

**DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES**  
**Wednesday, August 31, 2016**

The SPSP/401(k) Trustee Board of the City of San Diego held its regularly scheduled meeting in the SDCERS Boardroom. Location: 401 West A Street, 3<sup>rd</sup> Floor Boardroom, San Diego, California. The meeting was called to order at 1:36 p.m. by Tracy McCraner.

Trustees Present: Julio Canizal, Gail Granewich, Mark Hovey, Tracy McCraner  
Trustees Absent: 401(k) Trustee (vacant)  
Staff present: Estella Montoya, Nancy Stadille, Gilda Smith, Bill Gersten  
Presenters: Bill Cottle, Paul Jacobson, Denise Jensen

**1. ACTION ITEMS**

- A. Dispense with the reading and approval of the minutes of May 25, 2016.

MOTION TO ACCEPT THE MINUTES OF May 25, 2016:	Gail Granewich
SECOND:	Mark Hovey
Approved (4-0)	

**2. STAFF REPORTS AND INFORMATIONAL ITEMS**

- Second Quarter Activity Report-Wells Fargo

Mr. Jacobson began the presentation by providing an update on the changes to the participant website. Diverse focus groups were used and feedback from the focus groups was incorporated in the new design. The participant website is now easier to use, has more tools, and simplified language. Page 2 of the report displays the new website. He proceeded to page 3 of the report and stated everything that can be done on the PC (personal computer) can be done on mobile. On page 4, he highlighted that participants enjoy visual display of the portfolio mix. Wells Fargo will roll out a comparison tool in the future (November). Participants relate to peers. Rather than be compared to the average person, participants will be compared to a person doing the right thing. Ms. Jensen reminded the Board that participants cannot change contributions through Wells Fargo. The website directs participants to change their contributions through the City.

Ms. Jensen began on section 2, revised page 6 of the report which shows there was positive plan growth for the second quarter. Assets as of June 30, 2016 were \$976 million. More and more participants are using mobile access with web access still the primary point of access. There was a communication campaign to update beneficiaries this past quarter. The highest transaction function that was used in the second quarter was beneficiary updates. The plans are continuing with the positive trend of diversification. There were 55 partial distributions in the second quarter. This was an increase from the 41 partial distributions requested in the first quarter. Ms. Jensen stated it was a good decision of the Board to change the plans to allow partial distributions. Participants are taking advantage of this option and allowing remaining funds to stay in the plans. There were three rollovers into the 401(k). Ms. Jensen also provided a compliance update. Second quarter participant statements included the annual participant fee disclosure. Wells Fargo is working with staff to distribute the annual Qualified Default Investment Alternative (QDIA) notice with third quarter participant statements.

- Fourth Quarter Investment Report-Milliman

Mr. Cottle began summarizing market performance on page 1 of the Milliman report. The U.S. stock market did fairly well across all investment classifications. International equity did not do as well. In the bond area the returns were positive. Mr. Cottle then referred to page 5. Overall the plans had \$12.2 million in gains for the quarter.

On page 7, Boston Trust continues to be on watch. Mr. Cottle recommends the fund to remain on watch. Oakmark Equity and Income Fund has had sad performance over the last two years. He thinks it is appropriate to place the fund on watch. The fund does not meet the market index or risk adjusted return expectations. Blackrock TIPS fund has trailed its benchmark and he recommended placing the fund on watch as well.

Mr. Cottle proceeded to the cumulative performance summary on pages 12-13. Vanguard Growth Index, Vanguard Value Index, and Wells Fargo BlackRock Equity Index met their benchmarks. Principal Mid Cap Fund marginally surpassed its' benchmark while Vanguard Mid Cap Index met its' benchmark.

Mr. Cottle referred to the memo regarding Boston Trust's proxy vote. The vote was regarding the flexibility for them to borrow or loan funds from their own family of funds instead of another financial institution. The flexibility to borrow and loan from their own funds would be more cost effective to execute meeting redemption requirements. The last vote item was election of a board member. The candidate has history for working for an asset management firm in London and is well aware of socially responsible investing. Mr. Cottle recommended voting for all items on the proxy.

Mr. Cottle stated Milliman has clients who consider possible investments in environmental, social, and governmental (ESG) areas. It appears that if the investor focuses on issues relative to ESG subjects there may be enhanced return. Mr. Cottle suggested the Board may be interested in investing in socially responsible funds in the future. Ms. McCraner asked Mr. Cottle if they would be bond funds. Mr. Cottle stated they would be stock funds.

Mr. Cottle returned to page 12 of the Milliman report. Invesco International Growth did not have a good quarter. Dodge and Cox outperformed its' benchmark. Oakmark under performed in the quarter and over the 10 year period. Vanguard Life Strategy Funds met or marginally surpassed their benchmarks. Managed Income Fund and BlackRock TIPS surpassed their benchmarks. T. Rowe Price had difficulty in the quarter.

Mr. Cottle provided the Board with an update on money market reform. The City does not have money market funds in the fund line-up, but the Board should be updated on what is happening in the industry. It was determined there should be a separation of individual investors and institutional investors. Institutional investors with money market funds need to change their money market funds to a money market fund that is focused on government securities.

He directed the Board to Boston Trust's risk-reward analysis on page 18 of the report. The three year period demonstrates the same return as other funds, with lower risk. Page 24 displays the risk-reward analysis for the Oakmark Equity Fund. Mr. Cottle states the benchmark for the fund is unobtainable since the benchmark is 60% S&P 500 and 40% bond market. Page 40 displays the performance summary for the Invesco International Growth Fund. The fund had a poor quarter and he will closely monitor its' performance.

Page 44 displays the performance summary for Oakmark Equity. Oakmark has had poor performance over the past four quarters.

- Mr. Cottle directed the Board to his August 9, 2016 memo regarding his on-site meeting with Columbia Threadneedle. Total assets under management are \$5.4 million. The memo discusses the fund's investment process. There are seven wrap providers. Lincoln National Life was recently added. Mr. Cottle stated it was interesting there are now more organizations that are willing to provide wraps at a lower cost whereas three to five years ago there were few organizations and higher fees. Ms. McCraner asked if a wrap is like insurance for the fund. Mr. Cottle replied it is an insurance policy; it protects against the decline in market value when the investor wants to sell. The investor gets book value instead of the declined market value.
- Mr. Cottle summarized his August 22, 2016 memo regarding Oakmark Equity Income Fund. The fund's investment strategy has not changed. He believes the fund may have an opportunity for a turnaround and the Board should retain the fund.
- Mr. Cottle reviewed the Investment Policy and suggested minor changes. Mr. Cottle requested the Board review the Investment Policy and be prepared to discuss revisions at the next meeting. Ms. Granewich stated the footer needs to be updated. Mr. Cottle also suggested the Board may want to consider incorporating additional participant education, such as Financial Engines, in the Investment Policy's participant education section.

Ms. Granewich referred to Oakmark's performance summary on page 13 and stated the fund has not outperformed its' benchmark in the last 10 years. Mr. Cottle directed the Board to page 44 and stated a fair amount of the underperformance has occurred in the past couple of years. It would not be accurate to state the fund has underperformed consistently for the past 10 years, but recent performance has pulled the 10 year period down. Ms. McCraner asked for examples of other fund options. Mr. Cottle had not focused on other fund options. It would be a broader question of whether to replace the fund with another fund in the same fund class or different class. It should be discussed when the Board has a strategy session regarding the structure of investment options. Ms. McCraner indicated the Board may be interested in discussing ESG funds during the strategy meeting. Mr. Cottle stated there are investment managers who consider ESG funds in their investment line-up. Mr. Hovey provided information from the SDCERS perspective. He stated of the 40 pension funds in the State of California, the plans that have ESG funds are CalPERS and CalSTRS. They are more political and SDCERS cannot look at ESG funds when it would result in a lower return than investing in a non-ESG fund. With all things considered and it is tied, then evaluate ESG. There is an article that CalPERS had forgone \$3 billion in returns because of their divestiture in the gun industry. The big funds are invested in it and its' due to political pressure to be interested in ESG. Ms. McCraner stated it is important to note that while it (investing in ESG) may be desirable, the overall main concern is the viability of the fund and getting the best return. Ms. Granewich also stated it is the Boards' responsibility to follow the investment policy. Ms. McCraner stated that with millennials there is an investment philosophy shift and they are interested in ESG funds.

- Ms. Stadille provided a status update on the election of the 401(k) trustee. The Interactive Voice Response (IVR) system that was historically used for elections was no longer available. Staff is looking at alternate methods to hold the election. She hopes to have the trustee in place by the next meeting. Mr. Hovey asked if staff had looked into a paper ballot election. Ms. Stadille stated it was evaluated but using an electronic resource would be more efficient. SDCERS needed to hold an election and Mr. Hovey stated they were

looking at several electronic survey vendors. Ms. Montoya stated the preferred method is to use SAP but there was not enough time to set up for this election. The web solution was something developed for another project and reworking it for the current election worked best at this time. Ms. McCraner asked about the use of email. Ms. Montoya stated email could not meet all integrity requirements. Ms. Stadille confirmed active contributors are eligible to vote.

### **3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY**

- Ms. Stadille informed the Board the fund managers for the Managed Income Fund will attend the next quarterly meeting.

### **4. PUBLIC COMMENT**

None

**The next meeting is scheduled for October 6, 2016.**

**Meeting adjourned at 2:34 p.m.**

**Backup documentation is available at Risk Management.**