

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

October 27-28, 2013

MEMBERS PRESENT

Aaron, Zalis, Chair
Jason Hoffman
Susan McClintic
Yvonne Heath
Scott Hunt
Bill Compere
Wayne Wheeler

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
Gary Fowler, Project Manager
Jeff Russler, Dir. of Emp. Services
Ronda Peterson, Dir. of Member Serv.
Nicole Hamler, Dir. Admin Planning

Sunday, October 27, 2013

**Meeting
Convened**

The meeting of the Board of Trustees convened at 5:30 p.m. at the Retirement System offices in Jefferson City, Missouri. In attendance were Aaron Zalis, Bill Compere, Jason Hoffman, Wayne Wheeler, Scott Hunt and Susan McClintic, Board Members. Yvonne Heath, Board Member, was present via telephone. 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; Nicole Hamler, Director of Administrative Planning and Design; and various other PSRS/PEERS staff members.

Investments

**Private Equity
Co-Investments**

Mr. Craig Husting, Mr. John Tuck and Mr. Dan Case, Investment Staff, reviewed the Private Equity Co-Investment Program with the Board. Mr. Case gave an overview of the program while Mr. Tuck reviewed the potential benefits and risks for Limited Partners (L.P's). Mr. Husting explained to the Board that there is a heavy reliance on Pathway and existing partnerships for due diligence on co-investments. Mr. Tuck reviewed the private equity pacing plan for FY2014 through FY2016 and also the implementation strategy of the co-investment program going forward.

**Credit
Program**

Mr. Frank Aten and Ms. Jessica Kuebler, Investment Staff, reviewed the current portfolio structure with the Board and updated them on the Credit Program. The target allocation for the credit program is 12%. As of September 30, 2013, the allocation was 7.67%, or \$2.6 billion. The staff reviewed the actual investments in this program as well as the managers and investment returns. Ms. Kuebler also discussed the credit strategy going forward.

**Non-US
Equity**

The Investment Staff also updated the Board on the Non-U.S. Equity Program. The target allocation for the Non-U.S. Equity Program is 15% with a range of 8% to 28%. As of September 30, 2013, the allocation was 16.0%, or \$5.5 billion. Staff reviewed the activity over the last year, current manager allocations, manager allocation changes, country exposure, investment returns as well as the strategy going forward.

Closed Session

PSRS4454
PEERS2691

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

Motion No. PSRS4455 was made in closed session.

Motion No. PEERS2692 was made in closed session.

Adjournment

PSRS4456
PEERS2693

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

Monday, October 28, 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, Bill Compere, Jason Hoffman, Scott Hunt and Susan McClintic, Board Members. Yvonne Heath, Board Member, was present via telephone. Also present were M. Steve Yoakum, Executive Director; Craig Husting, Assistant Executive Director, Investments; Derald Snider, Assistant Executive Director, Operations; Alan Thompson, General Counsel; Lori Woratzeck, Chief Financial Officer; Jeff Russler, Director of Employer Services; Ronda Peterson, Director of Member Services, Maria Walden, Director of Legislation and Policy; Jeff Hyman, Internal Auditor; Gary Fowler, Project Manager; Nicole Hamler, Director of Administrative Planning and Design; and various other PSRS/PEERS staff members.

**Approval of
Minutes**

PSRS4457
PEERS2694

Mr. Wheeler moved that the minutes from the August 25-26, 2013 meeting be approved. Ms. McClintic seconded the motion. Voting “Aye”— Zalis, Compere, Heath, Hoffman, Wheeler, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

**Order of
Business**

The order of business was approved with no changes.

Recognition	Mr. Yoakum presented a plaque to Mr. Joseph Llewellyn recognizing his recent retirement from PSRS/PEERS.
<u>Investments</u>	
Ongoing Investment Activity	Mr. Craig Husting reviewed ongoing investment activities, which included the fiscal year-to-date return of approximately 4.3% as of September 30, 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 provided an update on the securities lending and commission recapture programs and the real estate and private equity portfolios. He also reviewed the tentative Board investment calendar.
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 2013. During the proxy voting review process, PSRS/PEERS staff confirmed that all investment managers are in compliance with the Policy.
Real Estate	Mr. Jack Koch and Mr. Seth Marcus were present from the Townsend Group to review the second quarter 2013 real estate portfolio performance. Mr. Koch gave a brief overview of the current real estate market. He reported that the United States and Latin America real estate markets remain relatively favorable while the outlook in Europe has changed from negative to neutral. The Asian-Pacific real estate market has also shifted from neutral to slightly positive. Mr. Marcus discussed the PSRS/PEERS real estate portfolio highlights, in which the target allocation is 7.5% and the Systems' 2Q13 market value represents 7.7% of total plan assets. Mr. Marcus explained that the portfolio continues to deliver strong returns outperforming over the last quarter, one, two, three and four-year time periods, gross of fees.
<u>Report of External Auditor</u>	
Audit Report	Ms. Heidi Chick of Williams Keepers was present to discuss the recent June 30, 2013, audit of the retirement systems. Ms. Chick indicated that Williams Keepers had issued an 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. Ms. Chick also briefly discussed the changes in pension accounting which will be required by the Governmental Accounting Standards Board (GASB) in 2014 (GASB 67) and 2015 (GASB 68). Ms. McClintic moved that the audit report be accepted as recommended by the Budget and Audit Committee and as presented to the Board. Mr. Hunt seconded the motion. Voting "Aye"—Zalis, Wheeler, Compere, Hoffman, Heath, Hunt and McClintic; "Nay"—None.
<u>PSRS4458</u> <u>PEERS2695</u>	The motion carried unanimously.

Actuarial Report

2013 Valuation

Mr. Brandon Robertson and Mr. Sheldon Gamzon from PricewaterhouseCoopers (PwC) were present to discuss the results of the June 30, 2013 actuarial valuations for the systems. Mr. Robertson reviewed the changes in membership, assets, liabilities and the funded status of each system. He reported that the June 30, 2013, funded status of PSRS was 80.1% and PEERS was 81.6%. The current market value of assets is higher than the actuarial value of assets because there is approximately \$1 billion in gains not recognized due to the smoothing method used. He also explained that after this year the funded status will increase because all 2009 losses will be fully recognized. Mr. Robertson stated that the funding stabilization policy implemented by the Board in 2011 is working as intended and the Systems will be fully funded in 19 years if the current contribution rates are held constant. Mr. Robertson discussed PwC's recommendation that the contribution rates for 2014-15 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. Hoffman seconded the motion. Voting "Aye"—Zalis, Wheeler, Compere, Hoffman, Heath, Hunt and McClintic; "Nay"—None. The motion carried unanimously.

PSRS4459
PEERS2696

Management Report

Board Election PSRS4460 PEERS2697

IVII. Hunt moved that the schedule for the PSRS/PEERS trustee election be approved. Ms. McClintic seconded the motion. Voting "Aye"—Zalis, Wheeler, Compere, Hoffman, Heath, Hunt and McClintic; "Nay"—None. The motion carried unanimously.

Pension Project

Mr. Dearld Snider and Gary Fowler, Project Manager were present to give a status report to the Board on the pension project. An Oasis training video was played for the Board, which explains the benefits of Phase 1. Mr. Snider reviewed the project milestones. He also discussed the project extension from Jan 2014 until Oct 2014 and the benefits the extension has for PSRS/PEERS.

Public Comment

Mr. Yoakum addressed the Board and audience on the Pew Institute and Arnold Foundation conference he attended October 23-25, 2013. The conference was invitation only with 700 attendees invited and 175 participating. The attendees ranged from academic researchers, state legislatures and treasurers, and pension CEOs. The overall theme of the conference was pushing the idea of a "pension crisis". Topics included discussions about the 48 states that have made some type of changes to their DB plans, building pension wealth and conversion of DB to DC plans. Mr. Yoakum explained that there is a real threat from these group's agendas and the discussion taking place regarding mandatory Social Security coverage. He also expressed concern that Pew has hired three lobbyists here in Missouri and have already visited with individuals at the Capitol.

Closed Session

Ms. McClintic moved that the meeting continue in closed session to consider member appeals and legal matters under sections 610.021 (1), (14), (20) and 169.020.15, RSMo. Mr. Hunt seconded the motion. Voting "Aye"—Zalis, Wheeler,

PSRS4461
PEERS2698

Compere, Hoffman, Heath, Hunt and McClintic; “Nay”—None. The motion carried unanimously.

Motion No. PSRS4462 through PSRS4469 were made in closed session.
Motion No. PEERS2699 through PEERS2706 were made in closed session.

Adjournment
PSRS4470
PEERS2707

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