

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES

Thursday, March 5, 2020

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting which took place in the SDCERS Board Room. Location: 401 A Street, 3rd Floor, San Diego, California. The meeting was called to order at 1:40 p.m. by Quennelle Allen.

1. Action Items

A. Roll Call Quenelle Allen

Trustees Present: Gregg Rademacher, Elizabeth Correia, Brenton Devore
Julio Canizal (Absent), Abraham Hunt (Absent)

Staff present: Quennelle Allen, Tom Brady

Presenters: Denise Jensen, Jonathan Scharmer, Erin Cowell (Wells Fargo)
and Jeff Nipp (Milliman)

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

Ms. Allen called for nominations. Ms. Correia nominated Mr. Rademacher.
Approved (3-0).

C. Dispense with the reading and approval of the minutes of October 31, 2019 and November 21, 2019

Gregg Rademacher

MOTION TO ACCEPT THE MINUTES OF October 31, 2019 and
November 21, 2019

SECOND:
PASS (3-0)

Elizabeth Correia
Gregg Rademacher

D. Add American Funds 2065 Target Date Retirement Fund

Jeff Nipp

American Funds has developed the 2065 Target Date Retirement Fund, which is intended for participants who plan on retiring around the year 2065. It will be available on March 27, 2020.

Two options for adding the fund to the platform were presented to the Board: (1) simply adding the fund as an option or (2) adding the 2065 Fund and then mapping the balance of any participant born after January 1, 1997 in the 2060 Fund to the new 2065 Fund. With the mapping option, those participants will be notified within 30 days of their monies being moved.

MOTION TO ADD AMERICAN FUNDS 2065 TARGET DATE RETIREMENT FUND
WITHOUT MAPPING ANY BALANCES FROM THE 2060 TARGET DATE FUND OF
PARTICIPANTS BORN AFTER JANUARY 1, 1997

SECOND:
PASS (3-0)

Gregg Rademacher
Elizabeth Correia

- E. Summary of Investments Consultants RFI Responses and Staff Recommendations Quennelle Allen

At the direction of the Board, staff conducted a Request for Information (RFI) for investment consulting services in support of the City's employee savings plans. Thirteen (13) bidders provided responses. The providers all offered services similar in nature. The noted differences were price, customer service, and experience. Of the thirteen (13) responses received, staff recommended a renewal of the contract with Milliman Advisors, LLC ("Milliman"). Milliman has extensive experience in the industry, with over 22 years of service with the City of San Diego.

This long relationship with the City has provided Milliman with unique knowledge and understanding of the City's various retirement plans and familiarity with the City's investment risk tolerance. They also have a long working relationship with the City's recordkeeper, Wells Fargo IRT. Milliman's quoted pricing was reasonable when compared to the other bidders' quotes. After reviewing all proposals, staff concluded that Milliman continues to provide the best value for the City, when considering consulting services offered, pricing, customer service, and experience. Staff also recommended approval of the Milliman proposal to conduct the Third Party Administrator search for record-keeping services.

MOTION TO EXTEND MILLIMAN CONTRACT TO JUNE 30, 2025 AND SELECT MILLIMAN TO CONDUCT THE RECORD-KEEPER SEARCH

SECOND:
PASS (3-0)

Gregg Rademacher
Elizabeth Correia

2. STAFF REPORTS AND INFORMATIONAL ITEMS

- A. Fourth Quarter Investment Report Jeff Nipp

Milliman presented an informational memo regarding a change in the Boston Trust Small Cap Equity Fund portfolio management staff. Ken Scott will remain the Lead Portfolio Manager with his assisting portfolio manager Richard Williams still in place, however Leanne Moore is replacing Belinda Cavazos as the other assisting portfolio manager. The analyst team, the lead portfolio manager, and strategy for the fund all remain the same.

The Fourth Quarter Investment Report illustrated that the market results overall were very strong. The S&P 500 Index increased 9.07%, the MSCI EAFE Index ND 8.17%, the MSCI EM Index ND 11.84%, and the Bloomberg Barclays Aggregate Bond Index 0.18% in the fourth quarter of 2019. Growth stocks outperformed value stocks in the quarter. The Managed Income Fund represents 29.1% of total assets as of the end of the year.

Most of the new monies are going into the Target Date Funds, which are currently over 20% of the assets.

On the watch list, the BlackRock TIPS Fund and T. Rowe Price Real Estate Fund will be removed on March 18, 2020 and replaced by the new State Street Real Assets Fund. Invesco International Growth will stay on the watch list because their 3- to 5-year returns are behind the benchmark, but otherwise they are not concerning. Oakmark Equity and Income outperformed this quarter, but is still behind on long-term results and will stay on the watch list.

The domestic equity index funds are virtually on top of their benchmarks. For the international funds, Invesco lagged for the quarter but the one-year result was good, while the Dodge and Cox International Equity Fund on the value side, has performed very well and is ahead of their benchmark. The Managed Income Fund is well ahead of T-Bills. It was also noted that the fees that are paid to the insurance companies that provide the wrap on the bond portfolios to create the stable value in the Managed Income Fund have decreased. All of the Target Date Funds had a good quarter, with the one-year return for the longer dated funds generally ahead of the benchmark and the shorter dated funds behind the benchmark; this is primarily due to the shorter dated funds created to be more defensive. The fees have also decreased on the Target Date Funds.

B. Fourth Quarter Report

Denise Jensen

The next step in the transition to Principal is for the City to authorize the service continuity agreement to consent to moving responsibility of the services that are currently provided by Wells Fargo IRT to Principal once the migration is complete. It was acknowledged that the record-keeping contract is up at the end of 2020 and the City will be undergoing an RFP process. To give quality time for the RFP process, migration for the City will take place in May of 2021. Principal has educational tools that can be utilized by the plan participants and Wells Fargo has agreed to add the links to their landing page.

As an overview, the plans have shown positive growth. The overall balance for the City plans was \$1.38 billion in assets as of December 31, 2019. The number of outstanding loans decreased to 3,767 with loan amounts showing a slight decrease to \$33.2 million as of December 31, 2019. Plan to plan transfers ended the year at \$3.3 million.

March 18, 2020 is the effective date of the State Street Real Assets Fund change. Operationally everything is in place and all communications regarding the change have gone out.

C. Digital Experience: Live Demo

Jonathan Scharmer

Between Wells Fargo and Principal, there are two award winning websites; the idea is to create one site moving forward using solutions from both organizations to maximize the customer experience. One tool that will be incorporated is investor profile questions. The way the questions are answered will determine how the user's dashboard is setup as well as what types of communications are going to be sent to the participant. A peer comparison tool will also be on the website, it will show the

participant what their successful peers of similar age and income are doing. There is a 32% take-action rate, which shows how influential the information is. It has been found that the participant spends an average of 32 seconds online, which is only a half a minute to influence them positively to do something within their plan. They usually use that time to look for the account balance, returns, or loan information. The new site includes this information on the left side of the rail of the screen, which maximizes the 32 seconds. There is a 46% take-action rate on the guidance tool, City employees accessed this tool 76,017 times last year. External accounts can be added to the wellness score; the information can be input manually or accounts can be linked and updated on the backend with amounts refreshed on a nightly basis. SDCERS accounts are also able to be added. There will also be the ability to add household inputs, including a spouse's annual income and retirement information, providing not only an individual score but a household score as well. Principal bought all of Wells Fargo's STAR system, the historical data will be there on day one along with the rates of return. It also educates participants on taking loans against their plans and shows there could be a negative impact to their future retirement. The mobile app will be offered in English and Spanish. Authentication will also be streamlined to tell different ways if the caller is the participant. If anything changes, the authentication will become stricter.

D. Participant Communications Update

Erin Cowell

The number of participants selecting to receive communications electronically as of December 31, 2019 was summarized, with 56% of the 9,791 401(k) participants electing e-statements, 55% of the 5,518 SPSP participants electing e-statements, 41% of the 8,986 SPSP-H participants electing e-statements, and 54% of the 654 participants in the 401(a) plan electing e-statements.

There were 1,726 participants who were 100% invested in the Managed Income Fund for the 401(k) plan, 1,070 participants for the SPSP plan, 1,564 participants for the SPSP-H plan, and 1 participant for the 401(a) plan.

All of the communication topics sent in 2019 were included for review. The City's open rates (or read rates) of communications is 25%, compared to the industry average of 17%, showing how engaged City participants are. Looking forward, the City is focusing on a goal of increasing employees' financial wellness. In support of the City's goal, Wells Fargo will conduct onsite meetings in April and provide resources to be posted to the City Wellness intranet site.

An update on the SECURE ACT was also presented. The SECURE Act, passed on December 20, 2019, contains a significant number of provisions. There are still outstanding questions on which provisions are discretionary, so it is recommended to refrain from amending plans at this time until further guidance from the IRS is available.

E. 401(k) Roth Option Survey Results

Quennelle Allen

At the direction of the Board, Risk Management conducted a survey to assess employees' interest in adding a Roth option to the City's 401(k) plan. The survey was conducted from January 8, 2020 to January 31, 2020. There were six questions and 638 respondents.

The majority of respondents were interested in adding a Roth option to the 401(k) plan and attending more educational workshops. Staff will work with Wells Fargo to ensure education is available. Including a discussion item on the next agenda for adding a Roth option to the 401(k) plan was requested by the Board.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

The City Attorney noted that there will be a fiduciary education at the next meeting. It will be about 45 minutes in length.

4. PUBLIC COMMENT

None.

5. NEXT MEETING

The next meeting is scheduled for May 28, 2020 at the City Administration Building at 1:30 p.m.

6. ADJOURNMENT

Meeting adjourned at 3:26 p.m.

Backup documentation is available from the Risk Management Department.