

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

100 North Park Avenue, Room 201

Helena MT 59601

October 22, 2020

1:00 PM VIA REMOTE ZOOM MEETING

ATTENDANCE

Council Members

Patricia Davis, Chair
Tammy Potter, Absent
Tim House, Member
Amy Berry, Member
Barb Wagner, Member
Jim Penner, Member
Diane Fladmo, Member
Jeff Bollman, Member
James Helgeson, Absent
Malissa Williams, Member
Kim Stout, Member

MPERA Staff

Joel Thompson - MPERA Education
Jen Bergner- MPERA Education
Doug Hays- MPERA Client Services Supervisor
Holly Resler-MPERA Fiscal Services Bureau Chief
Bill Holahan -MPERA Chief Legal Counsel
Jenn Bergner-MPERA Education
Sheri Mitchell – MPERA Analyst Supervisor, Member Services
Beth Long - MPERA Benefit Analyst/EIAC Assistant

Public

Mary Ann Daubenspeck-Empower Retirement
Chris Heisel-Empower Retirement
Liz Davidsen - Empower Retirement
Jannah Ross -Empower Retirement
Marshall Goff Nationwide Retirement

Presenters

Mikaylee O'Connor, Sr. Consultant, Principle, RVK, Inc.
Sarah Boctor, CFA, Associate Consultant, RVK, Inc.
Ali Rice -MPERA Pension Financial Analyst

II. Roll Call (1:21-1:25)

III. Public/Member Comment/Introductions (1:25-1:29)

Ms. Davis reminded everyone on the format using ZOOM, she let the audience know that they can raise their hand through ZOOM, please do not use the chat feature for financial discussions, those questions or comments should all be done through the audio feature.

ACTIONS ITEMS

IV. Approval of EIAC meeting minutes-July 23, 2020 (1:30)

- Diane Fladmo moved to approve the meeting minutes for July 23, 2020.
- Jeff Bolman seconded the motion, which passed unanimously.

V. Market Review / Plan Review 401(a) and 457(b) - Mikaylee O'Connor, Sr. Consultant, Principle, RVK, Inc (1:31)

The Capital markets in the first 2 months of 3rd quarter showed that volatility had returned, which could be due to the upcoming election. There was uncertainty if Congress and the Trump administration could reach a compromise on an additional COVID-19 stimulus package.

The S & P 500 ended the 3rd quarter up 8.9%, the Russell Top 300 finished ahead of the smaller caps returning 10.2%, and Russell 2000 and the Mid Cap indexes returned 4.9% and 7.5%.

Developed International markets had a strong quarter, but it remains negative for the year. The Emerging markets did well during the 3rd quarter. Value stocks underperformed growth, while Small-Cap stocks outperformed Large-Cap stocks.

Fixed Income returned a 0.6% in the 3rd quarter with a yield of just 1.2% and is currently at historic lows.

Investment Policy Review of the current funds held by the Montana Public Employees Retirement Plan for both the 401(a) and 457 (b)m RVK had added information for the committee showing each funds inception date.

Ms. O'Connor detailed the information for each fund regarding the 3 year and 5-year returns, showing their research rating for each. Their research created a watch list of 4 funds PGIM QMA Small-Cap-Value 401(a) has had historical performance challenges and team turnover and has been on watch since July 2019, PGIM QMA will be replaced with Black Rock Advantage Small Cap Core Fund which was voted on at the last meeting.

Oakmark International 401(a) has performance challenges and higher investment fees vs their peers, Invesco Oppenheimer Market is primarily retail and there are concerns with liquidity, Neuberger Hi Inc. B also had performance issues and team turnover.

Ms. O'Connor detailed the Asset Allocation of both plans comparing June 2020 to September 2020. The Montana Fixed Fund is strong and consistent. The committee was also shown the Fund Fee analysis for each fund in the 457(b) and 401(a) plans. RVK recommended that the committee may want to look at adding the TR Price 2065 Retirement fund, there was no comment, and the discussion will continue in the future.

No action taken.

VI. Defined Contribution Fee Structure Review-Ali Rice, MPERA Pension Financial Analyst (2:19)

Participants in the 401(a) Plan had a fee holiday from July 1, 202 to September 30, 2020, forfeitures fund the plan, this is when a member leaves employment when not yet vested at 5 years and the employer contributions go back into the Plan.

Ms. Rice presented projections of an 8% increase in Investments, 3% increase projection in participants and projection of 5% in administrative expenses. There were no projections, currently for Forfeitures of STIP per year.

Ms. Davis asked the committee if they agreed to extend the Fee Holiday the rest of this fiscal year to June 2021 Diane Faldo moved to extend the Fee Holiday and Jeff Bolman seconded the motion which passed unanimously. There was also discussion on other extensions, they will look at future projections down the road and continue that conversation in 2021.

VII. Retirement Readiness Part II -Mikaylee O'Connor, Sr. Consultant, Principle, RVK, Inc & Sarah Boctor, CFA, Associate Consultant RVK (2:55)

The presentation provided an overview of the previous Part I regarding Demographic, saving patterns, goals and expectations of participants working towards retirement.

Part II was evaluating expected retirement outcome, using forward thinking to understand the outcomes of decisions. The objective is to understand future outcomes that face participants in the 401(a) and 457(b) plans. The assumption used participants to be fully invested in the T. Rowe Price target date funds.

Members need to look at economic scenarios, salary growth, investment returns and contributions at the pre-retirement phase.

In the Post- Retirement time frame, they should look at income replacement, income sources such as: social security and other income and life expectancy. It is important to make sure your income is going to be adequate, or if there is a short fall.

New members should be encouraged to increase contributions, and look at their investment choices, members nearing retirement may have to consider delaying retirement or delaying social security. There were comparatives shown on the difference when claiming social security at full retirement age vs age 62. The goal is to attempt to have 76% income replacement. When it comes to the Police Officers or Fire Fighters the assumption is there is no social security the assumptions of income replacement then are higher at 80%. Ms. Davis stated that MPERA and Empower work together to explore investment design, increase education, and provide on- line models to assist participants. No action taken.

VIII. Investment Menu Review Part I-Mikaylee O'Connor Sr. Consultant, Principle, RVK, Inc (3:52-4:57)

Ms. O'Connor explained the different menu design trends and how participants use them. Too many choices create confusion and members may not be making the correct selections if there is an overload of funds available, members need to be encouraged to select a mix of active and passive funds, and how to diversify between fixed income and equities. The menu should also have fees that are cost effective.

Participants fall into 3 categories when it comes to investing, The Do it for me, Do it with me, or Do it myself. The Do it for me lands in the Target Date funds available as the member is exposed to all investments on day one, Do it with me is to achieve more asset allocation exposure across stocks and bonds and look at long term performance. The "Do it Myself" investor tends to choose self- directed brokerage, specialty funds and company stock.

Ms. O'Connor summarized the participation utilization of the funds available for both plans, there were difference between the 457(b) and 401(a) participants who utilized the target date funds, 457(b) members were at 15% while the 401(a) members were at 51%. When it comes to members who invest in only one fund, there were 23% of those in the 457(b) and 20% were 401(a) members.

The next steps are to improve decision making, look to not overlapping investments, and utilize more investment options. No action taken.

IX. Empower Retirement 2nd Quarter Field Report-Informational Handout

X. Empower Plan Summary Report-Informational Handout

XI. MPERA Education Staff 2nd Quarter Field Report -Informational Handout

XII. RFP Update

Ms. Davis notified the committee members that they are currently drafting the RFP and working with RVK to complete. The RFP is for the upcoming expiration of Empower Retirements contract expiration in June 2021.

Meeting Adjourned at 5:02

Next Meeting is scheduled for January 28, 2021