

ILLINOIS SECURE CHOICE BOARD

**Meeting of Wednesday, December 16, 2015
James R. Thompson Center
100 West Randolph, Room 16-504, Chicago, Illinois**

MEETING MINUTES

The December 16, 2015 meeting of the Illinois Secure Choice Board (Board) was called to order at 3:00 p.m. with the presence of a quorum.

BOARD MEMBERS PRESENT

Michael Frerichs, Chair
Illinois State Treasurer

Josh Potts (via videoconference)
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

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 (via teleconference)*
Illinois State Treasurer's Office

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

Emily Gibellina, *Associate Counsel*
Governor's Office

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

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

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

Greg Rivara, *Press Secretary*
Illinois State Treasurer's Office

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

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

OLD BUSINESS

Ethics Training:

Mr. Horton provided a brief update on the Board's completion of the Secure Choice Oath and the Open Meetings Act training, noting that Board members must also complete the state board ethics training. Staff will email a short packet to Board members and ask that members read through it and submit their signed verification back to staff before the end of the year.

There was no other old business.

DOL COMMENT LETTER

Mr. Frerichs asked if Board members had additional comments on the revised version of the draft. There were no additional changes.

Mr. Rauschenberger moved for approval of the letter and submission to the DOL. Mr. Marzahl seconded the motion. The motion passed unanimously.

Treasurer's staff will submit the final comment letter to the DOL.

INVESTMENT ADVISOR RFP

Mr. Frerichs explained that the Treasurer's Chief Procurement Officer invited Marquette Associates (Marquette), per the Board's request, to provide a ten minute presentation and time for discussion.

[Marquette Associates staff presented to the Board on their qualifications, experience, and costs.]

Questions for Marquette:

Mr. Frerichs thanked Marquette staff for their presentation and opened up the floor for questions.

Mr. Rappaport began by asking about the uniqueness of Secure Choice and how that would affect Marquette's decision on underlying managers for the Program. Marquette stated that any program would need a core set of low-cost, transparent, plain-vanilla options. Marquette further added that the firm would consider about what options an investment manager was proposing.

Mr. Rappaport followed up with a question about three investment tiers Marquette presented. Marquette responded that tier one – a low-cost, passively managed fund would play the largest role, and tiers 2 and 3 would be included to ensure that those who are sophisticated would have options..

Ms. Martinez asked how Marquette would set up information for participants and how they would ensure asset managers would participate. Marquette responded that the record keeper would play a significant role in this space. They discussed their previous experience working on communication campaigns with record keepers and the need to ensure managers to ensure were proactively reaching out to record keepers and participants. It would be a partnership approach.

Ms. Martinez asked if any plans had ever been overwhelmed by the amount information provided at the beginning. Marquette responded by saying that early on, there will be a lot of questions with this type of program and it's important to make sure program administrators understand the heavy lifting that will be needed for the next twelve months. They believe fact sheets with clear and simple language are usually the best way to make sure people relate to the information and the recommendations. Education up front and communication along the way is essential. Marquette reiterated the importance of core, plain vanilla, and simple options.

Mr. Marzahl asked what Marquette recommends avoiding based on their experience. Marquette replied that even though this is a new program, there are still a number of best practices that should be followed and that would be part of their fiduciary obligation.

Ms. Martinez asked how they manage expectations for keeping fees low and still providing some of the best asset managers in the space. Marquette believed their experience working on other

Chicago plans and other public plans provides leverage and buying power. Ms. Martinez asked if they would leverage just Illinois plans or plans across the country. Marquette clarified that they would leverage based on any plan within the firm, not just those in-state.

Mr. Rappaport asked what Marquette's opinion is about some of the newer automated investing platforms, such as Wealthfront or Betterment. Marquette was familiar with them, but had no direct client exposure.

Ms. Hutchinson asked specifically about Marquette's experience with starting programs/plans. Marquette pointed to a complete start-up they did with a significant DC client that has participants likely similar to Secure Choice. They also touched on their work with one state's ABLE Program, which will be a first in the nation.

Ms. Martinez asked how Marquette staff would respond if they provide recommendations and the Board comes back with requests for something more passive or conservative. Marquette replied that this would be a partnership. They lay out their rational, best recommendations etc., and most of the time they get buy-in. But, if they don't, they go back and rethink recommendations. Ms. Martinez asked about availability for additional discussions and Marquette noted that they are available since they are right across the street and have a capped number of clients.

Mr. Frerichs thanked Marquette Associates for attending. [Representatives of Marquette exited at this time.]

Board Discussion:

Mr. Frerichs asked for feedback from Board members after meeting with Marquette.

Ms. Martinez felt Marquette was strong and all-encompassing with good information sources. She liked their availability and said they seemed responsive to whatever group they're working with. She likes that they would use their expertise but not preclude the Board from making suggestions or changes.

Mr. Rauschenberger, said he was comfortable with the presentation but still of the mindset that the Board should circle back and redo the RFP.

Ms. Hutchinson was comfortable with what she heard and felt the presentation was good, but not having heard the other presentations, this felt isolated. She liked their responsiveness and that they're nearby.

Mr. Marzahl seconded what Ms. Hutchinson said. It was a positive, affirming presentation but at the end of the day it's how they deliver.

Mr. Potts stated that in his discussions with the Comptroller, they are somewhat concerned about fees and how that will impact some of the participants and would hate to offer investment options that could underperform the market. Mr. Potts noted that he didn't have the opportunity see the fees or any of the materials handed out by Marquette.

Mr. Federle and Mr. Garcia said that Marquette had the lowest cost of all the respondents. Mr. Federle noted that Marquette staff addressed participant costs and the importance of a more conservative approach in their presentation while acknowledging that they are subject to the decisions of the Board.

Mr. Rappaport said it was an impressive presentation and consistent with their lengthier presentation and RFP responses. His interpretation of their opinion on the uniqueness of Secure Choice was that it should have a key set of core options. He felt Marquette touched on part of his concerns but didn't feel they were fully addressed. He also had concerns about Marquette's opinion that all three tiers would be utilized. He recognized that the Board has control over the process but if this is Marquette's best thinking, he still had the reservations he expressed prior to this meeting.

Mr. Rauschenberger noted his research outside of this meeting and referenced a December 12th article in Crain's about the Illinois State Board of Investments. He stated that he is not predisposed for or against Marquette but given the environment we are in today, we need to be overly cautious.

Mr. Rauschenberger motioned that the Secure Choice Board authorize the Treasurer's staff to draft a new RFP for the investment advisor role at the Illinois Secure Choice Savings Board that will be issued upon approval of the full Board. (Mr. Rauschenberger provided staff the motion in writing.) Mr. Rappaport seconded the motion.

Mr. Marzahl asked for clarification on the rules of procurement and whether or not the motion for a new RFP would change the role that the Board plays in the process. Mr. Horton provided background explaining the role of the Chief Procurement Officer and stated that the agency staff conduct the scoring process and bring the results back to the Board. Mr. Horton posed to the Board the question of whether or not members were comfortable both participating in the scoring process while also being the overseers of the process and whether they saw a conflict of interest in playing both roles.

Ms. Hutchinson suggested that since there are three constitutionals on the Board, they could delegate someone from their staff to participate in the scoring. Mr. Horton agreed that there are multi-agency agreements but did not know of a situation where a board member would designate a scorer. Mr. Horton explained that it is typically the employees of the agencies who score, but that is a separate issue from the idea of board members being responsible for overseeing the process while also scoring or designating a scorer.

Mr. Rauschenberger stated his understanding from a previous meeting that Board members could participate in meetings and score. He did not realize that when the Board gave authority to the Treasurer's Office to hire an investment advisor, that he would not be able to participate in a final selection.

Mr. Horton noted that concerns were not raised by Board members earlier in the process but rather, after the number one choice was already selected and announced. Mr. Rauschenberger agreed but noted that through his individual research and the Crain's article from the previous week, he felt it was important to step back and was committed to offering as much time as necessary.

Mr. Frerichs delineated the various steps and decisions the board made up to this point, including giving his office the authority to find an investment advisor, unanimously approving the minutes confirming that decision, circulation of the RFP to the Board and investment subcommittee, creation of the investment framework memo, opportunities for increased Board involvement in the interview process including sitting in on the in-person interviews. He noted that only one Board member chose to participate. Mr. Frerichs acknowledged the Board's desire for increased involvement and stated his desire to support that however he can. He also acknowledged the Board's interest in creating a set of investment principles. He suggested that instead of voting on the motion, the Board table the motion and go back to the subcommittee to begin discussions on the investment principles.

Mr. Marzahl asked if the suggestion was to not make a decision on the investment advisor today, but instead have the subcommittee create the investment principles and then the Board could use them to inform whether Board affirms the investment advisor recommendation in addition to future choices the Board will make related to the investment manager. Mr. Frerichs confirmed that that was his suggestion, but clarified that while he was suggesting the subcommittee, all Board members would be welcome to participate.

Mr. Rauschenberger asked to call for the question since he heard no support for the suggestion to table the motion.

Mr. Frerichs requested more discussion before the vote on how the Board planned to move forward if it made the decision to cancel the RFP. He pointed out the significant staff time that was put in to this process and noted the impact a delay would have on the implementation timeline. Mr. Rauschenberger acknowledged he understood the ramifications but wanted to take a step back to make sure Board members could participate as much as is legally possible. He reiterated his concern about Marquette based on the Crain's article and his research.

Ms. Martinez asked if the plan would be to take the exact same RFP, go through the same process, but this time instead of having Treasurer's staff score, he would like to have the Board members would score. Mr. Rauschenberger stated he would like a legal opinion on that, but yes that is what he believed should happen. He thinks there was a misunderstanding or a miscommunication that the Board would be obligated to take the first choice. He acknowledged he was ignorant to that fact when granting authority. His stated that his motion was not a reflection on the Treasurer's staff or the work that has been done.

Mr. Horton asked whether Mr. Rauschenberger would be comfortable if, on the second go around, the same vendor were picked. He acknowledged he would be comfortable. Mr. Horton clarified that the Treasurer's staff cannot participate in a procurement process if it does not follow the Office's rule. He also raised concerns that it was unlikely the Treasurer's office would pay for a contract that was not done within its own procurement process.

Ms. Martinez acknowledged that the Board has no staff or support. She pointed out that she asked early on to receive information throughout the process to ensure she had no issues. She had no issues with the RFP, the questions, or the process. She also noted that there were not that many respondents despite the number of advisors that exist. She stated that she understood the concerns being raised but acknowledged the lack of funding and also the fact that doing the process again would be unlikely to lead to a different result.

Ms. Hutchinson asked for clarification on whether or not the agencies could work together to conduct the procurement without running afoul of the Treasurer's policy. She asked for clarity on whether other state employees could participate, not necessarily Board members. Mr. Horton responded that those sort of inter-agency agreements do exist. He stated that non-state employees cannot participate in the procurement but there are allowances for state employees from another agency to participate. After additional discussion it was agreed that if the Board members were not scoring but other state employees were, that would alleviate some concerns related to participating in scoring while simultaneously overseeing the process.

Ms. Martinez asked for clarification on whether the issue then was the original set of scorers. She stated she still did not see how a new set of scorers would improve the result. She asked for clarification on what would be improved and what would be changed. Mr. Rauschenberger

reiterated that this had nothing to do with the staff performance or the process but rather his concern with the final selection based on his research, the Crain's article, and his wish to have been more involved in the process. He reiterated his frustration with the lack of funding for the Board but stated his strong feeling that the RFP should be redone.

Mr. Frerichs reiterated his concern that he was not clear on the path going forward and offered a friendly amendment to defer this decision until the Board had determined what its path would be. He stated his fear that if the motion passed it would grind the work of the Board to a halt. He reiterated his reluctance to move things to a halt without any idea of what direction to go in. Ms. Hutchinson asked what it would look like to determine the path forward. Mr. Frerichs stated it would require bringing in members from the various agencies to enable decision making etc. Mr. Rauschenberger asked if these working group meetings would be open to the public. Mr. Horton stated that anytime a quorum of the Board is present and discussing Board business, then the Open Meetings Act applies.

Mr. Marzahl stated the Board could bring together legal staff to discern what is possible under the procurement code and then determine how the agencies could work together. He agreed that moving forward on the motion without a back-up plan could be problematic.

Mr. Rauschenberger noted that this would be moot if his motion fails. Mr. Marzahl noted that if the motion passed the Board did not have a plan for going forward.

Ms. Martinez reiterated her concern that if the Board rejects the selection, the Treasurer's Office would be unable to participate in a new process. Mr. Rauschenberger asked if boards ever reject the first the option presented to them. Ms. Martinez explained that her point was not to say boards always accept the first offer, but that they use their own staff so it's not an issue. She acknowledged this is new ground and the Treasurer's Office attempted to be as transparent as possible. She pointed out that there would have to be different staff to score, or the Board would have to score. Ms. Martinez stated that she has never seen a Board reject the RFP selection without finding a serious flaw in the process,, and not because they didn't like the ultimate choice.

Mr. Horton added that the Chief Procurement Office is the only person who has the authority to cancel an RFP. Ms. Hutchinson stated that her issue is not who was chosen, but the lack of clarity on the process where the Board did not have input on the final selection.

Mr. Frerichs asked if Mr. Rauschenberger rejected the friendly amendment. Mr. Rauschenberger stated he did. Mr. Frerichs asked for the clerk to call the role on Mr. Rauschenberger's motion.

The original motion, made by Mr. Rauschenberger and seconded by Mr. Rappaport, passed.

NEW BUSINESS

No new business was presented.

PUBLIC COMMENT

There was no public comment.

ADJOURNMENT:

Mr. Frerichs stated that since there was no additional business before the Board, the meeting was adjourned.