

KNOX COUNTY RETIREMENT AND PENSION BOARD

INVESTMENT COMMITTEE MEETING

March 21, 2018

A special called meeting of the Knox County Retirement and Pension Board Investment Committee was conducted on Wednesday, March 21, 2018, at 1:30 p.m. in Room 640 of the City-County Building. The following were in attendance:

Knox County Investment Committee members:

Commissioner Ed Brantley, Chairman, Commissioner Hugh Nystrom, Commissioner John Schoonmaker, Mr. Zack Webb, Mr. Chris Caldwell

Legal Counsel: Ms. Stephanie Coleman, Ms. Ashley Trotto

Nationwide: Mr. Wayne Sellers, Mr. Roland Wilson by phone, and Mr. Jeff Francis by phone

Retirement Staff: Ms. Kim Bennett, Ms. Jennifer Schroeder, Mr. Zack Cole

Others in attendance: Commissioner Evelyn Gill, Scott Bolton KCS Benefit Manager

Board Members: Mr. Garrett Raiden

Commissioner Brantley called the meeting to order and the following proceedings were held:

IN RE: REVIEW OF NATIONWIDE ENHANCEMENTS

Commissioner Brantley recognized Mr. Wayne Sellers who reviewed the prior investment committee meeting discussion of Nationwide's proposal and reviewed Nationwide as a company. Mr. Sellers recognized Mr. Jeff Francis of Nationwide to further discuss the proposed changes to the Voluntary Contribution 457 Plan. Mr. Francis reviewed the proposal being offered by Nationwide to Knox County which would add Morningstar as a co-fiduciary for investment accounts, reduce fees to participants, and provide a guaranteed rate of return of 3.2% within the Nationwide Fixed Account which is slightly lower than the current guaranteed rate of return at 3.5%. Mr. Francis stated the change would create more balance between accounts and participants by distributing the costs across all investment options.

Commissioner Schoonmaker inquired as to why the information provided to the Board by Nationwide on March 12th wasn't received by all Board members until March 19th. Ms. Bennett indicated that she had inadvertently caused the distribution of these documents to be delayed, but that the information was received from Nationwide within the time frame discussed at the January 22, 2018 Investment Committee meeting.

Ms. Bennett asked how the addition of Morningstar along with a reduction in the guaranteed rate of return to 3.2% would add value to the people currently contributing to the Nationwide Fixed Account investment option. Mr. Francis explained that the addition of Morningstar and reduced guaranteed rate of return for the fixed account also comes with

a reduced wrap fee to the contributors which Nationwide feels would outweigh the reduction in guaranteed rate of return, and would allow the accounts to be more balanced by spreading the costs equally. Mr. Sellers indicated that this decrease in the guaranteed rate of return would apply to all investment options utilizing the Fixed Account, such as the managed accounts within Nationwide.

Commissioner Brantley asked what freedom participants would have in moving funds within the accounts, and whether the limitation on moving funds twice per year and only 20% of the total account value would still apply. Mr. Francis indicated moving funds from provider to provider has additional restrictions, but that the guidelines would remain the same as they currently are for internal changes. Ms. Bennett inquired as to the current freedom of movement for participants. Mr. Francis explained that the restrictions would remain the same and that the only way for a participant to move all funds at one time would be through a lump sum distribution upon the occurrence of a distribution event.

Commissioner Nystrom asked what the benefit to the Board would be other than reducing fees for the participants. Mr. Francis stated that adding Morningstar as a co-fiduciary would benefit the Board in the event of a lawsuit brought against the Board due to investment performance from a participant. Morningstar would indemnify the plan for losses arising from their recommended investments. Ms. Bennett asked specifically if Morningstar would indemnify the county, the plan, or Nationwide. Mr. Francis explained that Morningstar would indemnify the plan. Ms. Bennett followed up by asking if this would effectively reduce the Board's decisions on investments. Ms. Trotto asked if Morningstar have full control over investment decisions, or would the Board still have to approve the line-up. Mr. Francis stated that the Board would still have a vote on changes to the line-up. However, if the Board goes against Morningstar's recommendations, it would lose this indemnity protection.

Mr. Raiden asked if this change would effectively render the Board obsolete if we are outsourcing our fiduciary responsibilities to Morningstar. Mr. Francis indicated that the addition of Morningstar would not transfer all fiduciary responsibility from the Board to Morningstar. This addition would only add a layer of protection. Mr. Raiden followed up by asking for Mr. Francis to provide an example of how this would occur. Mr. Francis explained as he mentioned previously if the Board were to have a legal case regarding investment decisions that were made due to advising from Morningstar, that Morningstar would fight that case due to the Board accepting their recommendations that caused the legal case to arise. Ms. Trotto indicated that from a legal stand point the Board would not be completely released from their fiduciary duty due to the addition of Morningstar. Mr. Webb asked if there had ever been a legal case arising from this type of scenario with respect to the Knox County retirement system. Ms. Bennett stated that there has not been one of which she is aware.

Ms. Bennett asked how quickly the change would take place if the Board votes to approve the change. Mr. Francis explained that Nationwide would reach out to all current participants as well as potential participants to notify them of all changes.

Commissioner Schoonmaker asked Mr. Francis if the intent was to move all 7,500 public sector plans to this new format. Mr. Francis stated that these changes are only available to certain plans which meet specific criteria.

Commissioner Brantley asked the Board members if there was any interest in approving these changes today. Mr. Webb and Commissioner Nystrom stated that they are not ready to make the changes based on the information available today. Mr. Raiden added that the fee reduction may not be significant enough to warrant the change and a rate of return decrease. Mr. Sellers added that the fees would go from 70 to 80 basis points down to 23 basis points depending on how a participant is invested. Mr. Webb asked if the Board could be provided a few hypothetical illustrations based on making the changes that are presented today. Mr. Francis indicated that Nationwide would be happy to run the numerical data and get it to Ms. Bennett to be distributed to the Board.

Mr. Caldwell indicated once the Board receives the illustrations being provided another meeting will be scheduled to discuss whether to move forward or not. Commissioner Brantley closed the meeting with no recommendations to the Board for changes based on the information presented today. Commissioner Brantley informed Mr. Sellers that after the committee receives the information from Nationwide, a special called meeting will be set.

ADJOURNMENT

There being no further business to come before the Investment Committee the meeting was adjourned.



Chairman