

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES

Thursday, May 28, 2020

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting on Thursday, May 28, 2020. The meeting was conducted via teleconference pursuant to the provisions of California Executive Order 29-20. The meeting was called to order at 1:32 p.m. by Julio Canizal.

1. Action Items

A. Roll Call Julio Canizal

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

Staff present: Quennelle Allen, Thomas Brady

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

B. Dispense with the reading and approval of the minutes of
March 05, 2020 Julio Canizal

MOTION TO ACCEPT THE MINUTES OF March 05, 2020 Gregg Rademacher
SECOND: Liz Correia
PASS (3-0)

C. Review and Approve FY 2021 Trustee Board Budget Quennelle Allen

The total proposed budget for FY2020 is \$561,168, which includes the Trustee Board's projected operational cost and the City's internal administrative cost for the SPSP, SPSP-H, 401(k), and the 2009 401(a) Plans. The proposed budget reflects an overall increase of \$103,159 from the prior year. Non-personnel expenses (NPE) increased by \$115,953, primarily due to an increase in contractual services costs related to the third-party administrator search to be conducted by Milliman for record-keeping services, which added a one-time cost of \$90,000 in Fiscal Year 2021. Funding for the Milliman Contract will need to be re-appropriated in the Risk Management Administration Fund. The increase in NPE was partially offset by a decrease of \$12,794 in personnel expenses (PE). The decrease in PE is primarily due to a reduction of 0.60 FTE in staff support, which lowered the PE budget by \$53,839. This decrease was partially offset by an increase of \$30,921 in salary and fringe costs associated with the Program Coordinator position.

MOTION TO PASS THE FY 2021 BUDGET PROPOSAL
SECOND:
PASS (3-0)

Julio Canizal
Gregg Rademacher

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Fiduciary Education

Tom Brady

The fiduciary education was postponed until the August 20, 2020 Trustee Board Meeting.

B. Wells Fargo First Quarter Report

Denise Jensen

An update on the Principal transition was provided. The service continuity agreement with Principal was executed by the City on March 27, 2020. A timeline for the migration will be presented at the August 20, 2020 Trustee Board Meeting for the May 2021 migration to Principal.

Effective March 18, 2020, the BlackRock TIPS Fund and T. Rowe Price Real Estate Fund were removed with funds mapped to the new State Street Real Assets Fund. On May 15, 2020, the American Fund 2065 Target Date Fund was added without mapping.

Every year the Board reviews the fees charged to participants. The fee for daily administrative recordkeeping services is 11 basis points, which is taken directly from the plan participants' accounts on a monthly basis in arrears. The total fees paid for recordkeeping services was \$1,404,660.73 for calendar year 2019. There is a \$75.00 loan origination fee for the SPSP and 401k loans; for calendar year 2019, there were 730 loans taken from the 401k plan and 493 loans taken from the SPSP plan resulting in total participation loan fee setup costs of \$91,725.00, bringing the total administrative fee to \$1,496,385.73 for calendar year 2019. Due to COVID-19, loan distribution and loan fees are being waved from April 3, 2020 through September 30, 2020. Since April 3, 2020, there have been 71 loans taken; 38 from the 401k plan and 33 from the SPSP plan, with a total savings of \$5,325.00 in loan setup fees. It was also noted that for any revenue that is received from any mutual funds that share revenue, that revenue share is credited back to the participant accounts of those that are invested in those funds.

The plan overview as of March 31, 2020 reported that plan assets fell to \$1.19 billion, outstanding loans decreased to 3,693, and the outstanding loan amount decreased to \$33.2 million. There was a total of \$522,000 rolled to

SDCERS during the first quarter. There are now 5,340 distinct users on desktops, 189 on tablets, 4,013 on mobile devices, and 1,450 on the VRU. As of March 31, 2020, the average account balance for the 401(k) plan is \$39,800, 401(a) plan is \$10,900, SPSP plan is \$114,000, and SPSP-H plan is \$18,800. There was an increase in 401(k) plans participants to 9,812, participants in the 401(a) decreased to 647, SPSP participants decreased to 5,468, and the number of participants in the SPSP-H plan increased to 9,074. The percentage of participant assets in the Managed Income Fund has increased across all four plans primarily due to the market downturn.

C. First Quarter Report

Jeff Nipp

Equity markets were down significantly for the quarter as investors reacted to the sudden onset of a global pandemic and the resulting economic consequences. The S&P 500 was down by 20%, small cap stocks were down 30%, and international stocks were down 23%. There were also huge divergences with not only large and small cap stocks, but also with growth and value styles. Year to date, there is a 20% difference between performance of growth benchmarks and performance of value benchmarks in the United States. Bonds had positive returns, entirely driven by Treasury Bonds.

The target date funds outperformed their benchmarks for the quarter. The passively-managed domestic equity funds performed largely in line with their benchmarks, with the two actively managed funds by Principal and Boston Trust both outperforming substantially in the first quarter. The Invesco International Growth Fund was down this last quarter and should stay on the watch list. Dodge & Cox underperformed in the last quarter; while its one-year return is ahead, its three- and five-year returns are below the benchmark enough to be recommended for the watch list. The Oakmark Equity and Income Fund had previously been on the watch list but had improved, then returned to the watchlist a year ago. The investment style of this fund is value, but intended to generate income as well, which comes in the equity and fixed income holdings. Given the style and huge cap size impacts and the impact of the bond portfolio, it is suggested to revisit this option to decide if a balanced option is needed. It is recommended that it be added to the agenda for review.

D. Review of Investment Policy Statement

Jeff Nipp

Minor revisions were proposed for the Investment Policy Statement (IPS). References to mutual funds were removed as some investments are in collective investment funds (CITs), the asset classes were updated as appropriate, and the Investment Objectives and Guidelines section was revised to distinguish between the expectations for actively managed and

passive funds. In addition, the term “risk-adjusted return” was removed in terms of evaluation, as there is no way of measuring “risk-adjusted return” for style groups/universes, and “risk-adjusted return” is not defined. Instead, the Policy was revised to focus the criteria on index-relative and universe-relative results, as appropriate. A new Risk Monitoring section was added to the draft to memorialize the examination of risk in the performance evaluation. This provides for a mix of quantitative and qualitative analysis in the evaluation outlined in the IPS.

E. TPA Search Update

Jeff Nipp

The first draft of the RFP for the third-party administrator for recordkeeping services has been outlined. The RFP will need to be formatted by the City to conform with the City’s standards. Staff will provide Milliman with the latest plan information for the RFP. Once the RFP is issued, respondents will have approximately six weeks to respond and the top candidates based on Milliman’s evaluation will be subject to interviews by the Board for a final selection.

F. 401(k) Roth Option Survey Results

Quennelle Allen

The discussion of the 401(k) Roth option survey was postponed until the August 20, 2020 Trustee Board Meeting.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTARTOR, ATTORNEY

The CARES Act provides new retirement plan distribution and loan provisions for participants impacted by the COVID-19 pandemic. The modifications to the plans are optional. The City has decided to move forward with adding the loan and distribution provisions to SPSP plan and the 401k plan. The Unions were notified and raised no concerns. Staff worked with Wells Fargo to enact the provisions for the 401k plan. The SPSP plan requires a member vote before adopting plan amendments, which staff is working to put forth.

Regarding the status of the VCP correction to the SPSP plan, the IRS approved the methodology outlined in the VCP filing. The City has since funded the missed contributions portion for the impacted participants. Wells Fargo has also completed the calculations of the earnings on those missed contributions. The final step is for the City to fund the earnings, anticipated to occur on May 29, 2020. Letters will also be sent to participants.

4. PUBLIC COMMENT

None.

5. NEXT MEETING

The next meeting is scheduled for August 20, 2020 at the City Administration Building at 1:30 p.m.

6. ADJOURNMENT

Meeting adjourned at 2:43 p.m.

Backup documentation is available from the Risk Management Department.