

MINUTES

401(K)/457 ADVISORY COMMITTEE MEETING

East Bay Municipal Utility District

MARCH 6, 2013

The regular first quarter meeting of the EBMUD 401(k)/457 Advisory Committee convened at 9:04am, Wednesday, March 6, 2013 in the Boardroom Annex of the Administration Building. Committee Member, Delores Turner, called the meeting to order.

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

ABSENT: NONE

STAFF PRESENT: Dhanyale Dunbar and Elizabeth Grassetti

FIDELITY STAFF PRESENT: Joe Casey, Ed Chen, Dee Johnson, Suzanne Rogers and Lesley Simsich

HYAS GROUP CONSULTANT PRESENT: Greg Settle

PUBLIC COMMENT: None

INTRODUCTION: Dee Johnson was introduced as the new Fidelity Communications Consultant and Joe Casey as the new Fidelity Planning and Guidance Consultant.

APPROVAL OF DECEMBER 5, 2012 MINUTES: Cynthia Adkisson moved the Committee accept the December 5, 2012 minutes. The motion was seconded by Gerald Hunter and carried by 9 votes, and Committee Member Delores Turner abstained as she was not present at the 12/5/12 meeting.

ECONOMY AND FINANCIAL MARKET OVERVIEW: Ed Chen gave an overview of the market for the fourth quarter of 2012. The markets were boosted from accommodative monetary policy and modest inflation pressure. U.S. stocks posted broad-based gains in 2012. Foreign stocks rallied. Commodities were weak. Fixed income gains were led by riskier investment categories.

CAUCUS: Cynthia Adkisson moved the Committee caucus to allow discussion of the roles and participation of Hyas and Fidelity at the meetings. The motion was seconded by Garth Hall and passed unanimously. The Committee agreed that Hyas should be present at the meetings as the consultant to provide structure and guidance. The Committee discussed Fidelity's ability to evaluate itself as a plan administrator and fund manager. Cynthia Adkisson moved the Plan Recordkeeper not attend the meetings during the Consultant's fund review. The motion was seconded by Eric Larsen and passed unanimously. Cynthia Adkisson moved the Consultant provide the market overview and fund analysis. The motion was seconded by Garth Hall and passed unanimously. The Committee agreed that the Recordkeeper attend the quarterly meetings to provide a service review.

SERVICE REVIEW: Suzanne Rogers provided a Plan service report as of 12/31/12. Combined Plan assets were \$267,862,631 and combined Plan participants were 2,924 with an average balance of \$91,608 – all of which were much higher than industry peers and same-size peers. The total number of participants with single investment funds was 199 for Fidelity Managed Income Portfolio II, 49 for Vanguard Institutional Index, 47 for PIMCO Total Return Institutional, 24 for Fidelity Balanced K, 22 for Fidelity Blue Chip Growth K, 564 for the Lifecycle Funds, and 68 for BrokerageLink. The top four funds with the

highest assets were Vanguard Institutional Index at \$29,816,343 (11.13% of Plan assets), Fidelity Managed Income Portfolio II at \$29,423,445 (10.98% of Plan assets), BrokerageLink at \$27,658,438 (10.33% of Plan assets), and PIMCO Total Return Institutional at \$25,025,041 (9.34% of Plan assets). New loan withdrawals were \$1,884,030 in 2012 compared to \$2,473.863 in 2011.

Fidelity will implement an Income Simulator online tool in March 2013, will soon launch NetBenefits 3.0 and the site will be usable on mobile devices. The Committee requested that Fidelity provide information on participant online activity (where they are clicking, amount of time spent, and what actions are taken) and loans and hardships (specific type of withdrawals and how they compare to industry peers). Eric Larsen requested Joe Casey visit the Wastewater location to give a presentation and meet one-on-one with participants. Public attendee, Doug Hoang, stated that a Fidelity Investment Center advised him to make future contact once he accumulated more assets in his account. Suzanne encouraged all Members to call the Fidelity phone representatives to gauge overall customer service. Gerald Hunter requested Fidelity provide a demonstration of the enhanced NetBenefits when it is launched.

Fidelity Investments staff exited the meeting after the Service Review.

QUARTERLY INVESTMENT REPORT: Greg Settle gave the 2012 fourth quarter investment report. Hyas will watch the performance and management of Morgan Stanley, but recommended the Committee take no immediate action. Heartland Value was still on watch and the Committee requested Hyas do a manager search and include Index funds. Wanda Hendrix suggested the Committee invite the Heartland Value fund manager to a meeting to explain the fund's performance and strategy. Neuberger Berman Genesis Fund Institutional underperformed its benchmark and ranked in the 85th percentile. The Freedom K funds underperformed below policy standards. The Hyas report used different benchmarks than Fidelity's report. The Committee agreed to take no action on the lifecycle funds, but did request Hyas provide more detailed performance information at the next meeting. Greg Settle informed the Committee that legislation was passed at year-end that would allow for the in-plan conversion of pre-tax 457 and 401(k) assets into after-tax "Roth" status. The IRS has not yet issued guidance on how this feature would be implemented and operated. David Beyer requested Hyas discuss at the next meeting the advantages of adding this Roth feature.

STABLE VALUE FUND: Greg Settle reported that ICMA initially agreed that its Vanguard Trust PLUS Fund would become NSCC traded, but reversed that decision. The fund cannot be added to the core investment options because Fidelity agreed in the current contract to record keep only NSCC traded funds. The 12-month put deadline on the MIP II fund ended on March 9, 2013. Greg reviewed four stable value options – Fidelity Managed Income Portfolio, Morley Stable Value Fund, Riversource Income, and Riversource Stable Capital. The MIP II fund is the most conservative with no GICs and a smaller allocation in mortgages. The other funds have up to 80% - 90% in mortgage backed securities, thus are more unpredictable as it is not known which direction interest rates will go. Such portfolio characteristics change when interest rates change, which wrap managers find to be risky. It was noted that unlike many other stable value funds, the Riversource Stable Capital Fund was never negative during the 2008 financial crisis. Most stable value funds charge 15 to 25 basis points, but the MIP II fund charges 35 basis points. The Committee agreed to request Fidelity lower the MIP II basis points. Cynthia Adkisson moved the Committee retain the Fidelity Managed Income Portfolio II Fund. The motion was seconded by David Beyer. Garth Hall suggested that if Fidelity did not lower basis points, staff would implement another one-year put on the MIP II fund. The motion carried by 8 votes, Eric Larsen abstained, and Eric Sandler was absent for the vote.

ITEMS CALENDARED FOR FUTURE MEETINGS: Fidelity will provide information on the fee structure and participant's online usage. Hyas Group will do a manager search for possible alternatives to the Heartland Value Fund.

ADJOURNMENT: Cynthia Adkisson moved the meeting be adjourned. Gerald Hunter seconded the motion and the meeting adjourned at 12:07 p.m.