

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES
Wednesday, February 28, 2018

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 1:34 p.m. by Estella Montoya.

Trustees Present: Julio Canizal, Robert Davis, Abraham Hunt, Gregg Rademacher

Staff present: Tom Brady, Estella Montoya, Quennelle Allen, Nancy Stadille

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

1. ACTION ITEMS

A. Roll Call (4-1) Estella Montoya
Gail Granewich- Absent

B. Action to select and vote in new Chair to complete the current chair term through June 30, 2018. Estella Montoya

MOTION TO NOMINATE JULIO CANIZAL AS PERMANENT CHAIRPERSON:
Approved: (3-0) Julio Canizal abstained Gregg Rademacher

C. MOTION TO ACCEPT THE MINUTES OF December 18, 2017 WITH THE ADJUSTMENTS REQUESTED BY ROBERT DAVIS: Julio Canizal
SECOND: Abraham Hunt
Approved (3-0) Gregg Rademacher abstained

D. MOTION TO REMOVE THE VANGUARD LIFESTRATEGY CONSERVATIVE GROWTH, VANGUARD LIFESTRATEGY MODERATE GROWTH, AND VANGUARD LIFESTRATEGY GROWTH FUNDS: Julio Canizal
SECOND: Robert Davis
Approved (4-0)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

• Wells Fargo Fourth Quarter Activity Report

Ms. Jensen introduced herself as the Wells Fargo Relationship Manager assigned to the City of San Diego plans for the last 13 years. She introduced Paul Jacobson to the new trustees. Ms. Jensen reports to Mr. Jacobson. Mr. Jacobson attends a quarterly meeting on an annual basis to answer any questions the trustees may have on an executive sponsor level.

Mr. Jacobson asked the trustees if City employees have any concerns regarding Wells Fargo. He included the latest consent order in the materials provided to the trustees. The trustees did not have any questions. Mr. Jacobson stated that the consent order included a cap on the assets that Wells Fargo can hold based on year end 2017 assets. He explained that the assets are in a trust with segregated assets and they are not part of the consent order.

Mr. Jacobson then turned attention to page 2 of the packet; they are working on improving the digital experience for the participants and the sponsors in 2018. The participant experience will have additional functionality with smartphones. The retirement income calculator, webinars, retirement games, and the beneficiary designations will be accessible through a smartphone or tablet in 2018. Mr. Jacobson stated that 86% of the participant interactions are through a phone, tablet, or computer and 31% of all the logins are on a smartphone. Mr. Rademacher inquired what type of retirement games are currently available. Mr. Jacobson spoke of the Retirement City Game that was rolled out in 2017. The game helps get participants engaged and involved by asking retirement questions and allowing friendly competition.

Ms. Jensen directed the trustees to page 3 of the Wells Fargo information deck. She explained that this page was created to provide a high-level overview of all 4 plans (401(k)/401(a)/SPSP/SPSPH). If the trustees wanted additional information to be included in the overview she could include it. Ms. Jensen stated that there is positive plan growth on all 4 plans, \$1.2 billion in assets as of 12/31/2017. There is a decrease in outstanding loans from 2016 to 2017. Outstanding loan amounts in 2017 was about \$34.1 million and \$34.4 million in 2016. There is a decrease in plan to plan transfers, which is funds that are transferred into SDCERS which is employees buying time. In 2017 the plan to plan transfer was \$4.7 million and \$5.6 million in 2016. Ms. Jensen informed the trustees that they track mobile, online, and phone activity. In the fourth quarter there were 2,076 mobile logins. They are working towards having more features available through smartphones because more participants are using smartphones to access their retirement accounts. Mr. Canizal asked Ms. Jensen if there was an increase in mobile activity in this quarter compared to previous quarters. Ms. Jensen confirmed participant activity increased in the mobile sites. Mr. Canizal asked if Ms. Jensen could provide the percentage of the increase in mobile usage. Ms. Jensen informed Mr. Canizal she will have the information available on the next quarterly meeting. Ms. Jensen stated that the average account balance has increased overall from 2016 to 2017. There was an increase in 401(k) participant accounts in 2017. There was an increase in participants in the SPSP-H and 401(k) and a decrease in participants in the SPSP and 401(a). She noted that the SPSP and 401(a) are no longer being utilized for new hires. Ms. Jensen advised that they plan on sending communication materials to participants regarding diversification and target date funds.

Mr. Hunt asked Ms. Jensen if the 11% of the participants were only invested in the managed income fund or partially invested in the managed income fund. Ms. Jensen stated that out of all the SPSP-H assets 11% of those assets were in the managed income fund. Ms. Jensen advised that between the 401(k), SPSP, and SPSP-H there are 3,957 participants that have all of their funds invested in the managed income fund. Ms. Jensen excluded the 401(a) because no participant has all of their funds in the managed income fund.

Ms. Jensen reported on the targeted campaign for the retirement investment advice tool that was rolled out in 2017. The notification was sent to 14,085 participants and 3,059 used the tool and made changes. 86% of the participants that took action received the communication via email and 14% received the communication via mail. Mr. Rademacher inquired how diversification is calculated. Ms. Jensen responded that the Wells Fargo definition of diversification is if the participant is in a diversified account like a target date fund or if they are invested in 2 or more investment options that are different asset classes. Ms. Jensen explained that the target date funds are considered diversified but the managed income fund is not diversified. Mr. Canizal inquired if there will be a specific communication for the employees that have funds in the managed income fund that will be sent out. Ms. Jensen advised that Ms. Stadille will discuss this matter in her presentation. Ms. Jensen concluded her presentation with the two plan provisions for the

401(k) that were made in 2017 and late 2016. The first provision allowed roll-ins into the plan and the second allowed terminated participants to take a partial distribution. She reported that 3 terminated individuals rolled money into the 401(k) and one of the roll-ins was from SDCERS. There were 404 partial distributions in all of 2017.

- Fund Change Communication Plan

Ms. Allen informed the trustees that City Staff worked with Wells Fargo IRT to develop a comprehensive communication plan, led by Ms. Stadille. Ms. Stadille stated that she worked with Ms. Montoya, Ms. Allen, Mr. Applestein, and Ms. Jensen to develop the education materials. She explained that the group looked at the best ways to roll out the fund change to the participants. Wells Fargo has created the mandatory communication pieces that are required for any fund change in the qualified default fund. Ms. Stadille noted that those notices will also be available in Spanish. Mr. Rademacher inquired if the education materials have been finalized. Ms. Stadille answered that the materials were not finalized. Mr. Rademacher would like the materials to highlight what would happen if the participant did not take any action. Mr. Rademacher liked the materials that were created. Ms. Stadille advised that the high-level review of what will occur if no action is taken is included in the materials. She explained that they can bold, underline, or highlight that information to make it more prominent. She informed the trustees that all communication material will be available on CityNet and they will be sending out internal notices to employees. The internal notices will have information on the available webinars and the upcoming fund change. Ms. Stadille included a draft of the PowerPoint that will be used in the education sessions. She is working with Mr. Applestein, a Wells Fargo educator, in creating the materials for the education sessions. The intent is to inform participants about the benefits of target date funds without telling the participants that they need to enroll in the funds. They want to let the participants know that they could select their own funds or they can have a one and done and participate in the target date funds.

Ms. Stadille continued with a copy of the frequently asked questions flyer that is more personalized and caters to City employees. American Funds provided information on their target funds that will be included in the materials provided to the participants. Ms. Stadille went over the announcement that will be mailed out with the Wells Fargo statements in April via email or mail. The second announcement will be available after May 31st and will be available when the participants access their accounts online. She advised that the call center and the Employee Savings division of Risk Management will be notified of the changes to assist in answering questions. Ms. Stadille informed the trustees that City staff is open to suggestions in updating the education materials. The first notification will be rolled out in March informing the employee of the change and advising that there will be education sessions in April. There are currently 6 or 7 locations on the calendar for employees to attend the education sessions. After the live sessions have concluded, Mr. Applestein will also have a webinar that will be posted on CityNet. Mr. Canizal inquired if the participant could receive a message alerting them of the change when they log into the Wells Fargo website or the mobile site. Ms. Jensen answered that Well Fargo could create a message that will pop-up explaining to the participant that they sent information regarding the target date funds. She added that they could include a link to the materials.

Mr. Canizal referenced question 7 on the frequently asked questions flyer and asked Ms. Stadille if it was a requirement for a participant to only participate in one target date fund at a time. Ms. Stadille explained that it is not a legal requirement but the funds would work best if the employee selects the appropriate target date fund. She explained that the participant will need to select the fund based on the year they anticipate they will need to access the funds. Mr. Canizal suggested that the wording be changed from “you should” to

“it is recommended”. So, it would say, it is recommended you select one target date fund. Ms. Jensen stated that if the participant wanted to enroll in multiple target date funds they could. However, if the participant understands that the fund selections are the same they just have different asset allocations with the different target date fund selections they would know to select just one account. Mr. Hunt stated that he believes it is crucial that safety employees such as firefighters and police officers that retire at 55 or younger need to understand how to select the appropriate target date fund. He believes the materials provided should focus on the exposure to risk instead of glide paths. Ms. Stadille agreed with Mr. Hunt and explained that the selection of the appropriate target date fund is crucial. She went on to discuss that two safety members could retire at the same time and have the same age but they could have two completely different target date fund selections. One employee may continue to work in a different career and won't have to access their funds until 65 and the other may be done at 55 and need to access their funds at that time. Mr. Davis inquired if fees would be incurred as funds move from Vanguard to the target date fund series. Ms. Stadille advised that there will be no transfer fees just the fees for the fund. Mr. Canizal advised that he wanted to add a note on the investment changes announcement that the gross expense and the net expense excludes recordkeeping expenses. Mr. Hunt inquired if there will be fees for removing funds from Vanguard. Ms. Jensen advised that there will not be fees for the removal of the funds. Mr. Rademacher stated that he liked that there will be a video of the education session on CityNet. Ms. Jensen advised that it would be a webinar with a rolling presentation with Mr. Applestein talking through the slides. Mr. Rademacher advised that the last materials state there would be a video. Ms. Stadille confirmed she will change the wording to state it is a webinar.

Mr. Rademacher inquired on section 3 of the Wells Fargo rate of return page. He inquired why there were two large spikes at 2% and 15%. Mr. Nipp advised that the default selection was the moderate growth and it had a 15% return last year.

- Fourth Quarter Investment Report

Mr. Cottle provided a brief introduction to the trustees. He advised that they were hired by the City over 20 years ago. Mr. Cottle stated that he and Mr. Nipp have not been involved in the administrative aspect of the target date funds. They were involved in looking at the universe of target date funds and selecting funds based on questionnaire responses and statistical information. They were concerned by the spikes that Mr. Rademacher asked Ms. Jensen earlier in the meeting. Mr. Nipp stated that 15% rate of return is fine, but the 2% rate of return is alarming. Mr. Cottle referred the trustees to page 1 of the quarterly report. He informed the trustees that January capital market returns were strong in equities. In February, the S&P 500 is down 2.8% and the bond market is down 1.1%. Mr. Cottle continued to page 5, which depicts the flow of assets by fund that the City is invested in. He explained to the trustees that in the quarterly report they aggregate all of the plans and treat it like one plan. There were contributions to the equity segment domestic, international, and lifestyle funds. There were small withdrawals from the balanced, fixed income, and real estate funds. The gains during the fourth quarter were in primarily in the domestic equity and the lifestyle funds.

We started the quarter at \$1.13 billion in total assets and ended the quarter at \$1.174 billion. The contributions were positive at almost \$7 million. Mr. Cottle noted that the loans were modestly trending down and has been trending down for the past 3 or 4 years. Mr. Cottle continued to page 6, and noted that there was an increase in value of assets and domestic equity. The asset level on a relative basis declined because fixed income did not earn as much as equities. The asset level increased modestly in the lifestyle

funds by about 1%. Mr. Cottle discussed the watchlist on page 7. Boston Trust, the small cap manager, has been on watch since 2013. They underperformed for 1 and 2 years but outperformed in the last quarter. Oakmark Equity was placed on the watchlist in 2016. They have outperformed in the past quarter and the past year. Mr. Cottle recommends Oakmark gets taken off the watchlist because it has improved dramatically. Mr. Cottle inquired if they can act on removing Oakmark from the watchlist. Ms. Montoya explained that it would need to be an action item on the following meeting. Mr. Brady agreed that Ms. Montoya was correct. Mr. Hunt inquired what caused the Oakmark to change from underperforming to outperforming. Mr. Nipp explained there was not a change in Oakmark's approach or style but the market conditions have been in their favor. Mr. Cottle agrees with Mr. Nipp that the market environment was more in favor of Oakmark's approach. Mr. Cottle continued with the watchlist discussion. He explained that BlackRock TIPS was placed on the watchlist in 2016 but has outperformed in the last quarter. He recommends BlackRock stays on the watchlist for 1 or 2 more quarters as they continue to improve. T. Rowe Real Estate has underperformed in the past year but outperformed in the last quarter. Mr. Cottle explained that on a risk reward basis they are performing well. Mr. Cottle recommends that Invesco International gets placed on the watchlist. Their investment approach continues to be consistent but, they have not seen any improvements. Mr. Nipp noted that nothing has changed with Invesco, but the markets are not in favor of their approach.

Mr. Cottle proceeded to page 8, the current fees of the City's fund line-up are lower than the Morningstar Median, except for the small cap, which is comparable. The Principal Mid Cap underperformed in the quarter by 1% but was strong in past quarters. Invesco had a poor past year. Boston Trust had a good quarter, on page 18, the risk reward diagram shows that when a benchmark is impossible to beat it has a better return and a lower risk than most actively managed funds and that's the case for Oakmark at 3 and 5 years. Mr. Nipp stated that the low risk is a clear reflection of the lack of volatility that has been in the market. The BlackRock TIPS fund has been improving significantly, as depicted on page 54. He explained that the blue bars on the graph are above benchmark returns in the quarter. The green bars on the graph are the quarterly underperformance. The graph shows that the fund has primarily outperformed. Mr. Nipp met with BlackRock about a year ago, the 5 year return is almost at 0, which says that there is not much inflation to worry about. Now that we are starting to get some inflation and volatility it will help them. Mr. Nipp explained that when they are in an asset class with 0 returns, there is not a lot that they can do. Mr. Cottle discussed the T. Rowe Price Real Estate Fund on page 13, which has outperformed in the quarter. Historically, they have performed below the benchmark in every other time period. However, the risk return diagram shows that they are outperforming most funds.

Mr. Cottle reminded the trustees of the next investment conference that will be held in Miami, Florida. Mr. Cottle provided the trustees with the seminar topics. Mr. Cottle feels this would be a good seminar for the trustees to learn about investments.

Mr. Rademacher inquired the type of real estate funds for T. Rowe Price. Mr. Nipp advised it was a REIT mutual fund. Mr. Cottle told Mr. Rademacher that he can forward a few memorandums that they have on the real estate funds. Mr. Nipp advised they met with them twice in the last year.

- Disclosure of Economic Interests (Form 700)

Ms. Allen reminded the trustees that they will receive an email from City Clerk regarding the disclosure of economic interests (Form 700). They will need to state on the form that they serve on the DC trustee board.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

4. PUBLIC COMMENT

None

The next meeting is scheduled for May 23, 2018.

Meeting adjourned at 2:53 p.m.

Backup documentation is available at Risk Management.