

**CITY AND COUNTY OF HONOLULU
DEFERRED COMPENSATION PLAN COMMITTEE MEETING**

MINUTES OF THE QUARTERLY MEETING OF THE COMMITTEE

A meeting of the City and County of Honolulu **Deferred Compensation Plan Committee** was held on Friday, November 5, 2021, at the Mayor's Conference Room, Honolulu Hale, 530 South King Street, 3rd Floor, City Hall, Honolulu, Hawaii.

Present: Andrew T. Kawano (Chair) (Department of Budget and Fiscal Services (BFS) Director & Committee Chair)
Noel T. Ono (Noel) (Department of Human Resources (DHR) Director & Committee Member) (DHR Conference Room)
Alison Look (Acting Internal Control Chief Accountant & Committee Member designee by Managing Director Michael Formby) (by webex)
Krishna F. Jayaram (Krishna) (First Deputy Corporation Counsel & Committee Member designee by Corporation counsel Dana M.O. Viola)
Douglas Chun (Doug) (Committee Member) (by webex)
Chase Masuda (Committee Member)
Michael Golojuch (Mike) (Committee Member) (DHR Conference Room)

Staff: Carrie Castle (BFS Deputy Director) (by webex)
Florencio "Bugs" Baguio, Jr. (Bugs) (Acting Assistant DHR Director) (DHR Conference Room)
Jennifer Tobin (Jenny) (Chief, DHR Benefits, Research, and Transactions Branch) (DHR Conference Room)
Lynn Wakatsuki (Lynn) (Deputy Corporation Counsel)
Laura Shimada (Laura) (Deferred Compensation Plan Committee Administrator & BFS Administrative Services Officer)
Jennifer Bishop (BFS Administrative Specialist) (by webex)

Guests: Bill Tugaw (Bill) (NFP – Managing Director – NFP Retirement)
Kellen Foley (Kellen) (NFP – Senior Investment Consultant)
Jeff Scott (Jeff) (NFP – Senior Vice President – NFP Retirement)
Vince Learned (Vince) (NFP – Senior Plan Advisor) (by webex)
Gavin Gruenberg (Gavin) (Voya – Senior Vice President – Institutional Clients) (by webex)
Stacey Laxton (Stacey) (Voya – Communications Consultant) (by webex)
Deidre Jones (Deidre) (Voya – Vice President – Strategic Relationship Management) (by webex)
Jared Nakamoto (Jared) (Voya – Hawaii Case Manager) (DHR Conference Room)

Chair read a statement on public participation and testimony to comply with social distancing requirements set forth in Governor Ige's Emergency Proclamation relating to the COVID-19 Delta response issued October 1, 2021 and Proclamation and Executive Order No. 21-14 dated October 8, 2021.

I. CALL TO ORDER

With quorum present Chair called the meeting to order at 9:34 a.m. and presided as chair of the meeting. Laura acted as secretary of the meeting.

II. MINUTES OF PREVIOUS MEETING – Action

Committee members reviewed the August 13, 2021, Quarterly Meeting minutes and Chair asked for any discussion.

Chair noted on page 9, Section VI.A.1., the second sentence should read “One of their portfolio managers is retiring at the first of 2022, but there will still be 12 portfolio managers running different sleeves of the Growth Fund of America.”

On a motion duly made by Krishna Jayaram, seconded by Michael Golojuch, and unanimously carried, the Committee approved to amend the second sentence of Section IV.A.1 of the August 13, 2021, Quarterly Meeting minutes to read, “One of their portfolio managers is retiring at the first of 2022, but there will still be 12 portfolio managers running different sleeves of the Growth Fund of America.”

On a motion duly made by Michael Golojuch, seconded by Noel Ono, and unanimously carried, the Committee adopted the amended August 13, 2021, Quarterly Meeting minutes. Krishna Jayaram abstained from the vote since he was excused from the August 13, 2021 Quarterly Meeting.

III. PUBLIC COMMENTS – Information

Chair asked if there are any public comments. No one wished to speak.

IV. VOYA REPORT – Information/Action

Gavin introduced a new member of the Voya team, Deidra who will support the City and County of Honolulu. Deidra stated that she is based in Phoenix, Arizona and has been in the retirement industry for 20 years. She has held a variety of roles from administration to compliance with most of her career in relationship management working with sponsors.

A. Quarterly Report

A summary of Voya's quarterly report provided by Gavin for the period of January 1, 2021 to September 30, 2021 follows.

1. Client Health Review

- a) Plan Statement – 2021 began with about \$855 million in plan assets, with a little less than \$30 million in contributions and \$35.5 million in distributions. There were \$11.6 million in dividends from the mutual funds in the plan. He noted there is a very healthy market appreciation

with \$66.69 million in positive equity and fixed income market return. As of September 30, there were \$928 million in plan assets.

- b) Participation – The year began with 9,529 accounts. There have been 349 new enrollments, and 228 accounts were closed. As of September 30, there were 9,650 accounts. The participation rate is 86.1%, but with updated number of eligibles recently received from the City, the number is actually north of 87%, which is very strong for a voluntary 457 plan.
- c) Deferral Summary – There is a very strong average deferral at 9.4% for those participating on a percentage basis, which compares favorably to the industry benchmark at 6.9% and all of Voya's governmental plans at 6.2%. The majority of participants are a flat dollar contribution.
- d) Participant Engagement – Gavin noted there has been significant growth in the usage of the mobile app over the past few years. In 2019, the mobile app accounted for 18.5% of inquiries, in 2019, it was up to 21.3% and last year, and more than 25% of inquiries are now on the mobile app. Gavin also highlighted 839 changes to contributions that occurred on the website, and 695 were done on the mobile app. Individuals that engage in the MyOrangeMoney tool, save on average 11.9% which is higher than all other participants. This shows that when participants engage with the MyOrangeMoney tool they tend to have a positive behavior and save more than those that do not interact with the tool. He also noted that just using the website has also resulted in positive action, as those that do not use the website or the mobile app have the lower savings rate. Digital engagement is driving positive action.
- e) Transaction Activity Detail – Gavin noted that there has been growth in both contributions and distributions. For contributions, there was a 12% increase in pre-tax deferral, from \$20.5 million to \$23 million, even though there are less individuals participating in the pre-tax option. There has been continued strong growth in the usage of Roth 457 with a 15% increase in dollar amount and 162 more people using the Roth 457. Overall, contributions are up almost 13% compared to the same time period in 2020. There were almost \$2 million dollars in death claims. There was a substantial decrease in the distributions for unforeseeable emergencies driven by Coronavirus Related Distributions no longer being available. Minimum Distributions, where individuals who exceed the age of 72 and are required to take distributions from the plan, has grown. There has been \$1.57 million withdrawn from the plan via Periodic Payments which is when individuals have retired and set up a systematic withdrawal. The bulk of the distributions were in the Withdrawal line item, which is lump sum distributions such as a cash payment or rollover into a some other retirement plan. There were almost \$31 million distributed for Withdrawals, which is about one-third of total distributions. Gavin

noted that in both the first quarter and second quarters, there were \$12 million that left the plan each quarter, and in the third quarter, there were only \$6.6 million that left the plan, and showing pace of the withdrawal has slowed. There were about \$3 million in Asset Transfers, where individuals rolled money into the plan from prior employers or IRAs.

- f) Current Participation and Enrollment Statistics – Gavin highlighted the strong enrollment. There have been 315 in new enrollments and for those electing to use the percentage deferral, the average deferral rate is at 9.6%. For individuals using the flat dollar deferral, they are saving just under \$200 per paycheck.

Krishna asked how new enrollments compare with new hires. Gavin explained it is a mixture of new hires and individuals who have been with the City and have elected to enroll sometime after they were hired. The majority of the enrollments are new hires. Jared added that every once in a while there are employees that have not yet signed up, and are looking to sign up for the first time. Krishna asked whether it is known how many new hires enroll into the plan. Jared stated that overall participation stays steady at 80-90% and there was about a 90% enrollment rate of new hires when in-person enrollments were available during the City's Benefits Processing Sessions. Jared explained that now that the Benefits Processing Session is virtual, there is some delay in receiving the enrollment documents, but that the numbers are still very high.

Bugs stated that as of last week the total number of eligible employees is 7,272. He further stated that by subtracting the 6,372 active employee accounts, there are around 900 employees who could sign up but have not. Gavin reiterated that for a voluntary governmental 457 plan, the City's participation rate is really strong.

- g) Participant Balance – Gavin stated there is very encouraging growth in participant balance, and that as of September 30, the average balance in the plan was just under \$100,000. Both market return and contributions are driving the growth. He noted that the average balance is consistently growing, even with the growth in new enrollments, which start with a zero balance. Gavin also noted that each age group also exceeds the benchmark, with the older age group exceeding the benchmark by a lot.
- h) Diversification – The average number of investment options per participants when target date funds and custom risk based models are included is 3.4. With the target date funds and risk based models excluded, the average number of investment is 4.9, which is almost double the benchmark. Gavin recapped the diversification detail of participants noting there are about 3,700 individuals utilizing the target date funds or risk based model. He noted that 640 individuals are

solely in the Stable Value. He further explained that Voya looks at the Stable Value annually to ensure the appropriate participants are in Stable Value and that there are both automated and specific campaigns targeted to individuals that are not diversified. Overtime, the participation rate in the Stable Value as a sole investment has come down slowly.

- i) Managed Accounts – This is related to individuals utilizing the services of Morning Star for active management of their accounts. There were 431 individuals at the beginning of the year with \$49.6 million in the plan. There were 13 individuals that added the service and 15 that opted out, ending the period with 429 individuals utilizing Morning Star with \$52.2 million, which represents about 5.6% of the plan.
- 2. Plan Investment Review – Gavin noted that NFP will cover much of the information in their semi-annual investment review.
 - a) Total Plan Assets and Contributions by Investment Option – Gavin highlighted there is strong usage of the asset allocation and target date funds. 18.45% of plan assets are in some type of asset allocation fund and 36.5% of all new contributions are going to a target date fund or custom allocation fund. The number of funds showing zeroes are the investment share classes that the City has moved away from to reduce expenses. There is about 17.5% of the plan in Stable Value, with only 10.7% of new contributions going to Stable Value. He also noted that a couple of individuals moved to TD Ameritrade Self Directed Brokerage but the dollar amount went down from the prior quarter showing that either the market returns went down or individuals moved some of their funds out of TD Ameritrade.

B. Stabilizer Update

- 1. Performance Analysis – Gavin stated that the only small detractor from performance analysis was the duration of the portfolio, which is shorter than the benchmark. Everything else added to the performance, relative to the benchmark.
- 2. Performance Summary – For the quarter ending September 30, the portfolio return is at 0.24% versus the benchmark at 0.05%. The Stable Value portfolio is also out performing on the year-to-date basis by about 78 basis points, as well as the 1-year, 3-year, 5-year, and 10-year time periods.
- 3. Portfolio Characteristics – Gavin highlighted that the Yield in the 1.65 range is indicative of fixed income markets. The credited interest rates that participants receive is around 2.15%. There is a market gain in the portfolio that is allowing credited interest rates to participants that is higher than the portfolio actually yields, but as low yields continues, it likely that the credited interest rates to participants will come down as well. Gavin also noted the Performance Attribution table showing that duration detracted 11 basis points, but there were positives in the Asset Allocation and Security Selection attributes which show the decisions Sean Banai

and his team made on portfolio allocation were strong contributors to positive returns relative to the benchmark.

4. Asset Allocation – Gavin stated there was not a great deal of change from the prior quarters.

In regards to the overall health of the portfolio, Gavin stated Market Value, which is the value of underlying bonds in the portfolio, is at \$185.9 million, and the value of participant balances in the Stabilizer is at \$179.6 million, which gives a premium of \$6.29 million, which is 3.5% market gain.

C. Participant Communication & Education Update

Stacey provided an update on Voya's communication and education efforts and explained there are automated journeys that are sent out in addition to other communication sent.

1. Save More Results – This message is sent to participants that have not made a contribution change in six months. There was a slight increase in this communication. There were 189 participants that took action after receiving this email, with 47 participants saving an average of 2.4% and 160 participants saving an average of \$50 more per pay period.
2. Beneficiary Results – This is sent once a year on the plan's anniversary date or when the participant enrolled into the plan. There was not much change from the prior quarter, with 11 participants naming a beneficiary after opening the email.
3. Diversification Results – This message is sent to individuals that have less than 2 funds, excluding target date funds. The results stayed the same since last quarter, with 16 participants that diversified their accounts after receiving the email.
4. Restart Savings – This is message is sent to individuals who stopped their contributions during the year. There was a slight increase from last quarter. There were 11 participants that resumed their contributions, with 2 saving an average of 7.5% more and 9 saving an average of \$131 more per pay period.
5. Financial Wellness/Education – This is sent on a quarterly basis. This stayed the same as the last quarter, with 55 participants taking the Financial Wellness Assessment after opening the email.
6. Text Message Nudges – This is a new added incentive to reach participants. Individuals may go online and add their cell phone number and receive text message nudges of the same messages that are currently being emailed.
7. Participant Engagement – Since last quarter, there has been a slight increase in every type of engagement via the call center, mobile app and web. Stacey noted that there was an additional targeted communication to push for eDelivery and web registration. A carousel banner was also added to the participant website that focuses on communication.
8. MyOrangeMoney – There were over 4,000 individuals that utilized the MyOrangeMoney tool and 198 that took action. There are now 38 participants saving an average of 5.1% more and 146 that are saving an

- average of \$59 more per pay period. There were 46 participants who made a change to a fund allocation.
9. Personalized Video – This goes to individuals depending on where they are on their retirement journey and will differ for each person. There were 156 participants that received the video and 24 that took action after viewing the video, such as changing their deferral, changing their fund allocation, enrolling into a managed account, or rolling money into the plan.
 10. Financial Wellness – Individuals can log into the website, take the Financial Wellness Assessment to see what areas they should focus on. This ties into the Financial Wellness email and automated messaging. There 376 individuals that started the assessment, which means that there 30 individuals who took the assessment last quarter. 347 completed the assessment and 289 viewed the resulting dashboard. Based on the completed assessments, areas of concern remain to be protection, emergency fund, and retirement. Stacey noted that these are the areas to focus education on in effort to get individuals more comfortable and confident going forward.
 11. eDelivery Campaign – This campaign was done in March and had a good response rate of 12.22%. Stacey noted that his campaign, as well as the others she will cover, were sent out in addition to the automated messages she covered earlier.
 12. Beneficiary Campaign – This campaign is sent to all participants with a balance in May and had exceptional results with 349 individuals take action from the emails and 33 individuals take action from the direct mailer.
 13. Increase Deferral Campaign – In July, this campaign was sent to actively contributing employees. The email was sent to over 5,000 individuals and resulted in 80 taking action.
 14. Restart Savings Campaign – This campaign was sent to active participants with a balance who had stopped contributions. It was sent to 320 participants and resulted in 9 resuming their contributions.
 15. Account Registration Campaign – This campaign was sent in October to participants with a balance who have not registered their account online. The results of this campaign are pending but is expected to have good results.
 16. Retire Better Resources – This is an added educational tool on the participant website, geared to those 50 years or older to prepare for retirement.
 17. Nearing Retirement Campaign – This is an educational piece sent in November to participants with a balance who are age 50 or older to point them toward the Retire Better Resources.
 18. Cost of Waiting Campaign – This campaign is about the importance of continuing to save early on and targets participants with a balance who are age 30 or younger.

Stacey stated she has started planning for 2022 and will share the plans during the next meeting.

Douglas congratulated Stacey on a great marketing campaign. He also asked if there was anything that could be done in 2022 that could further encourage participants to provide their email addresses so they could receive personalized and targeted messages directly. Doug noted that email is a critical part of reaching participants and getting them to act and asked if there are any new campaigns being considered to increase the amount of email addresses. Stacey stated that in every communication that is sent, information on signing up for eDelivery is included. Signing up for eDelivery is included in the automated journeys, the custom campaigns, and in the carousel banner on the participant website, as well as pop up messages and in the newsletter.

Gavin added that the Department of Labor has provided some regulation around eDelivery and in the first quarter, anyone who has an email on file with Voya will be defaulted to eDelivery. He also noted that Voya is ready and able to take the email addresses from the City if the City is willing to share the information with Voya. Jennifer noted that the DHR will have to have a discussion with Corporation Counsel and the Ethics Commission as to whether the City can share employees' work email addresses with Voya. Noel noted that there was a concern with sharing email addresses in the past, but DHR will explore it more. Gavin noted that the concern from a few years ago was it would draw individuals away from their regular job duties. Doug reiterated his request for a new campaign to be developed to motivate people to voluntarily provide their email addresses.

Chair asked how the City compares to the peer group in terms of digital engagement and responses to emails. Stacey responded that she did not have the peer data on hand but she will look into it and report back.

D. National Retirement Security Month Summary

Jared provided an update on the National Retirement Security Month initiatives. This year there was a total of 127 attendees to the five different sessions, which is double the amount of people from last year. Both last year and this year were virtual only sessions. There were about 40 unique individuals that attended the sessions. There were 3 people that attended four sessions and 15 people attending two or more sessions. BFS had the most employees attend, with DHR coming in second, followed by the Honolulu Police Department. The most popular sessions were Social Security and Estate Planning, which are always the most popular. The least popular was the Retiree session with only 10 people that showed up. Jared noted that the retirees may not be as comfortable with online sessions. He also noted the Committee offered to give away Hydro Flasks this year, which may have been an additional draw, or it may have been more people comfortable using online meetings versus last year. Laura noted that the Committee purchased 2

Hydro Flasks for each session, as well as reusable bags to give to all who joined a session.

- E. Self-Directed Brokerage Option – Option to update permissible securities to include Exchange Trade Funds (ETFs). Gavin explained that the Self-Directed Brokerage Option is available to TD Ameritrade and over the past year, a number of mutual funds have elected to convert from mutual funds to ETFs. There is a participant in TD Ameritrade that is invested in one of these mutual funds that is converting to an ETF who will be forced to sell out of the mutual fund since the City's TD Ameritrade window does not currently allow for ETFs. Gavin noted that the Committee could open the TD Ameritrade window to ETFs. He further explained that when the Self-Directed Brokerage Option was originally established for the City's plan, the City had the option of either allowing only mutual funds window or open it up to everything and anything including options and individual bonds and so there was not a lot of flexibility. Now, the City can expand from mutual funds to include ETFs without having to open up to everything like individual equities and options. Gavin noted that the usage and prevalence of ETFs has grown a great deal and that he does not see a downside to adding ETFs to the Self-Directed Brokerage.

Doug asked Gavin if he agreed that the individual that is already in the Self-Directed Brokerage Option is savvy enough to make the ETF option as opposed to mutual funds. Gavin stated that is a fair assumption, given that, without specific information on the participant, they have taken the proactive steps to open the account and to transfer assets out of the core fund.

Chair asked Bill for thoughts on the pros and cons on ETFs that the Committee should be aware of. Bill noted that ETFs behave like a mutual fund but are traded like stock, so the value of ETFs fluctuates throughout the day whereas mutual funds do not. Bill added that he sees no issue with opening up ETFs to the Self-Directed Brokerage account. Chair thanked Bill for his input.

Krishna asked whether the Committee draws the line at individual stocks because of the worry of the participant's sophistication level. Gavin stated that was a fair statement. Krishna stated that since ETFs are similar enough to mutual funds other than the characteristics that Bill mentioned, that there's not much of a downside in terms of sophistication level being not that great that they can still handle investing in ETFs. Gavin stated that the risk is muted compared to the additional options you would have with a general security self-directed and so you would not get into leverage situations that you would if it was opened up to all types of instruments.

On a motion duly made by Douglas Chun, seconded by Noel Ono, and unanimously carried, the Committee approved the option to update permissible securities to include ETFs.

F. Other Issues

Krishna asked whether the Committee has considered an opt-out provision in terms of automatic enrollment to enroll new employees into the plan. Lynn explained that automatic enrollments has been a Union issue. Laura clarified that the City would have to consult with the Unions to have auto enrollments with an opt-out included in the plan. Gavin stated that Hawaii has an anti-wage garnishment law that prohibits governmental entities from unilateral automatic enrollment. He further noted that it could be done, but it must have the consent of the collective bargaining groups that it impacts. Michael concurred. Gavin added that from Voya's prospective automatic enrollment is encouraged and offered Voya's assistance in reaching out to the collective bargaining units to explain the benefits. Bill stated that NFP also strongly endorses reaching out to the collective bargaining units. Bugs stated that during the current political climate, some employees may view automatic enrollments as another mandate being imposed on them from the employer, such as the vaccine mandate and that there may be segments not very receptive and may oppose. Jenny added that the City's plan has a high voluntary participation rate even without the opt-out option.

On a motion duly made by Douglas Chun, seconded by Michael Golojuch, and unanimously carried, the Committee approved Voya's Quarterly Report.

V. NFP CONSULTING REPORT – Information/Action

Vince summarized NFP's Fiduciary Investment Review

A. Semi-Annual Fund Review

1. Quarter Market Review - The U.S. Equity was virtually flat for the quarter, remaining the same from the second quarter at 15%. The International market was down for the quarter at 3%, bringing the year-to-date to 5.9%. The fixed income market was flat for the quarter, with the year-to-date at a negative 1.6%. Vince noted that the U.S. labor market improved with the unemployment rate dropping to 4.8% in September, which is the lowest rate since the onset of the pandemic. Vince also noted that the jobs added in September was less than expected and the labor market participation has dropped, but that in October, there were 531,000 jobs added and the unemployment rate dropped further to 4.6%.
2. U.S. Equity – Vince noted Large Cap Growth was up 1.2%, being the only index in the positive for the quarter. The Small Cap Growth was down 5.7%. On a relative basis, a rolling one-year look back period, value has outperformed growth and continues to do so by a modest margin. For sector performance, there were 5 in the positive and 5 in the negative with Financials doing the best up 2.6% and Materials and Industrials tied in last place, both down 3.9%.
3. International Equity – Large growth also led the way, up 0.3% and the only index in the positive. Emerging markets are down 8.1%. On a rolling one-year basis, the developed international markets outperformed the

emerging markets, and domestic stock continues to outperform international.

4. Fixed Income – Vince pointed out the yields are higher, almost across the board from one year ago. For sector performance, there has been some inflation with TIPS at the best performer for the quarter up 1.8% and Cash and Corporate Investment Grade bonds being the lowest performers.
5. Chart of the Quarter – For S&P 500 earnings per share, the estimates show a steep rebound from 2020. The earnings growth is up to 26.3% year to date, with the S&P 500 price return is up close to 15%. Vince noted that this underscores the notion that earnings growth drives market performance. He further noted that P/E ratios have declined, which is not typically expected when market prices are going up, but since earnings growth went up at a higher rate than the market returns, the multiples have gone down.

Chair asked if the downslope was impacted by looming income tax increases that may impact corporate profit. Vince stated that he could not say whether income tax increases specifically impacted pricing, but that certain economic factors are considered and can impact pricing.

2. Scorecard System –
 - a. Every quarter, NFP produces scores for all the investments, looking at 20 quarters of rolling data. There is an Internal Investment Committee that oversees the process. There are 10 different metrics for every fund or investment strategy. The fund will either earn a point for a performance metric or it will not. Scores of 7 or better are acceptable. Scores of 5 or 6 will place the fund on the Watch List. If the fund is on the Watch List for four consecutive quarters or for five of the prior eight quarters, the Committee would think about potential removal and replacement of the fund. If a fund scores 4 or below, it would be a prompt for immediate discussion of potential removal and replacement. There are 4 different scorecards, with the first two focused on asset allocation and is a fund-to-fund approach, one scorecard for active strategies, and one for the passive strategies. Vince briefly explained the factors rated for the Active Strategies scorecard. Vince noted that the Internal Investment Committee conducts 200-300 manager due diligence meetings digging into the key factors of people, process, and philosophy. When a fund is scoring well and it looks good from a qualitative perspective, the fund goes onto an internal focus list. When NFP has recommendations, it almost always comes from the internal focus list which has an extensive vetting process.
 - b. Scorecard – As of September 30, there were about \$927 million in total plan assets.
 - 1) Vanguard Target Date Funds – This fund includes about \$78 million and continues to score an 8. Vince noted that it is an inexpensive index based approach that has a more aggressive strategy compared to other target date fund managers.

- 2) American Funds Large Cap Value Fund – This fund consistently scores a 10.
 - 3) American Funds Growth Funds of America – This fund scored a 6 again. It was a 7 in the first quarter and lost a point in the second quarter. Vince noted that if the score remains over the next quarter, it may warrant a discussion. NFP recommends this fund remain on the watch list.
 - 4) Virtus Ceredex Mid-Cap Value – This fund continues to score well.
 - 5) Principal MidCap Institution – This fund is at a 5 and this is the third quarter this fund is on the Watch List. It is narrowly missing two or three of the metrics. NFP recommends this fund remain on the watch list.
 - 6) American Funds Europacific Growth – This fund scored a 9, dropping down from last quarter due to losing a point in the Up/Down metric. It is in the top quarter of its peer group.
 - 7) American Funds Capital World – This fund is a global equity strategy and scored a 7 for the second quarter in a row. It lost points in Information Ratio, Information Ratio Rank and Up/Down.
 - 8) PIMCO Real Return – This fund continued to score a 9. There was a point lost due to manager tenure.
 - 9) PIMCO High Yield – This fund is steady at an 8, narrowly missing a point for the Up/Down.
 - 10) Stable Value – this fund has \$163 million in assets.
- c. Plan Allocation by Investment Type – There is about 45% in U.S. Equity, about 25% in Asset Allocation, 17% in Specialty, 8% in International, and 5% in Fixed Income. The Specialty represents Stable Value.
- B. Watch List Update
- NFP recommends keeping America Funds Growth Fund of America and the Principal MidCap Institutional on the Watch List.

On a motion duly made by Douglas Chun, seconded by Michael Golojuch, and unanimously carried, the Committee accepted and approved NFP's Watch List to include America Funds Growth Fund of America R6 and Principal MidCap Institutional.

C. WellCents Presentation

Jeff provided an NFP presentation on financial wellness programs. He noted that the best programs offer a combination of technological and human elements, are personalized to an individuals' financial circumstance, designed to move beyond literacy and encourage positive financial behaviors, are scalable and cost effective, produce provider agnostics, and are assessed through an advisory ecosystem. Jeff briefly provided an overview of the WellCents program that was developed to inspire employees to develop financial confidence and remove the barriers that prevent employees from making good financial decisions.

Doug thanked Jeff for the presentation and asked what the cost to the participants would be for the WellCents program. Jeff explained that there are multiple ways to pay for the service. He stated that it could be paid as an operating expense of the City and County as an employee benefit, or paid indirectly from defined contribution plan assets and that he plans to cover this topic in the next presentation.

Jeff explained that WellCents is a complement and expansion to the services provided by Voya and is not intended to replace any services provided by Voya. He noted that he would provide more information in the next presentation.

D. Target Date Fund Analysis (Part 2)

Kellen explained this is the second part of his presentation. He noted that the target date funds are currently scoring an 8, which is an acceptable score. Kellen stated that there are a couple of considerations that may warrant a change. First, the plan is also utilizing the age-based option which are the target date funds or participants may choose a risk-based portfolio and pick their risk tolerance—aggressive, moderate or conservative. Kellen explained that one option is to consolidate those two solutions into a single solution that would allow participants to pick a target retirement date and a risk tolerance. The second component relates to the Vanguard glide path being more aggressive relative to peers. In reviewing the City's demographic, Kellen suggested moving to a more moderate glide path. Kellen reviewed the Department of Labor recommendations for target date funds. Kellen summarized the fit analysis stating that plan objectives and plan demographics are moderate with participant behavior being conservative results in a moderate portfolio. There are two components to risk—the need to take risk and the willingness to assume risk. Participants who are on track to retirement do not need to assume as much risk. In contrast, if the review revealed participants were behind in savings and had low account balances, a more aggressive approach would be a good fit. Kellen noted a more moderate glide path is better suited for the financial need for the City's employees.

Kellen reviewed the target date fund options. Currently, the City utilizes NFP in a §3(21) advisory capacity where NFP helps select and monitor a single glide path target date fund as well as the risk based models. The current target date funds are Vanguard which are aggressive. NFP suggests alternatives BlackRock or JPMorgan to replace Vanguard target date funds, both moderate and better fit series for participants. The risk based models would also still be available for participants that want to be more or less aggressive. In this capacity, there is not additional NFP fee. The other option is the additional §3(38) services with multi-glide path target date funds which would combine target date fund with the risk based models in a single solution. There would be an additional 3 basis points fee for the service. Kellen reviewed the Vanguard glide path and how it compares to the industry minimum and maximum. This glide path is good fit for those underfunded for

retirement. Kellen also reviewed the glide path of risk based models, noting there is no slope in the path, leaving the onus on the individual to change the allocation as the individual gets older according to their risk tolerance. For the multi-glide path, the participants would choose a target retirement year, and also pick an aggressive, moderate, or conservative path. With this option, the glide path automatically de-risks as the participant approaches retirement. As a default, the participant would be placed on the moderate glide path with the ability to select a different risk level according to their own needs and preferences.

Krishna noted that one of the appeals of the current target date funds is that it was a solution for participants that did not want to figure out what to do and asked about the thoughts on the added complication of having to choose which one of the three glide paths works best for them. Kellen noted it is important that moderate would act as the default and participants would not be forced to take action in order to be invested. As participants become more comfortable or attend educational sessions, they would be able to move to more an aggressive or conservative path based on their needs and willingness to assume more or less risk.

Kellen reviewed the target date fund construction, which was also recommended by the DOL. Vanguard's underlying fund allocations are diversified with U.S. Equity, International Equity, Fixed Income, etc. The average score is 7.8 with only one fund on the Watch List. With the models, the plan's core funds are the underlying building blocks, where NFP is involved as an independent fiduciary to select and monitor the underlying investments. Kellen also reviewed the underlying fund allocations for one of the versions of the custom flexPATH option. The Index+ version is a mix of active and passive managers. Vanguard target date funds are index based, or passive, whereas the models are active. With NFP as the fiduciary is able to independently select the underlying managers and remove and replace managers as needed. In the flexPATH Index based approach, Vanguard options would be replaced with BlackRock which has an average score of 10. The MyCompass Index version which is very similar to the flexPATH Index version with the addition of the Voya Stable Value fund.

Currently the fee for Vanguard Target Date funds, which have a passive philosophy, is 9 basis points. The fee for the risk based models, which have a mix of active and passive philosophy, is 41 basis points. The blended current expense is 32 basis points for participants that are diversified in both the target date funds and the models. The fee for BlackRock target date funds, which are passive, is 9 basis points, and the fee for JP Morgan target date funds, which are active, is at 44 basis points. The fee for Index+ is 32 basis points, the flexPATH Index is at 10 basis points, and the MyCompass is at 13 basis points. Kellen also noted that because of the allocation of MyCompass Index to Stable Value, Voya would reduce plan level record keeping expense

by 2.5 basis points, representing a savings of \$230,000 to plan. MyCompass Index represents the lowest net cost to participants with the most efficient way to implement a custom option.

Doug thanked Kellen for the presentation. He noted that since there are several new Committee members, it would be wise to continue the conversation in a future meeting to allow the Committee to digest the information. He added he believed there is value in consolidating the target date option with a risk based option. Doug asked that this item be put on the agenda of the next quarterly meeting to allow continued discussion.

Krishna asked whether an RFP would be needed to move to different offerings. Lynn stated that there is already a contract in place with NFP that went through the procurement process and NFP makes recommendations for these types of funds to be invested in. Kellen clarified that in its current capacity as a §3(21), NFP can make recommendations for a different target date fund and that for the custom service, NFP cannot make a recommendation since it is an additional service that NFP provides.

Laura noted that the recommendation to be more moderate is based on the percentage-based participants, which is less than 1,000 of the participants and that the City has not yet been able to provide NFP with the bulk of the participants' dollar amount deferrals and paycheck totals. Kellen stated that the analysis looks at more than savings rates, and that account balances, and the way participants interact with the plan are also considered. He added that an inference can be made based on those that are deferring on a percentage-base.

Chair asked NFP to share peer group summary data on investment returns net of expenses compared to standard target date funds. Kellen stated that he could provide more information in the next meeting.

E. Legislative and Regulatory Update

Bill stated that the Internal Revenue Service (IRS) set the 2022 contribution limit at \$20,500, and the over age 50 catchup remains the same at \$6,500. Congress has not approved bills that would affect retirement plans and it is expected that bills will be reintroduced in 2022.

F. Other Issues – None.

VI. OTHER BUSINESS – Information/Action

A. Voya Contract Status

Laura updated contract status by stating that the contract provisions have been reviewed and that the City is waiting for Voya to send the finalized version signed by Voya.

B. Other Issues – None.

VII. REPORT ON ADMINISTRATIVE EXPENSES – Information/Action

Laura reviewed the quarterly expense report. The quarter started with \$457,499.71. She noted that a check from Voya \$165,000 for the three quarters was received, and recapped the expenses for the quarter totaling \$35,977.23. The quarter ended with a balance of \$586,522.48. Of the balance, \$500,000 will be sent back to Voya for participant reimbursement.

On a motion duly made by Krishna Jayaram, seconded by Michael Golojuch, and unanimously carried, the Committee approved the Committee’s administrative expenses report.

VIII. EXECUTIVE SESSION (as required)

The Committee did not go into Executive Session.

IX. NEXT MEETING DATES – Information (subject to change)

Annual and First Quarter – Mayor’s Conference Room

Friday, February 18, 2022 – 8:00 a.m. - 12:00 pm

- Annual Meeting: 8:00 a.m. – 9:55 a.m.
- First Quarter – 10:00 a.m. – 12:00 p.m.

Second Quarter – Mayor’s Conference Room

Friday, May 20, 2022, 9:30 a.m. – 12:00 p.m.

457 University Training – FMB 10th Floor

Thursday, August 25, 2022, 9:00 a.m. – 3:00 p.m.

Third Quarter – Mayor’s Conference Room

Friday, August 26, 2022, 10:00 a.m. – 12:00 p.m.

Fourth Quarter – Mayor’s Conference Room

Friday, November 18, 2022, 9:30 a.m. – 12:00 p.m.

X. ANNOUNCEMENTS

Noel announced that he is retiring and December 30 is his last day. If no new Director is chosen by the Mayor, on January 1, 2022, Bugs will be the Acting DHR Director.

XI. ADJOURNMENT

There being no further business, the meeting was adjourned at 12:05 p.m.

Respectfully submitted,

Laura Shimada
Secretary