

# PARTICIPANT NOTICE

Santa Clara Valley Water District  
457 and 401(a) Retirement Plans



## FUND CHANGES EFFECTIVE SEPTEMBER 18, 2017

In a continual effort to assist you in meeting your retirement goals, the Santa Clara Valley Water District Deferred Compensation Committee has worked with its independent investment consultant, Innovest Portfolio Solutions, to make a change to the investment options available in the District's 457 and 401(a) Plans, effective September 18, 2017.

### Fund Change

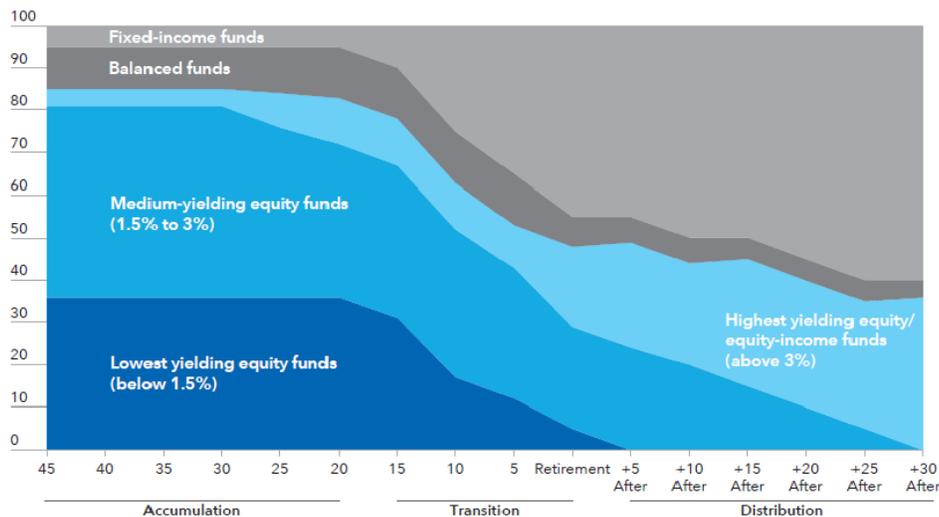
Old Investment Option		New Investment Option	Similar Investment Style & Objective	Rationale
Nationwide Target Destination Funds	➔	American Funds Target Date Funds	Yes	Product Upgrade

### Background: Understanding Target Date Funds (TDFs)

The District's Deferred Compensation Committee conducted a comprehensive analysis of the Target Date Funds (TDFs) offered through the 457 Deferred Compensation and 401(a) Plans. TDFs are a series of professionally-managed portfolios designed to simplify investing for participants by providing a "do it for me" approach to investing that places the portfolio management responsibilities in the hands of investment professionals. The suite of TDFs includes 11 different portfolios designed for 11 different age groups and each is managed according to a specific target retirement year. For example, if a participant expects to attain age 65 around the year 2035, they would generally invest in the 2035 TDF.

The primary difference between each TDF is the amount allocated to growth-oriented investments (stocks, real estate) and the amount allocated to more conservative investments (bonds and cash). Historically speaking, growth investments have produced greater investment returns over the long-term, while bonds and cash have provided more stable returns. The allocation (percentage) invested in the three major asset classes (growth, bonds and cash) is automatically adjusted as investors age. Therefore, an investor may choose a single TDF and avoid the need to manage their own investments or change portfolios throughout their career. The changing investment allocation over time is referred to as a Glide Path. The Glide Path of the American Funds TDFs is shown below. You will notice the allocation for investors further away from retirement is more aggressive (greater allocations to growth investments), while the allocation for investors closer to retirement progressively becomes more conservative (increased allocation to bonds and cash) over time.

American Funds Target Date Retirement Series



The asset allocation for each age group is based on an average retirement age of 65 and average life expectancy of age 90. The portfolios are appropriately allocated for the average investor to utilize during their working years and into retirement. Every portfolio contains a mix of distinct types of mutual funds (i.e. aggressive and conservative, domestic and international, value and growth), which automatically become more conservative as the investors age.

**Rationale: The Deferred Compensation Committee’s TDF Selection Process**

The fiduciary process for selecting and monitoring target date funds involves the traditional qualitative and quantitative analysis utilized for mutual funds at large. This includes but is not limited to analyzing manager tenure and experience, performance over time, and reasonableness of expenses. In addition, the fiduciary process for selecting target date funds must consider asset class composition, active vs. passive management, and glide path shape. The committee went through an in-depth analysis of these steps with the goal of retaining the Nationwide Target Destination series or replacing with target date offerings from American Funds, Vanguard or T. Rowe Price. Each of these providers provided diversity of philosophy, style and approach.

In conjunction with the recommendation from the District’s Investment Advisor, Innovest, the committee ultimately decided that American Funds Target Retirement Series offered the most compelling blend of characteristics to best service the plan. These characteristics consisted of quality and consistency of the management team, strength of underlying fund utilization, and risk and return statistics. The series is guided by glide path construction at two levels — changing both the quantity and the composition of equities and bonds along the series. They construct an objective-based glide path that facilitates the change in the type of equity exposure as a participant progresses through the glide path, emphasizing more dividend-focused equities at retirement that have historically been less volatile than the broad market. The American Funds oversight committee is very experienced with an average of 26-years of experience with the firm. The suite also boasts an attractive expense ratio for its fully active approach of 0.41%, on average.

**The following mapping table describes how all assets in the Nationwide Target Destination funds will be automatically mapped (transferred) to the American Funds Target Date funds.**

Nationwide Target Destination 2010 R6 (NWDIX)	➡	American Funds Target Date Retirement 2010 R6 (RFTTX)
Nationwide Target Destination 2015 R6 (NWEIX)	➡	American Funds Target Date Retirement 2015 R6 (RFTJX)
Nationwide Target Destination 2020 R6 (NWFIX)	➡	American Funds Target Date Retirement 2020 R6 (RRCTX)
Nationwide Target Destination 2025 R6 (NWHIX)	➡	American Funds Target Date Retirement 2025 R6 (RFDTX)
Nationwide Target Destination 2030 R6 (NWIIX)	➡	American Funds Target Date Retirement 2030 R6 (RFETX)
Nationwide Target Destination 2035 R6 (NWLIX)	➡	American Funds Target Date Retirement 2035 R6 (RFFTX)
Nationwide Target Destination 2040 R6 (NWMHX)	➡	American Funds Target Date Retirement 2040 R6 (RFGTX)
Nationwide Target Destination 2045 R6 (NWNIX)	➡	American Funds Target Date Retirement 2045 R6 (RFHTX)
Nationwide Target Destination 2050 R6 (NWOIX)	➡	American Funds Target Date Retirement 2050 R6 (RFITX)
Nationwide Target Destination 2055 R6 (NTDIX)	➡	American Funds Target Date Retirement 2055 R6 (RFKTX)
Nationwide Target Destination 2060 R6 (NWWUX)	➡	American Funds Target Date Retirement 2060 R6 (RFUTX)

**American Funds Target Date Funds**

The American Funds Target Date funds are actively managed, meaning that the underlying funds are strategically managed by American Fund managers to pursue above-market returns. The twenty-five underlying funds invest in the following asset classes: domestic stock, international stock, emerging markets stock, US bonds, TIPS (Treasury Inflation-Protected Securities), high yield bonds, and emerging markets debt. The American Funds Target Date funds’ investment schedule, or “glide path,” is focused on maintaining appropriate levels of growth **up to** and **throughout** retirement.

### What should you do?

- No action is required if you **do not have money** invested in these funds; or,
- If you are **currently invested** in the Nationwide Target Destination Funds, the assets will be automatically transferred into the corresponding American Funds Target Date Fund (as shown in the mapping table above) and all future contributions will be redirected into the new fund; or,
- If you're not currently investing in a TDF, but wish to begin investing in one of the American Funds TDFs, contact Dawn Furlo or Nationwide Customer Service Center (numbers provided below) for assistance; or,
- At any time, you may contact Nationwide at 877.677.3678 or online at [www.santaclarawaterdcp.com](http://www.santaclarawaterdcp.com) to redirect your current account balances and future contributions into any of the investment options available within the plan.

### Whom do I call for help?

#### Nationwide Retirement Solutions

Dawn Furlo, Retirement Specialist

C: 408-828-0463

[Dawn.furlo@nationwide.com](mailto:Dawn.furlo@nationwide.com)

Nationwide Customer Service: 877-677-3678