KANSAS BOARD OF REGENTS

Retirement Plan Committee

MINUTES

September 18, 2012

The September 18, 2012, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order by Regent Lykins at 10:00 a.m. The meeting was held on the University of Kansas Edwards Campus, Overland Park, KS.

Members Participating:

Regent Dan Lykins, Chair	Mike Barnett, FHSU
Dr. Dipak Ghosh, ESU	Theresa Gordzica, KU
President Hammond, FHSU	Dr. Rick LeCompte, WSU
Gary Leitnaker, KSU	Madi Vannaman, KBOR

Also present were Segal Rogercasey's Advisor Frank Picarelli; ING's Bernie Heffernon, Executive V.P. Tax Exempt Markets, John O'Brien, Managing Director and Cindy Delfelder, Regional Director; TIAA-CREF's Greg Johnson, Director, Institutional Client Services, Nicolette Dixon, Relationship Manager and Adam Polacek Managing Director Client Portfolio Management; Diane Duffy, KBOR's Vice President of Finance and Administration and Theresa Schwartz, KBOR's associate general counsel. Rick Robards, KUMC, and Michele Sexton, PSU, were unavailable to attend the meeting.

Minutes

The minutes from the March 13, 2012 meeting were approved.

Segal's semi-annual review through June 30, 2012

Frank Picarelli provided information about Segal's acquisition of Rogerscasey which has strengthened investment and research capabilities.

Mr. Picarelli provided an overview of the June 30, 2012 semi-annual report including financial market conditions and the recent announcement of the third round of quantitative easing. In response to questions raised about the assets in its money market fund, TIAA-CREF representatives stated they would run reports to gather information about participants with money market assets to ascertain whether that single fund is being utilized and to determine educational outreach efforts that have taken place in the past and possibly in the future.

Adam Polacek provided information about the CREF Bond Market Account and the core approach to managing that product. The CREF Bond Market Account's peer group, on average, takes a more active investment approach which generally results in a relatively higher degree of volatility for the peer group relative to the CREF Account. With heightened market volatility over the past 3-4 years, there have been very pronounced periods of "risk-on" and "risk-off" resulting in very different relative performance profiles by the CREF Bond Market Account and its peer group. As would be expected, when markets have traded in an environment where risk has been rewarded, the peer group has tended to perform better than the CREF Bond Market Account. Conversely, when risk has been punished, the CREF Bond Market Account has tended to perform better than the peer group given its less aggressive positioning.

TIAA-CREF's Identification of a Benchmark for the TIAA Real Estate Account

Adam Polacek referenced the TIAA Real Estate Account quarterly performance analysis and stated that the TIAA account is direct real estate, and not a REIT, and it has a liquidity component. This fund is unique and is comprised of approximately 100 income-producing properties – with approximately 96-97% in the U.S. (one is in London and one is in Paris) – and they represent the four major property types, including office, retail, multi-family residential and industrial. The Account is a core investment strategy, which is on the conservative end of the risk spectrum for direct real estate. The Account seeks to own high quality properties, with low leverage (30% or less), focusing on class A buildings in prime locations. Investors benefit by holding income producing properties with capital appreciation potential. As pricing is not done on a secondary market, valuation is based upon quarterly appraisals performed by independent third party appraisers which roll in on a staggered basis and can change NAV (net asset value) daily (along with the rental/lease income component of the return). Typically, direct portfolios are reserved for large institutional investors (pension funds, insurance companies, endowments, sovereign funds, etc.) which are less concerned about efficient pricing as they have longer horizons and are subject to liquidity restrictions. The TIAA Real Estate Account was developed for participants within defined contribution plans and, as such, it acts differently than other direct real estate products. It is fully liquid to participants (a participant can move some or all of his/her accumulation out of the product one time every calendar quarter). In order to accommodate this liquidity, the Account includes a cash/liquid component of between 15-25% on average to cover any possible redemption requests Also, to ensure participants' liquidity, there is a second layer of protection for emergency liquidity as the TIAA General Account stands ready to fund liquidity on an as needed basis if insufficient cash/marketable securities are present within the Account.

When comparing the TIAA Real Estate Account to other direct real estate products, the liquidity aspect of the TIAA represents a very different construct and makes for imperfect benchmark/peer comparisons. The TIAA Real Estate Account will carry a higher cash component (typically 20% vs 5%) and pays 22 basis points to TIAA for the emergency liquidity backing risk premium. Because of these differences TIAA-CREF believes that one way to make a more "clean" comparison between direct, core real estate products is to show an adjusted performance profile that has "stripped out" the effects of the excess cash and the 21 basis points paid to TIAA for liquidity.

Mr. Polacek stated that TIAA's analysis determined that the relevant peer group is the NCREIF ODCE (open-ended diversified core equity) index. TIAA then adjusts the returns to remove the cash holding and 21 basis points to ensure a more relevant comparison. The Segal Rogerscasey analysis uses the NCREIF Property Index which does not take into account leverage.

For future Segal Rogerscasey reports, the TIAA-CREF Real Estate Account's actual and adjusted performance will be included along with the NCREIF ODCE benchmark.

Sentinel Small Company Fund

Frank Picarelli stated that TIAA-CREF had brought to their attention information about the Sentinel Small Company fund which lost four of its portfolio managers at the end of August. Mr. Picarelli and others at Segal Rogerscasey met with the company in early September. Information provided by Mr. Picarelli states that "As of August 2012, the Fund had approximately $2.2 billion in assets but has seen some larger client attrition of $300 million to date. The Fund currently has $1.9 billion in AUM (assets under management) and expects at least another $120 million in outflows over the next few weeks. Segal Rogerscasey believes that because almost the entire Small Company team has left the firm and only one team member remains to rebuild the team, which is currently in progress, that a search be conducted to replace the Fund. Although Sentinel remains dedicated to the strategy, they will be hiring a completely new team of PMs (portfolio managers) and analysts to run the strategy and no hires have been made to date."

The RPC requested that TIAA-CREF work with Mr. Picarelli to develop viable options for fund replacement and an implementation timeline. Once that information is available, the RPC will be convened for conference call.

ING Plan Pricing

At 11:36 a.m., Regent Lykins moved, followed by the second of President Hammond, to recess into executive session for 25 minutes to discuss the confidential data relating to the financial affairs or trade secrets of ING. That session subsequently was extended by an additional ten minutes. Participating in the executive session were the Retirement Plan Committee; Frank Picarelli, Segal RogersCasey; Associate General Counsel Theresa Schwartz; Madi Vannaman, KBOR staff affiliate and representatives from ING. At 12:10 p.m., the meeting returned to open session.

Mike Barnett moved that the RPC request ING to develop and present an expense reimbursement plan, that the RPC accept TIAA-CREF's revenue sharing plan and approve the sharing of any excess revenue with participants and/or support payment of any qualified plan expenses as elected by the Kansas Board of Regents. After a second by President Hammond, the motion passed unanimously.

Next RPC meeting:

The next RPC meeting is *tentatively scheduled* for 12:30 p.m. on Tuesday, March 12, 2013, in the Board Room.