



MoDOT and Patrol Employees' Retirement System

Minutes of Meeting

June 17, 2021



TABLE OF CONTENTS

Approval of Minutes 2

**Welcome New Trustees, Mr. W. Dustin Boatwright and
Representative Barry Hovis, to the Board of Trustees 2**

Trustee Code of Conduct and Conflicts of Interest Policy 2

Review Actuarial Economic Assumptions 3

Governance Committee Report

New Board Rule 1-15 3

Committee Charter Updates 3

Executive Director Evaluation 3

Budget Committee Report

FY 2022 Budget Request 4

Audit Committee Report 6

MPERS Business Plan – FYs 2022, 2023 and 2024 6

Vital Functions - Signs 6

Legislative Update 7

Investment Committee Report 7

Investment Reports

NEPC’s Investment Performance Report for Quarter Ending March 31, 2021 7

CIO Report

Current Asset Allocation Overview / Positioning Relative to Targets 8

Director’s Comments

MAPERS Conference 8

Prospective Property 8

Investment Consultant RFP 8

Tinnin Case 8

Governance Project 8

Trustees’ Comments 8

Adjourn



BOARD OF TRUSTEES' MEETING

THURSDAY, JUNE 17, 2021

9:00 a.m.

**1913 William Street
Jefferson City, Missouri**

TRUSTEES PRESENT: Colonel Eric Olson, Chair
Mr. Todd Tyler, Vice Chair
Senator Mike Bernskoetter
Mr. W. Dustin Boatwright
Lt. Matt Broniec
Ms. Sue W. Cox
Representative Barry Hovis
Mr. Patrick McKenna
Mr. William "Bill" Seibert
Mr. Gregg Smith

TRUSTEES ABSENT: Mr. Robert Brinkmann

STAFF PRESENT: Mr. Scott Simon, Executive Director
Ms. Greta Bassett-Seymour, Assistant Executive Director
& General Counsel
Mr. Larry Krummen, Chief Investment Officer
Ms. Jennifer Even, Chief Financial Officer
Ms. Lois Wankum, Senior Executive Assistant

GUESTS/PRESENTERS: Mr. Kevin Leonard, NEPC
Mr. Ken Alberts, GRS
Ms. Heidi Barry, GRS
Mr. Jamal Adora, GRS
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 17, 2021, via webinar from the System's office located at 1913 William Street in Jefferson City, Missouri. The meeting was called to order by Colonel Eric Olson pursuant to Section 104.180 of the Missouri Revised Statutes, as amended.

OPEN MEETING

APPROVAL OF MINUTES

Lt. Broniec made a motion to approve the minutes of the meeting held on February 26, 2021, as corrected. Mr. Seibert seconded the motion. Motion carried. Mr. Boatwright and Representative Hovis abstained since they were not members of the Board at that time.

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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WELCOME NEW TRUSTEES, MR. W. DUSTIN BOATWRIGHT AND REPRESENTATIVE BARRY HOVIS, TO THE BOARD OF TRUSTEES

Colonel Olson welcomed Mr. Boatwright and Representative Hovis to the MPERS Board of Trustees. Mr. Boatwright was appointed on March 3, 2021, and replaced Mr. John Briscoe. Representative Hovis was appointed on March 23, 2021, and replaced Representative Sara Walsh.

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TRUSTEE CODE OF CONDUCT AND CONFLICTS OF INTEREST POLICY

~ by Mr. Scott Simon, MPERS' Executive Director

The MPERS Board Governance Policy states that Trustees shall provide a written acknowledgement that they have received the Trustee Code of Conduct and Conflicts of Interest Policy at orientation and on annual basis thereafter. Colonel Olson stated an email will be sent to Trustees following the board meeting and will include a link to review the policy and to electronically sign the applicable acknowledgement and oath of office.

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REVIEW ACTUARIAL ECONOMIC ASSUMPTIONS

~ by Mr. Scott Simon, MPERS' Executive Director

MPERS' actuary, GRS, recommended the Board lower the assumed rate of investment return from 7.00% to either 6.50% or 6.75%. They further recommended the Board not change the price inflation assumption or the wage inflation assumption at this time.

Representatives from GRS, presented a condensed report illustrating several alternatives if the Board wished to reduce the assumed rate of return from 7.0%. Lt. Broniec made a motion to accept Alternate B, which changes the economic assumption from 7.00% to 6.5% and maintains the minimum employer contribution rate at 58%. Mr. McKenna seconded the motion. By unanimous vote of all members present, the motion carried.

Lowering the assumed rate of return has deemed necessary as investment return projections continue to be lower. There was no change to the price inflation assumption nor the wage inflation assumption. Those assumptions will be reviewed in more detail with the next experience study.

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GOVERNANCE COMMITTEE REPORT

~ by Ms. Sue Cox, Governance Committee Chair

Ms. Cox stated the Governance Committee met on April 30, 2021, to review several items and recommended the Board's approval of the following:

New Board Rule 1-15 (Bona Fide Separation of Service)

Ms. Bassett-Seymour provided an overview of the New Board Rule 1-15, Termination of Employment and Reemployment of Closed Plan, Year 2000 Plan and 2011 Tier Plan Retiree. This rule would formalize the stipulations for maintaining the plan's qualified status as it relates to handling retirement and reemployment after retirement.

Ms. Cox made a motion to approve the new Board Rule 1-15. Mr. Tyler seconded the motion. By unanimous vote of all members present, the motion carried.

Committee Charter Updates

Ms. Bassett-Seymour stated the Board Charter was reorganized according to the powers of the Board, so it made logical sense to reorganize the committee charters in the same way. The revised charters for the audit, budget, investment and governance committees were provided to the Board for their review.

Ms. Cox made a motion to approve the updated charters. Mr. Seibert seconded the motion. By unanimous vote of all members present, the motion carried.

Executive Director Evaluation

Mr. Scott Simon and Ms. Bassett-Seymour reviewed the proposed changes to the Executive Director Evaluation Process and Criteria policy. The evaluation form was modified to include those vital signs where the Executive Director has at least some control, if not full control, of the outcome. The form was also condensed to focus on only those areas where the Board is in a position to make an assessment.

Mr. McKenna made a motion for a roll call vote on revisions made to the Executive Director Evaluation. Mr. Smith seconded. The following roll call vote was taken on that motion:

Senator Mike Bernskoetter, Aye
Mr. W. Dustin Boatwright, Aye
Lt. Matt Broniec, Aye
Ms. Sue W. Cox, Aye
Representative Barry Hovis, Aye
Mr. Patrick McKenna, Aye
Mr. William "Bill" Seibert, Aye
Mr. Gregg Smith, Aye
Mr. Todd Tyler, Aye
Colonel Eric Olson, Aye

The motion carried.

Ms. Cox made a motion to approve the revisions made to the Executive Director Evaluation. Lt. Broniec seconded the motion. The following roll call vote was taken:

Senator Mike Bernskoetter, Aye
Mr. W. Dustin Boatwright, Aye
Lt. Matt Broniec, Aye
Ms. Sue W. Cox, Aye
Representative Barry Hovis, Aye
Mr. Patrick McKenna, Nay
Mr. William "Bill" Seibert, Aye
Mr. Gregg Smith, Aye
Mr. Todd Tyler, Aye
Colonel Eric Olson, Aye

The motion carried with 9 votes in favor, 1 against and 1 absent. This process will begin with the Director's Evaluation that will occur this fall.

Ms. Cox stated the Committee also discussed Board Smart, which will be part of the budget discussion, and the Board's planning calendar.

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BUDGET COMMITTEE REPORT

~ by Colonel Eric Olson, Budget Committee Chair

FY 2022 Budget

Colonel Olson reported the Budget Committee met with MPERS' staff, on May 19, 2021, to review the proposed budget.

Mr. Simon and Ms. Even presented the proposed FY 2022 budget to the Board. The FY 2022 budget request was prepared in consideration of a post COVID-19 pandemic.

Ms. Even provided a review of the budget summary and details for each category in the administrative and investment budgets. The summary identified increases and decreases in each budget category and provided explanations for the changes. It was noted the budget presented followed all board-approved policies.

Overall, the budget request reflects a 0.66% decrease from last year. Some categories in the budget remained flat compared to last year's budget. Administrative expenses were reduced primarily as a result of the consolidation of the general counsel and assistant executive director positions into a single role. The extra full-time position created by this consolidation was shifted to investments where there was only a small increase in costs. The investment increase was offset to some extent by the departure of a long-term employee that was filled with two less experienced individuals. Staff noted the budget was prepared and proposed with the pandemic effects winding down and things returning to something more like normal. It was acknowledged that this transition to more normal times would likely be gradual and could result in a savings of projected costs, particularly for items like travel, which are not expected to get back to normal until later in the calendar year.

There was one key item included in the budget that is connected to the FY 2022 Business Plan, which is the transition to Office 365. This technology transition is intended to provide an improved platform, which will support new ways of sharing and distributing information to the Board. This platform will also provide some enhanced security features.

The Board was provided with materials that illustrated a more complete financial picture for MPERS, specifically as it relates to the budget process and what falls under the Board-approval umbrella and what does not. A chart illustrating projected benefit payments and expenses for FY 2021 and a chart with projected contributions and income for FY 2022 was also provided.

Lt. Broniec made a motion to accept the Budget Committee's recommendation to approve the FY 2022 budget as presented. Representative Hovis seconded the motion. The following roll call vote was taken:

Senator Mike Bernskoetter, Aye
Mr. W. Dustin Boatwright, Aye
Lt. Matt Broniec, Aye
Ms. Sue W. Cox, Aye
Representative Barry Hovis, Aye
Mr. Patrick McKenna, Nay
Mr. William "Bill" Seibert, Aye
Mr. Gregg Smith, Aye
Mr. Todd Tyler, Aye
Colonel Eric Olson, Aye

The motion carried with 9 votes in favor, 1 against and 1 absent.

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AUDIT COMMITTEE REPORT

~ by Mr. Todd Tyler, Audit Committee Chair

Mr. Tyler stated the Audit Committee met on April 30, 2021, to review and discuss vital signs, the Board's Planning Calendar, and changes to the Audit Committee Charter. The changes to the charter would provide for annual ad hoc audit work by MPERS' external auditor in order to verify and validate the vital signs and other reported measures. The Committee recommended that the Board approve the changes made to the Audit Committee Charter.

Lt. Broniec made a motion to approve the revisions made to the Audit Committee Charter. Mr. Smith seconded the motion. By unanimous vote of all members present, the motion carried. The new audit plan is expected to be implemented in the upcoming fiscal year. Mr. Tyler also stated a kick-off meeting with the external auditor is being scheduled.

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MPERS' BUSINESS PLAN – FYs 2022, 2023, and 2024

~ by Mr. Scott Simon, MPERS' Executive Director

MPERS' Business Plan for Fiscal Years 2022, 2023, and 2024 was presented to the Board. Mr. Simon stated there was one item that carried over from FY 2021, which is with regard to development of additional educational opportunities for members.

Mr. Seibert made a motion to approve MPERS' Business Plan for Fiscal Years 2022, 2023, and 2024. Mr. Tyler seconded the motion. By unanimous vote of all members present, the motion carried.

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VITAL FUNCTION – SIGNS

~ by Mr. Scott Simon, MPERS' Executive Director

Mr. Simon stated each board committee has reviewed the vital signs which were most closely related to the Board's oversight role and considered the specific metrics along with an applicable variance or expected outcome for each. The list will be updated as necessary based on the individual vital sign and will show progress according to a green/yellow/red dashboard. Green signifies that everything is performing as expected or as it should, yellow signifies that the Board should proceed with caution and review the sign for possible attention, and red signifies that there are issues to be addressed on an immediate basis. There are many signs or indicators of performance besides the vital signs, and those will continue to be monitored by staff and brought to the Board's attention when necessary.

The vital signs will have historical tracking for perpetual review by and oversight of the Board. A final list of vital signs, which has been fine-tuned upon review of each committee, was provided for the Board's approval. The vital signs on this list should provide a strong indication of whether MPERS is performing as expected. There is also a proposed audit plan to verify the validity of the results, the independence of the results, and that the results reflect actual performance.

The vital signs are intended to be a way for the Board to focus on the vital few functions so that the trustees do not get bogged down in the details that should not be of concern to an oversight board. The vital signs are a result of the governance project from last calendar year – a recommendation of Funston Advisory Services.

Ms. Cox made a motion to approve the proposed revisions. Mr. Smith seconded. By unanimous vote of all members present, the motion carried.

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LEGISLATIVE UPDATE

~ by Mr. Scott Simon, MPERS' Executive Director

Several bills were filed in 2021 that would have had an impact on MPERS; however, none of those passed during the 2021 session. House Bill 701 was MPERS' and MOSERS' cleanup bill and Senate Bill 618 and House Bill 1418 were intended to stagger the terms for MPERS' Board of Trustees elected members. There is a plan to refile these bills during the next legislative session.

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INVESTMENT COMMITTEE REPORT

~ by Lt. Matt Broniec, Investment Committee Chair

Lt. Broniec stated the Investment Committee met on April 20, 2021, and reviewed vital signs, the Board's Planning Calendar and a request for proposal for investment consultant services, which is scheduled to be distributed July 1, 2021.

He also noted he received a communication from the Board's investment consultant. The response from Mr. Kevin Leonard stated that NEPC works for and reports to the MoDOT & Patrol Employees' Retirement System Board of Trustees ("the Board"). The letter also stated that "as it relates to our work with your investment staff ("staff"), NEPC has and always will see our role as working for the Board."

The Committee also reviewed drafts of several new investment policies that will be revisited at a future Investment Committee meeting in July.

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INVESTMENT REPORTS

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

• NEPC Investment Performance Report for Quarter Ending March 31, 2021

Mr. Kevin Leonard and Mr. Larry Krummen provided a report on MPERS' investment performance for the quarter ending March 31, 2021. MPERS' fund value was \$2.676 billion at that time.

The first quarter of 2021 provided an excellent start to the new calendar year, as MPERS' investment portfolio delivered a 5.1% return for the period. The 5.1% return outperformed MPERS' policy benchmark of 2.7%, and ranked in the top 5% of the public fund peer universe for the period. MPERS' long-term return remains excellent across most performance metrics. MPERS' 10-year return is just under 9.0%, ranks in the top 22% of the public fund universe, and has a risk profile (as measured by the volatility of returns) in the bottom 1% of the peer universe. Fiscal Year 2021 is shaping up to be a banner year for the portfolio. The estimated return for the year stands at 28%, and the fund balance is at an all-time high of \$2.95 billion.

- **CIO Report**

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

- MPERS' breaks down all investment strategies into three broad beta groups (equities, interest rates and credit, and real assets). As of June 7, 2021, each of the respective allocations are within the permissible ranges established in MPERS' Investment Policy. MPERS' current cash balance stands at \$22.1 million (or 0.8% of assets).

DIRECTOR'S COMMENTS

~ by Mr. Scott Simon, MPERS' Executive Director

- **MAPERS Conference**

- Mr. Simon stated the annual MAPERS' conference is scheduled for July 14 and 15 and will be held virtually again this year.

- **Prospective Property**

- Mr. Simon stated the closing for the real estate purchase approved by the Board on May 26, 2021, will be later this month. Staff continues to conduct due diligence regarding future plans for the property.

- **Investment Consultant RFP**

- Mr. Simon stated the investment consultant RFP will be posted on July 1.

- **Tinnin Case**

- MPERS will appeal to the Missouri Court of Appeals, Western District.

- **Governance Project**

- Of the 72 recommendations made by Funston Advisory Services during the governance project in late 2020, 41 are complete, 22 are in progress, and 8 that remain to be started. According to the projected plan, the staff and Board are ahead of schedule.

TRUSTEES' COMMENTS

Ms. Cox expressed her appreciation to staff for all the support and progress made throughout the recent committee and board meetings. .

ADJOURN

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

CERTIFICATION

We, Colonel Eric T. Olson, 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 17, 2021 in Jefferson City, Missouri, as approved by said Board at its meeting held September 23, 2021.

IN TESTIMONY WHEREOF, we have hereto set our hands and affixed the seal of said Board on September 23, 2021.

Eric T. Olson

Chair

Scott Simon

Executive Director

