DEFINED CONTRIBUTION RETIREMENT (DCR) ADVISORY COMMITTEE MEETING MINUTES OF May 10, 2011

Present: Deb Holstad, Janet Tauer, Jeanne Cornish, Shawn Bjerke, Barbara Prince, Roger Severns, Eileen Finnegan (TIAA-CREF), Paul Hovelsrud (TIAA-CREF), Bill Thorne (TIAA-CREF), Jeanne Chase (TIAA-CREF), Dean Tener (TIAA-CREF), Marcel Carter (TIAA-CREF), Craig Chaikin (SegalAdvisors), and Gary Janikowski

Introductions and Committee Member Terms. Gary reviewed the term expiration years for the committee. We currently have the following terms that are set to expire in 2011: unclassified MMA representative, MSUAASF representative, and HR representative. All three incumbents who represent these groups are interested in reappointment to the committee for an additional two years. Additionally, Gary will contact MAPE to determine if they would like to appoint an unclassified representative. Gary also indicated that Colin Doughterty of the Office of the Chancellor accepted a two year appointment to the committee. Colin will represent participants in the Administrators' Plan.

Quarterly Investment Analysis. Craig Chaikin of Segal Advisors, Inc. reviewed the 1st quarter, 2011 Analysis of Investment performance report. With regard to the economy overall, the first quarter looks a lot like the previous quarter: the S&P is up 6%, earnings continue to be strong, and consumer confidence is up. Inflation is still low, at 1 ½ %, but food and gas prices continue to be pricier. Unemployment ended up at 8.8% for the quarter. Normal levels of unemployment are 4 ½% - 5%. With unemployment still at these high levels, it will take about 5-6 years to recover to normal levels. Potential concerns include sovereign debt spreads and concern about their ability to pay their debts. Emerging economies have a higher level of inflation, at about 4%, and there is high demand for food and energy in those economies so they are driving up costs globally. Another concern is the potential issues that may surface due to the tsunami in Japan and its impact on its economy.

With regard to the plan, total assets are at $1.3 billion, with most of the growth in the quarter due to investment gains. It is interesting to note the high contribution and transfer rates into the TIAA product across all plans, even though economic conditions have improved. It is possibly due to the higher numbers of participants who are moving toward retirement.

Since the Plan will be migrating to a new fund lineup in July, there isn't much to highlight on the watch-listed funds. The *Dodge & Cox Balanced* fund outperformed its policy index during the quarter, but underperformed over the one, three, and five year time periods. Returns from holdings in Financials and the Consumer Discretionary area were the most impactful. On the fixed income side, there was an overweight and selection in Corporate which added to relative returns in addition to the holdings in taxable municipal bonds.

The *Legg Mason Value* fund again trailed the S&P 500 during the first quarter. The Fund trailed both benchmark and peer medians over all time periods analyzed. Underperformance was driven mainly by security selection and sector allocation. The fund's overweight in Financials and IT and underweight in Industrials hurt performance for the quarter.

The *Vanguard Strategic Equity Fund* also continues on the watch-list. During the first quarter, the fund beat its indices. With the exception of the one year median, the Fund underperformed both metrics over all time period analyzed. Positive performance during the first quarter was almost entirely the result of good stock selection, especially in Industrials and Materials

All three funds—the *Dodge & Cox Balanced, Legg Mason Value,* and *Vanguard Strategic Equity*—will not be included in the new fund array that will be rolled out in July.

Updates.
Rollout of new fund platform: Jeanne Chase of TIAA-CREF reviewed the schedule for planned communications for the new fund line-up. A general announcement letter recently went out to all participants. In late May, System Retirement Administrators will be trained; there will be a newsletter/web-correspondence in early June, along with a transition brochure and a series of financial education webinars. By the middle of July, TIAA will post an online presentation with voiceover on the micro-site for participants who could not make it live webinars. Onsite, in-person meetings will be conducted once the faculty return in the fall, along with follow-up email and other reminder mailings. In addition, there will be a message added to the quarterly statements that come out in early October reminding participants of changes. Bill Thorne will try to work with Russ Stanton of the IFO to time TIAA individual consultant meetings at the State Universities. We will work with MSCF statewide officers to determine how to best market to faculty at the two-year colleges.

Fund fees/mapping strategy: Gary indicated that we needed to change the share class for two of the new funds in the line-up. PIMCO Total Return Admiral and American Funds EuroPacific Growth were both changed to reflect share classes that will provide revenue sharing (25 basis points and 35 basis points respectively) in order to cover partial salary costs for a centrally funded retirement plan "coding auditor" position who will assist our 32 campuses with ensuring that correct codes are processed. This position should help save all of our campuses money due to missed, or incorrect, coding for IRAP and SRP. In FY09, campuses paid out $138,356 in fines (i.e., the employer had to fund the employer match, as well as the employee share, along with 8 ½% interest) due to improper coding. In FY 10, there were $191,799 in fines. By partially funding a centralized position to monitor and catch coding errors earlier, we hope to minimize such penalties in the future. The final fund mapping strategy was also presented. We will be mapping "like to like" fund types wherever possible. Where not possible, the money will map into the appropriate Vanguard Target fund.

Campus visit/call center updates: Bill Thorne provided a report that reflected the number of individual counseling days at each of our colleges/universities for 2009, 2010, and 2011 to-date. With transition to the new funds this year, campus visits will present a challenge. Paul Hovelsrud also provided metrics for the MnSCU call center for the last quarter. With the new fund rollout, we may want to re-visit some of the "call types" listed on the report (e.g., the number of participants who call to ask about the brokerage account).

Force outs of small accounts. As we did last year, we will be forcing out participants who have small account balances that are under $1,000 and who have been inactive since December 31, 2009. A list of approximately 1,200 such small accounts has been forwarded to the MnSCU HelpDesk for verification. Participants who are forced out will have the option of having a payment sent to them, or rolling the account over into an IRA. Additionally, IRAP participants who made the election to TRA and who are still active, will have their small accounts transferred to their SRP accounts as part of this process.

Webinars offered/upcoming webinars. Approximately 230 participants attended educational webinars during the academic year, with the most popular webinar being *Income Options & Distribution Options.* Additionally, a new webinar, *Charting Your Course, A Financial Guide for Women*, was also popular. We had better attendance this year because we tried different approaches to promotion of the webinars. Five webinars are planned for next fall semester.

Administrative Fee Financial Report/Budget. Lou Urban provided the update on the administrative fee budget. We have a projected surplus for FY11 in the amount of $36,825. Current reserves amount to $364,651. For next year's budget, we will have to account for the "lost participant" accounts that have now aged beyond five years. Paul Hovelsrud indicated that there is approximately $16,000 that has aged out. Additionally, we will have income from the Employer Reimbursement Account due to the revenue sharing described above.

How Annuities Work. Based on discussion at our prior meeting, Bill Thorne provided a mini-training session for the committee on *How Annuities Work (Standard vs. Graded, Fixed vs. Variable, etc.).*

Meeting Schedule for 2010-2011 academic year. Meetings have been scheduled for next academic year as follows:

- Tuesday, October 11, 2011
- Wednesday, February 15, 2012
- Thursday, April 26, 2012

All meetings will be held from 10:00 a.m. until approximately 2:00 p.m. at the Office of the Chancellor at Wells Fargo Place.