



November 10, 1986
Room 15
State Capitol

MINUTES of the November 10, 1986 Meeting:

The chair, Senator Donald Moe, opened the meeting at 2:20 p.m.

PRESENT: Senators Donald Moe, Lawrence Pogemiller, Earl Renneke
Representatives Gil Gutknecht, Gerald Knickerbocker, Steve Sviggum

Senator Moe congratulated all Commission members on their reelection.

There were no reports from the Pension Fund Administrators or from the State Board of Investment Executive Director.

Senator Moe introduced Mr. Robert Perkins, Commission Actuary, who updated the Commission on the status of the actuarial valuations. Mr. Perkins reported that of the 13 actuarial valuations required, 4 have been completed to date and the remaining valuations will be completed by the end of December.

Senator Moe introduced Mr. James Heidelberg to review his memo regarding federal legislation changing the states' role as collector of Social Security contributions from local governmental units.

Senator Pogemiller asked how many people would be affected in the Social Security Retirement Division of the state and how often the state has had to pay for a local governmental unit. Mr. Heidelberg will follow up.

Senator Moe updated the Commission on the status of the Fiduciary Seminar.

Senator Renneke asked about the financial aspect of the Seminar. Senator Moe responded that the tuition charged for the Seminar should cover the expenses. Mr. Martin added that the budget for the Seminar was based on a 75% of capacity break even point.

Senator Moe introduced Mr. John Chenoweth, Executive Director of the Minneapolis Employees Retirement Fund, to respond to the Report of the Legislative Auditor regarding MERF.

Mr. Chenoweth introduced Lorna Hubert, Sharon Johns, Jim Lind, and Willis Harris, MERF Board members who accompanied him to the meeting.

Mr. Chenoweth started by responding to the question regarding the adequacy of the data provided to the Legislative Auditor's staff. Mr. Chenoweth stated MERF gave the Legislative Auditor's staff a large volume of data. With regard to the performance valuation data, MERF's custodian, Bankers Trust, receives and checks all the information and sends a report to

Standard Valuations who has worked for MERF since 1977. Standard Valuations processes the information and sends a report to the MERF Board of Directors. Mr. Chenoweth stated that the information from Standard Valuations did give separate investment performance data for the retired account and the active account.

Mr. Chenoweth introduced Mr. Dean Derby of Standard Valuations. Mr. Derby stated Standard Valuations was hired to measure the performance of MERF's money managers. The data Standard Valuations receives comes from MERF's custodian and money managers. Standard Valuations measures all aspects of the data for MERF's active account, retired account, and the money managers' performance. Mr. Derby explained the reason behind the 3 sets of data provided to the Legislative Auditor's staff. He stated that the discrepancy occurred with the transfer of funds from one custodian to another since the funds were transferred in one time period but the transfer was posted at separate times. Standard Valuations missed some of the numbers from the second posting. When this error was discovered, they gave the Legislative Auditor's staff the additional information to correct the numbers. After sending the second set of data, Standard Valuations rechecked the figures and found an additional error due to a difference in the new custodian's accrual method of accounting. They then sent the Legislative Auditor's staff a third set of data.

Senator Moe asked if the errors would have been discovered if the Legislative Auditor had not requested the data on MERF.

Mr. Derby stated that if it hadn't been necessary to provide the data to the Legislative Auditor's staff for this particular time period, the discrepancy would not have occurred because they would not have needed to bridge the gap between the two separate postings.

Representative Gutknecht asked Mr. Derby if he had any examples of the reports Standard Valuations provided to MERF and how long Standard Valuations had been MERF's evaluator.

Mr. Derby provided the Commission members with copies of a MERF report dated 6/86 and stated Standard Valuations has been MERF's evaluator for 13 years.

Representative Gutknecht asked Mr. Derby if the active account has always performed poorer than the retired account.

Mr. Derby stated that was a philosophical question and he was not involved with that information.

Senator Moe asked if the final results were accurate.

Mr. Derby said the final results were accurate.

Mr. Martin asked when the custodial shift occurred.

Mr. Derby responded that the custodial shift occurred in June or July of 81.

Mr. Martin asked why there was a gap.

Mr. Derby stated the gap was due to a partial posting of the transfer 6/30/81 and the remainder was posted 7/1/81. Mr. Derby went on to state the valuing of the bond portfolio can be contradictory from one fund to another.

Mr. Chenoweth stated prior to 6/30/81 everything was clear based on cash rather than accrual. After July 1, 1981, bonds were valued on an accrual basis.

Mr. Ed Burek from the Legislative Auditor's staff stated that after this period there shouldn't have been a problem. Each subsequent set of data changed the bond figures significantly for years after the 1981 time period.

Mr. Chenoweth stated they were concerned but are satisfied with Mr. Derby's explanation. He went on to respond to the question regarding the difference between MERF's active and retired account performance. He stated that the implication was the MERF Board favored the retired account. He pointed to page 76 in the Legislative Auditor's report stating it showed the State Board of Investment's active account had not performed as well as the retired account. Mr. Chenoweth added MERF was not happy with the performance results and fired 2 managers in 1982.

Questions and discussion continued.

Mr. Chenoweth went on to state MERF has 700 million dollars in assets with 70% in the retired account and 30% in the active account.

Senator Moe asked who has the day to day responsibility for handling MERF assets. Mr. Chenoweth responded that the MERF Board and investment managers hired by the Board have that responsibility.

Mr. Chenoweth introduced Mr. Richard Tschudy of Investment Advisors. Mr. Tschudy stated his firm only handles equity investments for MERF and they manage both the active and retired fund's equity assets according to the written investment objectives established by MERF. The investment objectives for the active and retired account are basically the same.

Mr. Chenoweth went on to state Frank Russell Trust Company handles a small equity account for MERF, \$7.5 million. MERF has one investment manager that handles a small bond account of \$20 million. MERF is invested in 7 limited partnerships of \$25 to \$30 million which includes 5 Twin City partnerships and 2 out of state partnerships. Bankers Trust has \$20 million they invest. Mr. Chenoweth is responsible for investing approximately \$400 million.

Senator Moe stated SBI guidelines restrict investments in mortgages. Mr. Chenoweth stated four years ago the legislature passed a law allowing investments in mortgages. Mr. Chenoweth believes this practice is allowed for both the active and retired accounts.

Senator Moe asked if Mr. Chenoweth was on the Board of or had personal

investments in any of the companies in which MERF had investments. Mr. Chenoweth responded that he was on the Board and did have personal investments in some companies that MERF had investments in and would be willing to disclose privately what those investments were.

Mr. Chenoweth reiterated his willingness to cooperate in providing whatever information the Commission requested regarding MERF.

Senator Moe noted the next Commission Meeting would be the Fiduciary Seminar on Friday, November 21, 1986, at the Marriott Inn in Bloomington.

The meeting adjourned at 4:45 p.m.

Wayne Simoneau
Commission Secretary
Jean Liebgott
Staff Secretary