

PSRS-PEERS Board of Trustees Report
April 15, 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 MEETING

Prior to the meeting of the Board of Trustees, the Budget and Audit Committee met to review a presentation on the Systems' compensation strategy for staff and the budget process.

Dearld Snider reviewed the Board of Trustees' compensation strategy by highlighting the purpose, principles and overall approach of the strategy. CBIZ, PSRS/PEERS' compensation consultant, recommends market data adjustments based on the cost of labor.

Anita Brand described the budgeting process. The budget includes investment expenses and administrative expenses. Final detailed budget requests will be presented to the Budget and Audit Committee and the Board of Trustees during the June 2019 meeting.

SYSTEM OPERATIONS

The Board meeting started at 8:45 a.m. The Board approved the minutes from the February 11, 2019 meeting and established the order of business.

Election of Officers - As required by Board regulation, the board of trustees unanimously re-elected Aaron Zalis as chairman and Jason Hoffman as vice chairman to each serve another one year term starting July 1, 2019.

Interest Credit Rate and Purchase Interest Rate - The Board set the interest credit rate for the current fiscal year at 2.0%, based on staff recommendation. Due to implementation of a new Board regulation requiring that the Board set the interest credit rate prior to the beginning a fiscal year, the Board also set the interest credit rate for next fiscal year at 2.0%, based on staff recommendation. The Board also approved the staff recommendation to set the purchase interest rate at the current assumed rate of return of 7.5%.

INVESTMENTS

Investment Performance Report - Craig Husting and Barry Dennis from Verus Investments reviewed the March 31, 2019 investment update. Calendar year 2018 was a low investment performance year in

nearly all market sectors, but the first quarter of calendar 2019 has shown considerable rebound in most market segments, and the Systems' investment earnings stand at 3.3% as of March 31, 2019.

Real Estate Portfolio – Susan Conrad and Chhayhea Sam from PSRS/PEERS gave a presentation regarding the Systems' Real Estate portfolio including program objectives, guidelines and long-term results. The real estate portfolio seeks to generate returns greater than bonds and less than stocks with much lower volatility (risk) than stocks, while also providing low correlation to other asset classes. This diversifies and strengthens the portfolio.

The long-term target allocation is 9.0%, within an allocation range of 4% - 12%. The actual allocation as of 12/31/18 was 8.0% or \$3.3 billion. The goal is to outperform the benchmark, currently defined as the NCREIF Fund Index – Open End Diversified Core Equity (NFI-ODCE) net of fees over a rolling 5-year period, and the portfolio is meeting that goal. The five-year annualized return for the Real Estate composite for the period ended December 31, 2018 was 10.8%.

Private Equity Annual Review - Doug LeBon, Vincent Dee, and John Ruggieri from Pathway Capital Management (the Systems' Private Equity Consultant), gave a presentation to the Board regarding the Systems' private equity program. This included an update on the Systems' Private Equity, Private Credit and Co-investment portfolios that Pathway consulted on, recent commitments and an investment plan for calendar year 2019. The Systems' Private Equity portfolio produced an annualized return of 15% for the 10-year period ended December 31, 2018 relative to the Russell 3000 public equity benchmark of 13.2%.

MANAGEMENT REPORT

Legislative Report – Maria Walden and Jim Moody gave the report. Moody mentioned that state general revenue for FY19 as of the end of March 2019 was down 4.3% or about \$286M compared to FY18, while the state budget is built on an assumed rate of growth of 1.7% or about \$165M, which creates a gap of \$451M. If correcting the reduced withholding of income tax brings in \$150M, there is still a shortage of \$400M for the current year thus far. Moody predicts FY19 general revenue will end up in the range -1.5% to -3.5%.

Maria Walden mentioned several bills that PSRS is tracking that would affect the Systems:

HB 69 (Dinkins) would reinstate the 2.55% multiplier for 31+ years of service. The actuary will provide an updated cost estimate for this change. Prior versions have been estimated to produce a small savings for the Systems. The bill hasn't been heard in committee. Cost study shows a savings to the system and reduction of contribution rate of 0.21%.

HB 77 (Black) and SB 17 (Romine) would address the impact of SB 892 (2018) on community college teachers. HB 77 has already been approved by the legislature and signed into law by Governor Parson, effective April 16, 2019. SB 892 changed the Working After Retirement (WAR) provisions for PSRS retirees working in school positions for which a DESE certificate is not required. SB 892 changed the WAR limit for this non-certificated employment from 550 hours to annual earnings of \$15,000. An unanticipated impact of this bill was that it also affects PSRS retirees employed as community college teachers, since those teachers are not required to have a DESE certificate. HB 77 switched the limitation for such community college teaching employment back to the 550-hour limit applied to other teaching positions. The Board supported HB 77.

HB 201 (Kendrick) would require all public pension plans to provide certain information to members of the plan. This bill would not impose any requirements not already met by the Systems.

HB 362 (Roeber) would increase WAR limit from 550 hours to 700 hours. The actuary estimates indicate significant cost to the system, ranging from \$18M to \$227M for PSRS and from \$5M to \$69M for PEERS.

HB 459 (Washington) was another fix for CC teachers and WAR, but is not moving forward.

HB 723 (Pike) revises the survivor popup option for a divorce under certain criteria and would allow options for divorces prior Sept. 1, 2017. The provisions may require a revised divorce decree to show spouse waives rights to the pension. The Board supports the bill. The bill has passed the House.

HB 864 (Taylor) allows all teachers to make an irrevocable choice to select a DC plan option rather than current DB plan. This option will save little for participants, is likely to provide less retirement income and security for those choosing a DC option and will be financially devastating for the current DB system. The Board opposes the bill. The bill has not been referred to committee.

HB 1011 (Rehder) would create requirements that public entities not enter into contracts with companies that boycott Israel or its territories.

Actuarial Services - Ms. Brand discussed the current contract and history with the Systems' actuary, PricewaterhouseCoopers (PwC). PwC's initial contract was renewed through negotiation for an additional five years through fiscal year 2018. State law requires the Systems to have an actuarial audit at least every 10 years and to perform an experience study at least every five years. As discussed in February 2019, staff negotiated new contract terms with PwC. The new terms extend the contract for five years. Staff recommended the Board renew PwC's contract for an additional five years based on the new terms. Staff also recommended that an actuarial audit be done every five years instead of 10. The Board of Trustees approved staff's recommendations by unanimous vote.

Board Governance – Staff reviewed the two items from the Board Governance Report that were deferred from the February meeting. Cortex had recommended the Board consider whether the executive director should be authorized to select and appoint specialty and asset class consultants rather than having to obtain Board approval. After review of the proposed changes, staff recommended that the Board retain authority to approve specialty investment asset class consultants. Cortex also recommended that the Board of Trustees' Ethics Policy be revised and included in the Board Governance Policies. Based on staff's review, revisions were made to make the policy more concise and consistent with current practices. In addition, revisions were made to include additional information on insider trading and disclosure of communications regarding investment transactions. Staff also recommended including the Board of Trustees' Ethics Policy as part of the Board Governance Policies. The Board of Trustees approved staff's recommendations by unanimous vote.

Facility Renovation/Construction Management at Risk – Dearld Snider presented the renovation timeline and the process and criteria for selecting a Construction Manager at Risk (CMAR). Mr. Snider reported that staff had interviewed several qualified firms and selected River City Construction as CMAR. River City has a strong presence in Missouri and has recently completed such projects as the South Providence Medical Building with the University of Missouri Healthcare and the Fulton State Hospital.

Member Services – Nicole Hamler and Amanda Wooten presented an update on Member Education. Ms. Hamler gave a general overview of the section and the different programs offered by Member Education. Ms. Wooten discussed in detail both the Web Counseling and Quick Counseling programs.

CPI update/COLA review – The Board reviewed the COLA policy. The year to date FY 2019 CPI-U figure is +0.8782%. 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% .

Public Comment – None.

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