

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES

Thursday, November 21, 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, Brenton Devore

Staff present: Quennelle Allen, Tom Brady

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

B. Dispense with the reading and approval of the minutes of August 29, 2019. Julio Canizal

MOTION TO ACCEPT THE MINUTES OF August 29, 2019 Gregg Rademacher
SECOND: Abraham Hunt
PASS (3-0) (Abstained) Brenton Devore

C. Selection of Real Assets Manager (continued from October 31, 2019) Jeff Nipp

The two smallest options in the plan, TIPS and REITs have been under performing and they are both on the watch list. It was suggested to combined them into a broader real assets portfolio, which will include TIPS and REITs. In October, four managers presented their real asset fund strategies: PIMCO, Principal, QMA, and State Street Global Advisors.

MOTION TO TERMINATE THE EXISTING REITS AND TIPS FUND MANAGERS, ADD THE STATE STREET GLOBAL ADVISORS (SSGA) MANAGER, AND MIGRATE THE INVESTMENTS IN THE TERMINATED FUNDS TO THE NEW SSGA REAL ASSETS OPTION

SECOND: Gregg Rademacher
Abraham Hunt

PASS (3-2)

D. Status of Investment Consultant RFI and option to extend Milliman Contract to June 30, 2020 Quennelle Allen

The Request for Information (RFI) for investment consulting services for the City's Defined Contribution Plans was posted on November 4, 2019. The submittal due date

is December 4, 2019. Staff will report on the results for the Board at the next meeting, at which time the Board may choose to proceed to a full RFP.

In order to allow time for this process should the Board choose to do so, Milliman has proposed a six-month extension of their current contract signed earlier this year. The terms include a fee of \$15,500 per quarter (an increase of \$500 per quarter over the current fee), with an expiration date of June 30, 2020.

MOTION TO EXTEND THE MILLIMAN CONTRACT UNTIL JUNE 30, 2020

SECOND:

Gregg Rademacher
Julio Canizal

PASS (5-0)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Principal Transition Presentation

Denise Jensen
Colleen Plott
Renee Schaaf

The transition for the employees and plan relationships has begun. A priority is making sure there are enough resources available for plan sponsors during the migration period to Principal.

Principal's operating earnings are \$2.13 billion, with \$626.8 billion in assets under management, as of December 31, 2018. The acquisition doubles the size of the U.S. retirement business for Principal. Principal is also making significant digital investments to innovate and enhance experiences. It is well positioned for future development with an agile development methodology, which increases the speed to market. As the migration of the books of business starts, there should be no disruptions for plan participants.

There will be a live digital demonstration at the next trustee board meeting. This will give an overview of what the participants and plan sponsor will experience.

B. Wells Fargo Third Quarter Report

Denise Jensen

There has been positive plan growth since September 30, 2018, currently at \$1.3 billion. Outstanding loans are down and continue to decrease from quarter to quarter, but stayed stagnant on the loan amount. Plan to plan transfers was \$2.8 million. The number of distinct users, use of the web, and mobile activity are growing. There was one termed rollover in to 401(k) from SDCERS for \$212,293.59.

Plan Diversification is trending positively with the 401k at 68%, 401a at 97%, SPSP at 58%, and SPSPH at 75%. The average balance increased for all four plans, as well as the headcount, except for the 401a plan.

C. Third Quarter Investment Report

Jeff Nipp

The US equity market large cap was up a little under two percent for the third quarter. Smaller cap and international stocks were down. Bonds performed very well, up by 2% within one quarter. The managed income fund continues to decline, while the target date funds continue to grow. The percentage of plan assets in the managed income fund continues to decline, while the percentage in the target date funds continues to grow. The Growth Index, the Value Index, the S&P 500 Index Fund, the Mid Cap Value Index Fund are all tracking their benchmarks as expected. The Mid Cap Fund run by Principal continues with very good numbers, outperforming by 3% in the quarter. They had very strong returns over the past five years with four percent over the benchmark. The Boston Trust Small Cap Fund had been on the watch list for a while; the fund lagged in a strong bull market for much of the last ten years but in the last couple of years has been doing well. Regarding the International Equity front, both managers out performed. The absolute returns were negative and returns were down but still ahead of their benchmark. The Managed Income Fund is the conservative stable value fund that has been in place for many years; it is outperforming T-Bills on a very consistent basis. The Target Date Funds, which were put in place in June of 2018, lagged during the quarter due to the underlying strategies that are actively managed within the Capital Group. However, the one-year returns are consistently ahead for them. Oakmark Equity and Income, is the original balanced fund in the plan. It is very conservatively managed, it has value equities with short duration bonds, and it is a US only fund. It was on the watch list but the performance had improved and they were removed from the watch list and went back on the watch list after decreased performance six months ago. It was decided that because it is a US only fund and conservatively managed, and has 5% of the total plan assets, that it can remain in place.

D. 401k Survey Draft

Quennelle Allen

Staff was directed to release a survey to gauge the interest of City employees regarding a Roth Option for the 401k plan. A sample of the survey has been added to the Trustee binders for review for feedback. The survey will give a brief overview of the consideration of adding a 401k Roth option, and the differences between the traditional and Roth plans.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTARTOR, ATTORNEY

The City Attorney advised that in early 2020 there should be another Fiduciary education for the new trustees. Also, Prop B may be removed from the charter and employees may be placed back into SDCERS at some point. Updates will be given at a later date.

4. PUBLIC COMMENT

None.

5. NEXT MEETING

The next meeting is scheduled for March 5, 2020 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.