

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES
Wednesday, May 23, 2018

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting. The meeting took place in the Retirement System Boardroom. Location: 401 West A Street, 3rd Floor Boardroom, San Diego, California. The meeting was called to order by Estella Montoya at 1:31 p.m.

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

Staff present: Bill Gersten, Tom Brady (left at 1:56), Estella Montoya, Quennelle Allen, Nancy Stadille

Presenters: Paul Jacobson (Wells Fargo IRT)
Jeff Nipp (Milliman)

1. ACTION ITEMS

- A. Roll Call (4-1)
Gail Granewich – Absent
Julio Canizal – Left at 1:56 p.m.

Select a Pro-tem for today's meeting after Julio Canizal's Departure Estella Montoya

MOTION TO NOMINATE GREGG RADEMACHER AS CHAIRPERSON Abraham Hunt
AFTER JULIO CANIZAL'S DEPARTURE
SECOND: Julio Canizal
Approved: (4-0)

- B. Dispense with the reading and approval of the minutes of February 28, 2018.

MOTION TO ACCEPT THE MINUTES OF February 28, 2018: Gregg Rademacher
SECOND: Robert Davis
Approved (4-0)

- C. Remove Oakmark Equity and Income from watch list Jeff Nipp

Mr. Nipp confirms Oakmark Equity and Income balanced fund has been improving. He stated the fund outperformed 5 out of the 7 quarters. The lineup performance is improving. They have no change to the team. A lot of the improvement and earlier difficulty is the nature of the market environment. Mr. Nipp explained that the market has been in their favor and they have taken advantage of that. The fund underperformed in the most recent quarter, but it was expected because of the market conditions. Mr. Nipp recommends the Board removes Oakmark Equity and Income from the watch list.

MOTION TO REMOVE OAKMARK EQUITY AND INCOME FROM THE WATCH LIST: Gregg Rademacher
SECOND: Robert Davis
Approved (4-0)

D. Place Invesco International on watchlist

Jeff Nipp

Mr. Nipp explained that Invesco International is the conservative growth manager in the international line up. Mr. Nipp advised that the fund is not doing well due to their investment style and the current state of the market. The fund has been behind by 2% since inception and 6% over the last year. Mr. Nipp stated that they are not suggesting terminating Invesco International, but it would be appropriate to place them on the watchlist because of their underperformance and the current process in place. Mr. Canizal inquired how Invesco International compared to the benchmark. Mr. Nipp advised they were 6% behind from their benchmark. Mr. Rademacher inquired what gets communicated to Invesco International and who does the communication. Mr. Nipp explained that it is an informal process and it is mostly done as a courtesy. Milliman has regular conversations with Invesco International and will inform them when they are on the watchlist. Invesco International knows they are underperforming and they will understand when placed on watchlist. Mr. Canizal inquired if Mr. Nipp has recently met with Invesco International. Mr. Nipp advised they had a phone call with Invesco International a few months ago and will have another phone call with them soon.

MOTION TO PLACE INVESCO INTERNATIONAL ON WATCHLIST:

Gregg Rademacher

SECOND:

Julio Canizal

Approved (4-0)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

• Wells Fargo Update & Second Quarter Activity Report

Mr. Jacobson noted that Wells Fargo continues to be on the news. Mr. Jacobson stated that Wells Fargo is working on changing the company culture. Mr. Jacobson confirmed they are getting in front of all internal and external issues and they are acting on these issues. They also have an open communication with all clients and will answer questions for the Board. The Board had no questions for Mr. Jacobson. Mr. Jacobson discussed an article that has been on the news regarding terminated or retired participants in the 401k that roll funds into a Wells Fargo IRA. Mr. Jacobson advised Wells Fargo employees do not persuade City employees to move funds out of their 401k and into a Well Fargo IRA. He advised that 2% of plan participants will roll funds out of the 401k and into a Wells Fargo IRA. All employees are presented with a variety of options and they can determine what they would like to do with the funds including rolling these funds to a Wells Fargo IRA. Mr. Jacobson discussed a report that was in the news recently about revenue sharing. Mr. Jacobson confirmed that the City has 3 funds that have revenue sharing. The revenue sharing is paid back to the plan participants and it is not used to pay for expenses or plan services. Mr. Canizal inquired if the revenue sharing funds are paid back to the participants that are in those funds or to all plan participants. Mr. Jacobson advised that only the employees that are participating in those funds would receive the revenue sharing. Ms. Montoya informed the Board that if they wanted to review the revenue sharing funds they could place that as an action item at a later meeting.

Mr. Jacobson discussed the variety of services that Wells Fargo IRT provides as the plan administrator. They provide the overall recordkeeping for all the administration of the defined contribution accounts. In addition, they administer the mobile and online websites, call center, and education sessions. On a yearly basis an education strategist will come speak with the Board and discuss financial wellness education. The financial

wellness focus goes beyond traditional retirement savings communications by teaching employees to budget properly and assist them with a variety of financial concerns. In January a promotional email was sent to 6,089 plan participants to encourage them to participate in the webinars and 30% of the participants opened the email. The 2018 webinars discussed student loan repayment, creating a budget, credit scores, and the next steps to retire. Mr. Canizal asked Mr. Jacobson if he knew how the City compared to other entities. Mr. Jacobson advised that a 30% email open rate was typical. However, the engagement rate after opening the email is lower than other employers. Mr. Canizal inquired if the communications was sent to a work email address or a personal email address. Mr. Jacobson reported that the email addresses used were the ones provided by the employees. Mr. Jacobson noted that the City encouraged the employees to use their personal email address instead of a work email address. He continued with the online usage and reported that the online usage rate is increasing among plan participants and more of them are going into the Wells Fargo website or on their tablets, phones, and computers.

Mr. Jacobson explained that Wells Fargo is open architecture which means they can offer the City proprietary and external funds. Open architecture ensures that the City can satisfy all their financial needs and that the investment firm can act in each client's best interests by recommending the financial products best suited to that client, even if they are not Wells Fargo products.

Mr. Jacobson stated that every year they provide a fee summary. Per participant the daily recordkeeping services fee is set at 11 basis points. There is a set-up fee for loans of \$75. Mr. Jacobson explained the breakdown of the 11 basis points depends on the participant balance. Mr. Canizal inquired if there was an expense related to the fund and what that expense was. Mr. Jacobson advised there was an expense ratio and it was 31 basis points. Mr. Canizal confirmed the participants pay almost 3.7 million and Mr. Jacobson advised he was correct. The estimated expense ratio and recordkeeping fee is at 42 basis points which totals to about 4.9 million. Mr. Rademacher inquired if there was a typical administrative fees and payments for other deferred compensation clients. Mr. Jacobson explained that it varies greatly, and some clients have a set fee per participant while others pay on an asset basis. There are many factors that play into the structuring of the plan. For example, a retail store may have a lot of participants but lower account balances while a professional firm may have lower participants but higher balances which would play into the plan structure. He stated that we could schedule a future meeting to discuss restructuring.

Mr. Jacobson confirmed that Wells Fargo has competitive fees. Mr. Rademacher agrees that Wells Fargo has competitive fees. Ms. Stadille informed the Board that she was involved in the last request for proposal where various companies place a bid to administer the City's deferred compensation plans. She explained that it was difficult to benchmark the City plans because they are unique. The Board and City staff had to ask the bidders a variety of questions to ensure they would be able to properly administer our deferred compensation plans. Mr. Hunt inquired when they will have the next RFP for the deferred compensation plans. Ms. Stadille advised it is every 5 years. Ms. Montoya stated that the last RFP was signed May of 2016 and is valid through 2021.

Mr. Jacobson finished his presentation with the plan overview for the last quarter. He reported that we have continued plan growth and average account balance are increasing. Web activity has increased, and the call volume has decreased. Mr. Hunt inquired what was the total of participants in the DC plans. Mr. Rademacher advised that there are 23,766 accounts between all plans. Mr. Jacobson reported that last meeting Mr. Canizal inquired if there were any trends in the plans. Mr. Jacobson advised that the biggest trend was the

increase in mobile activity. Mr. Rademacher advised that the Board needs to be aware on how the plan participants contact Wells Fargo to help them decide how to properly communicate to them. Mr. Jacobson inquired if the Board wanted additional information on the overview. Mr. Hunt inquired if they could provide the number of participants that have logged in for the first time to see if that has increased from the last quarter. Mr. Jacobson confirmed he will include that on the overview. Mr. Davis commented that it was useful to have a chart of the fund and index performance. He inquired if this chart could be expanded to include the benchmark. Mr. Nipp advised he had the benchmarks in his report. Mr. Jacobson advised he could include the benchmark on this report also. Mr. Rademacher inquired what he needed to focus on when he looked at the fund and index performance chart on page 8. Mr. Jacobson advised that they should look at the asset categories instead of the performance as well as the duration of time in each fund and the fund movement. Mr. Hunt inquired how they track the amount of time a participant is in each fund. Mr. Jacobson advised they could look at investment transfers. He advised that from experience he knows that most people do not change funds. Ms. Montoya advised that there has been a lot of improvement in diversification and years ago there was more stagnation in the managed income funds. She explained that through education and 1 on 1 meetings with the Wells Fargo educator David Applestein has helped in teaching plan participants about diversification. Ms. Montoya advised that the one on one meetings with Mr. Applestein are very popular and this is the approach that City employees prefer. Mr. Hunt agreed with Ms. Montoya and advised that employees have request the one on one sessions and inquired when they will occur next. Ms. Stadille advised that historically employees do not want to change their investment line up and that's why the Board initially placed the life strategy funds.

- Second Quarter Investment Report-Milliman

Mr. Nipp started his presentation on page 1 of the Milliman Performance Analysis Report. In the last quarter volatility was still low and the equity market was up 6%. Towards the end of January, people were concerned with potential inflation and the fed raising rates which created a down draft in the equity market. During the quarter there was a potential trade war and the daily news out of Washington created a 10% decline in the equity market, after that, it came back up and later there was a 6% decline in the equity market. The S&P 500 Index was down by almost 1% which is relatively flat for the quarter considering the volatility along the way. Mr. Nipp reminded the Board that volatility in the market is not rare. He explained that the lack of volatility we experienced last year was unusual. Mr. Nipp discussed that almost everything was negative in the first quarter such as; international, EAFE index was down by about 1.5%, aggregate bond was down by about 1.5%. Mr. Nipp explained that 1.5% down was a large decline for bonds. Mr. Nipp explained that US equities were only positive in growth. The funds in large growth are invested in technology stocks such as Apple and Google, which have been trending up. However, US equities were negative in the blend and value styles.

Mr. Nipp advised that there are 3 funds that have revenue sharing Boston Trust, Dodge & Cox International, and Oakmark Equity & Income. Boston Trust has 25 points of revenue sharing. Dodge and Cox International has 10 basis points of revenue sharing. Oakmark Equity & Income has 35 basis points of revenue sharing. Those basis points get rebated back to the participants in those funds.

Mr. Nipp advised the managed income fund allocation continues to decline from 32.9% to 32.7%. He explained the decline was due to participants placing money elsewhere. The life strategy funds had an increase in participation. There was an increase in participation in the life strategy funds from 10.5% to 11.1%.

Mr. Nipp advised that the current watchlist includes Boston Trust, BlackRock TIPS, T. Rowe Price, and Invesco International. Blackrock TIPS outperformed in the last quarter as well as the past one and two-year periods. Since inception they are slightly behind the benchmark. They recommend we keep them on the watchlist until they meet the benchmark. Mr. Rademacher inquired on Mr. Nipp's view on inflation increasing. Mr. Nipp advised that the risk of unexpected inflation is low but if inflation occurs the impact would be high. This occurred towards the end of January, there were reports that shocked the market which made bonds and stocks take a sharp dive. Mr. Nipp advised that Blackrock TIPS fund are beneficial to have in place when inflation increases. T. Rowe Price was placed on the watchlist August 2017. As of the end of March, T. Rowe underperformed for all trailing year time periods. Mr. Nipp stated that all of REIT funds in the market were down about 6% for the quarter. As interest rates go up dividend funds such as REITs look less attractive because bonds are safer and there is a potential to earn more. They believe T. Rowe Price should continue to be on the watchlist.

Mr. Nipp advised that they are including the investment map of the Plan's structural review that was conducted in 2013. The current initiative is the transition from Vanguard's life strategy funds into the American Funds target date series. The transition will be completed by May of 2018. Once the transition is complete Milliman will include them in the investment report. Mr. Nipp confirmed that most of the active managers are close to the benchmark. Boston Trust underperformed by over 1%. Invesco matched the benchmark for the quarter but is still behind on returns. Oakmark underperformed by .6% in the last quarter. Mr. Nipp directed the Board to page 58 of the informational deck. Oakmark is a balanced fund of stocks and bonds. The beta of the equity portfolio is .7%. Price to earnings is at 13 versus 24 on the S&P 500. Oakmark is a value equity portfolio and value funds did not perform well in the last quarter.

Mr. Nipp advised that Boston Trust has been on the watchlist for 5 years. He explained that in 2009 the Board decided to have a more conservative approach. Boston Trust was selected to be the small cap manager because of their conservative nature. Mr. Nipp explained that Boston Trust focuses on quality and does not buy speculative funds such as biotech. Mr. Nipp stated that their conservative nature and the state of the market environment is why they are underperforming. Mr. Nipp advised that it was unusual to have Boston Trust on the watch list for 5 years. Mr. Nipp confirms he is not recommending we terminate Boston Trust because they are consistent, and they are doing what they were hired to do 9 years ago.

Mr. Nipp suggested the Board invite Boston Trust to make a presentation to determine if they are comfortable with the role they play. Due to the duration of time Boston Trust has been on the watchlist it would be an appropriate time for the Board to determine how they want to move forward with this type of manager in the small cap fund. Ms. Montoya explained that the new board members should be given the opportunity to re-evaluate and determine if they will continue on the watchlist or if other action should be taken. Mr. Hunt stated that he would like for Boston Trust to come and present to the Board on their strategy. Mr. Davis would also like to have Boston Trust present to the Board. Mr. Davis pointed out that Boston Trust is trailing behind other small blend firms. Mr. Nipp advised the expense ratio is another reason to look at Boston Trust and determine how to move forward with that fund. Mr. Rademacher inquired why Boston Trust does not participate in speculative investments. Mr. Nipp explained that the Boston Trust is a mutual fund and they were selected because of their conservative nature and they focus on quality growth. In a volatile era, a conservative small cap fund appealed to the Board. Mr. Rademacher inquired if Boston Trust went through an RFP process. Mr. Nipp believes the City followed

a traditional RFP process. Mr. Hunt inquired how Boston Trust performed in 2009. Mr. Nipp advised that he recently spoke with Boston Trust and their 10-year, 15-year, and since inception results are above the index, which implies that if we look back 9 years their returns were positive. Mr. Nipp directed the Board to the memorandum on Columbia Threadneedle. They are the manager of the managed income fund in the stable value portfolio. They informed Milliman that Leonard Aplet will be retiring at the end of 2018. Mr. Aplet was the head of the short duration fixed income and the stable value teams. Mr. Aplet is not the day-to-day portfolio manager. The current day-to-day portfolio manager, Jim McKay, will continue as is. Mr. Nipp stated this was not concerning and it was planned, but wanted to make the Board was aware of the change in management. Ms. Montoya advised that the Columbia Threadneedle team will be invited to present to the Board at a future meeting. Mr. Nipp advised that once there is a replacement for Mr. Aplet they will request that person come meet the Board.

Lastly, Mr. Nipp thanked the board members that attended their conference. He wanted the Board to be aware that they are planning to do the next conference in the fall of next year. Mr. Rademacher wanted to confirm that the documentation at the back of the deck was for informational purposes. Ms. Montoya informed him that he was correct. Ms. Stadille advised that the fund manager sends those documents to City staff for their quarterly report.

- Report of TDF Education Sessions

Ms. Stadille informed the Board that they held the education sessions from April 9 through April 24 at 7 different locations. There was a total of 312 employees that attended the education sessions. The most popular locations were the Concourse Building Downtown, Police Headquarters, and the MOC II Auditorium. There was a positive turn out. The plan participants that were unable to attend will receive an email with the webinar that is a copy of the presentation. Mr. Rademacher advised that he watched the presentation and thought it was well done.

Ms. Stadille reported that the feedback from employees was overwhelmingly positive. She noted that employees were impressed with Mr. Applesteins knowledge in the City plans and there were very good discussions. The primary question was if the TDF would be the only fund available. There were also a lot of questions about the expense ratio between the TDF and the life strategy funds. She explained that plan participants were having a hard time understanding why the funds were more expensive. Mr. Applestein explained that a fund manager will actively change the investments as the participant ages. Ms. Stadille believes many participants were still confused on the concept of having an actively managed account. Ms. Stadille reported that mailings will be sent out at the end of May. The blackout period is scheduled to start on May 31. Mr. Rademacher inquired if retirees received information on the TDF. Ms. Stadille reported that anyone, whether retired or active, with an account will receive information on the TDF. Mr. Hunt advised that the main inquiry he received from plan participants was regarding fees. Mr. Hunt explained that he thought the fees were reasonable compared to other active managers. Mr. Nipp confirmed that as an active manager the fees in the American Funds were on the low end of the scale.

Ms. Stadille noted that Mr. Applestein and Ms. Cowell were knowledgeable in the City plans and assisted in creating the educational materials. Mr. Rademacher inquired how the plans will be measured in the transition success. Ms. Stadille advised that the Board can request this information for the next meeting in August from Ms. Jensen. She explained that they can request how many participants have chosen to move out of their current

fund selection and into the TDF. Mr. Rademacher explained that he would like to know if there is a way to track the success of the TDF implementation. Ms. Montoya agreed especially because they focused on informing participants to select a TDF based on when they will access the funds. Mr. Jacobson explained that they can review the enrollment into the TDF. He advised that they also send communications to the employees that have selected the wrong TDF. Mr. Nipp advised that this is particularly important for safety personnel such as police officers and fire fighters that have a younger retirement date. Ms. Stadille advised that this was discussed at the education sessions with the safety personnel.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

Mr. Hunt inquired if there are any trainings that the City provides to Proposition B employees that are not eligible for an SDCERS pension. Ms. Montoya advised that this population is still young and because this is still in litigation they will wait for a response before they move forward with educational material. She explained that they have had internal discussions about having retirement meetings when Proposition B employees reach the 10-year mark. Ms. Stadille advised that it is hard to get 20 to 30-year-old participants to go to the retirement sessions because they are more focused on things like purchasing a home and retirement is not as actively on their mind as it would be with a 50 to 60-year old. Mr. Davis inquired on the process to get Boston Trust to present to the Board. Ms. Montoya stated that they will place the presentation as an action item for the August meeting. Mr. Nipp confirmed that they will coordinate with Boston Trust to provide the presentation details. Ms. Stadille informed the Board that they can send their questions to Ms. Allen so she can ensure that Boston Trust is able to answer their inquiries. Mr. Rademacher inquired if they can be provided materials on the management that will be presenting. Ms. Montoya explained that once a meeting date is set they can provide the Board with materials.

Mr. Rademacher wanted to make note that the conference that was held by Milliman was very useful and educational. There was a session on TDF's that reinforced that this was a positive change for the City DC plans. There were a lot of economist and quality managers that had a variety of viewpoints and understanding the challenges they face. Mr. Nipp thanked the Board for attending the conference.

Ms. Montoya requested clarification from the Board regarding revenue sharing. She advised they can make a general presentation on revenue sharing. If the Board has specific questions they would like to address they can direct those to Ms. Allen to share them with Milliman.

4. PUBLIC COMMENT

None

The next meeting is scheduled for August 22, 2018 at the City Administration building.

Meeting adjourned at 2:54 p.m.

Backup documentation is available at Risk Management.