



PUBLIC SCHOOL & EDUCATION EMPLOYEE  
RETIREMENT SYSTEMS OF MISSOURI

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October 17, 2016

## NEWS RELEASE

The Budget and Audit Committee of the Board of Trustees of the Public School and Education Employee Retirement Systems of Missouri will meet on October 24, 2016, at the retirement system offices, 3210 W. Truman Boulevard, Jefferson City, Missouri. The meeting will begin at 8:00 a.m. and will include reports from staff and external auditor.

The Board of Trustees will meet in regular session beginning at 8:45 a.m. The meeting will include reports from the management and investment staff. A closed session to discuss legal and personnel matters under 610.021 (1), (3), (13), and (14) and 169.020.17, RSMo is scheduled for 1:30 p.m.

Board Members are: Dr. Aaron Zalis, Chair, Rolla; Mr. Jason Hoffman, Vice Chair, Columbia; Ms. Yvonne Heath, Bois D'Arc; Mr. Scott Hunt, Manchester; Ms. Martha Harris, Jefferson City; Mr. Jason Steliga, Kansas City and Mr. Ronald Medin, Jefferson City.

**AGENDA - BOARD OF TRUSTEES**  
**THE PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI**  
**AND**  
**THE PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI**  
**October 24, 2016**

**BUDGET AND AUDIT COMMITTEE MEETING –8:00 a.m.**

- \* A. Approval of the minutes of September 7, 2016
- \* B. Review of the June 30, 2016 Audit Report
- C. Other

**Board Meeting**

**I. SYSTEM OPERATIONS – 8:45 a.m.**

- \* A. Approval of the minutes of June 14, 2016
- B. Order of Business (Jeff Russler)
- C. Other

**II. INVESTMENTS – 9:00 a.m.**

- A. Ongoing Investment Activity
- B. Proxy Voting Policy
- C. Asset Class Reports
  - 1. Safe Assets
  - 2. Credit Bonds
  - 3. Hedged Assets
  - 4. Non-U.S. Equity
- D. Annual Real Estate Review

*(Break)*

**III. REPORT OF EXTERNAL AUDITOR – 11:45 a.m.**

- \* A. Review of the June 30, 2016 Audit Report

**IV. REPORT OF ACTUARY – 12:00 p.m.**

- A. 6/30/16 Valuation
- \* B. Set Contribution Rate for 2017-18

**V. MANAGEMENT REPORT – 12:45 p.m.**

- \* A. Review Mailing Policy
- B. Public Comment
- C. Other

*(lunch)*

**VI. CLOSED SESSION – 1:30 p.m.**

- \* A. Approval of Closed Session Minutes of September 7, 2016
- \* B. Member Appeals - Gremaud- FAS Compensation Cap
- C. Legal Report
- D. Internal Controls Report
- \* E. Personnel Report

**VII. ADJOURNMENT –3:00 p.m.**

*\*Action Items*

REGULAR MEETING

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

**October 24, 2016**

**MEMBERS PRESENT**

Aaron Zalis, Chair  
Jason Hoffman, Vice Chair  
Martha Harris  
Scott Hunt  
Yvonne Heath  
Ronald Medin  
Jason Steliga

**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  
Anita Brand, Chief Finan. Officer  
Jeff Hyman, Internal Auditor  
Bill Betts, Chief Technology Officer  
Maria Walden, Legislative Director  
Omar Davis, Dir. of Emp. Services  
Nicole Hamler, Dir of Admin Design

**Meeting  
Convened**

The meeting of the Board of Trustees convened at 8:45 a.m. in the Retirement System offices in Jefferson City, Missouri. In attendance were Aaron Zalis, Yvonne Heath, Jason Hoffman, Martha Harris, Ron Medin, and Jason Steliga, Board Members. Scott Hunt, Board Member, was present on conference call. Also present were M. Steve Yoakum, Executive Director; Craig Husting, Assistant Executive Director, Investments; Dearld Snider, Assistant Executive Director, Operations; Alan Thompson, General Counsel; Anita Brand, Chief Financial Officer; Omar Davis, Director of Employer Services, Maria Walden, Director of Legislation and Policy; Jeff Hyman, Internal Auditor; Bill Betts, Chief Technology Officer; Nicole Hamler, Director of Administrative Planning and Design; and various other PSRS/PEERS staff members.

**Approval of  
Minutes  
PSRS4653  
PEERS2888**

Ms. Heath moved that the minutes from the September 7, 2016 meeting be approved. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Hoffman, Harris, Heath, Hunt, Medin, and Steliga; “Nay”—None. The motion carried unanimously.

**Order of  
Business**

The order of business was approved with no changes.

**Investments  
Ongoing  
Investment  
Activity**

Mr. Craig Husting and Mr. Michael Hall, Towers Watson, reviewed ongoing investment activities, which included the fiscal year-to-date return of approximately 2.8% as of September 30, 2016. 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 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 2016. During the proxy voting review process, staff confirmed that all investment managers are in compliance with the Policy.

**Safe Assets**

Mr. Frank Aten and Ms. Jessica Wilbers, Investment Staff, reviewed the Safe Assets Program with the Board. The portfolio structure and the total portfolio target allocation were reviewed. The Safe Asset performance for Fiscal Year 2016 was discussed as well as current and future strategies.

**Credit Program**

Mr. Aten and Ms. Wilbers reviewed the current portfolio structure with the Board and updated them on the Credit Program. The long-term target allocation for the Credit program is 7%. As of June 30, 2016, the allocation was 6.23%, or approximately \$2.4 billion. The staff reviewed the actual investments in this program as well as the managers, investment returns, and credit strategy allocation changes. Mr. Aten discussed the fixed income index yields and spreads; Ms. Wilbers reviewed the credit strategy going forward.

**Hedged Assets**

Mr. John Tuck and Mr. Travis Allen, Investment Staff, updated the Board on the Hedged Asset portfolio. They discussed the role of Hedged Assets within the Public Risk asset composite. Specifically, they discussed the unique characteristics of Hedged Assets versus other Public Risk Programs. Mr. Tuck and Mr. Allen also reviewed the Hedged Asset investment strategy, allocations, and returns. The Alpha Overlay program update was also given. Objectives going forward for both Programs were reviewed.

**Non-US Equity**

Mr. 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 June 30, 2016 the allocation was 15.37%, or approximately \$5.9 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.

**Real Estate**

Mr. Jack Koch and Mr. Seth Marcus were present from the Townsend Group to review the second quarter 2016 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 9.0% and the Systems' 2Q16 market value represents 7.9% of total plan assets. Mr. Marcus explained that the real estate portfolio continues to deliver strong returns and outperformance versus the benchmark. The 2016 investment themes and the commitment/funding update were also discussed with the Board.

## **Annual Audit and Actuarial Timeline**

Ms. Anita Brand, Chief Financial Officer, reviewed the annual audit and actuarial timeline with the Board. She discussed the annual financial reports timeline, contribution and actuary data key dates, investment value key dates, and the CAFR production timeline.

## **Audit Report**

Ms. Heidi Chick of Williams Keepers was present to discuss the recent June 30, 2016 audit of the Retirement Systems. Ms. Chick indicated that Williams Keepers had issued an unqualified audit opinion on the June 30, 2016 financial statements. Ms. Chick indicated an unqualified audit opinion represents the following: the “highest opinion” available, the financial statements are fairly presented in all material respects in accordance with U.S. Generally Accepted Accounting Principles and that the financial statements can be relied upon. Ms. Chick briefly reviewed the audit process, financial statements, new accounting pronouncements, the footnotes, as well as the management letter. She indicated they found no significant deficiencies or material weaknesses in internal controls. Ms. Chick also briefly discussed the Governmental Accounting Standards Board Statement No. 68 audit. She reviewed the roles of PSRS/PEERS’ staff and Williams Keepers during this process and the joint effort made with the school districts. Mr. Hoffman moved that the audit report be accepted as recommended by the Budget and Audit Committee and as presented to the Board. Mr. Medin seconded the motion. Voting “Aye”—Zalis, Hoffman, Harris, Heath, Hunt, Medin, and Steliga; “Nay”—None. The motion carried unanimously.

PSRS4654  
PEERS2889

## **2016 Valuation**

Mr. Brandon Robertson, Ms. Cindy Fraterrigo and Ms. Kelly Stolyar from PricewaterhouseCoopers (PwC) were present to discuss the results of the June 30, 2016 actuarial valuations for the systems. Mr. Stolyar reviewed the changes in membership, assets, liabilities, and the funded status of each System. She reviewed the revised actuarial assumptions approved by the Board of Trustees that were effective with the June 30, 2016 valuations. The revised actuarial assumptions were a result of the asset/liability study and experience studies conducted the past year. She reported that the June 30, 2016, pre-funded status based on the actuarial value of assets of PSRS was 84.8% and PEERS was 86.4%. The current market value of assets is lower than the actuarial value of assets because there are losses still to be recognized due to the smoothing method used. The June 30, 2016 pre-funded status based on the market value of assets of PSRS was 82.2% and of PEERS was 83.3%. Mr. Robertson discussed projections of contribution rates, funded status and the sensitivities of both to the overall investment returns for the plans. Mr. Robertson also discussed PwC’s recommendation to maintain the contribution rates for 2017-18 at the current levels. Following a discussion, Mr. Steliga 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, Hoffman, Harris, Heath, Hunt, Medin, and Steliga; “Nay”—None. The motion carried unanimously.

PSRS4655  
PEERS2890

Dr. Zalis stated that the Board understands the importance of the COLA to the retirees and sympathizes with the impact this COLA decision has on each retiree personally. He expressed that the COLA changes were a difficult decision for the Board over the last year as they reviewed the information regarding mortality,

investment assumptions and overall funding. Ms. Harris made a motion that a resolution be drafted for PwC to include the full cost of reinstating the COLA both to previous policy and actuals each year when they make the COLA recommendation and prepare the actuarial valuation to determine future contribution rates. Ms. Heath seconded the motion. Voting “Aye”—Zalis, Hoffman, Harris, Heath, Hunt, Medin, and Steliga; “Nay”—None. The motion carried unanimously.

PSRS4656  
PEERS2891

## **Management Report**

### **Mailing Policy**

Mr. Alan Thompson, General Counsel, reviewed the memo regarding third party mailing with the Board. He discussed the results of surveys through National Association of Public Pension Attorneys (“NAPPA”) and the National Association of State Retirement Administrators (“NASRA”) dealing with the issue of assisting third parties with mailing information and material to members and retirees. The vast majority of survey respondents did not assist with a mailing. Mr. Thompson recommended discontinuing the assistance of third party mailings from a risk avoidance standpoint. Mr. Steve Yoakum, Executive Director, read an email received from Sandy Applegate, President, MRTA, asking the mailing decision be postponed. She requested time for MNEA-R, MSTA, and MRTA to work together to send out one letter to all new retirees. Ms. Applegate stated that the letter would encourage retirees to join the organization or organizations of their choice in a joint effort to combat the forces that are attacking the system. She also indicated that there would be a disclaimer that this is a “one time” mailing and that no information is gathered unless a person actually joins an organization. Mr. Ron Medin made a motion to table the mailing decision until further notice from the educational associations. Mr. Hoffman seconded and requested that Mr. Thompson begin working on a policy for this request. Voting “Aye”—Zalis, Hoffman, Harris, Heath, Hunt, Medin, and Steliga; “Nay”—None. The motion carried unanimously.

PSRS4657  
PEERS2892

### **Public Comment**

None

### **Closed Session**

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

PSRS4658  
PEERS2893

The following motions were made in closed session:

PSRS4659/PEERS2894 - Minutes (Zalis, Hoffman, Harris, Heath, Hunt, Medin, and Steliga; voting to approve the previous closed session minutes)

PSRS4660/PEERS2895 – Member Appeal (Zalis, Hoffman, Harris, Heath, Hunt, Medin, and Steliga; voting to deny the member appeal)

PSRS4661/PEERS2896 – Personnel/Legal Issue (Zalis, Hoffman, Harris, Heath, Hunt, Medin, and Steliga; voting to continue legal and accounting research)

PSRS4662/PEERS2897 – Adjournment (Zalis, Hoffman, Harris, Heath, Hunt, Medin, and Steliga; voting to adjourn closed session )

**Adjournment**  
PSRS4663  
PEERS2898

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