

Deferred Compensation Plan

BOARD REPORT 15-46

Date: September 4, 2015

To: Board of Deferred Compensation Administration

From: Staff

Subject: Pricing Issues Related to DCP Mid-Cap Fund

Board of Deferred
Compensation Administration

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Recommendation:

That the Board of Deferred Compensation Administration receive and file staff's update regarding a pricing issue related to an underlying component of the DCP Mid-Cap Fund.

Discussion:

The **DCP Mid-Cap Fund** is a blended fund that includes the Vanguard Mid-Cap Index (50%), the RidgeWorth Mid-Cap Value Fund (25%), and the **Voya Mid-Cap Opportunities Fund** (25%). The DCP Mid-Cap Fund also makes up portions of each of the five risk-based asset allocation portfolios that the Plan offers.

For the period beginning August 24, 2015 and through August 31, 2015, the DCP Mid-Cap Fund was affected by pricing delays of the Voya Mid-Cap Opportunities Fund ("Voya"). Voya uses **BNY Mellon** for custodial/fund accounting duties that include generating daily Net Asset Values ("NAVs", or daily unit pricing) for its funds. BNY Mellon in turn uses the systems of **SunGard**, a financial services software/IT firm, to calculate the daily value unitization.

Background on Pricing Issue

As reported in the press, beginning **August 24, 2015**, BNY Mellon began experiencing delays in pricing NAVs for fund companies for which it provides trustee services as a result of a SunGard system failure. SunGard indicated its systems had been "corrupted" after performing a routine system update. It is staff's understanding that the systems issue was unrelated to concurrent recent market volatility.

On Monday, August 24th, BNY Mellon experienced issues initially with 33 mutual funds; by the end of the day the number of funds that had valuation issues totaled 821. By Wednesday, August 26th, the software problems still had not been rectified and the number of affected funds increased to 1,307 mutual funds and Exchange Traded Funds (ETFs) covering approximately 66 fund families, all serviced by BNY Mellon. For perspective, the Plan's investment consultant, Mercer Investment Consulting ("Mercer"), indicated the funds affected represented 4.5% of all funds in the industry. According to press reports, the delay in pricing calculations also affected other industry firms such as Guggenheim Partners, Goldman Sachs, Federated, and Prudential.

BNY Mellon met with SunGard executives and engineers, teams from IBM, Cisco, Oracle, the SEC and the exchanges to work through valuation and trading issues. Each individual fund family began utilizing a variety of pricing methodologies. In so doing, institutional and retail trading stayed open for almost every fund, including the Voya Fund.

Over the weekend of August 29th, BNY Mellon and SunGard started reprocessing the preceding week's work on a new version of the SunGard system. By Monday, August 31st, they had completed revisions through Friday, August 28th, and as of **September 1, 2015**, Voya informed the Plan that BNY Mellon had indicated the SunGard system was running as expected and would be able to render valuations on a timely basis going forward. Voya further indicated that it had required BNY Mellon to continue to perform the contingency pricing process alongside the SunGard system to generate valuations as a back-up. As of the writing of this report, all fund valuations submitted by Voya as of September 1, 2015, and going forward have been submitted on a timely basis.

Plan Participant Transactions

During the period between August 24th and August 31st, Empower continued to process daily trades in/out of the DCP Mid-Cap Fund, but the initial price level at which transactions took place was based on the contingency pricing provided by Voya, if received in time, or per "stale" dated pricing from the day before. Empower updated their pricing as soon as the corrected NAV was obtained. Corrections were then processed in order to "true up" participant accounts to the correct value. As an immediate measure to ensure participants were not adversely impacted, Empower ensured all participant accounts were made whole immediately as the correct pricing information was received, though there were some direct and indirect losses Empower incurred in the process. The transactions most impacted by the use of contingency and stale dated pricing were those related to full distribution of an account.

Empower is reviewing options to seek recovery of any losses from Voya and/or BNY Mellon after-the-fact. As of the writing of this report, staff was still working with the Board's consultant, Mercer, to identify all of the written provisions impacting cost recoveries.

Participant Communication

On Tuesday, September 1, 2015, staff notified the Board of the pricing issue and known developments as of that date. Concurrently, staff worked closely with Empower to resolve outstanding questions and draft a communication to Plan participants. A web bulletin was finalized for posting on the participant website by which time the delayed pricing appeared to have ceased. This language will be removed no later than Friday, September 11th, assuming the pricing issues do not recur. The bulletin language follows:

IMPORTANT NOTE ABOUT THE DCP MID-CAP STOCK FUND
The following is for informational purposes only; NO ACTION IS REQUIRED

The DCP Mid-Cap Stock Fund has been experiencing a delay of one or more days in the calculation of its daily fund valuation since August 24, 2015. As a result, for the purpose of ongoing participant transactions in this fund (and in any profile fund which includes the DCP Mid-Cap Stock Fund), we have utilized the most recent available price. If this price has subsequently been revised, we will automatically make adjustments to ensure that participants are receiving the full and correct value for their transactions.

We have received indications that the pricing issue has been resolved on a go-forward basis. If this proves not to be the case, or if the prior problem recurs, we will continue to follow our prior protocols in ensuring proper valuation of participant accounts.

If you have any questions, please call KeyTalk® at [888-457-9460](tel:888-457-9460).

Access to KeyTalk and/or any website functionality may be limited or unavailable during periods of peak demand, market volatility, systems upgrades/maintenance or other reasons.

The Plan also responded directly to a handful of participants who had reached out to staff for information and clarification. Any additional information concerning this item not available as of the time of this report will be provided as a verbal update at the Board meeting.

Submitted by: _____
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Reviewed by: _____
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Approved by: _____
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