DEFINED CONTRIBUTION PLANS TRUSTEE BOARD
MEETING MINUTES

Thursday, June 22, 2023

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting on Thursday, June 22, 2023. The meeting took place in the Floor Committee Room of the City Administration Building. Location: 202 C Street, 12th Floor, San Diego, California. The meeting was called to order at 1:39 p.m. by Elizabeth Correia.

1. ACTION ITEMS

A. Roll Call

Trustees Present:	Angela Colton, Elizabeth Correia, Gregg Rademacher, Abraham Hunt, and David Onate
Staff present:	Quennelle Allen, Thomas J. Brady
Presenters:	Denise Jensen, Paul Jacobson (Principal) and Jeffrey Nipp (Segal Marco)

B. Dispense with the reading and approval of the minutes of Thursday, February 23, 2023

MOTION TO ACCEPT THE MINUTES OF February 23, 2023 — Gregg Rademacher
SECOND: — Angela Colton
PASS (3-0, Abraham Hunt abstained)

C. Election of Chairperson for New Term Ending June 2025

MOTION TO RE-ELECT ELIZABETH CORREIA — Gregg Rademacher
SECOND: — Angela Colton

PASS (5-0)

D. Review and Approve 2024 Trustee Board Budget — Quennelle Allen

The budget for operation costs of the Trustee Board resides in the Risk Management Fund. This year the proposed budget for the board is $688,245, reflecting an overall increase of approximately $52,000, or 8.23%, from the prior year's budget. This is primarily due to increased personnel expenditures

(PE) of approximately $54,000. Those PE expenses were driven by salary increases outlined in the City's Salary Ordinance for Fiscal Year 2024 and the associated fringe benefit cost increases that go along with that for the positions that support the Board.

The non-personnel expenditures budget decreased by approximately $1,700 overall, which was primarily attributable to the decrease in photocopy services, printing reports and bulletins due to board going fully electronic in the materials, and non-discretionary rent expenses partially offset by the 3% annual increase in the Segal Marco contract (which falls under the Miscellaneous Contractual Services account) as well as increases in non-discretionary information technology expenses. Staff requested approval of the proposed Fiscal Year 2024 Budget.

MOTION TO APPROVE BUDGET FOR FY 24 — Gregg Rademacher
SECOND: — David Onate
PASS (5-0)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Segal Marco First Quarter Investment Report — Jeff Nipp

Starting with an overview of global equity, both stocks and bonds had positive returns in the first quarter. S&P 500 was up 7.5%, developed markets internationally were up about 8.5%, and emerging markets were up about 4%. For U.S. equities, Information Technology and Telecom are once again dominating the U.S. sectors. In the quarter, Energy was negative, IT was up over 21%, and Telecom was up over 20%, which is a complete reversal from last year. Growth significantly outperformed value during the quarter, as Financials and Energy lagged compared to other sectors, as shown when comparing the Russell 1000 Growth Index versus Russell 1000 Value Index, which saw 14% increase for the quarter for Growth versus 1% for Value. Large cap stocks substantially outperformed small cap. Part of that was due to some banking issues that arose, the collapse of Silicon Valley Bank being the most prominent one. There are a large number of regional banks in the smaller cap indices, especially the Value. The whole sector was marked down due to concerns that arose. Internationally, there was a similar picture. There is not a large concentration of tech companies in the International Indices, however more growth sectors tended to do better. In bonds, rates came down over most of the curve, except at the short end. This is primarily due to inflation slowing down and the expectation that the Fed was going to take a pause in the rate hikes proved to be true. The Aggregate index, the broad market index was up about 3% for the quarter. That followed a positive return of about 1.5% in the fourth quarter of last year. It was noted that last year the broad market index was down 13%, the worst year ever for bonds.

In terms of asset allocation, the Managed Income Fund is back down under 30%. Target Date Funds, which are the default options, have continued to increase, part of which is due to relative asset class returns.

The Oakmark Equity and Income Fund continues to remain on the Watch List, however, the Invesco International Growth Fund is gone because of the changes that were made in May.

Next, the fees associated with this plan were reviewed, concluding that this is a very cost-effective plan. The Oakmark Equity and Income Fund is the one remaining funds that has revenue-sharing back to participants, which is 35 basis points, resulting in a net cost of only 49 basis points. Across the board, everything is below median.

Performance-wise, there were mixed results for the fund line-up in the first quarter. There are a lot of index funds in domestic equity, which are all tracking benchmarks as they always do. Both the Principal Mid Cap and Boston Trust Small Cap active managers did well in the first quarter, and both have done very well over the long term, with 10 year returns 1 .5% to 2% over their benchmarks over the long term and have been consistently delivering good results.

The international funds have now changed; it was noted that they were not changed due to performance issues, rather structure changes to get a passive and an active option.

The Oakmark Fund, the balance fund, is a value-oriented equity and short duration bond portfolio. The value-oriented equity is going to underperform in the broad market. The short duration bonds underperformed because rates came down. As a result, we saw this fund lagging during the quarter. They had been getting close to getting ahead for 3 and 5 years, which would get them off the watch list. They are still ahead for 3, but now dropped back a little on the 5 years, so they will remain on the watch list. It was also noted that this is the same kind of defensive domestic balance fund that it has always been.

The State Street Real Asset Fund was flat for the quarter. It was the star performer last year, up about 3% while everything else except stable value was down. Oil prices have come back down resulting in energy stocks not doing well.

The Managed Income Fund is going to deliver a consistently positive return. As rates have gone up, this slowly adjusts upwards to follow the path of interest rates. So, when rates are going up, it will not move as fast as market rates, but the opposite is also true as they go back down, it will hang in there longer. Every quarter, they reset the crediting rate, which was about 2.3% at the end of the year. At the end of the first quarter, it went up to about 2.7% in round numbers, which is what participants will receive for that quarter. It will be reset again at the end of this quarter.

Finally, the performance of the Target Date Funds was reviewed. The shorter dated funds are for people who are retired or close to retirement. These are much more conservatively invested so they have more value stocks in them, which resulted in them lagging for the quarter. The growth funds that are actively managed in the target date funds' portfolios did very well during the quarter, even outperforming the growth benchmarks. The other funds in the portfolios, termed growth and income type funds, those lagged the broad-market indices, which weighed down the results of the longer dated funds. However, all of these funds in the almost five years through March that they have been in existence are all doing very well, ahead of the benchmarks, ranking very highly in their universes.

B. Principal First Quarter Report — Denise Jensen

As an update to the Board, it was noted that the two fund changes that were approved by the Board, which were the removal of the Dodge & Cox International Stock Fund and the Invesco International Growth Trust Fund, and the addition of the Vanguard International Core Stock Fund and the Vanguard Institutional Total International Stock Fund was completed as of May 15, 2023. There was some concern about whether participants would be confused as to how the mapping was going to be done, with current balances in the two existing international funds split 50/50 between the two new Vanguard funds and future contributions going 100% to the passive fund, however, neither Principal nor City staff received any questions from participants.

The addition of the PCRA to the 401k plan will occur on August 1, 2023. The final step is coordination on the participant notification that is going to be sent out informing them that this is being added to the plan. It will contain all of the appropriate disclosures and disclaimers, including the fee associated with the brokerage window, as well as what the participants need to do if they choose to use it: go online or call into the Principal Call Center.

From the plan overview perspective as of March 31st, 2023, the total account balance was just over $1.43 billion in assets. This was a decline from the previous year, which was not surprising considering the market volatility that was occurring. The number of outstanding loans declined from a year ago, from 2,785 to 2,654 for the quarter. When you see a lot of market volatility, there typically is an increase in outstanding loans being taken. However, the outstanding actual loan amount between the two plans that allow it, remain relatively flat, around $25 million.

The total plan to plan transfers through for the first quarter was $1.0 million. This does not include transfers due to the unwinding of Proposition B; this represents individuals that were buying years of service back into their SDCERS plan using their City plan dollars. Average account balances have seen a decline in all the plans across the board. This is due to declines in the market as well as the changes that are occurring with the unwinding of Proposition B, which also caused changes in the actual headcounts in the plans as of March 31 as well, with the SPSP-H decreasing while the 401a increased as a result.

From a diversification standpoint, the managed income fund has declined slightly from the previous year, falling below 30% in the 401k plan.
The 401a and the SPSP-H are the lower percentages because those were defaulting primarily into the target date funds. The SPSP, which had the majority of the assets in that particular investment option for a long time, is still at the 35% mark as of March 31, with deferrals at 38% in that fund. Further reviewing plan diversification, the plans are trending in the right direction. Diversification is at 67% in the 401k plan, 96% in the 401a, 46% in the SPSP, and 69% in the SPSP-H. Looking relatively to the previous quarters on the trending year, there has not been a lot of change. What this means is, even with all the market volatility, participants are staying the course. Participants are not moving their money rapidly around and reacting emotionally to the market volatility, which is a positive.

As of March 31, 2023, 1,210 participants have had money flowing into the Roth money type added within the 401k. The assets in the Roth are approximately $2.65 million.

C. Principal Annual Fee Review — Denise Jensen

Participants are paying a flat 6.5 basis point fee, which is based on the overall assets that are invested in each one of the individual plans. Many participants have multiple plans so it is 6.5 basis points across all plans that they are invested in. The only other fee that is charged to participants is for the two plans that have loans, the 401k and SPSP, there is a loan origination fee of $75 for processing that is charged to the participant. It is a fee to set up the loan and continue to maintain that loan during the loan timeframe. The total collected for the 6.5 basis points recordkeeping fee for 2022 was $990,295.98. For the participant loan setup fee, Principal collected $66,450. There was a total of 309 loans that were taken out in 2022 in the SPSP plan and 577 in the 401k plan. The total fees collected by Principal in 2022 was 1,056,745.98, which covered all of the administrative services provided by Principal, including, but not limited to the online tools, the ongoing service team that is assigned to the City of San Diego plan, loan processing, distribution processing, the call center, and processing that is performed from payroll.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

A. Proposition B Update — Thomas J. Brady

There is a very small amount of work left to do on the unwinding of Proposition B. All that is remaining is to make people whole who were City employees during Proposition B but have separated from City service. The City has reached agreements with the unions on this and are looking to implement them towards the end of this year, possibly early next year. These agreements are not anticipated to impact plan assets much in the SPSP-H accounts because many of these employees took their SPSP-H funds when they left employment. Those that left money in the SPSP-H will use that money if they want to buy time with SDCERS for their City service. Some small outflows of money from the SPSP-H over to SDCERS may be seen but will be very limited. There are approximately 3,000 employees who left that are impacted, but only about 10% of those employees are expected to actually choose to buy their time. It is anticipated that only the employees who left the City but went to a reciprocal agency where if they buy into SDCERS, they can combine time together with their reciprocal service for their pension benefit, that will choose to buy time with SDCERS.

This is the final phase of the unwinding of Proposition B and is expected to be completed in early 2024.

4. PUBLIC COMMENT

5. NEXT MEETING

December 6, 2023

6. ADJOURNMENT

Meeting adjourned at 2:11 pm

Backup documentation is available from the Risk Management Department