



County of Fresno

Deferred Compensation Management Council

May 16, 2016 Agenda

SPECIAL MEETING TO BE HELD AT 10:00 A.M. AT THE FRESNO COUNTY EMPLOYEES' RETIREMENT ASSOCIATION, 1111 H ST., FRESNO, CA 93721

1. Call to Order
2. Approve Agenda
3. Approve Amendment I to the Investment Guidelines for the County of Fresno Deferred Compensation Plan Stable Asset Fund to allow investment allocation in "BBB" rated corporate bonds, up to a maximum of 10% of the total portfolio and to increase the maximum allocation of "A" rated corporate bonds from 10% to 25% of the total portfolio, with a maximum allocation of "A" or lower rated corporate bonds at 35% of the total portfolio.

In compliance with the Americans with Disabilities Act, if you need special assistance to participate in this meeting, please contact the Personnel Services Manager at 600-1810.

Item 3

Fresno County

IPS Recommendations

May 16th, 2016

Cathe Tocher, CFA

CIO & Senior VP Great-West Financial Segregated Funds

Global Head of Portfolio Management

Jack Brown, CFA

Vice President of Separate Accounts

Portfolio Manager



Executive Summary

1. Tremendous liquidity through global monetary policy and growth concerns continue to pressure interest rates
 - Over 30% of government debt globally trades with negative yields .
 - The 5 year Treasury yield is 56bp lower YTD
2. U.S. economy continues to grow at a slow, but steady, pace supporting a longer business cycle
3. Achieving higher yields in today's environment is difficult and requires taking on two types of risk. Duration or Spread
 - Adding more Duration to the portfolio is counter-intuitive given current low rates
4. Our recommendation is to look to increase the yield of the portfolio by expanding the available investment options
 - Specifically adding a dedicated 10% allocation to BBB Corporate Credit
5. Adding BBB exposure provides multiple benefits, while not materially altering the risk profile
 - Allows for broader diversification across industries
 - Provides opportunities to take advantage of relative value opportunities across ratings spectrum
 - Corporate spreads continue to look attractive relative to other fixed income opportunities

Stable Value and GWCM

4 CORE BELIEFS

Investment Management Expertise

- Fixed income asset management should be core competency

Transparency

- Plan sponsor should know what it is buying

Customization

- Our belief is a CSVF should be designed around the plan using it

Retirement Understanding

- Provider should have thorough understanding and experience in all facets of retirement



4 KEY DIFFERENCES

- Our investment manager has the experience to manage a broad variety of fixed income solutions and not just Stable Value Funds (SVFs)
- Manages a different Investment Policy Statements (IPS) for each custom client

- Great-West Financial purchases securities directly for your portfolios
- Know all fees at all levels; no hidden fees

- Consultative approach
- No other portfolio is exactly the same

- Great-West Financial® understands retirement planning/investing

Stable Value and GWCM

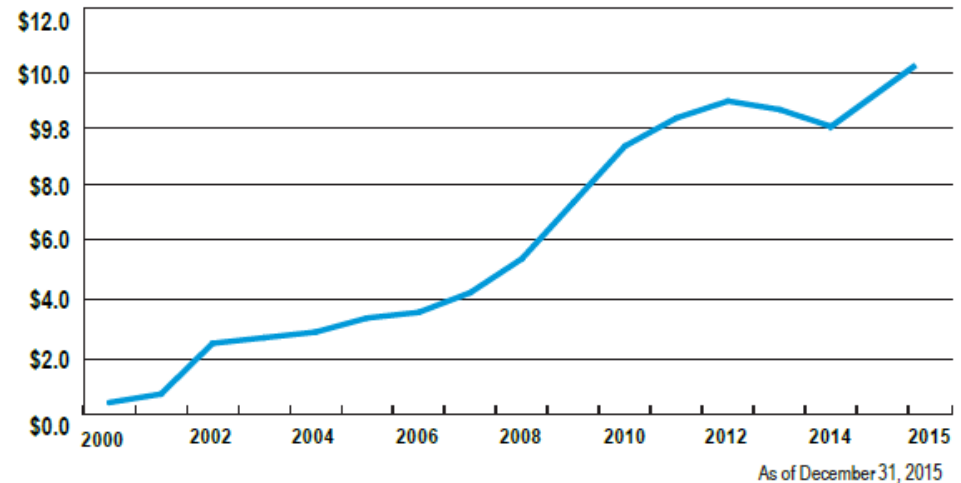
Great-West Financial Stable Value business

- 39 custom Separate Account clients, each with its own distinct investment policy guidelines
- 31 clients and \$6.3 billion in 457 assets
- \$3.4 billion in COLI/BOLI Separate Account business
- Diversification amongst portfolio sizes

Assets thresholds (millions)	Number of clients	Average assets
Less than \$50	9	\$32.4 million
\$50-99	12	\$76.6 million
\$100-199	6	\$129.0 million
\$299-499	10	\$323.2 million
Greater than \$500	2	\$903.4 million

As of December 31, 2015
Source: Great-West Financial

Great-West Financial Stable Value separate account assets under management



Corporate

- Bi-Mart corporation
- Genesco, Inc.
- Good Samaritan Hospital
- Kirby Risk Corporation
- SWIFT, Inc.

State Governments

- State of Oklahoma
- State of Colorado
- State of North Carolina (two plans)

County Governments

- Gwinnett County, GA
- Orange County, CA
- Santa Barbara County, CA

County Governments

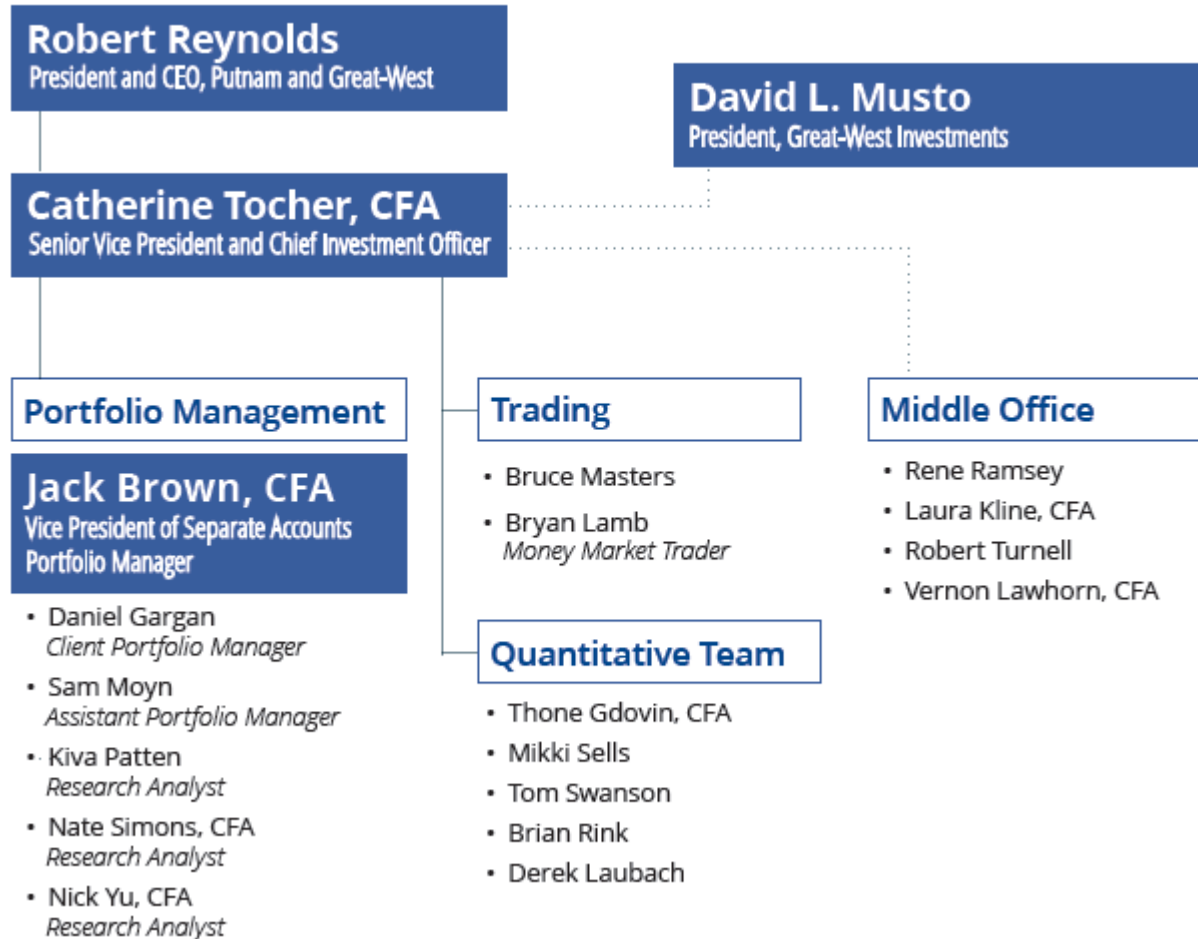
- City of Austin, TX
- City of Virginia Beach, VA
- City of Houston, TX

Other

- Chicago Park District, IL

Organizational Chart

GWCM Leadership



Organizational Chart

Great-West Financial investment team

	Years of Experience	Years at Great-West Financial
Catherine Tocher, CFA SVP and Chief Investment Officer, Great-West Financial Separate Accounts and GWCM	30	27
Jack Brown, CFA Vice President, Portfolio Manager	20	0
Bruce Masters Trader	35	25
Thone Gdovin, CFA Portfolio Analyst	17	14
Sam Moyn Assistant Portfolio Manager	14	14
Kiva Patten Assistant Portfolio Manager	14	2
Nate Simons, CFA Credit Analyst	4	1
Nick Yu, CFA Senior Investment Strategist	7	1
Daniel Gargan Client Portfolio Manager	7	0

Key Personnel

Catherine Tocher, CFA

Senior Vice President and Chief Investment Officer, Great-West Financial Separate Accounts and Great-West Capital Management, LLC (GWCM), CFA

- Lead portfolio manager
- Heads team of 23 investment professionals, including MBS/ABS analysts, credit analysts, and commercial real estate analysts
- Has managed all Great-West Life & Annuity Insurance Company (GWL&A) CSVFs since 1993
- Manages the trading desk and has oversight responsibility for the money market group

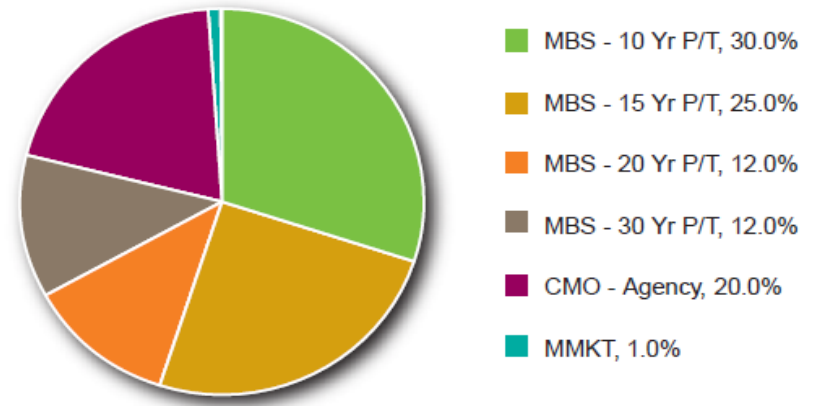
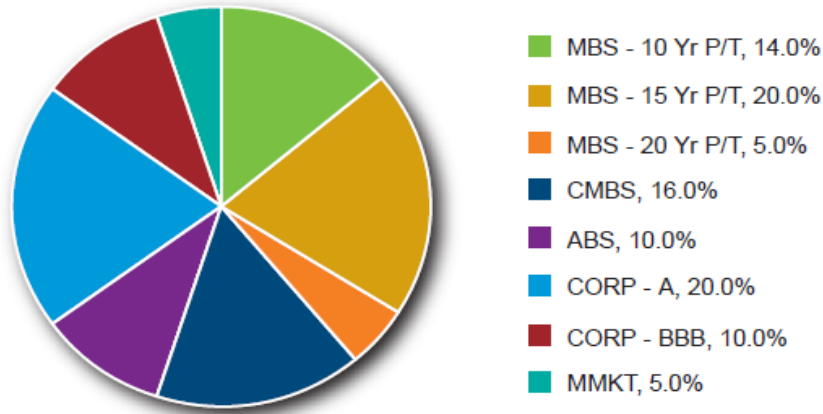
Jack Brown, CFA

Vice President of Separate Accounts and Portfolio Manager

- Leader of the day-to-day management of the stable value separate account and collective trust portfolios.
- Leads a team of portfolio managers, analysts, and traders responsible for the strategic and tactical implementation of investment decisions.

Core vs. Government Portfolios

Sample portfolio



Portfolio Considerations

Portfolio composition	Core	Government
Avg. Credit Quality ¹	A	AAA
Portfolio Duration	3.8	3.8
Sector Allocations		
Agency MBS	39%	79%
Agency CMO	0%	20%
CMBS	16%	
ABS	10%	
Corporates	30%	
Mmkt	5%	1%

- The Core portfolio is more diversified across asset classes; both portfolios are diversified within permissible asset classes
- Liquidity is significant for both Core and Government portfolios
- Portfolio structure/strategy is consistent: cashflows are laddered to ensure participation in a changing economic / interest rate environment while managing the average life and duration variability of the underlying assets

Investment Policy Statement Comparisons

		IPS Current		IPS Proposed	
		Restraint	Max/Min	Restraint	Max/Min
Government Backed Allocation	%				
Total Government	67.44%	50.00%	Min	50.00%	Min
Corporate Bond Allocation	%				
Total A	5.74%			25.00%	Max
Total BBB *	1.65%	0.00%	Max	10.00%	Max
Total A & BBB	7.39%	10.00%	Max	35.00%	Max
ABS Allocation	16.55%				
Total Corporates and ABS	29.79%	50.00%	Max	50.00%	Max
Cash	2.77%				
Total Portfolio	100.00%				

Recommendations:

Types of Investments

- 1) Add language to allow for the investment of BBB rated Corporate Bonds. Rationale: BBB rated Corporate Bonds are expected to improve portfolio diversification, flexibility, and yield.

Quality and Diversification Guidelines

- 1) No more than 10% of the account may be invested in BBB rated Corporate Bonds.
- 2) No more than 25% of the account may be invested in A rated Corporate Bonds.

*Represents securities that have been downgraded to BBB since time of purchase.

Current versus Proposed Portfolio

Asset Class	Current Portfolio					Proposed Portfolio				
	Market Value	Allocation	Yield	Duration	OAS	Market Value	Allocation	Yield	Duration	OAS
Government Backed										
Total Government	42,066,678	67.4%	1.71	3.63	21	35,982,623	57.7%	1.75	3.74	16
Total Corporates	8,257,509	13.2%	1.81	2.95	84	16,071,365	25.8%	1.91	2.73	99
Total ABS	10,326,803	16.6%	2.13	2.51	119	10,326,803	16.6%	2.13	2.51	119
Cash	1,730,000	2.8%	-	-	-	-	0.0%	-	-	-
Total Portfolio	62,380,990	100.0%	1.74	3.26	45	62,380,790	100.0%	1.85	3.28	55

Portfolio Changes

1. Deploy Cash into A rated securities.
2. Liquidate Agency CMBS and reinvest into BBB rated securities.

Expected to improve portfolio yield by approximately 10 basis points.

Recommendations

- Great-West Financial Recommends that the portfolio reallocate holdings from Agency CMBS (9.8% of portfolio) to Corporate Credit
- Allocations would be focused to the following sectors:
 - Finance
 - Industrials
 - Energy
- We estimate changing to this strategy will contribute an additional **10 basis points** to portfolio yields which over time will boost the overall credited rate of the portfolio

Q1 2016 Economic and Capital Market Summary

Where do we sit at the end of 1Q? Our assessment of the US economy in 1Q16 remains modestly constructive, but caution is certainly warranted when considering what transpired to start the year when markets felt like they were unraveling. The collapse in oil and commodity prices has subsided, bond spreads have tightened, global equities have recouped their losses, and much of the upsurge in market volatility has abated. Maintaining stable price floors in these sectors is essential for keeping markets steady throughout 2016. A healthy and confident U.S. consumer is the foundation of our constructive view on the U.S. economy moving forward. External headwinds and uncertain sentiment from 4Q15 remains, which could pose downside risks to our base case view of 2.0% GDP growth for 2016. We expect 1Q GDP to print below 1.0% on account of high inventories and excess capacity built up over 2015. The strong dollar has also dragged on real growth potential, but has recently weakened versus other currencies. These headwinds are expected to subside as we enter 2Q.

That being said the U.S., as well as the rest of the world, is in a period of below-trend growth relative to previous business cycles. Global GDP for 2016 is projected to be near 3.2%. The U.S. is still in a stronger position relative to other major economies. U.S. Treasury yields are low by historical standards but significantly higher relative to other Developed Economies.

So how did we get here? The FOMC was confident enough in domestic economic conditions to warrant hiking the Federal Funds Rate by 25 basis points in December. Some investors were cautiously optimistic upon this news, but given the difficulties the FOMC has had in forward guidance and communication over the course of 2015, markets reacted negatively as 1Q began to play out. The basis of friction between markets and the Fed was the discrepancy in how many hikes they had priced into the market for 2016. This was a significant development by itself, but what made it so impactful was the Fed action was slotted in with many other negative and compounding headlines that carried over from last quarter. Global growth was stalling, energy and commodities were rolling over, and the China / Emerging Market slowdown continued to play out. Central Banks had been unsuccessful in stimulating both growth and inflation despite nearly seven years of Quantitative Easing (QE) and other expansive monetary policies. Ongoing volatile sentiment acted as an accelerator.

Early in 1Q, the Bank of Japan decided to initiate additional stimulus and enter Negative Interest Rate Policy (NIRP), which markets digested as another indicator that Central Banks were running out of options to stabilize economic conditions. Negative sentiment and price volatility peaked on February 11th when WTI oil fell to just over \$28 per barrel. Investment Grade Corporate Bond Spreads were at recessionary levels. Talk of a U.S. recession was in the headlines and directly impacted market liquidity.

Q1 2016 Economic and Capital Market Summary

Shortly after, the ECB announced an additional round of QE that would include the purchase of Investment Grade Corporate Bonds. The commentary from the February FOMC meeting was also much more dovish than what was released in December, and implied that their intention to hike four times in 2016 would be closer to market expectations of one to two hikes. Both of these events were well received by markets, and coincided with a rebound in the manufacturing sector. As March arrived, we saw an incredible rally in energy and commodity prices and equity markets recovered all the losses they incurred to start the year. Quite the round trip from two quarters ago!

Throughout this highly volatile period, U.S. consumer confidence and spending has been incredibly resilient. Consumer balance sheets are in a very strong position. Debt-to-income ratios continue to decline and savings rates continue to rise. Over the last twelve months the average of Non-Farm Payrolls (NFP's) has been a very robust 234k per month. Labor participation rates are increasing and unemployment sits at a very healthy 5.0%. Signs of increasing wages are slowly emerging as the labor market continues to tighten. Healthy consumer balance sheets have not translated into expected increases in consumer spending, but we attribute much of this to the lingering effects of the Financial Crisis on general consumer behavior. Overall consumption is still healthy. The housing market also remains on solid footing with new household formations increasing and there is a large pipeline of demand to fill. In the business sector, spending has been skewed toward mergers and acquisitions and share buy-backs as organic growth opportunities have diminished. Net free cash flow positions are continuing to decline as a result. The distress in the manufacturing sector and weaker profits overall have implications on future business capital expenditures. We expect business spending to decrease alongside ongoing weakness in global demand and a strong U.S. dollar.

What do we see moving forward? We expect the trend of slower, lower for longer growth to continue. A healthy consumer, housing and labor market all indicate that this business cycle has more room to run. We also expect interest rates to stay low and a dovish-toned Fed to hike only one to two times more this year. Excess liquidity in the market will continue to go into U.S. Treasuries, acting as a cap on potential yields. The lack of inflation in both the domestic and global economy is concerning, but wage inflation in the U.S is showing signs of life. We expect inflation to firm more once stability in the energy and commodities sectors are realized and excess capacity is unwound. We also expect heightened volatility to remain, which given what occurred in 1Q, presents a downside risk to our base case. We will be focused on developments coming out of "Brexit" talks, the supply/demand dynamics in oil, and the tone and actions of the FOMC both in April and June.

Disclosure

The principal underwriter is GWFS Equities, Inc., and securities, when offered, are offered through GWFS Equities, Inc., and/or other broker dealers.

GWFS Equities, Inc., Member FINRA/SIPC, is a wholly owned subsidiary of Great-West Life & Annuity Insurance Company.

Great-West Financial SM refers to products and services provided by Great-West Life & Annuity Insurance Company (GWL&A), Corporate Headquarters: Greenwood Village, CO, its subsidiaries and affiliates. The trademarks, logos, service marks, and design elements used are owned by GWL&A.

The information presented herein has been developed internally and/or obtained from sources believed to be reliable, however, the accuracy, adequacy or completeness of such information is not guaranteed. Predictions, opinions, and other information contained in this presentation are subject to change continually and without notice and may no longer be true after the date presented. Any forward-looking statements speak only as of the date made, and we assume no duty to and do not undertake to update forward-looking statements. Forward-looking statements are subject to numerous assumptions, risks, and uncertainties, which change over time. The information provided herein should be not relied upon in making investment decisions. This material (or any portion thereof) may not be copied or distributed without prior written consent.

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GREAT-WEST

FINANCIAL™

1 **AMENDMENT I TO INVESTMENT GUIDELINES FOR THE COUNTY OF FRESNO**
2 **DEFERRED COMPENSATION PLAN STABLE ASSET FUND**

3 THIS AMENDMENT, hereinafter referred to as Amendment I, is made and entered into this
4 16th day of May, 2016, by and between the County of Fresno 457(b) Deferred Compensation Plan for
5 the COUNTY OF FRESNO, a Political Subdivision of the State of California, hereinafter referred to
6 as “COUNTY” or “PLAN”, and Empower Retirement, hereinafter referred to as “CONTRACTOR”
7 (collectively the “parties”).

8 WHEREAS, the parties entered into that certain AGREEMENT, identified as COUNTY
9 Agreement No. 09-530, effective November 19, 2009; and

10 WHEREAS, the Investment Guidelines For The County Of Fresno Deferred Compensation Plan
11 Stable Asset Fund sets the investment parameters of the County Of Fresno Deferred Compensation
12 Plan Stable Asset Fund; and

13 WHEREAS, the parties desire to amend the Investment Guidelines For The County Of Fresno
14 Deferred Compensation Plan Stable Asset Fund regarding changes as stated below.

15 WHEREAS, the CONTRACTOR acknowledges and agrees that the desired amendment to the
16 AGREEMENT as stated herein will not impair the CONTRACTOR’s ability through the Stable Value
17 Fund to continue to provide benefits at book value and CONTRACTOR acknowledges COUNTY’s
18 reliance upon said acknowledgement; and

19 NOW, THEREFORE, in consideration of their mutual promises, covenants and conditions,
20 hereinafter set forth, the sufficiency of which is acknowledged, the parties agree as follows:

21 1. That the following text in the original AGREEMENT, Page Two (2), under the heading
22 “Quality & Diversification Guidelines” be deleted and the following inserted in its place:

- 23 “A. A minimum of 50% of the account assets are to be invested in U.S. Treasury debt,
24 Agency Mortgage-Backed Securities or Collateralized Mortgage Obligations
25 secured by GNMA, FNMA, FHLMC, securities.
- 26 B. A maximum of 50% of the account assets may be invested in Corporate Bonds or
27 Asset Backed Securities and described in “H” under heading Types of
28 Investments.

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IN WITNESS WHEREOF, the parties hereto have executed this Amendment I.

ATTEST:

CONTRACTOR:
EMPOWER RETIREMENT

COUNTY

Date: _____

Date: _____

By: _____

By: _____

Jean Rousseau,
Chair, Deferred Compensation Management
Council

Print Name: _____

Title: _____

Important Note: This Letter Agreement, and other contractual documents, must be duly executed by both parties prior to the effective date of the changes. Backdating contracts or funding agreements is in violation of our corporate governance and regulatory requirements. Changes cannot be implemented prior to the date all documents are fully executed, even if that requires the effective date to be postponed. There are no exceptions to the rule that the effective date must follow the date all documents are executed.

Great-West Life & Annuity Insurance Company

Letter Agreement

Notwithstanding the provisions of the Great-West Life & Annuity Insurance Company Group Deferred Stable Asset Fund Annuity Contract (hereinafter referred to as the "Contract"), group number 98957-01, Great-West Life & Annuity Insurance Company ("Company") and the County of Fresno ("Group Policyholder") agree to the following clarifications and modifications of said Contract issued by the Company.

1. Investment Management Fee –The Investment Management Fee (which includes both the Investment Management Fee and Administrative Fee) as described in Section 5 is declared according to the following schedule:

Investment Management Fee Schedule

<u>Total Plan Assets</u>	<u>Annualized Investment Management Fee</u>
\$0 to \$ 150 million	0.53% (.35% Investment Management Fee and .18% Administrative Fee)
Greater than \$150 million	0.50% (.35% Investment Manage Fee and .15% Administrative Fee)

The reduction in the fee shall begin the first calendar day of the quarter following the date the assets exceed \$150 million and shall continue thereafter.

2. Investment Guidelines –The Investment Guidelines agreed to by the parties are attached to this Letter Agreement as Attachment A as set forth in the definition of Stable Asset Fund in Section 1 of the Contract.
3. Amendment No. 1-96C – The reference to "\$3,500" in Section 6 shall be replaced in it entirety with "\$5,000 (or such other amount as provided from time to time by the Code)".

This Letter Agreement is in effect as long as the Great-West Life & Annuity Insurance Company is acting in its current capacities as the exclusive investment option and recordkeeping and communication provider for the Group Policyholder's Plan, and there are no substantial changes in the operation of the Group Policyholder's Plan, including but not limited to a change in approved investment product providers, marketers or required recordkeeping services. This Letter Agreement may be modified at any time upon mutual consent of both parties.

Important Note: Annuity Contract, Service Agreement, Investment Guidelines, Pricing Change Agreements, and other contractual documents must be duly executed by both parties prior to the effective date of the changes. Backdating contracts or funding agreements is in violation of our corporate governance and regulatory requirements. Changes cannot be implemented prior to the date all documents are fully executed, even if that requires the effective date to be postponed. There are no exceptions to the rule that the effective date must follow the date all documents are execute

Investment Guidelines for the County of Fresno Deferred Compensation Plan Stable Asset Fund (Separate Account)

Attachment A

Investment Objectives

Within the parameters as stated below, the objectives of the fund are to:

1. Earn a high level of return consistent with the other objectives of the fund
2. Provide sufficient liquidity to pay plan benefits
3. Provide stable and predictable returns.
4. Preservation of principal

Benchmark Index

The returns after investment management fees will be compared to the returns of three-year treasury notes, on a constant maturity basis.

Types of Investments

Subject to the Quality and Diversification Guidelines, Great-West may invest the assets of the Stable Asset Fund in any or all of the following:

- A. United States Treasury Securities including Treasury Bills, Notes, Bonds, and Strips
- B. United States Agency securities including FDIC guaranteed bank debt
- C. Mortgage-Backed securities issued by GNMA, FNMA, FHLMC, FHLB, VA Vendee, or other government agencies
- D. Collateralized Mortgage Obligations (CMO's) secured by GNMA, FNMA, FHLMC, FHLB, VA Vendee, or other government agencies
- E. Instruments of Commercial Banks domiciled in United States. All money deposited into these Banks must be 100% guaranteed by the FDIC
- F. Commercial Paper rated A, or P, as rated by S&P, Fitch, or Moody's
- G. Corporate Bonds rated "A-/A3" or better as rated by S&P, Fitch, or Moody's at time of purchase.
- H. Asset Backed Securities rated "A" or better as rated by S&P, Fitch or Moody's at time of purchase, including CMO's backed by non-agency collateral

Short-Term Investments

All money received by Great-West for deposit to the Stable Asset Fund will be invested the same day it is received. Whenever possible these monies will be invested in the type of investments indicated above. However, if the monies are received at a time of the day which makes this impractical, then the monies will be invested in an interest bearing account at a commercial bank. The following business day the money will then be invested according to the above guidelines.

Quality & Diversification Guidelines

- A. A minimum of 50% of the account assets are to be invested in U.S. Treasury debt, Agency Mortgage-Backed Securities or Collateralized Mortgage Obligations secured by GNMA, FNMA, FHLMC, securities
- B. A maximum of 50% of the account assets may be invested in Corporate Bonds or Asset Backed Securities and described in "H" of Type of Securities
- C. Weighted average quality of AA or better.
- D. No more than 10% of the account may be invested in "A" rated securities.
- E. No more than 5% of the portfolio may be invested in any one corporate issuer (including asset backed securities). For purposes of diversification, each Asset-Backed or non-agency mortgage backed trust will be treated as a separate issuer

Duration of Investments

The portfolio's average duration will not exceed five years.

Reporting

- A. On a quarterly basis, the manager will provide a statement to the Plan showing the market value of each security, the sector diversification within the portfolio, and the duration, quality and yield of the portfolio.
- B. On a quarterly basis, the manager will provide to the Plan a book value statement showing the book value of the total portfolio and describing the methodology and assumptions used to reset the crediting rate of the Stable Asset Fund.
- C. On an annual basis, a senior representative of Great-West will be made available to the Plan to present to the Plan a verbal and written review of the investment decisions, and the rationale associated with these decisions for the previous 12-month's activity.

Trading Authority

Within the Investment Guidelines as stated in this Exhibit, Great-West has the authority to buy and sell any securities in this separate account that it judges to be in the best long-term interest of the separate account and the participants that utilize the account.

Changes to Investment Guidelines

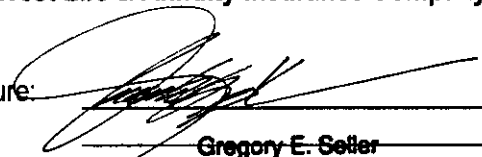
The Plan may modify the guidelines (including duration) for investment of assets of the fund at any time providing that these modifications will not affect the funds ability to provide benefits a book value.

Amortization of Trading Gains/Losses

The general policy of the fund will be a 'buy and hold" strategy. However, to the extent that realized gains or losses occur, these gains/losses will be amortized over the expected average duration of the portfolio.

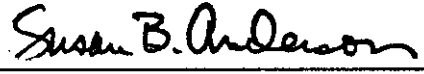
Effective Date: November 19, 2009

Great-West Life & Annuity Insurance Company

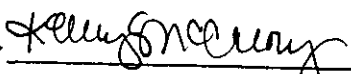
Signature: 
Name: _____
Title: **Gregory E. Selter**
Senior Vice President
Government Markets

Date: 9.25.09.

County of Fresno

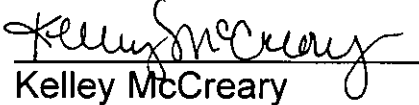
Signature: 
Name: Susan B. Anderson
Title: Chairman, Board of Supervisors

Date: 10/6/09

ATTEST:
BERNICE E. SEIDEL, Clerk
Board of Supervisors
By 
Deputy

CERTIFICATE OF DELIVERY OF DOCUMENT

I am employed by the County of Fresno as a Deputy Clerk of the Board of Supervisors. On October 6, 2009 I delivered a copy of Agreement No. 09-530 (Item No. 44) to the Chairman of the Fresno County Board of Supervisors.


Kelley McCreary
Deputy Clerk