

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

**April 10-11, 2016**

**MEMBERS PRESENT**

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

**MEMBERS ABSENT**

**OTHERS PRESENT**

M. Steve Yoakum, Executive Director  
Dearld Snider, Asst. Exec. Dir., Oper.  
Craig Husting, Asst. Exec. Dir., Invest.  
Alan Thompson, General Counsel  
Anita Brand, Chief Finan. Officer  
Jeff Hyman, Internal Auditor  
Bill Betts, Chief Technology Officer  
Maria Walden, Legislative Director  
Ronda Peterson, Dir. of Member Serv.  
Nicole Hamler, Dir. Admin Planning

**Sunday, April 10, 2016**

**Meeting  
Convened**

The meeting convened at 7:15 p.m., at the retirement system offices in Jefferson City, Missouri. In attendance were Aaron Zalis, Jason Hoffman, Wayne Wheeler, Yvonne Heath, Jason Steliga, and Scott Hunt, Board Members. Also present were M. Steve Yoakum, Executive Director; Craig Husting, Assistant Executive Director, Investments; Dearld Snider, Assistant Executive Director, Operations; Alan Thompson, General Counsel; Anita Brand, Chief Financial Officer; Nicole Hamler, Director of Administrative Planning and Design; and various other PSRS/PEERS staff members.

**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, 2015, 7.8% of the total plan assets were invested in Real Estate. Ms. Conrad discussed the current Real Estate strategy.

**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 December 31, 2015, Private Equity represented approximately 7.7% of plan assets. He discussed the philosophy, funding timeline, and structure of the Private Equity portfolio. Mr. Case reviewed the 2015 Private Equity commitments. Mr. Tuck reviewed the Private Equity Composite relative to the Russell 3000 index and discussed the targeted program growth. Mr. Case discussed the Private Credit structure and portfolios and stated that Private Credit represented 0.7% of plan assets as of December 31, 2015. Mr. Tuck also discussed the 2013 Pathway extension and Co-Investment program.

## **U.S. Equity**

Mr. John Tuck, Ms. Kristin Matchica, and Mr. Travis Allen updated the Board on the U.S. Equity portfolio. Mr. Tuck reported that, as of December 31, 2015, 30.55% of the Systems' total assets were invested in U.S. Equity with 92.3% of the U.S. Equity portfolio invested in large-cap stocks and the remaining 7.7% in small-cap stocks. Ms. Matchica reviewed the objectives, strategies, and guidelines for this portfolio. Ms. Matchica also discussed the asset allocation within the large-cap portion of the portfolio. Mr. Tuck discussed the performance of the Alpha Overlay program. Mr. Travis Allen reviewed the objectives, strategies, and guidelines of the Small-Cap program and updated the Board on recent performance and structure.

## **Monday, April 11, 2016**

### **Meeting Convened**

The meeting of the Board of Trustees convened at 8:30 a.m. in the Retirement System offices in Jefferson City, Missouri. In attendance were Aaron Zalis, Jason Hoffman, Wayne Wheeler, Yvonne Heath, Jason Steliga, and Scott Hunt, Board Members. Also present were M. Steve Yoakum, Executive Director; Craig Husting, Assistant Executive Director, Investments; Dearld Snider, Assistant Executive Director, Operations; Alan Thompson, General Counsel; Anita Brand, Chief Financial Officer; Ronda Peterson, Director of Member Services, Maria Walden, Director of Legislation and Policy; Jeff Hyman, Internal Auditor; Nicole Hamler, Director of Administrative Planning and Design; and various other PSRS/PEERS staff members.

### **Approval of Minutes PSRS4616 PEERS2852**

Ms. Heath moved that the minutes from the February 8, 2016 meeting be approved. Mr. Steliga seconded the motion. Voting "Aye"—Zalis, Hoffman, Heath, Hunt, Steliga and Wheeler; "Nay"—None. The motion carried unanimously.

### **Order of Business**

The order of business was approved with no changes.

### **Election of Chair PSRS4617 PEERS2853**

Mr. Wheeler nominated Dr. Aaron Zalis to serve as Chair of the Board for the period July 1, 2016 through June 30, 2017. Mr. Hunt seconded the motion. Voting "Aye"—Zalis, Hoffman, Heath, Hunt, Steliga and Wheeler; "Nay"—None. The motion carried unanimously.

### **Election of Vice Chair PSRS4618 PEERS2853**

Ms. Heath nominated Jason Hoffman to serve as Vice Chair of the Board for the period July 1, 2016 through June 30, 2017. Mr. Steliga seconded the motion. Voting "Aye"—Zalis, Hoffman, Heath, Hunt, Steliga and Wheeler; "Nay"—None. The motion carried unanimously.

**Interest  
Credit Rate**  
PSRS4619  
PEERS2854

Following discussion, Mr. Wheeler moved that the interest credit rate be set at 1% for June 30, 2016. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, Steliga and Wheeler; “Nay”—None. The motion carried unanimously.

**Interest  
Purchase Rate**  
PSRS4620  
PEERS2855

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

**Amendments  
to Regulations**

Mr. Alan Thompson presented amendments to regulations to clarify that prescription drug-coverage should be included in “salary” regardless of whether or not the prescription drug premiums were determined separately from the rest of the health care premium. Following discussion, Ms. Heath moved to approve the following amendments to regulations:

**16 CSR 10-3.010 Payment of Funds to the Retirement System** The Retirement System is amending Section 7.

*PURPOSE: This proposed amendment clarifies when prescription drug premiums are included in “salary” for contributions and benefit purposes.*

(7) For purposes of determining retirement contributions and benefits, salary rate includes medical insurance premiums (including dental and vision) paid by the employer on behalf of the member and payments made by the employer on behalf of the member to a self-funded medical benefits plan. Salary, salary rate, or compensation as defined in section 169.010, RSMo, shall not be reduced due to premium rebates or refunds received by the employer as a result of the implementation of the “Patient Protection and Affordable Care Act,” Public Law 111-148. Salary rate also includes payments made by the employer on behalf of the member to purchase an annuity, or fund a deferred compensation plan, in lieu of medical insurance or a self-funded medical benefits plan. The employer shall withhold from the member’s salary and remit to the system contributions on any such premiums and payments, along with matching employer contributions. Premiums and payments for prescription drug, life, and other ancillary benefits determined separately from premiums and payments for general medical benefits are not part of salary rate. The payment reported for each member covered by a self-funded medical benefits plan shall be determined by the employer. **Beginning July 1, 2017, premiums paid by the employer on behalf of the member and payments made by the employer on behalf of the member to a self-funded medical benefits plan for prescription drug coverage shall be included in salary as defined in section 169.010, RSMo., whether or not such premiums or payments for prescription drug coverage were determined separately from premiums and payments for general medical benefits. Contributions transmitted to the retirement system before July 1, 2017, based on salary rates which either included or excluded employer-paid premiums or payments to a self-funded medical benefits plan for prescription drug coverage for members shall be deemed to have been in compliance with this section. The retirement system shall not refund or adjust contributions or adjust benefit determinations with**

**respect to any period before July 1, 2017, solely because of the treatment of employer-paid premiums or payments to a self-funded medical benefits plan for prescription drug coverage for members.**

**16 CSR 10-6.020 Source of Funds** The Retirement System is amending Section 9.

*PURPOSE: This proposed amendment clarifies when prescription drug premiums are included in “salary” for contributions and benefit purposes.*

(9) For purposes of determining retirement contributions and benefits, salary rate includes medical insurance premiums (including dental and vision) paid by the employer on behalf of the member and payments made by the employer on behalf of the member to a self-funded medical benefits plan. Salary, salary rate, or compensation as defined in section 169.600, RSMo, shall not be reduced due to premium rebates or refunds received by the employer as a result of the implementation of the “Patient Protection and Affordable Care Act,” Public Law 111-148. Salary rate also includes payments made by the employer on behalf of the member to purchase an annuity, or fund a deferred compensation plan, in lieu of medical insurance or a self-funded medical benefits plan. The employer shall withhold from the member’s salary and remit to the system contributions on any such premiums and payments, along with matching employer contributions. Premiums and payments for prescription drug, life, and other ancillary benefits determined separately from premiums and payments for general medical benefits are not part of salary rate. The payment reported for each member covered by a self-funded medical benefits plan shall be determined by the employer. **Beginning July 1, 2017, premiums paid by the employer on behalf of the member and payments made by the employer on behalf of the member to a self-funded medical benefits plan for prescription drug coverage shall be included in salary as defined in section 169.010, RSMo., whether or not such premiums or payments for prescription drug coverage were determined separately from premiums and payments for general medical benefits. Contributions transmitted to the retirement system before July 1, 2017, based on salary rates which either included or excluded employer-paid premiums or payments to a self-funded medical benefits plan for prescription drug coverage for members shall be deemed to have been in compliance with this section. The retirement system shall not refund or adjust contributions or adjust benefit determinations with respect to any period before July 1, 2017, solely because of the treatment of employer-paid premiums or payments to a self-funded medical benefits plan for prescription drug coverage for members.**

PSRS4621  
PEERS2856

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

### **Management Report**

#### **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 2016 revenue to the Board. Ms. Walden discussed the upcoming important legislative dates and the 2016 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 1780, HB 1420 and SB 954; 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. HB1709 which allows a pop-up for a retiree who divorces following certain criteria and HB1710 which has 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). Ms. Walden also reviewed the other numerous bills being tracked that don't necessarily deal directly with PSRS/PEERS.

## **Investments**

### **Ongoing Investment Activity**

Mr. Craig Husting and Mr. Michael Hall reviewed ongoing investment activities, which included the 2016 fiscal year-to-date return of 0.0% as of March 31, 2016. 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**

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 2015 represented the portfolio's fourth-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, 2015. 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.

### **Asset/Liability Study**

Mr. Husting and Mr. Hall discussed the results of the recent Asset/Liability Study performed by Willis Towers Watson (WTW). Mr. Husting reviewed the process and indicated it was a joint effort of staff and WTW. Mr. Hall talked about future investment return expectations and indicated that they had run thousands of scenarios for this study. Mr. Hall also discussed the expected risk and return for a number of asset allocation simulations. No action taken.

### **Discount Rate Assumption**

Mr. Hall discussed the guiding methodology in setting a discount rate assumption. Following review and discussion, Mr. Hall specified a reasonable range of return for the current PSRS/PEERS portfolio is between 7.4% and 8.0%. Mr. Hall indicated that a 7.75% investment return assumption would be reasonable. WTW's recommendation to lower the discount rate will be further reviewed during the June 2016 Board meeting. No action taken.

### **Experience Study**

Mr. Brandon Robertson, Ms. Cindy Fraterrigo, and Ms. Kelly Stolyar from PricewaterhouseCoopers (PwC) were present to discuss the findings of the five-year actuarial experience study with PwC has recently completed.

The actuaries discussed the various actuarial assumptions and how each one affects the normal cost and the unfunded liability. Following the review of the study, the actuaries made several recommendations for changes in the assumptions based on the results of the experience study. The actuaries' recommendations will further be reviewed during the June 2016 Board meeting. No action was taken.

**Public  
Comment**

There were no public comments regarding the meeting.

**Closed Session**

PSRS4622  
PEERS2857

Ms. Heath moved that the meeting continue in closed session to consider member appeals and legal matters under sections 610.021 (1), (14), (20) and 169.020.15, RSMo. Mr. Hoffman seconded the motion. Voting "Aye"—Zalis, Hoffman, Heath, Hunt, Steliga and Wheeler; "Nay"—None. The motion carried unanimously.

Motion No. PSRS4623 through PSRS4626 were made in closed session.  
Motion No. PEERS2857 through PEERS2861 were made in closed session.

**Adjournment**  
PSRS4627  
PEERS2862

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