

BOARD MEETING DATE: February 1, 2019

AGENDA NO. 17

PROPOSAL: 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, January 10, 2019, Reviewed

RECOMMENDED ACTION:
Receive and file.

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 Assistant Deputy Executive Officer/Finance, the Assistant Deputy Executive Officer/Administrative and Human Resources, the Human Resources Manager over employee benefits, and the General Counsel.

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

Summary of Report

Attached is the 457 Deferred Compensation Plan Annual Report to the Board for FY 2017-18. 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 placed one fund on the Watch List due to relative underperformance and removed another from the list due to improved performance, replaced several date and index funds, and added both a large and small cap value index fund.

Additionally, the Committee voted to initiate the Plan's transition to MassMutual's new and enhanced user platform (completed August 8, 2018), engaged MassMutual for the processing of retiree benefit payment requests (i.e., retiree distributions), adopted a fee leveling structure, and modified the Plan's loan program to provide more options to participants.

As of June 30, 2018, the Plan has:

- 940 participants (employees and retirees)
- Over \$177.5 million in assets
- An average account balance of \$188,870
- 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 Plan Annual Report.

Attachment

457 Deferred Compensation Plan Annual Report for FY 2017-18



ANNUAL REPORT TO THE BOARD

**REPORT PERIOD: JULY 2017 -
JUNE 2018**

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 Assistant Deputy Executive Officer of Finance, 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 1,577 Governmental 457 Plans, with over \$14.7 billion in total assets, as of December 31st, 2017. MassMutual has been administering 457 Plans since 1979, and has 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

2017/2018 Year in Review

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

Plan Summary

| Meeting Date | Item | Update |
|--------------------|--|---|
| September 13, 2017 | Annual Report | BFSG prepared and presented to the Committee the FY 2017 Annual Report. |
| | MassMutual "REFLEX" Platform | The Committee unanimously agreed to begin the process of transitioning to MassMutual's "REFLEX" platform in the second quarter of 2018 with expected completion in July. |
| | Amendment to Administrative Services Agreement | The Committee unanimously agreed to outsource benefit payment requests to MassMutual effective November 1, 2017. |
| April 11, 2018 | Fee Levelization | The Committee unanimously agreed to adopt a fee leveling process by which all participants will be charged an equivalent asset-based fee. |
| June 6, 2018 | 457 Plan Loan Refinancing | The Committee unanimously agreed to permit certain types of loan refinancing as well as allow for loan repayment after separation of services through ACH payment directly to MassMutual. |

2017/2018 Year in Review

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

Investment Menu

| Meeting Date | Item | Update |
|--------------------|---------------------------------------|---|
| September 13, 2017 | Watch List | The Committee unanimously agreed to remove Invesco Real Estate Fund from the watch list due to improved performance. |
| November 14, 2017 | Fund Change | The SSgA Target Date Funds were scheduled to close on December 15, 2017. The Committee unanimously agreed to replace the SSgA Target Date Funds with T. Rowe Price, effective December 14, 2017. |
| December 13, 2017 | Watch List | The Committee unanimously agreed to place MFS International New Discovery on the Watch List due to underperformance. |
| April 11, 2018 | Share Class / Fund Changes | The Committee unanimously agreed to proposed share class changes and to replace the SSgA index funds with Vanguard. |
| June 6, 2018 | Fund Changes | The Committee unanimously agreed to add DFA U.S. Large Cap Value and Vanguard Small Cap Value Index. |
| | 457 Plan Default Investment Selection | The Committee unanimously agreed to utilize the T. Rowe Price Target Date Series as the primary default investment option for non-participant directed monies in the 457 Plan. The Invesco Equity and Income was chosen as a secondary default option for participants with no date of birth on file. |

SECTION III

PLAN ASSETS /
DEMOGRAPHICS

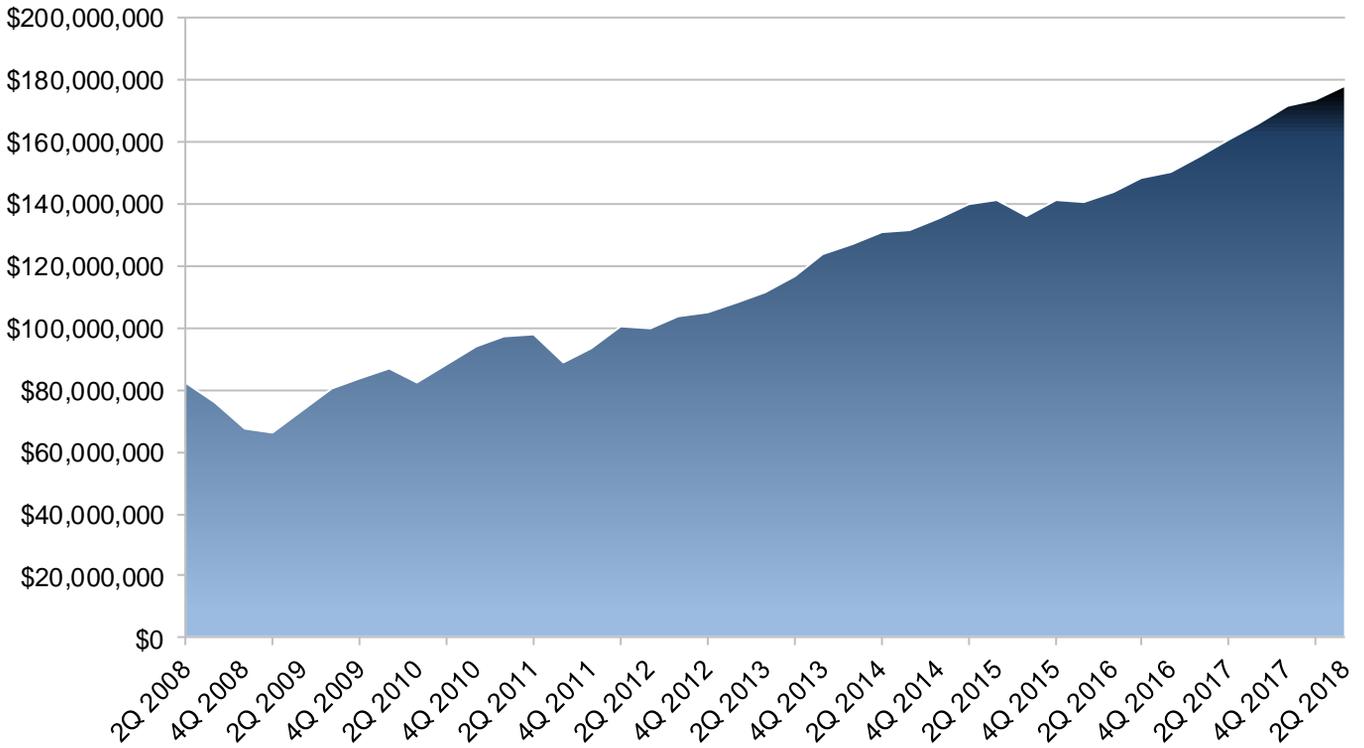
Plan Assets / Demographics as of June 30, 2018

| Investment Option | % of Plan Assets | Participants | Plan Assets |
|--|------------------|--------------|----------------------|
| General Account | 47.09% | 656 | \$83,595,322 |
| T. Rowe Price Blue Chip Growth I | 11.84% | 436 | \$21,024,096 |
| American Funds Fundamental Invs R4 | 8.03% | 233 | \$14,255,881 |
| Hartford MidCap HLS IA | 4.28% | 339 | \$7,592,256 |
| SSgA S&P 500 Index Sec Lend Inv Opt I | 4.15% | 175 | \$7,366,490 |
| Hartford Dividend and Growth HLS IA | 3.66% | 342 | \$6,496,948 |
| Hartford International Opp HLS IA | 2.87% | 370 | \$5,100,798 |
| Invesco Equity and Income A | 2.45% | 129 | \$4,355,018 |
| Goldman Sachs Small Cap Gr Insights Inv | 2.23% | 294 | \$3,964,318 |
| Metropolitan West Total Return Bond Plan | 1.72% | 227 | \$3,045,444 |
| Hartford Healthcare HLS IA | 1.52% | 93 | \$2,699,961 |
| Vanguard Selected Value Inv | 1.35% | 273 | \$2,393,985 |
| T. Rowe Price Retirement 2045 | 1.26% | 77 | \$2,244,486 |
| American Beacon Small Cp Val Inst | 1.14% | 274 | \$2,023,313 |
| SSgA US Interm Gov/Credit Bond Index SL Inv Opt I | 1.08% | 150 | \$1,914,460 |
| T. Rowe Price Retirement 2035 | 0.99% | 31 | \$1,749,420 |
| MFS® International New Discovery A | 0.94% | 96 | \$1,670,983 |
| SSgA S&P MidCap Index Non-Lend Series Inv Opt I | 0.85% | 100 | \$1,510,880 |
| SSgA Russell Small Cap Index Sec Lend Inv Opt I | 0.67% | 88 | \$1,197,945 |
| MFS® Utilities A | 0.65% | 79 | \$1,149,102 |
| SSgA International Index Sec Lend Series Inv Opt I | 0.34% | 44 | \$612,422 |
| Invesco Real Estate R5 | 0.32% | 38 | \$572,579 |
| T. Rowe Price Retirement 2025 | 0.21% | 15 | \$375,861 |
| Neuberger Berman Sustainable Eq R6 | 0.19% | 33 | \$334,175 |
| T. Rowe Price Retirement 2040 | 0.05% | 3 | \$91,338 |
| T. Rowe Price Retirement 2030 | 0.04% | 2 | \$67,711 |
| T. Rowe Price Retirement 2050 | 0.03% | 5 | \$57,919 |
| T. Rowe Price Retirement 2010 | 0.03% | 2 | \$51,468 |
| T. Rowe Price Retirement 2015 | 0.01% | 3 | \$13,194 |
| T. Rowe Price Retirement 2020 | 0.01% | 2 | \$9,252 |
| T. Rowe Price Retirement 2060 | 0.00% | 1 | \$1,212 |
| Total | 100.00% | 940 | \$177,538,238 |

Note: Total does not include Self-Directed Brokerage Account

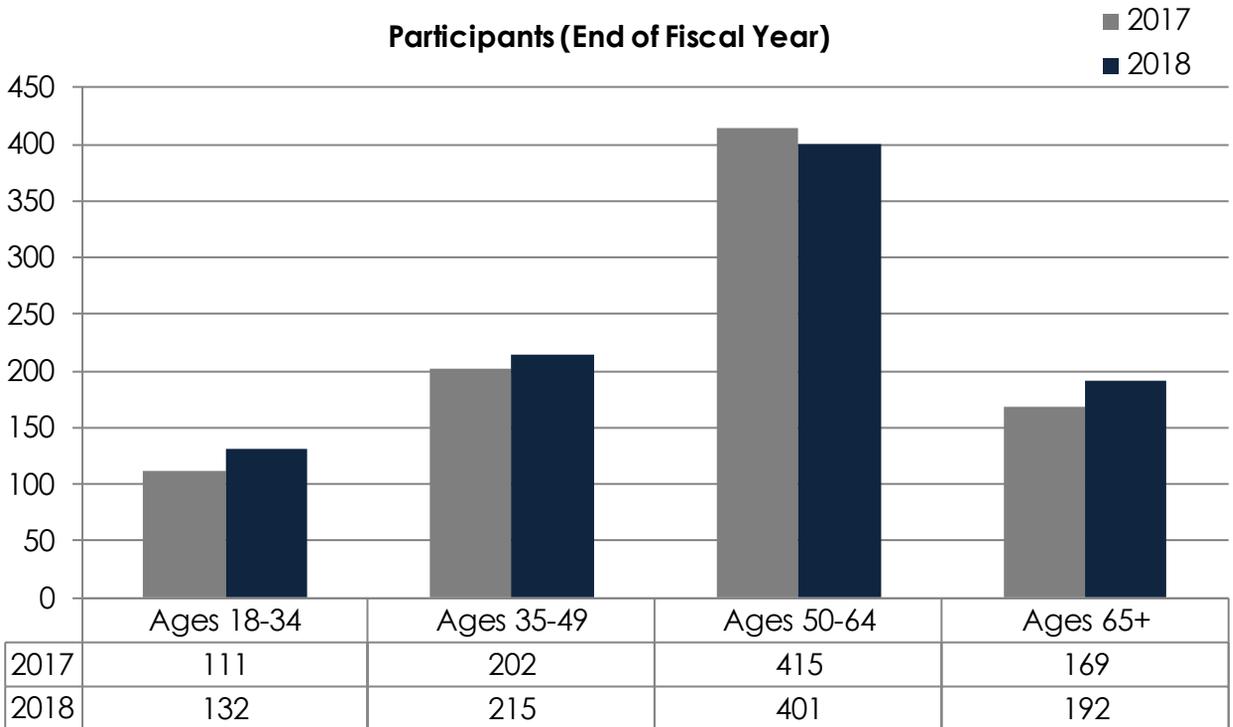
Plan Assets / Demographics

Growth of Plan Assets



Plan Participants by Age

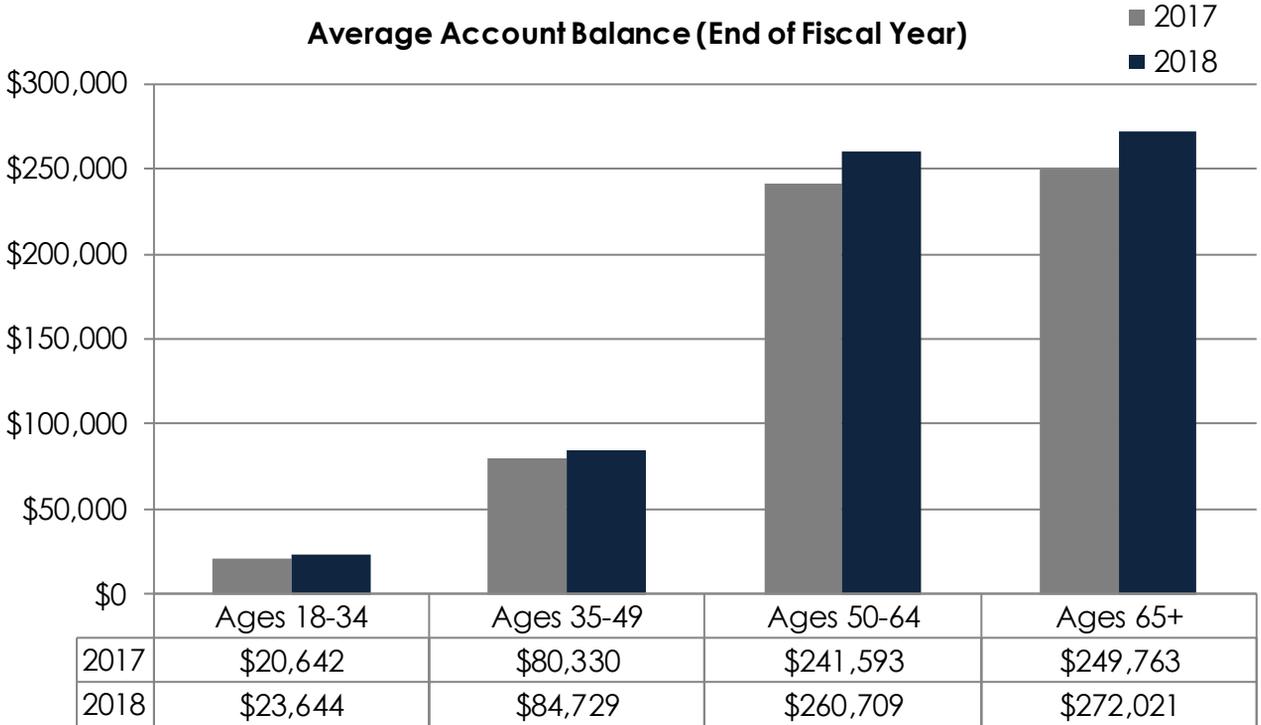
Participants (End of Fiscal Year)



Plan Assets / Demographics

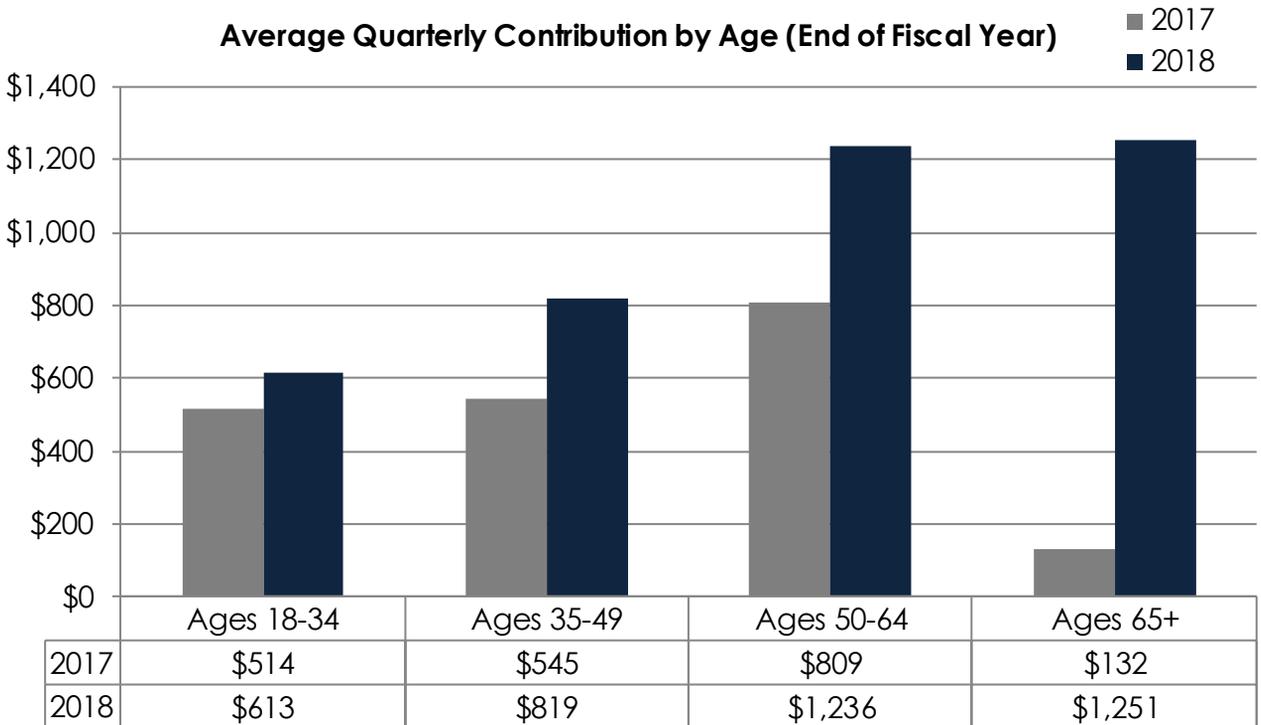
Average Account Balance by Age

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 2018

| QUARTER ENDING | 2018 | | | | YTD |
|------------------------|------------------|--------------------|----------------|---------------|--------------------|
| | March 31st | June 30th | September 30th | December 31st | Jan 1st - Dec 31st |
| Cash Flow | | | | | |
| Beginning Market Value | \$171,599,211 | \$173,610,939 | | | \$171,599,211 |
| Contributions | \$1,944,813 | \$2,115,481 | | | \$4,060,294 |
| Withdrawals | -\$1,576,875 | -\$1,237,252 | | | -\$2,814,128 |
| Net Loan Activity | \$58,259 | \$124,026 | | | \$182,285 |
| Fees | -\$1,407 | -\$1,489 | | | -\$2,896 |
| NET CASH FLOW | \$424,790 | \$1,000,766 | | | \$1,425,556 |
| Change in Value | \$1,586,007 | \$3,495,813 | | | \$5,081,820 |
| Net Transfers | \$932 | \$0 | | | \$932 |
| Ending Market Value | \$173,610,939 | \$178,107,518 | | | \$178,107,518 |

Annual Net Cash Flow - 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 | \$160,966,392 | \$165,956,803 | \$150,746,832 |
| Contributions | \$2,016,118 | \$2,010,298 | \$1,555,694 | \$1,591,946 | \$7,174,056 |
| Withdrawals | -\$2,706,288 | -\$678,735 | -\$996,993 | -\$1,171,719 | -\$5,553,735 |
| Net Loan Activity | \$65,945 | \$135,221 | -\$32,371 | \$120,638 | \$289,432 |
| Fees | -\$1,583 | -\$1,482 | -\$1,603 | -\$1,420 | -\$6,088 |
| NET CASH FLOW | -\$625,809 | \$1,465,302 | \$524,727 | \$539,445 | \$1,903,665 |
| Change in Value | \$5,418,393 | \$3,961,673 | \$4,463,723 | \$5,102,963 | \$18,946,752 |
| Net Transfers | \$0 | \$0 | \$1,961 | \$0 | \$1,961 |
| Ending Market Value | \$155,539,416 | \$160,966,392 | \$165,956,803 | \$171,599,211 | \$171,599,211 |

SECTION IV

PLAN PERFORMANCE

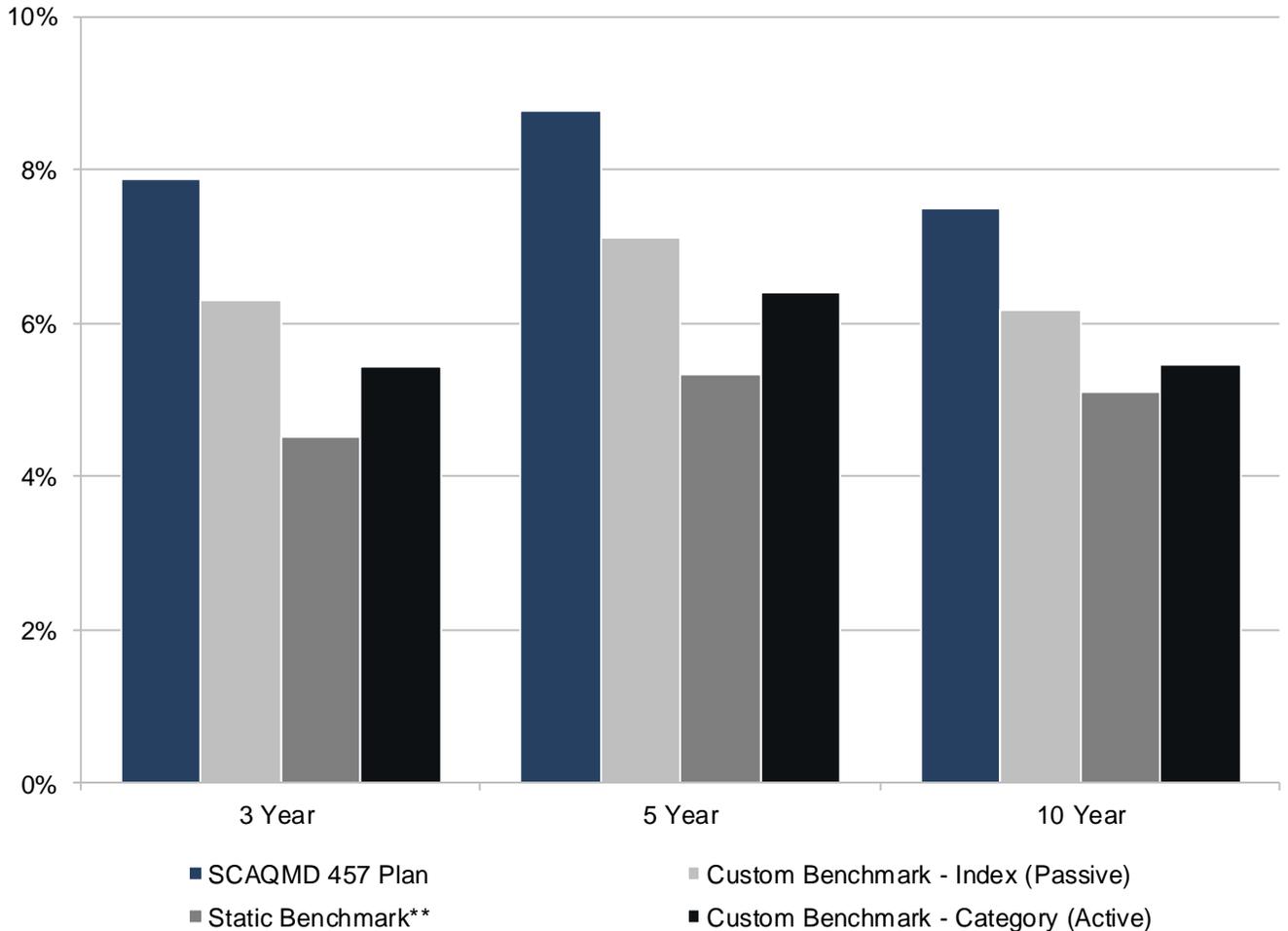
Weighted Portfolio Return versus Custom Benchmark

| Performance as of June 30, 2018 | 3 Month | 1 Year | Annualized Returns | | | 3 YR Std Dev | 3 YR Sharpe | Expense Ratio* |
|--------------------------------------|--------------|--------------|--------------------|--------------|--------------|-----------------|----------------|-------------------|
| | | | 3 Year | 5 Year | 10 Year | | | |
| SCAQMD 457 Plan | 2.05% | 9.73% | 7.88% | 8.78% | 7.50% | 5.29 | 1.33 | 0.68 |
| Custom Benchmark - Index (Passive) | 1.95% | 8.04% | 6.31% | 7.12% | 6.17% | 4.98 | 1.11 | N/A |
| Static Benchmark** | 0.07% | 4.06% | 4.51% | 5.34% | 5.10% | 4.46 | 0.84 | N/A |
| Custom Benchmark - Category (Active) | 1.85% | 7.72% | 5.44% | 6.42% | 5.47% | 5.03 | 0.94 | 0.82 |

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

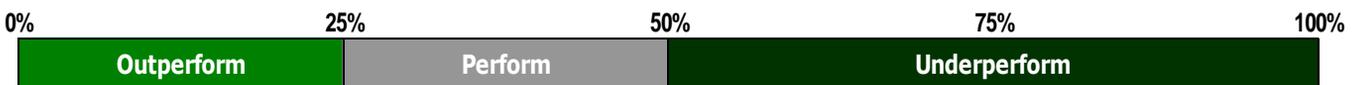
**Static Benchmark is comprised of 60% in Vanguard Total Bond Index and 40% in Vanguard Total World Stock Index.

Annualized Returns



Individual Fund Ranking (Per Investment Policy Statement Evaluation Criteria)

| Investment Name | Quarterly Ranking | | | |
|--|-------------------|----------|----------|----------|
| | 2Q18 | 1Q18 | 4Q17 | 3Q17 |
| Intermediate-Term Bond Metropolitan West Total Return Bd Plan | 6 | 7 | 5 | 3 |
| Allocation--50-70% Equity Invesco Equity and Income A | 43 | 34 | 29 | 27 |
| Large Value Hartford Dividend and Growth HLS IA | 3 | 2 | 2 | 2 |
| Large Blend American Funds Fundamental Invs R4 Neuberger Berman Sustainable Eq R6 | 18 26 | 16 30 | 18 56 | 14 50 |
| Large Growth T. Rowe Price Blue Chip Growth I | 0 | 0 | 0 | 1 |
| Mid Value Vanguard Selected Value Inv | 16 | 7 | 6 | 10 |
| Mid Growth Hartford MidCap HLS IA | 4 | 4 | 4 | 6 |
| Small Value American Beacon Small Cp Val Inst | 11 | 11 | 9 | 6 |
| Small Growth Goldman Sachs Small Cap Gr Insights Inv | 22 | 24 | 23 | 19 |
| Foreign Large Equity Hartford International Opp HLS IA | 12 | 5 | 6 | 3 |
| Foreign Small/Mid Equity MFS® International New Discovery A | 44 | 49 | 51 | 50 |
| Healthcare Hartford Healthcare HLS IA | 18 | 8 | 10 | 6 |
| Real Estate Invesco Real Estate R5 | 37 | 35 | 37 | 42 |
| Utilities MFS® Utilities A | 78 | 78 | 83 | 80 |
| Target Date Series T. Rowe Price Retirement Series | 14 | N/A | N/A | N/A |
| Average Rank | 22 | 21 | 23 | 21 |
| Plan Weighted Rank (Reweighted) | 13 | 11 | 12 | 11 |



Note: Average and Plan-Weighted Average rankings shown above reflect the actual funds offered in the Plan (and their respective weightings) during the applicable quarter.

SECTION V

APPENDIX



**South Coast
Air Quality Management District**

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

BOARD MEETING DATE: September 13, 2017

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on Wednesday, September 13, 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

Ross Hooper, 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 (Administrative):** The minutes from the meeting held on June 7, 2017 were reviewed and unanimously approved by the Committee members in attendance.
2. **457 and 401(a) Plans Quarterly Investment Review (Fiduciary): 2nd Quarter 2017:** The Committee members in attendance reviewed and unanimously approved the 457 Deferred Compensation and 401(a) Plans Quarterly Investment Review for the quarter ending June 30, 2017. Mr. Stewart provided the Committee with an overview of current economic and market conditions including: GDP, unemployment, inflation, interest rates, exchange rates and market/sector returns. The Investment Options offered in the Plan were reviewed in accordance with the Investment Policy Statement. Additional information was provided on the following noteworthy funds:

Metropolitan West Total Return Bond Fund has underperformed its category peers and passive benchmark on a short-term basis. The fund’s defensive stance has led to an underweight to corporate bonds, which has detracted from short-term returns. However, the fund has retained strong long-term performance results, outperforming category peers on a 3, 5 and 10-year basis.

Neuberger Berman Socially Responsive Fund is currently on the Watch List due to performance-related issues and a change in fund management. The fund has underperformed its passive benchmark across all measured periods, returning just 2.72% for the quarter compared to 4.67% and 5.19% for the passive index and category average, respectively. The fund’s overall Evaluation Methodology score increased from 38 to 46, thus retaining a “perform” rating. The fund’s

underperformance during the quarter can be attributed to its strategy of “growth at a reasonable price”, causing the fund to have an overweight to value oriented stocks, which have underperformed their growth oriented counterparts. This led the fund to hold a very large overweight position in the poorly performing energy sector, which was the largest detractor from relative performance. After discussion, the Committee members in attendance unanimously agreed to keep the fund on the Watch List.

Invesco Real Estate Fund is currently on the Watch List due to underperformance. The fund outperformed its passive benchmark and category peers for the quarter, and is now beating its category peers across all measured periods. Positive stock selection in the shopping center sector was the largest contributor to relative performance during the quarter. After discussion, the Committee members in attendance unanimously agreed to remove the fund from the Watch List in lieu of the improved performance results.

MFS Utilities Fund was placed on the Watch List in March 2017 due to underperformance. Long-term performance measures remain well below the fund’s passive benchmark, with 3-year annualized performance returning just 0.18%, compared to 9.37% for the benchmark. This underperformance can be attributed to poor stock selection in the utilities sector coupled with a large overweight to the underperforming energy sector. However, on a short-term basis the fund is outperforming its passive benchmark and category peers. Conversely to 3-year performance, it was positive stock selection in the utilities sector, which contributed to the funds relative outperformance. After discussion, the Committee members in attendance unanimously agreed to keep the fund on the Watch List, pending further performance improvement.

SSgA Dow Jones Target Date Series uses a conservative strategy by being underweight equities compared to their category peers, which has detracted from performance across all measured periods. Mr. Stewart proposed carrying out a fund search to look for alternative options after the Plan transitions to the new Reflex platform, as more options will then be available. The Committee members in attendance unanimously agreed.

The Plan’s Asset Allocation Models outperformed their respective benchmarks across all measured time periods. Although 3-year standard deviations are slightly above their respective benchmarks, the 3-year Sharpe ratio highlights how this small level of increased risk has been rewarded with superior returns.

Based on participant allocations as of June 30, 2017, the Plan outperformed its custom active and passive benchmarks across all measured time periods noted in the Report. Although the Plan has a slightly higher standard deviation than its custom active benchmark, the returns show that this risk has been rewarded. The

plan weighted expense ratio remains around 20% lower than that of the custom active benchmark.

The Committee reviewed the revenue received by MassMutual. The annual revenue per participant remained at approximately \$108, based on the assets as of June 30, 2017. The annual revenue per participant has been marginally increasing since the fee reduction. The Committee will continue to monitor fees on an ongoing basis.

The Committee reviewed the 401(a) Plan Quarterly Investment Review. The Plan had assets of \$12,365 as of June 30, 2017. Based on participant allocations, the Plan outperformed its custom active and passive benchmarks across all measured periods. The Plan weighted expense ratio was around 23% lower than its custom active benchmark.

3. **MassMutual “REFLEX” Platform (Administrative):** Mr. Gomez provided information regarding the benefits of transitioning the 457 Deferred Compensation Plan from the Hartford platform to the Reflex platform offered by MassMutual. These benefits included: a better participant experience as a result of an improved participant website, a larger choice of investment options available for the Plan, enhanced automation to reduce SCAQMD’s administrative responsibilities, and the ability to introduce a zero revenue sharing fund lineup with fee levelization.

The transition would involve a series of administrative responsibilities. The transition would take roughly 90 days to complete and would include a week long freeze on transfers and one day in which assets would be completely out of the market. Mr. Gomez confirmed that the service agreement would need to be redrafted and that MassMutual would match the current price (6 basis points on all assets).

Due to the administrative responsibility of transitioning to the new platform, the Committee members in attendance and Mr. Gomez unanimously agreed to begin proceedings in second quarter of 2018, with a target completion date of July 1, 2018.

4. **Annual Board Report (Administrative):** The Committee members in attendance reviewed and unanimously approved the Annual Report to the Governing Board, which was provided by BFGS. 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 reviewed the major decisions made during the previous year, including; share class changes in order to reduce revenue sharing, addition of the 401(a) Plan and updates to the Plan Expense Reimbursement Account Policy.

5. **Proposed Amendment to Administrative Service Agreement (Administrative):** A copy of the proposed amendment to the Administrative Service Agreement for the 457 Deferred Compensation Plan was distributed. The amendment authorizes MassMutual to process benefit payment requests as directed by employees. The benefit payment requests must be submitted in “good order”, meaning that SCAQMD will notify MassMutual in a timely fashion, about any Participant that has separated from service on account of termination of employment or retirement. After discussion, the Committee members in attendance unanimously agreed to outsource this administrative process to MassMutual. The effective date of this amendment is November 1, 2017.

Discussion Items:

6. **Quarterly Plan Review (Administrative):** The Committee received and filed the Retirement Plan Review (the “Review”) prepared by MassMutual. The Review included the following information for the quarter ending June 30, 2017; assets, contributions, distributions, rollovers, loans, Asset Allocation Models utilization, and plan participation. Positive net cash flow of \$1,330,339 supplemented positive returns to arrive at the new plan balance. The average number of investment options utilized by participants also increased during the quarter. Over the past 5 years the number of participants in the plan is up around 12% and the average account balance is up around 14% over the same period.
7. **Quarterly Reimbursement Calculation (Fiduciary):** The Committee received and filed the quarterly reimbursement calculation provided by MassMutual.

OTHER MATTERS:

8. **Other Business** – Mr. Gomez confirmed that the General Account crediting rate is scheduled to be reduced from 4.0% to 3.5%, effective January 1, 2018. Mr. Gomez agreed that MassMutual will take responsibility for communicating this change to the plan’s participants. Kaitlin will put together an email template and send to the Committee for review before the next meeting.
9. **Public Comments** - There were no public comments.

Next Meeting Date - The next regular meeting of the Deferred Compensation Plan Committee is scheduled for December 6, 2017.

Adjournment - The meeting adjourned at 3:11 p.m.

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

November 14, 2017

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

Committee Consultants: Mr. Darren Stewart – Benefit Funding Services Group (by phone)

Call to Order: The special meeting of the Deferred Compensation Plan Committee was called to order by Mr. Olvera on November 14, 2017 at 2:00 pm in Conference Room CC-7. It was noted a quorum was present.

Investment Agenda

1. Target Date Fund Search

On November 9, 2017 MassMutual informed the Committee that the SSgA Target Date Funds are closing on December 15, 2017. Accordingly, the Committee held a special meeting on November 14, 2017 to review a Fund Search prepared by BFSG. Area reviewed included: a comparison of available target date funds, glide path, portfolio composition, performance, equity allocation, risk-adjusted returns, volatility and expense. The Committee also discussed the possibility of mapping the assets into the current balanced fund, Invesco Equity & Income. After consideration, the Committee unanimously agreed to replace the current SSgA Target Date Funds with the T. Rowe Price Retirement Funds.

2. 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 2:20 pm.



**South Coast
Air Quality Management District**

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

BOARD MEETING DATE: February 2, 2018

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on Wednesday, December 13, 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
Mr. Kurt Wiese – General Counsel

Committee Members Absent

None

Guests

Dario Gomez, MassMutual
Aksana Munoz, Benefit Financial Services Group (“BFSG”)
Darren Stewart, BFSG

Call to Order

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

ACTION ITEMS:

1. **Approval of Prior Meeting Minutes (Administrative):** The minutes from the meetings held on September 13, 2017 and November 14, 2017 were reviewed and unanimously approved by the Committee.
2. **457 Plan Quarterly Investment Review (Fiduciary): 3rd Quarter 2017:** The Committee reviewed and unanimously approved the Retirement Plan Quarterly Investment Review (the “Report”) for the 457 Deferred Compensation Plan (the “Plan”) for the quarter ending September 30, 2017. Mr. Stewart provided the Committee with an overview of current economic and market conditions including: GDP, unemployment, inflation, interest rates, exchange rates and market/sector returns. The investment options offered in the Plan were reviewed in accordance with the Investment Policy Statement. Additional information was provided on the following noteworthy funds:

Neuberger Berman Socially Responsive is currently on the Watch List due to performance-related issues and a change in fund management. The fund, which serves as a socially responsible offering for Plan participants, was noted as having trailed the Russell 1000 Growth Index and large cap growth category peers over the most periods noted in the Report. Though categorized by Morningstar as a growth fund, Neuberger Berman Socially Responsible fund management views the fund as more of a large cap blend, using the S&P 500 Index as its benchmark. As a result, the fund’s performance struggled as compared to the more growth-oriented large cap growth category peers. An underweight in technology and an overweight in

energy detracted from the fund's overall performance for the year. After discussion, the Committee unanimously agreed to keep the fund on the Watch List.

MFS International New Discovery has underperformed its category peers and passive benchmark on a short-term basis. An overweight in consumer staples detracted from performance over the reporting quarter, but stock selection within the sector positively contributed. On a 3-year basis, the fund underperformed largely due an overweight to United Kingdom and an underweight to China. After discussion, the Committee unanimously agreed to place the fund on the Watch List due to short-term underperformance.

MFS Utilities is currently on the Watch List due to underperformance. The fund rebounded for the quarter, returning 4.08%, compared to 2.87% for the passive benchmark. As of September 30, 2017, roughly 63% of the portfolio was in the utilities sector, one of the lowest weightings in the category and well below the 81% category average. The fund's overweight to energy has detracted from performance for most periods measured in the Report. Although energy outperformed for the quarter, several of the fund's holdings were negatively affected by the hurricanes. After discussion, the Committee unanimously agreed to keep the fund on the Watch List pending further performance improvement.

The Plan's Asset Allocation Models outperformed their respective benchmarks across all measured time periods noted in the Report. Although 3-year standard deviations are slightly above their respective benchmarks, the 3-year Sharpe ratio highlights how this small level of increased risk has been rewarded with superior returns.

Plan assets increased during the quarter to approximately \$165.5 million (excluding loan and Self-Directed Brokerage balances), representing 903 participants with a balance. Based on participant allocations as of September 30, 2017, the Plan outperformed its custom active and passive benchmarks across all measured time periods noted in the Report. Although the Plan has a slightly higher standard deviation than its custom active benchmark, the returns show that this risk has been rewarded. The Plan's weighted expense ratio at 68 basis points remains below the similarly-weighted category average at 83 basis points.

The Committee reviewed the revenue received by MassMutual for recordkeeping and administrative services. The annual revenue per participant remained at approximately \$110, based on the assets as of September 30, 2017. The Committee will continue to monitor fees on an ongoing basis.

401(a) Plan Quarterly Investment Review (Fiduciary): 3rd Quarter 2017: The Committee reviewed and unanimously approved the Retirement Plan Quarterly Investment Review (the "Report") for the SCAQMD 401(a) Plan (the "Plan") for

the quarter ending September 30, 2017. Based on participant allocations, the Plan outperformed its custom active and passive benchmarks across all measured periods noted in the Report. The Plan's weighted expense ratio was around 23% lower than its custom active benchmark.

3. **2018 Meeting Schedule (Administrative).** The Committee reviewed and accepted the 2018 meeting schedule. The meetings will be held at 2:00 pm on March 14th, June 6th, September 12th and December 12th.

DISCUSSION ITEMS:

4. **Quarterly Plan Review (Administrative):** The Committee received and filed the Your Plan Review for the 457 and 401(a) Plans (the "Review") prepared by MassMutual. The Review of both Plans included the following information for the quarter ending September 30, 2017; assets, contributions, distributions, rollovers, loans, Asset Allocation Models utilization and plan participation.

To address the upcoming change in the General Account crediting rate, Mass Mutual drafted a sample communication email and presented it to the Committee. After review, the Committee unanimously approved the template. Mr. Gomez will provide a copy of the template to Mr. Richards so that he can distribute the notice to participants.

5. **Fund Change Update (Fiduciary):** Mr. Gomez informed the Committee that the SSgA Dow Jones Target Date Funds will be replaced by the T. Rowe Price Retirement Funds on December 14, 2017.
6. **Quarterly Reimbursement Calculation (Fiduciary):** The Committee received and filed the quarterly reimbursement calculation provided by MassMutual.
7. **Appointment of New Member to Committee (Fiduciary):** As Mr. O'Kelly will no longer be an employee of South Coast Air Quality and Management District, a new Committee member will soon be appointed by the Board.

OTHER MATTERS:

8. **Other Business** – There was no other business.
9. **Public Comments** – There were no public comments.

Adjournment - The meeting adjourned at 3:35 p.m.



**South Coast
Air Quality Management District**

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

BOARD MEETING DATE: April 11, 2018

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on Wednesday, April 11, 2018 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

AJO:RH:tc

Committee Members Present

Mr. John Olvera – Asst. Deputy Executive Officer/Admin and Human Resources
Ms. Sujata Jain - Asst. Deputy Executive Officer/Finance
Mr. Bill Richards – Human Resources Manager
Mr. Bayron Gilchrist – General Counsel

Committee Members Absent

None

Guests

Dario Gomez, MassMutual
Ross Hooper, Benefit Financial Services Group (“BFSG”)
Darren Stewart, BFSG

Call to Order

Chair Olvera called the meeting to order at 2:10 pm.

ACTION ITEMS:

1. **Approval of Prior Meeting Minutes (Administrative):** The minutes from the meeting held on February 2, 2018, were reviewed and unanimously approved by the Committee.
2. **457 and 401(a) Plan Quarterly Investment Review (Fiduciary): 4th Quarter 2017:** The Committee reviewed and unanimously approved the Retirement Plan Quarterly Investment Review (the “Report”) for the 457 Deferred Compensation Plan (the “Plan”) for the quarter ending December 31, 2017. Mr. Stewart provided the Committee with an overview of current economic and market conditions including: GDP, unemployment, inflation, interest rates, exchange rates, market/sector returns and earnings. The investment options offered in the Plan were reviewed in accordance with the Investment Policy Statement. Additional information was provided on the following noteworthy funds:

Neuberger Berman Socially Responsive is currently on the Watch List due to performance-related issues and a change in fund management. The fund, which serves as a socially responsible offering for Plan participants, was noted as having trailed the Russell 1000 Growth Index and large cap growth category peers across all time periods noted in the Report. At the time of the report, the fund was classified as a large cap growth fund, which is why it was compared to these benchmarks; however, Morningstar has subsequently reclassified the fund as large cap blend. As such, the fund will be benchmarked against the S&P 500 and large cap blend category peers in future. The fund compares more favorably to the large

blend universe. After discussion, the Committee unanimously agreed to keep the fund on the Watch List, pending improved relative performance in its new category.

MFS International New Discovery is currently on the Watch List due to short-term underperformance. The fund performed well during the quarter, outperforming its category peers by 1.30%, but remains well below on a 1-, 3- and 5-year basis. Management is generally cautious, reflected in their relatively large cash allocation, and tend to perform better during down markets. The fund's current share class shares 50 basis points in revenue, which is another detractor from net performance. It was noted that this share class is the most efficient and it would not be in the best interest of participants to change to a cheaper option. For reference, the zero-revenue sharing option for this fund had an overall Evaluation Methodology rank of 25, "outperform", compared to a rank of 51, "underperform", for the current option. After discussion, the Committee unanimously agreed to keep the fund on the Watch List pending further performance improvement.

MFS Utilities is currently on the Watch List due to underperformance. The fund performed in line with its passive benchmark, but underperformed its category peers during the quarter. The fund has outperformed its benchmark on a 1-year basis but remains well below on a 3- and 5-year basis. Compared to its category peers, this fund historically allocates a much larger portion of its portfolio outside of the utilities sector, which has considerably detracted from performance. During the quarter, stock selection in the energy sector was the largest detractor from relative performance for the fund. It was noted that less than 1% of total Plan assets are currently invested in the fund, and it continues to offer an alternative for participants to improve their diversification. After discussion, the Committee unanimously agreed to keep the fund on the Watch List.

The Plan's Asset Allocation Models outperformed their respective benchmarks across all measured time periods noted in the Report. Although 3-year standard deviations are slightly above their respective benchmarks, the 3-year Sharpe ratio highlights how this small level of increased risk has been rewarded with superior returns.

Plan assets increased during the quarter to approximately \$171 million (excluding loan and Self-Directed Brokerage balances), representing 926 participants with a balance. Based on participant allocations as of December 31, 2017, the Plan outperformed its custom active and passive benchmarks across all measured time periods noted in the Report. Although the Plan has a slightly higher 3-year standard deviation than its custom active benchmark, the 3-year Sharpe ratio shows that this risk has been rewarded. The Plan's weighted expense ratio at 68 basis points remains below the similarly-weighted category average at 83 basis points.

The Committee reviewed the revenue received by MassMutual for recordkeeping and administrative services. The annual revenue per participant increased to approximately \$111, based on the assets as of December 31, 2017. It was noted that the reason the revenue per participant appears to be on the high end of the range is because the bids used to benchmark the market segment, from the 2015 RFI, were lower than the current recordkeeper, as they did not include the favorable crediting rate of the current general account. The Committee will continue to monitor fees on an ongoing basis.

The Committee reviewed and unanimously approved the Retirement Plan Quarterly Investment Review (the “Report”) for the SCAQMD 401(a) Plan (the “Plan”) for the quarter ending December 31, 2017. Based on participant allocations, the Plan’s performance was in line with its passive and active benchmarks across all measured periods noted in the Report. The Plan’s weighted expense ratio at 71 basis points remains below the similarly-weighted category average at 92 basis points.

- 3. Fund Search Analysis (Fiduciary):** BFSG prepared and distributed a Fund Search Analysis to consider alternative investment options for socially responsible and foreign equity mutual funds. 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 keep the current socially responsible fund and foreign large equity fund in the Plan. The committee decided that the foreign small/mid equity option required more analysis. BFSG will bring an updated fund search for this category to the next meeting.

In addition, the committee wished to discuss the addition of index funds across more categories. As such, BFSG will bring analysis for the committee’s consideration to the next meeting.

- 4. 457 Plan – Transition to new MassMutual Platform “Reflex” (Fiduciary):** BFSG prepared and distributed a Share Class Analysis to consider alternative share class options available on the new platform. The Committee reviewed and unanimously approved the proposed changes to the most efficient share classes. Changes include the replacement of all State Street index funds with their corresponding Vanguard index funds. Fund changes in the 401(a) Plan will take place at the time as the 457 Plan transition, and will have the same fund lineup, excluding target date funds, in each Plan.

BFSG prepared and distributed a Fee Analysis to consider the desired levelized fee that will be implemented on the new platform. After review and discussion, the Committee unanimously agreed that an 8 basis point fee will be applied. It was

noted that excess monies in the expense account, after qualified Plan expenses have been paid, will be automatically reallocated to participants at least annually.

Mr. Gomez highlighted some key administrative differences on the new platform and advised that the transfer process will take around 90 days to complete.

DISCUSSION ITEMS:

5. **Quarterly Plan Review (Administrative):** The Committee received and filed the Your Plan Review for the 457 and 401(a) Plans (the “Review”) prepared by MassMutual. The Review of both Plans included the following information for the quarter ending December 31, 2017; assets, contributions, distributions, rollovers, loans, Asset Allocation Models utilization and plan participation.

The Committee noted that they would like to see the active participation rate in future.

6. **Quarterly Reimbursement Calculation (Fiduciary):** The Committee received and filed the quarterly reimbursement calculation provided by MassMutual. Mr. Gomez brought the Committee’s attention to an administrative error in the third quarter 2017 reimbursement calculation. The additional revenue sharing owed to the Plan will be credited pro rata.

OTHER MATTERS:

7. **Other Business** – There was no other business.
8. **Public Comments** – There were no public comments.

Adjournment - The meeting adjourned at 4:15 p.m.



**South Coast
Air Quality Management District**

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

BOARD MEETING DATE: September 7, 2018

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on Wednesday, June 6, 2018 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

AJO:RH:tc

Committee Members Present

Mr. John Olvera – Asst. Deputy Executive Officer/Admin and Human Resources
Ms. Sujata Jain - Asst. Deputy Executive Officer/Finance
Mr. Bill Richards – Human Resources Manager
Mr. Bayron Gilchrist – General Counsel

Committee Members Absent

None

Guests

Dario Gomez, MassMutual
Darren Stewart, Benefit Financial Services Group (“BFSG”)
Aksana Munoz, BFSG

Call to Order

Chair Olvera called the meeting to order at 2:10 pm.

ACTION ITEMS:

- 1. Approval of Prior Meeting Minutes (Administrative):** The minutes from the meeting held on April 11, 2018, were reviewed and unanimously approved by the Committee as written.
- 2. 457 and 401(a) Plan Quarterly Investment Review (Fiduciary): 1st Quarter 2018:** The Committee reviewed and unanimously approved the Retirement Plan Quarterly Investment Review (the “Report”) for the 457 Deferred Compensation Plan (the “Plan”) for the quarter ending March 31, 2018.

Mr. Stewart provided an overview of the capital markets during the quarter, followed by a quantitative and qualitative review of the funds offered in the Plan, in accordance with the Evaluation Methodology criteria set forth in the Plan’s Investment Policy Statement (“IPS”).

It was noted the previously agreed upon fund and share class changes are scheduled to occur on July 27, 2018.

Neuberger Berman Socially Responsive is currently on the Watch List due to performance-related issues and a change in fund management. The fund showed marked improvement relative to the large cap blend category peer group as of the quarter ending March 31, 2018. Recent performance benefited from strong stock selection, especially in industrials. During the quarter, an underweight to the technology sector was the largest detractor from relative performance for the fund.

After discussion, the Committee unanimously agreed to keep the fund on the Watch List, pending improved relative performance in its new category.

Vanguard Selected Value returned -4.32% during the quarter, considerably underperforming its passive benchmark and category peers. Poor stock selection in the industrials sector was the largest detractor from relative performance, with a position in Air France-KLM, which lost over 30% during the quarter. An overweight to the consumer discretionary sector also detracted from performance for the quarter. Longer-term performance remains strong, with the fund outperforming its passive benchmark and category peers over all other measured time periods noted in the Report.

MFS International New Discovery is currently on the Watch List due to short-term underperformance. The Report demonstrated improved performance for the quarter and one-year periods. The performance benefited from strong stock selection, especially in the consumer discretionary sector, and an overweight to emerging markets. The fund's overall Evaluation Methodology ranking has improved quarter-over-quarter, from a rank of 51 ("underperform") to a 49 ("perform"). As the fund continues to trail both benchmarks on a 3-and 5-year basis, BFSG proposed maintaining it on the Watch List. The Committee unanimously agreed.

MFS Utilities is currently on the Watch List due to performance-related issues. During the quarter, the fund's performance benefited from its growth tilt, which helped to offset losses from its energy overweight. The fund's one-year performance has improved significantly, but it continues to trail both benchmarks on a 3-and 5-year basis. After discussion, the Committee unanimously agreed to keep the fund on the Watch List.

The Plan's Asset Allocation Models were noted as having outperformed their respective benchmarks over all time periods noted in the Report.

Plan assets increased during the quarter to approximately \$173 million (excluding loan and Self-Directed Brokerage balances), representing 931 participants with a balance. Point-in-time Plan level performance (as weighted by participants) demonstrated outperformance relative to the custom passive and active benchmarks over all time periods noted in the Report. The funds take slightly more risk, as measured by 3-year standard deviation, though participants are rewarded for the additional risk, as measured by 3-year Sharpe ratio. The Plan-weighted expense ratio remains competitive relative to the category average, at 68 basis points versus the category at 82 basis points.

The Committee reviewed the revenue received by MassMutual for recordkeeping and administrative services. The annual revenue per participant was approximately \$111, based on the assets as of March 31, 2018. It was noted that the reason the

revenue per participant appears to be on the high end of the range is because the bids used to benchmark the market segment, from the 2015 RFI, were lower than the current recordkeeper, as they did not include the favorable crediting rate of the current general account. The Committee will continue to monitor fees on an ongoing basis.

The Committee reviewed and unanimously approved the Retirement Plan Quarterly Investment Review (the “Report”) for the SCAQMD 401(a) Plan (the “Plan”) for the quarter ending March 31, 2018. Point-in-time Plan level performance (as weighted by participants) demonstrated outperformance relative to the custom active and passive benchmarks over all time periods noted in the Report. The Plan- weighted expense ratio remains competitive relative to the category average, at 71 basis points versus the category at 91 basis points.

3. Fund Search Analysis (Fiduciary): BFSG prepared and distributed a Fund Search Analysis to consider alternatives in the large-cap value, small-cap value, real estate, and foreign small/mid equity categories. 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 changes in the 457 and 401(a) Plans:

- Add DFA US Large Cap Value I as an additional offering in the large-cap value category;
- Add Vanguard Small Cap Value Index Admiral as a passive option in the small-cap value category.

MassMutual will facilitate these changes as soon as administratively possible.

The Committee unanimously agreed no changes shall be made at this time in the real estate and foreign small/mid equity categories.

A review of available investment options in the emerging market category was tabled to the next meeting.

4. 457 Plan Default Investment Selection (Fiduciary): The Committee unanimously agreed to utilize the T. Rowe Price Target Date series as a primary default investment option for non-participant directed monies in the 457 Plan. Invesco Equity and Income was chosen as a secondary default investment option for participants with no date of birth on file.

5. 457 Plan Refinancing (Administrative): The Committee agreed to permit loan refinancing in the Plan. MassMutual will be responsible for administration of loan refinance requests. Moving forward, participants will be allowed to:

- Extend term of the loan within a maximum of 5-year limit from original loan initiation date;
- Decrease term of loan;
- Change interest rate.

The Plan will also allow for loan repayment after separation from service through ACH payments directly to MassMutual.

DISCUSSION ITEMS:

- 6. Advisor Contacts Regarding Fees (Administrative)** – The Committee unanimously agreed to table the topic to the next meeting.
- 7. The 457 Plan – Transition to new MassMutual Platform “Reflex” (Fiduciary):** Mr. Olvera noted the transition of the 457 and OBRA Plans is now in process and is scheduled to be completed by end of July 2018.
- 8. Quarterly Review - 457 and 401(a) Plans (Fiduciary).** The Committee was provided with a copy of the Q1 2018 Quarterly Review for both Plans. Due to time constraints, it was unanimously agreed to table the discussion to the next meeting.
- 9. Quarterly Reimbursement Calculation (Fiduciary):** The Committee received and filed the quarterly reimbursement calculation provided by MassMutual for the quarter ending March 31, 2018. Per the discussion at the last meeting, the annual reimbursement from the 457 Plan to the SCAQMD will continue to be processed through an Expense Budget Account (“EBA”). Mr. Gomez noted the credit revenue will still be calculated on a quarterly basis and can be used to pay qualified plan-related expenses. Moving forward, any remaining balance in the EBA at the end of the year, will be reallocated by MassMutual to participants pro rata. The Committee will be notified accordingly.

OTHER MATTERS:

- 10. Other Business** – There was no other business.
- 11. Public Comments** – There were no public comments.

Adjournment - The meeting adjourned at 4:15 p.m.