

REGULAR MEETING
BOARD OF TRUSTEES
OF
THE PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI
AND
THE PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI
October 25-26, 2009

MEMBERS PRESENT

Tina Zubeck, Chair
Wayne Wheeler
Yvonne Heath
Donald Cupps
Aaron Zalis
Scott Hunt

MEMBERS ABSENT

None

OTHERS PRESENT

M. Steve Yoakum, Executive Director
Craig Husting, AED, Investments
Dearld Snider, AED, Operations
Alan Thompson, General Counsel
Ronda Peterson, Dir. of Member Services
Lori Woratzeck, Chief Finan. Officer
Tom Smith, Dir. of Info. Technology
Jeff Russler, Dir. Employer Services
Janet Harris, Internal Auditor
Maria Walden, Legislative Dir.
Mary Hiatte, Executive Assistant

Investment Program Reviews – October 25, 2009

**Meeting
Convened**

The meeting convened at 6:10 p.m. – Board Members present were Zubeck, Cupps, Heath, Hunt and Wheeler. Also present were M. Steve Yoakum, Executive Director, Dearld Snider, Assistant Executive Director-Operations; Craig Husting, Assistant Executive Director-Investments; Frank Aten, Susan Conrad, Chhayhea Sam and Travis Allen, Investment Officers; Michael Hall of Russell Investment Group; and Mary Hiatte, Executive Assistant.

Mr. Husting reviewed the PSRS/PEERS portfolio structure as approved by the Board at the June, 2009, meeting. He reminded the Board that the new structure consists of three primary composites: (1) public risk assets (60%), (2) private risk assets (20%), and safe assets (20%).

Mr. Frank Aten reviewed the safe asset portfolio and strategy. He stated that the program is intended to create substantial diversification for the total fund, having low correlation to other asset classes. In addition, the securities in the safe asset portfolio exhibit high liquidity and safety.

Mr. Husting gave a brief overview of the hedged asset program. He indicated that the portfolio was formerly part of the Absolute Return Pool and that the program is intended to provide competitive returns, diversification, and lower volatility than the public risk asset composite. Mr. Travis Allen reviewed the process used to hire the

managers in this portfolio and the breakdown of the strategy allocations. Mr. Allen also reviewed the portfolio returns as well as the plans going forward.

Ms. Susan Conrad and Ms. Chhayhea Sam reviewed the global equity program, which is part of the Public Risk Program. They reviewed the allocation to each manager and the strategy going forward.

Mr. Frank Aten reviewed the credit bond program, which is part of the Public Risk Program. Mr. Aten reviewed the target allocation as well as the objectives and strategy of the credit bond program.

Adjournment The meeting adjourned at 7:00 p.m.

Board Meeting – October 26, 2009

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 Tina Zubeck, Donald Cupps, Yvonne Heath, Scott Hunt, Wayne Wheeler and Aaron Zalis, Board Members. Also present were M. Steve Yoakum, Executive Director; Dearld Snider, Assistant Executive Director, Operations; Alan Thompson, General Counsel; Craig Husting, Assistant Executive Director, Investments; Ronda Peterson, 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; Maria Walden, Legislative Director; various other PSRS/PEERS staff members; and Mary Hiatte, Executive Assistant.

New Trustees Mrs. Zubeck introduced and welcomed Donald Cupps and Scott Hunt to the Board. Mr. Hunt was appointed by Governor Nixon to replace Jim O'Donnell and Mr. Cupps was appointed to replace Joncee Nodler. Mrs. Zubeck also thanked Mr. O'Donnell and Mrs. Nodler for their service on the Board.

Approval of Minutes Mrs. Heath moved that the minutes from the August 31, 2009, meeting be approved. Dr. Zalis seconded the motion. Voting "Aye"—Zubeck, Cupps, Heath, Hunt, Wheeler and Zalis; "Nay"—None. The motion carried unanimously.
PSRS4219
PEERS2472

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

Election of Vice Chair Mrs. Heath moved that Mr. Wheeler be elected to serve as Vice Chair to replace Mr. O'Donnell. Mr. Hunt seconded the motion. Voting "Aye"—Zubeck, Cupps, Heath, Hunt, Wheeler and Zalis; "Nay"—None. The motion carried unanimously.
PSRS4220
PEERS2473

Budget/Audit Mrs. Zubeck pointed out that, with Mrs. Nodler now off the Board, there is a vacancy on the Budget and Audit Committee. Dr. Zalis offered to serve on the Committee. Mr. Wheeler moved that Dr. Zalis be appointed to the Budget and Audit Committee. Mr. Cupps seconded the motion. Voting "Aye"—Zubeck, Cupps, Heath, Hunt, Wheeler and Zalis; "Nay"—None. The motion carried unanimously.
PSRS4221
PEERS2474

Comment

Mr. Jim O'Donnell addressed the Board and staff concerning his three and one-half years of service on the Board of Trustees. Mr. O'Donnell indicated that it was a remarkably rewarding experience. He stated that he came onto the Board with all of the biases that people have with state government but that he quickly learned that the staff is professional throughout the entire organization. He also stated that the investment staff is particularly good, the system is professionally run, the people are sincere in their desire for the system to succeed and that Missouri teachers are very fortunate.

Investments**Activities Memo**

Mr. Craig Husting and Mr. Michael Hall reviewed the investment activities memo. Mr. Husting reviewed the recent investment market activity as well as the PSRS/PEERS investment returns for the first quarter of fiscal year 2010. He also updated the Board on the actual vs. policy asset allocation as well as a number of other issues including call option positions, real estate, private equity, the lending and recapture programs, the watch list and the tentative investment calendar.

Custody Search

Mr. Husting presented a recommendation to hire RV Kuhns as a specialty consultant to conduct a master custodian search. Following discussion, Mr. Wheeler moved that the staff be authorized to initiate a search for a master custodian, to hire RV Kuhns to assist in the search, and to adjust the budget by \$90,000 to cover the proposed fee. Mrs. Heath seconded the motion. Voting "Aye"—Zubeck, Cupps, Heath, Hunt, Wheeler and Zalis; "Nay"—None. The motion carried unanimously

PSRS4222
PEERS2475

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 global credit crisis has had a dramatic effect on real estate. He indicated that, with the recession, vacancies increase and rent declines. As a result, real estate values decline but they do see some signs of stability. Mr. Koch reviewed returns for the last year indicating that the portfolio underperformed the benchmark.

**Actuarial
Valuations**

Ms. Kim Nicholl and Mr. Brandon Robertson of PricewaterhouseCoopers presented the June 30, 2009, actuarial valuations for both PSRS and PEERS. Ms. Nicholl reported that the actuarial required contribution rate is 30.11% for PSRS and 13.26% for PEERS.

**Contribution
Rates**

Following a review and discussion of the results of the actuarial valuation, Ms. Nicholl recommended that the contribution rates be increased to 28% (the maximum allowed by statute) for PSRS and 13.26% for PEERS for the 2010-11 school year. Following discussion, Mr. Wheeler moved that the contribution rates for the 2010-11 school year be set at 28% for PSRS and 13.26% for PEERS as recommended by the actuary. Mrs. Heath seconded the motion. Voting "Aye"—Zubeck, Cupps, Heath, Hunt, Wheeler and Zalis; "Nay"—None. The motion carried unanimously.

PSRS4223
PEERS2476

**Auditor's
Report**

Ms. Heidi Chick and Ms. Amanda Gaither of Williams Keepers were present to discuss the audit which their firm had recently completed. 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. Gaither discussed the management letter. She indicated that they found no significant deficiencies or material weaknesses. She also discussed the need for the system to pursue the new

pension system which had been temporarily delayed due to the release of the vendor.

Management Report

Election Schedule PSRS4224 PEERS2477

Mrs. Heath moved that the schedule for the upcoming Board of Trustees election be approved. Dr. Zalis seconded the motion. Voting “Aye”—Zubeck, Cupps, Heath, Hunt, Wheeler and Zalis; “Nay”—None. The motion carried unanimously.

Vacant Position

Mr. Yoakum briefly discussed the seat on the Board which is currently vacant. He informed the Board that since there was exactly one year left in Peggy Preston’s term when she retired, it was not feasible to try to fill the position in the fall of 2009 and then have an election for the same position in the spring of 2010. Had there been more than a year remaining in the term, the system would have been required to hold an election to fill the position.

Pension System

Mr. Dearld Snider updated the Board on the timeline for hiring a vendor to replace the pension system. He indicated that he expects the staff will have a recommendation for the Board at the February 2010 meeting.

Public Comment

Mr. Roger Kurtz, Executive Director of the Missouri Association of School Administrators, stated that school administrators are concerned with the contribution rate. He requested the Board actively seek a legislative change to require the purchase of credit to be cost neutral of the Systems. He stated that he believed such a change would have a larger impact on the funding of the system than a contribution rate increase.

Mrs. Zubeck informed the Board that she, Mrs. Heath, and Mr. Wheeler had recently attended the National Council on Teacher Retirement annual conference and that she thought it was one of the best conferences NCTR had done. She felt the speakers and information provided were very good in a difficult time. Mr. Wheeler added that it reaffirmed that pension systems throughout the nation are facing the same issues and that benefits, especially COLAs, are now more expensive than systems can afford.

Closed Session PSRS4225 PEERS2478

Mrs. Heath 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) and (3), RSMo. Mr. Hunt seconded the motion. Voting “Aye”—Zubeck, Cupps, Heath, Hunt, Wheeler and Zalis; “Nay”—None. The motion carried unanimously.

Motion No. PSRS4226 and PSRS4227 were made in closed session.
Motion No. PEERS2479 and PEERS2480 were made in closed session.

Adjournment

The meeting adjourned at the end of closed session.