NEVADA PUBLIC EMPLOYEES' DEFERRED COMPENSATION COMMITTEE

Wednesday, January 30, 2013

The special meeting of the Deferred Compensation Committee was held on Wednesday, January 30, 2013 at 8:00 a.m. in the Commission Meeting room of the Paul Laxalt Building, 401 N. Carson St., Carson City, Nevada.

A copy of this set of meeting minutes, including the agenda, the audio recording and other substantive exhibits, is available on the Nevada Deferred Compensation (NDC) website at: http://defcomp.state.nv.us/NDC_MinutesMeetings.htm.

BOARD MEMBERS
Brian Davie
Karen Oliver
Steve Woodbury
Carlos Romo, Vice Chair
Scott Sisco, Chair

OTHERS PRESENT:
Bill Abramowicz, MassMutual
Lyra Ambrose, ING (by phone)
Jim Barnes, CR Zeh Law
Bishop Bastien, ING
Shane Chesney, Senior Deputy Attorney General
Reba Coombs, NDC Program Coordinator
Kent Ervin, UNR
Michael Hackett, MassMutual
Dianna Hennessey, ING (by phone)
Jake Honea, MassMutual
Brian Merrick, ING
Frank Picarelli, Segal Rogerscasey
Micah Salerno, NDC Admin Assistant
Todd Theroux, MassMutual
Robert Trenerry, MassMutual
Bill Tugaw, SST Benefits (by phone)
Jon Upham, SageView Advisory Group (by phone)

Tom Verducci, Great-West
Steve Watson
Eric Wietsma, MassMutual
Gordie Weightman, Callan Associates (by phone)

1. Call to Order/Roll Call

Chairman Scott Sisco called the special meeting to order at 8:02 a.m. Ms. Reba Coombs took roll and determined a quorum was present and confirmed the meeting was properly noticed.

2. Public Comment

Dr. Kent Ervin with UNR commented on agenda item 4 regarding the proposal to raise fees on Vanguard funds with ING. He also questioned if the reimbursements for participants with The Hartford would be based on variable assets rather than entire assets including the General Account.

3. For Possible Action – Discussion, evaluation, and possible selection of investment consultant pursuant to a Request for Proposal issued November 30, 2012 and/or direction to staff.

Chair Sisco suggested each Committee member share their evaluations and selection of finalists to the investment consultant Request for Proposal (RFP). After each member had the opportunity to share their evaluation criteria, a decision could be made if a follow-up meeting would be needed for finalist presentations or if they could proceed with putting a contract together to be approved at the February quarterly meeting.

Chair Sisco explained the process he used to evaluate the RFPs and noted he felt three clearly rose to the top. Out of the top three, he took a secondary look paying attention to any conditions on the fiduciary statement, the section on contracting requirements, and the cost involved for services. Based on those his top choice was Segal Rogerscasey, second was Mercer and Callan was third.

Ms. Oliver reviewed all eight of the RFPs looking at experience, investment structure, and fees. Segal Rogerscasey was her first choice, second was Mercer and third was Callan. She felt the Segal RFP was very well done and was complete with a lot of examples. It was customized and developed for the Nevada state plan and Segal had recently brought on more resources to enhance their company. Their reports were simple and easy to follow and she believed Segal could lead the Committee through a good provider RFP process.

Vice Chair Romo noted he assigned a numerical scoring system to the seven categories staff provided to be used for evaluating each RFP and reached a total possible point value of 85. He read through the eight RFPs and said he appreciated the detail provided. Segal Rogerscasey received his highest score of 81 points, second with 78 points was Mercer, and third was a tie with 74 points between Callan and Wilshire. He felt the experience Segal and Mercer had with Nevada was beneficial and their fees were competitive and affordable.

Mr. Davie used the evaluation guide provided by Ms. Coombs and assigned percentages to the seven categories. Based on scoring, his top three choices were Segal Rogerscasey first, Callan second, and Mercer third. He provided feedback on each of the eight RFPs:

- Callan – good experience in the business; he gave them credit for an academy graduate on staff; they did not have a lot of explanation on compliance and regulatory services; and did not provide a breakdown on fees. Their references were solid and they had experience with the state of Nevada which was a plus.

- Heintzberger|Payne – RFP very brief so he did not get a real feel for their business; the wording was vague on fiduciary responsibility; they did not provide enough information to provide any level of confidence in their ability. Their only plus was they had cheapest fee which was not an evidence of quality but the quality should have been shown elsewhere in the RFP.
- Mercer – very highly qualified; noted Eileen Quay was an outstanding investment consultant with a great amount of knowledge; second highest in fees; the quality of services was very obvious in their RFP response.
- RV Kuhns – a lot of exceptions; no tailoring to Nevada (as with several of the smaller companies); many recent additions to their company; acknowledged compliance service but no explanation of how it would be done; competitive pricing; did not see anything outstanding in personnel or services; references indicated a possible turnover concern; least informative of all the RFPs he reviewed.
- SST Benefits – credit for being brief but providing a lot of detail; national recognition for two clients; not much detail on client base; according to the RFP they recently expanded into the marketplace in the past few years; a plus was staff member Mindy Harris who was very knowledgeable in this field; fees were detailed but fairly expensive.
- SageView Advisory – good emphasis on fiduciary responsibility and investment policy statement; nothing specific to Nevada information or experience; not much explanation on their in-house compliance; lower fees, but the RFP made him wonder about the quality of their services.
- Segal – Nevada experience; good response on fiduciary responsibility; RPF was top notch and indicated a lot of experience (nine state plans); he took off a little because of flexibility problems in the past but had seen evidence of that improving in the last few months; dedicated compliance unit and he was used to working with Melanie Beth Walker; fees were competitive and references were solid.
- Wilshire – longest and wordiest RFP (volumes of material do not indicate quality); good explanation on fiduciary responsibility; provided some Nevada specific information; indicated having to outsource the compliance audit; varying degrees of experience with personnel; highest overall fee; he was bothered that the references had to be notified they would be contacted and still the references were not very responsive.

Mr. Woodbury appreciated the opportunity to go through the proposals and noted it was a good learning experience. He utilized a numerical scale and assigned points to each category provided on the evaluation guide. Based on his scoring, his top score went to Segal Rogerscasey and second place was a three way tie with Callan, Heintzberger|Payne and Mercer.

Chair Sisco questioned if the Committee felt an interview process would make a difference in making a decision. Since all Committee members were in agreement on their top choice they decided to go forward without a finalist presentation. Chair Sisco also asked if someone would volunteer to assist Ms. Coombs in putting the contract together.

Motion made by Mr. Brian Davie to award Segal Rogerscasey the two year investment consultant contract (with possible extension according to the RFP) and have Vice Chair Romo assist Ms. Coombs with getting the contract together. Motion seconded by Vice Chair Carlos Romo and passed unanimously.

Mr. Davie and Chair Sisco commented on letters received by Bidart & Ross a local investment consulting firm and reasons why they did not qualify to submit an RFP.

Mr. Woodbury noted the deadline for the March Board of Examiners meeting was February 5, 2013.

4. For Possible Action – Presentation and discussion of proposed investment management fees and revised revenue sharing requirements, evaluation of Plan revenue to Plan expenses and direction to investment consultant/staff.

Mr. Frank Picarelli with Segal Rogerscasey shared a presentation with the Committee on the fee expense ratio and revenue sharing for the Plan and looked at ways the fees could be enhanced to align with the contracts. Additionally, he looked at credit allowances to determine if there was excess money available to be allocated to participants.

Chair Sisco questioned whether the revenue sharing needing to be adjusted and asked where the shortfall came from.

Mr. Picarelli noted ING required 35 basis points (bps) according to the new contract. In 2012 there were some fund changes made which resulted in lower revenue being generated. The ING platform has been shorted by about 3 basis points.

Chair Sisco asked when funds were changed if those fees should be calculated so they did not have a shortage.

Mr. Bishop Bastien with ING noted that the May/June 2012 time period was in the midst of the RFP process with three possible outcomes for ING. They made a purposeful decision at that time to not bridge the gap to cover the shortage knowing there would have been a new fund lineup after the RFP outcome. Since the contract was extended they have the same funds and needed to bridge the gap for the missing funds. This issue was discussed during the contract extension negotiations and applied to the new contract from January 1, 2013 going forward.

Mr. Davie remarked this analysis should be done every year with the investment consultant to check to see if the Plan and the Providers were getting the correct amount of money.

Mr. Picarelli went over two options the Committee could consider to increase the total revenue sharing for ING back to 35 bps. The first option was to increase the "wrap" on all Vanguard funds (through ING) from 19 bps to 25 bps, resulting in a net increase of 6bps. The second option was to utilize a portion of ING's annual credit allowance of $90,000 to fund the approximate $32,000 shortfall.

Mr. Davie asked for clarification on the term "wrap" because he understood a "wrap" was to provide insurance on a fund.

Mr. Picarelli stated it was referring to taking the expense ratio and adding on an administrative fee. It is not an insurance wrap but an administration fee.

Mr. Picarelli commented the second option was simpler and had no change to the program. He recommended they have both Providers run revenue sharing calculations on a quarterly basis to monitor for any significant changes.

Mr. Davie asked to hear from ING regarding their impression of the options.

Mr. Bastien stated they had discussed the options with Mr. Picarelli and were fine with either one. Mr. Picarelli addressed the MassMutual contract noting that MassMutual had reduced their variable revenue sharing from 18 bps to 11 bps with the contract extension.

Chair Sisco commented on the fees charged and that all participants should be charged their fair share. If they were overcharged, then the excess money should go back to the people who paid in the first place.

Mr. Picarelli provided some comments about the General Account. A lengthy discussion ensued between the Committee and Mr. Picarelli regarding the General Account.

Chair Sisco suggested they add the annuity/wrap issue that was proposed for the General Account in the past to the February meeting.

Mr. Todd Theroux from MassMutual commented how funds had been returned to participants in the past. He noted it was always difficult to be fair on providing reimbursements because the fees on all funds were varied.

Mr. Picarelli presented two options for dealing with the excess funds with MassMutual. The first option would be to take advantage of the contract adjustment by reducing the expense ratios on five of the actively managed funds. The second option would be to leave the variable funds alone and take the excess revenue of 7 bps and allocate those funds back to the participant at the end of 2013 and 2014.

Motion made by Vice Chair Carlos Romo to select option 2 for ING which was to keep the current management fees and share classes in place for the next two years and to utilize a portion of ING's annual credit allowance of $90,000 to fund a revenue sharing shortfall below the 35 bps revenue contract requirement and not adversely affect the participants in the Plan as a result of the contract extension. The motion was seconded by Mr. Brian Davie, and the motion carried unanimously.

Motion made by Mr. Brian Davie was to implement the revised pricing requirements of MassMutual two year contract extension and to take advantage of the contract adjustment by reducing the Mass Mutual' s required revenue on variable funds from the current 18 bps to 11 bps per the two-year contract extension. This results in the elimination of the 15 bps administration fee on the Vanguard Target Date Funds and the following variable funds, Invesco Equity and Income, American Beacon Large Cap Value, Neuberger Berman Social Responsive, Munder Mod Cap Core, Mutual Global Discovery. In addition the SSgA US Bond Market Fund is to be moved to a potential lower management fee based on Mass Mutual final research, seconded by Vice Chair Carlos Romo. Motion passed unanimously.

Mr. Picarelli stated the Program received $437,000 as their share from The Hartford in 2012 for expenses. After analyzing the bills, payments, and accounts there was a surplus of $147,000 to allocate to participants.

Chair Sisco questioned if there were any funds leftover from ING.

Mr. Picarelli remarked that ING made three payments in 2012 leaving a balance of $31,000 which should not be refunded but be used for the shortage going into 2013.

Motion made by Vice Chair Carlos Romo to instruct MassMutual to provide a timeline on reallocating the $147,949.95, seconded by Mr. Brian Davie. Motion passed unanimously.

Comments/Updates

5. Committee Members

No comment.

6. Staff Updates

Ms. Coombs noted she had been asked by the Department of Human Resources to serve on a committee to review catastrophic leave issues, but such duties would not adversely impact her obligation to the Committee.

7. Public Comment

Mr. Bill Abramowicz with MassMutual provided comments on the sale of The Hartford being official and introduced Eric Wietsma.

Mr. Eric Wietsma addressed the Committee sharing information about MassMutual.

Dr. Ervin thanked the Committee for looking at the fees and recognizing they might not be equitable. He believed the motion to not refund the excess money from ING for 2012 was not quite equitable but acknowledged it was a small amount.

8. Adjournment

Motion made by Vice Chair Carlos Romo to adjourn the meeting, seconded by Mr. Steve Woodbury. Motion carried unanimously.

The meeting was adjourned at 10:13 a.m.

Respectfully Submitted,

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Micah Salerno
Administrative Assistant