SYSTEM OPERATIONS

Minutes from the December 12, 2016 meeting were approved and the Order of Business was established.

INVESTMENTS

Investment Performance Report -- Craig Husting and Michael Hall reviewed the investment performance for the period ending December 31, 2016. The one-year investment return was reported as 8%, while the fiscal year return (July 1-December 31, 2016) was reported as 4.5%.
Ongoing Investment Activity -- Estimated investment performance through January, 2017 is 6%.

Anti-Terrorism Policy Review -- The Board adopted the policy in 2005 and reviews it annually at the February meeting. The policy requires PSRS-PEERS staff to provide a report to the Board that identifies any investment actions taken due to links to terrorist or sanction-related activities. The Systems have safeguards in place to ensure compliance with the policy. Staff and General Counsel recommended no investment action be taken this year with regard to the policy.

Affirmative Action Policy Review -- This policy, last reviewed by the Board in February 2106, requires PSRS/PEERS staff to provide a report to the Board on an annual basis regarding the Systems' efforts to assure equal opportunities for minorities and women as money managers, brokers and investment counselors. As the Board is in compliance with the policy, both staff and general counsel recommended that no investment action be taken this year with regard to the Affirmative Action Policy.

Private Assets Program Review -- Susan Conrad and Chhayhea Sam reviewed the Systems Real Estate portfolio; the 5-year annualized return for the Real Estate composite for the period ending Dec, 2016 was 12.1%. John Tuck and Dan case reviews the Systems' Private Equity and Private Credit portfolios; the 5-year annualized return for this same period of time was 14.6%.

MANAGEMENT REPORT

Board Governance -- Steve Yoakum presented the report recently completed by Cortex Applied Research, Inc. 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 Systems over time." After review, the Board voted unanimously to approve the report with the minor changes suggested to bring the policy in line with current practices.

Website Review -- Dearld Snider, Susan Wood and Bill Betts demonstrated the PSRS/PEERS website, focusing on updates made to the "Board" section of the website. In an effort to make the site more easily accessibly to members, updates and improvements are continually being made. Ms. Wood shared some recent statistics for the site, including the following:

*The public site averages 20,000 users each month

*Women over the age of 50 are the biggest users of both the public and secure portion of the site

*There were 46,398 users of Web Member Services as of Jan, 31, 2017

*Over 100,000 Benefit Estimates have been run by members via the benefit
estimator found in the secure portion of the site.

Legislative Update -- Maria Walden and Jim Moody updated the Board on the current legislative session. The "Moody Report" included references to the serious negative implications for education funding -- the result of low tax revenues caused by corporate tax cuts currently coming into effect.

Maria Walden shared information on several bills that have a direct impact on the Systems:

HB 304 and SB 394 allow any retiree who selects a Joint-and-Survivor benefit plan, and then has a subsequent divorce, to pop up to the Single Life Benefit plan payment. (Further details available on the website)

HB 305 deals with Working After Retirement. The bill specifies that any retiree who is employed by a third party contractor (such as Kelly Services) be required to comply with the existing statutory limits of 50% salary and 550 hours.

HB 775 exempts information pertaining to the salaries and benefits of the executive director and employees of the Systems from being confidential.

HB 891 establishes a fixed statutory Cost of Living Adjustment (COLA) of 2% whenever the CPI is between 0% and under 5%; fixes a COLA of 5% when the CPI is over 5%; eliminates the ability for the Systems to decrease the COLA in years in which the CPI is under 0%. (Pricewaterhouse Cooper estimates the PSRS cost to implement this provision is $2.46 billion, with the member contribution rate reaching a maximum amount of 34.75%. The PEERS cost to implement this provision is $245 million, with the contribution rate reaching the maximum amount of 15.76%).

SB 308 prohibits 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. This type of social investing bill could potentially have a long-term negative impact on the Systems by limiting the types of investment in which the Systems can invest, and therefore cost our member and employers additional funds.

Following the legislative discussion, the Board voted unanimously so support legislation for the divorce pop up (HB 304/SB 394). and also the legislation dealing with working after retirement and third-party consultant work (HB 305).

The Board also voted unanimously to oppose any legislation that has a cost to the Systems or removes the Board's ability to use discretion when setting the Funding Policy or COLA.

CAFR Review -- Steve Yoakum reviewed the Comprehensive Annual Financial Report (CAFR) for the year ended June 30, 2016. A PDF version of the CAFR can be found on the PSRS/PEERS website, or a hard copy can be requested by contacting the office.

Public Comment -- None
Other -- Steve Yoakum discussed the calculation of the Consumer Price Index (CPI) calculated by the Bureau of Labor Statistics. He explained that the CPI is the measure of the change in prices of goods and services purchased by urban consumers between any two time periods. The CPI is based on prices for major groups: food and beverage, housing, apparel, medical care, recreation, education, communication and other goods and services. There are a total of over 200 categories that make up the major groups used to determine the CPI, and each category weighted differently.

PSRS/PEERS' regulation requires that the time period for the CPI calculation is from June to June. Based on the values provided by the Bureau of Labor Statistics, the CPI that is used for COLA calculations is up just 0.16% for the last six months (fiscal year 2017).

The open session adjourned at 1:15 p.m. Business items on the agenda for the closed session included the approval of minutes, a legal report, an internal controls report and a personnel change report.