

# **MINUTES**

## **401(k)/457(b) ADVISORY COMMITTEE MEETING**

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

### **JUNE 5, 2013**

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The regular quarterly meeting of the EBMUD 401(k)/457 Advisory Committee convened at 9:08am, Wednesday, June 5, 2013 in the Small Training Room of the Administration Building. Committee Chairperson, Delores Turner, called the meeting to order. She then gave the chair to Eric Sandler because she had to leave the meeting early.

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

**ABSENT:** Cynthia Adkisson

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

**HYAS GROUP CONSULTANT PRESENT:** Greg Settle and Jayson Davidson

**FIDELITY STAFF PRESENT:** Suzanne Rogers

**INTRODUCTION:** Eric Sandler introduced Lisa Sorani as the new Manager of Employee Service and staff member to the Committee.

**PUBLIC COMMENT:** Dean DiGiovanni inquired about the revenue sharing section of the new record keeping agreement. Eric Sandler stated that the issue will be put on the agenda for the next meeting.

**APPROVAL OF MARCH 6, 2013 MINUTES:** Garth Hall requested the minutes be amended to reflect his inquiry about revenue sharing budget and use. Eric Larsen requested the minutes be amended to reflect that he asked Hyas to research socially responsible funds to possibly add to the core options. He also requested it be added to the "Items to Be Calendared". Dave Beyer requested the Committee discuss how decisions are made about revenue sharing budget and use at the next meeting. Garth Hall moved the Committee accept the March 6, 2013 minutes as amended. The motion was seconded by Eric Larsen and passed unanimously.

**SERVICE REVIEW:** Suzanne Rogers provided a Plan service report for the first quarter of 2013. Combined Plan assets were \$284,669,130 and combined Plan participants were 2,916 with an average balance of \$97,623 – all of which were much higher than industry peers and same-size peers. The total number of participants with single investment funds was 179 for Fidelity Managed Income Portfolio II, 50 for Vanguard Institutional Index, 42 for PIMCO Total Return Institutional, 24 for Fidelity Balanced K, 22 for Fidelity Blue Chip Growth K, 569 for the Lifecycle Funds, and 64 for BrokerageLink. EBMUD is unique from many other public agencies in allowing stock options in the BrokerageLink instead of just mutual funds.

The top four funds with the highest assets were Vanguard Institutional Index at \$33,071,292 (11.62% of Plan assets), BrokerageLink at \$29,202,975 (10.26% of Plan assets), Fidelity Managed Income Portfolio II at \$29,089,860 (10.22% of Plan assets), and PIMCO Total Return Institutional at \$24,166,784 (8.49% of Plan assets). As of March 2013, total contributions were \$18,866,668, which was comprised of \$16,926,657 contributions, \$1,727,471 loan repayments, and \$212,539 interest on loans. Total loan withdrawals as of March 2013 were \$1,993,805 compared to \$2,236,030 as of March 2012.

Eric Larsen asked if Fidelity alerted participants about future rate of returns for the stable value fund. Suzanne Rogers responded that Fidelity sends out information about market volatility, investment diversification, and encourages participants to meet with a consultant to review their accounts. Jayson Davidson of Hyas Group added that inflation was under 2% and the stable value funds have historically provided adequate returns. The future for stable value and short-term bond funds may be more difficult, but long-term returns should be sufficient. The Pension Protection Act addressed this issue in 2006 by allowing lifecycle and target date funds as qualified default funds versus stable value funds.

Committee Members asked Fidelity to provide at the next meeting the average account balance of participants across all three plans, an industry peer comparison of loans, and the definition of “one-in-done” for service standards.

**MARKET OVERVIEW:** Greg Settle of Hyas Group gave an overview of the market for the first quarter of 2013. The initial estimate of US GDP growth was an annualized 2.5%, but recently revised down to 2.4%. Core inflation remained under control at less than 2.0%. Though treasury yields were lower than they were a year ago, they continued to rise more recently across the maturity spectrum from 5 years on. The 10-year yield increased another 9 basis points over year end to 1.87%. Credit spreads for investment grade corporate bonds remained steady compared to last quarter, though high yield bond spreads continued to shrink. The US Aggregate index fell .12% compared to a positive .21% last quarter while longer dated treasury bonds lost 2.38%.

The U.S. equity markets were up markedly for the quarter with nearly every size and style category posting double digit returns. In a repeat of Q412, small cap stocks outperformed large cap with the Russell 2000 index returning 12.39% and the S&P 500 returning 10.61%. Value dominated over growth by a margin of 2.43% for the quarter.

Foreign stock markets rose 3.17%. The U.S. dollar rose versus all major currencies. But there were lower returns compared to the U.S. markets due to pressure on the euro and double digit unemployment in Portugal, Spain and Italy. Emerging markets lost 1.62% due to structural and cultural issues and a fall in commodity prices, particularly in Brazil, India, China, Russia, and South Africa. This also contributed to significantly weaker foreign stock performance relative to domestic markets.

Core real estate was up 2.68% compared to 2.06% for the prior quarter. On a trailing one-year basis, core real estate is up 10.79%. 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.

**QUARTERLY INVESTMENT REPORT:** Greg Settle reminded the Committee that Hyas Group would provide a comprehensive report every six months. Dodge & Cox performed better, ranking in the 23<sup>rd</sup> percentile and up 138 basis points. American Century Select ranked in the 83<sup>rd</sup> percentile, but is stable with a strong history. Morgan Stanley made a good recovery to the 34<sup>th</sup> percentile, up from 82<sup>nd</sup>. Neuberger Berman Genesis ranked in the 66<sup>th</sup> percentile and underperformed it's category by 105 basis points. The fund is in conflict with Morningstar on how it is classified because it is supposed to be small cap value, but performed like mid cap growth. Hyas Group will monitor the fund. American EuroPacific Growth ranked in the 70<sup>th</sup> percentile and underperformed the benchmark by 23 basis points.

**SMALL CAP VALUE MANAGER SEARCH:** Greg Settle reported that Hyas Group performed a small cap value manager search at the Committee's request to possibly replace the Heartland Value Fund. The proposed investment managers were Cortina Small Cap Value, DFA US Target Value, Huber Small Cap Value, and Vanguard Small Cap Value Index. Hyas Group recommended Huber Small Cap Value as it performed very well in the past five years, with the exception of 2008. It has a good, solid, and consistent management style and plans a soft close at 50% of its capacity to avoid getting any bigger to stay true to being a small cap value fund. The fund has less global exposure, resulting in less risk. The fund's management fees are 1.36 basis points, but it has possible 15 basis points for revenue share back to the Plan. Adding and mapping should pose no problem because Huber has a 60-day redemption fee and Heartland has a 10-day redemption fee. Garth Hall moved that Huber be added and Heartland Value be closed and mapped to Huber. Lisa Sorani told the Committee that Fidelity Investments would issue communications to participants about the fund changes. David Beyer seconded and the motion passed unanimously. The Committee also agreed to postpone the addition of Huber and closure of Heartland Value to allow for all potential fund changes to be made at one time.

**TARGET DATE FUND MANAGER SEARCH:** Greg Settle reported that Hyas Group performed a target date fund manager search at the Committee's request to possibly replace the current Fidelity Freedom K target date funds. 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. This suite dominated all others in terms of expenses while providing consistently competitive performance across all target dates. Of all options, Vanguard may likely be the easiest for investors to understand and gain confidence in, as it has relatively few underlying funds and a straight-forward approach of focusing on passive investment management and keeping fees low.

Garth Hall suggested the Committee Members get union members feedback prior to making the decision to change the target date funds, as he felt it was a very big decision. Public commenter, Dean DiGiovanni, asked Hyas Group to provide a side-by-side comparison to assist union members in better understanding the differences between the funds. The Committee agreed that the Investment Policy Statement should be reviewed first and to calendar the target date discussion for the next meeting.

**OTHER ITEMS:** Eric Larsen moved to add an asset class for socially responsible funds. The Committee discussed that socially responsible funds had not been added to the core options because they do not always meet the set investment criteria, it is difficult for the Committee to choose a fund that would satisfy all participants, and such funds are available through BrokerageLink. The motion failed with one aye, seven nays, Garth Hall abstained, and Delores Turner was absent. Lisa Sorani told the Committee that staff would work with Fidelity Investments to customize a communications piece on socially responsible investing.

David Beyer moved that Neuberger Berman Genesis be placed on watch. The motion was seconded by Curtis Woodring and passed unanimously.

Public commenter, Dean Giovanni, requested a revenue share report be made available each quarter. Greg Settle advised that Hyas would perform a revenue share audit and provide reports.

Greg Settle informed the Committee that Hyas would obtain information from Fidelity on participant distributions after separation from the District.

**ITEMS CALENDARED FOR FUTURE MEETINGS:** Hyas Group will provide an Investment Policy Statement review, discussion of revenue share, a manager search for possible replacement of Neuberger Berman Genesis, a side-by-side target date fund comparison, and information on participant distribution after separation from EBMUD. The Committee will continue discussion on target date funds. Fidelity Investments will provide the average account balance of participants across all three plans, an industry peer comparison on loans, and the definition of “one-in-done” for service standards.

**ADJOURNMENT:** Garth Hall moved the meeting be adjourned. Curtis Woodring seconded the motion and the meeting adjourned at 12:13 p.m.