

Minutes of Meeting

February 23, 2017





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Adjourn	



BOARD OF TRUSTEES' MEETING

THURSDAY, FEBRUARY 23, 2017

1:00 p.m.

**1913 William Street
Jefferson City, Missouri**

TRUSTEES PRESENT: Ms. Sue W. Cox, Vice Chair
Lieutenant Colonel Sandy Karsten
Mr. Patrick McKenna
Mr. Mike Pace
Senator Dave Schatz (via phone)
Mr. William "Bill" Seibert
Major Kemp Shoun
Mr. Gregg Smith
Mr. Todd Tyler

TRUSTEES ABSENT: Mr. John Briscoe
Representative Shawn Rhoads

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: Colonel J. Bret Johnson, Retired Board Member
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, February 23, 2017, at the System's office located at 1913 William Street in Jefferson City, 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. Pace, the Board of Trustees (Trustees) unanimously approved the minutes of the meeting held on November 16, 2016.

The Vice 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 Major Shoun and seconded by Mr. Smith, all items on the consent agenda were unanimously approved.

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EXPRESSION OF THANKS TO COLONEL J. BRET JOHNSON FOR HIS SERVICE TO THE BOARD OF TRUSTEES

The Board expressed appreciation to Colonel J. Bret Johnson for his dedication and service to the MPERS Board of Trustees. Colonel Johnson served on MPERS’ Board as Superintendent of the MSHP since May 1, 2015. He previously served as the Active MSHP Member on the Board since July 1, 2010. His retirement from MSHP was effective February 1st.

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WELCOME NEW TRUSTEE, LIEUTENANT COLONEL SANDY KARSTEN, TO THE BOARD OF TRUSTEES

The Chairman welcomed Lieutenant Colonel (Acting Superintendent) Sandy Karsten to the MPERS’ Board of Trustees. Ms. Karsten became a member of the Board, by virtue of her position as Acting Superintendent (or Superintendent), and replaces Colonel J. Bret Johnson who retired on February 1, 2017.

ELECTION OF CHAIR

In accordance with Section 104.170 RSMo., Ms. Sue W. Cox was elected as Chair of the Board for a one-year term.

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ELECTION OF VICE CHAIR

In accordance with Section 104.170 RSMo., Major Kemp Shoun was elected as Vice Chair of the Board for a one-year term.

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**TRUSTEE CODE OF CONDUCT AND
CONFLICTS OF INTEREST ACKNOWLEDGEMENT**

– by Mr. Scott Simon, MPERS’ Executive Director

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.

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COMMITTEE APPOINTMENTS

– by Mr. Scott Simon, MPERS’ Executive Director

Each Board member was provided with an updated copy of committee appointments due to the election of a new chair and vice-chair. Below is the updated list of appointments:

Audit Committee

Bill Seibert – *Chair*
John Briscoe
Todd Tyler

Budget Committee

Sue Cox – *Chair*
Major Kemp Shoun
Representative Shawn Rhoads

Governance Committee

Todd Tyler – *Chair*
Senator Dave Schatz
Lieutenant Colonel Sandy Karsten

Investment Committee

Mike Pace – *Chair*
Gregg Smith
Bill Seibert
Patrick McKenna

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MEDIA COMMENTARY

– by Mr. Scott Simon, MPERS’ Executive Director

Mr. Simon informed Trustees that, in his opinion, MPERS has received unprecedented attention in the media, in the last 60 days, primarily in the St. Louis and Kansas City newspapers. The treasurer weighed in on some things in *The Kansas City Star* and a gentleman (Mr. Holmes Osborne) placed an editorial in *The Kansas City Star* and the *St. Louis Post-Dispatch* regarding MPERS funded status. Mr. Simon indicated it is unclear to him what precipitated Mr. Osbourne’s editorial. Mr. McKenna indicated a couple of questions came up during MoDOT’s House Appropriations hearing that were similar in nature. They questioned MPERS’ funded status and what the employer contribution was into the fund.

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INVESTMENT COMMITTEE REPORT

– by Mr. Mike Pace, Investment Committee Chair

- **NEPC’s 2017 Capital Market Assumptions**

MPERS’ asset consultant, NEPC, presented the 2017 Capital Market Assumptions which forecasts short- (5-7 years) and long-term (30 years) return expectations. The 30-year forecasted return of 7.65% falls slightly short of MPERS’ current expected investment rate of return at 7.75%. NEPC noted the forecast does not consider active management, which should support a slightly higher overall return from the MPERS portfolio. Staff and NEPC made no recommendations to change the current asset allocation as it is expected, that through active management and tactical portfolio positioning, MPERS should be better positioned to achieve the long-term return requirements.

- **Investment Policy Exceptions (Concentration Limits)**

Mr. Krummen requested the Investment Committee make two one-time exceptions to the Investment Policy regarding concentration limits, in order to make two investments, both with managers or funds where MPERS is already an investor. The Investment Committee approved both exceptions and recommended the full Board also approve this request. Mr. McKenna made a motion to approve the recommendation of the Investment Committee which is to allow staff to proceed based on the exception to the policy for the two recommended investment options. Mr. Tyler seconded the motion. By unanimous vote of all members present, the motion carried.

- **MPERS’ Proxy Voting Report**

Proxy voting is the authority (right) offered to a shareholder to influence corporate actions. It’s the System’s fiduciary responsibility to vote proxies in the best interest of the plan’s participants. Mr. Krummen indicated investment staff has verified that each of MPERS’ investment managers have successfully filed their proxy voting reports during calendar year 2016.

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CIO INVESTMENT REPORT

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

- **CIO’s 2016 Industry Innovation Award**

Mr. Kevin Leonard informed Trustees that Mr. Larry Krummen was recently recognized by the *Chief Investment Officer*, whose mission is to inform and network the world’s largest asset owners and the people who advise them. Mr. Krummen received the Industry Innovation Award for the Public Fund Space For Funds Under \$15 billion.

- **Investment Performance Report for Quarter Ending December 31, 2016**

Mr. Larry Krummen and Mr. Kevin Leonard provided a report on MPERS’ investment performance for the quarter ending December 31, 2016. As of December 31, 2016, MPERS’ net asset value was \$2.05 billion. MPERS’ portfolio generated a healthy 1.8% return in the 4th quarter of 2016, led by a rally in the equity markets after the presidential election. This rally continues into 2017, on signs of improving economic growth and the prospects of a more business-friendly U.S. Congress.

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

Throughout the second half of 2016, MPERS positioned the portfolio very defensively due to

relatively high equity market valuations, the uncertainty surrounding the U.S. Presidential election, and a Federal Reserve that seemed ready to raise interest rates. The defensive posturing was highlighted by an underweight position to global equities and traditional fixed income, along with a higher allocation to cash. After the election of Donald Trump as President, market sentiment towards equities has changed considerably as equity markets are now clearly viewing the prospects of a Republican President, House, and Senate as favorable to corporate America. Volatility in the equity market has dropped to levels not seen in over a decade, indicating investors are very comfortable taking equity market risk at this point of the cycle. MPERS has rebalanced the portfolio back to a market weight in equities.

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BUDGET COMMITTEE REPORT

– by Ms. Sue W. Cox, Committee Chair

- **Mid-Year Budget Review**

The Governance Policy requires a budgetary review twice a year – once when the budget is approved by the Board and a second time, at mid-year, to illustrate whether expenses are coming in as anticipated. Ms. Cox reported the Budget Committee was provided with mid-year numbers of the System’s budget as of December 31, 2016. All expenses were found to be within the budgeted allowances.

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

- **FY2017 Budget Amendment Request**

Mr. Simon requested the Budget Committee approve the establishment of a part-time assistant financial officer position as a backup resource for the chief financial officer (CFO). Currently, the CFO is the only individual who has the knowledge to perform almost all of the functions of the position and the workload is increasingly more demanding, given the many new financial reporting requirements. The expectation would be that the new staff person would support greater progress toward general efficiencies as well as automating internal accounting processes, not to mention succession planning. The part-time position would be a non-benefit eligible position and the costs associated with this request is for salary and additional office space. Mr. Simon requested an adjustment to the payroll budget in the amount of \$9,800 (\$39,200 annually), which includes the normal payroll taxes for a non-benefit eligible employee. Mr. Simon also requested \$10,000 for minor modifications to the interior of the building to create additional suitable work space.

Ms. Cox stated the Budget Committee is requesting the Board’s acceptance of the Budget Committee Report and approval of the Budget Amendment Request. Mr. McKenna made a motion to approve the recommendation to add a part-time assistant financial officer position and to amend the FY2017 budget by increasing payroll line item by \$9,800 and the building maintenance line item by \$10,000. Mr. Seibert seconded the motion. By unanimous vote of all members present, the motion carried.

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LEGISLATIVE UPDATE

– by Mr. Scott Simon, MPERS' Executive Director

Below is a list of MPERS-related bills currently in the legislature:

- HB 996 (Affects Public Plans) Modifies provisions relating to pension forfeiture.
- HB 729 (Affects MPERS and MOSERS) Modifies provisions related to the retirement of state employees.
- HB 886 (SB 62) (Affects MOSERS (CURP)) Modifies provisions regarding various pension system and forfeiture of pension benefit due to a felony conviction.
- SB 141 (Affects MOSERS) Modifies retirement benefits for newly elected members of the General Assembly and statewide elected officials.
- SB 228 (Affects MPERS and MOSERS) Modifies the Year 2000 Retirement Plan for state employees, members of the General Assembly, and statewide elected officials employed after January 1, 2018.
- SB 308 (Affects Public Plans) Modifies the law relating to the investment policies of the state.
- SB 333 (Affects MPERS and MOSERS) Changes the vesting requirement for members of the state retirement plan known as 2011 Tier and modifies the benefits of such members who have vested, but are no longer state employees.

Mr. Simon highlighted a few of the bills as shown below:

HB 996 was filed yesterday (Feb. 22nd). It is the pension forfeiture bill that the Board agreed to support three years ago. This is a clean-up bill that will address administrative issues discovered after implementation.

HB 729 and SB 333 are nearly identical bills and if enacted, would have the effect of reducing vesting in the 2011 Tier from ten years to five years. Mr. McKenna indicated he is concerned about the spousal benefits provision. Lieutenant Colonel Karsten concurred. However, they both agreed the employers support the change in the vesting requirement.

SB 228 is the same bill that has been introduced in years past, and if enacted, would create a new benefit plan – a hybrid plan – one that has both a defined benefit and a defined contribution piece. The defined benefit portion of the benefit would look similar to the current 2011 Tier benefit but the multiplier would be reduced from 1.7% to 1%. The defined contribution piece would require the employee to contribute 1% and the employer 3%.

SB 308, if enacted, would force retirement plans with investments in companies with active business operations in Russia to divest such investments.

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DIRECTOR’S COMMENTS

- **Comprehensive Annual Financial Report (CAFR)**

Each Board member was provided a copy of the 2016 CAFR.

- **Board Planning Calendar**

The Board was provided with a planning calendar for 2017 that shows significant dates of interest to the Board.

- **Determination of Annual Cost-of-Living Adjustment Amount for Retirees and Beneficiaries**

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 2017 will be 1.01%.

2016 Average Index	240.007	% of Increase (2015 to 2016).....	1.262%
2015 Average Index	237.017	80% of CPI-U.....	1.01%

Calculation: $(240.007 - 237.017) / 237.017 = 1.262 \times 80\% = 1.01\%$

The minimum COLA adjustment is 4% for those members hired before August 28, 1997, and retired under the Closed Plan. The COLA rate of 1.01% will be effective for those members who have reached their original 65% cap under the Closed Plan, or who were first hired on or after August 28, 1997, and for all members retired under the Year 2000 Plan.

- **Service Transfer Agreements**

Mr. Simon informed the Board notices were sent to members regarding the Board’s decision to terminate all Section 104.1090, RSMo. service transfer agreements. The process went very well and a few members took advantage of the transfers prior to the termination date. Mr. Simon reinforced the decision to eliminate those transfers. Mr. Simon also indicated an agreement to transfer service with the University of Missouri under Section 105.691, RSMo. has been established.

- **IRS Determination Letter**

Mr. Simon stated progress is being made in regard to receiving a new IRS determination letter. Mr. Simon is optimistic the letter will be received soon. If the letter is received prior to the June 22nd Board meeting, new Board Rules will be presented for the Board’s approval.

- **Update from the Assistant Executive Director**

Mr. Greg Beck provided the Board with a Member Profile Report which is helpful for the employers and provides useful information regarding various member data such as membership distribution, benefit recipients, membership of active, retiree and vested members, and demographics of current retirees.

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TRUSTEES' COMMENTS

Mr. McKenna wanted to again congratulate Mr. Krummen for receiving the Industry Innovation Award. He also congratulated the Chair and Vice Chair on their new roles on the Board of Trustees.

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REPORT ON TRUSTEE EDUCATION – FY2017 *(Consent Agenda)*

Per the Monitoring and Reporting Policy, the Board was provided with the “*Report on Trustee Education*” for FY2017. Via approval of the consent agenda, the Board unanimously accepted the report.

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**REPORT OF UNAUDITED QUARTERLY FINANCIAL STATEMENT
FISCAL YEAR TO DATE AS OF DECEMBER 31, 2016** *(Consent Agenda)*

The Board viewed the financial statements of the System showing total investments (on an accrual basis) at market value of \$2,052,146,621 as of December 31, 2016. This is an increase of \$69.3 million from the value of \$1,982,820,836 as of June 30, 2016.

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 – January 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 2016 through January 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 February 23, 2017, citing Sections 610.021(3) and (13), RSMo., *Personnel administration regarding particular employees*. Upon a motion made by Mr. Shoun and seconded by Mr. Pace to convene in closed session, the following roll call vote was taken:

Ms. Sue W. Cox, Aye
Lieutenant Colonel Sandy Karsten, Aye
Mr. Patrick McKenna, Aye
Mr. Mike Pace, Aye
Senator Dave Schatz, Aye
Mr. William "Bill" Seibert, Aye
Major Kemp Shoun, Aye
Mr. Gregg Smith, Aye
Mr. Todd Tyler, Aye

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ADJOURN

A motion to adjourn was made by Lieutenant Colonel Karsten and seconded by Mr. McKenna. By unanimous vote of all Trustees present, the meeting of the Board of Trustees was adjourned.

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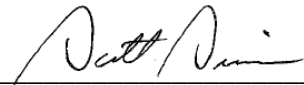
CERTIFICATION

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 February 23, 2017 in Jefferson City, Missouri, as approved by said Board at its meeting held June 22, 2017.

IN TESTIMONY WHEREOF, we have hereto set our hands and affixed the seal of said Board on June 22, 2017.



Chairman



Executive Director