

KANSAS BOARD OF REGENTS
Retirement Plan Committee
MINUTES
February 14, 2008

The February 14, 2008, meeting of the Kansas Board of Regents Retirement Plan Committee (RPC) was called to order by Madi Vannaman at 12:40 p.m. The meeting was held in Board offices at the Curtis State Office Building, 1000 S.W. Jackson, Suite 520, Topeka.

Members Participating:

Dan Lykins, Regent (Chair)
Mike Barnett, FHSU – via conference call
Lindy Eakin, KU
Dr. Dipak Ghosh, ESU
President Ed Hammond, FHSU
Gary Leitnaker, KSU
Dr. Rick LeCompte, WSU – via conference call
Rick Robards, KUMC
Michele Sexton, PSU – via conference call
Madi Vannaman, KBOR

Also in attendance were Regent Jerry Boettcher; Theresa Marcel Bush (Terry), KBOR's associate general counsel; Brad Tollander and Scott Cole with Deloitte Consulting.

Report from the Chair

Regent Dan Lykins was delayed slightly because of participation at a community college meeting.

Minutes

The November 15, 2007, RPC minutes were approved.

Deloitte's semi-annual analysis through December 31, 2007

Brad Tollander discussed the fund analysis data as of December 31, 2007. The RPC touched upon various items including the 34.39% of assets, or \$815,254,728, accumulated in the Money Market/Stable Value asset class (93% of that accumulation is with TIAA-CREF). Last fall, when the September 21, 2007, remittance was analyzed, it showed that 18.96% of that remittance was contributed to the Money Market/Stable Value asset class, and 42.83% of that remittance was contributed to the Equity-Domestic asset class. It appears that the large accumulation in the Money Market/Stable Value asset class may be the result of historic investment patterns, dating back to when TIAA-CREF was the only vendor and they only offered two options: TIAA and CREF stock.

For the next semi-annual review, Brad will ask both ING and TIAA-CREF to provide accumulation and/or remittance data, broken down by age and campus, to analyze that data and determine what funds (and how many) are being utilized and if there are any patterns or areas of concern that should be addressed by the RPC (i.e., targeted education for those under age 40 who have substantial assets in the money market/stable value funds).

In reviewing the funds, Brad indicated that different benchmarks could provide more appropriate comparative data and he will provide the RPC with suggested benchmark changes. Brad noted that overall, he is very satisfied with the performance of the funds based on his analysis and that no funds warrant being placed on a watch list at this time.

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Brad noted that total assets with the deselected vendors are decreasing. The communication piece to participants with balances with Lincoln National and Security Benefit Group will be mailed in February.

	Total Assets as of 12/31/06	Total Assets as of 12/31/07	Difference	% Decrease from 12/31/06
Lincoln National	\$121,558,531	\$ 74,395,270	-\$47,163,261	61%
Security Benefit	\$ 70,961,257	\$ 47,365,143	-\$23,596,114	33%

The RPC discussed information provided to TIAA-CREF participants, in a letter dated January 17, 2008, informing them of the revision to the “estimates of annual expense deductions because the actual expenses incurred or anticipated to be incurred from May 1, 2007 through April 30, 2008 are higher than the estimates in the Accounts’ prospectuses.” Brad indicated that these increased administrative expenses apply to non-mutual funds and will impact approximately \$1.773 billion of the \$1.996 billion in assets. This will result in an increase in total investment expenses of approximately \$1 million and the average expense ratio will increase from 0.67% to 0.72%. Brad indicated that although an increase in expenses is not a good trend to see, 72 basis points is very competitive in the market place.

A letter will be sent to Chris Drazen, TIAA-CREF, to inquire about this change, and asking for additional information to explain this change for expenses “incurred or anticipated to be incurred.” Additionally, TIAA-CREF will be informed of the RPC’s disappointment in how this information was conveyed, as neither the Plan Administrator nor to the RPC were alerted to this change before it was provided to participants.

The RPC discussed information provided to ING participants about an “interfund exchange” that occurred in October 2007. Vanguard notified ING that they would change the name of their Admiral Shares to Signal Shares and there would be no change in expenses. Information provided to ING participants in these funds stated “an inter-fund exchange has been processed on your account.... This confirmation reflects the actual amounts transferred between investment options.”

Brett Round emailed Madi Vannaman in October 2007 about this exchange, and that information was conveyed to Deloitte. Brett’s email indicated that he wanted to make sure that KBOR was aware of this information; although it was “simply a name change” and a “non-event.”

A letter will be sent to Brett Round, ING, to inquire about this type of change, when and why they occur and whether information provided to participants can be written so that they more clearly understand the nature and reason for the change.

Deloitte’s analysis of ING’s request to replace funds and include new funds in the Mandatory Plan

In a letter dated January 15, 2008, ING requested consideration of funds for inclusion or replacement within the ING investment options for the Kansas Board of Regents Mandatory Retirement Plan in order to provide the best possible retirement program for the KBOR employees. Additional information about the funds was provided directly to Deloitte Consulting.

- A. *PIMCO Real Return-A (PRTNX)* – new fund addition in the Inflation Protection Bond area, which currently does have an ING fund option.
- B. *PAX World Balanced (PAXWX)* - new fund addition in the Socially Responsible Investing area, which currently does not have an ING fund option.
- C. *ING Global Real Estate-A (IGLAX)* – this fund would replace the ING Real Estate Fund and has the ability of investing in both the domestic and international real estate market. ING believes this gives investors better access to real estate opportunities in the global environment. With an inception date of 11/5/2001, ING did not believe it had a sufficient enough history to present to the RPC during the initial review back in May 2006.
- D. *Allianz NFJ Small Cap Value-A (PCVAX)* – this fund would replace the Lord Abbett Small Cap Blend Fund which has had significant style creep since the fund was first suggested and is now categorized as a small growth fund and as such no longer meets the small value category criteria. The Allianz NFJ Small Cap Value Fund has been a closed fund for several years but has recently been re-opened to new investors. This fund has done a better job staying pure to the small value style and as such is being suggested to KBOR as a replacement for the Lord Abbett Small Cap Blend Fund.
- E. *ING FMR Diversified Mid Cap-Service (IFDSX)* – this fund would replace the ING AllianceBernstein Mid Cap Growth Portfolio. ING FMR Diversified Mid Cap Portfolio, which is managed by Fidelity Management Research, has maintained a more consistent risk/reward profile then the ING AllianceBernstein Mid Cap Growth Portfolio and ING believe it would be a better investment option for the KBOR Retirement Plan.

The RPC discussed whether these funds are designed to meet an asset class that is not presently available for ING participants, whether comparable product lineups should be offered, whether there are too many funds that the Plan is oversaturated and results in too many choices that make the Plan too confusing to participants.

Deloitte Consulting screened each of the investment options against the Kansas Board of Regents Mandatory Retirement Plan Investment Policy Statement to determine whether they met the minimum requirements for possible consideration. It was determined that each of the funds met those requirements. Based on further evaluation of the funds, Brad Tollander made the following recommendations to the RPC based on the information available during the analysis.

Brad recommended that the RPC should consider:

- A. Adding the *PIMCO Real Return-A fund* to the plan because it has demonstrated strong trailing, rolling and risk-adjusted performance results over the past several years; TIAA-CREF participants currently have access to a Treasury Inflation Protected Securities (TIPS fund) while ING participants do not; and TIPS are unique to other bond offerings since their coupon payments and underlying principal are automatically increased to compensate for inflation as measured by the consumer price index.
- B. Adding the *PAX World Balanced fund* to the plan as it has demonstrated strong trailing, rolling and risk-adjusted performance relative to the benchmark and median peer group manager and TIAA-CREF participants currently have access to a socially responsible investment option while ING participants do not.
- C. Not adding the *ING Global Real Estate–A fund* even though it has sound long-term performance, there is a fair amount of uncertainty in both domestic and foreign markets that the current fund should not be replaced at this time.

- D. Not adding the *Allianz NFJ Small Cap Value–A fund* as a replacement for the current Lord Abbett Small Cap Blend fund. Deloitte believes the current fund has been improperly categorized by ING, as it is a small cap blend and not a small cap value offering. Given this, Deloitte recommends that the RPC not consider replacing the fund at this time assuming it is categorized as a small cap blend offering.
- E. Not adding the *ING FMR Diversified Mid Cap-Service fund* as a replacement for the current ING AllianceBernstein Mid Cap Growth fund which has had some recent performance difficulties. As the Investment Policy Statement looks at performance over a longer period of time, Deloitte recommends that the RPC should continue to monitor performance of the fund but not replace it at this time.

Based upon Brad’s recommendation, a motion was raised and approved to add the two new ING funds as they represent funds in asset classes that are not represented in the current ING fund line up, they are available in TIAA-CREF’s fund line-up, and they are two solidly performing funds. The RPC will recommend that the Board add the *PIMCO Real Return-A (PRTNX)* as a new fund addition in the Inflation Protection Bond area and the *PAX World Balanced (PAXWX)* as a new fund addition in the Socially Responsible Investing area.

Additionally, a motion was raised and approved to not add the other three funds proposed by ING at this time, as the RPC did not find significant reasons to replace the current funds.

Although ING states that the Lord Abbett Small cap value fund “has had significant style creep since the fund was first suggested and is now categorized as a small growth fund and as such no longer meets the small value category criteria,” Brad indicates that Deloitte Consulting has always had it categorized as a small blend fund and it is a strong performing fund when measured against its benchmark, the Russell 2000 Index (which is the benchmark also used by Lord Abbett).

ING proposed replacing the current Real Estate REIT fund with a Global Real Estate fund to offer broader global exposure to both domestic and foreign real estate. Dr. Ghosh expressed concern, shared by other RPC members, that if those emerging markets are beginning to “resemble a bubble” as was stated in the Economic and Market Review summary, then switching to global exposure may have a detrimental impact to investors. Brad also stated that he did not know whether the best benchmarks and peer groups were being used to capture correct information.

Although the three ING proposed fund replacements will not be recommended to the Board for approval, ING can resubmit proposed changes during the next annual cycle and those proposals will be considered.

TIAA-CREF’s proposed compliance solution

The final 403(b) regulations, generally effective January 1, 2009, require plan sponsors to have a higher level of involvement with and responsibility for their program than ever before. For example, plan documents need to be established and maintained, approving hardship withdrawals, loans and transfer of funds between plans as well as approving withdrawal requests. In November 2007 representatives from *planwithease.com*, ING’s wholly owned subsidiary, provided information and an on-line demonstration of how their services would meet the administration requirements. This third party administrator would receive data from each of the 403(b) vendors in the KBOR

Mandatory and Voluntary Plan (as delineated in the Information Sharing Agreement) and each campus would remit demographic and contribution data for Plan participants.

TIAA-CREF is designing a solution to help clients comply with the final 403(b) regulations also. Terry Bush, Michele Sexton and Madi Vannaman participated in a conference call with TIAA-CREF representatives to discuss their proposed compliance solution. That solution will be previewed with the TIAA-CREF Advisory Committee in early March, and then TIAA-CREF will be in a position to preview it for the RPC.

TIAA-CREF requested that any information they provided on their proposed solution be considered confidential and proprietary, as none of their competitors are aware of their plans at this point. Therefore, in order to inform the RPC and discuss the proposed solution, the RPC decided to conduct an Executive Session, called pursuant to K.S.A. 2007 Supp. 75-4319(b)(4). A motion was made and seconded to adjourn into executive session: to protect trade secrets and to reconvene the RPC at 2:30 pm. The motion was unanimously passed. Included in the executive session were Theresa Bush, Madi Vannaman, Scott Cole and Brad Tollender, because these individuals assisted the RPC in the discussion. The RPC went into executive session and reconvened back into open session at 2:30pm.

The RPC will extend an invitation to TIAA-CREF to present information about their compliance solution at the next RPC meeting. ING will also be invited to attend that meeting so that they can respond to any questions or concerns raised.

Scott Cole, Deloitte Consulting, informed the RPC of IRS procedures that will address some compliance concerns and indicated that he will provide the RPC with a copy of the written IRS revenue procedure, published in late 2007, that addresses Information Sharing Agreements and vendor determinations. As needed, the RPC will call upon Deloitte to provide assistance with 403(b) compliance issues, as part of the KBOR contract.

Other Matters

A. TIAA-CREF Advisory Council appointment – Madi Vannaman informed the RPC that Michele Sexton has been invited to be the KBOR representative on TIAA-CREF's advisory council which has 30 representatives drawn from various institutional clients in higher education, research and hospital markets. Her first council meeting is scheduled for March 2008.

B. RPC membership – terms for four members expire this year. COPs approved the recommendation from COBO three individuals be continued for an additional term: Lindy Eakin (COBO representative from KU); Gary Leitnaker (Regents HR Director from KSU); and Rick Robards (Regents HR Director from KUMC). COPs also approved Dr. Ed Hammond's reappointment as their representative on the Committee. Recommendations will be taken to the Board in the spring to re-appoint these RPC members to complete the remaining two years of their second terms.

C. We have received Ice Miller's draft documents for the KBOR Mandatory and Voluntary Retirement Plans. Michele Sexton, Terry Bush and Madi Vannaman have been reviewing the documents and will schedule a conference call to review questions and concerns with

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Ice Miller. After the draft documents are further revised, they will be presented to the RPC for review.

Next RPC meeting:

The next RPC meeting is scheduled for Tuesday, March 11, 2008, at 2:00 in the Board's Conference Room. TIAA-CREF will present information about their proposal to provide administration services to plan sponsors to assist in addressing the requirements of the IRS 403(b) regs. Representatives from ING and PlanWithEase.com will also be present to address any questions or concerns about their proposed plan.