DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES
Wednesday, November 29, 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 Estella Montoya.

Trustees Present:	Julio Canizal (arrived at 1:53), Robert Davis, Gail Granewich, Mark Hovey
Staff present:	Tom Brady, Estella Montoya, Quennelle Allen
Presenters:	Denise Jensen (Wells Fargo IRT) Jonathan Scharmer (Wells Fargo IRT) Erin Cowell (Wells Fargo IRT) Jeff Nipp (Milliman) Bill Cottle (Milliman)

1. ACTION ITEMS

A. Select a Chairperson Pro-Tem for today's meeting
Ms. Montoya called for nominations. Mr. Hovey nominated Ms. Granewich. Approved (2-0), Ms. Granewich obtained.

B. Dispense with the reading and approval of the minutes of August 23, 2017.

MOTION TO ACCEPT THE MINUTES OF August 23, 2017:	Mark Hovey
SECOND:	Robert Davis
Approved (3-0)	

C. Evaluate Milliman results for Target Date Fund Managers and consider recommendations for and approve scheduling of presentations — Bill Cottle, Jeff Nipp

Mr. Cottle advised this presentation regarding the Target Date Fund Managers was pushed to the end of the meeting. He explained he felt it was inappropriate to have Wells Fargo in attendance during his presentation because they are being considered as one of the firms. Ms. Montoya advised that if the Board has any questions regarding the schedule or how any transition will occur Wells Fargo IRT, Denise Jensen, will be waiting to be called back in. Mr. Cottle discussed page 1 of the Target Date Fund Semi-Finalist Report stating that there are approximately 45 firms that offer target date funds. He confirmed they evaluated all of them. Mr. Cottle stated that they narrowed that list to 12, including CalPERS. Mr. Cottle and Mr. Nipp noted that CalPERS declined to respond. Mr. Cottle stated they sent out a comprehensive questionnaire to 12 firms and the summary of the information provided by the firms is on page 2 of the report. He explained that five firms were removed following the analysis of the responses and continued the review on the remaining seven. Mr. Cottle stated that those five eliminated firms were removed for various reasons (high fees, declined to respond, or had low product asset levels). Mr. Cottle discussed the table on page 3; he noted that they categorized five of the seven semifinalist firms as passively managed, and two firms were categorized as actively managed. Mr. Cottle stated that they analyzed performance for the last quarter year, 1 year, 3 years, and 5 years and provided the risk statistics associated with 1 year, 3 years, and 5 years. Mr. Cottle indicated that J.P. Morgan and Capital Group are actively managed, and charge higher fees but have higher returns. Mr. Cottle noted that Vanguard and BlackRock have strong passive results. Mr. Cottle recommends that the Board consider interviewing BlackRock and Vanguard primarily as a passive focus. Mr. Cottle advised that for actively managed funds, they recommend interviewing Capital Group and J.P. Morgan. Mr. Cottle directed the Board to page 25 and explained that they are not recommending Wells Fargo for consideration. He indicated that Wells Fargo's role as record keeper was not a factor. Mr. Cottle discussed the primary factors in the determination to exclude Wells Fargo from being a recommended finalist. First, the firm's assets lost more than gained from 2012 through 2015. Mr. Cottle explained that they would want the reverse of that. The mutual fund vehicle also experienced declining assets from 2015 through the third quarter of 2017. In addition, Mr. Cottle stated that the majority of the target date fund members have been with the firm for less than 1 year. He advised that he did not feel comfortable recommending a fund with managers that have not worked together for a long period of time. Mr. Hovey agreed with Mr. Cottle's findings.

Mr. Nipp referenced the presentations given by State Street, UBS, and Vanguard during the July 24, 2017 meeting. He recalled that UBS and State Street have new approaches. UBS has the annuity built in and they are the only firm that offers this. He advised that these new approaches have a lot of promise but they are new so they do not have a long track record. Mr. Cottle advised that their recommendation is to bring in the firms they discussed to present to the Board at the special meeting to be held in December. Mr. Hovey requested Mr. Nipp and Mr. Cottle comment on the differences in the two active firms. Mr. Cottle and Mr. Nipp advised that there are minimal differences between the two firms. Mr. Nipp believes they are both notable because they build the glide paths significantly through retirement. Mr. Nipp stated they go to 30 to 35 years out past retirement, which is about the longest glide path you will find. Mr. Nipp explained that it demonstrates that they are clearly thinking about getting people to retirement but also thinking about what happens after retirement. Mr. Cottle proceeded to explain that Capital Group is a mutual fund and J.P. Morgan is a commingled fund. He noted that the commingled fund may present an issue for the record keeper. Mr. Cottle explained the mutual fund would be easier and quicker to allocate assets than the commingled fund. The focus of years managed through retirement are pretty similar, which Mr. Cottle believes are positive factors. The fees were lower for Capital Group and higher for J.P. Morgan and in terms of performance J.P Morgan had a stronger performance. Mr. Nipp stated that J.P. Morgan has a portfolio that includes direct real estate, which is a unique aspect of their target date fund. Capital Group is unique because they have a glide path within a glide path, which means they change the make-up of the portfolio and younger participants have more aggressive investments than older participants. They have a subset of glide path that changes the equity along the way. Mr. Hovey advised the family of funds Capital Group uses are the American Funds, which have been considered gold star products for decades. Mr. Nipp advised that they make tactical changes due to the market, and these changes have helped with performance.

Mr. Cottle recommended proceeding with the special meeting scheduled in December with presentations from Capital Group, Vanguard, J.P. Morgan, and BlackRock. Following the Board's decision, they are hoping to have the implementation done by the first quarter of 2018. It was noted that it may take longer if the Board decides to move forward with a firm that is not currently traded on the Wells Fargo recordkeeping platform and/or if the chosen firm fund offering is a collective trust or separately managed fund. Mr. Canizal inquired if they needed to select a firm after the meeting in December. Mr. Nipp advised the goal is to pick a firm at the December special meeting.

MOTION TO APPROVE AND SCHEDULE PRESENTATIONS WITH CAPITAL GROUP, J.P.MORGAN, VANGUARD, AND BLACKROCK AT DECEMBER SPECIAL MEETING: Gail Granewich
SECOND: Julio Canizal
Approved (4-0)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

- Wells Fargo Education Update/Wells Fargo Third Quarter Activity Report

Ms. Jensen began by advising the Board that she, Mr. Scharmer, and Ms. Cowell will be combining their presentations together to avoid redundancy. Ms. Jensen proceeded to inform the Board that Mr. Scharmer will be leaving the team and pursing a new position within Wells Fargo IRT. She presented Ms. Cowell as Mr. Scharmer's replacement. Mr. Scharmer thanked the Board and expressed that it was an honor working on the City of San Diego account. Ms. Cowell introduced herself and informed the Board that she has worked with Wells Fargo IRT for twelve years, with six years in the Participant Experience Consultant role.

Ms. Jensen continued to page 2 of the Wells Fargo informational deck. Ms. Jensen advised there is positive plan growth, with approximately1.13 billion dollars in assets across all four plans. She advised outstanding loans and loan amounts continue to decline. Ms. Jensen stated that plan to plan transfers are currently $2 million less than last year, at 3.6 million through September 30, 2017. Ms. Jensen stated that during the last trustee meeting, Mr. Canizal requested she incorporate the annual recordkeeping fee with the annual expense ratio. Ms. Jensen discussed page 3 of the Wells Fargo informational deck and advised she incorporated the annual recordkeeping fee in with the annual expense ratio per Mr. Canizal's request. She noted that she added two columns one is the estimated annual expense plus the recordkeeping fee and the other is the expense ratio plus recordkeeping fee of 0.11%. Ms. Jensen advised they will continue to provide this information on an annual basis per Mr. Canizal's request.

Ms. Jensen had additional news for the Board, stating that Wells Fargo IRT negotiated lower fees for BlackRock. She advised the City does offer the Wells Fargo BlackRock 500 index fund. Effective December 1, 2017, the fund expense is being reduced by five basis points. Ms. Jensen advised that the information regarding the reduction in fees will be sent to the plan sponsors and participants. She noted it was a positive message that will be sent through the website to the participants. She advised the plan sponsors will be notified via written communication on or around December 11, 2017.

Ms. Jensen informed the Board of the Sponsor Advisory Council. She advised save the dates will be sent to Quennelle Allen. Ms. Allen will be able to coordinate with the Board about attendance. Ms. Jensen advised the Sponsor Advisory Council is scheduled for March and will be held in Nashville, Tennessee. Ms. Jensen inquired if the Board had any inquires. Ms. Granewich advised the Board had no questions.

Mr. Scharmer turned the Boards focus to section 4, page 3; he stated he has presented this slide every year with only minor updates. Mr. Scharmer advised he feels it is important to re-address Wells Fargo IRT's philosophy and approach to education. He went over the far left quadrant on page 3, personalization, pro-activeness, and relevancy. Mr. Scharmer explained that they utilize everything they know about each employee to drive the appropriate communication at the appropriate time to ultimately provide a higher take action rate. Mr. Scharmer moved on to the middle quadrant. He explained that conversations with City employees cannot only be about retirement because they would lose the employee's attention. He explained that not everyone is focused on retirement and a lot of employees might be concerned about budgeting or saving. So, they provide a holistic approach to education and knowing that whatever is relevant for each person needs to have a broader view because they are not only focused on retirement education. Mr. Scharmer went over the last quadrant and advised on the power of conversation. He explained that the uniqueness of the call center is that they are not rating the customer service representatives on the call length. The customer service representatives are able to have a conversation with the participants to help get past the transaction aspect of most calls and to get into more of a guidance feature. They are utilizing the retirement income estimator and helping participants navigate this tool. Mr. Scharmer continued to explain that the one-on-one and group sessions with David Applestein also help teach participants about planning for retirement. Mr. Scharmer advised that the participants with a plan are more likely to save more just by having a target in their path.

Mr. Scharmer continued to page 4, he advised they continue to invest heavily in the participant experience. He reported that they continue to have surveys, focus groups, and retirement studies to help understand the challenges and needs for each participant. He noted that the focus in the industry has been in the accumulation stage, how to accumulate enough to retire successfully. There is not a strong presence in the decumulation portion of participant conversation. Mr. Scharmer advised that we are helping participants get to the retirement date, and the participants are without the resources on how to translate the retirement funds into a paycheck. Mr. Scharmer reported that the implementation of the partial distribution option is a tool that helps participants in retirement. Mr. Scharmer described the income generation tool that allows the participants to input where they think their money will be spent in retirement and helps provide a path. He continued to explain that these tools are broadening further and they are currently discussing how to promote these tools to participants that are nearing retirement.

Mr. Scharmer continued to page 5, he disclosed that the electronic delivery preferences declined over December 31, 2016 to September 30, 2017. He explained that City employees should not use their City e-mail addresses to receive Wells Fargo IRT communications. They have communicated to employees to stop utilizing City e-mail addresses for Wells Fargo IRT communications, which caused a decline. Mr. Scharmer advised they continue to focus on getting more participation into the 401(k) plan. He explained that there is a significant jump year after year in the 401(k) participation rate as of September 30, 2017, with a participation rate was 47.4%. He explained that they will continue to work on increasing the participation even more for 2018. The beneficiary designations have remained relatively the same for the last 3 years. Mr. Scharmer advised the information they have on beneficiary designation does not include self-services SAP data. He explained that next year they would like to work on getting the data from SAP Self-Services to truly find out who does not have a beneficiary designation and target those individuals. Mr. Scharmer revealed that there is positive trending on all of the plans in diversification index. Mr. Scharmer continued on section 3, page 31, noting that the majority of logins are taking place on a desktop. He stated that more than half of the unique participant logins are from a tablet or smartphone. He stated that the retirement income estimator will be available in the app, which is expected to increase the usage. Mr. Scharmer moved on to section 4, page 6 and noted that 209 City employees attended the webinars from January through October, which is a significant increase from 2016 where only 107 employees attended. Mr. Scharmer stated the beneficiary campaign continues and about 9,000 communications were sent out. Mr. Scharmer advised that the one-on-one meetings employees had with David Applestein were successful. He explained that Mr. Applestein met with 270 City employees face-to-face. He explained that 67% of the participants Mr. Applestein met with were on track and 30% of the participants took action to be more diversified.

Ms. Cowell then discussed the 2018 education options. She recommended panel discussions as a novel method to assist in participant education. She stated the panel discussions are to offer something new and different to the participants. Ms. Cowell explained that panel discussions offer participants the opportunity to listen to peers talk about their stories in getting on the path to saving successfully. These discussions are about having meaningful conversations over real financial concerns and getting questions answered that are specific to different groups. There have been positive results in getting participants engaged in retirement planning from use of panel discussions. Ms. Cowell believes the City participants will have a positive experience and she would like to move forward in planning a panel for the 2018 year. Ms. Cowell continued to advise that they would work with the Board and Staff to select the appropriate panel members to ensure the panel discussions are successful. Mr. Applestein would be posing questions to the panelists to facilitate the sharing of their perspectives. Mr. Scharmer advised it is a challenge to keep retirement education fresh and new and believes the panel would bring a positive change. Ms. Jensen suggested partnering with SDCERS in the panel discussions for pre-retirees. Mr. Scharmer advised that studies show that people trust their peers even more than a financial advisor. Ms. Cowell moved on to page 9, and advised that the participants who are active online have a 36% higher plan balance than those who are not active online.

Ms. Cowell then discussed their 2018 goals, with the first goal being to increase participation in the 401(k) plan. They will target the participants that are not saving in the 401(k) and explain that it is a tool to help save towards retirement, by sending a direct mailer. Ms. Cowell advised that the mailer will be sent in July, after employees receive a salary increase. The goal is to increase participation in the 401(k) by 2% for 2018. The second goal is to help participants create a plan for retirement. Ms. Cowell noted that people who have a plan are more likely to meet retirement savings goals. They will continue to promote this through communications. Ms. Cowell stated that the last goal is to ensure they are addressing all of the different life stages and the unique concerns for the early saver, mid-career saver, pre-retiree, and retiree through targeted webinars, panel discussions, and virtual events. Ms. Cowell advised the next goal, which was implementing the Retirement Investment Advice tool, was completed. Wells Fargo worked with City staff to create a mailer that was sent out to everyone with an account balance. The mailer promoted the Retirement Investment Advice feature that was added to the plan as a tool to create a personalized savings plan. Ms. Cowell communicated that another goal is to promote the employer match in the SPSP plan. She revealed that many participants are not taking advantage of the voluntary component that is matched by the City. Ms. Cowell reported that they created a mailer and it is ready to send, but will wait to send it out until the middle to end of January, due to the numerous communications that are sent out during the holidays. Mr. Canizal inquired if the decline in the participation of the SPSP was due to the contributions into the voluntary plan being post-tax. Ms. Jensen and Mr. Scharmer stated that may be a factor of the decline in the participation. Ms. Cowell advised that if the Board moves forward with Target Date Funds, they would create communications to inform participants as well as promote those changes with dashboard messages on the website and education meetings with Mr. Applestein. Ms. Cowell stated that their major educational focus this year is on the different life stages.

- <u>Milliman Third Quarter Investment Report</u>

- Principal Mid Cap
- Columbia Threadneedle

Mr. Cottle began with the Memorandum dated September 22, 2017 regarding a conference call with Columbia Threadneedle. Jim Cielinski the Global Head of Fixed Income has retired from his position with Columbia Threadneedle. Colin Lundgren has been named his replacement. Mr. Cottle believes this change is fine, stating that Mr. Lundgren is an experienced and knowledgeable fixed income specialist. However, Mr. Cottle wanted to bring it to the Board's attention because Columbia Threadneedle manages a large part of the City funds. Mr. Cottle continued to the Memorandum dated October 6, 2017. Mr. Cottle and Mr. Nipp met with Principal Global, also known as Aligned Investors. Mr. Cottle explained that Aligned Investors is the name for the mid and large cap asset management group. Mr. Cottle stated he met with the head of the group, Bill Nolin, for an annual review and to discuss the personnel changes, they added research analysts to the team. Mr. Cottle explained the investment and support teams have been stable and have performed well for the City of San Diego.

Mr. Cottle went on to discuss an article he handed to the Board and Staff regarding annuities in defined contribution plans. The article discusses various ways that people getting close to retirement or who are in retirement transition their assets to income. Mr. Cottle advised that the main point of the article is that plans need to think about income for their retired members. Mr. Nipp added that the article quoted MetLife stating that they have a preference for turning on income immediately upon retirement rather than waiting 20 to 25 years later. Mr. Hovey noted that Metlife wanted the payments to begin sooner because they have direct interest on the line.

Mr. Cottle wanted to provide additional information on the investment performance. He advised there was strong capital market performance during the latest quarter. Mr. Cottle went over page 5 of the Performance Analysis Report, noting positive contributions of $4 million and an ending market value of close to $1.13 billion. Mr. Cottle directed the Board to page 7, and noted that there are firms on the watch list that have been there for a long time. Boston Trust Small Cap has continued to be on the Watch List for longer than they expected. Oakmark Equity continues to improve. The BlackRock TIPS Fund has fallen back recently, but had a period where they provided superior results. Mr. Cottle stated the T. Rowe Real Estate Fund has not been performing well. He advised he would do more research and get back to the Board with suggestions about replacing the fund or leaving it as is. Mr. Hovey inquired about removing Oakmark Equity from the watch list. Mr. Cottle advised that he agreed they should remove Oakmark from the watch list. Ms. Montoya advised that removing T. Rowe Price from the line-up and removing Oakmark Equity from the watch list can be an action item for the next scheduled meeting. Mr. Hovey advised it would be the next regular scheduled meeting and not the special meeting in December, and Ms. Montoya agreed.

Mr. Cottle invited the Board to attend the next investment educational conference in Miami from March 28 through March 30th of 2018. He explained the cost is only the hotel and food. Mr. Cottle expressed that he would love for the Board to attend. Ms. Granewich stated that she has attended two of the investment educational conferences, in previous years, and enjoyed them.

- Regulatory Compliance Update

Mr. Brady advised that they looked at all of the City DC plans that were last amended, restated, updated that required changes 2015. Mr. Brady advised they looked at all pension and retirement related laws and changes from 2015 through 2017 and can report that there are no required changes to the plans needed. Mr. Brady advised that there are some changes they can do to improve the plans but nothing is required to be changed. Mr. Brady advised that there are some tax changes in legislation currently that if they were to pass it could affect the City DC plans. Mr. Brady advised that they have to wait to see what will happen if the legislation passes.

Ms. Granewich inquired if Mr. Brady had any recommendations. He advised that in an effort to improve the 401(k) participation they implemented the 401(k) flex, which is where an employee can defer flex credits into the 401(k). Mr. Brady explained that if a participant chooses to defer flex credits into the 401(k) account they are not able to make any further changes until the next annual enrollment. He believes that we could improve participation in the 401(k) flex if they allow employees to change the contribution. He advised the change would allow participants to make 2 changes though the plan year. Mr. Brady advised that he will continue to research what other changes can be made to improve the DC plans.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

Mr. Hovey requested the December 15 special meeting be moved to December 18. The Board agreed to move the special meeting.

Mr. Hovey inquired if the election was completed for the new Board member. Ms. Montoya communicated that the election was completed and the newly elected Board member is Abraham Hunt. Ms. Montoya noted that Mr. Hunt is a firefighter. She stated that Staff has an orientation meeting scheduled with him for early December and he will be able to attend the December special meeting.

4. PUBLIC COMMENT

None

The next meeting is scheduled for December 18, 2017.

Meeting adjourned at 2:32 p.m.

Backup documentation is available at Risk Management.