

Council Meeting of  
March 19, 2019

Honorable Mayor and Members  
of City Council  
City Hall  
Torrance, California

**Members of Council:**

**SUBJECT: Deferred Compensation Plan Committee - Accept and File the 2018  
Deferred Compensation Plan Annual Report. Expenditure: None.**

**RECOMMENDATION**

Recommendation of the Deferred Compensation Plan Committee that City Council accept and file the 2018 City of Torrance Deferred Compensation Plan Annual Report.

**FUNDING**

None required for this item.

**BACKGROUND**

On May 25, 2010 Your Honorable Body, through passage of Resolution 2010-50, established a City of Torrance Deferred Compensation Committee. The Committee will serve as Plan Administrator, Settlor and Named Fiduciary for the City's Deferred Compensation Plan. The purpose of the Committee is to oversee the administration and operation of the plan; select and/or recommend and monitor the Plan's administrative and compliance providers and advisors.

On November 27, 2018, Your Honorable Body, adopted Resolution No. 2018-112, that found and determined the absence of the City Treasurer from the office and the vacant Deputy City Treasurer position constituted a fiscal emergency that required the City Council to take immediate action to protect the City of Torrance's investments, accounts, and funds. City Council authorized the City Manager, the Finance Director, and the City Manager's Designee to provide backup coverage and signatory authority to all matters within the purview of the City Treasurer.

On December 4, 2018, Your Honorable Body, adopted Resolution No. 2018-116, that designated the Finance Director or Finance Director's Designee as Interim Deputy City Treasurer to allow for the duties and functions of the City Treasurer be performed during the City Treasurer's absence from the office until such time when the City Treasurer returns and the Deputy City Treasurer position is no longer vacant.

On December 18, 2018, Your Honorable Body, adopted Resolution No. 2018-122, to temporarily transfer investment trades, wires and bank transfers from the City Treasurer to the Finance Director or the Finance Director's designee during the City Treasurer's absence.

The 2018 report was presented to the Committee and approved at the February 27, 2019 meeting. The Committee recommended that the City Council accept and file this report.

**2018 DEFERRED COMPENSATION ANNUAL REPORT SUMMARY**

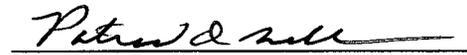
As of December 31, 2018 the ending balance of the City's Deferred Compensation plan assets and total number of participants were \$200.2M and 1,650, compared to \$208.6M and 1,636 respectively, the previous year.

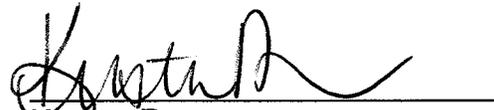
Respectfully submitted,

DEFERRED COMPENSATION PLAN COMMITTEE

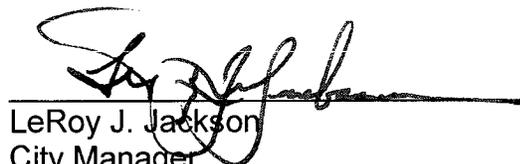
  
Aram Chaparyan,  
Assistant City Manager

  
Eric E. Tsao,  
Finance Director

  
Patrick Q. Sullivan,  
City Attorney

  
Kirsten Rowe,  
Human Resources Administrator

NOTED:

  
LeRoy J. Jackson  
City Manager

Attachment:  
Deferred Compensation Plan Annual Report – 2018 Plan Year

CITY OF TORRANCE DEFERRED COMPENSATION PLAN  
ANNUAL REPORT – 2018 PLAN YEAR

Executive Summary

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Committee Meeting Summary & Plan Updates/Events

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## SECTION 1: EXECUTIVE SUMMARY

## City of Torrance Deferred Compensation Plan

The City of Torrance (the "City") maintains a governmental 457(b) Deferred Compensation Plan A, 401(a) Defined Contribution Plans, and a 3121 Part-Time Plan (collectively, the "Plans") for the benefit of eligible City employees.

The Plans are administered by Empower Retirement (previously Great-West Financial), one of the nation's largest defined contribution service providers. Their services include recordkeeping and administration, participant account maintenance, participant and plan sponsor access via website and a toll free number.

In addition to Empower Retirement, the City utilizes the services of Benefit Financial Services Group ("BFSG"). BFSG is a third party consulting firm that provides retirement plan consulting services to the retirement plans. Their consulting services include: investment analysis, performance reporting, review and recommendation of investment options, fiduciary compliance assistance, and Plan cost/revenue analysis.

While Plan participants are ultimately responsible for their own investment decisions, the City's Deferred Compensation Plan Committee (the "Committee") endeavors to provide an appropriate range of investment options, allowing participants to invest in accordance with their own time horizons, risk tolerance, and retirement goals.

The Committee was established by formal council action and meets quarterly pursuant to an agenda published in compliance with the California open meeting law, the Ralph M. Brown Act. The quarterly Committee meetings are open to the public. The Committee provides an annual report of its activities to the City Council.

The regular Committee meetings are held to provide a review of the Plan's design, investment options, asset allocation/demographics, and to make changes as necessary. The investment options are reviewed in accordance with the evaluation methodology outlined in the Plan's Investment Policy Statement ("IPS"). The evaluation methodology ranks the investment options 0 - 100 based on returns, risk, style and expense. The rank is the investment options position in its peer group with 0 - 25 characterized as "outperform," 25 - 50 as "perform," and 50 - 100 as "underperform."

## SECTION 2: COMMITTEE MEETING SUMMARY & PLAN UPDATES/EVENTS

## Investment Updates: Full-Time Plans

Meeting Date	Item	Update
January 24, 2018	Request for Proposal ("RFP")	After a rigorous vendor analysis and robust discussion, the Committee decided to retain Empower as the Deferred Compensation Plan's recordkeeper.
January 24, 2018	Empower Fee Reduction	As a result of the RFP process, Empower's revenue requirement for the 457A and 401A Plans was lowered from 0.085% of plan assets to 0.035% of plan assets.
September 10, 2018	Asset Allocation Models	The Committee decided to remove the three risk-based unitized models and add 12 non-unitized asset allocation models to the Plan. Note: Empower's recordkeeping system is limited in its ability to directly map the assets and investment elections in the old models to the new models.
September 10, 2018	Fund Change	As a result of Empower's recordkeeping system limitations, the Committee decided to add American Funds American Balanced to the 457A and 401A Plans. The assets of the three risk-based models slated for removal will be mapped to American Funds American Balanced.
September 10, 2018	Watch List	T. Rowe Price Equity Income was removed from the Watch List due to a smooth manager transition and performance improvement.
November 7, 2018	Torrance Custom Stable Value Investment Policy Statement ("IPS")	The Committee approved certain changes to the Torrance Custom Stable Value Fund IPS proposed by Great-West.
November 7, 2018	Share Class Changes	The Committee reviewed a series of share class changes with the goal of efficiently lowering expense ratios without materially increasing investment management costs. The Committee approved a number of share class changes which will occur in Q1 2019.

## Investment Updates: Part-Time Plan

Meeting Date	Item	Update
January 16, 2018	Fund Change	Putnam High Yield transitioned from the "R" share class to the lower cost "Y" share class.
January 24, 2018	Request for Proposal ("RFP")	After a rigorous vendor analysis and robust discussion, the Committee decided to retain Empower as the Deferred Compensation Plan's recordkeeper.
September 10, 2018	Watch List	Great-West T. Rowe Price Equity Income was removed from the Watch List due to a smooth manager transition and performance improvement.
November 7, 2018	Torrance Custom Stable Value Investment Policy Statement ("IPS")	The Committee approved certain changes to the Torrance Custom Stable Value Fund IPS proposed by Great-West.
November 7, 2018	Share Class Changes	The Committee reviewed a series of share class changes with the goal of efficiently lowering expense ratios without materially increasing investment management costs. The Committee approved a number of share class changes which will occur in Q1 2019.

**Watch List as of 12/31/2018: Full-Time Plans**

<b>Category</b>	<b>Fund</b>	<b>Date Placed on Watch</b>
Foreign Large Equity	Artisan International	03/01/2018

**Watch List as of 12/31/2018 : Part-Time Plan**

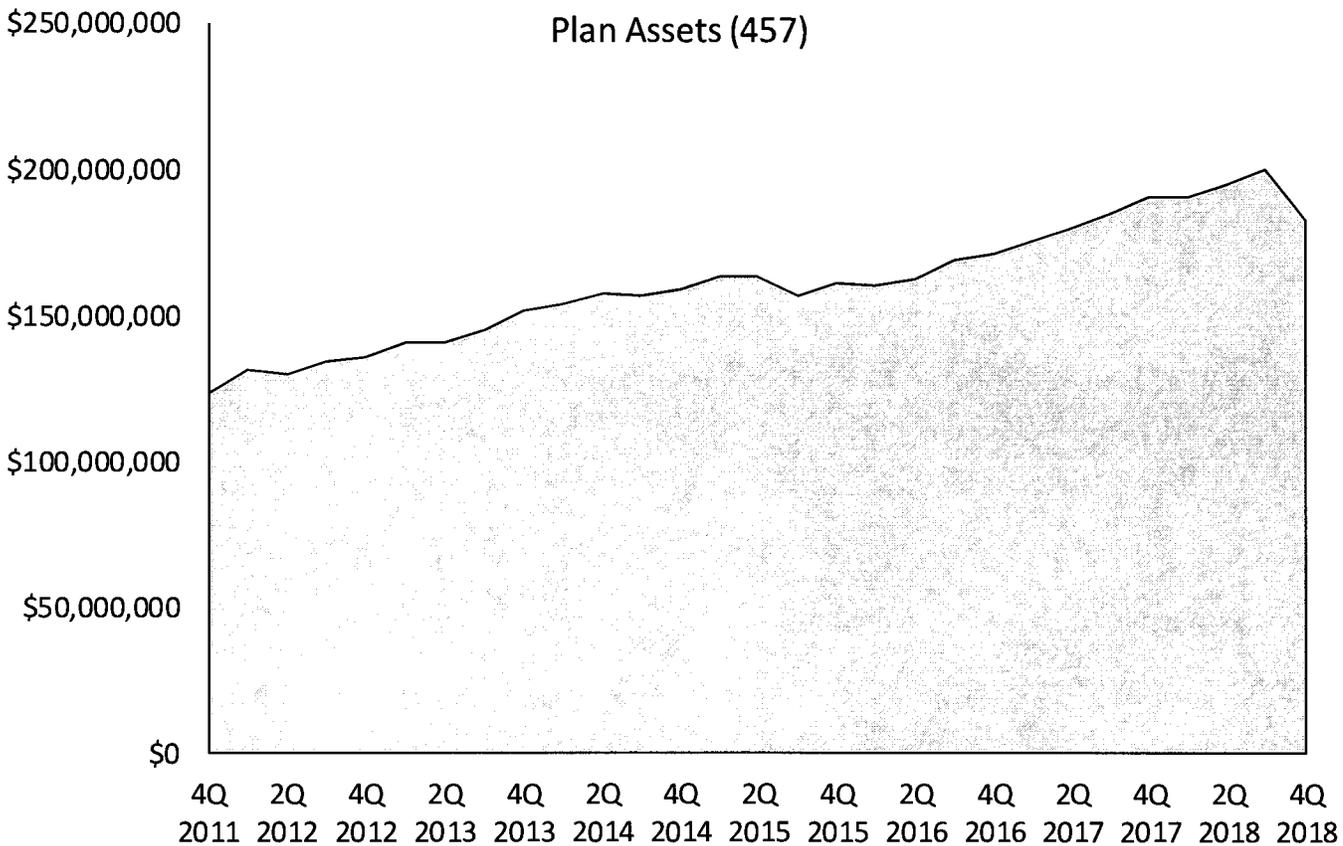
<b>Category</b>	<b>Fund</b>	<b>Date Placed on Watch</b>
Foreign Large Equity	Artisan International	03/01/2018

**SECTION 3: PLAN ASSETS / DEMOGRAPHICS**  
**(AS OF 12/31/2018)**

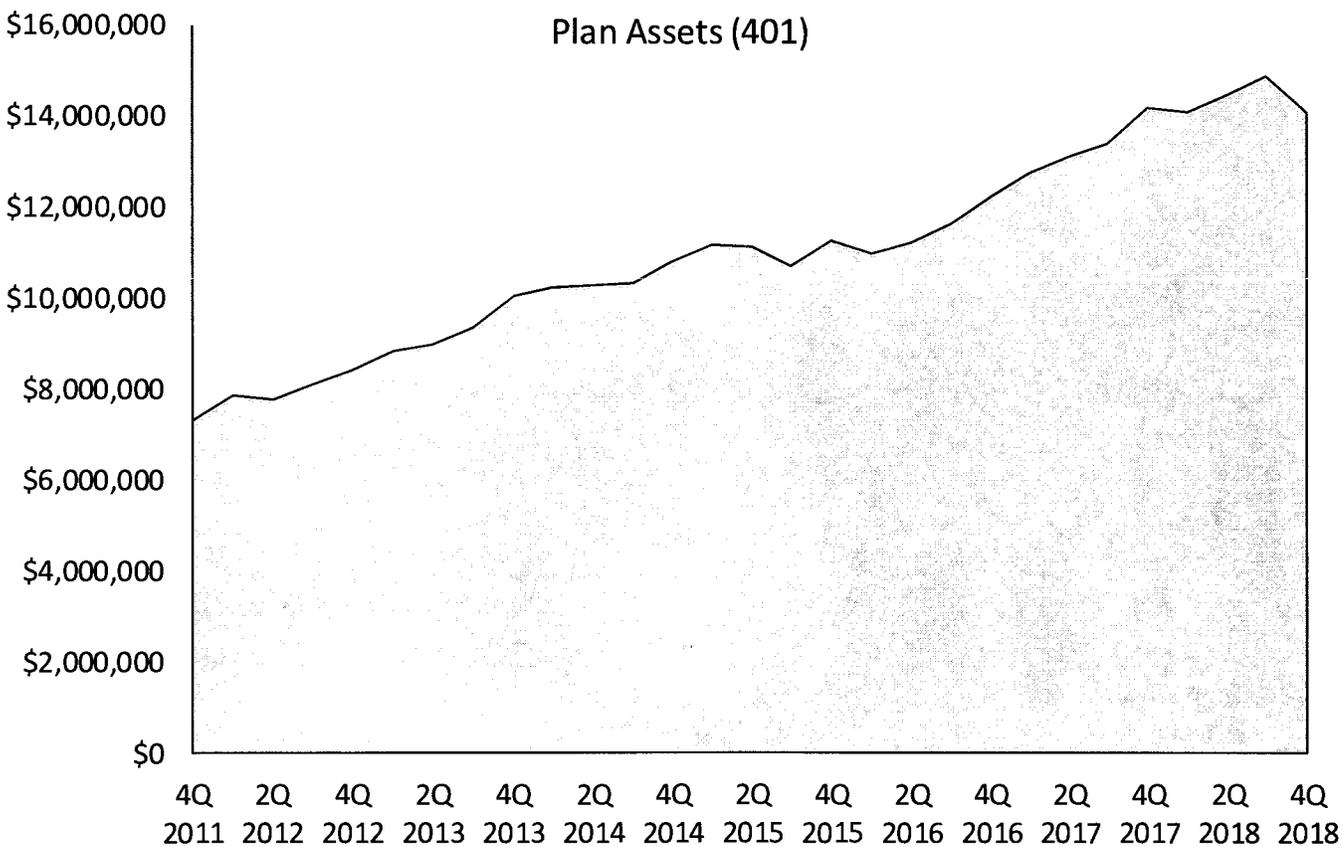
## Plan Assets 457 &amp; 401

Investment Option	% of Assets	457	401	Total Assets
Torrance Stable Value Fund	37.08%	\$64,461,927	\$5,077,984	\$69,539,911
American Funds American Balanced R5	16.91%	\$28,665,218	\$3,051,015	\$31,716,233
American Funds Growth Fund of Amer R5	7.26%	\$13,189,952	\$433,752	\$13,623,704
T. Rowe Price Mid-Cap Growth	4.56%	\$7,833,190	\$719,126	\$8,552,315
Dodge & Cox Stock	4.41%	\$7,590,194	\$683,946	\$8,274,140
BlackRock Equity Index F	3.81%	\$6,743,726	\$400,085	\$7,143,810
BlackRock Mid-Cap Equity Index F	3.27%	\$5,527,760	\$600,292	\$6,128,052
Metropolitan West Total Return Bd I	3.24%	\$5,765,751	\$301,140	\$6,066,891
BlackRock Russell 2000® Index F	3.06%	\$5,419,135	\$321,115	\$5,740,250
American Funds Fundamental Invs R5	2.53%	\$4,427,672	\$321,708	\$4,749,379
Artisan International Investor	2.48%	\$4,420,143	\$222,063	\$4,642,206
Vanguard International Growth Adm	2.08%	\$3,619,613	\$283,772	\$3,903,385
JPMorgan Mid Cap Value L	1.87%	\$3,259,961	\$249,527	\$3,509,488
T. Rowe Price Blue Chip Growth	1.48%	\$2,579,931	\$189,422	\$2,769,354
Dodge & Cox Income	1.29%	\$2,269,273	\$141,096	\$2,410,369
Prudential Jennison Small Company Z	1.22%	\$1,860,469	\$431,661	\$2,292,129
BlackRock EAFE® Equity Index F	0.88%	\$1,535,529	\$115,909	\$1,651,438
T. Rowe Price Equity Income	0.78%	\$1,370,292	\$97,844	\$1,468,136
Oppenheimer Developing Markets Y	0.50%	\$852,474	\$78,856	\$931,330
Templeton Global Bond Adv	0.49%	\$835,602	\$75,190	\$910,791
Columbia Small Cap Value Fund II Z	0.48%	\$847,700	\$44,056	\$891,756
DFA Emerging Markets I	0.33%	\$571,430	\$50,207	\$621,637
<b>Total</b>	<b>100.00%</b>	<b>173,646,941</b>	<b>13,889,765</b>	<b>187,536,705</b>
Self-Directed Brokerage Account		\$9,201,068	\$207,678	\$9,408,746
<b>Total</b>		<b>\$182,848,009</b>	<b>\$14,097,442</b>	<b>\$196,945,451</b>

**Plan Assets 457**



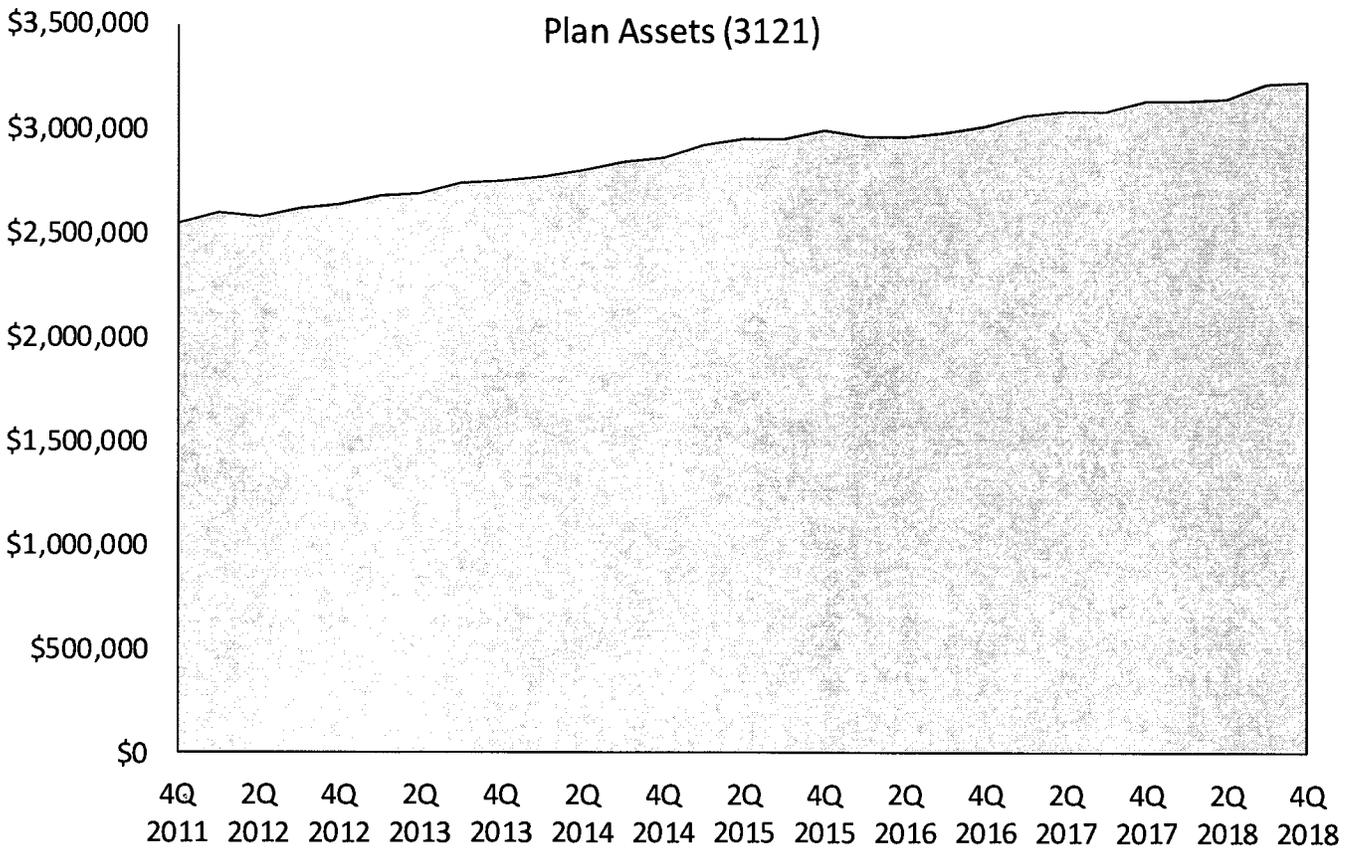
**Plan Assets 401**



## Plan Assets (Part-Time 3121)

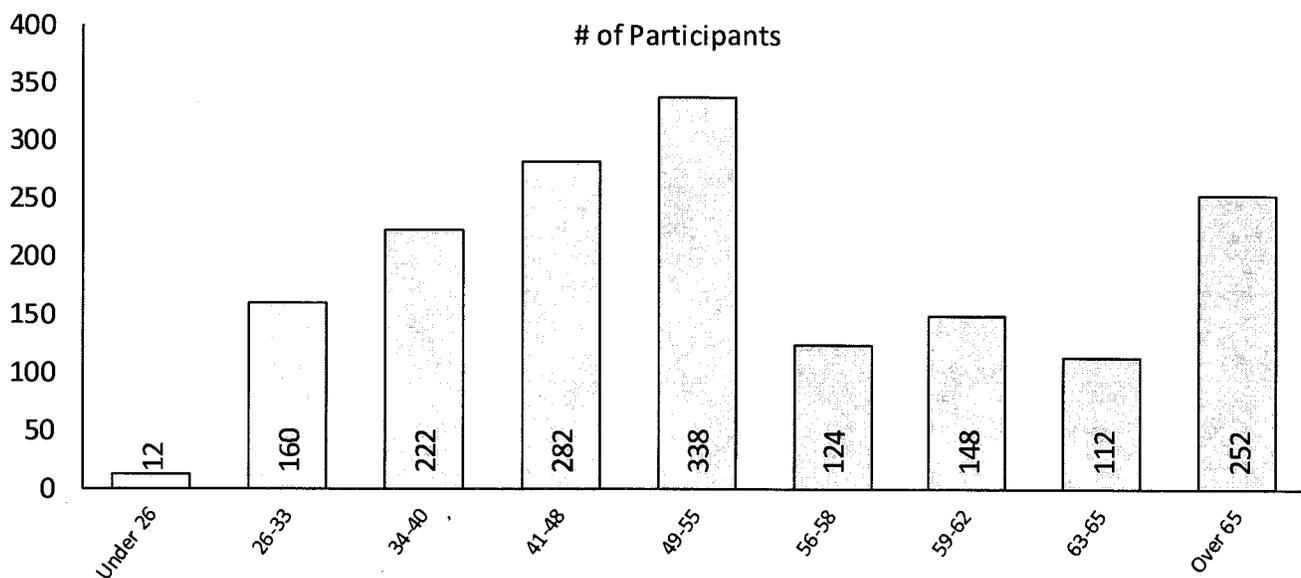
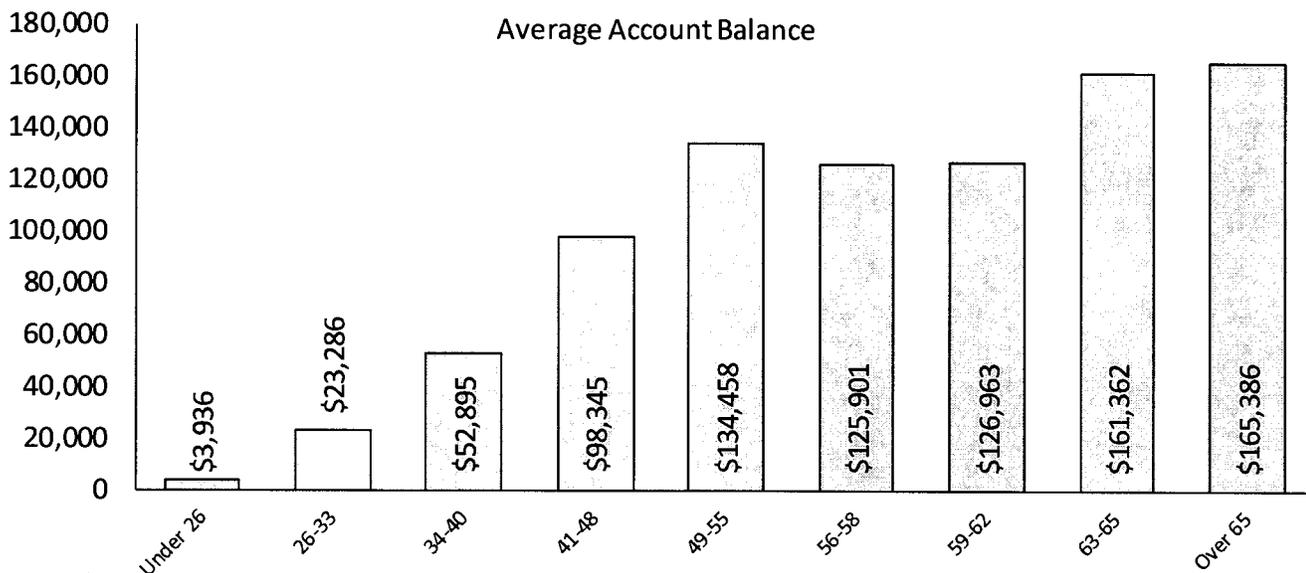
Investment Option	% of Assets	Total Assets
Torrance Stable Value Fund	92.68%	\$2,998,875
American Funds Growth Fund of Amer R4	1.27%	\$41,096
Great-West T. Rowe Price Eq Inc Inv	1.20%	\$38,784
Great-West Lifetime 2035 Inv	0.77%	\$24,912
BlackRock Russell 2000® Index F	0.73%	\$23,585
Great-West T. Rowe Price Mid Cp Gr Inv	0.54%	\$17,535
Artisan International Investor	0.42%	\$13,582
Oppenheimer Global A	0.36%	\$11,711
Janus Henderson Balanced T	0.35%	\$11,259
Great-West MFS International Gr Inv	0.28%	\$8,914
Prudential Jennison Small Company A	0.25%	\$8,201
Metropolitan West Total Return Bd I	0.22%	\$7,175
American Funds Fundamental Invs R4	0.19%	\$6,059
Great-West Lifetime 2045 Inv	0.18%	\$5,832
Great-West Loomis Sayles Sm Cp Val Inv	0.15%	\$4,792
Great-West S&P 500® Index Investor	0.14%	\$4,551
Great-West Lifetime 2055 Inv	0.12%	\$3,965
JPMorgan Mid Cap Value A	0.08%	\$2,698
Ariel Appreciation Investor	0.06%	\$2,033
Putnam High Yield Y	0.00%	\$135
<b>Total</b>	<b>100.00%</b>	<b>\$3,235,693</b>

Plan Assets (Part-Time 3121)



## Age Group Statistics 457

Age Group	# of Participants	Balance	Average Account Balance
Under 26	12	\$47,233	\$3,936
26-33	160	\$3,725,733	\$23,286
34-40	222	\$11,742,793	\$52,895
41-48	282	\$27,733,401	\$98,345
49-55	338	\$45,446,891	\$134,458
56-58	124	\$15,611,672	\$125,901
59-62	148	\$18,790,480	\$126,963
63-65	112	\$18,072,594	\$161,362
Over 65	252	\$41,677,211	\$165,386
<b>TOTAL</b>	<b>1,650</b>	<b>\$182,848,009</b>	<b>\$110,816.97</b>



**SECTION 4: PLAN PERFORMANCE (AS OF 12/31/2018)**

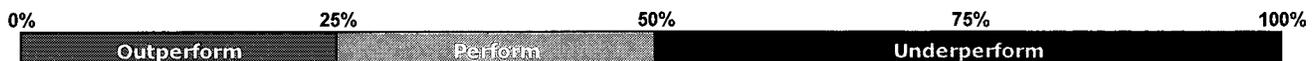
## Weighted Portfolio Return Relative to Custom Benchmark (457 & 401)

Performance as of December 31, 2018	3 Month	1 Year	Annualized Returns			3 YR	3 YR	Expense
			3 Year	5 Year	10 Year	Std Dev	Sharpe	Ratio
<b>City of Torrance Combined Plans</b>	<b>-6.93%</b>	<b>-2.39%</b>	<b>5.60%</b>	<b>4.82%</b>	<b>8.53%</b>	<b>5.79</b>	<b>0.77</b>	<b>0.40</b>
Custom Benchmark - Index (Passive)	-7.23%	-2.54%	5.30%	4.55%	7.77%	5.80	0.72	N/A
Custom Benchmark - Category (Active)	-7.53%	-3.47%	4.38%	3.42%	6.97%	5.81	0.57	0.86

\* Custom expense ratio represents the weighted expense (based upon current allocation) of Institutional and Retirement share classes in each asset category.

## Evaluation Methodology Summary (457 & 401)

Investment Name	Quarterly Ranking			
	4Q18	3Q18	2Q18	1Q18
<b>Intermediate-Term Bond</b>				
Dodge & Cox Income	19	8	11	9
Metropolitan West Total Return Bd I	15	16	10	8
<b>World Bond</b>				
Templeton Global Bond Adv	36	34	42	37
<b>Allocation - 50% to 70% Equity</b>				
American Funds American Balanced R5	1	0	0	0
<b>Large Value</b>				
Dodge & Cox Stock	5	6	9	9
T. Rowe Price Equity Income	34	39	33	39
<b>Large Blend</b>				
American Funds Fundamental Invs R5	5	10	7	6
<b>Large Growth</b>				
American Funds Growth Fund of Amer R5	30	28	26	26
T. Rowe Price Blue Chip Growth	1	1	1	1
<b>Mid Blend</b>				
JPMorgan Mid Cap Value L	7	8	6	6
<b>Mid Growth</b>				
T. Rowe Price Mid-Cap Growth	3	4	2	1
<b>Small Value</b>				
Columbia Small Cap Value II Inst	41	38	40	30
<b>Small Growth</b>				
PGIM Jennison Small Company Z	73	72	62	60
<b>Foreign Large Equity</b>				
Artisan International Investor	52	55	69	72
Vanguard International Growth Adm	1	0	0	0
<b>Emerging Markets</b>				
DFA Emerging Markets I	5	9	9	28
Oppenheimer Developing Markets Y	10	8	6	3
<b>Average Rank</b>	<b>20</b>	<b>21</b>	<b>21</b>	<b>21</b>
<b>Plan Weighted Rank (Reweighted)</b>	<b>12</b>	<b>18</b>	<b>18</b>	<b>18</b>



Note: Average and Plan-Weighted Average rankings shown above reflect the actual funds offered in the Plan (and their respective weightings) during the applicable quarter.

## Evaluation Methodology Summary (3121)

Investment Name
<b>Intermediate-Term Bond</b>
Metropolitan West Total Return Bd I
<b>Multisector Bond</b>
Great-West Multi-Sector Bond Investor
<b>High Yield Bond</b>
Putnam High Yield Y
<b>Allocation--50-70% Equity</b>
Janus Henderson Balanced T
<b>Large Value</b>
Great-West T. Rowe Price Eq Inc Inv
<b>Large Blend</b>
American Funds Fundamental Invs R4
<b>Large Growth</b>
American Funds Growth Fund of Amer R4
<b>Mid Value</b>
Ariel Appreciation Investor
<b>Mid Blend</b>
JPMorgan Mid Cap Value A
<b>Mid Growth</b>
Great-West T. Rowe Price Mid Cp Gr Inv
<b>Small Blend</b>
Great-West Loomis Sayles Sm Cp Val Inv
<b>Small Growth</b>
PGIM Jennison Small Company A
<b>World Large Stock</b>
Oppenheimer Global A
<b>Foreign Large Equity</b>
Artisan International Investor
Great-West International Growth Inv
<b>Average Rank</b>
<b>Plan Weighted Rank (Reweighted)</b>

Quarterly Ranking			
4Q18	3Q18	2Q18	1Q18
15	16	10	8
29	33	36	39
35	35	36	37
27	22	24	25
49	51	47	52
18	22	18	16
47	44	41	41
64	59	60	58
40	42	37	34
10	9	7	4
60	62	52	42
88	88	80	80
36	29	21	22
52	55	69	72
60	43	33	47
42	41	38	38
43	42	39	41

PLAN PERFORMANCE (AS OF 12/31/2018)



Note: Average and Plan-Weighted Average rankings shown above reflect the actual funds offered in the Plan (and their respective weightings) during the applicable quarter.

## APPENDIX A – MEETING MINUTES

**CITY OF TORRANCE**  
**DEFERRED COMPENSATION PLAN COMMITTEE**  
 JANUARY 24, 2018 MEETING MINUTES

**Committee Members Present:** Ms. Dana Cortez – City Treasurer  
 Ms. Kirsten Rowe – Human Resource Administrator  
 Mr. Patrick Sullivan – City Attorney  
 Mr. Eric Tsao – Finance Director

**Committee Members Absent:** None

**Guests:** None

**Committee Consultants:** Mr. John Campbell, Benefit Financial Services Group (“BFSG”)  
 Mr. Braden Priest, BFSG

**CALL TO ORDER**

The regular meeting of the Deferred Compensation Plan Committee (the “Committee”) was called to order at 3:00pm.

**ROLL CALL**

The following members of the Committee were present for the entirety of the meeting: Ms. Dana Cortez, Ms. Kirsten Rowe, Mr. Patrick Sullivan, and Mr. Eric Tsao.

**PUBLIC COMMENT:** No members of the public were present.

**ACCEPTANCE AND FILING OF THE JANUARY 8, 2018 MEETING MINUTES**

Motion to approve the prior meeting minutes:

**MOTION (1) APPROVED, to accept the minutes from the January 8, 2018 meeting without edit. This motion was approved unanimously.**

**INVESTMENT MEETING**

**I. Vendor Search and Selection Analysis – (BFSG)**

BFSG provided an update to the Committee on the final negotiations with Empower. Mr. Campbell noted that Empower agreed to the following lower pricing for their annual services: 3.5 basis points with the Custom Stable Value fund or 5.0 basis points should the Plan choose not to use the Custom Stable Value Fund.

**MOTION (2) APPROVED, to approve the new pricing proposal from Empower and recommend to City Council that Empower remain the deferred compensation plans provider.**

**II. Retirement Plan Quarterly Investment Review (4Q17) – (BFSG)**

Mr. Campbell provided an overview of the capital markets and economy as of December 31, 2017. The overview included a discussion on: GDP, unemployment, inflation, and benchmark index returns. Mr. Campbell discussed the equity and fixed income sector returns to provide context to the performance of the investment options in the Plan. Additional commentary was provided on the following funds:

**T. Rowe Price Equity Income** is currently on the Watch List due to relative underperformance and a manager change. Performance has continued to improve under John Linehan’s management. Stock selection in the Industrials sector was the largest contributor to relative performance during the year. Specifically, a 2% weight to Boeing, which was up nearly 100% in 2017, added to results. The evaluation methodology score improved from a 47 to a 40 over the year and is considered a “perform”. The Committee agreed to keep the fund on Watch to monitor performance.

**Artisan International** is currently on the Watch List due to underperformance over short- and intermediate-term periods. The strategy outperformed its benchmark index and peer group by approximately 4% during 2017. Stock selection in the Technology and Financials sectors was the largest contributor to performance during the year. While performance rebounded in 2017, the Committee decided to keep the fund on the Watch List.

### III. Annual Report

Mr. Priest presented the 2017 Annual Report (the "Report") to the Committee. The Report is provided to City Council to apprise them of pertinent Plan decisions and activities throughout the calendar year. The Report also includes asset data and fee benchmarking for all service providers. Mr. Tsao noted it would be helpful to add a page describing the status of the current Watch List funds. Mr. Priest will make the edit and provide an updated report. Pending the final edit, the Committee agreed to accept the 2017 Report.

**MOTION (3) APPROVED, pending final edits, the Committee unanimously approved the 2017 Annual Report.**

### CLOSING

Motion to adjourn the Deferred Compensation Committee meeting:

**MOTION TO ADJOURN APPROVED, Deferred Compensation Plan Committee meeting adjourned at 4:10pm. This motion was approved unanimously.**

**CITY OF TORRANCE**  
**DEFERRED COMPENSATION PLAN COMMITTEE**  
 JUNE 13, 2018 MEETING MINUTES

**Committee Members Present:** Mr. Aram Chaparyan – Assistant City Manager  
 Ms. Dana Cortez – City Treasurer  
 Ms. Kirsten Rowe – Human Resource Administrator  
 Mr. Patrick Sullivan – City Attorney

**Committee Members Absent:** Mr. Eric Tsao – Finance Director

**Guests:** Mr. Jeff Cruz – Empower Retirement  
 Mr. Bill Thornton – Great-West Financial  
 Mr. Daniel Gargan – Great-West Financial  
 Mr. Nate Simons – Great-West Financial

**Committee Consultants:** Mr. John Campbell, Benefit Financial Services Group (“BFSG”)  
 Mr. Braden Priest, BFSG

**CALL TO ORDER**

The regular meeting of the Deferred Compensation Plan Committee (the “Committee”) was called to order at 2:00pm.

**ROLL CALL**

The following members of the Committee were present for the entirety of the meeting: Mr. Aram Chaparyan, Ms. Dana Cortez, Ms. Kirsten Rowe, and Mr. Patrick Sullivan.

**PUBLIC COMMENT:** No members of the public were present.

**ACCEPTANCE AND FILING OF THE JANUARY 24, 2018 MEETING MINUTES**

Motion to approve the prior meeting minutes:

**MOTION (1) APPROVED, to accept the minutes from the January 24, 2018 meeting with an edit to the spelling of Ms. Rowe’s name. This motion was approved unanimously.**

**INVESTMENT MEETING**

**I. Custom Stable Value Fund Discussion – Empower / Great-West)**

Mr. Thornton provided the Committee and BFSG with a red-lined Custom Stable Value Fund Investment Policy Statement (the “Policy”). The Policy included suggested changes from Great-West Financial, mainly in the areas of credit quality and asset class diversification guidelines. Great-West noted that implementing the changes would allow them additional flexibility in their investment approach and widen the universe of attractive investment opportunities. The Committee discussed the changes in significant detail, but agreed to hold off on making a decision until Mr. Tsao could be briefed on the matter. Mr. Gargan then provided the Committee with a capital markets overview and economic outlook through May 31, 2018.

**II. Retirement Plan Quarterly Investment Review (1Q18) – (BFSG)**

Mr. Priest provided commentary on the noteworthy funds below:

**T. Rowe Price Equity Income** outperformed its large value category peers in the first quarter of 2018. Performance has continued to improve since John Linehan took over the lead manager position in 2015. Three-year performance ranks in the top 31st percentile in its category. After strong performance in the portfolio’s financial sector holdings led to valuations moving higher, fund

management decided to trim some of its positions at attractive levels. While performance continued to rebound, 5- and 10-year performance remained below average, and as a result the Committee unanimously agreed to keep the fund on the Watch List.

**Artisan International** was on the Watch List during the first quarter and returned 0.30% while its category peers were down -0.61%. Short-term outperformance was driven by stock selection in financials and industrials. Performance over 3- and 5-year periods remained below average versus its peer group, but 10-year performance was in the top one-third of its category. While performance has continued to improve, the Committee decided to keep the fund on the Watch List.

#### **CLOSING**

Motion to adjourn the Deferred Compensation Committee meeting:

**MOTION TO ADJOURN APPROVED, Deferred Compensation Plan Committee meeting adjourned at 3:40pm. This motion was approved unanimously.**

**CITY OF TORRANCE**  
**DEFERRED COMPENSATION PLAN COMMITTEE**  
 SEPTEMBER 10, 2018 MEETING MINUTES

**Committee Members Present:** Mr. Aram Chaparyan – Assistant City Manager  
 Ms. Dana Cortez – City Treasurer  
 Ms. Kirsten Rowe – Human Resource Administrator  
 Mr. Patrick Sullivan – City Attorney

**Committee Members Absent:** Mr. Eric Tsao – Finance Director

**Guests:** Mr. Jeff Cruz – Empower Retirement

**Committee Consultants:** Mr. John Campbell, Benefit Financial Services Group (“BFSG”)  
 Mr. Braden Priest, BFSG

**CALL TO ORDER**

The regular meeting of the Deferred Compensation Plan Committee (the “Committee”) was called to order at 1:40pm.

**ROLL CALL**

The following members of the Committee were present for the entirety of the meeting: Mr. Aram Chaparyan, Ms. Dana Cortez, Ms. Kirsten Rowe, and Mr. Patrick Sullivan.

**PUBLIC COMMENT:** No members of the public were present.

**ACCEPTANCE AND FILING OF THE JUNE 13, 2018 MEETING MINUTES**

Motion to approve the prior meeting minutes:

**MOTION (1) APPROVED, to accept the minutes from the June 13, 2018 meeting as written. This motion was approved unanimously.**

**INVESTMENT MEETING**

**I. Asset Allocation Models – (BFSG)**

BFSG provided the Committee with an Asset Allocation Models and Fund Search Analysis (the “Analysis”). The Analysis reviewed the three current risk-based models and compared them to twelve non-unitized models that are both time- and risk-based. The new models were created by BFSG and are offered at no additional cost to participants or the Plan. After reviewing the new model construction methodology, underlying expenses, and historical performance, the Committee agreed to remove the unitized models and add the twelve non-unitized models.

**MOTION (2) APPROVED, to remove the three current risk-based models and implement the twelve time- and risk-based models. This motion was approved unanimously.**

Empower’s recordkeeping system is limited in its ability to directly map the assets and investment elections in the old models to the new models. As a result, the Committee reviewed a fund search for a balanced fund where the assets could be directly mapped. The search compared the equity and fixed income allocations of the current models to the balanced fund alternatives. Each alternative was also reviewed based on the evaluation criteria in the Plan’s investment policy statement. After reviewing each option, the Committee agreed to map the assets and future contributions from the current models to American Funds American Balanced. Once the assets are mapped, participants wishing to utilize the new models will need to make a positive election change. A communication strategy will be created to educate participants on the upcoming changes.

**MOTION (3) APPROVED, to map the assets and investment elections of the three current models to American Funds American Balanced. This motion was approved unanimously.**

**II. Retirement Plan Quarterly Investment Review (2Q18) – (BFSG)**

Mr. Priest provided an overview of the capital markets and economy as of June 30, 2018. The overview included a discussion on: GDP, unemployment, inflation, and benchmark index returns. Mr. Priest discussed the equity and fixed income sector returns to provide context to the performance of the investment options in the Plan. Additional commentary was provided on the following funds:

**T. Rowe Price Equity Income** – The Committee revisited the basis for originally adding the fund to the Watch List, which included a manager change and underperformance relative to its large cap value peer group. Mr. Priest noted the new manager made a few changes to the portfolio including increasing the fund's healthcare exposure, but there were no dramatic changes to the overall strategy. Performance over the most recent one- and three-year periods has outpaced its category peers. The Evaluation Methodology score now ranks in the top 29th percentile of its category. The Committee unanimously decided to remove the fund from the Watch List due to a smooth manager transition and performance improvement.

**Artisan International** – The fund was on the Watch List and trailed its category peers by 0.33% in the second quarter. An overweight to developed Europe and Japan were the main detractors from short-term performance. Performance over 3- and 5-year periods remained below average versus its peer group, but the fund has outperformed over 1- and 10-year periods. The Committee decided to keep the fund on the Watch List to closely monitor performance moving forward.

The Watch List decisions will apply to both the 457A, 401A, and 457B Plans.

**III. Fee Levelization – (BFSG)**

Mr. Priest introduced the concept of fee levelization to the Committee, whereby all revenue sharing generated from the investment lineup is reallocated back to the participants that generated it, and a flat fee is applied across participant accounts to cover Plan-level costs. Due to time constraints, the Committee will revisit the topic at a future Committee meeting.

**CLOSING**

Motion to adjourn the Deferred Compensation Committee meeting:

**MOTION TO ADJOURN APPROVED, Deferred Compensation Plan Committee meeting adjourned at 3:05pm. This motion was approved unanimously.**

**CITY OF TORRANCE**  
**DEFERRED COMPENSATION PLAN COMMITTEE**  
 NOVEMBER 7, 2018 MEETING MINUTES

**Committee Members Present:** Mr. Aram Chaparyan – Assistant City Manager  
 Ms. Kirsten Rowe – Human Resource Administrator  
 Mr. Patrick Sullivan – City Attorney  
 Mr. Eric Tsao – Finance Director

**Committee Members Absent:** Ms. Dana Cortez – City Treasurer

**Guests:** Mr. William Yu, Deputy City Treasurer  
 Mr. Keir Tilford – Empower Retirement  
 Mr. Bill Thornton – Great-West Financial  
 Mr. Daniel Gargan – Great-West Financial  
 Mr. Jack Brown – Great-West Financial

**Committee Consultants:** Mr. John Campbell, Benefit Financial Services Group (“BFSG”)  
 Mr. Braden Priest, BFSG

**CALL TO ORDER**

The regular meeting of the Deferred Compensation Plan Committee (the “Committee”) was called to order at 1:40pm.

**ROLL CALL**

The following members of the Committee were present for the entirety of the meeting: Mr. Aram Chaparyan, Ms. Kirsten Rowe, Mr. Patrick Sullivan, and Mr. Eric Tsao.

**PUBLIC COMMENT:** Mr. Yu attended the meeting as a member of the public.

**ACCEPTANCE AND FILING OF THE SEPTEMBER 10, 2018 MEETING MINUTES**

Motion to approve the prior meeting minutes:

**MOTION (1) APPROVED, to accept the minutes from the September 10, 2018 meeting as written. This motion was approved unanimously.**

**INVESTMENT MEETING****i. Stable Value Fund IPS Updates (Great-West)**

Mr. Thornton walked the Committee through Great-West’s proposed updates to the Investment Policy Statement (“IPS”). The intent of the IPS changes is to provide Great-West with additional flexibility in managing the Fund’s corporate and asset-backed securities and would allow Fund management to take advantage of opportunities to purchase securities estimated to have future credit-rating upgrades. Mr. Tsao voiced concern over the use of derivatives in the portfolio and suggested removing the proposed language in that area.

**MOTION (2) APPROVED, to remove the new derivative language from the IPS but approve all other suggested changes by Great-West. This motion was approved unanimously.**

**ii. Fee Levelization – (BFSG)**

Mr. Priest reintroduced the concept of fee levelization to the Committee, whereby all revenue sharing generated from the investment lineup is reallocated back to the participants that generated it, and a flat fee is applied across participant accounts to cover Plan-level costs. Empower has the recordkeeping ability to administer the Plan under this fee structure, which the Committee agreed was an equitable way to allocate Plan costs. The Committee then reviewed a share class analysis prepared by BFSG, which

examined the cost structure of each fund in the investment menus of the 457A, 401A, and 457B Plans. The general goal of the share class analysis was to lower fund expense ratios without materially affecting investment management costs. The share class analysis is filed with this minutes.

**MOTION (3) APPROVED, to implement fee levelization and approve the share class changes with the exception of Artisan International and Oppenheimer Developing Markets, as doing so would materially raise net participant cost.**

**III. Retirement Plan Quarterly Investment Review (3Q18) – (BFSG)**

Mr. Priest provided an overview of the capital markets and economy as of September 30, 2018. The overview included a discussion on: GDP, unemployment, inflation, and benchmark index returns. Mr. Priest discussed the equity and fixed income sector returns to provide context to the performance of the investment options in the Plan. Additional commentary was provided on the following funds:

**PGIM Jennison Small Company** – The fund's underperformance over the prior year has recently dragged 3- and 5-year performance rankings lower. While historically the fund has underperformed in strong bull markets, it outperforms in down markets and in times of market distress. Fund management prefers profitable companies with lower volatility, however the market has favored rapidly growing companies that aren't necessarily profitable in this recent cycle.

**Artisan International** – The fund returned 2.86% while the foreign large equity category returned 0.40% in the third quarter. Performance over the prior year outpaced the category average by about 3%. While short-term results are trending in the right direction, 3- and 5-year performance remained slightly below average, and as a result the Committee agreed to keep the fund on the Watch List.

Before the meeting adjourned, Mr. Tilford noted he would follow-up with the Committee to confirm the list of current authorized signers of the Plan.

**CLOSING**

Motion to adjourn the Deferred Compensation Committee meeting:

**MOTION TO ADJOURN APPROVED, Deferred Compensation Plan Committee meeting adjourned at 2:35pm. This motion was approved unanimously.**