

**City of Mesa**  
**Deferred Compensation Committee**  
**MEETING MINUTES**  
**Monday, May 4, 2015, 11:30am**  
**Mesa City Plaza, Suite 130**  
**Personnel Conference Room 2**

**Members Present:**

Mike Kennington (Chair)  
Derek Witting  
Don Miller  
Frank Hoglund  
Kimberly Call  
Mary Dellai  
Michael Claspell  
Michele Long  
Vicki Eden

**Members Absent:**

**Innovest:**

Gordon Tewell  
Jerry Huggins

**Great West:**

Gary Robison  
Lisa Tilley

**Other(s):**

Bill Taebel  
Nikki Rosales  
Gary Petrytus-Galloway  
Asset Management

**Meeting called to order at 11:30am by Mike Kennington**

**1. Approval of the February 2, 2015 minutes**

Mary motioned to approve the minutes  
Michael seconded the motion  
None opposed

**2. Follow-up Discussion from Previous Meeting**

**401(a) Plan**

At the last meeting, the committee discussed the option of adding a 401(a) plan and requested additional information, to determine if it would be a benefit to participants. A 401(a) plan has a higher deferral threshold than a 457 plan. Mike reported that only 17 participants are currently maxing out their annual contribution limit of \$17,500 to the 457 plan. Participants over the age of 50 have a higher contribution limit of \$23,000 and approximately 14 of them are contributing the maximum amount. An outside attorney worked on the 401(a) plan for Fire, and has been asked to put a draft together for the City plan. The City plan may require two drafts, since it includes sworn and civilian participants. The fees for a 401(a) plan would be paid out of the City Attorney's Office, since it is a separate plan and cannot be paid from 457 funds. After committee discussion, some members felt the percentage of participants maxing out their 457 contributions was too low to consider adding a 401(a) plan. Others felt that it would be a good option for participants that do want to take advantage of it. The committee will wait for the draft(s), prior to making a decision.

### In-Plan Roth Conversion

Mike reported that 99 participants are utilizing the current Roth option with \$254k in total assets. As previously mentioned, providing an In-Plan Roth Conversion option would require a lot of education. Participants would need to understand that funds converted with this option would be considered income the year the conversion was completed. Therefore, the converted funds would be taxed when the participant files their next return and converted funds cannot be used to pay those taxes. Empower would produce a 1099 form for the converted funds. The committee will continue to table this option, until more people are interested in it.

## **3. Innovest Quarterly Update**

### The Markets

International stocks had the best performance in the first quarter. S&P 500 trailed all other markets, but was still positive for the quarter. Several factors continue to create a volatile market.

### Menu Coverage

PIMCO Total Return, the plan's fixed income fund, was replaced by MetWest Total Return on February 17, 2015.

### Asset Allocation

Participants made no significant changes to allocations this quarter. Plan assets gained approximately \$2.4 million in the quarter, to bring the total assets to nearly \$171 million. Custom models, as well as target date funds, make up approximately 30% of total assets, which is good.

### Table of Returns

Stock selection in healthcare and technology were drivers of fund performance this quarter. Large cap managers had mixed performance in the quarter. Aston Montag & Caldwell Growth fund continued to underperform and ranked in the 84<sup>th</sup> percentile. On the mid cap side, Artisan Mid Cap ranked in the 87<sup>th</sup> percentile, after underperforming in the quarter. John Hancock Disciplined Mid Cap Value outperformed the benchmark and ranked in the 13<sup>th</sup> percentile for the quarter. Small caps had good absolute performance and outperformed their benchmarks, with the exception of Kalmar Growth-with-Value. Relative to its peer group, it ranked in the 44<sup>th</sup> percentile, beating the median manager. Kalmar is a quality oriented fund that takes less risk and performs well in a more difficult market. The plan's international funds had strong absolute performance. Artisan International underperformed its benchmark, but ranked in the top percentile for the 1 year period. Oppenheimer Global outperformed significantly, ranking in the top 6<sup>th</sup> percentile. This fund has had strong performance over the years. DFA Emerging Markets Core Equity slightly underperformed the benchmark, but ranked above median for the quarter. Voya Global Real Estate underperformed its benchmark, but is at median against its peers. JPMorgan High Yield slightly underperformed the benchmark, but outperformed peers during the quarter and the 1 year period. Custom Stable Value fund net crediting rate remained at 1.85%, which is good relative to the other stable value funds. Target date funds with a retirement date of 2015 and higher outperformed their benchmarks and peers. Custom Model Portfolios slightly underperformed their benchmarks, mostly due to the fund companies on the mid cap side that have underperformed.

Manager Scorecard

	Organization	People	Philosophy & Process	Style Consistency	Asset Base	Performance	Expense	Overall
Aston: M&C Growth						Major concern		Minor concern
Artisan: Mid Cap		Minor concern						
Kalmar: Gro/Val SC						Minor concern		
Voya: Glbl RE	Minor concern					Minor concern		Minor concern

Minor concern  
 Major concern

- **Artisan: Mid Cap** – minor asset base concern removed. Minor concern to people added, because Andy Stephens is still with the company, but no longer the portfolio manager of this strategy.
- **PIMCO Total Return** – fund removed from the plan

Watch List

Watch List Criteria	Aston Montag & Caldwell	Artisan Mid Cap	Kalmar Growth-with-Value Sm Cap	Voya Global Real Estate
<i>NUMBER OF QUARTERS ON THE WATCH LIST</i>	5>	1	2	5>
Changes in Ownership Structure or Material Litigation				Minor concern
Investment Management Team Changes		Minor concern		
Significant Increase/Decrease in Assets Under Management	Minor concern			
Investment Style Stable/Consistent and Adherence to Investment Guidelines				
Performance	Minor concern		Minor concern	Minor concern

*All shaded boxes indicate a FAIL in that criteria*

- **Cambiar Small Cap** – removed from the watch list
- **Artisan Mid Cap** – added to the list for Investment Management Team Changes
- **PIMCO Total Return** – fund removed from the plan

Aston Montag & Caldwell and Voya Global Real Estate have both been on the watch list for more than 5 quarters. The plan currently has two large cap growth funds, but each has a different style. The committee previously reviewed a search book for Aston Montag & Caldwell Growth, but decided to continue to watch the fund. At the next meeting, the committee has requested that Innovest bring a search book of funds that mirror the style of Aston Montag. The committee also requested a fund search for Voya Global Real Estate.

#### 4. Review Annual Asset Allocation Study

Each year, the committee must review the asset allocations of each model portfolio. This year Innovest provided four allocation mixes for each portfolio. Considering the current markets and looking forward at the next 5 years, expected returns and standard deviation can fluctuate. The committee reviewed each mix and made selections that provide the most appropriate level of risk for each portfolio classification, while maintaining diversification.

The committee voted on one mix for each model portfolio.

Conservative	Moderate	Aggressive
<ul style="list-style-type: none"> <li>Derek motioned to use Mix 2</li> <li>Don seconded the motion</li> <li>None opposed</li> </ul>	<ul style="list-style-type: none"> <li>Derek motioned to use Mix 2</li> <li>Mary seconded the motion</li> <li>None opposed</li> </ul>	<ul style="list-style-type: none"> <li>Derek motioned to use Mix 3</li> <li>Michele seconded the motion</li> <li>None opposed</li> </ul>

	Conservative		Moderate		Aggressive	
	Current	Mix 2	Current	Mix 2	Current	Mix 3
Large Cap (U.S.)	12%	12%	23%	23%	41%	41%
Small/Mid Cap (U.S.)	5%	5%	9%	9%	17%	16%
Int'l Equity (Developed)	7%	7%	13%	14%	23%	25%
Emerging Mkt Equity	3%	3%	5%	6%	9%	10%
Domestic Fixed Inc.	59%	59%	40%	38%	8%	6%
Cash Equivalents	14%	14%	10%	10%	2%	2%
Totals	100%	100%	100%	100%	100%	100%
Expected Return	3.73%	3.75%	5.13%	5.25%	7.60%	7.75%
Standard Deviation	7.03%	7.09%	12.65%	13.11%	23.62%	24.18%

#### 5. Empower Quarterly Update

##### First Quarter Update for 2015

Employees are becoming aware that though the company name and the retirement representative for the City of Mesa have changed, it is still the same company. New retirement planning calculators have been added to the participant website. Plan assets were up over \$168 million this quarter. The number of participant accounts increased, which includes retirees that have kept their money in the plan. Cash flow is down, which could be from participants taking their money out after retirement. The total contributions listed on the cash flow page and on the contribution details page were inconsistent, but Gary believes the difference was from loan repayments and will look into it. Distributions remain consistent with 31 new loans, 16 full withdrawals and 2 unforeseeable emergencies. Three participants also used their 457 funds to purchase service credit.

##### NAGDCA Comparison

Mesa's participation rate, average account balance and average annual participant contributions are higher than the 2014 NAGDCA averages for governmental plans. Mesa's average participation rate is 62%, the average account balance is \$57,804 and the average annual contribution is \$5,086.

### Investment Advisory Services Usage

The plan offers three levels of investment services: Guidance, Advice and Managed Accounts. The advice option is being used by 5 participants, whereas 472 participants are utilizing the managed account option.

### Local Education

Gary was available a total of 28 days in Mesa. He held 12 group meetings, 1 educational seminar, 157 individual meetings and 5 new employee orientations.

### On the Horizon

The website login process has been enhanced and now includes live help over the phone for people that are having trouble logging in. Gary is trying to do more outreach with city departments by scheduling department group meetings and enrollment sessions. The Empower Retirement Institute is being established and will serve as think tank that focuses on research, education and retirement issues.

### Open Discussion

Some committee members indicated that participants have asked them if they need to remove their money from the plan once they retire, or if it needs to be moved it to the Roth option. This is an area that the participants need more education on, because they are not required to remove their funds at time of retirement. Lisa indicated that she will work with their marketing team to see how they can target this information to participants.

## **6. Upcoming Meetings**

Next quarterly meeting will take place on August 3, 2015

## **7. Meeting Adjourned at 1:20pm**