

MISSOURI STATE EMPLOYEES' RETIREMENT SYSTEM
REGULAR BOARD OF TRUSTEES MEETING
MOSERS OFFICE
June 20, 2013 – 1 p.m.

Attending: Antwaun Smith, Chairman
Lori Neidel, Vice Chairman
Laura Davis
Rep. Mike Leara
Don Martin
Commissioner Doug Nelson
Angie Robyn, board member designee for Treasurer Clint Zweifel

Absent: Rep. Caleb Jones
Sen. Joseph Keaveny
Sen. John Lamping

Attending from MOSERS: Gary Findlay, Executive Director; Rick Dahl, Deputy Executive Director; Karen Stohlgren, Deputy Executive Director; Lori Leeper, Secretary to the Board; Jake McMahon, Chief Counsel; Greg Beck, Chief Auditor; Shannon Davidson, Manager of Investment Risk and Performance; and Cindy Rehmeier, Manager of Defined Contribution Plans.

Other attending: Brad Armstrong and David Kausch, Gabriel, Roeder, Smith & Company; Kent Baur, Summit Strategies; and Tom Litz, Thompson Coburn.

Ms. Neidel moved to approve the minutes of the March 28, 2013, board meeting. Commissioner Nelson seconded. Mr. Martin moved to amend the last sentence of the March 28 minutes to read, "Upon return to open session, the meeting was adjourned due to lack of a quorum." Ms. Davis seconded. Motion carried. The board voted to approve the minutes as amended. Motion carried. Rep. Leara and Ms. Neidel went on record as voting in opposition to the amendment.

Mr. Beck presented a proposed amendment to the public equity benchmark policy that changes the current benchmark from the Morgan Stanley Capital International All Country World Index (MSCI ACWI) to the MSCI ACWI with USA Gross Index. The proposed benchmark is more representative of the market returns available to public pension funds, will have higher returns compared to the current benchmark given the treatment of dividend withholding taxes, and will go into effect on July 1, 2013 if approved. Rep. Leara moved to adopt the benchmark change. Ms. Neidel seconded. A roll call vote was taken. Ms. Davis, Rep. Leara, Mr. Martin, Ms. Neidel, Commissioner Nelson, Ms. Robyn, and Mr. Smith voted in favor of the motion. Motion carried.

Based on the non-responsiveness to letters of inquiry to several federal agencies for information in accurately identifying companies that are supporting terrorism, Mr. Findlay recommended a change to the anti-terrorism investment policy that would allow staff to contact only the Office of the Director of National Intelligence. After board discussion, the chair recommended that staff provide additional language requiring an annual confirmation letter from the custodian bank that

indicates they have followed all of the steps needed to assure there is nothing on the OFAC list that they have in custody on our behalf and bring the proposed amendment back to the board for review.

Mr. Findlay discussed two new financial accounting standards for public pension plans issued by the Governmental Accounting Standards Board (GASB) last year. Statement 67 relates to plan accounting and reporting, and Statement 68 relates to employer accounting and reporting for pension plan activity. For MOSERS, Statement 67 will be applicable for the year ending June 30, 2014, and Statement 68 will be applicable to the state of Missouri for the year ending June 30, 2015. Due to these new statements, the pension expense reported by the state will be determined completely independently of the actuarially determined contribution the board certifies to the state. This will result in a disconnect between the accounting for pensions and the funding of pensions. Given this disconnect, rating agencies, auditors, and actuaries suggest that explicit funding policies be adopted for reference by all interested parties. Mr. Findlay presented a draft funding policy for board consideration based on existing law and board policy with recommended changes in two areas.

The first recommended change relates to the period over which unfunded actuarial accrued liabilities are amortized. The proposed change to the draft policy is to reduce the amortization period from 30 years to 29 years beginning June 30, 2015, and then further reduced by one year for each subsequent annual valuation until the period reaches 1 year. Furthermore, the board will reexamine the amortization period in connection with the 2030 actuarial valuation to determine whether or not it should be reduced below 15 years or made constant at 15 years. Ms. Neidel moved to adopt the proposed change to the amortization period as presented. Commissioner Nelson seconded. A roll call vote was taken. Ms. Davis, Rep. Leara, Mr. Martin, Ms. Neidel, Commissioner Nelson, Ms. Robyn, and Mr. Smith voted in favor of the motion. Motion carried. (The revised amortization period handout distributed to and approved by the board is on file.)

The second recommended change to the draft policy relates to the smoothing method used in determining the actuarial value of assets. In order to mitigate the impact of short-term market volatility on the system's funded status and on the contribution rate in connection with any one year's actuarial valuation, the first step in the proposed change would be to determine investment gains or losses, relative to what would have been earned at the assumed rate on the actuarial value of assets, and combine that amount with any previously unrecognized investment gains or losses. One third of that total amount would then be recognized in the current year with 2/3 deferred for future recognition. In no event would the actuarial value of assets as of the valuation date be more than 125% or less than 80% of the market value of assets. Rep. Leara moved to adopt the proposed change to the smoothing method. Commissioner Nelson seconded. A roll call vote was taken. Rep. Leara, Ms. Neidel, Commissioner Nelson, Ms. Robyn, and Mr. Smith voted in favor of the motion. Ms. Davis and Mr. Martin voted in opposition. Motion carried.

Ms. Robyn voiced for the record Treasurer Zweifel's concern with making the smoothing change now is that if the board only makes good policy changes in times when it is the most opportune

time for the fund he thinks that the board is not going to fully realize the true benefit of a good policy.

Rep. Leara moved to approve the conforming amendments to the governance policies and board rules, incorporating the changes approved by the board to the amortization period and the smoothing of assets. Commissioner Nelson seconded. A roll call vote was taken. Ms. Davis, Rep. Leara, Mr. Martin, Ms. Neidel, Commissioner Nelson, Ms. Robyn, and Mr. Smith voted in favor of the motion. Motion carried.

Mr. Beck presented proposed changes to board rule 1-5 relating to the board election procedures and timeline. The primary change to the rule will allow term-vested members and members on long-term disability to vote in the active member election. A policy statement was added to the rule and the remaining changes are for clarification. Ms. Davis moved to adopt the changes to board rule 1-5. Rep. Leara seconded. A roll call vote was taken. Ms. Davis, Rep. Leara, Mr. Martin, Ms. Neidel, Commissioner Nelson, Ms. Robyn, and Mr. Smith voted in favor of the motion. Motion carried.

Mr. McMahon presented proposed governance policies changes on personal trading. Ms. Neidel moved to adopt the personal trading policy. Mr. Martin seconded. Ms. Neidel moved to amend the language in the second bullet point of the personal trading policy under Enhanced Obligations of "Covered Persons," by adding "no less than annually" after the words Chief Auditor. Motion carried. Mr. Martin moved to amend the language in the second sentence of the same bullet point by changing the words "may randomly" to "shall annually." Ms. Neidel seconded. Motion carried. A roll call vote on the motion as amended was taken. Ms. Davis, Rep. Leara, Mr. Martin, Ms. Neidel, Commissioner Nelson, Ms. Robyn, and Mr. Smith voted in favor of the amended motion. Motion carried.

Mr. McMahon presented proposed governance policies changes to the ban on pay to play. Ms. Neidel moved to adopt the policy changes. Ms. Davis seconded. A roll call vote was taken. Ms. Davis, Rep. Leara, Mr. Martin, Ms. Neidel, Commissioner Nelson, Ms. Robyn, and Mr. Smith voted in favor of the motion. Motion carried.

Mr. McMahon presented proposed governance policies changes on placement agents. Rep. Leara moved to adopt the proposed changes to the policy on placement agents. Ms. Neidel seconded. A roll call vote was taken. Ms. Davis, Rep. Leara, Mr. Martin, Ms. Neidel, Commissioner Nelson, Ms. Robyn, and Mr. Smith voted in favor of the motion. Motion carried.

Mr. Smith discussed the issue of loans borrowed against pensions and what MOSERS can do to educate our members and raise awareness. Mr. Findlay will look at ways to educate our members and will provide a written update to the board.

Ms. Stohlgren presented the MOSERS operations activity report.

Mr. Dahl presented the board with the audited investment ends performance monitoring report for the period ended March 31, 2013.

Mr. Davidson presented the 1st quarter 2013 risk report to the board.

Mr. Findlay presented the legislative program report, advising the board that MOSERS cleanup bill had passed. Legislation also passed that gives the state auditor the authority to audit all public employee retirement plans in the state. HB205, the appropriations bill, added a cap to MOSERS administrative budget of approximately \$8.6 million, excluding investment expenses.

Ms. Rehmeier presented the defined contribution plans report.

In accordance with Section 610.021, RSMo, Rep. Leara moved to go into executive session for the purpose of approving minutes, hearing the investment reports, and discussing litigation/legal issues. Commissioner Nelson seconded. A roll call vote was taken. Ms. Davis, Rep. Leara, Mr. Martin, Ms. Neidel, Commissioner Nelson, Ms. Robyn, and Mr. Smith voted in favor of the motion. Motion carried.

Upon return to open session, the meeting was adjourned.

Antwaun Smith, Chairman

Gary Findlay, Executive Director