

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

THE PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI

February 11, 2019

MEMBERS PRESENT

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

MEMBERS ABSENT

OTHERS PRESENT

Steve Yoakum, Exec. Director
Dearld Snider, Asst. Exec. Dir., Oper.
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

**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, Yvonne Heath, Scott Hunt and Jason Steliga. Beth Knes 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, 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.

**Approval of
Minutes
PSRS4810
PEERS3045**

Mr. Bryant moved that the minutes from the December 10, 2018 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

Investments

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, 2018. The one-year PSRS/PEERS investment return was reported as -1.0%, while the fiscal year return (July 1, 2018 through December 31, 2018) was reported as -3.0%.

Ongoing Investment Activity

Mr. Husting and Mr. Dennis reviewed ongoing investment activities, which included estimated investment performance through January 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.

Anti-Terrorism Policy

Mr. Husting and Mr. Dennis 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 and Mr. Dennis provided a full report of the annual compliance review for the Systems' Affirmative Action Policy and Procurement Action Plan. 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.

U.S. Equity Program Review

Mr. Husting provided a broad overview of the Public Equity Composite. Mr. John Tuck, Mr. Travis Allen, and Mr. Chad Myhre from PSRS/PEERS reviewed the Systems' U.S. Public Equity portfolio including program objectives, guidelines, and long-term results. The five-year annualized returns for the Large-Cap and Small-Cap U.S. Public Equity composites for the period ended December 31, 2018 were 7.7% and 3.6% respectively.

Non-U.S. Equity Program Review

Mr. Frank Aten and Ms. Jessica Wilbers from the PSRS/PEERS investment staff reviewed the Systems' Non-U.S. Equity portfolio including program objectives, guidelines and long-term results. The five-year annualized return for the Non-U.S. Equity composite for the period ended December 31, 2018 was 3.4%.

Management **Cortex** **Governance** **Review**

Mr. Steve Yoakum from PSRS/PEERS presented the Board governance report recently completed by Cortex Applied Research, Inc. Mr. Yoakum explained that the primary goal of the annual review is to ensure that the Board's governance policies and charters are living documents that truly guide how the Board functions, while also evolving to meet the changing needs of the Board and the Systems over time.

Overall, Cortex found the policies and charters to be appropriate and identified only minor issues and improvement opportunities. Cortex made the following recommendations: 1. Add language affirming the executive director's authority over the selection, direction, and evaluation of senior management; 2. Authorize the executive director to select and appoint specialty and asset class consultants; 3. Hold an exit interview with the internal auditor should he or she cease to be employed by the Systems; 4. Update our regulation and add language to policy to allow the Board to hold a meeting in months other than those specified; 5. Remove the statement that ex-officio members may be counted towards quorum for Board committee meetings.

Mr. Bryant feels the Board should have the right to approve the selection of specialty and asset class consultants. After discussion, Mr. Bryant moved to table the changes relating to the executive director's authority over selecting and appointing asset class consultants for further discussion in April and to approve the remainder of the report with all other suggested changes. Mr. Hunt seconded the motion. Voting "Aye"—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; "Nay"—None. The motion carried unanimously.

PSRS4811
PEERS3046

NIRS Study

Ms. Anita Brand from PSRS/PEERS presented on a joint study by the UC Berkeley Labor Center and National Institute on Retirement Security (NIRS), "Teacher Pensions vs. 401(k)s in Six States: Connecticut, Colorado, Georgia, Kentucky, Missouri, and Texas." Ms. Brand gave a summary of the key findings of the independent study, which reinforce the Systems are achieving their goals.

Ms. Brand shared with the Board a one-page summary of the key findings and statistics produced from the independent study. Ms. Knes stated this study could be a powerful tool to help combat myths about defined benefit plans and teacher retention. Ms. Brand agreed that the results of the independent study are very powerful and clearly indicate that Missouri teachers are better off in PSRS, a defined benefit plan, than a 401(k) plan.

Actuarial Services

Ms. Brand discussed the current contract and history with our actuary, PricewaterhouseCoopers (PwC). PwC was initially hired in 2008 based on a Request for Proposals (RFP). The initial contract was renewed through negotiation for an additional five years through the fiscal year 2018 engagements. Ms. Brand reminded the Board that changing actuaries is not, in and of itself, a negative practice but changing actuaries should not be done at frequent intervals due to the substantial learning curve. There is not a statutory requirement to bid actuarial services or rotate actuaries on a periodic basis. State statute requires the Systems to have an actuarial audit at least every ten years and to perform an experience study at least every five years. The number of actuarial firms with a focus on defined benefit plans, specifically public defined benefit plans, has decreased significantly. The Board will review negotiated terms with PricewaterhouseCoopers in April 2019. Based on the results of the negotiations the Board will request staff to issue an RP or renew services with PwC.

Facility Renovation/CMAR

Mr. Dearld Snider and Ms. Sarah Swoboda of PSRS/PEERS presented on our current renovation timeline and intent to utilize Construction Management at Risk (CMAR). Mr. Snider explained that two construction approaches were considered: Traditional Design-Bid-Build and Construction Management at

Risk. Ultimately, the Systems intend to utilize the CMAR approach, as it creates the best collaborative team structure, provides more accurate cost estimating and will allow for a faster transition from the design documents to the start of construction. The Board discussed the process of using a CMAR acknowledging this just became available to the public sector in 2016. Mr. Snider also discussed the selection criteria that the Systems will use to choose a construction manager at risk and Ms. Swoboda detailed the Systems timeline for selecting a CMAR.

Budget Amendment

Ms. Brand noted the fiscal year 2019 budget document that was approved at the Board of Trustees June 2018 meeting, did not include a request for building improvements. However, the Systems were continuing to evaluate the replacement of the HVAC systems and other aging infrastructure needs. Based on further evaluation, the Board of Trustees approved a renovation and new addition to the Systems' current building at their December 2018 meeting. Ms. Brand requested a budget amendment to facilitate these building projects including, architectural services, surveys and permits.

Mr. Hunt moved that the budget amendment be accepted as recommended by the Budget and Audit Committee. Ms. Heath seconded the motion. Voting "Aye"—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; "Nay"—None. The motion carried unanimously.

PSRS4812
PEERS3047

Legislative Update

Ms. Maria Walden from PSRS/PEERS 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 2019 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:

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%. This bill repeals the July 1, 2014 termination date of a provision allowing PSRS members who have 31 or more years of service to have their retirement benefit calculated using a benefit factor of 2.55%.

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). No contributions would be required from the employer or retiree. This bill does not contain a refund provision.

PricewaterhouseCoopers (PWC), the Systems' actuary, prepared a cost statement that indicates this bill would have no fiscal impact to PSRS and the fiscal impact to PEERS would be an insignificant loss.

The Board previously went on record unanimously in support of HB 77 and SB 17 as long as the bills(s) do not contain a refund provision, which would jeopardize PSRS/PEERS' federal tax exemption status.

House Bill (HB) 201 requires that each public pension plan in Missouri provide a pension statement to their members. This statement must be provided annually and must include: the participant's accrued contributions to the plan, the date the participant is first eligible for a normal retirement, the date of the plan's valuation, the plan's funded ratio, notice if the plan is on the Joint Committee on Public Employee Retirement's annual watch list, a notice if the actuarially determined contribution to fund the plan has not been made, unless the plan is unable to make such contribution due to statutory limitations, an electronic link or website address to view the plan's Comprehensive Annual Financial Report.

House Bill (HB) 362 increases the annual cap on the numbers 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. PWC is currently working on a cost statement regarding this provision.

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. PSRS retirees would be allowed to earn up to 50% of their salary as an active employee as outlined in the bill. The provision requiring contributions to be paid to the Retirement System by the hiring employer if such person is also repealed. PWC is currently working on a cost statement regarding this provision.

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. A PWC cost statement indicates an insignificant fiscal savings to PSRS and PEERS for this bill.

House Bill (HB) 864 creates a Defined Contribution Option for all PSRS members. In this bill members are not allowed to change the election once made and members cannot participate in both the defined benefit option as well as the defined contribution option.

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

Following discussion, Mr. Steliga moved that the Board oppose HB 864 which creates a Defined Contribution option for all PSRS members. Mr. Hoffman seconded the motion. Voting "Aye" – Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; "Nay" – None. The motion carried unanimously.

PSRS4813
PEERS3048

Mr. Hoffman then moved that the Board support HB 723 pertaining to divorce pop-up for retirees who select a Joint-and-Survivor benefit plan. Mr. Hunt seconded the motion. Voting "Aye" – Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; "Nay" – None. The motion carried unanimously.

PSRS4814
PEERS3049

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 down -0.3000% for the month ended December 31, 2018. The January reading for the CPI-U will not be released until February 13, 2019.

Public Comment

Mr. Charles Rorex of Farmington thanked the Board of Trustees and Mr. Steve Yoakum for all they've done and continue to do for the Systems. Mr. Rorex also asked the Board to consider increasing the lifetime COLA cap (maximum) for those retired teachers who make under \$50,000.

Closed Session

PSRS4815
PEERS3050

Mr. Bryant 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:

PSRS4816/PEERS3051 - Minutes (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to approve the previous closed session minutes)

PSRS4817/PEERS3052 – Adjournment (Zalis, Hoffman, Bryant, Heath, Hunt, Knes and Steliga; voting to adjourn closed session)

Adjournment

PSRS4818
PEERS3053

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.