

EMPLOYEE INVESTMENT ADVISORY COUNCIL MEETING

February 17, 2011

Ms. Patricia Davis called the meeting to order at 1pm Thursday, February 17, 2011.

Council members present were:

Patricia Davis, Chair; Tom Schneider; Rande Muffick; Paula Stoll; Edward Dawes; Paul Spengler; Pam Fleisner; Kevin McRae; Ron Alles; Diane Fladmo; Jim Penner; Barbara Wagner

Council Members Excused:

James Helgeson

Members of the Public:

Thomas Toth, Wilshire Associates
Linda Ulrich, Great West Retirement Services
Terry Smith, PERB Vice President (via telephone)
Armando Oropeza, MPERA Education & Training Specialist
Roxanne Minnehan, MPERA Executive Director
Melanie Symons, MPERA Chief Legal Counsel
Kate Talley, MPERA 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 December 10, 2010 were presented.

Motion: Mr. Tom Schneider moved to approve the minutes for the December 10, 2010 EIAC meeting.

Second: Mr. Ron Alles

No public comment.

Vote: 8/0

Economic Discussion – Thomas Toth, Wilshire Associates

Mr. Toth discussed the economic indicators with the council members. He explained that consumer spending is improving; as well as, business spending. There are some signs of growth in the economy. The acceleration of inflation is a concern with investors, with a three month number of 0.9%.

Fund Performance Review

457

He gave an overview of the Major Asset Classes as of December 31, 2010. The U.S. Equity (Wilshire 5000) quarter returns are 11.59%; with 17.16% returns year-to-date. Fixed Income Rates, however; did not have as strong a quarter. They have remained flat though most of the quarter.

The performance of the Stable Value plan was down 1.45%. The Barclays Aggregate Bond Fund was also down 1.30%.

The Dodge and Cox Balanced Fund is currently on probation. Mr. Schlachter recommended at the last EIAC meeting to leave this fund on probation. Despite another quarter where this balanced fund outperformed the benchmark is still below the State's requirements. It is currently rated one star for the three and five years.

Motion: Mr. Rande Muffick moved to put the Dodge and Cox Balance Fund on review.

Second: Mr. Paul Spengler amended Mr. Muffick's motion to include Oakmark Income Fund.

No public comment.

Vote: 10/1, Mr. Schneider voted nay.

Davis NY Venture continues to perform poorly. It currently has two star ratings for three and five years and does not meet the State's requirements.

Motion: Mr. Tom Schneider moved to put the Davis NY Venture Fund on probation.

Second: Mr. Paul Spengler

No public comment.

Vote: 9/2, Mr. Penner and Mr. Muffick voted nay.

401(a)

The underlying funds are similar to the 457 plan. The Vanguard Index Fund is performing well. It has four stars for three and five years. Oakmark International Fund is also performing well, with a five star rating for three and five years.

Target Date Funds

Target Date Funds are becoming more popular in retirement plans. Target Date Funds offer diversified investments in multiple asset classes within a single fund. They allow the participant to choose the fund that is closest to their target date of retirement. They also allow members to choose an investment based on their expected retirement rather than having them try to determine their risk tolerances. The industry standard is moving to offering funds in 5 years increments. Some things to consider when choosing Target Date Funds are: 1) asset allocation, 2) investment structure, 3) manager selection, 4) investment performance, 5) expense considerations, 6) off-the-shelf or customized solution, 7) asset allocation considerations and 8) investment structure consideration.

Mr. Toth discussed the returns and risks with the council. The expected returns or risks of Target Date Funds with nearer target retirement dates, and the return and risks varies among the Target Date Fund managers. He also discussed the options of active managers and passive managers. Among active managers, the average expense ranges from 0.49% to 1.02%. Mr. Toth did not recommend active management due to the higher expense. With the exception of Wells Fargo, all passive providers' average expense falls well within a tight range of 0.17% to 0.30%. JP Morgan's Passive Blend options follows the same glide path as its active target date series counterpart but uses a blend of active and passive index funds to implement the survey.

Wilshire recommended using JP Morgan's Smart Retirement Passive Blend suite of Target Date Funds. The JP Morgan Passive Blend Suite blends active management in less efficient markets and asset classes with index management in more efficient areas such as U.S. Equities and Development x-US Equities. The JP Morgan Passive Blend Suite offers one of the broadest arrays of assets classes with portfolios structured to take advantage of low correlated asset classes. The fees are below all the active managers and slightly above the majority of full passive managers.

The council discussed the possibility of needing to make changes to the investment policies to allow Target Date Funds.

Motion: Ms. Paula Stoll moved to add a Target Date Fund to the 401(a) plan.

Second: Mr. Rande Muffick

No public comment.

Vote: 9/0

Motion: Mr. Tom Schneider moved to select JP Morgan as the Target Date Fund if it meets the investment policy.

Second: Ms. Paula Stoll

Ms. Wagner voiced concern that the 20/50 funds are not aggressive enough.

Vote: 8/1, Ms. Wagner voted nay.

Motion: Ms. Barbara Wagner moved to dissolve the asset allocation funds in the 457 plan, allocating the monies to the like funds within these asset funds.

Second: Mr. Kevin McRae

No public comment.

Vote: 9/0

Motion: Ms. Barbara Wagner moved the Target Date Fund will be the default fund in the 401(a) plan for new members.

Second: Mr. Edward Dawes

No public comment.

Vote: 8/0

Replacement Funds

Large Cap Core Manger Search

Wilshire evaluated the Large Cap Core managers who met the following criteria: 1) Mutual fund account open to new assets. 2) Morningstar rating above three stars, 3) no significant historical style drifts. 4) Outperformance over the S&P 500 Index for the 5-years ending 12/31/2010 or Wilshire Research Focus list. 5) Positive Sharpe Ratio relative to the S&P 500 index for 5-years ending 12/31/2010. 6) Minimum track record of 5 years or Wilshire Research Focus List, 7) minimum fund manager tenure of three years. 8) Minimum 50 holdings in the portfolio, 9) minimum of \$1 billion in product assets as of 12/31/2010 and 10) no front-end load nor deferred load.

Overall, JP Morgan scores highest as a result of consistent scoring in all categories. Wilshire recommended the JP Morgan U.S. Equity Fund for its consistently strong performance, low fees, strong asset base, and highest overall Wilshire qualitative score.

Motion: Mr. Tom Schneider moved to add JP Morgan U.S. Equity Fund in the Large Cap Core Category.

Second: Mr. Rande Muffick

No public comment.

Vote: 11/0

Mid Cap Growth Manager Search

Wilshire evaluated Mid Cap Growth managers using the same criteria for the Large Cap Core manager.

Wilshire recommended the T. Rowe Price Mid-Cap Growth fund for its consistently good performance, low fees and diverse risk controlled portfolio.

Motion: Mr. Paul Spengler moved to add T. Rowe Price in the Mid-Cap Growth Category.

Second: Mr. Rande Muffick

No public comment.

Vote: 9/0

Great-West Presentation – 2010 Annual Review

Due to the lack of time, Ms. Ulrich just referred the council members to the handout.

Roth 457

Due to the lack of time, Ms. Davis briefly explained Roth 457. Roth contributions allow you to save on an After-tax basis. Administration fees were also briefly discussed. Currently the 457 plan is administered before taxes.

ADJOURNMENT

There being no further business before the Council, Ms. Davis adjourned the meeting, at approximately 5 pm. Next meeting will be at Thursday, April 21, 2011 at 1:30 pm.