



Inter Office Memo

DEPARTMENT OF
HUMAN RESOURCES

ITEM 10

DATE: May 23, 2019

TO: Deferred Compensation Management Council

FROM: Hollis Magill, Human Resources Manager Hollis Magill

SUBJECT: Approve and Authorize the Chair to execute the Second Amendment to the Investment Guidelines for the County of Fresno Deferred Compensation Plan Stable Asset Fund.

Background

Your Council received a presentation from Great-West Financial regarding proposed changes to the Investment Guidelines for the County of Fresno Stable Value Fund and directed staff to bring back an amendment to incorporate the proposed changes. In addition, your Council directed staff to provide a redline version of the proposed changes, along with a sensitivity analysis for the proposed changes.

Issue

Staff, working with Northwest Capital Management, has prepared a Second Amendment to the Investment Guidelines, attached to this item as Attachment A. Northwest Capital Management, in Item 9 on today's agenda, provided the aforementioned redline language and sensitivity analysis and is recommending that your Council approve the attached Second Amendment. County Counsel has reviewed and approved the Second Amendment as to legal form.

Recommended Actions

Approve and authorize the Chair to execute the Second Amendment to the Investment Guidelines for the County of Fresno Deferred Compensation Plan Stable Asset Fund.

Item 10 – Attachment A

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

3 THIS SECOND AMENDMENT (hereinafter "Second Amendment") is made and entered into
4 this 23rd day of May, 2019, by and between the County of Fresno 457(b) Deferred Compensation Plan,
5 on behalf of the COUNTY OF FRESNO, a Political Subdivision of the State of California, Fresno,
6 California, hereinafter referred to as "COUNTY" or "PLAN", and Empower Retirement, a Colorado
7 corporation, hereinafter referred to as "CONTRACTOR" (collectively, the "parties").

8 **WITNESSETH:**

9 WHEREAS, the parties entered into Agreement number 09-530, dated November 19, 2009
10 (hereinafter "Agreement"); and

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

14 WHEREAS, the parties desire to amend Attachment A to the Investment Guidelines For The
15 County Of Fresno Deferred Compensation Plan Stable Asset Fund by deleting it in its entirety and
16 replacing it with language in Exhibit A to this Second Amendment; and

17 NOW, THEREFORE, for good and valuable consideration, the receipt and adequacy of which
18 is hereby acknowledged, COUNTY and CONTRACTOR agree as follows:

19 1. Attachment A to the Investment Guidelines For The County Of Fresno Deferred
20 Compensation Plan Stable Asset Fund is deleted its entirety and replace it with language in Exhibit A
21 of this Second Amendment.

22 2. COUNTY and CONTRACTOR agree that this Second Amendment is sufficient to
23 amend the Agreement and, that upon execution of this Second Amendment, the Agreement and this
24 Second Amendment together shall be considered the Agreement.

25 The Agreement, as hereby amended, is ratified and continued. All provisions, terms,
26 covenants, conditions and promises contained in the Agreement and not amended herein shall remain
27 in full force and effect.

28 ///

EXECUTED AND EFFECTIVE as of the date first above set forth.

CONTRACTOR

COUNTY OF FRESNO

(Authorized Signature)

Jean Rousseau, Chair
Deferred Compensation Management Council

Print Name

Title

Exhibit A

Government/Corporate Securities Investment Guidelines (BBB Minimum Rating)

Investment Guidelines for the Fresno County Stable Asset Fund (Separate Account)

Attachment A

Investment Objectives

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

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

Credited Rate Benchmark

The interest rates provided to participants after investment management fees will be compared to the yield 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 or Government Sponsored Enterprises (GSE's) Securities including:
 - 1) U.S. Agency or GSE Asset-Backed Securities and Commercial Mortgage-Backed Securities; and
 - 2) Other U.S. Agency Securities.
- C. Mortgage-Backed securities issued by GNMA, FNMA, FHLMC, FHLB, VA Vendee, or other United States Agency or GSE's.
- D. Collateralized Mortgage Obligations (CMO's) secured by GNMA, FNMA, FHLMC, FHLB, VA Vendee, or other United States Agency or GSE's.
- E. Instruments of Commercial Banks, U.S. money market mutual funds, or repurchase agreements fully collateralized by United States Government, Agency, or GSE securities.
- F. Commercial Paper rated A1, P1, or F1, as rated by S&P, Moody's or Fitch.
- G. Corporate and Government Related Bonds rated "BBB-/Baa3" or better as rated by S&P, Moody's, Fitch or other nationally recognized rating agency at time of purchase. All securities must be U.S. dollar denominated. Government Related Bonds include:
 - 1) Foreign Sovereigns,
 - 2) Supranationals,
 - 3) U.S. and Foreign Local Governments, and
 - 4) Foreign Agencies.
- H. Non-agency Securities: Asset-Backed Securities, Mortgage-Backed Securities, and Commercial Mortgage-Backed Securities rated "A-/A3" or better as rated by S&P, Moody's, Fitch or other

nationally recognized rating agency at time of purchase. No purchases of mezzanine or subordinated structured securities are allowed.

- I. Each investment must be in all respects denominated in U.S. Dollars.

Short-Term Investments

All money 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 money will be invested according to the above guidelines on a timely basis, and in the best interest of the participants.

Quality & Diversification Guidelines

- A. A maximum of 100% of the account assets may be invested in US Government Securities.
- B. A maximum of 50% of the account assets may be invested in Corporate Bonds and Government Related Bonds as described in "G" of **Types of Investments**.
- C. A maximum of 20% of the account assets may be invested in non-agency Asset-Backed Securities, Mortgage-Backed Securities, and Commercial Mortgage-Backed Securities as described in "H" of **Types of Investments**.
- D. Weighted average quality of A-/A3 or better.
- E. No more than 10% of the account may be invested in "BBB" (includes securities rated BBB+ and BBB-) rated securities or lower.
- F. For "G" of **Types of Investments**, no more than 2% of the portfolio may be invested in any one issuer.
- G. For "H" of **Types of Investments**, no more than 5% of the portfolio may be invested in any one issuer. For purposes of diversification, each non-agency Asset-Backed, Mortgage- Backed or Commercial-Mortgage-Backed trust will be treated as a separate issuer.

Split Ratings

Each security must be rated by at least one nationally recognized rating agency (including, but not limited to, S&P, Moody's or Fitch). In the event of split ratings, the highest rating shall be used to determine compliance with these investment guidelines.

Duration of Investments

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

Reporting

- A. On a quarterly basis, Investment 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, Investment Manager will provide to the Plan a book value statement showing the book value of the total portfolio and showing the methodology and assumptions used to reset the crediting rate of the Stable Asset Fund.
- C. On an annual basis, a senior representative of GWCM 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, GWCM 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; provided, however, that it is understood that Investment Manager may raise cash by selling assets to provide liquidity to pay benefits and withdrawals.

Changes to Investment Guidelines

The investment guidelines (including duration) for investment of assets of the fund may be modified at any time, with the consent of the Plan Sponsor, Great-West as the group annuity contract issuer and wrap provider and the Investment Manager, providing that these modifications will not affect the funds ability to provide benefits at 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.