

Minutes of Meeting

September 27, 2018





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BOARD OF TRUSTEES' MEETING

THURSDAY, SEPTEMBER 27, 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
Sgt. Matthew Broniec
Mr. Patrick McKenna
Mr. Mike Pace
Mr. Gregg Smith
Mr. Todd Tyler (via telephone)

TRUSTEES ABSENT: Lt. Colonel Eric Olson
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. Kevin Leonard, NEPC
Mr. Will Forde, NEPC
Mr. Ken Alberts, Gabriel Roeder Smith & Co. (GRS)
Ms. Heidi Barry, Gabriel Roeder Smith & Co. (GRS)

A regularly scheduled meeting of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) was held on Thursday, September 27, 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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VOTE TO CLOSE MEETING

The Board voted to close its meeting on September 27, 2018, citing Sections 610.021(3) and (13), RSMo., *Personnel administration regarding particular employees*. Upon a motion made by Mr. Smith and seconded by Sgt. 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
- Sgt. Matthew Broniec, Aye
- Mr. Patrick McKenna, Aye
- Lt. Colonel Eric Olson (not present)
- Mr. Mike Pace, Aye
- Senator Dave Schatz (not present)
- Mr. Gregg Smith, Aye
- Mr. Todd Tyler, Aye

A motion to return to Open Session was made by Mr. Smith and seconded by Mr. Pace. By unanimous vote of all Trustees present, the Board of Trustees returned to Open Session.

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OPEN MEETING

REPORT FROM CLOSED SESSION

~ presented by Sue W Cox, Board Chair

• Personnel Issues

As a result of the Executive Director’s performance evaluation, the Board is pleased with Mr. Simon’s performance and approved to adjust the Executive Director’s compensation effective October 1, 2018.

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APPROVAL OF MINUTES

Upon a motion by Mr. Smith, and seconded by Mr. Pace, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on June 21, 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. Smith and seconded by Mr. Briscoe, all items on the consent agenda were unanimously approved.

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EXPRESSION OF THANKS TO REPRESENTATIVE SHAWN RHOADS AND COLONEL SANDY KARSTEN FOR THEIR SERVICE TO THE BOARD OF TRUSTEES

The Board expressed appreciation to Representative Shawn Rhoads for his dedication and service to the MPERS Board of Trustees. Representative Rhoads was appointed to the Board on July 19, 2013, and served until his resignation on June 18, 2018.

The Board also expressed appreciation to Colonel Sandy Karsten for her dedication and service to the MPERS Board of Trustees. Colonel Karsten served on MPERS’ Board as Superintendent of the MSHP since February 1, 2017. Colonel Karsten was named director of the Department of Public Safety and retired from MSHP on September 1, 2018.

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WELCOME NEW TRUSTEE, LT. COLONEL ERIC OLSON, TO THE BOARD OF TRUSTEES

Ms. Cox welcomed Lt. Colonel Eric Olson (Acting Superintendent) to the MPERS Board of Trustees. Lt. Colonel Olson became a member of the Board by virtue of his position as Acting Superintendent and replaces Colonel Sandy Karsten who retired.

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INVESTMENT COMMITTEE REPORT

~ by Mr. Mike Pace, Investment Committee Chair

- **Management Fee Analysis**

MPERS’ staff provided a management fee analysis to the Board. The key points of the presentation were that the asset allocation is the driver of the fees that MPERS’ reports, the fees are consistent with the heavy allocation to alternative assets and even though there is no industry standard around fee reporting, staff takes a very transparent approach to reporting fees, unlike the vast majority of our public pension peers.

- **Beta Grouping and Asset Allocation**

NEPC presented their views on beta grouping as it relates to asset allocation, noting it is a simplified approach to portfolio management and provides a framework for aligning a portfolio’s exposure with the portfolio’s investment objectives. Beta grouping does not change the asset allocation, it simplifies the allocation and associated reporting by connecting asset classes into broader more understandable categories. Staff and NEPC are working through some minor adjustments to the asset allocation and will propose those changes, including the use of modest leverage, to the Board at the November Workshop.

- **Anti-Terrorism Policy**

MPERS' staff provided an update of MPERS' Anti-Terrorism Policy reporting that MPERS has a policy in place that is designed to monitor lists provided by the federal government for publically traded companies that may support terrorism, while not punishing companies that have international operations. Mr. Krummen confirmed that MPERS is in compliance with the policy.

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CIO INVESTMENT REPORT

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

- **Fiscal Year 2018 Investment Performance Report**

Mr. Larry Krummen, Mr. Kevin Leonard and Mr. Will Forde provided a report on MPERS' investment performance for the quarter ending June 30, 2018.

As of June 30, 2018, MPERS' fund value was \$2.32 billion. MPERS' fiscal year 2018 return (July 1, 2017 through June 30, 2018) was 9.43%, assisted by the performance of the alternatives portfolio. Off to a good start, MPERS' portfolio generated a 1.5% return for the first quarter of the new fiscal year (from July 1st to September 18th). MPERS' three, five, and ten year returns rank in the 18th, 3rd, and 40th percentile of the public fund peer universe.

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

As of September 17, 2018, each of the respective asset class allocations are within the permissible ranges. MPERS' current cash balance stands at \$24.2 million (or 1.2% of assets), but is expected to be drawn down close to zero over the coming weeks due to benefit payments and new investments.

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ANNUAL ACTUARIAL VALUATION – JUNE 30, 2018

– by Mr. Ken Alberts and Ms. Heidi Barry of Gabriel, Roeder, Smith & Company (GRS)

Mr. Ken Alberts and Ms. Heidi Barry of Gabriel, Roeder, Smith & Company (GRS), the actuarial firm retained by the retirement system, discussed with the Board of Trustees the actuarial valuation results, which were previously furnished for the Board's review and consideration.

The annual actuarial valuation is designed to measure the overall financial condition of the retirement system. During FY2018, the funding status of MPERS remained steady at 57.1%. The funded status would have increased again this year had the Board not recently adopted new economic assumptions. The funded status represents the level of assets available to pay the benefits that have been earned. MPERS' status continues to show progress; however, it is still well below the overall funding objective of 100% funded status. The actuary commended the Board for having the appropriate funding policies in place to achieve that objective.

The annual valuation also provides the basis for determining employer contribution rates for the next fiscal year, which must be certified by the Board to the employers (MoDOT and MSHP) by October 1. The combined contribution rate is comprised as illustrated in the following table.

FY2020 Employer Contribution Rates Expressed as % Active Payroll for Total Benefits	
Benefit Normal Cost	10.55%
Expenses	1.26%
Disability Insurance	<u>.53%</u>
Total Normal Cost	12.34%
Unfunded Liability	<u>45.66%</u>
Total	58.00%

The normal cost is the real cost of benefits. This contrasts with the unfunded liability, which is the “catch up” payment for those benefits that were not properly funded by either contributions or investment returns in the past.

Mr. Alberts recommended the contribution rate, effective July 1, 2019 (for FY2020), to remain at 58.00% of pay for both non-uniformed members and uniformed members.

The Executive Director concurred with the actuary’s recommendation. Mr. McKenna made a motion to approve the recommendation. Mr. Smith seconded. The following vote was taken:

- Ms. Sue W. Cox, Aye
- Mr. William “Bill” Seibert, Aye
- Mr. John Briscoe, Aye
- Sgt. Matthew Broniec, Aye
- Mr. Patrick McKenna, Aye
- Mr. Mike Pace, Aye
- Mr. Gregg Smith, Aye
- Mr. Todd Tyler, Aye

Motion carried. The contribution rate, as approved by the Board, for fiscal year 2020 will remain at 58% of payroll. The rates for the current and future fiscal year are shown below:

	<u>FY2019 Rate</u>	<u>FY2020 Rate</u>
MoDOT & Civilian Patrol	58.00%	58.00%
Uniformed Patrol	58.00%	58.00%

Mr. Alberts stated the economic assumptions should be reviewed annually, each spring, before the next valuation cycle begins.

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MEMBER PROFILE BROCHURE

Mr. Simon stated the updated Member Profile Brochure is available on the MPERS Trustee website.

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DIRECTOR’S COMMENTS

• **Communications Specialist**

Mr. Simon stated the newly created Communications Specialist position has been filled by Ms. Julie West. Ms. West is currently employed as a member education specialist for the Missouri Consolidated Health Care Plan (MCHCP). She has a bachelor of art, communication degree from Hannibal La-Grange University and a master of art, speech communication degree from the University of Central Missouri (UCM). Ms. West will join MPERS’ staff on November 5, 2018.

• **Building Issues**

Mr. Simon stated there have been HVAC issues in the building and a consultant was hired to evaluate/assess the situation. Mr. Simon will provide the Board with those results at the November Board meeting.

• **Highlighting MPERS’ Staff**

Mr. Simon indicated he will be highlighting staff members during Board meetings and define what their function and role is with MPERS. Mr. Simon highlighted Ms. Mary Jordan, who is a Senior Benefits Specialist and Ms. Tinisha Eickhoff, who is an Investment Officer.

• **Board Workshop**

The November Board Educational Workshop and Board Meeting will be held on November 29th at Meadow Lake Acres Country Club in New Bloomfield, Missouri.

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TRUSTEES’ COMMENTS

None.

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REPORT ON TRUSTEE EDUCATION – FY2019 *(Consent Agenda)*

Per the Monitoring and Reporting Policy, the Board was provided with the “Report on Trustee Education” for FY2019. 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 – August 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 2018 through August 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 September 27, 2018, citing Sections 610.021(1), (14) and 610.010(6), RSMo., *attorney-client privileged communications and records protected from disclosure by law*. Upon a motion made by Mr. Briscoe and seconded by Sgt. 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
- Sgt. Matthew Broniec, Aye
- Mr. Patrick McKenna, Aye
- Lt. Colonel Eric Olson (not present)
- Mr. Mike Pace, Aye
- Senator Dave Schatz (not present)
- Mr. Gregg Smith, Aye
- Mr. Todd Tyler (not present)

A motion to return to Open Session was made by Mr. Briscoe and seconded by Sgt. Broniec. By unanimous vote of all Trustees present, the Board of Trustees returned to Open Session.

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ADJOURN

A motion to adjourn was made by Mr. Briscoe and seconded by Sgt. Broniec. 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 September 27, 2018 in Jefferson City, Missouri, as approved by said Board at its meeting held November 29, 2018.

IN TESTIMONY WHEREOF, we have hereto set our hands and affixed the seal of said Board on November 29, 2018.



Chairman



Executive Director