

PSRS-PEERS Board of Trustees Report
October 26, 2020
By Otto Fajen

Trustees present

Jason Hoffman, Chair
Jason Steliga, Vice-Chair
Dr. Kyle Collins
Scott Hunt
Sharon Kissinger
Beth Knes
Dr Melinda Moss

SYSTEM OPERATIONS

The Board met on October 26. The board approved the minutes from the August 31, 2020 meeting.

INVESTMENTS

Investment Performance Report - Craig Husting of PSRS/PEERS reviewed ongoing investment activities with representatives from Verus participating online. The estimated return for the first quarter of fiscal year 2021 was approximately 5.3% and the estimated return for fiscal year 2020 was 0.8%. The Board reviewed the current asset allocation of the Systems' portfolio.

Public Credit Program Review - The Board reviewed the Systems' credit portfolio. The Systems' long-term target allocation plan will reduce public credit allocation to 0%, while the current allocation is 4.6% and the interim target allocation is 9%. Most of the investments are now in investment grade corporate bonds. The five-year annualized return for the credit portfolio through September 30, 2020 was 5.26%.

Hedged Assets Program Review - The Board reviewed the Systems' hedged asset portfolio. The Hedged Assets Program has a primary objectives of reducing risk and providing downside protection. Hedged assets include a broad range of assets and investment strategies. The Systems' long-term target allocation plan includes an allocation of 6% to hedged assets. The hedged assets portfolio did not help as much as expected during the market decline in March 2020 and has a -2.37% return for the last year. The five-year annualized return for the hedged assets portfolio through is 3.12%.

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 2020. Staff confirmed that all investment managers are complying with the Policy.

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. Real estate has been impacted by COVID-19.

Current trends have been accelerated, including increases in online and remote sales, working from home, and technology-based activities such as remote learning. The pandemic has created dislocations for hotels, student housing and office space. The Systems will be managing the real estate portfolio in light of these factors. The Systems' real estate portfolio produced an annualized return of 7.2% (net of all fees) for the five-year period ended June 30, 2020.

REPORT OF ACTUARY

June 30, 2020 Valuation - Representatives from PricewaterhouseCoopers (PwC) presented the results of the June 30, 2020 actuarial valuations for the Systems. The June 30, 2020, preliminary pre-funded status based on the actuarial value of assets of PSRS was 84.0% and PEERS was 86.3%. 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. PwC noted as a consideration that the margin for adverse experience in the future has primarily been eliminated due to the COLA for next year and asset return for fiscal year June 30, 2020.

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 2021 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 to grant a COLA increase for January 2021. The final FY 2019 CPI-U figure is +1.65%. The final FY 2020 CPI-U figure is +0.65%, so the two-year total is 2.30%. 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 or exceeds 2.0%.

MANAGEMENT REPORT

Facility Renovation - The Board heard an update from staff on the Systems' facility renovation project. The update reviewed the renovation timeline. The second phase of construction is underway and proceeding according to the timeline. The new addition is scheduled to be completed by November 2020. A temporary occupancy permit was issued on October 9th, and a full occupancy permit should be issued on November 2nd. Not all spaces have been remodeled. Renovation of the existing facility and tie-in is scheduled to continue until September 2021. Some existing windows failed water and air penetration tests due to poor installation in 2001. The staff will continue to work on this issue and will likely bring a budget adjustment for window replacement to the Board for the December meeting.

Current CPI-U Update – The Board reviewed CPI-U data. The current fiscal year CPI-U is 0.9632% through September 30, 2020. Under current policy, when the final CPI-U for a fiscal year is between 2.0% and 5.0%, the Board will make a COLA for eligible retirees of 2.0%. 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 or exceeds 2.0%.

Public Comment – No public comment was offered. Board Chair Jason Hoffman offered thanks and recognition for Steve Yoakum’s service as Executive Director. Mr. Yoakum will retire effective December 1, 2020.

The public meeting adjourned at 11:50 a.m., and the Board went into closed session.