

Minutes of Meeting

November 16, 2017





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BOARD OF TRUSTEES' MEETING

THURSDAY, NOVEMBER 16, 2017

1:00 p.m.

**Meadow Lake Acres Country Club
2600 Meadow Lake Dr.
New Bloomfield, Missouri**

TRUSTEES PRESENT: Ms. Sue W. Cox, Chair
Mr. William "Bill" Seibert, Vice Chair
Mr. John Briscoe
Sergeant Matthew Broniec
Colonel Sandy Karsten
Mr. Patrick McKenna
Mr. Mike Pace
Mr. Gregg Smith
Mr. Todd Tyler

TRUSTEES ABSENT: Representative Shawn Rhoads
Senator Dave Schatz

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

A regularly scheduled meeting of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System (MPERS) was held on Thursday, November 16, 2017, at the Meadow Lake Acres Country Club located at 2600 Meadow Lake Drive in New Bloomfield, Missouri. The meeting was called to order by Ms. Sue Cox 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. Smith, and seconded by Mr. Briscoe, the Board of Trustees (Trustees) approved the minutes of the meeting held on September 28, 2017. Mr. McKenna abstained from voting since he was not present at the meeting.

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. Pace and seconded by Mr. Smith, all items on the consent agenda were unanimously approved.

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CIO INVESTMENT REPORT

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

- **Investment Performance Report for Quarter Ending September 30, 2017.**

Mr. Larry Krummen and Mr. Kevin Leonard provided a report on MPERS’ investment performance for the quarter ending September 30, 2017. As of September 30, 2017, MPERS’ net asset value was \$2.2 billion. As of November 9, 2017, MPERS’ fiscal year to date return was 3.16%. MPERS’ three, five and 10-year returns rank in the 22nd, 5th and 42nd percentile of the public fund universe. MPERS’ continues to maintain a lower risk profile than 74% of their peer group (with risk measured by standard deviation of returns over the past ten year period).

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

The largest deviation from the targeted asset allocation is the underweight to fixed income, where interest rates continue to feel artificially low given the upturn in global economies. President Trump’s nomination of Jerome Powell as the next Federal Reserve Chairman suggests the Fed will continue the current path of gradually raising rates. MPERS’ has opted not to rebalance any of the equity market gains to this point, so the equity allocation continues to drift higher with the strong market performance. While MPERS is still concerned over equity valuations, the markets are very resilient today and would likely trade even higher with the passage of any tax reform.

As of November 9, 2017, each of the respective asset class allocations are within the permissible ranges. MPERS’ is essentially fully invested at this point, as MPERS’ cash balance stands at \$15.2 million (0.7% of assets) and will be drawn down even further throughout the month of November.

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AUDIT COMMITTEE REPORT

– by Mr. Bill Seibert, Audit Committee Chair

Mr. Seibert, Audit Committee Chair, reported the Audit Committee met on November 8, 2017, with Mr. Mike Oldelehr and Mr. Nick Mestres of Williams-Keepers who presented the results of the audit for the fiscal year ended June 30, 2017. Mr. Seibert gave a brief recap of the committee meeting and presented the following results from the audit report.

- **Results of Annual Audit For Fiscal Year Ended June 30, 2017**

Mr. Seibert stated in the opinion of Williams-Keepers, LLC, the financial statements present fairly, in all material respects, the fiduciary net position of the Missouri Department of Transportation and Highway Patrol Employees' Retirement System as of June 30, 2017, and the changes in fiduciary net position for the year then ended, in conformity with U.S. generally accepted accounting principles.

Mr. Seibert indicated Williams-Keepers was pleased to report they encountered no difficulties in dealing with management in performing and completing our audit. All MPERS' personnel cooperated with them fully during the conduct of their audit. He also noted there were no new recommendations from the audit.

There were no new deficiencies in internal control identified for the current year, so no additional recommendations were made. Mr. Seibert indicated there is one continuing recommendation related to 3rd party information technology provider controls; however, Williams-Keepers noted significant progress continues to be made on the recommendation. Mr. Seibert indicated there was also one prior year recommendation that has now been fully implemented. Williams-Keepers comments and suggestions regarding those deficiencies are summarized below:

- **3rd Party Information Technology (IT) Provider Controls**

During the 2014 fiscal year, MPERS contracted with a 3rd party IT provider to host MPERS' pension administration system and associated lines of business applications. Williams-Keepers noted MPERS has not received a Service Organization Controls (SOC) 2 report from this IT provider. SOC 2 reports are examination engagements undertaken by a service auditor to report on controls at an organization that provides services to user entities when those controls are likely to be relevant to user entities' internal control over financial reporting. These reports specifically address controls related to security, availability, processing integrity, confidentiality, and privacy. As such, Williams-Keepers was unable to determine if the controls were in place at the 3rd party IT provider, adequately address risks related to physical security, change management, and backup & recovery. MPERS' could be putting its information at risk if the IT provider has not implemented proper controls.

Williams-Keepers recommended MPERS request the IT provider make available a SOC 2, Type 2 report. MPERS can then use this information to assess the adequacy of controls in place at the IT provider as well as determine the extent of controls MPERS should implement to minimize its risk in this area.

STATUS: MPERS' management has initiated discussion with the 3rd party IT provider requesting they have the necessary testing performed to issue a SOC report. The 3rd party IT provider is currently having an examination performed and plans to issue a SOC 2, Type 2 audit report by June 2018.

Prior Year Recommendation Implemented

○ Disaster Recovery Plan

Williams Keepers recommended management develop a disaster recovery plan that included, but was not limited to, the following matters:

- Location of, and access to, off-site storage;
- A listing of all data files that would have to be obtained from the off-site storage location;
- Identification of a back-up location (name and telephone number) with similar or compatible equipment for emergency processing (Management should make arrangements for such back-up with another company, a computer vendor, or a service center. The agreement should be in writing.);
- Responsibilities of various personnel in an emergency;
- Priority of critical applications and reporting requirements during the emergency period.

STATUS: Management has fully implemented this recommendation.

Mr. Seibert stated the Committee is requesting the Board's acceptance of the Audit Report. Upon a motion made by Mr. Briscoe, and seconded by Mr. McKenna, the Trustees accepted the annual audit for fiscal year ended June 30, 2017.

• **Enterprise Risk Management (ERM) Rollout**

Mr. Seibert stated the Audit Committee was presented with updated information at the committee meeting about MPERS' Enterprise Risk Management (ERM) Program by Mr. Greg Beck, MPERS' Assistant Executive Director. Mr. Seibert asked Mr. Beck to repeat his update to the Trustees present. Mr. Beck stated the program will encompass both operations and investments utilizing two internal staff committees. The goal of ERM is to identify risks and the corresponding management controls to continually manage those risks as well as any newly identified risks. Mr. Beck indicated the committee decided to receive quarterly updates on any developments within the program and asked staff to provide a brief annual update to the full Board.

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DEFINED BENEFIT EDUCATION

– by Ms. Sue Cox, Board Chair

• **Update to Board Governance Policy (Communications)**

Ms. Cox, Board Chair, stated the Communications policy has been updated to reflect the changes from the discussion held during the Executive Director's Performance Evaluation in November. Trustees conveyed they wanted the Executive Director to expand his role to more proactively support the retirement system and the advantages of defined benefit plans in general. Mr. McKenna suggested the heading above the paragraph be changed from "Advocacy" to "General Education". Mr. Briscoe made a motion to accept the change as recommended. Mr. Smith seconded the motion. By unanimous vote of all members present, the motion carried for the following paragraph to be added to the Communications Policy:

General Education

The Board believes the defined benefit structure utilized for the current and future employees of MoDOT, MSHP, and MPERS provides the most effective and efficient recruitment and retention tool for workforce management. Subsequently, the Board delegates to the Executive Director the authority to actively explain and educate stakeholders on defined benefit plans when opportunities are presented. This may be accomplished by actively meeting or corresponding with stakeholders, providing information to the media, testifying in legislative hearings, one-on-one meetings with legislators, or other means appropriate or necessary for the purpose. Trust fund dollars are not to be used for purposes not directly connected to MPERS; however, the Executive Director can spend any amount of time reasonable to advance this purpose so long as it does not materially detract from the Director’s other required duties and responsibilities.

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DUTY RELATED DEATH

– by Mr. Scott Simon, MPERS’ Executive Director

Mr. Simon stated when there is a death of an active vested employee, the law provides for a monthly benefit to the surviving spouse under the joint & 100% survivor payment option. The monthly survivor payment will commence the month following the date of death and continue until the death of the surviving spouse. If there is no eligible spouse, a benefit is payable to dependent children (under age 21) equal to 80% of the deceased member’s normal annuity until such children reach age 21.

Mr. Simon indicated a duty-related death (vs. non duty-related) death is determined when a death occurs while the employee is on the job, so long as there is no evidence that demonstrates purposeful or accidental harm arising out of actions from the deceased member (e.g. accidental drug overdose or suicide).

Mr. Simon stated MPERS’ received the death certificate for an employee who recently passed away and there is no such evidence to question that the death did, in fact, occur while on the job. Mr. Simon informed Trustees that MoDOT’s Risk Management department, who is responsible for making workers’ compensation decisions, determined this death was duty-related according to their guidelines. Mr. Simon requested the Board’s authorization to consider this as duty-related and to pay survivor benefits accordingly. A motion was made by Mr. Tyler and seconded by Mr. Pace, to consider the death as duty-related. By unanimous vote of all members present, the motion carried.

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2018 BOARD MEETING DATES

– by Mr. Scott Simon, MPERS’ Executive Director

Mr. Simon stated the MPERS Board approves an annual Board Meeting Calendar at the last scheduled meeting of the year, for the upcoming year. A proposed meeting schedule for calendar year 2018 was provided. Mr. Simon stated the annual MAPERS Conference would satisfy the outside continuing education program for Trustees. Upon a motion by Mr. Smith, and seconded by Mr. Seibert, Trustees approved the following Board Meeting Calendar for 2018:

Board Meeting Calendar	MAPERS Conference
Thursday, February 15, 2018 Thursday, April 26, 2018* Thursday, June 21, 2018 Thursday, September 27, 2018 Thursday, November 29, 2018** *Only if needed for legislative session **Board Workshop precedes meeting	July 25-27, 2018 The MAPERS Conference will be held at Tan-Tar-A Resort in Osage Beach. There is generally an education session for Trustees on Wednesday afternoon (July 25 th) in conjunction with the conference.

To minimize potential for any conflicts, Mr. Simon asked Trustees to add these dates to their calendars.

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DIRECTOR’S COMMENTS

• **Legislation**

Mr. Simon stated there is no update to provide on legislation or what to expect for the upcoming session. Mr. Winter stated pre-filing of legislation will begin on December 1st.

• **Buyout Update**

At the September 28th Board meeting, Mr. Simon stated buyout letters had been sent to vested former members. A total of 2,292 letters were mailed and at this time 223 election forms have been received from the eligible members. Term-vested members have until November 30, 2017, to submit their election paperwork. Final numbers will be presented at the February 15, 2018, Board meeting.

• **Trustee Website Login**

To enhance security, Trustees were provided with new information to access meeting material directly from the MPERS website rather than through the website to another source, MoDOT commissioners will continue to be able to access material through the secure commission site.

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TRUSTEES' COMMENTS

Mr. Smith stated the Board Workshop held earlier in the day was good and very informational.

Mr. McKenna stated he was not in attendance at the September Board meeting and he thanked Mr. Simon and Mr. Krummen for meeting with him earlier in the week to bring him up-to-date on issues.

Ms. Cox thanked staff for obtaining an off-site location for the Board Workshop/Meeting and stated she appreciated their extra efforts to get that accomplished.

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ANTI-TERRORISM POLICY *(Consent Agenda)*

The Board was provided a report of MPERS' Anti-Terrorism Policy. MPERS has a policy in place that is designed to monitor lists provided by the federal government for publically traded companies that may support terrorism, while not punishing companies that have international operations. Via approval of the consent agenda, the Board unanimously accepted the report.

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CONSULTANT REVIEW ON BENCHMARK APPROPRIATENESS *(Consent Agenda)*

The investment policy for the MoDOT & Patrol Employees' Retirement System (MPERS) states the consultant shall confirm the appropriateness of investment policy benchmarks/indices on an annual basis. The Board was provided with the review letter from MPERS' consultant (NEPC) which indicated they reviewed each of the investment policy benchmarks/indices currently employed by MPERS. NEPC confirmed the benchmarks are appropriate and meet the standard for the portfolios in which they are utilized and recommended no changes. Via approval of the consent agenda, the Board unanimously accepted the report.

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2018 CONFERENCES *(Consent Agenda)*

The Board was provided with a list of 2018 Conferences which provide education opportunities for Trustees.

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REPORT ON TRUSTEE EDUCATION – FY2018 *(Consent Agenda)*

Per the Monitoring and Reporting Policy, the Board was provided with the "Report on Trustee Education" for FY2018. Via approval of the consent agenda, the Board unanimously accepted the report.

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MEMBERSHIP INFORMATION *(Consent Agenda)*

• **Benefit Payments and Member Data – October 2017**

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 2017 through October 2017. Via approval of the consent agenda, the Board unanimously accepted the report.

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VOTE TO CLOSE MEETING

The Board voted to close its meeting on November 16, 2017, citing Sections 610.021(3) and (13), RSMo., *Personnel administration regarding particular employees*. Upon a motion made by Mr. Seibert and seconded by Colonel Karsten to convene in closed session, the following roll call vote was taken:

- Ms. Sue W. Cox, Aye
- Mr. William "Bill" Seibert, Aye
- Mr. John Briscoe, Aye
- Sergeant Matthew Broniec, Aye
- Colonel Sandy Karsten, Aye
- Mr. Patrick McKenna, Aye
- Mr. Mike Pace, Aye
- Mr. Gregg Smith, Aye
- Mr. Todd Tyler, Aye

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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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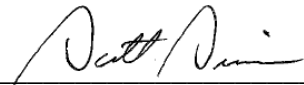
CERTIFICATION

We, Sue W. Cox, 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 November 16, 2017 in New Bloomfield, Missouri, as approved by said Board at its meeting held February 15, 2018.

IN TESTIMONY WHEREOF, we have hereto set our hands and affixed the seal of said Board on February 15, 2018.



Chairman



Executive Director