

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

February 13, 2017

MEMBERS PRESENT

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

MEMBERS ABSENT

OTHERS PRESENT

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
Omar Davis, Dir. of Emp. Services
Ronda Peterson, Dir. of Member Serv.
Nicole Hamler, Dir. Admin Design

**Meeting
Convened**

The meeting of the Board of Trustees convened at 10:00 a.m. at the Retirement System offices in Jefferson City, Missouri. In attendance were Aaron Zalis, Jason Hoffman, Scott Hunt, Yvonne Heath, and Jason Steliga Board Members. Also present were PSRS/PEERS Executive Director, M. Steve Yoakum; Assistant Executive Director, Investments, Craig Husting; Assistant Executive Director, Operations, Dearld Snider; General Counsel, Alan Thompson; Chief Financial Officer, Anita Brand; Director of Member Services, Ronda Peterson; Director of Employer Services, Omar Davis; Director of Legislation and Policy, Maria Walden; Internal Auditor, Jeff Hyman; Chief Technology Officer, Bill Betts; Director of Administrative Planning and Design, Nicole Hamler; and various other PSRS/PEERS staff members.

**Approval of
Minutes
PSRS4673
PEERS2908**

Mr. Hunt moved that the minutes from the December 12, 2016 meeting be approved as presented. Ms. Heath seconded the motion. Voting "Aye"—Zalis, Hoffman, Heath, Hunt, and Steliga; "Nay"—None. The motion carried unanimously.

**Order of
Business**

The order of business was approved with no changes.

Investments

Performance Report

Mr. Craig Husting and Mr. Michael Hall reviewed the investment performance for the last quarter, ending December 31, 2016, as well as the current asset allocation. Mr. Husting reviewed the plan attribution as of December 31, 2016 and provided the performance rankings for PSRS/PEERS, which was in the top 21st percentile for the 3-year period ending December 31, 2016, indicating that the Systems outperformed over 75 percent of peers.

Ongoing Investment Activity

Mr. Husting and Mr. Hall reviewed ongoing investment activities, including the 2016 fiscal year-to-date return of approximately 6.0% as of January 31, 2017. 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 provided an update on the securities lending and commission recapture programs and reviewed the tentative Board investment calendar.

Anti-Terrorism Policy

Mr. Craig Husting provided a full report of the annual compliance review for the Systems' Anti-Terrorism and Economic Sanction Policy. Mr. Husting reviewed the safeguards the Systems have in place to ensure compliance with the policy. Staff and General Counsel recommended that no changes be made with regard to the Anti-Terrorism Investment Policy at this time.

Affirmative Action Policy

Mr. Husting provided a full report of the annual compliance review for the Systems' Affirmative Action Policy. The Systems have long term relationships in place with the majority of their investment consultants, traditional equity and fixed income managers, and commingled fund managers. Zevenbergen Capital Investments qualifies as a WBE and Rock Creek Group as a MBE. Staff and General Counsel recommended that no action be taken this year with regard to the Affirmative Action Policy and Procurement Action Plan.

Private Assets Overview

Mr. Husting and Mr. Hall provided a broad overview of the Private Assets Composite. The long-term target allocation to Private Assets is 25% with an interim target allocation of 20%. The five-year annualized return for the Private Assets composite for the period ended December 31, 2016 was 12.9%.

Real Estate

Ms. Susan Conrad and Ms. Chhayhea Sam from PSRS/PEERS reviewed the Systems' Real Estate portfolio including program objectives, long-term results and funding strategies. The five-year annualized return for the Real Estate composite for the period ended December 31, 2016 was 12.1%.

Private Equity

Mr. John Tuck and Mr. Dan Case from PSRS/PEERS reviewed the Systems' Private Equity and Private Credit portfolios including program objectives, long-term results, and funding strategies. The five-year annualized return for the Private Equity composite for the period ended December 31, 2016 was 14.6%.

Management Report

Cortex Governance Review

Mr. Steve Yoakum presented the board governance report recently completed by Cortex Applied Research, Inc. Cortex had recommended a few minor updates to the Board governance policies and did not have any recommendations for the

PSRS4674
PEERS2909

charters. The changes bring the policy in line with current practices. Mr. Steliga moved that the report be approved with the suggested changes. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, and Steliga; “Nay”—None. The motion carried unanimously.

Website Review

Mr. Dearld Snider, Ms. Susan Wood and Mr. Bill Betts demonstrated the PSRS/PEERS website. In particular, Mr. Snider focused on updates made to the Board section of the website. Mr. Betts recommended that email addresses should not be posted on the PSRS/PEERS website due to cyber security concerns, and discussed the security threats that public web links to email addresses can pose to the Systems. Ms. Wood reviewed the philosophy behind the structure and design of the website, as well as key attributes of the site including placement of news, other high priority information, and Web Member Services login access. Ms. Wood also discussed recent statistics for the site.

Legislative Update

Ms. Maria Walden and Mr. Jim Moody, Legislative Consultant, updated the Board on the current legislative session. Mr. Moody reported briefly on state revenue and gave an update on January 2017 revenue to the Board. He also discussed sales tax growth and Missouri income from capital gains and dividends.

Ms. Walden reviewed the upcoming important legislative dates, the legislative statistics, and new legislation filed. There are several bills that have been filed this year that have a direct impact on the Systems:

HB 304 and SB 394 allow any retiree who selects a Joint-and-Survivor benefit plan and has a subsequent divorce to popup to the Single Life benefit plan payment amount upon receipt of an application. This will only occur if the divorce decree provides for sole retention of benefits. Retroactive benefits are not payable, and the divorce must occur on or after September 1, 2017. HB 304 was filed by Representative Patricia Pike and SB 394 was filed by Senator Gary Romine. The Systems’ actuary, PricewaterhouseCoopers’ (PWC) actuarial cost estimate of HB 304 estimates that there will be an insignificant fiscal savings to PSRS and PEERS.

HB 305 requires that any retiree who is employed by a third party, or is performing work as an independent contractor as a temporary or long-term substitute teacher, be required to comply with the existing statutory working after retirement limits in Section 169.560 RSMo. (50% salary and 550 hours). The bill would not prohibit a covered employer from hiring a third-party contractor for substitute teaching positions. HB 305 was introduced by Representative Patricia Pike. PWC estimates that HB 305 will have no measurable fiscal impact to PSRS or PEERS.

HB 650 establishes a fixed statutory cost-of-living adjustment (COLA) for PSRS and PEERS retirees, changes the effective date of the COLA for PSRS members, eliminates various ad hoc increases in past years from being exempt from the COLA cap and eliminates the ability for the Systems to decrease the COLA in years in which the CPI is under 0%. The cost to implement this provision is \$2.86 billion for PSRS and \$245 million for PEERS. HB 650 was introduced by Representative Steve Cookson and was withdrawn.

HB 775 exempts information pertaining to the salaries and benefits of the executive director and employees of the Systems from being confidential.

HB 891 establishes a fixed statutory cost-of-living adjustment of 2% whenever the CPI is between 0% and under 5%, fixes a statutory COLA of 5% whenever the CPI is over 5% and eliminates the ability for the Systems to decrease the COLA in years in which the CPI is under 0%. This bill was introduced by Representative Steve Cookson. PWC estimates the PSRS cost to be \$2.46 billion and the PEERS cost to be \$245 million

SB 308 prohibits PSRS/PEERS and all public pension plans in Missouri from contracting with or investing in individuals, partnerships, corporations or other legal entities investing or doing business with Russia, or any territory occupied by Russia. The PSRS/PEERS Board of Trustees already has a policy to monitor all investments to comply with the U.S., and applicable non-U.S., economic sanction programs from the U.S. Treasury's Office of Foreign Assets Control (OFAC).

Ms. Walden also discussed other legislation the Systems are monitoring, which do not have direct impacts on the Systems. Following discussion, Mr. Hunt moved that the Board support legislation for the divorce popup (HB 304/SB 394), the legislation dealing with working after retirement and third-party consultant work (HB 305), and oppose any legislation that has a cost to the Systems or removes the Board's ability to use discretion when setting the Funding Policy or COLA. Ms. Heath seconded the motion. Voting "Aye"—Zalis, Hoffman, Heath, Hunt, and Steliga; "Nay"—None. The motion carried unanimously.

PSRS4675
PEERS2910

CAFR Review

Mr. Yoakum reviewed the *Comprehensive Annual Financial Report (CAFR)*, for the fiscal year ended June 30, 2016 with the Board. He discussed what to look for when reviewing a CAFR. A PDF version of the CAFR can be found on our website or a hard copy can be requested by contacting our office.

Public Comment

None

Other

Mr. Yoakum discussed the calculation of the Consumer Price Index (CPI) calculated by the Bureau of Labor Statistics (BLS). PSRS/PEERS' regulation requires that the time period for the CPI calculation is from June to June. Based on the values provided by the BLS, the CPI-U, which is used for COLA calculations, is up just 0.16% for the last six months (fiscal year 2017).

Closed Session

Mr. Hunt moved that the meeting continue in closed session to consider personnel issues, technology security issues, and legal matters under sections 610.021 (1), (13), (14), (21) and 169.020.15, RSMo. Mr. Hoffman seconded the motion. Voting "Aye"—Zalis, Hoffman, Heath, Hunt, and Steliga; "Nay"—None. The motion carried unanimously.

PSRS4676
PEERS2911

The following motions were made in closed session:

PSRS4677/PEERS2912 - Minutes (Zalis, Hoffman, Heath, Hunt, and Steliga; voting to approve the previous closed session minutes)

PSRS4678/PEERS2913 – Adjournment (Zalis, Hoffman, Heath, Hunt, and Steliga;

voting to adjourn closed session)

Adjournment
PSRS4679
PEERS2914

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