

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

October 28-29, 2012

MEMBERS PRESENT

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

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
Lori Woratzeck, Chief Finan. Officer
Jeff Hyman, Internal Auditor
Tom Smith, Chief Technology Officer
Ronda Peterson, Dir. Member Services
Maria Walden, Legislative Director
Paul Shadwick, Project Manager
Mary Hiatte, Sr. Executive Advisor

Credit and Global Equity Review – October 28, 2012

**Meeting
Convened**

The meeting convened at 5:35 p.m. – Board Members present were Aaron Zalis, Wayne Wheeler, Don Cupps, Scott Hunt, Yvonne Heath, Jason Hoffman and Susan McClintic. Also present were M. Steve Yoakum, Executive Director, Craig Husting, Assistant Executive Director-Investments; Dearld Snider, Assistant Executive Director-Operations; various members of the Investment Staff; Michael Hall from Towers Watson; and Mary Hiatte, Senior Executive Advisor.

The Investment Staff reviewed the current portfolio structure with the Board and updated them on the Credit Program. In the credit program, the target allocation is 12%. The staff reported that, as of September 30, 2012, the allocation was 8.96%, or \$2.8 billion. The staff reviewed the actual investments in this program as well as the managers and investment returns. The staff also discussed their strategy going forward.

The Investment Staff also updated the Board on the Global Equity Program. The target allocation for the Global Equity Program is 15% with a range of 8% to 28%. As of September 30, 2012, the allocation was 15.01%, or \$4.7 billion. Staff reviewed the goals of the global equity program as well as the specific assets held in that class, the current managers, investment return, and the strategy going forward.

Software Ms. Anita Brand reported that the staff had issued an RFP and received several bids for private market software. She reviewed the schedule which had been followed and indicated that the evaluation team had chosen the Burgiss Group to be the software provider with an April 1, 2013, go-live date.

Adjournment The meeting adjourned at 6:30 p.m.

Regular Board Meeting

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, Wayne Wheeler, Don Cupps, Yvonne Heath, Jason Hoffman, Scott Hunt, and Susan McClintic, Board Members. Staff members 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; Tom Smith, Director of Information Technology; Jeff Hyman, Internal Auditor; Ronda Peterson, Director of Member Services; Maria Walden, Legislative Director; Paul Shadwick, Project Manager; various other PSRS/PEERS staff members; and Mary Hiatte, Senior Executive Advisor.

Approval of Minutes Ms. McClintic moved that the minutes from the August 26-27, 2012 meetings be approved. Mrs. Heath seconded the motion. Voting “Aye”—Zalis, Wheeler, Heath, Cupps, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.
PSRS4393
PEERS2633

Order of Business The order of business was approved with no changes.

Investments

Activities Memo Mr. Craig Husting reviewed the ongoing investment activities memo, which included the year-to-date return of 4.2% for FY2012 through September 30, 2012. He also discussed the current asset allocation as well as provided an update on the securities lending and commission recapture programs and the real estate and private equity portfolios.

Proxy Voting Review Mr. Husting reviewed the proxy voting policy and reported that the Systems had received proxy voting reports from all public equity investment managers for Fiscal Year 2012.

Commingling of Assts Mr. Husting updated the Board on the potential commingling of the PSRS and PEERS assets for investment purposes. He reported that there are both financial and legal complexities in the transition but that, overall, the commingling of the assets would be a more cost-efficient approach long term.

Benchmark Mr. Husting specifically discussed the public equity portfolio and indicated that, historically, the systems have been biased towards the U.S. markets. The

recommendation of the staff and the investment consultant is to begin movement to a broader public equity benchmark. Mr. Husting reported that the current target is 68% U.S. and 32% non-U.S. The recommendation was a long-term target of 50% U.S. and 50% non-U.S. equity. Mr. Wheeler moved that the recommendation be approved. Mr. Hunt seconded the motion. Mr. Cupps requested that the staff report performance under both the current and the new benchmark. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic. “Nay”—None. The motion carried unanimously.

PSRS4394
PEERS2634

Real Estate

Messrs. Terry Ahern and Jack Koch were present from the Townsend Group to review the second quarter 2012 real estate portfolio performance. Mr. Ahern gave a brief overview of the current real estate market. He reported that the United States real estate market is relatively attractive while he remains cautious on real estate strategies in Europe. Mr. Koch reported that the PSRS/PEERS real estate program continued to deliver strong performance over the last year while significantly outperforming over the two-and three-year periods.

Actuarial Report

2012 Valuation Mr. Brandon Robertson from PricewaterhouseCoopers was present to discuss the results of the June 30, 2012, actuarial valuation for the systems. Mr. Robertson reviewed the changes in membership, assets, liabilities and the funded status. He reported that the June 30, 2012, funded status of PSRS was 81.5% and PEERS was 82.5% and recommended that the contribution rates for 2013-14 remain at the current levels. Following discussion, Mr. Wheeler moved that the contribution rate for PSRS remain at 29% and PEERS remain at 13.72% as recommended by the actuary. Mr. Hunt seconded the motion. Mr. Cupps indicated that he would prefer to wait until December to set the contribution rate. Following further discussion, Mr. Wheeler and Mr. Hunt withdrew their motion and second. Mr. Hoffman moved that the contribution rate decision be tabled until the December meeting. Mr. Cupps seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Hoffman, Heath, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

PSRS4395
PEERS2635

Report of External Auditor

Audit Report

Ms. Heidi Chick of Williams Keepers was present to discuss the recent June 30, 2012, audit of the retirement systems. Ms. Chick indicated that Williams Keepers had issued a clean and unqualified opinion and that they were not making any recommendations for changes in the accounting methods used. Ms. Chick briefly reviewed the audit process, financial statements, the footnotes as well as the management letter. She indicated that they found no significant deficiencies or material weaknesses. Mrs. Heath moved that the audit report be accepted as recommended by the Budget and Audit Committee and as presented to the Board. Mr. Cupps seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Hoffman, Heath, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

PSRS4396
PEERS2636

Management Report

Board Governance Report

PSRS4397
PEERS2637

Mr. Yoakum presented the board governance report recently completed by Cortex. Cortex had recommended a few minor changes in the wording of the Board charters. Mr. Cupps moved that the Budget and Audit Committee Charter remain as it is currently written and that the recommended changes regarding the pending issues list be adopted. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Wheeler, Hoffman, Heath, Hunt, Cupps and McClintic; “Nay”—None. The motion carried unanimously.

Budget Adjustment

PSRS4398
PEERS2638

Mr. Cupps moved that the budget adjustment recommended by staff and approved by the Budget and Audit Committee relating to legal fees be approved. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic. “Nay”—None. The motion carried unanimously.

Amendment To Regs.

Mr. Hunt moved that the following amendments to the regulations be adopted:

16 CSR 10-3.010 Payment of Funds to the Retirement System.

PURPOSE: This amendment clarifies how premium rebates received by an employer as a result of the Patient Protection and Affordable Care Act affect compensation for retirement 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 169.010, 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.

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

PURPOSE: This amendment clarifies how premium rebates received by an employer as a result of the Patient Protection and Affordable Care Act affect compensation for retirement purposes.

(10) 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.

PSRS4399
PEERS2639

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

**Pension
Project**

Mr. Dearld Snider updated the Board on the progress of the pension project. Mr. Snider reported that staff is currently in discussions with Sagitec to change the go-live date from April 1, 2013, to January 1, 2014, in order to allow additional time for testing to ensure that the end product is both accurate and without critical defects.

**Public
Comment**

There were no public comments.

**Closed
Session**

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

PSRS4400
PEERS2640

Motion No. PSRS4401 through PSRS4403 were made in closed session.
Motion No. PEERS2641 through PEERS2643 were made in closed session.

Adjournment

The meeting adjourned following closed session