Public Employees' Retirement Board

Employee Investment Advisory Council

100 North Park Avenue, Room 201
Helena MT 59601
MINUTES
Thursday April 18, 2013
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, Paula Stoll, Barbara Wagner, Paul Spengler, Pam Fleisner, James Helgeson, Amy Barry, Steve Johnson, (?)Ed Dawes

Council Members Excused:

Rande Muffick, Jim Penner, Diane Fladmo

MPERB Members in Attendance:

Bob Bugni
Sheena Wilson

Members of the Public:

Linda Ulrich – Great West
Beth Long- Great West
Perry Christie- Great West
Michael Schlachter – Wilshire Associates
Roxanne Minnehan- MPERA Executive Director
Jenny Weigand – MPERA Education Supervisor
Steve Ebert- Nationwide
Margaret Volpe-Rodgers- Nationwide
James Fehr- City of Helena

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 17, 2013

Motion: Tom Schneider made a motion to approve the January 17, 2013 minutes as presented.
Second: Barb Wagner
No public comment
Vote: Passed 9/0

IV. Fund Performance Review – Michael Schlachter, CFA, Wilshire Associates

A. Numbers in Context

There is a steady improvement in the economy. Business spending is still relatively low, but personal consumption is a positive trend. Employment rates have a steady improvement over the last few years. Wilshire doesn't think unemployment will get below 6 ½%.

In 2008 there was an over leveraging of real estate balance sheets. There was an overinflated real estate bubble, which was not supported by fundamentals. As equities began to fall, highly leveraged loans destroyed balance sheets for personal, investors and businesses. Currently the home ownership is back to sustainable levels.

Mr. Schlachter reviewed the growth charts on Page 7 of the packet with council members, with the explanation that the Price Index is leveled and possibly improving. The fact that prices are stabilizing provides a floor for the marketplace. Affordability in housing is at an all-time high. The bottom line is that we're seeing improvements in sales and in housing starts.

A recurring theme in the last several quarters has been that the yield curve hasn't moved, and it isn't expected to in the near future. The corporate spreads are continuing to be pretty moderate.

The European Debt Crisis is stabilized. It is not expected to see continued outside skeins in European debt at this point given the recovery in the last year.

Over the past year, things have been pretty solid. In the first quarter alone, the US stock market was up about 10 ½- 11%.

The large cap growth index the return for one year is about 10%. The large cap value index is around 13%. The small cap index is 18%.

The International Market is not quite as strong due to dollar depreciation.

A. 457(b)

There are two funds currently on probation: the Davis Large Cap Value Fund, which we've done searches for twice in the past and may have some good candidates for the replacement, and the Columbia Fund, which has been on probation for about a year and a half. Last quarter the Columbia Fund seemed to be moving in the right direction but has taken a step backwards in this quarter.

There have been no big changes in Asset Allocations. The lowest that's been seen in the Stable Value Fund is 60.8%.

There have been some changes in Target Date Funds. The quarter-ending value for Target Date Funds at the end of the year was 7.7 million dollars, today it is 9.7 million dollars. That puts us up 25% for this quarter, which mean we are seeing cash flows into these funds in addition to strong market growth. The total number of assets is up 12-13 million dollars.

The Neuberger High Income Bond Fund looks weaker relative to the benchmark being behind for the past 3 years, but is roughly close for the 5 years. The Income Fund versus, not the benchmark but the median, shows that they are well ahead for the 5 years and the 3 years is pretty much a push. Wilshire is not recommending probation for the Neuberger Fund at this time.

The Davis New York Venture Fund has not made any progress. Compared to the value index, it is 6% behind the benchmark. Wilshire will do a search to replace it.

The Columbia Fund is on probation for about 18 months and it is warranted to keep it there. The long-term performance is behind and is not making progress. Out of six criteria, four are positive.

Motion: Paul Spengler would like to look for a replacement for the Columbia Midcap Value Fund.

Second: Ed Dawes
No discussion

Vote: passed (9/0?)

The non-US funds look terrific. A couple of quarters ago the Oppenheimer Developing Markets Fund was added. It announces their closing to new clients.

Performance of the Target Date Funds is ahead of the benchmark, which is good news.

B. 401(a)

There is only one fund on probation, the Janus Perkins Fund. It has been on probation since the second quarter of 2012.

The Stable Value is only 10% of assets whereas the Balance Fund is about 50% of the assets.

The Balance Fund is a Vanguard-based index fund, and performance is exactly as expected being up 10% this last year. They are 5-star rated Funds and are above the mean index for 3- and 5-year performance.

The Alger Fund is impacted a little bit by the policy change. It is behind the benchmark for 3 and 5 years, but is ahead of its ‘peers’. The recommended change in the policy will help to determine if this Fund is superior to other funds in the marketplace.

The Janus Perkins Fund was added to probation at the end of last quarter. It’s long-term performance is poor and is getting worse, there is no positive trend. Wilshire recommends moving forward with trying to find a replacement for Janus Perkins.

The American Fund and Oakmark Fund are doing great, especially the Oakmark Fund. They have five stars across the board and are ahead of the benchmark.

The Target Date Funds look good in a long-term basis with solid ratings.

V. Fund Replacement Search – Michael Schlachter, Wilshire

A. 457(b)- Davis NY Venture

One of the options is The Vanguard Equity-Income Fund that is currently included in the 401(a). This Fund does not have a research score on it because Vanguard is sub-advised by Wellington and they do not have a comparable large-cap value portfolio for investors.

Wilshire has a two-part recommendation. The first being to replace the Davis Fund with the Vanguard Equity-Income Fund, with JP Morgan being a second choice. The fees associated with JP Morgan are low for being an actively managed fund. Both JP Morgan and Vanguard Equity-Income have had very good track records being in the top 5^{th}-10^{th} percentile in the Universe Analysis.

Vanguard and JP Morgan are consistently adding value to their Equity Funds.

Wilshire, based on consistency, lower fees and the fact that it is in the other plan, recommend the Vanguard Equity Fund, with JP Morgan being the second choice.

Motion: Tom Schneider makes the motion to replace the Davis New York Venture Fund with the Vanguard Equity Income Fund.

Second: Paula Stoll seconds
No discussion

Vote: Passed (9/0)

B. 401(a)- Janus/Perkins Mid Cap Value

Wilshire's recommendation is the MFS Fund, with Hotchkis & Wiley being the second choice. MFS is the highest rated of the Mid-Cap Value Funds and scored the best of any of the candidates.

Hotchkis & Wiley have a great amount of risk, while in the last few years MFS has had the least amount.

Motion: Paul Spengler makes the motion to replace the Janus Perkins Mid-Cap Value Fund with the MFS Mid-Cap Value Fund.

Second: Barb Wegner
No discussion

Vote: Passed (9/0)

Motion: Barb Wegner makes the motion to replace the Columbia Mid-Cap Value Fund with the MFS Mid-Cap Value Fund.

Second: Paula Scholl
No discussion

Vote: Passed (9/0)

Because more than half of our assets are in the 401(a) plan, and 60+% are in money market, cash, balance or target date, essentially more than 60% of the assets have given up on the 401(a). The 457 (b) is close to 80% in cash, stable value or target date funds. There doesn't seem to be much demand from participants for these options.

Vanguard creates a survey every year on how America saves. When there are more fund options to choose from, there tend to be more participants. On the other hand, when there are too many options, participant rates begin to decline due to confusion.

Some DC plans are looking to consolidate funds so there are no more than four. This plan might be too simple.

The 401(a) is a default fund. It is more significant to see an increase in target date fund usage in the 457(b). Focusing on asset allocation and increasing your level of contribution, as opposed to trying to choose between multiple funds, will make this process simpler.

VI. Investment Policy Statements

A. Every year the Investment Policy Statements are reviewed to see if they are meeting our needs. Wilshire has recommended a couple of changes.

The 3- and 5-year relative to benchmark are not in our policy. One of Wilshire's recommendations is to get rid of sharp ratios and move them to performance relative to the median manager. Most participants don't know what a sharp ratio is or what it means. Sharp ratio captures the amount of risk involved in a particular policy.

If a benchmark cannot be beat, change to an Index Fund which is a good option to have. Wilshire's recommendation is to change the criteria to performance vs index, performance vs median and Morningstar rating and to make the 3- and 5-year criteria explicit.

These recommendations are consistent for both the 457(b) and the 401(a).

Motion: Paul Spengler makes the motion to accept and enact the recommendations made by Wilshire, for both the 457(b) and the 401(a) plans.

Second: Bob Bugni

Discussion: Questions were brought up about the possibility of the 3- and 5-year periods being rolling periods. Wilshire is only making recommendations based on straight periods.

Vote: Passed (9/0)

VII. Great West Financial- 457 & DCRP 2012 Plans Review- Linda Ulrich, Regional Director

Linda Ulrich of Great-West Financial presented the annual plan review to the Board. Annually, Great-West and MPERA review the Strategic Partnership Plan from the prior calendar year. Together they establish new goals each year.

Great-West has redesigned their website for ease of use and has also enhanced their voice response system. The participant statements have also been redesigned to include projected monthly income and fee disclosure. The di minimis distributions have become automated. Of the 7,910 records online, 92% of those individuals updated their beneficiaries during the beneficiary campaign. Goals for 2012 were me in all four dimensions: participation, asset allocation, education and retiree outreach.
In order to improve participation Great-West will increase contact with human resource offices. They will also target new hires; contacting them 30 days after employment. There is a plan to adopt a quick enrollment form to make it easier for individuals to join.

There are two different groups: those that are receiving a pension and those that are purely DCRP participants who may participate in the 457. The DCRP participants, which is about 3,000, won't have a pension at this point. We need to address if they are ready for retirement and how we get them there. The Defined Contribution is a complex pension and there are some gaps that need to be filled.

Ms. Ulrich had requested a report of how many people are using a single investment but has not received it yet. She will send Ms. Davis a copy when she gets it.

VIII. Stable Value Update- Patricia Davis

At the last meeting we decided to move forward with an RFP to look at a new Stable Value provider. After review of the contract it was determined that it would not be in our best interest to go out for an RFP because there is a clause in the Aegon/TransAmerica contract that could have been detrimental to our plan participants. Instead, we are working closely with PIMCO who is trying to renegotiate that contract. PIMCO will also be looking for more Wrap providers for the Stable Value Fund. Our contract with TransAmerica is up at the end of June and we are hoping to have some sort of resolution by that time.

PIMCO is also working with State Street to realign the accounting structure in hopes that there will not be any impact on our participants.

IX. EIAC Future Planning

A. Legislation Update-

1. HB 91- ROTH 457 Implementation Plan
   Passed and signed by the Governor. Ms. Davis and Jenny Weigand have met and decided on an arrangement to implement this plan, including amending the 457 document. Ms. Weigand and Melanie Symons will review the adoption and be prepared to present it to the Board in May. We will be working closely with Great West in order to get this up and running by July 1st.

B. Committee Reference Manual

1. Industry Trends in DC plans (July 18, October 17)
   Some of the trends are looking at different funds and deciding if there are better ways to allocate those funds if you have an unsophisticated group of participants. We need to have more discussions in order to take recommendations to the Board.

In July we need to discuss the brokerage account options, who would use it and what are the limitations?

X. 2013 RFP's- Recordkeeping & Investment Consultants- update- Project Plans

A. Call for one EIAC volunteer for each RFP. – Volunteer will be responsible for reviewing draft FRP prior to posting, and will participate in review of RFP responses.

-Update on HB 454

Roxanne Minnehan gave an update on HB 454.

4:30 p.m. PROJECTED ADJOURNMENT

The motion was moved and seconded to adjourn the meeting. Patty Davis adjourned at approximately 4:45pm.

Next meeting July 18, 2013