

PSRS-PEERS Board of Trustees Report
June 9, 2020
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 MEETING

Prior to the meeting of the Board of Trustees, the Budget and Audit Committee met to review and approval the Annual Banking Resolution that allows the administrators of the system to work with Central Bank without requiring further Board action of the details of each action.

Staff presented a review of the Systems' staff pay and compensation program. The review included several recommendations, including continuing to use the comprehensive strategy document, conducting a market review every three to five years and providing competitive salary increases. Currently, a 3.2% pay increase is recommended along with ensuring that all employees are raised to the current minimum of the recommended salary range for their position.

The staff also presented the detailed FY 2021 budget proposal, and the Committee approved the budget for recommendation to the Board. The largest part of the budget is payment of member benefits, and that portion is budgeted to increase by 5%. The budget assumes a 2% COLA will be provided next year to retirees, though the cumulative CPI increase for last year and this year to date has not yet reached the 2% threshold.

The budget also includes investment fees and expenses and administrative expenses. Budgeted investment fees and expenses total \$478 million. The budget includes increases to address the salary recommendations noted above but does not include a staff COLA.

The Internal Auditor also reported to the Board. The auditor reported that there are no findings needing the committee's attention.

SYSTEM OPERATIONS

The Board meeting started at 10 a.m. The Board approved the minutes from the April 6, 2020 meeting and established the order of business. The Board recognized outgoing members Aaron Zalis and Yvonne Heath for their service. Their terms will expire on June 30, 2020.

INVESTMENTS

Investment Performance Report – Craig Husting again reviewed the March 31, 2019 investment status. Most market sectors went down sharply during March 2020 due to the pandemic. The Systems were down during that quarter, but less than its benchmarks. The low point was on March 23, and there was a considerable rebound after that time, so a significant share of losses have been recovered. The Systems expect future write downs in private asset classes that report more slowly than public asset classes. Private credit fell strongly but has a low allocation.

The Systems' allocation served it well during this episode. The allocation has less risk than its benchmarks and benefitted from its allocation to U.S. Treasuries. Leverage also helped, and the Systems made some sales at higher values before the decline and several strategic purchases during the rebound when values were lower.

Husting also reviewed the Systems' returns as of May 31. The Systems showed a market value of \$44.7 billion and an overall return of +1.8% for the fiscal year to date.

Custodial Review and Contract – The Board approved the Staff recommendation to renew the current custodial contract with J.P. Morgan while negotiating some specific new contract terms based on recommendations from the review. The Systems again used RVK as a consultant to assist in the review of the custodial contract with J.P. Morgan. The custodial bank contract is the most important investment operating relationship for the Systems, since the custodial contract includes custody of funds, accounting, cash management, foreign exchange, securities lending and several other essential investment functions.

Investment Policy Revisions – The Systems' Investment Policy is a lengthy formal document that is periodically reviewed and updated by the Board. The Board approved the Staff's recommended revisions. These revisions were primarily the minor revisions needed to reflection the Board's changes to allocation targets as approved at the April 6, 2020 meeting. The revisions included allowing for more use of leverage and real estate co-investments.

MANAGEMENT REPORT

Election results – Election America was hired to conduct the 2020 PSRS/PEERS Board of Trustees election to elect two members to the Board. A total of 35,691 ballots were cast from a total electorate of 235,067. This represents a participation rate of roughly 15.2%. This included 9,559 Internet ballots, 23,560 paper ballots and 2,572 phone ballots cast. Members were allowed to vote for up to two candidates.

The vote tally was:

Dr. Melinda Moss	19,675
Dr. Kyle Collins	19,644
Dr. Aaron Vitt	16,433
Darren Farmer	12,796

Accordingly, Dr. Moss and Dr. Collins were elected to serve on the Board and replaced the outgoing members, Dr. Aaron Zalis and Yvonne Heath. The terms for Dr. Moss and Dr. Collins will begin on July 1, 2020.

COVID-19 Update – The Systems reopened the headquarters facility at 50% occupancy rate as of June 1, 2020. In-person member meetings are not being scheduled, but members who come to the facility may conduct necessary business with the staff.

Banking Resolution – The Board approved the Annual Banking Resolution that allows the administrators of the system (Steve Yoakum, Dearld Snider and Craig Husting) to work with Central Bank to make needed changes to their banking relationship without requiring further Board action of the details of each action.

Budget – The Board approved the Systems' FY 2021 budget as recommended Staff and approved by the Budget and Audit Committee. The largest part of the budget is payment of member benefits, and this portion is budgeted to increase by 5%. The budget assumes a 2% COLA will be provided next year to retirees, though the cumulative CPI increase for last year and this year to date has not yet reached the 2% threshold. The budget also includes investment fees and expenses and administrative expenses. Investment fees and expenses total \$478 million. The budget includes increases to address the salary recommendations noted above but does not include a staff COLA.

Legislative Report – Maria Walden and Jim Moody gave the report. Moody spoke at some length regarding the serious budget concerns faced by the state due to the pandemic. Nationally, unemployment remains very high at about 16%. State finances will get better when unemployment improves significantly. State general revenues are at -7.4% or -\$643 million for FY 20 as of the end of May. Moody expects state GR to be about \$1.1 billion short at the end of June, compared to the revenue estimate used for the budget. By the end of next fiscal year, Moody expects state GR will be about \$2 billion short, but with about \$1 billion of this covered by increased federal Medicaid match funding that reduces GR requirements.

The Governor withheld education funding again on June 1 and stated that he expects to have to make another major withholding of education funding when the next fiscal year starts on July 1 due to next year's anticipated shortage of GR funds. Additional federal aid for state budget stabilization could cover some portion of the state's remaining funding gap, if approved by Congress, but the likelihood of this happening is hard to predict.

At this time, considerable uncertainty remains regarding what will happen with the unemployment rate, what the state's budget shortfall will be and whether the increased Medicaid match funding will end in FY 21 or continue beyond that time.

Maria Walden mentioned the Systems' current resolutions in support of maintaining a defined benefit (DB) pension plan, avoiding any benefit increases until the unfunded liability is eliminated and the contribution rate stabilizes, and urging the legislature not to impose any restrictions on the Board's ability to invest the Systems' assets in the best possible way. The Board also reviewed the current policy regarding setting the Cost of Living Adjustment (COLA) under the flexibility allowed in the current law.

Truly Agreed To Bills: Walden also discussed several bills that were enacted by the legislature and affect the Systems:

HBs 1467 & 1934 (Pike) requires salary disclosure for employees of PSRS/PEERS.

SB 739 (Onder) creates requirements that public entities not enter into contracts with companies that boycott Israel or its territories.

Legislation that did not pass:

The legislature showed some interest in legislation regarding these topics:

- 1) reinstate the 2.55% multiplier for 31+ years of service.
- 2) create a retiree substitute teacher pool.
- 3) extend the critical shortage working after retirement (WAR) option from 2 to 4 years and allow superintendents to participate after a one-year period.

CPI update/COLA review – The Board reviewed the COLA policy. The CPI-U for 2018-2019 increased by 1.6485%. Current CPI-U for 2019-2020 was 0.0960% through April 20, 2020. This represents a decline from the February 29 figure due to the economic effects of the pandemic. The total cumulative CPI-U over the period is 1.7445%. Under current policy, the Board will make a COLA for eligible retirees for next year if the cumulative figure at the end of this fiscal year (June 30) exceeds 2.0%.

Meeting Dates – The Board approved its meeting dates for FY 2021:

August 31, 2020
October 26, 2020
December 7, 2020
February 8, 2021
April 12, 2021
June 7 & 8, 2021

Public Comment – None.

The public meeting adjourned at 12:00, and the Board went into closed session.