

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

October 26-27, 2014

MEMBERS PRESENT

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

MEMBERS ABSENT

Scott Hunt

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 26, 2014

**Meeting
Convened**

The meeting of the Board of Trustees convened at 6:45 p.m. at the Retirement System offices in Jefferson City, Missouri. In attendance were Aaron Zalis, Jason Hoffman, Wayne Wheeler, and Susan McClintic, Board Members. Bill Compere, Board Member, was present via telephone. Mr. Scott Hunt, Board Member, was absent. 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

**Credit
Program**

Mr. Frank Aten and Ms. Jessica Wilbers, 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, 2014, the allocation was 8.12%, or approximately \$3.0 billion. The staff reviewed the actual investments in this program as well as the managers, investment returns and credit strategy allocation changes. Additionally, staff reviewed the PIMCO Core Plus transition timeline. Mr. Aten discussed the fixed income index yields and spreads and Ms. Wilbers reviewed the credit strategy going forward.

**Non-US
Equity**

Mr. Frank Aten and Ms. Chhayhea Sam, Investment Staff, 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, 2014, the allocation was 15.01%, or approximately \$5.6 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.

**Employee
Health Benefit
Discussion**

Mr. Dearld Snider, Assistant Executive Director, Operations, discussed other aspects of self-funding for the organization. The self-funding approach is already used in employee's health insurance but could also be adopted in several other areas. One area discussed is the stop loss coverage on health insurance as well as other lines of insurance such as dental, automobile and blue chip policies. Mr. Snider explained that staff is not making any recommendations at this time as there would need to be further discussion of risk management. Any changes would take place in September 2015 or January 2016.

Adjournment
PSRS4516
PEERS2753

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

Monday, October 27, 2014

**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, Jason Hoffman, Wayne Wheeler and Susan McClintic, Board Members. Bill Compere, Board Member, was present via telephone. Mr. Scott Hunt, Board Member, was absent. 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; 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**
PSRS4517
PEERS2754

Ms. McClintic moved that the minutes from the August 24-25, 2014 meeting be approved. Ms. Heath seconded the motion. Voting "Aye"—Zalis, Hoffman, Compere, Heath, McClintic and Wheeler; "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 Ms. Karen Jones recognizing his recent retirement from PSRS/PEERS.

Investments

**Ongoing
Investment**

Mr. Craig Husting and Mr. Michael Hall reviewed ongoing investment activities, which included the fiscal year-to-date return of approximately -0.2% as of

Activity September 30, 2014. 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 but one for fiscal year 2014. The one investment manager has remedied operational issues experienced during fiscal year 2014. During the proxy voting review process, PSRS/PEERS staff confirmed that all other investment managers are in compliance with the Policy.

Anti-Terrorism Policy Mr. Husting discussed that the Office of Foreign Assets Control (OFAC) is now recommending retirement plans develop an OFAC compliance program regarding economic and trade sanctions. Therefore, staff recommends the following changes to the current PSRS/PEERS Anti-Terrorism Policy: to proactively obtain a letter of compliance confirmation from each PSRS/PEERS manager and the Systems' master custodian, amend manager contracts where applicable and all future contracts, and rename the policy to the *Anti-Terrorism and Economic Sanctions Investment Policy*. Mr. Wheeler moved that the changes to the Anti-Terrorism Policy as recommended by staff be approved. Ms. McClintic seconded the motion. Voting "Aye"—Zalis, Hoffman, Compere, Heath, McClintic and Wheeler; "Nay"—None. The motion carried unanimously.

PSRS4518
PEERS2755

Affirmative Action Policy Mr. Husting reviewed recent legislation (HB 1182) and current MO Statue which requires all Missouri pension plans to develop a procurement action plan for utilization of minority and women owned money managers, brokers, and investment counselors (contractors) and to report progress annually to the Joint Committee on Public Employee Retirement (JCPER). Mr. Husting discussed with the Board the following recommendations to the current PSRS/PEERS Affirmative Action Policy: codify procedures and reporting related to minority and women owned contractors, require an annual report to the Board of Trustees and the JCPER, and formally adopt the Policy as Appendix XI of the *PSRS/PEERS Investment Policy*. Ms. McClintic moved that the changes to the Affirmative Action Policy as recommended by staff be approved. Ms. Heath seconded the motion. Voting "Aye"—Zalis, Hoffman, Compere, Heath, McClintic and Wheeler; "Nay"—None. The motion carried unanimously.

PSRS4519
PEERS2756

Real Estate Mr. Jack Koch and Mr. Seth Marcus were present from the Townsend Group to review the second quarter 2014 real estate portfolio performance. Mr. Koch gave a brief overview of the current global real estate market. Mr. Marcus discussed the PSRS/PEERS real estate portfolio highlights, in which the target allocation is 7.5% and the Systems' 2Q14 market value represents 7.0% of total plan assets. Mr. Marcus explained that the real estate portfolio continues to deliver strong returns and outperformance versus the benchmark. The 2014 investment themes and the commitment/funding update were also discussed with the Board.

Actuarial Report

2014 Valuation

Mr. Brandon Robertson, Ms. Cindy Fraterrigo, and Mr. Sheldon Gamzon from PricewaterhouseCoopers (PwC) were present to discuss the results of the June 30, 2014 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, 2014, funded status of PSRS was 82.8% and PEERS was 85.1%. The current market value of assets is higher than the actuarial value of assets because there are gains not recognized due to the smoothing method used. 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 24.2 years if the current contribution rates are held constant. Mr. Robertson discussed PwC's recommendation to maintain the contribution rates for 2015-16 at the current levels. Following a discussion, Mr. Hoffman moved that the contribution rate for PSRS remain at 29% and PEERS remain at 13.72% as recommended by the actuary. Ms. McClintic seconded the motion. Voting "Aye"—Zalis, Hoffman, Compere, Heath, McClintic and Wheeler; "Nay"—None. The motion carried unanimously.

PSRS4520
PEERS2757

At 10:30 Ms. McClintic excused herself from the Board meeting due to a prior commitment.

Management Report

Pension Project

Mr. Dearld Snider and Gary Fowler, Project Manager were present to give a status report to the Board on the pension project. Mr. Snider reviewed the weeks leading up to Go-Live, which included retiring the AS400 and what the plan was for the current week. PSRS will start processing a select number of transactions within multiple areas this week. Mr. Snider explained that Monday, November 3rd is Oasis go-live date and PSRS staff will continue to check most transactions and Sagitec will have employees in each section to assist with operation.

Public Comment

Ms. Carol Weatherford representing MNEA and MNEA-Retired expressed appreciation to all educational groups in their effort to defeat Amendment 3 and reminded everyone to vote on November 4.

Closed Session PSRS4520 PEERS2757

Mr. Wheeler 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. Ms. Heath seconded the motion. Voting "Aye"—Zalis, Hoffman, Compere, Heath and Wheeler; "Nay"—None. The motion carried unanimously.

Motion No. PSRS4521 through PSRS4524 were made in closed session.
Motion No. PEERS2758 through PEERS2761 were made in closed session.

Adjournment PSRS4525 PEERS2762

Ms. Heath moved that the meeting adjourn. Mr. Hoffman seconded the motion. Voting "Aye"—Zalis, Hoffman, Heath and Wheeler; "Nay"—None. The motion carried unanimously.