

## City of Seattle Voluntary Deferred Compensation Plan Regular Plan Committee Meeting Minutes - DRAFT

Thursday, January 15, 2015 10:00 AM – 12:00 PM  
Seattle Municipal Tower, Room 4080

**TRUSTEES present:** Teri Allen, Ken Nakatsu, Glen Lee, Susan Coskey, and Bill Alves  
(**absent:** Scott Best and Marty Yellam)

**STAFF present:** Florence Katz, Crystal Roncek, Renee Freiboth, and Carolyn Trapp  
SDHR; George Emerson, FAS (**absent:** Jason Malinowski, SCERS; Jeff Slayton, CAO)

**CONSULTANTS present:** Jake O’Shaughnessy and Stuart Payment, Arnerich Massena,  
Inc.; Usha Archer, Prudential Retirement; Jeff Curnutt, Thorson Barnett & McDonald

**GUESTS present:** Dennis Karl, IAFF Local 27; Scott Fuquay, Seattle Municipal Court  
Marshals’ Guild; John Borne, Empower Retirement, Steve Ebert, Nationwide Retirement;  
Anne Cappel, Great West Financial; Rob Bilo and Michael McAtamney, TIAA-CREF

### BUSINESS

**Opening:** Teri Allen, the Committee Chair, started the meeting at 10:02 AM following a change in rooms from SMT 4070 to 4080 to accommodate a larger group. She noted that in the absence of a quorum (prior to the arrivals of Bill Alves and Glen Lee), the group would first focus on non-voting matters.

**Introductions:** All attendees introduced themselves.

**Investment Performance Report:** Jake O’Shaughnessy reported that the 4<sup>th</sup> Quarter 2014 Investment Performance Report was not available for review.

**Record Keeper Update:** Usha Archer, our new account executive from Prudential Retirement, discussed that in order to provide a service team to better serve the City, there have some staffing changes. She has taken over the City’s account from Bob Belanger, a new communications consultant is working on all participants’ messaging, and there will be a new onsite consultant by March. The temporary onsite consultant, Lilian Smith, will provide one-on-one consultations and group presentations in the Seattle Municipal Tower until the regular consultant is on board. She also noted that a preliminary communications plan for 2015 had been provided for review.

**Staff Updates:** Renee Freiboth provided an update on the record-keeper search. Staff is working on a contract amendment with Arnerich Massena for support during the search effort. The current Arnerich Massena contract goes through March 31, 2015, and can be extended.

Florence Katz discussed the previous request for additional Investment Portfolio Subcommittee meetings and the suggestion about preliminary regular Committee meeting

agendas for the entire year. She noted that the anticipated March meeting agenda (provided at the meeting) included recommending new funds or categories of funds; staff will schedule an Investment Portfolio Subcommittee meeting before that meeting to explore the topic in greater detail. Throughout the year other IPS meetings will be scheduled as needed. The draft agendas also included scheduled discussions of quarterly investment performance reports, a proposed education session for the Committee, review of the auditor's report, and other matters of regular concern; suggestions about the nature and timing of topics from Committee members and others would be welcome.

**Expense Account Status:** Florence Katz reviewed the Plan expense account report provided by Prudential Retirement for October 1, 2014 – December 31, 2014 (Q4). She noted the balance at year end was \$537,020.46. Ken Nakatsu asked for expense information for the year as a whole. Susan Coskey also requested the Plan budget be included with the expense report. Staff confirmed that the information will be sent in several weeks, as we need to obtain the relevant data from both the City and Prudential Retirement.

**Minutes of Last Meetings:** Teri Allen provided the group time for the review of the November 12th meeting minutes.

**MOTION:** Susan Coskey moved to accept the minutes without change. Ken Nakatsu seconded the motion. Upon a call for a vote, the motion to approve the minutes carried unanimously.

Ken asked that in the future draft minutes should be sent out much closer in time to the meeting they document.

**Proxy Voting Requests:** Florence Katz and Jeff Curnutt addressed three proxy voting options and proposed guidelines, following previous discussions by the Committee and staff. Most recently, Florence and Jeff Slayton had met with Jeff Curnutt, Jason Malinowski and George Emerson regarding their experience with and ideas about proxy voting. The group came up with three basic options that would be legally supportable and operationally feasible.

Florence reviewed the three proxy voting options, all of which involve SDHR staff support: 1) voting by the entire Committee, 2) voting by a designated subcommittee and 3) voting by a single Committee member with Committee back-up(s) pre-selected. Staff recommended the third option: voting by a single Committee member (with back-ups pre-selected). Florence also noted that Jason Malinowski obtained a quote from Institutional Shareholders Services, an entity under consideration by SCERS, that could do the research on the Deferred Compensation Plan's voting issues and make recommendations on how to vote for an estimated cost of \$1,000 per year because of the infrequency of proxy voting requests.

Susan Coskey asked about any fiduciary breach if the Plan doesn't vote at all. Jeff Curnutt stated that if we choose to utilize ERISA standards, the Plan would thoughtfully

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consider each vote using a defined approach, documenting the reason for the vote made or any decision not to vote. Jeff suggested that if we rely on staff or Committee member(s) to vote proxy, we should have expert(s) to provide relevant advice when necessary.

Ken Nakatsu suggested a staff person should be designated to look at the issue, and to consult with Arnerich Massena and/or -another specified party. Susan asked if the Plan Committee can vote by email if they can't meet; Teri supported that idea, recommending following a process similar to the UEW Subcommittee's decision-making process. Florence indicated that voting by email on a Plan-wide (vs. claim-specific) basis may be in conflict with the requirements of the Washington Open Public Meetings Act .

Jeff added that, from a fiduciary perspective, there is more it's better protection if you to turn to a financial services expert. Bill Alves added that hiring ISS to do the research and recommend a vote is well worth the cost of \$1,000 per year. Jake O'Shaughnessy shared that for Arnerich Massena to provide voting support services at an ISS level, the firm would have to do lots of research requiring additional staff time, tools and potentially added fees. A better plan would be if Arnerich reviewed ISS' recommendation prior to a Plan vote.

**MOTION:** Susan Coskey moved to have SDHR staff designated to coordinate with ISS to research each voting issue and with Arnerich Massena to review ISS' research and proxy vote recommendation. Staff would then seek input by the full Committee within the requirements of the Washington Open Public Meetings Act and any proxy voting deadlines, and the Committee Chair would be empowered to decide on the vote on the matter. Ken Nakatsu seconded the motion. Upon a call for a vote, the motion in support of this proxy voting approach was passed unanimously.

SDHR staff will verify with Jeff Slayton if the approved approach is in accordance with the Washington Open Public Meetings Act.

**Distributions and Rehired Employees:** Florence Katz noted that there occasionally is confusion about allowable distributions following the rehire of a participant who previously met distribution-eligibility requirements (e.g., separation from the City). Crystal Roncek mentioned the increasing frequency of situations concerning rehires.

A draft amendment to the Plan Document would allow rehired employees to *continue or stop* receiving distributions if they had started distributions *before* their rehire date. The amendment would not allow a rehired employee to start or increase distributions *after* the rehire date.

Ken Nakatsu stated the language was hard to understand as written. George Emerson asked whether a rehired individual could ~~that~~ start taking distributions if s/he hadn't already started. Jeff restated that the amendment would not allow an individual to start distributions following their rehire date. For readability, Susan Coskey recommended

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adding a period after “Plan account” in the second paragraph of page one, striking “and not obtaining advantages from the Plan that exceed those available to other participants”. Bill Alves suggested that since retirees may have a financial situation requiring funds from the Plan in addition to a renewed need to be gainfully employed, they be provided information about starting distributions or pursuing a rollover to another arrangement so as to have access to their deferred compensation funds under all circumstances. This suggestion was not pursued.

**MOTION:** Ken Nakatsu moved to accept the amendment adding section 4.1 (e) with changes to language as noted in the above discussion. Bill Alves seconded the motion. Upon a call for a vote, the motion to approve the amendment with changes carried unanimously.

**Calamos Growth I:** Jake O’Shaughnessy summarized the Large Cap Growth Fund Mapping and Growth Manager Search documents and the Investment Portfolio Subcommittee’s discussion on December 19. Carolyn Trapp repeated the Subcommittee’s recommendation proposing: removal of the Calamos fund from the investment line-up and mapping participant assets to American Funds Growth Fund of America R5. Jake noted that the change would mean that relevant deferrals after the change would also go into American Funds Growth Fund of America R5.

**MOTION:** Ken moved to accept the Investment Portfolio Subcommittee’s recommendation to remove the Calamos Growth I fund and map participant assets to American Funds Growth Fund of America R5. Bill seconded the motion. Upon a call for vote, the motion was approved unanimously.

**Socially Responsible Investment (SRI) Fund:** Jake summarized the discussion and recommendation regarding the SRI fund from the December 19<sup>th</sup> Investment Portfolio Subcommittee. Calvert, the Plan’s SRI option, was underperforming compared to other equity funds. The related questions about SRI funds are whether it is more important to adhere to SRI screening criteria or to make money, and whether SRIs need to be considered “special funds” that are picked on a basis other than financial performance.

Susan Coskey asked if we can tell participants the Plan offers a fund that doesn’t invest in fossil fuels. Jake indicated there are no standard SRI selection/retention criteria available in the marketplace that evaluate fossil free status per se. Individuals could evaluate and choose such funds through the self-directed brokerage account option.

Florence remarked that the Plan’s Investment Policy Statement already allows for investments like SRIs based on a benefit(s) perceived to exist separate from investment performance. Jeff Curnutt stated that ERISA does not preclude plans from including SRI funds; however, the Plan Committee might bear some risk if the SRI fund was selected based on non-economic factors and then didn’t do well over time in comparison to a performance benchmark or its peer group. There was some discussion about the degree to which participants are or should be warned about fund performance. Glen Lee stated that his understanding is that the Plan Committee’s responsibility is to give participants a

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wide range of investment options, ~~given their subjective and objective investment needs.~~  
Jeff confirmed that understanding, among other requirements.

Susan requested a written statement that there are no fossil-free SRI funds available on the market before the March full Plan Committee meeting. Jake will provide a brief document about fossil-free fund screening and availability.

Carolyn Trapp then repeated the Investment Portfolio Subcommittee's recommendation regarding the socially responsible investment fund: to put the Calvert Growth I fund on watch.

**MOTION:** Glen Lee moved to accept the Investment Portfolio Subcommittee's recommendation to put the Calvert Growth fund on watch. Ken Nakatsu seconded the motion. Upon a call for vote, the motion was approved unanimously.

**Audit of Plan Controls and Financial Statements:** Teri Allen referenced the final copy of Moss-Adams's audit report, including the Plan's 2012 and 2013 financial statements, among Plan Committee members' materials.

Florence then noted that this was really her last meeting and that she would be leaving her position at the end of February. She again thanked the group.

**Public Comment:** As the option for public comments had been skipped over earlier in the meeting, Teri Allen asked if there were any public comments. There were none.

**Adjournment:** At approximately 11:43 AM Glen Lee moved to adjourn. Ken Nakatsu seconded the motion, which received a unanimous vote.

**Next Meeting:** The next regular meeting is scheduled for Wednesday, March 11, 2015 at 10 AM in the Seattle Municipal Tower, Conference Room 4096.