

# **MINUTES**

## **401(K)/457 ADVISORY COMMITTEE MEETING**

### **East Bay Municipal Utility District**

### **NOVEMBER 20, 2013**

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The regular quarterly meeting of the EBMUD 401(k)/457 Advisory Committee convened at 9:07am, Wednesday, November 20, 2013 in the Small Training Room of the Administration Building. Committee Member, Eric Sandler, called the meeting to order.

#### **ROLL CALL**

Committee Members present: Cynthia Adkisson, David Correa, Garth Hall, Eric Sandler, and David Valenzuela

Committee Members absent: Dave Beyer, Gerald Hunter, Delores Turner, and Curtis Woodring

Staff members present: Lisa Sorani and Elizabeth Grassetti

Others present: Greg Settle from Hyas Group and Suzanne Rogers and Lesley Simsich from Fidelity Investments

#### **PUBLIC COMMENT**

Keith Beckwith presented a handout of concerns, requested the Committee postpone adoption of the drafted "Revenue Sharing and Expense Payment Policy" and the drafted "2013 Annual Plan Administration and Recordkeeping Budget", and proposed changes and additional language to the drafted policies. He also requested clarification of Plan Sponsor expenses, participant costs, District contributions, and recovery of excessive fees.

Edward Chang presented a handout of concerns regarding the MOU language of the District's \$105,500 payment toward Plan administrative costs.

Elena Owre presented a handout requesting item 7 of the drafted "Revenue Sharing and Expense Payment Policy" be changed from "may be distributed" to "shall be distributed" and delete "or per capita basis" to read as "Excess revenue remaining in the Revenue Share Credit Account shall be distributed to Plan Participants on a pro-rata basis."

Dean DiGiovanni presented a handout requesting the proposed budget not be adopted because it did not address the District's \$105,000 payment toward administrative expenses or a definitive payment of revenue to Plan participants.

Vincent Chang requested a more detailed breakdown of the District's \$105,000 payment toward Plan administrative expenses and the accounting proposals and stated that he felt the money should be returned to Plan participants.

Committee Member David Correa requested an informational e-mail to participants about how to establish a brokerage account for investing in socially responsible funds. Lisa Sorani advised the Committee that staff was working with Fidelity on communications to participants about investing through BrokerageLink® in not just socially responsible funds, but any eligible funds outside of the District's core options.

Suzanne Rogers clarified that investment expense ratio is the actual cost to participants and can be accessed online. Revenue share is an agreement between Fidelity and the other Investment Funds and is not an expense to participants. Greg Settle stated that the SEC regulates how costs are displayed and that such costs are difficult to calculate over a 365-day period.

Jonathan Tam expressed concern that Fidelity's system does not allow him to differentiate amount of money in after-tax Roth 401(k) from the amount of money in the pre-tax 401(k). Eric Sandler suggested this be handled with staff and Fidelity.

### **CONSENT CALENDAR**

1. **Approval of Minutes** – Garth Hall moved the Committee accept the August 28, 2013 minutes with amendments changing “one-in-done” to “done-in-one and correcting attendance to reflect Eric Larsen and Wayne Lee not present and David Correa and David Valenzuela as present. The motion was seconded by David Correa and passed unanimously.

### **DISCUSSION**

2. **Staff Report** -- Lisa Sorani updated the Committee on the 3<sup>rd</sup> quarter assets, loans and hardship withdrawals, 2014 Committee meetings and updated Plan Comparison Sheet, and the updated list of Members. The Committee agreed to keep the staff's quarterly Fund Activity spreadsheet, but requested staff reduce amount of paper distributed by posting meeting information to the “I” drive. Lisa Sorani proposed having the meeting packet as a presentation and Suzanne Rogers stated that she would include all Fidelity information (presentations, appointments, and communications) into the quarter “Service Report”.
3. **Service and Fund Changes Update** – Suzanne Rogers informed the Committee that EBMUD now has two dedicated Fidelity Retirement Counselors – Klint Armistead and Bernard Tong, Fidelity is open to Committee feedback for upcoming annual Business Planning meeting with EBMUD staff in the first quarter of 2014, Committee Members were added to Fidelity's emailed “Fiduciary Forum, Fidelity had targeted campaigns throughout 2013 based on participant age, the “Income Strategy Evaluator” was made available online, there is pending legislation in 2014 on how investments change within Target Date Funds over time, the SEC proposed legislation on June 14, 2013 on Money Market Funds, and EBMUD's recent funds changes would be effective on January 7, 2014. She suggested Fidelity present a “Quarterly Market Update” for EBMUD. Combined assets for the 3<sup>rd</sup> quarter were \$304,810,561 with 2,914 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.

4. **Market Overview** – Greg Settle informed the Committee that the Federal Reserve surprised most fund managers, except PIMCO, with the decision not to taper off buying bonds. With pressure on foreign governments not able to afford higher interest rates, the government decided to make no change, as increased interest rates would cost the government approximately \$600B.
5. **Investment Performance Summary** – Greg Settle informed the Committee that PIMCO went from 93<sup>rd</sup> percentile ranking to a 6<sup>th</sup> percentile ranking. Managed Income Portfolio II performed below the US Treasury CMT benchmark for the first time. Dodge & Cox Stock, Fidelity Blue Chip Growth K, and Hotchkis and Wiley all performed well in the third quarter.
6. **Review and Adopt Investment Policy Statement (IPS)** – Staff worked with Hyas Group to add to definitions the Glossary, add more definitive language, change the title pages, and created a separate IPS for the EBMUD 401(a) Plan. Greg Settle informed the Committee that because the IPS contains “Investment Option Index and Peer Group Benchmarks” in Appendix A, the Committee would have to move it be updated any time there are fund changes. He will find out if the section can automatically be updated by adding such language to the IPS document.

Garth Hall moved the Committee adopt the drafted Investment Policy Statement. The motion was seconded by David Correa and passed unanimously.

7. **Review and Adopt Revenue Sharing and Expense Payment Policy** – It was agreed that the drafted policy was general and did not preclude the ongoing issue of the District’s \$105,000 payment toward Plan expenses. Some Members wanted to postpone adopting the policy until the issue is addressed. Lisa Sorani reminded the Committee that the Vanguard Target Retirement Investment Suite did not have revenue share and would affect the overall accounting. Suzanne Rogers reminded the Committee that EBMUD had added several lower expense ratio funds to the core options, which greatly reduced investment fees to the participants.

Committee Member, Cynthia Adkisson, requested Hyas Group prepare a model for the next meeting that reflects a \$0 revenue share and per capita versus pro rata with details on how it would look, the pros and cons, the effects on participants, effects of participant terminating from the Plan, etc.

Cynthia Adkisson moved the Committee table the review and adoption of the “Revenue Sharing and Expense Payment Policy” to the next meeting. The motion was seconded by David Correa and passed unanimously.

Suzanne Rogers reminded the Committee that DOL regulations on fee transparency are specific to ERISA plans only, and SEC regulations do not allow Fidelity to provide the same fee information to non-ERISA plans. The Committee requested Fidelity and staff develop communications to educate participants about what are their investment fees and where to find the information, the higher costs of rolling to an IRA, the benefits of staying in the EBMUD Plans, etc.

8. **Review and Adopt Deferred Compensation Plan Administration Budget** – Postponed to next meeting.
9. **Addition of Money Market Fund** – Greg Settle reminded the Committee that the Fidelity Retirement Money Market Fund was added in March of 2013 solely for the purpose of holding monies being moved out of BrokerageLink® and the fund could not be selected as a stand-alone investment option. He recommended the Fidelity Retirement Money Market because it had an expense ratio of .31% and .20% revenue share to EBMUD, which reduced the expense ratio to .11%); and Vanguard Prime Money Market had a lower expense ratio of .16%, but 0.00% revenue share; and the Fidelity Government Money Market was too conservative.

Eric Sandler moved the Committee add a money market asset class to the EBMUD core option and update the Investment Policy Statement accordingly. The motion was seconded by Cynthia Adkisson and passed unanimously.

Cynthia Adkisson moved the Committee keep the current Fidelity Retirement Money Market and update the Investment Policy Statement accordingly. The motion was seconded by David Correa and passed unanimously.

#### **ITEMS CALENDARED FOR FUTURE MEETINGS**

- Review and discuss model of \$0 revenue share and per capita versus pro rata with details on how it would look, pros and cons, effects on participants, effects of participant terminating from the Plan, etc.
- Review and Adopt Revenue Sharing and Expense Payment Policy
- Review and Adopt Deferred Compensation Plan Administration Budget

#### **ADJOURNMENT**

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