

Public Employees' Retirement Board

Employee Investment Advisory Council

100 North Park Avenue, Room 201

Helena MT 59601

Minutes

Thursday April 22, 2021

1:00 – 5:00

VIA: REMOTE – ZOOM meeting.

Attendance

Council Members

Patricia Davis, Chair

Tammy Potter, Member

Amy Berry, Member

Barb Wagner, Member

Jim Penner, Member

Sarah Piper, Member

Jeff Bollman, Member

Malissa Briggs, Member

Kim Stout, Member

Nadine Henning, Member

MPERA Staff

Bill Holahan - MPERA Chief Legal Counsel

Jim Malizia - MPERA Legal Counsel

Kris Vlastic - MPERA Program Specialist

Ann Reber - MPERA Education

Doug Hays - MPERA Client Services Supervisor

Sheri Mitchell - MPERA Analyst Supervisor, Member Services

Hollie Resler - MPERA Fiscal Services Bureau Chief

Ali Rice - MPERA Fiscal Services

Jenn Bergner - MPERA Education

Joel Thompson - MPERA Education

Terry Dalton - MPERA Education

Public Members

Sheena Wilson, President of MT Public Employee Retirement Board

Robyn Driscoll, Member of MT Public Employee Retirement Board

Rich Hickel, Member of MT Public Employee Retirement Board

Scott Braun, Empower

Elise Willey, RVK, Inc.

Presenters

Ian Bray, RVK, Inc.

Eryn Bacewich, RVK, Inc.

David Berg, PIMCO

Chris Heisel, Empower

Liz Davidsen, Empower

- I. Call to Order - Patricia Davis called the meeting to order [1:00 p.m.] (2:44)
- II. Roll Call - [1:02 p.m. - 1:07 p.m] (3:22 - 8:45)
Tim House, Member - Excused
- III. Public/Member Comment on any subject of interest not on the agenda [1:08 p.m. - 1:11 p.m.] (9:30 - 13:10)

Ms. Davis introduced Dore Schwinden, Executive Director for MPERA, to provide his comments regarding a new project in coordination with RVK, Inc. and the Board of Investments. There have discussions to integrate the DC and the 457 plans with the Board of Investments. RVK, Inc. has been contacted to evaluate the key factors for consideration by the two respective Boards. The key factors are investment management cost savings, best practice investment means for our participants and improvements in the quality and efficiency of the investment monitoring process. It is anticipated that there will be a comprehensive presentation to the EIAC committee and both boards, this summer.

Action items (1:05 – 2:15)

- IV. Approval of EIAC meeting minutes – January 28, 2021 [1:11 p.m. - 1:12 p.m.] (13:29 - 14:14)
 - Sarah Piper made a motion to approve the January 28, 2021 minutes.
 - Jeff Bollman seconded the motion, the motion passed unanimously.
- V. Fund Performance Review – *Ian Bray, CFA. Consultant, Principal, RVK, Inc.* [1:12 p.m. - 1:43 p.m.] (14:24 - 45:50)
 - a. Market Review & Plan reviews: 457(b) & 401(a)

Ian Bray from RVK, Inc. presented the Fund Performance Review for the first quarter of 2021. He reported that it was largely another positive quarter overall for investors. There is also continued recovery from the bottom out about a year ago due to CoVid. Some of the reasons for recovery are the opening of the economy due to the increase of vaccinations. The passage of further fiscal support in the US and anticipation of a bill more focused on infrastructure spending also factored into the rising global and US GDP growth forecasts for 2021-22.

In the Broad Markets, the US markets opened 2021 with solid performance in Quarter 1, driven by the passage of the \$1.9 trillion American Recovery Plan and the hope for a full reopening of the US economy. The S & P index bounced back to finish the quarter up 6.2%.

Within in the Market Cap, small-cap stocks significantly outperformed their larger-cap counterparts. The Russell 2000 Index returned 12.7% compared to 6.2% for the S&P 500.

Eryn Bacewicz presented the plan performance review. This investment line up will be reviewed in the coming months to streamline the lineup and create efficiencies with respect to fees. Each of the different plan options will have their performance evaluated. Slimming down the choices will give participants exactly what they need to make the best decisions.

Ms. Bacewicz reported that overall, the funds are performing well. There are no adverse changes in the team or organization and that the fees are very competitive. There are a few exceptions and those will be discussed later.

There are three investment options that are on the review list and will continue to be on the review list and are being watched by RVK, Inc. Those three funds are Oakmark International, Invesco, and Neuberger. Oakmark International has historical performance challenges and higher investment manager fees versus their peers. Regarding Invesco, there are concerns regarding their funds as well as the composition of their assets. Neuberger has historical team challenges as well as team turnover.

The above funds will be the prime candidates for looking for better options during the mapping review process. While there are concerns, Mr. Bray stated that concerns are not so concerning that the committee would need to take immediate action.

Ms. Bacewicz presented the investment structure review. She pointed out that the 401(1) and the 457(b) lineups were very similar. They are currently reviewing the few differences between the two plans and will make recommendations. The goal is to have the two plans very similar if not identical. This will make our fiduciary duty as easy as possible.

She then reviewed the asset allocation of the two plans. As of March 31, 2021 the plan reached 1 billion dollars. There were not any large shifts in relative allocations and are seeing consistent allocations quarter to quarter. Additionally there is a slight shift upwards in the target date funds area. Target date funds are a great way for participants to have appropriate exposure.

Regarding performance of the funds, it was a great year all around. The target date funds performed particularly well with returns ranging from 28% to 50% over the last year.

Overall, our fees remain very competitive, but RVK has identified a couple options or potentially looking at lower cheaper options with very similar strategies. This will be included in the mapping and review.

Break (1:45 - 2:00)

Action items (2:00 -3:25)

- VI. Annual Administrative Fee Review & proposed changes - *Patricia Davis, MPERA, Ali Rice, MPERA, Ian Bray, RVK.* [2:00p.m.- 3:25p.m.] (48:32 --2:21:40)

The committee has been consistently reviewing the fees that charged in both the Defined Contribution Retirement Plan and the 457 Deferred Compensation Plan. The goal is to make the fees more equitable. The first part of the presentation will be from an expense and revenue perspective for each one of the funds. Hollie Resler and Ali Rice from our Fiscal Services Bureau are presenting the FY21 expense that have been generated so far from these plans. Additionally, they are providing the projections to keep both funds healthy going forward.

- a. 457(b) – Fee Review [2:10 p.m. - 2:15 p.m] (58:00 - 1:04:20)

Ms. Rice stated that the 457(b) is set up similarly to DCRP 401(a) plan. The growth on investments is projected at only 2%. The 457(b) plan is elective and therefore participants are changing their contributions and can stop their contributions. The current per participant fee charge of \$63 for FY 2021 will decrease to \$61 for FY 2022.

If a participant is in both the DC and the 457(b) plan, there is a discount given on the 457(b) administrative and they are only charged the full participation fee for the DC plan. The basis points for the 457(b) are on a sliding scale. If the participants balance is between \$0 and \$20,000, we are charged 44 basis points, \$20,000 and \$50,000 we are charged 34 basis points, and \$50,000 to \$100,000 it is 24 basis points. Maximum amount charged is \$310.00.

MPERA will receive \$693,000 back as excess recoveries to fund this plan. Our administrative expenses will increase about 5%. We are currently over in both the six month and twelve-month limits.

We have struggled for several years on how to make fees within the 457 plan more equitable across all participants and while encouraging plan participation.

b. 401(a) – Fee Review [2:02 p.m.- 2:10pm] (50:00 - 57:58)

Ms. Rice stated it is projected that the plan is growing at an 8% rate per year. We also anticipate that the growth of participant does grow at a 3% rate for a year and will be at 4,645 for FY 21. Knowing these factors allows us to project for our growth for the future years for both investments and participants. The current per participant fee charge of \$63 for FY 2021 will decrease to \$61 for FY 2022.

According to Board Administrative Policy 13, the administrative fund shall be maintained at a sufficient level to ensure that at least six months, but no greater than twelve months, of administrative and contracted record keeping are held within the fund. This plan is currently overfunded from a board policy perspective.

VII. Annual Fee Structure Review – Ian Bray, Consultant, Principal, RVK, Inc. [2:16 p.m. -- (1:04:40 -

The purpose of Mr. Bray's presentation is to review different fee models and the potential impacts on participants within the MPERA 457(b) and 401(a) Plans. There are 2 types of Asset-based Fee Models, the Revenue Sharing Structure and the Fixed Basis Point Fee Structure. Additionally, there is a Per Participant Fee Model and Hybrid Fee Model. Mr. Bray presented the pros and cons of all fee structures and models.

RVK, Inc. has noticed the trend for most DC plans is to use a Hybrid Fee Structure. This allows for participants to pay a similar amount for the same level service and is the fastest growing trend. Fee structures can range from simple to more complex.

- Barb Wagner made a motion to continue the fee holiday for the 401(a) Defined Contribution Plan through FY22 (2:06:18)
- Sarah Piper seconded the motion, and it passed unanimously.

For the July meeting, RVK will present fee scenarios for the 457(b) plan. Those scenarios are to include a fee holiday up to \$3,000, \$5,000 and \$10,000 balances under the Hybrid Scenario One. They will also present the same three scenarios for a \$15.00 annual fee and a \$20.00 annual fee.

VIII. Board Admin 13 State of Montana 401(a) Defined Contributions Plan Administrative Fund & 457(b) Deferred Compensation Plan Administrative Fund - Annual Review– *Patricia Davis & Bill Holahan, MPERA* [3:26 p.m. -3:28 p.m.] (2:16:00 - 2:18:22)

The presentations given by Ali Rice are driven by the administrative policies. It is being recommended that in Section 5, Level of the Administrative Fund have cash defined specifically. This change is also recommended for Board Admin Policy 14.

- Barb Wagner made a motion to accept the changes made in Board Admin Policy 13 and Board Admin Policy 14 as presented. (2:17:45)
- Jeff Bollman seconded the motion, and it passed unanimously.

Informational:

- IX. Empower 1st Quarter Field Report (2:18:40)
- X. MPERA Education Staff –1st Quarter: Field Report (2:18:55)

Next Meeting: **July 22, 2021**

**Agenda Items: Retirement Readiness Part III
Investment Menu Review – Part II**

Patricia Davis adjourned the meeting at 3:33 p.m. (2:21:44)

