

Minutes of Meeting

June 20, 2013



MoDOT & Patrol
Employees' Retirement System



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BOARD OF TRUSTEES' MEETING

THURSDAY, JUNE 20, 2013

1:00 p.m.

**1913 William Street
Jefferson City, Missouri**

TRUSTEES PRESENT: Major J. Bret Johnson, Chair
Mr. Lloyd "Joe" Carmichael, Vice Chair
Senator Mike Kehoe
Mr. Kelley Martin
Colonel Ron Replogle (via phone)
Mr. Bob Sfreddo
Mr. Roger D. Stottlemire
Mr. Kenneth H. Suelthaus
Mr. Todd Tyler

TRUSTEES ABSENT: Mr. Dave Nichols
Representative Don Phillips

STAFF PRESENT: Mr. Scott Simon, Executive Director
Ms. Pam Henry, Assistant Executive Director
Mr. Larry Krummen, Chief Investment Officer
Mr. Omar Davis, General Counsel
Ms. Lois Wankum, Executive Assistant
Ms. Jennifer Even, Chief Financial Officer

GUESTS/PRESENTERS: Mr. Ken Alberts, Gabriel Roeder Smith & Co.
Mr. Kevin Leonard, NEPC
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 20, 2013, at the System's office located at 1913 William Street in Jefferson City, Missouri. The meeting was called to order by Major Johnson 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. Carmichael, and seconded by Senator Kehoe, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on March 14, 2013.

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. Stottlemyre, and seconded by Mr. Carmichael, all items on the consent agenda were unanimously approved.

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WELCOME MR. KELLEY MARTIN TO THE BOARD OF TRUSTEES

The Chairman welcomed Mr. Kelley Martin to the MPERS Board of Trustees. Mr. Martin was appointed on June 13, 2013 and replaces Mr. Rudy Farber whose term on the Highways and Transportation Commission has expired.

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**SPECIAL ELECTION RESULT AND
WELCOME TO MR. TODD TYLER**

The Executive Director presented the results of the special election to the Board. The election was held to fill the unexpired 4-year term of Sue Feltrop. Ms. Feltrop was the active member of the Missouri Department of Transportation on the Board. The term expires on June 30, 2014.

The election was held on June 6, 2013, in Jefferson City and the Executive Director certified the results as follows:

Active MoDOT Employee	Total 589
David Allen Bower, Kansas City District Office Senior Information Systems Technologist	69
Gerald E. (Gerry) Foster, Jefferson City Central Office Senior Risk and Benefits Management Specialist	104
Suzette Kempker, Jefferson City Central Office Financial Services Administrator	120
Randy S. Morris, Southwest District Office Senior Traffic Studies Specialist	40
John Ohlms, St. Louis District Office Senior Traffic Technician	63
Macy Rodenbaugh, P.E., Northeast District Office District Construction & Materials Engineer	69
Todd Tyler, Southwest District Office Senior Financial Services Specialist	124

Based on the tally of votes cast, the Executive Director recommended the Board adopt a motion to certify the election result as presented and declare Todd Tyler as the successful candidate. The Executive Director also requested authorization to destroy the ballots, tally sheets, and envelopes pertaining to the June 6, 2013 election, 60 days after the Board certifies the result.

Upon motion made by Mr. Sfreddo and seconded by Senator Kehoe, the Board unanimously declared Mr. Tyler as the successful candidate and authorized the destruction of documents as recommended by the Executive Director.

The Board officially welcomed Mr. Tyler to the Board.

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LEGISLATION

– by Mr. Scott Simon, MPERS Executive Director

Mr. Simon stated SCS for HCS for HB233 (cleanup bill) was passed by the legislature and awaits the governor's signature.

SB279/HB233

(Senator Mike Kehoe/Representative Mike Leara)

These two bills represent the Senate and House versions of the cleanup legislation. It modifies several provisions of the retirement system for state officers and employees, including the following two examples: 1) Modifies the definition of "annuity starting date" as used by the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) and the Missouri State Employees' Retirement System (MOSERS); and 2) changes the definition of "beneficiary" to include both persons or entities, and modifies the definition of "employee."

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DISABILITY PROGRAM

– by Mr. Scott Simon, MPERS Executive Director

Mr. Simon provided the Board with a letter from Mr. Bob Charlesworth, MPERS' risk management consultant. Mr. Charlesworth evaluates the Long-Term Disability rates that have been guaranteed to July 1, 2016. While the rate is a guarantee from The Standard, this does not necessarily commit MPERS or prevent further negotiations should positive results be possible.

Mr. Charlesworth indicated he is pleased with the current rate and will continue to provide an annual review of claims data to validate the rating and the premiums to ensure the rate remains competitive for the four-year period.

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AUDIT COMMITTEE REPORT

– by Mr. Ken Suelthaus, Audit Committee Chair

Mr. Suelthaus stated the committee met earlier in the day and that Mr. Mike Oldelehr of Williams-Keepers and Mr. Ken Alberts of Gabriel Roeder Smith & Co. were also present. The main topic of discussion was in regard to the new reporting requirements stipulated in GASB 67/68. The Governmental Accounting Standards Board (GASB) implemented two new standards that will substantially change the accounting and financial reporting of public employee pensions by state and local governments. Statement No. 67, *Financial Reporting for Pension Plans*, revises existing guidance for the financial reports of most pension plans. Statement No. 68, *Accounting and Financial Reporting for Pensions*, revises and establishes new financial reporting requirements for most governmental employers that provide their employees with pension benefits. MPERS' Comprehensive Annual Financial Report (CAFR) for FY2014 will be impacted by these news standards.

The committee also discussed the extension of the audit contract.

AUDIT COMMITTEE REPORT (continued)

Mr. Suelthaus made a motion to authorize staff to perform a mock implementation of GASB 67/68 on the FY2013 CAFR in preparation for implementing the required standards. Mr. Carmichael seconded the motion. The following vote was taken:

Major J. Bret Johnson, Aye
Mr. Lloyd “Joe” Carmichael, Aye
Senator Mike Kehoe, Aye
Mr. Kelley Martin, Aye
Colonel Ron Replogle (via phone), Aye
Mr. Bob Sfreddo, Aye
Mr. Roger D. Stottlemire, Aye
Mr. Kenneth H. Suelthaus, Aye
Mr. Todd Tyler, Aye

Motion carried by unanimous vote of all Trustees present.

Mr. Suelthaus also made a motion to extend the current contract with Williams-Keepers for an additional one-year period. Senator Kehoe seconded the motion. The following vote was taken:

Major J. Bret Johnson, Aye
Mr. Lloyd “Joe” Carmichael, Aye
Senator Mike Kehoe, Aye
Mr. Kelley Martin, Aye
Colonel Ron Replogle (via phone), Aye
Mr. Bob Sfreddo, Aye
Mr. Roger D. Stottlemire, Aye
Mr. Kenneth H. Suelthaus, Aye
Mr. Todd Tyler, Aye

Motion carried by unanimous vote of all Trustees present to extend the current contract with Williams Keepers for one year.

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GOVERNANCE COMMITTEE REPORT

– by Mr. Roger Stottlemire, Governance Committee Chair

Mr. Roger Stottlemire, Governance Committee Chair, gave a brief recap of the committee meeting held on May 20, 2013. The Committee recommended approval of minor changes to the following Board Rule and Governance Policies:

Board Rule – Chapter 1 – Procedural Rules

Changes give MPERS the authority and flexibility to pursue electronic voting.

Executive Director Charter

This is a new policy stemming from the Board workshop last November.

GOVERNANCE COMMITTEE REPORT (continued)

Chief Investment Officer Charter

This is a new policy that has been developed based on material from the Investment Policy Statement.

Board Officer Descriptions

Changes the word “Conveying” to “Coordinating” of the annual performance evaluation of the Executive Director.

Governance Committee Charter

The current policy specifies the governance manual be updated on an annual basis. This has been changed to read at least once every three years. It also added wording to have the Governance Committee participate in the Executive Director’s performance evaluation.

Investment Committee Charter

The change clarifies wording for the purpose of the committee and a couple of revisions to their responsibilities.

Board Responsibilities

Clarifies the authority of the Board to adopt a Statement of Investment Policy which also includes the broad asset allocation policies and return objective of the Plan.

Trustee Responsibilities

This policy was repealed since its provisions have been incorporated into the Code of Conduct and Conflict of Interest Policy.

Orientation and Education

The wording that states the Board considers participation by Trustees in regularly scheduled site visits to investment managers to be a form of education was removed.

Executive Director Evaluation Process and Criteria

Minor changes were made stemming from the Board workshop last November.

Executive Director Evaluation Form

The form was adjusted to read “Space for additional comments (including explanation of any below average or outstanding marks)”.

Communications

Change allows notice and information for special and regularly scheduled quarterly Board meetings to be sent via electronic mail. It also states Trustees shall not counsel system members instead of strongly discouraged from counseling.

Trustee Code of Conduct and Conflicts of Interest

Minor revisions were made to this policy.

Strategic Planning

Changed the wording of “Strategic Plan” to “Business Plan” throughout the policy.

Routine Reports Listing

Minor changes were made to the reporting policies.

GOVERNANCE COMMITTEE REPORT (continued)

Mr. Stottlemyre made a motion to approve the Board Rule and governance policies as presented. Mr. Sfreddo seconded the motion. The following vote was taken:

Major J. Bret Johnson, Aye
Mr. Lloyd "Joe" Carmichael, Aye
Senator Mike Kehoe, Aye
Mr. Kelley Martin, Aye
Colonel Ron Replogle (via phone), Aye
Mr. Bob Sfreddo, Aye
Mr. Roger D. Stottlemyre, Aye
Mr. Kenneth H. Suelthaus, Aye
Mr. Todd Tyler, Aye

The Board of Trustees unanimously approved revisions to the above listed policies.

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BUDGET COMMITTEE REPORT

– by Major Bret Johnson, Budget Committee Chair

Major Johnson reported the Budget Committee met with MPERS staff on May 31, 2013 to review the proposed budget. Ms. Jennifer Even gave an overview of each budget category and Mr. Simon also provided comments throughout the presentation.

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

Mr. Suelthaus made a motion to go into Closed Session to discuss personnel issues. Mr. Stottlemyre seconded the motion. By roll call vote of all members present, the Board went into Closed Session.

Mr. Carmichael made a motion to accept the Committee's recommendation and approval of the FY2014 Budget as presented along with staffing changes that were discussed in Closed Session. Senator Kehoe seconded the motion. The following vote was taken:

Major J. Bret Johnson, Aye
Mr. Lloyd "Joe" Carmichael, Aye
Senator Mike Kehoe, Aye
Mr. Kelley Martin, Aye
Colonel Ron Replogle (via phone), Aye
Mr. Bob Sfreddo, Aye
Mr. Roger D. Stottlemyre, Aye
Mr. Kenneth H. Suelthaus, Aye
Mr. Todd Tyler, Aye

Motion carried by unanimous vote of all Trustees present.

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MISSOURI SUNSHINE LAW

The Board improperly discussed two other issues during Closed Session that should have been held in Open Session. The Board discussed MPERS's incentive compensation policy for investment personnel and MPERS investment functions.

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**REPORT OF ACTUARY, FIVE-YEAR EXPERIENCE STUDY,
JULY 1, 2007 THROUGH JUNE 30, 2012**

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

In the February board meeting, Ken Alberts presented the Five-Year Experience Study to the Board of Trustees and recommended lowering MPERS' economic assumptions to coincide with lower investment return expectations and lower rates of inflation.

After considerable deliberation, the Board of Trustees approved the recommended changes and set the following new economic assumption rates: 7.75% investment return, 3% price inflation and 3.5% wage inflation.

The Board continued to review the Five-Year Experience Study which was initiated at the February 2013 Board meeting. The GRS study recommended lowering MPERS' economic assumptions to coincide with lower investment return expectations and lower rates of inflation.

Mr. Suelthaus made a motion to accept Alternate No. 1 which changes the economic assumption from 8.25% to 7.75%, the price inflation from 3.25% to 3.00% and the wage inflation from 3.75% to 3.50%. Mr. Martin seconded the motion. The following vote was taken:

- Major J. Bret Johnson, Aye
- Mr. Lloyd "Joe" Carmichael, Aye
- Senator Mike Kehoe, (not present during vote)
- Mr. Kelley Martin, Aye
- Colonel Ron Replogle (via phone), Aye
- Mr. Bob Sfreddo, Aye
- Mr. Roger D. Stottlemire, Aye
- Mr. Kenneth H. Suelthaus, Aye
- Mr. Todd Tyler, Aye

Motion carried to change the economic assumptions as recommended by the GRS.

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CIO INVESTMENT REPORT

– by Mr. Larry Krummen, MPERS’ Chief Investment Officer

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

Mr. Krummen stated they continue to increase MPERS’ exposure to equities relative to fixed income due to the favorable trends currently at work in the equity market.

As of June 10, 2013, each of MPERS’ sub-asset class allocations are within the acceptable ranges established by the investment policy.

- **Update on Fiscal Year 2013 Investment Performance (through June 10th)**

Mr. Krummen stated MPERS’ investment portfolio is now up an estimated 14% thus far if fiscal year 2013 (through June 10th).

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1ST QUARTER 2013 INVESTMENT PERFORMANCE REPORT

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

Mr. Larry Krummen and Mr. Kevin Leonard provided a report on MPERS’ investment performance for the 1st quarter of calendar year 2013. As of March 31, 2013, MPERS’ net asset value was \$1.66 billion.

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INVESTMENT COMMITTEE REPORT

– by Mr. Joe Carmichael, Investment Committee Chair

- **Revisions to MPERS’ Internal Fixed Income Policy**

Mr. Carmichael stated that NEPC, MPERS’ investment consultant, presented an analysis on the role fixed income plays in MPERS’ portfolio. The analysis reiterated the importance of fixed income from a diversification and liquidity perspective and highlighted the potential return enhancements capabilities of the fixed income program. Additionally, fixed income instruments can serve as a hedge for economic conditions such as inflation. Currently, MPERS has a policy target of 25% of the total plan to fixed income strategies, including core-like and opportunistic strategies.

- **Revisions to MPERS' Internal Fixed Income Policy (continued)**

Mr. Carmichael made the motion to amend the Fixed Income policy to expand the ranges allowed for fixed income managed assets as recommended by NEPC and the committee. The change will afford staff greater flexibility to take advantage of opportunities in the market and take more tactical positions in the event of rising interest rates. Mr. Martin seconded the motion. The following vote was taken:

Major J. Bret Johnson, Aye
 Mr. Lloyd "Joe" Carmichael, Aye
 Senator Mike Kehoe, (not present during vote)
 Mr. Kelley Martin, Aye
 Colonel Ron Replogle (via phone), Aye
 Mr. Bob Sfreddo, Aye
 Mr. Roger D. Stottlemire, Aye
 Mr. Kenneth H. Suelthaus, Aye
 Mr. Todd Tyler, Aye

Motion carried to accept changes to the Fixed Income policy.

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DIRECTOR'S COMMENTS

- **Committee Assignments**

Each Board member was provided with an updated copy of committee appointments due to turnover of Board members. Below is the updated list of appointments:

Audit Committee

Kenneth Suelthaus - *Chair*
 Major Bret Johnson
 Kelley Martin
 Colonel Ron Replogle

Budget Committee

Major Bret Johnson – *Chair*
 Joe Carmichael
 Representative Don Phillips
 Colonel Ron Replogle

Governance Committee

Roger Stottlemire – *Chair*
 Dave Nichols
 Bob Sfreddo
 Todd Tyler

Investment Committee

Joe Carmichael – *Chair*
 Senator Mike Kehoe
 Kelley Martin
 Dave Nichols
 Bob Sfreddo
 Roger Stottlemire

- **MetLife (Metropolitan Insurance Company)**

Effective September 1, 2013, MetLife premiums will no longer be withheld from MPERS' benefit payments for their voluntary life insurance premium (Missouri State Highway Patrol policy). Retirees will receive a letter with instructions for continuing their coverage and setting up direct bill.

- **MAPERS Conference**

Mr. Simon reminded Board members of the Missouri Association of Public Employee Retirement Systems (MAPERS) Conference scheduled for July 10-12, 2013, at Tan-Tar-A Resort at Lake of the Ozarks.

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TRUSTEE COMMENTS

None.

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**REPORT OF QUARTERLY FINANCIAL STATEMENT –
JANUARY 2013 to MARCH 2013** *(Consent Agenda)*

The Board viewed the financial statements of the System showing total investments (on an accrual basis) at market value of \$1,637,378,798 as of March 31, 2013. This is an increase of \$35.4 million from the value of 1,605,659,974 as of December 31, 2012.

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 – May 2013**

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 2012 through May 2013. 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. Stottlemire and seconded by Mr. Tyler. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.