

**NDPERS INVESTMENT SUBCOMMITTEE
MINUTES
Tuesday, November 15, 2022
8:30 A.M.**

Board Members Present via Teams: Chairperson Adam Miller
Claire Ness
Mona Rindy

Board Members Absent: Representative Pamela Anderson
Yvonne Smith

Staff Present: Scott Miller
Derrick Hohbein
Rebecca Fricke
MaryJo Anderson
Katheryne Korom

Others Present: Alex Browning, Craig Chaikin, Perry Hopper, Ben Taylor - Callan
Scott Anderson - RIO
Melissa Thorpe, Benny Goodman - TIAA

Minutes

Chairperson Adam Miller called the meeting to order at 8:31 A.M. A quorum was present.

I. Minutes – Tuesday, August 23, 2022

Chairperson Miller called for questions or comments regarding the minutes of August 23, 2022.

Claire Ness moved to approve the minutes of the August 23, 2022 Investment Subcommittee meeting. The motion was seconded by Mona Rindy and carried by voice vote. The minutes were approved.

II. DB Plans Performance Q3 Update – RIO

Scott Anderson gave an investment update on the PERS DB plans as of 9/30/22. Equity returns are down sharply with the S&P 500 down 23.9% YTD. The annual inflation rate for September 2021 to September 2022 is +8.2% as measured by the CPI. There is a lot of volatility and the treasury market is less liquid. The year-to-date total PERS fund return of -15.0% less the policy benchmark return of -15.2% results in a total relative return of 0.2%. The PERS plan asset allocation is very diversified and has done a good job of rebalancing back to target. The SIB approved a new equity portfolio during the May 2022 SIB meeting. The transition to the new equity portfolio is 99% complete. The last step is to finalize and conduct post trade review with the transition manager.

III. Market Update & Performance – Callan

Craig Chaikin presented a market update. After declining 0.6% in Q2, real U.S. GDP bounced back in the third quarter with an annualized growth rate of 2.6%, according to the advance estimate. Headline inflation remained elevated in September, climbing 8.2% year-over-year. The Federal Reserve made its third consecutive 75 basis point rate hike on September 21st (to a target range of 3.00-3.25%). The Fed made an additional .75% hike on 11/2/22. The labor market continues to be a source of strength with unemployment remaining at 3.5% in September. Equity and fixed income markets both fell again in 3Q22. Negative returns for stocks and bonds at the same time for three quarters are extremely unusual and challenging market conditions persist.

A performance overview was presented by Perry Hopper. Perry reviewed performance for the 457 and 401(a) plans. Assets for the 457 plan have declined from \$186.6 million as of September 30, 2021 to \$161.3 million as of September 30, 2022. Investment loss during this time period was \$34.1 million and net new investment was approximately \$8.9 million. For the 401(a) plan, investments dropped during the prior year from \$19.3 to \$16.1 million. Investment loss was \$3.8 million and net new investment was \$574,013. U.S. equity active manager performance was reviewed. Allspring Growth and Templeton Global Bond remain on the watch list.

IV. Plan Review – TIAA

Melissa Thorpe with TIAA presented the 3Q2022 plan review. Overall, there are 9,488 plan participants with total assets of approximately \$177.4 million. For the quarter, participant count is down by 100, distributions are down over \$700,000, and contributions remain steady at approximately \$18 million. Increase in enrollments this quarter may be due to new employees starting the schools and universities. The majority of participants are in the 35 – 55 age range. The female segment continues to utilize target funds at a higher rate, while the male demographic has a higher utilization of equities. Over 100 participants with a termination date on file and an account balance under \$1,000 were closed out in September. Melissa reviewed assets and contributions by investment.

V. Revenue Shortfall – TIAA

Derrick Hohbein presented information on the revenue shortfall with TIAA. For the 401(a) plan, the revenue shortfall is \$1100.76 for the first half of 2022. TIAA has indicated this amount is below their threshold, and the fee will be waived due to the minimal value of the shortfall. The 457 plan has a revenue shortfall of \$12,104.41 for the first half of 2022 that will need to be paid to TIAA. Previously, the Investment Subcommittee recommended to the Board that a 457 revenue shortfall be covered by pulling funds equally from each participating member's account. Staff advises this methodology be used again and that the Subcommittee recommend to the full Board that a policy be adopted to implement this same methodology for all future revenue shortfalls. Derrick also stated that during the next Recordkeeper search, changes in the investment structure may need to be implemented in order to minimize the number of funds that are offered to participants and decrease revenue shortfalls that are occurring with the current investment mix. Discussion took place.

A motion was made by Mona Rindy to pull the \$12,104.41 equally from each participant's account and that the Board adopt a policy to utilize the same methodology in the future. The motion was seconded by Claire Ness.

Ayes: Claire Ness, Mona Rindy, Chairperson Adam Miller

Nays: None

Absent: Representative Pamela Anderson, Yvonne Smith

VI. Investment Structure – Callan

- i. Equity Analysis**
- ii. Annuity Options**

Scott Miller discussed proposed legislation to close the Defined Benefit plan and have all new employees enroll in a Defined Contribution plan.

Ben Taylor presented information on how annuities are and are not integrated into target date funds in the current market environment, clarifying that they are very rarely incorporated into target date funds. Ben reviewed several retirement income products and associated taxonomy. Discussion took place.

The subcommittee took a brief break from 10:50 A.M. to 11:00 A.M.

Alex Browning gave an overview of the NDPERS DC plans' current investment structure and recommended changes. There are currently 26 investment options available, five are fixed income options and two are capital preservation. Changes to the equity component of the investment structure will simplify passive equity options into two choices including one for U.S. Large-Cap and one for Non-U.S., strategically curtail U.S. Small-Cap options to active management, and allow participants to easily construct a passive portfolio of U.S. or global equities while also giving participants the ability to take on active risk in those areas where active management has historically experienced success. The primary goal of the alternate structure is to simplify the lineup and to avoid asset class gaps and overlap. The number of fixed income and capital preservation options would be reduced from seven to four, alleviating decision fatigue and the impact of naïve diversification. The new structure provides an active/passive mirror for fixed income allowing participants to invest in the low fee, passive option and to take active risk in fixed income via a diversified, core plus option. The new structure also maintains the choice between money market and stable value options. Discussion took place.

VII. Recordkeeper Search – Callan

Alex Browning reviewed information regarding the Recordkeeper Search and associated RFP. Scott Miller stated the Recordkeeper RFP process will be started in 2023 for an effective date of July 1, 2024. The Callan consulting proposal for the next Recordkeeper RFP will be reviewed at the February, 2023 subcommittee meeting.

VIII. DB Investment Policies – NDPERS

Derrick Hohbein presented proposed updates to both the Statement of Investment Goals, Objectives and Policies for the North Dakota Public Employees Retirement System and the

NDPERS Group Insurance Account Investment Objectives and Policy Guidelines. Discussion took place.

A motion was made by Chairperson Adam Miller to recommend to the Board that both the updated Statement of Investment Goals, Objectives and Policies for the North Dakota Public Employees Retirement System and the NDPERS Group Insurance Account Investment Objectives and Policy Guidelines be approved. The motion was seconded by Claire Ness.

Ayes: Claire Ness, Mona Rindy, Chairperson Adam Miller

Nays: None

Absent: Representative Pamela Anderson, Yvonne Smith

IX. Other Business

Katheryne Korom presented 457 Plan Participation by Age Band data. The overall plan participation for all eligible members is 42.6%.

Katheryne Korom proposed 2023 committee meeting dates of February 28, May 30, August 29, and November 28.

Claire Ness moved to approve the proposed 2023 meeting dates. The motion was seconded by Mona Rindy and unanimously approved by the subcommittee.

Ayes: Claire Ness, Mona Rindy, Chairperson Adam Miller

Nays: None

Absent: Representative Pamela Anderson, Yvonne Smith

The next meeting will be on February 21, 2023.

The subcommittee adjourned at 11:34 A.M.