

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY- BOARD OF DIRECTORS

Retirement Policy Committee- MINUTES [adopted 9.4.13]

202 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

July 24, 2013, 9:30 A.M.

Retirement Policy Committee Members Present:

Mr. John Sowards, Chairman (in person)
Mr. David Tigges (in person)
Mr. Frank Fusco (in person)
Mr. Art Bjontegard (by phone)

Others present for all or a portion of the meeting:

David Avant, Lil Hayes, Stephen Van Camp, Travis Turner, Justin Werner, Matt Davis & Virginia Wetzel from the South Carolina Public Employee Benefit Authority (PEBA); Paul Staples with Summit Strategies; Wayne Pruitt with the SC State Retirees Association; Daniel Brennan with the State Treasurer's Office; Pirie McIndoe and Billy Peebles with VALIC; Jennifer Hyler with Senate Finance; and Carlton Washington with the State Employees Association.

AGENDA

1. CALL TO ORDER; ADOPTION OF PROPOSED AGENDA

Mr. Sowards called the meeting to order at 9:30 a.m. Ms. Hayes confirmed meeting notice compliance with the Freedom of Information Act. Mr. Fusco moved to adopt the proposed agenda. Mr. Tigges seconded. Unanimously approved.

2. Approval of Meeting Minutes- May 2 and May 28, 2013

Chairman Sowards asked for amendments to the May 2, 2013, and May 28, 2013, committee minutes. There being none, Mr. Sowards asked for a motion to approve the minutes. Mr. Tigges moved to approve the minutes. Mr. Fusco seconded. The meeting minutes were unanimously approved.

3. Discussion: Inspector General's Report

PEBA Interim Director, David Avant reported that the SC Inspector General determined that among the two claims made by the Treasurer that directly involved PEBA (disclosure of fees and the statement of asset values found within PEBA's financial statements) proved to have no merit. Mr. Bjontegard asked the Treasurer's representative (Daniel Brennan present in the meeting) if the Treasurer had issued a formal response to the Inspector General's Report. Mr. Brennan responded, no.

It was the consensus of the Retirement Policy Committee that they report to the full PEBA Board that the SC Inspector General's report exonerated PEBA from all allegations. Due to the fact that the report did not expressly state that all allegations towards PEBA had been exonerated, the committee asked PEBA General Counsel to draft a letter to the Inspector General acknowledging the interpretation that PEBA had been exonerated from all allegations and to request a response in the event the interpretation is incorrect. Mr. Tigges would also like to insure that the Retirement Policy Committee be prepared to deal with any future issues in a timely manner. Mr. Sowards emphasized the importance of timely communication among members and staff to insure the proper handling of any future issues should they arise.

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4. **ORP: VALIC Funding Changes**

Chairman Sowards introduced Matt Davis (PEBA's Deferred Compensation liaison), Paul Staples (Summit Strategy Consultant), Pirie McIndoe and Billy Peebles (VALIC representatives).

Mr. Davis referred to Mr. Staples who provided a presentation on ORP VALIC funding changes to replace the actively managed funds with passively managed funds (in notebook materials).

Chairman Sowards questioned the advantages of going to a predominantly passive management of funds. Mr. Staples explained that passive management allows for the most economic management fees available which will differentiate VALIC from other vendors.

Mr. Bjontegard explained a negative aspect of passively managed funds is the fact that 100% of the funds are fully invested without an option for cash holding which would detract the funds during negative and bear markets. Mr. Staples agreed but explained that the average cash holding for an actively managed fund is 5 percent to 10 percent.

Mr Fusco had questions about the participant's election of funds and the default process should the participant not elect a fund during enrollment. He also requested clarification from Mr. Staples that Summit Strategies Consultants are in support of this transition. Mr. Staples agreed that passively managed funds have proven to be less costly long-term due to lower management fees. He also emphasized that participants can change to the three remaining vendors within the ORP program should they prefer actively managed funds. Mr. Sowards emphasized that Summit Strategy Consultants are co-fiduciaries with the PEBA Board.

Mr. Staples did explain that VALIC's revenue will remain constant at the contractually agreed upon 23 basis points rate.

Mr. Bjontegard expressed his concern that the new menu offers passive funds in less efficient asset classes (domestic small cap & emerging markets) where active managers have demonstrated the ability to add value. He was concerned that those already enrolled into their defaulted funds would not understand this negative aspect. Mr. Turner advised that many of the ORP participants are portable employees who have chosen the ORP Program based upon their investment knowledge and preferences.

Mr. Staples suggested that a communication and education campaign be created for participants currently participating in the VALIC program to insure a smooth transition from active to passively managed accounts.

Mr. Tigges questioned participant satisfaction. Mr. Staples advised that satisfaction surveys are rare due to lack of participation from the participants.

Action:

Mr. Sowards asked for a motion to approve the ORP VALIC funding changes that are supported by co-fiduciaries, Summit Strategies and PEBA staff. Mr. Tigges moved to approve and Mr. Fusco seconded. ORP VALIC Funding changes were unanimously approved.

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5. **SC Deferred Compensation: Overview**

Chairman Sowards referred to Mr. Davis who presented an overview of the SC Deferred Compensation Program which included the plan's structure, the roles and responsibilities of the PEBA Board and staff, and the industry best practices that are being considered to improve the program.

Mr. Avant noted that the Chief Financial Officer of the SC Retirement Systems Investment Commission currently holds a seat on the SC Deferred Compensation Commission, which allows for a review process for funds receiving a low report card grade. However, this will not be the case once the Commission is dissolved and the PEBA Board assumes control over the program on January 1, 2013. Chairman Sowards stated the review process for failing funds will be a consideration for the board.

There was further discussion on the timeline for bidding and issuing requests for proposals for vendor contracts.

All members were advised of the last Deferred Compensation Meeting scheduled on September 27, 2013. Chairman Sowards requested staff to set up an educational meeting with current Deferred Compensation Commissioners in an effort to pass along institutional knowledge to the PEBA Retirement Policy Committee prior to January 2014. Staff agreed to do so.

In the next committee meeting scheduled for September 4, 2013, there will be investment advisor presentations from Great West Retirement Services (record keeper) and Segal Rogerscasey (investment consultant).

6. **Strategic Planning**

Mr. Sowards asked committee members to provide staff with feedback on PEBA's Strategic Plan prior to the next PEBA Board meeting scheduled for August 21, 2013.

7. **Round Table Discussion:**

Retirement Policy Committee Charter: (In notebook materials)

Action:

Mr. Sowards asked for a motion to approve the PEBA Retirement Policy Committee Charter. Mr. Fusco moved to approve and Mr. Sowards seconded. The PEBA Retirement Policy Committee Charter was unanimously approved.

8. **Adjournment**

There being nothing further to discuss, Mr. Sowards requested a motion to adjourn. Mr. Fusco moved to adjourn and Mr. Sowards seconded. The committee unanimously voted to adjourn at 11:10 a.m.