

**NORTH DAKOTA TEACHERS' FUND FOR RETIREMENT
MINUTES OF THE
JANUARY 21, 2016, BOARD MEETING**

BOARD MEMBERS PRESENT: Mike Gessner, President
Kirsten Baesler, State Superintendent
Mike Burton, Trustee
Kim Franz, Trustee
Rob Lech, Trustee
Mel Olson, Trustee
Kelly Schmidt, State Treasurer

STAFF PRESENT: David Hunter, ED/CIO
Fay Kopp, Deputy ED/CRO
Terra Miller Bowley, Audit Services Supervisor
Darlene Roppel, Retirement Assistant
Darren Schulz, Deputy CIO
Shelly Schumacher, Retirement Program Manager

OTHERS PRESENT: Paul Erlendson, Callan Associates
Julia Moriarty, Callan Associates
Janilyn Murtha, Attorney General's Office
Nancy Peterson, NDU-Retired

CALL TO ORDER:

Mr. Mike Gessner, President of the Teachers' Fund for Retirement (TFFR) Board of Trustees, called the board meeting to order at 1:00 p.m. on Thursday, January 21, 2016, in the Peace Garden Room at the State Capitol in Bismarck, ND.

THE FOLLOWING MEMBERS WERE PRESENT REPRESENTING A QUORUM: MR. BURTON, MRS. FRANZ, MR. GESSNER, MR. LECH, MR. OLSON AND TREASURER SCHMIDT. (Supt. Baesler notified the TFFR board that she would be delayed due to another meeting, and requested to be excused.)

APPROVAL OF AGENDA:

The Board considered the meeting agenda.

MRS. FRANZ MOVED AND MR. LECH SECONDED TO APPROVE THE AGENDA AS PRESENTED.

AYES: TREASURER SCHMIDT, MR. BURTON, MR. LECH, MRS. FRANZ, MR. OLSON, AND PRESIDENT GESSNER

NAYS: NONE

MOTION CARRIED.

ABSENT: SUPT. BAESLER

MINUTES:

The board considered the minutes of the TFFR board meetings held October 22 and December 30, 2015.

MR. LECH MOVED AND MR. BURTON SECONDED TO APPROVE THE MINUTES OF THE TFFR BOARD MEETINGS HELD OCTOBER 22 AND DECEMBER 30, 2015.

AYES: MR. LECH, MR. OLSON, TREASURER SCHMIDT, MR. BURTON, MRS. FRANZ, AND PRESIDENT GESSNER

NAYS: NONE

MOTION CARRIED.

ABSENT: SUPT. BAESLER

QUARTERLY TFFR INVESTMENT UPDATE AND INVESTMENT BENCHMARKS EDUCATION:

Mr. Hunter provided the investment update for the quarter ended September 30, 2015. For the fiscal year ended September 30, 2015, TFFR generated a net investment return of -0.5% versus a policy benchmark of -1.2%. TFFR generated a net return of 7.8% for the 5-years ended September 30, 2015, which exceeded the policy benchmark by over 0.78%. During the last 5 years, asset allocation and active management generated approximately \$635 million (90%) and \$70 million (10%) of TFFR's overall investment income, respectively. Mr. Hunter also noted TFFR's investment returns have consistently ranked in the 1st or 2nd quartile of the Callan Database over the last 1, 3, and 5 year periods ended September 30, 2015. TFFR risk has declined from over 115% down to 105% on a rolling 3 and 5 year basis. Board discussion followed.

Mr. Hunter presented board education on investment benchmarks. Benchmarks serve as a proxy against which investment manager performance is compared to determine whether the strategy added value. He reviewed TFFR's overall plan investment benchmarks and explained how they are set. The Retirement and Investment Office (RIO), teaming with the State Investment Board (SIB) monitors the managers. If the benchmark isn't attained over a long period of time (at least three years), the manager may be put on a watch list for monitoring. Mr. Erlendson, Callan Associates, also provided information on benchmarks and money managers.

The estimated fiscal year to date (July 1, 2015-January 21, 2016) net return is down a little over 6%.

ASSET LIABILITY STUDY:

Ms. Moriarty and Mr. Erlendson, Callan Associates, presented the findings of the Asset Allocation and Liability Study. They evaluated the interaction of the three key policies (investment, funding, and benefits) that govern TFFR with the goal of establishing the best investment policy. The appropriate asset allocation should strike a balance between sustainable funded status volatility and minimization of costs over the long run.

Mr. Erlendson reviewed the factors (return objective, time horizon, liquidity needs, actuarial methodology, contribution risk, risk tolerance, liability growth, and funded status) that need to be considered in deciding which asset mix would be appropriate for TFFR. Mr. Erlendson explained the variations of Mix 3, 3A and 3B. After discussions between the RIO staff and Callan, Mix 3B is recommended

because it offers a practical and implementable solution. The asset classes that would be changed are: Domestic Fixed: 12% to 16%, High Yield: from 5% to 4%, Non-US Fixed: from 5% to 3%, Private Equity: from 5% to 6%, and Timberland from 5% to 3%.

The expected return for the proposed new policy mix 3B is about 7.1% with a standard deviation of 14.7%. Callan noted that while TFFR's expected return over the next 10 years may fall short of the 7.75% return assumption, there are mitigating factors that offset the projected 7.1% return. 1) Callan's public market return projections are based on passive implementation (i.e. index fund) and do not incorporate active management premiums. 2) Callan's 10-year projections are cyclically lower than TFFR's longer-term (i.e. greater than 10 years) expectations. 3) The actuary assumes 2.75% price inflation versus Callan's 2.25% assumption. The implication of Callan's lower inflation expectation is that the corresponding liability return is closer to 7.4% than 7.75%. 4) TFFR has a 46% probability of achieving a 7.75% return over the next 10 years.

Mr. Hunter and Mrs. Kopp reviewed the recommended TFFR investment policy changes: 1) Reduce the actuarial rate of return from 8.0% to 7.75% based on recent Experience Study changes. 2) Incorporate the asset class terminology and revised asset allocation (3B), policy targets, and rebalancing ranges based on the Asset Liability Study.

After discussion,

TREASURER SCHMIDT MOVED AND MR. LECH SECONDED TO APPROVE MIX 3B WITH IMPLEMENTATION WITHIN THE NEXT SIX MONTHS, AND TO MAKE NECESSARY CHANGES TO TFFR'S INVESTMENT POLICY STATEMENT AND SUBMIT TO THE SIB FOR APPROVAL AND IMPLEMENTATION.

AYES: TREASURER SCHMIDT, MRS. FRANZ, MR. OLSON, MR. BURTON, MR. LECH AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

ABSENT: SUPT. BAESLER

The board recessed at 2:50 p.m. and reconvened at 3:05 p.m.

Supt. Baesler arrived at 3:00 p.m.

ACTUARIAL AUDIT RFP UPDATE:

Mrs. Kopp reviewed the status of the Actuarial Audit Request For Proposal. The RFP was issued on January 5, 2016, the deadline for questions was January 15, 2016, and the deadline for receipt of proposals is February 16, 2016. Mrs. Kopp, Mrs. Schumacher, and Mr. Hunter will review and rank all proposals that are submitted and choose the top two or three who will be asked to make presentations at the March 17, 2016, TFFR board meeting. The Board will make the final selection of the actuary to perform the actuarial audit.

IRS DETERMINATION LETTER UPDATE:

Mrs. Kopp updated the board on the progress of the Internal Revenue Service (IRS) determination letter application. Ms. Melanie Walker, benefits consultant with Segal Company, conducted an Internal Revenue Code (IRC) compliance review and drafted the application forms and necessary information to apply for the determination letter. Ms. Murtha, TFFR legal counsel with the Attorney General's Office, has completed her review of the forms and determination letter process. The IRS application forms and \$2,500 fee will be submitted to the IRS on January 25, 2016. It could take 1-2 years before the determination is received.

ADMINISTRATIVE RULES UPDATE:

Mrs. Kopp reported the public hearing to solicit comments for the proposed amendments, additions and deletions to Title 82 of the ND Administrative Code was held November 19, 2015. There were no members of the public in attendance. It was noted at the public hearing that two typographical errors appeared, so the rules were updated to reflect consideration and incorporation of those comments. On January 12, 2016, the Attorney General's Office approved the rules as to their legality.

MR. OLSON MOVED AND MRS. FRANZ SECONDED TO ADOPT THE PROPOSED ADMINISTRATIVE RULES AND AUTHORIZE STAFF TO SUBMIT TO LEGISLATIVE COUNCIL FOR FINAL PROMULGATION.

AYES: MRS. FRANZ, MR. BURTON, MR. LECH, SUPT. BAESLER, MR. OLSON, TREASURER SCHMIDT, AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

The rules will be submitted by February 1, 2016, to the Legislative Council and will go into effect April 1, 2016.

2015 GASB 68 REPORT:

Mrs. Schumacher provided an overview of the GASB 67 and 68 Report developed by TFFR's actuary, Segal Company, and audited by the plan's auditor, CliftonLarsonAllen. The net pension liability increased from about \$1 billion to \$1.3 billion primarily due to the assumption changes that were implemented to lower the investment return assumption and to reflect mortality improvements. A disclosure template containing most of the information school districts will need to put in their financial disclosure notes will be provided to them.

TREASURER SCHMIDT MOVED AND MR. OLSON SECONDED TO ACCEPT THE JUNE 30, 2015, GASB 68 REPORT.

AYES: MR. OLSON, MR. LECH, SUPT. BAESLER, MRS. FRANZ, TREASURER SCHMIDT, MR. BURTON AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

The report will be posted to the TFFR website for use in the June 30, 2016, employer financial statements.

There was discussion regarding additional ways to communicate information to employers, school boards, members, and the general public that would help them better understand different aspects of TFFR.

2017 LEGISLATIVE PLANNING:

Mrs. Kopp reviewed the timeline and planning process for the 2017 Legislative session. The deadline to submit bill drafts to the interim legislative committee is April 1, 2016. Mrs. Kopp highlighted 2015 actuarial valuation results and funding projections. The Board discussed whether additional contribution, benefit, retiree benefit increase, or other plan changes should be made. Mrs. Kopp indicated that she recently met with various active and retired member interest group representatives, and there were no TFFR related issues presented which would require legislative changes. After discussion, the board concurred that no legislative changes to TFFR statutes are necessary at this time, so no bill drafts will be submitted to the Legislative Employee Benefits Programs Committee for study during the 2016 interim.

ELIGIBLE SALARY DISCUSSION:

Mrs. Kopp reviewed an issue that has come up as a result of a number of internal audits and reviews of Career and Technology Education (CTE) Centers. It involves certain payments that have been made to various licensed employees for equipment maintenance and repair duties. Mrs. Kopp and Mrs. Schumacher will meet with a small working group of CTE directors on January 22, 2016, in Valley City. This is in the information gathering stage at this time and will be brought to the March 17, 2016, meeting for board action.

ANNUAL TFFR ENDS AND STATISTICS REPORT:

Mrs. Schumacher presented the annual retirement ends and statistics report for the year ended June 30, 2015. She provided information on members and employers, cyber-attack in 2014-15, collections and payments, member and employer participation in outreach programs, service purchases, tier membership, service retirement, disability retirements, re-employed retirees and employer payment plan models. She noted the Pre-retirement Seminars will now be called Retirement Education Workshops and will also be marketed to younger teachers. This year group counseling sessions were held in three locations and were very well received. They replaced individual sessions and were able to involve 30-40 members rather than just 10-12 members at each site. After discussion,

MR. BURTON MOVED AND MR. LECH SECONDED TO ACCEPT THE ANNUAL TFFR RETIREMENT ENDS AND STATISTICS REPORT.

AYES: MR. BURTON, MRS. FRANZ, MR. OLSON, TREASURER SCHMIDT, MR. LECH, SUPT. BAESLER AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

ANNUAL RETIREMENT TRENDS REPORT:

Mrs. Schumacher presented the annual retirement trends and projections report. Of the 10,870 active members, 1,152 members are currently eligible to retire. On average, 390 teachers actually retired each year for a total of over 3,900 for the 2006-2015 10 year period. After discussion,

MRS. FRANZ MOVED AND MR. OLSON SECONDED TO ACCEPT THE ANNUAL RETIREMENT TRENDS REPORT.

AYES: MRS. FRANZ, MR. LECH, TREASURER SCHMIDT, SUPT. BAESLER, MR. BURTON, MR. OLSON AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

QUARTERLY AUDIT SERVICES UPDATE:

Ms. Miller-Bowley presented the quarterly audit activities report for July 1, 2015 - September 30, 2015. As of today, 15 employer audits have been completed. Eight audits are currently in progress. All employers remaining in the third audit cycle currently have an audit underway. The third audit cycle will conclude once the eight audits are completed. The TFFR file maintenance audit, benefits payments audit, SIB satisfaction survey, and GASB 68 audits were also completed.

2015 CAFR AND PPCC AWARDS:

Mrs. Kopp reported that the Government Finance Officers Association (GFOA) has awarded a Certificate of Achievement for Excellence in Financial Reporting to RIO for 17 years.

TFFR received the 2015 Public Pension Standards Award for Funding and Administration from the Public Pension Coordinating Council (PPCC).

CONSENT AGENDA:

TREASURER SCHMIDT MOVED AND MR. LECH SECONDED TO APPROVE THE CONSENT AGENDA WHICH CONSISTED OF DISABILITY APPLICATION # 2016-1D.

AYES: SUPT. BAESLER, MR. BURTON, MRS. FRANZ, MR. OLSON, TREASURER SCHMIDT, MR. LECH, AND PRESIDENT GESSNER.

NAYS: NONE

MOTION CARRIED.

OTHER BUSINESS:

Mrs. Kopp shared a new handout called "Fast Facts" which will be used to educate members, legislators, and the public about TFFR.

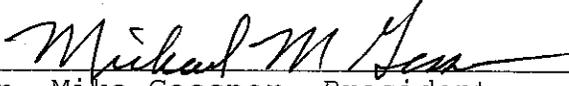
The next regular board meeting will be held March 17, 2016, in the Peace Garden Room at the State Capitol.

All presentations and reports from this meeting are on file at RIO.

ADJOURNMENT:

With no further business to come before the Board, President Gessner adjourned the meeting at 4:40 p.m.

Respectfully Submitted:



Mr. Mike Gessner, President
Teachers' Fund for Retirement Board



Darlene Roppel
Reporting Secretary