

ILLINOIS SECURE CHOICE BOARD

**Meeting of Friday, December 11, 2015
James R. Thompson Center
100 West Randolph, Room 2-029, Chicago, Illinois**

MEETING MINUTES

The December 11, 2015 meeting of the Illinois Secure Choice Board (Board) was called to order at 2:00 p.m. with the presence of a quorum.

BOARD MEMBERS PRESENT

Michael Frerichs, Chair
Illinois State Treasurer

Josh Potts (via teleconference)
Designee for State Comptroller Leslie Munger

Kelly Hutchinson
Designee for the Governor's Office of Management and Budget

Miriam Martinez
Office of the City Treasurer - Chief Investment Officer

David Marzahl
Center for Economic Progress – President & CEO

David Rappaport
Rappaport Reiches Capital Management, LLC - Co-Managing Partner

John Rauschenberger
Technology & Management Association – Executive Vice-President and General Manager

OTHER ATTENDEES

Emily Bastedo, *Associate Counsel*
Governor's Office

Kate Crowther, *Government Relations Strategist*
Ubiquity Retirement + Savings

Courtney Eccles, *Invest in Illinois Program Manager*
Illinois State Treasurer's Office

Julian Federle, *Chief Policy and Programs Officer*
Illinois State Treasurer's Office

Rodrigo Garcia, *Chief Investment Officer*
Illinois State Treasurer's Office

Nikki Giancola, *Executive Assistant to the Treasurer & Deputy Treasurer*
Illinois State Treasurer's Office

Keith Horton, *General Counsel*
Illinois State Treasurer's Office

Allen Mayer, *Deputy General Counsel (via teleconference)*
Illinois State Treasurer's Office

Sandi Raphael, *Assistant General Counsel*
Illinois State Treasurer's Office

Greg Rivara, *Press Secretary (via teleconference)*
Illinois State Treasurer's Office

Jay Rowell, *Deputy Treasurer*
Illinois State Treasurer's Office

Catherine Shannon, *Legislative Director (via teleconference)*
Illinois State Treasurer's Office

APPROVAL OF NOVEMBER BOARD MEETING MINUTES

Board members reviewed the November 18, 2015 Board Meeting Minutes, which were provided in advance of the meeting. Ms. Hutchinson clarified that under the section related to an investment advisor, Board members agreed that it was not necessary to hold in-person interviews of respondents at the Board meeting, but that did not preclude the scoring committee from holding in-person interviews.

Ms. Martinez made a motion to approve the August 17, 2015 Board Meeting Minutes. Mr. Rauschenberger seconded the motion. The motion was unanimously approved.

OLD BUSINESS

Indemnification Policy:

Mr. Horton provided an update to Board members on information regarding a fidelity indemnification policy at no cost to the Board from the Department of Central Management Services (CMS). He noted that Mesirov, an approved vendor from CMS, was willing to present

to the Board on alternative or additional indemnification policies. Mr. Horton said he would be happy to coordinate a presentation for the full Board or interested members of the Board. He noted that purchasing a policy would not be free of charge. Kelly Hutchinson sought clarification on who would provide the self-insured policy free of charge. Mr. Rappaport asked if the CMS policy had a dollar level associated with it. Mr. Horton noted that other boards, including ISBI, have a policy for approximately one million dollars. Mr. Rowell added that ISBI does not have additional coverage beyond the CMS policy. Board members agreed that they were comfortable moving forward without seeking a presentation or additional information from Mesirow.

There was no other old business.

INVESTMENT ADVISOR RFP

Summary of RFP Process and Timeline

Mr. Frerichs noted the Treasurer's staff spent the last two weeks scoring responses to the Investment Advisor RFP and staff presented the top three choices to the investment subcommittee earlier in the week. He asked his Chief Investment Officer, Rodrigo Garcia to provide a brief update for Board members on the RFP process and the top three respondents.

Mr. Garcia explained that seeking an investment advisor is a best practice in the industry, and a way to obtain independent expertise, guidance, and input, including research on customized glide paths and asset allocation studies, as well as manager due diligence regardless of what type of investment framework the Board were to select. Mr. Garcia walked through the RFP timeline, beginning with receiving authority from the Board to secure an investment advisor. He noted that the scope of work included in the RFP was based on our extensive experience with \$8 billion in three (3) college savings plans and the \$2 billion deferred compensation plan administered under the Illinois Board of Investment as well as generally accepted industry best practices utilized in multiple defined contribution plans. The RFP was posted for six to seven weeks in order to ensure that the Treasurer's Office received as many respondents as possible. Mr. Garcia circulated a memo that provided Board members with a summary of the four (4) month process including but not limited to the scope of work, the scoring criteria, the scoring staff, the timeline, and the respondent finalists.

The scoring committee read through the six respondent RFP's and scored them independently, submitting their scores to the Chief Procurement Officer, Jim Underwood. Mr. Underwood notified the scoring committee of the top four finalists, who were invited in for in-person interviews. The same set of questions was asked of all four respondents (RPA, RVK, Marquette, and Segal Rodgerscasey). Scorers then submitted scores independently to Mr. Underwood who tallied the total scores and identified the top three respondents.

Staff presented the process and summary of each of the three top respondents to the investment subcommittee on Wednesday, December 9, 2015. The top scorer, Marquette Associates, was affirmed by the committee and brought forward to the full Board for a vote. Mr. Garcia noted that Mr. Rappaport participated in the process by being provided with a copy of the RFP in advance, by reading through all six RFP responses, generating questions for the in-person interviews, and sitting-in on the interviews. Mr. Garcia supported Mr. Rappaport suggestion that the committee and Board create a set of principles that would guide the policy committee, staff, and the Board moving forward with implementation.

Finally, Mr. Garcia walked through the scoring method for the RFP and noted that the two respondents who did not make it to the final interview had significantly higher cost estimates than the final four respondents. Of the final four, two had middle of the road cost estimates and two had much more competitive cost estimates.

Board Discussion:

Mr. Frerichs invited members of the investment subcommittee to share their thoughts.

Mr. Rappaport thanked the Treasurer's staff for making the process open to him, including participating in the interviews and reading the RFP. He noted that he was the dissenting vote on the investment subcommittee. Mr. Rappaport explained that this was a very traditional process to choose an investment advisor, but pointed out that there is nothing traditional about Secure Choice. Mr. Rappaport did not feel that any of the respondents accurately portrayed the key differences between Secure Choice and traditional plans. He felt the firms provided standard responses and spent the bulk of their time discussing their expertise and research capabilities. Mr. Rappaport conveyed his desire to create principles, including: investment options have to be the lowest cost possible; the Board needs to avoid the potential for funds underperforming the broad market; fund options need to be simple and straightforward to ensure that participants stay disciplined during difficult market periods; and, the program structure must be beyond reproach, similar to the structure of the Federal Thrift Savings Program.

Mr. Rappaport felt that none of the respondents addressed these principles adequately and became uncomfortable voting to approve any of them. He stated his desire for the Board to take a step back and have a discussion about investment priorities and options.

Ms. Martinez stated that she voted to support the staff recommendation during the investment subcommittee. She pointed out that because this is a new program, it's a bit disingenuous to assume that a potential advisor will provide the exact framework. She acknowledged that the end result for Secure Choice may look very similar to the federal program, but that it isn't the role of the advisor to present that up front. Rather, she felt the advisor would assist the Board in making those decisions to create the final plan structure. Ms. Martinez noted that there is a reason only a

certain number of advisors responded to the RFP – the fact that costs must be kept so low kept many entities from responding. She reminded Board members that redoing the RFP is not likely to lead to new respondents, especially because the process was done correctly.

Ms. Martinez believed the top scorer would be able to provide the Board with the information it will need. She agreed that laying out principles is crucial and reminded the Board that it makes all the final decisions, not the advisor. She stated that she believes there is still time and room to have internal discussions and bring those suggestions to the advisor. She believes that we should not move along in this process without an advisor and believes that redoing the process will not change the outcomes. She argued that changing the questions to be more leading would not be a good thing for the Board.

Mr. Frerichs also voted to concur with the staff recommendation at the investment subcommittee. He agreed with both Mr. Rappaport and Ms. Martinez that the creation of investment principles is important but believes there will be time to have that discussion and then bring those points to the advisor.

Mr. Frerichs opened the discussion to all Board members.

Mr. Rauschenberger noted that this is the first substantive decision the Board is making. He regretted not participating in the interview process and asked whether the Board had to decide today or whether the Board could go back and sit through the interview process. He stated his strong desire to bring in the top four teams, rescore, and have the whole Board participate.

Ms. Martinez asks for clarity on whether he wanted to redo the RFP or bring in the top four for an interview. Mr. Rauschenberger said he wanted to bring in the top four respondents and would make the time to do it. He reiterated that he would like to participate in the scoring. Mr. Rauschenberger asked if boards typically do scoring.

Mr. Horton noted that typically boards do not score and that is why staff provided a number of options for Board inclusion throughout the process. Mr. Horton stated state agencies typically have staff conduct scoring, and scoring teams are made up of state employees. He explained that were the scoring to be redone with a different end result, the Treasurer's Chief Procurement Office could only move forward with the original top scorer.

Board members continued the discussion about the usual scoring process. Ms. Martinez noted that changing the process substantially requires throwing out all the work that has been done thus far and then reiterated her concern that a new RFP would not yield different results.

Ms. Hutchinson inquired about where the RFP was disseminated. Mr. Garcia said the RFP was posted on the Treasurer's website distributed via a number of listservs and newsletters including, but not limited to the National Association of State Treasurers and the National Association of Securities Professionals, and sent to individual firms on the interested party list. Ms. Hutchinson asked why Board approval is necessary if they are required to go with the top score. She also inquired about the option to sit-in on interviews, not score, but potentially select the best respondent even if they did not have the highest score. Mr. Horton explained that the scoring is designed to select the best respondent. He clarified that the Treasurer's CPO would be unable to contract with a lower-scoring respondent.

Mr. Rauschenberger asked for clarification on whether the Board's vote is just to affirm the decision made by the staff scoring. He asked if it's not normal to bring the top three candidates in, and have the Board make the decision. Ms. Martinez noted that the Board's role was to ask for a transparent process so that Board members could make changes if they saw anything wrong with the process. She stated that she did not see anything wrong with the process.

Mr. Potts asked for clarification on the scoring of the top three. Mr. Garcia and Mr. Rowell explained that the interviews on Monday, December 7, 2015 were scored. Mr. Potts asked if Board members had differing opinions about the weights of scoring whether that would perhaps result in a different outcome. Ms. Martinez stated that the Board should have spoken up earlier if members had opinions about scoring and weights and participation. She believed the staff were transparent and asked whether there were any pieces of the process that the Board took issue with and felt should have been done differently.

Mr. Rauschenberger reiterated that the process was not flawed, but he wished he had participated and would like to start with a new RFP so that Board members can participate. Ms. Martinez suggested that instead of starting over the Board should bring in the top three or four to see whether the Board still has any concerns over the results or whether any part of the process was flawed. Mr. Marzahl noted that the Board still has a lot of opportunity to guide the process, including creation of the investment policy, the manager RFP, and the decision around final candidates for investment manager. He did not want the Board to lose sight of the timeline but believed the Board could create safeguards for the process going forward so the Board could be involved.

Mr. Horton reiterated the process and timeline to the Board members including sending the RFP with the timeline, weighted scoring factors, and approval of minutes. He noted that he was not hearing any concerns about the process. In addition, Mr. Horton addressed the Board's interest in scoring. He reiterated that Board participation in the scoring process is not something that is typically done and that changing the process at this point in the RFP would subject the Treasurer's Office to formal protests from respondents.

Mr. Frerichs explained that previous Governors abused the process by appointing Board members who steered contracts towards certain businesses. During his time in the State Senate, significant changes were made to the procurement process. He noted that so far, no one has provided concerns that would merit starting over. Ms. Martinez walked through the pieces of the process and noted she did not have any concerns with the RFP, the scoring, the questions, and felt it was objective.

Mr. Rauschenberger noted that no one on the Board should be driven by the calendar. If members feel the need to go back and do something, that should be allowed. He reiterated that he had no problem with the process, but misunderstood the role of the Board. He wants to be part of the process going forward. Mr. Horton clarified that he does not see a path in which Board members could score. Mr. Rappaport added that he was surprised during the first meeting when the Board gave authority to the Treasurer's office to seek out an investment advisor that the Board did not have a discussion about how to make a decision or what criteria should be used to make a decision. He stated that he does not know what specific changes would result from that discussion but that perhaps it would have lead the Board in a different direction.

Ms. Martinez responded by saying the Board can still do that, and the selection of an advisor does not have to change what principles the Board settles on, and what the Board brings to the advisor.

Mr. Garcia walked through the three memos summarizing each of the top three respondents, including client services such as investment advisement, reporting, manager due diligence, as well as costs, location of each firm, , experiences with different types of plans, etc. Respondent A scored well on cost, experience, location, and client services. Respondent B had good experience but lacked detail in some areas in the RFP and during the interview. Their investment style seemed to drift and the size of the business was somewhat concerning. Finally, Respondent C brought a good response with due diligence, a variety of clients, and a local office (although the team servicing the Board would be in New York). Respondents B and C had similar scores but Respondent A, for a variety of reasons, had the highest score. Mr. Garcia reiterated that this process took place over four months to ensure ample time for responses and also mentioned that, per the Board's interest, the investment subcommittee was created specifically to address the need for an investment framework and structure. He noted that despite meeting twice, the investment subcommittee did not bring forward any concerns or suggestions for changes to the process until just recently.

Mr. Garcia also noted that on the topic of passive investments, there was a question from Mr. Rappaport during the interview process and Marquette and RPA both said they would do passive investments. The other two firms said they could do passive investments but had a bias towards

active investments. Mr. Rappaport added that the two firms who were interested in passive investments did state that it would be some combination of passive and active investments. Ms. Martinez then added that the Board would have the final decision and could still instruct the advisor to provide information on passive investments, including fees, passive index options, ways to add broader choice, etc.

After additional discussion, Mr. Rowell laid out three options: affirming the top-scored respondent with the opportunity to amend the contract to include investment principles; bring in the top scorer for the Board and allow members to engage in a discussion to determine whether they feel comfortable moving forward; or, reject the recommendation of the staff and go back to square one. Mr. Rowell explained that to use the Treasurer's procurement process, staff has to score. The Board could procure its own RFP but that could be difficult given lack of staff and funding.

Mr. Marzahl stated that the Board could bring in the top scorer and then decide to reject the recommendation, or approve the recommendation but with the opportunity to include provisions in the contract. He noted that this could make everyone more comfortable with the process going forward. Board members discussed the lack of funding and staff for the Board, and the various options that might exist. Members acknowledged that it would be difficult to procure an RFP and conduct the process on their own. Mr. Rowell added that the Treasurer's Office was able to secure some money from the state's unclaimed property fund to defray the costs of staff time.

Mr. Marzahl made a motion to bring in the number one choice the following week after which the Board could have a discussion and then elect to move forward without caveats, with caveats, or not at all. Mr. Rauschenberger seconded the motion. The motion passed unanimously.

DOL COMMENT LETTER

Treasurer's staff drafted a letter to send to the Department of Labor from the Illinois Secure Choice Board. Board members will send feedback to Ms. Eccles before the next meeting so the Board can take a final vote.

GENERAL OUTREACH

Mr. Federle discussed the fact sheet prepared for Board members per the request for a standard set of talking points. Board members can email or send any edits to staff for changes. Ms. Eccles provided a brief update on outreach to local advocates and efforts to secure as many letters as possible in support for the DOL proposed rule. She also highlighted the ongoing conversations related to general outreach and educational opportunities for stakeholders throughout the state.

Mr. Federle explained the federal efforts on the DOL proposed rule, including specific discussion around the provision requiring a mandate to participate in the program with automatic enrollment. He acknowledged that some states are pushing the DOL to remove that restriction because of their existing legislative proposals. He also discussed industry opposition to certain features of the proposed rule and other guidance released by DOL and mentioned the conflation of California's program with Illinois in a recent Wall Street Journal editorial.

Ms. Eccles mentioned that staff plans to arrange an opportunity for national groups and experts to come and speak to the Board. Mr. Federle mentioned specifically trying to bring in staff from the UK's NEST Program as well as experts on the Federal Thrift Savings Program.

NEW BUSINESS

No new business was presented.

PUBLIC COMMENT

Ms. Crowther of Ubiquity Retirement + Savings noted her appreciation for seat at the table and highlighted the important conversations the Board was having. She introduced Ubiquity as a record keeper and offered her assistance to help the Board in any way possible.

QUARTERLY BOARD MEETING DATES:

Mr. Frerichs offered four potential dates for tentative Board meeting dates:

- February 26th, 2016
- May 23rd, 2016
- August 22nd, 2016
- November 21st, 2016

There was consensus by the Board to hold the four dates.

ADJOURNMENT:

Mr. Frerichs stated that since there was no additional business before the Board, he sought a motion to adjourn. Mr. Rauschenberger motioned to adjourn the meeting. Mr. Marzahl seconded the motion. Motion for adjournment was accepted.

The meeting adjourned at 4:00 pm