

Minutes of Meeting

March 20, 2003



HIGHWAY & TRANSPORTATION EMPLOYEES' & HIGHWAY PATROL RETIREMENT SYSTEM

**HIGHWAY AND TRANSPORTATION EMPLOYEES'
AND
HIGHWAY PATROL RETIREMENT SYSTEM**

**Minutes of Meeting
MARCH 20, 2003**

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**HIGHWAY AND TRANSPORTATION EMPLOYEES'
AND HIGHWAY PATROL RETIREMENT SYSTEM**

BOARD OF TRUSTEES' MEETING

THURSDAY, MARCH 20, 2003

1:00 p.m.

**Highway and Transportation Employees' and
Highway Patrol Retirement System Building
1913 William Street
Jefferson City, Missouri**

MEMBERS PRESENT: Mr. Bill McKenna, Chairman
Mr. James Anderson, Vice Chairman
W. L. "Barry" Orscheln
Representative Larry Crawford
Mr. Henry Hungerbeeler
Lieutenant Juan Villanueva
Mr. Harold Reeder
Mr. William H. Shaw

MEMBERS ABSENT: Senator Steve Stoll
Colonel Roger D. Stottlemyre

STAFF PRESENT: Mr. Norm Robinson, Executive Director
Ms. Susie Dahl, Assistant Executive Director
Ms. Lois Wankum, Executive Secretary
Mr. Rich Tiemeyer, Chief Counsel

GUESTS PRESENT: Mr. Bill Milnes, Asset Consulting Group
Mr. Randy Kirkland, Asset Consulting Group
Ms. Bonnie Orłowski, Alliance Management
Mr. John Fogarty, Alliance Management
Mr. Andrew Stephens, Artisan Partners
Mr. Darren DeVore, Artisan Partners
Mr. Bob Charlesworth, Charlesworth Associates

A regularly scheduled meeting of the Highway and Transportation Employees' and Highway Patrol Retirement System was held on Thursday, March 20, 2003, at the Highway and Transportation Employees' and Highway Patrol Retirement System Building, Jefferson City, Missouri. The meeting was called to order by Chairman McKenna pursuant to Section 104.180 of the Revised Statutes of Missouri, as amended.

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APPROVAL OF MINUTES

Upon motion duly made and seconded, the Highway and Transportation Employees' and Highway Patrol Retirement System Board of Trustees unanimously approved the minutes of the December 12, 2002 retirement board meeting. The Chairman 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

In order to make the most efficient use of Retirement Board meeting time and to ensure the Retirement Board members are well informed on issues requiring their action, the Executive Director prepares and submits to the Retirement Board members, in advance of their meeting, items on the Retirement Board meeting agenda. Those items considered by the 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 Retirement Board member. The items not removed from the consent agenda are approved with a single motion and unanimous vote by a quorum of the members.

Minutes reflecting approval of items on the consent agenda are singly reported herein and intermingled with minutes reflecting action on related subjects that were openly discussed. Reference to "consent agenda" is made in each minute approved via the process described in the paragraph above. Minutes reflecting action on items removed from the consent agenda and openly discussed reflect the open discussion and vote thereon.

Upon motion duly made and seconded, the Consent Agenda items were approved.

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NEW BOARD MEMBER, REPRESENTATIVE LARRY CRAWFORD - WELCOMED TO THE BOARD OF TRUSTEES

The Chairman welcomed Representative Larry Crawford to the Highway and Transportation Employees' and Highway Patrol Retirement System Board of Trustees. Representative Crawford was appointed to the Board by Representative Catherine Hanaway, House Speaker, to replace Representative Jim O'Toole.

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RETIREMENT ANNOUNCEMENT - RETIREMENT SYSTEM EMPLOYEE

The Executive Director stated Mrs. Flo Schulte, senior account technician, has announced her retirement effective April 1, 2003. The Executive Director indicated Mrs. Schulte has 30 years of service and expressed appreciation to Mrs. Schulte for her dedication to the Board. The Executive Director indicated the System is in the process of filling her vacancy.

The Board also thanked Mrs. Schulte for her years of service.

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**REPORT FROM ALLIANCE CAPITAL MANAGEMENT (Large Cap Growth)
– by Ms. Bonnie Orlowski and Mr. John Fogarty**

Ms. Bonnie Orlowski, relationship manager, and Mr. John Fogarty, portfolio manager, of Alliance Capital Management provided a performance report as the large cap growth portfolio manager for our fund. Ms. Orlowski and Mr. Fogarty provided investment results and their investment strategy. Mr. Fogarty announced a personnel change within their firm. He indicated Mr. Al Harrison, who has been running their firm for over 23 years and is age 65, has announced his retirement. Mr. Fogarty indicated Mr. Harrison’s successor is Mr. Jim Riley. A smooth transition is expected and he doesn’t expect the objective strategy or process to change with this move. Mr. Fogarty also provided a detailed report of their investment performance.

The Board thanked Ms. Orlowski and Mr. Fogarty for their report.

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**REPORT FROM ARTISAN PARTNERS (Small/Mid Cap Growth)
– by Mr. Andrews Stephens and Mr. Darren DeVore**

Mr. Andrew Stephens, portfolio manager, and Mr. Darren DeVore, client managing partner, of Artisan Partners provided a performance report as the small/mid cap growth portfolio manager of our fund. Mr. DeVore gave a brief overview and background of Artisan Partners and Mr. Stephens provided a detailed report of their investment performance.

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DUE DILIGENCE VISITS

Mr. Anderson indicated due diligence visits are upcoming and indicated it would be of benefit and value to express our concern to Alliance Capital regarding their performance.

Mr. McKenna requested the Board limit the number of members who travel to due diligence visits to keep a hold on costs.

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REPORT FROM INVESTMENT CONSULTANT (ASSET CONSULTING GROUP)
– by Mr. Randy Kirkland and Mr. Bill Milnes

Investment Performance Review Report for Quarter ended December 31, 2002

Mr. Randy Kirkland, Asset Consulting Group, presented the Investment Performance Review Report for the period ended December 30, 2002.

- Overall Performance: Market value of the assets was \$1.177 billion.
- Asset Allocation:
 - 57.1% Equity (including 10.7% international)
 - 39.5% fixed income (including domestic and cash)
 - 3.4% real estate
- Large cap US Stocks outperformed bonds during the quarter (S&P 500 at 8.5%; Lehman Aggregate Index at 1.6%).
 - Domestic Stocks (including large, mid, and small cap equities) underperformed the S&P 500 (7.3% vs. 8.5%).
 - Fixed Income composite outperformed the Lehman Gov't/Credit Index, 1.8% vs 1.7%.
- Large cap growth equities underperformed the S&P 500 while large cap value equities outperformed the S&P Index. (Russell 1000 Growth Index at 7.1%; Russell 1000 Value Index at 9.2%, and S&P 500 at 8.5%).
 - UMB's S&P 500 Fund matched the S&P 500 Index as expected.
 - Alliance underperformed the Russell Growth Index (2.6% vs. 7.1%).
 - Wellington outperformed the Russell 1000 Value Index for the quarter at 10.4% vs. 9.2%.
- Mid cap equities represented by the Russell Mid Cap Index underperformed the Mid Cap Growth Index (7.9% vs. 9.2%) and outperformed the Mid Cap Value Index (7.9% vs. 7.1%) during the quarter.
 - Artisan lagged the Mid Cap Growth Index at 8.2% vs. 9.2%.
 - Rothschild's return of 3.9% significantly lagged the Russell Mid Cap return of 7.1%.
- Small growth outperformed small value during the quarter (Russell 2000 Growth Index at 7.5% vs. Russell 2000 Value Index at 4.9%).
 - Rothschild underperformed the Small Value Index (3.7% vs. 4.9%).
- International stocks underperformed US equities during the quarter (EAFE at 6.5% vs. S&P 500 at 8.5%).
 - UMB Worldwide Fund outperformed the EAFE Index for the quarter (8.1% vs. 6.5%).

- Bonds were up for the quarter.
 - UMB returned 1.4% in the Stabilized Fixed Income Account, slightly underperforming the Lehman Intermediate Aggregate Index at 1.5%.
 - The new intermediate fixed income allocation, managed by UMB, returned 1.4% for the quarter compared to the Index at 1.5%.
 - The core bond allocation managed by Rockwood, returned 2.3% compared to the Lehman Aggregate at 1.7%.

Interim ASAP Report as of December 31, 2002

Mr. Milnes provided the Interim ASAP report, for the period ending February 28, 2003, to the Board regarding investment activity and asset allocation.

Update on Asset Liability Study

Board members attended a work session prior to the Board meeting in regard to the Asset Liability Study. Mr. Orscheln, investment committee chairman, indicated he would like a recommendation from staff. Ms. Dahl and Mr. Robinson requested the opportunity to review the results of the asset liability study with the Investment Consultant (Asset Consulting Group) and provide a recommendation to the Board at the next Retirement Board meeting. In the meantime, staff could meet with the Investment Committee to review the implementation and the issues involved in the process. All members were in agreement.

Investment Policy

Mr. Milnes presented a draft Investment Policy to the Board. On a motion made and seconded, and by unanimous vote of all members present, the Board approved the adoption of the proposed Investment Policy as a working document.

The Board thanked Mr. Kirkland and Mr. Milnes for their reports.

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**DISABILITY PROGRAM RFP
- by Mr. Bob Charlesworth**

Mr. Bob Charlesworth provided an overview of the new plan provisions and reviewed the details of the RFP with the Board. Board members had questions regarding the process. Ms. Dahl indicated the RFP is being bid several different ways to give the Board the ability to provide the best plan for members of the System at a reasonable cost. The timeline is to analyze RFP's and prepare a comparison spreadsheet and recommendations to staff by June 15th. A recommendation will be made to the Board at the July 8th Board meeting.

The Board thanked Mr. Charlesworth for his report.

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**REPORT OF AUDITOR -- ANNUAL AUDIT FOR
FISCAL YEAR ENDED JUNE 30, 2001**

Mr. Norm Robinson indicated Mr. Lynn Graves, Evers and Company, CPA's, was not available to present his firm's audit for the fiscal year ended June 30, 2001 due to a scheduling conflict. Mr. Robinson stated, in the opinion of Evers & Company, CPA's, the financial statements present fairly, in all material respects, the plan net assets of the Highway and Transportation Employees' and Highway Patrol Retirement System as of June 30, 2001, and the changes in plan net assets for the year then ended in conformity with generally accepted accounting principles.

Evers & Company stated there were no current year reportable conditions to bring to the Board's attention. Evers & Company resubmitted their recommendation for the Retirement System to review their accounting system and evaluate its effectiveness and ability to efficiently handle future growth in transaction volume.

Mr. Robinson indicated a new accounting system, MYOB, will be put into place effective July 1, 2003 (FY '04). Mrs. Mary Sue Fontana indicated the automated system should take care of the concerns of Evers & Company.

After discussion, the Board of Trustees, by unanimous vote of all members present, accepted and approved the annual audit for fiscal year ended June 30, 2001.

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LEGISLATION

Mr. Robinson indicated the following legislation has been filed to date:

- ◆ House Bill 443 (Representative King) See Senate Bill 479
- ◆ House Bill 456 (Representative Haywood)

This legislation provides services of one day for each 8 hours of accumulated sick leave at the time of retirement.

- ◆ House Bill 557 (Representative King)

This legislation allows members to use unused sick leave to meet normal retirement eligibility.

- ◆ House Bill 583 (Representative Smith)

This legislation contains provisions pertaining to medical insurance and retirement incentives for state employees who are members of HTEHPRS and MOSERS. Members of each system must retire prior to January 1, 2004 and be eligible for medical coverage under the Missouri Consolidated Health Care Plan..

- ◆ Senate Bill 78 (Representative Gross)

This legislation will allow any uniformed member of the Highway Patrol to purchase up to four (4) years of non-federal public employment or contract service. The service cannot duplicate service from any other public or private retirement plan.

- ◆ Senate Bill 100 (Representative Caskey)
- ◆ Senate Bill 118 (Senator Shields)

This legislation changes the minimum age for “80 and Out” eligibility to age 48 (from the current age 50).

- ◆ Senate Bill 262 (Senator Clemens)
- ◆ House Bill 143 (Representative Moore)

This legislation exempts social security benefits as well as public and private pensions and retirement benefits from Missouri income tax. Under the current law, a portion of these retirement benefits are exempted, with limitations on the amount of the exemption and those who qualify for the exemptions. This act removes those limitations and provides that after December 31, 2003, all of such retirement benefits shall be included as a subtraction to federal adjusted gross income on the Missouri personal income tax return.

- ◆ Senate Bill 462 (Senator Gross)

Informational Only - This legislation provides a medical insurance incentive for state employees who retire after January 1, 2003 and prior to November 1, 2003 who are eligible for medical coverage. The retiree may elect to continue coverage for themselves and eligible dependents. The State of Missouri would continue to contribute the same dollar amount in effect for active employees as the retiree’s date of retirement. This legislation contains an emergency clause.

- ◆ Senate Bill 479 (Senator Gross)
- ◆ House Bill 443 (Representative King)

This legislation provides three options for use of accrued annual leave in excess of the annual maximums. Employees may apply the excess accrued annual leave to: 1) the shared leave program, 2) to purchase retirement credits, 3) or to invest the cash equivalent into the deferred compensation plan subject to restrictions.

- ◆ Senate Bill 587 (Senator Stoll)

This legislation raises the annual cost-of-living adjustment for retirees and survivors to 100% of the increase in the Consumer Price Index (CPI). The current COLA is 80% of the increase.

- ◆ Senate Bill 588 (Senator Stoll)
- ◆ House Bill 650 (Representative Skaggs)

This legislation allows members of HTEHPRS and MOSERS who retired prior to July 1, 1990, to receive an additional \$5 per month times the number of years of creditable service.

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RECOMMENDATION TO ESTABLISH AN EXECUTIVE COMMITTEE

Mr. Robinson recommended the establishment of an Executive Committee to work with staff to identify budget and staffing priorities. Mr. Robinson indicated Board Governance could possibly provide direction on the structure and operation of an Executive Committee. After discussion, the Board deferred this item to a later date.

For the initial budget, Chairman McKenna appointed Mr. Anderson to work with Mr. Robinson and Ms. Dahl to provide a preliminary budget for the Board's review.

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INFORMATIONAL ITEMS

➤ Board Governance

At the direction of the Board, Mr. Robinson indicated he has looked into the possibility of providing education on the subject of Board Governance. Mr. Robinson recommended retaining the services of Cortex Applied Research, Inc. (Dr. John Por) for design and delivery of a Board Governance Workshop. He also recommended the Board's approval for development of charters and policies.

The Board showed interest in pursuing the services and Dr. Por and asked Mr. Robinson to contact him to establish possible dates. Mr. Anderson suggested the Board explore the opportunity to work with other retirement systems and share the wealth and costs of a workshop. Mr. Anderson also indicated the recommendation for development of charters and policies to be deferred until after the Board Governance Workshop.

➤ Board Member Handbook

Mr. Robinson indicated staff has assembled a preliminary draft of a trustee handbook. The handbook is designed to give pertinent information about the system, statutes, plans, and policies, which will enable the Board to knowledgeably and prudently carry out duties as trustees. Mr. Anderson commended staff on a job well done. Ms. Dahl indicated it is a "work in progress" and requested input from Board members.

➤ Lease Space

This item was moved to Executive Session.

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FEBRUARY 1, 2003 RETIREMENT AND SURVIVOR BENEFITS (Consent Agenda)

Missouri Department of Transportation

District 2 – Macon	Fordyce, Jerry L.
District 4 – Lee’s Summit	Marshall, John M. Sanders, Richard
District 6 – Chesterfield	* Hedrick, Darrel E.
District 10 – Sikeston	Menz, Jimmy D.
Division 14 – General Services	Jaegers, Jack E.

* Normal Disability

Missouri State Highway Patrol – Civilian Patrol

Troop Q – General Headquarters	Hoelscher, Rita A.
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MARCH 1, 2003 RETIREMENT AND SURVIVOR BENEFITS (Consent Agenda)

Missouri Department of Transportation

District 1 – St. Joseph	Weigart, Harley E.
District 2 – Macon	* Corlett, Douglas L.
District 3 – Hannibal	Phillips, Willetta M.
District 4 – Lee’s Summit	Lesmeister, Anthony P.
District 6 – Chesterfield	Gillam, Carlton E. Schulte, Richard J. Shaffrey, Marvin M. * Tyler, Susan D.
District 7 – Joplin	Vanskike, Ruth A.
District 8 – Springfield	Miller, Clarence D.
District 9 – Willow Springs	** Poulette, Lonnie R.
District 10 – Sikeston	Dillender, Floyd M.
Division 20 – Project Operations	Glaser, Morris L.
Division 27 – Transportation Planning	Lootens, Neoma N.

* Vested

** Normal Disability

MARCH 1, 2003 RETIREMENT AND SURVIVOR BENEFITS (Consent Agenda) **(continued)**

Missouri State Highway Patrol – Civilian Patrol

Troop A – Lee’s Summit

Caldwell, Ethel M.

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**AUTHORIZATION TO PAY ANNUITY TO SURVIVORS OF DECEASED
NON-RETIRED MEMBERS REQUESTING A REDUCED ANNUITY** (Consent Agenda)

<u>Deceased Non-Retired Member</u>	<u>Member Status</u>	<u>Effective Date</u>	<u>Survivor/Beneficiary</u>
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Missouri Department of Transportation

District 9

Halbert, Lindell Paul

Active

12-19-02

Nancy J. Halbert

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REPORT OF FINANCIAL STATEMENT – JANUARY 2003

The Board discussed the financial statement of the system showing assets at market value of \$1,157,260,286 as of January 31, 2003. This is a decrease of \$16.7 million from the value of \$1.173 billion as of December 31, 2002.

After consideration, the Board, by unanimous vote of all members present, accepted the report 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 – December 2002 and January 2003**

The Executive Director provided current benefit payments and member data to the Board.

- **Retirements Under the Provision of “80 and Out” – January 1, 2003**

“80 and Out” Provision – January 2003						
	<u>MoDOT</u>		<u>MSHP Civilian Patrol</u>		<u>MSHP Uniformed Patrol</u>	
	<u>Year 2000 Plan</u>	<u>Closed Plan</u>	<u>Year 2000 Plan</u>	<u>Closed Plan</u>	<u>Year 2000 Plan</u>	<u>Closed Plan</u>
Number Retiring	18	5	3	1	0	5
Average Age	54.36	62.80	53.44	63.67	N/A	53.45
Average Years of Service	31.19	28.77	31.42	19.00	N/A	30.72
Average Life Benefit	\$1,553.05	\$1,077.17	\$1,408.58	\$ 524.93	N/A	\$3,313.91
Average Temporary Benefit	\$ 793.11	N/A	\$ 662.86	N/A	N/A	N/A
Total Average Benefit	\$2,346.16	\$1,077.17	\$2,071.45	\$ 524.93	N/A	\$3,313.91

NOTE: This chart shows data for 32 retirements.

- **Retirements Under the Provision of “80 and Out” – February 1, 2003**

“80 and Out” Provision – February 2003						
	<u>MoDOT</u>		<u>MSHP Civilian Patrol</u>		<u>MSHP Uniformed Patrol</u>	
	<u>Year 2000 Plan</u>	<u>Closed Plan</u>	<u>Year 2000 Plan</u>	<u>Closed Plan</u>	<u>Year 2000 Plan</u>	<u>Closed Plan</u>
Number Retiring	5	1	1	0	0	0
Average Age	53.96	57.83	53.75	N/A	N/A	N/A
Average Years of Service	31.23	22.17	26.25	N/A	N/A	N/A
Average Life Benefit	\$1,568.34	\$ 812.88	\$1,133.62	N/A	N/A	N/A
Average Temporary Benefit	\$ 801.94	N/A	\$ 577.35	N/A	N/A	N/A
Total Average Benefit	\$2,370.28	\$ 812.88	\$1,710.97	N/A	N/A	N/A

NOTE: This chart shows data for 7 retirements.

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VOTE TO CLOSE MEETING

The Retirement Board voted to close a portion of its meeting on March 20, 2003, for the purpose of discussing (1) nonjudicial mental or physical health proceedings and (2) Attorney Client Privileged Communications and Records Protected From Disclosure By Law. Upon motion duly made and seconded to convene in closed session, the following roll call vote was taken by Chairman McKenna:

Mr. James Anderson, Aye
Mr. W.L. "Barry" Orscheln, Aye
Representative Larry Crawford, Aye
Mr. Henry Hungerbeeler, Aye
Lieutenant Juan Villanueva, Aye
Mr. Harold Reeder, Aye
Mr. William H. Shaw, Aye

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EXECUTIVE SESSION

DISABILITY REQUESTS

The Board reviewed several requests for disability.

- o Being fully informed relative to each disability case, the Board, by unanimous vote of all members present, approved benefits for the following cases:

Case No. 2003-WRD(7), effective November 21, 2002, 7:30 a.m.

Case No. 2003-WRD(9), effective July 1, 2000, 12:30 p.m.

Case No. 2003-WRD(10), effective January 4, 2002, 8:30 am.

Case No. 2003-LTD(1), effective March 18, 2003

Case No. 2003-LTD(8), effective February 11, 2003, 7:30 a.m.

Case No. 2003-LTD(12), effective September 25, 2002, 7:30 a.m.

Case No. 2003-LTD(13), effective February 12, 2003, 7:30 am.

Case No. 2003-ND(2), effective October 24, 2002, 8:00 a.m.

- o Being fully informed relative to each disability case, the Board, by unanimous vote of all members present, denied benefits for the following cases:

Case No. 2003-WRD(6)

Case No. 2003-WRD(11)

WRD = Work-Related Disability

LTD = Long-Term Disability

ND = Normal Disability

LEASE SPACE

Mr. Robinson indicated he continues to have dialog with MoDOT officials over the leasing of the middle floor. Mr. Henry Hungerbeeler and Mr. Pat Goff informed the Board they are looking at the possibility of utilizing the space for MoDOT employees. Chairman McKenna directed the Director of the Department (Mr. Hungerbeeler) and the Director of the Retirement System (Mr. Robinson) work together on an agreement.

A motion to return to Open Session was made and approved by all members present.

ADJOURN

By unanimous vote of all members present, the meeting of the Board of Trustees was adjourned.