KANSAS BOARD OF REGENTS

Retirement Plan Committee

MINUTES

September 17, 2013

The September 17, 2013, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order by Regent Edwards at 12:30 p.m.

Members Participating:

Regent Mildred Edwards, Chair	Regent Fred Logan
Mike Barnett, FHSU	Dr. Dipak Ghosh, ESU
President Hammond, FHSU	Dr. Rick LeCompte, WSU
Gary Leitnaker, KSU	Rick Robards, KUMC
Michele Sexton, PSU	Madi Vannaman, KBOR

Theresa Gordzica, KU, participated by telephone. Also present were Segal Rogerscasey's Craig Chailkin; ING's John O'Brien, Regional Vice President/Tax Exempt Markets and Cindy Delfelder, Regional Director/Tax Exempt Markets; TIAA-CREF's Nicolette Dixon, Relationship Manager; Adam Polacek Managing Director Client Portfolio Management and Michelle Buckalew, Senior Manager Communications Consultant; and Theresa Schwartz, KBOR's Associate General Counsel.

<u>New Regents Board Members</u>

Regent Mildred Edwards, the new chair of the RPC, and Regent Fred Logan, the chair of the Kansas Board of Regents who will also participate in the RPC meetings, were welcomed to their first RPC meeting.

<u>Minutes</u>

The minutes from the March 12, 2013 meeting were approved.

<u>Segal's Semi-Annual Review Through June 30, 2013</u>

Before Mr. Chaikin provided an overview of the June 30, 2013 semi-annual report, Regent Edwards asked what three things the RPC should be aware of with regard to the market. Mr. Chaikin responded: how much the Federal Reserve may or may not taper its activities through the end of the year and how statements made by the Chair may throw the market into havoc; Congress' ability to pass a budget and how the market responds; and the process used to increase the debt ceiling and whether a delay will result in another downgrading of U.S. debt.

Mr. Robards asked if the underlying economic numbers remain stagnant will the Federal Reserve's current practice of bond purchasing be sustainable over a longer period of time. Mr. Chaikin responded that it depends on what the longer time frame means and that the Treasury can continue its actions as long as they want by printing money. As dollars are still heavily in demand across the globe, it affords them the ability to continue those activities. But, from a long-term policy perspective, that action is not sustainable.

Dr. LeCompte pointed out that the ING report showed money leaving (exchange out) the Vanguard Mid Cap Index Fund of approximately $5.7 million as well as $6 million leaving (exchange out) the ING Large Cap Growth Portfolio. Dr. LeCompte also indicated the report reflected a positive exchange of approximately $11.6 million was received by the ING T. Rowe Price Capital Appreciation Portfolio. Mr. Barnett indicated that although the exchanges are large from a monetary standpoint, they only represent 4% of total plan assets ($14 million in transactions on $375 million base).The question was asked of John O'Brien if ING had any insight regarding these large exchanges since this was not typical of what has been seen in prior reports. John O'Brien stated that there was no overarching strategy involved in the movement from funds into the balanced portfolio and he will look into it and report back to the RPC on these questions.

President Hammond asked what percentage of participants is making active investment decisions. ING and TIAA-CREF responded that they will work with Segal to produce that information for the next RPC meeting.

For TIAA-CREF's Plan Activity information, Segal added a column for "Plan Servicing Credit." President Hammond requested that the credit information also be reported as a total in the future, allocated among the various funds with a notation to include the administrative payment amount. Ms. Dixon will provide additional updated information to the RPC reflecting the calendar year 2011 and 2012 revenue credits, how much was distributed to participants and how much was used to pay for plan-related expenses. She will work with Segal to provide appropriate numbers for the Plan Activity information.

Dr. LeCompte asked if there were any complaints from participants when the Sentinel fund was closed and assets mapped to the replacement fund. Ms. Dixon stated that no real complaints were raised to her level. Mr. Chaikin stated that plans commonly have concerns about push back when funds are replaced but a lot of the time there is little to no response from participants.

Mr. Chaikin indicated that the managers of replacement fund, Alliance Bernstein Small Cap Growth, have not responded to information requests. Ms. Dixon stated that TIAA-CREF would see if they had the information and will work with Segal to request information from the fund managers.

Mr. Polacek stated that TIAA is now producing a quarterly performance comparison report that attempts to remove the effects of holding cash in the TIAA Real Estate Account (it holds a structural level of cash as one mechanism to ensure it can provide liquidity to account participants). The performance document then compares this adjusted return to the NCREIF ODCE, which is comprised of open-ended diversified core real estate funds (those invested directly in real estate). This provides an opportunity for a more apples-to-apple comparison since the other funds that comprise the ODCE are less liquid and carry very low levels of cash. It was agreed that Mr. Polacek will work with Mr. Chaikin to include this additional analysis in the future semi-annual reporting.

KBOR "Make-Whole" Campaign

When the KBOR mandatory retirement plan was consolidated in 2006, participants had contracts with the two deselected vendors, Lincoln National and Security Benefit. As those contracts were individual and not group contracts, the participants had to voluntarily elect to move their assets to ING or TIAA-CREF.

Since the consolidation in 2006, three communication pieces have been sent to KBOR participants with assets remaining with the deselected vendors, to alert them to the higher expenses they are paying for their investments and the impact that has on their retirement accumulations.

The first written information was sent in March 2008, the second in February 2011 and the third in October 2012. As some participants would be subject to paying surrender charges if funds were moved out before being invested for ten years, in the October 2012 communication both ING and

TIAA-CREF communicated to participants that any individual who was subject to surrender charges would be made whole. ING and TIAA-CREF agreed to cover such associated surrender charges, and estimated at that time that such charges would be approximately $304,000.

Ms. Delfelder and Ms. Dixon provided information about the latest communication campaign, noting that ING representatives made additional calls which most likely resulted in a larger share of transfers being made to ING. They stated that additional communication would result in a greater likelihood of fund movement and recommended that the next communication be targeted to actively employed participants. An additional recommendation was to state that the KBOR plan is reviewed by an independent third party consultant to ensure that the funds are quality investments and, as such, the RPC and the consultants are exercising due diligence as fiduciaries over the plan while the funds with the deselected vendors are outside the scope of that consultant's review.

Regent Logan asked why people are not moving their money. Ms. Dixon responded that inertia played a role, but that they have also found these participants have relationships with deselected vendor advisors and, even though presented with evidence of higher fees, the participants may be reluctant to move their funds because of those relationships. Dr. LeCompte stated that the psychological literature on investments indicates that people do not want to admit that they made a mistake.

President Hammond remarked that looking at the total amount of funds transferred it calls into question the success of the communication and awareness campaigns and whether there should be additional campaigns.

Ms. Dixon and Ms. Delfelder responded that that they would present updated information at the next RPC meeting about active participants in the KBOR Mandatory Plan with assets remaining with the deselected vendors as well as information about other alternative approaches for consideration. Regent Edwards asked how many participants were involved in the 2012 campaign and Ms. Dixon responded with ballpark figures from memory: approximately 500 in Lincoln National and 200-300 in Security Benefit Group but that group might include participants in the Voluntary Plan.

Ms. Dixon stated that a mixed message to participants might be sent as the deselected vendors are available for participants to use with the KBOR Voluntary Plan. At the next RPC meeting, Ms. Vannaman will provide information about the participant criteria previously utilized by the RPC to determine which companies remain authorized as investment options under the KBOR Voluntary Plan.

TIAA-CREF's 2012 Core Campaign Results

Ms. Buckalew reviewed the outcomes from the 2012 Communication, Education and Advice Core Campaign that provided targeted messages utilizing life-stage segmentation. The results included expanded educational reach, increased employee engagement and improved plan behaviors.

Next RPC meeting:

The next RPC meeting is scheduled for 12:30 p.m. on Tuesday, March 11, 2014, in the Board Room.