

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES

Thursday, August 29, 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 1:34 p.m. by Julio Canizal.

1. Action Items

A. Roll Call Julio Canizal

Trustees Present: Julio Canizal, Gregg Rademacher, Abraham Hunt, Elizabeth Correia

Staff present: Quennelle Allen, Tom Brady

Presenters: Denise Jensen (Wells Fargo) and Jeff Nipp (Milliman)
Jim McKay and Ann Holloran (Ameriprise Trust Company)

B. Dispense with the reading and approval of the minutes of May 30, 2019. Julio Canizal

MOTION TO ACCEPT THE MINUTES OF May 30, 2019 Gregg Rademacher
SECOND: Elizabeth Correia
PASS (3-0) (Abstained) Julio Canizal

C. Review and approval of the FY2020 Trustee Board Budget Quennelle Allen

The total proposed budget for FY2020 is \$458,009, which includes the Trustee Board's projected operational costs and the City's internal administrative costs for the SPSP, SPSP-H, 401(k), and the 2009 401(a) Plans.

MOTION TO ACCEPT THE BUDGET REVIEW Julio Canizal
SECOND: Gregg Rademacher

PASS (3-0)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Wells Fargo First Quarter Report and Fee Review Denise Jensen

The acquisition of Wells Fargo IRT by Principal Financial Group was announced on April 9, 2019. There will be an 18-month transition period, with an anticipated transition date of January 2021. During the transition there will be no changes to the team, fees, or investments. Anticipated enhancements that will be made to users following the completed transition include estate planning resources, which will allow plan participants to set up wills for themselves at no charge; access to My Virtual Coach (Alex) to assist participants in planning for retirement; streamlined

rollover capability, which will eliminate the two-step process that is currently used; finally, there is also broad multi-channel digital capabilities including live chat and account aggregation.

There has been positive plan growth, as of June 30, 2019, for the year, with plan assets reaching \$1.29 billion. Outstanding loans have decreased, plan to plan transfers have increased to \$2.1 million, and the number of distinct users for the web has increased to 4,638, with the average number of log-ins for the quarter of 13.82. The average account balance has increased in all plans, while the number of participants in the 401(k) and SPSP-H plans has increased, the number in the SPSP and 401(a) plans has decreased.

On March 6, 2018, Wells Fargo began tracking the number of participants who have 100% of their assets in the Managed Income Fund, which will be tracked on a quarterly basis moving forward. From inception to June 30, 2019, 1,776 401(k) participants are 100% invested in the Managed Income Fund, down from 1,952; 1,776 401(k) participants are 100% invested in the Managed Income Fund, down from 1,952; 1,095 SPSP participants are 100% invested in the Managed Income Fund, down from 1,192; 1,581 SPSP-H participants are 100% invested in the Managed Income Fund, down from 1,687; and there continues to be 1 401(a) participant 100% invested in the Managed Income Fund. The annual regulatory notices, including the annual fee disclosures and the QDIA, that must be distributed to participants will be included in the September 30, 2019 statements. These have also been posted on the City's intranet site.

B. Second Quarter Investment report

Jeff Nipp

There was overall strong market returns in the second quarter of 2019. The S&P 500 Index was up over 4.30%, there was also sizable returns in the equity markets, both US and international. Bonds were up in one quarter. However, there was volatility, with the issue of a potential trade war with China affecting the month of May. The percentage of total plan assets in the Managed Income Fund continues to decrease, down from 32.4% at the end of the first quarter to 31.1% at the end of the second quarter. The percentage of assets in the Target Date Funds continue to increase.

In regards to performance, there are no changes recommended on the watch list. The index funds are performing as expected, appropriately tracking their benchmarks. The Principal Mid Cap Fund continues to substantially exceed the benchmark. Mid Cap Index Fund continues to track its benchmark. The Boston Trust Small Cap Equity Fund, had been on the watch list. They are defensive in a strong bull market, they have been defensive and continue to do well, being up by 10% over the past year. On the international equity front, Invesco International Growth outperformed but is still on the watch list and should continue to be due to lagging in 3-year returns. Dodge & Cox, the value manager for international, has also outperformed the value benchmark in the last quarter. The Oakmark Balanced Fund is also on the watch list, this is a defensive fund, consisting of value stocks and short-term bonds. The short-duration bonds have hurt their returns. The Managed Income Fund has outperformed the T-Bill benchmark. The TIPS option and the Real Estate Fund are on the watch list and it has been discussed to replace them with a broad based real assets portfolio once the

interviews have been scheduled. The TIPS fund fell a little behind in the quarter, this is more of a duration issue. The Real Estate Fund continues to lag, the biggest issue stems from the lack of data center investment in the Real Estate Fund, which have been performing very well for the benchmark. The Target Date Funds all have been beating their bench mark for the past year, but have lagged during the last quarter.

Milliman provided a memo regarding Dodge and Cox, there has been a large outflow from the fund because many of the retail investors and their financial advisers are looking at them verses broad market benchmarks rather than value benchmarks. However, they are doing well as the value-oriented manager; their long-term track record is very good.

Milliman also distributed a second memo regarding the Target Date Funds. American Funds has a portfolio oversight committee, consisting of seven senior individuals that oversee all the balanced options, including Target Date Funds. As of the first of the year, they have decided to split them into two separate seven-person teams. One group will oversee anything that has a glide path in it, like the Target Date Funds. The other group will handle the remaining options, primarily model portfolios for financial advisors. There will also be a dedicated quantitative research team established that will support those strategies and will be used for research projects or to help the oversight committees. There are no changes to the underlying funds.

Regarding the Small Cap Manager Boston Trust, they have a division titled Walden that handles the socially impacted investing; this will be combined into one brand and renamed Boston Trust Walden. There will be no changes to the funds and no new contracts are needed.

C. Stable Value Investment Funds Education

Jim McKay
Ann Holloran

The Managed Income Fund is made up of two high-quality bond portfolios together with investment contracts obtained from insurance companies and banks. The bonds are managed to earn interest greater than a money market fund by investing in bonds two to five years out, which allows for higher yields than a money market account with 30- to 90-day maturities. The strategy is to invest in bonds to get higher yields, then obtain investment contracts that allow them to not have to mark the bonds to market, resulting in the stable principle that investors desire.

D. Managed Income Fund Update

Jim McKay

The portfolio has been customized for the City of San Diego. In the past, the Managed Income Fund used a government strategy and all the bonds were government bonds. Before interest rates started rising, it was suggested that investment grade bonds be added to have more tools to enhance performance in a rising rate environment. The Managed Income Fund is actively managed using a very conservative management strategy. This enables the purchase of high quality bonds. The stable value contracts have no guarantees against credit losses, which necessitates the use of high quality bonds that perform well. The fund is also managed to have enough liquidity for day to day participants to make deposits and withdrawals daily and to be rate responsive.

The one-year return as of June 30, 2019 was 2.33% which was up from the June 30, 2018 yield of 1.89%.

E. Discussion of Roth Option

Tom Brady
Denise Jensen

The Board is considering adding a Roth option to the 401(k) plan as an alternative to the 457(b) Roth option. A survey will be given to see if employees are interested in a 401(k) Roth option.

F. Update of Investment Consultant RFI

Quennelle Allen

The Purchasing & Contracting Department is working to get the advertisement posted. They are currently back-logged due to understaffing, but will be posting soon.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTARTOR, ATTORNEY

Nominations will be due on September 13,2019 for the open seat on the Trustee Board, with the election to be held in October.

On October 31, 2019 there will be a Special Board Meeting for interviews of real asset managers.

4. PUBLIC COMMENT

None.

5. NEXT MEETING

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

6. ADJOURNMENT

Meeting adjourned at 3:24 p.m.

Backup documentation is available from the Risk Management Department.