REGULAR MEETING
BOARD OF TRUSTEES
OF
THE PUBLIC SCHOOL RETIREMENT SYSTEM OF MISSOURI
AND
THE PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI
February 12, 2018

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

MEMBERS ABSENT
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 Retirement Serv.
Nicole Hamler, Dir. Admin Design

OTHERS PRESENT
M. Steve Yoakum; Assistant Executive Director, Investments, Craig Husting; Assistant Executive Director, Operations, Dearld Snider; General Counsel, Alan Thompson; Chief Financial Officer, Anita Brand; Director of Retirement Services, Omar Davis; Director of Legislation and Policy, Maria Walden; Internal Auditor, Jeff Hyman; Chief Technology Officer, Bill Betts; Director of Administrative Planning and Design, Nicole Hamler; and various other PSRS/PEERS staff members.

Meeting Convened
The meeting of the Board of Trustees convened at 9 a.m. in the Retirement System offices in Jefferson City, Missouri. In attendance were Board members Aaron Zalis, Jason Hoffman, Chuck Bryant, Beth Knes, Scott Hunt and Jason Steliga. Yvonne Heath was present via conference call. Also present were Executive Director, M. Steve Yoakum; Assistant Executive Director, Investments, Craig Husting; Assistant Executive Director, Operations, Dearld Snider; General Counsel, Alan Thompson; Chief Financial Officer, Anita Brand; Director of Retirement Services, Omar Davis; Director of Legislation and Policy, Maria Walden; Internal Auditor, Jeff Hyman; Chief Technology Officer, Bill Betts; Director of Administrative Planning and Design, Nicole Hamler; and various other PSRS/PEERS staff members.

Approval of Minutes
Mr. Hunt moved that the minutes from the December 11, 2017 meeting be approved as presented. Ms. Knes seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

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

**Introduction of Verus Consultants**

Ms. Margaret Jadallah, primary consultant, and Mr. John Meier, secondary consultant from Verus presented the Board with an overview of the firm and background of the consulting team.

**Investment Performance Report**

Mr. Craig Husting from PSRS/PEERS and Mr. Barry Dennis from Verus reviewed the investment performance for the period ended December 31, 2017. The one-year PSRS/PEERS investment return was reported as 14.9%, while the fiscal year return (July 1, 2017 through December 31, 2017) was reported as 6.7%.

**Ongoing Investment Activity**

Mr. Husting and Mr. Dennis reviewed ongoing investment activities. Mr. Husting discussed the recent market volatility, and the current asset allocation of the PSRS/PEERS portfolio, during which he reviewed the long-term strategy, portfolio themes and the broad portfolio expectations. Mr. Husting also reviewed the tentative Board investment calendar.

**Anti-Terrorism Policy**

Mr. Husting provided a full report of the annual compliance review for the Systems’ Anti-Terrorism and Economic Sanction Policy. Mr. Husting reviewed the safeguards the Systems have in place to ensure compliance with the policy. Staff and General Counsel recommended that no changes be made with regard to the Anti-Terrorism Investment Policy at this time.

**Affirmative Action Policy**

Mr. Husting provided a full report of the annual compliance review for the Systems’ Affirmative Action Policy. The policy requires PSRS/PEERS staff to provide a report to the Board on an annual basis regarding the Systems’ efforts to ensure equal opportunities for minorities and women as money managers, brokers and investment counselors. Mr. Husting stated that the Systems were in compliance with the policy. Staff and General Counsel recommended that no action be taken this year with regard to the Affirmative Action Policy and Procurement Action Plan.

**Private Assets Overview**

Mr. Husting provided a broad overview of the Private Assets Composite. The long-term target allocation to Private Assets is 25% with an interim target allocation of 20%. The five-year annualized return for the Private Assets composite for the period ended December 31, 2017 was 13.8%.

**Real Estate**

Ms. Susan Conrad and Ms. Chhayhea Sam from PSRS/PEERS reviewed the Systems’ Real Estate portfolio including program objectives, long-term results and funding strategies. The five-year annualized return for the Real Estate composite for the period ended December 31, 2017 was 11.9%.

**Private Equity**

Mr. John Tuck, Mr. Dan Case, and Mr. Ben Frede from PSRS/PEERS reviewed the Systems’ Private Equity and Private Credit portfolios including program objectives, long-term results, and funding strategies. The five-year annualized return for the Private Equity composite for the period ended December 31, 2017 was 16.4%.
Mr. Steve Yoakum presented the board governance report recently completed by Cortex Applied Research, Inc. Cortex had recommended a few minor updates to the Board governance policies and did not have any recommendations for the charters. The changes bring the policy in line with current practices. Mr. Hunt moved that the report be approved with the suggested changes. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Mr. Chuck Bryant left the meeting at 11:35 am

Ms. Maria Walden and 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 January 2018 revenue to the Board. He also discussed sales tax growth and Missouri income from capital gains and dividends.

Ms. Walden reviewed the upcoming important legislative dates, the legislative statistics and new legislation filed. Several bills have been filed this year that have a direct impact on the Systems:

HB 1670 removes the current requirement for a school district to have a salary schedule applicable to all teachers and replaces it with a required compensation plan. This bill also impacts the System’s working after retirement statute. Currently, a retired teacher may work a total of 550 hours on either a part-time or temporary-substitute basis and be paid up to 50% of the annual compensation payable under the district's salary schedule for the position filled, without a discontinuance of his or her retirement allowance.

HB 1670 changes the 50% annual compensation amount to 50% of the salary paid to the person who last held the position. PricewaterhouseCoopers (PwC) is still analyzing HB 1670 regarding its financial impact to the Systems.

HB 1673 requires that each public pension plan in Missouri must provide a pension statement to their members. The pension statement must be provided annually and must include information that is already available in the PSRS/PEERS Member Statements and on our website.

Section 105.661RSMo., adds that additional financial information must also be included in the pension statement and the bill states that each plan shall provide the statement annually to active participants regardless of whether the statement is requested. Currently, the Systems provide most of this information in a separate publication called Summary Report to Members that is available on our website.

HB 2200 authorizes schools of innovation. The board of education of a school district may establish a school of innovation offering a program with a curriculum, delivery method or instructional model different from the traditional school model. The governor shall award 10 competitive grants per year to school districts for the establishment, implementation or expansion of schools of innovation.
The bill also permits a school district to enter into an agreement with another school district to provide students access to courses or schools, or to cooperatively provide schools to educate resident students of all participating districts.

Section 160.430.10, RSMo., allows a retired teacher of PSRS to return to work for a covered employer in these schools of innovation and not be subject to provisions the working after retirement limitations found in Section 169.560, RSMo. This section also would circumvent the Critical Shortage Full Time Employment Exception provision. PWC is currently working on the actuarial cost statement. Any of expansion or exclusion of our retirees from the Working After Retirement or Critical Shortage statutes will have a financial cost to the Systems.

HB 2335 allows any teacher retired from the Public School Retirement System of Missouri to be employed in a position covered under the Public Education Employee Retirement System (PEERS) without stopping their retirement benefit.

These retired teachers may earn up to 50% of the minimum teacher's salary ($12,500) and will not contribute to the Retirement System or earn service. The hiring employer must pay the employer's contribution. If such person is employed in excess of these limitations, the person will not be eligible to receive their retirement allowance for any month the person is employed, and such person shall contribute to the Retirement System if he or she is in an eligible position. According to PWC, there will be an insignificant cost savings to this provision as it is currently drafted, this is a result of the fact that the bill will not incent any retired teachers to retire early, there is a low salary cap and the employer contributions are collected on any salary earned.

SB 686 prohibits PSRS/PEERS and all public pension plans in Missouri from contracting with or investing in individuals, partnerships, corporations or other legal entities investing or doing business with Russia, or any territory occupied by Russia. Existing contracts shall not be renewed and shall be cancelled or divested as soon as prudently possible.

The PSRS/PEERS Board of Trustees has adopted a policy to monitor all investments to comply with the U.S., and applicable non-U.S., economic sanction programs from the U.S. Treasury's Office of Foreign Assets Control (OFAC). Monthly, quarterly and annual verifications are conducted by PSRS/PEERS investment staff and custodian to ensure compliance. It is the role of the federal government to set the foreign policy that the states should follow.

The Board has a resolution that respectfully urges the General Assembly not to adopt any legislation or mandate any changes that would diminish or impair the PSRS/PEERS Board of Trustees’ full authority for directing the Systems’ investment program.

Ms. Walden also discussed other legislation the Systems are monitoring, which do not have a direct impact on the Systems. Following discussion, Mr. Hoffman moved that the Board support HB 2335 dealing with PSRS retiree returning to work in a position covered by PEERS.

Mr. Dearld Snider from PSRS/PEERS presented the concept of developing a multi-year strategic plan. The development of this plan would involve input from the Board, management and staff. The Board acknowledged the value of the project and would like to see the project begin during the summer of 2018 in hopes of adopting the plan during the 2018-2019 fiscal year.

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 0.6405% for the month ended December 31, 2017. The January reading for the CPI-U will not be released until February 15, 2018.

None

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

The following motions were made in closed session:
PSRS4739/PEERS2974 - Minutes (Zalis, Hoffman, Heath, Hunt, Knes and Steliga; voting to approve the previous closed session minutes)
PSRS4740/PEERS2975 – Adjournment (Zalis, Hoffman, Heath, Hunt, Knes and Steliga; voting to adjourn closed session)

Mr. Steliga moved that the meeting adjourn. Mr. Hunt seconded the motion.