

DEFERRED COMPENSATION COMMITTEE QUARTERLY MEETING MINUTES

December 11, 2018

The quarterly meeting of the Deferred Compensation Committee was held on Tuesday, December 11, 2018, at 8:30 a.m. in the Old Assembly Chambers of the Capitol Building, 101 North Carson Street, Carson City, Nevada. Attendees participated in person or by teleconference.

A copy of meeting material including this set of meeting minutes, the agenda, the audio recording and other supporting material, is available on the Nevada Deferred Compensation website at: <http://defcomp.nv.gov/Meetings/2018>.

COMMITTEE MEMBERS

Debbie Bowman
Matt Kruse
Wayne Thorley
Kent Ervin, Vice Chair
Mark Stevens, Chair

OTHERS PRESENT

Bishop Bastien, Voya
Rob Bilo, Nationwide
Rob Boehmer, NDC Executive Officer
John Borne, Prudential
Sarah Bradley, Deputy Attorney General
Steve Ebert, Nationwide

Ronda Miller, Purchasing
Josh Newell, Empower
Dianna Patane, Voya
Frank Picarelli, Segal Marco
Micah Salerno, NDC Admin. Assistant
Mark Stewart, Purchasing

1. Call to Order/Roll Call

Chairman Mark Stevens called the quarterly meeting to order for the Nevada Deferred Compensation (NDC) Committee at 8:32 a.m. on Tuesday, December 11, 2018.

Mr. Rob Boehmer took roll and determined a quorum was present. He also confirmed the meeting was properly noticed and posted.

2. Public Comment

No public comment.

Chair Stevens remarked that items would be taken out of order to accommodate Committee member schedules.

3. For Possible Action- Approval of NDC Committee meeting minutes from meeting held on August 23, 2018 and September 6, 2018.

Mr. Boehmer noted the minutes from August 23, and September 6, 2018, were submitted for approval.

Motion by Vice Chair Ervin to approve the minutes for August 23, 2018 and September 6, 2018, second by Mr. Kruse. Motion passed unanimously, 5-0.

9. For Possible Action- Receive, review, discuss, and potentially take action to accept or provided edits to the Request for Proposals (RFP) DRAFT for Recordkeeping Services to be released in January 2019:

- a. Per the request of the NDC Committee, the NDC Executive officer will report on estimation of Administrative costs that are associated with administering the NDC Federal Insurance Contribution Act (FICA) Alternative Plan.

Mr. Boehmer reviewed the last four years during his tenure and estimated that on average the FICA program required about 5-10% of staff time.

Vice Chair Ervin asked what the total percent of assets the FICA program represented.

Mr. Boehmer replied there was approximately \$40 million in assets which was around five percent of the total assets.

Mr. Boehmer introduced Deputy Attorney General (DAG) Ms. Sarah Bradley who was filling in for the regular DAG for NDC, Ms. Henna Rasul.

- b. Committee to take formal action to either serve as the "Chief of the Using Agency" for RFP execution and management purposes, or to assign that authority to State Purchasing Division with the caveat that members of the Committee be given the opportunity to serve as evaluators on the Recordkeeping Services RFP in an effort to maintain the fiduciary responsibility of their appointment.

Mr. Boehmer spoke to Mr. Jeff Haag with Department of Purchasing (Purchasing) who stated it would be acceptable for all five NDC Committee members to serve on the RFP Evaluation Committee.

Chair Stevens believed Purchasing should be in control of the RFP process and it would be ideal if all the NDC members were available and willing to serve on the Evaluation Committee. There would also be one or two additional people appointed to the Evaluation Committee.

Mr. Boehmer went over the tentative timeline for the RFP and explained the process. The intent was to have everything complete to submit for the August 2019 meeting of the Board of Examiners.

Vice Chair Ervin asked if there could be different finalists for the Voluntary Program and FICA Program.

Mr. Boehmer stated because there would be two separate contracts for 475b Voluntary and FICA, there could be two finalists depending on the scoring and choice of the Evaluation Committee.

Mr. Picarelli asked who would decide if the proposals qualified according to the minimum qualifications.

Mr. Mark Stewart with Purchasing stated they would do an administrative review of the proposals and could have a checklist review as well, but he cautioned to not make it too extensive. The Evaluation Committee needed to confirm everything was included as was required.

Purchasing was required to advertise in the newspaper and would list the RFP on their website. They could also solicit by a list provided by the Program and they had access to a national vendor registry. As soon as the RFP showed up on their website vendors would have access to it.

Mr. Boehmer would include advertisement with NAGDCA, Pension & Investments, and other publications in the industry.

Vice Chair Ervin was reluctant to assign Purchasing as “chief of the using agency” because statute stated that the Committee served in that capacity and he did not want to give up ultimate authority for the Committee as chief of the using agency.

Chair Stevens believed they should assign authority to Purchasing for the RFP process. They should rely on Purchasing for their professional expertise in handling the RFP. He wanted everything to be done appropriately so they were not subject to an appeal.

DAG stated no one else should be call the chief of the using agency since it names the Committee in statute, but Purchasing would be helping with all the administrative pieces of the RFP process.

Motion by Mr. Thorley to assign authority to Department of Purchasing to administer the RFP and to request 5 members of the NDC Committee be appointed to the RFP evaluation committee, and delegate authority to Mr. Boehmer to name up to 2 additional members to the RFP evaluation committee. Second by Ms. Bowman, motion passed unanimously, 5-0.

The Committee, staff, Investment Consultant, and Purchasing went through each section of the RFP draft to ensure clarity and to make edits and corrections.

Vice Chair Ervin would submit minor changes including spelling, punctuation, and Plan information to Mr. Boehmer through email.

Mr. Thorley left the meeting to attend Interim Finance Committee at 9:42 a.m.

- All factual data on employees, assets, entities, etc. would be updated for December 31, 2018.
- Break down the political subdivisions by county instead of individually. Duplicate the table of Plan data for the FICA section.
- Lower minimum qualification for governmental plans to assets of at least \$800 million.

- Representatives had to be salaried employees and cannot market other products.
- Fees must be payable within 90 days once the contract is executed, 95% for voluntary and 5% for FICA.
- Fee level model for FICA so they start contributing to administrative costs, 5%.
- Question on if the vendor can administer current fee method or other options.
- Questionnaires needed to be separate for FICA because it would be a separate contract.
- Cost proposal tables – disclose any additional fees that were not included in the base. Separate out FICA fees.

10:41 a.m. Mr. Thorley returned to the NDC meeting.

Chair Stevens called a five-minute break.

7. For Possible Action- Receive, review, discuss, and potentially take action on Fund Search data and analysis collected and presented by the NDC contracted Investment Consultant within the International Asset category in the following NDC Core investment line-up classes.

Mr. Picarelli provided a report that the Committee had requested as a formal fund search for the international, large cap core to replace the current Dodge & Cox International Stock. Mr. Picarelli looked at brand recognition, assets under management, and manager portfolios and recommended three fund options as a replacement. He covered fund facts and characteristics and noted that performance was important especially focusing on longer term periods.

Chair Stevens questioned if they wanted to continue to have a fund with emerging market exposure.

Mr. Picarelli noted one solution would be to replace the Dodge & Cox with one of the three options he presented and consider consolidating the Franklin Mutual Global Discovery Fund with the new active fund or into the Vanguard Index fund. One communication piece would cover both changes in the international space.

Vice Chair Ervin believed the American Funds EuroPacific Growth seemed like the best choice to replace the Dodge & Cox. He did not think it was necessary to have a separate global fund and asked if it was appropriate to map from a global to an international fund.

Mr. Picarelli stated it would eliminate the U.S. exposure.

Vice Chair Ervin asked for Mr. Picarelli's recommendation.

Mr. Picarelli recommended replacing Dodge & Cox with the American EuroPacific Growth for better diversification and lower expense ratio, and it covered international exposure. He would also eliminate the Franklin fund and take a more passive approach mapping it to the Vanguard fund and communicate the changes all together.

After discussion on whether to wait another quarter or make a change at that time the Committee decided to move forward with the changes.

Motion by Mr. Kruse to replace the Dodge & Cox fund with the American EuroPacific Growth Fund and to map the Franklin fund to the Vanguard Index. Second by Vice Chair Ervin, motion carried unanimously, 5-0.

12. Possible Action Item- Receive and review current NDC Statute and Regulation. Receive report on Regulation changes, repeal of NAC 287.730 [LCB File no.R195-18], and recommendation request submitted to Legislative Counsel Bureau (LCB) Legal Division.

Mr. Boehmer had submitted both proposals for regulation changes to LCB Legal to get feedback. He received a letter from Mr. Asher Killian with LCB outlining their recommendations.

Vice Chair Ervin commented that LCB had removed one section that went against current statute and he was fine with that and everything else LCB said in their letter.

Chair Stevens remarked that regulation changes usually went the way LCB legal wanted and they provided a recommendation and opinion.

Motion by Vice Chair Ervin to take LCB legal opinion eliminating NAC 287.730. Second by Ms. Bowman, motion carried unanimously, 5-0.

Vice Chair Ervin was excused from the rest of the meeting.

6. For Possible Action- Receive and approve Investment Consultant's review of report from Recordkeeper, performance of investment options, and Fund Watch List for the third quarter ending September 30, 2018.

Mr. Picarelli reviewed the financial markets on pages 1-21 from his Analysis of Investment Performance Report for third quarter 2018. The executive summary from page 24 showed the Voluntary Plan assets were at \$833.7 million which was an increase of \$22.2 million over the quarter. The FICA Plan had \$39.7 million in assets so the total Plan assets were \$873.4 million. The loan program had 513 issued to date with an outstanding balance of \$3.8 million. The majority of Plan assets were invested in the Stable Value Fund representing \$315.8 million (37.9%) followed by Target date funds at \$158.2 million (19%). As of September 30, 2018, the projected total annual funding requirement for the Plan was \$806,247 based on 8 basis points fee on the variable assets per the Voya contract for \$412,063 and the Plan administration budget of \$394,184. The fee model revenue was projected at \$814,483 derived from the 8 basis points from the Voya contract and the \$30 per participant charge. The projected revenue included only participant accounts with balance over \$1,000. At September 30, 2018, the projected revenue would be over the funding requirement by \$8,236.

Mr. Picarelli recommended he invite Vanguard to the Planning Meeting to talk about their portfolios in detail. They could explain how rebalancing and allocation affects the tracking error. They may need to make some changes to the tracking error on Target Date funds based on information from Vanguard. The tracking error may need to be 30 to 40 basis points instead of 20.

Mr. Picarelli continued his review speaking about total plan activity, asset allocation, loans and Roth contributions. He stated they were waiting on the FICA rate for 2019. On page 54 was information about the fixed account. The 12 month PUT notification letter was sent to Voya by Mr. Boehmer so all funds would be available for the new contract in 2020.

Mr. Picarelli reviewed the Watch List from page 30.

FUND	RECOMMENDATION	DATE PUT ON WATCH
Oppenheimer Main Street Mid Cap	Remain on watch due to 5 year performance under benchmark and peer	December 31, 2016
Goldman Sachs Small/Mid Cap Growth	Remain on watch due to 5 year performance under benchmark and peer	December 31, 2016
Franklin Mutual Global Discovery	Remain on watch due to 5 year performance under benchmark and peer, recommend either mapping to current funds or conduct search in 2018	June 30, 2017
Vanguard Developed Markets Index Institutional	Placed on watch due to 5-year performance under benchmark and peer by -25 bps	June 30, 2018
Dodge & Cox International Stock	Place on watch due to 5-year performance under benchmark and peer	June 30, 2018
Vanguard Target Retirement 2020	Remain on watch due to 5-year performance under benchmark and peer by -23 bps	March 31, 2018
Vanguard Target Retirement 2025	Remain on watch due to 5-year performance under benchmark and peer by -22 bps	March 31, 2018
Vanguard Target Retirement 2030	Remain on watch due to 5-year performance under benchmark and peer by -25 bps	March 31, 2018
Vanguard Target Retirement 2035	Remain on watch due to 5-year performance under benchmark and peer by -26 bps	March 31, 2018
Vanguard Target Retirement 2040	Remain on watch due to 5-year performance under benchmark and peer by -27 bps	March 31, 2018
Vanguard Target Retirement 2045	Remain on watch due to 5-year performance under benchmark and peer by -28 bps	March 31, 2018
Vanguard Target Retirement 2050	Remain on watch due to 5-year performance under benchmark and peer by -29 bps	March 31, 2018
Vanguard Target Retirement 2055	Remain on watch due to 5-year performance under benchmark and peer by -32 bps	March 31, 2018
Vanguard Target Retirement 2060	Remain on watch due to 5-year performance under benchmark and peer by -32 bps	March 31, 2018

Motion by Mr. Thorley to approve the Segal report. Second by Matt, vote passed unanimously, 4-0. Vice Chair Ervin was excused from the meeting.

13. For Possible Action- Receive report and discuss any potential legislation in preparation for the 2019 Legislative session.

Mr. Patrick Cates, director of Department of Administration, commented the purpose of the SB27 was to place the program under Department of Administration and make the Executive Director report to him. He had worked with several people on the language for the legislation, but it was a bit troubling how it worked out. He respected Dr. Ervin as he provided a lot of valuable input, but disagreed with the approach of the language Dr. Ervin submitted. LCB came back and said neither version of the proposed regulation were necessary. He believed the proper role of the board was to have broad oversight of the Program, but should not extend to managing staff or how the office was run. He wanted to clarify the roles for staff and the NDC Committee. The Committee and he could share fiduciary responsibility without direct supervision of staff.

Chair Stevens now had a better understanding of why LCB Legal made their suggestions. Action was taken earlier in the meeting to implement what LCB Legal had proposed.

No action was taken on this item.

8. For Possible Action- Receive report and recommendation from Investment Consultant on Committee Fiduciary Responsibility for Program Administration oversight.

Mr. Picarelli provided a presentation on fiduciary responsibilities and how they are delegated to various members. The State delegated responsibility to the NDC Committee and Executive Director. Every Plan related decision must be made solely in the best interest of the Plan and its participants. Mr. Picarelli continued to share that the majority of Plans that they service usually has an appointed Board or Committee by the ultimate authority of the entity (i.e.- The State of Nevada. It is a very common practice that most governing Boards or Committees concentrate on governance of Investment management and Plan Design decisions and management, and an appointed Program or Plan Director, usually under the direction of an agency or authority within the State or governing entity takes care of all of the day-to-day management and oversight of personnel management, contract management and execution, budget management and development, internal policy management, and serving as a primary contact and support to the Board.

Mr. Thorley questioned if the outside members that served on the RFP evaluation committee would be considered fiduciaries.

Mr. Picarelli noted one would say those people had to work in the best interest of the Plan so they would have fiduciary responsibility.

Motion by Mr. Thorley to accept the report on Fiduciary Responsibility. Second by Mr. Kruse, motion carried unanimously, 4-0.

4. For Possible Action- Receive, discuss, and approve Executive Officer's Report of third quarter 2018.

Mr. Boehmer reviewed information from his third quarter report covering budget data, administrative account, and quarterly staff report. He also gave an update on Nye County transitioning to the NDC Plan.

Mr. Bastien provided an explanation on an attempted hacking on 43 NDC accounts that were registered and taken over, but no funds were taken. All of the accounts were frozen, but thanks to the security measures in place through Voya no money was able to be withdrawn. All 43 participants had been contacted and instructions given on how to unfreeze and correctly register their account. A communication piece was created not to highlight the event, but on the importance of participants in registering their account.

Mr. Boehmer concluded his report highlighting Financial Wellness Days, work on the Smart 21 project, and comments on contribution limit increases for 2019.

Motion by Mr. Thorley to accept the Executive Officer quarterly report, second by Ms. Bowman. Motion passed unanimously, 4-0.

5. For Possible Action- Receive report on the Fee Level Transition.

Mr. Boehmer provided a brief update on the fee level transition and mentioned the change to quarterly account assessment instead of annual would take effect in 2019. The two communication pieces in reference to the change were included in the meeting material.

No motion was taken.

10. For Possible Action- Receive and approve plan activity, administrative update, beneficiary data report, small inactive account report summary, and service report from contracted recordkeeper for third quarter ending September 30, 2018.

Ms. Patane went over the Voya third quarter report including information on quarterly activities, contributions, rollovers, distributions, and the Voya Fixed Account. She also provided an update on beneficiary data and the small account cash-out that was completed.

Mr. Bastien reminded the Committee that he had committed to looking at the guaranteed rate on the fixed account toward the end of the year and he had carried that out. He got word yesterday that they were able to bump the rate again by another 10 basis points starting at the beginning of 2019. There was a draft communication piece being put together in order to relay that information to participants. He would continue to monitor the account throughout 2019.

Motion by Mr. Kruse to accept the Voya report, second by Ms. Bowman. Motion carried unanimously, 4-0.

11. For Possible Action- Receive report from Voya Financial on variances itemized in the FY 2016 and FY 2017 Financial Audit Reports.

Mr. Boehmer remarked that Voya researched the variances on the Financial Audit and a letter was provided from Mr. Jonathan Zujko explaining the variances and confirming that all contributions remitted to NDC by all participating employers had been accounted for and were accurately processed.

Mr. Bastien apologized for taking longer than they expected to report back on the variances, but he was pleased with the results and how to address the issues going forward.

No motion was taken on this item.

14. For Possible Action- Receive, review, and approve Plan Document amendment to allow for in-service Roth conversions. Currently the Plan Document only allowed separated employees to execute Roth conversions.

Mr. Boehmer commented that there had been requests from participants to permit in-service Roth conversions of non-distributable funds. He discussed this option with Voya's legal team and with Ms. Melanie Walker from Segal Marco who said the conversions could be allowed since they were currently allowed by separated employees. The proposed amendment to the Plan Document would permit Roth Conversions for active participants in the Program.

Motion by Mr. Thorley to approve the Plan Document change. Second by Mr. Kruse, motion passed unanimously, 4-0.

15. For Possible Action- Confirm the scheduled January 16, 2019 Planning Meeting and March 1, 2019 Quarterly Committee meeting. Schedule the second quarterly meeting for May/June 2019 timeframe or any other special meetings.

The Committee confirmed January 16, 2019, for the Planning Meeting, and March 1, 2019, for the quarterly meeting both starting at 9:00 a.m.

16. Committee Members comments

Mr. Kruse was thankful to have attended NAGDCA as it was informative, especially for a newer Committee member.

17. Update from Investment Consultant

No comment.

18. Update from Recordkeeper

Mr. Bastien thanked the Program for welcoming him back and wished everyone a Happy Holidays.

19. Administrative Staff/Department of Administration Updates

Mr. Boehmer would meet with Ms. Bowman and Mr. Kruse to go over the high points of the NAGDCA conference and see if there was anything they wanted to consider for the Planning Meeting.

20. Public Comment

No comment.

21. Adjournment

The meeting was adjourned at 1:32 p.m.

Respectfully submitted,

Micah Salerno
NDC Administrative Assistant