

**CITY OF BELLEVUE
457 TRUST COMMITTEE
Meeting Minutes**

November 17, 2015
9:30 a.m.

Conference Room 3E-105
Bellevue City Hall

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

OTHERS PRESENT: 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 (5-0).

V. APPROVAL OF MINUTES

Motion by Ms. Bharucha and second by Mr. Jarzynski to approve the August 25, 2015 Bellevue 457 Trust Committee meeting minutes as presented. Motion carried unanimously (5-0).

VI. REPORTS

A. Chair/Staff

Chair Davila recently attended the National Association of Governmental Defined Compensation Administration Annual Conference. The overall theme throughout the event was that there is a retirement crisis—citizens are not saving enough money for retirement.

VII. EXECUTIVE SESSION

None.

VIII. ACTION ITEMS

A. Review UBS Quarterly Report and Approve Recommendations

Mr. Sanden discussed the market snapshot for 3Q15. Overall, nearly all sectors had negative performance in 3Q15. Third Quarter also demonstrated an overall market correction (10% negative performance from peak to trough but no more than 20%). The only sector that demonstrated positive performance in 3Q15 was the Utility sector.

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 3Q15, and in the year-to-date, 1, and 3 year time periods. The fund outperformed the benchmark in the 5, 7, and 10 year time periods. UBS recommends that the PIMCO Total Return Institutional fund be added to the watch list, effective 3Q15, since the fund underperformed the benchmark target in the 3 year time period, and is below the ranking goal in the 3 and 5 year time periods.

American Beacon SiM High Yield Opps Inst.:

The American Beacon fund outperformed the benchmark in all measured time periods.

Great-West Profile Funds:

Most of the Great-West Profile Funds underperformed the benchmark in the 3Q15. However, the funds continue to offer participants good competitive returns.

JHancock3 Disciplined Value R6:

The JHancock3 Disciplined Value Mid Cap R6 fund underperformed the benchmark in the 3Q15 and year-to-date time periods. However, the fund outperformed the benchmark in all other measured time periods. This fund continues to protect capital well.

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 slightly underperformed the benchmark in nearly all measured time periods. However, the fund continues to have favorable rankings.

JP Morgan Mid-Cap Value Inst'l:

The JP Morgan Mid-Cap Value fund outperformed the benchmark in all measured time periods.

Munder Mid-Cap Core Growth:

Performance for the Munder Mid-Cap Core Growth Y fund continues to improve. The fund underperformed the benchmark in all measured time periods. However, the fund had positive rankings in the 3, 5, and 7 year time periods.

RS Partners:

Search presented to the Committee.

Baron Small Cap:

Search presented to the Committee.

EuroPacific Growth R6:

The EuroPacific Growth fund outperformed the benchmark in the 3Q15 and in all other measured time periods.

Key Guaranteed Portfolio:

The Key Guaranteed Portfolio continues to have favorable yields.

Motion by Mr. Litzau and second by Mr. Jarzynski to approve the UBS Institutional Consulting recommendations for investments for Third Quarter 2015. Motion carried unanimously (5-0).

Mr. Sanden summarized the UBS Institutional Consulting Market Outlook.

B. Review UBS 457 Fund Search and Approve Recommendations

Mr. Sanden reminded Committee Members about RS Partner's ongoing underperformance that led to a fund search. He summarized the screening process for the Small Cap Value Manager that ultimately led to the following recommended candidates:

- American Beacon Small Cap Value Instl.
- Goldman Sachs Small Cap Value Instl.
- Victory Integrity Small Cap Value R6

The following information was reviewed for the selected candidates:

- Peer Group Ranking
- Annual Peer Group Ranking
- Best and Worst Quarter
- Annual Excess Performance Over the Benchmark
- Three, Five and Seven Year Performance vs. Risk
- Explanation of Terms
- Five Year Peer Group Performance Statistics
- Three, Five, and Seven Year Capture Ratio

Ms. Davila questioned if any of the recommended candidates have been in the 457 Portfolio in the past as Small Cap Value Managers. Mr. Sanden clarified that none of the funds have been in the 457 Plan as Small Cap Value Managers.

Motion by Ms. Bharucha and second by Mr. Harris to authorize the Chair to replace the current Small Cap Value Manager (RS Partners A) with Goldman Sachs Small Cap Value Institutional as soon as administratively feasible. Motion carried unanimously (5-0).

Mr. Sanden reminded Committee Members about Baron Small Cap Institutional's ongoing underperformance that led to a fund search. He summarized the screening process for the Small Cap Growth Manager that ultimately led to the following recommended candidates:

- RS Small Cap Growth Y (different from the RS Partner Value fund discussed earlier in the meeting)
- T. Rowe Price Diversified Small Cap Growth
- Wells Fargo Advantage Small Co. Growth I

The following information was reviewed for the selected candidates:

- Peer Group Ranking
- Annual Peer Group Ranking
- Best and Worst Quarter
- Annual Excess Performance Over the Benchmark
- Three, Five and Seven Year Performance vs. Risk
- Explanation of Terms
- Five Year Peer Group Performance Statistics
- Three, Five, and Seven Year Capture Ratio

Mr. Sanden confirmed that none of the recommended candidates above have been in the 457 Plan as Small Cap Growth Managers. He also noted that the T. Rowe Price fund has a 1% short-term redemption fee, which should not affect participants who practice periodic, prudent portfolio rebalancing.

Motion by Mr. Jarzynski and second by Mr. Harris to authorize the Chair to replace the current Small Cap Growth Manager (Baron Small Cap Institutional) with T. Rowe Price Diversified Small Cap Growth as soon as administratively feasible. Motion carried unanimously (5-0).

C. UBS/City of Bellevue 457 Certification and Agreement of Government-Related Entity

Mr. Sanden explained that the Compliance Department of UBS has requested further documentation from the City relating to the 457 Plan. Since the City of Bellevue is a government-related entity, UBS is requesting certification that none of the currently invested funds constitute proceeds of municipal securities or municipal escrow investments.

Motion by Mr. Litzau and second by Ms. Bharucha to approve the completion and execution of the City of Bellevue 457 Plan Certification and Agreement of Government/Government-Related Entity form as requested by UBS Financial Services Compliance Department. Motion carried unanimously (5-0).

D. Review Investment Policy Statement and Approve Recommended Updates

Ms. Davila explained that UBS Institutional Consulting's 457 Plan services include providing a periodic review of the Investment Policy Statement (IPS). The IPS is the guiding document for the plan's investments criteria. During the recent review, UBS recommended no updates to the Investment Policy Statement. However, based upon the fund changes noted above, it was recommended that these new funds be reflected in Appendix A of the Investment Policy Statement.

Motion by Mr. Jarzynski and second by Mr. Litzau to approve the following changes to Appendix A of the Investment Policy Statement:

Replace RS Partners Class A with Goldman Sachs Small Cap Value Institutional; and replace Baron Small Cap Institutional with T. Rowe Price Diversified Small Cap Growth.

At the question, motion carried unanimously (5-0).

E. 2016 Fees Analysis

Committee Members continued their discussions regarding the 457 Plan fee structure. Ms. Davila noted that the administrative account credit (\$71/yr = \$17.75 per quarter) for participants will end 3Q15. Therefore, the Committee must determine the next steps for Plan expenses and fees for 2016.

Mr. Sanden noted that the fees depend upon the size of the assets, number of participants, and overall account expenses.

Ms. Davila reiterated the importance of monitoring the 457 Plan fee structure. The 457 Plan charges participants a quarterly fee and an asset based fee. Although the 457 Plan is separate from the MEBT 401(k) Trust, it is prudent to consider the MEBT fee structure, which is \$25 per quarter with no asset based fees charged to the participants.

IX. INFORMATION/DISCUSSION ITEMS

A. Empower Retirement Report

- 2015 Quarterly Summary Report

Ms. Wilson provided a 3Q15 overview for the 457 Plan. There was a decrease in plan assets of approximately 5.4%. Plan assets totaled approximately \$50,672,782 as of September 30, 2015, versus \$53,585,889 as of July 1, 2015.

Ms. Wilson provided highlights for the following information:

- Individual Appointments
- Roll-Ins
- New Enrollments
- 4Q15 Planned Activities
- Average Participant Balance by Age
- Summary of Profile Fund Fees
- Asset Summary by Investment Option

B. Staff Plan Report

- Quarterly Recap of Plan Revenues and Expenses

Ms. Davila reminded Committee Members about the recent recordkeeping discrepancy on the holding account for the rebate during 2Q15. This discrepancy was noticed during an internal recordkeeper audit. Participant accounts were credited properly but the total rebate amount was not deducted from the holding account during 2Q15. Instead of the quarterly rebate amount of \$9,544.50, only \$5,316.03 was deducted. The 3Q15 Account Reconciliation Report shows the proper correction was made.

The Plan Revenues/Expenses for 3Q15 were included in the Committee packet. The ending balance for the Administrative Fee Holding Account was \$16,807.

X. OTHER BUSINESS

None.

XI. ADJOURNMENT

The next regularly scheduled meeting will be held on February 23, 2016.

By general consensus the meeting was adjourned at 11:25 a.m.

Darek Jarzynski, 457 Trust/Plan/IAC Committee Secretary