

MINUTES

401(A) ADVISORY COMMITTEE MEETING

East Bay Municipal Utility District

MARCH 5, 2014

The quarterly meeting of the EBMUD 401(a) Advisory Committee convened at 11:45 am, Wednesday, March 5, 2014 in the Small Training Room of the Administration Building. Delores Turner called the meeting to order.

ROLL CALL

Committee Members present: Eric Sandler and Delores Turner

Committee Members absent: None

Staff members present: Elizabeth Grassetti and Lisa Sorani

Others present: Hyas Group (Greg Settle) and Fidelity Investments (Dee Johnson, Randy Morse, Suzanne Rogers, and Lesley Simsich)

PUBLIC COMMENT

NONE

CONSENT CALENDAR

1. **Approval of Minutes** – Delores Turner moved the Committee accept the November 20, 2013 minutes. The motion was seconded by Eric Sandler and passed unanimously.

DISCUSSION

2. **Staff Report --** Lisa Sorani informed the Committee that the one-year “put” liquidation option of the Fidelity Managed Income Portfolio II Class I stable value fund was re-invoked for another year. The fund changes voted on in the August 28, 2013 meeting took effect on January 6, 2013 – added the Vanguard Target Date Fund Suite, Huber Small Cap Value Fund and Artisan Small Cap Fund; closed the Fidelity Freedom K Funds and mapped them to the Vanguard Target Date Fund Suite; closed the Heartland Value Fund and mapped it to the Huber Small Cap Value Fund; and closed the Neuberger Berman Genesis Institutional Fund and mapped it ½ to Huber Small Cap Value and ½ to Artisan Small Cap.
3. **Fidelity Service Report** – Suzanne Rogers informed the Committee that the Fidelity team met EBMUD staff for annual business planning to discuss education, campaigns, new website, presentations, guidance counseling, scorecard measures, etc. For the 4th

quarter service review, combined assets were \$322,181,569 with 2,930 participants, substantially higher than industry peers with pension plans and same-size peers with no pension plans. The top four investments by number of participants and total assets were Vanguard Institutional Index, BrokerageLink®, Fidelity Managed Income Portfolio II, and Fidelity Blue Chip Growth K. Fidelity Communication Representative, Dee Johnson, informed the Committee of the upcoming new pre-login NetBenefits® site, the “Plan for Life” (Participant Experience) campaign, and the NetBenefits® mobile application (for cellular phones and tablets), and the Personal Progress Report to be sent to participants beginning in March 2014 to help employees comprehend where they may stand in their progress to retirement. VP Regional Manager of Planning and Guidance Consultants, Randy Morse, informed the Committee of the planning and guidance tools available to participants online 24/7 and that the Planning & Guidance Consultant would email a report to the participant following an in-person meeting.

4. **Revenue Share (\$0 Revenue Share and Per Capita vs Pro Rata)** – Greg Settle of Hyas Group informed the Committee that the vast majority of the public sector utilizes the same revenue share fee structure as EBMUD, with some using the \$0 revenue share fee structure. Fidelity charges EBMUD .045% of end-of-year assets annually. In reviewing just eight industry peers, Hyas Group found that they were all charged an average of 9 basis points (.009%) versus EBMUD’s low 4.5 basis points (.045%). On average, Fidelity earns .6% in revenue based on its contracts with the various fund managers, and agreed to share the excess revenue (the difference between what Fidelity earned from its private contracts and what Fidelity charged) with the EBMUD Plans. The excess **Revenue Share** can be used for Plan expenses and/or allocated to participants. With the **Zero Revenue Share** fee structure, all participants would have to pay a set fee (dollar amount or percentage) for Plan administration.

Fidelity’s revenue arrangement with fund managers is negotiated solely between them and Fidelity, and EBMUD has absolutely no involvement in those contracts. The excess revenue that Fidelity shares with EBMUD is not deducted from participant’s accounts, nor are participants entitled to the excess revenue. As the revenue share is based on Fidelity’s private contracts with other fund managers, it will not be posted on NetBenefits® or in any fund prospectuses. It should be noted that every participant has always paid a management fee (expense ratio) for fund investment (as determined by fund managers) and the management fees are directly tied to revenue share.

A **Pro-Rata** allocation of excess revenue to participants would be based on participants’ account balances. A **Per-Capita** allocation would give each participant the exact same amount of money. This means a participant with a \$500 account balance would get the same amount as a participant with a \$100,000 account balance, which is often viewed as an unfair allocation. Most consider a **Fund-Level Pro-Rata** allocation to be more fair and easier to administer. In this fee structure, only participants in the revenue share funds are allocated excess revenue share monies. However, this fee structure will always be imperfect because of participants regularly going in and out of funds.

The Committee discussed the need to resolve fee structure, \$105,000 issue and the budget (including how to pay consultant fees, RFP expenses, and Committee/staff training). The Committee also noted that most agencies and companies do not pay for plan administration, and that the deferred compensation plans are a voluntary supplemental benefit to save extra money for retirement outside of the District's defined benefit (pension) plan. It was agreed to table the item for a future meeting.

5. **Market Overview** – Greg Settle informed the Committee that US GDP growth for the 4th quarter was estimated at 3.2%, 3rd quarter GDP was revised upward to 4.2%, which made for a very strong half of 2013. Small cap stocks outperformed large cap, and growth outperformed their value style counterparts. Despite recent international upset, investors held steady.
6. **Investment Performance Summary** – Greg Settle informed the Committee that none of the Plans' funds underperformed the investment policy benchmarks. Hyas Group reviewed recent manager changes at PIMCO and recommended the fund be placed on "watch" due to a degree of key-man risk associated with the firm and the potential for further changes in senior management. Delores Turner moved the PIMCO Total Return Fund be placed on "watch". The motion was seconded by Eric Sandler and it passed unanimously.
7. **Investment Policy Statement (IPS)** – Greg Settle reminded the Committee that the IPS was accepted at the last meeting and asked staff to provide Hyas Group with the finalized document.
8. **Hyas Group Contract Renewal** – The Committee discussed the importance of having an unbiased consultant for detailed fund analysis and advice. Greg Settle explained that Hyas Group's other clients with over \$250M in assets request a quarterly fund analysis, and it will be added to the contract that Hyas Group is a co-fiduciary to the Plan. Delores Turner moved the Committee support a \$46,000 Hyas Group contract. The motion was seconded by Eric Sandler and passed unanimously.

ITEMS CALENDARED FOR FUTURE MEETINGS

- Review and Adopt Deferred Compensation Plan Administration Budget
- Review and Adopt Revenue Share / Zero Revenue Share
- Deferred Compensation Plan Expense Payment Policy

ADJOURNMENT

Delores Turner moved the meeting be adjourned. The motion was seconded by Eric Sandler and passed unanimously. The meeting adjourned at 11:57am.