

BOARD MEETING DATE: February 7, 2020

AGENDA NO. 14

**PROPOSAL:** Receive and File Annual Report on 457 Deferred Compensation Plan

**SYNOPSIS:** South Coast AQMD 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 receive and file the Annual Report.

**COMMITTEE:** Administrative, December 13, 2019 and January 17, 2020;  
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 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. At the January 17, 2020 Administrative Committee meeting, staff provided a summary of the history and performance of the firms that have provided services for South Coast AQMD.

State law governs the fiduciary requirements for the operation and investment of 457 plans sponsored by governmental entities. South Coast AQMD Governing Board (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 South Coast AQMD's 457 Plan, also established a Deferred Compensation Plan Committee ("Committee") to oversee the administration of the Plan. On May 2, 2008, the Board approved the Deferred Compensation Plan Committee Charter, formalizing the fiduciary duties and responsibilities of the Committee. The four members of the Deferred Compensation Plan Committee are the Chief Financial Officer, the Deputy Executive Officer/Administrative and Human Resources, the Human Resources Manager for employee benefits, and the General Counsel.

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 Plan as a fiduciary under a Registered Investment Advisor agreement.

### **Summary of Report**

The Committee meets on a quarterly basis to review the Plan's design, investment options, asset allocation, and demographics, and to make changes as necessary. During the 2018-19 fiscal year period, the Committee placed one fund on the Watch List due to relative underperformance and removed another fund from the Watch List due to improved performance, replaced several target date fund models, added a new index fund category, replaced three specialty funds with an index fund for each respective sector, and replaced one small cap fund.

In addition, the Committee voted to adopt revisions to the Investment Policy Statement, and to extend the current contract with BFSG for one additional year.

As of June 30, 2019, the Plan has:

- 985 participants (employees and retirees);
- Approximately \$185 million in assets; and
- Outperformed the 3-, 5- and 10-year performance benchmarks.

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

### **Proposal**

Staff recommends the Board receive and file the 457 Deferred Compensation Plan Annual Report to the Board for FY 2018-19.

### **Attachment**

457 Deferred Compensation Plan Annual Report for FY 2018-19



# **ANNUAL REPORT TO THE BOARD**

**REPORT PERIOD: JULY 2018 -  
JUNE 2019**

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

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# SECTION I

## EXECUTIVE SUMMARY

# Executive Summary

South Coast Air Quality Management District ("South Coast AQMD") maintains a governmental 457(b) Deferred Compensation Plan and 401(a) Defined Contribution Plan (collectively, the "Plan") for the benefit of eligible employees. South Coast AQMD's Deferred Compensation Plan was adopted on January 1, 1987. South Coast AQMD's 401(a) Plan was adopted on January 1, 2017.

South Coast AQMD's Deferred Compensation Plan Committee ("Committee"), officially chartered in May 2008, and whose members are appointed by South Coast AQMD's Governing Board, meets on a regular basis to review the Plan's design, investment options, asset allocation/demographics, and to make changes as necessary. Current membership includes the Chief Financial Officer of Finance, General Counsel, the Deputy Executive Officer of Administrative 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 more than 3,300 governmental plans, with over \$21 billion in total assets, as of December 31<sup>st</sup>, 2018. MassMutual has been administering 457 plans since 1979 and has an S&P credit rating of AA+ (as of May 28, 2019).

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 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

# 2018/2019 Year in Review

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

## Plan Updates

Meeting Date	Item	Update
December 12, 2018	Investment Policy Statement ("IPS")	The Committee unanimously agreed to adopt proposed revisions to the IPS.
March 29, 2019	BFSG Consulting Agreement	The Committee unanimously agreed to extend the current contract with BFSG for deferred compensation consulting services for one more year.
June 4, 2019	Plan Expense Reimbursement Account ("PERA") Review	The Committee unanimously agreed to continue using the balance in the PERA to pay outstanding qualified Plan-related expenses until the account is depleted.



# 2018/2019 Year in Review

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

## Investment Menu

Meeting Date	Item	Update
September 12, 2018	Watch List	The Committee unanimously agreed to remove MFS International New Discovery from the watch list due to improved performance.
	Fund Change	The Committee unanimously agreed to add Vanguard Emerging Markets Stock Index to the Plan. This change was effective December 3, 2018.
	Custom Target Date Models	The Committee unanimously agreed to adopt new custom target date models to replace the current asset allocation models that could not be replicated on the new MassMutual platform. BFSG were appointed as the 3(38) Investment Manager for the new custom target date models.
March 29, 2019	Watch List	The Committee unanimously agreed to add Vanguard Selected Value to the Watch List due to underperformance relative to peers.
	Fund Changes	The Committee unanimously agreed to replace MFS Utilities with Vanguard Utilities Index, and to replace Neuberger Berman Sustainable Equities with Vanguard FTSE Social Index. The Committee unanimously agreed, with Mr. Richards abstaining, to replace Invesco Real Estate with Vanguard Real Estate Index. These changes were effective June 17, 2019.
	Share Class Change	The Committee unanimously agreed to replace American Beacon Small Cap Value Inst with American Beacon Small Cap Value R6. This change was effective June 17, 2019.

# SECTION III

PLAN ASSETS /  
DEMOGRAPHICS

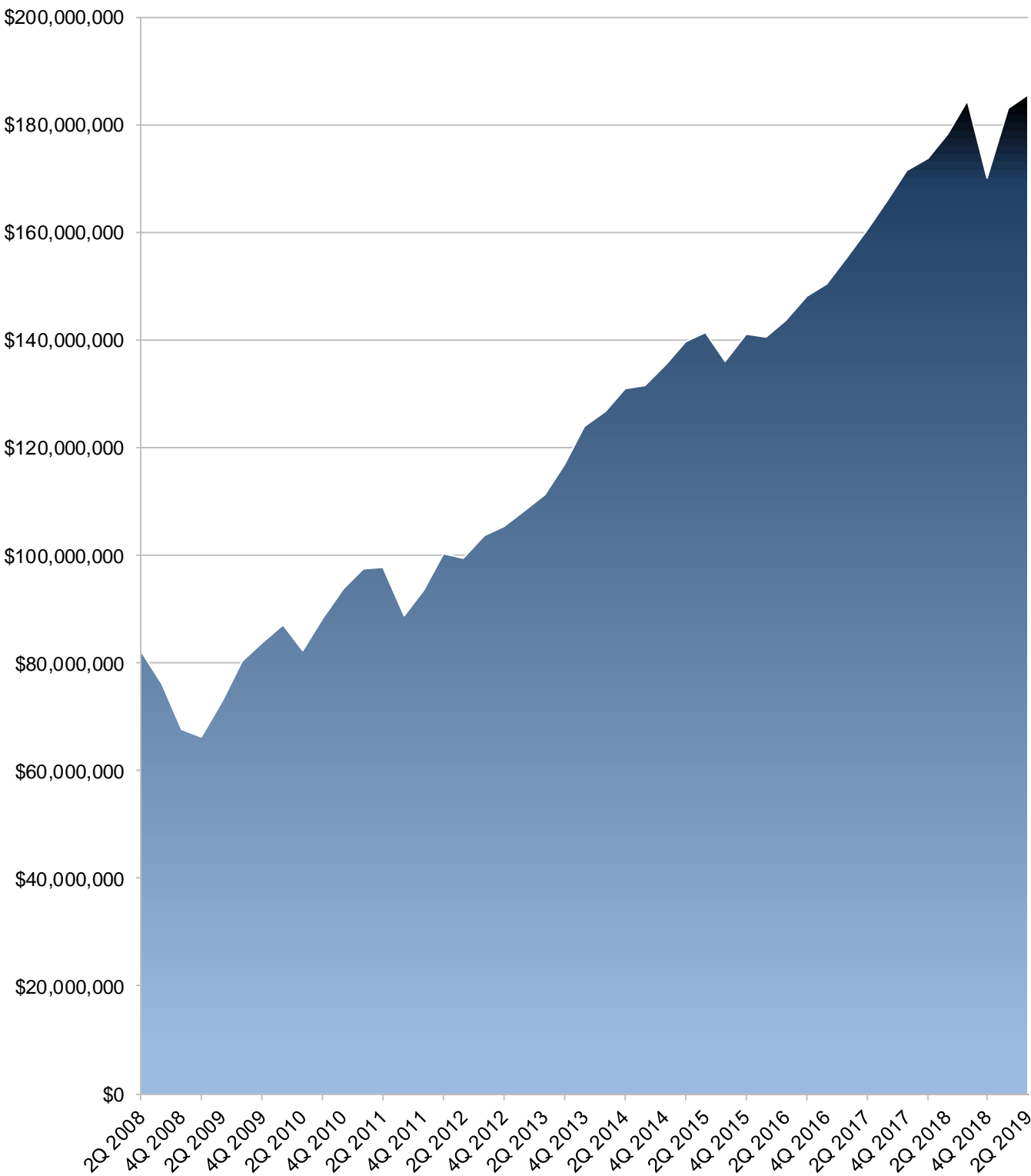
## Plan Assets (Combined) / Demographics as of June 30, 2019

Investment Option	% of Plan Assets	Participants	Plan Assets
Guaranteed Interest Account	46.29%	653	\$85,625,036
T. Rowe Price Blue Chip Growth I	11.94%	460	\$22,076,079
American Funds Fundamental Invs R6	7.35%	232	\$13,595,832
Hartford MidCap Y	4.64%	369	\$8,587,535
Vanguard Institutional Index I	4.36%	217	\$8,068,127
Hartford Dividend and Growth R5	3.72%	364	\$6,886,988
Hartford International Opportunities R5	2.54%	388	\$4,690,055
Invesco Equity and Income A	2.23%	121	\$4,124,580
Hartford Healthcare R5	2.10%	99	\$3,889,216
Goldman Sachs Small Cap Gr Insights Inv	1.98%	322	\$3,670,851
Metropolitan West Total Return Bd I	1.87%	241	\$3,457,456
T. Rowe Price Retirement 2045	1.66%	88	\$3,077,106
Vanguard Selected Value Inv	1.32%	293	\$2,441,199
T. Rowe Price Retirement 2035	1.21%	34	\$2,233,007
American Beacon Small Cap Value R6	1.04%	291	\$1,927,960
Vanguard Total Bond Market Index Adm	0.96%	163	\$1,780,827
Vanguard Mid Cap Index Admiral	0.93%	135	\$1,714,052
MFS International New Discovery A	0.90%	116	\$1,658,478
Vanguard Small Cap Index Adm	0.71%	124	\$1,309,462
Vanguard Utilities Index Adm	0.67%	81	\$1,246,019
Vanguard Developed Markets Index Admiral	0.38%	83	\$695,563
Vanguard Real Estate Index Admiral	0.32%	54	\$591,688
Vanguard FTSE Social Index Admiral	0.22%	44	\$405,894
T. Rowe Price Retirement 2025	0.14%	17	\$249,745
Vanguard Small Cap Value Index Admiral	0.10%	124	\$183,635
T. Rowe Price Retirement 2050	0.10%	16	\$182,156
DFA US Large Cap Value I	0.09%	43	\$166,336
T. Rowe Price Retirement 2040	0.06%	5	\$111,127
T. Rowe Price Retirement 2055	0.05%	5	\$89,196
T. Rowe Price Retirement 2030	0.04%	2	\$72,328
T. Rowe Price Retirement 2060	0.04%	11	\$70,536
T. Rowe Price Retirement 2020	0.02%	5	\$31,050
Vanguard Emerging Mkts Stock Idx Adm	0.02%	3	\$28,785
T. Rowe Price Retirement 2015	0.01%	3	\$14,338
T. Rowe Price Retirement 2010	0.00%	1	\$3,896
<b>Total</b>	<b>100.00%</b>	<b>985</b>	<b>\$184,956,139</b>

*Note: Total excludes Self-Directed Brokerage Account and loan balances*

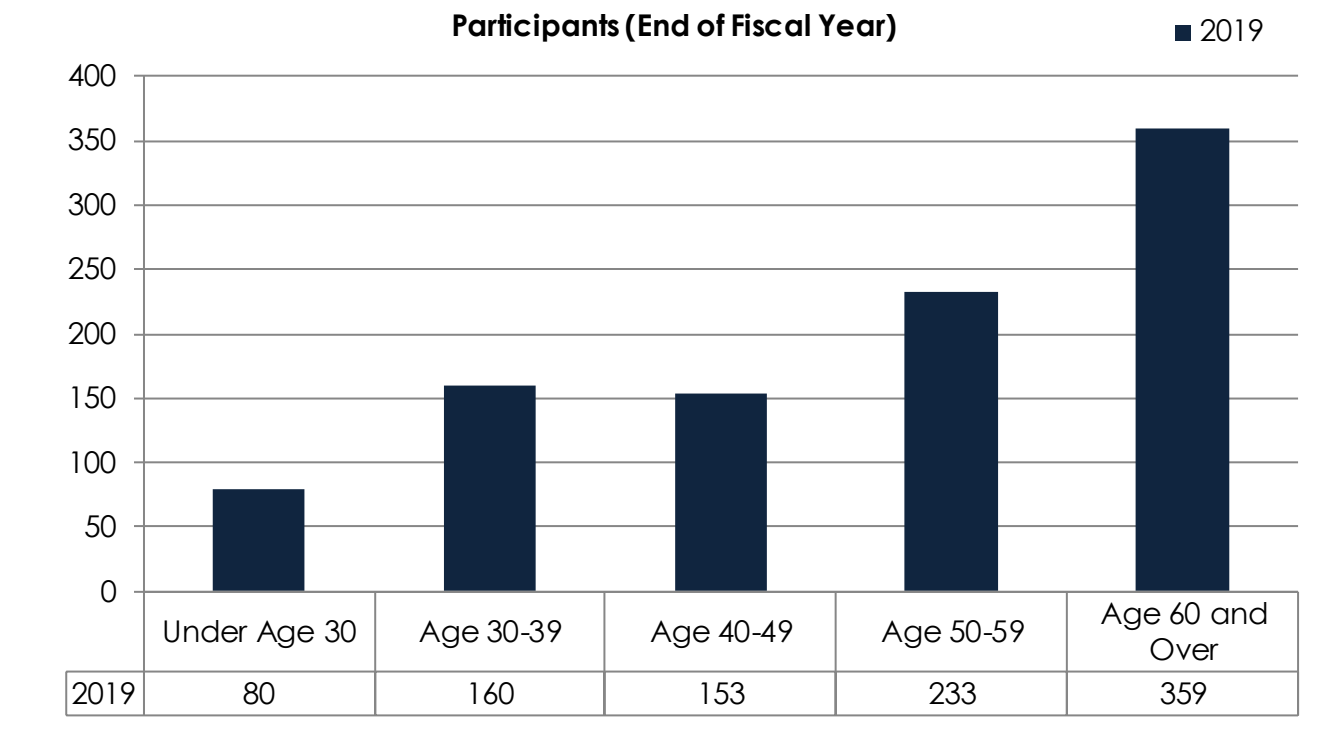
# Plan Assets / Demographics

Growth of Plan Assets

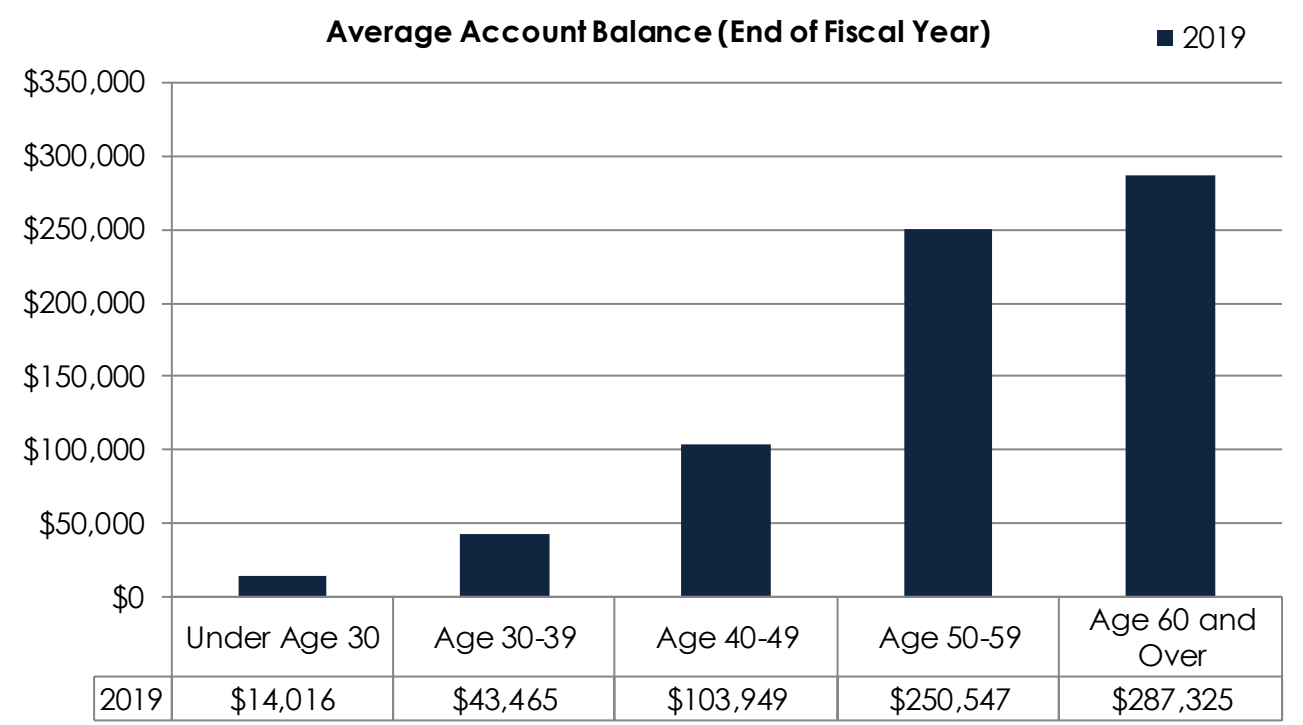


# Plan Assets / Demographics

## Plan Participants by Age



## Average Account Balance by Age



# Plan Assets / Demographics

## Annual Net Cash Flow –YTD 2019

QUARTER ENDING	2019				YTD
	March 31st	June 30th	September 30th	December 31st	Jan 1st - Dec 31st
<b>Cash Flow</b>					
Beginning Market Value	\$170,072,234	\$183,074,206			\$170,072,234
Contributions	\$2,160,412	\$2,315,617			\$4,476,029
Withdrawals	-\$1,709,724	-\$3,995,084			-\$5,704,808
Net Loan Activity	\$95,537	-\$45,584			\$49,953
Fees	-\$35,728	-\$37,988			-\$73,716
<b>NET CASH FLOW</b>	<b>\$510,497</b>	<b>-\$1,763,039</b>			<b>-\$1,252,542</b>
Change in Value	\$12,191,791	\$4,229,828			\$16,421,619
Other Activity	\$299,684	\$35,665			\$335,349
Ending Market Value	\$183,074,206	\$185,576,660			\$185,576,660

## Annual Net Cash Flow - 2018

QUARTER ENDING	2018				YTD
	March 31st	June 30th	September 30th	December 31st	Jan 1st - Dec 31st
<b>Cash Flow</b>					
Beginning Market Value			\$0	\$184,563,415	\$0
Contributions			\$1,018,884	\$1,814,111	\$2,832,996
Withdrawals			-\$681,356	-\$3,779,985	-\$4,461,341
Net Loan Activity			-\$1,412,461	\$62,778	-\$1,349,683
Fees			-\$25,031	-\$36,840	-\$61,871
<b>NET CASH FLOW</b>			<b>-\$1,099,963</b>	<b>-\$1,939,936</b>	<b>-\$3,039,899</b>
Change in Value			\$2,089,423	-\$12,551,245	-\$10,461,822
Net Transfers			\$183,573,954	\$0	\$183,573,954
Ending Market Value			\$184,563,415	\$170,072,234	\$170,072,234

*Note: Assets transferred to MassMutual's "REFLEX" platform in July 2018.*

# SECTION IV

## PLAN PERFORMANCE

## Weighted Portfolio Return versus Custom Benchmark

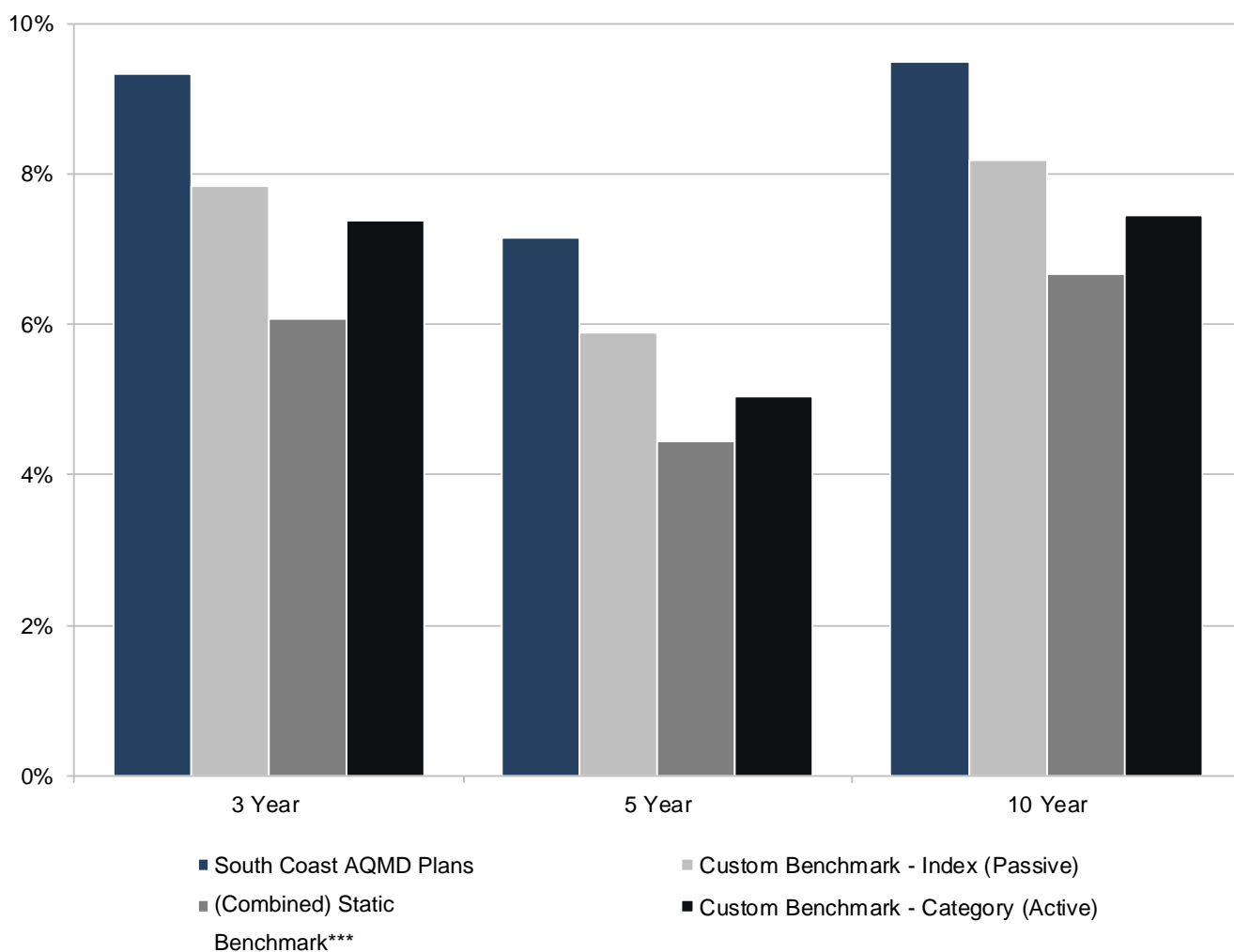
Performance as of June 30, 2019	3 Month	1 Year	Annualized Returns			3 YR	3 YR	Expense	Net
			3 Year	5 Year	10 Year	Std Dev	Sharpe	Ratio*	Expense**
<b>South Coast AQMD Plans (Combined)</b>	<b>2.34%</b>	<b>5.92%</b>	<b>9.34%</b>	<b>7.15%</b>	<b>9.49%</b>	<b>6.22</b>	<b>1.23</b>	<b>0.63</b>	<b>0.66</b>
Custom Benchmark - Index (Passive)	2.42%	5.99%	7.83%	5.88%	8.18%	6.07	1.03	N/A	N/A
Static Benchmark***	3.37%	7.18%	6.08%	4.45%	6.67%	4.93	0.93	N/A	N/A
Custom Benchmark - Category (Active)	2.30%	4.85%	7.38%	5.04%	7.44%	6.11	0.96	0.81	N/A

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

\*\*Net Expense equals the Plan's weighted expense ratio plus 8 Bps levelized fee, minus revenue sharing reimbursement.

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

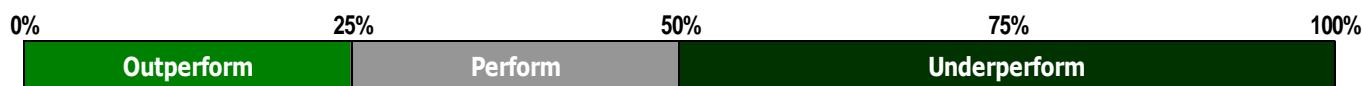
## Annualized Returns





## Individual Fund Ranking (Per Investment Policy Statement Evaluation Criteria)

Investment Name	Quarterly Ranking			
	2Q19	1Q19	4Q18	3Q18
<b>Intermediate Core-Plus Bond</b> Metropolitan West Total Return Bd I	18	15	15	16
<b>Allocation--50-70% Equity</b> Invesco Equity and Income A	56	55	59	48
<b>Large Value</b> DFA US Large Cap Value I	6	4	4	3
Hartford Dividend and Growth R5	3	4	4	6
<b>Large Blend</b> American Funds Fundamental Invs R6	13	7	4	8
<b>Large Growth</b> T. Rowe Price Blue Chip Growth I	0	0	1	0
<b>Mid Value</b> Vanguard Selected Value Inv	34	42	43	31
<b>Mid Growth</b> Hartford MidCap Y	27	20	17	12
<b>Small Value</b> American Beacon Small Cap Value R6	12	13	12	8
<b>Small Growth</b> Goldman Sachs Small Cap Gr Insights Inv	48	41	34	28
<b>Foreign Large Equity</b> Hartford International Opportunities R5	34	33	43	30
<b>Foreign Small/Mid Equity</b> MFS International New Discovery A	28	28	29	42
<b>Healthcare</b> Hartford Healthcare R5	51	51	50	39
<b>Target Date Series</b> T. Rowe Price Retirement Series	12	13	16	17
<b>Average Rank</b>	24	28	28	26
<b>Plan Weighted Rank (Reweighted)</b>	18	17	17	15



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](http://www.aqmd.gov)

**BOARD MEETING DATE:** September 7, 2018

**REPORT:** Deferred Compensation Plan Committee

**SYNOPSIS:** The Deferred Compensation Plan Committee met on Wednesday, September 12, 2018 at 2:00pm at South Coast AQMD 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

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### **Committee Members Present**

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

Mr. Bill Richards – Human Resources Manager

Mr. Bayron Gilchrist – General Counsel

### **Committee Members Absent**

Ms. Sujata Jain - Asst. Deputy Executive Officer/Finance

### **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 2:04 pm.

### **ACTION ITEMS:**

- 1. Approval of Prior Meeting Minutes (Administrative):** The Committee members in attendance reviewed and unanimously approved the minutes of the June 6, 2018 meeting.
- 2. 457 and 401(a) Plan Quarterly Investment Review (Fiduciary) - 2<sup>nd</sup> Quarter 2018 (Fiduciary):** The Committee members in attendance reviewed and unanimously approved the Retirement Plan Quarterly Investment Review (the “Report”) for the 457 Deferred Compensation Plan (the “Plan”) for the quarter ending June 30, 2018.

Mr. Stewart provided an overview of the economy and the capital markets during the quarter to provide context to the performance of the investment options in the Plan. He further provided 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”). The following noteworthy funds were discussed in more detail.

*Neuberger Berman Socially Responsive* is currently on the Watch List due to performance-related issues and a change in fund management. The fund, which is now categorized by Morningstar as a large cap blend fund, has performed well relative to the index benchmark and category peers. During the quarter, the fund benefited from an underweight in consumer staples and strong stock selection in the financial sector. This position also helped to offset losses from its technology underweight. The Evaluation Methodology score improved in the last three quarters,

from 56 (“underperform”) to 26 (“perform”). After discussion, the Committee members in attendance unanimously agreed to keep the fund on the Watch List.

*Vanguard Selected Value* trailed the Russell Mid Cap Value Index and category peers for the quarter and one-year periods, largely due to a deep-value tilt. An overweight to the underperforming industrials and financials sectors also detracted from performance for the quarter, as did an underweight to energy. A significant underweight to the real estate sector benefited performance for the one-year period. The fund performance remains strong across 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 fund outperformed both the benchmark index and category peers for the quarter, one-, and 3-year periods. An overweight to emerging markets detracted from performance during the quarter, but strong stock selection within the sector was additive. An overweight to United Kingdom also contributed to recent performance. The fund serves as a strong downside protector as shown by its down capture ratio. As a result of its improved performance, BFSG proposed removing the fund from the Watch List. The Committee members in attendance unanimously agreed.

*MFS Utilities* is currently on the Watch List due to performance-related issues. The fund outperformed both the benchmark index and category peers for the quarter and one-year periods. Strong stock selection in energy was additive to recent performance. The fund continues to trail both benchmarks on a 3-and 5-year basis. After discussion, the Committee members in attendance unanimously agreed to keep the fund on the Watch List.

Based on participant allocations as of June 30, 2018, the Plan performed in-line with its custom active and passive benchmarks for the quarter and outperformed both benchmarks across all other measured 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 62 basis points versus the category at 90 basis points.

The Committee reviewed the revenue received by MassMutual for recordkeeping and administrative services. The annual revenue per participant was approximately \$113, based on the assets as of June 30, 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 members in attendance reviewed and unanimously approved the Retirement Plan Quarterly Investment Review (the “Report”) for the South Coast AQMD 401(a) Plan (the “Plan”) for the quarter June 30, 2018. Based on participant allocations as of June 30, 2018, the Plan performed in-line with its custom active and passive benchmarks for the quarter and outperformed both benchmarks across all other measured time periods noted in the Report. The Plan-weighted expense ratio remains competitive relative to the category average, at 70 basis points versus the category at 91 basis points.

- 3. Fund Search Analysis (Fiduciary):** BFSG prepared a Fund Search analysis of available investment options in the emerging market category for the Committee’s consideration. Each investment option was reviewed in accordance with the 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 members in attendance unanimously agreed to make the following changes in the 457 and 401(a) Plans:

- Add Vanguard Emerging Markets Stock Index as a passive option in the emerging market category.

MassMutual will facilitate these changes as soon as administratively possible.

- 4. Model Portfolios (Fiduciary):** It was noted that the current custom asset allocation models, as constructed, cannot be replicated on the new MassMutual platform. As a result, BFSG prepared and distributed a Target Date Models presentation, which included BFSG’s model construction methodology and proposed asset allocation. The Committee discussed how utilization of the target date models could provide additional clarity to participants and make for easier investment decisions. After discussion, the Committee members in attendance unanimously agreed to adopt the new custom target date models and appoint BFSG as the 3(38) Investment Manager. MassMutual will work on implementing the target date models and updating the current Service Agreement as necessary. Participants would need to opt into the target date model. MassMutual will make sure it is communicated accordingly as part of ongoing employee education sessions.
- 5. Investment Policy Statement (Fiduciary):** The Committee reviewed potential changes to the current Investment Policy Statement (“IPS”). BFSG will bring an updated IPS for possible adoption at the next meeting.

### **DISCUSSION ITEMS:**

- 6. The 457 Plan – Transition to new MassMutual Platform “Reflex” (Fiduciary):** Mr. Gomez informed the Committee that the transition of the 457 and OBRA Plans was completed in July. He recapped the benefits of utilizing the new platform,

including an improved participant website, enhanced automation to reduce SCAQMD's administrative responsibilities, and the ability to utilize fee levelization.

- 7. Quarterly Review - 457 and 401(a) Plans (Fiduciary).** The Committee was provided with a copy of the Q2 2018 Quarterly Review for both Plans. The Review of both Plans included the following information for the quarter ending June 30, 2018: assets, contributions, distributions, rollovers, loans, and plan participation.
- 8. Quarterly Reimbursement Calculation (Fiduciary):** The Committee received and filed the quarterly reimbursement calculation provided by MassMutual for the quarter ending June 30, 2018.

**OTHER MATTERS:**

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

**Adjournment** - The meeting adjourned at 3:30 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: December 12, 2018

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on Wednesday, December 12, 2018 at 3:00 pm at South Coast AQMD 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

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### **Committee Members Present**

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

Mr. Bill Richards – Human Resources Manager

Mr. Bayron Gilchrist – General Counsel

Ms. Sujata Jain - Asst. Deputy Executive Officer/Finance

### **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 3:10 pm.

### **ACTION ITEMS:**

1. **Approval of Prior Meeting Minutes:** The Committee reviewed and unanimously approved the minutes of the September 12, 2018 meeting.
2. **457 and 401(a) Plan Quarterly Investment Review - 3<sup>rd</sup> Quarter 2018:** The Committee reviewed 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 “Plan”) for the quarter ending September 30, 2018.

Mr. Stewart provided an overview of the economy and the capital markets during the quarter to provide context to the performance of the investment options in the Plan. He further provided 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 (the “IPS”). The following noteworthy funds were discussed in more detail.

*Invesco Equity and Income* underperformed both the benchmark index and category peers for the quarter and one-year periods, due in part to its value-oriented tilt. An overweight to financials and consumer discretionary also detracted from recent performance. The fund’s large cash position and poor stock selection within the consumer discretionary sector weighed on performance during the quarter. Intermediate- and long-term performance remain strong.

*American Funds Fundamental Investors* underperformed on a quarter and one-year basis relative to its benchmark index and category peers. The underperformance was largely due to a traditionally high allocation to non-US equities and an overweight to the energy sector. On a longer-term basis, fund performance continues to rank in the top third relative to peers.

*Neuberger Berman Sustainable Equity* is currently on the Watch List due to performance-related issues. The fund underperformed its large blend category peers during the quarter. Recent underperformance was attributable to an overweight in international stock of 13% relative to a 3% weight for the category, and an underweight in technology. Poor stock selection in the technology sector also detracted from performance during the quarter. The fund has historically trailed its peers in up markets but has been a strong performer in volatile and declining markets. After discussion, the Committee unanimously agreed to keep the fund on the Watch List to monitor its performance.

*Vanguard Selected Value* significantly trailed its benchmark index and peers for the quarter and one-year periods measured in the Report. The underperformance was in large due to poor stock selection in the materials and technology sectors. Positions in gold and semiconductors were among the greatest detractors. The fund maintains a strong down capture ranking relative to its peers, which should be additive during volatile markets. Long-term performance remains strong. Mr. Stewart noted fund performance has improved since the end of the reporting period.

*Hartford International Opportunities* underperformed for the quarter and one-year periods relative to its benchmark index and category peers. Poor stock selection, particularly in the information technology, consumer discretionary, and energy sectors, was a primary detractor from performance. The fund's overweight to China and global trade concerns have adversely affected several of its holdings. On a long-term basis, fund performance remains strong.

Vanguard Emerging Markets Stock Index was added to the Plan on December 3, 2018.

*MFS Utilities*, which is currently on the Watch List, underperformed both the benchmark index and category peers during the quarter. A large overweight to the energy sector added to the fund's one-year outperformance. The same positioning detracted from performance during the quarter as energy stocks pulled back from a large run up earlier this year. Mr. Stewart noted Maura Shaughnessy, who has managed this fund since its 1992 inception, will retire in August 2019. The fund will be then run by Claud Davis and Scott Walker, who were comanagers on the fund since 2014 and 2017, respectively. In light of this development and the fund's performance-related issues, BFSG proposed to bring an analysis of available alternates in the utilities sector for the Committee's review and consideration to the

next meeting. The Committee agreed and asked BFSG to also prepare a search for the other two sector funds in the Plan. BFSG agreed. In the meantime, the fund will remain on the Watch List.

Performance of the T. Rowe Price Retirement Funds was also reviewed. The Funds performed in-line and/or outperformed their respective benchmarks for the quarter and one-year periods. On a long-term basis, the series remain a top performer.

Based on participant allocations as of September 30, 2018, the Plan trailed its custom active and passive benchmarks for the quarter and outperformed both benchmarks across all other measured 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.

The Committee reviewed the revenue received by MassMutual for recordkeeping and administrative services. The annual revenue per participant was approximately \$116 based on the assets as of September 30, 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 Request for Information (“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.

3. **Plan Expense Reimbursement Account Dissolution:** The Committee discussed the utilization of the Plan’s Expense Budget Account (the “EBA”), which was established during the transition to the new MassMutual platform back in July 2018. Mr. Gomez reminded the Committee that the annual reimbursement from the 457 Plan is being produced via a 0.02% asset charge in addition to the 0.06% required recordkeeping asset charge. He noted the revenue credit may be used to pay qualified plan-related expenses. The District may at any time request a reimbursement payment to offset plan expenses. Any unused amount in the EBA will be automatically allocated back to participant accounts before the last day of the Plan year. Mr. Gomez will provide an update on the account activity on a regular basis.

The Committee then reviewed the remaining balance in the Plan’s reimbursement account and unanimously agreed to use the balance to pay qualified plan-related expenses until the account is depleted.

4. **Investment Policy Statement:** The Committee reviewed the revised Investment Policy Statement (IPS), a copy of which was sent by BFSG to each Committee

member prior to this meeting. After discussion, the Committee unanimously agreed to adopt the revisions to the IPS proposed by BFSG, with a few minor changes.

#### **DISCUSSION ITEMS:**

- 5. Quarterly Review - 457 and 401(a) Plans.** Mr. Gomez presented the Q3 2018 Quarterly Review for both Plans to the Committee. His presentation included the following information for the quarter ending September 30, 2018: assets, rollovers, loans, Plan participation, and demographic statistics. Participant diversification and interactions with the Mass Mutual website and call centers were also reviewed and discussed.
- 6. Quarterly Reimbursement Calculation:** The Committee received and filed the quarterly reimbursement calculation provided by MassMutual. Mr. Gomez noted the quarterly revenue shown was prorated based on the 26 days in the third quarter due to the Plan's transition to a fee leveling arrangement effective July 27, 2018. Mr. Gomez advised this report will no longer be available as the Expense Budget Account has been established for the Plan.

#### **OTHER MATTERS:**

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

**Adjournment** - The meeting adjourned at 4:45 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: March 29, 2019

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on Wednesday, March 29, 2019 at 2:00 pm at South Coast AQMD 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

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### **Committee Members Present**

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

Mr. Bill Richards – Human Resources Manager

Mr. Bayron Gilchrist – General Counsel

Ms. Sujata Jain - Asst. Deputy Executive Officer/Finance

### **Committee Members Absent**

None

### **Guests**

Dario Gomez, MassMutual (by phone)

Darren Stewart, Benefit Financial Services Group (“BFSG”)

Aksana Munoz, BFSG

### **Call to Order**

Chair Olvera called the meeting to order at 2:05 pm.

### **ACTION ITEMS:**

1. **Approval of Prior Meeting Minutes:** The Committee reviewed and unanimously approved the minutes of the December 12, 2018 meeting.
2. **457 and 401(a) Plan Quarterly Investment Review – 4<sup>th</sup> Quarter 2018:** The Committee reviewed 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 “Plan”) for the quarter ending December 31, 2018.

Mr. Stewart provided an overview of the economy and the capital markets during the quarter to provide context to the performance of the investment options in the Plan. He further provided 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 (the “IPS”). The following noteworthy funds were discussed in more detail.

*Invesco Equity and Income* underperformed both the passive benchmark and category peers for the quarter. A significant overweight to financials and energy weighed on recent performance. Management maintains a value-tilted portfolio, which detracted from performance for the quarter and one-year periods. The fund positioned to perform well in rising markets as shown by its up capture ratio.

*Vanguard Selected Value* performed in-line with its active benchmark but trailed its passive benchmark for the quarter. Historically, the fund has performed better in

down-markets and its overweight in cash and gold-related stocks should have been beneficial. However, poor stock selection in industrials and technology as well as an underweight to real estate and utilities offset the defensive positions. The fund trailed both benchmarks on a one, 3- and 5-year basis. After review and discussion, the Committee unanimously agreed to place the fund on the Watch List due performance-related issues.

*Hartford International Opportunities* underperformed both the index benchmark and category peers for the quarter. An overweight to China and poor stock selection weighted on results during the period. On a long-term basis, fund performance remains strong.

The Committee reviewed and discussed performance of the funds that are currently on the Watch List, Neuberger Berman Sustainable Equity and MFS Utilities. The Neuberger Berman fund, which has been on the Plan's Watch List since December 2015, performed in line with the index benchmark and category peers for the quarter. An overweight to technology and an underweight to utilities weighed on recent results. Performance across all other measured time periods was noted as being average. The MFS Utilities fund trailed both benchmarks for the quarter, one-, 3- and 5-year periods. The underperformance was largely due to the fund's significant overweight to the energy sector. An analysis of available alternatives in both categories will be reviewed later in the meeting. In the meantime, the Committee unanimously agreed to keep both funds on the Watch List.

Performance of the T. Rowe Price Retirement Funds was reviewed. The Funds slightly underperformed their respective benchmarks for the quarter. Performance over the 3-, 5- and 10-year periods ranks in the top quartile relative to peers.

Based on participant allocations as of December 31, 2018, the Plan outperformed the equally-weighted active and passive benchmarks across all measured time periods noted in the Report. 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 category average.

The Committee reviewed the revenue received by MassMutual for recordkeeping and administrative services. The annual revenue per participant was approximately \$107 based on Plan assets as of December 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 Request for Information ("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 the recordkeeping fees on an ongoing basis.

### **3. Fund Search Analysis:**

For the Committee's review and consideration, BFSG prepared and presented a Fund Search consisted of alternative investment options in the socially responsible, real estate, utilities, and healthcare 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 to the Plan's fund line-up:

- Keep the Hartford Healthcare fund in the Plan;
- Remove MFS Utilities. Add Vanguard Utilities Index. Map all assets and future contributions from the MFS fund to the Vanguard index;
- Remove Neuberger Berman Sustainable Equities. Add Vanguard FTSE Social Index. Map all assets and future contributions from the Neuberger fund to the Vanguard index.

The Committee unanimously voted, with Mr. Richards abstaining, to make the following change in the real estate category:

- Remove Invesco Real Estate. Add Vanguard Real Estate Index. Map all assets and future contributions from the Invesco fund to the Vanguard index.

**4. Share Class Review:** To assist the Committee with fulfilling its fiduciary responsibilities, BFSG prepared and presented a Share Class Analysis ("Analysis") for review and consideration. The Analysis demonstrated efficient ways to reduce the expense ratios of certain funds in the Plan such that the participants would benefit from the lower costs. After discussion, the Committee unanimously agreed to move forward with the following share class change:

- American Beacon Small Cap Value Inst will be removed. All assets and future contributions will be mapped to American Beacon Small Cap Value R6.

MassMutual will facilitate this request as soon as administratively possible.

### **5. BFSG Consulting Agreement Expiration**

The Committee unanimously agreed to extend the current contract with BFSG for deferred compensation consulting services for one more year. The consulting fees will remain the same.



## **DISCUSSION ITEMS:**

6. **Quarterly Review.** Mr. Gomez presented the Quarterly Review report for the quarter ending December 31, 2018. The Committee reviewed a quarter-by-quarter comparison of the following Plan statistics: assets, contributions, rollovers, distributions, loan utilization, asset allocation, and other Plan-related participant activity. Additionally, Mr. Gomez provided an update on MassMutual's financial wellness program, MapMyFinances, which enables participants to make more informal decisions about their finances at every life stage. The program will be available to Plan participants in May 2019. The 401(a) Plan activity for the reporting quarter was also reviewed.

The Committee reviewed the remaining balance in the Plan's reimbursement account. The Committee will continue to use the balance to pay qualified Plan-related expenses until the account is depleted.

## **OTHER MATTERS:**

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

**Adjournment** - The meeting adjourned at 4:05 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 4, 2019

REPORT: Deferred Compensation Plan Committee

SYNOPSIS: The Deferred Compensation Plan Committee met on Wednesday, June 4, 2019 at 2:00 pm at South Coast AQMD 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

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### **Committee Members Present**

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

Mr. Bayron Gilchrist – General Counsel

Ms. Sujata Jain - Asst. Deputy Executive Officer/Finance

### **Committee Members Absent**

Mr. Bill Richards – Human Resources Manager

### **Guests**

Dario Gomez, MassMutual (by phone)

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:** The Committee reviewed and unanimously approved the minutes of the March 29, 2019 meeting.
- 2. 457 and 401(a) Plan Quarterly Investment Review – 1<sup>st</sup> Quarter 2019:** The Committee reviewed 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 “Plan”) for the quarter ending March 31, 2019.

Mr. Stewart provided an overview of the economy and the capital markets during the quarter to provide context to the performance of the investment options in the Plan. He further provided 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 (the “IPS”). The following noteworthy funds were discussed in more detail.

*Invesco Equity and Income* had a strong quarter outperforming both the index benchmark and category peers during the period. An overweight to foreign equities was additive to recent performance. An overweight to the Financials and Energy sectors also contributed to performance during the quarter. Management maintains a value-tilted portfolio, which detracted from performance over the one-year period. The fund’s current share class shares 55 basis points in revenue, which was a detractor from its overall 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.

*Vanguard Selected Value*, which is currently on the Watch List, slightly underperformed for the quarter due to a large cash position and poor stock selection in Healthcare. The fund held a large out-of-benchmark position in Cigna, which declined more than 15% on political pressure regarding health plans. The fund's style purity has detracted from performance as many of its peers have increased allocations to growth-oriented holdings. After discussion, the Committee unanimously agreed to keep the fund on the Watch List.

*Hartford International Opportunities* outperformed both benchmarks during the quarter. The main contributors to recent performance were an overweight to China and Healthcare, and an underweight to Technology. On a long-term basis, fund performance remains strong.

The previously agreed upon fund and share class changes are scheduled to occur on June 17, 2019.

Other items reviewed in the Report include performance of the T. Rowe Price Retirement Funds, point-in-time Plan-level performance, and the recordkeeping fees paid to MassMutual.

- 3. Plan Expense Reimbursement Account Balance Review:** The Committee reviewed the remaining balance in the Plan's reimbursement account. As of the end of April, the balance in the account was approximately \$14,000. After review and discussion, the Committee unanimously agreed to continue using the balance to pay any outstanding qualified Plan-related expense until the account is depleted.

### **DISCUSSION ITEMS:**

- 4. Quarterly Review:** Mr. Gomez presented the Quarterly Review report for the quarter ending March 31, 2019. The Committee reviewed a quarter-by-quarter comparison of the following statistics for the 457 Plan: assets, contributions, rollovers, distributions, loan utilization, and other Plan-related participant activity. The Plan overall participation rate increased quarter-over-quarter from 76% to 79%. Plan demographic statistics and asset allocation were reviewed.

Mr. Gomez reviewed and discussed MassMutual's financial wellness program, MapMyFinances, which has been recently rolled out to participants. It was noted the tool can be utilized during the upcoming open enrollment.

The Committee reviewed the activity in the Expense Budget Account (the "EBA") which was set up when the 457 Plan transitioned to the new platform at MassMutual, Reflex. Once the remaining balance in the Plan Expense Reimbursement Account is depleted, the balance in the EBA can be used to pay

qualified Plan-related expense. MassMutual will reallocate any unused balance in the account back to participants automatically at the end of the year.

The 401(a) Plan activity for the reporting quarter was also reviewed.

**OTHER MATTERS:**

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

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

**Adjournment** - The meeting adjourned at 3:30 p.m.

# **INVESTMENT POLICY STATEMENT**

**South Coast Air Quality Management District  
457 DEFERRED COMPENSATION &  
401(a) DEFINED CONTRIBUTION PLAN**

*Adopted at the December 12, 2018 meeting*

## **Purpose of the Investment Policy Statement**

This statement establishes the policies and objectives for the South Coast Air Quality Management District 457 Deferred Compensation Plan and the 401(a) Defined Contribution Plan (collectively the “Plan”). It outlines and prescribes a prudent and acceptable investment philosophy and sets out the investment management procedures that are designed to assist the Plan Sponsor, South Coast Air Quality Management District (the “District”) and the Deferred Compensation Plan Committee (the “Committee”) appointed by the District in the discharge of the fiduciary duties imposed by them under the State of California Constitution, Government Code, and where the California legal provisions are not developed follow the fiduciary duties imposed by the Employee Retirement Income Security Act of 1974, as amended (“ERISA”). This statement is not intended to and shall not be deemed to expand the fiduciary duties of the District or the Committee or to create duties that do not exist under the State of California Constitution, Government code and ERISA.

## **Purpose of the Plan**

The Plan was established for the purpose of providing a retirement savings program for certain employees of the District who have adopted the Plan. The assets of the Plan are held for the exclusive purpose of providing benefits to the Plan participants and their beneficiaries and defraying reasonable expenses of administering the Plan. The Plan is intended to operate in accordance with all applicable state and federal laws and regulations.

Pursuant to the election of the District, assets of the Plan are subject to the investment direction of the participants or their beneficiaries. The Plan is intended to be consistent with the provisions of the Government Code section 53213.5 as it relates to the Department of Labor regulations issued pursuant to Section 404(c) of the Employee Retirement Income Security Act of 1974.

The goal of the Plan is to provide a framework for participants to establish a savings and investment program for their retirement. While Plan participants are ultimately responsible for their own investment decisions, the Committee will endeavor to provide a broad range of investment alternatives, allowing participants to invest in accordance with their own time horizons, risk tolerance and retirement goals.

## **Policy Goals**

It is the Policy of the Investment Committee to ensure to the greatest extent feasible that the Plan shall:

- a) Encourage maximum participation by District employees and retirees
- b) Include funds such that participants with no special background or interest in investing are encouraged to achieve an age-appropriate diversification between equity and non-equity funds; and
- c) Reduce costs to participants

## **Statement of Responsibilities**

The following parties associated with the Plan shall discharge their respective responsibilities in accordance with all applicable fiduciary standards of Article XVI, §17 of the California Constitution, Government Code section 53213.5 and Section 404(a) of ERISA as follows: (1) for the exclusive purpose of providing benefits to participants and their beneficiaries and defraying reasonable expenses of administering the Plan; (2) with the care, skill, prudence and diligence under the circumstances then prevailing that a prudent person acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and of like aims; (3) in accordance with the documents and instruments governing the Plan insofar as such documents and instruments are consistent with the provisions of the State of California Constitution, Government Code and ERISA.

- a) Deferred Compensation Plan Committee: The members of the Committee have been appointed by the District to act as the “Investment Fiduciary.” The Committee, as the primary Investment Fiduciary, is responsible for investment and management of Plan Assets, and the selection of services related to those functions. The Committee shall be responsible for the Plan level investment selection process, as set forth in this Investment Policy Statement, but is not responsible for the individual fund performance and does not guarantee positive investment results.
- b) Investment Consultant: The Investment Consultant is a co-fiduciary of the Plan charged with the responsibility of advising the Committee on investment policy, advising on the selection of investment managers, providing performance analysis and monitoring services. The Investment Consultant shall provide assistance to the Committee for the Plan level investment selection process, as set forth in this Investment Policy Statement, but is not responsible for the individual fund performance and does not guarantee positive investment results.

## **Investment Choices**

The Committee will endeavor to offer investment options for each of the selected asset classes as set forth in Appendix A, unless under the circumstances it is determined not prudent to do so. The Committee recognizes that options chosen for a specific asset class may drift from time to time and will address these variations as needed. These options shall be sufficient to provide participants and beneficiaries with a reasonable opportunity to:

- a) materially affect the potential return on amounts in their accounts with respect to which they are permitted to exercise control and the degree of risk to which such amounts are subject;
- b) choose from a minimum of three core investment alternatives, (i) each of which is diversified; (ii) each of which has materially different risk and return characteristics; (iii) which in the aggregate enable participants and beneficiaries to achieve a portfolio with aggregate risk and return characteristics at any point within the range normally appropriate for participants and beneficiaries; and (iv) each of which when combined with investments in the other alternatives tends to minimize through diversification the overall risk of a participant’s or beneficiary’s portfolio;



- c) diversify the investment of the accounts of participants and beneficiaries so as to minimize the risk of large losses, taking into account the nature of the Plan and the size of participants' or beneficiaries' accounts.

All investment choices will be publicly available mutual funds, collective investment trusts, separate accounts or similar vehicles. All investments being offered will fluctuate in value with market conditions and, when redeemed, may be worth more or less than the amount originally invested. Each of the chosen investment options is designed to follow a specific stated investment objective as outlined in Appendix A.

In addition, the Plan will offer participants a series of Strategic Asset Allocation Models (the "Models") designed for various risk profiles and expected retirement dates. The Plan's Investment Consultant shall have discretionary authority in developing and maintaining the allocations of the Models limited to utilization of investments offered directly to participants through the Plan. The Investment Consultant shall provide performance benchmarking against similar investment options on a quarterly basis and notify the Committee within 90 day of any allocation changes.

### **Performance Measurement Standards**

The Committee shall evaluate all Plan investments against appropriate peer groups and index benchmarks as outlined in Appendix A on the performance measurement standards outlined in Appendix B. The Committee intends to use independent discretion and judgment in determining whether any investments are prudent and suitable for the Plan and its participants and beneficiaries, and while the evaluation criteria outlined in Appendix B is intended for guidance, it is not determinative.

The Committee shall have the authority to establish, modify, amend or adjust acceptable performance measurement standards by which each investment option is to be evaluated.

### **Investment Option Removal Procedure**

The Committee shall maintain a "Watch List" for investment options that are not meeting the qualitative and quantitative criteria outlined in Appendix B. An investment option will be placed on the "Watch List" when the Committee determines that the option selected for the Plan fails to meet the criteria set forth in the performance measurement standards for a period of time to be determined by the Committee. The Committee may also remove an investment option for any reason it deems necessary.

Final selection, replacement and/or removal of an investment option from the line-up shall be completed only after conducting a thorough review of the identified investment option. In the event of a fund replacement, the Asset Allocation Models will be changed accordingly if the designated asset class is represented in the models.

If the Committee decides that an investment option should be eliminated and replaced with an appropriate alternative option, the following principles are among those that may be applied:

- The costs and fees of replacing an investment option should be identified and evaluated.
- Deleting an investment option or replacing it will not involve a prohibited transaction (e.g., there will be no conflicts of interest).

Should an investment option replacement or elimination be necessary, the Committee intends to satisfy the requirements for a qualified change as defined in ERISA Section 404(c)(4) by mapping the assets from the option replaced or eliminated to an alternative with reasonably similar characteristics, when available, and by mapping only the accounts of those participants who do not provide instructions contrary to the mapping instructions before the effective date.

### **Committee Review of Investment Performance Reports**

Upon receipt of the Report by the Committee, copies will be provided to each of the Committee members to review and comment. While it is anticipated that the Committee will meet on a quarterly basis to discuss the Report, the Committee members may alternatively confer through individual conversations, conference calls, and other forums.

### **Investment Option Administrative Expenses**

The Committee intends to operate the Plan under a level fee arrangement such that certain service provider costs, as determined by the Committee and permissible by law, are directly charged to Plan assets and allocated to participant accounts in a manner to be determined by the Committee so that an equitable fee rate applies to all participants.

To the extent investment options are offered in the Plan that generate revenue that would otherwise be used to offset service provider costs, such revenue will be refunded to those participant accounts from which the revenue was generated. Accordingly, the Committee may select share classes that are the least expensive after consideration of the revenue credit, unless using such share classes would increase the expense ratio in a way that may deter participant investment in the fund. Due to regular fluctuations in the expense ratio and revenue amounts, the Committee may periodically review the investment options offered in the Plan for more efficient share classes, but changes will only be made when the differential is material or an equally efficient share class with a lower expense ratio is available.

The fiduciaries of the Plan shall monitor the fees charged to the Plan and the participants, in accordance with all applicable fiduciary standards. This accounting and monitoring of fees shall be conducted at least annually. In the event fees are determined to be above average or not deemed reasonable for the services provided, the Committee may attempt to negotiate with the Plan's current service provider or evaluate alternate vendors.

### **Review and Revisions**

The Committee reserves the right to amend the Investment Policy Statement at any time. Ordinarily, it is expected that this Statement will be amended to reflect such changes; however, formal amendment is not required.

## APPENDIX A

Following is a list of the asset classes and their respective benchmarks used in evaluating investment options. Each investment option is compared to the respective Morningstar Category as the peer group and a widely accepted index. Mutual funds with a passive strategy will be benchmarked against the index which management attempts to track.

<b>Asset Class</b>	<b>Peer Group</b>	<b>Index</b>
Fixed/Stable Value	Stable Value Category	N/A
Intermediate Bond	Intermediate Term Bond Category	Barclays U.S. Aggregate Bond Index
Balanced	Allocation: 50% - 70% Equity Category	40% Barclays U.S. Aggregate Bond Index/60% S&P 500 Index
Large Cap Value	Large Cap Value Category	Russell 1000 Value Index
Large Cap Blend	Large Cap Blend Category	Standard & Poor's 500 Index
Large Cap Growth	Large Cap Growth Category	Russell 1000 Growth Index
Mid Cap Value	Mid Cap Value Category	Russell Mid Cap Value Index
Mid Cap Growth	Mid Cap Growth Category	Russell Mid Cap Growth
Small Cap Value	Small Cap Value Category	Russell 2000 Value Index
Small Cap Growth	Small Cap Growth Category	Russell 2000 Growth Index
Foreign Large Cap Value, Large Cap Blend, Large Cap Growth	Foreign Large Cap Equity Category	MSCI ACWI ex USA Index
Foreign Small / Mid Value, Foreign Small / Mid Growth	Foreign Small / Mid Cap Equity Category	MSCI ACWI ex USA Small Index
Specialty - Healthcare	Healthcare Category	S&P 500 Sector/Health Care Index
Specialty - Real Estate	Real Estate Category	Wilshire U.S. REIT Index
Specialty - Utilities	Utilities Category	S&P 500 Sector/Utilities
Target Date Funds	Morningstar Target Date Category Series	S&P Target Date Series Index

## APPENDIX B

### **Investment Option Evaluation Methodology**

#### ***Quantitative Criteria***

1. Average trailing returns (3, 5 and 10 year) – Total returns are evaluated over different periods of time to analyze performance over various business cycles. .
2. Average rolling returns (3, 5, and 10 year) – Returns shall be evaluated over rolling 1 year periods to determine how consistently the fund manager performed against his peers in a variety of market cycles.
3. Average Sharpe Ratio (3, 5 and 10 year) – Sharpe Ratio shall be evaluated to determine the funds overall efficiency. The Sharpe Ratio is calculated by dividing the annualized return in excess of the risk free Treasury Bill by the standard deviation for that same time frame.
4. Average Up Capture Ratio (3, 5 and 10 year) – The percentage of an index return captured during up market cycles, referred to as Up Capture Ratio, shall be evaluated.
5. Average Down Capture Ratio (3, 5 and 10 year) – The percentage of an index return captured during down market cycles, referred to as Down Capture Ratio, shall be evaluated.
6. Style Consistency to the benchmark – The use of equally-weighted criteria ensures that the funds selected for the plan continue to operate and perform as expected within their appropriate asset class.

Equity funds: Average  $R^2$  (3, 5 and 10 year), current style dispersion and 3 year average style consistency

Bond funds: Average  $R^2$  (3, 5 and 10 year) and current average credit quality

7. Expense Ratio – The current expense ratio shall be compared as a percentage to the appropriate category average.

A fund's overall score from the above listed criteria is ranked against its respective category peer group as an initial indication as to whether a fund is outperforming, performing or underperforming. If a fund's score ranks in the top quartile (0 - 25%) it receives an "Outperform", if the score ranks in the 2<sup>nd</sup> quartile (26 - 50%) it receives a "Perform" and if the score ranks in the bottom half of the peer group it receives an "Underperform" (51 - 100%).

#### ***Qualitative Criteria***

In addition to the above quantitative criteria, many additional qualitative factors will be monitored to determine the potential exposure to risk that may make a fund unsuitable as a

retirement plan investment option. The additional factors to be monitored include, but are not limited to, the following:

- Change in fund philosophy
- Change in fund manager
- Individual holding concentrations
- Economic sector concentrations
- Performance volatility as measured by standard deviation
- Portfolio turnover
- Manager tenure
- Asset base
- Average market capitalization