

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES

Wednesday, November 28, 2018

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting. The meeting took place in the City of San Diego Council Committee Chambers. Location: 202 C Street, 12th Floor, San Diego, California. The meeting was called to order at 1:33 p.m. by Estella Montoya.

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

Staff present: Quennelle Allen, Tom Brady, Estella Montoya

Presenters: Denise Jensen and Erin Cowell (Wells Fargo IRT)
Jeff Nipp (Milliman)

Other: Edward Bernard (City's Outside Tax Counsel)

1. ACTION ITEMS

A. Roll Call (5-0) Estella Montoya

B. Dispense with the reading and approval of the minutes of August 22, 2018.

MOTION TO ACCEPT THE MINUTES OF August 22, 2018:

Gail Granewich
Gregg Rademacher

SECOND:

Approved (5-0)

C. Replace Boston Trust Small Cap Fund with Boston Trust Small Cap Commingled Investment Trust Fund Jeff Nipp
Thomas Brady

Boston Trust has introduced a new Small Cap Commingled Investment Trust Fund, with a proposed management fee of 65 basis points, plus additional operating expenses. Boston Trust has agreed to limit total fund expenses (management plus operating) to no more than 72 basis points. The City currently has assets in their mutual fund, the Boston Trust Small Cap Fund, which has a 1% expense ratio, with 25 basis points that is rebated back to the plan participants, resulting in a net cost of 75 basis points. Adoption of the new Boston Trust Small Cap Commingled Investment Trust Fund would result in a savings of 3-10 basis points for plan participants. Providing that all documentation authorizing the transfer can be completed by the end of the year, the effective date to make the fund change in the system and send out participant notifications is targeted for mid- to late-February. Communications explaining the difference between a commingled investment trust and a mutual fund will be a part of the notification to go out to participants. It was noted that should the Board want to transfer assets from the Boston Trust Small Cap Commingled Investment Trust Fund to another fund in the future, restrictions include a waiting period of 10 days and the Trust reserves the right to charge the client for all transaction costs for large withdrawals by a single client.

MOTION TO APPROVE REPLACING THE BOSTON TRUST SMALL CAP EQUITY FUND WITH THE BOSTON TRUST SMALL CAP COMINGLED FUNDS: Gregg Rademacher
SECOND: Robert Davis
Approved (5-0)

D. Bipartisan Changes Related to 401(k) Hardship Withdrawals Denise Jensen

The Bipartisan Budget Act of 2018 allows for plan sponsors to, effective January 01, 2019, (1) eliminate the six months suspension for elective deferrals following a hardship withdrawal, (2) no longer require that a plan loan be taken before a hardship is requested, and (3) allow earnings on elected deferrals to be considered a qualified money type available for a hardship withdrawal.

MOTION TO IMPLEMENT THE BIPARTISAN ACT CHANGES RELATED TO 401(k) HARDSHIP WITHDRAWALS TO REMOVE THE PLAN LOAN REQUIREMENT, TO REMOVE THE SIX-MONTH SUSPENSION OF ELECTIVE DEFERRALS, AND TO EXPAND THE MONEY TYPES AVAILABLE FOR WITHDRAWALS: Julio Canizal
SECOND: Abraham Hunt
Approved (5-0)

MOTION TO IMPLEMENT THE BIPARTISAN ACT CHANGES RELATED TO SPSP HARDSHIP WITHDRAWALS TO REMOVE THE PLAN LOAN REQUIREMENT, TO REMOVE THE SIX-MONTH SUSPENSION OF ELECTIVE DEFERRALS, AND TO EXPAND THE MONEY TYPES AVAILABLE FOR WITHDRAWALS: Abraham Hunt
SECOND: Julio Canizal
Approved (5-0)

E. Adopt Investment Policy Statement Jeff Nipp

Proposed revisions to the Investment Policy Statement include (1) clarifying that customized reporting may not be available for commingled funds, (2) updating the Qualified Default Investment Alternative (QDIA) to reflect the new target date funds, (3) updating the Derivatives Policy to reflect that the policy cannot be dictated for commingled funds, (4) updating benchmarks and peer groups, with the target date funds now included, and (5) updating the Watch List Policy with the goal of simplifying the Policy with qualitative and quantitative measures outlined to assist in determining when to place a fund on the Watch List.

MOTION TO ADOPT THE INVESTMENT POLICY STATEMENT WITH THE CHANGES DISCUSSED AND GIVE MR. NIPP AUTHORITY TO MAKE ADDITIONAL CHANGES RELATED ONLY TO FORMAT AND TYPOGRAPHICAL ERRORS AND APPROPRIATE FUND NAME: Gail Granewich
SECOND: Gregg Rademacher
Approved (5-0)

F. City Boards and Commissions Annual Report Estella Montoya

Ms. Montoya requested to move this item from an action item to an informational item. In a recent Audit Report, the City Auditor recommended several changes regarding how Boards and Commissions are administered, including the

establishment of an annual report from all boards to be presented to City Council. A report template will be shared with the Board when it becomes available.

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Wells Fargo Third Quarter Report

Denise Jensen

There was positive fund growth over the past year comparing September 30, 2017 to September 30, 2018. As of September 30, 2018, \$2.9 million has gone out in plan-to-plan transfers. Referring to web usage, 5,156 distinct users have accessed the website, with most coming from desktop and laptop usage. Mobile activity is seeing increased usage and is anticipated to continue to pick up as the capabilities expand on the mobile website. The average account balances have increased over the past year, and participant head count has increased except for the SPSP plan.

The history of plan default funds was briefly summarized to highlight the challenges in diversification. From inception to November 15, 2007, the default fund was the Managed Income Fund and, during that time, was also only one of three options available. Many participants who began contributing in this time frame continue to leave assets in conservative funds and have not diversified. From November 15, 2007 until May 30, 2018, the default fund was the Vanguard Life Strategy Moderate Growth Fund. On May 30, 2018, the default fund was moved to the Target Date Funds based on the participant's date of birth.

There is continued traction with participants moving monies into the 401(k) plan after termination for consolidation purposes. Annual notifications were mailed out to participants, with the QDIA and the fee disclosures included with the third quarter statements and posted to the City's intranet.

B. Wells Fargo Participant Communications Overview

Erin Cowell

An overview of the education/communications delivered through 2018 as well as the proposed strategy for 2019 was presented including targeted campaigns, webinars, onsite visits, and communications in quarterly statements. The overall participant experience is continuing to evolve to better help participants meet their retirement needs, with a focus on helping participants manage their money daily and increased support provided to participants that are nearing retirement age. Baby Boomers have been identified as an important demographic for Wells Fargo to focus on to help the participants build up their savings but also help them in the decumulation phase with an income plan. Participant tracking in the 401(k) plan has steadily moved up year after year, increasing 10% over the last two years. The beneficiaries online have stayed the same at 32%. Diversification has also stayed almost the same, moving up slightly in the plans with the implementation of Target Date Funds.

C. Third Quarter Investment Report

Jeff Nipp

The third quarter was strong in the US equity market, especially in Large Cap growth. International equities were up slightly and bond returns were flat for the quarter. At the end of the third quarter, total assets were over \$1.2 billion, with over \$200 million

in the Target Date Funds. The Managed Income Fund continues to move down in terms of the percentages, now at 31% of total assets, with the expectation for it to go below 30% in 2019. Target Date Funds have gone up from 16% to 16.5% by the end of the third quarter. There was no need to make a change to the Watch List. There were no performance surprises presented, all funds were performing as expected.

Mr. Nipp proposed providing, for informational purposes, examples of combining TIPS, REITs, commodities, possibly energy stocks, and natural resource stocks into a single, multi-strategy real asset fund with the goal of creating a simpler choice for inflation protection.

D. Educational Items with City's Tax Advisor

Tom Brady
Edward Bernard

Mr. Brady offered to produce a fiduciary education along with the City's outside tax counsel, Mr. Bernard, focused on self-administered defined contribution plans to be presented to the Board in 2019. The presentation would provide an overview of the source of the Board's fiduciary duties and discuss how those are similar to the requirements under ERISA. The presentation would also provide examples of fiduciary duties, including operations, administration, investments, service providers, and maintaining of plan documents' qualified status. Mr. Bernard will also be providing annual plan document reviews to ensure compliance.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

In response to a trustee question regarding how information is communicated regarding rollovers after retirement, it was noted that it is part of the Wells Fargo call center script, is included in SDCERS retirement seminars, and is discussed during one-on-one retirement meetings with SDCERS analysts. Targeted communications to pre-retirees and employees who are in DROP may also be used.

The Board thanked Estella Montoya for her many contributions to the Board and to the City, and wished her well in her upcoming retirement.

Staff noted that a communication regarding Wells Fargo's efforts concerning fraud prevention and awareness will be posted on CityNet. Staff also wanted to make the Board aware that recent changes regarding how Pay-In-Lieu withdrawals are made may have an impact on savings plan deferrals from those earnings.

4. PUBLIC COMMENT

None.

The next meeting is scheduled for February 21, 2019 at the City Administration Building at 1:30 p.m.

Meeting adjourned at 3:28 p.m.

Backup documentation is available from the Risk Management Department.