JOINT COMMITTEE ON PUBLIC EMPLOYEE RETIREMENT
Second Quarter Meeting
September 13, 2022

The Joint Committee on Public Employee Retirement (JCPER) met on Tuesday, September 13, 2022 at 3:00pm in the Joint Committee Hearing Room (Room 117) in the State Capitol. Chair Pike called the meeting to order.

Roll call established a quorum. JCPER members in attendance were: Representatives Richard Brown (27), Paula Brown (070), Hovis, Pike, Reedy and Senators Beck, Bernskoetter, Koenig, and Moon. The following members were absent: Representatives Bosley, Senators Rizzo and Williams. A quorum was established

Following roll call, the Chair turned the meeting over to Dean Dohrman, Executive Director, to present the 3rd Quarter 2022 report. Dohrman began with an investment overview of the past few months. The investment overview report revealed second quarter returns are down considerably compared to the previous quarter. He noted this was due to a number of factors including high inflation, pending upward interest rates, and supply chain disruptions having added negative pressure to investment opportunities. There were no questions.

The JCPER moved to an overview of ESG proxy voting. The Executive Director pointed out the worry of ESG investing conflicting with board members' fiduciary duty. Dohrman explained that BlackRock has in the past used its influence to scoop up proxy votes in order to direct big corporations to focus heavily on ESG initiatives to the detriment of company performance. Representative Hovis took this opportunity to discuss a similar situation had occurred with Exxon Mobile and other energy companies in the U.S.

The Director then turned to a status update on the Sheriffs' Retirement System. Dohrman informed the board that SRS is making progress to find a solution for its funding issue and reported that the board voted for a five percent employee contribution going forward. It was also stated SRS is looking into a solution for a state contribution that would not violate the court's administration of justice ruling. At this time Representative Hovis took the opportunity to explain to the committee why the system lost its funding mechanism and why it is important to resolve this issue. Representative Richard Brown followed up with a question asking if SRS had updated its actuarial cost statement. Director Dohrman responded by saying "No" primarily due to the system needing to concretely find a full funding mechanism first before it incurred the cost of an actuarial cost statement.

The meeting moved on to Procurement Reporting. Dohrman explained there is going to be some changes in how the JCPER gathers data to ensure the reports we get are more robust. With no follow up questions the committee proceeded to action items.

Chair Pike moved for an executive session. Representative Richard Brown seconded that motion and it was approved with 9 yay and 0 nay.

Once in executive session the first item on the agenda was to approve the Nashville travel and training expenditures. Dohrman gave a brief explanation of what this is and why it is important. With a vote of 9 yay and 0 nay the expenditure stood approved.

The next item for voting concerned a part-time staffer to complete some filing for the office. Director Dohrman gave a brief explanation as to why a part-time employee is needed and from there the committee proceeded with a vote: with 9 yay and 0 nay the approval passed.

The final item on the agenda involved the approval of costs for updating the office flooring and walls. Director Dohrman gave an explanation of what the office needs and why. The committee did not move to a vote but rather requested more information with a follow up meeting to be held during the year's First Extraordinary Session.

Meeting adjourned.

The 3rd Quarter meeting resumed on Sep. 21 at 8:30 AM in Hearing Room 117A. Chair Pike opened the meeting and called the roll. JCPER members in attendance were: Representatives LaKeySha Bosley, Richard Brown (27), Paula Brown (070), Pike, Reedy and Senators Beck, Bernskoetter, Koenig, Rizzo, and Moon. The following members were absent: Representative Hovis, Senators Rizzo and Williams. A quorum was established.

The Chair gave the floor to Executive Director Dohrman who gave a short overview of recent market trends and possible directions after the Federal Reserve makes an anticipated announcement about interest rates during the afternoon. Also, the Director presented an enhancement to the quarterly report in an effort to improve clarity and readability. Dohrman included a quick analysis of the current stock market situation.

The Committee then moved to the action items. Pike moved to accept flooring for 219-A with a Brown (27) second. After some discussion, the Committee voted 8 yeas (Representatives Pike, Brown [70], Brown [27], Reedy and Senators Beck, Bernskoetter, Rizzo, and Moon)and 1 Nay (Representative Bosley) to approve new flooring and installation for room 219-A (the JCPER office). After a motion from Pike, a second by Koenig, and some discussion, the Committee voted 9 Yea (Representatives Pike, Bosley, Brown [70], Brown [27], Reedy and Senators Beck, Bernskoetter, Rizzo, and Moon) and 0 Nay to adopt the Executive Director's recommendation of a $1,000.00 cap on office expenditures (based on fiscal year). The Committee also approved 9

Yea (Representatives Pike, Bosley, Brown [70], Brown [27], Reedy and Senators Koenig, Beck, Rizzo, and Moon) and 0 Nays, a motion by Pike and second by Koenig to allow these expenditures to a $5,000 global cap after which Committee approval will be needed to raise the cap for the fiscal year or per expenditure as the Committee chooses).

With no further business, the meeting adjourned without objection (Pike motion, Brown [27] second).

Dean A. Dohrman
Executive Director

JOINT COMMITTEE

on

PUBLIC EMPLOYEE RETIREMENT

3rd QUARTER MEETING

September 13, 2022

3:00pm— Joint Committee Room (Room 117), State Capitol

JCPER

3rd Quarter

Meeting

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AGENDA

Roll Call

Investment Overview

2nd Quarter Returns

ESG Proxy Voting

Sheriffs

Procurement Reporting

*** * * ACTION ITEMS * * ***

Nashville Travel/Training Expenditures

Office Updates

Bill Paying Procedures

Investment Environment

The investment environment has changed volatile during the summer months. Currently the markets are down and investor sentiment is at all-time low. Historically, it should be noted that the growth preceding the current slowdown proved to be quite significant in length if not overall intensity. This long expansion helped full raised investment expectations which have only recently cooled. The quantitative easing policies of the Federal Reserve since the Great Recession beginning in late 2008 and the increase of those policies during the COVID crisis left the markets with substantial amounts of new money.

Over the spring and summer inflation has been rising at an alarming rate. The data so far has shown that June had an inflation rate of 9.1 and July had a rate of 8.5. Currently we are waiting to see the inflation rate for August. The Federal Reserve has been aggressive in raising its interest rates, and if inflation rates remain high, more of the same can be expected. There are some indications that the Fed might ease the pace of interest rate increases if future inflation shows significant signs of cooling. In the wake of the Fed's actions, the 10-year government bond rate is up. Unemployment is low, however, the participation rate is not to the level it was prior to COVID, meaning the total number of workers in our economy is still lower.

Internationally oil remains up globally per barrel but has eased off in the past couple months. Europe's inflation seems to slightly lower than here in the US by about fifty bases points and their unemployment seems to be lower when compared to the US. Lumber remains high but natural gas has eased somewhat recently. So overall the world is still dealing with fallout from the COVID crisis. Some are optimistic that the worst may be past us, but others skeptical or remain in a wait-and-see attitude.

For further information:

https://www.bea.gov/

https://tradingeconomics.com/united-states/inflation-cpi

LARRY FINK AND ESG

It is well known in financial circles that BlackRock is a major force behind the ESG movement. However, the name Larry Fink may not be as prominent, but the reality is the two are synonymous.

Before Black Rock, Larry Fink (b. 1952) attended UCLA receiving a bachelor's in political science and then completed his MBA. He went to work on Wall Street in 1976 at First Boston, an investment bank. There he traded mortgage-backed securities (new at the time) and eventually moved into the firm's bond management department. Fink proved quite successful until 1986 when his incorrect predictions of interest rates resulted in a $100 million loss.

Unemployed, Fink regrouped and formed BlackRock under the Blackstone umbrella. He implemented comprehensive risk management at this point and found enough success to break away as a separate entity in 1994. BlackRock went public five years later in 1999.

BlackRock doubled its size in 2006 when it merged with Merrill Lynch Investment Managers. That same year, it closed a $5.4 million real estate purchase in Manhattan, the largest residential real estate purchase in US history. However, the deal went belly up and the project ended in default.

During the 2008 financial meltdown, the US Government contracted with BlackRock for advice during its recovery and clean up actions. This resulted in Fink becoming heavily influential with Treasury Secretary Timothy Geithner without processing through a competitive bid. By 2016, BlackRock managed $5 trillion in assets with Fink joining President-elect Donald Trump's business forum late in the year. Trump policies served the firm well, and within two years, Fink would rank 28th on *Forbes'* World's Most Powerful People list.

In 2019, Fink penned an open letter to the CEO community urging them to actively engage in the improvement of the environment, communities, and increase workforce diversity. He cited a lack of governmental action on these fronts as justification for his call. The following year, Fink announced the environmental sustainability would be a foundational goal for BlackRock.

At the beginning of 2022, BlackRock assets were valued at $10 trillion with 18,900 employees and revenue of $19.17 billion. The June 2022 quarterly report showed revenue losses at 6.1% and net income down 21.84%. Also, legal issues have begun to arise.

The Wall Street Journal reported that at the end of August, Vanguard, BlackRock, and State Street are the controlling votes of the S&P 500. They all are committed to zero emissions policies through their investments, a combined effort that seems to potentially run afoul of anti-trust law. Missouri's Attorney General Eric Schmitt and 18 others have filed interrogatories against Morningstar and its subsidiary company Sustainalytics for potential violations of consumer fraud and unfair trade practices concerning ESG rankings.

For more ESG information:

https://www.ey.com/en_gl/strategy/short-term-steps-to-monitor-long-term-value-what-insurers-can-do-now

Sheriff's Retirement Fund

The Sheriff's Retirement Fund has continued to discuss alternative sources of revenue for the future to overcome the loss of court fees. The following has been agreed to by the system's leadership as beginning points of resolution during the upcoming legislative session:

Sheriffs will contribute to a percentage of salary to the fund (board has agreed to seek 5%).

A slight per diem increase will be sought to replace the court fee which has been lost.

These proposals are currently being vetted with legislative leadership and the governor's office.

The urgency of a resolution is recognized and the sheriffs understand and are willing to make acceptable changes as they move through the 2023 legislative year.

Action Items

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JCPER MARKET WATCH

9/21/2022

Equity markets seemed to be on a steady, upward trend until mid-day September 13 when a plunge took place after release of the August CPI report. Inflation remains above 8%, and the markets interpreted this as the Federal Reserve is likely to announce increased interest rates this afternoon.

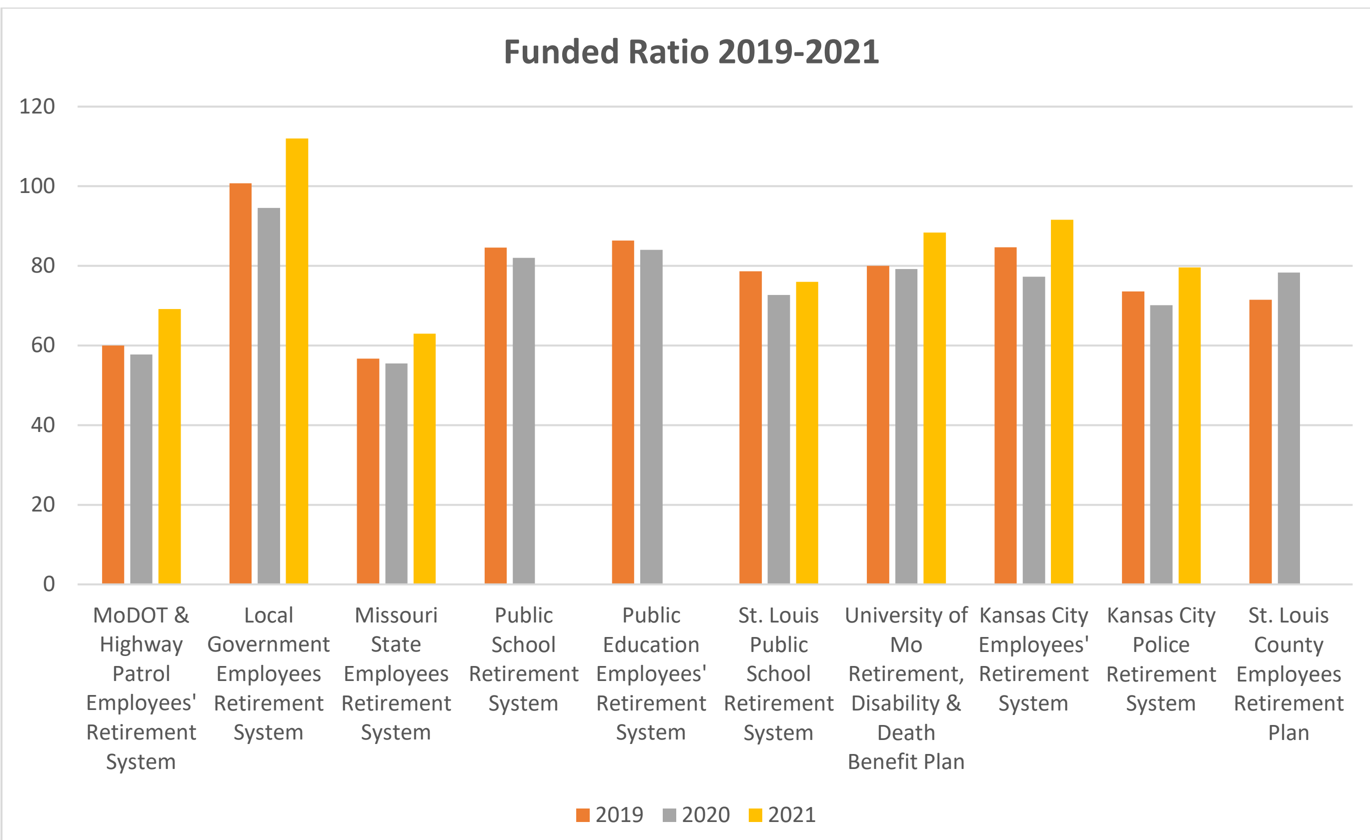
All indices took massive drops, and have not recovered. The Big 3 also share triple bottoms threatening even lower values in the near future. However, the bond market has experienced a favorable reaction.

There has been a steadily upward trend in bond yields throughout September, but the last few days have resulted in a steeper incline. Although this reflects strength, the investment reality is that a bond yield of 3.6% continues to be a loser against inflation of 8.3% annually.

What impact will the Fed announcement have? Many analysts believe that the markets have priced in a 75 basis point increase in interest rates, but 100 bps could cause some further negative reactions. We will learn the answer later this afternoon.

Top 10 Largest Plans 2nd Quarter Market Performance					
PERS Name	**Begin Mkt Value**	**End Mkt Value**	**ROR12**	**ROR36**	**ROR60**
MoDOT & Highway Patrol Employees' Retirement System	$ 3,199,086,853	$ 3,061,161,231	3.94%	10.61%	9.61%
Local Government Employees Retirement System	$ 10,686,885,018	$ 10,139,489,545	-0.60%	9.36%	9.76%
University of Mo Retirement, Disability & Death Benefit Plan	$ 4,612,034,938	$ 4,285,483,954	-1.14%	8.58%	7.95%
Public School Retirement System	$ 6,596,093,070	$ 6,126,935,069	-2.80%	9.10%	8.60%
Kansas City Police Retirement System	$ 1,034,214,000	$ 951,979,000	-6.52%	5.09%	5.54%
University City Non-uniformed Retirement Plan	$ 29,684,869	$ 25,892,852,000	-9.00%	5.70%	6.10%
Missouri State Employees Retirement System	$ 9,531,803,288	$ 8,412,240,177	-9.02%	6.55%	6.27%
St. Louis Public School Retirement System	$ 906,357,387	$ 809,403,381	-9.12%	5.27%	5.78%
Kansas City Employees' Retirement System	$ 1,274,601,816	$ 1,128,202,684	-12.60%	2.98%	4.55%
St. Louis County Employees Retirement Plan	$ 899,015,000	$ 784,063,000	-12.93%	6.27%	6.43%

This table is organized from the top earning to lowest earning in the list



*** PSRS, PEERS and St. Louis County Employees Retirement System have not reported their annual survey as of yet which is why the data for 2021 is not provided. ***