

**CITY OF BELLEVUE
457 TRUST/PLAN/IAC COMMITTEE
Meeting Minutes**

May 19, 2015
9:30 a.m.

Conference Room 3E-105
Bellevue City Hall

MEMBERS PRESENT: Gail Davila, Human Resources, Chair
Arnaz Bharucha¹, Treasury
Patrick Harris, Parks & Community Services
Jerome Litzau, Police Department

MEMBER ABSENT: Darek Jarzynski, Transportation, Secretary

OTHERS PRESENT: Trent Sanden, UBS Institutional Consulting
Susan Wilson, Empower Retirement
Siona Windsor, City Attorney's Office

MINUTES TAKER: Michelle Cash

I. CALL TO ORDER

The meeting was called to order at 9:35 a.m. by Chair Davila.

II. PUBLIC COMMENTS

None.

III. ELECTIONS

None.

IV. APPROVAL OF AGENDA

Motion by Mr. Harris and second by Mr. Litzau to approve the meeting agenda as presented. Motion carried unanimously (3-0).

¹ Arrived at 9:38 a.m.

V. APPROVAL OF MINUTES

Motion by Mr. Litzau and second by Mr. Harris to approve the February 24, 2015 Bellevue 457 Trust/Plan/IAC Committee meeting minutes as presented. Motion carried unanimously (3-0).

VI. REPORTS

A. Chair/Staff

At the last committee meeting, Mr. Litzau inquired if beneficiary designations could be included during open enrollment. Since open enrollments are handled on a different platform, Chair Davila clarified that this is not an option. However, she suggested that the *Connect My Benefits* option be promoted as a way to add a beneficiary designee.

Chair Davila reported that the Empower Retirement plan amendments have been adopted. She also distributed a Defined Contribution Legal and Regulatory Update to committee members.

VII. EXECUTIVE SESSION

None.

VIII. ACTION ITEMS

A. Review UBS Quarterly Report and Approve Recommendations

Mr. Sanden discussed the market snapshot for 1Q15. Overall, nearly all sectors had positive performance in 1Q15. Although the Utilities sector was the top performing sector for 4Q14, it was the worst performing sector for 1Q15. The Healthcare sector continues to excel.

The following is UBS Institutional Consulting's Quarterly Report, provided by Mr. Sanden:

PIMCO Total Return Inst'l:

The PIMCO Total Return fund outperformed the benchmark in the 1Q15 and in nearly all other measured time periods. Last week, PIMCO announced that their CIO of Equities resigned. This is the second CIO of Equities that has left the firm in the past few years. This development does not directly affect the fixed income team managing the Total Return Fund. UBS recommends retaining PIMCO on an administrative watch (effective 4Q13), due to management changes, and is closely monitoring the management structure of the firm.

American Beacon SiM High Yield Opps Inst.:

The American Beacon fund closely tracked the benchmark in the 1Q15, and outperformed the benchmark in the 1 and 3 year time periods.

Great-West Portfolio:

The Great-West Portfolio continues to offer participants good competitive returns. The fund closely tracked the benchmark in the 3 and 5 year time periods.

JHancock3 Disciplined Value R6:

The JHancock3 Disciplined Value Mid Cap R6 fund protected capital well in the 1Q15. The fund underperformed the benchmark in the 1Q15 but outperformed the benchmark in all other measured time periods.

SSgA S&P 500:

The SSgA S&P 500 fund closely tracked the benchmark relative to fees and the expense ratio.

Mainstay Large Cap Growth I

The Mainstay Large Cap Growth I fund underperformed the benchmark in the 1Q15 and in all other measured time periods. However, the fund's rankings are favorable. UBS recommends adding Mainstay Large Cap Growth I to the watch list, effective 1Q15, since the fund underperformed the benchmark target in the 3 and 5 year time periods and is below the ranking goal in the 3 year time period.

JP Morgan Mid-Cap Value Inst'l:

The JP Morgan Mid-Cap Value fund outperformed the benchmark in the 1Q15 and in all other measured time periods.

Munder Mid-Cap Core Growth:

Performance for the Munder Mid-Cap Core Growth Y fund continues to improve. Although the fund underperformed in nearly all measured time periods, the risk adjusted rankings are favorable. The fund is meeting all investment policy ranking goals.

RS Partners:

The RS Partners fund underperformed the benchmark in the 1Q15 and nearly all other measured time periods. The fund underperformance was largely due to the decline in Energy prices. In addition the expense ratio of this class share is particularly high. The fund was placed on the watch list in 1Q14. UBS recommends retaining RS Partners on the watch list, since the fund underperformed the benchmark target in the 3 and 5 year time periods and is below the ranking goal in the 3 and 5 year time periods.

Baron Small Cap:

The Baron Small Cap fund underperformed the benchmark in the 1Q15 and in all other measured time periods. The fund typically has protected capital well during market downturns. The fund was placed on the watch list in 4Q11. UBS Institutional Consulting recommends that Baron Small Cap be removed from the watch list since the fund is meeting the policy goals.

EuroPacific Growth R6:

The EuroPacific Growth fund outperformed the benchmark in the 1Q15 and all other measured time periods.

Motion by Ms. Bharucha and second by Mr. Harris to approve the UBS Institutional Consulting recommendations for investments for First Quarter 2015. Motion carried unanimously (4-0).

Mr. Sanden summarized the UBS Institutional Consulting Market Outlook. In addition, he called attention to the recent recognition that UBS received from *Barron's*. UBS Institutional Consulting Group, Northwest was named the #2 institutional consulting team in the country by *Barron's*. In addition, Mr. Sanden is expected to be named one of *Financial Times* top retirement plan consultants.

IX. INFORMATION/DISCUSSION ITEMS

A. Empower Retirement Report

- 2015 Quarterly Summary Report

Ms. Wilson provided a 1Q15 overview for the 457 Plan. There was an increase in plan assets of approximately 3%. Plan assets totaled approximately \$53,695,583 as of March 31, 2015. In addition, Ms. Wilson discussed the activities conducted in 1Q15. The Empower Retirement quarterly summary was included in the committee packet.

Ms. Wilson provided highlights for the following information:

- Individual Appointments
- Roll-Ins
- New Enrollments
- 2Q15 Planned Activities
- Average Participant Balance by Age
- Summary of Profile Fund Fees
- Asset Summary by Investment Option

Committee members discussed additional opportunities for educating employees about the 457 Plan. In particular, they would like to target all employees that have been with the city for 5 or more years; and target employees over 50 to ensure they are on the right track for retirement saving.

Committee members requested that Empower Retirement identify the number of participants that have designated 100% of their investment to the Key Guaranteed Portfolio Fund (excluding the risk based fund). This will help ensure that employees are well diversified.

B. Staff Plan Report

- Quarterly Recap of Plan Revenues and Expenses

The Plan Revenues/Expenses for 1Q15 were included in the committee packet. The ending balance for the Administrative Fee Holding Account was \$32,399.

C. Fees Discussion

Ms. Davila explained that in 2010, Great West Retirement Services agreed to reduce the fee it charged the plan from 21 basis points to 12 basis points. The result was a \$40,000 per year savings to the Plan and the City of Bellevue Section 457 Plan Committee used a majority of the savings to reduce participant fees.

In 2012, the 457 Plan Committee again reviewed the 457 plan fee structure to determine how to best utilize the balance in the administration account in order to meet Plan expenses, reduce or offset fees and provide clear fees transparency to participants. Ms. Davila noted that different estimates and fees scenarios were analyzed and the committee implemented the following changes:

- Moved to institutional class share funds wherever possible that had lower fees for participants and credited further revenue generated from these funds back to participants investing in these funds.
- Increased participant fees from \$12/ppt/year to \$71/ppt/year and the asset fee from 2 bp per year to 12.5 bp per year to cover continuing plan expenses.
- Credited current revenue in the administrative account of \$114, 534 over a three year period to participants in the plan in order to temporarily offset the \$71/per year participant fees from 3Q12 through 3Q15.

Ms. Davila noted that the administrative account credit ($\$71/\text{yr} = \17.75 per quarter) for participants will end 3Q15. Therefore, the Committee must determine the next steps for Plan expenses and fees for 2016.

Committee members reviewed the Guiding Principles for the 457 fees. Fees need to be fair and equitable; generate sufficient revenue to cover costs; and provide for contingencies. These principles are reviewed annually.

Originally, the following risks were identified if the fees were not set high enough to cover expenses:

- a. Asset Values decrease - leading to decreased participant line item asset-based fees not covering fixed costs.
- b. Number of participants decrease - leading to decreased participant line item per head fees not covering fixed costs.
- c. Mutual Fund revenue sharing agreements change - leading to less revenue available to cover fixed costs.
- d. GWRS Portfolio Funds - revenue sharing agreements change.
- e. Participants switch investments to funds not paying as much revenue sharing - leading to less revenue available to cover fixed costs.
- f. Unanticipated expenditure (e.g., higher legal fees for restatement or new law, RFP, audit, etc.) – leading to higher expenses than revenues.

However, Mr. Sanden noted that items c, d, and e above have been eliminated given the plan is not reliant on any revenue generated/rebated by mutual funds. All revenue sharing generated by investments is credited back to participants per industry best practice. He noted that the Plan does strive to utilize lower cost/lower revenue generating funds where practicable.

To help mitigate some of the above risks, the following items were put into place:

- a. Retain some participant line item asset-based fees to moderate potential impact of fewer participants and lower asset values.
- b. Retain some participant line item per-head fees to moderate potential impact of lower asset values.
- c. Move to fund class shares with lower revenue sharing – to mitigate impact of lower asset values, fund revenue agreement changes or law changes.
- d. Attempt to maintain a reserve level of 20% of GWRS [now Empower Retirement] and vendor fees or \$20,000 – to mitigate unanticipated expenses.

Mr. Sanden noted that items c above is no longer applicable given the Plan is not reliant on any revenue generated/rebated by mutual funds. All revenue sharing generated by investments is credited back to participants per industry best practice. The plan does strive to utilize lower cost/lower revenue generating funds where practicable.

Ms. Davila noted that Empower Retirement's contract ends in June. Because the 457 Plan is not bound by ERISA, the committee can potentially follow the professional services contract outlined by the city. She questioned if the committee favors a full RFP for recordkeeping, while simultaneously extending Empower Retirement's contract until the RFP process is complete. Committee members discussed the pros and cons of a RFP versus RFI versus RFQ. Ms. Davila noted that ultimately, the recordkeeper contract will impact the participant fees.

Committee members discussed the option of asking the city for assistance to cover a portion of the fees or to borrow the funds if needed. However, this option was not favored. Mr. Litzau requested information about the industry standard and how other entities pay for their fees and if the fees are supplemented.

X. OTHER BUSINESS

None.

XI. ADJOURNMENT

The next regularly scheduled meeting will be held on August 25, 2015.

By general consensus the meeting was adjourned at 11:27 a.m.

Darek Jarzynski, 457 Trust/Plan/IAC Committee Secretary