

Minutes of Meeting

June 26, 2014



MoDOT & Patrol
Employees' Retirement System



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BOARD OF TRUSTEES' MEETING

THURSDAY, JUNE 26, 2014

1:00 p.m.

**1913 William Street
Jefferson City, Missouri**

TRUSTEES PRESENT: Mr. Lloyd "Joe" Carmichael, Chair
Colonel Ron Replogle, Vice Chair
Major J. Bret Johnson
Representative Shawn Rhoads
Mr. Bob Sfreddo
Mr. Roger D. Stottlemire
Mr. Kenneth H. Suelthaus
Mr. Todd Tyler

TRUSTEES ABSENT: Senator Mike Kehoe
Mr. Dave Nichols

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

GUESTS/PRESENTERS: Mr. Kevin Leonard, NEPC
Mr. Will Forde, NEPC
Mr. Mike Winter, Legislative Consultant
Mr. William "Bill" Seibert (newly elected Board member)
Ms. Sue W. Cox (newly elected Board member)

A regularly scheduled meeting of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) was held on Thursday, June 26, 2014, at the System's office located at 1913 William Street in Jefferson City, Missouri. The meeting was called to order by Mr. Carmichael pursuant to Section 104.180 of the Revised Statutes of Missouri, as amended.

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APPROVAL OF MINUTES

Upon a motion by Colonel Replogle, and seconded by Mr. Stottlemire, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on February 27, 2014.

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. Sfredo, all items on the consent agenda were unanimously approved.

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RESULTS OF ELECTION OF RETIREMENT BOARD MEMBERS

The terms of Mr. Todd Tyler, Major Bret Johnson, Mr. Bob Sfredo and Mr. Roger Stottlemire will expire on June 30, 2014. Therefore, an election was conducted.

This was the first election in which the new electronic voting process was used for the active and retiree trustee elections. The electronic process saved thousands of dollars by eliminating the paper method used historically. For this election, active employees were required to use the electronic process only while retirees had the choice of electronic or paper voting. The new method was successful and a major accomplishment relative to other public retirement system’s voting processes.

Nomination forms were provided to members on March 3, 2014. The following three categories only had one nominee each. By default, these nominees are automatically Board of Trustee representatives.

MoDOT Retiree Representative, Sue Cox
MSHP Active Representative, Major J. Bret Johnson
MSHP Retiree Representative, William “Bill” Seibert, Jr.

The MoDOT Active Representative had three nominations. The voting period ended at 4:00 p.m. on May 22nd. The Executive Director certified the results as follows:

MoDOT Active Representative	Total 423
David Allen Bower, Kansas City District Senior Right of Way Specialist	128
Kerry A. Harvey, Northeast District Senior Maintenance Worker	72
Todd Tyler, Southwest District Senior Financial Service Specialist	223

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, 2014, as follows:

- Mr. Todd Tyler, MoDOT Active Representative
- Major J. Bret Johnson, MSHP Active Representative
- Ms. Sue W. Cox, MoDOT Retiree Representative
- Mr. William “Bill” Seibert, MSHP Retiree Representative

Upon motion made by Mr. Suelthaus and seconded by Mr. Tyler, the Board unanimously concurred with the Executive Director’s recommendation.

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**EXPRESSION OF THANKS TO
MR. BOB SFREDDO AND MR. ROGER STOTTLEMYRE
FOR THEIR SERVICE TO THE BOARD OF TRUSTEES**

The Board expressed appreciation to Mr. Bob Sfreddo and Mr. Roger Stottlemyre for their dedication and service to the MPERS Board of Trustees. Mr. Sfreddo had served on the MPERS’ Board as the elected MoDOT Retiree Representative since July 1, 2006. Mr. Stottlemyre served on the MPERS’ Board as the Active MSHP Representative from July 1, 1994 to May 31, 2001; as Superintendent of the MSHP from June 1, 2001 to August 31, 2006; and the elected MSHP Retiree Representative from January 1, 2008 to June 30, 2014.

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LEGISLATION

– by Mr. Scott Simon, MPERS Executive Director

Mr. Simon stated two retirement related legislative proposals were passed by the legislature.

SCS for HCS for HB 1217 Affects Public Plans

This bill prohibits the transfer or assignment of public pension benefits. The bill was amended to also include the provisions originally found under both SB 550 and SB 823 that require forfeiture of a public pension by any employee who is convicted of certain crimes directly in connection with such employee’s job. MPERS’ statutes already have a similar assignment provision, so that portion has almost no implications for MPERS. The burden of the employee convicted of certain crimes falls on the courts to notify MPERS, leaving little for MPERS until such notification would come through.

HCS for HB 1882 Affects Public Plans

This proposal updates or modifies the role public pension plans in Missouri have with regard to the Joint Committee on Public Employee Retirement and updates certain other provisions governing how public plans operate. There are several very minor changes. The most significant modifications include: 1) expanded fiscal notes requiring actuarial projections for at least ten years; 2) clarified educational requirements for trustees; and 3) refined provisions governing whether plans can implement updates to plan provisions.

Upon being signed by the Governor, Mr. Simon will update necessary policies for the Board’s consideration at a future meeting.

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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 which 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.

In Mr. Charlesworth’s letter, he 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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SCHEDULE DATES FOR BOARD MEETINGS

– by Mr. Scott Simon, MPERS Executive Director

Mr. Simon reminded the Board that the law (104.180 RSMo.), governing MPERS’ plan, requires a meeting at least once a quarter; however, the Board may meet as often as it sees fit given unanimous mutual consent of the trustees. He further explained the rationale of how the dates are chosen and why.

Mr. Carmichael requested this memo be sent with the list of tentative meeting dates in November when the dates are chosen for the following year.

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MPERS' BUSINESS PLAN – FY2015, 2016 and 2017

– by Mr. Scott Simon, MPERS Executive Director

MPERS' Business Plan for Fiscal Years 2015, 2016 and 2017 was presented to the Board.

In a motion made by Representative Rhoads, and seconded by Mr. Stottlemyre, the Board approved MPERS' Business Plan for Fiscal Years 2015, 2016 and 2017.

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BUDGET COMMITTEE REPORT

– by Mr. Joe Carmichael, Budget Committee Chair

Mr. Carmichael reported the Budget Committee met with MPERS staff on June 6, 2014 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.

Colonel Replogle made a motion to accept the Committee's recommendation to approve the FY2015 Budget as presented. Mr. Sfreddo seconded the motion. The following vote was taken:

Mr. Lloyd "Joe" Carmichael, Aye
Colonel Ron Replogle, Aye
Major J. Bret Johnson, Aye
Representative Shawn Rhoads, 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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INVESTMENT COMMITTEE REPORT

– by Mr. Joe Carmichael, Investment Committee Chair

- **Private Equity, Real Estate, Real Assets and Opportunistic Debt Pacing Models**

Mr. Carmichael stated the 2014 Strategic Investment Plans for Private Equity, Real Estate, Real Assets and Opportunistic Debt, outlining NEPC's commitment recommendations and plan projections, were presented by Mr. Kevin Leonard and Ms. Jennifer Johnson. Additionally, Mr. Leonard discussed how NEPC models the pacing plans taking into consideration cash flows and unfunded commitments.

- **Liquidity Study**

Mr. Kevin Leonard and Ms. Jennifer Johnson also presented the Liquidity Study outlining both a base case scenario and a stressed case scenario. Mr. Leonard noted that NEPC is comfortable with the liquidity of the MPERS program. MPERS will do a Liquidity Study on an annual basis.

CIO INVESTMENT REPORT

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

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

Mr. Krummen stated MPERS is overweight to global equities, but the overweight is isolated to the investment in MLPs. MPERS has maintained the overweight positioning to real estate, based on improving fundamentals and strong income (rent) growth. The rally in the traditional fixed income markets has made it a difficult entry point to deploy new capital. With the 10-year Treasury yield down to 2.6%, and high yield bonds trading at all time highs (yields under 5%), MPERS’ staff continue to focus their efforts on the opportunistic (private) debt markets. MPERS’ cash position is down to 1.5% of assets, but will be drawn down to essentially zero by fiscal year end (June 30th).

As of June 15, 2014, each of MPERS’ sub-asset class allocations are within the acceptable ranges established by the investment policy.

1ST QUARTER 2014 INVESTMENT PERFORMANCE REPORT

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

Mr. Larry Krummen, Mr. Kevin Leonard and Mr. Will Forde provided a report on MPERS’ investment performance for the 1st quarter of calendar year 2014. As of March 31, 2014, MPERS’ net asset value was \$1.82 billion. The one-year return as of March 31 was 12.90%, outperforming the benchmark return of 12.6%. The system continues to achieve top quartile risk-adjusted returns relative to peers, despite the smaller global equity allocation than most public pension plans.

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DIRECTOR’S COMMENTS

- **MAPERS Conference**

Mr. Simon reminded the Board the Missouri Association of Public Employee Retirement Systems (MAPERS) Conference is scheduled for July 9-11, 2014, at Tan-Tar-A Resort at Lake of the Ozarks.

- **New Hire**

Mr. Simon stated Ms. Greta Bassett-Seymour began employment with MPERS as General Counsel on April 8, 2014. Ms. Bassett-Seymour is attending the 2014 Legal Education Conference (sponsored by the National Association of Public Pension Attorneys (NAPPA)) in Nashville, Tennessee (June 24-27, 2014).

- **Committee Assignments**

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

Audit Committee

Kenneth Suelthaus – *Chair*
Major Bret Johnson
Senator Mike Kehoe
Colonel Ron Repogle

Budget Committee

Joe Carmichael – *Chair*
Colonel Ron Repogle
Representative Shawn Rhoads
Todd Tyler

Governance Committee

Sue W. Cox – *Chair*
Dave Nichols
Bill Seibert
Todd Tyler

Investment Committee

Major Bret Johnson – *Chair*
Joe Carmichael
Sue W. Cox
Dave Nichols
Bill Seibert

- **GFOA Award**

The Government Finance Officers Association (GFOA) recently awarded MPERS with the Certificate of Achievement for Excellence in Financial Reporting for the 2013 Comprehensive Annual Financial Report (CAFR). The Certificate of Achievement is the highest form of recognition in the area of governmental accounting and financial reporting. Its attainment represents a significant accomplishment by a government and its management.

- **GASB 67/GASB 68 Implementation**

As a result of the mock implementation of the GASB 67 and GASB 68, Ms. Jennifer Even provided a brief overview of the changes. The GASB 67 results coincide very closely with MPERS' usual funding analysis. That is, the new terms and their corresponding figures match very closely with MPERS' typical terminology (i.e. accrued liability, unfunded liability, etc.). The GASB 67 and GASB 68 will be implemented with the FY2014 statements. MPERS will continue to use a discount rate of 7.75%, based on the expected rate of return on pension plan investments, to measure the total pension liability due to the fact that MPERS has a closed amortization period.

Mr. Simon stated he is working on a funding policy for the Board's review that should clarify the difference between MPERS' typical funding analysis and the new financial reporting figures.

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TRUSTEE'S COMMENTS

- **IT Assessment**

At the September 2013 meeting, the Board accepted the proposal from Levi, Ray & Shoup (LRS) for the line of business applications and the proposal from Huber & Associates for the desktop applications. Mr. Suelthaus asked the status of the transition. Mr. Simon indicated there were some frustrations throughout the transition, but believes we are past that and things are working well.

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**REPORT OF QUARTERLY FINANCIAL STATEMENT –
JANUARY 2014 to MARCH 2014** *(Consent Agenda)*

The Board viewed the financial statements of the System showing total investments (on an accrual basis) at market value of \$1,821,877,242 as of March 31, 2014. This is an increase of \$32.8 million from the value of \$1,789,077,812 as of December 31, 2013.

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 2014**

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 2013 through May 2014. 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. Sfreddo and seconded by Mr. Suelthaus. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.