

**PSRS-PEERS Board of Trustees Report**  
**October 27-28, 2019**  
**By Otto Fajen**

**Trustees present**

Aaron Zalis, Chair  
Jason Hoffman, Vice-Chair  
Chuck Bryant  
Yvonne Heath  
Scott Hunt  
Beth Knes  
Jason Steliga

**BUDGET AND AUDIT COMMITTEE**

The committee met on October 27. The committee discussed a budget amendment related to the building expansion and renovation project. The preliminary budget was approved in June 2019 prior to final competitive bids for the various parts of the project. Based on those bids and the guaranteed maximum price for the project provided by the Construction Manager At Risk, the cost has been reduced from the original estimate, and staff requested a budget reduction of approximately \$1.3 million. The budget amendment was unanimously approved by the committee.

**SYSTEM OPERATIONS**

The Board met on October 27 and continued its meeting on October 28. The board approved the minutes from the August 26, 2019 meeting.

**INVESTMENTS**

Investment Performance Report - Craig Husting of PSRS/PEERS and Barry Dennis from Verus reviewed ongoing investment activities. The estimated return for the first quarter of fiscal year 2020 was approximately 0.9%. The Board reviewed the current asset allocation of the Systems' portfolio and discussed the potential for an asset/liability study in the spring of 2020.

Public Credit Program Review - The Board reviewed the Systems' credit portfolio. The five-year annualized return for the credit portfolio through 2018-19 was 3.9%.

Private Equity and Private Credit Program Review - The Board reviewed the Systems' private equity and private credit portfolios. The five-year annualized return for the private equity portfolio through 2018-19 was 14.5% and the five-year annualized return for the private credit portfolio for the same period was 5.6%.

Proxy Voting Policy - The Board reviewed the Systems' proxy voting policy. The Systems' active public equity investment managers are each responsible for voting proxies in the best interests of the members of the Systems. These investment managers report annually to the staff on how their proxies

were voted on behalf of PSRS/PEERS. The Systems received proxy voting reports from all public equity managers for fiscal year 2019. Staff confirmed that all investment managers are in compliance with the Policy.

Investment Policy Changes - The Board reviewed recommended investment policy changes. The changes are primarily to bring the policy in accordance with Board investment action over the last year, clarify language, and update benchmarks. The policy changes also allow a private credit direct investment program. The investment policy changes were approved by the Board.

Real Estate Annual Review - Jack Koch and Seth Marcus from Townsend presented a real estate market overview and details of the Systems' real estate portfolio. The Systems' real estate portfolio produced an annualized return of 9.6% (net of all fees) for the five-year period ended June 30, 2019.

### **REPORT OF ACTUARY AUDIT**

Representatives of Cavanaugh Macdonald (CM) discussed their recent actuarial audit of the Systems' current actuary, PricewaterhouseCoopers (PwC). The Board conducts an actuarial audit every five years. This included a full replication audit where CM independently reproduced June 30, 2018 valuations and also a review of the most recent actuarial experience study performed by PricewaterhouseCoopers (PwC). CM concluded the actuarial work provided by PwC provides a fair and reasonable assessment of the financial position of the Systems and that their work was actuarially sound. CM provided suggestions for the next experience study and the actuarial valuation process. None of the suggestions are expected to have a significant impact on future actuarial results. The Board of Trustees approved the actuarial audit.

### **REPORT OF ACTUARY**

June 30, 2019 Valuation - Representatives from PricewaterhouseCoopers (PwC) presented the results of the June 30, 2019 actuarial valuations for the Systems. The June 30, 2019, preliminary pre-funded status based on the actuarial value of assets of PSRS was 84.4% and PEERS was 86.4%. The funded status of both Systems is viewed to be healthy and the result of appropriate actuarial assumptions, consistent funding of the required contributions and diligent plan governance.

Contribution Rates for 2020-2021 - The Board voted unanimously to maintain the contribution rate for PSRS at 29% and PEERS at 13.72% as recommended by the actuary.

January 2020 Cost-of-Living-Adjustment (COLA) – Based on last year's CPI-U figure and in accordance with the System's Funding Policy, the Board voted unanimously not to grant a COLA increase for January 2020. The final FY 2019 CPI-U figure is +1.6485%. Under current policy, when the CPI-U is between 0.0% and 2.0%, the Board will make a COLA for eligible retirees of 2.0% when the cumulative CPI-U growth reaches 2.0%. Staff note that it is likely that there will be a COLA adjustment for January 2021.

## MANAGEMENT REPORT

Schedule for Board Election - On July 1, 2020, there will be two positions available on the PSRS/PEERS Board of Trustees. Both of these positions must be filled by an active member of PSRS. The Board revised the proposed election schedule and then approved the revised election schedule. Nominating petitions will be available to members and Associations on January 10, 2020 and all completed nominating petitions must be returned to PSRS with a postmark no later than February 24, 2020.

Facility Renovation - The Board reviewed the construction timeline of the first part of the project that includes geothermal bore fields, pipe installation, demolition of the maintenance facility, three-lane south exit and new west parking lot. This portion will be completed on November 1. The second part of the project includes the new addition and renovation of the existing building. This portion will begin during the week of November 4 and will last approximately 24 months. The Board was presented with the list of companies who were awarded contracts for the second part of the project based on the competitive bidding process.

Fiscal Year 2019-2020 Budget Adjustment - The Board reviewed the recommended budget amendment from the Budget and Audit Committee for a budget reduction of approximately \$1.3 million. The Board approved the budget amendment as recommended by the Committee.

Member Services Report - The Board received an update and overview on the benefits section within member services. The Board received a thorough presentation on the detailed process of purchasing service credit for Social Security-covered employment. This purchase is one of the three main service purchases used by members.

Current CPI-U Update – The Board reviewed CPI-U data. The CPI-U change for the first quarter of 2019-2020 is +0.2405. The cumulative change (including last year's +1.6485%) is now +1.8890%. The cumulative CPI-U is likely to exceed 2.0% by the end of the fiscal year. Under the Systems' policy, this would likely result in a 2.0% COLA adjustment for January 2021.

Public Comment - Carol Weatherford, former MNEA-Retired President, commented on behalf of herself as a PSRS benefit recipient. Carol expressed her thanks to the Board and to the staff of PSRS/PEERS for their continued hard work and dedication to the Systems.

The public meeting adjourned at 12:20 p.m. on October 28, and the Board went into closed session.