

**CITY OF BELLEVUE
457 TRUST COMMITTEE
Meeting Minutes**

August 25, 2015
9:30 a.m.

Conference Room 3E-105
Bellevue City Hall

MEMBERS PRESENT: Gail Davila, Human Resources, Chair
Darek Jarzynski, Transportation, Secretary
Arnaz Bharucha, Treasury
Jerome Litzau, Police Department

MEMBER ABSENT: Patrick Harris, Parks & Community Services

OTHERS PRESENT: Trent Sanden, UBS Institutional Consulting
Susan Wilson, Empower Retirement

MINUTES TAKER: Michelle Cash

I. CALL TO ORDER

The meeting was called to order at 9:30 a.m. by Chair Davila.

II. PUBLIC COMMENTS

None.

III. ELECTIONS

None.

IV. APPROVAL OF AGENDA

Motion by Mr. Jarzynski and second by Ms. Bharucha to approve the meeting agenda as presented. Motion carried unanimously (4-0).

V. APPROVAL OF MINUTES

Motion by Ms. Bharucha and second by Mr. Litzau to approve the May 19, 2015 Bellevue 457 Trust Committee meeting minutes as presented. Motion carried unanimously (4-0).

VI. REPORTS

A. Chair/Staff

Chair Davila announced that she will be attending the upcoming National Association of Governmental Defined Compensation Administration Annual Conference October 27-30, 2015.

Chair Davila provided the following follow-up responses to issues raised during the May committee meeting:

- An analysis was conducted of the number of participants that have designated 100% of their investment in the Key Guaranteed Portfolio Fund (excluding the risk based fund). It was determined that it wasn't appropriate to target individual employees that participate in this fund. However, a general educational session was conducted.
- In regards to fees and if other entities subsidize fees, an analysis was conducted. Although it is difficult to compare fees because there are so many variables (i.e., fund balance, number of employees, number of active participants, service providers, etc.), the research concluded that no employer subsidizes fees for a plan similar to the 457 Plan.

VII. EXECUTIVE SESSION

None.

VIII. ACTION ITEMS

A. Review UBS Quarterly Report and Approve Recommendations

Mr. Sanden discussed the market snapshot for 2Q15. Overall, nearly all sectors had positive performance in 2Q15, with slight negative performance in the fixed income market. There was also a slight decline in the overall market assets.

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 2Q15 and in nearly all other measured time periods. UBS recommends removing PIMCO from the administrative watch that was placed in 4Q13. UBS is confident in PIMCO's management team and structure.

American Beacon SiM High Yield Opps Inst.:

The American Beacon fund closely tracked the benchmark in the 2Q15, and outperformed the benchmark in the 1 and 3 year time periods.

Great-West Profile Funds:

The Great-West Profile Funds continue 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 2Q15. The fund outperformed the benchmark in the 2Q15 and 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 outperformed the benchmark in the 2Q15 and in nearly all other measured time periods. UBS recommends removing Mainstay Large Cap Growth I from the watch list effective 2Q15, since it is meeting the benchmark and ranking goals. The fund was added to the watch list 1Q15.

JP Morgan Mid-Cap Value Inst'l:

The JP Morgan Mid-Cap Value fund closely tracked the benchmark in the 2Q15 and in the year-to-date and 1 year time periods.

Munder Mid-Cap Core Growth:

Performance for the Munder Mid-Cap Core Growth Y fund continues to improve. The fund has protected capital well in 2Q15. The fund outperformed the benchmark in the 2Q15, year-to-date, and 1 year time periods. However, the fund underperformed the benchmark in the 3, 5, 7, and 10 year time periods. The fund is meeting all investment policy ranking goals.

RS Partners:

Although the RS Partners fund outperformed the benchmark in the 2Q15, it underperformed in the 1 year time period. The fund closely tracked the benchmark in the 3, 5, 7, and 10 year time periods. The rankings for RS Partners are poor. The fund tends to be overweight in certain sectors, specifically Energy, which has hindered performance. 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. However, a search to review other candidates to possibly replace RS Partners was recommended and agreed upon by the Committee.

Baron Small Cap:

The Baron Small Cap fund underperformed the benchmark in the 2Q15 and in all other measured time periods. UBS recommends that Baron Small Cap be added back to the watch list, effective 2Q15, 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.

The Baron Small Cap Fund has been on the watch list all except one quarter dating back to 4Q11. This fund was previously on the watch list but removed in 1Q15 for positive performance. However, a search to review other candidates to possibly replace Baron Small Cap was recommended and agreed upon by the Committee.

EuroPacific Growth R6:

The EuroPacific Growth fund outperformed the benchmark in the 2Q15 and all other measured time periods.

Committee Members concurred that a search should be conducted for the RS Partners Small Value fund and Baron Small Growth fund.

Motion by Mr. Litzau and second by Mr. Jarzynski to approve the UBS Institutional Consulting recommendations for investments for Second Quarter 2015. Motion carried unanimously (4-0).

Mr. Sanden summarized the UBS Institutional Consulting Market Outlook, including China's recent market underperformance and the impacts of this performance. In addition, he distributed two research reports: *Markets in Retreat* and *A Black Monday for Markets*. Mr. Sanden encouraged Committee Members to listen to a recent client call conducted by UBS to discuss the current market conditions.

IX. INFORMATION/DISCUSSION ITEMS

A. Empower Retirement Report

- 2015 Quarterly Summary Report

Ms. Davila noted that Empower Retirement is starting to send out the Defined Contribution Legal and Regulatory Update quarterly. The July edition included information about a recent U.S. Supreme Court decision to hold the ruling that Plan fiduciaries have an ongoing duty to monitor Plan investments. It also included valuable tax penalty exemption information for "Public Safety Employees."

Ms. Wilson provided a 2Q15 overview for the 457 Plan. There was a decrease in Plan assets of approximately .20%. Plan assets totaled approximately \$53,585,889 as of June 30, 2015. In addition, Ms. Wilson discussed the activities conducted in 2Q15. 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
- 3Q15 Planned Activities

- Average Participant Balance by Age
- Summary of Profile Fund Fees
- Asset Summary by Investment Option

B. Staff Plan Report

- Quarterly Recap of Plan Revenues and Expenses

Ms. Davila noted that there was recently a recordkeeping discrepancy on a rebate during 2Q15. This discrepancy was noticed during an internal recordkeeper audit. Participant accounts were credited properly but the total rebate amount was not deducted from the holding account. Instead of the quarterly rebate amount of \$9,544.50, only \$5,316.03 was deducted. The amount in question was debited rather than credited to the account. The discrepancy amount of \$4,228.47 will be deducted from the holding account and reflected in the 3Q15 Account Reconciliation Report.

The Plan Revenues/Expenses for 2Q15 were included in the Committee packet. The ending balance for the Administrative Fee Holding Account is listed as \$27,913. Due to the recordkeeping discrepancy noted above, the 2Q15 period ending balance is \$23, 685.41.

C. Fees Discussion

Committee Members continued their discussions regarding the 457 Plan fee structure. Ms. Davila noted that the administrative account credit (\$71/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 discussed the option of changing the 457 Plan to the state's retirement plan. However, Mr. Sanden pointed out that the Committee would still need to review the Plan investments and fees. He added that the investment fees for the state's plan appear to be lower but this is largely due to the State Plan offering predominately index funds which could be replicated in the current Plan if the Committee chose to do so. The current 457 Plan investment offerings could mirror the state's plan but not the reverse. Mr. Sanden added that the services that Empower Retirement provides may not be available with the state's plan. Today's discussion is not intended to compare all of the features offered by each platform but rather continue to educate the Committee on some of the features offered by each platform.

Ms. Davila suggested that the Committee continue their fee discussion after the final revenue sharing has been applied in September. In the meantime, the 457 Plan Review Task Force will continue to evaluate options.

X. OTHER BUSINESS

None.

XI. ADJOURNMENT

The next regularly scheduled meeting will be held on November 17, 2015.

By general consensus the meeting was adjourned at 11:04 a.m.

Darek Jarzynski, 457 Trust/Plan/IAC Committee Secretary

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