

**DEFINED CONTRIBUTION PLANS TRUSTEE
SPECIAL MEETING MINUTES
Wednesday, April 26, 2017**

The SPSP/401(k) Trustee Board of the City of San Diego held a special meeting in the SDCERS Boardroom. Location: 401 West A Street, 3rd Floor Boardroom, San Diego, California. The meeting was called to order at 3:07 p.m. by Tracy McCraner.

Trustees Present: Julio Canizal, Robert Davis, Gail Granewich, Mark Hovey, Tracy McCraner
Staff present: Tom Brady on behalf of Bill Gersten, Estella Montoya, Nancy Stadille, Gilda Smith
Presenters: Denise Jensen (Wells Fargo IRT)
Bill Cottle (Milliman)
Jeff Nipp (Milliman)

1. ACTION ITEMS

A. Dispense with the reading and approval of the minutes of February 22, 2017.

MOTION TO ACCEPT THE MINUTES OF FEBRUARY 22, 2017: Mark Hovey
SECOND: Robert Davis
Approved (4-0, Ms. Granewich abstained)

B. Dispense with the reading and approval of the minutes of March 27, 2017.

MOTION TO ACCEPT THE MINUTES OF MARCH 27, 2017: Gail Granewich
SECOND: Mark Hovey
Approved (5-0)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

- Mr. Cottle referred to page 3 of the March 27, 2017 minutes and indicated investment advice is crucial. Mr. Cottle asked about the status of investment advice being offered to participants. Ms. Smith confirmed information regarding Wells Fargo's Retirement Investment Advice will be presented at the May meeting.

Mr. Cottle informed the Board the investment road map was created four years ago. The road map identified several areas where there could be additional investment options. The road map is included in the Investment Policy Statement. Ms. Smith stated the most recent Investment Policy Statement was included with their meeting materials. Page 3 of the Milliman presentation lists potential new investment options. Pages 5 through 8 provide more detail about the new investment options.

Mr. Cottle wanted to provide the Board with more history of the Plans investment options and proceeded to page 11. When Milliman began its investment services for the City of San Diego, the Plans had five funds. The Managed Income Fund (MIF) is the only fund remaining of the original funds. Mr. Cottle stated the goal of the Board was to reduce the percentage allocated to the MIF. In 2000, three lifestyle funds were added to the fund line-up. These funds were actively managed and did not perform well compared to their benchmarks. These funds were replaced with Vanguard LifeStrategy Funds in 2005. Mr. Nipp clarified approximately 12%-13% of plan assets are in the Vanguard LifeStrategy funds and offer global exposure.

Two years after the initial lifestyle funds were added, Oakmark was added. Oakmark is actively managed and U.S. oriented. Page 15 displays the annualized excess performance for Oakmark. The yellow line is the cumulative excess annualized return above the benchmark. The trend in the line is not preferred.

Page 16-17 contrasted performance between the passive Vanguard funds and the active Oakmark fund. Oakmark has done well over the 10 year period but did not perform well in the other periods. Oakmark and Vanguard are basically balanced funds and are similar to target date funds (TDFs). Mr. Hovey asked which Vanguard fund is most similar to the Oakmark fund. Mr. Cottle replied the Vanguard Moderate fund. Mr. Hovey stated the Plans loosely have a passively managed balanced fund in the Vanguard Moderate fund as an alternative to the Oakmark fund. Ms. McCraner stated the Vanguard option is less expensive than the Oakmark fund. Mr. Cottle asked if the current investment structure should continue. Mr. Cottle shared Vanguard stated assets are flowing out of their LifeStrategy funds and moving into their TDFs. Ms. McCraner asked about Oakmark's percentage of Plan assets. Ms. Jensen replied Oakmark has 6% of the City's plan assets as of March 31, 2017.

Mr. Cottle recommended the Board be familiar with TDFs and its evolution over the past 15 years. Mr. Cottle thinks TDFs may be a better way for participants to manage their assets. TDFs may address something that other funds do not; what happens to the funds after retirement. A static asset mix that is the same at retirement through retirement is not the proper structure. Mr. Nipp shared that the idea of income during retirement is getting a lot of attention in legislation. There has been legislation introduced that would require plan sponsors to provide participants with information of their retirement income stream. Mr. Cottle stated he would like to see participants' total asset pool to be represented somewhere they can get investment advice on that pool.

Information about Vanguard's TDFs is indicated on page 20. Vanguard is the largest provider of TDFs. Mr. Cottle pointed out the glide path on page 21; seven years beyond retirement has a static asset mix. If participants spend a third of their life in retirement, a static asset mix after retirement will not meet their needs. Mr. Nipp confirmed most TDFs are set-up similarly. Mr. Nipp informed the Board if Vanguard TDFs replaced their LifeStrategy funds, there would be a fee reduction. Currently LifeStrategy fees range from 13-15 basis points. The fee for their TDFs is 10 basis points.

Mr. Hovey asked for clarification. He stated someone in their early 20's picked a 2050 fund, the investments now are heavy in equity. The participant would be in the same fund the entire time. Behind the scene, Vanguard is changing the asset allocation over time up until retirement, but does not carry through retirement. Mr. Nipp stated he has a client that has a 2010 fund. That fund is closing and moving to a retirement income fund. It is a stable value fund; it does not care if someone is 65, 75, or 95. Mr. Hovey stated there was a market peak 2009-2014. He asked if TDFs adjusted for market trends or does it focus on allocation. Mr. Nipp replied some providers do rebalance.

Mr. Cottle proceeded to page 24. Morningstar and UBS have joined together to offer lifetime index funds; it is passive management. They take a picture of participant assets. It is the combination of human capital; ability for a person to earn over their lifetime and their existing financial capital. Page 26 indicates the information that would be required from the current record keeper. This information is needed to pinpoint each participant on a glide path. They would develop three paths. Mr. Cottle asked Ms. Jensen if the requested information is available. Ms. Jensen stated all of the requested information is not available. They do not have pension information, outside asset total or outside investment style. Mr. Cottle confirmed this fund is a mixture of a TDF and target risk allocation. Mr. Nipp stated

the funds would be customized for the City of San Diego employee population, not one individual. Mr. Hovey stated it may be difficult to place City employees into three lifetime glide paths since there are employees who are eligible for pension, employees who are not eligible for pension, and employees in between. Mr. Cottle shared these funds have been in place for three or four years. Mr. Cottle stated relative to Vanguard, this approach is a little more complicated, probably a little bit better. However, if the participant is spending 35 years in retirement, this strategy does not address that.

Mr. Cottle proceeded to inform the Board about State Street and directed the Board to page 36. The graph displays an example of an individual that would accumulate assets until retirement age is reached (age 65 in example) and through retirement. As the individual moves towards the end, funds are allocated in income oriented investments. Past retirement age, assets decline but maintain an annuity which would guarantee income every year after age 80. Mr. Nipp summarized the participant would accumulate assets until 50s early 60s, setting aside money that will be used to buy a deferred annuity. When the participant retires the deferred annuity is purchased, this is not automatic. Buying the annuity deferred gets it cheaper and therefore have more money to put to work in early retirement to keep earning between ages 65-80. This is designed to prevent outliving the participants' money. Ms. McCraner asked for clarification on the annuity. Mr. Nipp replied the annuity would be bought at age 65 but doesn't kick in until 80; that is how to get it cheap and group buying power. Mr. Hovey asked about the pricing structure. Mr. Nipp replied it would depend on the marketplace at that time. With low interest rates annuities are more expensive. As interest rates get higher the annuities get cheaper. Mr. Hovey advised annuity markets for individuals are extremely expensive; paying 300 basis points every year to buy an annuity. Ms. Jensen asked how this product differs from Wells Fargo's Qualified Longevity Annuity Contract (QLAC) option. Mr. Nipp confirmed State Street's product also has the same IRS limitations of the lesser of 25% of the participant's balance \$125,000. State Street is a combination of TDF with QLAC. Ms. Jensen advised Wells Fargo has the option to offer a QLAC from MetLife to participants. It would be separate from the TDFs. Mr. Cottle stated for those who need investment help, this approach is reasonable and the Trustees should explore this product. Mr. Nipp stated this product is new. Ms. McCraner asked if there are current participants in the fund. Mr. Nipp replied two months ago there were not.

Mr. Cottle stated getting investment advice to participants is helpful to make better decisions. Mr. Nipp stated the theme is making it easier for people to invest the way they should. Still 40% of assets in the MIF. Earning 1.5%-2% in the MIF is not going to fund retirement. The whole road map is what can be done to make it easier for people to invest the way they should; get them more comfortable, better educated, get the right investment options in the line-up all the things tie together.

Mr. Cottle reminded the Board white label funds were not discussed. There are 15 investment options at this point; that is a lot not including the possible addition of TDFs. They have deferred comp clients that have pooled different portfolios into one fund, white labeling. The client tells the record keeper to combine certain portfolios and offer as an investment option. For example four small cap investment options are combined into one small cap white label fund. Ms. McCraner asked why there are so many funds in TDFs. Mr. Nipp clarified TDFs are in five year increments. The idea is to simplify the selection process for the participant. Mr. Cottle stated education is crucial about a retirement date. It is not when the participant stops working, it is when the income is needed. It may be the same, it may not be.

Mr. Cottle recommended the Board to meet with these three fund managers to learn more about their TDF products. Ms. McCraner agreed with the recommendation. Ms. Montoya confirmed this recommendation will be an action item at the next meeting.

Mr. Hovey asked Milliman if white label funds were typically composed of index funds, active managers or a blend of both. Mr. Nipp replied it could be anything. To do it there is a little bit of an extra fee which would drive towards passive management to keep overall fees low. Mr. Cottle stated if the belief is in active management, it is possible. Ms. Jensen advised from a recordkeeping perspective the beauty of it is the plan sponsor has control. She has a client where all funds offered are white label except for their stable fund offering. They have a large cap, mid cap, small cap, bond, and an international fund. Each one of the funds is made up of a certain allocation of two to four different funds. They also offer a sleeve of 10 TDFs. The client and their investment professional determine the glide path. They provide direction to Wells Fargo annually to change the glide path and Wells Fargo rebalances the portfolios quarterly. From a recordkeeping perspective, Wells Fargo strikes the net asset value (NAV) of that pooled unitized fund so it is a standalone fund on the system. The curb appeal for the participant is that it is one fund. The plan sponsor has flexibility to name the fund i.e., City of San Diego 2060 fund, 2050 fund or City of San Diego small cap fund. The plan sponsor would have the flexibility to make the decisions on the allocations. The downside is the participant cannot track the fund in the newspaper. It would be more work on the Board. The Board would be involved in creating the asset allocation and providing direction on when to change the asset allocation. Wells Fargo's typical fee for unitizing a fund is about \$3,000 a year per fund. The fee can be paid by the plan sponsor and/or participant, built into the daily unit value or negotiated through their pricing.

Mr. Hovey asked for Milliman's priority of the road map concerns. Mr. Cottle confirmed the priority is for the Board to get educated on the recommended fund managers, determine how the Board would like to address these fund options, then address the other road map concerns.

Mr. Cottle suggested meeting with all three fund managers at the same time. The Board was in agreement with the recommendation and would like to keep the momentum moving. Mr. Cottle recommended the presentation duration should be 40 minutes with Q&A included. Ms. Stadille stated generally Milliman would issue a questionnaire to the fund managers and provide a summary prior to the Board meeting with the fund managers. She asked if Milliman was planning to send a questionnaire. Mr. Cottle confirmed they will not send a questionnaire because the meetings are to be educational.

Ms. Granewich, Ms. McCraner, and Mr. Hovey will not be able to attend the next quarterly meeting scheduled for May 24, 2017. Ms. Montoya confirmed the next quarterly meeting will be rescheduled and a special meeting will be scheduled for the fund manager presentations.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

4. PUBLIC COMMENT

None

Meeting adjourned at 4:23 p.m.

Backup documentation is available at Risk Management.