

Report
Board of Trustees
Public School Retirement System of Missouri
And Public Education Employees Retirement System of Missouri

Monday, February 12, 2018

by Carol Weatherford

For further clarification of any points in this report, see the PSRS-PEERS Board Meeting Summary sent by email to all members.

Regular Meeting of the PSRS-PEERS Board of Trustees

Trustees present:

Aaron Zalis, chair,
Chuck Bryant,
Beth Knes,
Jason Hoffman,
Scott Hunt,
Jason Steliga.
Yvonne Heath joined the meeting by conference call.

Others present as active participants:

Steve Yoakum, Executive Director;
Nicole Hamler, Board Secretary;
Dearld Snider, Assistant Executive Director;
Craig Husting, Chief Investment Officer;
Margaret Jadalla,
John Meier & Barry Dennis of Verus;
Susan Conrad,
Chhayhea Sam,
John Tuck,
Dan Case & Ben Frede, PSRS Investment managers;
Maria Walden, Director of Legislation & Policy;
James Moody of Moody & Associates.

SYSTEM OPERATIONS

Minutes from the December 11, 2017 meeting were approved and the Order of Business was established.

INVESTMENTS

Introduction of Verus Consultants -- At the December meeting, the PSRS/PEERS trustees officially selected Verus as their general asset consultant. Two of the key consultants from Verus, Margaret Jedallah and John Meier, introduced themselves and shared an overview of their firm.

December 2017 Performance Report -- Craig Husting was joined by Barry Dennis from Verus to review investment performance for the period ending 12/31/17. The one-year investment return was 14.7%, while the fiscal year return (7/1/17-12/31/17) was 6.7%.

Ongoing Investment Activities -- Craig Husting and Barry Dennis reviewed PSRS/PEERS ongoing investment activity, including the effect of recent market volatility.

Anti-Terrorism Policy Review -- The Anti-Terrorism policy was adopted by the Board in 2005, and was most recently reviewed two years ago at the February, 2016 meeting. Craig Husting explained the safeguards that the Systems have in place to ensure compliance with the policy. [These are detailed in the report provided by PSRS.] Based on the recommendation of PSRS' general counsel, no investment action in regard to the Anti-Terrorism policy was needed at this time.

Affirmative Action Policy Review -- This 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 woman as money managers, brokers and investment counselors. Craig Hustings reviewed the policy and stated that the Systems are in compliance with the policy.

Private Assets Program Review -- Craig Hustings provided a broad overview of the Private Assets Composite. This was followed by a lengthy, detailed report from PSRS-PEERS investment staff regarding the Systems' Real Estate Portfolio and the Systems' Private Equity and Private Credit portfolios. The five-year annualized returns for the period ending 12/31/17 are:

Real Estate -- 11.9%

Private Equity -- 15.4%

MANAGEMENT REPORT

Board Governance -- Steve Yoakum presented the Board Governance report recently completed by Cortex Applied Research, Inc. This company conducts an annual review to determine the extent to which the Board is operating in accordance with its policies and charters. Cortex recommended two minor policy updates, but none for the charters. [See PSRS-PEERS report for details.] The

Board voted unanimously to approve the recommended changes.

Update on Legislation -- Jim Moody presented the Board with an overview of the current fiscal challenges facing our state. He discussed the combination of federal tax cuts, sales tax growth, income from capital gains and dividends and other factors. Balanced against the needs of the state, Missouri's fiscal outlook for the next few years is not positive.

Maria Walden reviewed a number of bills that would have a direct impact on the Systems. [These are listed and described in detail in the PSRS-PEERS report.]

A bill of significant interest to the Board is HB 2335. This bill would allow educators retired from PSRS to be employed in a position covered under PEERS without it affecting their retirement benefits. In the bill's current form, retired educators may earn up to 50% of the minimum teacher's salary (currently \$12,500) and not contribute to the Retirement System or earn service. The hiring employer must pay the employer's contribution, but the employee would not pay into the System.

The Board voted unanimously in support of the bill as long as the salary threshold and the employer contribution rates remain in the bill.

PSRS/PEERS Strategic Planning -- Dearld Snider reported that he had recently attended a conference conducted by Cost Effectiveness Management (CEM) where he was very impressed by a multi-year strategic plan developed by the Illinois Municipal Retirement Fund (IMRF). For this to be effective, input would be taken from the Board, management and staff. Steve Yoakum confirmed that Cortex has recommended this in the past. There was a general consensus among Board members that this would be a positive avenue to pursue, with the hope of adopting the plan for the 2018-19 fiscal year.

CPI-U Update -- Steve Yoakum reviewed the COLA policy that was adopted by the Board at their November, 2017 meeting. [See charts in the PSRS-PEERS report.] He reported that the CPI-U is up 0.6405% for the month ended on 12/31/17. The January CPI-U will not be released this February 15, 2018.

Public Comment -- None

CLOSED SESSION -- The Board went into closed session at 11:55. Items listed for closed session included a legal report, internal controls report and a personnel change report.