

## **Meeting Minutes | Retirement Policy Committee**

Tuesday, September 8, 2015 | 9:30 a.m.  
200 Arbor Lake Dr., Columbia, SC 29223 | Second Floor Conference Room

Minutes approved October 21, 2015

**Board Members Present:** Mr. Arthur Bjontegard, Mr. Frank Fusco, Chairman John Sowards, Mr. David Tigges

**Board Members Present via Telephone:** Sheriff Leon Lott

**Others Present for All or a Portion of the Meeting:** Peggy Boykin, Sarah Corbett, Matt Davis, Megan Lightle, Heather Muller, Tammy Nichols, Travis Turner, Stephen Van Camp, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); Sam Griswold and Wayne Pruitt from the State Retirees Association of South Carolina; Nancy Ornduff with Empower Retirement; Paul Staples with Summit Strategies Group (via telephone); Billy Peebles with VALIC; and Rose Guillette and Mike Wright with Segal Rogerscasey.

### **I. Call to Order**

Chairman John Sowards called the PEBA Retirement Policy Committee (Committee) meeting to order at 9:30 a.m., and stated that the public meeting notice was posted in compliance with the Freedom of Information Act.

### **II. Adoption of Proposed Agenda**

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

### **III. Approval of Meeting Minutes- June 3, 2015 and June 30, 2015**

Chairman Sowards asked for amendments to the previous meeting minutes. There being none, Mr. Sowards noted that the June 3, 2015, and June 30, 2015, Committee meeting minutes were approved as presented.

### **IV. Nomination of Committee Vice-Chairman**

Mr. Leon Lott made a motion, which was seconded by Chairman Sowards, and passed unanimously, to nominate Mr. David Tigges to serve as the Committee's Vice-Chairman.

### **V. Defined Contribution Quarterly Reports**

#### **A. Deferred Compensation Performance Report**

Ms. Rose Guillette, Senior Consultant with Segal Rogerscasey introduced Mr. Mike Wright, who discussed recent market conditions, and stated that the Gross Domestic Product grew at an annualized rate of 3.8 percent in the second quarter, and inflation continues to be very low.

Ms. Guillette reviewed the Fund Evaluation Sheet for the quarter, and reported that funds passed the benchmark criteria, with the exception of the BlackRock Inflation Protected Bond Fund; the T. Rowe Price Mid Cap Value Fund; and the PIMCO All Asset Institutional Fund.

Ms. Guillette stated that the market value for the 401(k) Plan was \$2.8 billion for the quarter, which represents an increase of \$24.5 million, comprised of \$16.8 million in investment gains, offset by \$8.5 million in net distributions, and \$0.8 million in fees. Ms. Guillette added that the 457 Plan was valued at \$935.4 million, which represents an increase of \$1.7 million over the quarter, comprised of \$5.7 million in investment gains, offset by \$3.7 million in net distributions, and \$0.3 million in fees during the quarter.

#### **B. Deferred Compensation Plan Activity Report**

Ms. Nancy Ornduff, with Empower Retirement, presented the second quarter plan activity summary. Ms. Ornduff stated that as of June 30, 2015, Program assets increased by \$26.21 million, or 0.7 percent, and incoming rollovers to the Program have increased to \$16,105,903.62. Ms. Ornduff stated that the South Carolina Stable Value Fund remains healthy with a market to book ratio of 101.4 percent.

Ms. Ornduff reminded the Committee that the Business Transformation Project is part of the best practices recommendations which requires all participating employers to offer all features of the Program and adhere to standardized remittance and reporting requirements effective January 1, 2017.

Ms. Ornduff advised that contributions increased from \$53.10 million as of March 31, 2015, to \$53.11 million as of June 30, 2015, and rollovers out decreased to \$15.8 million, down from \$21.6 million during the first quarter. Ms. Ornduff added that distributions decreased in the second quarter to \$53.6 million from \$65.9 million in the first quarter.

Ms. Ornduff concluded her presentation by reporting that there are 720 total participating employers in the Program.

#### **C. State ORP Performance 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 second quarter of 2015. Mr. Staples stated that as of June 30, 2015, ORP total assets were \$1.7 billion, with 55 percent of total assets being allocated to TIAA-CREF; 22 percent of total assets dedicated to VALIC; 13 percent to MassMutual; and 10 percent of total assets with MetLife.

Mr. Staples reviewed the compliance report cards for each ORP vendor, and stated that MassMutual has four funds on the watch list, VALIC has two funds on the watch list, and MetLife and TIAA-CREF both have one fund on the watch list.

Mr. Staples reported that on June 25, 2015, AllianceBernstein announced that it will discontinue the target date suite that is currently offered within MetLife's State ORP menu, and has proposed to replace AllianceBernstein with the American Funds Target Date Retirement Funds.

Mr. Staples also reported that the Neuberger Berman Real Estate Fund currently offered within TIAA-CREF's State ORP menu has been on the Watch List for eight out of the past twelve quarters, and is required to be removed or closed based upon investment policy guidelines. Mr. Staples added that TIAA-CREF has proposed replacing the fund with the TIAA-CREF Real Estate Securities Fund.

Mr. Staples stated that both fund replacements are in compliance with the State ORP Investment Policy Statement criteria, and the changes could be implemented in the fourth quarter of 2015. Mr. Matthew Davis, Defined Contribution Manager, also confirmed that Summit's recommendations are consistent with the State ORP Investment Policy Statement.

Mr. Tigges made a motion, which was seconded by Mr. Lott, and passed unanimously, to adopt the recommendations of Summit and PEBA Staff to replace the MetLife AllianceBernstein funds with the American Funds suite of target date funds, and to replace the Neuberger Berman Real Estate Fund with the TIAA-CREF Real Estate Securities Fund. Chairman Sowards stated that this motion will require the approval of the full Board.

#### **VI. Committee Review of Defined Benefit Plan**

Chairman Sowards stated that on August 19, 2015, the Chairman of the PEBA Board of Directors, Art Bjontegard, directed the Committee, to conduct a review of the Retirement System's investment returns for the last five fiscal years and the impact of those returns on the System's unfunded liability and the required employer and employee contribution rates to the System. This review shall include an analysis of the System's asset allocation, the management fees associated with that asset allocation, and any other issues which may be relevant to the investment returns and contribution rates for the System. Chairman Sowards added that the Committee is to conclude its analysis and render a written report on the subject to the PEBA Board as soon as reasonably practicable, which is expected to be no more than six months.

Following further review and discussion, Chairman Sowards advised that the Committee will meet twice a month with at least one meeting a month dedicated solely to the Review of the Defined Benefit Plan. Chairman Sowards stated that he will also ask the Investment Commission to address the Committee at a later date.

#### **VII. Strategic Planning Status Report**

Ms. Corbett reviewed the PEBA Board Strategic Plan-Staff Action Plans related to the Retirement Policy Committee, and provided a progress report on each action item that will be completed by the end of 2015.

#### **VIII. Old Business/Director's Report**

Ms. Peggy Boykin, PEBA's Executive Director, provided the Director's Report, and stated that the Benefits at Work (BAW) Conference was held at the Columbia Convention Center August 31-September 3, 2015. Ms. Boykin reported that over 2,200 employers attended the conference over the four-day period, and expressed her deep appreciation for staff's hard work in

preparation of the conference. Mr. Bjontegard echoed Ms. Boykin's comments and appreciation to staff.

Ms. Boykin stated that PEBA is continuing to work with the Legislative Audit Council, which is an oversight agency of the General Assembly that performs objective performance audits of state operations. Currently, the Council is conducting an audit of the state's pension funds which includes the SC Retirement System Investment Commission and PEBA. Ms. Boykin added that a draft of the audit is expected in September, but may be delayed since the Council has asked for additional information.

**IX. Executive Session Pursuant to S.C. Code of Laws § 30-4-70**

At 11:15 a.m., Mr. Tigges made a motion, which was seconded by Mr. Bjontegard, and passed unanimously, to recede into executive session to receive legal advice regarding the Investment Consultant Request For Proposal and statutory interpretation, pursuant to S.C. Code Ann. § 30-4-70. The Committee thereupon receded into executive session.

The Committee reconvened in open session at 12:00 p.m. It was noted that no action was taken by the Committee while in executive session.

**X. Adjournment**

There being no further business, the Committee meeting adjourned at 12:02 p.m.