Nevada System of Higher Education ("NSHE")
Minutes of
Retirement Plan Advisory Committee Meeting
May 18, 2017

The Retirement Plan Advisory Committee ("Committee"), the fiduciary committee for the Nevada System of Higher Education Defined Contribution Retirement Plans ("Plans"), met on May 18 2017 at the System Office in Reno. Present were voting members: Michelle Kelley (Chair), Pat La Putt (Business Center South; "BCS"), Migle Valunte (Business Center North; "BCN"), Cheri Canfield (Nevada State College; "NSC"), Kent Ervin (University of Nevada, Reno; "UNR"), Bob Whitcomb (Western Nevada College; "WNC"), Paul Thistle (University of Nevada, Las Vegas; "UNLV"), Scott Nielsen (Great Basin College; "GBC"), Jerry Lockhart (College of Southern Nevada; "CSN"), and Daniel Williams (Truckee Meadows Community College; "TMCC"). Voting member Brad Summerhill (Faculty Senate Chair) was unable to attend.

Attending the meeting by invitation were Vice Chancellor Vaskov of NSHE; Daniel Pawlisch, Meredith Jones, and Joe Steen of Aon Hewitt Investment Consulting ("AHIC"); and Michael Desmarais, Garrett Harbron, and Mark Landay of Vanguard.

Call to Order

The meeting was called to order at 8:30 a.m. by Kelley. She informed the Committee that Mark Bowers (Desert Research Institute; "DRI") resigned from DRI and is no longer a Committee member. She also provided the Committee with an overview of the day's strategic planning initiatives.

Legislative Update

Ervin provided the Committee with an update regarding the state's recent legislative activities and the potential impact they may have on the Plans and its participants.

Target Retirement Fund Review

Desmarais distributed a report titled, "Nevada System of Higher Education, May 18, 2017." Referring to Section 1, Landay provided a relationship update that included information regarding Vanguard's organizational focus and the services provided to the Plans' participants.

Referring to Section 2 of the Vanguard presentation, Harbron discussed the philosophy, glide path, and construction methodology of the Vanguard Target Retirement Funds.

Desmarais highlighted Vanguard's glide path modeling capabilities, noting how NSHE participant demographic information could be used to help determine the suitability of Vanguard's glide path methodology.

After careful review, the Committee concluded that the Vanguard Target Retirement Funds continue to be a suitable investment for the Plans, and for the Qualified Default Investment Alternative.

Stable Value Fund Discussion

Referring to a previously distributed presentation titled, "Nevada System of Higher Education, Stable Value Discussion, May 18, 2017," Pawlisch led a discussion in regards to stable value offerings. He detailed the two main types of fund options that are available within defined contribution plans, noting the key aspects of Synthetic-Based Stable Value Funds and Insurance Guaranteed Products. He also reviewed the advantages and considerations for using a stable value over a money market fund and compared the investment performance and other relevant factors of various investment manager candidates from AHIC's "Buy" list.

Socially Responsive Investing Discussion

Referring to a previously distributed presentation titled, "Responsible Investing: What is it and What Does It Mean for Your Organization," Jones led a discussion in regards to socially responsive investing. She differentiated between the different styles of responsible investing, highlighted various considerations for each method of responsible investing, and highlighted each strategy's investment selection criteria. Jones also reviewed marketplace demand for socially responsive investing and summarized the potential fiduciary and legal considerations. Based on this information, Jones discussed ways the Committee could incorporate environmental, social, and corporate governance (ESG) policies into the Plans and reviewed a spectrum for integration.

Fiduciary Gap Analysis Discussion

Vice Chancellor Vaskov reviewed the lawsuits against several prominent higher education institutions and the findings from the recent fiduciary gap analysis conducted by Nixon Peabody.

Plan Administration Discussion

Kelley led a discussion in regards to the following:

1. **Reduction of the Annual Plan Service Fee to 0.059%:** Currently NSHE retirement plan participants are assessed an annual Plan Administration Fee of 0.07% ($0.70 per $1000 of assets), charged quarterly. This fee is made up of two components, 0.026% is an NSHE administration fee and 0.039% is a TIAA contractual recordkeeping fee. In a continued effort to improve plan efficiencies and provide a competitive retirement program, the RPA Executive Officer discussed reducing the NSHE plan administration fee to 0.020%. Additionally, while TIAA was historically unable to deduct quarterly recordkeeping service fees from participant accounts using fractional basis points due to a systems limitation, this is no longer the case.

2. **Brokerage Window:**
When NSHE established transparent administrative fees in 2014, TIAA did not have the technological capability to collect administrative fees from assets within a participant's brokerage window account, or to calculate the administrative fees including assets within a participant's brokerage window account and collect them from non-brokerage window account assets. This created a situation where brokerage window participants were being subsidized by non-brokerage window participants because the Plans' administrative fees were being assessed across all assets, then applied to only non-brokerage window assets on a pro-rata basis. Kelley noted that TIAA now has the capability to charge the administrative fees associated with participants' brokerage window assets to participants' non-brokerage window assets. However, TIAA still cannot collect administrative fees from assets IN the brokerage window. As a result, a participant with 100% of their assets in the brokerage window would still not be assessed the full administrative fee. Capping the percentage of assets a participant can invest in the brokerage window to 95% would eliminate this imbalance.
3. **Managed Accounts:** Managed accounts make and execute decisions for participants to facilitate the appropriate investment approach. For an additional cost, TIAA's service essentially makes all the investment allocation and rebalancing decisions for participants within the confines of the Plans' fund selections. In doing so, Morningstar (TIAA's managed accounts provider) will apply investment processes supported by widely accepted financial theory and practice that include considerations of return/risk maximization, quality of investment managers, and cost minimization.
4. **Loans:** The standard practice when discontinuing a retirement vendor is to only permit new loans from the current vendor. However, when NSHE transitioned to a single recordkeeper in 2014, NSHE did not follow this best practice. In order to improve operational efficiencies and minimize compliance related risks, the RPAC could consider recommending that new loans only be available through TIAA. Existing loans would not be impacted by this change. Kelley reminded the Committee that loan applicants must continue to pay a non-refundable compliance fee of $50 for each loan application NSHE reviews.

Following thorough discussion of the relevant factors, including the impact to participants, the Committee agreed to recommend to the Vice Chancellor of Legal Affairs that effective October 1, 2017 the annual NSHE plan administration fee be reduced to 0.020%, capping the percentage of assets a participant can invest in the brokerage window to 95%, and the assessment of administrative fees associated with participant's assets in the brokerage window from participants' non-brokerage assets. Lastly the Committee agreed to recommend that new loans only be available through the current recordkeeper, TIAA.

Investments Discussion

Kelley led a discussion regarding the Committee's desire for adding a socially responsive investment option to the Plans. After a thorough discussion, the Committee requested that Mr. Pawlisch provide the following for the November Committee meeting:

- A listing of socially responsive funds available in TIAA's self-directed window
- An investment manager search for a socially responsive fund (include CREF Social Choice and Vanguard FTSE Social Index)
- Sample ESG language for the Investment Policy Statement

Kelley led a discussion regarding the Committee's desire for adding a stable value investment option to the 401(a) Plan. After a thorough discussion, the Committee requested that Mr. Pawlisch provide an investment manager search for a stable value fund that can be utilized within the 401(a) Plan at the November Committee meeting. Mr. Pawlisch agreed to work with TIAA to identify stable value investment manager candidates available on the TIAA investment platform.

Kelley led a discussion regarding the proposed edits to the RPAC Charter. After reviewing the materials provided and a thorough discussion, the Committee agreed to advance the revised Charter to the Vice Chancellor for Legal Affairs for adoption.

Legacy Assets Discussion

Kelley led a discussion regarding participant assets at the Plans' frozen vendors. She noted that while Nixon Peabody's fiduciary gap analysis included many favorable conclusions regarding existing governance practices, it did recommend that NSHE put a plan in place to transfer all assets that are currently held in group annuity contracts and/or custodial agreements at "frozen" vendors to an investment option(s) within the new institutional retirement plan structure at the current record keeper. After a thorough discussion of the findings from the fiduciary gap analysis, Kelley indicated that she would provide information regarding the process and timing for such a transition, if the Committee wished to consider it, at the next Committee meeting.

Announcements/Other Business

There being no further business before the Committee, the meeting was adjourned at 4:55 p.m.

Minutes approved:

M Kelley 8/28/17

Michelle Kelley, RPA Executive Officer Date

Reviewed by:

7/11/17

Nicholas G. Vaskov, Vice Chancellor for Legal Affairs Date