

City of Seattle Voluntary Deferred Compensation Plan Regular Trust Committee Meeting Minutes

Wednesday, July 28, 2021 10:00 am – 12:00 pm
Virtual Meeting via Webex

TRUSTEES present: Teri Allen, Jeff Davis, Rick Sheridan, Tania Torres, and Dennis Karl

STAFF present: Michelle Ell, Tony Dozier, & Malia Bonham; Gary Smith (CAO)

CONSULTANTS present: Ted Grigsby and Jayson Davidson from Hyas Group; Mike Monaco and Gavin Parr from Mondress Monaco Parr Lockwood (MMPL); Tim Rawal and Thomas Rey from CliftonLarsonAllen (CLA).

GUESTS present: Andee Gravitt, Kris Morton, Chris Worthington, Susan Wilson, & Olivia Anastasi, from Nationwide; Emory Horvath.

BUSINESS

Opening: Teri Allen, Committee Chair, started the meeting at 10:01 am.

Introductions: Teri Allen welcomed attendees and asked for introductions.

Public Comment: There was no public comment.

Minutes of May 26 Regular Meeting: Teri asked for a review of the meeting minutes.

MOTION: Dennis Karl moved to approve the minutes. The motion was seconded by Rick Sheridan and passed unanimously.

Plan Staff Updates: Michelle Ell notified the Committee that Bobby Humes is leaving employment with the City of Seattle. Kimberly Loving will step in as interim director for Seattle Human Resources beginning August 1 and take his place on the Committee. Michelle also shared that the NAGDCA conference would be virtual this year for the week of September 12 – 15 and that she would be presenting on a panel about Diversity and Equity Inclusion; she asked any committee members interested in attending to notify her. Michelle also provided an update on Plan communications, noting that a beneficiary reminder card will be going out shortly, and that updates are being made to Plan materials, in particular to the imaging, and that they are getting positive feedback on the updates.

Nationwide Q2 2021 Update: Andee Gravitt provided Nationwide's Q2 2021 update for the Committee. Andee noted there was good growth for the quarter with plan assets increasing to a total of approximately 1.7B, marking a 28% increase for the year. She also noted that enrollments and contribution inflows had increased. Olivia Anastasi noted that individual and group participant educational meetings continue to be done virtually, and that these virtual education meetings and webinars are well attended.

Q2 2021 Market Overview and Performance Report: Jayson Davidson and Ted Grigsby reviewed with the Committee Hyas Group's June 30, 2021 Performance Report for the Plan, beginning with an update provided by Jayson on economic and financial market themes that occurred throughout Q2. Ted Grigsby next reviewed the Plan performance, allocation, and fees. Ted noted that due to the peer group rating of the Principal Diversified Real Asset Fund (PDRDX), the automatic watch rule under the current Investment Policy Statement ("IPS") was triggered. The fund's average peer group rating over the previous 3 and 5 years was 81 and 82, respectively, which was below the 75th percentile threshold required by the current IPS to avoid being placed on watch. Ted discussed with the Committee Hyas Group's assessment of the reasons for the underperformance over these periods, and also noted that they would be recommending, in a discussion to be had later in the meeting, that this fund be removed from the investment line-up, but for reasons unrelated to its performance. It was recommended by the Hyas Group that this fund should be placed on watch based on the automatic watch rule stated in current IPS. Jeff Davis noted his agreement.

MOTION: Jeff Davis moved to put the Principal Diversified Real Asset Fund (PDRDX) on watch. The motion was seconded by Rick Sheridan and passed unanimously.

2020 Audit Results: Thomas Rey from CliftonLarsonAllen (CLA) presented to the Committee the 2020 audit results, noting that it was a clean audit.

Hyas Group Business Update: Jayson discussed with the Committee the impending merger of Hyas Group with the Morgan Stanley Institutional Consulting Division. Jayson discussed the changes, noting the benefits it is anticipated this will bring, such as expanding available investment analytics resources, and pointed out that effectively, there will be little to no impact on the Plan or the services provided by Hyas Group. The current team of Jayson, Ted, and all support staff will remain the same. Existing contracts also will all remain the same. MMPL noted that no action was required by the Committee, as there would be a deemed assignment of the contract unless a decision was made to object and terminate the contract. Also, the Committee retains the right to terminate the contract if and when it chooses, per the existing contract provisions.

Investment Policy Discussion: Hyas Group reviewed with the Committee proposed modifications to the current Investment Policy Statement. A draft of the redlined document was provided to the Committee in advance of the meeting, and the proposed modifications were also reviewed and commented on by Jason Malinowski, and include his input. Ted provided an overview of the recommendations, which include adjustments to the watch policy and definitions of asset classes. The recommended updates will be addressed further and presented to the Committee for approval at the September meeting. There will also be discussion concerning language regarding the Specified Asset category and Hyas may provide recommendations for modified language concerning this category for the Committee's consideration.

Fund Changes: Hyas Group presented four investment fund change proposals for the Committee's consideration, discussing in detail each proposal and the rationale for the proposal. They explained that all four proposals were developed with the goals of improving the Plan's investment offerings, streamlining investment choice, reducing plan costs, and maintaining diversified options. There was discussion concerning the impact on participants who may have loyalty to the existing US Large Cap Growth funds that would be replaced under the first proposal, and also concerning the transparency of Collective Investment Trusts (CITs) as compared to mutual funds. Hyas Group provided an in-depth discussion of CITs in response to the questions from Committee members concerning CITs. After discussion of the proposals:

MOTION: Jeff Davis moved to consolidate the two current large cap growth funds into the Vanguard US Growth fund, to be achieved by mapping the assets from the American Growth Funds of America (RGAGX) and Fidelity Contrafund (FCNTX) to Vanguard US Growth (VWUAX) and eliminating RGAGX and FCNTX. The motion was seconded by Dennis Karl and passed unanimously.

MOTION: Jeff Davis moved to eliminate the Principal Diversified Real Asset Fund (PDRDX) and map the assets to an age-appropriate target date option, based on the participants' birth date. The motion was seconded by Dennis Karl and passed unanimously.

MOTION: Jeff Davis moved to transition the Vanguard Target Date funds from the current mutual fund Institutional share class with a cost of 9 bps to the CIT version, where expenses are 6.5 bps of total assets. The motion was seconded by Dennis Karl and passed unanimously.

The Committee did not vote on the following proposal and determined they would not move forward at this time: Eliminate the Vanguard Total Stock Market Index (VITSX) and map the assets to the index funds already existing in the Plan (VMIIX, VSPMX, VSMSX) in accordance with their weightings within VITSX (84.1%, 9.5%, and 6.4% respectively). Hyas Group will initiate and coordinate implementing the approved fund changes with Nationwide, Vanguard, legal counsel, and Plan Staff as soon as administratively feasible.

Executive Session: The Committee entered an Executive Session to review the performance of a publicly bid contract beginning at 11:51am and ending by 12:08pm. The Executive Session ended, and the Committee returned to open session.

Adjournment: Teri Allen moved to adjourn the meeting provided there were no objections. Hearing no objections, the meeting was adjourned at 12:09pm.

Next Meeting: The next regular meeting is scheduled for Wednesday, September 22, 2021, at 10:00 am via WebEx.



Jeffrey S. Davis
Secretary, Deferred Compensation Plan Committee

09/28/2021