

# **MINUTES**

## **401(A) ADVISORY COMMITTEE MEETING**

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

### **AUGUST 28, 2013**

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The quarterly meeting of the EBMUD 401(a) Advisory Committee convened at 12:08pm, Wednesday, August 28, 2013 in the Large Training Room of the Administration Building. Delores Turner called the meeting to order.

**PRESENT:** Wanda Hendrix, Eric Sandler, and Delores Turner

**ABSENT:** NONE

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

**HYAS GROUP CONSULTANT PRESENT:** Greg Settle

**PUBLIC COMMENT:** Public attendee, Dean DiGiovanni, informed the Committee that Local 21 members were surveyed about their desire to possibly opt out of the EBMUD 401(a) Plan. Staff will research regulations pertaining to that and provide information to Local 21.

**APPROVAL OF JUNE 5, 2013 MINUTES:** Wanda Hendrix requested the moved the Committee accept the June 5, 2013 minutes to include any pertinent amendments made by the 401(k)/457 Advisory Committee. The motion was seconded by Eric Sandler and passed with two ayes and one abstention.

**STAFF REPORT:** Lisa Sorani updated the Committee on the 2<sup>nd</sup> 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 Grasseti (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 its 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.

**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. Eric Sandler 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 Wanda Hendrix and passed unanimously.

**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. Eric Sandler moved the Committee close the current Fidelity Freedom K funds and replace them with the Vanguard Target Date Fund suite. Wanda Hendrix seconded the motion. The motion passed unanimously.

**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:** Eric Sandler moved the meeting be adjourned. Wanda Hendrix seconded the motion and the meeting adjourned at 12:18 p.m.