

# Minutes of Meeting

June 21, 2018





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**BOARD OF TRUSTEES' MEETING**

**THURSDAY, JUNE 21, 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 (via phone)  
Mr. Todd Tyler

**TRUSTEES ABSENT:** Representative Shawn Rhoads – resigned 06/18/2018  
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

**GUESTS/PRESENTERS:** Mr. Kevin Leonard, NEPC  
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, June 21, 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. Briscoe, and seconded by Mr. McKenna, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on February 15, 2018.

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

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## ELECTION RESULTS FOR 2018 BOARD MEMBERS

The terms of Todd Tyler, Sergeant Matt Broniec, Sue Cox and William "Bill" Seibert will expire on June 30, 2018. An election was held to fill the elective positions for the upcoming term.

The election was conducted electronically through *myMPERS* secure member access online. Nomination forms were provided to members on February 28, 2018. The following two categories only had one nominee each. By default, these nominees are automatically Board of Trustee representatives.

MoDOT Retiree Representative, Sue Cox  
MSHP Retiree Representative, William "Bill" Seibert, Jr.

There were two nominees for both the MoDOT Active Representative and the MSHP Active Representative positions. The voting period ended at 4:00 p.m. on May 31st. The Executive Director certified the results as follows:

<b>MoDOT Active Representative</b>	<b>Total 453</b>
Jerad Noland, Northeast District District Design Engineer	185
Todd Tyler, Southwest District Senior Financial Service Specialist	<b>268</b>
<b>MSHP Active Representative</b>	<b>Total 325</b>
Matthew J. Broniec, Troop F – Jefferson City Sergeant	<b>258</b>
Mark W. Hicks, General Headquarters – Gaming Division Corporal	67

Based on the tally of votes cast, the Executive Director recommended the Board adopt a motion to certify the election results as presented and declare the successful candidates for a 4-year term, to the Board of Trustees effective July 1, 2018, as follows:

Mr. Todd Tyler, MoDOT Active Representative  
Sergeant Matthew Broniec, MSHP Active Representative  
Ms. Sue W. Cox, MoDOT Retiree Representative  
Mr. William “Bill” Seibert, MSHP Retiree Representative

Upon motion made by Mr. Pace and seconded by Colonel Karsten, the Board unanimously declared the successful candidates as listed above as recommended by the Executive Director.

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### **INVESTMENT COMMITTEE REPORT**

*– by Mr. Mike Pace, Investment Committee Chair*

- **Liquidity Study**

Mr. Pace stated the Investment Committee met prior to the Board meeting and NEPC presented the Plan’s annual liquidity study. NEPC provided the Committee with information on base case and stressed case scenarios. NEPC indicated MPERS’ allocation to illiquid investments continues to be appropriate given expected liquidity needs.

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### **CIO INVESTMENT REPORT**

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

- **Investment Performance Report for Quarter Ending March 31, 2018**

Mr. Larry Krummen and Mr. Kevin Leonard provided a report on MPERS’ investment performance. As of March 31, 2018, MPERS’ fund value was \$2.28 billion. MPERS’ fiscal year-to-date return (July 1, 2018 through June 13, 2018), was an estimated 9.5%. MPERS’ portfolio generated a 0.6% return in the 1st quarter of 2018, despite losses in both the equity and fixed income portfolios. The alternatives portfolio provided nice diversification in the quarter, offsetting losses in the traditional stock and bond markets. Opportunistic debt produced a 3.7% return, real estate returned 3.0%, and real assets provided a 2.6% return.

Longer term performance remains solid relative to policy benchmarks and the peer universe. MPERS’ three, five, and ten year returns rank in the 12<sup>th</sup>, 3<sup>rd</sup>, and 38<sup>th</sup> percentile of the public fund peer universe. MPERS’ risk profile remains in the bottom 21% of the peer universe over the past ten year period (MPERS’ risk is lower than 79% of peers).

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

MPERS’ remains underweight the fixed income markets as yields increase with inflationary pressures, but expects to allocate additional funds to the sector if rates move materially higher than current levels. This underweight position (together with a relatively short duration mix of assets) helped limit MPERS’ losses from fixed income during this period of rising rates.

MPERS' has seen some good performance from Master Limited Partnerships (MLPs) within the equity portfolio, as the combination of attractive yields and rising oil prices have lured investors back to the asset class. MLP prices are up roughly 15% in the second quarter alone, a welcome reversal relative to what MPERS' has seen over the past few years. MPERS' remains bullish for MLPs longer term, given the portfolio's yield of 6.5% and their limited exposure to the underlying commodity price risk.

As of June 13, 2018, MPERS' cash balance stands at \$26.8 million, or 1.2 % of assets.

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## **BUDGET COMMITTEE REPORT**

*– by Ms. Sue W. Cox, Budget Committee Chair*

- **FY2019 Budget**

Ms. Cox reported the Budget Committee met with MPERS staff, on May 22, 2018, to review the proposed budget. Ms. Jennifer Even, MPERS' Chief Financial Officer, gave a brief overview of each budget category and summarized the increases and decreases in each budget category. Several categories in the budget remained flat compared to last year's budget. Overall, the budget proposal reflects a 3.98% increase over last year.

Mr. Simon provided committee members with information which offers some context for how MPERS costs compare to the costs of similarly sized (i.e. small) pension plans.

Mr. Simon indicated this year's budget included a request for a new position, a Communication Specialist. Mr. Simon stated there should be a dedicated and cohesive effort toward communications and provided the committee with a list of items he expects to accomplish with the additional person. Ms. Cox reported the committee concurred with his request.

Mr. McKenna made a motion to accept the Budget Committee's recommendation to approve the FY2019 Budget as presented. Colonel Karsten seconded the motion. By unanimous vote of all members present, the motion carried.

- **Review Travel Expenses for Executive Director & Trustees (FY2018)**

Per the Board policy, the Travel Expense Report was also provided.

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## **GOVERNANCE COMMITTEE REPORT**

*– by Mr. Todd Tyler, Governance Committee Chair*

- **Revisions Board Governance Policies and Board Rules**

Mr. Tyler, Governance Committee Chair, gave a brief recap of the committee meeting held on April 26, 2018. The Committee recommended approval of changes to the following Board Governance Policies and Board Rules:

### **Board Governance Policies:**

#### ***Trustee Code of Conduct and Conflicts of Interest***

The previous requirement was for each trustee to acknowledge the policy, in writing, annually. The committee recommended *Part 5: Acknowledgment of Policy*: be changed to read as follows:

## **Part 5: Acknowledgement of Policy**

Trustees shall obtain and review this *Trustee Code of Conduct and Conflicts of Interest Policy* at their initial orientation and again at the start of a new term for elected trustees following a regular election and shall execute a written acknowledgement that they have received and reviewed this policy. Trustees shall be provided an opportunity to review a copy of the Code on an annual basis thereafter.

### ***Orientation and Education***

The change to this policy is in concert with the *Trustee Code of Conduct and Conflicts of Interest Policy*. Wording was added to the *Orientation and Education Policy* to reflect that trustees will be provided a copy of the Trustee Code of Conduct annually, during a trustee education program (usually during the Board Workshop held each November).

The committee recommended adopting a new board rule that would include refunding service purchases when contribution refunds are given to 2011 Tier members. The Governance Committee recommended adding the following paragraph to the policy:

### **Board Rules:**

#### ***Chapter 5: 2011 Tier***

##### ***5-6 Refund of Contributions to Include Purchased Service***

Pursuant to Section 104.1091.8(6), refund of contributions shall include any monies received from the member for purchased service in addition to the mandatory 4% employee contributions.

The committee also recommended a change to the board election processes that requires a special election if an elected trustee's remaining term is six months or longer, but made the special election discretionary if the remaining term is less than six months. The Governance Committee recommended changes to paragraph 16) and the addition of paragraph (17) to reflect those changes.

Mr. Briscoe made a motion to accept the changes as recommended by the Governance Committee. Mr. Pace seconded the motion. By unanimous vote of all members present, the motion carried.

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### **MPERS' BUSINESS PLAN – FY2019, 2020, and 2021**

*– by Mr. Scott Simon, MPERS Executive Director*

MPERS' Business Plan for Fiscal Years 2019, 2020 and 2021 was presented to the Board. Mr. Simon indicated the plan is fairly standard; however, this year's plan, relative to prior years, is more focused on risk management rather than customer service and business efficiencies. Mr. Simon stated there are fewer objectives than last year but the objectives will require a team effort, in most cases, unlike last year which had objectives to be completed by certain individuals.

Mr. Briscoe made a motion to approve MPERS' Business Plan for Fiscal Years 2019, 2020 and 2021. Mr. Tyler seconded the motion. By unanimous vote of all members present, the motion carried.

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**LEGISLATIVE UPDATE**

*– by Mr. Scott Simon, MPERS’ Executive Director*

Mr. Simon stated two bills were passed during the last legislative session having direct implications for MPERS.

SCS SRBs 975 & 1024 is a revision bill that allows MPERS to correct errors to three statutes. This bill was signed by Governor Greitens and will become law on August 28, 2018.

CCS HCS SS SB 870 changed the education requirements for trustees. New trustees are now required to receive six hours of education within the first 90 days of the term and then two hours each year thereafter. This bill has yet to be signed, but Governor Parson has until July 14, 2018, to veto or sign. If unsigned, this bill will automatically become law on August 28, 2018.

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**RISK CONSULTANT REPORT**

*– by Mr. Scott Simon, MPERS’ Executive Director*

MPERS provides its members with a long term disability plan (LTD) in order to provide security to active members if some unforeseen medical condition prohibits the employee from performing normal duties. MPERS has contracted with The Standard to provide LTD coverage to covered members. MPERS also employs Charlesworth Consultants to review the LTD plan (administered by The Standard) to ensure the LTD program is operating effectively and benefits are provided appropriately.

Mr. Charlesworth will continue to monitor the claims experience and reserving practices of The Standard to confirm the pricing and service model of this risk transfer meets the needs of MPERS. The addition of the CFR (Claims Fluctuation Reserve) Account provision is key to keeping the rates competitive since MPERS rates are heavily developed by the groups’ own experience.

Mr. Simon stated team leaders from The Standard met with MPERS’ staff yesterday to review the most recent experience report. Upon reviewing MPERS’ experience, there was discussion of another one- to three- year extension of the current rate. Mr. Simon will provide the Board with more information if an extension is offered.

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## **COMMITTEE PROCEDURES**

*– by Mr. Scott Simon, MPERS' Executive Director*

Mr. Simon stated at a recent committee meeting there were only two members in attendance at the beginning of the meeting. There was discussion on how the committee would vote when the time came because there was an even number present which poses a problem in the event of a tie vote. Ultimately, there wasn't a problem because all three members were present at the time of the vote.

MPERS' Governance Policies dictate that all meetings shall be run in accordance with Robert's Rules of Order. Robert's Rules would allow for the committee chair to determine whether or not a vote would be necessary, depending on the number of members present at a committee meeting. In the event that a three-person committee has a quorum with two members present, it would be logical to deliberate/discuss relevant matters and then present the conclusions to the Board for final approval. Currently, committees deliberate and vote, then recommend the Board vote to accept the decision of the committee.

The same goals could be accomplished even if a committee decides to forgo a formal voting process and simply presents the full Board with any appropriate recommendations. Typically MPERS' Board votes to accept the various committees' recommendations, but the Board always has the option to discuss the recommendations, modify them if necessary, and vote to accept the final result.

It was determined the chair of a committee has the latitude to utilize the formal process currently being used (a recommendation by the committee is provided) or to be less formal and simply obtain the general views of the committee and then present to the full Board for approval.

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## **DIRECTOR'S COMMENTS**

- **November Board Workshop**

Mr. Simon stated the Board Educational Workshop will be held again in November at the Meadow Lake Acres Country Club in New Bloomfield, Missouri. Mr. Simon indicated no speakers or topics have been identified and he asked Board members to share any suggestions or ideas for topics/speakers so plans could be made accordingly.

- **New Director at MOSERS**

Mr. Simon informed the Board that Ms. Ronda Stegmann was selected as the new Executive Director of the Missouri State Employees' Retirement System (MOSERS). Ms. Stegmann has served as the Interim Executive Director since January 18, 2018.

- **Update Regarding Intervention of SB 62**

Mr. Simon asked Ms. Bassett-Seymour, MPERS' counsel, to provide an update on the intervention of SB 62. Ms. Bassett-Seymour reminded the Board that the Teachers of St. Louis filed a lawsuit against the State of Missouri in December 2017 regarding SB 62. SB 62 includes the pension buyout, pension forfeiture cleanup, and the vesting change for the 2011 Tier, among several other provisions not relevant to MPERS. Since there is potential SB 62 could be overturned or reversed, with the assistance of outside counsel, MPERS intervened. MPERS has been informed that the defendants filed a motion to dismiss, but the Judge denied that motion. The Judge made specific references to the portion that affects MPERS. The Judge agreed, at that point, that SB 62 violated the original purpose of that provision of the constitution. When a bill process begins, it starts out with an original purpose and when it comes out of the legislature, it still needs to be in line with the original purpose. The original lawsuit says it is not in line with the original purpose with the bill filing. Ms. Bassett-Seymour stated she will continue to provide updates on this case going forward.

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### **TRUSTEE'S COMMENTS**

- **GFOA & PAFR Awards**

Mr. Bill Seibert, Audit Committee Chair, announced that MPERS received the Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada for its 2017 Comprehensive Annual Financial Report (CAFR). This is the highest form of recognition in the area of governmental accounting and financial reporting, and its attainment represents a significant accomplishment by a government and its management. MPERS received similar recognition for its Popular Annual Financial Report (PAFR). This was the first year MPERS produced a PAFR.

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### **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.

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### **MEMBERSHIP INFORMATION** *(Consent Agenda)*

- **Benefit Payments and Member Data – May 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 May 2018. 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 21, 2018, citing Sections 610.021(1), (14) and 610.010(6) RSMo., *Attorney Client Privileged Communications and Records*. Upon a motion made by Colonel Karsten and seconded by Sergeant Broniec to convene in closed session, the following roll call vote was taken:

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

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**ADJOURN**

Upon returning to open session, a motion to adjourn was made by Mr. Pace and seconded by Colonel Karsten. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.

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## CERTIFICATION

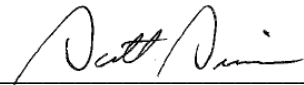
We, Sue W. Cox, Board Chair, and Scott Simon, Executive Director, Board of Trustees, MoDOT & Patrol Employees' Retirement System, hereby certify that the foregoing are full, true, and complete minutes of the meeting of the Board held on June 21, 2018 in Jefferson City, Missouri, as approved by said Board at its meeting held September 27, 2018.

IN TESTIMONY WHEREOF, we have hereto set our hands and affixed the seal of said Board on September 27, 2018.



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Chairman



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Executive Director