

City of Mesa
Deferred Compensation Committee
MEETING MINUTES
Monday, February 4, 2012, 11:00am
Mesa City Plaza Conference Room 170

Members Present:

Mike Kennington (Co-Chair)
Derek Witting
Don Miller
Jayson Vowell
Mary Dellai
Michael Claspell

Members Absent:

Chuck Odom (Chair)
Frank Hoglund
Michele Long
Vicki Eden

Innovest:
Gordon Tewell
Jerry Huggins

Great West:

Scott Taylor
Lisa Tilley

Other(s):

Bill Taebel
Kimberly Call
Nikki Rosales

Meeting called to order at 11:05am by Mike Kennington

1. Introduction of Lisa Tilley, Great West National Accounts Director

Javier Obando, whom the committee met in August, has been promoted, so Lisa will now be assisting the City of Mesa. Lisa has been with GW for 25 years and briefly explained her background to the committee.

2. Great West Quarterly update by Scott Taylor

NAGDCA Comparison

National Association of Government Defined Contribution Administrators (NAGDCA) 2011 survey of governmental plans has a 34% participation rate, with 26% being 457 plans. The average 457 plan account balance was \$42,000 and the average annual participant contribution was \$4,334. As of January 10, 2013 Mesa has 3,460 eligible employees and 2,240 are contributing to the plan, which is a total of 64.7%. Mesa's participation rate is more than double the NAGDCA average. Mesa's 457 average account balance is \$47,595, which is 13% higher than the NAGDCA average. The individual annual contribution average dropped to \$3,814. This may be due to new employees contributing smaller amounts, or the number of retirements.

Other

There were 46 loans taken in the 4th quarter and 0 unforeseeable emergency withdrawals. Scott reviewed the percentage of participation by department. Most departments had good increases, with the exception of IT, Engineering & PD Chief of Staff, who all dropped by 1%.

Mike asked if there are any common themes to the participation rate increases and decreases. Scott indicated that he sees changes when employees receive raises and when supervisors let him speak at department meetings.

Recap on Education and Counseling

Scott was available at Mesa City Plaza for a total of 33 days in the 4th quarter. He had numerous appointments with employees, during that time. He also presented at a pre-retirement seminar on the 457 plan. An educational seminar on tax benefits was held on October 3rd. Scott participated in the City of Mesa Benefits Fair. He also attended 24 individual appointments and 13 group meetings away from MCP.

Recent and Upcoming Changes

The online withdrawal initiation is up and running. One person reported a problem, but that was early on and there have been no complaints since. The Plan Sponsor signature line was removed from the enrollment form. A signature showing city approval has not been required in years, so this was removed to avoid any confusion. Also, the Projected Retirement Income should be up and running by the end of the 1st quarter. This will be available on participant statements and on the website. Mike questioned whether it would be clearly labeled that the total is a "projected" amount and Scott indicated it would be.

3. Innovest staff reviewed the 4th Quarter Portfolio

Innovest at a Glance

Jerry indicated that Innovest provides their clients an annual update on the state of their company. This section provides some history, as well as the current state of their company. Currently, they are entering their 17th year in business and have 28 employees. They were named one of the best places to work in 2012 by the Denver Business Journal, which falls in line with their ability to retain staff.

History with the City of Mesa

A summary was provided, dating back to 2007, with highlights of accomplishments and decisions that the committee has made over the years. One of the items listed was the RFP process & plan conversion that Innovest assisted with, in which Great West was selected as our plan provider. Some other items listed were changes to share classes, which reduced participant fees, and the time frame that the Custom Stable Value Fund was established.

The Markets

The quarter was dominated by politics and the Fiscal Cliff, which created uncertainty in the market. A chart was provided, which compared 4th quarter results, along with the results for the entire year. The US finished fairly flat, with only a .2% increase in the 4th quarter and 4.2% increase for the entire year. Though the bond market lagged, it was still positive. Moving into

this year, domestic equities were the best in January than they have been in the past 15 years. The bond market is lagging for January though.

Headwinds

There is uncertainty about our federal spending. Businesses and consumers are still on edge. The unemployment rate declined slightly, but the pace of job growth is poor. Wage and compensation growth is also weak. In previous economic downturns, the recovery was much faster. This recovery has been slow and we are just getting back to where we were, before the crash. Worldwide economic risk still exists.

Tailwinds

Consumers generate 70% of Gross Domestic Product (GDP). Spending is starting to pick up moderately. When government debt becomes clearer it should benefit spending. Too few homes to meet the demand are increasing housing prices and construction, which also raises job growth. Energy production will have an inexpensive positive long term growth effect.

Quarterly Market Summary

Market was led by international development, which was up over 6%. It was a tough quarter for commodities. Precious metals were down and in less demand. US Equities were shown by quarter and 12 month value. Stocks outperformed both periods, but there was a wide dispersion from best to worst. The quarterly fixed income market was a mirror image to the last 12 months. For the year, corporate was up 9%, high yield was near 16% and emerging markets were up 18.5%. Barclay U.S. Aggregate was up 4.2%, which is the smallest annual gain since 2005. This was the first time the fixed income market outperformed US Equities since 2009. The Pacific Region had the best return.

Asset Class Return Table

A periodic table of asset class returns was provided, showing investment returns in order of best to worst from 1998 to 2012.

Annual Fee Review

Average plan assets from 7/1/2011-6/30/12 were \$116,820,617. Estimated investment, recordkeeping and administrative costs were 0.54%. Estimated total plan expenses were 0.61%, which includes 3rd party fees. Our fees are still reasonable.

Asset Allocation

The Model Portfolios for the quarter were a little over 12%, with a total of 17% growth in Asset Allocation Funds. T. Rowe Price Target Date Funds had a growth of about 1.5 million over the quarter. There was also about 32% in the Stable Value Fund. Currently, our plan has about 51% in stock and 49% in fixed income and stable value fund. Rainier was replaced by Aston Montag & Caldwell Growth in January, but Rainier finished out the quarter on a high.

Table of Returns

Fidelity Contrafund was down 1.59%, but had a nice year overall, finishing at 16.24%. Apple is a large part of the fund and has much influence on the performance. Aston Montag outperformed in the quarter and they do not have much in Apple. The performance of Davis NY Venture is challenged. They have a lot in financial stock, which was hit hard in 2008.

Specific Plan Investment Review:

Manager Score Card:

Fidelity Contrafund-Style Consistency, Asset Base
Davis NY Venture-Performance*, Overall
Vanguard Mid Cap Index-Philosophy & Process
Perkins MC Value-Style Consistency, Asset Base
Vanguard Small Cap Index-Philosophy & Process
Oppenheimer Global Fund-Organization
American Funds EuroPacific-Asset Base
Mesa/Great West Custom Stable Value-Philosophy & Process

**Major Concern*

All others listed as minor concern

Report Card:

Davis NY Venture*-Risk adjusted return above median for 5 years, Trailing 5 years return below median, Rolling 3 year periods above median, Annual periods above median

Allianz NFJ Dividend Value*- Risk adjusted return above median for 5 years, Trailing 5 years return below median

Janus Perkins Mid Cap Value*-Manager adherence to style and philosophy

**On the Watch List*

Davis is family owned and has everything that makes for a good fund, but has been underperforming. Their turnover rate is low, so the concern is purely from a performance standpoint. In the past they have invested heavily in financial stock and it worked great. Recently, they have had an unusual stock selection, including Groupon, which has been on the decline. Don questioned how long they've been on the watch list and Innovest indicated it has been approximately a year. On the report card, they failed in 4 out of the 7 categories. Mike asked Innovest to bring options at the next meeting, so the committee can determine whether or not to keep Davis NY Venture.

Vanguard changed indexes. They've moved away from Morgan Stanley and have gone to Chicago. Their goal is to reduce costs.

Allianz underperformed during the quarter. Financial stocks are up almost 6%, but they don't hold any of the big banks. They are dividend dependent. Though it was a tough quarter, their numbers look good long term.

Artisan Mid Cap also had a tough quarter, but has been solid for years.

Janus Perkins fund is rather large for a mid cap fund. This has made it hard for them to move around and purchase stocks that they want and has forced them to invest in more large cap companies. The purchase of large cap funds was a change in their style and has had a negative impact. Gold mining stocks and energy stocks within their portfolio have not been good this quarter either. They are on the watch list strictly for their asset size, but Innovest recommends continuing monitoring, rather than replacing them.

American Funds EuroPacific is creating a concern of their ability to manage large portfolios.

Great West Stable Value will need to be watched, because as interest rates rise, refinancing will slow down. They may need to make changes to their portfolio down the road.

As a positive note, small cap funds were up. In International Equity, Artisan had a great year. American Funds were up for the year as well. Oppenheimer Global had a shift in portfolio and is up. PIMCO had a nice quarter and year. ING Global Real Estate looks for companies without high debt load and real estate is a good place to be right now. JP Morgan is slightly behind the benchmark, but still doing ok.

Jayson questioned why there wasn't more concern with Janus Perkins. Innovest had the committee look at their performance as a whole over the years. They are consistent when the economy is bad and don't see as big of a hit.

The model portfolios outperformed during the fourth quarter and throughout the year.

4. Innovest went over the Investment Policy Statement

Innovest provided a redlined version and a final version of the Investment Policy Statement. The last revision was done in June 2012. The current document identified changes with a date of January 2013, but the committee would like it reflect as April 2013.

On page 15 there were changes made to add Michael Kennington as a committee member, but there was an old committee member still listed on the document. Also, Jayson will be leaving the committee soon and will be replaced by Kimberly Call. Mike indicated that we would look over the document and submit the changes to them.

There was also a change made to Exhibit B to remove Rainier as one of our funds and replace it with Aston Montag & Caldwell Growth Fund.

5. Approval of November 5, 2012 minutes

Derek motioned to approve

Don seconded the motion

None opposed

6. Future Meetings

A timeline needs to be set for plan document changes and for the RFP process with Innovest.

RFP Timeline

January 29, 2013-RFP was released

February 12, 2013-Question submission deadline

March 19, 2013-Proposal due date

May 6, 2013-Finalist interviews, if necessary

June 3, 2013-Vendor selection

October 1, 2013-Conversion (to allow time for vendor interface)

Innovest will put together an analysis and cost comparison, once they receive the proposals.

These items will be delivered to the committee and they will determine whether or not to have finalist interviews. The review of the proposals should be done sometime in April, likely the week of April 15th.

Next quarterly meeting will take place on Monday, May 6, 2013.

Mike indicated that the committee needs to discuss updates to the plan document. The tax issue was updated in December. Jayson questioned how the plan document should be addressed, since we have two plans (City plan and Fire plan), but one document. Mike acknowledged that the issue will need to be looked into. It was determined that Chuck and Mike will meet with Bill and work on a redline draft. They will send the redlined version to the committee through e-mail. The committee can determine at a later date, when to meet on the plan document.

7. Meeting Adjourned at 12:40pm