<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Approval of Minutes</td>
<td>1</td>
</tr>
<tr>
<td>Consent Agenda</td>
<td>2</td>
</tr>
<tr>
<td>Expression of Thanks to Sue Feltrop for Her Service to the Board of Trustees</td>
<td>2</td>
</tr>
<tr>
<td>Election of Chair</td>
<td>2</td>
</tr>
<tr>
<td>Election of Vice Chair</td>
<td>2</td>
</tr>
<tr>
<td>Trustee Code of Conduct and Conflicts of Interest Acknowledgement</td>
<td>2</td>
</tr>
<tr>
<td>Special Election</td>
<td>3</td>
</tr>
<tr>
<td>Legislation</td>
<td>3</td>
</tr>
<tr>
<td>Board Meeting Date</td>
<td>5</td>
</tr>
<tr>
<td>Investment Committee Report</td>
<td>5</td>
</tr>
<tr>
<td>NEPC’s 2013 Investment Market Observations &amp; Impact on Return Assumptions</td>
<td>5</td>
</tr>
<tr>
<td>4th Quarter 2012 Investment Performance Report</td>
<td>6</td>
</tr>
<tr>
<td>CIO Investment Report</td>
<td>6</td>
</tr>
<tr>
<td>Asset Allocation Overview/Positioning Relative to Targets</td>
<td>6</td>
</tr>
<tr>
<td>Update on Investment Performance</td>
<td>6</td>
</tr>
<tr>
<td>Asset Allocation Software Under Review</td>
<td>6</td>
</tr>
<tr>
<td>Internal Fixed Income Review/Policy Updates</td>
<td>6</td>
</tr>
<tr>
<td>Report of Actuary, Five-Year Experience Study</td>
<td>7</td>
</tr>
<tr>
<td>July 1, 2007 to June 30, 2012</td>
<td>7</td>
</tr>
<tr>
<td>Director’s Comments</td>
<td>7</td>
</tr>
<tr>
<td>Comprehensive Annual Financial Report (CAFR)</td>
<td>7</td>
</tr>
<tr>
<td>MAPERS Conference</td>
<td>7</td>
</tr>
<tr>
<td>Committee Assignments</td>
<td>7</td>
</tr>
<tr>
<td>Economic Impact Brochure</td>
<td>8</td>
</tr>
<tr>
<td>Personal Financial Disclosure Statements</td>
<td>8</td>
</tr>
<tr>
<td>Trustee’s Comments</td>
<td>8</td>
</tr>
<tr>
<td>Determination of Annual Cost-of-Living Adjustment Amount</td>
<td>8</td>
</tr>
<tr>
<td>for Retirees and Beneficiaries</td>
<td>8</td>
</tr>
<tr>
<td>Membership Information</td>
<td>9</td>
</tr>
<tr>
<td>Benefit Payments and Member Data – January 2013</td>
<td>9</td>
</tr>
<tr>
<td>Retirement Inceptions – July 2012 through January 2013</td>
<td>9</td>
</tr>
<tr>
<td>Adjourn</td>
<td></td>
</tr>
</tbody>
</table>
TRUSTEES PRESENT:  Major J. Bret Johnson, Chair (via phone)  
Mr. Lloyd “Joe” Carmichael, Vice Chair  
Mr. Rudolph E. Farber  
Ms. Sue Feltrop  
Mr. Kevin Keith  
Colonel Ron Replogle (via phone)  
Mr. Bob Sfreddo  
Mr. Kenneth H. Suelthaus  

TRUSTEES ABSENT:  Senator Mike Kehoe  
Representative Don Phillips  
Mr. Roger D. Stottlemyre  

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.  
Ms. Heidi Barry, Gabriel Roeder Smith & Co.  
Mr. Kevin Leonard, NEPC  
Mr. Tim McCusker, 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, March 14, 2013, at the System's office located at 1913 William Street in Jefferson City, Missouri. The meeting was called to order by Vice Chair Joe Carmichael pursuant to Section 104.180 of the Revised Statutes of Missouri, as amended.  

* * * * * *

APPROVAL OF MINUTES  

Upon a motion by Mr. Sfreddo, and seconded by Mr. Suelthaus, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on November 29, 2012.  

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.  

* * * * * *
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. Keith, and seconded by Mr. Farber, all items on the consent agenda were unanimously approved.

** * * * * *

EXPRESSION OF THANKS TO SUE FELTROP FOR HER SERVICE TO THE BOARD OF TRUSTEES

The Board expressed appreciation to Ms. Sue Feltrop for her dedication and service to the MPERS Board of Trustees. Ms. Feltrop has served as the Active MoDOT Member on the Board since May 30, 2012. Her retirement from MoDOT was effective April 1st.

** * * * * *

ELECTION OF CHAIR

In accordance with State Statute Section 104.170 RSMo., Major Bret Johnson was re-elected as Chair of the Board for a one-year term.

** * * * * *

ELECTION OF VICE CHAIR

In accordance with State Statute Section 104.170 RSMo., Mr. Joe Carmichael was re-elected as Vice Chair of the Board for a one-year term.

** * * * * *

TRUSTEE CODE OF CONDUCT AND CONFLICTS OF INTEREST ACKNOWLEDGEMENT – by Mr. Omar Davis, MPERS General Counsel

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 annually. Each Board member was provided with an acknowledgement form to sign.

** * * * * *
**SPECIAL ELECTION**  
– by Mr. Scott Simon, MPERS Executive Director

Mr. Simon reported Ms. Sue Feltrop has announced her retirement effective April 1, 2013. The Executive Director recommended the Board call a special election to fill the unexpired term of Ms. Feltrop which runs through June 30, 2014.

A motion was made by Mr. Sfreddo, and seconded by Mr. Keith, to call a special election. By unanimous vote of all members present, motion carried.

**********

**LEGISLATION**  
– by Mr. Scott Simon, MPERS Executive Director

Mr. Simon provided a synopsis of the legislative proposals that have been introduced thus far into session.

**SB65/HB 543**  
(Senator Bob Dixon)

The proposed legislation gives the State Auditor explicit authority to perform any type of audit on any public employee retirement system, not to mention other applicable governmental agencies, at any time.

**SB86**  
(Senator Joseph Keaveny)

Currently, public retirement plans cannot implement a benefit increase unless the plan's funded ratio is at least 80% and will not be less than 75% after adoption of the benefit increase. This legislation specifies that plans use the funded ratio as of the most recent periodic actuarial valuation before implementing a benefit increase. The act also authorizes plans to make benefit increases (despite having a funded ratio below the required level), if necessary, to maintain federal tax deferred status on the employer contributions paid into the plan.

**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."
SB 288/HB 353  
(Senator John Lamping/Representative Mike Leara)

This act changes provisions regarding the defined contribution retirement plan (commonly referred to as the College and University Retirement Plan) for employees of certain higher education institutions.

SB 312  
(Senator Paul LeVota)

This proposal prohibits any person who first becomes an employee or judge on or after August 28, 2013, from receiving retirement benefits from MPERS or MOSERS during any period in which they are employed by a city, town, village, or county within Missouri and eligible for retirement credit from such employment.

SB 475  
(Senator John Lamping)

This proposal requires fifteen public plans within Missouri, including MPERS, to be 100% funded by June 30, 2018. Adjustments to these plans that would increase liabilities are prohibited for plans either not at 100% funding or that would fall below that level as a result of any plan change. It also prohibits “benefit accruals” for plan years subsequent to any actuarial valuation that does not realize at least an 80% funding status. “Benefit accruals” would almost certainly include service and salary accruals for retirement purposes and could even include cost-of-living adjustments for benefit recipients. Lastly, the bill protects the plan, governing body, and employees from civil liability when investment returns fall below zero percent which, in turn, results in the funding status falling below 100%.

HB 93  
(Representative Donna Lichtenegger)

Prohibits any member of the General Assembly from accruing creditable service under the Year 2000 Plan of the Missouri State Employees' Retirement System, beginning January 1, 2014.

HB 129  
(Representative Chuck Gatschenberger)

This bill proposes changes to the observed holidays for state employees and establishes the state employee retirement incentive program. Under the bill, the 12th day of February (Lincoln’s birthday), the 8th day of May (Truman’s birthday), and the 2nd Monday in October (Columbus Day) will be eliminated as state holidays. In addition, the Friday after Thanksgiving will be observed as a state holiday.

This proposed “2013 State Employee Retirement Incentive Program” is available to active employees who:

1. Have at least 10 years of creditable service,
2. Terminate employment on or after April 1, 2014,
3. Retire on or after May 1, 2014, but no later than July 1, 2014, and
4. Are eligible for normal retirement.
HB 456
(Representative Stephen Webber)

The proposal provides additional pay for those individuals on military leave of absence to make up the difference between their military pay and their pay as an employee.

HB 475
(Representative Rick Brattin)

Establishes a defined contribution plan for members of the General Assembly taking office on and after January 1, 2014.

*********

BOARD MEETING DATE
– by Mr. Scott Simon, MPERS Executive Director

With the postponement of the February Board meeting, Mr. Simon stated the need for a meeting in April is unlikely. In lieu of an April Board meeting, Mr. Simon suggested committee meetings be scheduled to address previously initiated Board items. In the event that legislative proposals affecting the retirement system become a concern, a board meeting will be called to address legislative items.

A motion was made by Mr. Keith, and seconded by Mr. Suelthaus, to cancel the April Board meeting. By unanimous vote of all members present, motion carried to cancel the April 25, 2013 meeting.

*********

INVESTMENT COMMITTEE REPORT
– by Mr. Rudy Farber, Investment Committee Chair

Mr. Farber made the motion to accept the minutes from the November 29, 2012 meeting. Mr. Keith seconded the motion. By unanimous vote of all members present, the minutes were accepted.

*********

NEPC’s 2013 INVESTMENT MARKET OBSERVATIONS & IMPACT ON RETURN ASSUMPTIONS
– by Mr. Tim McCusker (NEPC)

Mr. Tim McCusker, MPERS’ general investment consultant, delivered NEPC’s capital market assumptions for calendar year 2013. The analysis provides their best projection of the market returns we can expect over the next 5-7 years, as well as, for the next 30 years on all asset classes barring any substantial changes in the world and economic environment. The 5-7 and 30-year return assumptions are both down from last year at 7.34% and 8.1%, respectively.

The Board and staff are cognizant of NEPC’s assumptions and use this information when making asset allocation decisions. The analysis expects reasonably positive returns over the long term, but overall return expectations continue to decline in what has become a very challenging economic environment.

*********
Mr. Larry Krummen and Mr. Kevin Leonard provided a report on MPERS’ investment performance for the 4th quarter of calendar year 2012. As of December 31, 2012, MPERS’ net asset value was $1.61 billion.

* * * * * * *

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

• Asset Allocation Overview/Positioning Relative to Targets

Mr. Krummen stated the majority of movement with asset classes thus far in 2013 is primarily due to the relatively strong performance of the equity markets.

As of February 8, 2013, the hedge fund portfolio has moved outside the acceptable range established by the investment policy. Due diligence is being finalized on several new hedge fund strategies that would bring the allocation back within the acceptable range.

• Update on Investment Performance

Mr. Krummen stated that despite the flat start to the quarter, MPERS’ investment portfolio is holding onto 3rd quarter 2012 gains and is up an estimated 3.61% thus far in fiscal year 2013.

The overall fund performance for calendar year 2012 was 12.91% as four of the five major asset classes produced double digit returns. Hedge funds trailed the pack but still provided a healthy 7.1% return.

• Asset Allocation Software Under Review

Mr. Krummen informed the Board that staff is continuing to review asset allocation software that has the potential to be a powerful tool in the daily management of the investment portfolio. A final decision on whether to retain services will be made in the next few months.

* * * * * * *

INTERNAL FIXED INCOME REVIEW/POLICY UPDATES
– by Mr. Larry Krummen

For compliance and auditing purposes, MPERS’ investment policy requires a periodic review of the internal fixed income portfolio to ensure compliance with the guidelines established by the Board of Trustees. A review was recently conducted for all holdings effective December 31, 2012 and presented to the Board for their consideration.

Changes to the internal fixed income policy were reviewed and discussed. The Board directed Mr. Krummen to make some additional changes to the policies, and the Board will consider the revisions at the June Board meeting.

* * * * * * *
REPORT OF ACTUARY, FIVE-YEAR EXPERIENCE STUDY, JULY 1, 2007 THROUGH JUNE 30, 2012
– by Mr. Ken Alberts of Gabriel, Roeder, Smith & Company (GRS)

Last year the Board of Trustees opted to move up our traditional five year study by two years due to the tough economic environment. The experience study has two primary components: demographic and economic assumptions. The demographic assumptions include a variety of details such as rates of withdrawal due to retirement, death, etc. The economic assumptions include MPERS’ rate of return and inflation assumptions.

The GRS study recommended lowering MPERS’ economic assumptions to coincide with lower investment return expectations and lower rates of inflation. After considerable deliberation, the Board elected to resume discussions at the June board meeting to allow them an opportunity to digest the information and to make the most informed decision possible.

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DIRECTOR’S COMMENTS

• Comprehensive Annual Financial Report (CAFR)

Each Board member was provided a copy of the 2012 CAFR.

• MAPERS Conference

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

• Committee Assignments

In accordance with Board Governance Policies, four standing committees of the Board have been established. The Chair of the Board makes committee appointments. Below is a list of appointments made for calendar year 2013:

** * * * * * * * **

March 14, 2013 MPERS Board Meeting
• Economic Impact Brochure

An “Economic Impact” brochure was given to Board members. It provides a quick glance at the number of benefit recipients and the amount of annual benefit payments, from MPERS, for each county in Missouri.

• Personal Financial Disclosure Statements

Mr. Simon reminded the Board that the filing deadline for Personal Financial Disclosure Statements is May 1, 2013.

** * * * * *

TRUSTEE COMMENTS

None.

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DETERMINATION OF ANNUAL COST-OF-LIVING ADJUSTMENT AMOUNT FOR RETIREES AND BENEFICIARIES (Consent Agenda)

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 2013 will be 1.655%.

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Index</th>
<th>% of Increase (2011 to 2012)</th>
<th>80% of CPI-U</th>
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<tbody>
<tr>
<td>2012</td>
<td>229.594</td>
<td>2.069%</td>
<td>1.655%</td>
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<tr>
<td>2011</td>
<td>224.939</td>
<td>1.655%</td>
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Increase in CPI-U = 2.069 x 80% = 1.655%

Closed Plan

Members (or their survivors), who were hired prior to August 28, 1997 and retired under the “Closed Plan,” are guaranteed an annual 4% COLA (not to exceed 5%) until the accumulated COLAs equal 65% of their initial benefit amount. Therefore, the cost-of-living increase to be applied to the October 2013 benefit is 4% for members whose 65% cost-of-living cap has not been reached.

Members (or their survivors), who were hired on or after August 28, 1997 and retired under the “Closed Plan,” or who have reached their 65% COLA cap, will receive a COLA in 2013 of 1.655%.

Year 2000 Plan

Members who retired under the Year 2000 Plan (or their survivors) will receive a COLA of 1.655% in 2013. Their annual COLA rate is 80% of the CPI-U (not to exceed 5%).
REPORT OF QUARTERLY FINANCIAL STATEMENT – OCTOBER 2012 to DECEMBER 2012 (Consent Agenda)

The Board viewed the financial statements of the System showing total investments (on an accrual basis) at market value of $1,605,659,974 as of December 31, 2012. This is an increase of $35.4 million from the value of $1,570,287,179 as of September 30, 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.

* * * * * * *

MEMBERSHIP INFORMATION (Consent Agenda)

- Benefit Payments and Member Data – January 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 January 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. Keith and seconded by Bob Sfreddo. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.