

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

100 North Park Avenue, Room 201

Helena MT 59601

**MINUTES**

Thursday July 19, 2012

1:00 – 5:00

**Call to Order:**

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

**EIAC/Roll Call**

**Council Members in Attendance:**

Patricia Davis, Chair; Tom Schneider, Paula Stoll, Barbara Wagner, Rande Muffick, Steve Johnson, Paul Spengler, Jim Penner, James Helgeson, Diane Fladmo

**Council Members Excused:**

Pam Fleisner Edward Dawes, Ron Muffick

**Members of the Public**

Michael Schlachter, Wilshire Associates  
Perry Christie, Great West  
Kent Morris, Great West  
Mark Landay, Vanguard  
Keith McKenney, Vanguard  
Melanie Symons, MPERA Chief Legal Counsel

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

**Approval of EIAC meeting minutes – April 12, 2012**

**Motion:** Mr. Tom Schneider motioned to approve the April 12, 2012 minutes as presented.

**Second:** Mr. Jim Penner

No public comment

**Vote:** 10/0

**Investment Consultant's Informational Reports** - Michael Schlachter, CFA, Wilshire Associates

**Numbers in Context**

Mr. Schlachter discussed economic indicators with the council members which included a discussion of a Wilshire 2012 State funding study. The study which indicates that of the 102 plans with 2011 data,

90% are underfunded based on market values and the majority are less than or equal to 80% funded. He stated that there are continued concerns in the housing market, slow job growth and weak consumer spending that is keeping the economy "stuck in the mud".

### **457(b)- Deferred Compensation Plan Review**

Three funds remain on probation; Dodge and Cox Balanced Fund, Davis New York Venture (A) and Columbia Mid Cap Value Fund (added a few quarters ago).

### **401(a)- Defined Contribution Plan Review**

- Munder Mid-Cap Core Fund was on probation last quarter, and now no longer on probation.
- Recommending Janus be put on probation as it's 3 year morning star rating has fallen as quarterly, 1 year and 3 year performance numbers are lagging peers.

**Motion:** Mr. Jim Penner motioned to put Janus on probation.

**Second:** Ms. Diane Fladmo  
No public comment

**Vote:** 10/0

### **Vanguard Investments-Mark Landay & Keith McKenney**

Mark gave an overview of what Vanguard's role is with the members. He explained that they don't talk to us about individual funds, that is something normally discussed with our consultant. Vanguard is a traditional, investor-owned organization. Keith explained that his role as relationship manager is to be a liaison between Ms. Davis and Vanguard, and ultimately, MPERA and Vanguard. He gave examples of services that they provide. They presented an award to board for fifteen years of investing with Vanguard.

### **Stable Value Group Trust Update-Patricia Davis**

Ms. Davis Explained that AEGON's (our insurance wrapper) contract is due to expire at end of the year. To reduce their overall risk exposure, AEGON is requesting; 1) Requiring a cash buffer of 5% (which has become an industry standard) in front of the book value contract and 2) Taking both the 401A and 457 wrap contracts and merging them. Advantage: this would allow the portfolio to be split between multiple wrap providers. Disadvantage; could cost more. Currently, we are at 20 basis points to AEGON. Due to time constraints, this may have to go directly to the board meeting in August for a decision.

### **457 Emerging Market Search-Michael Schlachter**

The Board approved revisions to the Board Admin 08 DC Plan Investment Option Overlap Policy in June. The policy revision makes Emerging Markets a possible addition to our plans. Mr. Schlachter presented Wilshire's market research of 5 potential emerging market funds. Based on the evaluation criteria used to evaluate the funds, both Oppenheimer Developing Market Y Fund and Aberdeen Emerging Market Equity Fund are good options. Oppenheimer is more diversified and is recommended.

The committee discussed:

- Emerging markets are not an “asset class” it’s a style of equity investment.
- It was stated that emerging markets are a good option as long as the people picking them know how to diversify. However, in the 457, people are so highly concentrated in stable value fund it shows that many don’t know how to diversify.
- A question was raised, “If a manager departs, especially with a highly concentrated portfolio, is this a problem?” Mr. Schlachter’s response was that you could fire the mutual fund and move the money in a week if you wanted.
- A discussion was commenced regarding the appropriateness of adding an Emerging Market Fund at this time. Once council member questioned if the committee should prioritize items raised in the gap analysis performed by Wilshire in March. As a group we should then explore whether or not to move ahead and add emerging markets.

The committee discussed the addition of emerging markets when other items may be priority within the plans. Ms. Wegner indicated her priority is emerging markets, REITS and self directed brokerage accounts based on information in the member survey. Mr. Schneider stated that before the addition of self directed brokerage accounts the committee must have education on what it would mean to add that option. Mr. Muffick had concerns we are rushing too fast into emerging markets. He asked for Mr. Schlachter’s opinion on priority items. He responded: First choice is Emerging Markets, second is High Yield Bond Funds, and third choice is REITS.

**Motion:** Mr. Muffick made a motion to follow our consultant’s recommendation to add a dedicated emerging market option and with that motion to hire Oppenheimer Developing Market Y, in both 457 and 401 (a).

**Second:** Ms. Diane Fladmo  
No public comment

**Vote:** 10/0

### **Guaranteed Lifetime Withdrawal Benefit- “SecureFoundation” Kent Morris & Perry Christie, Great West Retirement Services**

Mr. Morris discussed the Great-West SecureFoundation investment option. SecureFoundation helps DC participants build a more secure retirement and offers a retirement income for life. Questions were raised for someone closer to retirement age selecting this option. Mr. Schneider thought it would be something that our consultant would advise us on. Michael Schlachter said they don’t track life insurance product, he can do RFP search.

**Motion:** Tom Schneider motioned to have Michael lead a discussion clarifying if this is a GAP product and if it fits into our plan.

**Second:** Diane Fladmo  
No public comment

**Vote:** 10/0

\*Paula Stoll departs

### **Education on Wage & Hour Statutes and Auto-Enrollment Discussion-Patricia Davis & Melanie Symons**

Ms. Davis explained that the Board recommended that staff explore the issues related to auto-enrollment in the 457 plan.

Ms. Symons presented that her findings for this enrollment were positive in South Dakota. They were successful in using member inertia to successfully implement auto-enrollment. However, if we wanted to implement this, it would be a legislative change and would require a change in the Wage Payment Act. Opening up the wage act was discussed. Some felt it was "forcing them" to make this change.

**Motion:** Tom Schneider motioned that EAIC does not pursue Auto-Enrollment that would require legislation to amend the state labor law.

**Second:** James Helgeson  
No public comment

**Vote:** 9/0

#### **457 (b) and 401 (a) Fee Review - Patricia Davis**

At the April meeting, EIAC voted to eliminate the \$57.00 participant fee in DC and \$5.00 annual fee in 457 and the Board approved. After additional analysis to see what was needed to be in compliance with board policy and continue to cover plan expenses, Ms. Davis proposed to refund 12(b)1 fees both in the DC and 457 effective Oct. 1, 2012 and in 457 plan, reduce participant asset allocation fees as follows:

CURRENT		PROPOSED
Account Balance	Asset Fee	Asset Fee
\$0 - 20,000	0.35%	0.33%
\$20,001 - 50,000	0.25%	0.23%
\$50,001 - 100,000	0.15%	0.13%
Over \$100,000	0.00%	0
MAX FEE	\$56.25/QTR	\$50.00/QTR

**Motion:** Paul Spengler motioned to accept the recommendation to refund 12(b) 1 fees in both the DC and 457 plans and to reduce the participant asset allocation fees as proposed by Ms. Davis.

**Second:** Rande Muffick  
No public comment

**Vote:** 9/0

#### **ADJOURNMENT**

There being no further business before the Committee, Ms. Davis adjourned the meeting at 5:15

p.m.

Next meeting to be held: October 18, 2012