**PUBLIC EMPLOYEE'S RETIREMENT BOARD**
**Employee Investment Advisory Council**
**100 North Park**
**Helena MT**
**Minutes for Thursday June 17, 2010**

Patty Davis, Chief EIAC Council Chair, called the meeting to order at 1:36 pm.

**Roll Call**

**MEMBERS PRESENT:**
Terry Smith via conference call
Tim Bilodeau
Rande Muffick
Kevin McCrea
Jim Penner
Tom Schneider
Paula Stoll
Barbara Wagner

**MEMBERS ABSENT:**
Ron Alles
Ed Dawes
Pam Fleisner
Jim Helgeson

**MONTANA PUBLIC EMPLOYEE RETIREMENT STAFF ATTENDING:**
Roxanne Minnehan, Executive Director
Melanie Symons, MPERA Legal Council
Patty Davis, Services Bureau Chief
Barb Quinn, MPERA Fiscal Services Bureau Chief
Jacquie Hixson, Pay Benefit Technician.

**GUEST:** Michael Schlachter, With Wilshire Associates Inc.

**PUBLIC COMMENT**: None.

**APPROVAL OF EIAC MINUTES FOR MARCH 18, 2010**

Tom Schneider moved to approve the minutes, with corrections.

Comment: Rande Muffick stated he did not recall formally making the motion as far as searching for managers but stated he did bring it up for discussion. Staffs will double check the meeting recording to determine who made the motion. Patty asked for other comments, corrections or questions.

Second: Barbara Wagner

No oppositions.

Passed 7-0

**QUARTERLY REVIEW:** Michael Schlachter provided the committee with an economic review. There are not a lot of signs of recovery yet. 1 in 5 people are either unemployed or underutilized. Consumer credit; debt levels are diminishing. The good news, home prices have stabilized. Positive impacts may include slowing foreclosure rates and mortgage securities will begin to improve.

Question: Tom Schneider asked, "Where does commercial real estate fit in? Is that tracked separately, or is it included with some other area?
Michael's numbers were for residential real estate. Michael stated commercial real estate was still in trouble, but they see some improvement. Suggests you will still see rents and occupancy get worse for probably the next 24 months due to the slow recovery.

Michael discussed the deficit and the affect of the GDP on economies. He provided 5 policy options put together by JP Morgan suggesting if you did all of them, you could cut deficit by 6% GDP. The problem would be in convincing politicians to support any of the options without committing political suicide. Therefore we will probably see deficits for a few more years with a reasonably high level of inflation to reduce debt as a fraction of GDP.

Stocks are reflecting a fair amount of certainty. Corporations on a whole have increased cash levels. But cash is a drag on the economy and can foster bad behavior – stupid R&D, stupid investments, and pursuing less than perfect investments.

Fixed Income – credit spreads are improving and don't expect the wide range in return on bonds as we have seen in the past couple of years.

Greece bailout: ¼ of French bank reserves were linked to the Greece economy which is causing a substantial pull back in the European economy and devaluing of the Euro. That devaluing has made US exports more expensive. Just showing how it is all interconnected.

**PERFORMANCE**

**401(a)**: Balanced fund is a little over 50%, Stable Value fund around 10%.

Two of the funds that have been on probation are:

Principal, if they consider a change will only affect about 1% of the people if a change is made.
Essex, about 2%.

Question- Rande Muffick asked since we have seen a lot of changes the last few years with the market; what about changes in the options? Have the DC plans been offering participants changes such as precious metals or other opportunities because of a few fixed funds that are in jeopardy?

Michael stated there has been some movement towards nontraditional assets such as real estate but since real estate has crashed in the last year, it might be a good performing asset a year or two down the road. May begin to add commodity total return products or target date funds.

There has been a shift in two ways:

1. Very specific high risk assets like REITS, Commodity Funds, some all-weather strategies, "balanced fund on steroids."
2. Target date funds, adding a bunch of really risky or unique options and then some target date funds.

Michael reviewed the performance of the funds as shown in the packet. He suggested that Munder Fund and the Vanguard Growth and Income Fund were funds the committee may want to discuss replacing based on their performance at a later date.

Rande Muffick asked Michael to provide him with the name of the manager of the Vanguard Fund.

**457 DEFERRED COMPENSATION**

The majority of the assets are invested in the Stable Value Fund; a little more than 60%.

Michael reviewed the performance of the funds as shown in the packet. Michael suggested Dodge and Cox should be a candidate for replacement, but there is a clear explanation for their performance and he suggests that they should not be under consideration at this time.

Michael suggested they discuss replacing the Essex Fund along with the 401(a) funds.

Question-Patty asked Michael how long we should allow Dodge and Cox to underperform. What criteria would he suggest we use and how long do we give them to recover?

Michael suggested as long as they keep showing a catch-up; consistently having positive numbers. If the numbers falter and the gap widens, then they should be considered for replacement.

Patty asked for discussion or recommendations from the committee.
None.

Patty clarified that in policy the committee cannot make a recommendation to remove a fund and a recommendation for a replacement at the same time. At this time, the committee can submit their recommendations for removal, get the board's approval, and then submit the recommendations for replacements.

Michael proceeded to review the manager comparison shown in the packet. He provided some recommendations leaning toward funds with more recognizable names such as Fidelity or Columbia.

Patty opened a discussion regarding Small-cap for the committee.

Michael was asked if there had been a change in management that may explain why Essex had dropped over the last few years. Michael provided an explanation that Essex is more of a Micro-cap company that needs a strong economy.

Motion: Tom Schneider moved to replace Essex on both the 401(a) and 457 because they do not adhere to our investment policy statement.

Seconded by Randy Muffick

Vote passed unanimously, 7-0

Patty asked Michael to explain their scoring criteria for organization information and forecasting. Michael explained that it is depends upon the nature of the organization, and how dedicated they are to money management etc… He provided an explanation with examples from several different types of organizations.

Michael provided a review International and Index funds in the packet.

Patty asked for recommendations from the committee for removal.

Michael recommended replacing Principal with an Index Fund rather than another Actively Managed fund.

Tom Schneider- motioned to recommend to the board that we remove Principal from the fund lineup and seek a replacement.

Jim Penner seconded the motion.

Discussion: The committee discussed the need for consistency, the procedure for removal and replacement of funds, and the need to move quickly with removal and replacement.

Vote passed unanimously, 7-0

The committee discussed the possibility of having a special meeting in July to discuss replacement funds. They determined to make a choice on replacement funds at this meeting and hold the recommendations for the board until the appropriate time.

Patty asked the EIAC Committee their thoughts on having a special meeting in July. Roxanne asked if the EIAC committee had a replacement fund already lined up. She stated that the committee cannot bring this to the board together but, if you go to the next board meeting with a decision to terminate then we can go also in July to terminate in August do a replacement without another meeting. The committee agreed to discuss and make the choice. Patty will hold the decision until the next board meeting.

The committee began discussion. Michael suggested replacing Essex with the Fidelity Small Cap Growth Fund if they wanted to stay with an actively managed fund, or the Index Fund from Vanguard, which has very low fees.

Patty asked Jim Penner and Rande Muffick their preferences between Index Funds or Actively Managed Funds. Jim Penner stated that most of the gain the participants will get in their asset allocation will come from choosing Small Cap. By choosing the Index they are going to have less volatility. He leans toward the Index fund, but is not sure about having two Index funds.

The committee discussed the comparison between the two funds for 3 and 5 year periods.

Motion -Paula Stoll motioned to replace the Essex Small Cap Growth Fund with the Fidelity Small Cap Growth Fund in both plans.
Seconded by Rande Muffick

Vote passed unanimously, 7-0

Motion - Rande Muffick moved to replace the Principal International Growth Fund with the Vanguard Total International Stock Index Fund.

Seconded by Tom Schneider

Public Comment: Kent Morris, Western Region Vice President from Great-West Retirement Services – Over time depending on participation in the 401(a) vs. the 457, for enrollment simplicity, if they have the same line up, from a communication standpoint, it's better. Concern, revenue reimbursements from the fund companies are used to offset Great-West fees. If you go to an all Vanguard lineup, which generates no revenue, at some point they will need to visit with the committee about how the fees per participant will be covered.

Motion passed unanimously, 7-0

**GREAT-WEST PRESENTATION**

Linda Ulrich and Kent Morris, Western Region Vice President presented ideas and tools on how to help participants meet their needs in retirement. Review of our asset distribution shows that we have a large percentage in the Montana Fixed Fund. The question is why aren't people diversifying? Is it because they don't know how or that they want more secure investments?

Linda reviewed statistics provided in the packet. Kent discussed typical participant behavior and the services Great-West can offer to participants to assist them with better account management.

**MANAGED ACCOUNT AND GUARENTEED LIFETIME BENEFITS**

Linda and Kent presented an overview of the Guaranteed Lifetime Benefit for the 401(a) plan.
Patty read and email from a member expressing his concerns about the Dodge Cox Funds being on probation and his fear of it being eliminated from the fund lineup. The participant expressed that he would like the Dodge Cox Fund and if we did recommend removing it he would be sorely disappointed.

Paula Stoll suggested that she would like to have Linda Ulrich give the EIAC Committee a longer presentation with further discussion.

The EIAC Committee had a discussion on Target Funds. Jim Penner stated that the funds are all different. They do not provide a lot of cases of protection should they have a market meltdown.

Patty adjourned the meeting
5:00 pm
Next Meeting Scheduled for September 20, 2010