



**DEFERRED COMPENSATION 457(b)
ADVISORY COMMITTEE
Minutes**

December 6, 2024
9:30 a.m. – 11:30 a.m.

827 7th Street, Sacramento, CA 95814
DCD Community Room

DEFERRED COMPENSATION ADVISORY COMMITTEE

Member	Role	Present	Absent
Sylvester Fadal	Plan Administrator	X	
Chad Rinde	Ex-Officio Member	X	
Dave Irish	Retiree Member		X
Chris Giboney	Member	X Late-Item 4	
Dalen Fredrickson	Member	X	
Hang Nguyen	Member	X	
Chris Baker	Member	X	
Kim Nava	Member	X	
Marlon Yarber	Member	X	
MaryAnn Luke	Member	X	
Vacant	Member		X

Quorum = 6 We have a quorum: **Yes**

DEFERRED COMPENSATION WORKING COMMITTEE

Member	Role	Present	Absent
Alice Krueger	Personnel Services - Member	X	
Alex Leos	Personnel Services - Member	X	
Bernard Santo Domingo	Finance - Member	X	
David Matuskey	Finance - Member	X	
Ashley Wisniewski	County Counsel - Member	X	

GUESTS

Name	Organization	In-Person	Remote
Brent Petty	NWCM		X
Nicholas Axline	NWCM		X
Benjamin Travers	JP Morgan		X
Anne Balch	JP Morgan		X
Scott Shladovsky	JP Morgan		X
Sofia Aceto	JP Morgan		X
James Robbins	Personnel Services	X	

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Item #	Presenter	Item	Attachment Consent
1.	Personnel Services	Call to Order and Roll Call	
<p>Alice Krueger called the meeting to order at 9:31 a.m. Discussed some process changes in meeting including calling roll and quorum notation.</p>			
2.	Personnel Services	Approval of Meeting Minutes – September 27, 2024	Attachment Consent
<p>No public comment on the September 27, 2024, meeting minutes. Chad Rinde motioned to approve the minutes and Hang Nguyen seconded the motion. There were eight votes to approve, and the motion passed.</p>			
3.	Personnel Services	Public Comments on Off Agenda Items	
<p>There were no public comments on off-agenda items.</p>			
4.	Plan Administrator Sylvester	Comments from Plan Administrator	
<p>Sylvester Fadal discussed a recent trip to Westlake, Texas for the Fidelity Client Advisory Board. He said he was on the MissionSquare Board at his prior organization for 10 years and recently joined the Fidelity Board. He was very impressed with Fidelity’s cybersecurity. Their headquarters are in Boston, but Texas has the second largest operations. His impression is that the backend is very secure, and our data is protected. They have a counterterrorism unit working at Fidelity. He also met other clients and discussed strategies for growing participation, such as focused marketing to different generations and the PEPRA targeted messaging we have been doing.</p> <p>There were no public comments on this agenda item.</p>			
5.	Personnel Services	Contracting with Fidelity Investments	
<p>The Request for Proposal for Deferred Compensation Recordkeeper closed and was awarded on September 10, 2024, to Fidelity Investments. Contracting is in process now. There were no public comments about this agenda item.</p>			
6.	Personnel Services	Audits	
<p>The Department of Finance is getting close to finishing the internal audit and we hope to have meetings to finalize in the near future.</p> <p>Moss Adams has the requested audit materials and reports, and they are setting up a team to perform the work. They have provided a quote for a full-scope audit for the 2023 plan year and for a multi-year contract instead of individual year contracts. We will begin the contracting processes as soon as the 2022 limited-scope contract work is completed.</p> <p>There were no public comments about this agenda item.</p>			

7.	Personnel Services	Communications to Participants	
<p>a) 2025 Age 60-63 increased contribution maximums Notice is being sent to those participants turning ages 60-63 in 2025 regarding the increased contribution maximums allowed. Fidelity has some sample communications that are being incorporated.</p> <p>b) Management Leave payouts A notice is being sent to those that will receive management leave payouts in January regarding the ability to increase their deferred compensation contribution for this one pay period. They would need to change it back to their regular deferrals after this pay period closes.</p> <p>c) Bargaining units 20 and 21 regarding matching Notice is being sent to those in bargaining units 20 and 21 that are contributing less than the bargained matching maximum regarding the potential for increased matching.</p> <p>d) Those with partial percentage contribution elections A review of contribution percentages found some participants that have a partial percentage contribution instead of a full percentage. For example, 1.4% or 3.6%. The system currently only allows full percentage contribution elections, but these people were converted from dollar amounts when the plan changed from dollar amounts to percentage contributions. A notice is being sent to these participants to move to full percentage contribution election.</p> <p>There were public comments about this agenda item. It was asked if notice is being sent to increase contributions in the new year. There is a message sent in July during the time cost of living adjustments are received to increase contributions and this has been a successful campaign that we have done for the last several years and plan to do again this year. Sylvester Fadal mentioned that deferred compensation matching is being discussed at the bargaining tables with our labor organizations.</p>			
8.	Personnel Services	NWCM Fiduciary Summit - November 12, 2024	
<p>At the Northwest Capital Management Fiduciary Summit on November 12, 2024, there were several items from this summit to bring back to the committee. Some items we could incorporate into our practices include a defined training program and policy reviews. Training could be on a quarterly, semi-annual, or annual basis in addition to new member onboarding with topics such as investing, legal updates, and fiduciary education. One County had an annual retreat for members to provide input and feedback on administration. Another potential best practice would be policy review at the committee level on a schedule. Policies could be items like education, investments, budget, fees, cybersecurity, special services, etc. Seeking input from the committee on these potential practices and what we can do to support education for good governance of our plans.</p> <p>There were public comments about this agenda item. Marlon Yarber liked the idea of having policies on the committee operations and training on the policies with ongoing refreshers. Kim Nava said she found the September Fiduciary training helpful. Hang Nguyen stated that more training is good including policy review, reaffirming legal changes like SECURE Act 2.0. It was mentioned that we</p>			

have the NWCM, Fidelity, and fund manager presentations although we are not calling them training and they are educational.

9.	J.P. Morgan	Presentation	Attachment
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Anne Balch presented the JP Morgan Equity Income Fund presentation. Brent Petty asked about the rate environment over 24 months. On slide 5, the balance between a conservative approach and blue chip for this fund. This has less risk than sum; if the market is down 20%, it is likely the fund will be down 2%. How much is being captured when the market falls, this fund goes down less than the market.

There were public comments about this agenda item. Brent Petty asked if there were any changes to the portfolio management team. Anne Balch mentioned slide 7, that Claire Hart, the Portfolio Manager retired in September of 2024. Laura Huang, who has expertise in Finance, was brought in to fill the position. Also, Dave Silverman.

Bernard Santo Domingo mentioned that the fund closed to new investments in 2021 and reopened in 2024. Anne Balch stated that at that time dividend style funds were out of favor, and they felt it was better to reopen when the fund hit \$75 billion. Dividends have been approximately 25% of returns. There are no plans to change the dividend requirement. Prior to 2021 there were hockey-stick-like increases and so they slowed the faucet a bit. But on the flip side they also do not capture all the market either. Also, immune to industry preference away from dividends. The bias away from dividend strategy impacted the fund in 2023. The year-to-date (YTD) (see slide 25) shows some of this. Berkshire Hathaway is in the portfolio and JP Morgan is up 43% this year, YTD up about 20%. The Fed has been cutting interest rates this year and shifting more back to normal. There were 402 holdings in the S&P Index with positive performance. See the positive projection for 2025. The Financial sector is up 36% despite the cutting of interest rates.

Scott Shladovsky presented the JPMorgan Small Cap Equity Fund. Brent Petty asked about the portfolio management team as well as any strategy changes. Scott Shladovsky said that they reopen the strategy in October of 2022 with small caps as an asset class. This is their 13th year of performance and a consistent driver. Slide 8 – Opportunity for small caps to work over a long period. These relative valuation levels have not been seen since the early 2000’s. Small caps have historically outperformed large caps when index concentration reaches peak levels. Slide 20 – There was a good third quarter because of the strategy adjustment - durable compound over time and in line with benchmarks. The last two quarters have been challenging. Bitcoin has been up over 100% and detracted from 50 basis points from performance. There have been some missteps in the last couple of years in this environment. Quality came back in favor and increased performance. The energy sector at the end of 2023 was up 175%. The Russell Index was only up 25%, which is a huge delta. Small cap energy was not a good allocator of capital, driven by underlying commodity price. As this remained elevated, we took a page from large cap and didn’t spend a lot on capital projects. As energy prices came back

down, we have moved natural gas into our fund but are not overweight in energy. Scott Shladovsky said he is comfortable with the changes made in the portfolio and the longer-term strategy.

Brent Petty stated that when the market has been down with the Russell Index down, the fund has outperformed. Scott Shladovsky stated that this fund is tailor-made for 401(k) plans to smooth returns, consistency of performance, and downside protection. Bernard Santo Domingo stated that this fund is in the top 1% of Morningstar. Scott Shladovsky said that of the last 19 calendar years, their strategy has outperformed 15 years. Only did not perform when the market is up double digits as they have a lower volatility strategy, so when the market is ripping this strategy is more difficult. In the last few years (2023/2024), healthcare consumer needs have been driving the market rally and have had a more difficult time transitioning. From the COVID environment to a non-COVID environment, high-quality cyclical up. They are cleaning up the portfolio and leaning into this bias.

Brent Petty mentioned that both J.P. Morgan funds that are being reviewed are on the watch list. Bernard Santo Domingo mentioned that the Intro to Small Cap Equity has \$16.4 million and 0.5 million and Equity Plus funds has \$30.6 million in assets and \$571,000 as of September 30, 2024.

10.	NWCM	457(b) Plan Highlights & Key Observations	Attachment
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Brent Petty stated that when the market goes back down, these funds will be a good downside protection strategy. He said he will meet with the JP Morgan management once a quarter due to the manager change; usually he just meets once or twice a year.

Brent Petty said that the markets are overdue for a pullback, but the market likes these continued growth cycles. They are no longer talking about landing at all, the economy has been doing well, and the feds have started cutting interest rates, which has been a tailwind to the economy.

There were public comments about this agenda item. Chad Rinde asked about the Parnassus fund and if it was compared to ESG benchmarks. Brent Petty stated that the best practice is to hold the fund to the full S&P benchmark and not give the fund an excuse not to perform. Cannot justify underperformance. The Parnassus fund is 2.2% of the plan’s assets, down a bit for 9/30/24. The Investment Policy does require one ESG fund, but performance has been a bit soft in the last couple of years. We will have Parnassus at our next meeting to review the fund and can discuss if this is still the fund we want to be in. Brent Petty stated that energy has been up the last few years, and this fund is not allowed to own anything with a carbon footprint and since the market has been up large, it is trailing the S&P 500. Will watch how it is doing in 2025. Brent Petty believes that a market correction of at least 10% is coming, so it is good to stay diversified since we don’t know what is coming. Bernard Santo Domingo stated that in the past although Parnassus has not been meeting the benchmarks and staying on the watch list lately, it the past it was the best-performing ESG fund.

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<p>Reviewing the Galliard Stable Value fund performance, Brent said it is a conservative strategy and spiked in 2022.</p>			
11.	Finance	Q3 2024 Performance Update Watch List	Attachment
<p>Bernard Santo Domingo stated there are three funds on the watch list, the two J.P. Morgan funds that we just reviewed and Parnassus. He said that the funds are evaluated against the investment policy and benchmarks. There were no public comments about this agenda item.</p>			
12.	Finance	Defined Contribution Plans Portfolio Analysis for Year Ended September 30, 2024	Attachment
<p>There were no public comments about this agenda item.</p>			
13.	Personnel Services	Adjournment	
<p>Sylvester Fadal before adjournment asked that a review be done of the advisory committee’s Ethics training and when it was last completed. Dalen Frederickson asked if the DTech cybersecurity and/or Fidelity’s Information Technology could give a presentation. He also asked about department deferred compensation plan participation statistics. Alice Krueger stated that DTech is currently working on adding department to the file feeds and we hope to have that data by approximately February. The meeting adjourned at 10:49 a.m.</p>			