

MARIN COUNTY DEFERRED COMPENSATION COMMITTEE

Marin County Civic Center
3501 Civic Center Drive
San Rafael, CA

Wednesday, August 28
10:00 A.M.
County Counsel Conference Room
Room 275
Regular Meeting

MINUTES

2. Roll Call

Present: Roy Given, Director of Finance and Chair; Jeff Wickman, Retirement Administrator; Dan Eilerman, Deputy County Administrator; Scott Beseda, Marin Courts Representative; Alexis McBride, Retiree Representative; Stephen Raab, County Counsel Representative; Shanea Thompson, MAPE Employee Representative; Olga McKenna, Employee Representative

Absent: None

Others in attendance: John Kendall, Western Region Managing Director, Nationwide; Jim Laffoon, Retirement Specialist, Nationwide; Ed Malone, Program Director, Nationwide; Luka Arnerich, Associate Advisor, Arnerich Massena; Jake O'Shaughnessy, Consultant, Arnerich Massena

3. Approval of Minutes--Meeting of May 24, 2013 (Action)

MOTION by Scott Beseda to approve minutes of May 24, 2013
Second by Dan Eilerman
AYES:ALL

4. Open Time for Public Comment

None

5. Deferred Compensation Committee Matters

- Introduction of New Member--MAPE Employee Representative
The chair introduced Shanea Thompson, the newly appointed employee representative for MAPE (Marin Association of Public Employees), to the committee. Shanea, who works in the IST department, said she was looking forward to serving on the committee.
- Committee Member Comments
None

6. Nationwide Retirement Solutions

- Introduction of Ed Malone, Program Director

John Kendall introduced the new Program Director, Ed Malone, who will be working with Jim Laffoon on participant and educational services. He has had sixteen years of retirement plan experience at Nationwide.

- Quarterly Summary Report QE 6/30/13
John Kendall reviewed the second quarter report. He noted that for the first time assets did not move among asset classes, but stayed relatively flat. There was some movement from bonds to equities. The courts had more movement into cash than the County. This appeared to be attributable to one individual preparing to retire. The County gained 20 participants, the courts lost one.

The chair asked Nationwide to make a push to attract participants back to the plan post-economic crisis. Ed Malone said messaging urging participants to reengage in the plan will be included in the October participant statement. National Save for Retirement Week also occurs in October. The chair asked to be sent the information that will be going out to participants.

John Kendall said the quarterly performance guarantees of service levels were all retained. The chair requested that Arnerich validate these results annually at the end of the year.

In Returns by Style, Value out-performed Growth. Bonds performed poorly due to higher interest rates.

John Kendall said Nationwide drafted a preview of a fee disclosure guide with Marin-specific fees. A full version with a cover letter is expected by February. In December or January it will be forwarded to Jake O'Shaughnessy, who will review it with Stephen Raab per the chair. The chair said the County plan was not subject to ERISA (Employee Retirement Income Security Act), but Nationwide's disclosures should meet the full disclosure standards of ERISA.

John Kendall said the Roth 457 is set to go live on January 1, 2014. File formatting is still to be discussed with the courts.

John Kendall said October was targeted for *de minimis* distributions for the 457 and PST plans. He asked the chair if it should be held off until after the excess revenue distribution. The chair said it should, as more time would be allowed to review the accounts. He said minimum amounts were yet to be decided and that notification would be sent out before escheating to the state. A subcommittee will be formed to discuss minimums. Volunteers will be recruited at the next regular meeting.

John Kendall reported on milestones for Nationwide's future activities:

November 2013: Employee notification of excess revenue distribution (Distribution will occur in December.)

January 2014: Roth 457 go-live

February 2014: Full fee disclosure guide

- Quarterly Update
Jim Laffoon reviewed his activities from the previous quarter. He conducted 134 individual appointments, many due to new employees coming on board. He also conducted 12 workshops with an attendance of 19 and spoke at two new employee orientations in April and June. Matthew Christl, Nationwide's Personal Retirement Consultant, met with 9 participants in mid-May. Jake O'Shaughnessy praised him as a valuable resource. The chair asked Nationwide to include an item about Matthew Christl and the service he provides in its participant statement.

- Participant Satisfaction Survey
The chair decided to hold off on the Nationwide participant satisfaction survey until after the completion of the RFP to avoid issues with other providers that have placed bids. Jeff Wickman said the same logic should apply to initiating the Roth 457 and that the plan should be frozen until a provider is selected. The chair responded that the County must prepare for the Roth 457 even if there is a new provider, in which case the provider would pick it up. Promises have been made to the unions and the County is committed to it. The County and court payroll systems will need to be prepared in any event.

7. Arnerich Massena & Associates

- Quarterly Update QE 6/30/13--Review Investment Performance

Market Overview

Jake O'Shaughnessy started his discussion with a market overview. He said it is important to note that following the end of the Fed's cheap monetary policy instituted during the recession, interest rates will likely rise and have a negative impact on holders of fixed income investments. The investments must be low on the duration and maturity scale in order for holders to preserve value and reinvest at increased yields. Bonds performed poorly, and many bond investors have been shortening maturity or selling fixed income and buying equities. Active bond funds performed far better than passive. Also, the dollar is strengthening relative to the euro.

He called the U.S. equity market "the best house in the neighborhood" relative to Europe and China, where there are concerns, and to emerging markets, which are experiencing a slow-down. Value stocks outperformed growth stocks.

He next discussed the Fund Manager Review Summary from the quarterly report. The lower the ranking numbers, the better the fund performed relative to peers.

Balanced

He noted Pax World Balanced Fund's continual underperformance. He had no concerns with the pre-mixed portfolios.

Large Cap

He suggested keeping American Funds Growth Fund of America on watch, even though it appears to be recovering. He suggested taking Dodge & Cox Stock off watch. He said small cap volatility is expected and suggested the committee to consider placing Allianz Small Cap Value on watch or revisit it next quarter. John Kendall asked if the plan was missing exposure to small cap growth. Jake acknowledged that it was and that the lack of exposure was something to consider going forward.

International

Jake said Dodge & Cox International was currently more of a blend than a value, but it generally tends to keep the value orientation.

Real Estate

After the departure of the Cohen & Steers Institutional Global Realty manager, Arnerich Massena conducted research, including on-site visits to New York and Hong Kong, and concluded that Cohen & Steers have a good global real estate strategy.

The committee discussed the criteria for placing a fund on watch. The chair said that per the guidelines in the Statement of Investment Policy, a performance ranking below the 50% median on a trailing five-year basis determines watch status. Jake added that these criteria must be met for two consecutive quarters. The chair said a fund on watch is

reviewed quarterly for performance and the committee makes the decision whether or not to keep it. He said the watch parameters provided just the right amount of discretion, otherwise too many funds would be placed on watch.

Stephen Raab asked if placing funds on watch is a requirement. The chair said it is not, but the policy allows the committee to take the opportunity to discuss the option unless the explicit policy triggers are met. Stephen Raab asked if a fund review took place annually or biannually. John Kendall said Jason Smith, Nationwide Senior Account Manager, could conduct his annual review in February or March. The chair said a review could possibly take place in December. Jeff Wickman said the plan has too many funds, a long-term issue that should be looked at.

- Review Status of Funds on Watch (Action)
MOTION by Alexis McBride to remove Dodge & Cox Stock from watchlist
Second by Jeff Wickman
AYES:ALL

The committee decided not to place Allianz Small Cap Value on watch at this time.

Further discussion: Dan Eilerman asked if the size of a fund (the % of the total assets) should be a consideration for watch status. Jake agreed that it should. The chair and Dan Eilerman agreed that the plan offered too many funds, with 32 funds, five portfolios plus the Schwab brokerage window. The chair suggested that replacing Pax as well as reducing the overall lineup could be part of the RFP process. Jeff Wickman questioned why the committee did not act on placing Allianz on watch, saying that even though it is a small portion of assets there is a fiduciary responsibility to protect participants. The chair and Jake said it did not meet the mandatory watch guidelines in the Statement of Investment Policy.

Global Balanced Manager Search

Jake discussed the manager search for an alternative to Pax World Balanced Fund. He said Pax, a balanced socially responsible fund, is only 0.6% of total assets. He said a global fund without the sustainable aspect provides a lot of choices but that sustainable funds have not performed well. The committee should choose between the priority of global balanced investment strategy and the sustainable mandate. Dan Eilerman favored a sustainable choice. The chair said it is difficult to meet the criteria of socially responsible funds. They do well in a good economy and poorly in a bad economy. The chair decided to assign the balanced manager search to a subcommittee.

- Request for Proposal (RFP) for 457 Deferred Compensation Plan--Update on RFP Process (Action)
For the RFP discussion, Counsel, with the support of the chair, withdrew the invitation for Nationwide to be present at the meeting, informing them they had the right to remain as members of the public. The Nationwide attendees decided to leave the meeting.

The committee reviewed the Summary of Provider Responses prepared by Arnerich Massena. The providers who responded were Great West, ING, ICMA-RC and Nationwide. An error in Great West's total number of DC plans in the electronic version was corrected in the hard copy. The committee discussed the benefits of profit (Great West, ING, Nationwide) vs. non-profit (ICMA-RC) providers. The chair saw no rationale to choose one over the other.

The committee debated whether to narrow down the choices to two or to three. Jeff Wickman said good service was a more important consideration than fees. The chair

said they were equally important and stressed the importance of returning the maximum excess revenue to participants.

The number of days on site and the need to establish an efficient minimum was discussed.

Jake O'Shaughnessy provided a high level review of the following categories in the summary:

- Organization and Financial Strength
- Participant Services
- Investments
CDs and Liquid Savings are a consideration, as Nationwide's cannot be offered by other providers
- Fees and Expenses
Open architecture vs. proprietary funds is a consideration.
- Plan Sponsor Services
- Transition and Conversion

Jake will send the respondents an opportunity for revision in three categories:

- Price
- Proprietary Funds
- Service Commitments

They will be given two weeks to respond.

The chair expects a live presentation by two or three of the providers in late October or early November. He will call a special meeting in September to either determine the two or three finalists for live presentation or make a choice outright. He urged committee members to provide him feedback individually by email.

8. Future 2013 Meetings

- Wednesday, December 4, 2013 at 10:00 a.m. in Room 275

The 2014 regular meetings will be scheduled at the December meeting.

9. Adjournment

The meeting adjourned at 12:50 p.m.