

Local Retirement Fund Investment Study Group

Office of the State Auditor
Wednesday, November 10, 2010
2 p.m. to 4 p.m.

Members Present

John Bayard, Bloomington Fire Department Relief Association President
Howard Bicker, Minnesota State Board of Investment Executive Director
Edward Burek, Legislative Commission on Pensions and Retirement Deputy Director
Bruce Duncan, Excelsior Fire Relief Association President
Dave Ganfield, Apple Valley Fire Relief Association Administrator
Rebecca Otto, State Auditor
Teri Richardson, Minnesota State Board of Investment Assistant Executive Director
J. Michael Stoffel, Duluth Teachers' Retirement Fund Association Executive Director
Nyle Zikmund, Spring Lake Park, Blaine & Mounds View Fire Department Chief

Members Excused

Gene Waschbusch, St. Paul Teachers' Retirement Fund Association Secretary-Treasurer

Others Present

Colleen Bollom, Minnesota Firefighter Pension Consultants Representative
Aaron Dahl, Pension Analyst
Anne Finn, League of Minnesota Cities Representative
Celeste Grant, Deputy State Auditor/General Counsel
Rose Hennessy Allen, Pension Director
Lucas Hinz, Pension Analyst
David Kenney, Assistant Legal Counsel
Brian McKnight, Wells Fargo Advisors Representative
Mike Miller, Integra Shield Financial Group Representative
Brian Rice, Minneapolis Police and Fire Relief Associations Representative
Merle Waters, Wells Fargo Representative

The following motion was duly made, seconded and approved:

RESOLVED to approve the September 9, 2010, Investment Study Group meeting minutes.

I. Call to Order

Chair Auditor Otto called the meeting to order.

II. Review and Approval of Study Group Minutes

The Study Group members reviewed the September 9, 2010, meeting minutes that were provided in advance. Bicker made a motion to approve the minutes. Ganfield seconded the motion that was adopted unanimously.

III. Review of Draft Language

The Study Group members discussed and agreed upon a number of technical changes to the expanded, limited, and SBI investment lists. The members also discussed how compliance with the statutory fund limitations should be determined. Kenney stated that the Office of the State Auditor would generally not require a pension plan to liquidate investments to comply with statutory limitations if the plan was within the limits when the investment was purchased, but the members agreed that plans would need to rebalance their portfolios if they should subsequently exceed a limitation.

The Study Group members discussed the proposed changes regarding international securities. The changes would remove some of the current limitations on emerging-market securities for the expanded list plans. The members agreed to add language to the expanded list that would limit emerging-market equity and debt investments for volunteer fire relief associations to no more than 15 percent of the portfolio.

Auditor Otto explained that the draft language will be updated to reflect the changes that the Study Group agreed on and that the updated draft will be provided to the members for a final review and discussion.

IV. Discussion of Remaining Substantive Changes

Many of the remaining substantive changes were discussed during the Study Group's review of the draft language. The members agreed that the change allowing expanded list plans to directly invest in high-yield bonds is reasonable since the investments are limited to five percent of the portfolio. The members also agreed with the change to classify real estate investments as "other investments" and include them in the 35 percent portfolio limit.

In addition, the members agreed to add language to sections 69.77, 69.775, and 354A.08 to clarify that any assets certified to the SBI for investment must still comply with the fund limitations set forth in the expanded list.

Finally, the Study Group discussed hedge-fund investments and whether disclosure requirements should be added to the "other investments" section. The members agreed that adding disclosure requirements would prevent pension plans from investing in many types of alternative investments. The members agreed not to add any disclosure requirements.

V. Discussion of Technical Changes

The technical changes identified by the Study Group members were resolved by the revisions adopted for the expanded, limited, and SBI lists. Auditor Otto asked the members to bring any additional technical changes that may be identified to the next meeting.

VI. Discussion of Mutual Fund Revisions

The Study Group agreed on changes to section 69.775 that clean-up outdated language and move the additional mutual fund investment authority to the limited list. With the recent proposed changes to the expanded list, section 69.775 would no longer provide any additional investment authority to the expanded list plans. The mutual fund language therefore would only be needed for the limited list plans. The members also agreed that similar changes may be needed to sections 69.77 and 354A.08. Representatives from the plans governed by these two sections will review the current statutory language and report back to the Study Group with recommendations for change.

VII. Other Business

There was no other business to discuss.

VIII. Next Meeting

Tuesday, November 23, 2010
2:00 p.m. to 4:00 p.m.
Office of the State Auditor

IX. Adjournment

The meeting was adjourned at 3:40.