

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

Wednesday, March 27, 2019 10:00 am – 12:00 pm
Seattle Municipal Tower, Room 4080

TRUSTEES present: Jeff Davis (acting chair), Dennis Karl, Glen Lee, William Alves, and Bobby Humes

STAFF present: Michelle Ell, Tony Dozier, Malia Bonham, Renee Freiboth - SDHR; Jeff Slayton - CAO

CONSULTANTS present: Jake O'Shaughnessy, SageView Advisory Group; Michael Monaco, Mondress Monaco Parr Lockwood (MMPL)

GUESTS present: Kent Morris, Andee Gravitt, Ryan Sawyer, Adam Maloney, Susan Wilson, and Olivia Anastasi from Nationwide; George Emerson, FAS

BUSINESS

Opening: Jeff Davis, filling in as Committee Chair, started the meeting at 10:04 a.m.

Introductions: Jeff Davis welcomed attendees and asked for introductions.

Public Comment: There was one public comment from Alan Bernstein regarding adding ETFs to the Plan.

Jake O'Shaughnessy asked if ETFs were currently allowed in the core line up. Michelle stated ETF's are not currently a core asset type in the plan but are a possibility in a Schwab PCRA. Currently the Plan does not allow ETFs within the Schwab PCRA offered by the Plan.

Minutes of January 23, 2019 Regular Meeting: Jeff asked for a review of the meeting minutes.

<p>MOTION: Bill Alves moved to approve the minutes as written. Motion was seconded by Dennis Karl and passed unanimously.</p>
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Administrative Update: Plan Staff conducted 18 meetings over 12 days across all Police Precincts, Headquarters, and Park 90/5 prior to the payment of the Seattle Police Officer's Guild (SPOG) retroactive payment. Educational outreach to the officers was successful. Approximately 250 officers invested almost \$3.4 million into their Plan accounts out of the retroactive payments.

Nationwide Q4 2018 Update: Andee Gravitt shared the Q4 report with the Committee. She reported that the decrease in total contributions that occurred in fourth quarter was likely due to one less paycheck being in the quarter, along with the fact that many participants met their annual contribution limit prior to the end of the year. She pointed out that there had been a decrease in distributions, even with Required Minimum Distributions being paid out in Q4.

She further noted that Roth contributions have been popular with younger employees. Bill wanted to know if Roth contributions to a self-directed brokerage account (SDBA) were permitted. Andee confirmed that this is not currently an option. Michelle noted participants have not requested the ability to make Roth contributions to a SDBA.

Bobby Humes arrived at 10:26am.

Market Overview and Executive Summary: In addition to providing a Q4 2018 market overview, Jake O'Shaughnessy provided an update on the performance of the Plan as a whole and individual investment funds. Regarding Calvert Equity Portfolio Class I Fund, he reported that as of 12/31/2018 it is ranking above median across all time periods and it was in the 5th percentile on a 1-year basis, and in the 20th percentile and 26nd percentile over 3- and 5-year periods. As a result, SageView is recommending removing Calvert from watch status.

Jake noted the Sterling Capital Mid Value I Fund had continued to perform below expectations and was below the median relative to other Mid Cap Value Funds across all time periods as of 12/31/18. Jake therefore recommended placing Sterling Capital Mid Value I on watch.

Jake also discussed the Principal Diversified Real Assets fund, and its recent performance below its benchmarks. He stated that he was not recommending any action on the fund. SageView would continue to report on it to assess whether the fund recovers from the current underperformance or if other actions should be considered.

MOTION: Dennis Karl moved to take Calvert Equity Portfolio Class I Fund off watch. Motion was seconded by Glen Lee. The motion passed with four votes in favor and an abstention by Bill Alves.

MOTION: Dennis Karl moved to place the Sterling Capital Mid Value I Fund on watch. Motion was seconded by Bill Alves and passed unanimously.

Jake will provide potential options to replace the Sterling Mid Cap Value Fund at the next meeting for review and consideration by the Committee.

Jake presented that SageView has started internal discussions about the Plan's stable value fund managed by Galliard Capital Management. Galliard Capital Management is owned by Wells Fargo Bank, which has resulted in potential concerns regarding the fund. The concern is not around the funds' investment management, but whether a potential sale of Wells Fargo's recordkeeping business could impact cash flows out of Galliard's Stable Value Funds. SageView will continue to monitor the situation at Galliard and will provide an update at our next quarterly meeting.

Specified Assets: Jake presented an overview of Environmental Social and Governance (ESG) investing. Jeff asked if there were good performance metrics to gauge ESG funds. Jake said that this is a rapidly evolving area of investing, but there is currently a smaller peer group of funds, however, some reasonable benchmarks have been developed more recently.

Jake stated Calvert Equity Portfolio Class I met the criteria of a broad based Environmental Social and Governance (ESG) fund and was performing well. Bill asked if the fund was currently being benchmarked as a Large Cap Growth fund. Jake confirmed that it was currently being evaluated as a Large Cap Growth fund and is measured primarily against the Russell 1000 Growth index. They agreed that it would be prudent for SageView to review how Calvert has performed when benchmarked against other ESG type funds using the MSCI ESG methodology.

The Committee asked Jake to research another broad ESG fund with a better carbon footprint for the next meeting. If there isn't a fund that meets that criteria, the Committee requests that Jake find a 'Specified Asset' Fund focused on carbon reduction. In addition, appropriate benchmarks for any proposed funds should also be provided during the discussion.

Bill asked how Plan Staff would communicate the Specified funds information to participants. Michelle responded that Jake and Mike Monaco had prepared materials that would be sent to all participants and she would like to send a packet with all the information to participants. Plan Staff is also working with Nationwide on displaying this information on their site. Jeff stated he agrees that Plan Staff should send it all as one packet once a fund lineup is decided.

Executive Session: The Committee met for Executive Session to receive advice on a potential litigation matter and to review options for publicly bid contracts, beginning at 11:37 am and ending at 11:59 am.

<p>MOTION: Bobby Humes motioned to accept the data privacy contract with Mercer. Motion was seconded by Dennis Karl and passed unanimously.</p>
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<p>MOTION: Bobby Humes motioned to accept the audit contract amendment with Clifton Larsen Allen (CLA). Motion was seconded by Dennis Karl and passed unanimously.</p>

Adjournment: Jeff moved to adjourn the meeting at 12:00 pm provided there were no objections. Hearing none the meeting was adjourned without objection.

Next Meeting: The next regular meeting is scheduled for Wednesday, May 22, 2019 at 10:00am in the Seattle Municipal Tower, Conference Room 4080.