

MINUTES OF THE SPECIAL MEETING  
OF THE  
BOARD OF DIRECTORS  
OF THE  
EL TORO WATER DISTRICT  
October 9, 2017

President Goldman called the meeting of the Board of Directors of the ELTORO WATER DISTRICT to order at 7:30 o'clock a.m. on October 9, 2017 at the El Toro Water District Administrative Offices, 24251 Los Alisos Boulevard, Lake Forest, California.

President Goldman led in the Pledge of Allegiance to the flag.

Directors M. SCOTT GOLDMAN, JOSE F. VERGARA, MARK MONIN, and FRED ADJARIAN were present.

Director WILLIAM H. KAHN was absent.

Also present were ROBERT R. HILL, General Manager/Assistant Secretary, DENNIS P. CAFFERTY, Assistant General Manager/District Engineer, NEELY SHAHBAKHTI, Finance Manager/Controller, GILBERT J. GRANITO, General Counsel, POLLY WELSCH, Recording Secretary, and JON UPHAM, Sageview Representative, and TODD STEWART, Sageview Representative (via teleconference).

Oral Communications - Public Comments

President Goldman stated that at this time members of the public may address the Board or they may reserve this opportunity with regards to an item on the agenda, until the Board discusses said item later in today's meeting.

There was no public, and there were no comments.

Items Received Too Late to be Agendized

President Goldman asked if there were any items received too late to be agendized. Mr. Hill replied no.

SageView Summary Report on the District's 401(k) Employee Retirement

Savings Plan and 457 Deferred Compensation Plan

Mr. Hill stated that from a fiduciary responsibility perspective, back in 2009 the Board requested that SageView evaluate the 401(k) Plan and this time we are including the 457 Plan. He further stated that this is in light of Prudential's proposal to change the relationship they currently have with ETWD with regards to record keeping.

Mr. Hill stated that today's meeting is step one of this evaluation, and after today's meeting, the recommendation is for the Board to provide staff with next steps.

Mr. Hill introduced Mr. Jon Upham, Principal at SageView to the Board. Mr. Upham stated that his CFA/Managing Director, Todd Stewart, would be joining the meeting via teleconference. He further stated that SageView is an investment advisory firm that reviews retirement plans for firms around the country.

Mr. Upham stated that his firm provided a Summary letter with backup materials. He further stated that he was asked to evaluate and compare HighMark's asset allocation strategy being used in the portfolios.

Mr. Upham stated that he reviewed the benchmarks for each of the 4 age-based portfolios, compared performance of the portfolios to the benchmarks, SageView custom benchmarks and industry standard benchmarks. He further stated that they summarized the cost of the portfolios and investment options.

Mr. Upham stated that they conducted a Request for Information (RFI) on fees, intended to assist in negotiating down Prudential's proposed fee increase. He further stated that the summary letter will provides observations and recommendations to staff.

Mr. Upham stated that in 2009 HighMark had their own Mutual Fund accounts which they sold in 2012. He further stated that they feel that HighMark's structure is good and they have a quality investment process and management.

Director Monin asked how many employees does HighMark have and what type of education do they have. Mr. Upham replied that they are unsure at this time.

Mr. Upham stated that SageView has 150 associates that work for their firm, 13 of which are CFA's.

Mr. Upham stated that the record keeping used to be owned by Union Bank who sold their record keeping business to Prudential and the fee remained the same.

Mr. Upham stated that Prudential determined that they could not possibly run the 401(k) Plan for 10 basis points, and is proposing 71 basis points. He

further stated that they sent out an RFI and after negotiations, they are at 28 basis points.

Mr. Upham stated that some of the proposals were not able to provide a number due to the uniqueness of ETWD's age-based portfolio.

Mr. Upham stated that they are recommending that the District stay with Prudential because 1) it is a significant project to transfer accounts from one company to another, and 2) other vendors offering lower prices may not be able to handle the transactions given the unique nature of the 401(k) portfolios.

Mr. Upham stated that if we use Prudential's target-date re-enrollment, they would lower their administration fee. Director Vergara asked if Sageview is recommending that we do this. Mr. Upham replied no.

Mr. Upham stated that Prudential has a program called Goal Maker on the 457 side that is an asset allocation tool that the participants can use to create a well balanced diversified allocation, or we can think about target-date funds, but costs and risks to participants would need to be considered.

Director Monin asked if Voya is on Sageview's preferred list. Mr. Upham replied that Sageview does not have a preferred list.

Mr. Upham stated that the current portfolios migrate from one asset allocation portfolio to another over time as participants' age and thresholds are crossed. He further stated that HighMark's fee is approximately 43 basis points for managing these portfolios.

Mr. Upham stated that the majority of the money in the portfolios is in the Income & Growth age range of 50-59, with an Equity Range of 30-50%, and when the participant turns 60, they automatically drop by 15% into the 60 years and over portfolio. He further stated that the stair step approach drops dramatically over time as the participant ages.

Mr. Upham stated that there are 3 ways to solve the challenges; 1) go back to HighMark to consider building additional portfolios, 2) withdraw the use of HighMark and use a technology based platform where manages a smoother more gradual glide path for us, and 3) use a target-date solution which is an off-the-shelf portfolio.

Mr. Cafferty stated that the participants can choose to put funds in either or both of the 401(k) Plan and 457 Plan. He further stated that all of the District's contribution (mandatory and matching) goes into the 401(k) Plan.

Mr. Upham stated that the Capital Preservation Portfolio shows HighMark's benchmarks they use when they meet with the Board. Mr. Upham further stated that ETWD's investment policy statement refers to a Primary Benchmark and a Secondary Benchmark.

Mr. Upham stated that he recommends that HighMark review with staff the District's investment policy statement to clearly identify which benchmark is to be considered primary and/or consider eliminating one of the benchmarks

Mr. Upham stated that Sageview created a benchmark and the difference is that the Capital Preservation Benchmark that HighMark is using is taking benchmarks that match up with each of these underlying investment options and

asset categories. He further stated that Sageview reviewed how successful HighMark was at asset allocation with U.S. funds, International, and Fixed Income.

Mr. Upham stated that they also included a standard Target-Date fund benchmark.

President Goldman asked if these are net of fees. Mr. Upham replied yes.

Director Monin asked how many firms use Primary and Secondary Benchmarks. Mr. Upham replied not often. President Goldman stated that the Secondary Benchmark was created for one of the past Directors who didn't feel that the Primary Benchmark was providing any benefit to the portfolios.

Mr. Stewart stated that the Secondary Benchmark includes a component that includes alternatives, where the Primary Benchmark does not.

Mr. Upham stated that Sageview has their own proprietary way that they evaluate Mutual Funds, which includes a summary ranking score. He further stated that on a whole these funds are performing above medium.

Director Monin asked what is their proprietary way they evaluate funds. Mr. Upham replied that they take 9 measures to evaluate investments and mark their returns on a quarterly basis based on 2 different rolling periods of time, using a risk component associated to this, and the expense ratio.

Director Monin asked what "pass" means. Mr. Upham replied that they give a "pass" for index funds because they are based upon expense ratios.

Mr. Upham stated that for the most part the funds are doing a good job.

Mr. Upham stated that the 457 is participant driven and chosen from investment options that are offered to them by Prudential. He further stated that there are approximately 4 funds in the 457 Plan that Sageview feels we should put on the watch list for possible replacement.

President Goldman asked if HighMark reviews the investment funds in the 457 Plan. Mr. Hill replied no.

Mr. Upham stated that Sageview's recommendations include:

1. Consider a more gradual glide path or additional portfolios
2. Review the conservative nature of HighMark portfolios
3. Review and negotiate the HighMark management fees
4. Update the IPS and investment review documents to reflect the appropriate reference benchmark
5. Request HighMark address the fixed income credit profile in portfolios and Sageviews observations of the Artisan mid Cap and Fidelity Small Cap Discovery funds
6. Request feedback on using index funds in some categories
7. 457 Plan establishing a process for monitoring the plan investment options in addition to working with Prudential to reduce expense ratios of current plan options
8. Consider remaining with Prudential for plan administration due to their ability to handle current unique portfolio structure with HighMark

Director Vergara asked what he feels we could negotiate down to. Mr. Upham stated that the Board should negotiate with HighMark for possibly reduce the fee by 10-20 basis points.

Director Adjarian asked if Sageview could negotiate on ETWD's behalf. Mr. Upham replied yes.

Director Monin asked how much of an average portfolio is passive. Mr. Stewart replied that approximately 60% of portfolios are mostly passive.

Mr. Hill stated that the more portfolios added could increase the HighMark fee.

Director Monin stated that by adding funds to the 457 Plan and getting rid of the Prudential investments and Vanguard, we could possibly lower the fees.

President Goldman asked if staff is asking for additional feedback. Mr. Hill replied that staff would like to meet with HighMark and Prudential, and continue assistance from Sageview.

Director Monin asked if we pay Sageview a flat fee. Mr. Hill replied that we have a fee of \$20,000 for this particular project. Mr. Upham stated that they work on a flat fee basis, and are willing to work with the District depending on the need.

Director Monin asked Ms. Cimorell if she has any complaints from participants. Ms. Cimorell replied no.

At approximately 8:53 o'clock a.m. Mr. Upham left the meeting, and Mr. Stewart disconnected from the teleconference.

#### Director Comments/Non-agenda Items



Director Adjarian stated that he attended the MWDOC/MET workshop where they discussed a letter from the MWDOC Board to the San Diego County Water Authority regarding the authority's litigation with MET.

Attorney Report

Mr. Granito distributed his notes to staff and the Board on the litigation between Metropolitan Water District of California and the San Diego County Water Authority, and reported that if there are any comments on the notes, we could discuss them at the next regular Board meeting.

Adjournment

There being no further business to come before the Board, the following motion was duly made and passed.

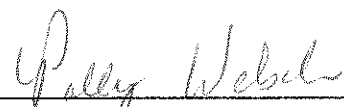
Motion: Director Vergara moved, seconded by Director Monin and unanimously carried across the Board that today's meeting be hereby adjourned at 8:56 o'clock a.m.

President Goldman called for a Roll Call vote.

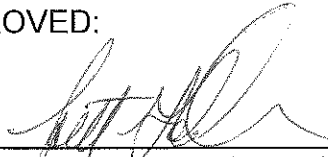
Roll Call Vote

Director Monin	aye
Director Adjarian	aye
President Goldman	aye
Director Vergara	aye

Respectfully submitted,

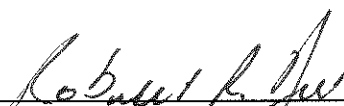
  
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POLLY WELSCH  
Recording Secretary

APPROVED:



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M. SCOTT GOLDMAN, President of  
the El Toro Water District and the  
Board of Directors thereof



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ROBERT R. HILL, Secretary  
of the El Toro Water District and  
the Board of Directors thereof