

City of Seattle Voluntary Deferred Compensation Plan Regular Trust Committee Meeting Minutes

Wednesday, September 25, 2024, 10:00 am – 12:00 pm
Hybrid Meeting

TRUSTEES present: Jamie Carnell, Kimberly Loving, Jeffrey Davis, Tania Torres, Dennis Karl, and Rick Sheridan.

STAFF present: Michelle Ell, Tony Dozier, Jessica DiCione, Heather Kruger (Plan Staff).

CONSULTANTS present: Ted Grigsby and Tom Breaden from Hyas Group; Michael Monaco and Gavin Parr from Mondress Monaco Parr Lockwood (MMPL).

GUESTS present: Jim Keeler, Susan Wilson, and Kent Morris (Nationwide). Andrew Robinson (City Finance), Gary Smith (City Attorney's Office)

BUSINESS

Opening: Rick Sheridan, Committee Chair, started the meeting at 10:02 am.

Introductions: Rick Sheridan welcomed attendees and asked for introductions.

Public Comment: No public comment.

Minutes of May 22, 2024 Meeting: Rick Sheridan asked for a review of the meeting minutes.

MOTION: Dennis Karl moved to approve the minutes. The motion was seconded by Jamie Carnell and passed unanimously.

Nationwide Q2 2024 Report: Jim Keeler discussed the Q2 2024 Nationwide plan overview and noted the first quarter's strong performance. He commented there are 11,272 participants in the plan with 9,611 online accounts. Loans and unforeseen emergencies are noted to be within expected levels. There has not been a significant change in overall investment allocations and the Q2 ending aggregate plan asset value was 1.85 billion (exclusive of loans). Staffing is full at Nationwide, and they reported satisfying all Service Level Agreements for the quarter. There has been \$25 million in transfers/rollovers out, primarily to Fidelity and Charles Schwab. Susan Wilson presented information regarding one-on-one and group meetings. She reported 1,086 appointments, and 26 group meetings with 840 participants.

Hyas Group Investment Policy Statement Discussion and Q2, 2024 Performance Review: Ted Grigsby discussed the market conditions and performance. Ted mentioned that the US economy continues to post respectable economic growth numbers and inflation appears to be softening.

Investor sentiment for "higher-for-longer" interest rates reversed after Q2 and as a result investment categories that are more sensitive to interest rate changes are benefiting. Ted Grigsby mentioned a slight rotation from the large cap technology sector led gains to more mainline sectors such as energy, real

estate, and finance. Additionally, small capitalization stocks and long-term bonds also seem to be benefiting from the anticipated lowering of interest rates.

Tom Breaden next provided a detailed review regarding the four funds currently on watch: Calvert Equity R6, Vanguard US Growth, American Century Mid Cap Value, and Artisan Small Cap, discussing the reasons for their recent underperformance in relation to the applicable investment policy criteria and analysis regarding each fund's underlying management and potential for recovery with changed market conditions. Based on that analysis, Hyas recommended no action with respect to these funds.

Ted Grigsby noted that Plan assets ended the quarter at \$1,874,469,309, while Plan fees came in at 0.2675%. Due to increasing asset values, the City is eligible to replace four mutual fund indexes, Vanguard Total Bond Market Index, Vanguard Institutional Index Instl Plus, Vanguard Total Stock Market I, and Vanguard Total International Stock Index I, with lower cost collective investment trusts (CITs). Hyas recommended this change

MOTION: Jeffrey Davis moved to replace the eligible funds with the corresponding CIT. The motion was seconded by Dennis Karl and passed unanimously.

Ted Grigsby presented an analysis of the fee methodologies that the City of Seattle can select to compensate Nationwide. He noted that the current asset-based model being used appears to be the most effective looking forward and offers the lowest cost approach, when considering total fees from a plan level. This fee methodology will automatically continue to apply for next year unless the Committee elects to make a change. The Committee agreed with the commendation to maintain the current asset-based fee methodology.

Ted Grigsby presented an analysis of the administrative budget account and discussed the prospect of a rebate or fee holiday to participants and/or reducing the overall administrative fee of .09% of plan assets due to the growing account balance. He suggested that the Committee could consider adopting a policy regarding the account. Committee members expressed interest in the development of a policy, and there was also a discussion regarding the rebate used in the past. Michelle Ell explained that a rebate is where a specific amount to return to participants is approved and provided to the recordkeeper. The recordkeeper then allocates and credits the funds to participants' accounts pro rata, which is explained to them a notice. Jamie Carnell agreed with the idea of a rebate and the development of a fee policy for the future. Rick Sheridan asked whether there is a specific rebate amount the Committee is considering. Jeffrey Davis stated that the fee should be re-evaluated in the future in connection with the development and implementation of a policy, and suggested a \$1 million rebate to occur now based on the information provided by Hyas Group. Rick Sheridan expressed agreement with that approach.

MOTION: Jeffrey Davis moved for a \$1 million fee rebate from the reserve. The motion was seconded by Jamie Carnell and passed unanimously.

Legal Update: Michael Monaco mentioned that the IRS recently issued regulations regarding the SECURE Act and SECURE Act 2.0 changes to the required minimum distribution rules. No action is needed at this time.

Plan Staff Update: Michelle Ell discussed the NAGDCA conference and the benefit of meeting with representatives of other states and counties, especially those who use Workday. She has ideas for future outreach leveraging Workday for communication methods. Rick Sheridan mentioned it was time well spent, focusing on fraud prevention and fiduciary responsibility sessions.

Michelle Ell discussed the Washington State Legislation regarding auto enrollment that may be passed into law next year.

Michelle Ell briefed the Committee on the Workday payroll system transition and its impacts on the Deferred Compensation Plan. She reported that there have been issues with deferral contributions, leave cashouts to the Plan at separation, and loan payments. The unit is working with the WeVolve team to implement corrections. Michelle noted that she has consulted with MMPL regarding the necessary corrections. Michael Monaco commented that Plan staff is taking the appropriate steps to address the issues. Jamie Carnell provided further background, noting that the City has moved from a thirty year old system and there have been challenges in the transition to the new payroll system with Workday. Rick Sheridan inquired as to the number of employees impacted and the timeline for corrections. Michelle Ell stated that she does not know the full scope at this time. Jamie Carnell stated that they have identified thirty employees thus far and pay impacting corrections are the priority.

Adjournment: Rick Sheridan moved to adjourn the meeting. Hearing no objections, the meeting was adjourned at 11:23am.

Next Meeting: The next regular meeting is scheduled for Wednesday, December 4, 2024, at 10:00 am PT. The meeting will be hybrid via WebEx.



Jeffrey S. Davis
Secretary, Deferred Compensation Plan Committee