

NDPERS INVESTMENT SUBCOMMITTEE
MINUTES
Tuesday, August 23, 2022
8:30 A.M.

Board Members Present: Yvonne Smith
Adam Miller
Representative Pam Anderson
Mona Rindy

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

Others: Alex Browning, Paul Erlendson, Perry Hopper, Ben Taylor - Callan
Scott Anderson - RIO
Melissa Thorpe, Benny Goodman - TIAA
Jon Waite - SEI

Minutes

Adam Miller called the meeting to order at 8:30 A.M. Roll call was taken, and a quorum was present.

Chairperson Miller called for questions or comments regarding the minutes of May 24, 2022.

Yvonne Smith moved to approve the minutes of the May 24, 2022 Investment Subcommittee meeting. The motion was seconded by Rep. Anderson and carried by voice vote. The minutes were approved.

I. DB Plans Performance Q2 Update – RIO

Scott Anderson gave an investment update on the PERS DB plans as of 6/30/22. Large growth in GDP was experienced last year. Inflation is still uncertain, but may have peaked and has come down a bit. Given there is a very high level of employment and level of growth the Federal Reserve has begun to raise rates. Interest rates have changed from approximately 1.5% last year to a peak of about 3.3%. The market is now uncertain and we are in an inverted yield curve. In most situations like this we have seen recession. Due to the higher interest rates stocks have been given a lower price, but continue to have a reasonably good earnings growth estimate. The one year return as of today is -6%. Last year the one year return was 34%, which was an abnormally large return, versus a 11.92% last month, so there has been a significant recovery. The annual inflation rate for July 2021 thru July 2022 was 8.5%.

The PERS policy benchmark was -6.8% at the end of May. The Russell 1000 was at -13.7%. and the Bloomberg was at -8.9%. This indicates that the allocation, diversification and use of some illiquid assets has been very good for the returns of PERS. The year-to-date total fund return of -7.4% less the benchmark return of -6.8% results in a total relative return of -0.5%. The

one year total fund return of .2% minus the policy benchmark of 0.5% results in a total relative return of -0.3%.

II. Market Update & Performance – Callan

Alex Browning and Perry Hopper with Callan provided a market and performance update. GDP growth has been negative for two quarters in a row. Inflation remains elevated. The Federal Reserve made consecutive 0.75% rate hikes on June 15th and July 27th (the target range is now 2.25 – 2.50%), with more rate hikes planned in 2022. Both equity and fixed income markets fell in 2Q22. The S&P 500 dropped by 16.1% in 2Q22; all major U.S. indices across styles and market cap ranges were negative in the quarter. All sectors posted negative returns over the quarter. Large cap stocks nominally outpaced smaller cap stocks in the quarter. Rising interest rates and inflation along with geopolitical headlines all contributed to a volatile and risk-averse environment.

Half of the losses that occurred in the first two quarters have been regained, resulting in significant returns to the DB plan year to date. Markets have gone towards risk assets like stocks and bonds are about flat quarter to date. Year-to-date most of the asset classes are down 10%+. This highlights the importance, especially in the core lineup, of defined contribution plan participants being able to build a diversified portfolio, if they choose not to invest in the target date fund.

Perry Hopper reviewed performance for the 457 and 401(a) plans. Assets have declined approximately \$19 million from \$186.5 million as of June 30, 2021 to \$167.3 million as of June 30, 2022 for the 457 plan. Overall investment losses during the prior quarter are approximately \$2.3 million, dropping from \$19.6 million to \$16.7 million for the 401(a) plan. U.S. equity active manager performance was reviewed.

III. Plan Review – TIAA

Melissa Thorpe with TIAA presented the plan review and field activity report for this quarter. Overall, when looking at retirement readiness 95.2% of DC plan participants are in range or on track for retirement. The majority of distributions are for terminated employees. We don't see a lot of active employees withdrawing from the plan. TIAA participant count is up an additional 760 from this time last year. Engagement is strong with 1,109 individuals rebalancing their account in the last 12 months. Participant trends were reviewed. NDPERS participant base has remained relatively stable in terms of deferral and diversification. The subcommittee discussed participation within age bands. NDPERS staff will provide additional data on participation within age bands at the November meeting.

Currently, there are 385 inactive members with less than \$1,000 in their account and are on track to be swept from the account in September.

Scott Miller asked if there is data on the movement of money out that's going directly to the participants rather than being rolled over for the DC, 457 or both. Melissa stated she will submit a request for detailed distribution reporting.

Melissa reviewed asset and contribution allocations.

The subcommittee took a brief break from 9:55 A.M. to 10:01 A.M.

IV. Investment Structure – Callan

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

Alex Browning reviewed the menu of investment options, by asset category, offered to the NDPERS DC plans' participants. Callan recommends reducing the number of equity options from 15 to five. The general goal is to provide enough options that participants can build a diversified portfolio while reducing some of the redundancies in investment options. The proposed equity structure will simplify passive equity options, strategically curtail U.S. Small-Cap options to active management, and allow participants an opportunity to easily construct a passive portfolio of U.S. or global equities while also allowing participants the ability to take on active risk in those areas where active management has historically experienced success. Discussion took place regarding proposed changes. The proposed changes will be addressed in future meetings.

Scott Miller reminded the committee that possible legislative changes regarding the DB plan make it important for people to have annuity options which provide lifetime income. In order for the committee to make informed decisions on annuity options going forward, Benny Goodman with TIAA presented information on fixed annuity options. Discussion took place regarding annuities.

V. DB Investment Policies – NDPERS

Derrick Hohbein presented proposed updates from RIO and SEI to the Retirement Plan for Employees of Job Service North Dakota Investment Policy Statement Job Service Plan for committee discussion and approval.

A motion was made by Representative Pamela Anderson to recommend to the Board that it approve the updates to the Retirement Plan for Employees of Job Service North Dakota Investment Policy Statement. This was seconded by Yvonne Smith and unanimously approved by the subcommittee.

The subcommittee will review the NDPERS Group Insurance Account Investment Objectives and Policy Guidelines and the Statement of Investment Goals, Objectives, and Policies for the North Dakota Public Employees Retirement System at the next subcommittee meeting.

VI. Other Business

There was no other discussion.

The next meeting will be on November 15, 2022.

The subcommittee adjourned at 12:30 p.m.