

Memorandum

TO: DEFERRED COMPENSATION
ADVISORY COMMITTEE

FROM: Amy Morton

SUBJECT: INVESTMENT FUND CHANGE

DATE: April 22, 2020

APPROVED:

DATE:



4/23/20

RECOMMENDATION

Approve the recommendation to replace the current Templeton Global Bond VIP Fund - Class 1 with the Templeton Global Bond Fund - Class R6 to allow Voya to move forward with the prior direction from the DCAC to change AUV platform to NAV platform.

BACKGROUND

Staff has been working with Voya and Hyas Group to implement the changes as directed by the DCAC at the meeting on March 16, 2020. Following that meeting, Voya informed Staff and Hyas Group that the Templeton Global Bond VIP Fund-Class 1 ("current fund") that is currently in the City's line-up is intended to only be used within an AUV contract.

In order to implement the Committee's direction to move to the NAV platform, Voya and Hyas Group are recommending that the DCAC change the current fund to the Templeton Global Bond Fund - Class R6 ("new fund").

ANALYSIS

The current fund is within insurance trust shares. As such, it is not available in a share class or option that would allow for its use on the NAV platform. However, the fund is available as a retail or NAV version in a variety of share classes.

The expense ratio of the current fund is 0.54% and shares 0.25% of revenue. According to Voya and Hyas Group, the most appropriate replacement fund class that is compatible in the NAV platform is the R6 share class which has a slightly higher expense ratio of 0.57% and no revenue sharing.

The difference between the current fund and recommended new fund is the slight increase of 0.03% in the fund's expense ratio and the allocations of the two funds. See Attachment A for the current fund (Class 1) and Attachment B for the intended new fund (Class R6) fact sheets. The biggest difference in allocation is that the Class R6 version holds slightly less cash and more bonds. The top ten holdings differ slightly between the two versions as well.

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Subject: Investment Fund Change

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The plans holdings in the current fund are approximately \$7.4 Million, less than 1% of Plan Assets. The cost to participants would be approximately \$12,000 across the plan; however, the new fund has had better performance in both the 5-year and 10-year cycles.

The following outlines the difference in the performance between the two versions:

Investment Option	Total Expenses	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	Fund Inception Date
Class 1 (current)	0.54	-3.57	-4.55	-4.55	-4.26	-0.78	0.13	2.60	9/18/1986
Class R6 (proposed)	0.57	-3.55	-4.40	-4.40	-5.33	-1.25	0.63	2.61	9/18/1986

OUTCOME/FOLLOW UP

The change to the NAV platform already requires a blackout period where participants are unable to make investment changes; no additional blackout period will be required related to this fund change. Similar to all other funds, participants invested in this fund will see a reallocation of the total shares/units held but will not see a reduction in the overall assets invested in this fund.

In order to accommodate the AUV to NAV conversion, Staff recommends the DCAC approves having Voya move the current fund to a NAV compatible version of the same fund.

If you have any questions or would like additional information, please contact me at (408) 975-1425.



Amy Morton
Senior Analyst, Benefits Division
Human Resources

Attachments:

Attachment A – Templeton Global Bond VIP Fund - Class 1 Fund Fact Sheet

Attachment B – Templeton Global Bond Fund - Class R6 Fund Fact Sheet

Templeton Global Bond VIP Fund - Class 1

Category
Nontraditional Bond

Investment Objective & Strategy

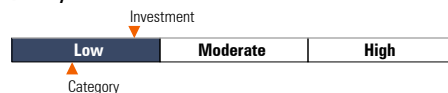
The investment seeks high current income consistent with preservation of capital; capital appreciation is a secondary objective.

Under normal market conditions, the fund invests at least 80% of its net assets in "bonds." Bonds include debt securities of any maturity, such as bonds, notes, bills and debentures. The fund invests predominantly in bonds issued by governments, government-related entities and government agencies located around the world. Bonds may be denominated and issued in the local currency or another currency. The fund is non-diversified.

Past name(s) : Templeton Global Bond Sec C11.

Volatility and Risk

Volatility as of 12-31-19



Risk Measures as of 12-31-19	Port Avg	Rel BC Aggr	Rel Cat
3 Yr Std Dev	5.63	1.93	1.85
3 Yr Beta	-1.05	—	7.50

Principal Risks

Credit and Counterparty, Currency, Emerging Markets, Foreign Securities, Loss of Money, Not FDIC Insured, Country or Region, Nondiversification, Active Management, Income, Interest Rate, Market/Market Volatility, High-Yield Securities, Restricted/Illiquid Securities, Derivatives, Sovereign Debt, Cash Drag, Management

Important Information

Morningstar Investment Profiles must be accompanied by Morningstar Disclosure and Glossary.

Funds or their affiliates may pay compensation to Voya® affiliates offering a fund. Such compensation may be paid out of distribution, service and/or 12b-1 fees that are deducted from the fund's assets, and/or may be paid directly by the fund's affiliates. Any fees deducted from fund assets are discussed in the fund's prospectus and disclosed in the fund fact sheet. Because these fees are paid on an on-going basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges. If offered through a retirement program, additional fees and expenses may be charged under that program. NOT A DEPOSIT. NOT FDIC INSURED. NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. NOT GUARANTEED BY THE INSTITUTION. MAY GO DOWN IN VALUE.

Portfolio Analysis



Top 10 Holdings as of 11-30-19

Security	% Assets
Franklin IFT Money Market	24.77
United States Treasury Notes 1.12% 08-31-21	5.80
United States Treasury Notes 1.5% 08-31-21	5.24
Brazil (Federative Republic) 9.46% 01-01-23	4.94
Mexico (United Mexican States) 6.5% 06-10-21	3.40
Mexico (United Mexican States) 7.25% 12-09-21	3.30
Mexico (United Mexican States) 6.5% 06-09-22	2.96
The Republic of Korea 2.25% 09-10-23	2.77
The Republic of Korea 1.38% 09-10-24	2.07
Secretaria Tesouro Nacional 9.46% 01-01-27	1.94

Operations

Gross Prosp Exp Ratio	0.65% of fund assets
Net Prosp Exp Ratio	0.54% of fund assets
Management Fee	0.46%
12b-1 Fee	—
Other Fee	0.02%
Miscellaneous Fee(s)	0.17%
Fund Inception Date	01-24-89
Total Fund Assets (\$mil)	2,813.7
Annual Turnover Ratio %	18.22
Fund Family Name	Franklin Templeton Investments

Notes

Total annual Fund operating expenses differ from the ratio of expenses to average net assets shown in the Financial Highlights, which reflect the operating expenses of the Fund and do not include acquired fund fees and expenses. The investment manager has contractually agreed in advance to reduce its fee as a result of the Fund's investment in a Franklin Templeton money fund (acquired fund) for at least one year following the date of the prospectus. Contractual fee waiver and/or expense reimbursement agreements may not be changed or terminated during the time period set forth above.

Morningstar Fixed Income Style Box™ as of 12-31-19

Avg Eff Duration	-0.53
Avg Eff Maturity	1.68

Not Available

Morningstar F-I Sectors as of 11-30-19

Sector	% Fund
Government	64.13
Corporate	0.05
Securitized	0.00
Municipal	0.00
Cash/Cash Equivalents	35.82
Other	0.00

Credit Analysis: % Bonds as of 12-31-19

AAA	24	BB	15
AA	12	B	2
A	26	Below B	2
BBB	20	Not Rated	-2

Waiver Data

Expense Ratio	Type	Exp. Date	%
Expense Ratio	Contractual	04-30-20	0.11

Portfolio Manager(s)

Michael Hasenstab. Since 2001.
Calvin Ho. Since 2018.

Advisor	Franklin Advisers, Inc.
Subadvisor	—

Templeton Global Bond Fund - Class R6

Category
Nontraditional Bond

Investment Objective & Strategy

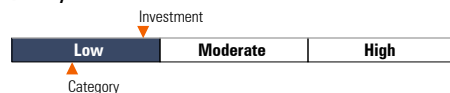
From the investment's prospectus

The investment seeks current income with capital appreciation and growth of income.

Under normal market conditions, the fund invests at least 80% of its net assets in "bonds." Bonds include debt obligations of any maturity, such as bonds, notes, bills and debentures. It invests predominantly in bonds issued by governments, government-related entities and government agencies located around the world. The fund may invest up to 25% of its total assets in bonds that are rated below investment grade or, if unrated determined by the investment manager to be of comparable quality. It is non-diversified.

Volatility and Risk

Volatility as of 12-31-19



Risk Measures as of 12-31-19	Port Avg	Rel BC Aggr	Rel Cat
3 Yr Std Dev	6.28	2.16	2.07
3 Yr Beta	-1.18	—	8.43

Principal Risks

Credit and Counterparty, Currency, Emerging Markets, Foreign Securities, Loss of Money, Not FDIC Insured, Country or Region, Nondiversification, Active Management, Income, Interest Rate, Market/Market Volatility, High-Yield Securities, Restricted/Illiquid Securities, Derivatives, Sovereign Debt, Cash Drag, Management

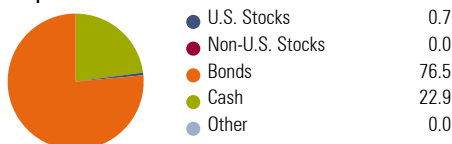
Important Information

Morningstar Investment Profiles must be accompanied by Morningstar Disclosure and Glossary.

Funds or their affiliates may pay compensation to Voya® affiliates offering a fund. Such compensation may be paid out of distribution, service and/or 12b-1 fees that are deducted from the fund's assets, and/or may be paid directly by the fund's affiliates. Any fees deducted from fund assets are discussed in the fund's prospectus and disclosed in the fund fact sheet. Because these fees are paid on an on-going basis, over time these fees will increase the cost of your investment and may cost you more than paying other types of sales charges. If offered through a retirement program, additional fees and expenses may be charged under that program. NOT A DEPOSIT. NOT FDIC INSURED. NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY. NOT GUARANTEED BY THE INSTITUTION. MAY GO DOWN IN VALUE.

Portfolio Analysis

Composition as of 11-30-19



Top 10 Holdings as of 11-30-19

Top 10 Holdings as of 11-30-19	% Assets
Money Mkt Portfolios Tr	11.76
Mexico (United Mexican States) 8% 06-11-20	8.35
United States Treasury Notes 1.5% 09-30-21	5.68
Mexico (United Mexican States) 6.5% 06-10-21	5.11
United States Treasury Notes 1.12% 08-31-21	3.36
United States Treasury Notes 1.12% 07-31-21	3.34
Brazil (Federative Republic) 9.46% 01-01-21	3.22
Brazil (Federative Republic) 9.46% 01-01-23	3.08
United States Treasury Notes 1.12% 06-30-21	3.05
Secretaria Tesouro Nacional 0% 07-01-20	2.82

Operations

Gross Prosp Exp Ratio	0.67% of fund assets
Net Prosp Exp Ratio	0.57% of fund assets
Management Fee	0.48%
12b-1 Fee	—
Other Fee	0.02%
Miscellaneous Fee(s)	0.17%
Fund Inception Date	05-01-13
Total Fund Assets (\$mil)	26,894.2
Annual Turnover Ratio %	19.86
Fund Family Name	Franklin Templeton Investments

Notes

Total annual Fund operating expenses differ from the ratio of expenses to average net assets shown in the Financial Highlights, which reflect the operating expenses of the Fund and do not include acquired fund fees and expenses. The investment manager has contractually agreed in advance to reduce its fee as a result of the Fund's investment in a Franklin Templeton money fund (acquired fund) for at least one year following the date of the prospectus. In addition, the transfer agent has contractually agreed to cap transfer agency fees for Class R6 shares of the Fund so that transfer agency fees for that class do not exceed 0.02% through April 30, 2020. Contractual fee waiver and/or expense reimbursement agreements may not be changed or terminated during the time period set forth above.

Morningstar Fixed Income Style Box™ as of 12-31-19

Not Available	Avg Eff Duration	-1.01
	Avg Eff Maturity	1.54

Morningstar F-I Sectors as of 11-30-19

Morningstar F-I Sectors as of 11-30-19	% Fund
Government	76.93
Corporate	0.05
Securitized	0.00
Municipal	0.00
Cash/Cash Equivalents	23.02
Other	0.00

Credit Analysis: % Bonds as of 12-31-19

AAA	31	BB	13
AA	5	B	2
A	23	Below B	2
BBB	25	Not Rated	-2

Waiver Data

Waiver Data	Type	Exp. Date	%
Expense Ratio	Contractual	04-30-20	0.10

Portfolio Manager(s)

Michael Hasenstab. Since 2001.
Calvin Ho. Since 2018.

Advisor	Franklin Advisers, Inc.
Subadvisor	—