REGULAR MEETING

BOARD OF TRUSTEES

OF

THE PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI

AND

THE PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI

April 15, 2019

MEMBERS PRESENT
Aaron, Zalis, Chair
Jason Hoffman, Vice-Chair
Chuck Bryant
Beth Knes
Yvonne Heath
Scott Hunt
Jason Steliga

MEMBERS ABSENT
Steve Yoakum, Exec. Director
Craig Husting, Asst. Exec. Dir., Invest.
Sarah Swoboda, General Counsel
Anita Brand, Chief Finan. Officer
Bill Betts, Chief Technology Officer
Maria Walden, Legislative Director
Nicole Hamler, Dir. of Member Serv.
Omar Davis, Dir. of Employer Serv.
Stacie Verslues, Dir. Admin Design

OTHERS PRESENT

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 Board members Aaron Zalis, Jason Hoffman, Chuck Bryant, Yvonne Heath, Scott Hunt, Beth Knes and Jason Steliga. Also present were Executive Director, M. Steve Yoakum; Assistant Executive Director, Investments, Craig Husting; Assistant Executive Director, Operations, Dearld Snider; General Counsel, Sarah Swoboda; Chief Financial Officer, Anita Brand; Director of Employer Services, Omar Davis; Director of Member Services, Nicole Hamler; Director of Legislation and Policy, Maria Walden; Director of Internal Audit, Jeff Hyman; Chief Technology Officer, Bill Betts; Director of Administrative Planning and Design, Stacie Verslues; and various other PSRS/PEERS staff members.

Mr. Steliga moved that the minutes from the February 11, 2019 meeting be approved as presented. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Order of Business
None

Election of Chair
Mr. Bryant nominated Dr. Aaron Zalis to serve as Chair of the Board for the period July 1, 2019 through June 30, 2020. Mr. Hoffman seconded the motion.
Election of Vice Chair

PSRS4821 PEERS3056

Mr. Steliga nominated Mr. Jason Hoffman to serve as Vice Chair of the Board for the period July 1, 2019 through June 30, 2020. Mr. Bryant seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Interest Credit Rate

PSRS4822 PEERS3057

Ms. Anita Brand reviewed the process for setting the interest rate credited to member accounts each June 30. Previously, the Board set the interest rate in April that would be used when adding interest to the member accounts on June 30 of that year.

However, the Board of Trustees approved an amendment to the interest rate regulation in August 2018. The amendment allows the Board to set the interest rate to be used in the next fiscal year, and therefore interest will be posted at the end of the next fiscal year using that rate. Ms. Brand discussed that this amendment and change in procedure alleviates administrative issues, especially related to corrections, that arise when the interest rate changes from one year to the next. To implement the amended regulation this first year, the Board approved the interest rate for both the fiscal year 2018-2019 and fiscal year 2019-2020.

Following discussion, Mr. Hoffman moved that the interest credit rate be set at 2% for June 30, 2019. Ms. Heath seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

PSRS4823 PEERS3058

Mr. Hunt moved that the interest credit rate be set at 2% for June 30, 2020. Mr. Steliga seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Investments Ongoing Investment Activity

PSRS4824 PEERS3059

Mr. Craig Husting from PSRS/PEERS and Mr. Barry Dennis from Verus reviewed ongoing investment activities, which included the estimated 2019 fiscal year-to-date return of 3.3% as of March 31, 2019. Mr. Husting discussed the current asset allocation of the PSRS/PEERS portfolio, in which he reviewed the long-term strategy, portfolio themes and the broad portfolio expectations. Mr. Husting also reviewed the tentative board investment calendar.

Real Estate Portfolio

PSRS4820 PEERS3055

Ms. Susan Conrad and Ms. Chhayhea Sam from PSRS/PEERS reviewed the Systems’ Real Estate portfolio including program objectives, guidelines, and long-term results. The five-year annualized return for the Real Estate composite for the period ended December 31, 2018 was 10.8%.
Mr. Doug LeBon, Mr. Vincent Dee, and Mr. John Ruggieri from Pathway Capital Management (the Systems’ Private Equity Consultant), presented a number of items to the Board, including: an organizational update of Pathway; a review of the private market environment; an update on the PSRS/PEERS’ Private Equity, Private Credit and Co-investment portfolios that Pathway consulted on; recent commitments; and, an investment plan for calendar year 2019. Pathway reported that the PSRS/PEERS’ Private Equity portfolio (that Pathway consulted on) had produced an annualized return of 15% for the 10-year period ended December 31, 2018 relative to the Russell 3000 public equity benchmark of 13.2%.

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 the March 2019 state revenue to the Board.

Ms. Maria Walden of PSRS/PEERS 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:

**House Bill (HB) 69** allows active PSRS members who have more than 31 years of service to retire with a benefit factor of 2.55% instead of the current benefit factor of 2.5%.

**House Bill (HB) 77** and **Senate Bill (SB) 17** allow all PSRS retirees who return to work for community colleges to be covered under the 550 hours and 50% of salary statutory work limits (this exempts them from the $15,000 salary/no hourly limit provision passed last session).

HB 77 was truly agreed to and finally passed by the Missouri General Assembly on April 4, 2019. This bill contains an emergency clause, which means that the bill will take effect as soon as the governor signs the bill. Because we are in the middle of session, the governor has 15 days to sign or veto any bill that is truly agreed to and finally passed. The bill was sent to the governor on April 9, 2019.

**House Bill (HB) 201** requires that each public pension plan in Missouri provide a pension statement to members annually.

**House Bill (HB) 362** increases the annual cap on the number of hours a retired teacher may serve as a substitute teacher without impacting the payment of his or her retirement benefits from 550 hours to 700 hours per school year.

**House Bill (HB) 459** repeals a provision that allows a PSRS retiree to be employed in a position covered by PEERS and earn up to 60% of the minimum teacher’s salary as set forth in Section 163.172 RSMo.

**House Bill (HB) 723** allows any retiree who selects a Joint-and-Survivor benefit plan and has a subsequent divorce, or any retiree who has already been divorced, to get a benefit “pop-up” to the Single Life benefit plan amount upon receipt of an application by PSRS/PEERS, as long as certain criteria is met.

**House Bill (HB) 864** creates a Defined Contribution Option for all PSRS members.
House Bill (HB) 1011 creates the “Anti-Discrimination Against Israel Act.”

Ms. Walden also discussed other legislation the Systems are monitoring, which do not have a direct impact on the Systems.

Actuarial Services

Ms. Brand discussed the current contract and history with our actuary, PricewaterhouseCoopers (PwC). PwC’s initial contract was renewed through negotiation for an additional five years through the fiscal year 2018 engagements. As discussed in February 2019, staff negotiated new contract terms with PwC. The new terms extend the contract for five years. The Systems retain the ability to terminate the contract if the Board desires to in the future. Staff recommended the Board renew PwC’s contract for an additional five years based on the new terms. Staff also recommended that an actuarial audit be done every five years instead of ten. Ms. Knes motioned to renew PwC’s contract for an additional five years and perform an actuarial audit every five years. Ms. Heath seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Board Governance

Mr. Steve Yoakum, Mr. Husting and Ms. Brand reviewed the two items from the Board Governance Report that were deferred from the February 2019 Board Meeting. After review of the proposed changes, staff recommended that the Board retain authority to approve specialty and asset class consultants. Based on the Cortex recommendation, staff revised the Board of Trustees’ Ethics Policy and recommend that it be included in the Board Governance Policies. Mr. Hunt motioned to approve the policies as presented. Mr. Steliga seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Facility Renovation

Mr. Snider presented on our current renovation timeline and our process for selecting a Construction Manager at Risk (CMAR). Mr. Snider reported that all firms interviewed were extremely qualified, but ultimately, we have chosen River City Construction. River City has a strong presence in Missouri and has recently completed such projects as the South Providence Medical Building with University of Missouri Healthcare and the Fulton State Hospital.

Member Services - Member Education Update

Director of Member Services, Ms. Nicole Hamler and Member Education Supervisor, Ms. Amanda Wooten, presented an update on Member Education, a section within the Member Services Department. Ms. Hamler gave a general overview of the section and the different programs offered by Member Education. Ms. Wooten discussed in detail Web Counseling, which has been gaining popularity and Quick Counseling, which is a new program that began in January 2019. Ms. Hamler discussed the section goals for Member Education and how these goals support the overall strategic plan of PSRS/PEERS.

CPI-U Update

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 0.8782% for the month ended March 31, 2019.

Public Comment

None
Mr. Hoffman 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. Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

The following motions were made in closed session:

PSRS4828/PEERS3063 - Minutes (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to approve the previous closed session minutes)
PSRS4829/PEERS3064 Member Appeal (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to deny the member appeal)
PSRS4830/PEERS3065 – ED Evaluation (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to approve the Board completed ED evaluation)
PSRS4831/PEERS3066 – ED Contract and Compensation Review (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to approve the new contract and salary for ED)
PSRS4832/PEERS3067 – Board Self- Evaluation (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to approve the Board completed self-evaluation)
PSRS4833/PEERS3068 – Adjournment (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to adjourn closed session)

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