

Montana Teachers' Retirement System Board Meeting
Teachers' Retirement Board Room – 1500 East 6th Avenue, Helena, MT
February 16, 2018

BOARD MEMBERS PRESENT

Kari Peiffer, Chairperson
Scott Dubbs, Vice Chair (by phone)
Janice Muller, Member
Daniel Trost, Member
Daniel Chamberlin, Member
Jeff Greenfield, Member

STAFF PRESENT

Shawn Graham, Executive Director
Tammy Rau, Deputy Executive Director
Denise Pizzini, Legal Counsel
Nolan Brilz, Accounting/Fiscal Manager
Darla Fitzpatrick, Communications Officer
John Noble, IT Manager

OTHERS PRESENT

Diane Fladmo, MEA-MFT
Joe Cullen, Montana Board of Investments

Call to Order

Chairperson Kari Peiffer called the meeting to order at 8:37 a.m. in the Teachers' Retirement Board Room at 1500 E 6th Avenue in Helena, Montana.

Adoption of the Agenda

Chairperson Peiffer requested a motion to adopt the agenda.

Motion/Vote: Member Janice Muller moved to adopt the agenda as written. Member Jeff Greenfield seconded the motion, which passed unanimously.

Adoption of Minutes

Chairperson Peiffer asked for a motion to approve the meeting minutes from December 8, 2017.

Motion/Vote: Member Daniel Chamberlin made a motion to adopt the minutes as written and Member Daniel Trost seconded it. The motion passed unanimously.

Public Comment on Board Related Items

Chairperson Peiffer provided an opportunity for members of the public to comment on any public matter not on the agenda and within the jurisdiction of the Board. There were no comments.

BOI Annual Report

Joe Cullen, Chief Investment Officer with the Montana Board of Investments (BOI), provided a summary of TRS's investment performance for calendar year 2017. He began by reviewing BOI's responsibility to TRS and its organizational structure, and he discussed how the BOI's investors take a total portfolio approach to diversify holdings rather than making frequent changes in response to market fluctuations.

Liquidity must be available to pay benefits today, so a small percentage of TRS holdings always is invested in cash. Mr. Cullen explained that asset allocation is the *primary* driver of returns, but not the sole driver. A key component to the asset allocation is the capital market assumptions developed each year by RVK, the BOI's external consultant. RVK takes economic factors such as rising interest rates into account, but because pension funds take such a long-term view of investing, Mr. Cullen does not expect RVK to make significant adjustments to its capital market assumptions this year.

RVK's expected rate of return is about 1% lower than TRS's assumed rate of 7.75%, but Mr. Cullen pointed out RVK is only looking approximately ten years ahead while TRS's actuaries must look ahead 40 or more years. In response to a question from Member Chamberlin, TRS Executive Director Shawn Graham added that TRS actuarial consultants currently are conducting an experience study based on plan data from the last five years. They will take RVK's analysis into account in determining whether TRS should adjust its assumed rate of return. The actuaries are scheduled to present findings from the experience study to the TRS Board in May.

BOI has increased the asset allocation range for international equities to 24%, up from 18%. Member Trost asked what the BOI board approves and Mr. Cullen stated they approve only the ranges, not the actual investments within each asset class. BOI investment staff can make changes within the approved ranges but are likely to make only small adjustments, such as from 18% to 19%. U.S. equities remain the largest asset class for the fund.

The Short-Term Investment Pool (STIP) holds 2.1% of TRS assets in cash, with 97.9% invested in the 12 asset classes grouped in the Consolidated Asset Pension Pool (CAPP). Within CAPP, TRS's strong one-year return of 14.76% helped to offset earlier periods of lower return such as the 2008 recession. Compared with peer plans, TRS's performance over the last year was slightly below the median; one reason is the peer group had a higher percentage in international equities. However, over a five-year period TRS is in the top 3% vs. peers, and is in the top 1% over the last seven years.

Looking forward, the BOI expects to see some inflation; interest rates are starting to increase, which leads to more investment income and gives the Feds a tool to reduce rates in the event of another recession. Mr. Cullen stated the BOI's long-term strategy of investing primarily in stocks, with some fixed income and cash to protect against downturns, has produced the best results over 20 years and they will continue to employ this strategy. He encouraged members to review the BOI website (investmentmt.com) for more information about their approach.

Public Comment

Member Chamberlin asked about the op-ed that appeared in the Bozeman Daily Chronicle the previous day. The author was a state legislator who seemed to draw erroneous conclusions about the funded status of Montana's public pensions. Mr. Graham confirmed he has drafted a response and has forwarded it to PERS Executive Director Dore Schwinden. He will share the draft with the Board. Diane Fladmo, MEA-MFT, thanked the Board and Mr. Graham for the information.

IT Manager Report

IT Convergence Update

John Noble, TRS Information Technology manager, stated the IT infrastructure (servers, etc.) is almost entirely hosted by SITSD now. TRS's equipment assets now are limited to virtual desktop devices and peripherals. He also reported that TRS continues to test the Perceptive content management system and is building an interface between the M-Trust system and Perceptive. Migration from FileNet to Perceptive likely will occur in spring or summer 2018.

Code Configuration

Mr. Noble provided a diagram and an overview of how a source code repository would provide better control over M-Trust system code and web application code. Such a repository also allows code changes to be rolled back quickly if a change creates unexpected problems for internal or external system users. He hopes to work with the developers to implement the repository soon.

Mr. Noble also described improvements that TRS has made in management of software and server updates. Mr. Graham reiterated the importance and volume of the work being done by a team of only two system administrators.

Administrative Business

Investment Report

Member Greenfield had nothing further to add to Mr. Cullen's presentation but he provided board members with the latest monthly "snapshot" document from the Board of Investments.

2017 Comprehensive Annual Financial Report (CAFR)

Nolan Brilz, TRS Accounting and Fiscal Manager, reported that TRS received a clean audit again this year and that he submitted the CAFR to GFOA on time. Mr. Brilz reviewed key sections of the report with the Board and recapped the investment performance already presented by Mr. Cullen. He noted that TRS's net position was nearly \$4 billion as of June 30, 2017.

2018 YTD Financial Statements and Budget Reports

Mr. Brilz integrated investment returns from RVK as of December 31, 2017 into the financial statements. The *Fund Balance Statement* shows that TRS's fund balance now exceeds \$4 billion.

As agreed in prior board meetings, Mr. Brilz had inserted an estimated revenue amount on the *Investment Revenue By Source & Administrative Expenses By Type* report. He subtracted TRS's investments in CAPP as of December 31, 2017 from the June 30, 2018 amount, displaying the

difference as “securities gains” on the report. Member Trost asked Mr. Brilz to insert an asterisk and make a note on the report that the entry is only an estimate.

M-Trust Phase 3 likely will require a budget amendment, as discussed in the December 2017 board meeting. Mr. Graham explained that M-Trust is a complex system that provides greater functionality than the old system, and its ongoing maintenance consumes more time than the two developers originally estimated. They requested a rate increase retroactive to January 1, but Mr. Graham instead will propose that TRS pay the higher rate starting July 1 and continue for 36 months, after which time the rate for long-term support can be reevaluated based on experience. Upon discussion, members of the Board expressed support for this proposal.

Personnel Committee Report

Chairperson Peiffer reported that she, Member Muller, and consultant Jim Kerins met with Mr. Graham prior to the meeting to conduct his annual performance appraisal. Members of the Board and 13 staff members provided feedback in an online survey and it was overwhelmingly positive. Mr. Graham said the comments provided in the survey have been helpful to him.

Tentative Meeting Dates

Upcoming 2018 meeting dates are May 11, August 3, October 5, and December 7. Chairperson Peiffer has a potential conflict on May 11 but no other conflicts were mentioned.

Out of State Travel Requests

Mr. Graham reviewed three previously budgeted travel requests:

- Ms. Pizzini will attend the NAPPA summer conference in June
- Mr. Noble will attend the annual PRISM conference in April
- Mr. Graham will attend the NCTR Director’s meeting in June

Motion/Vote: Member Trost made a motion to approve all three out-of-state travel requests, and Member Muller seconded it. The motion was approved unanimously.

Next Meeting Date

The next meeting is May 11, 2018. Chairperson Peiffer will be out of state but may attend by phone. The date was not changed due to topics already scheduled for that date.

Public comment

Ms. Fladmo praised Mr. Graham for his good working relationships and for TRS’s success with the M-Trust project so far. She asked how TRS is doing in terms of the percentage of budget it may spend. Mr. Graham said Montana statute allows TRS to spend up to 1.5% of the value of benefits paid out in the previous year, and TRS currently is well within that (approximately 0.75%). He clarified that M-Trust was a capital project and not subject to the 1.5% limit, but even if it were, the costs are spread out in such a way that it would not exceed the limit.

Executive Director’s Report

Staff Update

Mr. Graham reported TRS is fully staffed, and recent hires are working out well. While some employees are eligible for retirement, none have made plans to retire.

2019 Legislative Session

TRS's deadline to submit legislative concepts to the Governor's Office of Budget and Program Planning is April 16. While no major changes are being proposed, Mr. Graham reviewed a short list of preliminary language clarifications to be included in a housekeeping bill. TRS also will request an increase in the MUS-RP supplemental contribution rate per 19-20-621, MCA.

Public Comment

There was no comment.

Board Training

Ms. Pizzini conducted the annual Non-Discrimination in Employment and Provision of Services training for members of the Board. The TRS policy does not supersede the State of Montana's policy but may offer additional protections. The discussion covered topics such as protected classes and how we must act fairly to prevent discrimination in the workplace and in our dealings with TRS members and others.

Issues of discrimination with respect to age, marital status, and disability status also were reviewed, as well as sexual harassment awareness and how grievances would be handled if any were to arise. Finally, the group discussed the concept of reasonable accommodations in the workplace for employees with disabilities.

Legal Counsel's Report

Members of the Board had already received a copy of the proposed decision from the hearings examiner in the Zabrocki matter. Ms. Pizzini cautioned members about ex parte communications on this matter and stated oral arguments are scheduled for the May 2018 meeting. The Board will make its final ruling at a later meeting.

Applications and Benefit Adjustments

Deputy Executive Director Tammy Rau reported that TRS staff had processed 52 retirement applications since the December board meeting.

Long-Range Planning

Mr. Graham provided an overview of progress on the TRS commitment worksheet. The target date for the workplace efficiency item has changed due to its connection to rollout of the Perceptive Content Management system and delays in the M-Trust project timeline. A separate "workflow" project phase will improve how TRS manages paper forms, files and business processes. Board members had no further questions about long-range planning.

Public Comment

There was no comment.

Disability Applications

Closed Meeting

Executive Session to Discuss Disability Applications

At 11:35 a.m. the meeting was closed to the public for review of applications for disability retirement benefits, since the applicants' right to privacy clearly exceeds the merits of public disclosure. Ms. Rau presented four submissions and the meeting was reopened at 11:46 a.m.

Open Meeting

Applications for Disability Retirement Benefits

Chairperson Peiffer requested a motion on the disability application for R.B.

Motion/Vote: Member Muller moved to approve the disability application. Member Trost seconded it. The motion passed unanimously.

Chairperson Peiffer requested a motion on the disability application for C.H.

Motion/Vote: Member Greenfield moved to approve the disability application. Member Chamberlin seconded it. The motion passed unanimously.

Chairperson Peiffer requested a motion on the disability application for B.N.

Motion/Vote: Member Trost moved to approve the disability application. Member Muller seconded it. The motion passed unanimously.

Chairperson Peiffer requested a motion on the disability application for K.Y.

Motion/Vote: Member Greenfield moved to approve the disability application. Member Muller seconded it. The motion passed unanimously.

Public Comment

There was no comment.

Adjournment

With no other business before the Board, Chairperson Peiffer requested a motion to adjourn.

Motion/Vote: Member Trost moved to adjourn and Member Muller seconded it. The motion passed and the meeting adjourned at 11:50 a.m.

Chairperson /s/ Kari Peiffer

Executive Director /s/ Shawn Graham