

Approved

457 DEFERRED COMPENSATION PLAN MINUTES OF ADMINISTRATIVE COMMITTEE REGULAR MEETING May 14, 2014 at 9:00 a.m.

Members in Attendance

Elizabeth Morrison, Chairperson
Eric Baird, ICT Business Services
Duane Hill, Accounting and Financial Reporting
Dayton Hostetler, Fire Department
Robin Romeo, Labor Relations
Tammy Woodard, Human Resources and Development (left meeting at 10:58 a.m.)

Staff in Attendance

Claudia Kay, Human Resources and Development
Julia Tanga, Police Department

Guests in Attendance

Greg Settle, Hyas Group
Jared Martin, ICMA-RC
James Reinke, ICMA-RC
Ken Wedemeyer, ICMA-RC
Sonia Rogers, ICMA-RC
Peter Hoerber, ICMA-RC
Linda Ulrich, Great-West

Agenda

- A. Minutes of 2/24/14 meeting
- B. Plan Performance Report – 1Q 2014
- C. Participant Fees
- D. Plan Service Report
- E. Loan Repayments – ACH versus payroll deduction
- F. Roth 457 scheduling update
- G. Term of Represented Employee Representative position

Copies of the following were distributed prior to or during the meeting and, by reference, are incorporated into these minutes:

- 1. Hyas Group's Plan Performance report – 1Q 2014
- 2. Hyas Group's document – PIMCO El-Erian departure update
- 3. Hyas Group's document – Financial Markets & Economic Report and Plan Watch List Report
- 4. Hyas Group's document – Illustration: Administration Fee Dynamics
- 5. ICMA-RC's Revenue Sharing report through March 2014
- 6. ICMA-RC's Field Activity report
- 7. ICMA-RC Executive Summary report – 1Q 2014
- 8. ICMA-RC Strategic Plan materials
- 9. Plan Expense and Participant Fee Policy – draft
- 10. 2014 Work Plan

Elizabeth Morrison chaired the meeting.

- A. Minutes of the February 24, 2014 meeting were distributed electronically prior to the meeting.

Upon motion by Eric Baird, seconded by Duane Hill, the Committee unanimously approved the minutes for the February 24, 2014 meeting.

- B. Greg Settle distributed and reviewed the document titled *Port of Seattle Defined Contribution Plans, Financial Markets & Economic Report and Plan Watch List Report*. Greg also presented the First Quarter 2014 performance report, and discussed the continued underperformance of the Allianz AGIC Opportunity Institutional Fund. Performance was in the 97th percentile yesterday. Greg provided some detail on the fund's history and the portfolio management team. He recommended that this fund be replaced and the Committee concurred. The Committee asked Greg to perform a Small Cap Growth Manager Search for review at the next meeting. Greg said he would send the Search document to the Committee two weeks prior to the meeting.

Greg provided an update on the recent changes in senior management at PIMCO, and recommended keeping the PIMCO Total Return Fund on "Watch" status. The Committee asked Greg questions about Bill Gross' staff management style. Greg will provide another update on the changes to the PIMCO management team and the firm's development of a succession plan at the next meeting.

Greg updated the Committee on the recent change in portfolio management at the T. Rowe Price Growth Stock Fund. He provided some details about new Portfolio Manager Joe Fath and his history at the firm. Mr. Fath has been with T. Rowe Price since 2002 and has been successfully managing a similar fund for the firm for several years. As a result, the Hyas Group is not concerned about these changes.

The Committee discussed with Greg the underperformance of the Neuberger Berman Genesis Trust R6 Fund and the concerns the Hyas Group has with the fund's large size and management style drift from value toward growth. Hyas Group recommended that the fund be placed on "Watch" status and the Committee concurred. Claudia Kay mentioned that a representative of this fund contacted her a few days ago and was interested in meeting with the Committee. The Committee agreed to invite him to the next meeting. Upon the Committee's request, Greg will send a short list of potential small growth and small cap value fund managers to the Committee by May 23.

Greg mentioned that the Columbia Trust Stable Government Fund is performing in the 88th percentile. As a result of changes in availability of opportunities and thought processes, Greg commented that several other funds have reopened since the time the Committee was under deadline pressure to select a different stable value fund.

- C. The Committee reviewed pages 30 and 31 of the Performance Report, which illustrated how the revenue share stream has dried up due to rebate of any such revenue to participants' account, and the implementation of a fixed record keeping fee and an asset-based

administrative fee. Page 43 shows a combined net balance of approximately \$60,500 for all the Administrative Allowance Accounts.

Greg distributed a document titled *Port of Seattle Illustration: Administrative Fee Dynamics*. This document showed the amount of participant asset-based Administrative Fees that would be collected based on hypothetical fee levels as well as estimated asset amounts. The Committee discussed the advantages and disadvantages of various methods (e.g., fee holidays and reduction in fees) to manage the Administrative Allowance Account balances in the event they grow larger than the amount reasonably needed for plan administration.

ICMA-RC staff explained that they are charging the participant Administrative Fee on a monthly arrears basis. They are billing the Port for the 401(a) Non-Represented recordkeeping fees at the beginning of the quarter, but the Port can pay the fee at the end of the quarter.

The Committee was informed by ICMA-RC that they neglected to collect the 3 bps Blackrock fee from participants' accounts for January through April 2014 due to confusion about implementing the new asset-based fee. The Committee discussed the complexities of administering the Blackrock fund due to the unique requirement that this fund have its management fee collected by ICMA-RC and then an invoice is sent to the Port by the fund. This arrangement creates difficulties in communicating fees and performance net of fees to participants. It would cost approximately \$7,500 to unitize the fund so that the management fee could be included in the fund price, but this does not resolve the fee transparency issue.

The Committee asked Greg to prepare and email comparative information on the Blackrock Equity Index to leading alternatives and they would vote by email whether to replace Blackrock and with which investment option. Jared Martin stated that August would be the earliest the fund change could be made if a decision was made in June.

Upon motion by Tammy Woodard, seconded by Duane Hill, the Committee unanimously agreed to use the Administrative Allowance Accounts to pay the Blackrock fees that were not collected from participant accounts from January through April 2014.
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D. PLAN SERVICE REPORT

The Committee was introduced to Jim Reinke who is a Certified Financial Planner with ICMA-RC.

Ken Wedemeyer presented the strategic plan document ICMA-RC recently developed. He explained that their clients focus on the three primary areas that are included in the strategic plan. He asked for Committee members to provide comments before the strategic plan template is rolled out nationwide and also that feedback on Port-specific goals be provided approximately six months in advance for planning purposes.

Peter Hoerber distributed a draft seminar calendar that represents Sonia Rogers' and Jim Reinke's joint efforts to provide a holistic array of services to employees. Committee feedback about the

calendar was encouraged. Sonia and Jim described the manner in which they prepare for and conduct their meetings.

E. and F. The Committee decided to defer discussion of these items.

H. The Committee convened into Executive Session at 10:55 a.m. to discuss the term of the Represented Employee Representative position. The Committee adjourned the Executive Session at 10:58 a.m.

Upon motion by Eric Baird, seconded by Duane Hill, the Committee unanimously agreed that Dayton Hostetler would serve in the Represented Employee Representative position for an additional three-year period after his current term ends.
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Adjournment: The meeting adjourned at 11:04 a.m.