**VENTURA COUNTY**
**DEFERRED COMPENSATION COMMITTEE**
**401(k) Shared Savings Plan**
**Channel Islands Conference Room**
**February 20, 2020**
**2:00 p.m.**

| <u>**Members present**</u> | <u>**Members absent**</u> | <u>**Also present**</u> |
|---|---|---|
| Kaye Mand | | Patti Dowdy |
| John Polich | | Wanda Crane |
| Shawn Atin | | Amanda Diaz |
| Jeff Burgh | | Tracy Sewell |
| Steven Hintz | | Suzanne Rogers |
| | | Joan Steel |
| | | Jake O'Shaughnessy |
| | | Phil Haslam |
| | | Lance McInerney |
| | | Andrew Kremer |

Ms. Mand called the meeting to order at 2:00 p.m.

1. **Public Comments.** None.

2. **Committee Member Comments.** None.

3. **Minutes of Regular Meeting November 7, 2019.** Mr. Hintz moved, and Mr. Polich seconded to approve the minutes. The motion carried.

4. **SageView Advisory Group 4Q 2019 Investment Review.** Mr. Jake O'Shaughnessy, Managing Director SageView Advisory Group LLC, began his presentation with the economic and market overview. He noted that 2019 was the best year for investments as asset classes are up, stocks are up, and the S&P finished up 31%. Meanwhile, regarding trade for the next 20 years there will be a dual supply chain with China and the US at the top. Brexit feeds into the trading relationship with the European Union and the United States. The feds raised interest rates in 2018 and spent 2019 lowering those rates. The GDP has been slowing down with the election year, and there is anticipation of the feds cutting rates in order to stimulate the economy. Regarding Global Economics, Japan experienced a stimulus and then there was a dramatic draw back the second half of the year due to trade tensions with the US. An overview of the capital markets was provided, and every class was up; International stocks were up by about 20% and US stocks were up by about 30%. The economic scoreboard showed that employment remained strong, and consumer spending is supporting 2/3 of the economy, credit scores are high; although there are some tensions present with companies such as Apple not announcing returns. Mr. O'Shaughnessy reviewed the US and International equities, discussing long term value in international equities, valuations, and the fact that Europe's shares are slower to recover than the US. He stated that the international rates fell 1% in 2019, and at the end of 2019 there was an upward sloping yield curve. Mr. O'Shaughnessy went on to discuss delayed retirement and how the different generations are thinking about retirement; the younger generation (Millennials) are hoping to retire before or at age 65, whereas GenX and Baby Boomers are thinking after age 65, and

some do not plan to retire. He mentioned that people are living longer and often feel they have more to give past the age of 65, and that retirement at age 65 is changing in the US. Mr. O'Shaughnessy turned the Committees' attention to the SECURE Act and some of the provisions, he noted the RMD provisions at age 72. He also added that there is a plan provision with the birth or adoption a participant that would allow them to withdraw up to $5000, and there will also be an option for an in-service withdrawal. Regarding the provisions, the RMD must be adopted, but the other options will be the Committee's discretion; there will be additional information needed as far as what proof will be required for the adoption withdrawal – this can be brought back to the committee later. Mr. O'Shaughnessy reviewed the SageView score and mentioned that it is a sound scoring system. He then highlighted some information about the Ventura County 401(k) asset allocations. He noted that the plan was doing fantastic. He then reviewed the pending fund action that was being finalized as of 2/21/2020. Ms. Dowdy added that there had been multiple communications regarding the upcoming fund action and no calls or inquiries had been received. She added that fund action workshops had also been held and there were only 8 attendees in total. Lastly, Mr. O'Shaughnessy reviewed the one-page Watch List Summary that detailed the funds being tracked in addition to the funds slated to be removed; there were no new recommendations. Ms. Mand moved, and Mr. Burgh seconded to receive and file the information and approve the watch list summary recommendation for Q4 2019. The motion carried.

5. **Fidelity's Target Date Strategies/Institutional Asset Management.** Ms. Joan Steel introduced Mr. Lance McInerney, Institutional Portfolio Manager, to review the target date funds included within the County's investment line-up, and the Plan's default option. He began with information about the math that is required to retire with a comfortable benefit, and approximately 45-55% of a participant's salary will come from a pension and the rest needs to come from savings. About half of their income can be replaced with poor investments, but 100% replacement can be achieved with good investment returns; there are good investments with Target Date Funds. He proceeded to detail the Target Date Fund approach and the risks that investors take in the market, as well as inflation. He noted that the primary risk is the longevity risk; if you look at the actuarial tables people are living longer. Looking at investing focused on retirement income, the Glide Path becomes more conservative closer to retirement. He added that any decisions made are secular, they take a 20-year view and as far as returns, the assets pay out over a long period of time (does not include commodities as long-term investments are uncertain). There is also diversification, and an example is high-yield bonds that follow in tandem with the stock market. He also mentioned that looking at the 100 years of history that Fidelity has is good, but it is also good to look forward with their own views as well. Mr. McInerney then stated that the active management has a 1 to 5-year intermediate outlook. These investments generate additional funds, there is a moderate amount of risk and there are a lot of funds spent on research that enables them to make informed investment decisions. He then mentioned the asset class selection focuses on diversification, which include strategic asset classes and out-of-benchmark asset classes. Mr. McInerney moved on to asset allocation and noted that there are no changes to this information, there is currently $346B in Target Date assets with resources to manage the funds appropriately. Mr. O'Shaughnessy asked Mr. McInerney to explain to the Committee why we are paying for more active management versus traditional security. Mr. McInerney then stated that it is adding value to large cap growth regardless of the market and that large cap value can be more challenging. Looking at US stock markets, large cap stocks is where growth is. Mr. McInerney then reviewed

Fidelity's Glide Path which shows asset allocations, diversification, and added that the portfolio is more resilient to the market. When participants are closer to retirement, they want to avoid a negative return experience. The Glide Path is updated periodically and was updated last year to include a mix of assets, with 60% US and 40% non-US equity; allocations are driven by diversification and adding more markets. Next, Mr. McInerney moved to insights into the plan's participants saving rate trends that show increased levels. He mentioned that participants return in the Target Date Funds are lower than the DIY funds (5% vs. <1%), they are staying in the fund, they have been provided more education, there is a good sign that they are being used the right way. He then moved onto the relative performance of active vs. index, and noted that it is .3% annualized, the compounds increase over time and in modest amounts (in net of all fees). This is based on a three-year rolling index, 83% where active outperformed index; this includes historical data from 8/1/14 to 12/31/19). Looking at asset allocation, underweight vs. overweight, it was noted that active allocation decisions are done gradually, and generally pay off in the 1-5-year timeframe. Mr. McInerney then discussed the positioning and views for the Fidelity Freedom 2025 Fund. Next, he reviewed the following: equities and performance in the US markets where the cycles have been long and dramatic, strengthening of the dollar, the US has been underweighted and ultimately it will pay off, and that the portfolio may have added commodity exposure in the event we see inflation. He then moved on to the performance attribution for the preceding 12 months ending December 31, 2019; it was a challenging year where manager selection hurt in the international portfolio. Ms. Rogers added that there were no major outflows of funds. Mr. O'Shaughnessy noted that funds did well over the last year and added that SageView watches over the portfolio. Mr. Hintz moved, and Mr. Atin seconded to receive and file the information. The motion carried.

6. **Fidelity Investments Quarterly Service Review.** Ms. Rogers, Senior Vice President, Managing Director, began her presentation with an overview of the plan statistics. Ms. Rogers noted that Fidelity has 97% of active participants e-mail addresses on file and 68% of active participants have a beneficiary on file. The employee participation is at 96% as of Q4 2019 and is well above the peer average. She added that 630 employees have been enrolled in the prior twelve months via EasyEnroll, online/mobile enrollment, and other channels. Ms. Rogers mentioned that other public entities are using auto-enroll by union, and this may be something that the County may want to investigate. The average savings is at 10% and performance is increasing. The plan is healthy, and there are 73% of participants in age appropriate allocations, and a lot of investment choices are available for employees. Next, Ms. Rogers reviewed the loan and withdrawal activity as of Q4-2019. 33% of active participants have at least one loan outstanding, and the GenX participants with the highest loan utilization. The interest rates for the loans is the prime rate, currently at 4.75% and changes quarterly, and it was noted that the interest is being paid back to the employee. Mr. O'Shaughnessy stated that this is where the in-service withdrawals for the Baby Boomers could be considered so that they would have the option of taking funds with normal taxes, but without a penalty. Ms. Rogers then moved on to employee engagement and mentioned that their goal is to reach out to the unengaged participants (participants who have not contacted Fidelity in the prior 12 months) and get them engaged. Of the 18% unique participants who have engaged in planning or advice, 40% have utilized the on-site representative, 24% have utilized the phone representatives, 1% have utilized the live web representatives, and 35% have utilized the online tool. With this planning and advice engagement, 52% of employees

took an action after engaging in retirement planning, including: fund exchange, increased deferral, fund exchange to Target Date Funds, managed account enrollment, and/or consolidated assets. Mr. Atin moved, and Mr. Burgh seconded to receive and file the information. The motion carried.

7. **Information Agenda.** Ms. Dowdy reviewed the recently passed SECURE Act that signed at the end of 2019, the plan sponsor implications, and added that there will be more to come, as well as, plan amendments. She also noted that the revenue credit account between both Plans have exceeded a million dollars. Based on the recent fund changes it will take a couple of quarters to determine the impact of those on future funding. One this impact is known a possible allocation back to participants can be considered at this time. Mr. Atin moved, and Mr. Burgh seconded to receive and file. The motion carried.

Ms. Mand adjourned the meeting at 3:48 p.m.

Respectfully submitted,

Amanda Diaz

Amanda Diaz
Deferred Compensation Program Assistant