Report

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

April 10, 2017
10:00 a.m.

by Carol Weatherford

Members present:
Yvonne Heath
Jason Hoffman
Scott Hunt
Jason Steliga

Members absent: Aaron Zalis

Others Present:
Steve Yoakum, Executive Director
Nicole Hamler, Board Secretary
Craig Husting, Chief Investment Officer
Michael Hall (representing Towers Watson)
Anita Brand, Director of Investing and Accounting
Jeff Hyman, PSRS/PEERS
John Tuck, PSRS/PEERS
Travis Allen, PSRS/PEERS
Doug LeBon, Pathway Capital Management
Vincent Dee, Pathway Capital Management
Kim Ruggieri, Pathway Capital Management
Jim Moody, Moody & Associates
Maria Walden, Director of Legislation & Policy

Guest:
Chuch Bryant, Governor’s appointee to the Board of Trustees, yet to be confirmed by the Senate

SYSTEM OPERATIONS

Minutes from the February 13, 2017 meeting were approved and the Order of Business was established.

Order of Business -- Steve Yoakum explained that Aaron Zalis was not in attendance because of a possible detached retina. Although absent from the meeting, Dr. Zalis was recognized for having recently received two distinguished awards: the "Pearce Award"
from the Missouri Association of School Administrators and the "2017 Administrator of the Year" by the Missouri School Public Relations Association.

**Election of Chair and Vice Chair** -- By unanimous consent of those present, Aaron Zalis and Jason Hoffman were re-elected to the positions of Chair and Vice Chair, respectively.

**Set Interest Credit Rate** -- Upon staff recommendation presented by Anita Brand, the interest credit rate was set at 1%. (For a detailed explanation of this, see the PSRS/PEERS report.)

**Set Interest Purchase Rate** -- Following the same recommendation procedure, the interest purchase rate was set at 7.75%. This is based on the actuarially assumed rate of return on invested funds.

### INVESTMENTS

**Ongoing Investment Activity** -- Craig Hustings and Michael Hall reviewed ongoing investment activities. The estimated investment return for the Systems for fiscal year 2017 (July 1, 2016-March 31, 2017) is approximately 8.8%.

**U.S. Public Equity Program Review** -- John Tuck and Travis Allen reviewed the portfolio and shared that the five-year annualized return for the period ending December 31, 2016 was 14.8%.

**Private Equity Annual Review** -- Doug LeBon, Vincent Dee and John Ruggieri presented a number of items for the Board's review, as well as an investment calendar for 2017. They reported that the Systems' private equity portfolio had produced an annualized return of 10.9% for the 10-year period that ended on December 31, 2016.

### MANAGEMENT REPORT

**Selection of External Auditor** -- The Board of Trustees unanimously approved the staff recommendation for the retention of Williams-Keepers as the external auditor.

**Legislative Update** -- Maria Walden and Jim Moody updated the Board on the current legislative session which will adjourn on May 12, 2017.

The "Moody Report" included references to the very serious budget challenges currently facing our state. Managing cash flow during the months of May and June will be a major challenge, and personal income tax refunds are being delayed. Moody referred to SB19, a bill passed a number of years ago that significantly reduces corporate taxes, as "a mistake of Biblical proportions." He cited the following approximate figures of corporate income taxes paid to Missouri:

- 2015 -- $436 million
- 2016 -- $280 million (reduction of 35%)
Maria Walden shared information on several bills that have a direct impact on the Systems:

**HB 304/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/SB 441** 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%.)

**HB 918** requires all public pension plans to use an expected investment return that is equal to the 10-year average of actual investment returns. (To understand the Trustees' concerns about this bill, refer to the Systems' report.)

**HB 936** allows for any PSRS retired member to return to work for a PSRS/PEERS covered employer without any limitation in the number of hours allowed to work after retirement. (While this may appeal to retired educators who wish to supplement their income by working full time in a non-certified school-district position, it could result in serious consequences to the fiscal stability of the Systems.)

**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 presentation, the Board voted unanimously to oppose HB 918 and requested that staff testify in opposition to HB 936.

**CPI Update** -- Based on values provided by the Bureau of Labor Statistics, the CPI is up 1.06% for the first eight months of fiscal year 2017. (Refer to the Systems' report for a better understanding of the CPI and how this affects the Cost of Living Adjustment for retirees.)
Public Comment -- None

Other -- Steve Yoakum recognized Trustee Yvonne Heath for having been named chair of the Trustee Education Committee for the National Council on Teacher Retirement (NCTR)

The open session adjourned at 1:00 p.m. Business items on the agenda for the closed session included the approval of minutes, a legal report, a securities update, personnel review, executive director evaluation, executive director compensation and a board self-evaluation.