

EMPLOYEE INVESTMENT ADVISORY COUNCIL MEETING

September 20 , 2010

Ms. Patricia Davis called the meeting to order at 1:30 pm Monday, September 20, 2010.

Council members present were:

Patricia Davis, Chair; Tom Schneider; Barbara Wagner; Ron Alles; James Helgeson; Paul Spengler; Pam Fleisner; Jim Penner

Council Members Excused:

Tom Bilodeau; Rande Muffick; Paula Stoll; Edward Dawes; Kevin McRae

Members of the Public:

Michael Schlachter, Wilshire Associates
Terry Smith, PERB Vice President (via telephone)
Roxanne Minnehan, MPERA Executive Director
Melanie Symons, MPERA Chief Legal Counsel
Jenny Weigand, MPERA Education Supervisor Specialist

Public Comment on any subject of interest not on the EIAC agenda. No comments were given.

MINUTES OF EIAC MEETING

The minutes of the EIAC meeting of June 17, 2010 were presented.

Motion: Mr. Tom Schneider moved to approve the minutes for the June 17, 2010 EIAC meeting.

Second: Ms. Barbara Wagner

No public comment.

Vote: 8/0

Economic Discussion – Michael Schlachter, Wilshire Associates

Numbers in Context

Mr. Schlachter discussed the economic indicators for the past quarter with the council members. He explained the past week and a half has shown some positive change, but there has not been much change overall in the economy. Consumer spending is still down; we are a consumer driven economy, spenders are cautious. He referenced the Great Depression of the 30s and 40s – an economic time period when it took a decade to recover from the massive loss. He also stated debt is starting to fall; people are using their money to pay off their debts. Mr. Schneider asked what effect has the 10,000 Credit Card Debt Act had on the economy. Is this having an effect on this area? Mr. Schlachter replied that credit card debt is not causing these big numbers, it is student loans, and mortgages.

Government debt is the biggest issue at this time. During World War II debts were cut by the government and the interest rates continued to be low through the early 1950s. Consumers aren't buying, so interest rates are staying low and could continue to stay low.

The Total Debt to GDP is around 90%, and within one-to-two years could be above 100% GDP. The last 30 years debt has risen and rates have fallen. The economy cannot withstand long-term high debt levels and low interest rates.

Some market studies have shown that the market is in for more poor returns. The stock market valuations are better than in 2009, but are still not getting the best returns. Over all comparing the United States yields to other countries, the US is ranked 6 or 7 lowest.

Real estate is where the economy has taken the biggest hit. The capitalization rate or cap rate is the ratio between the net operating income produced by an asset and its capital cost or market value. The cap rate has been gradually going down over the past 10 years, but has slowly going up over the past two years. The earning to price ratio is a measure of the price paid for a share relative to the annual net income or profit earned. The earning to price ratio is currently below zero for real estate.

A member of the council asked if Mr. Schlachter agrees that the “double dip recession” is not going to happen. What role would deflation play into our current economical status? Mr. Schlachter agrees that the “double dip recession” is not going to happen, due to people and corporations being cautious. Deflation implies a negative growth or inflation below 0% that cannot be corrected and he does not see this being a factor, being the US is still growing.

401(a) Report

Mr. Schlachter updated the council on the total assets.

The Stable Value Fund has added value this quarter, outperforming the benchmark by 25 basis points. The Vanguard Total Bond Fund is tracked very well. Vanguard has had a massive swing up and down. This fund is performing well at this time. The Vanguard Balance Index holds around half of the plan assets. It has had four star ratings for three and five years. The largest share of asset in an active fund is the American Funds Growth Fund Index, it the 7% of growth

assets. It has fallen in the past, but is currently performing very well. The Vanguard Growth and Income Fund is an actively managed fund. This fund is currently on probation. It has been improving with the S & P 500 for the past year, but is still only two stars for three and five years. The Black Rock Fund is an index fund and is being tracked by the S & P 500. The Equity Income Fund by Vanguard is doing well. It is beating the benchmark by 3% for three years, 2.5% for five years with a four star rating. Munder is currently on probation, but had a good quarter. It is currently rated three stars. Janus had a bad year; it is only up 16% on a benchmark of 30%. They are still rated five stars. The Essex Fund has been replaced and continues to underperform. The Vanguard Small Cap Index Fund is tracking its benchmark closely. The Small Cap Value Benchmark has performed well for the year and is rated four stars. The Principle Fund has been replaced and continues to underperform.

Mr. Terry Smith was asked to explain the Public Employees' Retirement Board's decision at the last PERB meeting. Mr. Smith informed the Council about the fees between Vanguard and Fidelity Fund, and accumulative funds. His argument was the fees were lower and the returns are better.

Mr. Schneider clarified that EIAC does not pick the funds; the PERB picks the replacement funds. EIAC just makes a recommendation to PERB.

457 Report

Mr. Schlachter updated the Council on the asset allocation for the 457 Deferred Compensation Plan.

Total Return Fund from PIMCO is the same for the 401(a), it is rated five stars. The High Income Bond Fund had a 25% return over the past year, with a five star rating. The Dodge and Cox Fund have two strikes against them. They had a large credit debt and continue to underperformance. They have poor ratings. The Asset Allocation Funds are performing at or above the benchmark. Fidelity Contra Fund is having a strong performance. They protected their capital during the market decline. They are up 3% at three years. The Calvert Fund is performing well. The Davis Fund has a two star rating and he suggested possibly putting this fund on probation in the near future if it continues to underperform. The Columbia Mid Cap Value Fund is rated three stars, but is down 4% for the year. He also suggests probation if it continues to underperform. The Vanguard Index Fund is performing well. The Neuberger Janus Fund is performing a little behind the benchmark. The Non-US Funds are performing well.

The Council agreed to watch the performances of the Davis Fund and the Columbia Mid Cap Value Fund for possible probation.

The Council would like Mr. Schlachter to research Target Date Funds and present the findings at the December meeting.

Ms. Davis asked the Council to bring to the December meeting with some questions for a member survey.

Motion: Ms. Barbara Wagner moved EIAC move forward with planning a survey.

Second: Mr. Ron Alles

No public comment.

Vote: 8/0

Motion: Ms. Barbara Wagner moved a presentation on Target Date Funds for the December EIAC meeting.

Second: Mr. Ron Alles

No public comment.

Vote: 8/0

Balanced Funds – Dodge & Cox versus Oakmark

Mr. Schlachter asked the Council to look closely at the Dodge & Cox Fund. This fund has had better performances over the last five years. Their rating is lower than the Oakmark Fund. The Oakmark Fund is more concentrated. The Oakmark Fund is performing above the benchmark; where Dodge & Cox is performing below the benchmark. However, Dodge & Cox's performance has improved and Oakmark has dropped slightly in performance. The annual performance as of December 2008, Dodge & Cox has underperformed. It is currently on probation. Mr. Schlachter recommended Oakmark as the replacement for Dodge & Cox, but could possibly replace it with the Target Date Funds.

Motion: Mr. Paul Spengler moved EIAC do a search for a Dodge & Cox replacement for the December meeting.

Second: No second, motion died

Updated August performance

NAGDCA Update

Educational Update – Jenny Weigand

National Save for Retirement Week is the week of October 18 – 22.

Next EIAC Meetings

December 10, 2010

Next PERB Meetings

October 14, 2010
November 10, 2010
December 9, 2010

ADJOURNMENT

There being no further business before the Council, Ms. Davis adjourned the meeting, at approximately 4:20 pm. Next meeting will be Friday, December 10, 2010 at 1:30 pm.