATION – FY2016 *(Consent Agenda)*

Per the Monitoring and Reporting Policy, the Board was provided with the “*Report on Trustee Education*” for FY2016. Via approval of the consent agenda, the Board unanimously accepted the report.

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**REPORT OF UNAUDITED QUARTERLY FINANCIAL STATEMENT
JANUARY 2016 TO MARCH 2016** *(Consent Agenda)*

The Board viewed the financial statements of the System showing total investments (on an accrual basis) at market value of \$1,948,297,980 as of March 31, 2016. This is a decrease of \$15 million from the value of \$1,963,297,379 as of December 31, 2015.

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 – May 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.

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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 2015 through May 2016. 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 its meeting on June 23, 2016, concerning attorney-client privileged communications and records protected from disclosure by law. Upon a motion made by Mr. Smith and seconded by Representative Rhoads to convene in closed session, the following roll call vote was taken:

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

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ADJOURN

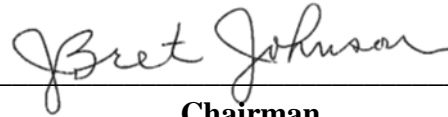
A motion to adjourn was made by Mr. Smith and seconded by Senator Schatz. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.

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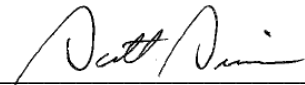
CERTIFICATION

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 June 23, 2016 in Jefferson City, Missouri, as approved by said Board at its meeting held September 29, 2016.

IN TESTIMONY WHEREOF, we have hereto set our hands and affixed the seal of said Board on September 29, 2016.



Chairman



Executive Director