

BOARD MEETING DATE: March 3, 2023

AGENDA NO. 15

**PROPOSAL:** Receive and File Annual Report on South Coast AQMD's Deferred Compensation Plans

**SYNOPSIS:** South Coast AQMD sponsors IRS-approved 457(b), 401(a) and Omnibus Budget Reconciliation Act of 1990 () Deferred Compensation Plans for its employees. The Annual Report for Plan Year Ending June 2022 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 receive and file the Annual Report on the South Coast AQMD's Deferred Compensation Plans.

**COMMITTEE:** Administrative, February 10, 2023; Recommended for Approval

**RECOMMENDED ACTION:**  
Receive and file.

Wayne Nastri  
Executive Officer

AJO:mm

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### **Background**

South Coast AQMD sponsors and administers 457(b), 401(a) and Omnibus Budget Reconciliation Act of 1990 (OBRA) Deferred Compensation Plans for its employees. The Deferred Compensation Plans, which include the 457(b), 401(a) and OBRA plans, are administered by Empower Retirement, LLC (Empower), one of the largest workplace retirement savings plan providers in the United States. State law governs the fiduciary requirements for the operation and investment of deferred compensation plans sponsored by governmental entities. South Coast AQMD's 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 has established a Deferred Compensation Plan Committee (Committee) to oversee the administration of the Plans. 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 Financial Officer, the Deputy Executive Officer/Administrative and Human Resources, the Human Resources Manager over employee benefits, and the General Counsel.

In October 2021, as the result of an RFP process, the Board approved a 5-year contract with Empower for record-keeping and administrative services, beginning January 1, 2022. In addition to the retirement plan administrator, South Coast AQMD utilizes the services of an independent, third-party consulting firm, Benefit Financial Services Group (BFSG), to provide services to the Plans as a fiduciary under a Registered Investment Advisor agreement.

### **Summary of Report**

The Committee meets on a quarterly basis to review the Plan design, investment options, asset allocation, and demographics, and to make changes as necessary. During the 2021-22 fiscal year period, the Committee adopted a revised Investment Policy Statement to update proxy voting and Watch List-related procedures, and to reallocate the foreign large equity category. The Committee also placed two funds on the Watch List due to short-term underperformance, updated the Target Date Model allocations, replaced the General Interest Account (GIA) with the Great West Fixed Account, utilized excess market value from the GIA to supplement future crediting rates in the Fixed Account and to provide a one-time benefit to participants invested in the GIA, and extended the contract with the BFSG consulting firm for one year.

As of June 30, 2022, the Plans have:

- 1,055 participants (employees and retirees)
- Approximately \$204 million in assets
- Outperformed the 3-, 5- and 10-year performance benchmarks

The Annual Report provides detailed information regarding Plan Assets/Demographics, Committee Actions, and Plan Performance.

### **Proposal**

Staff recommends the Board receive and file the Deferred Compensation Plan Annual Report to the Board for Plan Year Ending June 2022.

### **Attachment**

Deferred Compensation Plan Annual Report for Plan Year Ending June 2022



# Report To The Board

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Plan Year Ending: June 2022

Prepared for: South Coast Air  
Quality Management District 457  
Deferred Compensation & 401(a)  
Defined Contribution Plans



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# Plan Background

Section 1

# South Coast Air Quality Management District Plan

## South Coast Air Quality Management District Plan Overview

Plan Name	South Coast Air Quality Management District 457 Deferred Compensation & 401(a) Defined Contribution Plans
Inception Date (457 Plan)	January 1, 1987
Inception Date (401 Plan)	January 1, 2017

## Plan Features (457 Plan)

Plan Year End	June 30 <sup>th</sup>
Entry Date	Immediate
Employee Deferrals	Pre-tax & Roth
Catch-up	Age 50 & Special 457 Catch-up Contributions
Employer Contributions	Yes - determined in accordance with the terms of the employment contract

## Default Investment Alternative

Default Fund	T. Rowe Price Retirement Series
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## Service Providers

Recordkeeper	Empower
Directed Trustee	Reliance Trust Company
Plan Advisor	Benefit Financial Services Group ("BFSG")

## Committee Oversight

Membership	John Olvera (Chair), Bayron Gilchrist, Sujata Jain, and Raquel Arciniega
Duties	Settlor and Fiduciary
California Government Code 53213.5 Compliance	The Committee intends for the Plan to comply with the provisions of California Government Code 53213.5 providing Plan fiduciaries with relief from liability for the investment decisions made by participants.





# Committee Meeting Summary & Plan Updates

## Section 2

CALENDAR						
SUN	MON	TUE	WED	THU	FRI	SAT
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18	19	20
21	22	23	24	25	26	27
28	29	30	31			

# Fiduciary Updates

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Meeting Date	Item	Update
September 23, 2021	Watch List	Agreed to place MFS International New Discovery on the Watch List.
September 23, 2021	Fixed Account Selection	Agreed to terminate the GIA and utilize the Fixed Account.
October 15, 2021	Fixed Account	Agreed to utilize \$4.5 million GIA's excess market value to supplement future crediting rates of the Great West Fixed Account and utilize the remainder to provide a one-time benefit to participants invested in the GIA.
December 14, 2021	Investment Policy Statement ("IPS")	Agreed to adopt the revised IPS.
December 14, 2021	Target Date Models Allocation	BFSG updated the model allocations.
February 1, 2022	Watch List	Agreed to place American Funds Fundamental Investors on the Watch List.



# Settlor (Administrative) Updates

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Meeting Date	Item	Update
February 1, 2022	Special Catch-up Provision	Approved a more flexible administration of the special catch-up provision in accordance with Empower's viewpoint.
June 9, 2022	BFSG Contract Renewal	Noted the contract with BFSG will be extended for another year beginning July 1, 2022.



# Plan Assets / Demographics

Section 3

# Range of Investments

Lower risk/lower potential reward			Higher risk/higher potential reward		
FIXED INCOME		BALANCED	EQUITY		
CAPITAL PRESERVATION	INCOME	HYBRID	VALUE	BLEND	GROWTH
DOMESTIC					
<b>STABLE VALUE</b> Great West Fixed Investment Account - Series IV	<b>INTERMEDIATE CORE BOND</b> Vanguard Total Bond Market Index Adm		<b>LARGE VALUE</b> DFA US Large Cap Value I Hartford Dividend and Growth R5	<b>LARGE BLEND</b> American Funds Fundamental Invs R6 Vanguard FTSE Social Index Admiral Vanguard Institutional Index I	<b>LARGE GROWTH</b> T. Rowe Price Blue Chip Growth I
	<b>INTERMEDIATE CORE-PLUS BOND</b> Metropolitan West Total Return Bd I	<b>ALLOCATION--50% TO 70% EQUITY</b> American Funds American Balanced R6	<b>MID VALUE</b> Vanguard Selected Value Inv	<b>MID BLEND</b> Vanguard Mid Cap Index Admiral	<b>MID GROWTH</b> Carillon Eagle Mid Cap Growth A
			<b>SMALL VALUE</b> American Beacon Small Cap Value R6 Vanguard Small Cap Value Index Admiral	<b>SMALL BLEND</b> Vanguard Small Cap Index Adm	<b>SMALL GROWTH</b> Fidelity Advisor® Small Cap Growth Z
FOREIGN					
				<b>FOREIGN LARGE BLEND</b> Hartford International Opportunities R5 Vanguard Developed Markets Index Admiral	
					<b>FOREIGN SMALL/MID GROWTH</b> MFS International New Discovery A
				<b>DIVERSIFIED EMERGING MKTS</b> Vanguard Emerging Mkts Stock Idx Adm	
SPECIALTY					
			<b>UTILITIES</b> Vanguard Utilities Index Adm	<b>REAL ESTATE</b> Vanguard Real Estate Index Admiral	<b>HEALTH</b> Hartford Healthcare R5
ALLOCATION					
		<b>TARGET DATE SERIES</b> T. Rowe Price Retirement I Series			

Funds listed in Red are scheduled to be removed.  
Funds listed in Green are scheduled to be added.  
Funds listed in Blue are frozen to contributions.  
Funds listed in Purple represent Default Fund.



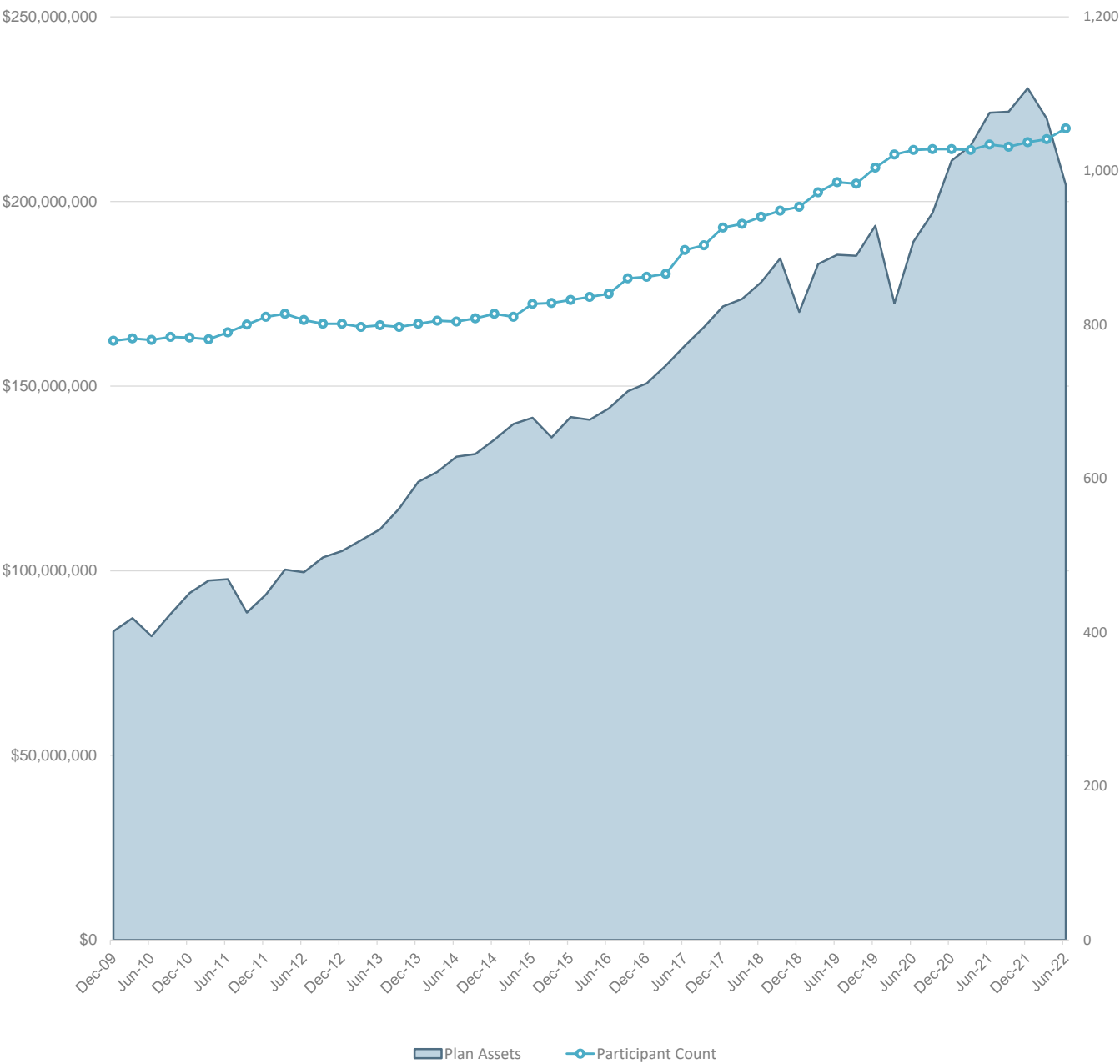
# Asset Allocation by Fund

Investment Option	2Q 2022	% of Assets	# of Balances
Great West Fixed Investment Account - Series IV	\$89,312,905	43.86%	645
T. Rowe Price Blue Chip Growth I	\$21,142,921	10.38%	487
American Funds Fundamental Invs R6	\$14,153,417	6.95%	286
Vanguard Institutional Index I	\$12,192,468	5.99%	289
Hartford Dividend and Growth R5	\$9,290,220	4.56%	393
Carillon Eagle Mid Cap Growth A	\$5,805,758	2.85%	368
Hartford International Opportunities R5	\$4,738,147	2.33%	384
T. Rowe Price Retirement I 2045 I	\$4,503,082	2.21%	84
American Funds American Balanced R6	\$3,967,757	1.95%	118
T. Rowe Price Retirement I 2035 I	\$3,352,669	1.65%	47
Metropolitan West Total Return Bd I	\$3,263,784	1.60%	270
Hartford Healthcare R5	\$3,111,813	1.53%	102
Vanguard Mid Cap Index Admiral	\$3,075,577	1.51%	216
Vanguard Selected Value Inv	\$2,956,008	1.45%	319
Vanguard Total Bond Market Index Adm	\$2,542,953	1.25%	224
Fidelity Advisor® Small Cap Growth Z	\$2,357,840	1.16%	309
Vanguard FTSE Social Index Admiral	\$2,150,322	1.06%	78
American Beacon Small Cap Value R6	\$1,992,334	0.98%	295
Vanguard Small Cap Index Adm	\$1,792,815	0.88%	201
Vanguard Utilities Index Adm	\$1,614,855	0.79%	83
MFS International New Discovery A	\$1,598,390	0.78%	169
Vanguard Small Cap Value Index Admiral	\$1,382,232	0.68%	46
Vanguard Developed Markets Index Admiral	\$1,340,743	0.66%	159
T. Rowe Price Retirement I 2040 I	\$957,257	0.47%	19
Vanguard Real Estate Index Admiral	\$855,286	0.42%	70
DFA US Large Cap Value I	\$680,257	0.33%	121
Vanguard Emerging Mkts Stock Idx Adm	\$651,948	0.32%	114
T. Rowe Price Retirement I 2055 I	\$631,612	0.31%	24
T. Rowe Price Retirement I 2060 I	\$600,767	0.30%	40
T. Rowe Price Retirement I 2025 I	\$555,641	0.27%	15
T. Rowe Price Retirement I 2050 I	\$552,416	0.27%	29
T. Rowe Price Retirement I 2030 I	\$320,779	0.16%	12
T. Rowe Price Retirement I 2020 I	\$142,814	0.07%	6
T. Rowe Price Retirement I 2015 I	\$19,638	0.01%	4
T. Rowe Price Retirement I 2065 I	\$16,442	0.01%	6
T. Rowe Price Retirement I 2005 I	\$9,819	0.00%	3
T. Rowe Price Retirement I 2010 I	\$9,334	0.00%	3
Guaranteed Interest Account	\$0	0.00%	0
<b>Subtotal</b>	<b>\$203,643,018</b>	<b>100.00%</b>	<b>1,055</b>
Self-Directed Brokerage Account	\$790,385		
<b>Total</b>	<b>\$204,433,403</b>		
<b>Total # of Participants</b>	<b>1,055</b>		
<b>Average Account Balance</b>	<b>\$193,776</b>		

Note: Funds listed in **Gold** are included in the Target Date Models.

Note: Personal Choice Retirement Account had 11 balances as of quarter end.

# Growth of Plan Assets





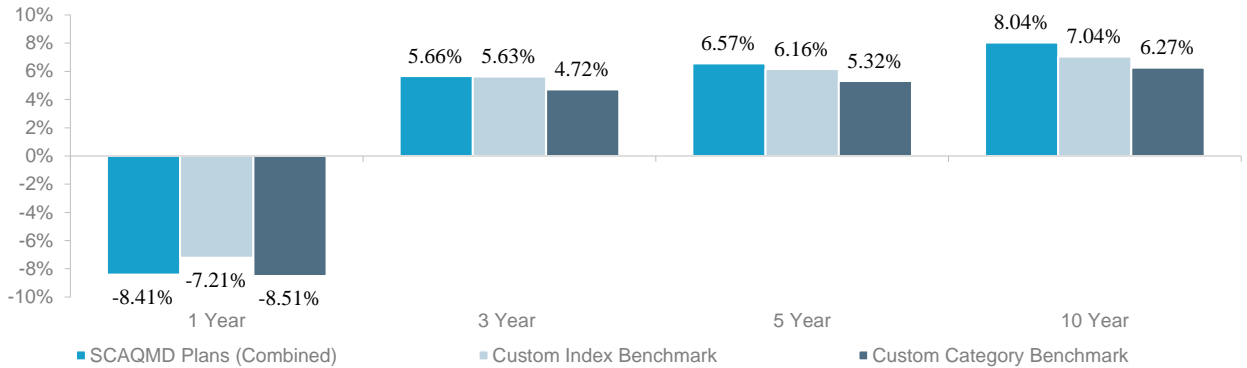
# Plan Performance / Cost

## Section 4

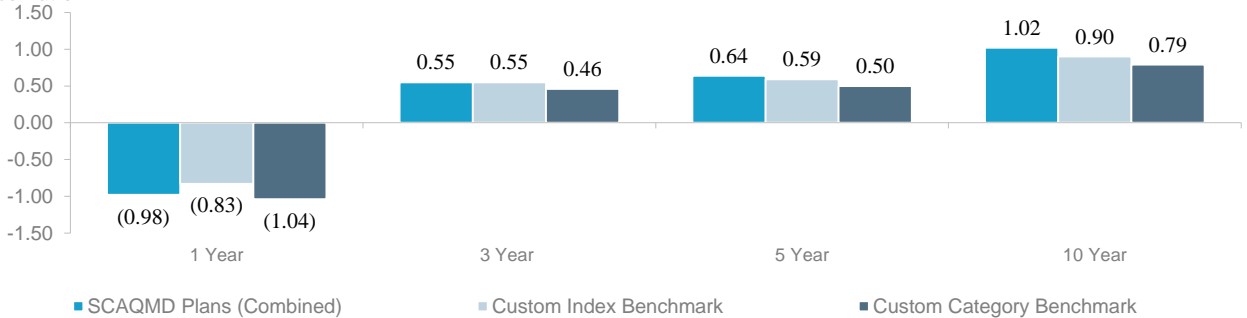


# Portfolio Return vs. Custom Benchmark

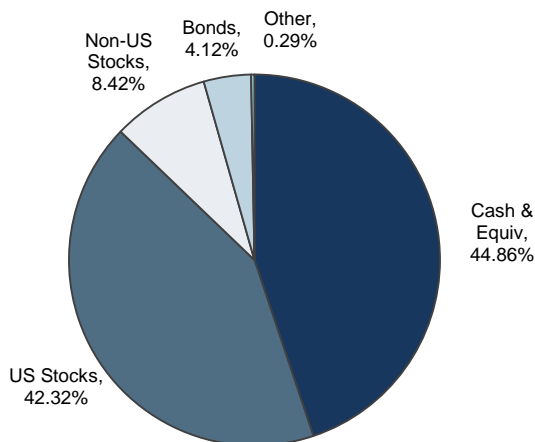
Annualized Returns



Sharpe Ratio



Current Quarter



Benchmark Weightings

Index	Category	Weight
BFSG Custom Stable Value	Stable Value	43.86%
Bloomberg US Agg Float Adj TR USD	Intermediate Core Bond	1.25%
Bloomberg US Agg Bond TR USD	Intermediate Core-Plus Bond	1.60%
40% BC Agg - 60% S&P 500	Allocation--50% to 70% Equity	1.95%
Russell 1000 Value TR USD	Large Value	0.33%
Russell 1000 Value TR USD	Large Value	4.56%
S&P 500 TR USD	Large Blend	6.95%
S&P 500 TR USD	Large Blend	1.06%
S&P 500 TR USD	Large Blend	5.99%
Russell 1000 Growth TR USD	Large Growth	10.38%
Russell Mid Cap Value TR USD	Mid Value	1.45%
CRSP US Mid Cap TR USD	Mid Blend	1.51%
Russell Mid Cap Growth TR USD	Mid Growth	2.85%
Russell 2000 Value TR USD	Small Value	0.98%
CRSP US Small Cap Value TR USD	Small Value	0.68%
CRSP US Small Cap TR USD	Small Blend	0.88%
Russell 2000 Growth TR USD	Small Growth	1.16%
MSCI ACWI Ex USA NR USD	Foreign Large Blend	2.33%
FTSE Dvlp ex US All Cap(US RIC)NR USD	Foreign Large Blend	0.66%
MSCI ACWI Ex USA Small Growth NR USD	Foreign Small/Mid Growth	0.78%
FTSE EMs AC China A Incl (US RIC) NR USD	Diversified Emerging Mkts	0.32%
S&P 500 Sec/Health Care TR USD	Health	1.53%
Real Estate Spliced Index*	Real Estate	0.42%
MSCI US IMI/Utilities 25-50 GR USD	Utilities	0.79%
S&P Target Date Series	Target Date Series	5.73%

# Evaluation Methodology

Per Investment Policy Statement

## Returns (40%)

Trailing 3-, 5-, and 10- year  
Rolling 10-year

## Style (15%)

$R^2$   
Credit Quality  
Consistency / Dispersion

## Expense (15%)

Net Expense Ratio

## Fund Score

Under 26 – Outperform  
26 to 50 – Perform  
Over 50 - Underperform

## Risk (30%)

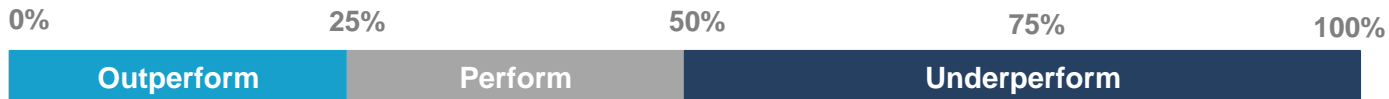
Sharpe Ratio  
Up-Capture Ratio  
Down-Capture Ratio



All data points are percentile ranking relative to the Custom Peer Group. The Custom Peer Group is the fund's Morningstar Category excluding Index Funds, fund-of-funds, and funds with less than 3 Years of Returns. Only the lowest expense share class is evaluated.

# Evaluation Methodology Summary

Investment Name	Quarterly Ranking			
	2Q22	1Q22	4Q21	3Q21
<b>Intermediate Core-Plus Bond</b>				
Metropolitan West Total Return Bond Fund	26	23	17	18
<b>Allocation--50% to 70% Equity</b>				
American Funds American Balanced Fund	12	11	16	14
<b>Large Value</b>				
DFA US Large Cap Value Portfolio	30	30	29	23
Hartford Dividend and Growth Fund	0	0	2	4
<b>Large Blend</b>				
American Funds Fundamental Invs	56	48	44	37
Vanguard FTSE Social Index Fund	2	0	0	0
<b>Large Growth</b>				
T. Rowe Price Blue Chip Growth Fund	37	24	18	12
<b>Mid Value</b>				
Vanguard Selected Value Fund	36	34	40	40
<b>Mid Growth</b>				
Carillon Eagle Mid Cap Growth Fund	2	4	6	9
<b>Small Value</b>				
American Beacon Sm Cap Val Fd	34	35	40	37
<b>Small Growth</b>				
Fidelity® Small Cap Growth Fund	12	8	13	17
<b>Foreign Large Blend</b>				
Hartford International Opportunities Fd	20	17	14	18
<b>Foreign Small/Mid Growth</b>				
MFS International New Discovery Fund	62	86	88	73
<b>Health</b>				
Hartford Healthcare Fund	42	42	32	32
<b>Target Date Series</b>				
T. Rowe Price Retirement Series	16	13	10	9
<b>Average Rank</b>	26	25	26	24
<b>Plan Weighted Rank (Reweighted)</b>	28	23	21	19



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.



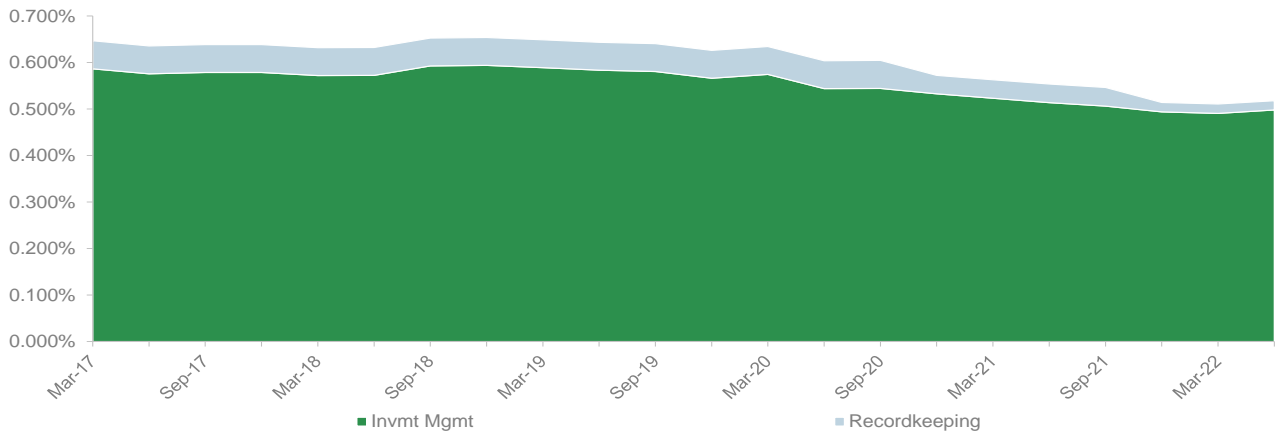
# Fee Breakdown & Recordkeeping Costs

	Plan Assets 06/30/2022	Total Plan Expense (%) <sup>2</sup>	Total Plan Expense (\$)	Revenue to Invmt. Mgmt. (\$)	Revenue to RK / Admin. (Vendor)
South Coast Air Quality Management District Retirement Savings Plan	\$203,643,018	0.518%	\$1,054,572	\$1,013,843	\$40,729
				0.498%	0.020%
Industry Average <sup>1</sup>		0.559%	\$1,139,365		

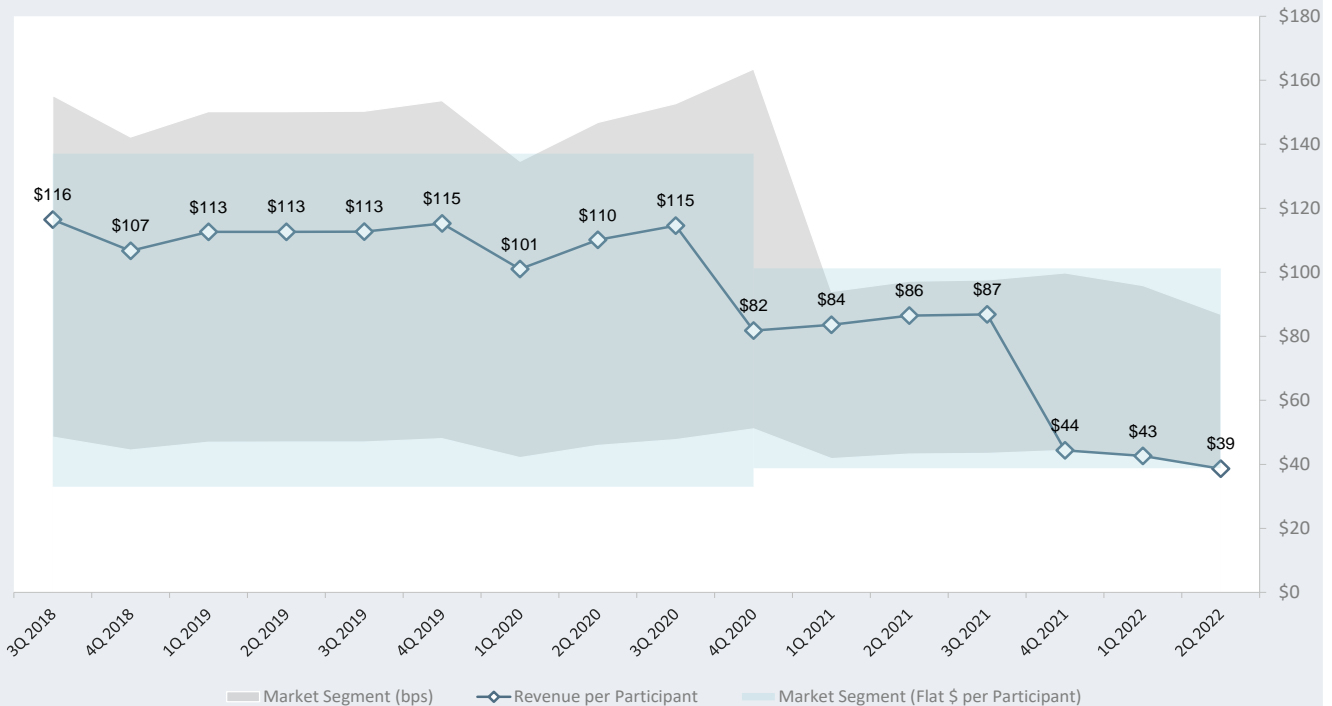
<sup>1</sup>The Industry Average represents the weighted expense (based upon current allocation) of lowest cost Institutional and Retirement share classes in each asset category from Morningstar, plus the benchmark revenue requirement.

<sup>2</sup>Total Plan Expense does not include additional qualified Plan expenses or transaction costs.

## Investment Management and Recordkeeping Costs



## Recordkeeping Fee on a Per Participant Basis





# Appendix

Section 5



**South Coast  
Air Quality Management District**

21865 Copley Drive, Diamond Bar, CA 91765  
(909) 396-2000, [www.aqmd.gov](http://www.aqmd.gov)

MEETING DATE: September 23, 2021

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on September 23, 2021, at 3:00 pm. The meeting was conducted via a Zoom web conference. The following is a summary of that meeting.

RECOMMENDED ACTION:  
Receive and file.

A. John Olvera, Chair  
Deferred Compensation Plan

AJO:RH:tc

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**Committee Members Present**

John Olvera – Deputy Executive Officer / Admin and Human Resources  
Bayron Gilchrist – General Counsel  
Sujata Jain - Chief Financial Officer  
Raquel Arciniega - Human Resources Manager

**Committee Members Absent**

None

**Guests**

Darren Stewart, Benefit Financial Services Group (“BFSG”)  
Aksana Munoz, BFSG  
Dario Gomez, Empower Retirement (“Empower”)  
Robert Gleason, Empower

**Call to Order**

Chair Olvera called the meeting to order at 3:03 pm.

**Approval of Prior Meeting Minutes:** The Committee unanimously approved the minutes of the meeting held on June 8, 2021.

**FIDUCIARY AGENDA**

**457 and 401(a) Plans Quarterly Investment Review – 2<sup>nd</sup> Quarter 2021:** The Committee received and unanimously approved the Retirement Plan Quarterly Investment Review (the “Report”) for the 457 Deferred Compensation Plan and the 401(a) Defined Contribution Plan (collectively the “Plans”) for the quarter ending June 30, 2021.

To provide context to the performance of the investment options in the Plan, BFSG provided an overview of the economy and capital markets during the reporting period. The presentation was followed by a quantitative and qualitative review of the funds offered in the Plans, in accordance with the Evaluation Methodology criteria set forth in the Plans’ Investment Policy Statement (the “IPS”).

MFS International New Discovery slightly underperformed both benchmarks over the quarter and one-year period, largely due to the fund’s defensive style. One of the fund managers retired in April 2021. Another long-term manager is retiring next year. Due to changes in management, BFSG recommended placing the fund on the Watch List. The Committee unanimously agreed.

Hartford Healthcare Fund is currently on the Watch List due to a change in management. Strong stock selection contributed to short-term performance. One of



the fund's co-managers will retire in 2021. After discussion, the Committee agreed to keep the fund on the Watch to monitor fund management.

The Committee reviewed performance, costs, and utilization of the Target Date Models. As of the end of the reporting period, 69 participants utilized the Models. The total amount invested in the Models was approximately \$6.9 million.

The Committee reviewed point-in-time Plan-level performance noting the Plan demonstrated better risk-adjusted returns than the active benchmark, as measured by 3-year Sharpe ratio, and had a lower expense ratio than the active peer group.

The Committee reviewed fees paid to Empower for recordkeeping and administration of the District's Plans. During the recent Request for Proposal ("RFP"), Empower proposed to reduce their revenue requirement for the 457 Plan to 2 basis points on Plan assets. The Committee will meet with the Governing Board on September 24, 2021, and recommend to award the contract to Empower.

**Fixed Account Analysis and Selection:** As Empower's proposal includes the utilization of their MassMutual Guaranteed Interest Account ("GIA") or the Great West Fixed Account ("Fixed Account"), BFGS prepared and presented a comparison of both investment options for the Committee's review and consideration.

One drawback to the GIA is the restrictive sponsor liquidity provision should the fund need to be removed when the market-to-book value is less than 100%. Assets would be available at market value or through 60 quarterly installments. The assets would not be liquid to participants, even for distributions, during the installment period. The Fixed Account offers more favorable sponsor liquidity options, including a 12-month put, a market-value adjustment, and an installment payment during which participants have full liquidity.

In terms of crediting rates, the products are similar, but a lack of historical data prevents a clear comparison. The GIA provides a higher crediting rate floor, starting at 2.5% and declining to 1.8% by the end of the five-year contract. The Fixed Account guarantees against loss but does not guarantee a specific interest rate. Both guarantees are provided by Great West, which has a strong credit rating.

A key provision of the GIA is that it offers a two-way market-value adjustment. Based on the market value calculation provided by Empower on September 7, 2021, an additional 15% of assets would be available to participants if the Committee chose to terminate the fund. The market value has increased substantially over the last few years, because of the declining interest rate environment. The market value would likely dissipate over the coming years if interest rates were to increase. The 15% excess could be amortized into future crediting rate of the Fixed Account, given as a one-time return to participants invested in the fund, or be split between the two.

BFSG reviewed an analysis of expected crediting rates for both products over life of the contract and discussed the changes to the market and environment that could impact the favorability of one decision over the other. After thorough review and discussion, the Committee unanimously agreed to terminate the GIA and utilize the Fixed Account, pending the Governing Board's approval to keep Empower as the recordkeeper.

The Committee also unanimously agreed to amortize \$4.5 million of the gains into the crediting rate of the Fixed Account over the next four years. This amount was chosen as it would likely keep the crediting rate of the Fixed Account above 2.5% for each of the five years, provided interest rates do not decline further. The remainder will be allocated to participants pro rata, based on their investment in the GIA as of market close on September 23, 2021.

Unfortunately, the Fixed Account cannot be added until the Plan converts to the Empower platform in mid-January 2022. During that time, rising interest rates could cause a reduction in the market value. The Committee asked Empower to provide an update on the market value of the GIA at a special meeting in a few weeks as well as options for potentially reducing the interest rate risk over the next four months.

### **SETTLOR AGENDA**

**Employee Education Meetings Update:** BFSG provided an update on employee education meetings conducted for the District's Plan participants. During the second quarter of 2021, BFSG conducted a webinar, Estate and Legacy Planning. Over 90 Plan participants attended the webinar. BFSG's CFP, Mr. Johnson, had 7 one-on-one consultations and delivered 3 financial plans during the quarter. The year-to-date activity was also reviewed by the Committee.

**Quarterly Review 457 and 401(a) Plans:** Mr. Gleason presented a Plan Review report for the quarter ending June 30, 2021. The District's Plans are scheduled to transition to the Empower's recordkeeping platform in January 2022. The transition is expected to be completed over a weekend with no blackout period. Other areas discussed included Plan assets, demographics, cash flow, asset allocation, and loan utilization.

The Committee received and filed the 401(a) Plan Review for the reporting quarter.

**Expense Budget Account Quarterly Activity Review:** The Committee reviewed the accounting activity report for the Plan Expense Budget account. As of July 8, 2021, the balance in the account was \$5,393.

### **OTHER MATTERS:**

**Public Comments** – There were no public comments.

**Other Business** – There was no other business.

**Adjournment** - The meeting adjourned at 5:15 p.m.

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

October 15, 2021

**Members Present:** John Olvera, Deputy Executive Officer / Admin and Human Resources  
Sujata Jain, Chief Financial Officer  
Bayron Gilchrist, General Counsel  
Raquel Arciniega - Human Resources Manager

**Committee Consultants:** Darren Stewart, Benefit Financial Services Group (“BFSG”)  
Aksana Munoz, BFSG  
Robert Gleason, Empower

**Call to Order:** The special meeting of the Deferred Compensation Plan Committee (the “Committee”) was called to order by Mr. Olvera on October 15, 2021, at 2:30 pm. The purpose of the meeting was to discuss items listed on the agenda. The meeting was conducted via a Zoom web conference.

**Action Item**

**1. Fixed Account Review**

The Committee revisited the discussion held at the September meeting regarding the Guaranteed Interest Account (“GIA”) and the Fixed Account. Mr. Gleason noted Empower can administer the conversion of the GIA to the Fixed Account in two ways. Each of the proposed methods involves liquidating the GIA at market value and was discussed in detail. The most recent market value calculation is 116% of book value.

Under the first method, assets in the GIA would map directly into the Fixed Account on or about February 18, 2022. This method allows for the amortization of part of the gains into the crediting rate of the Fixed Account for the term of the contract with Empower but includes a lengthy period of uncertainty during which the market value could fluctuate. Empower would reduce its revenue requirement from 0.04% to 0.02% in November, instead of January as detailed in the Request for Proposal. Empower would also continue to credit an annualized rate of 2.5% to participants invested in the GIA until the mapping to the Fixed Account.

Under the second method, the GIA would be liquidated on or about November 19, 2021, and mapped into a money market fund as a holding place until the Great West Fixed Account could be added on or about February 18<sup>th</sup>. This method shortens the time for market value fluctuation but requires that all gains be credited to participants pro rata based on



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

assets invested in the GIA as of close of business on September 23, 2021. During the period invested in the money market, the crediting rate would likely be zero.

After discussion, the Committee unanimously agreed to adopt the first method and map the GIA to the Fixed Account on or about February 18, 2022. The Committee will continue to monitor the market value of the GIA and asked Empower to provide an updated percentage to the Committee at its meeting on November 16, 2021. The Committee also asked Empower to inquire as to the last possible date the Committee could change its decision on liquidating the GIA.

**Other Matters**

- 2. Public Comments** – There were no public comments.

**Adjournment**

With no further items to address, Mr. Olvera adjourned the meeting at 3:20 pm.



**South Coast  
Air Quality Management District**

21865 Copley Drive, Diamond Bar, CA 91765  
(909) 396-2000, [www.aqmd.gov](http://www.aqmd.gov)

MEETING DATE: December 14, 2021

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on December 14, 2021, at 10:30 am. The meeting was conducted via a Zoom web conference. The following is a summary of that meeting.

RECOMMENDED ACTION:  
Receive and file.

A. John Olvera, Chair  
Deferred Compensation Plan

AJO:RH:tc

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### **Committee Members Present**

John Olvera – Deputy Executive Officer / Admin and Human Resources  
Bayron Gilchrist – General Counsel  
Sujata Jain - Chief Financial Officer  
Raquel Arciniega - Human Resources Manager

### **Committee Members Absent**

None

### **Guests**

Darren Stewart, Benefit Financial Services Group (“BFSG”)  
Aksana Munoz, BFSG  
Dario Gomez, Empower Retirement (“Empower”)  
Robert Gleason, Empower

### **Call to Order**

Chair Olvera called the meeting to order at 10:30 am.

**Approval of Prior Meeting Minutes:** The Committee unanimously approved the minutes of the meetings held on September 23, 2021, and October 15, 2021.

## **FIDUCIARY AGENDA**

**457 and 401(a) Plans Quarterly Investment Review – 3<sup>rd</sup> Quarter 2021:** The Committee received and unanimously approved the Retirement Plan Quarterly Investment Review (the “Report”) for the 457 Deferred Compensation Plan and the 401(a) Defined Contribution Plan (collectively the “Plans”) for the quarter ending September 30, 2021.

To provide context to the performance of the investment options in the Plan, BFSG provided an overview of the economy and capital markets during the reporting period. The presentation was followed by a quantitative and qualitative review of the funds offered in the Plans, in accordance with the Evaluation Methodology criteria set forth in the Plans’ Investment Policy Statement (the “IPS”).

Metropolitan West Total Return Bond – It was noted the firm’s chief investment officer (“CIO”) is retiring at the end of the year. Two managers of the fund will then serve as co-CIO and will remain on the fund. A strong and well experienced analyst team will continue to support the fund. As such, this change is not concerning at this time.

MFS International New Discovery is currently on the Watch List. Short-term underperformance was largely due to the fund’s defensive nature as illustrated by its

up-capture ratio ranking of 100 (“underperform”). The fund is positioned to perform well in declined markets based on its strong down capture ratio of 22 (“outperform”). During the quarter, an overweight to emerging markets and poor stock selection in real estate weighed on fund performance. One of the fund managers retired earlier this year and another is expected to retire in April 2023. The fund will continue to be managed by the experienced team of comanagers. Due to management changes, BFSG recommended keeping the fund on the Watch List. The Committee unanimously agreed.

Hartford Healthcare Fund is currently on the Watch List due to management changes. One of fund comanagers is retiring in 2022. Another gave up her comanager position on this strategy in June 2021 in order to become the CEO of the subadvisor Wellington Management Company. Due management changes, BFSG recommended keeping the fund on the Watch List. The Committee unanimously agreed.

The Committee reviewed point-in-time Plan-level performance noting the Plan demonstrated better risk-adjusted returns than the active benchmark, as measured by 3-year Sharpe ratio, and had a lower expense ratio than the active peer group.

The Committee reviewed fees paid to Empower for recordkeeping and administration of the District’s Plans. As of November 1, 2021, the required revenue to Empower was reduced to 2 basis points on each Plan. This places Empower’s fees within a lower band of the market segment based on a Request for Proposal conducted in 2021.

**Investment Policy Statement Update:** To assist the Committee with its ongoing diligence, BFSG proposed updates to the Investment Policy Statement (the “IPS”) for the Plans. The noteworthy updates included proxy voting, Watch List-related procedures, and splitting the foreign large equity category into growth, value, and blend. BFSG reviewed and discussed each section of the IPS in detail. It was noted Empower sends proxies for voting to the plan sponsor on behalf of participants. After discussion, the Committee agreed to adopt the revised IPS through these minutes.

**Target Date Models Allocation Update:** BFSG discussed updates to the Target Date Models. The updates included minor allocation changes in each asset class. The Committee unanimously approved the proposed updates to the Models.

**Share Class Review:** To assist the Committee with its ongoing due diligence, BFSG prepared and reviewed a Share Class analysis to examine the investment options in both Plans. The analysis illustrated a comparison of the current and lowest possible share class of each fund in the Plans. No changes were proposed at this time. The Committee agreed to revisit this topic in 2022 once the decision regarding the GIA is finalized.



**Committee's Meeting Schedule 2022:** The Committee unanimously approved the meeting calendar for 2022. The meetings dates are February 8, June 9, September 14, and December 7.

**Fixed Account Review:** Empower noted the most recent market value calculation is 113% of book value. The Committee revisited its decision to move assets from the Guaranteed Interest Account ("GIA") to the Fixed Account. As noted at the prior meetings, the Fixed Account cannot be added until the Plans convert to the Empower platform. Mr. Gleason noted the migration to the Empower platform has been pushed from January 2022 to February 2022, pushing the effective date of moving assets to the Fixed Account after the platform migration date.

After discussion, the Committee unanimously agreed to schedule a special meeting once Empower has more information on the platform migration time frame.

## **SETTLOR AGENDA**

**Employee Education Meetings Update:** BFSG provided an update on employee education meetings conducted for the District's Plan participants. In early December, BFSG conducted a webinar, Social Security. Approximately 70 Plan participants attended the webinar. The year-to-date activity with BFSG's CFP included 34 one-on-one consultations and 11 financial plan deliveries. During the year, BFSG conducted 3 workshops which had over 200 attendees.

**Quarterly Review 457 and 401(a) Plans:** Mr. Gleason presented the 457(b) Plan Review report for the quarter ending September 30, 2021. Areas reviewed included Plan assets, demographics, cash flow, asset allocation, and loan utilization.

The Committee received and filed the 401(a) Plan Review for the reporting quarter.

**Expense Budget Account Quarterly Activity Review:** The Committee reviewed the accounting activity report for the Plan Expense Budget account. As of October 11, 2021, the balance in the account was \$7,569. MassMutual will reallocate any unused balance in the EBA back to participants automatically at the end of the year.

## **OTHER MATTERS:**

**Public Comments** – There were no public comments.

**Other Business** – There was no other business.

**Adjournment** - The meeting adjourned at 11:55 a.m.



**South Coast  
Air Quality Management District**

21865 Copley Drive, Diamond Bar, CA 91765  
(909) 396-2000, [www.aqmd.gov](http://www.aqmd.gov)

MEETING DATE: February 1, 2022

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on February 1, 2022, at 3:30 pm. The meeting was conducted via a Zoom web conference. The following is a summary of that meeting.

RECOMMENDED ACTION:  
Receive and file.

A. John Olvera, Chair  
Deferred Compensation Plan

AJO:RH:tc

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### **Committee Members Present**

John Olvera – Deputy Executive Officer / Admin and Human Resources  
Bayron Gilchrist – General Counsel  
Sujata Jain - Chief Financial Officer  
Raquel Arciniega - Human Resources Manager

### **Committee Members Absent**

None

### **Guests**

Darren Stewart, Benefit Financial Services Group (“BFSG”)  
Aksana Munoz, BFSG  
Dario Gomez, Empower Retirement (“Empower”)  
Robert Gleason, Empower  
Armando Llanes, Empower  
Paul Wright, Empower

### **Call to Order**

Chair Olvera called the meeting to order at 3:30 pm.

**Approval of Prior Meeting Minutes:** The Committee unanimously approved the minutes of the meeting held on December 14, 2021.

## **FIDUCIARY AGENDA**

**457 and 401(a) Plans Quarterly Investment Review – 4<sup>th</sup> Quarter 2021:** The Committee received and unanimously approved the Retirement Plan Quarterly Investment Review (the “Report”) for the 457 Deferred Compensation Plan and the 401(a) Defined Contribution Plan (collectively the “Plans”) for the quarter ending December 31, 2021.

To provide context to the performance of the investment options in the Plan, BFSG provided an overview of the economy and capital markets during the reporting period. The presentation was followed by a quantitative and qualitative review of the funds offered in the Plans, in accordance with the Evaluation Methodology criteria set forth in the Plans’ Investment Policy Statement (the “IPS”).

Changes to the Plan’s Target Date Models were completed by Empower in December 2021.

American Funds Fundamental Investors: The management team has experienced moderate turnover over the last few years. The fund underperformed its peers and benchmark during the quarter and underperformed both over all periods measured in

the Report except for its peers on a ten-year basis. During the third quarter of 2021, an out-of-benchmark position in mining stocks detracted from relative performance. During the fourth quarter of 2021, an out-of-benchmark position in gambling stocks detracted from relative performance, as did a significant overweight to tobacco, and underweight to automobile manufacturers. A significant position in foreign equity continues to detract from relative performance. Due to underperformance and manager turnover, BFSG recommended placing the fund on the Watch List. The Committee unanimously approved placing the fund on the Watch List.

**T. Rowe Price Blue Chip Growth** - In September 2021, Paul Greene officially took over for long-term manager Larry Puglia. Paul had worked with the fund as an analyst for more than a decade and gradually took on management responsibilities beginning in January 2020. BFSG held a conference call with fund management to discuss the transition as well as recent underperformance on February 1, 2022. Greene's portfolio shifts are nearly complete as he has reduced the number of holdings by approximately one-third, mostly by selling off the small positions that had little impact on performance. The portfolio remains diverse with approximately ninety stock positions. Greene utilized most of those proceeds to purchase stocks with higher growth potential than have historically been held in the portfolio. Among others, this included initiating positions in Tesla and Rivian leading the fund to have a higher P/E ratio than its peers and index. During the quarter management held an underweight to Tesla, which detracted from performance relative to its peers and index. The most noticeable disparity in performance for the quarter was between the peers and the index, caused by the concentration of Microsoft and Apple in the index (more than 20% of the holdings). Despite recent underperformance, the fund is easily outperforming its peers on a five- and ten-year basis and the Evaluation Methodology score remains an outperform at 18. The Committee unanimously agreed to continue monitoring the changes to the portfolio.

**MFS International New Discovery** underperformed its both benchmarks during the quarter, largely due to its conservative investment style. Lead manager retired in early-2021 and another long-term manager is planning to retire in 2023. The fund will continue to be managed by the experienced team of comanagers. Due to management changes, BFSG recommended keeping the fund on the Watch List. The Committee agreed.

**Hartford Healthcare Fund** underperformed category peers and the index benchmark during the quarter. Recent underperformance was largely due to an overweight to biotech stocks. One of fund managers is planning to retire this year. The Committee unanimously agreed to keep the fund on Watch to monitor performance and management changes.

The Committee reviewed point-in-time Plan-level performance noting the Plan demonstrated better risk-adjusted returns than the active benchmark, as measured by 3-year Sharpe ratio, and had a lower expense ratio than the active peer group.

The Committee reviewed fees paid to Empower for recordkeeping and administration of the District's Plans. As of November 1, 2021, the required revenue to Empower was reduced to 2 basis points on each Plan. This places Empower's fees within a lower band of the market segment based on a Request for Proposal conducted in 2021.

The Plan operates under a level fee arrangement where fund revenue sharing payments are credited directly to the participants invested in the fund. The Committee reviewed the share classes used in the Plan and noted that after adjusting for credited revenue sharing, using the optimal share class for each fund provided annualized savings of approximately \$32,000.

**Transition to Fixed Account:** On January 18, 2022, SCAQMD executed the investment change authorization and signed the group annuity contracts and funding agreement relative to the upcoming Fixed Account change for all Plans. The MassMutual GIA will be replaced with the Great West Fixed Investment Account - Series IV. The last updated MassMutual GIA MVA was 114.573% as of January 31, 2022. The investment change is scheduled for February 24, 2022, and a participant communication was sent by Empower on January 24, 2022. Following this update, the Committee reaffirmed their decision to make this investment change.

**Fiduciary Education – Cybersecurity:** In April 2021, the U.S. Department of Labor (the "DOL") issued new Cybersecurity guidance for plan sponsors, providers, and participants. Although ERISA does not apply to governmental plans, best practice is to attempt to follow the guidelines and regulations established for private plans. The guidance establishes a baseline for a fiduciary breach should a claim arise. BFSG issued a cybersecurity questionnaire to Empower for the Committee's fiduciary file and stored that information on the BFSG e-library. SCAQMD can share that information with their internal IT specialists for a detailed review and evaluation.

After discussion, the Committee agreed to invite a cybersecurity specialist from Empower to the next regularly scheduled meeting to discuss the recordkeeper's cybersecurity protocols.

## **SETTLOR AGENDA**

**Special Catch-up Provision:** The Committee discussed a potential change in the interpretation of how to apply the special catch-up provision. This provision is already utilized by the District. Mr. Wright noted Empower's interpretation of this provision is slightly more flexible than MassMutual and Hartford. As Empower's interpretation



is more favorable for participants, the Committee unanimously approved the change to begin administering this provision in accordance with Empower's viewpoint. This change does not require a Plan amendment.

**Quarterly Review 457 and 401(a) Plans:** Mr. Gleason presented the 457(b) Plan Review report for the quarter ending December 31, 2021. Areas reviewed included Plan assets, demographics, cash flow, asset allocation, and loan utilization.

The Committee received and filed the 401(a) Plan Review for the reporting quarter.

**Expense Budget Account Quarterly Activity Review:** The Committee reviewed the accounting activity report for the Plan Expense Budget account. As of January 6, 2022, the ending balance in the account was \$2,491.63.

**Participant Communications:** The Committee discussed participant communication efforts for the 2022 year. Mr. Llanes provided an overview of Empower's targeted, goal-specific, and event-based campaigns which are designed to engage employees and drive specific actions. These campaigns will be available for the District once the Plans move to the Empower's platform this quarter.

#### **OTHER MATTERS:**

**Public Comments** – There were no public comments.

**Other Business** – There was no other business.

**Adjournment** - The meeting adjourned at 5:00 p.m.



**South Coast  
Air Quality Management District**

21865 Copley Drive, Diamond Bar, CA 91765  
(909) 396-2000, [www.aqmd.gov](http://www.aqmd.gov)

MEETING DATE: June 9, 2022

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on June 9, 2022, at 2:00 pm. The meeting was conducted via a Zoom web conference. The following is a summary of that meeting.

RECOMMENDED ACTION:  
Receive and file.

A. John Olvera, Chair  
Deferred Compensation Plan

AJO:RH:tc

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### **Committee Members Present**

John Olvera – Deputy Executive Officer / Admin and Human Resources  
Sujata Jain - Chief Financial Officer  
Raquel Arciniega - Human Resources Manager

### **Committee Members Absent**

Bayron Gilchrist – General Counsel

### **Guests**

Anthony Tang, South Coast Air Quality Management District (“SCAQMD”)  
Mae Mendoza, SCAQMD  
Darren Stewart, Benefit Financial Services Group (“BFSG”)  
Antonia Lipovac, BFSG  
Dario Gomez, Empower Retirement (“Empower”)  
Robert Gleason, Empower  
Trish McGinity, Empower  
Claudia Leao, Empower

### **Call to Order**

Chair Olvera called the meeting to order at 2:06 pm.

**Approval of Prior Meeting Minutes:** The Committee unanimously approved the minutes of the meeting held on February 1, 2022.

### **FIDUCIARY AGENDA**

**457 and 401(a) Plans Quarterly Investment Review – 1<sup>st</sup> Quarter 2021:** The Committee received and unanimously approved the Retirement Plan Quarterly Investment Review (the “Report”) for the 457 Deferred Compensation Plan and the 401(a) Defined Contribution Plan (collectively the “Plans”) for the quarter ending March 31, 2022.

To provide context to the performance of the investment options in the Plans, BFSG provided an overview of the economy and capital markets during the reporting period. The presentation was followed by a quantitative and qualitative review of the funds offered in the Plans, in accordance with the Evaluation Methodology criteria set forth in the Plans’ Investment Policy Statement (the “IPS”).

American Funds Fundamental Investors – The fund underperformed relative to its peers during the first quarter. An overweight in foreign securities and poor stock selection in communication services and financials detracted from recent performance. An underweight to insurance also detracted from recent performance. Committee agreed to maintain the fund on the Watch List.

MFS International New Discovery – The fund significantly outperformed its Foreign Small/Mid Growth category peers during the first quarter. The strategy’s bias to downside protection had been a headwind as markets made new highs over the last two years. However, the fund outperformed its peers by 6% in the volatile first quarter and has outperformed by another 4% since the end of the quarter. Contributing to more recent performance has been an underweight to technology and biotechnology stocks, along with strong stock selection in the portfolio’s healthcare sleeve. The Committee agreed to maintain the fund on the Watch List and BFSG will bring a fund search to the next meeting to review potential alternatives, as the fund will have been on the Watch List for one year.

Hartford Healthcare Fund – The fund is currently on the Watch List due to a recent manager change. During the first quarter, the fund performed in line with its peers but underperformed relative to its index. The index is market-cap weighted and therefore consists largely of large cap pharmaceutical companies that have performed well during the market downturn. The fund and its peer group have more small and mid cap exposure as well as larger weightings in medical devices and biotechnology. The fund current ranks a 42 (“perform”) per the Evaluation Methodology and it was noted the fund’s expense ratio of 0.88 remained below its category benchmark of 0.94. There were 2 new co-managers added to the fund in March 2022 and the Committee agreed to maintain the fund on the Watch List.

The Committee reviewed point-in-time Plan-level performance noting the Plan demonstrated better risk-adjusted returns than the active benchmark, as measured by 3-year Sharpe ratio, and had a lower expense ratio than the active peer group.

The Committee reviewed fees paid to Empower for recordkeeping and administration of the District’s Plans.

The Plan operates under a level fee arrangement where fund revenue sharing payments are credited directly to the participants invested in the fund. The Committee reviewed the share classes used in the Plan and noted that after adjusting for credited revenue sharing, using the optimal share class for each fund provided annualized savings of approximately \$32,500.

**Cybersecurity:** Ms. McGinity from Empower’s Cybersecurity team hosted an educational presentation covering Empower’s cybersecurity protocols. Ms. McGinity also reviewed the Department of Labor cybersecurity guidance issued in April 2021. Other items covered included cybersecurity best practices, online security tips, guidance for plan sponsors, data protection, security testing, and Empower’s security guarantee.

**Fiduciary Education – Cryptocurrency:** On March 10, 2022 the U.S. Department of Labor (“DOL”) released guidance to plan sponsors regarding the risks of

cryptocurrency investments and their place in retirement plans. BFSG reviewed the guidance with the Committee. Empower has confirmed they have no way to broadly exclude cryptocurrency and related products from the brokerage window due to the subjectivity of the DOL's language, and further clarification from the DOL is needed before such an exclusion could be made possible. With respect to monitoring individual investments inside the brokerage window, the Committee will continue to rely on historical DOL direction and federal court decisions and will look for further guidance from the DOL on this issue in the future.

### **SETTLOR AGENDA**

**BFSG Contract Renewal:** The Committee noted the contract with BFSG will be extended for another year beginning July 1, 2022.

**Quarterly Review 457 and 401(a) Plans:** Mr. Gleason presented the 457(b) Plan Review report for the quarter ending March 31, 2022. Areas reviewed included Plan assets, demographics, cash flow, asset allocation, and loan utilization.

The Committee received and filed the 401(a) Plan Review for the reporting quarter.

**Expense Budget Account Quarterly Activity Review:** The Committee reviewed the accounting activity report for the Plan Expense Budget account. As of March 31, 2022, the ending balance in the account was \$2,491.46.

### **OTHER MATTERS:**

**Public Comments** – There were no public comments.

**Other Business** – There was no other business.

**Adjournment** - The meeting adjourned at 3:33 p.m.