**Public Employees' Retirement Board**

# Employee Investment Advisory Council

100 North Park Avenue, Room 201
Helena MT 59601
MINUTES
Thursday October 18, 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, Paula Stoll, Barbara Wagner, Paul Spengler, Pam Flesiner, James Helgeson

### Council Members Excused:

Rande Muffick, Jim Penner, Diane Fladmo

### Members of the Public:

Linda Ulrich – Great-West Financial
Perry Christy – Great-West Financial
Michael Schlachter – Wilshire Associates
Melanie Symons – MPERA Legal Counsel
Kate Talley – MPERA Legal Counsel
Jenny Weigand – MPERA Education Supervisor
John Kindall, Nationwide
Margaret L. Vope-Rodgers, CRC, Nationwide

**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** – July 19, 2012

**Motion:** Paul Spengler made a motion to approve the July 19, 2012 minutes as presented.
**Second:** Tom Schneider
No public comment
**Vote:** 8/0

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

### A. Numbers in Context

Mr. Schlachter reviewed the growth charts on Page 4 of the packet with the council members, with the message that there has been steady growth in jobs.

### B. 457(b)

Mr. Schlachter is not recommending changes to any of the funds. In the 457 the target dates are optional, and this is where we've had dramatic growth.

There are two funds on probation: the Davis New York Venture Fund and the Columbia Fund. Mr. Schlachter is concerned with the Munder Fund, but would not recommend it for probation.

### C. 401(a)

Half the assets are in the balanced fund and they're doing great. Everyone should be satisfied with this being they're main balance choice.

Mr. Schlachter advised the Janice Perkins Midcap Value Fund will remain on probation. It has been on probation for a second quarter now and compared to a Midcap Value Benchmark, it has fallen behind its 'peers'. Mr. Schlachter recommends keeping an eye on this Fund for further deterioration.

## V. Retirement Income Option – Michael Schlachter, Wilshire

Mr. Schlachter provided an overview of Retirement Income options. Many plans who traditionally focused on getting members to join the plan are now trying to help participants translate their account balance into post retirement income.

An EBRI survey shows that workers' confidence that their retirement assets are sufficient to meet their income needs has fallen in recent years. Guaranteed Lifetime Withdrawal Benefit (GLWB) fund options are designed to help participants obtain retirement income without giving up control of assets like a traditional annuity product.

GLWB products are designed as an investment option with an insurance rider that provides the ability to withdraw a minimum amount throughout retirement regardless of the underlying investments performance.

While these types of products provide import benefits, their high cost reduces efficiency.

Pros: Withdrawals based on "high water-mark" account balance, additional withdrawals can be made for emergency, remaining account balance belongs to heirs, may be eligible as a QDIA, provides level income for line.

Cons: High fees –currently 90 to 100 bps per year, complex structure, not portable, option is a life-long commitment.

Conclusion: not yet seeing widespread adoption among plan sponsors.

Public Comment: John Kendall- Nationwide

From a Best Product standpoint, Nationwide failed with this plan and has shelved it ever since 2009.

It has been decided within the committee to think about this and re-discuss at the next meeting.

**VI. Stable Value Update-** Patricia Davis

In August, Patricia Davis approached the Board and asked for permission for a one year extension on the Stable Value Wrap Contract MPERA has with TransAmerica/Aegon. The Board approved. TransAmerica has agreed to extend our contract by 6 months, contingent on if we move forward with some of their demands. Brett Gorman from PIMCO, as our Relationship Manager, will discuss the issues in the Stable Market, issues with TransAmerica and how the portfolio will be structured based on their demands.

**VII. Montana Stable Value-** Brett Gorman (and Patrick Lewis)- PIMCO – Via conference call.

In the presentation, there is a summary of the current contracts that each plan owns. One contract owned is the 401(a) plan, and a different contract which is also, is the 457 plan. These contracts and participants are doing well at about a 2.9% credit rate. Over time, participants can expect to experience attractive crediting rates. TransAmerica requested a Professional Stable Value Manager to be appointed, which is why PIMCO was retained. PIMCO also provides fixed income management services. Book-value Accounting is basically a smoothing mechanism and allows your participants to transact at contract value or at book value, so regardless of where the market value is, participants are owed the value of the contract. Wrap contracts provide catastrophic insurance in case the Market Value goes away. Stable Value is a fixed income product.

Before the Market crisis of 2008, there was ample wrap capacity, a lot of book value providers. You can't achieve Stable Market Value without these contracts. TransAmerica happens to be one of the largest wrap providers. There are some wrap providers that want to make the investment guidelines more conservative. Some portfolios had a higher market to book ratio and there were others that had lower ones. Large financial institutions had a hard time in 2008 and are looking to exit the wrap marketplace. TransAmerica/Aegon is committed to being a stable value provider with contract terms being fair and reasonable from an investment management prospective. As of 2009 to the present, we are seeing new providers, insurance companies, coming to the marketplace. Mr. Gorman has talked about the secular decline in interest rates and how wrap fees have fallen into single digits in the past. Wrap fees in the last few years have risen somewhere between 20-25 basis points.

Montana negotiated new investment guidelines a few years ago. The current structure that is employed by Montana is unusual compared to TransAmerica's broader scope of business.

Mr. Gorman reviewed page 4 of the packet. Under TransAmerica, we have already done the first bullet point, but bullet points 2-4 are on the table for discussion. In the long run we would like to eliminate a termination date, but there would still be termination contracts. What we would require is a wind-down of the contract over a period of time so participants are not affected by the termination of the contract and will get their full investment back.

We have been in negotiations with Transamerica and they have agreed to extend the contract by 6 months. They are asking for both plans to be in one single contract in the trust. The money is invested in a single portfolio that has been structured under the trust. Both plans share equally in the underlying investments.

The Board and the Committee need to consider if we are going to potentially have two different funds for our participants, like they were before 2010. If we can structure under a single trust, it will make the investing a lot more efficient. In a typical portfolio, you may have 3-6 wrap contracts which cover almost the same bond portfolio or, often, different bond portfolios. With the exposure of these wrap contracts, there would be a restructuring into a valuation account and the addition of the cash buffer. The fiduciary advantage is that the exposure for all participants would be the same.

PIMCO monitors STIF levels. If the level is too high, PIMCO will make a market value deposit into the fixed income portfolio, and a book value deposit into the wrap contract.

We will have additional wrap providers coming in to make up the 66% risk. This does not include all of the wrappers. We then lose the wrap on the merged 3%. There would be a 2% allocation to a STIF and the remaining 98% would be wrap. TransAmerica/Aegon wants to be reduced to around 30%-33% and the difference between the 98% and 30% would be covered by different providers. It will be pro-rata with all the providers, not tiered. There is concern that there would be a negative impact on the crediting rate due to changes in that portfolio.

The issue is the cash buffer and how it is structured within the wrap contract. We have 6 months to resolve this issue.

**Motion:** Tom Schneider made the motion to authorize Brett Gorman to take the items he feels need to be presented to the Board and bring back anything he thinks we need to have from the Board Meeting.

**Seconded: Paul Spengler**

Motion passed 8/0.

## VIII. EIAC Future Planning

**A.** Committee Reference Manual

Patricia Davis drafted this manual for reference in future EIAC meetings.

## 4:30 PROJECTED ADJOURNMENT

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

Next meeting: January 17, 2013.