

Deferred Compensation Plan

BOARD REPORT 15-02

Date: January 9, 2015

To: Board of Deferred Compensation Administration

From: Staff

Subject: DCP Mid-Cap, Small-Cap and International Fund
Change Implementation Plan

*Board of Deferred
Compensation Administration
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Recommendation:

That the Board of Deferred Compensation Administration receive and file this update regarding implementation plans for recently adopted changes to underlying providers for the DCP Mid-Cap, Small-Cap and International Funds.

Recommendation:

The Board previously approved the implementation of a simplified, streamlined version of the Plan's investment menu, featuring custom-designed funds branded by the Plan and by asset class. This was done as a best practice of designing an investment menu promoting greater awareness among participants relative to the asset class, risks and attributes of their investment choices.

The Plan implemented these changes in part on April 20, 2012 with the creation of the **DCP Bond, DCP Large-Cap, and DCP Mid-Cap Funds**. At that time, participants were notified that a second phase would include creation of the **DCP Small-Cap and DCP International Stock Funds**. Selections of the underlying active managers of the DCP Small-Cap, DCP Mid-Cap, and DCP International funds were also still pending. The final, streamlined core investment menu would include these funds as well as the FDIC-Insured Bank Account, the DCP Stable Value Fund, the Plan's five risk-based asset allocation funds, and the Self-Directed Brokerage Option (SDBO).

In its November and December 2014 meetings, the Board approved selections of underlying providers for the DCP Small-Cap, Mid-Cap and International Funds, thereby completing its active fund manager searches. As such, the Plan is now prepared to proceed with implementation of the second and final phase of its investment menu implementation.

PLANNED FUND IMPLEMENTATION

Implementation of the recently approved providers within the Plan's investment menu structure will occur in two stages:

Stage 1: March 20, 2015

- (a) Establish the DCP Small-Cap Fund with its new active growth and active value managers, as well as its incumbent passive manager; and
- (b) Reallocate allocations within the existing DCP Mid-Cap Fund by adding its new active growth and active value managers to its incumbent passive manager.

Stage 2: July 2015

- (a) Establish the DCP International Fund with its new emerging markets, developed markets and international small-cap managers. Implementation of the DCP International Fund will require additional time in order to avoid the application of early redemption fees applying to **new contributions only** to the Fidelity Diversified International Fund (meaning contributions held less than 30 days) and ensure that Plan participants in that fund receive adequate notice of the changes and transition process. This early redemption charge **applies only to new participant contributions** (those made within the last 30 days) and is not a new feature of this Fund. International funds often apply short-term redemption charges in order to discourage market timing. The early redemption charge would not be applied to any amounts held longer than 30 days.

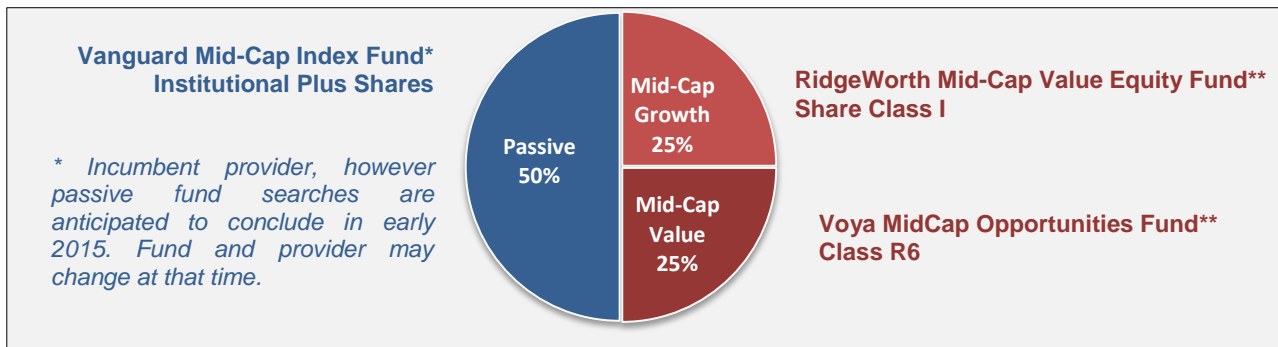
Following are additional details as well as an operational and communications overview for these changes (a summary timeline is also included as Attachment A).

Stage I Timeline & Communications Overview: DCP Mid-Cap And DCP Small-Cap

On March 20, 2015, the Plan’s investment menu options will be updated to include a revised DCP Mid-Cap Fund and the new DCP Small-Cap Fund.

DCP Mid-Cap Fund

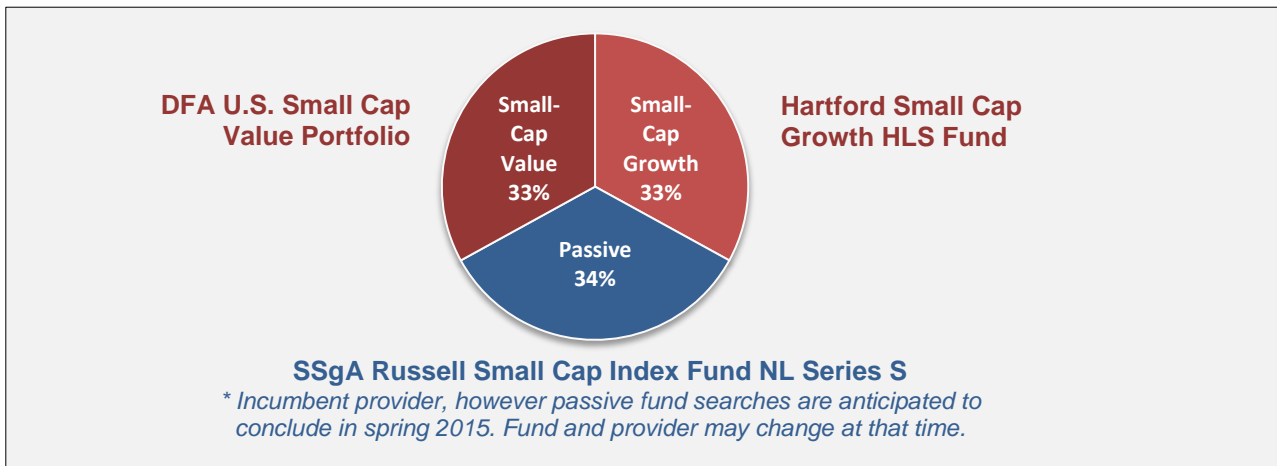
- The DCP Mid-Cap Fund was established on April 20, 2012, with 100% allocation to the Vanguard Mid-Cap Index Fund.
- As of March 20, 2015, the underlying allocation to Vanguard will be reduced to 50% and the allocations to newly selected funds Voya and RidgeWorth will be established, as indicated below:



- Participants will not see any change in their statement as this option will continue to be listed on Plan materials and statements as the “DCP Mid-Cap Fund.”

DCP Small-Cap Fund

- The DCP Small-Cap Fund will be established effective March 20, 2015 with the indicated underlying allocations:



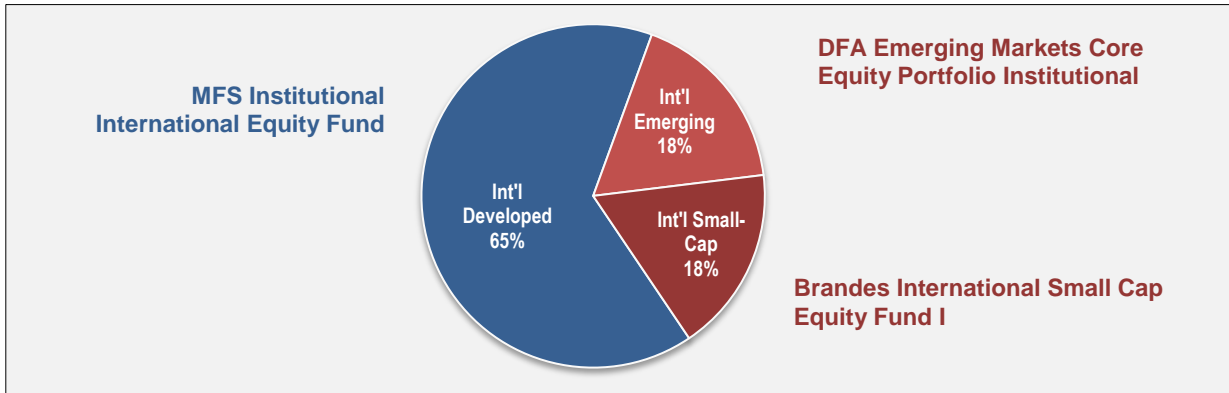
- As of March 20th, all SSgA Russell Small Cap Index Fund NL Series S assets will be mapped to the new DCP Small-Cap Fund. Participants will no longer be able to invest directly in the SSgA fund. All elective deferrals to the SSgA fund will be changed to be directed to the new DCP Small-Cap Fund.
- Similar small-cap mutual fund products are available through the self-directed brokerage window offered by Schwab.

Communications

- All Participants Newsletter Communication – Participants will be notified of these updates in the 4th Quarter newsletter, to mail in the last week of January 2015.
- Targeted Communication – Participants holding assets in or directing elections to the SSgA fund will be sent a communication via e-mail or U.S. mail to additionally notify them of this upcoming change. Notice will be communicated in late January or early February.
- Website Bulletin – Information regarding the change and updated fund information will be made available through the participant website.

Stage II Timeline & Communications Overview: DCP International Fund

The DCP International Fund will be established in July 2015. The fund will contain the underlying allocations indicated below:



Concurrently, the Plan will be removing the current international fund investment options – the Fidelity Diversified International Fund and the Deutsche EAFE Equity Index Fund. Though these funds will be removed as standalone options, they will be available through the self-directed brokerage.

Following the Board's December 16, 2014 meeting, staff became aware of an additional complexity needing to be addressed relative to creation of the new DCP International Fund. A 1% redemption fee is imposed by Fidelity on amounts redeemed from shares held less than 30 days. Deutsche has a similar redemption fee, but waives it when funds are moved due to Plan-level transactions. In order to avoid incurring the Fidelity redemption fee, the Plan is intending to freeze contributions, and any other incoming transfers, into this fund at least 30 days prior to the DCP International Fund implementation. Implementing this change at a later date allows the Plan to provide adequate time to develop and issue the appropriate notice to participants in these funds. Following is the tentative overview for implementation of the International Fund:

- May 27, 2015: Last date for paycheck deferrals directed to the Fidelity Diversified International Fund. No other money will be accepted into the fund beyond this date. Any elective deferral instructions for Fidelity will temporarily be re-directed to the Deutsche fund.
- July 10, 2015: Establishment of the DCP International Fund.
 - Fidelity and Deutsche assets will be mapped or transferred to the new DCP International Fund and its underlying providers.
 - The Profile Portfolio funds will be updated to include the DCP International Fund (currently, Deutsche serves as the international sleeve of the profile funds).
 - All elective deferrals to Fidelity or Deutsche will be updated to indicate elective deferrals to the DCP International Fund.

- Participants wishing to continue investment in either the Fidelity or Deutsche funds can do so through the Schwab brokerage window.

Communications

- All Participants Newsletter Communication – Participants will first be notified of impending changes in the 4th Quarter Newsletter, to mail in the last week of January 2015. They will receive the official notification as part of the 1st Quarter 2015 newsletter that will be mailed the last week of April 2015 – this communication will also contain notice of the freezing/redirection of deferrals into the Fidelity fund in order to avoid the 1% redemption fee, and provide options for participants to voluntarily redirect their Fidelity contributions or allow the Plan to default them if no action is taken.
- Targeted Communication – Participants holding assets in or directing elections to the Fidelity or Deutsche funds will be sent an additional targeted communication to provide them the information noted above approximately 30 days prior to the freezing of contributions.
- Website Bulletin – Information regarding the change and updated fund information will be made available through the participant website.

Staff is in the process of addressing all details of the administrative and communications responsibilities related to these funds transitions with the assistance of the Plan Administrator and Plan Consultant. Should any adjustments to the planned implementation schedule and process be required as a result of those discussions, staff will promptly advise the Board.

Submitted by: _____
Esther Chang

Approved by: _____
Steven Montagna

DCP Investment Menu Enhancements – Timeline

COMPLETED	April 20, 2012	<ul style="list-style-type: none"> • Implementation of the DCP Bond Fund, DCP Mid-Cap Fund, DCP Large-Cap Fund
2015 UPDATE: PART I	Late January/ Early Feb. 2015	<ul style="list-style-type: none"> • Notification to participants in the 4th Quarter 2015 newsletter, to be mailed the last week of January • Targeted notification to participants affected by the DCP Small-Cap Fund implementation, to be communicated in early February
	March 20, 2014	<ul style="list-style-type: none"> • Creation of the DCP Small-Cap Fund <ul style="list-style-type: none"> ○ All SSgA assets and elective deferrals to the SSgA fund will be mapped to the new DCP Small-Cap Fund ○ Elimination of SSgA as a standalone option • Update to the underlying allocation of the DCP Mid-Cap Fund <ul style="list-style-type: none"> ○ Adding growth and value managers to the existing passive portion
2015 UPDATE: PART II	Late April/ Early May 2015	<ul style="list-style-type: none"> • Notification to participants in the 1st Quarter 2015 newsletter, to be mailed the last week of April. Participants will have also received notice in the 4th Quarter newsletter mailed in January. • Targeted notification to participants affected by the DCP International Fund implementation, to be communicated in late April/early May.
	May 27, 2015	<ul style="list-style-type: none"> • Last day for paycheck contributions, rollovers, transfers accepted into the Fidelity Diversified International Fund.
	June 10, 2015 June 24, 2015	<ul style="list-style-type: none"> • Paycheck dates where any elective deferrals to Fidelity will instead be directed to the Duetsche EAFE Equity Index Fund
	July 10, 2015	<ul style="list-style-type: none"> • Creation of the DCP International Fund <ul style="list-style-type: none"> ○ All Deutsche and Fidelity assets and elective deferrals will be mapped to the DCP International Fund ○ Elimination of Deutsche and Fidelity as standalone option