DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES
Thursday, November 17, 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, 3rd Floor Boardroom, San Diego, California. The meeting was called to order at 1:33 p.m. by Estella Montoya.

Ms. Montoya introduced the winner of the recent Trustee election, Robert Davis. Mr. Davis' term will end in 2018.

Trustees Present:	Julio Canizal, Robert Davis, Mark Hovey
Trustees Absent:	Gail Granewich, Tracey McCraner
Staff present:	Bill Gersten, Estella Montoya, Gilda Smith, Nancy Stadille
Presenters:	Bill Cottle (Milliman)
	Denise Jensen (Wells Fargo IRT)
	Joe Ready (Wells Fargo IRT)
	Anne Holloran (Columbia Threadneedle)
	Jim McKay (Columbia Threadneedle)

1. ACTION ITEMS

A. Elect Chairperson Pro-Tem for today's meeting.

Ms. Montoya called for nominations. Mr. Canizal nominated Mr. Hovey. Mr. Hovey asked staff for clarification on the quorum needed for a vote. Ms. Montoya confirmed since three Trustees are required to have a quorum, Mr. Hovey is unable to abstain from voting for himself in this election. The three Trustees voted in favor of Mr. Hovey and Mr. Hovey was elected Chairperson Pro-Tem for the meeting.

B. Dispense with the reading and approval of the minutes of August 31, 2016 and October 6, 2016.

Ms. Montoya informed the Board only the Trustees in attendance at the meeting can approve the minutes. Since there is not a quorum, this item will be trailed to the next meeting.

C. Place Oakmark Equity and Income Fund on watch list.

Mr. Cottle reminded the Board Oakmark had a period of underperformance. He recommended the fund be placed on watch at the last quarterly meeting. Mr. Cottle proceeded to inform the Board the investment strategy and personnel has not changed; there is opportunity for the fund to turn around. He referred to page 5 and 7 of Milliman report. Oakmark is a balanced fund that invests in equity and fixed income. Though it performed well in the recent quarter, there has been significant underperformance over the longer term (7-year period). He recommended it is appropriate to place the fund on watch.

Mr. Hovey requested to move to page 24 of the Milliman report. Mr. Cottle stated for the 3-year time period the benchmark is in the upper left hand quadrant outperforming with less risk. Mr. Cottle confirmed meeting the benchmark is almost impossible; 98% of funds did not. Mr. Hovey stated relative to the other balanced funds they are in the middle of the pack. Mr. Hovey asked if there is a better benchmark. Mr. Cottle stated it is the correct benchmark. Mr. Cottle referred to page 44, on the Annualized Excess Performance chart, it is desired to have the yellow line to be above the zero line, it is preferred to be flat or trending upward, but the performance has been coming down significantly over the past few years. Mr. Canizal asked how long the fund should be placed on watch. Mr. Cottle referred to the guidelines in the Investment Policy. Mr. Davis stated the expense ratio is towards the high end. Mr. Hovey stated he would be interested in looking into a passively managed balanced index fund in the future.

MOTION TO PLACE OAKMARK EQUITY FUND ON WATCH:	Mark Hovey
SECOND:	Julio Canizal

Approved (3-0)

D. Place BlackRock TIPS Fund on watch list.

Mr. Cottle stated he recommended BlackRock TIPS Fund be placed on watch at the last quarterly meeting. He directed the Board to page 54, Annualized Excess Performance chart. This fund has not been competitive with its benchmark over the entire time period, except for the 3-month time period.

MOTION TO PLACE BLACKROCK TIPS FUND ON WATCH:	Julio Canizal
SECOND:	Robert Davis

Approved (3-0)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

- Third Quarter Activity Report-Wells Fargo

Before Ms. Jensen began her third quarter activity report, she introduced Mr. Joe Ready. Mr. Ready informed the Board, Wells Fargo provided a five page summary regarding the Consumer Protection Bureau situation and the document has been made available to all clients. Wells Fargo has also made available their SOC 1 report prepared by KPMG. Mr. Ready informed the Board, their Sponsor Advisory Council held two telephone calls regarding how Wells Fargo was handling the situation to ensure Wells Fargo was addressing participant and plan sponsor concerns appropriately. Mr. Ready also extended an invitation to the Board to participate in the Sponsor Advisory Council. Ms. Jensen informed the Board the next annual meeting for the Sponsor Advisory council has been scheduled for March 8-10, 2017 in Charleston, South Carolina. All of the accommodations are provided by Wells Fargo except for the airfare. Mr. Hovey asked if the client has a seat on the Council or is it a specific person. Mr. Ready clarified that the client has a seat and the client can designate the person to attend. Mr. Ready also informed the Board the Council meets annually and subsets of the group meet ad hoc virtually. Ms. Jensen reminded the Board Wells Fargo has drafted a communication piece for City participants, to be distributed if requested. Mr. Ready shared with the Board the Sponsor Advisory Council subset recommended a fourth quarter statement insert. Mr. Hovey asked staff if there was an upcoming opportunity to discuss whether to send communication to participants. Ms. Montoya stated this topic can be discussed during the December 14, 2016 meeting.

Ms. Jensen began her presentation on page 2. She stated this has been the first time plan assets reached the one billion mark at quarter end; there has been significant plan growth. City of San Diego participants continue to increase mobile activity. Of the participants that access their accounts (on all three channels), participant activity was just under 90,000. This means participants are actively checking their information. Mr. Hovey asked Ms.

Jensen how City of San Diego participant activity compares to other clients. Ms. Jensen stated she can provide benchmark information for the next quarterly meeting. Mr. Ready reminded the Board, data from a few months ago, participant access through mobile devices exceeded desktop access. Mr. Hovey commented it is difficult to keep track of passwords. Mr. Ready informed the Board Wells Fargo is moving towards touch ID, facial recognition, and voice recognition. Wells Fargo hopes to make passwords extinct within the next three years. Ms. Jensen stated the Managed Income Fund continues to hold the lion's share of the assets. However, plan diversification continues on a positive trend. As a compliance update, Ms. Jensen informed the Board the QDIA notice was included with the third quarter statements. Ms. Jensen stated there are issues with the cash flow data on pages 36-39 and she will provide revised pages to staff to forward to the Trustees.

- Third Quarter Investment Report-Columbia Threadneedle

Ms. Holloran provided a general introduction for the new Board members. She stated the name of the organization is Ameriprise Financial. The organization provides financial services, is publicly traded and is a Fortune 300 company. The organization spun out of American Express in 2005. Ameriprise Trust Company is who the contract is with. The organization of the firm that manages the assets is Columbia Threadneedle. Mr. McKay has been with the organization 35 years and she for 16 years. Mr. McKay stated the Managed Income Fund (MIF) may be referred to as stable value fund. He continued to inform the Board the MIF is seeking to meet goals of its investors; safety of principal and a competitive return. They manage a high quality portfolio of bonds. The MIF invests in treasury, agency, agency mortgages, corporate bonds, and asset backed bonds. In addition to the bonds, they buy stable value contracts sold by insurance companies and banks. If the participant buys a bond, it goes down in value (because interest rates have risen) and now the participant wants to withdraw money from the fund, the insurance company or bank has made a commitment to make a payment into the fund to make the participant whole even though the value of bond has gone down. The participant can take out their book value, the amount they invested and accrued interest, even though the value has gone down. With that commitment in place, the accounting for MIF is such that Columbia Threadneedle can buy the bonds, accrue interest on them, and pass it through to investors but do not need to mark the bonds to market and provide steady principal. Mr. Cottle inquired about wrap fees. Mr. McKay stated in general wrap providers charge 20 to 25 basis points for the annual fee. Over time the costs have varied. His first wrap contract in 1994 the cost was 46 basis points. He has seen it as low as eight basis points.

Mr. McKay directed the Board to the wrap provider information on page 15 of the Columbia report. The average wrap fee is 22 basis points. They run the portfolio with a money market fund that they call a liquidity buffer. The money market fund is there to receive the daily contributions or make the daily benefits to the participants. The contract issuers have never needed to make a payment into the fund to make it whole. Essentially they pay the fee to get the steady accounting. He stated the current market value to book value ratio is 101.5 which means the value of the bond is greater than what has been accrued to participants. The current yield on the fund is 1.84%. The yield of the fund changes quarterly. The yield at the beginning of the year was 1.68%. Page 17 indicates there is a custom benchmark that has been created for the MIF. They manage the portfolio to build in defensiveness against interest rate fluctuation. Shorter duration periods to provide less interest rate risk.

Mr. Davis inquired about municipal (muni) bonds. Mr. McKay replied the MIF rarely use munis, only taxable munis. At this time they do not have any munis. Mr. McKay referred to performance data and how earnings are calculated on page 19-20 of the report. Mr.

McKay explained the rate reset calculation example. The market value is 1% above the book value. Instead of giving the whole 1% to the participant now, they divide it by the duration of the bonds. Thus the credit rate adjustment is 0.50%. The 0.50% is added to the annualized yield of 1.50% to get a net of 2%. Then subtract 0.15% in fees, the net credit rate is 1.85%. They are earning 1.5% on the bonds but because of the 1% gain, they are able to give a little bit higher yield to the participant. The formula is always amortizing back to 100% crediting to participants what the fund is earning, taking into account normal fluctuation over time. The gains and losses are passed through to the participant. The participant gets the earnings on a bond portfolio and the stability of principal because of no mark to market.

- Third Quarter Investment Report-Milliman

  Mr. Cottle began reviewing the third quarter Milliman report on page 1. Equities and emerging markets performed well for the quarter. Total assets at the beginning of the quarter was $976,009,719. The quarter ended with $1,008,928,150 in total assets. Mr. Hovey asked if assets reached one billion before. Ms. Jensen answered that assets have reached one billion before but have not reached the one billion mark at the end of the quarter. There were market value gains in all segments except for real estate. On page 7, Boston Trust remains on watch. He stated the expectation is Boston Trust will protect in a down market. Mr. Cottle proceeded to remind the Board the Investment Roadmap was created a few years ago and needs to be revisited. Mr. Hovey noticed the expense information listed on page 11 is different from page 8. Mr. Cottle confirmed page 8 contained the current expense ratios.

  Mr. Cottle directed the Trustees to the performance summary on pages 12-13. Vanguard Growth and Vanguard Value met their benchmarks. Wells Fargo BlackRock Equity Index trailed slightly. Principal Mid Cap, which is actively managed, outperformed its benchmark and has since the fund was added three years ago. Vanguard Mid Cap Index matched its benchmark. Boston Trust performed well three to five quarters ago, but it has not performed well in the last two quarters since the market is performing well. Invesco is a compliment to Dodge & Cox. Invesco underperformed its benchmark while Dodge & Cox outperformed its benchmark. Oakmark Equity performed quite well in the quarter but not in the other review periods. The performance of the three Vanguard Life Strategy funds were very similar to its benchmarks, maybe a few basis points behind. Milliman measures the MIF to a different benchmark than Columbia Threadneedles' benchmark. The MIF was a little behind its benchmark, but generally its competitive with its benchmark. BlackRock TIPS outperformed for the quarter. T. Rowe Price had a slight loss but outperformed its benchmark. Mr. Hovey stated SDCERS has done well in the past few years in real estate and private equity (non-publicly traded).

  Mr. Cottle informed the Trustees he had a regular meeting with Boston Trust. Boston Trust's team and their approach has not changed.

- Per the Boards request Mr. Cottle discussed the Investment Policy Statement (IPS). Mr. Cottle stated he made a few date changes. Based on discussion from previous meetings, he also included reference to white label funds on pages 1-2. Ms. Montoya requested direction from the Board if staff can place this as an action item for a future meeting to revise and accept. She also asked the Board if there are other changes they would like to recommend. The Trustees did not have recommended changes. Mr. Canizal requested to have the expense ratio information on page 12 updated to the current expenses. Mr. Hovey asked when the IPS was last approved. Ms. Montoya confirmed February 25, 2015 was the update. Ms. Montoya stated staff would like to propose clarifications in some of the sections that seem ambiguous, specifically the watch list. Staff will provide a draft with proposed language to the Board to review.

- Mr. Cottle summarized his November 9, 2016 memo regarding Milliman's Wells Fargo Follow-up Questionnaire (this memo is located before the Investment Policy in the Trustee binder). Mr. Cottle stated the CEO of the firm, John Stumpf, retired and was replaced with Timothy J. Sloan. He received clarification that Wells Fargo utilizes more than one liability insurance company.

  Mr. Cottle recommended the Board meet annually with Christine Martin, Fiduciary and Regulatory Consultant. Mr. Hovey asked if Ms. Martin is available. Mr. Ready replied Ms. Martin's primary responsibility is to answer and provide assistance with documentation requirements, amendments to plan, and guidance to Ms. Jensen on regulatory issues that may come up. He stated that Ms. Martin may not be able to speak to things beyond institutional retirement trust since her knowledge base is ERISA; not banking. Ms. Stadille clarified that Ms. Martin has assisted staff with plan document changes and occasionally day-to-day operations. Ms. Montoya stated Mr. Gersten informed the Board the City Attorney does not have the expertise to provide support and the Board may want to seek outside counsel. Ms. Montoya recommended if the Board would like to retain outside counsel, the Board may want to meet with Ms. Martin at that time. Mr. Cottle recommended the Board to join Wells Fargo's Sponsor Advisory Council. He also recommended to have a presentation on Wells Fargo's Regulatory Compliance Management Program.

  Mr. Cottle stated he has been given the opportunity to ask all of his questions. He does not have any more questions and he does not have any concerns. Mr. Canizal asked if the Board should be concerned. Mr. Cottle replied, from an investment and administrative perspective there are not issues from him. He is not able to speak from a legal perspective. Mr. Canizal asked Mr. Gersten for his comment. Mr. Gersten stated the City Attorney's Office does not have the expertise to evaluate Wells Fargo's banking activities. He further stated the Board has an ongoing fiduciary duty to watch and monitor the retirement plans. Mr. Gersten asked the Board if they felt they have been provided enough information to have comfort there are no issues. Mr. Gersten stated the Board has been taking the appropriate steps so far but suggested continued monitoring. As things come up, have ongoing conversation with Wells Fargo as well as take advantage of resources provided such as the Sponsor Advisory Council. Mr. Gersten stated from a legal perspective, Wells Fargo provided information in the last session that satisfied his legal concerns as far as legal separation of the assets. His advice to the Board is to continue with this process periodically. At the end of the day, the Trustees have to be satisfied with the information received.

  Mr. Hovey suggested the Board should participate in the Sponsor Advisory Council. Mr. Hovey requested staff to evaluate whether to meet with Ms. Martin or a presentation on the Regulatory Compliance Management Program. Staff should select one of the recommendations to present to the Board. Mr. Cottle recommended to meet with the parties annually. Mr. Hovey agreed the Board may want to revisit the frequency. Mr. Ready shared with the Trustees, the head of their regulatory and compliance services is an annual presenter at the Sponsor Advisory Council.

  Mr. Hovey asked who John Papadopulos reports to. Mr. Ready replied there are three main business groups: Community Banking, Wholesale Banking, and Wealth and Investment Management. IRT is part of Wealth and Investment Management. Mr. Ready reports to

Mr. Papadopulos, Mr. Papadopulos reports to David Carroll, Mr. Carroll reports to Tim Sloan, CEO.

Ms. Montoya stated staff spoke with accounting firm Macias Gini & O'Connell (MGO). MGO performs the audit on the Comprehensive Annual Financial Report for the City. One of the task items in their audit is to ensure the account transactions submitted from the City match Wells Fargo records. MGO has performed this audit for several years with no negative observations. Staff will provide the Trustees with MGOs summary, Wells Fargo's SSAE 16/SOC 1 reports, and Wells Fargo's participant communication. Questions regarding this item can be discussed at the December meeting.

- Ms. Stadille updated the Board regarding SDCERS as an investment option within the current investment line-up. She stated during the February meeting earlier this year, it was discussed there were very few other examples of this type of fund to evaluate and there was uncertainty in how to value this type of investment. This was originally a directive from the City's COO and CFO. After the COO and CFO were informed about the concerns, it was decided SDCERS as an investment fund is not a viable option at this time.

- Ms. Montoya asked the Board for clarification on how staff should schedule the investment roadmap strategy meeting. Mr. Canizal requested an educational session prior to the strategy meeting. Ms. Montoya stated staff will schedule a future education session prior to the investment roadmap strategy meeting. Mr. Hovey stated it should be an action item and it can be decided to take no action. Mr. Hovey requested to have the education session and strategy meeting to be combined. Ms. Smith asked for clarification to schedule one meeting or two separate meetings. Ms. Montoya stated two separate meetings. Mr. Hovey requested one meeting with action. Mr. Hovey requested the investment education to be included in the strategy meeting. Ms. Smith stated there have been on-going requests for overall general education. Mr. Hovey stated education and the investment roadmap strategy meeting should be combined into one meeting.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

4. PUBLIC COMMENT

None

The next meeting is scheduled for December 14, 2016.

Meeting adjourned at 3:24 p.m.

Backup documentation is available at Risk Management.