

**Defined Contribution Investment Committee**  
**Montgomery County Public Schools Employees**  
**Tax-Sheltered Savings Plan and**  
**Deferred Compensation Plan**

**MINUTES OF THE QUARTERLY MEETING**

March 1, 2017  
Via Conference Call

Committee Members Present: Pia Morrison, Chair  
Nicola Diamond  
Joanne Hill  
Dan Howell  
Craig Pernick  
Monte Tarbox

Others Present: Marisa Grant  
Susan Lau  
Janice Roberts  
Mikaylee O'Connor, RVK Inc.  
Robert Palmeri, RVK Inc.

**Call to Order**

Pia Morrison called the meeting to order at 12:30 p.m. The minutes of the November 11, 2016 meeting and the amended minutes of the September 23, 2016 were reviewed. A motion was made for the approval of the minutes for both meetings and it was seconded. The Committee unanimously approved the minutes.

**Investment Policy Statement**

Mikaylee O'Connor and Robert Palmeri presented a draft of the Investment Policy Statement (IPS) for the MCPS defined contribution plans. Ms. O'Connor and Mr. Palmeri discussed the revisions to the IPS based on the feedback from members of the Committee and the MCPS general counsel. Upon a motion duly made and seconded, the following resolution was unanimously approved:

**RESOLVED, that the MCPS Tax-Sheltered Savings Plan and the MCPS Deferred Compensation Plans adopt the Investment Policy Statement as stated.**

**Investment Performance**

Ms. O'Connor and Mr. Palmeri discussed the market environment in the fourth quarter of 2016 and January 2017. They summarized the economic environment and the capital markets in the period. Ms. O'Connor updated the Committee on the performance of the investment menu. The Vanguard target date funds on the investment menu performed in line with expectations. Similarly,

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the passive funds performed as expected, tracking their respective benchmarks. The active funds had mixed performance in the fourth quarter of 2016 but rebounded nicely in January 2017.

### **Investment Menu Review**

Mr. Palmeri discussed the framework for developing, implementing and evaluating the investment menu. The MCPS investment menu is reviewed periodically to assess its performance against the components of that framework. Mr. Palmeri and Ms. O'Connor assessed the menu's various attributes including compliance with the IPS and plan documents, use of a default option, construction of diversified portfolios, participants' usage of the investment options, fees, manager quality, and number of available fund options. RVK believes the investment menu satisfies the framework and no action is necessary. RVK did suggest that the Committee consider adding real assets to the menu to provide inflation hedge options to participants.

### **Department of Labor Fiduciary Rule**

The Department of Labor (DOL) Fiduciary Rule is scheduled to go into effect in April 2017. It expands the "investment advice fiduciary" definition under the Employee Retirement Income Security Act of 1974 (ERISA). It will elevate all financial professionals who work with retirement plans or provide retirement planning advice to the level of a fiduciary, bound legally and ethically to meet the standards of that status. It is unclear whether the rule will be reversed or delayed at this juncture.

The Committee firmly believes that the plans' administrative services provider, Fidelity, should continue on the path that it embarked upon in preparing for the rule. The Committee requested Staff work with RVK to draft a letter communicating its view that Fidelity adopt and uphold the fiduciary standards as the company had originally intended.

### **Next Meeting**

The next quarterly meeting will be Friday, May 19, 2017 at 12:30 p.m. at 850 Hungerford Drive, Room 127.

Upon a motion duly made and seconded, the meeting was adjourned at 2:15 PM.

Respectfully submitted,  
Susan Lau

**Defined Contribution Investment Committee**  
**Montgomery County Public Schools Employees**  
**Tax-Sheltered Savings Plan and**  
**Deferred Compensation Plan**

**MINUTES OF THE QUARTERLY MEETING**

May 19, 2017

Committee Members Present: Pia Morrison, Chair  
Nicola Diamond  
Joanne Hill (via phone)  
Dan Howell  
Craig Pernick  
Monte Tarbox

Others Present: Marisa Grant  
Susan Lau  
Janice Roberts  
Mikaylee O'Connor, RVK Inc.  
Robert Palmeri, RVK Inc.

**Call to Order**

Pia Morrison called the meeting to order at 12:30 p.m. The minutes of the March 1, 2017 were reviewed. A motion was made for the approval of the minutes for both meetings and it was seconded. The Committee unanimously approved the minutes.

**Inflation Protection Strategies**

Mikaylee O'Connor and Robert Palmeri presented the option of diversified inflation strategies for defined contribution plans. The objective of the presentation was to educate the Investment Committee on sources of inflationary risk and the impact on various asset classes. While diversified inflation strategies are offered at many of RVK's defined contribution clients, there is often very little uptake by plan participants.

**Introduction of Daniel Howell**

This is the annual in-person meeting of the Defined Contribution Investment Committee. Brief introductions were made of each Investment Committee member, Staff, and RVK. The Committee took the opportunity to welcome its newest member, Dan Howell.

**Investment Fee Benchmark Study**

Ms. O'Connor and Mr. Palmeri presented a study detailing the various fee service models used in defined contribution plans. The models include bundled, hybrid, and unbundled options. The bundled option is an "all-in" model where the costs of investment management, recordkeeping,

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trust services and custodial services are consolidated into one fee. The hybrid approach which MCPS has adopted separates investment management fees from the fees for recordkeeping, trust and custodial services. And finally, the unbundled option separates all of the service offerings and charges for each individually. With respect to plan fee oversight, RVK highlighted best practices in the industry. These include regularly performing investment management fee comparisons relative to peers, investigating opportunities for lower fees with vendors, periodically reviewing the fee model, re-negotiating service agreements, and creating an annual plan fee budget.

The MCPS 403(b) and 457(b) current plan fees were reviewed and discussed in detail. RVK noted that MCPS plans are well-aligned with best practices. MCPS participants generally incur a weighted average investment management fee of 0.12% and offers lowest fee share classes available. In addition, participants are charged \$72 year for recordkeeping and administrative fees. Transaction fees for loan setup, in-service withdrawal, minimum required distribution, QDRO are charged directly to individual participants. MCPS 403(b) and 457(b) plans fee charges are in-line to below average relative to peers for all three fee categories (investment management, recordkeeping & administrative expenses).

### **Investment Performance Review**

Ms. O'Connor and Mr. Palmeri reviewed the market environment in the first quarter of 2017. They summarized the economic environment and the capital markets in the period. Ms. O'Connor updated the Committee on the performance of the mutual funds on the investment menu. There were no developments during the quarter with respect to performance or changes at the investment managers that raised a concern about the funds on the menu.

### **Policy Discussion**

Ms. O'Connor and Mr. Palmeri discussed with the Committee the possible impact on retirement savings plans from policy changes tied to U.S. tax reform proposals. The general thrust of the proposals is to increase federal tax revenue by reducing the tax savings created by participation in retirement plans. The increased revenue would help offset the projected reduction in revenue from other tax reforms. Possible changes include freezing annual contribution limits for 10 years, placing a cap on retirement saving accounts, placing a cap on the rate at which tax deduction reduces a taxpayers' income tax liability, replacing all traditional tax-deferred retirement plans with after-tax Roth plans, and imposing a tax on annual capital gains within 401(k) plans. The Committee will continue to monitor developments in this area as it has the potential to affect the overall structure of the plans.

### **Next Meeting**

The next quarterly meeting will be Friday, August 4, 2017 at 12:30 p.m. via conference call

Upon a motion duly made and seconded, the meeting was adjourned at 2:15 p.m.

Respectfully submitted,  
Susan Lau

**Defined Contribution Investment Committee**  
**Montgomery County Public Schools Employees**  
**Tax-Sheltered Savings Plan and**  
**Deferred Compensation Plan**

**MINUTES OF THE QUARTERLY MEETING**

August 4, 2017  
via conference call

Committee Members Present: Pia Morrison, Chair  
Nicola Diamond  
Joanne Hill  
Craig Pernick

Others Present: Marisa Grant  
Susan Lau  
Janice Roberts  
Mikaylee O'Connor, RVK Inc.  
Robert Palmeri, RVK Inc.

**Call to Order**

Pia Morrison called the meeting to order at 12:40 p.m. The minutes of the May 19, 2017 were reviewed. A motion was made for the approval of the minutes and it was seconded. The Committee unanimously approved the minutes.

**Staff Report**

Staff indicated that Vanguard lowered the expense ratio of the Vanguard Target Date funds to 0.09% from 0.11%. Almost three-quarters of MCPS participants in the 403b and 457b plans are invested in the Vanguard Target Date funds and thus will benefit from the reduced fee. For the year ending March 31, 2017, participation in the plans had increased 4.5% representing higher penetration of the employee base. Staff will be working to segment the participant base for more targeted and effective communication.

**Election of Officers**

The officers of the Committee serve a one-year term. After a motion was made and duly seconded the following resolutions were unanimously passed:

**RESOLVED, that Pia Morrison is elected to serve as chair of the Defined Contribution Investment Committee for a one-year term ending August 31, 2018; and**

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**RESOLVED, FURTHER, that Craig Pernick is elected to serve as vice chair of the Defined Contribution Investment Committee for a one-year term ending August 31, 2018; and**

**RESOLVED, FURTHER, that Marisa Grant is elected to serve as secretary of the Defined Contribution Investment Committee for a one-year term ending August 31, 2018.**

### **Investment Performance Review**

Mikaylee O'Connor and Robert Palmeri reviewed the market environment in the second quarter of 2017. They summarized the economic environment and the capital markets in the period. The US economy remains healthy and is improving steadily. The unemployment rate and volatility continue to be low while inflation remains muted. International markets outperformed US markets in the quarter. There were no developments during the quarter with respect to performance or changes at the investment managers that raised a concern about the funds on the menu.

### **Fee Model Analysis**

Ms. O'Connor and Mr. Palmeri presented an analysis of the impact of the participant fee model (flat fee per participant) on participant savings rate. Alternative fee structures were also presented and compared against the current model. The per-participant fee is currently considered best practice in the industry and more defined contribution plans are moving towards implementing that model. The Committee discussed the various options to further refine the per-participant model. The Committee asked that RVK and staff explore the alternative fee models in more detail in order to assess the suitability for MCPS.

### **Next Meeting**

The next quarterly meeting will be Friday, November 10, 2017 at 12:30 p.m. via conference call.

Upon a motion duly made and seconded, the meeting was adjourned at 2:10 p.m.

Respectfully submitted,  
Susan Lau

**Defined Contribution Investment Committee**  
**Montgomery County Public Schools Employees**  
**Tax-Sheltered Savings Plan and**  
**Deferred Compensation Plan**

**MINUTES OF THE QUARTERLY MEETING**

November 10, 2017  
(via conference call)

Committee Members Present: Pia Morrison, Chair  
Nicola Diamond  
Joanne Hill  
Dan Howell  
Craig Pernick  
Monte Tarbox

Others Present: Marisa Grant  
Susan Lau  
Janice Roberts  
Mikaylee O'Connor, RVK Inc.  
Robert Palmeri, RVK Inc.

**Call to Order/Minutes Review**

Pia Morrison called the meeting to order at 12:40 p.m. The minutes of the August 4, 2017, meeting were reviewed. Members noted corrections and, upon a motion duly made and seconded, the amended minutes were unanimously approved.

**Investment Performance Review**

Mikaylee O'Connor and Robert Palmeri reviewed the performance of the major global economies and capital markets during the third quarter of 2017. Mr. Palmeri discussed equity market valuations, which are high in the U.S. (top quartile of historical ranges) and relatively less elevated in international markets (trading around median of historical ranges). Ms. O'Connor reviewed the performance of the funds on the investment menu. For the funds that follow an active investment approach, Ms. O'Connor provided additional color about how the managers positioned the portfolios and the resulting effects on performance. A detailed discussion by the Committee ensued.

**Default Investment Option Review: Target Date Funds**

Ms. O'Connor presented a review of the default investment option for the defined contribution plans: the Vanguard Target Date Fund family. In a target date fund, participants will typically invest in a fund with a date close to their intended retirement date. The risk profile of the fund is

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reduced by the fund manager over time as the retirement date gets closer. Target date funds have grown in popularity over the past decade partly because participants can take advantage of a one-stop option that offers exposure to capital appreciation over time and current income. Most defined contribution plans have elected to use target date funds as their default investment option. Investment fees have also come down significantly since the funds were initially introduced. Currently, 74% of the combined total plan assets across the MCPS 403(b) and 457(b) plans are invested in the Vanguard target date funds.

**Next Meeting**

The next quarterly meeting will be Thursday, March 1, 2018 at 12:30 p.m. via conference call.

Upon a motion duly made and seconded, the meeting was adjourned at 1:40 p.m.

Respectfully submitted,  
Susan Lau