

**REPORT FROM INVESTMENT CONSULTANT, (ASSET CONSULTING GROUP)
INTERIM ASAP REPORT AS OF SEPTEMBER 30, 2002 AND
PROPOSED CHANGES TO PORTFOLIO– by Mr. Bill Milnes**

Mr. Bill Milnes, Asset Consulting Group, provided the Interim ASAP report to the Board for the period ending September 30, 2002 in regard to investment activity and asset allocation.

Mr. Randy Kirkland and Mr. Bill Milnes met with the Investment Committee recently and as a result, recommended changing the asset allocation to 40% domestic equity, 15% international equity, 35% fixed income, 5% real estate, 3% timber and 2% cash. After discussion, the Board agreed with the recommendation and empowered the Investment Committee to work within that structure to allocate dollars to various managers.

The Board thanked Mr. Milnes for his report.

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REPORT OF FINANCIAL STATEMENTS – JULY 2002 and AUGUST 2002

The Board discussed the financial statement of the system showing assets at market value of \$1,205,301,892 as of July 31, 2002. This is a decrease of \$64 million from the value of \$1.269 billion as of June 30, 2002.

The Board also discussed the financial statement of the system showing asset at a market value of \$1,201,208,006 as of August 31, 2002. This is a decrease of \$4 million from the value of \$1.205 billion as of July 31, 2002.

After consideration, the Board, by unanimous vote of all members present, accepted the reports and directed that they be filed in the office of the Executive Director.

Mr. Anderson questioned how the financial statements were audited and what is involved in the process. Mr. Robinson indicated an outside CPA firm is hired through a bidding process. Mr. Robinson indicated a one year audit is typically performed; however, the RFP has been developed, for the FY 01 and FY 02 audits, and will be mailed in the near future.

Mr. Anderson also questioned if the system has a budgeting process. Mr. Robinson stated the system was established with an Executive Director, a secretary and a part-time employee and a budget was never put into place. Mr. Robinson reminded the Board of their approval, at the September 2001 Board meeting, to transfer two Benefit Specialist positions and three Account Technician positions from MoDOT payroll and place them as full-time employees of the Retirement System. Mr. Robinson indicated the system has grown and agrees a budget should be put into place. The Board approved establishment of a formal budgeting process that will be developed by staff then reviewed and approved by the Board of Trustees. The budget will be put into place for the FY 04 fiscal year (July 1, 2003 to June 30, 2004). Mr. Robinson indicated the budget will be presented to the Board prior to July 2003.

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STATUS OF CUSTODY SERVICES SEARCH

Ms. Susie Dahl indicated Mr. Curt Kohlberg of Chatham Partners conducted the custody search and provided Mr. Robinson and Ms. Dahl with a matrix that summarized the RFP responses, along with qualitative strengths and weaknesses of each firm that responded. Mr. Robinson and Ms. Dahl determined the following firms should be evaluated: Bank of New York, Mellon Trust, Northern Trust, State Street and UMB. Ms. Dahl, Mr. Kohlberg and the MoDOT accountant (assigned to the retirement system) conducted due diligence visits with the above listed firms.

Ms. Dahl and Mr. Robinson recommended Northern Trust be hired as the new custodian.

On motion made and seconded, and by unanimous vote of all members present, the Board accepted the proposal of Northern Trust of Chicago, Illinois.

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DISCUSSION OF DISABILITY PROGRAM

Mr. Robinson reminded the Board of their approval at the August 13, 2002 meeting to enter into an agreement with a consultant to develop a Request for Proposal for the disability program. Proposals were received from Charlesworth Benefits, L.C., Aon Consulting and Hays Companies. Mr. Robinson recommended he be authorized to enter into a contract with Charlesworth Benefits, L.C. for the disability project.

On a motion made and seconded, and by unanimous vote of all members present, the Board accepted the proposal of Charlesworth Benefits, L.C. at a rate of \$110 per consultant hour for an estimated 105 hours.

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MISSOURI COMMISSION ON TOTAL COMPENSATION

Mr. Robinson provided the Board with an update of the progress being made by the Missouri Commission on Total Compensation. Mr. Robinson indicated the Commission continues to address benefit and pay issues. The most current issue deals with state retirees returning to work. A sub-committee was appointed by Mr. Steve Mahfood, chairperson of the Commission, to address the questions surrounding this issue. Members appointed were:

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| Norm Robinson, Executive Director | MoDOT & Patrol Retirement System – Chairperson |
| Bill Shaw, Retiree | MoDOT & Patrol Retirement System |
| Gary Findlay, Executive Director | MOSERS |
| Ron Meyer, Executive Director | Missouri Consolidated Health Care Plan |
| Scott Willey | Department of Corrections |

This was provided to the Board for their information.

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**PROPOSED ADMINISTRATIVE RULE -
DISABILITY BENEFITS FOR YEAR 2000 PLAN**

Mr. Robinson recommended Board approval to file a proposed rulemaking with the Joint Committee on Administrative Rules and the Office of the Secretary of State. This rule would allow the system to provide long-term disability and work-related disability benefits to employees hired on or after July 1, 2000.

On a motion made and seconded, and by unanimous vote of all members present, the Board approved filing of the proposed rule.

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FUTURE BOARD MEETING DATES

Mr. Robinson provided the Board with a list of proposed meeting dates. The Board agreed to meet on December 12, 2002 and then initiate the new every other month schedule beginning January 2003.

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SEPTEMBER 1, 2002 Retirement and Survivor Benefits (Consent Agenda)

Missouri Department of Transportation

District 2 – Macon	Burnett, William D. Lawrence, Gary E.
District 3 – Hannibal	Flowers, John L. Hill, Winifred E.
District 5 – Jefferson City	Long, Robert W.
District 6 – Chesterfield	Brewen, William J. III Coleman, James E. Odendahl, Leo A.
District 8 – Springfield	Backfisch, Charles D. Glover, Lawrence C. Robinson, Hershel W.
District 9 – Willow Springs	Whitten, Larry N.
District 10 – Sikeston	* Crawford, Charles J. Middleton, Richard G.
Division 11 – Controller’s Office	Waters, Ira Ed
Division 13 – Project Operations	Fryer, Kenneth E.
Division 31 – Right of Way	Michael, Robert L.
Division 42 – Traffic	Jett, Wanda J.

* Vested

Missouri State Highway Patrol – Uniform Patrol

Troop A – Lee’s Summit	Bone, Clyde E.
Troop D – Springfield	Spear, Edward B.
Troop E – Poplar Bluff	Hart, David B.
Troop Q – General Headquarters	Holt, David E. Spease, Gary E.

Missouri State Highway Patrol – Civilian Patrol

Troop A – Lee’s Summit	McKeage, Forrest W.
Troop C – St. Louis	Austerman, Chester M. Bean, Lyman W. Cork, Donald W. Kelemen, John M.
Troop D – Springfield	Brand, Richard M. Miller, Gary R.
Troop E – Poplar Bluff	Bowman, Carlyn O.
Troop F – Jefferson City	Veltrop, Shirley M.
Troop G – Willow Springs	Eisenhouer, Robert J.
Troop Q – General Headquarters	Munsterman, Michael W. Stokes, Mary F.

OCTOBER 1, 2002 Retirement and Survivor Benefits (Consent Agenda)

Missouri Department of Transportation

District 1 – St. Joseph	Reynolds, Richard C.
District 4 – Lee’s Summit	Baker, Audra F. Brock, John Robert Riner, Floyd J.
District 5 – Jefferson City	Thompson, Donald J.
District 6 – Chesterfield	Dent, Dayton Jr. Meyer, William D.
District 7 – Joplin	Parise, Kathleen R. Stringer, Vernon S.