

**Public Employees' Retirement Board  
Employee Investment Advisory Council**

100 North Park Avenue, Room 201

Helena MT 59601

**MINUTES**

Thursday January 19, 2012

1:00 – 4:30

**Call to Order:**

Ms. Patricia Davis called the meeting to order at 1:06 p.m.

**Roll Call**

**Council Members in Attendance:**

Patricia Davis, Chair; Edward Dawes; James Helgeson; Barb Wagner; Jim Penner; Diane Fladmo; and Rande Muffick

**Council Members Excused:**

Tom Schneider, Paula Stoll, Pam Fleisner, Paul Spengler, and Kevin McRae

**Members of the Public**

Michael Schlachter, Wilshire Associates  
Kate Talley, MPERA Legal Counsel  
Roxanne Minnehan, MPERA Executive Director  
Terrence Smith, PERB Vice President (via phone)  
Melanie Symons, MPERA Chief Legal Counsel  
Linda Ulrich, Great West  
Barb Quinn, MPERA Fiscal Bureau Chief  
Jenny Weigand, MPERA Education Supervisor

**Public/Member Comment** - No public comment was given.

**Approval of EIAC meeting minutes – October 20, 2011**

**Motion:** Mr. Rande Muffick made a motion to approve the October 20, 2011 minutes as presented.

**Second:** Mr. Jim Penner  
No public comment

**Vote:** 7/0

## **Fund Performance Review - Michael Schlachter, CFA, Wilshire Associates**

### **Numbers in Context**

Mr. Schlachter discussed the economic indicators with the council members. He reported that things are moving in a positive direction. There is job growth and the unemployment rate has stayed the same. There is also a decline in real expenditures and it is the first time in 60 years.

### **457(b) Review**

The U.S. stock market, as represented by the Wilshire 5000 Total Market Index bounced back from a negative return in the third quarter to post an impressive 12.0% total return during the fourth quarter, thus producing a modestly positive return of 0.98% for 2011. This marked the Wilshire 5000's third consecutive year of gains following returns of 28.3% in 2009 and 17.2% in 2010. The U.S. stock market is up nearly 52% over the past three years and 101% since the March 2009 low.

The Dodge & Cox Balanced fund outperformed the benchmark for the quarter and even the 3-year time period, but lags for the 1- and 5-year. The fund improved to a 3-star Morningstar rating for the 3-year but the 5-year is still 1-star and the Sharpe Ratios are below or in line with the category mean. Therefore, the fund does not meet the State's requirement.

Columbia Mid Cap Value Z Fund performed with the benchmark this quarter and lags over the 3- and 5-year time periods. The fund's 3 star Morningstar ratings satisfy the State's minimum requirements as do the Sharpe Ratios. This fund will be closely monitored.

### **401(a) Review**

The U.S. stock market, as represented by the Wilshire 5000 Total Market Index bounced back from a negative return in the third quarter to post an impressive 12.0% total return during the fourth quarter, thus producing a modestly positive return of 0.98% for 2011. This marked the Wilshire 5000's third consecutive year of gains, following returns 28.3% in 2009 and 17.2% in 2010. The U.S. stock market is up nearly 52% over the past three years and 101% since the March 2009 low.

American Funds Growth fund had a positive but weak quarter and lagged the S & P 500 Index benchmark and also trailed for the 3-year but leads the 5-year. The manager's Sharpe Ratio matches the category mean for 3- and 5-year, but the 2-star Morningstar ratings do not meet the minimum requirement.

Munder Mid-Cap Core Growth trailed the benchmark for the quarter, 1- and 3-year but still leads for the 5-year. The Sharpe Ratios are above the category mean for the 5-year only and the 3-star Morningstar ratings meet the minimum requirements.

### **Dodge & Cox replacement search**

Wilshire believes that the Vanguard Balanced Index Fund represents the best overall choice for the State of Montana based on the Fund's: Strong and consistent performance, Low risk profile, High Sharpe ratios over three and five year periods, and Very competitive fees. Wilshire identified 8 funds that represented the requirements set forth by the EIAC.

**Motion:** Ms. Barb Wagner made a motion to replace Dodge & Cox Balanced fund with Vanguard Balanced Index Fund.

**Second:** Ms. Diane Fladmo

**Vote:** 6/1. Ms. Patricia Davis opposed.

**Motion:** Mr. Rande Muffick made a motion to review the performance history of eliminated funds for the previous five years.

**Second:** Mr. Jim Penner

There was discussion regarding this motion. It was discussed to make it more of a training and informational item, instead of an actual policy. Educational presentation regarding fund changes for review of Board policy.

Mr. Rande Muffick amended the motion to include "to have an educational presentation on decision making regarding the termination and probation and retention of eliminated funds."

Mr. Jim Penner seconded the motion.

**Vote:** 7/0

### **American Funds replacement search**

Wilshire believes an ideal 401k plan large cap growth mutual fund candidate should exhibit the following desired characteristics: Stable tenure with its investment management team; Consistent tracking error relative to add value over time while following consistent strategy; Favorable risk-adjusted performance; Strong ranking relative to universe peers; and competitive fee rate relative to universe peers

Based on the above mentioned evaluation criteria, Wilshire recommends the Alger Capital Appreciation Z (ACAZX) to be the new large cap growth fund for the State of Montana's 401(a) Defined Contribution Plan.

**Motion:** Ms. Diane Fladmo made a motion to replace American Funds with Alger Capital Appreciation Z (ACAZX) to be the new large cap growth fund.

**Second:** Mr. Rande Muffick

**Vote:** 6/1. Mr. Jim Penner opposed.

### **Davis NY Venture fund – PERB action**

At their November 10, 2010 meeting the Public Employees Retirement Board made a motion to refer this issue back to the EIAC for further review and discussion. Davis NY Venture has been on probation since September 2010. At the EIAC November 2011 meeting it was recommended to search for a replacement for the Davis NY Venture fund.

**Motion:** Mr. Rande Muffick made a motion to maintain the recommendation to retain Davis NY Venture Fund and maintain probation.

**Second:** Ms. Barb Wagner

**Vote:** 5/2. Ed Dawes and Jim Penner opposed.

**Motion:** Mr. Ed Dawes made a motion to do a side by side comparison of the Vanguard Index Fund v. Davis Index Fund.

**Second:** Mr. Jim Helgeson

**Vote:** 4/3. Barb Wagner, Rande Muffick and Patty Davis opposed.

### **401(a) & 457(b) fund line-up review – Gap Analysis**

Michael Schlachter presented information for how a plan should be funded. A plan should have options in all major asset classes. The equity options should not implicitly endorse a size or style bias. Participants should have low-cost, indexed options where appropriate. And while adding more options seems like a good idea to satisfy all interested participants, too many options can lead to confusion and under-participation by less sophisticated participants.

Our 401(a) does not have any obvious holes in the equity line-up where we would need to add more funds. There is no clear overlap of funds and performance of most funds is strong with clear criteria for review, probation and replacement.

There was discussion regarding some of the missing asset classes in the 401(a). They included emerging market equities, high yield fixed income, commodities and real estate investments.

As with the 401(a), 457(b) does not have any obvious holes in the equity line-up. There is however some overlap funds. The 2 global equity funds and 2 non-US equity funds clearly overlap. The performance of most funds is strong with clear criteria for review, probation and replacement.

The missing asset classes in the 457(b) plan are similar to the 401(a) plan.

**Motion:** Ms. Barb Wagner made a motion to search for emerging markets for potential addition to the 457(b) plan and have discussion on how emerging market are more beneficial than the international funds.

**Second:** Mr. Rande Muffick

After discussion, Ms. Wagner amended the motion to remove “the 457(b) plan”.  
Mr. Rande Muffick seconded.

**Vote:** 7/0

### **457(b) and 401(a) Fee Review – Patricia Davis & Barbara Quinn, MPERA**

The Board and the Committee are required to review the fees that are assessed on the 457(b) and the DCRP. Both of the plans are administered by 19.2.408, MCA. This allows us to charge administrative fees. 457(b) is also governed by 19.50.102, MCA and Board Policy 14.

The level of the administrative fund must be sufficient to ensure operations and administration are not halted or adversely affected by market fluctuations. The fund level must also be conservative and reasonable. Consequently, the administrative fund level will be one year of administrative expenses pursuant to the Board’s approved annual budget plus or minus ten percent.

We pay Great-West a \$57.00 annual fee for each participant in either the 457 Plan or the 401(a) Plan, or both. There is only one fee charged if they are in both plans.

**Motion:** Ms. Barb Wagner made a motion to change the sliding scale to a flat Basis Points of 20 for the 457(b) and reduce the administrative fee for the 401(a) from \$57.00 to \$20.00.

**Second:** Mr. Ed Dawes

**Vote:** 7/0

### **Proposed joint PERB/EIAC meeting April 12, 2012**

The regular PERB Board meeting will be held in the morning and the EIAC meeting will be held in the afternoon of April 12, 2012. On the agenda will be a Great-West annual summary report.

### **Stable Value Group Trust**

The Board had entered into an agreement with PIMCO to manage our relationship with our stable value providers. Currently AEGON is our provider. They are looking to remove some of their exposure to our portfolio. This will all be covered by our current fees.

### **Record keeper RFP**

Great West's contract is up for renewal and will be extended for one year. There will be an RFP search for a record keeper. There is a need for an EIAC individual on the review committee of the RFP. Duties will include the review of the RFP.

### **ADJOURNMENT**

There being no further business before the Council, Ms. Davis adjourned the meeting at 4:40 p.m. Next meeting will be held April 12, 2012 at 1:00 p.m.