

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

April 5-6, 2009

MEMBERS PRESENT

Tina Zubeck, Chair
Joncee Nodler, Vice Chair
Yvonne Heath
Peggy Preston
Jim O'Donnell
Wayne Wheeler
Aaron Zalis

MEMBERS ABSENT

OTHERS PRESENT

M. Steve Yoakum, Executive Director
Rob Rust, Asst. Exec. Dir., Operations
Alan Thompson, General Counsel
Craig Husting, Asst. Exec. Dir., Invest.
Dearld Snider, Dir. of Member Services
Lori Woratzeck, Chief Finan. Officer
Tom Smith, Dir. of Info. Technology
Jeff Russler, Dir. Employer Services
Janet Harris, Internal Auditor
Mary Hiatte, Executive Assistant

Private Equity and S-CAP Review Meeting – April 5, 2009

**Meeting
Convened**

The meeting convened at 5:30 p.m. – Board Members present were Zubeck, Nodler, Heath, O'Donnell, Preston, Wheeler and Zalis. Also present were M. Steve Yoakum, Executive Director, Rob Rust, Assistant Executive Director-Operations; Craig Husting, Assistant Executive Director-Investments; John Tuck and Travis Allen, Investment Officers; Lori Woratzeck, Chief Financial Officer; Anita Brand, Investments Accountant; Janet Harris and Jeff Hyman, Internal Auditors; Michael Hall of Russell Investment Group; and Mary Hiatte, Executive Assistant.

John Tuck updated the Board on the Private Equity portfolio. He indicated that staff continues to believe that long term returns on private equity will be above those of public markets. Mr. Tuck also discussed commitments for 2009 and future years.

Travis Allen was present to update the Board on the small-cap equity portfolio. He briefly reviewed the make up of the fund as well as the long-term expectations and possible changes in the fund over the next six to twelve months.

Travel and Expense Committee Meeting – April 5, 2009

**Meeting
Convened
the**

Committee members present were Zubeck, Preston and Heath. Other Board members present were O'Donnell, Nodler, Wheeler and Zalis. The staff and committee discussed the results of the internal audit which had been completed, the responses by management to the

staff audit, and the management suggestions for changes in the reimbursement policy. The and Committee discussed using the federal per diem rate for reimbursement of meals. Following discussion, the Committee approved the use of the federal per diem for reimbursement of meals effective July 1, 2009, and indicated that such a procedure would be a more efficient use of staff time and that they would not expect any material changes in the expenses of the system.

Board Meeting – April 6, 2009

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 Tina Zubeck, Joncee Nodler, Yvonne Heath, Jim O'Donnell, Peggy Preston, Wayne Wheeler and Aaron Zalis, Board Members. Also present were M. Steve Yoakum, Executive Director; Rob Rust, Assistant Executive Director, Operations; Alan Thompson, General Counsel; Craig Husting, Assistant Executive Director, Investments; Dearld Snider, Director of Member Services; Lori Woratzeck, Chief Financial Officer; Tom Smith, Director of Information Technology; Jeff Russler, Director of Employer Services; Janet Harris, Internal Auditor; various other PSRS/PEERS staff members; and Mary Hiatte, Executive Assistant.
Approval of Minutes	Mrs. Nodler moved that the minutes from the February 8-9, 2009, meetings be approved. Mrs. Heath noted a typographical error in the starting time of the investment meeting on February 8. The minutes showed a starting time of 6:30 p.m. instead of 5:30 p.m. Mr. Wheeler seconded the motion for the approval of minutes with the noted correction. Voting "Aye"—Zubeck, Nodler, Heath, O'Donnell, Preston, Wheeler, and Zalis; "Nay"—None. The motion carried unanimously.
<u>PSRS4177</u> <u>PEERS2433</u>	
Order of Business	The order of business was approved with no changes.
PSRS/PEERS Retirees	Mr. Yoakum presented plaques to Judith Minard, Susan Miller, Diane Kemper and Patricia Hutchcraft in recognition of their recent retirement from PSRS/PEERS.
Election of Chair	Mr. Wheeler expressed the Board's appreciation for Mrs. Zubeck's leadership over the last year as Chair and nominated her to serve as Board Chair for the 2009-10 fiscal year. Mrs. Nodler seconded the motion and moved that nominations cease. Voting "Aye"—Zubeck, Nodler, Heath, O'Donnell, Preston, Wheeler, and Zalis; "Nay"—None. The motion carried unanimously.
<u>PSRS4178</u> <u>PEERS2434</u>	
Election of Vice Chair	Mrs. Nodler nominated Mr. O'Donnell to serve as Board Vice Chair for the 2009-10 fiscal year. Mr. Wheeler seconded the motion. No other nominations were made. Voting "Aye"—Zubeck, Nodler, Heath, O'Donnell, Preston, Wheeler, and Zalis; "Nay"—None. The motion carried unanimously.
<u>PSRS4179</u> <u>PEERS2435</u>	
Interest Credit Rate	Following discussion, Mrs. Preston moved that the interest credit rate be set at 2% for June 20, 2009 as recommended by staff. Mrs. Heath seconded the motion. Voting "Aye"—Zubeck, Nodler, Heath, O'Donnell, Preston, Wheeler, and Zalis; "Nay"—None. The motion carried unanimously.
<u>PSRS4180</u> <u>PEERS2436</u>	

**Interest
Purchase
Rate**
PSRS4181
PEERS2437

Mr. O'Donnell moved that the interest purchase rate continue at 8% as recommended by staff and which coincides with the assumed investment return. Mrs. Preston seconded the motion. Voting "Aye"—Zubeck, Nodler, Heath, O'Donnell, Preston, Wheeler, and Zalis; "Nay"—None. The motion carried unanimously.

Investments

**Activities
Memo**

Mr. Craig Husting reviewed the ongoing investment activities memo, which included the year-to-date return for FY 2009, managers on the watch list, an update on real estate and private equity, the absolute return pool program, and the tentative investment calendar. Mr. Husting indicated that the systems are temporarily out of compliance with the Investment Policy as the allocation to the Absolute Return Pool was above the 15% limit on March 31, 2009. He indicated that the Systems would be in compliance in the next

sixty

days as assets are transitioned. Mr. Husting also reported that the Investment Staff and the consultant plan to complete an asset allocation study which will be presented to the Board at the June meeting.

**Real
Estate**

Mr. Jack Koch and Mr. Terry Ahern of The Townsend Group were present to discuss the semi-annual review of the real estate portfolio. Mr. Ahern stated that the recent markets represented the most dramatic correction in over twenty-five years. He indicated that with the recession, vacancies increase and rent declines. As a result, real estate values decline. Mr. Koch reviewed returns for the last year. As part of the review, Mr. Koch indicated that the Systems were temporarily out of compliance with the Real Estate Policy on total fund leverage. Due to the dislocation in the markets, Mr. Koch stated that the Systems could be out of compliance for several months.

**Policy
Clarification**

Mrs. Nodler moved that the Investment Policy change pertaining to Put and Call Options adopted at the February 9, 2009, meeting be clarified to include the authority to buy or sell over the counter call options. Dr. Zalis seconded the motion. Voting "Aye"—Zubeck, Nodler, Heath, O'Donnell, Preston, Wheeler, and Zalis; "Nay"—None. The motion carried unanimously.

PSRS4182
PEERS2438

Management Report

**External
Auditor**

The Budget and Audit Committee interviewed external auditing firms on February 25 and recommended that Williams Keepers be retained for a three year period with a partner rotation as proposed. Mr. Wheeler moved that the recommendation from the committee be accepted. Voting "Aye"—Zubeck, Nodler, Heath, O'Donnell, Preston, Wheeler, and Zalis; "Nay"—None. The motion carried unanimously.

PSRS4183
PEERS2439

**Budget
Adjustments**
PSRS4184
PEERS2440

Mr. O'Donnell moved that the budget adjustments as presented by staff to the Budget and Audit Committee be approved. Mrs. Preston seconded the motion. Voting "Aye"—Zubeck, Nodler, Heath, O'Donnell, Preston, Wheeler, and Zalis; "Nay"—None. The motion carried unanimously.

**Legislative
Update**

Mrs. Maria Walden and Mr. Jim Moody gave a brief legislative update to the Board. Mrs. Walden reviewed the various provisions currently pending in the legislature as well as the legislative calendar.

**Section 218
Update**

Mr. Alan Thompson reported that the Federal Task Force had completed and sent its report to the Internal Revenue Service and the Social Security Administration for review. The final report was submitted to the Missouri Congressional Delegation on April 2. He indicated that additional meetings were scheduled to discuss some additional issues.

**Member
Services**

Mr. Dearld Snider gave a brief Member Services Report. He reported that considerably fewer PSRS retirement applications had been filed so far compared to last year at this time. He also reported that letters regarding the new tax withholding tables were being prepared and sent to the affected retirees. He indicated that the IRS is requiring public pension plans to use the new withholding tables even though retirees will not qualify for the tax credit.

**Public
Comment**

Mrs. Heath reported that she had recently traveled with the investment staff to attend several due diligence meetings. She indicated that she felt the trip was very worthwhile and was very appreciative of the opportunity.

Mr. Yoakum reported that a number of the educational associations had contacted him following the January meeting with ideas regarding the current benefit structure. He indicated that the actuary is studying all of the ideas and that he hopes to set up a meeting with the associations within the next month or so.

**Closed
Session**

PSRS4185
PEERS2441

Mr. Wheeler 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. Mrs. Preston seconded the motion. Voting “Aye”—Zubeck, Nodler, Heath, O’Donnell, Preston, Wheeler, and Zalis; “Nay”—None. The motion carried unanimously.

Motion No. PSRS4186 and PSRS4187 were made in closed session.
Motion No. PEERS2442 and PEERS2443 were made in closed session.

Adjournment

The meeting adjourned following closed session.