KANSAS BOARD OF REGENTS
Retirement Plan Committee
MINUTES
March 13, 2012

The March 13, 2012, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order by Regent Lykins at 12:34 p.m. The meeting was held in Board offices at the Curtis State Office Building, 1000 S.W. Jackson, Suite 520, Topeka.

Members Participating:

Regent Dan Lykins, Chair	Regent Robba Moran
Mike Barnett, FHSU	Dr. Dipak Ghosh, ESU
Theresa Gordzica, KU	President Hammond, FHSU
Dr. Rick LeCompte, WSU	Gary Leitnaker, KSU
Rick Robards, KUMC	Michele Sexton, PSU
Madi Vannaman, KBOR	

Also present were Segal Advisor's Frank Picarelli; ING's Cindy Delfelder, Regional Director and Lisa Gilarde, VP of Mutual Fund Information and Analysis; TIAA-CREF's Greg Johnson, Director, Institutional Client Services, Nicolette Dixon, Managing Consultant, Chris Godwin, Director, Plan Economics and, joining by phone, Lori Schausten, Senior Investment Analyst and Phil Maffei, Director of Product Management. Theresa Schwartz, KBOR's associate general counsel, was also in attendance.

Minutes

The minutes from the September 22, 2011, meeting were approved.

Segal's semi-annual review through December 31, 2011

After recapping economic and market review information, Frank Picarelli reviewed KBOR plan information. Mr. Picarelli will review and reconcile the significant swing in fund balances in the "balanced" and "equity domestic" categories beginning with the 6/30/10 reporting and then again with the 12/31/11 reporting. It was noted that the Segal fund information, through December 31, 2011, did not include 2011 information, and Mr. Picarelli will determine whether the prior year's data can be included in the report. Additionally, Mr. Picarelli will look at the July 1, 2011, beginning balance numbers for ING to reconcile that information with other information in the Segal report.

Greg Johnson stated that TIAA-CREF will identify another benchmark to use with the TIAA Real Estate account that is better suited and will share that information with Segal Advisors and report on it at the fall 2012 meeting.

In reviewing Segal's scoring of the KBOR mandatory retirement funds, Mr. Picarelli noted that only 24% of the funds reviewed by Segal receive grades of As and Bs. The scoring is based on the expense ratio for the share class, the manager's length of tenure compared to median peer groups and fund styles. Mr. Picarelli provided additional information about the funds with C grades (ING's American Century Mid-Cap Value and PIMCO Real Return funds and TIAA-CREF's Small-Cap Blend Index and Mid-Cap Growth funds). Mr. Picarelli stated that Segal found no major issues with these funds.

Fund Lineup Recommendations

At the September 2011 RPC meeting, the Segal Manager "Focus" on the American Funds Growth Fund of America (GFA) publication was discussed and the fund was placed on the watch list. There were concerns expressed about the fund's performance as well as large recent distributions from the fund. Morningstar reported the fund has produced bottom half peer group performance over the past five years and has recently shown historically high outflows. The RPC requested both ING and TIAA-CREF to investigate possible replacements for the fund.

The GFA has a high allocation to international stocks compared to peer groups, and ING and TIAA-CREF concluded there are better options because of the size of the fund, poor performance, seeking more of a growth opportunity for participants and because the fund was looking more like an index fund. Segal Advisors concurred that the fund should be replaced.

ING recommended two funds for consideration and Segal Advisors supports the ING Large Cap Growth Portfolio – Institutional Class due to its breadth and depth of experienced fundamental research analysts, competitive fees with a low expense ratio and strong risk/return features. This fund has received the highest Morningstar five star rating. Segal Advisors currently has the fund scored as a "C" due to the recent manager change resulting in a short length of manager tenure of 1.5 years. Segal Advisors conducted a conference call with its research staff, ING and members of the ING Investment Management team that has over 30 years of experience with growth cap stock selections having managed their mid–small growth products. That management team was brought in to take over the large cap growth strategy.

TIAA-CREF recommended four funds for consideration and Segal Advisors supports the Wells Fargo Advantage Fund - Institutional Class. This fund is the most aggressive growth option recommended and also has received the highest Morningstar five stars rating. Segal Advisors recommends this fund because of its long manager tenure, competitive fees and strong performance and risk characteristics.

Both companies and Segal recommend mapping the funds to the selected options. Both funds will be the institutional share class, which is the lowest share class available.

Dr. LeCompte noted that an issue with the GFA was the amount of international exposure and asked what the exposure was for the two recommended funds. For the ING fund, US stock allocation is 97.80%; for the Wells Fargo fund, 96.5% of assets are invested in North America, 2% in the United Kingdom and 1% in emerging markets (Africa and Middle East).

President Hammond moved that the two new funds be recommended to the Board of Regents to replace the American Funds Growth Fund of America and that assets be mapped from the closed fund to the new funds. After a second by Theresa Gordzica, the RPC unanimously supported the motion. This change, under the Board's Vendor Management Document, would be effective July 1, 2012. With the biweekly payroll schedule, July 1st falls within the pay period June 24 to July 7, paid on July 20th. With Board approval, ING and TIAA-CREF will be authorized to make this change no sooner than June 24th and no later than July 1st or the first business day following July 1st.

Dr. LeCompte asked whether the delisted GFA would remain in the KBOR Voluntary Retirement plan lineup. TIAA-CREF will replace it with the Wells Fargo fund. ING will verify whether they will follow that same action or retain the GFA in its KBOR Voluntary Retirement plan lineup.

Target Date Fund Study

Lisa Gilarde, ING, shared information from ING's Target Date Fund Study that found workplace retirement plan investors who used target date funds felt more secure about reaching their retirement goals and managing their portfolios than those who did not. 71% of target date investors indicated that target date funds made them feel more confident that they were making sound investment decisions.

McKinsey & Company projects traditional target date funds will represent 35-40% of all defined contribution assets by 2015, or 50-60% if balanced and target-risk suites are included. As those funds are also used as default investment options, there is a need to ensure that participants understand the funds, even though there is great variation in the fund methodology, and that participants receive education about glide paths, "to" versus "through," and the underlying assets.

The RPC requested that ING and TIAA-CREF review the educational information currently available to participants from each company, gather additional information about the target date funds in the KBOR plan, determine whether a combined educational approach would be beneficial and report back to the RPC at the fall 2012 meeting.

TIAA-CREF Announcements

Nicolette Dixon provided information about the following topics:

1. TIAA Direct Bank

The bank is currently being piloted to TIAA-CREF employees but will soon be available to TIAA-CREF participants. The bank will offer various accounts including savings, checking, mortgage (loans and refinancing) and certificate deposits. More information will be shared as it becomes available later this summer.

2. "My TIAA-CREF" enhanced web experience for KBOR power users

The enhanced website has been rolled out to power users which include approximately 2,500 KBOR participants and others who use the website more than four times a month. The website includes new features such as advice tools and a "360 view" which takes into account all investments and other financial accounts. The website will be rolled out by the end of April to all participants.

3. Transfer in credit for remaining SBG/Lincoln assets

Two communication pieces have been sent to KBOR participants with assets remaining in the Security Benefit Group and/or Lincoln National contracts since the consolidation of the Mandatory Retirement Plan in 2006. The first communication piece was sent in March 2008 and the second in February 2011.

For TIAA-CREF, during the time period June 2010 to July 2011, 52% of all funds coming into KBOR contracts came from Lincoln National and 24% came from Security Benefit Group. In 2010, Security Benefit Group was the second largest recipient of TIAA-CREF outflows from the KBOR plan with 6.7% of outflows. The 2011 TIAA-CREF outflows from the KBOR plan included less than 1% flowing to Security Benefit Group and 0% to Lincoln National.

Ms. Dixon stated that TIAA-CREF is prepared to address any surrender charges incurred by participants with KBOR assets remaining in Security Benefit Group and/or Lincoln National contracts by making participants whole. Information from 2010 showed participants with those two companies had approximately $304,000 in surrender charges. Once the option is communicated, the participant will have a 60-day window to transfer funds. The KBOR revenue credit would not be used to cover the surrender charges.

President Hammond moved that the RPC accept TIAA-CREF's offer to cover the surrender charges and to await ING's response as to whether ING would be able to offer the same opportunity to participants. If ING cannot cover the surrender charge, then TIAA-CREF's offer would still be accepted. If both can cover the surrender charge, a joint communication piece will be developed and disseminated; if not, then TIAA-CREF will send a follow-up communication piece to those participants with surrender charges. As summer is approaching and participants may be travelling, the offer would not be communicated until after August 15th. Gary Leitnaker seconded the motion and it passed unanimously.

TIAA-CREF Plan Pricing

TIAA-CREF is proactively addressing expense management and plan pricing and has transitioned to a new plan-level pricing approach which provides additional flexibility to deliver new investment solutions for clients.

At 2:04 p.m., Regent Moran moved, followed by the second of Regent Lykins, to recess into executive session for 30 minutes to discuss the confidential data relating to the financial affairs or trade secrets of TIAA-CREF. Participating in the executive session were members of the Retirement Plan Committee; Associate General Counsel Theresa Schwartz; Madi Vannaman, KBOR staff affiliate; Diane Duffy, KBOR's Vice President for Finance and Administration and representatives from TIAA-CREF. At 2:34 p.m., the meeting returned to open session.

Chris Godwin stated that the entire financial industry is moving to fee transparency, precipitated by Department of Labor regulations. The new federal fee disclosure regulations impose additional oversight responsibilities for ERISA plans to disclose information about expenses and fees to participants. Although the KBOR plan is not subject to ERISA, the Board has voluntarily elected to utilize ERISA standards as best practice for its Mandatory Plan.

Previously, under TIAA-CREF's "system-wide approach," pricing was at the product level and not the plan level and all participants in the system paid the same price. TIAA-CREF moved away from that "system-wide approach" to a "plan based" platform to accommodate fiduciary and plan sponsor needs which allowed TIAA-CREF to provide open architecture, with mutual funds offered in the lineup, plan design differences and plan economics of each client based on participant usage.

The RPC considered various options for the KBOR revenue credit from TIAA-CREF. Action previously taken because of the revenue credit included utilizing the lowest share classes for TIAA-CREF mutual funds and non-proprietary funds in 2011. Future options would include: brokerage account fee waiver; expanded communication and customized education and advice services; payment of reasonable and necessary plan expenses (i.e., 3rd party consulting fees, plan expenses); and/or returning the credit to participants. The revenue credit from calendar year 2011 must be distributed by December 31, 2012.

Dr. LeCompte asked what other plans did with the revenue credit. Mr. Picarelli stated that the credit could be used for the exclusive benefit of the plan including items such as paying for all operation expenses, auditing, consulting, additional education and/or training for the Committee or participants and returned funds to participants.

Cindy Delfelder, ING, acknowledged that ING had been contacted the previous week about providing revenue and expense information for the KBOR plan. As there was insufficient time to generate that information, ING will present its information to the RPC at the fall 2012 meeting.

Diane Duffy, the Vice President for Administration and Finance for the KBOR Office, asked the RPC to take into consideration Board Office expenses associated with the retirement plan. She noted that the Board Office had a 17% SGF cut and diversifying revenue streams as much as possible is being investigated. Ms. Duffy stated that the consulting contract was approximately $45,000 annually and direct salary and overhead expenses were approximately $40,000 annually and that a very modest amount from the revenue credit would cover the direct expenses of the Board Office and the consultant. Mr. Picarelli stated that most plans will take plan expenses into consideration first and then any additional credit would go back to the plan participants. And, in a multi-vendor environment, each vendor would pay its proportionate amount.

Dr. Hammond stated that the practice has been that expenses associated with the plan are not paid by the participants, and he believes the credit should go back to the participants. **The following information was revised after the draft minutes were distributed; the definitions of pro rata and per capita were corrected by TIAA-CREF's actuary.** Mr. Godwin stated that two options would be available if the credit were to go to participants: **pro rata share, based on each participant's account balance, or per capita share, with an equal amount credited to each participant.** Rick Robards stated that there could potentially be a point in time when the credit would no longer exist and then there would be no revenue stream to pay the fixed expenses. Theresa Gordzica stated that the revenue credit is an appropriate source of paying for plan related expenses, but only if ING also shared in those expenses. Gary Leitnaker stated that it would be appropriate to utilize the credit to pay for consulting costs but not the KBOR related costs.

Dr. Hammond moved that the revenue credit be distributed back to TIAA-CREF Mandatory Retirement plan participants **pro rata** based on each participant's individual account balance. The motion was seconded by Michele Sexton and passed unanimously. This recommendation will be forwarded to the Board of Regents for its final decision and action.

Chris Godwin stated that the revenue credit could be deposited into a TIAA-CREF money market account or a TIAA Traditional investment within the Retirement Choice Plus contract. TIAA-CREF recommended this fund over the Money Market fund because it is fully liquid and currently has a higher return (2.35%). President Hammond moved that the 2011 KBOR revenue credit be placed in the TIAA Traditional investment option in a Retirement Choice Plus contract and that the RPC recommend to the Board that it be distributed in September 2012 to allow time to establish the timing and protocol for the actual distribution and to create communication pieces to inform faculty and staff after they have returned for the fall semester. The motion was seconded by Mike Barnett and passed unanimously.

Other Items

TIAA-CREF asked permission to request additional information from campuses for Mandatory Retirement Plan labels for mailings to eligible faculty and staff. In order to provide a focused message, TIAA-CREF would like information based on age groupings and gender. The RPC did not object to providing ING and TIAA-CREF with targeted mailing label information.

Next RPC meeting:

The next RPC meeting will be scheduled for 12:30 p.m. either September 18 or October 16, 2012, the Tuesday afternoon prior to the Board's monthly meeting. The TIAA-CREF representatives are trying to secure an opportunity for their CEO, Roger Ferguson, to come to Kansas to meet with the RPC and the Board of Regents, in recognition of the 50th year anniversary of TIAA-CREF's association with KBOR.