

**Public Employees' Retirement Board
EMPLOYEE INVESTMENT ADVISORY COUNCIL**

100 North Park Avenue, Room 201

Helena MT 59601

Thursday July 27, 2017

12:00 PM

ATTENDANCE

Council Members

Patricia Davis, Chair

Tom Schneider, Member

Paul Spengler, Member

Tim House, Member

Amy Berry, Member

Barb Wagner, Member-Phone

Steve Hagen, Member

Jim Penner, Member-Excused

Diane Fladmo, Member

Jeff Bollman, Member

James Helgeson, Member

Malissa Williams, Member

MPERA Staff

Jennifer Weigand, Education Supervisor

Gene Meegan, MPERA Auditor

Beth Long

Public

Donald Eibsen, Conduent

John Plowright, T. Rowe Price

Joe Martel, T. Rowe Price

Anne Cappel, Empower Retirement

Sheena Wilson, President-MPERA Board of Trustees

Presenters

John Plowright and Joe Martel, T. Rowe Price-Target Date Funds

Donald Eibson, Conduent HR Services Investment Counseling

Anne Cappel, Empower Retirement

II. Roll Call (0:20-2:19)

III. Public/Member Comment (2:20-2:59)

- No Public Comment.

ACTIONS

IV. Approval of EIAC meeting minutes-April 27, 2017, 2017 (3:02-3:59:45)

- Diane Fladmo moved to approve the meeting minutes for April 27, 2017.
Tom Schneider seconded the motion, which passed unanimously.

V. Fund Performance Review-Don Eibson, Conduent HR Services Investment Counseling (5:09-38:44)

a. Market Review (5:09:00-12:29)

Mr. Eibson reviewed current standings and highlights of the Market in General. U.S stocks produced positive returns in the second quarter. Mr. Eibson discussed the US Economy, unemployment rate along with the current standings of Bonds, Equities and Fixed income. No Action Taken.

b. 457(b) Deferred Compensation Plan (12:30-31:36)

Mr. Eibson discussed the performance of the funds in the 457(b). He went over the range of investments available with the plan, Fund Overview, current Asset Allocation, and style characteristics as June 30, 2017. The plan assets totaled \$ 477.5 million, they are allocated as 50% to the Stable Value fund, 2% to Bond funds, 11% to Target Date/Balanced funds, 29% to U.S. Equity funds, and 8% in International Equity funds. No action taken.

c. 401(a) Defined Contribution Plan (31:38-38:44)

Mr. Eibson discussed the performance of the funds in the 401(a). The Range of Options, Asset Allocation of the funds, Target Date Funds, and Peer Group ratings in the plan were discussed. The plan assets totaled \$ 196.6 million. This is up \$ 181.9 million from March 31, 2017. The Plan assets were allocated 8% to the Stable Value Fund, 2% to Bond fund, 54% to Target Date/Balanced funds, 28% to U.S. Equity funds, and 8% to International Equity Funds. No action taken.

VI. Target Date Fund Presentation- John Plowright & Joe Martel, T. Rowe Price (39:59 – 1:29:11)

- John Plowright gave a basic introduction into T. Rowe Price as a company and their structure. Joe Martel presented on the foundation of T. Rowe Price and the strategies that are used such as; the glide path and strategic allocation. Life expectancies are rising, so the glide path does need to make modest adjustments within the glide path to accommodate changes. Paul Spengler asked how the adjustments are handled. Joe explained that they do strategic adjustments quarterly, and tactical adjusts monthly as needed, but stressed that the adjustments are very modest. Tim House asked if folks stay in these Target Date Funds, Joe Martel stated that generally people will not cash out, because they have educated themselves on retirement income, but they may move the funds to an IRA, because they feel they've reached their appropriate income goal. John Plowright mentioned that T. Rowe Price will be developing a new Retirement Income Product soon. Gene Meegan inquired as to how the researchers and analysts are compensated, Joe Martel explained that it is based on the 3, 5, and 10 year performance of the funds and the return vs benchmarks they also have a qualitative and quantitative review process. Joe went over the enhancements to the Core Allocation of 70% and the Diversification of 30% stating that the Core has added two new fixed fund allocations; a Non-International Bond and a Non-Traditional Dynamic Global bond. The Diversification has added Bank Loans and Treasuries. Joe discussed the Retirement Glide Path Solutions that are available compared to what we currently have, Retirement I Funds is 15 bps less, and Retirement Trust, Collective Trust is 46bps, and the revenue sharing that goes back to members would stop. After the discussion regarding making a change to a Collective Investment Trust in the Target Date series for the lower fee, Malissa Williams recommended that we move the discussion to the next meeting on October 26, 2017, with the hopes of more education on the structure and discussion on the impact to members, and educational steps that will be needed for the members. Steve Hagen second the motion which passed unanimously.

VII. Small Cap Value Fund Search – Donald Eibsen, Conduent (1:30:18 – 2:10:08)

- Mr. Eibsen presented on the results of the Fund search to replace Neuberger Berman Genesis Trust Fund. Mr. Eibsen provided a side by side report on the four other options that would be available as an alternative Small Cap Value Fund for the committee to consider. The report looked at volatility, performance, fees, expense ratios, Fund size, structure, and management profile. Mr. Eibsen mentioned that an Index approach is a good choice for a Value Fund and that Vanguard Small Cap Value Index I is one of the options he highlighted in his report and stated that it's consistent for a participant choice plan. The style box for the Neuberger Berman fund is skewed to look more like a growth than a value fund. Motion was made by Steve Hagen to retain the Neuberger Berman Genesis Trust fund, but to add communication for the 457(b) Deferred Compensation participants in the fund regarding the Value vs. Growth. Tim House second the motion which passed unanimously.

VIII. Portfolio Review – Donald Eibsen, Conduent (2:10:10 – 2:41:40)

- Mr. Eibsen presented the current portfolio for both the 457(b) Deferred Compensation Plan and the 401(a) Defined Contribution Plan. The 457(b) Plan currently has 20 investment options when the Target Date series is counted as one. The 401(a) Plan has 18 investment options when the Target Date series is counted as one. Most Plans offer a range of 16-24, so these numbers are a reasonable range. Mr. Eibsen also noted that the Plans do overlap on a few of the fund options available. The presentation showed different scenarios to streamline the Plans options and there was education given on what a White Label Fund is. Funds for both plans are reviewed quarterly and annually. The discussion for streamlining or changing the current set up of options will be done at the next meeting on October 26, 2017. No action taken.

XI. Policy Review – Don Eibson, Conduent (2:41:52- 2:45:10)

DC Plans Investment Option Overlap Policy-Board Admin 08

- The policy will be discussed in October, since most it has to do with what was discussed today. Members of the committee need to review the policy for any potential changes.
- Mr. Eibsen did suggest that on 1.C. the last sentence in paragraph one states "The total number of investment options available in each plan may not exceed 21. He suggests that we add in parenthesis (Target Date Funds are counted as one) after that statement. No action taken.

X. Draft Outline – White Paper on Auto –Enrollment (2:45:21 – 2:46:46)

- Ms. Davis explained the White Paper, this is for the committee to make suggestions and review regarding ideas for Auto-Enrollment. Please send emails to her with your comments and suggestions, this will be reviewed at the October EIAC meeting and eventually will be presented to the Board. No action taken.

XI. 457(b) Minimum Deferral – (2:46:47 – 3:15:20)

- The minimum deferral amount for participants has been at \$ 10.00 per month since the Plans inception. Ms. Davis explained the need for a breakeven point for revenue expenses. The fixed annual per account fee charge from Empower Retirement is \$ 63.00 per participant specifically the 457 Plan, the MPERA variable annual administrative expenses per participant is \$ 109.66. Plans in our region have minimum deferral amounts from our \$10.00 to \$ 50.00. To cover all costs a participant would have to have \$ 26,500.00, with participants deferring \$ 10.00 to \$ 50.00 that number will not be reached for a cost recovery. They would need to defer \$ 180.00 per month, which is beyond the means of most participants, even the \$ 50.00 is too much for the lower income families. We do not want to discourage employees from participating. A

comparison was run by Barb Wagner on what \$ 10.00 in 1978 is equivalent to in today's dollars, that amount is \$ 39.19. The discussion emphasized making small changes over time. Diane Fladmo motioned to change the minimum deferral per month to \$ 20.00 for all new enrollments, and that existing participants making a change would have to do at least the minimum of \$ 20.00 also, Tom Schneider second the motion which passed unanimously.

XII. Empower Website Redesign – Anne Cappel, Empower Retirement (3:1516-3:31:08)

- Ms. Cappel gave a brief presentation on the new enhances Empower Retirement's website that will be up and running the end of August. There are new security aspects to the site, participants will need to enter their date of birth, social security number and zip code, there will also be other enhancements; such as security questions. The income score now is very visible once you log in, you will also see your balance with a breakdown and projection of your retirement future. Health Care costs will also now be able to be entered to help with your retirement income projections.

October Discussion items:

- **T. Rowe Price-Share Classes**
- **Rebates vs Share Classes**
- **Fund Structure in both Plans**
- **Overlap Policy**
- **Outline for Auto Enrollment**

Meeting Adjourned at 3:50 PM.

Next Meeting will be October 26, 2017