

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY- BOARD OF DIRECTORS

Retirement Policy Committee Meeting Minutes Approved 2.4.15

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

Wednesday, December 3, 2014, 9:30 A.M.

Retirement Policy Committee Members Present:

Mr. John Sowards, Chairman
Arthur Bjontegard
Mr. Steve Osborne
Mr. David Tigges (via telephone)

Others present for all or a portion of the meeting:

Peggy Boykin, Sarah Corbett, Matthew Davis, Rene Dash, Megan Lightle, Heather Muller, Tammy Nichols, Stephen Van Camp, and Justin Werner from the South Carolina Public Employee Benefit Authority (PEBA); Wayne Pruitt and Donald Tudor with the State Retirees Association of South Carolina; Nancy Ornduff and Amy Heyel with Empower Retirement (formally Great-West Retirement Services); Paul Staples with Summit Strategies Group (via telephone); Rose Guillette and Pirie McIndoe with Segal Rogerscasey; Danny White with Gabriel Roeder Smith & Company; and Marcus Finney from the South Carolina Office of the State Treasurer.

1. CALL TO ORDER

Chairman John Sowards called the PEBA Retirement Policy Committee (Committee) meeting to order at 9:35 a.m.

2. ADOPTION OF PROPOSED AGENDA

It was noted that the proposed Committee meeting agenda was adopted unanimously as presented.

3. APPROVAL OF MINUTES – NOVEMBER 5, 2014

Chairman Sowards asked for amendments to the previous meeting minutes. There being none, Mr. Sowards noted that the November 5, 2014, Committee meeting minutes were approved as presented.

4. 2014 ACTUARIAL VALUATIONS

Mr. Danny White, with Gabriel Roeder Smith & Company, provided the 2014 retirement actuarial valuation presentation. Mr. White reported that contribution rates for the South Carolina Retirement System (SCRS) and the Police Officer's Retirement System (PORS) will not increase from fiscal year 2016 to fiscal year 2017, primarily due to favorable investments during the prior fiscal year. Mr. White stated that the amortization periods for SCRS and PORS are 30 years and 27 years respectively. Mr. White advised that the dollar amount of the unfunded actuarial accrued liability will continue to increase until the funding period decreases below 20 years.

Mr. White also discussed the projection of contribution rates and the Unfunded Actuarial Accrued Liability (UAAL) over a 30-year time period, and the projected employer contribution rates for SCRS and PORS.

Mr. White provided the 2014 valuation results for the Judges and Solicitor's Retirement System (JSRS), the General Assembly Retirement System (GARS), and the South Carolina National Guard Retirement System (SCNG). Ms. Tammy Nichols, Director of Retirement Finance Services, stated

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that the GARS and the SCNG plans are funded on a dollar amount basis, which is included through the budgetary process by the General Assembly.

Mr. White concluded his presentation by providing a brief overview of the pension disclosure accounting changes due to the implementation of Governmental Accounting Standards Board (GASB) 67, which affects pension plans and became effective June 30, 2014, and GASB 68 which affects participating employers, and becomes effective June 30, 2015.

Chairman Sowards thanked Mr. White for his presentation, and noted that the Retirement Committee has accepted the 2014 Actuarial Valuations as presented. Chairman Sowards asked Ms. Nichols to present an update to the Board in January 2015 related to GASB 68 communication efforts.

5. DEFERRED COMPENSATION INVESTMENT POLICY REVISIONS

Mr. Matthew Davis, Defined Contribution Manager, reported that the following revisions to the Investment Policy Statement (IPS) are necessary to carry out changes approved by the Board on June 18, 2014, including:

1. Removing the language related to the 84-month certificate option; and
2. Adding the restrictions to the Self-Directed Brokerage Option (SBD) that becomes effective January 1, 2015.

Mr. Davis added that additional revisions to the IPS include:

1. Deleting references to the Deferred Compensation Commission, and replacing with the PEBA Board, and/or Retirement Policy Committee;
2. Updating the performance standards, objectives, and benchmarks of certain investment options;
3. Updating the evaluation procedure for several investment options including the GTAA PIMCO All Asset Fund; and
4. Formatting and grammatical changes as needed.

Mr. David Tigges made a motion, which was seconded by Mr. Steve Osborne, and passed unanimously, to accept the revisions to the Investment Policy Statement effective January 1, 2015, and recommend the revisions to the Board for final approval.

6. ORP QUARTERLY REPORT

Mr. Paul Staples, Senior Vice President and Director of Defined Contribution Services with Summit Strategies Group (Summit), reviewed the Optional Retirement Program (ORP) investment performance for the third quarter of 2014. Mr. Staples reported that large cap stocks were up 1.13 percent, but small cap stocks were down 7.36 percent for the quarter. Fixed income returns increased 0.17 percent; non-US bonds were down 3.14 percent; and large cap developed international stocks were down 5.88 percent during the quarter, largely due to the negative impact of the US currency conversion.

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Mr. Staples stated that as of September 30, 2014, ORP total assets were \$1.5 billion, with 55 percent of total assets being allocated to TIAA-CREF which has 16,716 participants.

Mr. Staples reviewed the compliance report cards for each ORP vendor, and stated that MassMutual and TIAA-CREF both have one fund on the watch list; Valic has two funds on the watch list; and MetLife has four funds on the watch list. Mr. Staples stated that no recommendations or changes are recommended at this time.

In response to a question by Chairman Sowards, Mr. Davis and legal counsel confirmed that Summit's recommendations with respect to the funds on the watch list are consistent with the Board's Investment Policy Statement.

Chairman Sowards thanked Mr. Staples for his presentation, and noted that the Committee has accepted the ORP Quarterly Report as information.

7. DEFERRED COMPENSATION QUARTERLY REPORT

Ms. Rose Guillette, Senior Consultant, with Segal Rogerscasey, presented the Deferred Compensation investment performance and plan activity for the quarter ending September 30, 2014, and reported that all funds passed the benchmark criteria, with the exception of the T. Rowe Price Mid Cap Value Fund, and the PIMCO All Asset Institutional Fund. Ms. Guillette advised that although the PIMCO All Asset Institutional Fund has been on the watch list for four consecutive quarters, Segal Rogerscasey recommends no formal review at this time since the criteria for the fund policy index will be realigned effective January 1, 2015.

Mr. Osborne made a motion, which was seconded by Mr. Tigges, and passed unanimously, to approve Segal Rogerscasey recommendation to avoid a formal review of the PIMCO All Asset Institutional Fund.

Ms. Guillette stated that Segal Rogerscasey will be conducting a formal review of the T. Rowe Price Mid Cap Value Fund, and will provide the review findings and/or possible replacement funds to the Committee at the next meeting.

Ms. Amy Heyel with Empower Retirement (formally Great-West Retirement Services), advised the Committee of an organizational update resulting from Great West Retirement Services purchasing Putnam Investments, and the large corporate market business of JP Morgan Retirement Plan Services. Following this purchase, Great West Retirement Services became Empower Retirement.

Ms. Nancy Ornduff presented the 3rd quarter Plan review summary. Ms. Ornduff stated that as of September 30, 2014, Plan assets decreased by \$25.99 million, primarily due to market fluctuations and the high amount of distributions during the quarter. Ms. Ornduff reported that incoming rollovers to the plan have increased to \$16,113,368.06 (290 accounts) from \$12,571,428.80 (240 accounts) in

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the third quarter of 2014. Ms. Ornduff stated that the South Carolina Stable Value Fund remains healthy with a market to book ratio of 101.7 percent; the number of participants utilizing Managed Accounts or Advice Services increased by 388 users; and the total number of participants investing 100 percent in Target Date Funds increased from 4,360 to 4,469. Ms. Ornduff added that contributions increased to \$51.72 million as of September 30, 2014, from \$49.53 million as of June 30, 2014. Ms. Ornduff stated that there are 630 employers participating in the Plan. Chairman Sowards asked Ms. Ornduff to provide the Committee with the number of employers that are *not* participating in the Plan, as well as an update of marketing campaign efforts to reach non-participating employers at the January or February 2015 Committee meeting.

8. STRATEGIC PLANNING

Ms. Sarah Corbett, PEBA's Chief Operating Officer, provided a draft of the updated Strategic Plan, and reviewed the proposed Staff Action Plans for the Committee's strategic goals. Ms. Peggy Boykin, PEBA's Executive Director, stated that modifications to staff action plans will be incorporated into the Strategic Plan that the Board will discuss at the December 17, 2014, quarterly Board meeting. Ms. Corbett asked the Committee to review and prioritize each action plan according to its urgency for completion. Ms. Boykin reminded the Committee that the Strategic Plan will be used to evaluate PEBA's quarterly performance measures that will ultimately be sent to the General Assembly.

Following additional discussion, Chairman Sowards stated that he would like to see a streamlined, succinct Strategic Plan with detailed action plans and accomplishments as part of an appendix. Chairman Sowards thanked Ms. Corbett for her hard work on updating the Strategic Plan.

9. OLD BUSINESS/DIRECTOR'S REPORT

Ms. Boykin stated that the Director's Report will be discussed in executive session.

10. EXECUTIVE SESSION

At 11:45 a.m., Mr. Osborne made a motion, which was seconded by Mr. Tigges, and passed unanimously, to recede into executive session to receive legal advice pursuant to S.C. Code Ann. § 30-4-70. The Committee thereupon receded into executive session.

The Committee reconvened in open session at 1:00 p.m. It was noted that no action was taken by the Committee while in executive session.

11. ADJOURNMENT

Mr. Osborne made a motion, which was seconded by Mr. Bjontegard, and approved unanimously, to adjourn the Committee meeting at 1:02 p.m.