

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

Monday, December 11, 2017
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.

Budget & Audit Committee Meeting

Approval of Minutes -- Minutes from the June 13, 2017 meeting were approved.

Budget Transfer -- Information Technology -- Anita Brand presented a brief synopsis of equipment needing to be replaced. Bill Betts then explained in further detail the options for consideration. Over the next two years, much of the current hardware is going to End of Support, and Core systems will be impacted beginning with January, 2018.

Option #1 -- Traditional. Continue to replace hardware in pieces instead of having one solution; more cost effective in the short term

Option #2 -- Complete Replacement. Look for a solution that replaces all server/storage components of the data center into a new technology called hyper converged; more cost effective and easier to support in the long term.

Following further explanatory information and cost analysis, Anita Brand explained that a total of \$700,000 needed to be transferred, most of it from an agreement with SagiTech for work that is now being done internally. Scott Hunt moved that this be approved, and it was passed unanimously.

Review of June 30, 2017 Audit Report -- Williams Keepers team members Heidi Chick, Nick Mestres and Kristen Brown presented a clear explanation of the Audit Process they had followed for the PSRS-PEERS audit. They explained that they had followed these steps: planning and supervision, risk assessment and materiality, internal controls, and audit testing -- resulting in the evaluation and final report.

This Independent Auditors' Report concluded with the following opinion:
Unmodified (clean) -- "highest opinion" available. In other words, the bottom line is that people can rely on the numbers and disclosures from PSRS-PEERS.

Nick Mestres reviewed the important points in the official communications from Williams Keepers, LLC, dated November 29, 2017.

Regular Meeting of the PSRS-PEERS Board of Trustees

Trustees present:

Aaron Zalis, chair,
Chuck Bryant,
Yvonne Heath,
Beth Knes,
Jason Hoffman,
Scott Hunt,
Jason Steliga

Others present as active participants:

Steve Yoakum, Executive Director;
Nicole Hamler, Board Secretary;
Craig Husting, Chief Investment Officer;
Anita Brand, Director of Investment Accounting;
Bill Betts, Chief Technology Officer;
Heidi Chick,
Nick Mestres, & Kristen Brown, Williams Keepers, LLC;
Maria Walden, Director of Legislation & Policy;
James Moody of Moody & Associates.

SYSTEM OPERATIONS

Minutes from the November 3, 2017 meeting were approved and the Order of Business was established. Phil Klapp and Kristi Graessle were recognized as loyal employees who are retiring from their work at PSRS-PEERS.

INVESTMENTS

Investment Performance Report -- Craig Hustings reported that investments operate at less risk than 88% of public pension plans with returns higher than most.

Ongoing Investment Activities -- For FY 2018, through 11/30/17, investment return is approximately 5.6%

General Asset Consultant Selection -- The search for the consultant has been extensive and time consuming. Beginning with a total possibility of 104 firms within the P & I database, RFP's were issued to 27. Of these, 9 firms responded. Meetings were held with 6 of these firms which was then narrowed to 4. On December 4, five of the PSRS-PEERS Trustees met in closed session

with representatives of the two finalists: Verus and Willis Towers Watson, both of which were determined to be of high quality. Without further discussion in the open session, the Trustees voted unanimously to select Verus as the General Investment Consultant.

ACCOUNTING

Review of Fiscal Year 2017 Comprehensive Annual Financial Report (CAFR)-- This report contains 5 distinct sections -- Introductory, Financial, Investment, Actuarial, and Statistical. Anita Brand reviewed each of these sections as it pertains to PSRS-PEERS. The goal to openly disclose everything about the finances of the Systems has been met with expertise. Steve Yoakum issued "kudos to Anita Brand and the entire staff" for going beyond adequate to *exemplary* in their work.

Report of the External Auditor -- Chick, Mestres and Brown of Williams Keepers once again reviewed the audit they had performed and had explained in the earlier session. Without further discussion, the Trustees voted to accept the audit report. Steve Yoakum announced that the report will be available on the PSRS-PEERS website.

MANAGEMENT REPORT

Budget Transfer -- Information Technology -- As a matter of formality, the Trustees officially approved the budget transfer of \$700,000 that they had discussed during the earlier session.

Legislative Update -- James Moody gave an overview of the current fiscal challenges faced by the state of Missouri. Tax cuts approved for 2018 will reduce state fiscal resources by \$330 Million, resulting in an extraordinarily tight state budget for 2018. This is further complicated by changes in the federal tax law, as Missouri's tax law is currently tied directly to the federal plan. Moody, who has worked with the State Legislature for many years, concluded by stating that this is "more complicated than anything I've ever seen."

Maria Walden reviewed a number of bills that have been pre-filed, including SB 673, Andrew Koenig, that would restrict lobbying by education professionals on contract time and SB 747, Ed Emory, that moves all public retirements into a Defined Contribution plan. She shared that discussion is taking place with Rep. Black about a possible bill that would allow retired educators to be employed as full-time bus drivers.

CPI-U Update -- In the United States, the Bureau of Labor Statistics publishes the Consumer Price Index-Urban (CPI-U) every month. The CPI-U is 0.697% through October 31, 2017. The PSRS-PEERS regulation requires that the time period for the calculation of the COLA be from July 1-June 30.

Public Comment -- None

The open session was adjourned at 11:20 a.m., and the Trustees went into closed session. The agenda for the closed session included: Approval of Minutes, Legal Report, Internal Control Report, and Personnel Report.