The meeting of the Board of Trustees convened at 3 p.m. in the Retirement System offices in Jefferson City, Missouri. In attendance were Board members Aaron Zalis, Yvonne Heath, Chuck Bryant, Beth Knes, Jason Hoffman, Scott Hunt, 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, 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.

Mr. Yoakum opened the working session with a detailed focus on two critical elements; the Board’s fiduciary responsibility and PSRS/PEERS’ ongoing goals: 1. Provide for the security and financial stability of the Systems, including maintaining at least an 80% pre-funded ratio, continuing to amortize the unfunded liability until PSRS/PEERS is 100% pre-funded, and allowing for a reasonable assumed rate of return given capital market estimates; 2. Maintain the contribution rates of both Systems at or below current levels; 3. Provide a consistent cost-of-living adjustment (COLA) for PSRS/PEERS benefit recipients to maintain their purchasing power, noting COLAs should be dependable and affordable without harming the financial stability of the Systems; 4. Require no statutory action.
Anually, the Board sets the COLA for benefit recipients and contribution rates for employers and active members. Mr. Yoakum explained that the Board worked with staff and advisors to come up with various COLA options and parameters within the stated goals. The Board then requested that the Systems’ actuaries, PricewaterhouseCoopers (PwC), calculate the 2017 actuaral valuation with these different COLA options and assumptions. Mr. Brandon Robertson, Ms. Cindy Fraterrigo, and Ms. Kelly Stolyar from PwC presented the results of the requested analyses and reviewed the results of each scenario analyzed. The Board discussed the results of the analyses presented by PwC in detail including evaluating the assumed rate of return along with the COLA policy. Mr. Yoakum and PwC summarized the results of the working session. They noted, given the improved funded position and the current contribution rates in relation to the actuarially determined contribution rates, that reducing the risk profile of the Systems should be considered. It was further noted that less risk equals greater stability of contribution rates and ability to provide COLAs in the future.

Public Comment

Mr. Jim Pohl, president of Missouri Retired Teachers Association (MRTA), stated that the COLA issue is a big concern. He indicated that he has visited every corner of the state and can verify that this is important to retirees.

Dr. Aaron Zalis, Board Chair, thanked Mr. Pohl for his comments and stated that he believes the Board has fulfilled the promise to review the COLA policy which is demonstrated in all the work being done by the Board, staff, and advisors.

Mr. Jim Kreider, executive director, MRTA, stated that he believes the investment market will be positive and will mimic the Roaring 20’s as shown this year in the market.

Adjournment

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

November 3, 2017

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, Yvonne Heath, Chuck Bryant, Beth Knes, Jason Hoffman, Scott Hunt and Jason Steliga. Also present were Executive Director, M. Steve Yoakum; Assistant Executive Director, Investments, Craig Husting; Assistant Executive Director, Operations, Deardl 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

Ms. Heath moved that the minutes from the August 28, 2017 meeting be approved. Mr. Hunt seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.
Dr. Aaron Zalis changed the order of items on the agenda during the report of the actuary. He switched item B, subset a: *Set COLA Policy* and Item B, subset b: *Set Assumed Rate of Return*.

Mr. Yoakum presented a plaque to Mary Ann Bax recognizing her recent retirement from PSRS/PEERS.

**Investments**

**Ongoing Investment Activity**

Mr. Craig Husting and Mr. Jim Neill from Willis Towers Watson reviewed ongoing investment activities, which included estimated investment performance through September 30, 2017. The estimated return for the first quarter of Fiscal year 2018 (July 1, 2017 through September 30, 2017) was approximately 3.1%. Mr. Husting discussed 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.

**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 2017. During the proxy voting review process, staff confirmed that all investment managers are in compliance with the Policy.

**Credit Program**

Mr. Frank Aten and Mrs. Jessica Wilbers from the PSRS/PEERS investment staff reviewed the Systems’ Credit portfolio including program objectives, guidelines, and long-term results. The five-year annualized return for the Credit composite for the period ended September 30, 2017 was 2.6%.

**Non-US Equity**

Mr. Frank Aten and Mrs. 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 September 30, 2017 was 9.6%.

**Real Estate**

Mr. Jack Koch and Mr. Seth Marcus from Townsend (the Systems’ real estate consultant), presented several items to the Board, including Aon’s recent acquisition of Townsend. Mr. Koch and Mr. Marcus also provided a real estate market overview and then discussed the PSRS/PEERS real estate portfolio. Townsend reported that the PSRS/PEERS’ Real Estate portfolio had produced an annualized return of 11.8% (net of all fees) for the five-year period ended June 30, 2017.

**2017 Valuation**

Mr. Brandon Robertson, Ms. Cindy Fraterrigo, and Ms. Kelly Stolyar from PricewaterhouseCoopers (PwC) were present to discuss the results of the June 30, 2017 actuarial valuations for the systems. Ms. Fraterrigo provided an introduction to the valuation process and the key metrics to be considered. She also noted the information being presented was based on no changes to the Systems’ current funding policies and therefore is noted to be preliminary. Ms. Stolyar reviewed the changes in membership, assets, liabilities, and the pre-funded status of each System. She reported that the June 30, 2017, preliminary pre-funded status based on the actuarial value of assets of PSRS was 87.2% and PEERS was 88.7%. The current market value of assets is only slightly lower than the actuarial value of
assets because there are losses still to be recognized due to the smoothing method used. Mr. Robertson discussed projections of contribution rates, funded status, and the sensitivities of both to the overall investment returns for the plans. Mr. Robertson provided a summary of the results of the COLA scenarios that were discussed in detail with the Board during the working session the previous day. Mr. Robertson also discussed PwC’s recommendation to maintain the contribution rates for the 2018-2019 school year at the current levels. He indicated their recommendation applied to any combination of assumed rate of return assumption and COLA scenario that met the ongoing goals established by the Board and presented during the Board meeting and working session.

Assumed Rate of Return

The Board discussed lowering the assumed rate of return effective July 1, 2017. Mr. Hunt commented he believes that lowering the assumed rate is prudent and 7.5% or below is where the fund should be, however, he strongly feels a move in that direction is important. Mr. Bryant agreed with Mr. Hunt that 7.5% is the most prudent assumption for the fund. Mr. Hoffman commented that the 7.6% assumption meets all stated goals. Mr. Steliga agrees that 7.6% is a move in the right direction while allowing for other options relating to the COLA. Following discussion, Ms. Heath, moved to lower the assumed rate of investment return from 7.75% to 7.6%. Mr. Hoffman seconded the motion. Mr. Hunt and Mr. Bryant both agreed that while they would prefer 7.5% they would support a move towards the rate of 7.5%. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

COLA Policy

The Board discussed the various scenarios presented during the working session the previous day. Scenario “F” was discussed in detail, which would allow for a 2% COLA January 2018 and going forward 2% COLA when the CPI-U is between 0-2% and cumulatively 2% or more, CPI-U between 2-5% = 2% COLA, CPI-U 5% or more = 5% COLA. Mr. Bryant proposed another scenario in which retirees would receive a 1% COLA January 2018 and the cumulative approach following. Mr. Hunt commented that the Board just adopted the funding policy last year and therefore believes the COLA policy should not be amended at this time. Mr. Bryant commented that a 1% COLA January 2018 would allow the System to stay even with the actuarial assumption this year. Mr. Steliga would like to give the retirees a 1.63% COLA, which is equal to the actual CPI-U the previous year, January 2018 and then cumulative going forward. Mr. Bryant disagrees and believes the 1% COLA is adequate. Mr. Hunt believes there should be a focus on generational equity of current retirees’ vs current actives given that current actives are paying higher contribution rates then actuarially determined to pay off the unfunded liabilities. Mr. Bryant agrees and would like to remain cautious. Mr. Hoffman and Mr. Steliga believe the 1.63% COLA January 2018 and the cumulative scenario going forward is a middle ground between 1%-2%. Mr. Steliga moves to grant a 1.63% COLA for January 2018 and change the current COLA assumption in the funding policy to scenario “F” effective with the January 2019 COLA. Mr. Hoffman seconded the motion. Voting “Aye”—Zalis, Hoffman, Heath, Knes, and Steliga; “Nay”—Bryant and Hunt. The motion carried.
Mr. Hunt moved that the interest purchase rate be set at 7.6% Effective June 30, 2017, as recommended by staff which coincides with the assumed investment return. Mr. Steliga seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Mr. Hoffman moved that the contribution rate for PSRS remain at 29% and PEERS remain at 13.72% as recommended by the actuary. Mr. Bryant seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Ms. Knes moved that a 1.63% COLA effective January 1, 2018, in accordance with the Board’s earlier decision regarding the COLA policy. Mr. Steliga seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Mr. Thompson, General Counsel, discussed the upcoming election procedures requiring a ballot to be mailed to all members. After further review of PSRS/PEERS’ regulation it is believed that a mailing to all members of a ballot with all candidates listing is required. Mr. Hoffman moved that the schedule for the upcoming election be approved as presented. Ms. Heath seconded the motion. Voting “Aye”—Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; “Nay”—None. The motion carried unanimously.

Mr. John Pohl, president of MRTA, thanked the Board on behalf of the 27,000 MRTA retirees, for the COLA decision.

Dr. Aaron Zalis, Board Chair, thanked Mr. Pohl for his comments and stated that the Board does not deserve a thank you just like they did not deserve the unfounded criticism over the last year. The Board is simply doing their job as fiduciaries and fulfilling the promises they made last year. Dr. Zalis stated that he hopes the education associations can bring everyone together instead of being divisive, not only on this issue, but on all issues for the good of public education.

Ms. Carol Weatherford who regularly attends meetings as a representative of MNEA and MNEA-Retired, expressed her personal appreciation to the Board of Trustees. She noted the Board’s intensely serious discussion and respectful differences of opinion, as they considered the COLA options. She stated that while she joins other retirees in anticipating the 2018 COLA, she is most appreciative of the trustees' professionalism and courtesy in making their decision.

Mr. William Walker, PSRS retiree, stated that he found the process very interesting and believed the Board was very informed. He appreciated all the work the Board does and how they do it.
Mr. Hunt moved that the meeting continue in closed session to consider member appeals, legal and personnel matters under sections 610.021 (1), (3), (13), (14), (21) and 169.020.17, RSMo. Mr. Bryant 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:
PSRS4720/PEERS2955 - Minutes (Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; voting to approve the previous closed session minutes)
PSRS4721/PEERS2956 – Member Appeal (Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; voting to deny the member appeal)
PSRS4722PEERS2957 – Adjournment (Zalis, Hoffman, Bryant, Heath, Hunt, Knes, and Steliga; voting to adjourn closed session)

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