

**CITY OF BELLEVUE**  
**457 TRUST/PLAN/IAC COMMITTEE**  
**Meeting Minutes**

February 24, 2015  
9:30 a.m.

Conference Room 3E-105  
Bellevue City Hall

**MEMBERS PRESENT:** Gail Davila, Human Resources, Chair  
Arnaz Bharucha, Treasury  
Patrick Harris<sup>1</sup>, Parks & Community Services  
Darek Jarzynski, Transportation, Secretary  
Jerome Litzau, Police Department

**OTHERS PRESENT:** Ann Cappel, Empower Retirement  
Trent Sanden, UBS Institutional Consulting  
Susan Wilson, Empower Retirement  
Siona Windsor, City Attorney's Office

**MINUTES TAKER:** Michelle Cash

**I. CALL TO ORDER**

The meeting was called to order at 9:32 a.m. by Chair Davila.

**II. PUBLIC COMMENTS**

None.

**III. ELECTIONS**

None.

**IV. APPROVAL OF AGENDA**

**Motion by Mr. Jarzynski and second by Ms. Bharucha to approve the meeting agenda as presented. Motion carried unanimously (4-0).**

---

<sup>1</sup> Arrived at 9:45 a.m.

## V. APPROVAL OF MINUTES

**Motion by Mr. Jarzynski and second by Ms. Bharucha to approve the November 18, 2014 Bellevue 457 Trust/Plan/IAC Committee meeting minutes as presented. Motion carried unanimously (4-0).**

## VI. REPORTS

### A. Chair/Staff

Chair Davila reported that the transition from the high yield bond fund manager (Wells Fargo Advantage High Income I Fund) to American Beacon SiM High Yield Opps Instl. is nearly complete.

Chair Davila also reported that the professional services contract with UBS is complete. The contract amount is \$35,893 per year for investment consulting. In addition, the consulting contract with Thorson, Barnett & McDonald, P.C. has been finalized. The new contracted amount with Mr. McDonald is \$310 per hour.

## VII. EXECUTIVE SESSION

None.

## VIII. ACTION ITEMS

### A. Review UBS Quarterly Report and Approve Recommendations

Mr. Sanden discussed the market recap for 4Q14. Overall, most of the International markets were negative in 4Q14. However, all indices had positive performance in the 3, 5, and 10 year time periods. The top U.S. equity markets for 4Q14 included Utilities, Healthcare, and Information Technology, while the lowest performer was the Energy sector. Mr. Sanden noted that the developed International Equity sector underperformed the U.S. equity sector by a large margin, resulting in negative returns for 4Q14.

The following is UBS Institutional Consulting's Quarterly Report, provided by Mr. Sanden:

#### *PIMCO Total Return Inst'l:*

The PIMCO Total Return fund underperformed the benchmark in the 4Q14. However, the fund outperformed the benchmark in the 3 and 5 year time periods.

During the month of January, 2015, the fund had a return of 2.6% and outperformed the benchmark, which placed the fund in the top 3% of its category.

From a performance standpoint, PIMCO continues to be a competitive fund. However, UBS recommends retaining PIMCO on an administrative watch, due to management

changes, and is closely monitoring the management structure of PIMCO. PIMCO recently announced that Chief Economist, Paul McCulley is leaving the firm. This was not a surprise considering the fact that Mr. McCulley originally joined the firm to work with Mr. Gross.

Although the fund has experienced approximately \$90 billion in redemptions, since Mr. Gross' resignation, the fund continues to be the world's largest actively managed bond fund with approximately \$134.5 billion in assets.

*American Beacon SiM High Yield Opps Inst.:*

The transition from Wells Fargo to American Beacon will be complete later this month. Although American Beacon underperformed in the 4Q14, the fund has a favorable long-term track record.

*Great-West Portfolio:*

The Great-West Portfolio continues to offer participants good competitive returns. The committee continued to emphasize to Great-West the desire to offer lower expense ratios on the Profile Funds through institutional class shares with no revenue sharing.

*JHancock3 Disciplined Value R6:*

The JHancock3 Disciplined Value Mid Cap R6 fund outperformed the benchmark in the 4Q14 and in the 3, 5, 7, and 10 year time periods. UBS Institutional Consulting recommends that this fund be removed from the watch list.

*SSgA S&P 500:*

The SSgA S&P 500 fund closely tracked the benchmark relative to fees and the expense ratio.

*Mainstay Large Cap Growth I*

The Mainstay Large Cap Growth I fund outperformed the benchmark in the 4Q14 but has underperformed in the 3, 5 and 7 year time periods.

Since committee members recently adopted new benchmarking guidelines in the Investment Policy Statement, the Mainstay Large Cap Growth I fund is meeting the ranking goals. UBS recommends that this fund be removed from the watch list.

*JP Morgan Mid-Cap Value Inst'l:*

The JP Morgan Mid-Cap Value fund outperformed the benchmark in the 4Q14 and in all other measured time periods. UBS Institutional Consulting recommends that this fund be removed from the watch list.

*Victory Munder Mid-Cap Core Growth:*

Although the Munder Mid-Cap Core Growth Y fund underperformed the benchmark in all measured time periods, performance for the fund has improved and the risk adjusted rankings are favorable. The fund is meeting all investment policy ranking goals. Therefore, UBS Institutional Consulting recommends that this fund be removed from the watch list.

*RS Partners:*

The RS Partners fund underperformed the benchmark in the 4Q14 and nearly all other measured time periods. The underperformance was largely due to the decline in energy prices. This fund is currently a Class A share with a slightly higher gross expense ratio; however the net expense ratio after revenue sharing is favorable. The fund was placed on the watch list in 1Q14. UBS recommends retaining RS Partners on the watch list, since the fund underperformed the benchmark target and ranking goals in the 3 and 5 year time periods.

*Baron Small Cap:*

The Baron Small Cap fund underperformed the benchmark in the 4Q14 and in all other measured time periods. The fund typically has protected capital well during market downturns. The fund was placed on the watch list in 4Q11. UBS Institutional Consulting recommends retaining Baron Small Cap on the watch list, since the fund underperformed the benchmark target in the 3 and 5 year time periods and performed below the ranking goal in the 5 year time period.

*EuroPacific Growth R6:*

The EuroPacific Growth fund outperformed the benchmark in the 4Q14 and all other measured time periods.

Mr. Jarzynski commented that the recent changes to the Investment Policy Statement where the fund should outperform its benchmark over the trailing 3 year and 5 year time periods OR the fund should be in the top 50 percentile of its peer group over the trailing 3 year and 5 year time periods is better reflection of the 457 portfolio.

**Motion by Ms. Bharucha and second by Mr. Litzau to approve the UBS Institutional Consulting recommendations for investments for Fourth Quarter 2014. Motion carried unanimously (5-0).**

Mr. Sanden summarized the UBS Institutional Consulting Market Outlook.

## **IX. INFORMATION/DISCUSSION ITEMS**

### **A. Staff Plan Report**

- Quarterly Recap of Plan Revenues and Expenses

The Plan Revenues/Expenses for 4Q14 were included in the committee packet. Chair Davila suggested that a review of the Administrative Fee Holding Account be conducted. The ending balance for the Administrative Fee Holding Account was \$39,606.

## B. Empower Retirement Report

- 2014 Quarterly Summary Report

Ms. Wilson reminded committee members that Great-West recently renamed their retirement plan entity to Empower Retirement. She provided a 4Q14 overview for the 457 Plan. There was an increase in plan assets of approximately 4.2% with approximately 15 new enrollments. Plan assets totaled approximately \$51,717,962 as of December 31, 2014. In addition, Ms. Wilson discussed the activities conducted in 4Q14.

The Empower Retirement quarterly summary was included in the committee packet.

Ms. Wilson provided highlights for the following information:

- Individual Appointments
- Roll-Ins
- New Enrollments
- 1Q15 Planned Activities
- Average Participant Balance by Age
- Summary of Profile Fund Fees
- Asset Summary by Investment Option

Mr. Litzau suggested that the beneficiary information be added to the open enrollment process to ensure members have a designated beneficiary.

- 2014 Annual Report

Ms. Cappel provided an annual overview for the 457(b) Plan, as of December 31, 2014.

Highlights from the report included:

- Plan assets totaling approximately \$52.1 million.
- Approximately 432 participants are contributing to the Plan.
- The average participant contribution is approximately \$5,943 per year.

Other items discussed included:

- Assets by asset class
- Asset allocation by age
- Participants utilizing the profile funds
- Average participant rate by age
- Average participant contribution by age
- Average participant balance
- Average account balance and percentages
- Contribution analysis
- Distributions
- Loans
- Website
- KeyTalk®

Ms. Cappel noted that the participation rate of the eligible employees participating in the annual plan review report is slightly skewed in the information provided because this figure is derived by dividing the total number of contributing participants by the total number of eligible employees. The city does not provided data to Empower Retirement on employees that do not enroll in the 457 plan. There are 1,274 employees eligible to participate in the 457 Plan. Therefore, the participation rate is approximately 49%.

## **X. OTHER BUSINESS**

Ms. Davila discussed the Open Public Meetings Act noting that future meeting notifications will most likely be posted on the City's intranet site.

In addition, Ms. Davila summarized the recent discussions that have occurred regarding potentially discontinuing new loans. If this option is preferred, the proposal would need to be presented to City Council for final approval. There is approximately \$5.5 million in outstanding loans between the MEBT and 457. A courtesy notice will be provided to the leadership team and union if it is decided to discontinue loans for the 457 Plan.

Ms. Davila noted that the Empower Retirement contract ends June 30, 2015. She summarized options for dealing with the expiring contract, including conducting a RFP for a new service provider, utilizing UBS to conduct the RFP, renewing the Empower Retirement contract as is.

Ms. Davila discussed the pension bill that would require states to offer a deferred compensation plan as a voluntary plan. She noted that there is part of the pension bill that addresses auto enrollment. Ms. Davila encouraged the committee to review the state's plan as a potential replacement plan for the 457 Plan. If the state's plan was selected, Mr. Jarzynski expressed his concerns about the limited fund options available through the state. Mr. Harris added that the 457 Plan is more actively managed than the state's plan.

Committee members requested a special meeting be held so that they can be educated about the state's plan and the differences between that plan and the 457 Plan, and to make a decision on the Empower Retirement contract terms.

## **XI. ADJOURNMENT**

The next regularly scheduled meeting will be held on May 19, 2015.

By general consensus the meeting was adjourned at 11:22 a.m.

---

Darek Jarzynski, 457 Trust/Plan/IAC Committee Secretary