

## DEFERRED COMPENSATION COMMITTEE 2021 CALENDAR YEAR AND Q3 RESULTS MEETING MINUTES

Meeting Date: Wednesday, November 3, 2021  
 Meeting Location: Microsoft Teams  
 Recorder: Velisa Parks, Sr. Administrative Assistant

Name of Attendee	Title	Name of Attendee	Title
Kevin Mizuno	<i>Finance Manager</i>	Joshua Whitman	<i>Lead Maintenance Crew Member</i>
Christopher Thomas	<i>Accounting Supervisor</i>	James Olympia	<i>Environmental Compliance Inspector II</i>
Amal Lyon	<i>Accountant</i>	Erika Armstrong	<i>MissionSquare Retirement</i>
Kim Hammond	<i>MissionSquare Retirement</i>	Chas Mansfield	<i>MissionSquare Retirement</i>
Justin Mercer	<i>Instrument Technician (joined meeting after roll call)</i>	Brent Harvey	<i>Chemist II (joined meeting after roll call)</i>

Not in attendance:

### CALL TO ORDER

10:03 a.m.

### AGENDA

- **Reviewing and approval of minutes from August 4, 2021 meeting**
  - Member Thomas motioned for approval, seconded by Member Whitman. All Members present then voted unanimously to approve the Minutes with no nays or abstentions.
  
- **Review and Discuss Participant Education Efforts**
  - Ms. Erica Armstrong and Ms. Kim Hammond with MissionSquare Retirement addressed the committee regarding participant education efforts.
  - Ms. Armstrong's presentation addressed participant needs and plan goals.
    - Ms. Armstrong provided background on the name change from ICMA-RC to MissionSquare. The "Mission" in MissionSquare focuses on serving more people and communities, and the "Square" references the center of the neighborhood where the clients served come together.
    - She highlighted positive results regarding retirement educational efforts from Q3 2021. Five of the seven new hires in this period enrolled in the 457 Plan, with 16 one-on-one consultations with Ms. Hammond. There was a 3% increase in year-to-date contributions into the 457 Plan. Average balance of the 457 Plan is less than \$200,000 with only two participants rolling out of the Plan in Q3.
    - MissionSquare is commencing work on 2022 Strategic Planning. The goal will be to serve more employees, to provide participant experiences, and to promote long-term financial wellness. This year, MissionSquare increased their digital marketing and launched the online Financial Wellness Center. The Strategic Plan for 2022 includes:
      - Increasing participation – educate employees that are not participating in the 457 Plan of the benefits (Central San has an 85% participation rate)
      - Increase savings – starting Save the Raise campaigns

- Improve/retain retention – outreach to retirees on benefits of staying with the plan, work with Central San during the exit process
    - Asset Allocation – educate participants on diversification based on allocations (approximately 25% of participants have their funds concentrated in only one asset class)
    - Promote plan changes – meetings to let employees know about changes, leverage fund/ fee changes to educate and re-engage participants
    - Mr. Mizuno mentioned that PEPRA members (members that have been hired after January 1, 2013) should be another targeted group for MissionSquare to focus their outreach on. Many PEPRA members are not aware of the benefit differences between PEPRA and Legacy members.
  - The results of the Retirement Plan Specialists (RPS) survey are positive. Those that participated in the RPS survey gave an excellent service rating on knowledge, professionalism, responsiveness, helpfulness, and overall impression. Regarding in-person or online meetings, the survey found that of those that participated are split.
  - The results of the Certified Financial Planner (CFP) survey are positive. Those that participated in the CFP survey say that the overall experience met or exceeded expectations.
  - Ms. Hammond discussed outreach to participants. In California, there have been two webinars per month. There have also been monthly webinars targeting end of year contributions and withdrawals. Will also set up webinar for the end of year catch-up contributions. Would also like to focus on auto-increase each year once the online contribution change is available for participants.
- **Review and Discussion of Plan Performance – Quarter Ending 9/30/21**
  - Mr. Mansfield updated the committee on plan performance for the quarter.
    - Reviewed the active MissionSquare and MSQ funds.
      - MSQ Funds – 18 funds that pass investments directly through to a single underlying mutual fund.
      - MissionSquare Funds – 15 funds that combines subadvisors withing the same style box
      - MissionSquare Model Portfolio – four funds that are a combination of funds from different asset classes and style boxes. Each fund tries to maintain a consistent risk objective over time.
      - MissionSquare Retirement Target Funds – 11 funds that are target-date funds, which are like the Model Portfolio funds except they reduce target equity exposure as the participant is approaching their retirement year.
    - There is \$166M total in all funds. Individual Strategies make up the majority of the combined total at 64%. The PLUS and Asset Allocations are 21% and 14% respectively.
    - Overall performance, very good. There are only a few funds that were underperforming. MissionSquare removed three funds and replaced with other funds. Invesco Diversified Dividend was replaced with BlackRock Equity Dividend, Nuveen Real Estate Securities was replaced with Cohen & Steers Realty Shares, and LSV Small Cap Value was replaced with JP Morgan Small Cap Value. 75% of funds performing at or above median.
    - Performance Extremes for 2021 year-to-date were discussed. The strong performers were MS Select Value R9 and MS Equity Income R9. The weak performers were MS Small Cap Discovery R9 and MS Growth & Income R9.

- Mr. Mizuno asked about the impact of inflation on the Plan given the recent publication of historically high social security growth rates. Mr. Mansfield informed the committee that it is inevitable that we will have inflation. There is a faster rise in rates per Federal Reserve. It will not be transitory of its own valuation, meaning that the Federal Reserve thought there would be a different story with inflation going up as the demand went up. The Federal Reserve plans to raise short-term rates, in order to reduce inflation and deciding whether or not to discontinue buying bonds (i.e. tapering) which will increase interest rates. Should expect a high level of government spending given the shortage of labor (labor has more power today) with wage inflation driving prices. Mr. Mansfield also discussed how difficulty with supply chain issues is likely driving inflation up. It's ultimately expected the economy will settle between an 7-8% inflation rate before coming down and that it is not expected to return to 3-4% until the pandemic and supply chain issues resolved. In Mr. Mansfield's opinion, from an economic perspective, this is the wrong time to be stimulative. Focus should be on having some sense of normalcy, then focus on policy.
  - Mr. Olympia asked if committee members whether they should notify participants of the current interest rate environment. Mr. Mansfield suggested to inform participants that the economy is an ever-changing market and should review with Ms. Hammond or a CFP.
- **Review and Discussion of Loans and Emergency Withdrawal Requests**
    - Mr. Mizuno has not received any emergency withdrawal requests during the 3<sup>rd</sup> quarter. There are currently 51 loans outstanding, seven deemed distributions, totaling just over \$1.06M. 88% are conventional, 3.3% are CARES act, and 8.6% are residential. At a future meeting, Mr. Mizuno expressed interest in reviewing a trendline of the loan requests and payments to see the impact of the pandemic more clearly, if any. Ms. Armstrong would be able to provide a report for the committee.
- **Review and Discussion of Legislative and Plan Updates**
    - Ms. Armstrong updated the committee on legislative and plan updates.
      - Awaiting 2022 IRS plan limits. There is a lot of speculation of what the limits will be but they will wait to release information until the announcement is made. There will be HSA and FSA limits first, and the Social Security wage increase, then contribution limits.
      - Secure Act 2.0 passed the House of Representatives Ways and Means committee in May 2021 with bi-partisan support. However, likely not to pass in 2021 given other legislative priorities. Could be in early 2022. Would have had additional catch-up contributions, RMD age increase to 75. Elimination of prior month rule for 457 plans.
- **Review Responses to RFI for Fiduciary Services and Provide Direction to Staff**
    - Before leaving the meeting, Mr. Mansfield provided feedback to the committee on each of the 5 fiduciary services consultants that bid on Central San's RFI most of which he has worked with previously. He emphasized that the Committee is not required to choose lowest costs. If lowest cost is not chosen, make sure to document value of added costs.
    - Ms. Armstrong added that Mr. Mansfield would be the contact for Mesirow.
    - Mr. Olympia asked if Mesirow had any data to showing how their service improved performance of a fund lineup. Mr. Mansfield replied that Mesirow may have that information, but that is not the service they are offering. The objective is to have an oversight responsibility. The goal for any fiduciary services, whether it's 3(21) or 3(38)

service, should be to stay focused on the fundamentals. Mr. Olympia also asked if the committee decides to go with 3(38) service, how long would the contract be and if the committee could return to status quo after a certain time period. Ms. Armstrong replied that if there are no term agreements, then yes you can return to status quo. Mr. Mansfield also explained that with a 3(38) service, the committee would not have any input in plan lineup. Mr. Olympia asked if the committee chooses a 3(21) service, what the liability would be. Mr. Mansfield explained that committee members have a liability no matter what service is chosen. A fiduciary can mitigate, but not eliminate liability. Mr. Mizuno advised the committee that there is fiduciary insurance coverage for members. Mr. Olympia also asked about the 3(38) discrepancy on Mesirow costs presented in February 2021 versus what was presented during today's meeting earlier. Mr. Mansfield clarified that the information presented in February addresses the 3(21). Mr. Mizuno clarified with Mr. Mansfield and Ms. Armstrong that the number for Mesirow shown in the meeting was a net incremental cost for 3(21). The 3(38) is not the same.

- The committee discussed the options regarding the fiduciary services consultant.
  - Mr. Mizuno asked if anyone had any comments regarding the consultants that submitted an RFP. Mr. Olympia said that he was interested in Mesirow and NFP because of their large client base and revenue funding. Mr. Olympia asked which would be preferred, the 3(21) or 3(38). He reminded the committee that the 3(21) would be more advisory and the committee would still need to do the research and make the decision on the fund lineup. With the 3(38), the consultant would make the decisions for the committee. Mr. Mercer replied that with the 3(21), that in most cases, the committee would go along with the suggested changes from the consultant. It would have to go vote with the committee as co-fiduciaries. He also mentioned that if the committee goes against suggested changes, that it removes the consultant from the process of being a fiduciary. Mr. Olympia also mentioned that the consultant would be doing the vetting of the funds, unlike MissionSquare, so there's no benchmark. Mr. Mercer mentioned that there may be pushback from participants if the committee decides not to go with Mesirow. Another consultant may make suggestions on changes to funds, and that would need to be explained to participants.
  - Mr. Olympia asked about the fees. Mr. Mizuno calculated the fees and for Mesirow 3(31) would be approximately \$27,000, and for 3(38), it was approximately \$83,000. Mr. Mizuno mentioned that Mesirow would seem like the best value with least change from status quo but pointed out a possible perception of a less than arm's length relationship between MissionSquare, the TPA, and Mesirow, the potential fiduciary. Although they are two separate entities, they do work very close together thus there could potentially be a familiarly bias. It was also discussed that Mr. Mansfield mentioned Mesirow does not have a large book in California. The second lowest fees for 3(21) would be from NFP. Some of their clients are reputable similar agencies that Central San is familiar with. Mr. Mercer reminded the committee that if Mesirow is chosen, that there would not be a representative from Mesirow. Rather, Mr. Mansfield would be the representative. Selecting NFP, there would be a consultant and may get a different perspective.
  - Mr. Mizuno mentioned that the guidelines with selecting a consultant would be different since District funds are not being used pay for services. He would just need direction from the committee to move forward. Asking if there were any other questions from the committee, Mr. Thomas asked if there would be additional funds to chose from if the committee decides to go with Mesirow. Mr. Mizuno replied that Mesirow will look at the fund performance and compare it to the administrative fees then benchmark that to others in their study to see if the funds are where they

should be. Mesirov would then propose an action, but the committee will have a chance to review. Mr. Harvey asked if the structure of the plan would remain the same and whether the fund lineup could change. Mr. Mizuno replied that there would be a three-step process moving forward. First, the fiduciary would assist in developing an investment policy statement (IPS), since there is not one currently in place. Then they would benchmark and use their research underperforming funds. Then using the fiduciary would suggest changes, if any, to the fund lineup. Mr. Harvey mentioned that participants would still like to have the option to keep funds through brokerage window if they like.

- Mr. Mizuno mentioned to the committee that having a third-party assist with the development of an IPS is important especially since there is not one in place right now. Mr. Mercer also mentioned that the adoption of an IPS may result in changes to the investment options and fund lineups currently in place. Mr. Olympia asked if the committee chooses a consultant, and then in two to three years are not happy, would the committee still be able to use the IPS developed with the consultant. Mr. Mizuno replied that the committee would still be able to use the IPS. He also recommends that a third party is advisable to keep on the committee.

**Motion to have staff move forward with contract documents with NFP.**

**Member Mercer motioned to approve, seconded by Member Whitman. All Members present then voted unanimously to approve the Minutes with no nays or abstentions.**

- **Committee membership changes**

- Mr. Harvey communicated he may not be able to continue to participate on the committee. Mr. Mizuno replied that he will need to reach out to the Department Director to suggest a replacement per the Committee's Administrative Procedures.

- **Parking Lot / New Business**

- Items to be covered at the next or a future meeting:
  - Fiduciary Insurance
  - Fiduciary Training
  - Outreach Plan for 2022
  - Discussion on Form 700
  - Annual Review of 2021 results

- **Next Meeting: February 2, 2022**

**ADJOURN**

12:09 p.m.