

EMPLOYEE INVESTMENT ADVISORY COUNCIL MEETING

December 10, 2010

Ms. Patricia Davis called the meeting to order at 1pm Friday, December 10, 2010.

Council members present were:

Patricia Davis, Chair; Tom Schneider; Rande Muffick; Paula Stoll; Edward Dawes; James Helgeson; Paul Spengler; Pam Fleisner; Jim Penner

Council Members Excused:

Tom Bilodeau; Kevin McRae, Ron Alles

Members of the Public:

Michael Schlachter, Wilshire Associates
Kent Morris, Great West Retirement Services
Linda Ulrich, Great West Retirement Services
Terry Smith, PERB Vice President (via telephone)
Roxanne Minnehan, MPERA Executive Director
Ann Reber, MPERA Publication Specialist
Joel Thompson, MPERA Education and Training Specialist
Melanie Symons, MPERA Chief Legal Counsel
Jenny Weigand, MPERA Education Supervisor Specialist

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

MINUTES OF EIAC MEETING

The minutes of the EIAC meeting of September 20, 2010 were presented.

Motion: Mr. Tom Schneider moved to approve the minutes for the September 20, 2010 EIAC meeting.

Second: Mr. Paul Spengler

No public comment.

Vote: 6/0

Economic Discussion – Michael Schlachter, Wilshire Associates

Mr. Schlachter discussed the economic indicators for the past quarter with the council members. He explained that the economy has had some positive returns this past quarter. There are some signs of growth in the economy.

The employment growth numbers are not showing much improvement. He explained that the Gross Domestic Product (GDP) will need to be around 5% to 7%, before we see any significant growth.

Fund Performance Review

457

He gave an overview of the Major Asset Classes as of September 30, 2010. The U.S. Equity (Wilshire 5000) quarter returns are 11.5%; the one-year return was 5%. This is a strong quarter; it is a year's worth of gains in one quarter. Fixed Income Rates, however; did not have as strong a quarter. They have remained flat though most of the third quarter.

The Dodge and Cox Balanced Fund is currently on probation. Mr. Schlachter recommended leaving it on probation. Davis NY Venture missed on all criteria. It currently has two star ratings for three and five years and is behind in performance in the three and five years. He recommended leaving it as is at this time. The Munder Mid-Cap Core Growth has a three star five year rating, but is not making any progress. He recommended searching for a replacement.

Motion: Mr. Tom Schneider moved to search for a replacement for the Munder Mid-Cap Core Growth Fund.

Second: Mr. Paul Spengler

Mr. Schneider voiced concern of searching for replacement on some two star funds and not others. It is in policy to complete a search on all two star rated funds.

Mr. Paul Spengler amended the motion to include all two star rated funds. Ms. Stoll was in support of the Mr. Schneider's original motion. The amendment dies due to lack of second.

Vote: 8/0

401(a)

The underlying funds are similar to the 457 plan. The Vanguard Index Fund is performing well. It is four stars for three and five years. The Vanguard Growth and Income Fund is performing poorly

with two stars at three and five years, but has shown improvement in the last year. Mr. Schlachter pointed out the 401(a) plan also has a Munder Mid-Cap Core Growth Fund. All International Funds are doing well, except Principle, which is still underperforming. Principle was terminated and all funds were transferred to Vanguard Total Stock Index Fund.

Motion: Mr. Schneider moved a search for a replacement for Munder Mid-Cap Core Growth Fund and Vanguard Growth and Income Fund and watch Janus Perkins.

Second: Ms. Paula Stoll

Vote: 8/0

Janus Perkins is currently being investigated by the SEC for possible insider trading. Mr. Schlachter is not concerned at this time.

Target Date Funds

Target Date Funds are a mutual fund in the hybrid category that automatically resets the asset mix (stocks, bonds) in its portfolio according to a selected time frame that is appropriate for a particular investor. The industry standard is moving to offering funds in 5 year increments.

All managers in the survey provided, decreased their equity exposure as the targeted retirement date approaches. On average, T. Rowe Price and American Funds allocate a higher percentage to equity compared to the other managers. Based upon Wilshire's 10 year assumptions, BlackRock's 2050 portfolio contains the most risk and J. P. Morgan's 2050 portfolio posted the most attractive return per unit risk. In the 2030 funds, T. Rowe Price's portfolio contains the most risk, SSgA's portfolio produced the highest return and American Century's portfolio posted the most attractive return per unit of risk. In the 2015 funds, T. Rowe Price's portfolio contains the most risk, SSgA's portfolio produced the highest return and the Black Rock, Pyramis and American Century portfolios posted the most attractive returns per unit of risk.

The costs associated with managing the Equity Glide Path are not easily distinguished. The cost of providing Target Date funds to participate are: 1) Hiring a manager that implements with index funds. 2) Hiring a manager that implements with collective investment trusts and 3) Hiring a third party to manage the Equity Glide Path and leverage plans assets to reduce costs.

A concern about Target Date funds are not all members start at the same basis.

Motion: Mr. Paul Spengler moved Mr. Schlachter to return at the next meeting with a recommendation in the Target Date Fund Family.

Second: Ms. Paula Stoll

Ms. Davis amended Mr. Spengler's original motion. Ms. Davis would like Mr. Schlachter to also return with a recommended number of Target Date Funds.

Vote: 8/0

Great-West Presentation – Investor Solution: Advisory Services/Guaranteed Minimum Withdrawal Benefit (GMWB)

Ms. Ulrich and Mr. Morris from Great-West Retirement Services addressed the Council Members on Reality Investing Lifetime Solutions. They discussed market opportunities, gave a product overview, investment vehicles, features and participant fees. DC plans now need to address: 1) increased probability of outliving income, 2) effects of declining equity markets in years approaching retirement and 3) increase equity market exposure during years approaching retirement and during decumulation. They also explained that DC members are not diversifying; members have a misunderstanding of investment options and make inappropriate fund selections.

ADJOURNMENT

There being no further business before the Council, Ms. Davis adjourned the meeting, at approximately 4:10 pm. Next meeting will be at 1:30 pm.