

KANSAS BOARD OF REGENTS
Retirement Plan Committee
MINUTES
November 2, 2012

The November 2, 2012, conference call of the Kansas Board of Regents Retirement Plan Committee was called to order by Regent Lykins at 9:00 a.m.

Members Participating:

Regent Dan Lykins, Chair

Dr. Dipak Ghosh, ESU

President Hammond, FHSU

Madi Vannaman, KBOR

Mike Barnett, FHSU

Theresa Gordzica, KU

Dr. Rick LeCompte, WSU

Also participating were Segal Rogerscasey'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, Lori Schausten, Senior Investment Analyst and Adam Polacek Managing Director Client Portfolio Management. Rick Robards, KUMC; Gary Leitnaker, KSU; Michele Sexton, PSU and Theresa Schwartz, KBOR's associate general counsel were unavailable for the meeting.

Sentinel Small Company Mutual Fund-TIAA-CREF

At the RPC's September 28, 2012, meeting Frank Picarelli stated that TIAA-CREF brought to their attention information about the Sentinel Small Company Mutual Fund which lost four of its portfolio managers at the end of August 2012. Mr. Picarelli and others at Segal Rogerscasey met with representatives of Sentinel in early September. Information provided to the RPC by Mr. Picarelli stated that "the fund has experienced a run of assets from \$2.2 billion in September to approximately \$1.6 billion with several large institutional clients at risk of also liquidating assets from the fund."

At their September 28, 2012 meeting, the RPC requested that TIAA-CREF work with Mr. Picarelli to develop viable options for fund replacement and an implementation timeline. Segal Rogerscasey conducted a fund search and worked with TIAA-CREF to identify fund alternatives. Based on a detailed review by both Segal and TIAA-CREF, the proposal is to replace the Sentinel Small Company Mutual Fund with the Alliance Bernstein Small Cap Growth Fund QUAIX institutional share class with an expense ratio of 94 basis points with 15 basis points in fund revenue sharing (the 15 basis points are part of the 94 basis points). Mr. Picarelli indicates the proposed change complies with the Investment Policy Statement's guidelines related to style consistency, peer group rankings and long term performance.

The Alliance Bernstein Small Cap Growth Fund has multiple managers with tenure of close to 12 years. The fund has 104 holdings, 95 percent in US companies. The fund has had strong performance and exceeds the benchmark in the last seven years, with the exception of 2008. The top ten holdings in the fund represent 15% of the entire portfolio. The fund has a strong, good quality management team and has a strong performance track record over the 1, 3, 5, 7 and 10 year periods where the fund is in the top quartile across the board. The fund takes on risks, but gets good returns.

President Hammond moved, with a second by Theresa Gordzica, that the Sentinel Small Company Mutual Fund be discontinued and replaced with the Alliance Bernstein Small Cap Growth Fund

institutional share class (QUAIX) with the assets in the Sentinel Small Company Mutual Fund mapped to the new fund for the KBOR Mandatory Retirement Plan.

In discussing the motion, the RPC was reminded that previously, when funds were closed and replaced, the assets were mapped into the replacement funds. Because the Sentinel Small Company Mutual Fund no longer meets the KBOR Investment Policy Statement criteria, the recommendation was made to map those funds into the replacement fund.

Dr. Lecompte asked about the Sentinel Small Company Mutual Fund in the KBOR Voluntary Retirement Plan. Nicolette Dixon responded that when changes are made to the KBOR Mandatory Retirement Plan, TIAA-CREF typically makes the decision to make that same change to the Voluntary Plan. If the recommendation is approved by the Board of Regents, TIAA-CREF's implementation to replace the Sentinel Small Company Mutual Fund with the Alliance Bernstein Small Cap Growth fund and map the funds will be on January 25, 2013. The motion passed unanimously.

ING Plan Pricing

At the September 28, 2012, meeting, the RPC requested that ING develop and present a reimbursement plan for expenses associated with the KBOR 403(b) retirement plan. In their letter dated October 17, 2012, ING offered to reimburse KBOR for a portion of the direct administrative and consulting expenses incurred with the Mandatory Plan, including expenses incurred in informing members about the Plan and independently reviewing the performance of the Plan. The annual reimbursement amount would be the lesser of \$25,000 or the actual administrative and outside consultant expenditures per year, capped at \$25,000, and would be paid annually with written evidence of those expenditures to be provided to the RPC.

John O'Brien stated that to derive the annual reimbursement amount, ING used the \$80,000 total cost figure that has been estimated for administrative costs associated with the KBOR Plan. ING looked at the asset allocation between ING and TIAA-CREF (in the KBOR Mandatory Plan) which reflects approximately 85% of the assets with TIAA-CREF and 15% with ING. ING also looked at the number of participants in the KBOR Mandatory Plan, based on information both companies shared with the state university Advisory Committee on Retirement and Benefits when they met in July 2011; ING had 3,140 or 27% of participants and TIAA-CREF had 8,500 or 73%.

ING then used the 27% participation number, which is higher than the assets percentage, and multiplied that by \$80,000. ING then rounded up the \$21,600 by adjusting it for potential future growth, to arrive at the \$25,000 amount.

Regent Lykins asked about the revenue credit agreement with TIAA-CREF. Madi Vannaman stated that the TIAA-CREF revenue credit was derived using actual revenue and subtracting Plan-related expenses. For calendar year 2011 the \$1.38 million in revenue credits was distributed back to plan participants in September 2012, pro rata based on each participant's individual account balance.

Dr. Ghosh moved, and President Hammond seconded, a motion to accept the proposal made by ING. After further discussion, the RPC decided that because additional information is needed, it would be premature to make a decision on the ING proposal at this time. Thus, the initial motion died for lack of action. A second motion was made by President Hammond, seconded by Mike

Retirement Plan Committee Minutes

November 2, 2012

Page 3

Barnett, to table further discussion on this issue until the RPC's March 2013 meeting after additional cost information is secured from the KBOR Office. That motion passed unanimously.

Next RPC meeting:

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