

SC PUBLIC EMPLOYEE BENEFIT AUTHORITY- BOARD OF DIRECTORS

Retirement Policy Committee Meeting Minutes Approved 9.8.15

200 Arbor Lake Drive, Columbia SC, Main Conference Room 2nd Floor

Wednesday, June 3, 2015, 9:30 A.M.

Retirement Policy Committee Members Present:

Mr. John Sowards, Chairman
Arthur Bjontegard
Mr. David Tigges

Retirement Policy Committee Members Absent:

Mr. Leon Lott

Others present for all or a portion of the meeting:

Peggy Boykin, Sarah Corbett, Matthew Davis, Mason Gregory, Megan Lightle, Heather Muller, Jon-Michael McNew, Lisa Phipps, Travis Turner, Stephen Van Camp, Justin Werner, and Heather Young from the South Carolina Public Employee Benefit Authority (PEBA); Wayne Pruitt, and Donald Tudor with the State Retirees Association of South Carolina; Amy Heyel, Nancy Ornduff, and Lisa Tilley with Empower Retirement; Geoffrey Hall and Mike Orso with Summit Strategies Group (via telephone); Gary Parker with VALIC; and Rose Guillette and Pirie McIndoe with Segal Rogerscasey.

1. 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.

2. ADOPTION OF PROPOSED AGENDA

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

3. APPROVAL OF MINUTES – MARCH 4, 2015

Chairman Sowards asked for amendments to the previous meeting minutes. There being none, Mr. Sowards noted that the March 4, 2015, Committee meeting minutes were approved as presented.

4. FIDUCIARY LIABILITY INSURANCE

Ms. Sarah Corbett, PEBA's Chief Operating Officer, stated that PEBA's Fiduciary Liability Insurance Policy covers PEBA, the Budget and Control Board, and the South Carolina Retirement System Investment Commission (RSIC). Ms. Corbett stated that if PEBA decides to cancel the Fiduciary Liability Insurance Policy, adequate notice should be given to all parties so an appropriate course of action can be determined. The Committee decided to continue the Fiduciary Liability Insurance Policy for this year, and will wait for a thorough analysis regarding the terms of the Fiduciary Liability Insurance Policy before making any further recommendations.

5. STATE OPTIONAL RETIREMENT PROGRAM QUARTERLY REPORT

Mr. Geoffrey Hall, Senior Investment Consultant with Summit Strategies Group (Summit), introduced himself, and stated that small cap stocks outperformed the large cap index, and fixed income sector returns were mostly positive during the quarter.

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Mr. Hall reviewed the Optional Retirement Program (ORP) investment performance and stated that as of March 31, 2015, ORP total Plan assets were \$1.64 billion, with 55 percent of total assets being allocated to TIAA-CREF which has 16,994 participants, followed by VALIC with 22 percent of total assets and 9,319 participants.

Mr. Hall reviewed the compliance report cards for each ORP vendor, and stated that MassMutual and TIAA-CREF both have two funds on the watch list, and VALIC and MetLife both have one fund on the watch list. Mr. Hall added that no actions are recommended at this time.

Chairman Sowards thanked Mr. Hall for his report.

6. DEFERRED COMPENSATION QUARTERLY REPORTS

Mr. Pirie McIndoe with Segal Rogerscasey, discussed recent market conditions including the decrease in unemployment from 5.6 percent to 5.5 percent for the quarter. Mr. McIndoe stated that world equity markets ended in the positive category for the quarter, and commodities ended in the negative category due to the general oversupply in the commodity areas.

Ms. Rose Guillette, Senior Consultant with Segal Rogerscasey, reviewed the Fund Evaluation Sheet for the quarter, and reported that all funds passed the benchmark criteria, with the exception of the BlackRock Inflation Protected 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) Program was \$2.8 billion for the quarter, which represents an increase of \$43.8 million, comprised of \$47.3 million in investment gains. Ms. Gillette added that the 457 Plan was valued at \$933.6 million, which represents an increase of \$8.0 million, comprised of \$13.5 million in investment gains.

Ms. Guillette reported that Segal Rogerscasey conducted an onsite due diligence at the T. Rowe Price office in Baltimore, and received an update on six strategies including the Mid Cap Value Fund. Ms. Guillette advised that Segal Rogerscasey does not recommend a fund manager change at this time. In a response to a question from Chairman Sowards, Mr. Matthew Davis, Defined Contribution Manager, confirmed that Segal Rogerscasey's continued recommendation of T. Rowe Price is consistent with the Board's Investment Policy Statement.

Ms. Nancy Ornduff, with Empower Retirement, presented the first quarter Plan review summary. Ms. Ornduff stated that as of March 31, 2015, Plan assets increased by \$51.47 million, or 1.4 percent, and incoming rollovers to the plan have increased to \$14,135,432.47. Ms. Ornduff stated that the South Carolina Stable Value Fund remains healthy with a market to book ratio of 102.4 percent.

Ms. Ornduff reminded the Committee that the Modernization 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

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concluded her presentation by reporting that currently, 13 percent of the 633 employers participating in the Plan are completely compliant with the requirements.

Chairman Sowards stated that going forward, he would like to receive an update from each of the four ORP recordkeepers. It was suggested that one of the ORP vendors make a presentation to the Committee each quarter.

7. DEFERRED COMPENSATION FUND ADDITION RECOMMENDATIONS

Mr. Davis stated that staff recommends the adoption of the full suite of SSgA Target Retirement Funds within the Deferred Compensation investment menu. Mr. Davis reviewed the five Target Date Funds (TDFs) that are currently available within the Program, and added that the proposed change would provide participants with additional flexibility to choose the single, most appropriate TDF.

In a response to a question from Chairman Sowards, Mr. Davis confirmed that the additional fund recommendations are consistent with the Board's Investment Policy Statement. It was noted that Segal Rogerscasey also concurs with the staff recommendations. Chairman Sowards stated that the adoption of the full suite of SSgA Target Retirement Funds within the Deferred Compensation investment menu will be recommended to the full Board for approval at the June 17, 2015, meeting.

8. 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.

9. COMMITTEE CHARTER OVERVIEW

Mr. Justin Werner, PEBA's Legal Counsel, advised that legal staff has reviewed the Retirement Policy Committee Charter which was adopted in July 2014, and does not recommend any changes. The Committee agreed with staff's recommendation.

10. RETIREMENT POLICY LEGISLATIVE UPDATES

Ms. Peggy Boykin, PEBA's Executive Director, reported that the dollar amount of PEBA's budget is the same in both House and Senate versions of the budget, and includes an \$8.3 million increase due to PEBA absorbing additional responsibilities that were previously performed by the Budget and Control Board.

Ms. Boykin advised that S.675 which is the PEBA Omnibus Bill that includes the fiduciary audit recommendations from both RSIC and PEBA, has passed the Senate and resides in the House, but has not been assigned to a sub-committee. Ms. Boykin stated that S.35 places a Constitutional Referendum on the ballot allowing the Other Post Employment Benefits (OPEB) Trust Funds to be invested in equities, and she expects this bill along with S.675 to be deferred to the next legislative year.

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11. OLD BUSINESS/DIRECTOR'S REPORT

Ms. Boykin reminded the Committee that there is not a securities lending deficit of \$4.9 million in the Other Post Employment Benefits (OPEB) trust funds as originally reported in PEBA's Insurance Financial Statements. Ms. Boykin advised that next year's financial statements will include a restatement and a note disclosure explaining the restatement.

Ms. Boykin reported that PEBA has received confirmation from the Bank of New York Mellon (BONY) that the securities lending portfolio assets in the OPEB trust funds have been properly segregated as of February 17, 2015, and added that BONY has also verbally confirmed that they have adjusted the reported income of the securities lending portfolio assets in the OPEB trust funds. Ms. Boykin stated that PEBA should be receiving written documentation of the adjustment in the near future.

Ms. Boykin advised that PEBA received notice from the Government Finance Officers Association (GFOA) that the June 30, 2015, (Comprehensive Annual Financial Report (CAFR) qualified for the Certificate of Achievement for Excellence in Financial Reporting. Ms. Boykin congratulated the accounting and finance staff. Ms. Boykin stated that currently PEBA has multiple insurance financial statements, and the goal for the upcoming year is to consolidate the insurance financial statements into one comprehensive insurance financial statement, and the following year develop one CAFR that will consolidate all of the financial reports.

Ms. Boykin reported 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 the audit which focuses solely on retirement, should be completed by the end of July and a report provided by the end of September.

12. EXECUTIVE SESSION

At 10:55 a.m., Mr. David Tigges made a motion, which was seconded by Mr. Art Bjontegard, and passed unanimously, to recede into executive session to receive legal advice pursuant to S.C. Code Ann. § 30-4-70. The Committee thereupon receded into executive session.

The Committee reconvened in open session at 11:42 a.m. It was noted that no action was taken by the Committee while in executive session.

The Committee agreed to cancel the Retirement Policy Committee meeting for July 1, 2015.

13. ADJOURNMENT

There being no further business, and upon motion by Mr. Bjontegard which was seconded by Mr. Tigges, and passed unanimously, the Committee meeting adjourned at 11:45 a.m.