

Minutes of Meeting

February 15, 2018





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Adjourn



BOARD OF TRUSTEES' MEETING

THURSDAY, FEBRUARY 15, 2018

1:00 p.m.

**1913 William Street
Jefferson City, Missouri**

TRUSTEES PRESENT: Ms. Sue W. Cox, Chair
Mr. William "Bill" Seibert, Vice Chair
Mr. John Briscoe
Sergeant Matthew Broniec
Colonel Sandy Karsten
Mr. Patrick McKenna
Mr. Mike Pace
Mr. Gregg Smith
Mr. Todd Tyler

TRUSTEES ABSENT: Representative Shawn Rhoads
Senator Dave Schatz

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 II

GUESTS/PRESENTERS: Mr. Will Forde, NEPC
Mr. Ken Alberts, Gabriel Roeder Smith & Co.
Ms. Heidi Barry, Gabriel Roeder Smith & Co.

A regularly scheduled meeting of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) was held on Thursday, February 15, 2018, at the System's office located at 1913 William Street in Jefferson City, Missouri. The meeting was called to order by Ms. Sue Cox 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. Pace, and seconded by Mr. Smith, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on November 16, 2017.

The Vice 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. Smith and seconded by Mr. Briscoe, all items on the consent agenda were unanimously approved.

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ELECTION OF CHAIR

In accordance with Section 104.170 RSMo., Ms. Sue W. Cox was reelected as Chair of the Board for a one-year term.

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ELECTION OF VICE CHAIR

In accordance with Section 104.170 RSMo., Mr. William “Bill” Seibert was reelected 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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COMMITTEE APPOINTMENTS

~ by Ms. Sue W. Cox, Board Chair

Each Board member was provided with an updated copy of committee appointments. Trustees are appointed annually by the Board Chair at the first board meeting of each year. Below is the updated list of appointments:

Audit Committee

Bill Seibert – *Chair*
John Briscoe
Todd Tyler

Budget Committee

Sue Cox – *Chair*
Bill Seibert – *Vice Chair*
Representative Shawn Rhoads

Governance Committee

Todd Tyler – *Chair*
Sergeant Matt Broniec
Senator Dave Schatz

Investment Committee

Mike Pace – *Chair*
Colonel Sandy Karsten
Patrick McKenna
Bill Seibert
Gregg Smith

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BOARD SELF-EVALUATION POLICY

~ by Ms. Sue W. Cox, Board Chair

The Board was provided with the results of the Board Self-Evaluation conducted in October 2017. This information is usually distributed at the Board Workshop held in November; however, it was not distributed due to time constraints. Ms. Cox asked for questions or comments from Trustees regarding the results but there were none.

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INVESTMENT COMMITTEE REPORT

~ by Mr. Mike Pace, Investment Committee Chair

Mr. Pace made the following report of the Investment Committee meeting:

• **NEPC’s 2018 Asset Class Assumptions**

Mr. Tim McCusker of NEPC, MPERS’ asset consultant, presented the 2018 Asset Class Assumptions which forecasts short- (5-7 years) and long-term (30 year) return expectations. The 2018 return expectations have all come down slightly, with the exception of cash, core bonds and TIPS. MPERS’ target asset allocation for the 5-7 year return is 6.46% compared to last year’s return expectation of 6.65%. The 30 year return expectation for 2018 is 7.55% compared to 7.65% last year. Staff and NEPC made no recommendations to change the current asset allocation.

• **Manager Due Diligence Report**

The Investment Staff and NEPC are responsible for the monitoring and evaluation of the external asset managers employed by MPERS. Mr. Larry Krummen confirmed that MPERS’s investment staff is in compliance with the manager due diligence policy as outlined in the Investment Policy.

- **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 2017.

- **Internal Fixed Income Review**

Mr. Larry Krummen provided a review of the internally managed fixed income portfolio to ensure the portfolio is in compliance with the System's investment policy. One exception in the long duration portfolio and three exceptions (from the same issuer) in the core portfolio were noted. The three securities in the core portfolio were sold prior to the Board meeting. Mr. Krummen requested permission to hold the San Francisco security, even though it was recently downgraded. The reasons for holding the bond outweigh the potential downside. Mr. Smith made a motion to grant Mr. Krummen permission to continue to hold the San Francisco security. Mr. Seibert seconded the motion. By unanimous vote of all members present, the motion carried.

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CIO INVESTMENT REPORT

~ by Mr. Larry Krummen (MPERS) and Mr. Will Forde (NEPC)

- **Investment Performance Report for Quarter Ending December 31, 2017**

Mr. Larry Krummen and Mr. Will Forde provided a report on MPERS' investment performance for the quarter ending December 31, 2017. As of December 31, 2017, MPERS' fund value was \$2.28 billion. Despite the spike in volatility, MPERS' fiscal year-to-date return (July 1, 2017 through February 6, 2018) was up an estimated 6%. The total fund performance for 4th quarter was 3.27% and the one-year return was 13.13%. MPERS continues to rank very well relative to its peer universe across the long-term timeframes.

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

It was a rough first day on the job for Federal Reserve Chairman Jerome Powell, as markets greeted the new Chairman with a sharp selloff that wiped out all of January's equity market gains. Treasury bonds, normally the safe haven for risk in the equity markets, haven't offered any protection as yields have spiked on fears that inflationary pressures are building in the economy. Fortunately, the fund was reasonably well positioned for the spike in market volatility. The underweight position to fixed income limited losses in the fixed income portfolio and should prove beneficial if interest rates continue to rise. Perhaps the one disappointment during the selloff was the performance of Master Limited Partnerships (MLPs), which largely traded off with the broader markets and offered very little in terms of diversification for the equity portfolio. MPERS' remained bullish for MLPs longer term, given the portfolio's yield of 6.5% and limited exposure to the underlying commodity price risk.

As of February 7, 2018, each of the respective asset class allocations are within the permissible ranges.

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**REPORT OF ACTUARY, FIVE (5) YEAR EXPERIENCE STUDY,
JULY 1, 2012 THROUGH JUNE 30, 2017**

~ by Mr. Scott Simon, MPERS' Executive Director

Mr. Ken Alberts of Gabriel, Roeder, Smith & Company, presented a report entitled "Five-Year Experience Study - July 1, 2012 through June 30, 2017". Under Section 104.220 RSMo., the actuary is required to "make a general investigation of the mortality, retirement, disability, death, employment turnover, interest and earnable compensation experience of the System at least once every five years". The experience study is necessary to be sure plan costs are accurate and funding is appropriate. The study is made up of two primary components: demographic and economic assumptions. The demographic assumptions pertain to the members such as their rates of retirement, salary trends, retirement elections, and longevity. The economic assumptions include MPERS' investment rate of return and wage and price inflation.

Four individual economic recommendations proposed the Board reduce its investment return as well as wage and price inflation. After considerable deliberation, the Board elected to lower MPERS' economic assumptions to coincide with lower investment return expectations and continued low rates of inflation. Of the four recommendations, Mr. Simon recommended Alternate No. 3. Mr. McKenna made a motion to accept Alternate No. 3 which changes the economic assumption from 7.75% to 7.00%, the price inflation from 3.00% to 2.25% and the wage inflation from 3.50% to 3.00%. Colonel Karsten seconded the motion. The following vote was taken:

Ms. Sue W. Cox, Aye
Mr. John Briscoe, Aye
Sergeant Matthew Broniec, Aye
Colonel Sandy Karsten, Aye
Mr. Patrick McKenna, Aye
Mr. Mike Pace, Aye
Mr. William "Bill" Seibert, Aye
Mr. Gregg Smith, Aye
Mr. Todd Tyler, Aye

Motion carried to change the economic assumptions as recommended. MPERS contribution rate is expected to remain constant while the funded status is expected to decrease slightly.

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PENSION BUYOUT UPDATE

~ by Mr. Scott Simon, MPERS' Executive Director

Mr. Simon provided the Board with a final number of buyouts resulting from Senate Bill 62 passed into law last summer. Payouts equaled 50 percent of the full value of the benefit earned. Payments for those electing the buyout were issued in January 2018.

Of the 2,200 eligible, 382 former members elected to take the buyout. That equates to a 17 percent participation rate. The total buyout payments equaled \$5,685,711. At the 50 percent payout level, that is the same amount MPERS reduced the total liabilities. Some additional details related to the buyout are listed below:

Highest payout = \$111,619
Lowest payout = \$1,398
Average payout = \$14,884
Average age = 49 years old

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LEGISLATIVE UPDATE

~ by Mr. Scott Simon, MPERS' Executive Director

Mr. Simon provided a synopsis of the legislative proposals that have been introduced thus far into session.

- **HB 1673 Affects Public Plans**

This proposal modifies the material that must be included in annual statements to covered members. The information to be added to the statements includes: the date of the plan's valuation, the plans funded ratio, notice if the plan is on the JCPERS watch list, notice when the plans expected employer contributions are not made, and a link or web address pointing to the plan's annual report. Any plan failing to provide statements, including the additional information, must submit in writing to the joint committee why the information was not provided. The proposal also modifies the parameters that place a plan in delinquent status. A plan with a funded ratio below 70 percent (previously 60 percent) that has failed to make the full actuarially required contribution payment for three (previously five) years shall be deemed delinquent. Being delinquent will constitute a first lien on the funds of the political subdivision and compel payment.

- **HB 1674 Affects Deferred Compensation Plan**

This proposal establishes an automatic increase for participants enrolled in the state of Missouri deferred compensation plan. The automatic increase will occur annually on the anniversary of the participant's enrollment, in increments of one-half of one percent until such time the deferral reaches three percent of salary. Participants may elect to increase/decrease the automatic escalation in increments of one-tenth. They may also choose to terminate the automatic increase at their discretion. Auto-enrollment and auto-escalation type features are common features with today's defined contribution plans. These features have proven effective for bolstering retirement savings.

- **HB 2150 Affects MPERS**

Starting July 1, 2019, funding for the highway patrol would come from general revenue or other sources outside of the highway and transportation fund. As MPERS understands, the change in revenue source would apply only to civilian personnel of the patrol.

- **HB 2376 Affects MPERS**

First introduced last year, this bill would provide "indexing" to closed plan members receiving disability benefits that occurred on and after August 1999. That means individuals receiving disability benefits will have their pre-disability earnings indexed with increases from the consumer price index (CPI) for determining their retirement benefit. Without indexing, a member's retirement benefit is greatly diminished by inflation. Indexing was first introduced to MPERS' benefits with the Year 2000 Plan. Given the limitations in section 105.684, which does not allow plans with a funded ratio below 80 percent to implement benefit increases, MPERS would not be able to apply the change. In its original form from last year, there were technical problems with drafting. Those concerns were eliminated by the sponsor with this bill by utilizing language drafted by MPERS staff.

- SB 686 Affects Public Plans

This bill would prohibit the state of Missouri, its political subdivisions, and any public retirement system from investing in stocks or bonds as well as having any direct holdings with companies having active strategic business operations with the Russian Federation or its occupied territories. Albeit minimal, MPERS does have exposure to Russian companies. Eliminating that access would pose some lost opportunity cost as well as less opportunity for diversification.

- SB 747 Affects MOSERS

This bill would place elected officials that begin serving on and after January 1, 2019, into a defined contribution plan. The plan will include a fixed 4 percent contribution from both the employer and employee.

- HB 2404 Affects MPERS

This bill would provide additional military service credit for uniformed members of the Missouri State Highway Patrol.

Mr. Simon did not request the Board to take a position on any of the proposed bills at this time.

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ELECTION OF BOARD MEMBERS

~ by Mr. Scott Simon, MPERS' Executive Director

Mr. Simon stated the trustee election for active and retiree elected trustee representatives will begin soon. The notification to members announcing the nomination period will be sent on February 28th and the deadline for nominations is March 30th. The voting period will begin on April 30th and will run through May 31st. This election will be the first purely electronic process with votes being cast through myMPERS Secure Member Access at www.mpers.org.

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CYBER SECURITY UPDATE

~ by Mr. Scott Simon, MPERS' Executive Director

Recently, MPERS' information technology (IT) vendor, Huber and Associates, conducted vulnerability testing and educated staff regarding IT risk awareness. The results affirmed several areas of strength with regard to MPERS operating platform, but also found several areas of risk that will be addressed in the coming year.

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DIRECTOR’S COMMENTS

• **Mid-Year Budget Report**

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. Mr. Simon reported the Budget Committee was provided with mid-year numbers of the System’s budget as of December 31, 2017. All expenses were found to be within the budgeted allowances.

• **Board Planning Calendar**

Mr. Simon stated the Board Planning Calendar for 2018, which shows significant dates of interest to the Board, was distributed to Trustees earlier in the week.

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

Mr. Simon stated the 2017 CAFR has been posted to MPERS website.

• **Determination of Annual Cost-of-Living Adjustment Amount**

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 2018 will be 1.704%.

2017 Average Index	245.120	% of Increase (2016 to 2017).....	2.130%
2016 Average Index	240.007	80% of CPI-U.....	1.704%

Calculation: $(245.120 - 240.007) / 240.007 = 2.130 \times 80\% = 1.704\%$

The application of COLAs for members of the Closed Plan, Year 2000 Plan and the 2011 Tier is plan specific. More information can be found in MPERS handbooks.

TRUSTEES’ COMMENTS

None.

REPORT ON TRUSTEE EDUCATION – FY2018 *(Consent Agenda)*

Per the Monitoring and Reporting Policy, the Board was provided with the “Report on Trustee Education” for FY2018. Via approval of the consent agenda, the Board unanimously accepted the report.

**REPORT OF UNAUDITED QUARTERLY FINANCIAL STATEMENT
FISCAL YEAR TO DATE AS OF DECEMBER 31, 2017** *(Consent Agenda)*

The Board viewed the financial statements of the System showing total investments (on an accrual basis) at market value of \$2,277,286,050 as of December 31, 2017. This is an increase of \$64.9 million from the value of \$2,212,420,229 as of September 30, 2017.

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 2018**

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 2017 through January 2018. 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. Briscoe and seconded by Mr. Smith. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.

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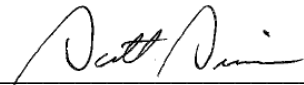
CERTIFICATION

We, Sue W. Cox, Board Chair, 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 February 15, 2018 in Jefferson City, Missouri, as approved by said Board at its meeting held June 21, 2018.

IN TESTIMONY WHEREOF, we have hereto set our hands and affixed the seal of said Board on June 21, 2018.



Chairman



Executive Director