



Brian Sandoval, Governor

COMMITTEE
Steve C. Woodbury, Chair, GOED
Mark Stevens, Vice Chair, Retired
Audrey Brooks-Scott, DCNR
Kent Ervin, NSHE
Karen Oliver, GCB

STAFF
Rob Boehmer, Program Coordinator
Micah Salerno, Administrative Assistant

Shane Chesney, Senior Deputy Attorney General

DEFERRED COMPENSATION COMMITTEE QUARTERLY MEETING MINUTES

August 17, 2016

The quarterly meeting of the Deferred Compensation Committee was held on Wednesday, August 17, 2016, at 9:00 a.m. in room 2135 of the Legislature Building, 401 South Carson Street, Carson City, Nevada. Attendees participated in person, by videoconference, or by teleconference.

A copy of meeting material including this set of meeting minutes, the agenda, the video recording and other supporting material, is available on the Nevada Deferred Compensation (NDC) website at: <http://defcomp.nv.gov/Meetings/2016>.

COMMITTEE MEMBERS

Kent Ervin
Karen Oliver
Mark Stevens, Vice Chair
Steve Woodbury, Chair

OTHERS PRESENT

Rob Boehmer, NDC Program Coordinator
Shane Chesney, Sr. Deputy Attorney General
Shelley Fredrick, Voya
Howard Goodman

LuAnn Nissen, Participant
Dianna Patane, Voya
Frank Picarelli, Segal Rogerscasey
Micah Salerno, NDC Admin. Assistant

1. Call to Order/Roll Call

Chair Steve Woodbury called the quarterly meeting to order for the Nevada Deferred Compensation (NDC) Committee at 9:00 a.m. on Wednesday, August 17, 2016.

Mr. Rob Boehmer took roll, and noted that Ms. Brooks-Scott was excused due to circumstances at her agency. Mr. Boehmer determined a quorum was present, and confirmed the meeting was properly noticed and posted.

Chair Woodbury recognized those calling in by telephone.

2. Public Comment

No public comment.

3. For Possible Action – Approval of Committee meeting minutes from meeting held on May 25, 2016.

There were no comments or changes on the meeting minutes.

Motion by Dr. Ervin to approve the minutes, second by Vice Chair Stevens. Motion passed unanimously, 4-0.

4. For Possible Action – Receive and approve Program Coordinator's Report of second quarter 2016.

Mr. Boehmer reviewed his report including a budget and revenue review. He spoke about the upcoming budget for FY18 and FY19 and stated there would be a shortfall in FY18 because of the revenue shortfall. The out of state travel was increased to allow for attendance at another conference or seminar. There was also money budgeted to replace two of the NDC office computers, according to the State schedule. AG cost allocation has gone down but it is hard to budget for AG use.

Mr. Boehmer commented about The Retiree Financial Wellness Fair, NHP academy presentation, and gave an update on the CliftonLarsenAllen (CLA) Financial Audit. He also mentioned the two contracts for the Program that would be expiring and asked for direction on how to proceed. The CLA contract would expire in December, 2016 but there was an option for extension. The contract with Segal Rogerscasey would expire in March, 2017 with no option to extend except/unless they were in the middle of a project.

The Committee discussed extending the CLA contract, agreed that was a good direction to go, and directed staff to get a proposal and move forward with the process. At the November meeting they could pull the extension if it was not acceptable. They postponed discussion on the Segal contract until they addressed the fee leveling item on the agenda.

Mr. Boehmer noted he had started the process for the Investment Consultant RFP through State Purchasing so they would have a negotiated contract for the BOE February meeting. He wanted to be prepared, but depending on the outcome of the fee leveling, they could reschedule the RFP.

Motion by Vice Chair Stevens to accept the Program Coordinator report. Second by Dr. Ervin, motion carried unanimously, 4-0.

5. For Possible Action – Receive and approve Investment Consultant's review of report from Recordkeeper, performance of investment options, and Fund Watch list for the second quarter ending June 30, 2016.

Mr. Picarelli reviewed the financial markets on pages 2-20 from his Analysis of Investment Performance Report for second quarter 2016. The executive summary from page 23 showed the Voluntary Plan assets were at \$688.9 million which was an increase of \$7.5 million over the quarter. The FICA Plan had \$30.6 million so the total Plan assets were \$719.5 million. The loan program was continuing to grow with 234 issued to date. Plan assets invested in the Stable Value Fund represented \$311 million (45.1%) followed by Target date funds at \$75.2 million (10.93%). The total revenue required was 15 basis points, as on June, 2016 there was a negative of \$490 in excess revenue sharing.

Mr. Picarelli reviewed the Watch List from page 27 noting the Allianz was being removed with the funds being mapped to the new MFS Value Fund. The Dodge & Cox International was placed on watch due to underperformance of the median over the 1 and 3 year periods. He briefly covered the revenue sharing analysis on page 31, plan activity and asset allocation from pages 32-47.

FUND	RECOMMENDATION
Allianz NFJ Dividend Value (being replaced)	Remain on Watch
Dodge & Cox International	Placed on Watch

Dr. Ervin requested to see a comparison of the fixed account and total bond market on an annual basis including what the volatility of each was and an illustration along with the comparison.

Motion by Vice Chair Stevens to accept the Analysis of Investment Performance report from Mr. Picarelli, second by Dr. Ervin. Motion passed unanimously, 4-0.

6. For Possible Action – Receive, discuss, and potentially take action on comparisons of Hybrid and Flat Percentage fee leveling models with illustrations of pros and cons, present proposed communication plan to participants and examples of how participant statements would look, and proposal of how to get to zero or minimal revenue sharing associated with investment options to minimize or eliminate the possibility of the Plan having to initiate revenue reimbursements back to participants. Presented by Frank Picarelli of Segal Rogerscasey and/or Voya Financial Representative present, per instruction and guidance given by the Committee at the May 25, 2016 Quarterly Committee meeting.

A lengthy discussion was held by the Committee, Mr. Picarelli, Mr. Bastien, and Mr. Boehmer regarding the two fee leveling models. They decided not to make a motion at that time, but to postpone any action so they could receive more data from Investment Consultant, Frank Picarelli, and Voya Financial that illustrated different impact scenarios on how amending the NDC Plan's current fee structure could potentially impact the current participant base.

Additionally, it was requested by the Committee that at the November 2016 meeting, Frank Picarelli and Voya present a general timeline without dates to illustrate a potential transition should the Committee decide to move forward with the process.

Furthermore, the request was made to provide the Committee with a high level summary of current and/or pending law suits involving participant, recordkeeping, and/or investment fees.

Lastly, reference was made back to earlier discussion regarding the potential of extending the current Investment Consulting contract for up to an additional 2 years to ensure a timely transition should the Committee elect to move forward with amending the NDC Plan's current fee structure. The Committee instructed Staff to reach out to State Purchasing to inquire about the possibility of extending the current Investment Consultant contract given the extent of this project and length of time that would be required in potentially changing the current NDC Fee Structure over the next 18-24 months.

No motion was taken on this agenda item.

7. For Possible Action – Receive report on Large-Cap Value investment fund change and consolidation reported on by contracted Investment Consultant, Frank Picarelli of Segal Rogerscasey and/or Voya Financial Representative.

The Large-Cap value fund change communication piece was set to be mailed the fourth week of August. The Committee felt the information was adequate and met best practices. Mr. Boehmer planned to include some information in the newsletter about the fund change.

8. For Possible Action – Receive and approve plan activity, administrative update, beneficiary data report, small inactive account report summary, and service report from contracted recordkeeper's Dianna Patane of Voya Financial for second quarter ending June 30, 2016.

Ms. Patane covered items from the Voya second quarter report including information on the Voya Fixed Account, rollovers, loans, and distributions. She also provided an update on beneficiary data, small account cash out, quarterly activities, and participation.

Ms. Fredrick gave a brief synopsis of participant use of the Voya website tools including myOrangeMoney and the Personal Financial Dashboard.

Motion by Vice Chair Stevens to accept the Voya report. Second by Chair Woodbury, motion carried unanimously, 4-0.

9. For Possible Action – Receive, discuss, and approve Interlocal Contracts for new Political Subdivisions:

- a. North Lyon County Fire Protection District
- b. Oasis Academy Charter School
- c. State of Nevada Speech-Language Pathology, Audiology, and Hearing Aid Dispensing Board

Mr. Boehmer introduced the three new Interlocal contracts that wanted to initiate participation in the NDC Program. The Oasis Academy was the first charter school to request to be in the Plan. Staff added an additional form that the charter school had to sign to confirm they met the requirements be considered governmental.

Motion by Vice Chair Stevens to accept the three listed Political Subdivisions, second by Ms. Oliver. Motion passed unanimously, 4-0.

10. For Possible Action – Receive, review, and discuss NDC Participant complaint from an NDC Retired Participant regarding her email correspondence to the NDC Committee and Program Coordinator, and the following issues summarized as follows:

- a. Alleged questionable competence and lack of appropriate participant service provided by a Voya Financial Investment Advisor Representative;
- b. Alleged failure of the NDC Committee and Staff to monitor the performance and participant service of Voya Financial and their representatives;
- c. Alleged lack of oversight by the NDC Committee regarding the investment options offered through the NDC Program;
- d. Alleged failure of the contracted NDC Investment Consultant, Segal Rogerscasey, to recognize and/or report the significant underperformance of the Invesco Equity and Income Fund; and
- e. Alleged loss in value of the Participant's NDC account as a result of the allegations listed above and pointed out in her email correspondence.

Ms. Patane reviewed the procedure that Voya follows when a complaint is received by a participant. The complaint was sent to the Voya compliance department and they provided a thorough investigation. There were multiple calls to the customer service number and those were reviewed. Ms. Patane spoke with the representative and asked about the specific funds related to the complaint. He would be provided additional training to review how and where education was to be provided. According to Ms. Nissen she met with the representative at transition meetings and Retiree Financial Day, Ms. Patane stated Voya representatives did not provide individual, specific education at group meetings.

Mr. Boehmer commented that he spoke with Ms. Nissen at length, tried to get as many facts as possible and then turned the investigation over to Voya since it pertained to their representative.

Public comment provided by Ms. LuAnn Nissen:

COMMENTS BY LUANN NISSEN AGENDA ITEM #10

NEVADA DEFERRED COMPENSATION COMMITTEE MEETING...AUGUST 17, 2016

Good Morning/Afternoon

There is much that could, and should, be said about this matter and its related issues, but in the name of brevity, I would like to address the issues summarized in the meeting agenda:

A) Alleged questionable competence and lack of appropriate participant service provided by a

VOYA Financial Investment Advisor Representative:

- 1) The NDC Statement of Investment Policy, at Page 19, provides that the Provider/Record-keeper will make information about investment options available to Participants to support making informed investment choices.
- 2) I/LuAnn repeatedly asked VOYA Investment Advisor Representative Jake Honea for assistance in comparing the two Balanced Fund options offered by the Nevada Deferred Compensation Program.
- 3) On each and every occasion, he said emphatically that they were both exactly the same and that it made no difference which of the Funds the assets in my/LuAnn's NDC Account were invested in.
- 4) Mr. Honea either did not understand the differences in the Funds or was unwilling to take the time to research and discuss important facts including portfolio, performance and management of the Funds.
- 5) At no time did Mr. Honea make any disclosure regarding what information or assistance representatives can or cannot provide to Participants in the NDC Program.

B) Alleged failure of the NDC Committee and Staff to monitor the performance and participant service of VOYA Financial and their representatives:

- 1) The NDC Administrative Manual, at Page 4, Section 1.1, provides that "The Committee and its Program Coordinator monitor the Recordkeepers..." and, at Section 1.2(d), "Ensure that Recordkeepers provide quality service to participants". The Manual further provides, at Page 9, Section 7.2, that "The Program Coordinator is responsible for the following: Operations management, including but not limited to...customer service".
- 2) The NDC Statement of Investment Policy, at Page 3, Section 1, provides that "The

Committee and its Executive Officer/Program Coordinator monitor the Program's contracted Service Providers (i.e. Recordkeeper...)".

- 3) I/LuAnn have/has informed both the NDC Committee and its Program Coordinator via email and telephone that I/she have/has experienced significant deficiencies in the customer/participant service I/she have/has received from VOYA and/or its Representatives.
 - 4) I/LuAnn have/has received no indication to date that the NDC Committee or its Program Coordinator have taken any corrective action to address these deficiencies in participant service.
- C) Alleged lack of oversight by the NDC Committee regarding the investment options offered through The NDC Program:
- 1) The NDC Administrative Manual, at Page 8, Section 6.2, provides that "An analysis of investment performance will be reviewed by the Committee at its quarterly meetings".
 - 2) The NDC Statement of Investment Policy, at Page 17, provides that "The Committee shall monitor investment options on a quarterly basis and may, in its discretion, conduct informal or formal evaluations of investment funds at any time. The Committee may place an investment option under formal fund review or on a watch list, terminate an investment option, "freeze" an investment option to new contributions, or initiate a search for a replacement investment option for any of the following reasons: 1. The investment option has not met the performance standards under the Plan for the investment category".
 - 3) Investment Consultant Segal Rogerscasey clearly stated in at least four Quarterly Analysis of Investment Performance Reports, which have been submitted to the NDC Committee, that "The Invesco Equity and Income R5 Fund significantly underperformed the 60% S&P 500/40% Barclays Agg Index". Nevertheless, the Committee took none of the corrective actions it is authorized to take. Neither did the Committee act solely in the best interests of NDC Program participants by ^{NOT} advising them of the Fund's significant underperformance.
- D) Alleged failure of the contracted NDC Investment Consultant, Segal Rogerscasey, to recognize and/or recommend action on the significant underperformance of the Invesco Equity and Income Fund:

- 1) The NDC Statement of Investment Policy, at Page 20, provides that “The Committee will elect to hire an Investment Consultant to assist it in dispensing its fiduciary duties. Specific responsibilities include, but are not limited to: evaluating and communicating to the Committee and Program Staff the performance results for each investment option on an ongoing basis”.
 - 2) Despite repeated reports of significant underperformance by the Invesco Equity and Income Fund, Segal Rogerscasey failed to recommend, in the best interests of NDC participants, that the Committee place this Fund on the Watch List or take other corrective action, including advising NDC Program participants of the Fund’s significant underperformance.
- E) Alleged loss in value of the Participant’s NDC Account as a result of the allegations listed above and pointed out in her email correspondence:
- 1) A comparative analysis of the current balance in my/LuAnn’s NDC Account and the projected balance if the assets in the Account had been invested in the other Balanced Fund option offered by the NDC Program currently indicates a deficit of nearly \$30,000. I/LuAnn attribute(s) this substantial deficit to the collective effects of VOYA Representative Jake Honea’s failure to provide qualitative and comparative information on the two funds in question, the NDC Committee and Staff’s failure to appropriately monitor the performance of the Invesco Equity and Income Fund and/or advise Participants of the Fund’s significant underperformance, Segal Rogerscasey’s failure to recommend that the Committee place the Fund on the Watch List or take other cautionary or corrective action in consideration of the Fund’s significant underperformance, and the collective failure of all of the above parties to act in my best interests as a Program Participant.

In summation, this matter should not be viewed or considered solely on the basis of it being legally defensible, which it may or may not be. Perhaps a more important question should be whether the Nevada Deferred Compensation Program is being implemented and administered in full compliance with both the letter and the spirit of the Nevada Revised Statutes, the NDC Plan Document and the NDC Administrative Manual. These documents collectively speak to customer service and the best interests of the Participants no less than nine times.

The outcome of this important matter could affect thousands of Participants for years to come. Thank you for providing me/us the opportunity to address the Committee today.

The Committee listened to the public comment and additional remarks from Ms. Nissen and Mr. Goodman. They were sympathetic to the participant and felt sorry that the impression was taken

that the two funds in question were the same. They explained that the NDC Program was a participant driven program and participants were responsible in choosing and monitoring where their funds were invested and how they were performing. It was pointed out that the Plan had a contract with an independent Investment Consultant to provide expertise and he thoroughly covered fund information at each quarterly meeting. They also reviewed the procedure to place a fund on watch list based on information from the Statement of Investment Policy. The Committee stated that Voya and its representatives should be very careful about conversations and the information they provided now and going forward.

No action was taken on this item.

11. For Possible Action – Review, discuss, and decide what Committee member along with the Program Coordinator will attend the annual Institutional Investor Summit being held in New York City, New York on November 15-16, 2016. As a reminder, Institutional Investor will not sponsor costs for our legal counsel to attend; only our Program Coordinator and one other Committee member.

Chair Woodbury stated he could not attend the NAGDCA conference and he asked if anyone else was available. Dr. Ervin and Ms. Oliver could not go so it would be offered to Ms. Brooks-Scott.

Ms. Brooks-Scott would have first choice, followed by Ms. Oliver, and finally Mr. Woodbury for the Institutional Investor Summit in November.

Motion by Dr. Ervin to send one Committee member and the Program Coordinator to the Institutional Investor conference in order mentioned above. Second by Vice Chair Stevens, vote passed unanimously, 4-0.

12. For Possible Action – Confirm upcoming scheduled meeting dates and schedule January 2017 Strategic Planning Meeting and February 2017 Quarterly Committee meeting.

Wednesday, January 11, 2017 for the Planning meeting and Wednesday, February, 15, 2017 for the quarterly meeting were the proposed dates.

Comments/Updates

13. Committee Members

No comments.

14. Investment Consultant

No comment.

15. Recordkeeper

Ms. Patane noted she would speak with the representatives to ensure they spoke clearly and arrange one-on-one meetings to avoid this type of situation in the future. They would receive extra training and she would report about that at the next meeting.

16. Staff Updates

Mr. Boehmer remarked that staff would do everything they could to prevent this from happening again. He had attended group and one-on-one meetings in the past with the Voya representatives and would continue to do that as time allowed.

17. Public Comment

Mr. Goodman inquired about a chart that was provided in the meeting material. He urged the Committee to consider customer service when they went out to RFP for the next recordkeeper contract.

18. Adjournment

The meeting was adjourned at 2:00 p.m.

Respectfully submitted,

Micah Salerno
NDC Administrative Assistant