

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

AND
THE PUBLIC EDUCATION EMPLOYEE RETIREMENT SYSTEM OF MISSOURI

February 10, 2020

MEMBERS PRESENT

Aaron Zalis, Chair
Jason Hoffman, Vice-Chair
Yvonne Heath
Scott Hunt
Sharon Kissinger
Beth Knes
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 Financial Officer
Maria Walden, Legislative Director
Nicole Hamler, Dir. of Member Serv.
Omar Davis, Dir. of Employer Serv.
Jeff Hyman, Director of Internal Audit
Susan Wood, Communications Dir.
Stacie Verslues, Dir. Admin Design

Meeting Convened

The meeting of the Board of Trustees convened at 9:00 a.m. in the Retirement System offices in Jefferson City, Missouri. In attendance were Board members Aaron Zalis, Jason Hoffman, Yvonne Heath, Scott Hunt, Sharon Kissinger, 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; Communications Director, Susan Wood; Director of Administrative Planning and Design, Stacie Verslues; and various other PSRS/PEERS staff members.

**Approval of
Minutes
PSRS4877
PEERS3112**

Ms. Heath moved that the minutes from the December 9, 2019 meetings be approved as presented. Ms. Knes seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Knes and Steliga; “Abstained” – Hunt and Kissinger; “Nay”—None. The motion carried unanimously.

Order of Business

None

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| <u>Investments</u> Performance Report | Mr. Craig Husting from PSRS/PEERS and Mr. Barry Dennis from Verus reviewed the investment performance for the period ended December 31, 2019. The one-year PSRS/PEERS investment return was reported as 16.2%, while the fiscal year return (July 1, 2019 through December 31, 2019) was reported as 5.4%. |
| Ongoing Investment Activity | Mr. Husting and Mr. Dennis reviewed ongoing investment activities, which included estimated investment performance through January 31, 2020. Mr. Husting discussed the current asset allocation of the PSRS/PEERS portfolio, including a review of the long-term strategy, portfolio themes and the broad portfolio expectations. Mr. Husting also reviewed the tentative Board investment calendar. |
| Anti-Terrorism Policy Review | 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 Review | Mr. Husting 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 and Mr. Travis Allen 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, 2019 were 10.5% and 7.4% 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, 2019 was 7.6%. |
| Asset Liability Study | Mr. Husting from PSRS/PEERS and Mr. Dennis, Ms. Margaret Jadallah and Mr. John Meier from Verus reviewed the Asset/Liability study. The presentation included a review of historical PSRS/PEERS Asset/Liability studies, a review of the PSRS/PEERS investment philosophy, the results of an Enterprise Risk Tolerance Survey conducted by Verus, capital market assumptions, deterministic return projections, asset allocation themes, the results of a liquidity study, asset allocation recommendations and a discussion of the assumed rate of return. A decision regarding the Asset/Liability study was not made at the February Board meeting. An action item on the study is expected at the Board meeting on April 6, 2020. |

Management Report
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.

In preparing the annual Board Governance Report, Cortex identified only a small inconsistency in terminology. To address the inconsistency, Cortex recommends that the Board approve a minor revision changing the “Pending Issues List” to “Annual Tactics List” in the Board of Trustees Charter, Executive Director Charter, Planning and Budgeting Process Policy, and Review and Reporting Policy. The Board voted unanimously to approve the report with suggested changes. Mr. Steliga moved that the report be approved with suggested changes. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Hunt, Kissinger, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

PSRS4878
PEERS3113

Facility Renovation

Mr. Dearld Snider from PSRS/PEERS shared with the Board an update on the facility renovation and new addition. Mr. Snider shared pictures of the progress on Bid Package 2 (new addition and renovation) and reported that the budget remains on track.

Member Services
Disability Program
Review

Ms. Nicole Hamler, Director of Member Services and Ms. Nichole Williams Benefits Supervisor presented on the Disability Retirement program. Ms. Hamler provided the Board with an overview of the program review. Mr. Yoakum then discussed the history and objectives of the review. Ms. Williams reviewed the current PSRS/PEERS disability population and gave a detailed overview of the current plans. Ms. Hamler then went through the various program enhancements including the policy, regulation and possible statutory enhancements. The policy enhancements consist of adding additional medical advisors and implementing an annual income verification process. The regulation enhancements adjust the annual income earnings limit for disability retirees under the age of 60 to utilize the Social Security Administration Substantial Gainful Activity Limit for Non-blind and remove the automatic approval for PEERS disability based on Social Security disability approval. The regulation amendments will be brought back for Board approval at the April 6, 2020 Board Meeting.

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 2020 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) 1298 allows active 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 allowance calculated using a multiplier of 2.55%.

House Bill (HB) 1934 and Senate Bill (SB) 755 states information pertaining to the salaries and benefits of the executive director and employees of the Board of PSRS shall not be considered confidential individually identifiable information.

HB 1934 was voted do pass in House Rules – Administrative Oversight on January 30th. It was perfected on the House Floor February 4th, 2020.

House Bill (HB) 2174 and Senate Bill (SB) 830 modify provisions to workforce development in elementary and secondary education and include changes to the PSRS/PEERS critical shortage statute.

House Bill (HB) 2291 increases the duration of time that a retired teacher may teach without losing their benefit under the critical shortage statute from two years to four years.

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

CPI-U

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 is up 0.3244% through December 31, 2019, which brings the total cumulative to 1.9729%.

Public Comment

MNEA Legislative Director Mr. Otto Fajen addressed the Board on behalf of the National Public Pension Coalition regarding the recent request by the Missouri Department of Transportation (MoDOT) for funds to be used to implement a program which would give new hires the ability to opt out of the department’s defined benefit pension plan in exchange for higher salaries. Mr. Fajen wanted to bring awareness to the issue.

Closed Session

PSRS4879
PEERS3114

Mr. Hunt 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, Kissinger, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

The following motions were made in closed session:

PSRS4880/PEERS3115 - Minutes (Zalis, Hoffman, Heath, Knes and Steliga; voting to approve the previous closed session minutes)

PSRS4881/PEERS3116 – Adjournment (Zalis, Hoffman, Heath, Hunt, Kissinger, Knes and Steliga; voting to adjourn closed session)

Adjournment
PSRS4882
PEERS3117

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