

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES

Thursday, February 21, 2019

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 1:34 p.m. by Julio Canizal.

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

Staff present: Quennelle Allen, Tom Brady, Melanie Doyle

Presenters: Denise Jensen (Wells Fargo IRT)
Jeff Nipp (via phone) and Bill Cottle and (Milliman)

1. ACTION ITEMS

A. Roll Call (5-0) Julio Canizal

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

MOTION TO ACCEPT THE MINUTES OF NOVEMBER 28, 2018: Gail Granewich
SECOND: Gregg Rademacher
Approved (5-0)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. The Real Assets Strategies Report Jeff Nipp
Bill Cottle

The Milliman Real Assets Manager Profiles report was reviewed and two funds on the watch list were discussed. It was suggested there should be a review of broader-based assets instead of changing to an alternative REIT fund to replace the existing fund. The report reflects examples of possible replacement funds which include REITs, TIPS, Natural Resource Equities or InfraStructure Equities, commodities, and gold or precious metals. Funds may be actively or passively managed and many have been introduced in the last few years.

There was discussion about how fund changes impact participants and the importance of keeping them informed of prospective changes. Wells Fargo will coordinate communications to ensure that participants understand why the changes are needed. Fees for the funds were discussed.

The Trustee Board members are interested in seeing investment options as an information item at the next meeting. Milliman will look at the universe of providers, screen them based on performance and risk, and return with a recommended list of approximately six active and passive providers to consider.

B. Wells Fargo Fourth Quarter Report

Denise Jensen

The invitation for the Sponsor Advisory Council, a Wells Fargo sponsored event that will be held in Charlotte on April 9 -11, was discussed. This is an opportunity to meet with other Wells Fargo clients to discuss industry standards, the future direction of Wells Fargo, and what other initiatives Plan Sponsors are implementing.

Wells Fargo experienced a system outage on February 7 which had a nationwide impact. An automatic shutdown occurred during routine maintenance at one of the data centers; however, the Business Continuity Plan was activated to maintain participant plans and the system was restored within six hours.

A Bloomberg article regarding Wells Fargo IRT being acquired by Empower Retirement was recently released. The article is speculative and Wells Fargo has no comment on it.

In presenting the plan overview, Wells Fargo noted there is negative plan growth. From December 31, 2017 to December 31, 2018, the market had a slight decline. As of February 2019, the plans are over \$1.2 billion. Outstanding loans and outstanding loan amounts are continuing to decrease. Plan to plan transfers, which are the dollars transferred to SDCERS to help employees purchase past years of service, totaled \$3.6 million in 2018. In 2017 the plan document was amended to allow partial distributions for termed employees to be more flexible and to help retain assets in the plan. The change was tracked for 2018 and seemed to be a good decision thus far. In 2018, there were 449 partial distributions. Former employees have more flexibility being able to use the funds when needed, while creating retention of assets within the plan for the City.

The web and mobile activity in the participant section continues to increase. Terminated employees as well as current employees are using these functions. The Voice Response System is still being utilized, possibly by retirees who are checking their managed income accounts. It is higher than any plan in Wells Fargo's book of business.

The average account balance for the 401(k) and the SPSP plans has decreased as of December 31, 2018 due to the market; there was a slight increase in the SPSP-H and the 401(a) plans. The head count for each of the plans, the 401(k) and SPSP-H had continuous increases over the years, but there were declines in the SPSP and 401(a) plans. For the Managed Income Fund, diversification is gaining traction as demonstrated by the decrease of the percentage of the dollar amount that is being held in the Managed Income Fund. Diversification trending has remained steady for the plan overall. Even though a large majority of the assets in some of these plans is

in the Managed Income Fund, participant plans are diversified within their plan assets. On March 6, 2019, the Boston Trust Small Cap will change, moving from the Mutual Fund to the Collective Trust Fund. The participant communications were sent out at the end of January 2019.

Regarding the plan diversification trending, the Board inquired if there was a way to get participants to diversify their SPSP accounts. It was noted that for the SPSP plan, many participants that have assets in the Managed Income Fund have separated service; if the active participants were to be isolated, the diversification percentages would likely be higher. Wells Fargo will return with information regarding the diversification of active participants in the SPSP plan.

Wells Fargo will send a targeted email to participants ages 50 and older, introducing a Retirement Income Conversation service. There was a soft rollout at the end of last year. Many participants across America have issues with the decumulation phase. A dedicated telephone number has been established for individuals who participate in the Wells Fargo plans and have questions about their retirement income. The service is offered to all ages, but 50 and older are currently targeted. For participants under 50, there will be an Income Conversation Flyer available on the City's Intranet site. The flyer can also be posted in fire stations and other locations to target Safety Members.

C. Fourth Quarter Investment Report

Bill Cottle

The Milliman Public Pension Funding Study was provided as a reference in terms of the assets and returns generated by the 100 largest public pension plans; these are defined benefit plans, not defined contribution plans, but can be used a reference point for what has occurred in the market. The aggregate return was down 6.4% in the fourth quarter. In terms of the funded ratio, it fell from 73% to 67%, which is a significant decrease for one quarter. The capital market return for January shows the S&P 500 was up 8%, International Stocks were up 6.5%, Bonds were up 1.5%, and the Global Real-Estate Index was up 10%. As of December 31, 2018, the S&P 500 was down 13.5%, Foreign Stocks were down 12.5%, Emerging Markets were down 7.5%, and Bonds were up at 1.6%.

The largest losses in City plans were in Domestic Equity, International Equity, Balanced, REIT, and Target Date Funds. The Fixed Income (Managed Income) area was the only gain in the fourth quarter of 2018. The quarter started with \$1.238 billion and the loss, in terms of market value was \$100.2 million which represents an 8.1% loss. However, much of that loss has been recovered in January and February. The major percentage declines in equity were 3.5% and the gains were 3.8% in the Fixed Income.

Milliman recommends taking Boston Trust Small Cap off the Watch List. Over the last five years, they have outperformed and recovered. Invesco International Growth Fund has improved, however, not enough over the long term and should stay on the Watch List.

In terms of performance, the Vanguard Growth Index Fund historically matched its benchmark, as does the Vanguard Value Index Fund and BlackRock S&P 500 Equity Index Fund. Principal Mid Cap was 2% above the benchmark and has outperformed over the last five years. Vanguard Mid Cap Index is comparable to its benchmark and Boston Trust Small Cap has been above benchmark over the last five years, which is why removing it from the Watch List is recommended. Invesco International Growth portfolio did well in the quarter. Dodge & Cox has trailed somewhat, but outperformed over the long term. Although no immediate action can be taken, it is recommended that the Board consider placing the Oakmark Equity and Income Fund on the watch list. A future discussion is also recommended regarding transferring the assets from the Oakmark Equity and Income Fund to the Target Date Funds, as they are comparable in many respects. The Target Date funds are outperforming as expected.

The Board inquired as to what the transition options are if the decision is made to transfer from Oakmark Equity and Income Fund to a Target Date Fund. At the next quarterly meeting, the Oakmark percentages could be provided by Milliman, to determine what Target Date Fund would be most closely matched. It was noted that typically the assets would be mapped to the appropriate Target Date Fund based on the participant's date of birth.

D. Disclosure of Economic Interests (Form 700)

Quennelle Allen

Trustee Board members were reminded to file their Disclosure of Economic Interest form by April 02, 2019 and to include their role as a Trustee Board member in addition to their regular job title.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

Robert Davis stated that an employee asked if there is a possibility of having a ROTH plan offered. Denise Jensen will follow-up with staff regarding why the ROTH feature does not work with City plans.

Gail Granewich announce her upcoming retirement in April 2019. The acting Trustee member will be Liz Correia.

Milliman's contract expires April 2019. A special Trustee Board meeting will be convened to discuss the next steps.

4. PUBLIC COMMENT

None.

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

Meeting adjourned at 2:44 p.m.

Backup documentation is available from the Risk Management Department.