VENTURA COUNTY
DEFERRED COMPENSATION COMMITTEE
401(k) Shared Savings Plan
Channel Islands Conference Room
February 21, 2019
2:00 p.m.

Members present	Members absent	Also present
Kaye Mand	Jeff Burgh	Patti Dowdy
John Polich		Suzanne Rogers
Shawn Atin		Jake O'Shaughnessy
Steven Hintz		Joan Steel
		Andrew Kremer

Ms. Mand called the meeting to order at 3:40 p.m.

1. **Public Comments.** None.

2. **Committee Member Comments.** Ms. Dowdy, introduced Ms. Mand as the new Chief Financial Officer and new chair of the Committee. Ms. Dowdy also provided an update on the Request for Proposal for the Deferred Compensation Plan audit where there were two proposal submitted and Moss Adams was selected to conduct the Plan audit.

3. **Minutes of Regular Meeting November 29, 2018.** Review of minutes postponed until next meeting due lack of quorum.

4. **SageView Advisory Group 4Q Investment Review.** Mr. Jake O'Shaughnessy, Managing Director SageView Advisory Group LLC, began his presentation with the economic and market overview. He started with major headlines from 2018 where there were four key events that brought down growth and impacted incoming earnings. The recent events were global growth, central bank policy, oil prices, and trade tensions. He pointed out that with Jerome Powell, new Chair of Federal Reserve, the interest rates have gone up four times and continues to sell bonds from its balance sheet. Oil prices in Q4 fell from $76 to $42 per barrel which had investors worried over slower demand and oversupply but lower oil prices would imply lower gas prices and more money in consumers' pockets for other expenditures. And, Mr. O'Shaughnessy pointed out that a three-month truce was announces between China and the U.S. in December and stated Congress is the one who can approve a trade deal that is negotiated by the President which would remove eliminate uncertainty for investors. Next, he stated there is a huge federal deficit which rose to $405 billion during the first two months of FY 2019. Mr. O'Shaughnessy noted in order to bring it down such a huge instability it the government would need to make more money or spend less as a government. One example he provided was if the government reduced Social Security but a more likely scenario would be a corporate tax which will most likely be revisited. One strong economic growth was job growth which was particularly strong it Q4 with 762,000 net new jobs created. He also noted the unemployment rate moved slightly higher to 3.9% during the quarter, but has stayed below the 4.0% mark for the last 6 month of 2018. Another event was consumer spending, where higher wages and a strong job market allowed consumers to continue spending. He also stated these expenditures rose each month during the quarter and have increased 2.8% over the last 12 months. Mr. O'Shaughnessy shifted gears to the global economy noting that Japan was negatively impacted in Q3 by

multiple natural disasters and are struggling to get out recession but the fundamentals should remain healthy especially with upcoming 2020 Tokyo Olympics. He added Eurozone is also struggling and their growth has slowed modestly throughout 2018 as several individual economies saw real GDP contract in Q3. He went on to add that China's economy growth continued to slow in Q3 as recent escalation in the trade war with the United States started to have a negative impact on Chinese consumers, who have tightened their wallets. Next, he pointed out in the U.S. equities for Q3 stocks but in Q4 stocks fell about 17% by the end of December and stock rallies were 10-15% in January 2019. Mr. O'Shaughnessy pointed out most of the major U.S. equity benchmarks suffered double-digit declines in Q4, with small cap stocks experiencing the biggest declines. He pointed out the Russell 2000 Growth was at -21.7% for Q4 and YTD was -9.3% and the Russell 2000 was at -20.2% for Q4 and the YTD was -11.0%. Next, he went onto the Valuations for the S&P 500 index stating the price to earnings at the end of Q3 were 30% P/E ratio despite Q4 market selloff and the S& P 500 total operating earnings are forecasted to rise to $170 per share by the end of 2019 which is 8% above their year-end 2018 levels. Mr. O'Shaughnessy moved onto the fixed income market where he explained that it fell dramatically in Q4 noting investors fled to the safety of bonds during the unstable quarter in the equity markets. He also pointed out the Federal Reserve increased short-term rates four times in 2018, as credit conditions continued to tighten. Mr. O'Shaughnessy then turned to the U.S. Yield Curve Inversions and Recession, where in Q4 certain parts at the short-end of the yield curve became inverted while the spread between the 2-year interest rates was higher than the 10-year interest rates. For the long-term bond yields, the U.S. has historically had 2.8% but the long-term bond yield rates have declined, finishing 2018 at 2.69%. He also indicated that Japan finished 2018 at 0.00%, U.K. finished at 1.28%, and Eurozone finished at 0.30%. Mr. O'Shaughnessy turned the Committees' attention to industry updates and began with the Democratic Party winning the majority of the House of Representatives. He explained that several new Committees will be chaired by new members which could in turn influence new legislation. Stating that Maxine Waters is the Chair of Financial Services where she intends to monitor the SEC's enforcement of Dodd Frank reforms. Next, he noted the SEC has penciled in September 2019 as the date for final action on its Regulation Best Interest rule and that the Department of Labor has indicated it is considering regulatory options in light of the Fifth Circuit Court of Appeals opinion, and it has also set a timeline of September 2019 for final rule issuance. He then mentioned the proposed bipartisan Retirement Security and Savings Act includes more than 50 provisions aimed at improving retirement plan coverage for small employers and part-time workers. Next, he pointed out that Yale University which is currently involved in a lawsuit challenging recordkeeping and investment fees for its 403(b) plan, has made changes to it retirement plan. Previously the plan offered more than 100 investment options, but the new plan will have Target-Date Plus Service and will also provide 11 different investment option including a new self-directed brokerage account. Mr. Atin stated our current Plan offers 115 investment options and wanted to know what the average number of investments should be for a large employer. Ms. Joan Steel, VP, Investment Consultant Fidelity Investments, stated the average number for a plan the size of the County is 21 investment options. Mr. O'Shaughnessy ended industry updates by pointing out one of the self-dealing lawsuit settlements. He stated BB&T Corp. had agreed to pay $24 million to settle self-dealing allegations where the non-monetary requirements included hiring an independent investment consultant, conducting a record keeper RFP, and its plan fiduciaries must undergo fiduciary training. Mr. O'Shaughnessy turned the Committees' attention to watch list summary sheet pointing out he

recommends taking off watch list American Century Large Company Value R6, Fidelity Total International Equity, Fidelity Stock Selector Mid Cap, and Fidelity Equity-Income K. Mr. O'Shaughnessy is recommending the Committee remove from the Plan seven funds and replace them with comparable high performing funds. He notes the funds are Lord Abbett Mid Cap Stock R6 be replaced with Victory Sycamore Established Value R6, Fidelity Small Cap Discovery be replaced with Fidelity Extended Market index, Franklin Mutual Global Discovery R6 and Franklin Mutual Shares R6 be replaced with Target Date Fund Series, AMG Renaissance Large Cap Growth Z and Fidelity K be replaced with ClearBridge Large Cap Growth IS, and Fidelity EMEA be replaced with Fidelity Emerging Markets Index Premium. He informs the Committee that all the recommended replacement funds are on the Plan menu so it would be a smooth mapping process. Mr. Hintz asks what the procedure is for the participants so they know the funds are being replaced. Ms. Steel a communications would be put together for those participants being affected by the change where they would have 30-45 days to take action if they did not want funds to be automatically mapped and open a BrokerageLink account to keep the fund. Both Mr. Hintz and Mr. Polich comment that the funds being proposed to be replaced do not have many participants. Mr. Hintz points out Lord Abbett Mid Cap Stock R6 has 4 participants and Fidelity K has 18 participants. Mr. Polich points out Fidelity EMEA has the most participants out of the funds to be replaced at a total of 1,373 participants. Ms. Steel mentions members are now more comfortable with change and doing an annual review is prudent and recommends reducing funds until it gets to manageable size. Ms. Mand asked if an average of 25-30 funds would be accurate since the County has over 9,000 employees. Mr. Atin points out the number of funds is not based on number of participants but on total amount of assets and asks what the average number of funds other plans who also have over a billion is assets. Ms. Steel states she works with several large employers and they have less than 25 funds in their portfolio. Mr. Hintz points out there are 30 funds with less than 30 participants, and he stated we should look at removing those funds in the next to 6-8 months. Mr. Atin asks if we should look at different thresholds before making any decisions on reducing a large number of funds. Ms. Steel states looking at multiple criteria components would be beneficial in moving forward with any fund removal. Mr. Hintz notes there are over 30 international funds and asks if we could remove those funds since there are so many. He also points outs that it is not easy for the Committee to do a proper fiduciary responsibility with so many funds. Ms. Mand agrees that with so many funds employees are confused and are not able to select a proper fund with too many options. Mr. Hintz suggest that Mr. O'Shaughnessy come back with a plan to reduce additional funds. Ms. Dowdy points out that a Fund Menu Consideration is next on the agenda for the Committee to decide whether to examine reducing the number of investments funds. Mr. Atin expressed the bar should increase to have the best funds available. Mr. O'Shaughnessy agreed but stating having options as well as the best funds would be advisable. Mr. Hintz stated he would be happy to see a list of funds that are not performing but he would like for the information to include competitive fee rates as well as the recommended replacements for those particular funds. Mr. Polich mentioned that there are several similar fund grouping and would not be feasible to have less grouping or shift some of the funds into other existing fund grouping. Mr. O'Shaughnessy stated that funds could be grouped into other funds such as the Cautious Allocation, Moderate Allocation, and Aggressive Allocation grouping could be moved into the Target Date Funds. Mr. Hintz asked when Mr. O'Shaughnessy would be able to come back with a procedure and list of funds to consolidate for the Committee to review. Mr. O'Shaughnessy stated he would be able to provide the information for the next

Committee meeting on May 30, 2019. Ms. Dowdy informed the Committee that Mr. Burgh stated he was on board to do additional consolidation of funds. Mr. Atin also requested a communication timeline with the information for the next meeting. Mr. Polich also asked for guidelines as to how many funds the Plan should end up having for the next meeting. Mr. O'Shaughnessy stated the Committee should lean away from set number of funds but focus on usage and percentage as factors instead of looking at highest performing funds. Mr. Atin stated participants will be vocal if high performing funds are cut from the Plan. Ms. Rogers explained that participants would still have the option to keep any funds that are being eliminated or replaced through BrokerageLink. Mr. Atin stated then the key is look at better performing funds instead of utilization because some high performing funds have low utilization. Mr. Polich added he was open to funds that are currently not on the plan. Mr. Atin would like to see best in class methodology and not look at a period in time. Ms. Mand asked if there is a cost benefit to having less funds. Mr. Atin stated that there is a records keeping fee from Fidelity which is based on percentage of assets. Mr. Atin moved, and Mr. Hintz seconded to accept the watch list recommendations for funds falling in the 3rd and 4th quartiles in Q4 2018 as outlined in Watch List summary provided by SageView. The motion carried. Mr. Hintz moved, and Mr. Atin seconded, to receive and file the information. The motion carried.

5. **Fund Menu Considerations.** Mr. Atin moved, and Mr. Hintz seconded, for the Committee to examine reducing the number of investment options provided and for Sage View to return with recommendations at the next Committee meeting. The motion carried.

6. **Fidelity Investments Quarterly Service Review.** Ms. Suzanne Rogers, VP, Managing Director, Fidelity Investments gave a summary of the Q4 2018 service review. She began by statin the 401(k) Plan had 9,132 participants with total assets of $791,940,930 and the 457(b) had 3,119 total participants with assets totaling $168,166,916. She noted that as of Q4 2018, the percent (33%) of participants with a total savings rate of at least 10% and 14% of participants are saving more than 15%. Ms. Rogers stated the average participant deferral election is 5.6% and there are 13.6% participants contributing greater than 15% into their retirement Plans. She also mentioned that in the 457 Roth plan there are a total of 624 participants enrolled in the Plan as of Q4. Next she focused on savings rates among different age ranges where she pointed out the two higher percentage participation among the age ranges. The first was for participants who are less than age 30 where 22% are contributing a total savings rate of at least 10% and 21% of participants in the age range of 50-59 are contributing a total savings rate of at least 10%. Ms. Rogers then turned the Committees' attention to the asset allocation where participants are in an age appropriate equity allocation, or at least 80% are invested in a single target date fund, or enrolled in a managed account as of Q4. First she pointed out there are 71% in an asset allocation with 18% in an age aggressive allocation, 71% in an age appropriate allocation, and 11% in an age conservative allocation. Next she noted that 17% of participants are enrolled in a managed account and 40% are enrolled in a 100% Target Date Fund. Also, pointing out that there are a total of 2,630 active participants and 702 terminated participants who are holding a Target Date Fund as their only investment. Ms. Rogers then moved onto the loans and withdrawals where 18.3% of participants took a loan or withdrawal during the 12 months ending 12/31/2018 and out of that percentage 16.6% was for loans. She did express concern over the percentage amount because the percentage is a lot higher compares to peers at 10.8%. Also pointing out that there are 33.0% of participants who held a loan as of 12/31/2018

which equated to 2,312 out of 7,002 active participants and there are 17.9% participants who held more than one loan as of 12/31/2018. She also noted that County employees are highly engaged participants and out of the total active participants there were 73% or 5,111 who contacted Fidelity at least once during the 12 months ending 12/31/2018. Mr. Andrew Kremer, onsite Fidelity Representative, mentioned that when he meets with participants a lot of them mention they tried to select an option themselves but felt overwhelmed by all of the investments that it was too hard for them to understand and make a selection. He also pointed out that the majority of participants select a Target Date Fun and those that are closer to retirement will select an Asset Manager option. Mr. Kremer noted that participants in Sheriff's and the District Attorney's office will select or already have a BrokerageLink account, they are constantly trading, and use a robo-advisor for their selections. Mr. Atin asked if there is a frequent trader limit. Ms. Rogers stated there is a frequency trader limit but not in BrokerageLink. Finally, Ms. Rogers mentioned that in Q4 Fideltity launched its first 4-part retirement series that was very well attended and it will be offered again in April and October 2019. Mr. Atin moved, and Mr. Hintz seconded, to receive and file the information. The motion carried.

7. **Information Agenda.** Mr. Atin moved, and Mr. Hintz seconded, to receive and file the information. The motion carried.

Ms. Mand adjourned the meeting at 3:42 p.m.

Respectfully submitted,

Laura Hernandez
Deferred Compensation Coordinator