



Board Agenda Item 30

DATE: June 6, 2023

TO: Board of Supervisors

SUBMITTED BY: Hollis Magill, Director of Human Resources

SUBJECT: T. Rowe Price Retirement Blend Trusts

RECOMMENDED ACTION(S):

1. **Approve and authorize the Chairman to execute Participation Agreement (which includes the Amended and Restated Declaration of Trust, T. Rowe Price Strategic Common Trust Fund, effective October 1, 2018, and the T. Rowe Price Strategic Common Trust Fund, T. Rowe Price Retirement Blend Trusts, Amended and Restated Supplemental Declaration of Trust, effective March 2, 2023), with T. Rowe Price Trust Company, for its target retirement date investments, as an investment option for participants in the County of Fresno 457(b) Deferred Compensation Plan ("457(b) Plan") and County of Fresno 401(a) Defined Contribution Plan ("401(a) Plan").**
2. **Approve Investor Information to be provided to T. Rowe Price Trust Company.**
3. **Authorize the Administrator for the 457(b) Plan and the 401(a) Plan to take all necessary actions, that the Administrator deems necessary or appropriate, to implement the foregoing action of the Board.**

Your Board's approval of the recommended actions will enable participants who utilize the target retirement date investment options in the 457(b) Plan and the 401(a) Plan (collectively, the "Plans") to reduce their trustee fees paid to the trustee for those investments by (1) providing the T. Rowe Price Retirement Blend Trust Series in place of the current Great-West (Empower) Lifetime Trust Target Date Series, and (2) enabling the Administrator for the Plans to move all of such participants' investments from the current Great-West (Empower) Lifetime Trust Target Date Series investments to the T. Rowe Price Retirement Blend Trust Series investments. The recommended actions are based on the investment decision of the Deferred Compensation Management Council ("Council"), after the Council considered investment advice of Northwest Capital Management, the investment consultant to the Plans.

T. Rowe Price's current trustee fees are 0.21% of the average daily net assets, accrued daily, as compared to Great-West's (Empower's) trustees fees, which range between 0.38% to 0.40%. Both investment providers may change their fees, and any increases in such fees upon required "advance notice" (T. Rowe Price's increases in trustee fees would be upon at least 180 days' advance notice). There are no costs to the County associated with this action.

This item is Countywide.

ALTERNATIVE ACTION(S):

The alternatives to the recommended actions are (1) continue using the Great-West (Empower) Lifetime Trust Target Date Series for these target retirement date investments by participants in the in the Plans, which would result in no reduction in trustee fees charged to such participants, or (2) to request the Council

to re-evaluate investment options for these target retirement date investments.

FISCAL IMPACT:

There are no costs to the County associated with the recommended actions. All trustee fees associated with the Plans' investments are borne by participants in the Plans who chose this investment option.

DISCUSSION:

1. The Plans.

The 457(b) Plan is intended to allow County employees to defer their own pre-tax and/or after-tax dollars into a variety of investment options in order to save for their retirement. The 401(a) Plan is intended to allow the County to provide a matching contribution to eligible participants in the 457(b) Plan. Currently, the Plans have over \$300 million in assets and over 7,400 participants, including active and separated/retired employees.

The participants in the Plans are expected to have different investment objectives, time horizons, and risk tolerances.

The 457(b) plan states at Section 7.12: "Nonliability. The Employer [*i.e., the County*] does not guarantee the Trust, the Participants or their Beneficiaries against loss of or depreciation in value of any right or benefit that any of them may acquire under the terms of this Plan. All of the benefits payable hereunder shall be paid or provided for solely from the Trust."

Also, the 401(a) Plan states at Section 9.4(g): "Fiduciaries not insurers. The Trustee, Administrator and the Employer [*i.e., the County*] in no way guarantee the Plan assets from loss or depreciation. The Employer does not guarantee the payment of any money which may be or becomes due to any person from the Plan. The liability of the Employer, the Administrator and the Trustee to make any distribution from the Trust at any time and all times is limited to the then available assets of the Trust."

2. The Deferred Compensation Management Council.

The Board of Supervisors (the "Board") has delegated authority to the Deferred Compensation Management Council (the "Council") to make certain decisions (e.g., investment decisions) in the Plans. The Board's resolution establishing the 401(a) Plan recites that such Plan shall utilize the same investment options as the 457(b) Plan.

Generally, Section 4.01 of the 457 Plan provides that the Council shall establish one or more investment options for the purpose of investing amounts of compensation credited to participants' accounts, but, that any action by the Council in selecting investment options and/or establishing a policy to govern the selection of investment options, shall not be considered to be either an endorsement of or guarantee of any investment, nor shall it be considered to attest to the financial soundness or the suitability of any investment for the purpose of meeting future obligations.

The Council is comprised of the County Administrative Officer (CAO), Auditor-Controller/Treasurer-Tax Collector, Director of Human Resources, Retirement Administrator of the County's retirement system, one (1) Department Head appointed by the CAO and two (2) Members-At-Large appointed by the Board. The Council is responsible for the selection and oversight of the Plan investment options, creating policies and procedures related to the Plan, and making recommendations to the Board regarding Plan record-keeping and consulting services.

The Director of Human Resources, or their designee, is the Administrator for the Plans.

3. Target retirement date investments.

A target retirement date investment enables a participant to select an investing period for such investments based on the participant's selected target date for their anticipated retirement. Target retirement date funds are composed of one or more different investment styles or asset classes. They have a target retirement date, such as 2035 if a participant expects to retire by that date. The investment styles for this type of investment adjust with the expectation that they become appropriate (e.g., shifting from stocks toward bonds) as the investor ages and reaches retirement status.

These target retirement date investments are "collective investment trusts." A collective investment trust is similar to a mutual fund, but such a trust is only available to large defined contribution plans such as the County's Plans and not individual investors. Therefore, collective investment trusts are exempt from some regulatory requirements to which mutual funds are subject. The combination of less regulation and larger investment pools are expected to allow a collective investment trust to provide a relatively lower fee structure than a mutual fund offering similar investments.

Your Board's approval of the recommended actions is expected to reduce the fees currently charged to participants in Plans who utilize the target retirement date investment options. However, as discussed below, the investment provider may increase the fees by giving required advance notice to the County.

4. The Great-West (now known as Empower) Lifetime Trust target date investments.

On July 9, 2013, the Board of Supervisors approved Agreement No. 13-417 with Great-West Trust Company, LLC (now known as Empower) to allow 457(b) Plan participants to invest in relatively lower-cost target retirement date investment options, as compared to the Great-West (Empower) Lifetime mutual fund target-date funds which were offered to 457(b) Plan participants at that time.

5. The Council's investment decision for target date investments.

At the Council's meeting on March 24, 2022, Northwest Capital Management, the investment consultant to the Plans, presented its report (The full report from Northwest Capital Management, Target Date Fund Manager Search report, January 2022), a copy of which is attached to this Item as Attachment A). As part of its presentation and report, Northwest Capital Management made the following recommendations to the Council:

- Remove the Great-West (Empower) Lifetime Trust Target Date Series as an investment option in the Plans' investment lineup;
- Add the T. Rowe Price Retirement Blend Trust Series as an investment option in the Plans' investment lineup [i.e., as a replacement to Great-West (Empower), above]; and
- Move all assets [i.e., investments by affected participants] from the Great-West (Empower) Lifetime Trust Target Date Series to the T. Rowe Price Retirement Blend Trust Series, pursuant to your Board's execution of the Participation Agreement.

The Council made the investment decision to (1) remove the Great-West (Empower) Lifetime Trust Target Date Series (for its target retirement date investments) and to add the T. Rowe Price Retirement Blend Trust Series (for its target retirement date investments) as an investment option for Plans' participants, and (2) move all such Plans' participants from the Great-West (Empower) Lifetime Trust Target Date Series to the T. Rowe Price Retirement Blend Trust Series. Specifically, the members of the Council present (five of seven) voted unanimously to remove Great-West (Empower) Lifetime Trust Target Date Series, and a majority of the members of the Council voted (i.e., four (yes) to one (no), and two not present) to approve adding T. Rowe Price Retirement Blend Trust Series in its place, per Northwest Capital Management's foregoing recommendations.

Below is a summary of the advice given by Northwest Capital Management to remove Great-West

(Empower) and add T. Rowe Price in its place:

- **Reduced Fees.** The T. Rowe Price Retirement Blend Trusts' current trustee fee of 0.21% of the average daily net assets, accrued daily, represents an approximately 45% - 48% decrease below the Great-West (Empower) Lifetime Trust Target Date Series current trustee fee ranging from 0.38% to 0.40% depending on the series, based on a participant's selected target retirement date (see "Fees by Target Retirement Date," below).
- **Stronger Historical Performance.** T. Rowe Price has provided consistently strong returns relative to the Great-West (Empower) Lifetime Trust Target Date Series, as borne out by their stronger 3-Year Rolling Peer Group Rankings for both Performance and Sharpe Ratio. For reference, Performance refers to growth in the value of the share price, while the Sharpe Ratio is the average return earned in excess of the risk-free rate per unit of volatility or total risk.
- **Investment Team.** While this is not a guarantee of investment success, Northwest Capital Management's team feels that T. Rowe Price has a deep investment team that is backed by extensive firm resources that will allow T. Rowe Price a good chance of continuing their strong returns.
- **Investment Strategy.** T. Rowe Price's investment strategy, which is known as a "hybrid approach" discussed below, is a relatively new innovation for T. Rowe Price, which is since February 2018, compared to other investment strategies which have all been available for more than five years.
- **"Glide Path."** The T. Rowe Price "glide path" (i.e., the way the asset mix within a target date fund changes over time) has a significantly higher exposure to equities, particularly when participants are nearing retirement) compared to Great-West (Empower).

Fees by Target Retirement Date											
Year:	2015	2020	2025	2030	2035	2040	2045	2050	2055	2060	2065
T. Rowe Price:	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%	0.21%
Great-West:	0.39%	0.39%	0.38%	0.39%	0.38%	0.40%	0.39%	0.40%	0.40%	0.40%	n/a
% Decrease:	-46%	-46%	-45%	-46%	-45%	-48%	-46%	-48%	-48%	-48%	n/a

The T. Rowe Price Retirement Blend Trusts Series and Great-West (Empower) Lifetime Trust Target Date Series both employ a "hybrid approach" which means that the underlying investments they use are a mix of actively managed funds and "index" funds which simply try to mimic that composition of a specific index, such as the S&P 500. By contrast, funds such as the Fidelity Freedom Index Funds and the Vanguard Target Retirement Funds, which were also considered and presented by Northwest Capital Management as viable options, are known as a "passive funds" because they are comprised entirely of index funds. The two passive investments have fees of 0.08%. But the Council favored the "hybrid approach" over the "passive funds" because they agreed with Northwest Capital Management that hybrid funds are better situated to produce stronger performance over the longer term, due to active managers' ability to provide better returns than the overall market - particularly in bear markets.

6. The Recommended Participation Agreement.

As stated above, the Council made the investment decision to remove the Great-West (Empower) Lifetime Trust Target Date Series and to add the T. Rowe Price Retirement Blend Trust Series in its place as an investment option for participants in the Plans.

Although the Council has the authority to acquire investments for the Plans, the Council does not have the authority to enter into agreements on behalf of the County. Therefore, your Board's approval and authorization of the Chairman to execute the recommended T. Rowe Price Participation Agreement is needed to implement the Council's investment decision, above. As a result, the County (not the Council) is the named fiduciary under the recommended T. Rowe Price Participation Agreement.

In reviewing the recommended Participation Agreement, Staff consulted with Northwest Capital Management, and engaged in discussion with T. Rowe Price. Finalization of the recommended Participation Agreement involved unexpected additional time, as T. Rowe Price was in the process of updating some of

the proposed documents.

The recommended Participation Agreement includes the following documents:

- Amended and Restated Declaration of Trust, T. Rowe Price Strategic Common Trust Fund, effective October 1, 2018 (“Declaration of Trust”); and
- T. Rowe Price Strategic Common Trust Fund, T. Rowe Price Retirement Blend Trusts, Amended and Restated Supplemental Declaration of Trust, effective March 2, 2023 (“Supplemental Declaration of Trust”)

The recommended Participation Agreement is also accompanied by the Investor Information form, which provides basic information concerning the County and the Plans.

T. Rowe Price also provided the County with the following related documents concerning the Plans for Nationwide Retirement Solutions, the record-keeper for the Plans, to distribute to participants in the Plans:

- Offering Circular;
- 408(b)(2) Disclosure Form;
- Annual Report, dated December 31, 2021;
- T. Rowe Price Transition Fund Prospectus; and
- Fact Sheets.

Staff must note that the recommended actions includes the following issues regarding the recommended Participation Agreement for your Board’s consideration:

- a. The trustee current fees stated above, are subject to change at any time. Section 8.4(c) of the recommended Participation Agreement’s Declaration of Trust states that T. Rowe Price may change its compensation or the source of payment thereof [*e.g., charged to trust assets as an expense, or invoiced directly to participants*] by notice of such change given at least 180 days before the effective date of such change to the County; provided, however, that a change by T. Rowe Price in its discretion that would result in a decrease in such compensation may be made without prior notice.
- b. Section 8.3.(d) of the recommended Participation Agreement’s Declaration of Trust contains the following limitation on T. Rowe Price’s obligation:

The Trustee [*i.e., T. Rowe Price*] shall not be liable for any mistake made in good faith in the administration of the Collective Trust if, promptly after discovering the mistake, the Trustee takes whatever action the Trustee, in its discretion, may deem to be practicable under the circumstances. . . . In no event shall the Trustee or its affiliates, directors, officers, employees, or agents be liable for consequential, incidental, exemplary, special, or punitive damages, whether or not foreseeable.

- c. The foregoing standard of conduct, and exclusion of “special” damages apparently are intended to be strong contractual limitations on T. Rowe Price’s obligations that Staff understand are non-negotiable. But Staff understand that strong contractual limitations on a trustee’s obligations are typical in collective investment trust agreements, and that the decision to invest depends upon the investment provider’s customer service and dealings with customers and resolutions of possible disputes.

Staff consulted with Northwest Capital Management and learned that T. Rowe Price is not currently engaged in litigation related to their collective investment trust products, nor has there been litigation against the T. Rowe Price Retirement Blend Trusts. From time to time, and as is common in the investment management industry, investments managed by T. Rowe Price may be involved in legal actions due to the fact that these funds hold securities that may be involved in

litigation. However, these actions do not directly involve the management or administration of the T. Rowe Price Retirement Blend Trusts.

- d. The recommended Participation Agreement is governed by Maryland law, but, the law firm Best Best, & Krieger, which the County engaged for specialized legal assistance, as discussed below, practices in Maryland, and advised the County based on Maryland and California law.
- e. Section 9.2 of the recommended Participation Agreement's Declaration of Trust provides that T. Rowe Price may terminate it at any time upon giving notice to the County, and invested funds will be returned to the relevant Plan (i.e., Section 457(b) Plan and/or Section 401(a) Plan).

7. Moving the investments from Great-West (Empower).

Staff have conferred with Great-West (Empower) and determined that, pursuant to Section VIII.E, Agreement No. 13-417 "will terminate upon the complete withdrawal or redemption of the Eligible Trust from the Trusts." Therefore, Great-West (Empower) stated in a January 11, 2023 email to staff that they do not need any additional documentation from the County and that Agreement No. 13-417 will automatically terminate once funds are transferred from the Great-West (Empower) Lifetime Trust funds to the T. Rowe Price funds.

8. Engagement of Best, Best, & Krieger.

The County has an existing legal services agreement with the law firm of Best Best & Krieger ("BBK"), a law firm specializing in legal issues relating to defined contribution plans. Staff engaged BBK, through its Sacramento office, to advise and assist with the legal review of the recommended Participation Agreement and related documents, as well as the means of moving the affected target investments from the Great-West (Empower) Lifetime Trust funds to the T. Rowe Price funds, as discussed above.

9. Staff's Next Steps.

Assuming your Board's approval of the recommended actions, the Administrator for the Plans will:

- A. Direct Nationwide Retirement Solutions, the record-keeper for the Plans, to initiate the process of transferring funds from the Great-West (Empower) Lifetime Trust funds to the T. Rowe Price funds.
 - a. Affected participants will be provided with 30 days' notice that their money will be moved from the Great-West (Empower) Lifetime Trust funds to the T. Rowe Price funds.
 - b. Upon expiration of the 30-day notice, all funds will be transferred, in a process known as "mapping," from the participant's current Great-West (Empower) Lifetime Trust target date fund to the appropriate T. Rowe Price target date fund based on the participant's age-65 year.
 - c. Participants may still change their investments after this "mapping" process concludes, and indeed they may change their investments at any time.
- B. Inform the Council of the forgoing actions as soon as practicable.

OTHER REVIEWING AGENCIES:

BBK, a law firm specializing in legal issues relating to defined contribution plans, has advised and assisted the County on the matters discussed above.

Northwest Capital Management, the investment consultant to the Plans, has reviewed all items as an expert in defined contribution plan practices.

REFERENCE MATERIAL:

BAI #36, July 9, 2013

ATTACHMENTS INCLUDED AND/OR ON FILE:

On file with Clerk - Investor Information & Participation Agreement

On file with Clerk - Amended and Restated Declaration of Trust

On file with Clerk - Supplemental Declaration of Trust

Attachment A - Northwest Capital Management Target Date Fund Manager Search report, January 2022

CAO ANALYST:

Greg Reinke