The September 13, 2016, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order by Regent Brandau-Murguia at 12:30 p.m.

Members Participating:
Regent Ann Brandau-Murguia  Mike Barnett, FHSU
Dr. Dipak Ghosh, ESU   Leisa Julian, KU
Dr. Rick Lecompte, WSU   Gary Leitnaker, KSU
President Martin, FHSU   Stacy Snakenberg, KU Medical Center
Madi Vannaman, KBOR

Members participating by conference call were Regent Bangerter and Michele Sexton, PSU.

Also present:  Craig Chaikin, Segal Rogerscasey consultant; from TIAA were Nicolette Dixon, Senior Relationship Manager; and Tom Carmody, Senior Director Retirement Plan Sales; Adam Polacek, Managing Director Portfolio Management; and Brad Mitchell, Client Service Manager; from Voya, John O’Brien, Regional Vice President; Cindy Delfelder, Key Account Manager; Amy Goodale, Strategic Relationship Manager; and Bernie Heffernon, Senior Vice President of Distribution; Theresa Schwartz, Associate General Counsel for the Kansas Board of Regents and Elaine Frisbee, Vice President Administration and Finance, Kansas Board of Regents.

**Introductions** – Chair Regent Brandau-Murguia introduced the two new RPC members: President Martin, FHSU, representing University CEOs and Leisa Julian, KU Vice Chancellor and CEO representing University of Council of Business Officers.

**Minutes**
The minutes from the March 22, 2016, meeting were approved unanimously.

**Fiduciary Duties**
Theresa Schwartz, KBOR’s associate general counsel reviewed information contained in the Fiduciary Duties memo relative to the KBOR Mandatory Retirement Plan. The information shared how the Board of Regents exercises fiduciary duties for the plan by and through the Retirement Plan Committee and expert consultants hired to assist the RPC and staff in meeting these obligations.

**Follow-up regarding information to participants when a Lifecycle/Target Date fund expires**
TIAA confirmed that participants will receive information when a Lifecycle fund converts to the Lifecycle Income Fund in addition to the prospectus update. VOYA confirmed that participants will receive a confirmation statement at the time of the transaction when a Target Date fund expires and is merged into the Target Date Income Fund, in addition to the information contained in the fund prospectus.

**Segal Semi-Annual Review through June 30, 2016**
Craig Chaikin provided the following information:

A. This week, Segal Rogerscasey announced it has entered into an asset purchase agreement to acquire Marco Consulting Group, an investment consulting firm based out of Chicago. Marco consults primarily multi-employer or collectively bargained plans. Segal Rogerscasey will be
rebranded to Segal Marco Advisors when the transaction closes January 1, 2017. Additional research resources will be available to clients as well as proxy voting services. Outside of the added resources, there will be no direct impact to the KBOR Mandatory Plan as Craig Chaikin will remain the day-to-day consultant for the Plan.

B. At the last RPC meeting, there was discussion about several lawsuits brought by participants regarding excessive fees and compensation paid in their 401(k) retirement plans. Similar lawsuits have recently been brought against higher education 403(b) retirement plans subject to ERISA and most of those lawsuits have been brought by a single St. Louis law firm, Schlicter Bogard. Many of the 401(k) lawsuits have been settled prior to litigation although none of the record keepers or plan sponsors have admitted to doing anything wrong, but decisions have been made to settle in order to minimize damages. Dr. LeCompte stated that the KBOR fees are lower than those in the plans being sued. Craig Chaikin stated that many of those plans have multi-vendors (three or more) which makes it harder to secure competitive fees and economies of scale. The KBOR plan was proactive in going to two vendors which has allowed it to realize greater asset consolidation and competitive fees in the marketplace. Mike Barnett asked if there is any risk posed by the KBOR voluntary plan and Theresa Schwartz responded that there is a lot less risk because that plan is not subject to ERISA and falls within the safe-harbor provisions. Additionally, KBOR has taken a hands-off, non-managerial approach with regard to the voluntary plan and therefore should be in good shape to defend any lawsuit impacting the voluntary plan. Craig Chaikin stated that the chance of a lawsuit being brought against a public entity is not very good as it is really hard to sue the government. Theresa Schwartz added that anyone can sue any entity but suing government is not as lucrative and it is harder to win such suits.

Regent Bangerter stated that it appears that the industry is heading toward a flat fee for retirement plans, if they are not already there, and asked if Craig Chaikin would address where he saw the KBOR plan heading in regards to flat fees and what to anticipate for administrative expenses. Craig Chaikin responded that fees are the biggest reason why the lawsuits are being brought and that most people do not understand hidden fees. The RPC, in conjunction with Segal Rogerscasey, TIAA and Voya, have done significant work regarding fee transparency and will have an update ready for the March 2017 meeting. In the corporate market, there is a definite shift to per participant fees and Segal Rogerscasey is looking at what plans are doing in the other markets and what changes are being made.

C. Craig Chaikin briefly discussed the financial environment for the last six months of calendar year 2016 and changes to the KBOR Mandatory Retirement plan through June 30, 2016. Assets in the plan increased to $3.3 billion, with the bulk of the assets, $2.7 billion, invested with TIAA. For TIAA, as a whole, the lineup has performed very well. There is some underperformance for the quarter, but most of that can be explained by style or stock picking. CREF Growth has struggled over the shorter time periods due to stock selection; however, there are no long-term concerns with the strategy. The Royce Opportunity Fund has continued to struggle from stock selection and was recently hurt by selections in health care and information technology. Segal Rogerscasey is recommending the Royce Fund be placed on watch due to consistent underperformance and will be reevaluated at the next meeting in March. Placing a fund on watch is the first step toward possible termination of that investment option. Reasons for putting a fund on watch include several criteria such as portfolio manager change, organizational issues,
style drift and consistent under-performance versus peer group and benchmarks, over the longer term 3-5 years. Dr. Lecomte commented that the fund has the highest fee in the line-up, and there are other funds in the same small cap space. At this time, there are no other small cap value options in the line-up.

The CREF Money Market meets the definition of a government fund, but as of April 2017, fees will no longer be waived on the fund. Therefore, it is possible that there might be negative returns for that fund. Nicolette Dixon, TIAA, stated that there has been an ongoing communication with participants about the money market reform and also a special campaign targeted those with 80% or more allocated to the Money Market fund. TIAA’s core campaign will continue to communicate with that cohort to encourage participation in advice sessions or reallocation of assets.

Gary Leitnaker asked if there was any concern with the CREF Global Equities account, noting that long term performance has not been too bad but recently it appears to have not performed as well. Craig Chaikin responded that short-term selection and allocation have both caused the fund to lag, but the fund is competitive versus both the benchmark and peers, when looking at it longer term, i.e. the 3-5 year performance.

For Voya, Craig Chaikin explained the difference in asset totals on the Voya plan activity versus the plan asset summary. The plan activity did not include legacy assets, which are assets from the old fund lineups before the KBOR plan consolidated from four to two vendors. The assets in the legacy lineup are invested in funds that are no longer utilized by Voya and the KBOR mandatory retirement plan, but because the contracts are individual and not a group contract, those assets can only be moved when a participant elects to move the funds.

The PIMCO TR fund has been on watch since Bill Gross’ departure in September 2014. Performance has been average, with both ups and downs. Though personnel turnover has slowed, recently a new president was named to the firm, and asset flows have stemmed. The fund will remain on watch due to the continued personnel movement and will be reevaluated at the March 2017 RPC meeting.

Voya funds have performed well with a few “hiccups,” with the most notable being Parnassus Core Equity Fund which experienced the biggest challenge for the quarter because it was underweight in energy, which has rallied. Voya Oppenheimer Global Fund has also struggled over the last year significantly trailing the benchmark and peers. The magnitude of underperformance has made the 3-5 year results look poor. Recently, the fund was underweight to energy and overweight to IT which did not perform well. Stock selection in several sectors detracted as well. Craig Chaikin indicated they will keep watching the fund but will not formally put it on the watch list at this time. Voya Real Estate Fund has struggled over the one-year period but there is no recommendation for action on that fund at this time.

For the frozen vendors, Lincoln and Security Benefit Group, currently the only information Segal Rogerscasey receives is market values (asset balances) for what is invested in KBOR contracts. As those vendors and funds are no longer available for new contributions they are not actively monitored. Craig Chaikin indicated that additional information will be requested from the frozen vendors and shared with the RPC at the next meeting.
Updates
Craig Chaikin reviewed new information that will be captured in the semi-annual report for the “Recordkeeper Administrative and Fund Line-up Updates.” The new information captures fund change recommendations by the RPC at the previous meeting, changes that were made and the status of funds on the watch list. For this meeting those include TIAA’s administrative revenue decrease effective July 1, 2016, from 0.11% to 0.095%, a change of approximately $400,000 based on the June 20, 2016 market values.

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1. Voluntary retirement companies – Dr. Lecompte asked how the number of KBOR Voluntary Retirement Plan companies can be reduced. Madi Vannaman responded that annually information is provided by the campuses and any company with less than 1% of the total number of participants is frozen. Only current participants can continue to use the frozen vendor and no new enrollment is allowed. Therefore, over time, the frozen company’s participation drops to zero and that company is removed. Currently there are six companies that can be chosen by any employee eligible to participate in the KBOR voluntary retirement plan and seven that are frozen.

2. Madi Vannaman shared that she will be drafting RPC members to form a sub-committee to work with Craig Chaikin, TIAA and Voya to discuss fee and expense information. The information developed by this sub-committee will be shared at the next RPC meeting.

Next RPC meeting:
The next regular RPC meeting is tentatively scheduled for 12:30 p.m. on Tuesday, March 14, 2017, in the Board Room.