



REGULAR MEETING
PUBLIC EMPLOYEES' RETIREMENT BOARD

December 9, 2010

President John Nielsen called the regular meeting to order at 8:30 am Thursday, December 9, 2010. Roll call was taken with six members of the Board present; Ms. Halpin was excused. Board members and staff present were:

John Nielsen, President
Terry Smith, Vice President
Patrick McKittrick, Member
Scott Moore, Member
Dianna Porter, Member
Timm Twardoski, Member
Roxanne Minnehan, Executive Director
Melanie Symons, Chief Legal Counsel
Mary Taylor, Executive Assistant

OPEN MEETING

Don Kinman, AFSCME; Mike O'Connor, AMRPE; Chris Phillips and Cliff Sheets, Montana Board of Investments; Doug Neil, Rick Ryan, Ed Cleary, George Richards, Kevin Bentz, Chad Nicholson, Jeff Kroll, Dax Fraser and Jason Baker, members of the Montana State Firefighter's Association; Matt Rosendale, Rep. Elect HD 38; Tom Schneider, MPEA; Linda Ulrich and Kent Morris, Great-West Retirement Services; Jill Hindoiin, MRPEC; Phil Drake, Montana Watchdog; Ralph Pommichowski, MPERA Contractor; Diann Levandowski, Assistant Fiscal Services Bureau Chief; Barbara Quinn, Fiscal Services Bureau Chief; Renae Justice, Internal Auditor; Patricia Davis, Member Services Bureau Chief; Jenny Weigand, Education Supervisor; and Kate Talley, Legal Counsel, joined the meeting.

Public Comment on any subject of interest not on the Board agenda. No comments were given.

MINUTES OF OPEN MEETING

The minutes of the open meeting of October 14, 2010 were presented. Mr. Terry Smith noted a correction to the minutes.

Motion: Vice President Terry Smith moved to approve the minutes of the October 14, 2010 PERB Regular Open Meeting with correction.

Second: Mr. Timm Twardoski

No public comment.

Vote: 4/0, Ms. Porter and Mr. McKittrick abstained.

The minutes of the open meeting of November 10, 2010 were presented.

Motion: Ms. Porter moved to approve the minutes of the November 10, 2010 PERB Regular Open Meeting.

Second: Vice President Terry Smith

No public comment.

Vote: 6/0

BOI Update – Clifford Sheets, Board of Investments

Mr. Sheets presented the annual report and investment policies.

Mr. Sheets reviewed a handout he presented to the Board.

Asset Allocation Report:

Mr. Sheets explained that he prioritizes, first ensuring sufficient liquidity to pay plan benefits; next ensuring that contractual commitments can be met for certain private equity or real estate funds, which entail a contract that requires periodic funding; and finally, rebalancing where needed. He also takes into account market considerations and a variety of circumstances. He reported that the fiscal year was a good one. The total return for the plan was about 12.8%. The market movement was positive for all asset classes except real estate, which lagged other risk assets, though it began to recover towards the end of the fiscal year.

The domestic equities were reduced a little during the fiscal year to provide other funds for other asset classes and to pay benefits.

The total equity remained about the same, at 63.5%. The bond component decreased slightly, ending the fiscal year at 28.4% in the Public Employees plan. Real Estate increased slightly to end at 5.7%, summing both the direct and the pooled real estate for the PERS plan. The overall dollars for PERS went up \$315 million during the fiscal year by virtue of the market rally and despite a payout totaling \$228 million in benefits and administrative costs for that plan. There is negative cash flow in the plan, totaling \$69 million in fiscal year 2010.

For the first fiscal quarter of 2011 there was a further rally in all asset classes with stocks up the most after they had declined during the second quarter. There was a noticeable impact from the market movement in international equities, which were up about 16% during the quarter alone. Overall, the total equity increased noticeably, up to 66.2% in the public employees plan, up about almost 3% during the quarter. Bonds fell about 1.9% during the quarter due primarily to the sale of some of the retirement fund bond pool, despite positive returns. Plant assets were up dramatically, a \$240 million gain in the public employees plan. Mr. Sheets noted that it was a great quarter and good start to the fiscal year.

In the Police and Firefighters plans for June, the STIP component was a little over 6% for each of the two plans, which exceeds the approved range of cash of 1-5%. It was an unintentional result of the once-a-year funding that these two plans receive from an insurance premium deposit which occurs typically in September. September was a great month for the stock market, which created a cash drag on performance for those two plans for the month of September.

New Asset Classes:

In May, the BOI chose not to approve the use of hedge funds in retirement plans. The BOI looked at commodities and chose not to invest in commodities. They also looked at timberland as a component and supplement to real estate exposure and determined it would be a good diversifier for the retirement plans. It was approved in August as a new asset class, with a limit that they not exceed 2% of total plan assets. They chose to incorporate it as part of their real estate pool. Staff is looking at various timberland managers; they expect over the next six months to make some initial commitments.

Performance Review:

Fiscal year 2010 was a great year. Total plan returns for PERS were 12.8%. The other plans had comparable returns. Real estate was impacted negatively by the recession. Private equity was the strongest, at 18%. Public equity was also strong at 14%. Bonds did especially well, at 14%, given relatively weak growth during this recovery and the lack of inflation.

For the period ended October 31, 2010, Mr. Sheets indicated that it is starting out as a great fiscal year and we are likely to see a positive bias to fiscal year-to-date returns for fiscal year 2011. The fiscal year to date return for PERS was 10.5%. Returns were good across all assets classes, though private equity was flat. Real estate stabilized with a positive return of 6%.

Asset Allocation Comparison

In comparison to other public plans, Mr. Sheets concluded that we are competitive.

Market Insights

We are gradually seeing a rebound in stocks. As of September 2010 we have recovered about 70% since the bottom of the stock market in March of 2009. The average length of a bull market has been over 5 years. We are only 1 year and 9 months into this bull market. The upshot, we are in a bull market, we have a ways to go, good prospect for eventually recovering the losses. Give it time, gone through a real shock and unusual recession and we still have a lot of excess debt in the system that it is going to take time to work off.

Mr. Sheets summarized the economic outlook and what it means for investment strategy. He indicated that we are facing a deleveraging headwind. Too much debt got us into a mess and it will

take time to recover. Inflation is quite low and will stay low until we see final demand accelerate noticeably and start to narrow that access capacity. One strong positive is that corporate profits have improved dramatically and recovered their entire losses from the recession, which is helping the stock market. He expects corporate profits to improve in 2011, with an 8 to 10% gain, which will support equity prices. He believes that in this kind of environment the appropriate investment strategy is to maintain a bias towards risk assets. This involves staying in the top half of our total equity range (65-70%), and within our fixed income exposure to our retirement fund bond pool, maintain a credit bias. Corporate credit quality is continuing to improve which is bolstering the performance of corporate bonds. We should also continue to emphasize real estate. He believes 7.75% is attainable, that we can earn this over time but not without taking some investment risk.

Investment Policy:

Mr. Sheets highlighted the retirement plans policy which was just adopted by the board. It is the master template for all 9 retirement systems. The policy was written to be a web-based document. This policy codifies the policies and practices that were already in place. There is no substantive change. He reviewed the key components of the policy. He explained that the plant assets are co-mingled and invested to six underlying investment pools. The underlying investment pool policies is where they fundamental investment exposures are spelled out. He reviewed the three long-term investment objectives of the plan, including actuarial target rate of return, investment policy benchmark and public plan sponsor universe. He also discussed the asset allocation guidelines, the rebalancing process, share holder rights and securities lending. Mr. Sheets confirmed that they also have a separate litigation policy which available on the Board of Investment's website, located within their governance manual.

EXECUTIVE DIRECTOR'S REPORT – Roxanne Minnehan, Executive Director

2011 Legislation Bill Sponsors – Dianna Porter

The Board has six proposals: General Revisions Bill, General Revisions for the Volunteer Firefighters Compensation Act (VFCA), Working Retiree Bill and three funding bills: PERS, Sheriffs and Game Wardens. There are sponsors for the non-funding bills. Representative Mike Menahan has agreed to sponsor the General Revisions Bill; Representative Franke Wilmer has agreed to sponsor the Working Retiree Bill and Representative Gordon Hendrick will sponsor the VFCA General Revisions Bill. There has been discussion with Representative Chuck Hunter concerning the funding bills; he is reviewing them and will get back to us on Monday. The bills need to be introduced by Wednesday, December 15, 2010. Ms. Minnehan explained that the Board has a fiduciary responsibility to address the funding of the systems. The Board has reviewed them and determined the best course of action to take without dissipating the plans too much but at the same time maintaining a DB plan for members.

This bills propose to increases the highest average compensation from 36 to 60 months for all new hires in PERS, SRS and GWPORS; propose a 1% increase in employer contributions in the SRS, GWPORS and PERS; increase employee (new hires) contribution 1% each year of the biennium for PERS; the PERS funding bill also proposes to increase the normal retirement age from 60 with 5 years of service is 65 with five years of service; phase in the multiplier; also a reduced benefit from 0 to 10%. The SAVA committee approved those bill proposals, allowing the bill to go through intact.

The Board was provided with a list of House and Senate members for the upcoming session and a list of the Committee members for the House and Senate State Admin. Committees. They will be hearing most of the retirement bills. They were also provided with an updated list of other retirement legislation that has been proposed since the Board packet was sent out.

Suggestions for other legislative bill sponsors was discussed and a list of potential sponsors and action items was developed:

- Representative Jon Sesso; Ms. Porter will contact him.
- Representatives on the SAVA committee (Representative. Mehlhoff, Representative Pat Ingraham, Representative Gordon Hendrick, Representative Furey, Senator Jent, Senator Lewis, Senator Balyeat, former Senator Joe Tropila. MPERA staff will contact Representatives Mehlhoff and Furey
- Representative Chuck Hunter; he has been contacted and is considering sponsorship.
- Public employees who are legislators
- Representative Bill McChesney; Mr. Moore will contact.
- Representative Wilmer: MPERA staff will contact.
- Representative Phillips; MPERA staff will contact.

A Legislative Committee Meeting has been scheduled for Tuesday, December 14 at 8:30 am, via conference call to follow up on the progress.

Legislative Committee to schedule regular meetings – Dianna Porter

The Board's Legislative Committee normally meets once per week during the Legislative Session. The House State Admin. Committee meets Monday thru Friday at 8 am and the Senate State Admin. Committee meets Monday, Wednesday and Friday at 3 pm. Ms. Minnehan proposed scheduling set weekly meetings on Tuesdays at 10:30 am.

Any new or urgent information with regards to legislation will be e-mailed to all Board members. All Board members are welcome to participate in the weekly meetings, which are also open to the public.

Motion: Ms. Porter moved that regular meetings of the Legislative Committee before and during the session be scheduled on Tuesday mornings at 10:30 am.

Second: Vice President Terry Smith

Vote: 6/0

Legislative Guest(s) – Representative-elect Matthew Rosendale

Mr. Nielsen introduced Representative-elect Matthew Rosendale, from House District 38 in Glendive. Representative Rosendale indicated that this is his first time serving in the legislature. He is trying to gather as much information as he can before he starts to better prepare himself for the upcoming session. Mr. Nielsen thanked him for attending the meeting.

Short-term Worker – Lobbying Responsibilities – Roxanne Minnehan

Ms. Porter explained that the Legislative Committee discussed the hiring of a short-term worker to assist with lobbying activities during the 2011 Legislative Session. She indicated that Mike O'Connor has agreed to take on this responsibility, and referred to the summary included in the packet, listing Mr. O'Connor's qualifications. Mr. O'Connor was the prior executive director of MPERA and has many years of lobbying experience. She reported that the Committee moved to hire Mr. O'Connor as a short-term worker for 90 days, at a pay rate \$50 per hour. The Committee expressed their gratitude with Mr. O'Connor's decision to accept the position.

Motion: President John Nielsen moved that the Board hire Mike O'Connor as a short-term worker at \$50 per hour during the 2011 Legislative Session to assist with lobbying activities.

Second: Mr. Scott Moore

No public comment.

Vote: 6/0

Lobbyist Registration – Roxanne Minnehan

It was noted that lobbyist forms need to be submitted for Ms. Minnehan, Ms. Symons and Mr. O'Connor, allowing them to carry out lobbying activities during the upcoming 2011 Legislative Session.

Motion: Vice President Terry Smith moved that the Board register Roxanne Minnehan, Melanie Symons and Mike O'Connor as Lobbyists for the Board, and register John Nielsen as the Principal.

Second: Mr. Patrick McKittrick.

No public comment.

Vote: 6/0

PERS ER Contracts – North Lake County Library District – Kate Talley

The North Lake County Public Library District is moving from a public library operating under the city to a public library operating as a library district. They would like to continue uninterrupted PERS coverage for their employees as a separate agency. Ms. Talley recommended approving the contract.

Motion: Vice President Terry Smith moved to approve the contract with the North Lake County Public Library District.

Second: Ms. Dianna Porter.

No public comment.

Vote: 6/0

457 Plan – GM Settlement – Patricia Davis

Ms. Davis explained that there was a class action lawsuit filed against General Motors and Deloitte & Touche by investors who experienced losses when GM's financial condition was revealed. The lawsuit was settled in September of 2008. MPERA received \$6,544.50 in May of 2010. Staff is recommending distributing in the same method as past SEC settlements. Staff recommends distributing proceeds to 36 of those active participants who would have received a distribution of greater than \$10, for a total distribution to those participants of \$448.31, leaving \$6,096.19 to apply to administrative expenses.

Mr. Nielsen and Mr. Smith both disclosed that they are active members of the Public Employees Retirement System and of the 457 plan. They are not sure if this action will affect them, but indicated that it could cause an increase in benefits if the proposed change passes and becomes law. Their benefits then computed and paid on a basis consistent with the terms of the retirement system as applied to all other participants and beneficiaries will increase solely because they are participants of the retirement system. They will receive no other increased benefit other than that which all the participants and beneficiaries are eligible.

Motion: Vice President Terry Smith moved the Board accept staffs' recommendation to distribute GM settlement funds to the 36 active 457 members who would receive a distribution over \$10.00 for a total of \$448.31 and apply \$6,096.19 to administrative expenses.

Second: Ms. Dianna Porter.

No public comment.

Vote: 6/0

Employment Investment Advisory Council (EIAC) Appointment – Patricia Davis

Ms. Davis explained that the Employee Investment Advisory Council bylaws require a labor organization representative. Tom Bilodeau of MEA-MFT has held that position for a number of years. He is retiring. At the October Board Meeting the Board recommended that staff solicit responses from some of the small labor unions. MPERA staff received a memo from Eric Feaver, President, MEA-MFT, recommending Diane Fladmo. Staff recommends that his successor, Diane Fladmo, MEA-MFT be appointed to EIAC, effective January 1, 2011.

Motion: President John Nielsen moved the Board accept MEA-MFT's recommendation to add Diane Fladmo to the Employee Investment Advisory Council effective January 1, 2011.

Second: Ms. Dianna Porter

No public comment.

Vote: 6/0

Out of State Travel – NAPPA Winter Seminar and Institutional Investment Conference, January 31 – February 3, Washington, DC – Kate Talley

Ms. Minnehan stated that staff recommends sending Kate Talley to the NAPPA Winter Seminar. The conference cost is included in the Board's approved budget. While she is there, Ms. Talley plans to attend the Institutional Investor Conference, offered to NAPPA attendees free of charge.

Motion: Ms. Dianna Porter moved the Board uphold staff recommendation to authorize up to \$2,000 for counsel to attend the February 2011 Institutional Investor and National Association of Public Pension Attorneys Winter Seminar.

Second: Mr. Patrick McKittrick

Vote: 6/0

Next Board Meetings

January 13, 2011
February 10, 2011
March 10, 2011

LAWS – Locating Bill Information – Dena Helman

Ms. Helman showed the Board how to navigate the LAWS (Legislative Automated Workflow System) website to access Legislative Information and track bills.

The LAWS website can be accessed by all members of the public free of charge at leg.mt.gov. Some of the features the site offers are access to the complete text of legislative of bills, up-to-date status of bills, legislator information, committee hearing schedules, the ability to log onto committee hearings (requires Real Player software), agendas for committee hearings and floor sessions, and House and Senate votes on bills. The site also allows the user to establish a preference list to allow tracking of a bill or group of bills and receive up-to-date e-mails on that bill regarding hearings or other pertinent information.

Ms. Helman will be tracking legislation for MPERA during this session.

New System Update – June Dosier

Ms. Dosier provided a status update to the Board on the New System project. The vendor showcase is complete and the project manager RFP responses have been received and are currently being evaluated. There was an oral proposal presentation yesterday with Provaliant, who

reportedly did a good job. There is an evaluation committee meeting scheduled for Monday at 9:15 am, at which time evaluations will be completed and a decision made to enter into contract negotiations with the successful vendor. The committee was pleased with the responses they received from all participants. One of the big determining factors was cost; they were very close in all the other categories. Provaliant was the only one successful in going forward with reference checks and the oral presentation. The committee hopes to complete the evaluations next week and finish contract negotiations before Christmas. They are looking to have a new Project Manager on board by January 4, 2011. At that time, they will proceed with business process modification, data cleansing, imaging, line of business.

FY 2011 – 1st Quarter-end Budget Report – Barbara Quinn

Ms. Quinn provided the FY 2011 budget update for the quarter ended September 30, 2010 with 25% of the year elapsed at that point in time. As of the report date, salaries were paid through September 22 and \$4,000 of overhead was distributed. Ms. Quinn reviewed the individual line items, showing the percentage expended to date for each. Overall expended is 13.76%. This is the second year of the biennium, so actuarial costs will not be deducted from the budget total; this only occurs the first year of the biennium. A total of \$709,000 was projected under the cap for the year; at the end of September that amount was at \$569,000.

The impact of the budget on the new Project Manager for the new system update was discussed. Pay for the Project Manager will be based on mile stones; only a portion of the budgeted amount will be paid out this year.

PR Campaign – Jenny Weigand

Ms. Weigand updated the Board on the Public Relations Campaign.

Contract with Ralph Pomnichowski

Ms. Weigand introduced Ralph Pomnichowski, a contractor hired by MPERA to assist in writing press releases prior to the Legislative Session. Mr. Pomnichowski explained that this is part of a general educational campaign statewide, to take the best information about what the Board does and how it does it, and provide it to newspaper editors in a fashion they are likely to use.

Campaign Strategy

Ms. Weigand explained that the strategy was developed around educating people on what the retirement system is and how it affects people. The plan is to provide several news releases prior to the Legislative Session on general education and retirement information. There will also be a few press releases that will go out during the Legislative Session, as issues arise.

FURS News Release

The first press release went out a few weeks ago which focused on average firefighter retirement. The news release was picked up by The Clark Fork Chronicle and by KECI. In addition, Ms. Weigand recorded a sound clip for the Northern News Network. The article is linked on MPERA's Facebook page.

The next article will be released soon and will revolve around retired government workers spending locally, in line with the article that was placed in the Main Street magazine. Following that, there will be an article concerning the funding shortfalls for three of the systems of MPERA.

MPERA is also working on spreading the word through Facebook. There are 32 people who have indicated they like MPERA's Facebook page, and 37 active users. Staff is focusing on educating the public on MPERA's website and Facebook page, useful tools that can be used to access valuable information concerning the retirement system. Education trainings are offered on the MPERA website via webinar.

The message triangle has been completed and is being printed. In addition, a newsletter is being published specifically for legislators. The Board requested the newsletter and press releases be e-mailed to them.

The firefighters thanked Ms. Weigand and Mr. Pomnichowski for the press release written on firefighter retirement. They noted that it was also picked up by the MSU fire training services school.

Litigation Verbal Update – Melanie Symons

Ms. Symons updated the Board on the Garry Seaman case. She noted that nothing has been done yet on the request for attorney fees. Ms. Talley is working on a case in Lewis & Clark County. Her briefs are included in the packet.

Ober Spear rejected the settlement offer; the lawsuit he filed against the Department of Justice will most likely proceed. The resolution on that lawsuit will effect whether or not any action needs to be taken by MPERA.

Board Committee Verbal Updates – Committee Chairs

Audit Committee: They plan to meet sometime in February.

Legislative Committee: They will meet every Tuesday morning during the upcoming Legislative Session, and before and after the session as needed.

Policy Committee: They plan to meet on December 22 at 9 am.

Executive Director Verbal Update – Roxanne Minnehan

Staffing

Ms. Minnehan reported the DC Accountant position has been reposted several times; the applicant pool has not been sufficient. It is now posted open until filled.

The Retiree Database Support position has been reclassified as an audit position; it closes on December 17, 2010.

Legislative Update

Representative Scott Reichner would like to meet with teachers, MPERA staff and stakeholders next Friday. He has shown interest in the Utah Hybrid Plan. Dave Senn, Executive Director for TRS, and Ms. Minnehan will set up a conference call with the Executive Director from Utah to find out more about the plan prior to Friday's meeting.

Audit Update

Ms. Minnehan received reports for the Retirement Benefits and Compliance and Financial Audits. The Legislative Audit Committee meets on December 16. MPERA's audit report will be at 9:15 am. There were no issues with the audit. The same recommendations as last year were given; the funding of the PERS, Game Wardens and SRS. There were no issues with the Retirement Benefit Audit. They recommended exploring electronic storage of data files. They also recommended that MPERA look at the amount of payroll information received from the payroll clerks and that it be delineated and tailored to the type of compensation. The audit report and MPERA's response is available on the Legislative Audit Division's website.

New System Update

Ms. Minnehan stated that the Management Team met to develop a plan for the new system. The new system will be called MPERAtiv. They discussed dedicating specific staff to the project, rising others up to fill those positions and backfilling at the lowest level. They are working on identifying the core team and then working with Human Resources and the Union on a plan to proceed. An area has been designated for the Project Manager and the core team. June Dosier, MPERA's IT Manager will be MPERA's liaison and Project Manager. Ms. Minnehan will be the sponsor of the project and the management team will be the steering committee. Ms. Weigand and her staff will act as the Communication's Team to MPERA staff, the public and the stakeholders. They will prepare a plan and budget and hold a kick-off meeting. In addition, Marc Scow, a facilitator and trainer has been contacted. He will facilitate a meeting on Friday, January 7 for staff, to allow them to air their concerns, fears and stress, in effort to keep the lines of communication open and staff morale high during the transition period.

457 Plan – Roth IRA

Members can now include a Roth account in their deferred compensation plan, per a recent federal passage. Ms. Davis will be taking this information to tomorrow's EIAC Committee meeting for discussion. More information will be available concerning this later on.

DOL Fee Disclosure Rules

Over the next year MPERA will be looking at how to comply with this rule. As a government plan, MPERA is not necessarily bound by this rule, but as a matter of good practice MPERA will adopt the recommended Department of Labor's Fee Disclosure Rule. MPERA will be working with Great West to implement this by January 1, 2012.

Talking Points – Message Triangle – Numbers as of October 2010

The Message Triangle is at the printers; 250 copies will be printed. All legislators will receive a copy, including extras to distribute during committee meetings. Extra colored copies will be printed in-house, as needed.

Next Board Meetings

January 13, 2011
February 10, 2011
March 10, 2011

The following portion of the meeting relates to matters of individual privacy. The Board President determined that the demands of individual privacy clearly exceed the merits of public disclosure. As such, this portion of the meeting will be closed.

CLOSED MEETING

Reconvene of open meeting

Motion: Ms. Dianna Porter moved to approve the minutes of the November 10, 2010 PERB Regular Closed Meeting.

Second: Vice President Terry Smith

Vote: 6/0

Finalized Service Retirements Disability Benefit Payments – Patricia Davis

Motion: Mr. John Nielsen moved to approve the Finalized Service Retirement/Disability Benefit Payments with addendum, as amended.

Second: Ms. Dianna Porter

Vote: 6/0

ADJOURNMENT

There being no further business before the Board, President Nielsen adjourned the meeting, at approximately 1:30 pm. Next regular meeting will be Thursday, January 13, 2011 at 8:30 am.