



ADVISORY COMMITTEE MEETING MINUTES
February 12, 2014
Archives Boardroom
SALEM OREGON

COMMITTEE MEMBERS PRESENT

Mark Carlton, Chair
Kevin Nordhill, Committee Member
Jeff Labhart, Committee Member
Debbie Darst, Committee Member
Brady Boothe, Committee Member
Stefani Pastoor, Committee Member

STAFF MEMBERS PRESENT

Gay Lynn Bath, Manager
Kyle Knoll, PERS
Paul Cleary, PERS
Jack Schafroth, Local Government Representative
Kathy Gannon, Program Coordinator
Tamie Cannon, Public Service Representative
Karen Blanton, Educational Representative

I. INTRODUCTION:

Meeting called to order by Mark Carlton at 9:30 a.m. Chair Carlton asked that the visitors and presenters in attendance introduce themselves.

II. APPROVAL OF MINUTES:

Chair Carlton asked if there were any changes or corrections to the minutes from the November 13, 2013. None were offered, so Jeff Labhart moved to approve the minutes as presented and Kevin Nordhill seconded the motion. Motion carried unanimously.

III. OLD BUSINESS:

None

IV. ADMINISTRATIVE REPORT:

- A. Overview of the Stable Value Option:** Andy Apostol with Galliard Capital Management provided an overview of the Stable Value Option. Apostol reported that Galliard and Prudential are the two largest Stable Value managers and he's not certain which is the larger. He explained that our wrap fees are 20-25 basis points which are up from what they were prior to 2008. Apostol was asked if he was aware of anyone ever having to draw on a wrap and he stated that he has worked for three of the largest stable value managers in the business and has never seen anyone have to do that. He explained that wrap issuers are looking at underwriting issues on an ongoing basis. Gay Lynn Bath asked about the International Bond fund not requiring an equity wash. Apostol replied that we are good to go and OSGP can remove that restriction.



Apostol highlighted the annualized investment performance outlined in his handout and the portfolio characteristics. He explained that the Stable Value Fund, while down 35 basis points, is doing what it is supposed to do and noted that the Market/Book Value Ratio is at 100.06 percent and compared it to being almost down to 103 percent at the end of 2012. Next, , Apostol pointed out that 1.44 blended yield is net of fees and that yield outside of wrap contracts is 92 basis points. He explained that with a credit rate of 1 percent net, an increase of 50 basis points would yield 1.20, while an increase of 100 basis points would yield 1.40. Apostol explained that basis points were 60-ish for 2012, net of fees roughly at parity on the fund.

Next, Apostol highlighted portfolio distribution, and pointed out the paramount importance of high credit quality referring the audience to the lower left graph on the page.

B. Q4 2013 Service Review, Field Activities: Brian Merrick, Kenje Mallot and Carol Cann presented the fourth quarter ING report.

Brian Merrick provided an update on rebranding efforts from ING to Voya. Merrick reported that the new name has been announced and IPO has been initiated. Continuation of rebranding efforts will continue in 2014 and Merrick assured the Committee that there should be minimal impact to Oregon plan participants. ING will work with the plan to optimize communications of changes to participants.

Merrick provided a brief update on ING's Tax Exempt Market Business (focusing on government and higher education employers), then highlighted Trends and Communications, noting that those are not necessarily relevant to our plan, but always available to the Committee.

Merrick then reported on ING's Retirement Research Institute activities. They have two new studies coming up, one that focuses on retirees and pre-retirees; the other that focuses on millennials. ING is trying to concentrate on topics that ING clients have expressed interest in, such as reaching and communicating with younger workers.

Merrick discussed how the look and feel of the website has changed after the two new dashboards were revealed in December. He reports that feedback has been mixed and has identified a number of opportunities for improvement. He also reported that the mobile app is now fully functional, though not getting a lot of hits. He said he can provide stats on the mobile app if requested.



Next, Merrick discussed the Executive Summary. He pointed out how the plan has grown with the addition of a local field person and how enrollments in the plan have increased.

Kenje Mallot reported that Justin Naegle has left the local field position assigned to OSGP effective at the end of January. She has interviewed several candidates and is not yet done with interviews yet, but stated filling that position is a top priority and that she hopes to make an offer to the successful candidate within the coming week. She also talked about the possibility of adding a second field position to the OSGP office. Bath mentioned that the director of ODOT sent an email message to the agency promoting the benefits of participating in the OSGP program and authorizing staff to attend OSGP workshops on agency time.

Brian Merrick reported on the benefits that have been added to OSGP to promote the plan, such as the brokerage services and the Roth 457. He reported that the participation level in the brokerage window is at 63 participants, most of whom are active participants.

Stefani Pastoor asked about the possibility of having a tool prepared that would be similar to a family tree to explain the roles of those involved with OSGP. Gay Lynn explained that this would be something that falls to the local office to prepare rather than ING, and that something similar has already been prepared by former Chairman Farrelly. Bath offered to send it on to Pastoor.

Mallot reported on Justin Naegle's 4th Quarter activities. She reported that she does review the feedback he gets from participants and that there is about a 26% response rate. Mallot also noted that the goals Naegle set for 2013 were either met or exceeded.

Mallot also described an additional benefit in place to assist the plan's Educational Representatives with facilitating members' rollover in processes is an ING "hand-holding team" designed to walk members through the rollover process. Mallot also reviewed the goals that are already set for 2014. In discussing rollovers, it was noted that over \$5 million rolled into the plan from PERS' Individual Account Program accounts alone. A question was posed as to how many IAP accounts roll out, and what percentage of those are rolled to OSGP. It was suggested that the information prepared to answer that question take into account how many account holders are actually working for participating employers. Kathy Gannon will work with ING to put this information together for the next meeting.

Next, Carol Cann provided the Communication update. She talked about the Save for Retirement activities in October 2013 and how the Save for Retirement event expanded from just the Salem location to adding a Portland and a Eugene event. The Portland event had higher turnout than the Eugene event. November communications



focused on a Comeback campaign using mail, QR scans, business reply card and clicks on website messaging. There was discussion about how different modes of communication are effective for different age groups. There will be a Diversification campaign coming up in March and more information will follow about that in the next Committee meeting. Bath discussed how email seems more successful than regular mail. Gannon mentioned that enrollment forms now include a field for participants' email addresses and asked Cann about having ING add that into the database. Debbie Darst asked about contacting school district business managers about emailing school district employees with promotional information. Bath explained that the idea has been explored, but that most business managers are resistant to it, due to the other programs offered by the school districts. They are concerned that all offered plans feel that they employer is treating all offered plans equitably.

- C. Q2 2013 Performance Report:** Ben Mahon, Treasury presented a fee reduction analysis and discussed whether we are invested in the cheapest vehicle and about the addition of individual securities to brokerage windows. The Department of Labor is doing a review and Treasury feels it is wise to wait on any decisions until Labor has completed their review. Kevin Nordhill went on to add that state tends to be more paternalistic than Local Government plans and suggesting having the PERS board weigh in on the subject. He also posed the question of whether our participants should be surveyed as to whether adding stocks and bonds to the plan is even something they want. With all the legs to Oregon's pension plan, some people may feel comfortable taking on more risk. Mike Viteri mentioned that this topic has been explored with the Oregon Investment Council (OIC) previously and the Council was cautious about expanding toward more risk. Nordhill responded that there is a 50 percent cap which could be increased to higher level. Jake O'Shaughnessy advised that there are several governors that can be placed on a brokerage window. He said he didn't think that the brokerage window is as much of an attraction factor with a government-sponsored plan as with private sector employers. Also, that greater monitoring capabilities need to be considered because of the need to be aware of insider trading potentials that could be at risk with RFP processes. Nordhill still thinks that the PERS Board should be approached about this even before Department of Labor reaches their conclusion. He made a motion that state employees be surveyed regarding their interest in adding individual securities to brokerage windows. Debbie Darst seconded the motion.

Stefani Pastoor asked about financial advice addition discussed in a previous meeting; Gay Lynn Bath advised that will be covered in her report.

Mahon introduced Karl Cheng from Treasury who will be appearing before the Committee more at future meetings. Mike Viteri (Treasury) explained that Ben Mahon is moving to a different area of responsibility.



Jake O'Shaughnessy from Arnerich Massena presented market overview information. He said that while 2013 was a great year for riskier assets, it was a poor year for bond performance. He discussed the Quantitative Easing that the Fed put into effect. He reported that inflation has been low by historical statistics and very benign which will tie to the Target Date funds. Also, that inflation rates are coming up from zero. He said that the Fed has made it extremely unattractive to sit on your money. US Equities have had "smoking" returns. Dow Jones (commodities) have had a poor year in 2013, which again ties to Target Date funds. O'Shaughnessy reports that his company has been focusing on emerging markets and discussed "carry trade" and its impact on emerging markets. Information was then presented assessing our Target Date funds. The funds are not performing as desired, but they are performing as expected. Asset allocation drives 90% of performance. CPI is low, so TIPS are low. (Shorter range LifePath funds, like 2015 and 2020 contain more TIPS). Some inflation exposure is by design, but he said that BlackRock is extremely conservative and perhaps, too conservative. He reported that this will be discussed at the next OIC meeting. There needs to be some evaluation of whether the strategy works in light of what our participants have as other retirement assets.

D. Financial Engines Update, Roth Conversion, and Plan Update Gay Lynn Bath reported that she met the PERS Executive Leadership Team to present her business case on adding financial advice to the plan, and she is now waiting for clarification from procurement. The contract phase will be the final step of the process and we will be working to add ING Advisor Services by the end of the year.

Bath reported that we are seeking guidance on Roth Conversion and assessing what other plans are doing. Brian Merrick commented on the importance of communicating tax implications to participants and assessing recordkeeping needs. He says ING is looking at implementing Roth Conversion this year. Bath is preparing an FAQ that deals with the Roth 457 and that will be posted to both websites when completed. .

The Plan is working with ING to add another local ING field rep to our local office. Bath reported that the short workshops offered during Save for Retirement week were very popular. As reported earlier, turnout at Eugene was not that great. Expect to plan on continuing Save for Retirement events in Salem at the Archive Building and the Portland State Office Building again in 2014, and possibly a third event in Bend. Also noted that 'Ask Kathy' has been a very popular feature.

Kyle Knoll, PERS, presented a Summary Budget Analysis and talked about tools available to PERS department managers to assist with budget management and maintaining good stewardship and offered to look into making a Summary Budget Analyst tool available to this Committee on a quarterly basis or any other information that would be helpful. The Committee response was that reviewing that



information on an annual basis is sufficient. Paul Cleary clarified cost allocation of PERS staff such as Kyle or himself to OSGP and of OSGP staff to PERS.

E. State Q2 2013 Status: Karen Blanton reported that she has been developing a progressive quarterly workshop series, a worksite-only workshop on managing individual accounts online, and trying to develop more participation among younger employees as well as incorporating Roth products into those discussions. Blanton also mentioned efforts to include investments and fees in workshops as a recruitment feature.

F. Local Government Q2 2013 Status: Jack Schafroth reported that 2013's 4th quarter was the best quarter of the year for local government enrollments. He attributed that largely to the school districts being back in session and worksite fairs. Two losses in Q4 were Metro and City of Lake Oswego. Two adoptions in Q4 were Jefferson County and Jordan Valley School District. Jefferson County wanted to wait until January before enrolling participants. They already have programs with Nationwide and Valic; our plan is an additional offering and Schafroth emphasized that costs were a factor. The City of Hillsboro has issued a RFP with a consultant so we could lose that plan in the near future. They currently have other providers and our plan cannot offer all the services this local government is seeking. Schafroth is trying to focus on positioning our plan as a complementary product: a low-cost, high-quality plan.

G. Q2 2013 Plan Statistics: Kathy Gannon reported on the highlights of the Q4 statistics.

V. NEW BUSINESS: Elect new Chair: None

VI. AUDIENCE PARTICIPATION:
None

ADJOURNMENT: The next meeting is May 14, 2014 in Salem.

There being no further business, Chair Carlton adjourned the meeting.

Respectfully submitted,

Tamie Cannon
Public Service Representative