

BOARD MEETING DATE: November 3, 2017

AGENDA NO. 12

TITLE: Annual Report on 457 Deferred Compensation Plan

SYNOPSIS: SCAQMD sponsors an IRS-approved 457 deferred compensation program for its employees. The Annual Report addresses the Board's responsibility for monitoring the activities of the Deferred Compensation Plan Committee and ensuring the Committee carries out its fiduciary duties and responsibilities under the Committee Charter. This action is to file the annual report.

COMMITTEE Administrative, October 13, 2017; Recommended for Approval

RECOMMENDED ACTION:

Receive and file the Annual Report to the Board for FY 2016-17 on the SCAQMD's 457 Deferred Compensation Plan.

Wayne Nastri
Executive Officer

AJO:mm

Background

SCAQMD sponsors and administers a 457 deferred compensation program for its employees. The Deferred Compensation Plan (Plan) is administered by Massachusetts Mutual Life Insurance Company (MassMutual), a retirement services, asset management and insurance firm. State law governs the fiduciary requirement for the operation and investment of 457 plans sponsored by governmental entities. SCAQMD's Governing Board serves a fiduciary role subject to the duties and obligations under Article XVI, Section 17 of the California Constitution.

To meet its fiduciary responsibilities, the Board, at the time it established SCAQMD's 457 Plan, also established a Deferred Compensation Plan Committee (Committee) to oversee the administration of the Plan. On May 2, 2008, the Board approved the Deferred Compensation Plan Committee Charter, formalizing the fiduciary duties and responsibilities of the Committee. The four members of the Deferred Compensation Plan Committee are the Chief Administrative Officer, the Assistant Deputy Executive

Officer/Administrative and Human Resources, the Human Resources Manager over employee benefits, and the General Counsel.

In addition to the retirement plan administrator, SCAQMD utilizes the services of an independent, third-party consulting firm, Benefit Financial Services Group (BFSG), to provide services related to the Plan, as a fiduciary under a Registered Investment Advisor agreement.

Summary of Report

Attached is the Annual Report to the Board for FY 2016-17 on SCAQMD's 457 Deferred Compensation Plan. The Committee meets on a regular basis to review the Plan's design, investment options, asset allocation/demographics, and to make changes as necessary. During this fiscal year period, the Committee reviewed Plan funds, reviewed and approved changes to the Plan Expense Reimbursement Account Policy, removed and replaced three funds with other funds, and placed two funds on the Watch List due to relative underperformance. As of June 30, 2017, the Plan has:

- 897 participants (employees and retirees)
- Over \$160.5 million in assets
- An average account balance of \$179,475
- Outperformed the 3-, 5- and 10-year benchmarks

The attached report provides detailed information regarding Plan Assets/Demographics and Plan Performance.

Proposal

Staff recommends that the Board receive and file the attached Annual Report for FY 2016-17 to the Board on SCAQMD's 457 Deferred Compensation Plan.

Attachment

Annual Report to the Board for FY 2016-17 on SCAQMD's 457 Deferred Compensation Plan Annual Report for FY 2016-17

SEPTEMBER 13, 2017

ANNUAL REPORT TO THE BOARD

REPORT PERIOD: JULY 2016 -
JUNE 2017



South Coast Air Quality Management District
457 Deferred Compensation Plan

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SECTION I

EXECUTIVE SUMMARY

Executive Summary

South Coast Air Quality Management District ("SCAQMD") sponsors and administers an eligible deferred compensation program for its employees, as covered under section 457 of the Federal Internal Revenue Code. SCAQMD's Deferred Compensation Plan ("Plan") was adopted on January 1, 1987. Employees are immediately eligible upon hire to participate in the Plan.

SCAQMD's Deferred Compensation Plan Committee ("Committee"), officially chartered in May 2008, and whose members are appointed by SCAQMD's Governing Board, meets on a regular basis to review the Plan's design, investment options, asset allocation/demographics, and to make changes as necessary. Current membership includes the Chief Financial Officer, General Counsel, the Assistant Deputy Executive Officer of Administration and Human Resources, and a Human Resources Manager.

The Plan is administered by Massachusetts Mutual Life Insurance Company ("Mass Mutual"), a retirement services, asset management and insurance firm.. MassMutual provides recordkeeping and administration services to over 3,200 Government entities with over \$19 billion in total assets. MassMutual has been administering 457 Plans since 1979, has \$13.6 billion in 457 assets under management and an S&P credit rating of AA+.

In addition to the retirement plan administrator, SCAQMD utilizes the services of Benefit Financial Services Group ("BFSG"). BFSG is a third-party consulting firm that provides services to the Plan as a fiduciary under a Registered Investment Advisor agreement. Their consulting services include investment analysis, review and recommendation of investment options offered in the Plan, fiduciary compliance assistance to Committee members and annual Plan cost benchmarking. BFSG has been providing services to the Plan since 2007.

The Plan was established to provide a retirement savings program for the employees of SCAQMD and is maintained for the exclusive purpose of benefiting the Plan participants and their beneficiaries. The Plan is also intended to operate in accordance with all applicable state and federal laws and regulations.

While Plan participants are ultimately responsible for their own investment decisions, the Committee endeavors to provide an appropriate range of investment options, allowing participants to invest in accordance with their own time horizons, risk tolerance, and retirement goals.

SECTION II

YEAR IN REVIEW

2016/2017 Year in Review

Items addressed and adopted by the Committee during the year are as follows:

Plan Summary

Meeting Date	Item	Update
September 14, 2016	Share Class Changes	<p>The following share class changes occurred on September 2, 2016 and resulted in lower expense ratios to participants:</p> <ul style="list-style-type: none"> • Allianz NFJ Small-Cap Value R6 replaced Allianz NFJ Small-Cap Value Admin; • Metropolitan West Total Return Bond Plan replaced Metropolitan West Total Return Bond Inst; • SS DJ Target Date C Funds replaced SS DJ Target Date A Funds; • Neuberger Berman Socially Responsive R6 replaced Neuberger Berman Socially Responsive Trust; • T. Rowe Price Blue Chip Growth I replaced T. Rowe Price Blue Chip Growth.
	Annual Board Report	BFSG prepared and presented to the Committee the FY 2016 Annual Report to the Governing Board.
	401(a) Plan Addition	The Committee agreed to establish a 401(a) Plan for the Executive Officer. The Plan may also become available for all employees receiving a match at some point in the future. BFSG will provide consulting services to the Plan for no additional charge. The 401(a) Plan went live on April 1, 2017
December 7, 2016	Plan Expense Reimbursement Account Policy ("PERA")	The Committee reviewed and approved BFSG's updates to the PERA Policy.

2016/2017 Year in Review

Items addressed and adopted by the Committee during the year are as follows:

Investment Menu

Meeting Date	Item	Update
September 9, 2016	Watch List	The Committee placed Hartford Capital Appreciation on the Watch List due to relative underperformance.
December 7, 2016	Fund Changes	<p>The Committee reviewed the Fund Search prepared by BFGS and reached the following conclusion:</p> <ul style="list-style-type: none"> - Remove Hartford Capital Appreciation from the Plan, and map all assets and future contributions to American Funds Fundamental Investors. - Remove Allianz NFJ Small-Cap Value from the Plan, and map all assets and future contributions to American Beacon Small Cap Value. <p>These fund changes occurred on April 14, 2017.</p>
March 8, 2017	Watch List	The Committee placed MFS Utilities on the Watch List due to relative underperformance.
	Fund Change	<p>The Committee reviewed the Fund Search prepared by BFGS and reached the following conclusion:</p> <ul style="list-style-type: none"> - Remove Hartford Small Company from the Plan, and map all assets and future contributions to Goldman Sachs Small Cap Growth Insights. <p>This fund change occurred on July 14, 2017.</p>

SECTION III

PLAN ASSETS /
DEMOGRAPHICS

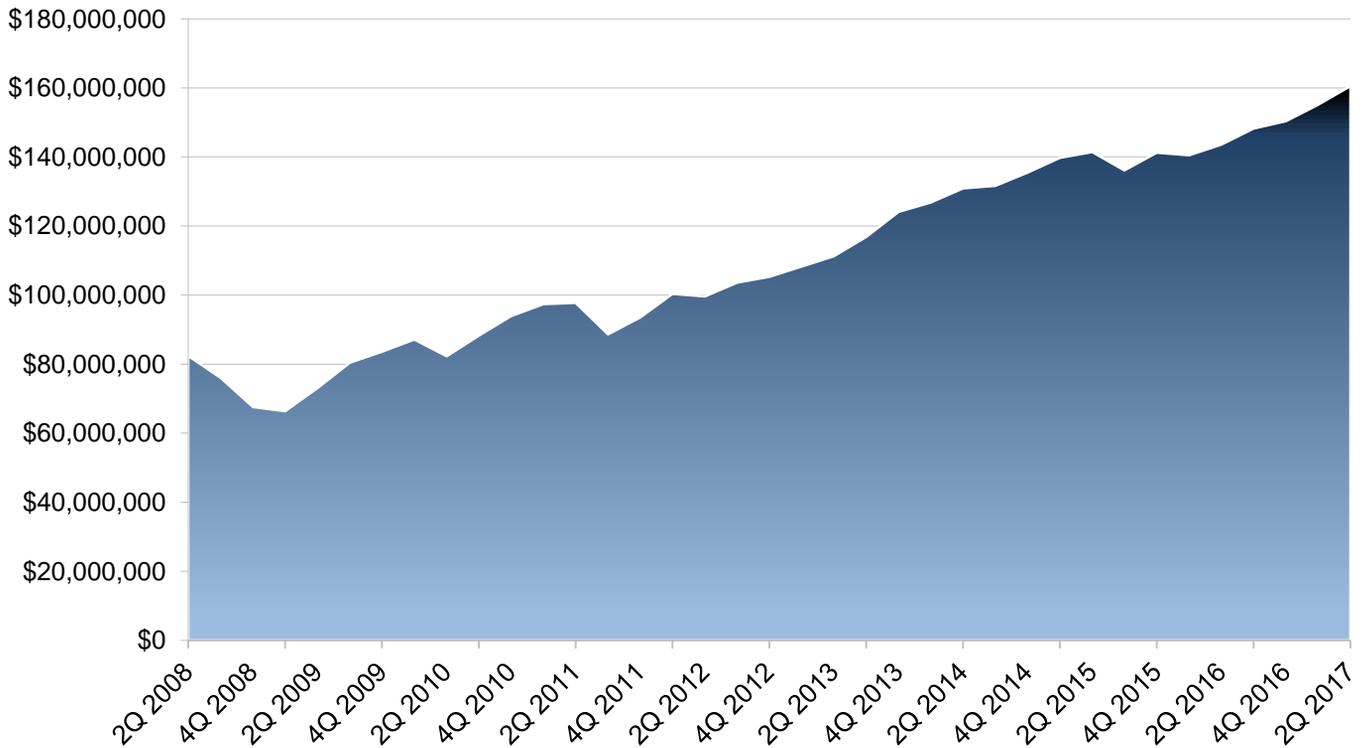
Plan Assets / Demographics as of June 30, 2017

Investment Option	% of Plan Assets	Participants	Plan Assets
Hartford General Account	50.88%	655	\$81,677,139
T. Rowe Price Blue Chip Growth I	9.25%	368	\$14,853,504
American Funds Fundamental Invs R4	8.33%	246	\$13,367,319
SSgA S&P 500 Index Sec Lend Inv Opt I	3.60%	160	\$5,773,741
Hartford MidCap HLS IA	3.45%	283	\$5,545,074
Hartford Dividend and Growth HLS IA	3.32%	291	\$5,335,384
Hartford International Opp HLS IA	2.75%	321	\$4,418,487
Invesco Equity and Income A	2.72%	135	\$4,363,680
Metropolitan West Total Return Bond Plan	1.99%	217	\$3,189,162
Hartford Healthcare HLS IA	1.78%	101	\$2,855,436
Hartford Small Company HLS IA	1.25%	223	\$2,011,909
Vanguard Selected Value Inv	1.18%	212	\$1,897,084
SSgA Dow Jones Target 2045(SM) Sec Lend Inv Opt C	1.18%	83	\$1,895,548
American Beacon Small Cp Val Inst	1.16%	225	\$1,860,216
SSgA Dow Jones Target 2035(SM) Sec Lend Inv Opt C	1.12%	40	\$1,801,665
MFS® Utilities A	1.08%	97	\$1,732,908
SSgA US Interm Gov/Credit Bond Index SL Inv Opt I	1.02%	132	\$1,638,244
SSgA S&P MidCap Index Non-Lend Series Inv Opt I	1.00%	97	\$1,609,652
SSgA Russell Small Cap Index Sec Lend Inv Opt I	0.74%	83	\$1,186,856
MFS® International New Discovery A	0.73%	88	\$1,178,319
Invesco Real Estate R5	0.54%	42	\$861,576
SSgA International Index Sec Lend Series Inv Opt I	0.36%	41	\$583,282
SSgA Dow Jones Target 2025(SM) Sec Lend Inv Opt C	0.31%	22	\$496,933
Neuberger Berman Socially Rspns R6	0.15%	28	\$244,138
SSgA Dow Jones Target 2015(SM) Sec Lend Inv Opt C	0.07%	6	\$105,617
SSgA Dow Jones Target Today Index(SM) SL Inv Opt C	0.03%	2	\$42,038
Total	100.00%	897	\$160,524,910

Note: Total does not include Self-Directed Brokerage Account

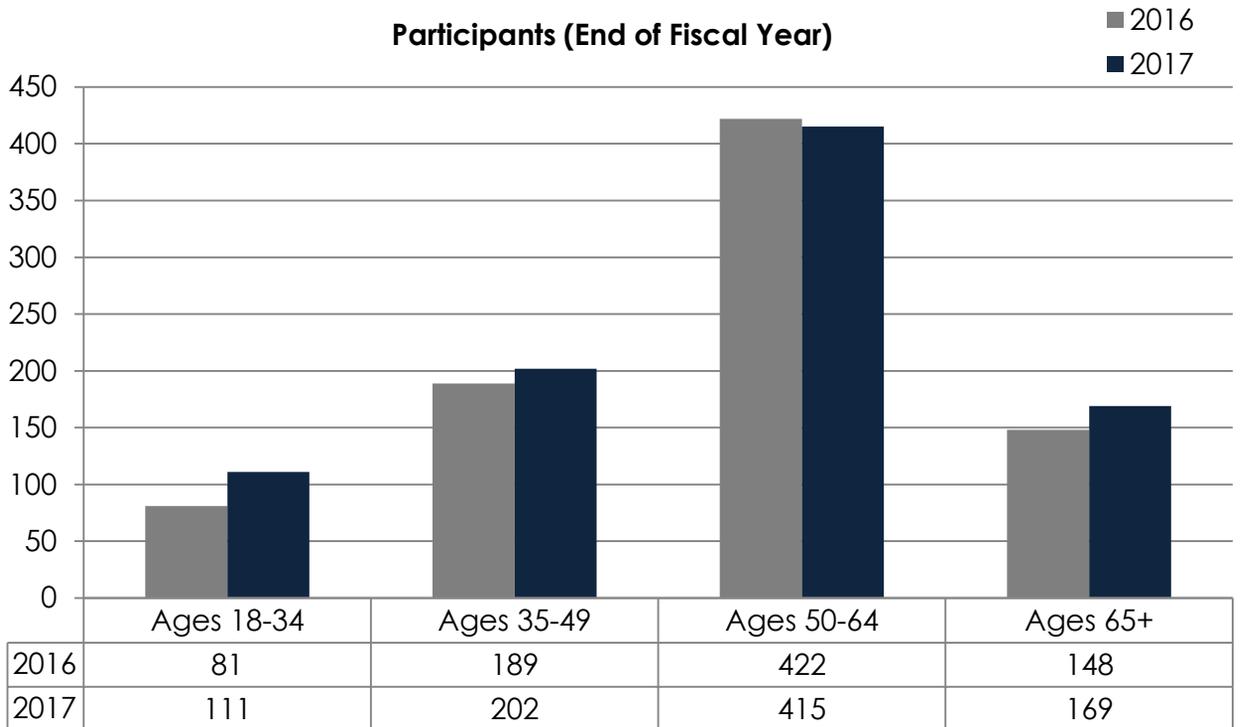
Plan Assets / Demographics

Growth of Plan Assets



Plan Participants by Age

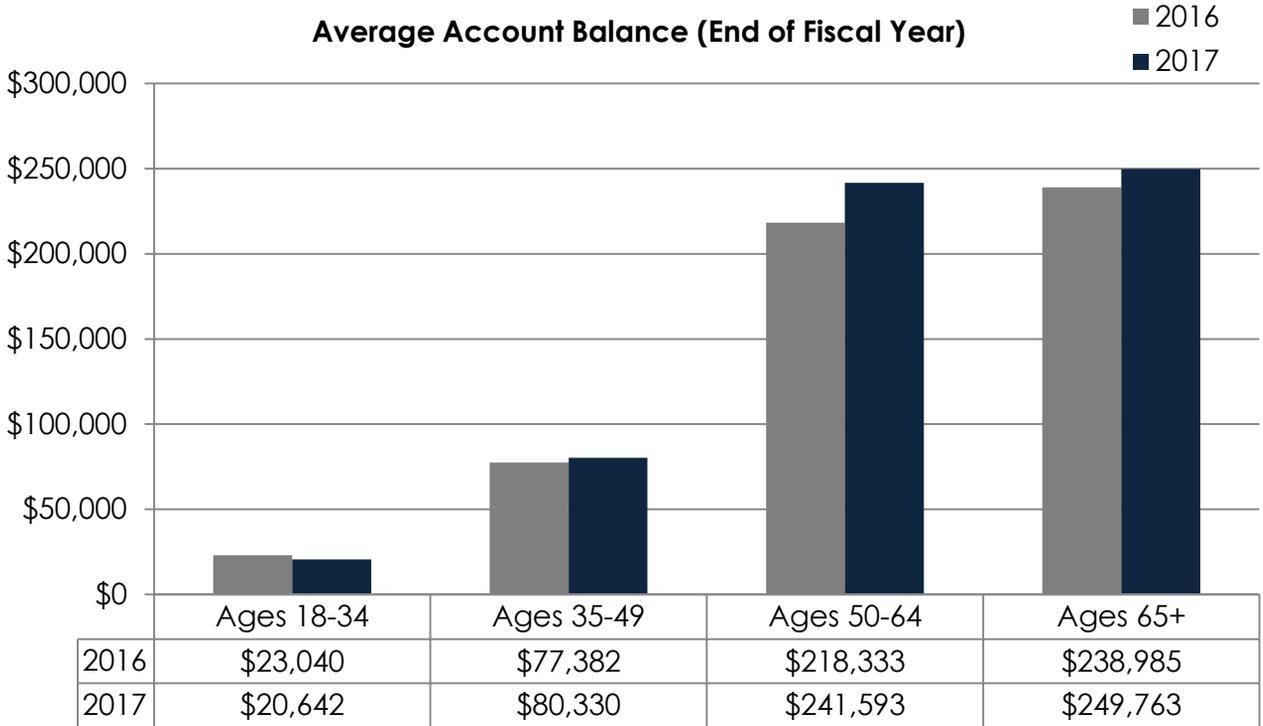
Participants (End of Fiscal Year)



Plan Assets / Demographics

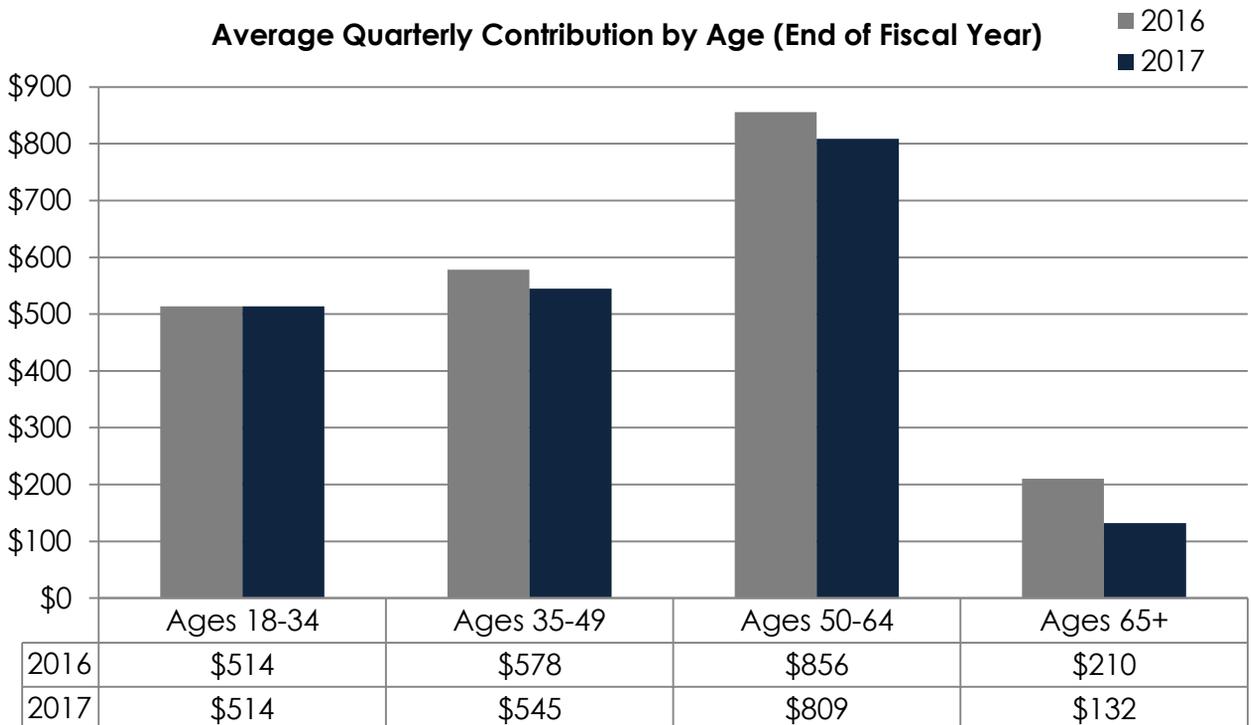
Average Account Balance by Age

Average Account Balance (End of Fiscal Year)



Average Contributions by Age

Average Quarterly Contribution by Age (End of Fiscal Year)



Plan Assets / Demographics

Annual Net Cash Flow –YTD 2017

QUARTER ENDING	2017				YTD
	March 31st	June 30th	September 30th	December 31st	Jan 1st - Dec 31st
Cash Flow					
Beginning Market Value	\$150,746,832	\$155,539,416			\$150,746,832
Employee Deferrals	\$2,016,118	\$2,010,298			\$4,026,416
Withdrawals	-\$2,706,288	-\$678,735			-\$3,385,023
Net Loan Activity	\$65,945	\$135,221			\$201,166
Fees	-\$1,583	-\$1,482			-\$3,065
TOTAL DISBURSEMENTS	-\$2,641,927	-\$544,996			-\$3,186,922
NET CASH FLOW	-\$625,809	\$1,465,302			\$839,493
Change in Value	\$5,418,393	\$3,961,673			\$9,380,067
Net Transfers	\$0	\$0			\$0
Ending Market Value	\$155,539,416	\$160,966,392			\$160,966,392

Annual Net Cash Flow - 2016

QUARTER ENDING	2016				YTD
	March 31st	June 30th	September 30th	December 31st	Jan 1st - Dec 31st
Cash Flow					
Beginning Market Value	\$141,648,369	\$140,877,345	\$143,966,816	\$148,626,099	\$141,648,369
Employee Deferrals	\$1,699,473	\$2,039,812	\$1,424,416	\$1,511,100	\$6,674,801
Withdrawals	-\$1,413,486	-\$1,128,253	-\$849,113	-\$1,068,848	-\$4,459,700
Net Loan Activity	\$77,219	\$36,339	-\$90,452	-\$154,239	-\$131,133
Fees	-\$1,582	-\$1,739	-\$1,821	-\$1,898	-\$7,040
TOTAL DISBURSEMENTS	-\$1,337,850	-\$1,093,653	-\$941,386	-\$1,224,985	-\$4,597,873
NET CASH FLOW	\$361,623	\$946,159	\$483,030	\$286,116	\$2,076,928
Change in Value	-\$1,132,647	\$2,143,312	\$4,173,597	\$1,834,617	\$7,018,879
Net Transfers	\$0	\$0	\$2,655	\$0	\$2,655
Ending Market Value	\$140,877,345	\$143,966,816	\$148,626,099	\$150,746,832	\$150,746,831

SECTION IV

PLAN PERFORMANCE

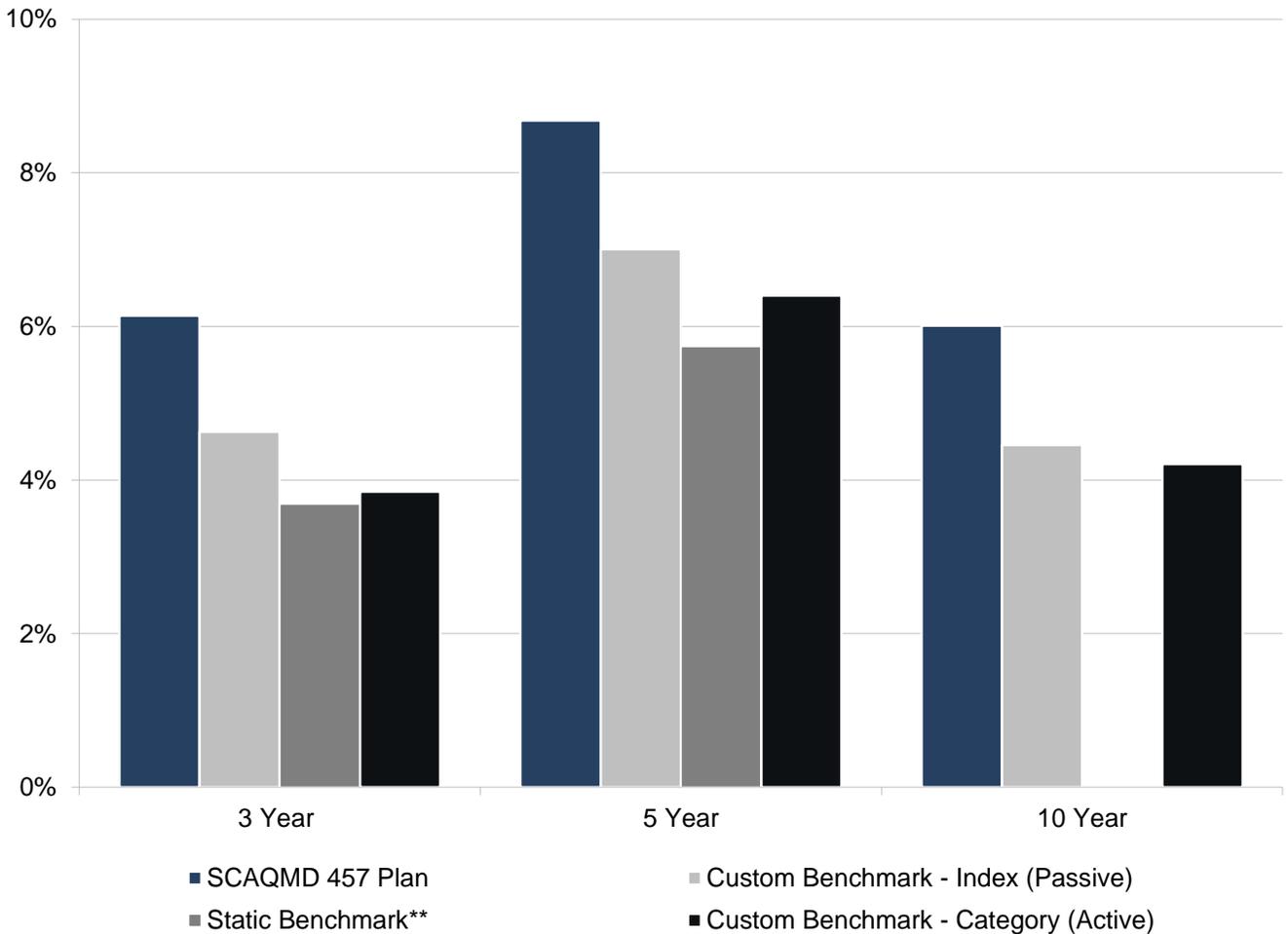
Weighted Portfolio Return versus Custom Benchmark

Performance as of June 30, 2017	3 Month	1 Year	Annualized Returns			3 YR Std Dev	3 YR Sharpe	Expense Ratio*
			3 Year	5 Year	10 Year			
SCAQMD 457 Plan	2.66%	11.28%	6.14%	8.68%	6.01%	4.78	1.22	0.68
Custom Benchmark - Index (Passive)	1.88%	8.73%	4.63%	7.00%	4.46%	N/A	N/A	N/A
Static Benchmark**	2.60%	7.03%	3.69%	5.74%	N/A	N/A	N/A	N/A
Custom Benchmark - Category (Active)	1.93%	8.49%	3.85%	6.40%	4.21%	4.68	0.78	0.84

*Custom expense ratio represents the weighted expense (based upon current allocation) of Institutional and Retirement share classes in each asset category.

**Static Benchmark is comprised of 60% in Vanguard Total Bond Index and 40% in Vanguard Total World Stock Index.

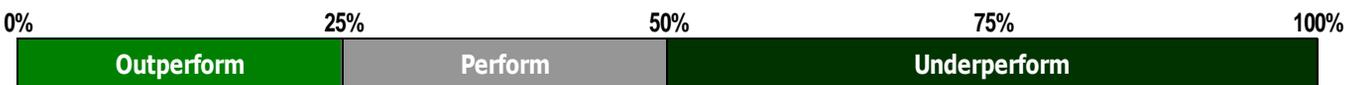
Annualized Returns



Individual Fund Ranking

(Per Investment Policy Statement Evaluation Criteria)

Investment Name	Quarterly Ranking			
	2Q17	1Q17	4Q16	3Q16
Intermediate-Term Bond Metropolitan West Total Return Bd Plan	1	1	0	0
Moderate Allocation Invesco Equity and Income A	17	18	17	25
Large Value Hartford Dividend and Growth HLS IA	2	1	1	1
Large Blend American Funds Fundamental Invs R4	13	10	12	15
Large Growth Neuberger Berman Socially Rspns R6	46	38	39	51
T. Rowe Price Blue Chip Growth I	1	2	3	2
Mid Value Vanguard Selected Value Inv	23	25	36	38
Mid Growth Hartford MidCap HLS IA	7	6	5	5
Small Value American Beacon Small Cp Val Inst	4	4	3	6
Small Growth Hartford Small Company HLS IA	77	76	75	68
Foreign Large Equity Hartford International Opp HLS IA	1	1	0	0
Foreign Small/Mid Equity MFS International New Discovery A	44	35	31	34
Healthcare Hartford Healthcare HLS IA	6	13	20	19
Real Estate Invesco Real Estate R5	37	36	48	47
Utilities MFS Utilities A	74	68	62	56
Average Rank	23	28	30	30
Plan Weighted Rank (Reweighted)	12	24	26	25



SECTION V

APPENDIX

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
DEFERRED COMPENSATION PLAN COMMITTEE
MEETING MINUTES

September 14, 2016

Members Present: Mr. Michael O’Kelly – Chief Financial Officer
Mr. Bill Richards – Human Resources Manager
Mr. Kurt Wiese – General Counsel

Committee Consultants: Mr. Darren Stewart – Benefit Financial Services Group (“BFSG”)
Ms. Aksana Munoz – BFSG
Mr. Dario Gomez – MassMutual

Call to Order: The regular meeting of the Deferred Compensation Plan Committee was called to order by Mr. O’Kelly on September 14th, 2016 at 2:05 pm in Conference Room CC-5. It was noted a quorum was present.

1. Approval of Prior Meeting Minutes

The minutes from the meeting held on June 8, 2016 were reviewed and unanimously approved by the Committee as written.

Investment Agenda

2. 457 Plan Quarterly Investment Review – 2nd Quarter 2016

The Committee reviewed the 457 Plan Quarterly Investment Review (the “Report”) for the quarter ending June 30, 2016. Mr. Stewart provided the Committee with a brief overview of current economic and market conditions including: GDP, unemployment, inflation, interest rates and market returns. A copy of the Report is filed with these minutes.

The Committee reviewed the relative performance of each investment option in the Plan relative to its respective benchmark during the quarter and annualized over a one-, 3-, 5- and 10-year basis. Mr. Stewart provided the following qualitative information on the following noteworthy funds:

Hartford Capital Appreciation underperformed its benchmark index and category peers across all measured time periods noted in the Report, with the exception of the 10-year period. Portfolio holdings in foreign equities and investments in small- and mid-cap categories hurt the fund’s relative performance. After discussion, the Committee agreed to place the fund on the Watch List due to underperformance. The Committee will consider eliminating the fund at the next meeting and moving all assets to SSgA S&P 500 Index.

Neuberger Berman Socially Responsive has been on the Plan’s Watch List since December 2015 due to underperformance and the recent manager change. The fund’s performance rebounded for the quarter. On a 3-, 5- and 10-year basis the fund continued to underperform its benchmark index and category peers. For the quarter, portfolio holdings in information technology and energy were positive contributors, while holdings in industrials, telecommunication services and financials underperformed. Management avoids stocks with significant revenue from alcohol, tobacco, nuclear power, and gambling, and favors those with good community and environmental records. After discussion, the Committee unanimously agreed to keep the fund on the Watch List.

AllianzGI NFJ Small-Cap Value, which is currently on the Plan’s Watch List due to performance-related issues, continued to underperform its category peers and benchmark index. Underperformance on a one-, 3- and 5-year basis was largely due to its stock selection and overweight positions in the energy and materials sectors. The managers require that all holdings pay a dividend, a unique strategy in the small-cap space, where most companies reinvest their earnings to drive growth. Lately, an emphasis on valuation has led to underweight positioning in utilities and REITs, both high-yielding areas. This positioning has weighed on results since the start of 2014, as falling interest rates caused both sectors to

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
DEFERRED COMPENSATION PLAN COMMITTEE
MEETING MINUTES

outperform. After discussion, the Committee agreed to keep the fund on the Watch List. BFSG will prepare an analysis of available alternatives in the small-cap value category for review at the next meeting.

Hartford Small Company, which is currently on the Plan's Watch List due to underperformance, significantly underperformed its index benchmark and category peers across all measured time periods noted in the Report. An overweight to technology detracted from performance during the recent quarter. After discussion, the Committee agreed to keep the fund on the Watch List. BFSG will prepare an analysis of available alternatives in the small-cap growth category for review at the next meeting.

Invesco Real Estate is currently on the Plan's Watch List due to performance-related issues. The fund slightly underperformed its peers on a 3- and 5-year basis, but outperformed across all other measured time periods noted in the Report. Management looks for firms with attractive underlying real estate features, as well as solid balance sheets and talented management. After discussion, the Committee agreed to keep the fund on the Watch List. The Committee will review an analysis of participants' utilization of this fund later in the meeting.

The Plan's Asset Allocation Models outperformed their respective benchmarks over the 3-, 5- and 10-year periods. The Models' net expense ratios ranged from 66 basis points to 69 basis points, well below the custom benchmarks.

Based on participant allocations as of the end of the reporting period on June 30, 2016, the Plan outperformed its custom active benchmark across all measured time periods noted in the Report. Going forward, the Static Benchmark, which is composed of 40% in Vanguard Total Bond Index and 60% in Vanguard Total World Stock Index, will be used for comparison purposes of portfolio returns. The Plan-weighted expense ratio of 71 bps was below the custom category average of 87 bps.

The Committee reviewed the revenue received by MassMutual. Effective January 1, 2016, the required revenue to MassMutual was reduced from 24 basis points on variable assets to 6 basis points on all assets (the per participant equivalent was approximately \$103 based on assets as of June 30, 2016). The Committee will continue to monitor fees on an ongoing basis.

Administrative Agenda

3. Quarterly Plan Review

The Committee reviewed and filed the MassMutual Retirement Plan Review for the 3-month period ending June 30, 2016. Mr. Gomez reviewed Plan statistics which included: demographics, asset allocation, participation by age, asset allocation models participation, contributions and withdrawals. Assets have continued to rise due to a combination of market appreciation and strong cash flows. The average account balance remained high with 840 total participants with a balance. Contributions totaled approximately \$2.0 million for the reporting quarter, and Plan assets increased to over \$143 million.

4. Fund Changes Update

Mr. Gomez informed the Committee that the transition to lower share classes was completed on September 2, 2016.

5. Sector Fund Utilization

BFSG distributed and presented the Sector Fund Utilization analysis. The purpose of the analysis was to review participants' utilization of the following sector funds in the Plan: real estate, healthcare and utilities. The overall report reduced the Committee's concern that the sector funds are being used improperly.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
DEFERRED COMPENSATION PLAN COMMITTEE
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6. Annual Board Report

The Committee received and reviewed the Annual Report to the Governing Board, which was provided by BFSG. The purpose of the Annual Report was to assist the Governing Board in fulfilling its responsibility to monitor the Committee, to which it has delegated fiduciary responsibility. The Committee made several edits to the presentation. Going forward, the Static Benchmark, which is composed of 40% in Vanguard Total Bond Index and 60% in Vanguard Total World Stock Index, will be used for comparison purposes of portfolio returns. BFSG will make the proposed changes and send an electronic copy of the Annual Report to the Committee.

7. Asset Class Analysis

The topic was discussed at the last quarterly meeting.

8. Quarterly Reimbursement Calculation

The Committee received and filed the quarterly reimbursement calculation provided by MassMutual. Mr. Gomez reviewed the adjustments for the first quarter overpayment.

Other Business

The Committee discussed the potential benefits of adding a 401(a) Plan to utilize employer match. Mr. Wiese will work with BFSG on exploring the feasibility of adding the 401(a) Plan.

Public Comments

Mr. O'Kelly asked the attending members of the Public for comment but received no reply.

Adjournment

With no further items to address, Mr. O'Kelly adjourned the meeting at 4:20 pm.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
DEFERRED COMPENSATION PLAN COMMITTEE
MEETING MINUTES

December 7, 2016

Members Present: John Olvera – Asst. Deputy Executive Officer/Admin and Human Resources
Mr. Michael O’Kelly – Chief Administrative Officer
Mr. Bill Richards – Human Resources Manager
Mr. Kurt Wiese – General Counsel

Committee Consultants: Mr. Darren Stewart – Benefit Financial Services Group (“BFSG”)
Ms. Aksana Munoz – BFSG
Mr. Dario Gomez – MassMutual (by phone)

Call to Order: The regular meeting of the Deferred Compensation Plan Committee was called to order by Mr. Olvera on December 7th, 2016 at 2:10 pm in Conference Room CC-5. It was noted a quorum was present.

Approval of Prior Meeting Minutes

The minutes from the meeting held on September 14, 2016 were reviewed and unanimously approved by the Committee as written.

Investment Agenda

457 Plan Quarterly Investment Review – 3rd Quarter 2016

The Committee reviewed the 457 Plan Quarterly Investment Review (the “Report”) for the quarter ending September 30, 2016. Mr. Stewart provided the Committee with a brief overview of current economic and market conditions including: GDP, unemployment, inflation, interest rates and market returns. A copy of the Report is filed with these minutes.

The Committee reviewed the relative performance of each investment option in the Plan relative to its respective benchmark during the quarter and annualized over a one-, 3-, 5- and 10-year basis. Mr. Stewart provided the following qualitative information on the following noteworthy funds:

Hartford Capital Appreciation is currently on the Watch List due to underperformance. Performance rebounded for the quarter, but the fund continued to underperform on a one- and 3-year basis. An overweight to foreign equities and small- and mid-cap categories detracted from performance on a one-year, but contributed for the quarter. After discussion, the Committee unanimously agreed to keep the fund on the Watch List. The Committee will review a Fund Search Analysis later in the meeting to examine potential replacements.

Neuberger Berman Socially Responsive has been on the Plan’s Watch List since December 2015 due to underperformance and the recent manager change. For the third quarter, portfolio holdings in Information Technology, Consumer Discretionary and Consumer Staples were positive contributors to performance, while holdings in Financials, Telecommunication Services and Utilities underperformed. The fund’s performance has rebounded under the new management since the change in February 2016. The management continues to run this fund in the same style as before. After discussion, the Committee unanimously agreed to keep the fund on the Watch List.

AllianzGI NFJ Small-Cap Value is currently on the Watch List and underperformed its benchmark index and category peers for the quarter ending September 30, 2016. An underweight to utilities and REITs benefited the fund during the quarter, but poor stock selection detracted from performance. The fund tends to perform well in down markets as measured by its down capture ratio. After discussion, the Committee unanimously agreed to keep the fund on the Watch List. The Committee will review a Fund Search Analysis later in the meeting to examine potential replacements.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
DEFERRED COMPENSATION PLAN COMMITTEE
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Hartford Small Company, which is currently on the Plan's Watch List, performed in-line with its category peers for the quarter, but significantly underperformed both benchmarks across all other measured time periods noted in the Report. Portfolio holdings in solar companies hurt performance for the quarter, while an overweight to healthcare benefited performance. After discussion, the Committee unanimously agreed to keep the fund on the Watch List. The Committee will review a Fund Search Analysis later in the meeting to examine potential replacements.

Invesco Real Estate is currently on the Plan's Watch List due to performance-related issues. The fund demonstrated continued performance across all measured time periods noted in the Report. The managers avoid homebuilders and REITs and look for stocks with the most attractive real estate characteristics, strong management teams, and sound balance sheets that are operating in attractive markets with quality properties. After discussion, the Committee unanimously agreed to keep the fund on the Watch List.

The Plan's Asset Allocation Models slightly underperformed their respective benchmarks on a year-to-date basis, but significantly outperformed across all other measured time periods noted in the Report. The Models' net expense ratios ranged from 64 basis points to 65 basis points, well below the custom benchmarks.

Based on participant allocations as of the end of the reporting period on September 30, 2016, the Plan outperformed its custom active and passive benchmarks across all measured time periods noted in the Report. The Plan-weighted expense ratio of 69 basis points was below the custom category average of 87 basis points.

The Committee reviewed the revenue received by MassMutual. Effective January 1, 2016, the required revenue to MassMutual was reduced from 24 basis points on variable assets to 6 basis points on all assets (the per participant equivalent was approximately \$103 based on assets as of September 30, 2016). The Committee will continue to monitor fees on an ongoing basis.

Fund Search Analysis

BFSG prepared and distributed a Fund Search Analysis to consider alternative investment options in the large-blend, small-value, and small-growth asset classes. Each investment option was reviewed in accordance with the Plan's Investment Policy Statement criteria, which included performance, risk-adjusted performance, style consistency, and expense, as well as qualitative criteria. After discussion, the Committee unanimously agreed to make the following changes:

- Remove Hartford Capital Appreciation from the Plan, and map all assets and future contributions to American Funds Fundamental Investors. American Funds Fundamental Investors was selected due to its well-diversified portfolio, overall evaluation methodology ranking, and its up/down capture ratios.
- Remove AllianzGI NFJ Small-Cap Value from the Plan, and map all assets and future contributions to American Beacon Small Cap Value. American Beacon Small Cap Value was selected due to its multi-manager approach, strong historical performance relative to its peers, risk-adjusted performance, and low expense ratio.
- Remove Hartford Small Company from the Plan, and map all assets and future contributions to Fidelity Advisor Small Cap Growth. Fidelity Advisor Small Cap Growth was selected due to its deep fundamental analysis and strong historical performance relative to its peers.

MassMutual will work on implementing these changes as soon as administratively possible.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
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Administrative Agenda

Quarterly Plan Review

The Committee reviewed and filed the MassMutual Retirement Plan Review for the 3-month period ending September 30, 2016. Mr. Gomez reviewed Plan statistics which included: demographics, asset allocation, participation by age, asset allocation models participation, contributions and withdrawals. Net cash flow was approximately \$562,000, and assets increased by 3% during the quarter to approximately \$148.6 million. Participation in Asset Allocation Models increased 21% during the recent quarter. The average account balance remains high at \$172,387. Mr. Gomez noted the following educational services available to participants: enrollment meetings, online retirement savings calculators, educational flyers, retirement planning workshops, and promotional payroll stuffers and posters. Mr. Weise inquired whether annuity products are available for purchase through the Plan for retired participants. Mr. Gomez committed to providing an update to this question at the next meeting.

401(a) Plan Discussion

The Committee discussed the progress of establishing the new 401(a) Plan on MassMutual's new platform. This plan is being created solely for employer contributions. Mr. Gomez noted that MassMutual has already started the process and is currently working on drafting a plan document. Upon completion, the draft plan document will be provided for the Committee's review and comments. The same annual revenue requirement will apply to the 401(a) Plan as for the 457 Plan, which is 6 basis points on plan assets. The Committee discussed the proposed fund line-up for the new plan. The Committee unanimously agreed to utilize a fee levelizing mechanism to pay the administrative fees of the Plan and granted BFSG authority to select the most efficient share classes and similar funds to match the 457 Plan. BFSG will work with MassMutual on finalizing the investment menu as soon as possible. The Committee inquired whether the 457 Plan can also be moved to the new platform. Mr. Gomez committed to providing an update to this question at the next meeting.

Plan Expense Reimbursement Account (PERA) Policy Update

BFSG distributed an updated Plan Expense Reimbursement Account (PERA) Policy for the Committee's review and approval. The policy is intended to serve as documentation detailing the Committee's intentions with respect to the PERA. After reviewing suggested edits, the Committee unanimously approved the PERA Policy.

Communication Consultant – 2017 Campaigns

Mr. Gomez informed the Committee that MassMutual is currently working on the participant education schedule for 2017, which will be presented for the Committee's review at the next meeting.

Quarterly Reimbursement Calculation

The Committee received and filed the quarterly reimbursement calculation provided by MassMutual.

2017 Meeting Schedule

The Committee presented the 2017 schedule for the Deferred Compensation Plan Committee. Meetings will be held at 2:00 pm on March 8th, June 7th, September 13th, and December 6th in Conference Room CC-3/5. The 2017 meeting dates were accepted as presented.

Other Business

Mr. Olvera asked the Committee members for any other business, but received no reply.

Public Comments

Mr. Olvera asked the attending members of the Public for comment, but received no reply.

Adjournment

With no further items to address, Mr. Olvera adjourned the meeting at 4:45 pm.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
DEFERRED COMPENSATION PLAN COMMITTEE
MEETING MINUTES

Closed Session

The Committee entered Closed Session at 4:45 pm after which the meeting was adjourned at 4:55 pm.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
DEFERRED COMPENSATION PLAN COMMITTEE
MEETING MINUTES

March 8, 2017

Members Present: Mr. John Olvera – Asst. Deputy Executive Officer/Admin and Human Resources
Mr. Michael O’Kelly – Chief Administrative Officer
Mr. Bill Richards – Human Resources Manager

Committee Consultants: Mr. Darren Stewart – Benefit Financial Services Group (“BFSG”)
Ms. Aksana Munoz – BFSG
Mr. Dario Gomez – MassMutual
Ms. Caitlin Weisgerber - MassMutual

Call to Order: The regular meeting of the Deferred Compensation Plan Committee was called to order by Mr. Olvera on March 8, 2017 at 2:10 pm in Conference Room CC-5. It was noted a quorum was present.

Approval of Prior Meeting Minutes

The minutes from the meeting held on December 7, 2016 were reviewed and unanimously approved by the Committee as written.

Investment Agenda

457 Plan Quarterly Investment Review – 4th Quarter 2016

The Committee reviewed the 457 Plan Quarterly Investment Review (the “Report”) for the quarter ending December 31, 2016. Mr. Stewart provided the Committee with a brief overview of current economic and market conditions including: GDP, unemployment, inflation, interest rates and market returns. A copy of the Report is filed with these minutes.

The Committee reviewed the relative performance of each investment option in the Plan relative to its respective benchmark during the quarter and annualized over a one-, 3-, 5- and 10-year basis. Mr. Stewart provided additional qualitative commentary on the following noteworthy funds:

Neuberger Berman Socially Responsive has been on the Watch List since December 2015 due to performance-related issues and a change in fund management. Though categorized by Morningstar as a large-cap growth fund, Neuberger Berman Socially Responsible fund management views the fund as more of a large-cap blend. As a result, their tilt towards value stocks led to significant outperformance relative to the more growth-oriented large-cap growth category peer group for the 3-month and one-year periods noted in the Report. Positions in the financials, industrials, and materials sectors were especially beneficial during the period. The fund’s overall evaluation methodology ranking improved from a 51 (considered “underperform”) as of September 30, 2016, to a 39 (considered “perform”) as of December 31, 2016. After discussion, the Committee unanimously agreed to keep the fund on the Watch List pending improved performance.

Hartford Small Company has been on the Watch List since June 2016 due to performance-related issues. The fund demonstrated continued underperformance across all measured time periods noted in the Report. An underweight to healthcare and an overweight to financials contributed to relative returns, which was partially offset by an overweight to technology and poor stock selection within the sector. At the last meeting the decision was reached to remove this fund from the Plan and replace with Fidelity Advisor Small Cap Growth. After the meeting, MassMutual informed the Committee of their inability to recordkeep Fidelity Advisor Small Cap Growth. As a result, BFSG prepared a new Fund Search Analysis for the Committee’s review and consideration which will be reviewed later in the meeting.

Invesco Real Estate has been on the Watch List since September 2015 due to underperformance. Fund managers had previously employed a strategy that resulted in some lagging performance, though the

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
DEFERRED COMPENSATION PLAN COMMITTEE
MEETING MINUTES

current environment of rising interest rates should have been favorable for the strategy. The fund, however, continued to lag. Stock selection in healthcare, specialty properties, data centers, office, and regional REIT hurt relative return. After discussion, the Committee unanimously agreed to keep the fund on the Watch List pending improved performance.

MFS Utilities outperformed its category peers on a 10-year basis, but underperformed both benchmarks across all other measured time periods noted in the Report. In addition to traditional utilities, management invests a substantial part of the portfolio in energy, telecom, and cable stocks. The fund also tends to hold significantly more foreign stocks than its peers, which hurt performance on a one- and 3-year basis. After discussion, the Committee unanimously agreed to place the fund on the Watch List due to underperformance.

The Plan's Asset Allocation Models predominantly outperformed their respective benchmarks across all measured time periods noted in the Report. The Models' net expense ratios ranged from 64 basis points to 65 basis points, well below the custom benchmarks.

Based on participant allocations as of December 31, 2016, the Plan outperformed its custom active and passive benchmarks across all measured time periods noted in the Report. The Plan-weighted expense ratio of 68 basis points was below the custom category average of 83 basis points.

The Committee reviewed the revenue received by MassMutual. Effective January 1, 2016, the required revenue to MassMutual was reduced from 24 basis points on variable assets to 6 basis points on all assets (the per participant equivalent was approximately \$105 based on assets as of December 31, 2016). The Committee will continue to monitor fees on an ongoing basis.

The Committee reviewed and unanimously approved the Report as presented.

Fund Search Analysis

BFSG prepared and distributed a Fund Search Analysis to consider alternative investment options in the small-cap growth asset class. Each investment option was reviewed in accordance with the Plan's Investment Policy Statement criteria, which included performance, risk-adjusted performance, style consistency, and expense, as well as qualitative criteria. After review and discussion, the Committee unanimously agreed to make the following change:

- Remove Hartford Small Company from the Plan, and map all assets and future contributions to Goldman Sachs Small Cap Gr Insghts. Goldman Sachs Small Cap Gr Insghts was selected due to its unique investment style, risk-adjusted performance, and up/down capture ratios. The share class selected provides revenue sharing similar to the current fund to ensure participants are not charged a fee for administrative services.

This fund will also be added to the 401(a) Plan as a small-cap growth option. Because fee levelization is being utilized in the 401(a) Plan, the most efficient share class will be utilized.

Administrative Agenda

Quarterly Plan Review

The Committee received and filed the Retirement Plan Review (the "Review") prepared by MassMutual. The Review included the following information for the year ending December 31, 2016: assets, contributions, distributions, rollovers, Asset Allocation Models utilization, and plan participation. On-site education meeting results for the 2016 year were also reviewed. Mr. Gomez committed to providing this report to the Committee on a regular basis. Further, he reviewed the MassMutual RetireSmart Ready tool.

SOUTH COAST AIR QUALITY MANAGEMENT DISTRICT
DEFERRED COMPENSATION PLAN COMMITTEE
MEETING MINUTES

He also noted Mr. Whipple, the Retirement Education Specialist at MassMutual, now conducts bi-monthly educational webinars where participants can learn and ask any questions about their retirement.

Ms. Weisgerber, the Communication Consultant at MassMutual, provided an overview of communication and education services that are available for employees. She discussed the value of the targeting messaging to specific participant groups and suggested possible communication campaigns to improve employee engagement in their retirement plan.

Fund Change Update

The following fund changes are scheduled to be completed on April 14, 2017:

- Hartford Capital Appreciation will be replaced by American Funds Fundamental Investors;
- AllianzGI NFJ Small-Cap Value will be replaced by American Beacon Small Cap Value.

Quarterly Reimbursement Calculation

The Committee received and filed the quarterly reimbursement calculation provided by MassMutual.

MassMutual “REFLEX” Platform

Mr. Gomez reviewed the new recordkeeping platform, “Reflex”, available at MassMutual. The new platform is more robust and offers more flexibility to the Plan Sponsor and participants. Many administrative services also will be automated which would help streamline plan operations. If the Committee chooses to move the 457 Plan to the new platform, a blackout period would apply and a new service agreement would need to be executed. The Committee will continue this discussion at the next meeting.

401(a) Plan Update

The Committee discussed the status of the 401(a) Plan addition. The Plan Administrative Service Agreement and Adoption Agreement have been created and are now under review at MassMutual. Total Retirement Center, the new online portal, is now ready for the Plan Sponsor to access. Enrollment materials are being prepared by MassMutual.

BFSG will provide ongoing consulting services for the 401(a) Plan for no additional charge.

Other Business

Mr. Olvera asked the Committee members for any other business, but received no reply.

Public Comments

Mr. Olvera asked the attending members of the Public for comment, but received no reply.

Adjournment

With no further items to address, Mr. Olvera adjourned the meeting at 4:05 pm.

Closed Session

The Committee entered Closed Session at 4.45 pm after which the meeting was adjourned at 4:15 pm.



**South Coast
Air Quality Management District**

21865 Copley Drive, Diamond Bar, CA 91765
(909) 396-2000, www.aqmd.gov

BOARD MEETING DATE: July 7, 2017

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on Wednesday, June 7, 2017 at 2:00pm at SCAQMD headquarters in Diamond Bar. The following is a summary of that meeting.

RECOMMENDED ACTION:
Receive and file.

A. John Olvera, Chair
Deferred Compensation Plan

Committee Members Present

Mr. John Olvera – Asst. Deputy Executive Officer/Admin and Human Resources

Mr. Michael O’Kelly – Chief Administrative Officer

Mr. Bill Richards – Human Resources Manager

Committee Members Absent

Mr. Kurt Wiese – General Counsel

Guests

Aksana Munoz, Benefit Financial Services Group (“BFSG”)

Darren Stewart, BFSG

Dario Gomez, MassMutual

Call to Order

Chair Olvera called the meeting to order at 2:00 pm.

ACTION ITEMS:

1. **Approval of Prior Meeting Minutes:** The minutes from the meeting held on March 8, 2017 were reviewed and approved by the Committee members in attendance.
2. **457 Plan Quarterly Investment Review: 1st Quarter 2017:** The Committee members in attendance reviewed and approved the 457 Deferred Compensation Plan Quarterly Investment Review (the “Report”) for the quarter ending March 31, 2017. Mr. Stewart provided the Committee with a brief overview of current economic and market conditions including: GDP, unemployment, inflation, interest rates and market returns.

Neuberger Berman Socially Responsive is currently on the Watch List due to performance-related issues and a change in fund management. The fund underperformed its category peers as of the end of the reporting quarter, but outperformed over the prior year. The fund’s overall Evaluation Methodology score improved for the fourth consecutive quarter from 53 (“underperform”) to 38 (“perform”). An overweight to financials hurt performance for the quarter, but helped on a one-year basis. After discussion, the Committee members in attendance unanimously agreed to keep the fund on the Watch List pending further improvement in performance.

Invesco Real Estate is currently on the Watch List due to underperformance. The fund outperformed its category peers and the passive benchmark for the quarter, which contributed to an improvement in its overall Evaluation Methodology score, from 48 as of December 31, 2016, to 36 as of March 31, 2017. Stock selection in the shopping center, apartment and office sectors contributed to relative

performance during the quarter. The fund's overall underperformance has partially resulted from its avoidance of risky, low-quality real estate stocks, which have been the biggest drivers of the real estate market since the end of the financial crisis, but stock selection has also been a significant factor. After discussion, the Committee members in attendance unanimously agreed to keep the fund on the Watch List pending improved performance.

MFS Utilities, which is currently on the Watch List due to underperformance, rebounded for the quarter largely due to stock selection in electric power and an overweight position in wireless communications. Detractors from relative performance include an overweight position in natural gas and telephone services and a modest cash allocation. The fund tends to perform well in declining markets as measured by its down capture ratio. After discussion, the Committee members in attendance unanimously agreed to keep the fund on the Watch List pending improved performance.

The Plan's Asset Allocation Models outperformed their respective benchmarks across all measured time periods noted in the Report. The Models' net expense ratios ranged from 53 basis points to 65 basis points, well below the custom benchmarks.

Based on participant allocations as of March 31, 2017, the Plan outperformed its custom active and passive benchmarks across all measured time periods noted in the Report. The Plan-weighted expense ratio of 68 basis points was below the custom category average of 83 basis points.

The Committee reviewed the revenue received by MassMutual. Effective January 1, 2016, the required revenue to MassMutual was reduced from 24 basis points on variable assets to 6 basis points on all assets (the per participant equivalent was approximately \$108 based on assets as of March 31, 2017). The Committee will continue to monitor fees on an ongoing basis.

- 3. Quarterly Plan Review:** The Committee received and filed the Retirement Plan Review (the "Review") prepared by MassMutual. The Review included the following information for the quarter ending March 31, 2017: assets, contributions, distributions, rollovers, loans, Asset Allocation Models utilization, and plan participation. Net cash flow for the first quarter was negative largely due to significant withdrawals during this 3-month period. Plan assets continue to rise, and the average account balance remains high at \$179,158 (excluding loans and self-directed brokerage balances). Further, Mr. Gomez briefly reviewed communication and education services available for plan participants. Available services and tools currently include: enrollment meetings, online retirement savings calculators, educational flyers, and retirement planning workshops.

4. **Fund Change Update:** Mr. Gomez provided an update on the upcoming fund changes:

Hartford Small Company is scheduled to be replaced by Goldman Sachs Small Cap Growth Insights in the 457 Plan on July 14, 2017.

Goldman Sachs Small Cap Growth Insights is scheduled to be added to the 401(a) Plan on July 7, 2017.

5. **Quarterly Reimbursement Calculation:** The Committee received and filed the quarterly reimbursement calculation provided by MassMutual. Mr. O’Kelly informed the Committee that he will soon reallocate the excess revenue in accordance with the Plan’s Plan Expense Reimbursement Account policy.
6. **MassMutual “REFLEX” Platform:** The Committee members in attendance unanimously agreed to table this item until the next meeting.
7. **401(a) Plan Update:** The 401(a) Plan went live on April 1, 2017.
8. **Administrative Service Agreement Amendments:** Mr. Gomez distributed a copy of the proposed amendments to the Administrative Service Agreement for the 457 Plan. The amendments authorize MassMutual to process hardship withdrawal requests and Qualified Domestic Relationship Orders. After discussion, the Committee members in attendance unanimously agreed to outsource these administrative processes to MassMutual. The effective date of these amendments is July 1, 2017.

OTHER MATTERS:

9. **Other Business** - There was no other business.
10. **Public Comments** - There were no public comments.
11. **Closed Session** – No reportable actions.

Next Meeting Date - The next regular meeting of the Deferred Compensation Plan Committee is scheduled for Wednesday, September 13, 2017 at 2:00 p.m.

Adjournment - The meeting adjourned at 3:20 p.m.