

MINUTES

401(K)/457 ADVISORY COMMITTEE MEETING

East Bay Municipal Utility District

AUGUST 28, 2013

The regular quarterly meeting of the EBMUD 401(k)/457 Advisory Committee convened at 9:10 am, Wednesday, August 28, 2013 in the Large Training Room of the Administration Building. Committee Chairperson, Delores Turner, called the meeting to order.

PRESENT: Cynthia Adkisson, Dave Beyer, Garth Hall, Wanda Hendrix, Gerald Hunter, Eric Larsen, Wayne Lee, Eric Sandler, and Delores Turner

ABSENT: Curtis Woodring

STAFF PRESENT: Lisa Sorani, Elizabeth Grassetti, and Dhanyale Dunbar,

HYAS GROUP CONSULTANT PRESENT: Greg Settle

PUBLIC COMMENT: None.

APPROVAL OF JUNE 5, 2013 MINUTES: Dave Beyer requested the minutes in the “Other Items” section be amended to reflect he, not Garth Hall, abstained from the vote on adding socially responsible funds to the core options. Garth Hall requested the “done-in-one” in the “Items Calendared” section be corrected to “one-in-done”. Eric Sandler moved the Committee accept the June 5, 2013 minutes as amended. The motion was seconded by Dave Correa and passed unanimously.

INTRODUCTION: Lisa Sorani introduced David Correa as the new Local 444 Member replacing Eric Larsen, and David Valenzuela as the new Local 2019 Member replacing Wayne Lee.

STAFF REPORT: Lisa Sorani updated the Committee on the 2nd quarter assets, fund value, and distributions. She also provided industry peer comparisons on loans, average account balances across all three plans, and participant distributions after separation from the District. Of concern was that 60% of rollovers from EBMUD Plans were to Fidelity IRAs, which is unusually high.

INVESTMENT PERFORMANCE REPORT: Greg Settle from Hyas Group discussed the importance of the Investment Policy Statement (IPS), and how it can provide guidance and protect fiduciaries. Greg then presented a draft of an updated IPS for the EBMUD Plans. The drafted IPS was sent to Committee Members for feedback and review, and will be discussed at a future meeting.

PLAN ADMINISTRATION COSTS & PLAN REVENUE SHARE CREDITS: Greg Settle, from Hyas Group provided an overview of Revenue Sharing, Plan Expenses, and Expense Policy Guidelines for the Committee. He discussed how the industry had changed their fee structures as assets grew. In the past fees were typically \$15-30 per participant per year, but over time the

Plan Administration Fees went to a percentage of assets and were “unitized” into the share price of all Plan Assets. In addition to the fees that were charged by the Third Party Administrators (TPAs), firms received funds from Investment Providers for providing marketing and other administrative services. TPA firms gradually reduced and eliminated the Fees, with the result being that TPA firm’s recordkeeping fees were less than the revenue sharing they were receiving from investment providers. This excess revenue is considered plan assets and can be returned to the plan. Greg further explained that public sector defined contribution plans can use Revenue Share Assets to pay for Plan expenses such as, investment consulting fees, Committee education/training, RFP costs, and other Plan services from the TPA.

Greg recommended that the Committee consider a Revenue Sharing and Expense Payment Policy. The policy would provide guidance as to how plan expenses are to be paid and how to treat any excess revenue that is generated.

Elizabeth Grassetti (staff) provided information on EBMUD Plans’ actual fees. She said that when EBMUD first contracted with Fidelity Investments in January 2000, the District paid a recordkeeping fee of \$10 per participant per year. In May 2005, EBMUD negotiated a new bundled contract with Fidelity that reduced the fees to \$0 and Fidelity received payment through revenue sharing funds in the Plans. The Revenue Share agreements are determined between Fidelity and the Fund companies. Effective January 2012, Fidelity reduced the recordkeeping costs to 9 basis points of total plan assets (as of 12/31/11), which was earned through revenue sharing funds in the District Plans. Any excess Revenue Share above 9 basis points was credited to the EBMUD Plans. Effective January 2013, EBMUD negotiated a new contract with Fidelity that reduced the recordkeeping costs to 4.5 basis points of total Plan assets (as of 12/31/12), which was earned through revenue sharing funds in the District Plans. Any excess Revenue Share above 4.5 basis points is credited to the EBMUD Plans.

Lisa Sorani (staff) presented a Revenue Sharing and Expense Payment Policy draft for the Committee that would provide for Revenue Share Credits to be deposited in an account at Fidelity. Those funds may be used to pay for Plan expenses or distributed to participants on a pro-rata or per capita basis. The Committee will continue discussion on the drafted policy at the next meeting.

MARKET OVERVIEW: Greg Settle of Hyas Group provided an overview of the market for the second quarter of 2013. The economy continued to grow at a slow moderate pace. Treasury yields rose dramatically during the second quarter following the Fed’s announcement that it would begin reducing bond purchases if the economy continued to strengthen. U.S. equity markets were up 2.9% for large caps and 3.01% for small caps. Foreign stock markets lost 3.11% in the second quarter, which virtually erased the first quarter’s return of 3.17%. A globally balanced portfolio returned -0.59% for the quarter and 3.30% year-to-date.

INVESTMENT PERFORMANCE REPORT & ANALYST: Greg Settle of Hyas Group highlighted the poor performance of three funds in the second quarter; Fidelity MIP II Class 1’s poor performance was due to a consistently low peer group ranking, Heartland Value Institutional lagged it’s benchmark and peer group for the trailing five years, and Neuberger Berman Genesis Institutional due to its blended strategy that includes small and mid-cap stocks. Garth Hall moved that the Committee change the Plan investment category from Small Cap Blend to Small Cap Growth and Small Cap Value. David Correa seconded the motion. Discussion ensued on options of adding Blend instead of eliminating the other two categories and adding an index fund in the category. The motion failed with six nays and two ayes and one member abstained.

REPLACEMENT OF NEUBERGER BERMAN GENESIS: Greg Settle reported that Hyas Group performed a small cap blend manager search at the Committee's request to replace the Neuberger Berman Genesis Fund. The Committee reviewed the outcome of the search and selected Artisan Small Cap. Cynthia Adkisson moved that the Committee add Artisan Small Cap, close Neuberger Berman Genesis and Heartland Value and map the funds 50/50 to Artisan Small Cap / Huber Small Cap Value. The motion was seconded by David Correa and passed with eight ayes and one abstention.

REPLACEMENT OF FIDELITY FREEDOM K FUNDS: Greg Settle reminded the Committee that he presented target date funds to replace the current Fidelity Freedom K funds at the June meeting. Further discussion and action were tabled to this meeting. The proposed investment managers were JP Morgan SMARTRetirement, Pyramis Index, Pyramis Core, T. Rowe Price Retirement, and Vanguard Target Date. Hyas Group recommended the Vanguard Target Date Fund suite due to its low cost and successful short and long-term performance. Garth Hall moved the Committee close the current Fidelity Freedom K funds and replace them with the Vanguard Target Date Fund suite. David Beyer seconded the motion. The motion passed with eight ayes and one abstention.

ADDITION OF MONEY MARKET FUND: Greg Settle informed the Committee that the stable value fund was yielding less than 1.2% and would take a while to catch up with money market. He recommended the addition of the money market category back to the investment lineup. The Committee requested Hyas Group perform a money market search and present at the next meeting.

ITEMS CALENDARED FOR FUTURE MEETINGS: The following items were set for follow-up:

- The Investment Policy Statement
- Revenue Sharing and Expense Payment Policy
- The addition of a Money Market Fund

ADJOURNMENT: Cynthia Adkisson moved the meeting be adjourned. Gerald Hunter seconded the motion and the meeting adjourned at 12:00 p.m.