

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

August 29, 2011

MEMBERS PRESENT

Aaron Zalis, Chair
Wayne Wheeler
Don Cupps
Yvonne Heath
Jason Hoffman
Scott Hunt
Susan McClintic

MEMBERS ABSENT

OTHERS PRESENT

M. Steve Yoakum, Executive Director
Craig Husting, AED, Investments
Dearld Snider, AED, Operations
Alan Thompson, General Counsel
Lori Woratzeck, Chief Finan. Officer
Jeff Russler, Dir. Employer Services
Jeff Hyman, Internal Auditor
Ronda Peterson, Member Serv. Dir.
Maria Walden, Legislative Dir.
Tom Smith, IT Director
Mary Hiatte, Senior Exec. Advisor

**Meeting
Convened**

The meeting of the Board of Trustees convened at 8:30 a.m. at the Retirement System office in Jefferson City, Missouri. In attendance were Aaron Zalis, Donald Cupps, Yvonne Heath, Scott Hunt, Jason Hoffman and Susan McClintic, Board Members. Wayne Wheeler, Trustee, was present for a portion of the meeting via telephone. Also present were M. Steve Yoakum, Executive Director; Dearld Snider, Assistant Executive Director, Operations; Alan Thompson, General Counsel; Craig Husting, Assistant Executive Director, Investments; Lori Woratzeck, Chief Financial Officer; Ronda Peterson, Director of Member Services, Jeff Russler, Director of Employer Services; Tom Smith, Director of Information Technology; Maria Walden, Director of Legislation and Policy; Jeff Hyman, Director, Internal Audit; various other PSRS/PEERS staff members; and Mary Hiatte, Senior Executive Advisor.

**Approval of
Minutes
PSRS4339
PEERS2583**

Mrs. McClintic moved that the minutes from the June 13 and July 12, 2011, meetings be approved. Mrs. Heath seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

**Order of
Business**

The order of business was approved with no changes.

Other

Mr. Yoakum presented plaques to both Janet Harris and Marilyn Struchtemeyer recognizing their recent retirement from PSRS/PEERS.

Investments

Annual Review

Mr. Craig Husting, CIO, and Michael Hall of Towers Watson presented the annual investment update. Mr. Husting gave a complete overview of FY 2011 investments. He reported that the one-year returns were 21.8% for PSRS and 21.4% for PEERS. Mr. Husting indicated that asset value had been added from both strategic and implementation investment decisions. Mr. Husting briefly discussed revenue generated from the securities lending and commission recapture programs. (Mr. Wheeler lost cell phone connection during the investment report.)

Mr. Husting also touched briefly on the volatility of the markets since July 1. He indicated that the Systems are better positioned now due to diversification than when the markets declined in 2007-08.

Mr. John Tuck discussed the hedged assets portfolio. He reviewed the goals and objectives of the portfolio as well as the current allocation to hedged assets.

Mr. Frank Aten discussed the safe asset portfolio. He reviewed the current and future allocation plans for the portfolio as well as the goals and objectives.

Investment Policy

Mr. Husting presented recommendations for changes in the investment policy. He reviewed the upside/downside risks as well as the investment objectives and philosophy. Following discussion of the current policy ranges, staff recommended that the Hedged Asset Policy range be increased from 0% - 15% to 0% - 25%; that the Alpha Overlay program maximum of U.S. large-cap equity be increased from 20% to 35%; and that the Safe Asset allocation minimum be changed from 15% to 10%. He stated that staff will continue to report on actual allocations and that he does not anticipate moving to the maximum or minimum of any of the allocations in the short-term. Following discussion, Mr. Hunt moved that the recommended changes in the investment policy be adopted. Mr. Hoffman seconded the motion. Voting "Aye"—Zalis, Cupps, Heath, Hoffman, Hunt and McClintic; "Nay"—None. The motion carried unanimously.

PSRS4340
PEERS2584

Real Estate

Messrs. Terry Ahern and Jack Koch of The Townsend Group were present to give their semi-annual update on the real estate portfolio. Mr. Ahern indicated that the economy seems to be slowly recovering and reminded the Board that real estate generally lags the market. He reported that the Systems' target allocation to real estate is 7.5% and that the current allocation is 5.6%. He also reported that the portfolio's quarter-over-quarter gross performance continues to provide strong performance. Mr. Koch reviewed more specific core and non-core investments as well as their strategy going forward.

Management Report

Funding Stabilization Policy

Mr. Yoakum briefly summarized the duties of the trustees and the extensive research which the Board and staff had completed over the last couple of years in order to better understand the benefit structure and future financial stability of the

system. From an investment standpoint, the market decline in 2007-08 was different than ever experienced since the establishment of the System and the Board and staff had worked to make sure all the education leaders understood the effect on the funding of the system into the future.

(Mr. Wheeler joined the meeting via telephone during Mr. Yoakum's opening summary.)

Mr. Yoakum also explained the statute which provides for the cost-of-living adjustments for retirees. He indicated that the statute gives the Board some flexibility in setting the COLA and that this flexibility is a very powerful tool in stabilizing the funding of the system. That, coupled with the results of the recent 5-year actuarial experience study and above assumed investment returns for the last two fiscal years, has given the Board an opportunity to improve the funding of the System while stabilizing contribution rates at or near current rates. Several trustees stated that they favored the COLA cap because it provides for a shared commitment by active and retired members. Following discussion, Ms. McClintic moved that the following Funding Stabilization Policy be adopted:

For many decades, the Public School and Education Employee Retirement Systems of Missouri (PSRS/PEERS) have served the teachers and employees of Missouri's public school system. The Board and staff are deeply committed to assisting teachers and education employees achieve retirement security by providing a secure retirement benefit for the greatest possible value. Therefore, PSRS/PEERS Board of Trustees commits to the following funding stabilization policy in an effort to:

1. Stabilize contribution rates for members and school districts;
2. Improve the funded status and stability of the Systems;
3. Maintain the current benefit structure for current members and new hires; and
4. Continue to provide educators and education employees with retirement security after a full career of serving Missouri's children.

Funding:

The Board will utilize a 30-year amortization period with the goal of paying off the unfunded actuarial accrued liability (UAAL) and becoming 100% pre-funded within the time period.

In addition, it is expected that contribution rates will stabilize at or near the 2011/2012 school year rate. A consistent contribution rate will assist school districts and members as they budget for future years. There could be a need to increase the contribution rate in the future if investment assumptions are not met.

Benefit Design:

Based on the discretion given to the PSRS/PEERS Board of Trustees under Section 169.070.13 and 169.670.2 RSMo as well as regulations 16 CSR 10-5.055 and 16 CSR 10-6.100, a 2% annual increase will be provided to eligible benefit recipients when the increase in the Consumer Price Index (CPI) is between 0% and 5%.

Regular Analysis

The Board will continue to monitor the stability of the systems through annual valuations performed by external actuaries, a five-year experience study reviewing actuarial assumptions, an actuarial audit every five years, and periodic asset-liability studies conducted by external investment consultants. As such, the Board will formally review this Policy annually with a full review at least every five years.

Summary

As fiduciaries of PSRS/PEERS, the Board is dedicated to serving over 220,000 active and retired members. The Funding Stabilization Policy demonstrates a shared commitment to the Systems' long-term stability while continuing to provide retirement security to this generation and generations to come.

PSRS4341
PEERS2585

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

COLA

Mr. Brandon Robertson of PricewaterhouseCoopers was present to discuss the COLA to be granted to eligible retirees effective January 1, 2012. Mr. Cupps moved that the COLA be set at 2.0% for eligible retirees effective January 1, 2012, in accordance with the Board's Funding Stabilization Policy and the recommendation of the actuary. Mr. Hoffman seconded the motion. Voting "Aye"—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; "Nay"—None. The motion carried unanimously.

PSRS4342
PEERS2586

Mr. Wheeler left the meeting at 10:45 a.m. and did not return.

NCTR
Delegates

Ms. McClintic moved that Yvonne Heath and Dearld Snider along with Steve Yoakum serve as delegates with Mary Hiatte as an alternate at the annual National Council on Teacher Retirement Conference to be held in October. Mr. Hunt seconded the motion. Voting "Aye"—Zalis, Cupps, Heath, Hoffman, Hunt and McClintic; "Nay"—None. The motion carried unanimously.

PSRS4343
PEERS2587

Meeting
Dates

The following meeting dates were approved for the remainder of the fiscal year: October 24, 2011, December 12, 2011, February 13, 2012, April 16, 2012, and June 11-12, 2012.

Pension Project Mr. Will Morrow of L.R. Wechsler, Ltd., was present to give a status report to the Board on the pension project for the period April 1 through June 30, 2011. Mr. Morrow reported that the project continues to make very solid gains. He reported that Phase 2 is expected to be completed approximately two weeks late but does not consider that to be of any concern at this time. He reviewed the project risks and cost summary and made no recommendations for corrective actions at this time.

Member Services Mrs. Ronda Peterson presented statistics for the 2010-11 fiscal year regarding the number of retirements, deaths, withdrawals and member education meetings, as well as other projects in the member services department over the last year.

Public Comment There were no public comments regarding the meeting. However, Cecil Sharp wanted to be sure all concerned knew that Jim Coen had passed away several weeks earlier.

Closed Session Mrs. McClintic moved that the meeting continue in closed session to hear the legal report, a member appeal, and to review personnel matters in accordance with section 610.021 (1), (3) and (13), RSMo. Mrs. Heath seconded the motion. Voting “Aye”—Zalis, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

PSRS4344
PEERS2588

Motion No. PSRS4345 through PSRS4347 were made in closed session.
Motion No. PEERS2589 and PEERS2590 were made in closed session.

Adjournment The meeting adjourned following closed session.