

# **MEETING MINUTES**

**Wednesday, March 4, 2015**

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

**East Bay Municipal Utility District  
375 Eleventh Street, Oakland, CA 94607**

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A regular meeting of the 401(k)/457 Advisory Committee convened on Wednesday, March 4, 2015 at 9:12am in the Boardroom Annex of the Administration Building. The meeting was called to order by Committee Chairperson Delores Turner.

## **ROLL CALL**

The following 401(k)/457 Advisory Committee Members were present: Cynthia Adkisson, Dave Beyer, David Correa, Dean DiGiovanni, Sophia Skoda, Delores Turner, David Valenzuela, and Curtis Woodring (absent Committee Members were Gerald Hunter and Eric Sandler). The following Staff members were present: Lisa Sorani, Elizabeth Grassetti and Dhanyale Dunbar.

## **PUBLIC COMMENT**

Keith Beckwith presented a memorandum, signed by seven other Plan participants, that requested all excess revenue share funds be returned pro rata to Plan participants invested in the revenue share funds, Plan participants be informed of how administrative costs are covered, and a table be generated that shows the number of participants in all funds (revenue share and non-revenue share) and the size of the revenue share accounts on an anonymously individual basis.

## **CONSENT CALENDAR**

1. **Approval of Minutes** – A motion was made by Dean DiGiovanni and seconded by Curtis Woodring to approve the December 3, 2014 and February 3, 2015 minutes. The motion carried (8-0) by the following votes: AYES (Adkisson, Beyer, Correa, DiGiovanni, Skoda, Turner, Valenzuela, Woodring), NOES (none), ABSTAIN (none), ABSENT (Hunter and Sandler).

## **DISCUSSION**

2. **Staff Report** – Lisa Sorani informed the Committee of the following:
  - a. The current Locals 2019, 21, and 39 members of the 401(k)/457 Advisory Committee are now members of the 401(a) Advisory Committee.
  - b. Per agreement with Locals 2019 and 21, the District will cover the first \$105,500 of Plan administration fees each year and a \$143,653.42 liability account would be opened to pay for Plan administration fees. The Committee will direct staff on payments from these sources and the Revenue Share accounts. In addition, staff will create cash flow accounting for these accounts to share with the Committee at each meeting for tracking of expenses.
  - c. Effective March 27, 2015, PIMCO Total Return would be closed and mapped to Scout Core Plus Bond and American Century Select would be closed and mapped to Fidelity Blue Chip Growth.
  - d. Elizabeth Grassetti informed the Committee of the training and informational value of attending the annual National Association of Government Defined Contribution Administrator conferences.

3. **Service Report** – Tony Frankovich provided Plan year-end information. Total Plan assets were \$347,609,149 with a total of 3,037 participants, 107 more than 2013. Average account balance was \$114,458 compared to \$109,960 in 2013, \$66,931 for industry peers, and \$73,472 for same-size peers. Contributions to the Plans were \$18,203,820 compared with \$15,983,427 in 2013. Loan withdrawals were a little higher at \$2,400,747 compared to \$2,288,185 in 2013. The top four investments by total assets were Vanguard Institutional Index, BrokerageLink®, MIP II, and Fidelity Blue Chip Growth. Customer transactions were 160,702 via NetBenefits® compared to 145,000 in 2013 and 9,637 via phone reps compared to 8,100 in 2013. The Committee requested staff put articles in the District’s “Splashes” newsletter about the Fidelity appointments and presentations for the benefit of retirees. Staff reminded the Committee that participants also have access to Fidelity reps at the Investor Centers.
4. **Regulatory Update & Market Overview** – Greg Settle provided a regulatory update for the fourth quarter or 2014 and a market overview as of February 2015. Highlights included the following:
  - The Department of Labor approved target date funds that include lifetime income as qualified default investment alternative.
  - The US Treasury issued regulations on MyRA savings bonds.
  - Regulators questioned logic of retired participants leaving the protected environment of retirement plans to the retail environment of IRAs.
  - US corporate profits experienced another strong increase. Foreign stocks lost (-3.9%) with the Euro zone again being the largest contributor. Emerging markets lost (-4.5%).
  - Most commodities continued to decline, with the asset class returning negative 17% for 2014.
  - Unemployment fell to 5.6% at year-end and the labor force participation rate was at 62.7%.
  - As of February, the Bureau of Economic Analysis revised the estimated of third quarter GDP upward to 5% from the earlier estimate of 3.5%. The 10 year Treasury note stood at 1.80% on February 4<sup>th</sup> after closing the year at 2.17%. Oil prices below \$60 impacted currency valuations and put significant pressure on oil-exporting countries.

## **ACTION**

5. **Investment Performance** – Fidelity Blue Chip Growth outperformed its index and was in the 6<sup>th</sup> percentile. Fidelity MIP II, T. Rowe Price Equity Income, and Morgan Stanley Institutional Mid Cap Growth I lagged their benchmarks over the 5-year period and were below their median peer rankings. Morgan Stanley was deemed likely to continue to violate the IPS without outstanding performance. It was in the 89<sup>th</sup> percentile with poor performance in three of the last five years. Hyas recommended the fund be placed on watch. Sophia Skoda moved the Committee place the Morgan Stanley fund on watch. The motion was seconded by Dean DiGiovanni and carried (8-0) by the following votes: AYES (Adkisson, Beyer, Correa, DiGiovanni, Skoda, Turner, Valenzuela, Woodring), NOES (none), ABSTAIN (none), ABSENT (Hunter and Sandler). Most of the Vanguard target date funds were in the top 20<sup>th</sup> percentile. Hyas will request a change to institutional class to lower the expense ratio from 17 bps to 10 bps, as the assets were close to Vanguard’s required \$100 million. It was agreed to allow Vanguard to address the Committee at an upcoming meeting, as it would also afford Members the opportunity to pose questions to the fund manager.
6. **Fund Manager Search for Possible Replacement of Managed Income Portfolio II Class I Fund** – Fidelity extended the one-year “put” clock to June 2, 2015 for possible liquidation of the MIP II fund, and such a change would incur no cost to the Plans. Hyas review three funds to possibly replace MIP II – Galliard Stable Return, Putnam Stable Value, and T. Rowe Price Stable Value. Sophia Skoda moved that

the Fidelity MIP II fund be liquidated, closed and mapped to T. Rowe Price Stable Value. The motion was seconded by Dean DiGiovanni and carried (8-0) by the following votes: AYES (Adkisson, Beyer, Correa, DiGiovanni, Skoda, Turner, Valenzuela, Woodring), NOES (none), ABSTAIN (none), ABSENT (Hunter and Sandler).

7. **Revenue Share and Expense Payment Policy** – Lisa Sorani informed the Committee that fund-level pro rata allocation was not an option within the Fidelity contract as requested by public comment. To elect fund-level pro rata allocation would require a contract overhaul with Fidelity, which was uncertain if we were able to do at the time. Lisa also informed the Committee that under the fund-level pro-rata allocation, all excess revenue share credit would be allocated to participants' investments in revenue share funds each quarter and the Plan would have to adopt an explicit participant fee to cover remaining administration costs after the \$105,500 District payment was depleted.

The only options available under the current Fidelity contract terms were either plan-level pro rata or per capita allocation. And per the contract, the Committee must choose only one allocation method. A per capita approach to allocating revenue share credits would provide all Plan participants the same allocation amount regardless of account size or fund investment, which some participants feel is an unfair allocation to those with higher balances. A pro rata allocation approach would allocate revenue share credits to participants' accounts proportional to their total account balance.

Dean DiGiovanni moved the Committee continue with the current Fidelity contract language that specifies a pro rata allocation option. The motion was seconded by David Beyer and carried (8-0) by the following votes: AYES (Adkisson, Beyer, Correa, DiGiovanni, Skoda, Turner, Valenzuela, Woodring), NOES (none), ABSTAIN (none), ABSENT (Hunter and Sandler). The Committee agreed that the pro rata allocation option would be determined at the first quarter meeting of a calendar year and be effective by the end of the second quarter of the calendar year. Cynthia Adkisson moved the Committee accept the Revenue Sharing and Expense Payment Policy. The motion was seconded by Curtis Woodring and carried (8-0) by the following votes: AYES (Adkisson, Beyer, Correa, DiGiovanni, Skoda, Turner, Valenzuela, Woodring), NOES (none), ABSTAIN (none), ABSENT (Hunter and Sandler).

8. **Amendments to Fidelity Recordkeeping Agreement** – Lisa Sorani explained to the Committee that in order to amend the contract to allow direct billing to the District, Fidelity required all contract terms to be up to date and in line with their current contracts. The contract amendments were a quarterly determination of administration fees versus year-end and costs for special projects. Delores Turner moved the Committee accept the contract amendments. The motion was seconded by Cynthia Adkisson and carried (8-0) by the following votes: AYES (Adkisson, Beyer, Correa, DiGiovanni, Skoda, Turner, Valenzuela, Woodring), NOES (none), ABSTAIN (none), ABSENT (Hunter and Sandler).

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

- Staff Quarterly Investment Activity Sheet
- Project Number for Advisory Committee Members
- Vanguard Fund Manager Address Committee

### **ADJOURNMENT**

A motion was made by Dean DiGiovanni and seconded by Sophia Skoda to adjourn. The motion carried (8-0) by the following: AYES (Adkisson, Beyer, Correa, DiGiovanni, Skoda, Turner, Valenzuela, Woodring), NOES (none), ABSTAIN (none), ABSENT (Hunter and Sandler). The meeting adjourned at 12.23pm.