

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES

Thursday, May 30, 2019

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting which 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 1:37 p.m. by Quennelle Allen.

1. ACTION ITEMS

- A. Elect Chairperson Pro-Tem for today's meeting.

Ms. Allen called for nominations. Mr. Hunt nominated Mr. Rademacher.
Approved (4-0).

- B. Roll Call Gregg Rademacher

Trustees Present: Gregg Rademacher, Robert Davis, Abraham Hunt, Elizabeth Correia

Trustees Absent: Julio Canizal

Staff present: Quennelle Allen, Tom Brady, Melanie Doyle

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

- C. Dispense with the reading and approval of the minutes of February 21, 2019 and April 29, 2019. Gregg Rademacher

A correction was noted for the March 21, 2019 meeting minutes in the second paragraph from the bottom on the first page, the current fees should be stated as 0.45 basis points. A correction was also noted for page 2 of the March 21, 2019 meeting minutes, the motion to extend the Milliman consultation services agreement should state that the Board directed staff to conduct an investment consultant search.

MOTION TO ACCEPT THE MINUTES OF FEBRUARY 21, 2019

AND MARCH 21, 2019 AS AMENDED:

SECOND:

PASS (3-0)

Robert Davis
Abraham Hunt
Abstained: Elizabeth Correia

- D. Remove Boston Trust Small Cap from Watch List Jeff Nipp

The Small Cap Equity Manager, Boston Trust, had been placed on the Watch List for underperformance in 2015. This was not unexpected in a long bull market as they are a relatively defensive manager. They have since improved, outperforming in the first quarter of 2019. The one-year return is ahead of the benchmark substantially, and while the three-year return is still behind, the five-year return is ahead by 1%.

MOTION TO REMOVE BOSTON SMALL CAP FROM
THE WATCH LIST:

SECOND:
(Pass 4-0)

Gregg Rademacher
Elizabeth Correia

- E. Place Oakmark Equity and Income Fund on the Watch List
or Transfer Assets to the Target Date Funds

Jeff Nipp

The Oakmark Equity and Income Fund is a balanced 60/40 equity, fixed-income blend and is designed to be very defensive. The equity portion is value-oriented and growth has outperformed value for many years. It is an all cap fund, having Large-, Mid-, and Small-Cap holdings in it. The S&P 500 is the benchmark, which is Large-Cap. The bond portion of the fund is short duration. It is very defensive, having a two-year duration; the benchmark is closer to six years. In a falling interest environment, this may not keep up as well because it does not have the same interest rate exposure the benchmark has. The ranking in the peer group, which are balanced funds with 50%-70% equity, in most of the periods is below median, which according to the Investment Policy qualifies them to be added to the watch list.

The Board discussed closing the Oakmark Fund and transferring the assets to Target Date Funds, which are more global and broadly diversified. If the choice was made to move out of the fund, the recommendation is to map it to the appropriate Target Date Fund based on the participant's date of birth. Communications outlining what Oakmark is invested in comparative to Target Date Funds to educate participants was proposed as an option.

MOTION TO PLACE OAKMARK ON THE WATCH LIST AND

CREATE EDUCATION COMMUNICATIONS FOR PARTICIPANTS:
SECOND:
Pass (4-0)

Gregg Rademacher
Robert Davis

- F. Evaluate Milliman results for the Real Assets Managers and consider
recommendations for and approve scheduling of presentations.

Jeff Nipp

Two of the funds that are currently on the Watch List are the TIPS Fund, managed by Blackrock, and the REIT Fund managed by T. Rowe Price; each having 1% or less of the plan assets. There is opportunity for a broader real asset portfolio that could include TIPS and/or REITs in addition to other options as a potential alternative to the two Watch Listed funds. Per the Board's request, Milliman drafted a report with a recommended list of seven potential managers, each with distinct real assets strategies to hedge against inflation.

The Board expressed interest in transitioning from the existing real assets funds to simplify the choices for a volatility hedge, while keeping fees as low as possible. PIMCO, Principal Portfolio Strategies, Quantitative Management Associates, and State Street Global Advisors all have TIPS and REITs and would meet the minimum portfolio asset classes desired by the Board.

The Board directed staff to schedule a special meeting to interview PIMCO, Principal Portfolio Strategies, Quantitative Management Associates, and State Street Global Advisors.

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Wells Fargo First Quarter Report and Fee Review

Paul Jacobson
Denise Jensen

The 2018 Fee Summary illustrates what has been paid by participants for the plan year. The daily Participation Recordkeeping fee was 11bps, taken monthly in arrears, for a total of \$1.3 million for the year. The 401k and the SPSP each have a \$75.00 Loan Origination fee resulting in \$96,000 for the year. The total Administrative Fees that were paid was \$1.4 million. There were 520 loans for the 401k plan and 767 loans for the SPSP plan.

The plan overview for the quarter reflects positive plan growth from March 31, 2018 to March 31, 2019, ending at \$1.245 billion in assets at quarter end. The outstanding loans and outstanding loan amounts have continued to decline, as of March 31, 2019 there are 3,916 loans outstanding totaling \$34.1 million in assets. For plan to plan transfers, \$1.3 million was transferred to SDCERS to purchase service credit. The retirement estimator tool is now available on the mobile app. All plan balances have increased from last year, from March 31, 2018 to March 31, 2019. For the 401k plan, 30% of the assets are in the Managed Income Fund and 30% of the deferrals are directed there. The 401a has 4% plan assets in the Managed Income Fund, with 2% of deferrals directed there. In the SPSP Plan, the Managed Income Fund is 39% of the total assets and 43% of deferrals. For the SPSP-H plan, the Managed Income Fund contains 9% assets and 2% of the deferrals. With regard to the Managed Income Fund and the SPSP, there are 2,528 participants that have 100% of their assets invested in the Managed Income Fund. Of those participants, 1,875 are active employees with 95% of those employees having been with the City at least ten years.

B. Milliman First Quarter Investment Report

Jeff Nipp

The funds experienced very strong returns in the first quarter. All of the index funds have been tracking on their benchmarks. The two active US equity funds had very good first quarters, as did the two international equity fund managers. The Target Date Funds, which went into effect May of last year, did very well in the fourth quarter, but were mixed in the first quarter. The shorter-dated funds were hurt by the equities that they own being larger cap and more defensive, whereas in the first quarter smaller cap equities are what performed well. The later-dated target date funds have less equity than other target date funds, which is a drag on returns in a strong bull market. The funds with a time horizon in the middle outperformed.

It was noted that the Boston Trust Small Cap change from the Mutual Fund to the Collective Trust went well with no issues.

C. Principal Financial Group Acquisition of Wells Fargo Institutional Retirement and Trust

Paul Jacobson

The sale of Wells Fargo Institutional Retirement and Trust to the Principal Financial Group will close some time in the first part of the third quarter. After the close date, there will be an 18-month transition period. During the transition period, a gap analysis will be performed, in which the systems and participant website will be analyzed as well as the communication materials to determine what solutions work best, but customers should not see an impact during the transition period.

This is seen as a good fit as Principal is known for working with smaller, mid-market clients, whereas Wells Fargo IRT handles larger, more complex clients. Principal is also number one in non-qualified plans for executive comp and number one in defined benefit plan services, whereas Wells Fargo IRT is big in trust and custody services, which Principal doesn't have, so the acquisition will provide a lot of synergies. Once the transition is complete, Principal will be the third largest provider in the industry. As a client, this will benefit the City with economies of scale, managing costs, bringing in new solutions, and investing in the business and new technology. The transition is anticipated to be seamless with not a lot of change other than where participants log in, and there will also be a lot of communication throughout the process as the two organizations combine.

D. Update on Roth 457 Option

Quennelle Allen

In addition to plans that are held in the Trust that is administered by the Trustee Board, the City of San Diego participates in the CalPERS Supplemental Income 457 Plan. There will now be a Roth 457 option offered by CalPERS effective July 12, 2019, which the City has elected to make available as a deferral option for employees. The Board has previously expressed interest in having a Roth option available for the 401k plan, but feel that the CalPERS Roth option is sufficient in providing a post-tax retirement savings option to employees.

E. Update on Investment Consultation Invitation for Bids

Quennelle Allen

Staff is working with their benefits consultant and the Purchasing and Contracting Department to develop the scope for the search. The goal is to have it completed by June 2019 and have the results back before the August 2019 Trustee Board Meeting.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

Mr. Rademacher welcomed Ms. Correia to the Board.

Mr. Rademacher disclosed that he attended the CalPERS General Assembly and spoke with Vince Ortega from American Funds. Mr. Ortega offered to provide training to the Board. Mr. Rademacher referred Mr. Ortega to Mrs. Allen for more information.

Mr. Nipp provided a reminder that Pension & Investment Magazine will be hosting their annual Defined Contribution Conference from November 3rd-5th, 2019 at the Hilton Bayfront Hotel in San Diego. This event is free to plan sponsors.

4. PUBLIC COMMENT

None.

5. NEXT MEETING

The next meeting is scheduled for August 29, 2019 at the City Administration Building at 1:30 p.m.

6. ADJOURNMENT

Meeting adjourned at 3:04 p.m.

Backup documentation is available from the Risk Management Department.