

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

April 7-8, 2013

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
Maria Walden, Legislative Director
Paul Shadwick, Project Manager
Jeff Russler, Dir. of Emp. Services
Mary Hiatte, Sr. Executive Advisor

Sunday, April 7, 2013

**Meeting
Convened**

The meeting convened at 5:45 p.m. – Board Members present were Aaron Zalis, Donald Cupps, Yvonne Heath, Jason Hoffman, Scott Hunt, Susan McClintic and Wayne Wheeler. Also present were M. Steve Yoakum, Executive Director, Craig Husting, Assistant Executive Director-Investments; Dearld Snider, Assistant Executive Director – Operations; Lori Woratzeck, Chief Financial Officer; Anita Brand, Director of Investment Accounting; various Investment Staff; Michael Hall and Karson Bagby of Towers Watson; and Mary Hiatte, Senior Executive Advisor.

U.S. Equity

Mr. John Tuck updated the Board on the U.S. equity portfolio. He reported that, as of February 28, 2013, 32.16% of the total assets were invested in U.S. equity with 90.6% of the portfolio invested in large-cap stocks with the remaining 9.4% in small-cap stocks. Mr. Tuck also reviewed the objectives, strategies and guidelines for this portfolio. Ms. Jessica Kuebler 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.

Private Risk

Mr. John Tuck and Mr. Dan Case updated the Board on the Private Risk Asset Programs. Mr. Tuck reviewed the current policy which established a long-term target of 20% in Private Risk assets and reported that, currently, 15.63% of the assets are invested in these programs. Mrs. Anita Brand discussed the implementation of the private asset software using the selected vendor, The Burgiss

Group. The software was implemented April 1, 2013 with training scheduled for April 18, 2013. Mr. Case briefly updated the Board on the Private Equity and Private Credit portfolios as of December 31, 2012. Mr. Tuck reviewed the philosophy and objectives for Private Equity and Private Credit as well as the current structure, investments and performance. Mr. Tuck also discussed the new Pathway contract which was signed January 2013.

Real Estate

Ms. Susan Conrad gave an overview of the philosophy and performance objectives of the Real Estate portfolio. Ms. Chhayhea Sam reviewed the growth of the Real Estate program since inception in 2004 as well as the current structure. Ms. Conrad discussed performance and reported that, as of December 31, 2012, 7.64% of the total plan assets were invested in Real Estate.

Adjournment

The meeting adjourned at 7:30 p.m.

Monday, April 8, 2013

**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, Wayne Wheeler, Donald Cupps, Yvonne Heath, Jason Hoffman, Scott Hunt and Susan McClintic, 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; Lori Woratzeck, Chief Financial Officer; Jeff Russler, Director of Employer Services; Maria Walden, Director of Legislation and Policy; Jeff Hyman, Internal Auditor; Paul Shadwick, Project Manager; various other PSRS/PEERS staff members; and Mary Hiatte, Senior Executive Advisor.

**Approval of
Minutes
PSRS4421
PEERS2659**

Ms. Heath moved that the minutes from the February 11, 2013 meetings be approved. Mr. Hunt 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.

**Election of
Chair
PSRS4422
PEERS2660**

Mr. Cupps nominated Dr. Aaron Zalis to serve as Chair of the Board for the period July 1, 2013 through June 30, 2014. Mr. Wheeler seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

**Election of
Vice Chair
PSRS4423
PEERS2661**

Ms. McClintic nominated Jason Hoffman to serve as Vice Chair of the Board for the period July 1, 2013 through June 30, 2014. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

**Interest
Credit Rate**
PSRS4424
PEERS2662

Following discussion, Mr. Cupps moved that the interest credit rate be set at 1% for June 30, 2013. Ms. McClintic seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

**Interest
Purchase Rate**
PSRS4425
PEERS2663

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

Investments

**Ongoing
Investment
Activity**

Mr. Craig Husting reviewed ongoing investment activities, which included the fiscal year-to-date return of 11.5% as of March 31, 2013. He 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 gave a Real Estate and Private Equity update and reviewed the tentative board investment calendar.

Private Equity

Mr. Doug LeBon, Mr. Vince Dee, and Ms. Anne Collins were present from Pathway Capital Management to review the Private Equity portfolio. Mr. LeBon reviewed Pathway’s structure and business model. Mr. Dee updated the Board on the current private equity environment and activity in 2012. Ms. Dee also briefly updated the Board on the PSRS/PEERS Private Equity portfolio. He indicated that 2012 was the biggest year in distributions for PSRS/PEERS since the inception of the program. Ms. Collins discussed the Private Credit portfolio with the Board in which she gave an overview of the combined accounts. Ms. Collins provided a portfolio snapshot as of December 31, 2012. 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 Private Equity portfolio. He indicated that the Private Equity portfolio has outperformed both industry and public benchmarks over the long term and that the Private Credit portfolio became fully committed in October 2012. Mr. LeBon has indicated that distribution activity has increased significantly in both investment programs.

Management Report

**Budget
Adjustment**

PSRS4426
PEERS2664

**Legislative
Update**

Mr. Hoffman moved that the budget adjustment related to legal fees, Missouri Education Pension Trust setup, Dix Nursey purchase, and Investment staff reorganization be approved as recommended by the Budget and Audit Committee. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously. Ms. Maria Walden and Jim Moody reported briefly on the status of legislation which has been introduced affecting PSRS/PEERS and other Missouri public pension systems. HB313 which permanently extends the 25-and-out provisions for both PSRS and PEERS and the 2.55% formula factor for PSRS was voted do pass by the House Retirement Committee on March 14. SB232 contains the same provisions as HB313 and was introduced in the Senate and referred to Senate Seniors, Families and Pensions Committee. SB475 was introduced which provides that PSRS/PEERS be 100% funded in 5 years. Also introduced was SB476 which requires the Board of

Trustees to establish a defined contribution plan for members hired on or after July 1, 2014. Both bills have been referred to Senate Seniors, Families and Pensions Committee. Ms. Walden presented information provided by the actuary regarding the cost and the impact each bill would have on contribution rates. Following discussion, Mr. Hoffman moved that the Board oppose both SB475 and SB476. Ms. McClintic seconded the motion. Voting “Aye” —Zalis, Wheeler, Cupps, Heath, Hoffman, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

PSRS4427
PEERS2665

**Pension
Project**

Mr. Dearld Snider updated the Board on the progress of the pension project. Mr. Snider discussed that given the need to focus time and resources on testing, any work on Phase 5 was going to be put on hold temporarily. He indicated that the quality from the first round of testing is at an approximate 50% pass rate and that we are not bending on the quality that we expect. He also indicated that the go live date set for January 2014 is still achievable but we will need to restrict the project plan and allocate resources properly.

**Public
Comment**

Mr. Cecil Sharp from MNEA and Maggie Elder from MRTA announced that this would be their last board meeting and that they are retiring as of May 31, 2013.

Resolution

Dr. Aaron Zalis presented a Board Resolution to Mary J. Hiatte honoring her years of dedicated service to PSRS/PEERS.

RESOLUTION HONORING
MARY J. HIATTE
SECRETARY TO THE BOARD OF TRUSTEES
THE PUBLIC SCHOOL & EDUCATION EMPLOYEE
RETIREMENT SYSTEMS OF MISSOURI

WHEREAS, MARY J. HIATTE was hired as an employee of the Public School and Education Employee Retirement Systems of Missouri on November 13, 1973; and

WHEREAS, with nearly 40 years of service with the Public School and Education Employee Retirement Systems of Missouri, Ms. Hiatte has announced her retirement effective June 1, 2013; and

WHEREAS, the Board recognizes that Ms. Hiatte has served in many important roles throughout her career, the longest as Secretary to the Board of Trustees, serving since June 1981. Ms. Hiatte has had the rare opportunity of working closely with every Executive Director of the Public School and Education Employee Retirement Systems of Missouri, which has given her exceptional knowledge, history and expertise of the Systems.

WHEREAS, the Board recognizes that throughout her employment Ms. Hiatte has been known for her hard work, dedication, and exemplary service to the teachers of the state of Missouri, and to the Board and Executive Director of the Public School and Education Employee Retirement Systems of Missouri; and

NOW, THEREFORE, BE IT RESOLVED THAT, the Board of Trustees of the Public School and Education Employee Retirement Systems of Missouri expresses

its sincere gratitude to MARY J. HIATTE, for her dedicated and loyal service to the Public School and Education Employee Retirement Systems of Missouri and its members.

BE IT FURTHER RESOLVED THAT, a copy of this Resolution be presented to MARY J. HIATTE in recognition of her decades of service.

PRESENTED, ADOPTED, AND APPROVED this 8th day of April, 2013

Closed Session

PSRS4428
PEERS2666

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

Motion No. PSRS4429 through PSRS4431 were made in closed session.
Motion No. PEERS2667 through PEERS2669 were made in closed session.

Adjournment

The meeting adjourned following closed session.