

KANSAS BOARD OF REGENTS
Retirement Plan Committee
MINUTES
September 14, 2010

The September 14, 2010, meeting of the Kansas Board of Regents Retirement Plan Committee was called to order by Regent Lykins at 12:30 p.m. The meeting was held in Board offices at the Curtis State Office Building, 1000 S.W. Jackson, Suite 520, Topeka.

Members Participating:

Regent Dan Lykins, Chair	Regent Jerry Boettcher
Mike Barnett, FHSU	Dr. Dipak Ghosh, ESU
Dr. Rick LeCompte, WSU	Gary Leitnaker, KSU
Rick Robards, KUMC	Madi Vannaman, KBOR

Participating by telephone were Theresa Gordzica, KU, and Michele Sexton, PSU. President Hammond, FHSU, was unable to attend because of scheduling conflicts. Also present were Deloitte Consulting's Brad Tollander; ING's John O'Brien, Regional Director and Cindy Delfelder, Client Relations Manager; TIAA-CREF's Chris Godwin, Director, Institutional Relationships; Nicolette Dixon, Managing Consultant, Institutional Relationships; and Adam Polacek, Director, Client Portfolio Management; and Theresa Schwartz, KBOR's associate general counsel.

Minutes

Regent Lykins moved to adopt the February 16, 2010, and July 28, 2010, minutes. Following the second of Dr. Ghosh, the motion carried.

Deloitte's semi-annual review through June 30, 2010

After recapping the economic and market review information, Brad Tollander highlighted information about ING and TIAA-CREF.

Total investment expenses for ING drifted up slightly from 71 basis points to 73, with total fee expense, which includes current and legacy fund lineups, at 88 basis points. Participants make their own decisions about whether the stay in legacy funds with the additional asset based charges. Mr. Tollander stated there are no concerns with the overall expenses.

Total asset based fees for Lincoln National was 80 basis points and for Security Benefit 1.06%. TIAA-CREF's assets dropped from \$1.91 billion to \$1.87 billion but fees have moved downward to 48 basis points.

Although the semi-annual request for information was made six weeks ago, Mr. Tollander indicated that Security Benefit Group was unable to provide updated statement of assets information and therefore that information is as of December 31, 2009.

Several RPC members expressed concerns about the lack of responsiveness by Security Benefit Group in addition to the higher fund expenses for Security Benefit Group and Lincoln National funds. In spring 2008, a letter was sent to participants who had KBOR contract balances with Security Benefit Group and Lincoln National to ensure they were informed about the fund expenses. The RPC requested that staff create and mail another letter to those with remaining KBOR contract balances with those two investment companies.

Brad Tollander reviewed the funds designated with yellow or red:

I. ING

- A. Intermediate Term Bond – The fund has responded to the new management team with an uptick in performance. It will take a while to whittle away at the 3 and 5 year performance but this fund should be held onto.
- B. PAX World Balance – This fund had been designated as yellow and is now red. The management team and philosophy remain the same. Mr. Tollander recommends holding onto the fund and reviewing it after the 4th quarter results are in, when ING may want to consider bringing a different fund to the table. John O'Brien, ING, noted that this fund is a balanced/socially responsible fund and if it is replaced, two funds may be recommended.
- C. American Century Equity Growth – This fund continues to be designated yellow. This fund, over the long term, will continue to do well and performs right in line with S&P 500 and is making its way back so far this year.
- D. American Funds Growth Fund of America – This fund is a very large fund and it has pretty respectable risk adjusted returns. It will not shoot “lights out” in the future, but will be a median player.
- E. Columbia Mid Cap Value – This fund has had the same manager since 2001 and has a tendency to remain fully invested. In 2009 the fund rebounded and has potential for strong growth. Once the fund goes through its cyclical pattern, this fund should rebound so the recommendation is to hang onto the fund.
- F. Lord Abbott Small Cap Blend– This fund also has had a long tenured manager since 2001, and had excellent years from 2002 to 2008 and although it under performed last year, in the long run the fund will perform well. There is also a second alternative in this fund class if participants wish to use the Vanguard Small Cap Index fund instead.
- G. ING Oppenheimer Global – This fund's performance has improved and it was a close decision whether to rate it as yellow or green. The fund still has to be consistent in rolling results, but is heading that direction.

II. TIAA-CREF

- A. TIAA-CREF Stable Value Return – There are no concerns with this fund; it is an average performer but provides participants more flexibility for participant-initiated transactions which is available at a cost.
- B. CREF Bond Market – There are no concerns with this fund as it is a good, solid, core bond fund.
- C. American Funds Growth Fund of American – This same fund is found in the ING lineup, but this is a less expensive share class, but the same assessment applies.
- D. TIAA-CREF Mid Cap Value– This fund underperformed about 10% for the year. It has the same management team that runs the Large Cap Value strategy which held up well, and as the cycle runs, the Mid Cap Value fund should be fine.
- E. CREF Global Equities – This fund is a little more conservative with no emerging market exposure.
- F. TIAA Real Estate – Although assets in this account are \$8.5 billion, which reflects a drop from \$13-\$14 billion at its peak a few years ago, its liquidity position has improved and there are positive flows into the fund now. As discussed at prior RPC meetings, Deloitte struggled and was unable to find an appropriate peer group for this fund.

Adam Polacek provided the RPC with additional information about the unique TIAA Real Estate product, how its properties are valued quarterly instead of annually, its diversification geographically and by sector and the two layers of liquidity. Mr. Polacek shared how TIAA

requested the National Council of Investment Real Estate Fiduciaries (NCREIF) to compare its valuation methodologies against that used by TIAA and how the NCREIF results were different and resulted in more positive numbers than the TIAA numbers. The TIAA composite index has three components, which broadly represent what is done with the product: 75% NCRIF, 20% cash/liquid securities and 5% in REITS.

Mr. Polacek stated that although commercial real estate fundamentals are still weak, TIAA is starting to see the emergence from the bottom of the real estate market, with valuations beginning to moderate late in 2009 and improvements in valuations starting to be reflected in the Account's value in March/April of this year (2010). The TIAA portfolio is now growing, up about 7-8% since March. This improvement does not reflect a universal turnaround in values across the board in commercial markets, but can be seen with the right properties in the right markets as there is a lot of institutional money looking to find yield. Washington DC, mid-town Manhattan, and San Francisco are a few local markets that have received a great deal of institutional interest of late. The Deloitte rank for this fund was 100 for the past 12 months and for the last quarter it is 1st. While this is still a comparison of apples and oranges (directly-owned real estate vs. REITS), it is one data point that may indicate that directly-owned real estate is poised for a rebound as compared to REITS.

Roth 403(b) Update

The RPC was provided with an update about the work on the KBOR Voluntary Retirement Plan document being done to reflect the addition of an after-tax Roth 403(b) option.

Staff recommended that the same provisions utilized for the KBOR Voluntary Retirement Plan pre-tax option be utilized for the Roth 403(b) option for the following:

A. Choice of investment company. Under the current Voluntary Plan provisions for pre-tax contributions, a participant can elect only one 403(b) investment company and can make a change in company selection once per calendar year. For the Roth 403(b) option, staff recommends that the same provision be utilized.

Gary Leitnaker moved to allow KBOR Voluntary Retirement Plan participants to select one company for pre-tax contributions and a different company for Roth contributions and to allow change to one or both of those company selections once per calendar year. Following a second by Regent Lykins, the motion carried unanimously.

B. Loans and hardship withdrawals. Under the current Voluntary Plan provisions, loans and hardship withdrawals are permitted, subject to the investment company rules. For the Roth option, staff recommends that the same provisions be utilized, allowing a participant to apply for a loan and/or hardship withdrawal, subject to the investment company's rules.

Cindy Delfelder, ING, and Nicolette Dixon, TIAA-CREF, stated that for loans, their companies would look at the entire account balance including pre-tax and Roth contributions to determine the maximum loan amount available, but the loan would only come from pre-tax fund balances. It was explained that if a participant takes a loan on the Roth accumulation and defaults when they have not met the 5-year seasoning rule, there are very strict penalties and neither company is confident that the IRS has clearly identified default loan provisions. Therefore, if a participant has only Roth funds, no loan would be available. Staff is uncertain how the other approved KBOR investment companies will handle loans.

The RPC discussed whether loan defaults were problematic under the plan. Cindy Delfelder shared that under the state of Kansas 457 Deferred Compensation plan the number of defaults greatly decreased once the feature to add payroll deduction for repayment was added. Regent Lykins requested a report from the investment companies about the number of defaults under the KBOR Voluntary Retirement Plan as well as examples of the types of information provided to participants who request loans.

Mike Barnett moved that KBOR Voluntary Retirement Plan participants, with pre-tax and/or Roth contributions, can apply for a loan subject to the investment company's rules. Following a second by Dr. Ghosh, the motion carried with one dissent by Rick Robards.

Cindy Delfelder stated that ING would allow hardship withdrawals from Roth accounts but would recommend not including it to reduce complexity in the plan. Nicolette Dixon stated that TIAA-CREF offers hardship withdrawals for the Roth but would caution participants to be careful in using their Roth accumulation for hardships because of the five-year seasoning rule. Additionally, Nicolette stated that TIAA-CREF gives the participant the option to include or exclude Roth accumulations from the hardship withdrawal transaction.

Mike Barnett moved that KBOR Voluntary Retirement Plan participants, with pre-tax and/or Roth contributions, be allowed to apply for a hardship withdrawal subject to the investment company's rules. Following a second by Dr. Ghosh, the motion carried unanimously.

Other Items

1. Brad Tollander provided an update about Deloitte Investment Advisors (DIA) which was sold to Aspiriant which handles high wealth individuals and does not have institutional experience. Mr. Tollander elected not to go over with DIA to Aspiriant and has accepted a position with Advanced Capital Group where he will continue to provide institutional investment counseling. DIA has asked Mr. Tollander to stay on until October 22, 2010.

The RPC expressed its appreciation to Brad for his guidance and expertise during the five years of the Deloitte contract with KBOR, as the RPC embarked its new journey of plan administration and oversight.

Next RPC meeting:

The next RPC meeting will be scheduled for 12:30 p.m. on the Tuesday, February 15, 2011, the Tuesday afternoon prior to the Board's meeting.