

REGULAR MEETING
BOARD OF TRUSTEES
OF
THE PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI
AND
THE PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI

April 13, 2015

MEMBERS PRESENT

Aaron, Zalis, Chair
Jason Hoffman, Vice Chair
Wayne Wheeler
Yvonne Heath
Scott Hunt

MEMBERS ABSENT

Susan McClintic

OTHERS PRESENT

M. Steve Yoakum, Executive Director
Dearld Snider, Asst. Exec. Dir., Oper.
Craig Husting, Asst. Exec. Dir., Invest.
Alan Thompson, General Counsel
Lori Woratzeck, Chief Finan. Officer
Jeff Hyman, Internal Auditor
Tom Smith, Chief Technology Officer
Maria Walden, Legislative Director
Jeff Russler, Dir. of Emp. Services
Ronda Peterson, Dir. of Member Serv.
Nicole Hamler, Dir. Admin Planning

**Meeting
Convened**

The meeting of the Board of Trustees convened at 9:00 a.m. in the retirement system offices in Jefferson City, Missouri. In attendance were Aaron Zalis, Wayne Wheeler, Yvonne Heath, Jason Hoffman, and Scott Hunt, Board Members. Ms. Susan McClintic, Board Member, was not present. Also present were M. Steve Yoakum, Executive Director; Craig Husting, Assistant Executive Director, Investments; Dearld Snider, Assistant Executive Director, Operations; Alan Thompson, General Counsel; Lori Woratzeck, Chief Financial Officer; Jeff Russler, Director of Employer Services; Ronda Peterson, Director of Member Services, Maria Walden, Director of Legislation and Policy; Jeff Hyman, Internal Auditor; Gary Fowler, Project Manager; various other PSRS/PEERS staff members; and Nicole Hamler, Director of Administrative Planning and Design.

**Approval of
Minutes
PSRS4550
PEERS2787**

Ms. Heath moved that the minutes from the February 9, 2015 and the March 13, 2015 meetings be approved. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Wheeler, Heath, Hoffman, and Hunt; “Nay”—None. The motion carried unanimously.

**Order of
Business**

The order of business was approved with no changes.

**Election of
Chair**
PSRS4551
PEERS2788

Mr. Wheeler nominated Dr. Aaron Zalis to serve as Chair of the Board for the period July 1, 2015 through June 30, 2016. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Wheeler, Heath, Hoffman, and Hunt; “Nay”—None. The motion carried unanimously.

**Election of
Vice Chair**
PSRS4552
PEERS2789

Ms. Heath nominated Jason Hoffman to serve as Vice Chair of the Board for the period July 1, 2015 through June 30, 2016. Mr. Wheeler seconded the motion. Voting “Aye”—Zalis, Wheeler, Heath, Hoffman, and Hunt; “Nay”—None. The motion carried unanimously.

**Interest
Credit Rate**
PSRS4553
PEERS2790

Following discussion, Mr. Wheeler moved that the interest credit rate be set at 1% for June 30, 2015. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Wheeler, Heath, Hoffman, and Hunt; “Nay”—None. The motion carried unanimously.

**Interest
Purchase Rate**
PSRS4554
PEERS2791

Mr. Hoffman moved that the interest purchase rate be set at 8% as recommended by staff which coincides with the assumed investment return. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Wheeler, Heath, Hoffman, and Hunt; “Nay”—None. The motion carried unanimously.

Investments

**Ongoing
Investment
Activity**

Mr. Craig Husting and Mr. Michael Hall reviewed ongoing investment activities, which included the estimated fiscal year-to-date return of 4.1% as of March 31, 2015. Mr. Husting discussed the current asset allocation and the PSRS/PEERS portfolio, in which he reviewed the long-term strategy, portfolio themes and the broad portfolio expectations. Mr. Husting also reviewed the tentative board investment calendar.

**Private Equity
and Private
Credit**

Mr. John Tuck and Mr. Dan Case reviewed the Private Equity and Private Credit programs with the Board. Mr. Tuck reported that as of January 31, 2015, Private Equity represented approximately 7.24% of plan assets. He discussed the philosophy, funding timeline and structure of the Private Equity portfolio. Mr. Tuck also discussed the Co-Investment program and reviewed the 2014 Private Equity year. Mr. Case discussed the Private Credit structure and portfolios and stated that Private Credit represented 0.84% of plan assets as of January 31, 2015. Mr. Tuck reviewed the Private Equity Composite relative to Russell 3000 and discussed the targeted program growth over the next ten years.

Real Estate

Ms. Susan Conrad gave an overview of the philosophy and the performance objectives of the Real Estate portfolio and the program structure. Ms. Chhayhea Sam reviewed the growth of the Real Estate program since inception in 2004. Ms. Sam also discussed performance and reported that, as of December 31, 2014, 7.00% of the total plan assets were invested in Real Estate. Ms. Conrad discussed the current Real Estate strategy.

**Private Equity
Annual
Review**

Mr. Doug LeBon, Mr. Vince Dee, Mr. John Ruggieri, and Mr. Wayne Smith were present from Pathway Capital Management to review the Systems’ Private Equity portfolio. Mr. LeBon presented an overview of the firm and recent activity. Mr.

Dee updated the Board on the current private equity environment. Mr. Dee also briefly updated the Board on the PSRS/PEERS Private Equity portfolio. He indicated that 2014 represented the portfolio's third-consecutive year of positive cash flows and record distributions. Mr. Smith discussed the Private Credit portfolio with the Board in which he gave an overview of the combined accounts. Mr. Smith provided a portfolio snapshot as of December 31, 2014. Mr. Ruggieri reviewed the Co-Investment program and discussed the primary benefit as well as the approach and strategy. In summary, Mr. LeBon reported that the PSRS/PEERS' Private Equity portfolio is developing according to plan and that PSRS/PEERS is invested in a well-diversified, high-quality portfolio. He indicated that the Private Equity portfolio has outperformed both industry and public benchmarks over the long term.

Management Report

Amendments to Regulations

Mr. Alan Thompson presented amendments to regulations that amend the PSRS and PEERS termination requirements to more accurately reflect the position the IRS has articulated in recent rulings regarding proper separation of service. Following discussion, Mr. Hoffman moved to approve the following amendments to regulations:

6 CSR 10-5.010 Service Retirement The Retirement System is amending Sections 2 and 17.

PURPOSE: The Retirement System is amending Section (2) to more accurately reflect current Internal Revenue Service guidance and rulings regarding the requirements for proper termination of service. The Retirement System is amending Section (17) (currently Section (17) but to be renumbered as (18) in a pending amendment) to define "early retirement incentive" as used in 169.596, RSMo.

(2) The earliest date on which service retirement may become effective is the first day of the calendar month following the calendar month in which the services of the member are terminated, or the first day of the calendar month following the filing of the Application for Service Retirement, whichever is later; except that the earliest date on which service retirement may become effective for a member retiring after receiving credit for a year of membership service shall be July 1, the first day of the fiscal year following the termination of services. Termination from employment covered by the retirement system prior to the effective date of retirement is required to be eligible for a retirement benefit. A member shall not be deemed to have terminated employment if the member is employed in any capacity by an employer covered by the retirement system within one (1) month after his or her effective date of retirement.

[A] Effective July 1, 2016, a member shall not be deemed to have terminated employment if, prior to receipt of his or her first benefit payment, the member [executes a contract] reaches an agreement, whether written or unwritten, for future employment in any capacity by an employer covered by the retirement system [that commences on or after the execution of such contract]. The member shall be required to repay any benefit payments paid if it is determined that the member did not terminate employment covered by the retirement system.

(17) Pursuant to section 169.596, RSMo, a retired certificated teacher receiving a retirement benefit from the Public School Retirement System of Missouri (PSRS) may teach full-time for up to two (2) years for a PSRS-covered school district without a suspension of his or her retirement benefit provided that such school district certifies that it has met the requirements set forth in section 169.596, RSMo, and provided that such school district does not exceed the limit on the number of PSRS retirees that may be hired pursuant to section 169.596, RSMo.

(A) As used in section 169.596, RSMo, “teacher” shall have the same definition as provided in section 169.010(17), RSMo.

(B) As used in section 169.596.1, RSMo, “full-time” shall have the same definition as provided in 16 CSR 10-4.005(4).

(C) As used in section 169.596, RSMo, “early retirement incentive” shall have the same definition as “consideration for agreeing to terminate employment” provided in 16 CSR 10-3.010(9)(B)6, except that it shall not include retirement notice or separation notice incentives of total value of \$5,000 or less for providing notice of intent to retire or separate employment.

~~[(C)]~~ (D) As used in section 169.596, RSMo, “teach” shall mean to be employed in a position that requires a certificate issued by the Missouri Department of Elementary and Secondary Education (DESE).

~~[(D)]~~ (E) A school district hiring a PSRS retiree under section 169.596, RSMo, shall certify to PSRS through the Online Automated System Integrated Solution (OASIS) or in another manner acceptable to PSRS that:

1. It has met the requirements of section 169.596, RSMo;
2. It has not exceeded the limit on the number of PSRS retirees it may hire under section 169.596, RSMo; and
3. The retired certificated teacher has been employed by the school district in a position that requires a certificate issued by DESE.

16 CSR 10-6.060 Service Retirement The Retirement System is amending Sections 1 and 13.

PURPOSE: The Retirement System is amending Section (1) to more accurately reflect current Internal Revenue Service guidance and rulings regarding the requirements for proper termination of service. The Retirement System is amending Section (13) (currently Section (13) but to be renumbered as (14) in a pending amendment) to define “early retirement incentive” as used in 169.596, RSMo.

(1) The earliest date on which retirement may become effective is the first day of the calendar month following the calendar month in which the services of the member are terminated, or the first day of the calendar month following the filing of the application for retirement, whichever is later; except that the earliest date on which

retirement may become effective for a member who receives a year of membership service credit for the final school year in which the member serves shall be July 1 next following the member's last day of service. Termination from employment covered by the retirement system prior to the effective date of retirement is required to be eligible for a retirement benefit. A member shall not be deemed to have terminated employment if the member is employed in any capacity by an employer covered by the retirement system within one (1) month after his or her effective date of retirement. *[A]* **Effective July 1, 2016, a member shall not be deemed to have terminated employment if, prior to receipt of his or her first benefit payment, the member *[executes a contract]* reaches an agreement, whether written or unwritten, for future employment in any capacity by an employer covered by the retirement system *[that commences on or after the execution of such contract]*.** The member shall be required to repay any benefit payments paid if it is determined that the member did not terminate employment covered by the retirement system.

(13) Pursuant to section 169.596, RSMo, a person receiving a retirement benefit from The Public Education Employee Retirement System of Missouri (PEERS) may be employed full-time for up to two (2) years for a PEERS-covered school district without a suspension of his or her retirement benefit provided that such school district certifies that it has met the requirements set forth in section 169.596, RSMo, and provided that such school district does not exceed the limit on the number of PEERS retirees that may be hired pursuant to section 169.596, RSMo.

A) As used in section 169.596.2, RSMo, "full-time" shall mean "regularly employed" as defined in 16 CSR 10-6.010(1).

(B) As used in section 169.596, RSMo, "early retirement incentive" shall have the same definition as "consideration for agreeing to terminate employment" provided in 16 CSR 10-3.010(9)(B)6, except that it shall not include retirement notice or separation notice incentives of total value of \$5,000 or less for providing notice of intent to retire or separate employment.

[(B)] (C) A school district hiring a PEERS retiree under section 169.596, RSMo, shall certify to PEERS through the Online Automated System Integrated Solution (OASIS) or in another manner acceptable to PEERS that—

1. It has met the requirements of section 169.596, RSMo; and
2. It has not exceeded the limit on the number of PEERS retirees it may hire under section 169.596, RSMo.

PSRS4555
PEERS2792

Mr. Hunt seconded the motion. Voting "Aye"—Zalis, Wheeler, Heath, Hoffman, and Hunt; "Nay"—None. The motion carried unanimously.

**Legislative
Update**

Ms. Maria Walden and Mr. Jim Moody updated the board on the current legislative session. Mr. Moody reported briefly on state revenue and gave an update on the March 2015 revenue to the Board. Ms. Walden discussed the upcoming important

legislative dates and the 2015 legislative statistics. Ms. Walden reviewed all retirement legislation, particularly the bills that had a direct impact on PSRS/PEERS. Ms. Walden discussed the current status of HCS HB 478 and SB 219; the permanent extension of the 2.55% Benefit Formula Factor. She also discussed the status of two other bills sponsored by Representative Mike Lair that had a direct impact on the Systems. HB1085 had to do with working after retirement requirements for those employed in positions that don't currently require the tracking of hours (third party, independent contractor) and HB1086 dealt with allowing a pop-up for a retiree who divorces following certain criteria. Ms. Walden also reviewed the other numerous bills being tracked that don't necessarily deal directly with PSRS/PEERS.

**Public
Comment**

On behalf of MNEA and MNEA-Retired, Carol Weatherford thanked Maria Walden for her help and willingness to work with her during the legislative session.

Closed Session

Mr. Hoffman moved that the meeting continue in closed session to hear the legal report and to review personnel matters in accordance with section 610.021 (1), (3) and (13), RSMo. Mr. Hunt seconded the motion. Voting "Aye"—Zalis, Wheeler, Heath, Hoffman, and Hunt; "Nay"—None. The motion carried unanimously.

PSRS4556
PEERS2793

Motion No. PSRS4557 and PSRS4558 were made in closed session.
Motion No. PEERS2794 and PEERS2795 were made in closed session.

Adjournment
PSRS4559
PEERS2796

Mr. Hunt moved that the meeting adjourn following closed session. Mr. Hoffman seconded the motion. Voting "Aye"—Zalis, Wheeler, Heath, Hoffman, and Hunt; "Nay"—None. The motion carried unanimously.