

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

100 North Park Avenue, Room 201

Helena MT 59601

MINUTES

Thursday April 12, 2012

1:00 pm – 4:30

Call to Order:

Ms. Patricia Davis called the meeting to order at 1:00 p.m.

EIAC/Board Roll Call

Council Members in Attendance:

Patricia Davis, Tom Schneider, Diane Fladmo, Paula Stoll, Edward Dawes, Barbara Wagner, Ron Muffick, Steve Johnson, Paul Spengler, Pam Flesiner

Council Members Excused:

Rande Muffick, James Helgeson, Jim Penner

MPERB Members in Attendance:

Terrence Smith, Darcy Halpin, Scott Moore, Lee Smith, Dianna Porter, Timm Twardoski, Bob Bugni

Members of the Public:

Linda Ulrich – Great West
Kent Morris – Great West
Michael Schlachter – Wilshire Associates
Melanie Symons – MPERA Legal Counsel
Roxanne Minnehan - MPERA Executive Director
Barbara Quinn – MPERA Fiscal Bureau Chief
Kate Talley – MPERA Legal Counsel
Jenny Weigand – MPERA Education Supervisor
Mike O'Conner

Introduction of Members:

All in attendance introduced themselves.

Public/Member Comment on any subject of interest to the EIAC/Board not on the agenda

There was not any public comment.

Approval of EIAC Meeting Minutes – January 19, 2012

Motion: Barb Wagner made a motion to approve the January 19, 2012 minutes as presented.

Second: Diane Fladmo
No public comment

Vote: 10/0

Plan Enhancement Program (PEP) – Linda Ulrich, G-WRS

Great West presented the annual Plan Enhancement Program. Linda Ulrich and Kent Morris presented the annual report. Mr. Morris presented the highlights of the accomplishments of Great-West. They are the 4th largest pension record keeper in the country with over 4.5 million participant accounts. Ms. Ulrich presented the services that Great-West has to offer and enhancements that have been added in 2012.

Investment Consultant's Informational Reports – Michael Schlachter, Wilshire

Economic Outlook

Mr. Schlachter discussed the economic indicators with the council members. There is job growth and the unemployment rate has stayed the same. We haven't recovered all of the jobs that were lost during the recession period from December '07 through December '09. Consumers have suffered more than businesses have.

Fund Removal History

EIAC has clear rules as per Board policies for when funds should be replaced and has generally abided by those rules and recommended replacements when warranted. At the last EIAC meeting, Wilshire has been asked to review whether these decisions have been supported by subsequent performance or whether EIAC should revise its replacement policy.

The report analyses are for searches through February 2011. There have been three manager searches considered since then, but they were not completed or they were vetoed by the Board. Also, subsequent performance data for any of these potential searches is not yet meaningful.

The report that was provided reviewed 8 searches with sufficient data to draw conclusion. Three terminated managers saw performance and/or assets subsequently decline to the point that the funds are no longer viable. Five other terminated managers continued to experience poor three year performance that persisted for at least another year following termination. Of the 5 searches for which continuing data exists, there are two clear instances in which a terminated fund appears to have meaningfully outperformed the replacement fund. This yields at least 63 % success ratio.

Emerging Market Research

At the previous meeting, several asset classes were identified as potential additions to the 401a and 457 plans. To filter through the emerging markets mutual fund universe, the following criteria were applied: open to new assets; minimum 5 year track record; outperformance of the MSCI Emerging Markets Index for both 3- and 5- year periods; Sharpe ratio above the MSCI Emerging Markets ending February 29, 2012; Portfolio manager tenure of 3 years or longer; Total strategy assets > \$500 MM; Portfolio

constructed without high concentration (# of holdings to be > 50) and overall Morningstar rating of 3 stars or more.

Wilshire believes an ideal emerging markets mutual fund candidate should exhibit the following desired characteristics: Stable tenure with its investment team, consistent tracking error relative to stated benchmark, the ability to add value over time while following a consistent strategy, favorable risk-adjusted performance, strong ranking relative to universe peers and competitive fee rate relative to universe peers. If an emerging markets manager is desired – based on the above mentioned evaluation criteria, Wilshire recommends the Oppenheimer Developing Markets Y Fund (ODVYX) to be the emerging markets fund for the State of Montana's Plans.

At this time we cannot add emerging market fund to the DC plan to the overlap policy.

Motion: Barb Wagner made a motion to add emerging market fund to the 457 plan.

Second: Paul Spengler

This is an informational topic item, therefore the committee cannot make the motion to add the emerging market fund to the 457 plan.

Vote:

DCRP/457 Plan Fees (*Patricia Davis/Barbara Quinn*)

At the last EIAC meeting, there was a discussion regarding fees. A motion was made at the last meeting to change the sliding scale to flat Basis point of 20 for the 457 and reduce the administrative fee for the 401(a) from \$57.00 to \$20.00. After the meeting it was noted that in the 457, the 20 basis point fee was actually increase for anyone with a fund balance over \$100, 000. Fees were recalculated.

Barb Quinn and Patricia Davis provided information regarding the fees for the Defined Contribution Retirement Plan and 457 Fees.

Motion: Barb Wagner made a motion to reduce the \$57 fee down to \$0 in the DCRP.

Second: Tom Schneider

No public comment

Vote: 10/0

Motion: Barb Wagner made a motion reduce the \$5 fee down to \$0 in the 457 plan.

Second: Diane Fladmo

No public comment

Vote: 10/0

Motion: Tom Schneider made a motion to have Wilshire review the fund options and to look for institutional 12(b)(1)(3) share classes.

Second: Diane Fladmo

No public comment

Vote: 10/0

457(b) – Deferred Compensation Plan

The U.S. stock market got off to its highest quarterly start to year since 1998 and posted its best quarterly return since the third quarter of 2009, as the Wilshire 5000 Total Market Index soared 12.76% through the first three months of 2012. Stocks delivered solid gains all three months, with gains of 4.93%, 4.23% and 3.10% in January, February and March respectively. This marked the Wilshire 5000's second straight quarterly return of 12%- plus, building of a 12.02% move in the fourth quarter for a total return of 26.32% during the past six months. From a total return perspective, the Wilshire 5000 has now erased all of its losses since October 2007 to set new highs.

Munder Mid-Cap Core Growth fund trailed behind the benchmark for the quarter and the 3-year but outperformed for the 1- and 5-year. The Sharpe Ratios are at or above category mean and the Morningstar ratings meet the minimum requirements. Wilshire recommends removing them from the probation list.

Motion: Paula Stoll made a motion remove Munder Mid-Cap Core Growth from probation.

Second: Steve Johnson

No public comment

Vote: 10/0

401(a) – Defined Contribution Plan

The U.S. stock market got off to its highest quarterly start to year since 1998 and posted its best quarterly return since the third quarter of 2009, as the Wilshire 5000 Total Market Index soared 12.76% through the first three months of 2012. Stocks delivered solid gains all three months, with gains of 4.93%, 4.23% and 3.10% in January, February and March respectively. This marked the Wilshire 5000's second straight quarterly return of 12%- plus, building of a 12.02% move in the fourth quarter for a total return of 26.32% during the past six months. From a total return perspective, the Wilshire 5000 has now erased all of its losses since October 2007 to set new highs.

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Motion: Tom Schneider made a motion remove Munder Mid-Cap Core Growth from probation.

Second: Paula Stoll

No public comment

Vote: 10/0

Policy Review - DC Plans Investment Option Overlap Policy, BOARD Admin 08 (Patricia Davis)

The Board was given a draft of changes to the current policy as well as recommendations from Michael Schlachter. It is necessary to revise the policy because it limited the investments options in both plans. In the DC plan we are limited to 15 investment options. There is not enough room in the policy to add an emerging market fund if the Board so decided. It is recommended to increase the number of allowable investment funds to 21, which is comparable to the 457 plan. The revisions will increase flexibility in our investments.

Motion: Tom Schneider made a motion to send the DC Plans Investment Option Overlap Policy changes to the Board for review.

Second: Paul Spengler
No public comment

Vote: 10/0

Education – Wage & Hour Statutes (*Melanie Symons*)

Due to time limit this topic item to moved to the July 2012 meeting.

457 Plan Auto-enrollment Discussion (*Patricia Davis*)

Due to time limit this topic item to moved to the July 2012 meeting.

Motion: Tom Schneider made a motion to send the 457 Plan Auto-enrollment discussion to the July 19, 2012 meeting.

Second: Paula Stoll
No public comment

Vote: 10/0

ADJOURNMENT

There being no further business before the Committee, Ms. Davis adjourned the meeting at 4:40 p.m.

Next meeting to be held July 19, 2012.