

Minutes of Meeting

February 21, 2019





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Adjourn



BOARD OF TRUSTEES MEETING

THURSDAY, FEBRUARY 21, 2019

1:00 p.m.

**1913 William Street
Jefferson City, Missouri**

TRUSTEES PRESENT: Ms. Sue W. Cox, Chair
Mr. William “Bill” Seibert, Vice Chair
Senator Mike Bernskoetter
Mr. John Briscoe
Sergeant Matthew Broniec
Mr. Patrick McKenna
Lt. Colonel Eric Olson
Mr. Mike Pace
Mr. Gregg Smith
Mr. Todd Tyler
Representative Sara Walsh

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 II

GUESTS/PRESENTERS: Mr. Kevin Leonard, NEPC
Mr. Mike Winter, Legislative Consultant
Mr. Jeff Fink, Thompson Coburn

A regularly scheduled meeting of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) was held on Thursday, February 21, 2019, 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 Missouri Revised Statutes, as amended.

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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 November 29, 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 meeting time and to ensure the Trustees are well informed on issues requiring 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. Smith, all items on the consent agenda were unanimously approved.

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WELCOME NEW TRUSTEES, SENATOR MIKE BERNSKOETTER AND REPRESENTATIVE SARA WALSH, TO THE BOARD OF TRUSTEES

Ms. Cox welcomed Senator Mike Bernskoetter and Representative Sara Walsh to the MPERS Board of Trustees. Senator Bernskoetter was appointed on February 6, 2019, and replaces Senator Dave Schatz. Representative Walsh was appointed on February 7, 2019, and replaces Representative Shawn Rhoads.

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EXPRESSION OF THANKS TO SENATOR DAVE SCHATZ FOR HIS SERVICE TO THE BOARD OF TRUSTEES

Senator Dave Schatz was unable to attend the meeting; however, the Board expressed appreciation to Senator Schatz for his dedication and service to the MPERS Board of Trustees. Senator Schatz has served on MPERS’ Board as the Senate Member since February 4, 2015.

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ELECTION OF CHAIR

In accordance with Section 104.170 RSMo., Mr. William “Bill” Seibert was elected 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. Todd Tyler was elected 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 at orientation and again at the start of a new term for elected trustees following a regular election. Each board member was provided with an acknowledgement form to sign.

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COMMITTEE APPOINTMENTS

~ by Mr. Bill "William" Seibert, Board Chair

Each board member was provided with a 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

Todd Tyler – *Chair*
Gregg Smith
Sue Cox

Budget Committee

Bill Seibert – *Chair*
Todd Tyler
Representative Sara Walsh

Governance Committee

Sue Cox – *Chair*
Sergeant Matt Broniec
Senator Mike Bernskoetter
Mike Pace

Investment Committee

Patrick McKenna – *Chair*
John Briscoe
Lt. Col. Eric Olson
Sergeant Matt Broniec

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INVESTMENT COMMITTEE REPORT

~ by Mr. Mike Pace, Investment Committee Chair

Mr. Pace provided a report from the Investment Committee meeting that took place the morning of February 21, 2019, which included the following discussion items:

- NEPC’s 2019 Asset Class Assumptions
- Manager Due Diligence Report
- MPERS’ Proxy Voting Report
- Internal Fixed Income Review
- MPERS’ Borrowing Authority (Governance Policies)

Following a presentation by Mr. Jeff Fink of Thompson Coburn regarding the authority for the System to borrow money for investment purposes, the Investment Committee recommended the Board rescind all of the leverage changes adopted by the Board at its meeting on November 29, 2018.

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CIO INVESTMENT REPORT

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

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

Mr. Kevin Leonard provided a report on MPERS’ investment performance for the quarter ending December 31, 2018. MPERS’ fund value was \$2.28 billion as of December 31, 2018, and ranked in the top 3% of the universe across all measurement periods out to 10 years, with a risk profile (measured by standard deviation of returns) in the bottom 3% of the universe. That combination has produced the single best Sharpe ratio (a measure of risk vs. reward) across the entire peer universe.

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

The asset allocation changes approved in November went into effect January 1, 2019. Staff is working with Northern Trust to incorporate the new asset allocation targets along with the beta grouping structure into MPERS’ performance and asset allocation reports. Once finalized, all underlying investments will be broken down into three broad risk (beta) categories: equities, rates and credit, and real assets.

As of February 13, 2019, each of the respective asset class allocations are within the permissible ranges.

VOTE TO CLOSE MEETING

The Board voted to close its meeting on February 21, 2019, citing Section 610.021(1), RSMo., *Legal actions or attorney-client privileged communications*. Upon a motion made by Sgt. Broniec and seconded by Ms. Cox to convene into closed session, the following roll call vote was taken:

- Mr. William “Bill” Seibert, Aye
- Lt. Colonel Eric Olson, Aye
- Mr. Gregg Smith, Aye
- Mr. John Briscoe, Aye
- Sgt. Matthew Broniec, Aye
- Senator Mike Bernskoetter, Aye
- Mr. Mike Pace, Aye
- Mr. Patrick McKenna, Aye
- Representative Sara Walsh, Aye
- Ms. Sue Cox, Aye
- Mr. Todd Tyler, Aye

MPERS' BORROWING AUTHORITY

Mr. McKenna made a motion for the MPERS' Board to follow the recommendation of the MPERS' Investment Committee, to rescind all of the leverage changes in the MPERS' Governance Policies, namely the Executive Director Charter and the Investment Policy, that would allow System staff to use leverage at the total portfolio level, not to exceed 10%, as such changes were adopted by the MPERS Board at the November 28, 2018 meeting, due to the lack of express authority to do so. Mr. Briscoe seconded the motion. The following roll call vote was taken:

- Mr. William "Bill" Seibert, Nay
- Lt. Colonel Eric Olson, Aye
- Mr. Gregg Smith, Aye
- Mr. John Briscoe, Aye
- Sgt. Matthew Broniec, Nay
- Senator Mike Bernskoetter (no longer in attendance)
- Mr. Mike Pace, Aye
- Mr. Patrick McKenna, Aye
- Representative Sara Walsh, Aye
- Ms. Sue Cox, Nay
- Mr. Todd Tyler, Nay

Motion carried on a 6-4 vote, with one trustee not in attendance.

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INDUSTRY INFORMATION REGARDING PUBLIC INVESTMENTS

~ by Mr. Patrick McKenna, MPERS' Trustee

Mr. McKenna stated as fiduciaries of the system, the Board carries a statutory and legal responsibility to be educated and make prudent, informed decisions regarding the investment of the system's funds. Mr. McKenna indicated there is a growing, national trend to question the use of alternative investments by public pensions and the MPERS Board should seek "verification" that MPERS' investment portfolio is free of those issues. Mr. McKenna made a motion for the MPERS' Board to approve and direct the following action(s):

- 1) Direct the Investment Committee to develop the request(s) for proposal and administer the competitive procurement(s) in order to engage independent qualified consultant(s), including but not limited to, a pension forensic analyst, to analyze and audit the System's investments (including alternative investments), as well as the System's investment policies and strategies. Such consultant(s) analysis and audit shall include, at a minimum:
 - a) Determination of the actual costs of all System investments, including the appropriateness, transparency, fees, and expenses charged;
 - b) Determination of whether System investments are accurately valued and whether there is sufficient liquidity;
 - c) Address any other issues identified by the Investment Committee; and
 - d) Preparation of any report(s) to the Investment Committee that shall include all findings and recommendations for changes to the System's investments and the System's investment policies and strategies.

- 2) Direct the Investment Committee to receive any report(s) created by independent, qualified consultant(s) and:
 - a) Review such report(s) and direct the consultant(s) to make any required changes and
 - b) Upon satisfaction with the findings and recommendations in such report(s), submit such report(s) to the Board for review and approval.

Mr. Briscoe seconded the motion. After discussion, and to address the concerns of Trustees, Mr. McKenna amended his motion to remove item 1c) above and to place a \$250,000 cap on the cost of the study. Mr. Briscoe also seconded the amended motion. The following roll call vote was taken:

Mr. William “Bill” Seibert, Nay
Lt. Colonel Eric Olson, Nay
Mr. Gregg Smith, Aye
Mr. John Briscoe, Aye
Sgt. Matthew Broniec, Nay
Senator Mike Bernskoetter (no longer in attendance)
Mr. Mike Pace, Aye
Mr. Patrick McKenna, Aye
Representative Sara Walsh, Aye
Ms. Sue Cox, Nay
Mr. Todd Tyler, Nay

The chair declared the vote was 5-5 and indicated the motion did not carry.

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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.

HB649 Affects MPERS and MOSERS

This bill would place elected officials, including statewide elected officials and members of the general assembly, first serving on and after January 1, 2010, into a defined contribution plan.

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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, 2018. All expenses were found to be within the budgeted allowances.

- **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 2019 will be 1.954%.

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TRUSTEES' COMMENTS

Mr. Briscoe inquired on the date of the Missouri Association of Public Employee Retirement Systems (MAPERS) Educational Conference. The conference will be held July 10-12, 2019, at the Tan-Tar-A Resort in Osage Beach, Missouri (at Lake of the Ozarks).

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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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**REPORT OF UNAUDITED QUARTERLY FINANCIAL STATEMENT
FISCAL YEAR TO DATE AS OF DECEMBER 31, 2018** *(Consent Agenda)*

The Board viewed the financial statements of the System showing total investments (on an accrual basis) at market value of \$2,277,397,296 as of December 31, 2018. This is a decrease of \$74.8 million from the value of \$2,352,234,296 as of September 30, 2018.

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 2019

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 January 2019. 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. Smith and seconded by Mr. Briscoe. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.

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CERTIFICATION

We, William “Bill” Seibert, 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 21, 2019 in Jefferson City, Missouri, as approved by said Board at its meeting held June 20, 2019.

IN TESTIMONY WHEREOF, we have hereto set our hands and affixed the seal of said Board on June 20, 2019.

William K. Seibert

Chair

Scott Simon

Executive Director

