

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES
Wednesday, August 23, 2017

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting in the Committee Room. Location: 202 C Street, 12th Floor, San Diego, California. The meeting was called to order at 1:32 p.m. by Tracy McCraner.

Trustees Present: Julio Canizal, Robert Davis, Gail Granewich, Mark Hovey, Tracy McCraner

Staff present: Bill Gersten, Tom Brady, Estella Montoya, Quennelle Allen, Gilda Smith

Presenters: Paul Jacobson (Wells Fargo IRT)
Denise Jensen (Wells Fargo IRT)
Jeff Nipp (Milliman)
Absent-Bill Cottle (Milliman)

1. ACTION ITEMS

- A. Dispense with the reading and approval of the minutes of July 24, 2017.

MOTION TO ACCEPT THE MINUTES OF July 24, 2017:

Julio Canizal

SECOND:

Gail Granewich

Approved (5-0)

- B. Place T. Rowe Price Real Estate Fund on watch list.

Mr. Nipp referred to Milliman's August 22, 2017 memo. He stated Milliman's concern regarding T. Rowe Price's performance was first indicated during the June 30, 2017 meeting. The fund has been underperforming in the last year and a half, two years. The investment team and investment process has not changed. However, they have been lagging their benchmark. Primarily driven by three decisions: under weighted in healthcare and information technology, and over weighted in shopping centers and regional malls. They believe that data centers and healthcare companies are located in low barrier-to-entry locations that lack the high quality real estate exposure that T. Rowe Price desires. Mr. Nipp stated placing them on watch is appropriate. Ms. McCraner stated retail is taking a hard hit. She advised the second highest revenue for the City is sales tax. The City came in under budget last year due to the decline of retail shopping. Mr. Nipp confirmed real estate is focused on a specific local area.

MOTION TO PLACE T. ROWE PRICE ON THE WATCH LIST:

Gail Granewich

SECOND:

Julio Canizal

Approved (5-0)

- C. Determine whether to continue with current risk-based funds or implement target date funds.

Mr. Nipp summarized that a few target date fund (TDF) managers provided education about TDFs during the July 24, 2017 meeting. He asked if the Board was interested in moving forward on evaluating TDF providers. Upon instruction from the Board, Milliman would evaluate candidates in the marketplace, identify potential fund managers, send the fund managers a questionnaire, evaluate the responses, and present the Board with a summary and a recommendation of candidates to interview.

Ms. McCraner asked would the addition of TDFs cause the removal of the current risk based funds. Mr. Nipp replied plan sponsors would not have both types of funds. Mr. Canizal asked for clarification. Mr. Nipp replied the three risk based funds would be replaced with a series of TDFs. TDFs are typically in five year increments (i.e. 2020 fund, 2025 fund...2060 fund). Mr. Hovey asked about their role versus Milliman's role. Mr. Nipp replied Milliman would perform the research on TDFs and provide a summary. Mr. Canizal asked what criteria Milliman will use. Mr. Nipp replied the criteria will include the firm's philosophy on how they build the funds, is the philosophy applied consistently, the components (active or passive managers), the size of the business, growth, and on-going research to improve the fund.

Mr. Hovey asked about the implementation schedule. Ms. Montoya replied the action for today is to give Milliman the authorization to research TDFs to present to the Board for further evaluation. Mr. Davis asked once a fund has been selected, what is the education process for participants. Ms. Jensen replied if the fund selected is already traded on their platform, there will be 60-90 days to the effective date. This period is used to provide appropriate notification to participants, development, approval and distribution of participant communications. She further clarified if the selected fund is not on their platform, collective trust funds, or funds separately managed specifically for the City is selected, Wells Fargo will need to engage in a trading agreement with the fund family. The City will need to engage in a participating agreement with the fund family, which will result in additional time, then proceed to the 60-90 day schedule. Mr. Nipp confirmed Milliman will verify if the fund is on Wells Fargo's current platform. Ms. Jensen stated education sessions focused on TDFs can be provided. She stated the Board will need to make the decision to have the TDFs as the default fund. Wells Fargo will send notification to all participants currently in the risk based funds and new hires informing them the appropriate default TDF is based on their date of birth.

Ms. Montoya referred the Board to the proposed implementation schedule for TDFs. The schedule displays the required steps in the process, with consideration towards minimalizing the need for additional meetings. The current schedule includes one special meeting. Staff can schedule additional meetings upon request of the Board. Staff recommended the start of a quarter to implement a new fund. Mr. Hovey stated he does not need to meet on November 29th to approve Milliman to schedule fund manager presentations. Ms. McCraner agreed. Mr. Nipp clarified the November 29th meeting is the next scheduled quarterly meeting. He stated it would not be practical to include the fund manager presentations during a quarterly meeting and a special meeting should be scheduled. Ms. Montoya clarified the Board will evaluate and select the fund manager at the special meeting in December.

MOTION TO APPROVE IMPLEMENTATION OF RETIREMENT ADVICE:
SECOND:
Approved (5-0)

Gail Granewich
Mark Hovey

2. STAFF REPORTS AND INFORMATIONAL ITEMS

- Wells Fargo Update & Second Quarter Activity Report

Mr. Jacobson began the presentation by introducing himself. He leads the relationship management team for their largest and most complex clients. He asked the Board if they had any follow-up questions or concerns regarding the Wells Fargo settlement. The Board did not have any questions.

Mr. Jacobson advised the DOL fiduciary rule went into effect in June. They reviewed all participant communications and website information to ensure they align with the new rule. There is not much change from a participant standpoint. The rule draws a line between education and advice. Wells Fargo provides education. DOL states education is fine and long as it does not lead to a recommendation. Ms. McCraner asked for examples of the change. Mr. Jacobson replied it clarified the information provided to participants. Wells Fargo educates participants to diversify. Now, Wells Fargo can provide examples of diversification with fund names. This is considered education, not advice. He also stated information provided by the service representatives on distribution options is very specific without recommendations.

Mr. Jacobson referred to page three of their presentation and provided an update on their Sponsor Advisory Council. He advised the industry and Wells Fargo are moving from saving to what happens during retirement. They have done a good job on saving. Now Wells Fargo has built income tools for participants to start planning and thinking about income in retirement. He proceeded to the Advice Continuum Comparison on page four. The City will implement Retirement Investment Advice. The next option is TDFs. The third option is Wells Fargo's Target My Retirement, a blend between a TDF and managed account. Based on information provided by the plan sponsor and participant, Morningstar will allocate the dollars for the participant. He clarified the participant is not choosing a target date 2050 fund; the assets are placed in one account (fund) and Morningstar performs the allocation. Mr. Jacobson stated upon request Morningstar can provide a presentation on how they allocate. There are three different models: (1) Wells Fargo picks the funds (active), (2) Wells Fargo picks the funds (index funds), and (3) the City's current fund line up. Ms. McCraner asked if this is different from the UBS and Morningstar TDF. Mr. Nipp confirmed the Wells Fargo product is different from the UBS and Morningstar TDF. Mr. Hovey asked if there are government plans in Target My Retirement. Mr. Jacobson replied he will follow-up with the requested information. Currently, there are about 400 clients (private sector) using it. Lastly, Financial Engines provides participant education and access to advisors.

Mr. Jacobson reminded the Board Wells Fargo has partnered with MetLife to offer participants access to a qualifying longevity annuity contract (QLAC). It is not built into a TDF and is stand alone. MetLife is currently the only QLAC provider.

Ms. Jensen provided a brief overview on page six of the Wells Fargo presentation. She advised there was positive plan growth during the quarter. As of June 30, 2017, assets totaled a little over \$1.09 billion. Participant loans have decreased. Plan to plan transfers continue to decline. There was high user activity during second quarter. Typically high activity related to income tax filing deadline. Mobile activity continues to increase. All plans have an increase in the average account balance. Headcount increased in all plans except the SPSP. Plan diversification continues to trending up. Ms. Jensen stated it will be interesting to see if the implementation of Retirement Investment Advice impacts diversification. Ms. Jensen advised Morningstar is in the process of enhancing the Advice tool. Ms. Jensen recommended implementing the Advice tool after the enhancements have been completed. Participants will have a consistent experience.

Ms. Jensen proceeded to direct the Board to pages 44-45. Ms. Jensen stated she started tracking distributions when the Plans were changed to allow partial distributions. She is seeing a trend in participants using partial distributions and a decrease in full distributions. Mr. Canizal requested to see total expenses paid by plan and average expense per participant. Ms. Jensen directed Mr. Canizal to cash flow summaries

beginning on page 40. The cash flow summary indicates fees (recordkeeping) paid by plan. Mr. Canizal requested to see average fee paid by participant and the information to be provided at least annually. Ms. Jensen replied the information will be included in the annual fee review during the first quarter review (May). Mr. Canizal clarified he would like to see the fund expenses paid by participants, before they are included in earnings/loss. Mr. Jacobson further clarified to include the average expense ratio on page seven and add in the administrative fee. Mr. Canizal requested to see the average participant fee for period ending June 30, 2017 at the next quarterly meeting. Ms. Montoya advised the quarterly reports are customizable upon the Board's request. If there is additional information the Board would like to see, send staff an email to request. Mr. Hovey stated the cash flow summary use to show quarter and calendar year to date data; the new format does not include year to date data. He requested a year-end recap, calendar or fiscal year. Ms. Jensen will include for the fourth quarter to reflect calendar year to date data.

- Second Quarter Investment Report-Milliman

Mr. Nipp reminded the Board the previous quarterly meeting was held late. During that meeting, prior to the first quarter review, Milliman provided an update on market conditions as of late June. The second quarter was strong in both equities and fixed income. Mr. Nipp stated it is interesting to note there has been a reversal from what happened last year. Equity has been growth as opposed to value and it has been a large cap as opposed to small cap market. He recently read an article that stated small caps are back to where they started at the election last year. They ran way up on optimism and now they have run all the way back down.

Mr. Nipp reviewed change in assets on page five. The second quarter had \$24 million in investment gain and \$2.7 million in contributions. Plan assets, excluding loans, is up \$26.7 million. There was modest change to asset allocations; the MIF continues to decline. There have been withdrawals out of T. Rowe price. Mr. Nipp proceed to review the performance summary on pages 12-13. The index funds are meeting their benchmark. The Principal Mid Cap fund is doing very well. Milliman just scheduled a meeting with Principal in October. Boston Trust did not do well in the quarter, but performing well in the two year period and continues to be on watch.

- Mr. Nipp summarized for the Board, Invesco has been in the fund line up for about two and a half years. Since inception they have underperformed, this year they have underperformed by a couple percent. Invesco uses earnings, quality, and valuation (EQV). Mr. Nipp stated quality and valuation is holding them back; Invesco has little or no exposure to large technology companies that have had a strong impact on returns in the Growth Index. In this type of market, it is expected for this type of fund to underperform. He stated Invesco does not need to be placed on the watch list.

- Trustee Education

Staff's understanding from prior meetings is the Board would like to establish an education policy. Ms. Montoya presented the draft fiduciary education policy to the Board. Ms. Montoya also referred to the trustee education schedule. The schedule reflects the topics of education that have already been provided. Ms. Montoya proposed to create plans customized to the individual trustee. The appointed Board members already have an education requirement within their position. Board members voted in may not possess education. Annually, staff would provide available education options to Board members. Ms. Montoya encouraged the Board to provide feedback about the fiduciary education

policy and the education schedule. Board members can email Ms. Montoya their comments.

Mr. Nipp informed the Board Milliman's next Investment Education Conference will be March 28-30, 2017 and will be held in Miami.

Ms. Montoya advised the Board an alternate meeting location was selected due to available security in the building and cost.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

4. PUBLIC COMMENT

None

The next meeting is scheduled for November 29, 2017.

Meeting adjourned at 2:38 p.m.

Backup documentation is available at Risk Management.