Retirement Plan Committee Meeting Minutes

ATTENDEES:

Listed alphabetically by last name

Mr. Larry Bumgardner
Ms. Michelle del Giudice
Dr. Michael Feltner
Dr. Joseph Fritsch
Ms. Naomi Goodno
Ms. Joan Singleton – Committee Chair
Ms. Nicolle Taylor

ABSENT:

Ms. Lauren Cosentino
Mr. Pete Peterson

GUESTS:

Mr. Chris Rowey – Benefit Financial Services Group (BFSG)
Mr. Chad A. Noorani – BFSG

Opening: The regular meeting of the Pepperdine University Retirement Plan Committee was called to order on December 11, 2018 at 12:04 PM in Malibu, California. A quorum was present throughout the meeting.

Approval of prior meeting minutes: The Committee reviewed the minutes from the September 27, 2018 meeting.

> A **MOTION** was made, seconded, and carried:
> To approve the minutes from the September 27, 2018 meeting.

<u>ADMINISTRATIVE AGENDA</u>

Mr. Noorani provided a brief overview regarding recent legislative updates pertaining to retirement plans. Changes occurring in 2018, include an extension of time for terminated participants to roll plan loan offset amounts into another eligible retirement plan or an IRA. The extended deadline is the participant's due date for filing their federal tax return for the year in which they take the loan. No action is required on the part of plan sponsors for this provision to take effect.

Beginning in 2019, legislation has been passed that aims to reduce the operational complexities previously imposed on plan sponsors pertaining to safe harbor hardship withdrawals – including the elimination of the loan requirement prior to taking a hardship, the elimination of the 6-month deferral suspension period, and expanded money sources from which hardships may be taken. These provisions are optional and will require a Plan amendment in order to effectuate. Transamerica will be communicating with Plan Sponsors regarding their options prior to year-end.

California Wildfire Relief is currently operationally available to plan sponsors who choose to allow for it – including increased in-service distribution amounts, special tax treatment, avoidance of the 10% premature distribution penalty, increased available loan amounts, and the ability to recontribute distributed amounts within three years. Under the Relief provisions, participants who sustained economic loss due to a California wildfire may take the permissible distributions, provided his/her principal place of residence was in the "California wildfire disaster area" (as the term is defined in the Bipartisan Budget Act of 2018) during any portion of the period from October 8, 2017 to December 31, 2017. If elected, a Plan amendment will be required by no later than the last day of the first Plan year beginning on or after January 1, 2019. BFSG mentioned that there is also consideration being discussed to extend to the most recent wildfires in California. As this may impact several participants, the Committee is in favor of adding this feature if it is extended. Following the discussion:

> A **MOTION** was made, seconded, and carried:
>
> To accept the removal of the 6-month suspension for hardship withdrawals and to submit to an electronic vote to accept the wildfire provisions if it is extended to the most recent fires in 2018. The new loan provision does not apply since the Plan does not allow for loans.

Volume Submitter / Request-for-Proposal

There was a general discussion over a potential move to Transamerica's new pre-approved Volume Submitter Plan Document and an existing provision that would require a change to the University's definition of compensation. Transamerica cannot incorporate the revised definition as part of the Volume Submitter Plan. There was a general discussion about the ability for other vendors to accommodate the existing definition of compensation.

Considering the Committee has not issued a Request for Proposal (RFP) to benchmark Transamerica's price and services for several years, a general discussion ensued about starting the RFP process to evaluate whether Transamerica remains the best options for Pepperdine's participants. If the Committee were to select a different provider, the conversion process would be the ideal time to make any necessary revisions to the Plan Document regarding the aforementioned definition of compensation. Following the discussion

> A **MOTION** was made, seconded, and carried:
>
> To issue a Request for Proposal for recordkeeping and administration services.

BFSG was asked to issue the RFP with enough time to hold the first review meeting during the regularly scheduled Committee meeting on March 5, 2019.

<u>FIDUCIARY AGENDA</u>

Third Quarter 2018 Retirement Plan Quarterly Investment Review (Transamerica, TIAA, and Prudential)

The Committee reviewed the Quarterly Investment Review (the "Report") prepared by BFSG for the quarter ending September 30, 2018. Mr. Rowey provided an overview of the economy and capital markets in the third quarter to provide context for the performance of the Plan's investment options. The review included a discussion about the evaluation methodology scores of each investment option as outlined in the Investment Policy Statement ("IPS").

The Committee also reviewed the one-, 3-, 5- and 10-year annualized performance of each investment option relative to its respective benchmark and peer group. A summary of assets and commentary on investment options related to each account is below.

Transamerica

Plan assets, including Personal Choice assets, held at Transamerica totaled approximately $357 million, representing 2,513 participant accounts as of the end of the reporting period. Of the 24 funds and one target date series receiving a score, 17 earned an "outperform" ranking and 5 earned a "perform" ranking.

> *Vanguard Inflation-Protected Securities* – The fund has underperformed the benchmark index and peer group average during the last quarter and 12-month period. Most of the underperformance relative to the peer group is attributable to a focus on only investing in Treasury Inflation Protected Securities (TIPS), per the strategy's mandate. Many of the fund's peers look for additional yield in other areas of the bond market, often purchasing other government-related and corporate/credit issues to add to performance. Long-term performance remains in the top third relative to peers.

> *TIAA-CREF Growth and Income* – The fund is on the Watch List due to short term volatility and underperformance relative to peers. The fund has underperformed its benchmark index and peer group average across the one-, 3-, 5-, and 10-year periods. The portfolio typically consists of steady core growers trading at reasonable prices, with a smaller portion made up of stocks that have gone through a rough patch but have a catalyst in place to boost future earnings. Stock selection, specifically in the Financials and Industrials sectors, was the largest detractor from performance during the last 12 months. Considering the extent of the underperformance, the fund will remain on the Watch List.

> *Lord Abbett Developing Growth* – This fund is on the Watch List due to significant short-term underperformance relative to the benchmark index and peer group average. During the third quarter the portfolio outperformed the passive and active benchmarks by more than 5%, contributing to outperformance over the last 12 months of more than 48%. Stock selection, specifically in the Technology, Health Care, Discretionary, and Industrials sectors, continued to be the largest relative contributor to performance during the same periods. Considering the rebound in performance the Committee agreed to remove the fund from the Watch List.

The Committee reviewed the performance of the T. Rowe Price Retirement series and noted that nearly all vintages of the series have outperformed its respective benchmark on a 3-, 5-, and 10-year basis.

Plan-level returns as of the end of the reporting period were reviewed. It was noted that the Plan outperformed its custom active benchmark across the 3- and 5-year time periods. The Plan, as allocated on September 30, 2018, demonstrated higher risk-adjusted performance than the peer group benchmark as measured by 3-year Sharpe Ratio. It was noted the Plan-weighted expense ratio of 0.38% was less than the active benchmark of 0.75%.

<u>TIAA-CREF</u>

Plan assets held at TIAA-CREF totaled approximately $125 million as of the end of the reporting period. Of the 6 funds receiving an IPS evaluation methodology score, two earned an overall “outperform” ranking, three earned a “perform” ranking, and one earned an “underperform” ranking.

The Committee reviewed Plan-level returns as of the end of the reporting period and noted that the Plan outperformed its proportionately-weighted custom active and passive benchmarks across one-, 3-, 5-, and 10-year time periods.

<u>Prudential</u>

Plan assets held at Prudential totaled approximately $2.8 million, representing 33 participant accounts as of the end of the reporting period. Of the 7 funds receiving an IPS evaluation methodology score, one earned an “outperform,” 2 earned a “perform,” and 4 earned an “underperform” ranking.

The Committee reviewed Plan-level returns and it was noted that the Plan outperformed its proportionately-weighted custom active and passive benchmarks across the 3-, 5-, and 10-year time periods. The outperformance is largely attributable to a significant portion of the assets being invested in the Guaranteed Interest Account.

Third Quarter 2018 VEBA Further Account Investment Review

Due to the investment menu being mirrored between this Program and the Transamerica platform, the decisions and analysis discussed above is intended for this Plan as well.

Adjournment: The meeting was adjourned at 2:01 PM