

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES

Thursday, August 20, 2020

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting on Thursday, August 20, 2020. The meeting was conducted via teleconference pursuant to the provisions of California Executive Order 29-20. The meeting was called to order at 1:34 p.m. by Julio Canizal.

1. Action Items

A. Roll Call

Julio Canizal

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

Trustees Absent: Brenton Devore

Staff present: Quennelle Allen, Thomas Brady

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

B. Dispense with the reading and approval of the minutes of May 28, 2020

Julio Canizal

MOTION TO ACCEPT THE MINUTES OF May 28, 2020

Gregg Rademacher

SECOND:

Julio Canizal

PASS (3-0)

Abraham Hunt (Abstained)

C. Adopt Investment Policy Statement

Jeffrey Nipp

Proposed revisions to the Investment Policy Statement included (1) references to mutual funds were removed because some investments are commingled trust funds, (2) the asset classes were updated as appropriate, and (3) the Investment Objectives and Guidelines section was revised to distinguish between the expectations for actively managed and passive funds. In addition, a new Risk Monitoring section was added to the Policy to memorialize the examination of risk in the performance evaluation.

MOTION TO ADOPT THE INVESTMENT POLICY

STATEMENT:

Gregg Rademacher

SECOND:

Elizabeth Correia

PASS (4-0)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Wells Fargo Second Quarter Report

Denise Jensen

The migration to Principal is scheduled for May 2021; notifications will be sent to participants 30 days prior. There will be a planned freeze at the close of business on the Thursday before the migration weekend (plan participants will still be able to view accounts), the funds will be reregistered, followed by the migration and validation over the weekend, and finally on Monday morning the Principal platform will be available.

There was positive year-over-year plan growth, with plan assets resulting in \$1.36 billion as of June 30, 2020. The number of outstanding loans and the outstanding loan amount decreased to 3,530 and \$31.6 million, respectively. The plan to plan transfers to SDCERS year-to-date total was \$884,000 as of June 30, 2020. There were 4,430 distinct desktop users accessing their account, 137 tablet users, 3,594 mobile users, and 3,317 VRU users. As of June 30, 2020, the average account balance in the 401k plan was \$45,500, 401a plan was \$13,200, SPSP plan was \$117,500, and SPSP-H was \$23,600. As of June 30, 2020, there were 9,744 participants in the 401(k) plan, 638 in the 401a plan, 5,923 in the SPSP plan and 9,020 participants in the SPSP-H plan. The percentage of participant assets in the Managed Income Fund remained relatively unchanged.

The results of recent webinars provided by Wells Fargo was reviewed. In March 2020, 57 City of San Diego employees attended the webinar Financial Health Investing with Market Uncertainty. In April 2020, the Social Security webinar was held, and 116 City of San Diego employees attended. On June 3rd and 4th the virtual benefit fair was held for plan participants and was successful. In June the Get to Know Your Retirement Plan webinar was held and there were 103 registrations. There was also a targeted email regarding emergency savings, which reached 7,369 plan participants with a 32% open rate. In August, the Medicare 101 webinar will be offered, which is one of the more highly attended webinars.

B. Second Quarter Report

Jeffrey Nipp

The second quarter returns were good across the board. In the beginning of the quarter, assets were just under \$1.2 billion and by the end of the quarter the assets were at \$1.36 billion. The Growth Index had a beginning market

value of \$72,668,348 ending at \$97,556,776. The Value Index had a beginning market value of \$33,547,808, ending at \$38,799,024.

The Managed Income Fund had a beginning market value of \$427,726,648, ending at \$431,109,560, representing approximately 32% of assets. Target Date Funds are increasing, currently at approximately 22% of total plan assets. Invesco International Growth and Oakmark Equity and Income remain on the watch list. Oakmark did outperform the benchmark somewhat, but Invesco under performed in the quarter. They are still behind their long-term benchmarks, so it is appropriate that they both remain on the watch list. Dodge and Cox International dramatically outperformed in the second quarter. All the long-term returns are ahead of their benchmark, so they will not need to go on the watch list.

The Index Funds performed very close to their benchmarks. The Mid Cap Index fund was also very close to the benchmark as well. Principal has been a consistent outperformer with exceptional long-term returns. The Boston Trust Small Cap outperformed dramatically in the first quarter due to its emphasis on quality equity funds; this helped in the first quarter but hurt in the second quarter. The Real Asset Fund was implemented in March and tracked closely to the benchmark. The Target Date funds performed well ahead of their benchmarks.

1. Managed Income Fund Update Memo

Milliman reviewed a memo summarizing a call that Milliman had with Columbia Threadneedle regarding their plans to utilize US Treasury futures in managing a portion of the City of San Diego Managed Income Fund. The City's DC Plans have approximately \$431 million (or 32% of assets) invested in the Managed Income Fund as of June 30, 2020. The Managed Income Fund portfolio consists of two components. The largest component, representing about 87.5% of the overall portfolio, consists of a one-to-five year Government/Credit Index-benchmarked bond portfolio wrapped by several insurance companies that provides the book value stability. The remaining 12.5% of the overall portfolio consists of a shorter duration one-to-three year Government/Credit bond portfolio wrapped entirely by MetLife. Columbia Threadneedle plans to begin utilizing US Treasury futures in the management of the MetLife component of the City's Managed Income Fund. In the future (probably in a few months), they may also begin to utilize US Treasury futures in the management of the remainder of the Managed Income Fund. Milliman determined that Columbia Threadneedle's upcoming utilization of US Treasury futures is consistent with their Investment Guidelines, and with the City's Defined Contribution Plans Investment Policy Statement.

2. Oakmark Equity and Income Fund / Balanced Fund Option Memo

Milliman also presented a memo regarding the Oakmark Equity and Income Fund / Balanced Fund Option. During the May 2020 Board of Trustees meeting, Milliman highlighted the poor performance of the Oakmark Equity and Income Fund, which has been on the Watch List since May 2019. Oakmark is a balanced fund that combines holdings of primarily US equities and fixed income; its benchmark is 60% S&P 500 / 40% Bloomberg Barclays Aggregate. We agreed that at the August 2020 Board meeting we would discuss this fund in more detail, including discussion of whether this type of balanced fund option is still appropriate for the Plans, and what alternatives might be available.

Oakmark has been utilized by the Plans since late 2002, when it replaced another balanced fund. It was the only balanced option until 2005, when three Vanguard Target Risk funds were added; these Target Risk funds were replaced by Target Date Funds from American Funds in 2018. At that time (early 2018), Oakmark's performance had been improving, resulting in it being removed from the Watch List (which it had been on since late 2016). At the same time, the Board discussed the rationale for having a balanced option in addition to the Target Date Funds. The Board decided to keep Oakmark, primarily because it was still utilized by several Plan participants (with about 6% of total Plan assets), and because as a US-focused fund it provided differentiated exposure to the more global holdings of the Target Date Funds. However, Oakmark's performance once again deteriorated, resulting in it being put back on the Watch List in 2019.

The memo was prepared to help facilitate discussion during the August 2020 Board meeting, with the Board having three primary options:

- 1) Retain Oakmark as the Plans' balanced fund option (and keep it on the Watch List)
- 2) Terminate Oakmark and map its assets into appropriate Target Date Funds;
- 3) Terminate Oakmark and replace it with another US-focused balanced fund.

The Board determined that they would leave as is for the time being and continue to monitor Oakmark's performance.

C. Fiduciary Education

Thomas Brady

Under the Internal Revenue Code, tax qualified retirement plans can be sponsored by governmental entities, however, the Employee Retirement Income Security Act of 1974 (ERISA) provides a statutory exemption for

government plans from its fiduciary provisions. Therefore, California law governs the fiduciary requirements for the administration and investments of qualified plans sponsored by governmental entities. Since the City's defined contribution plans are deferred compensation plans for state and local governments, they satisfy the definition of public pension and retirement plans for purposes of the California Constitution. This means that the Board, and its members, are fiduciaries subject to the duties and obligations under Article XVI, § 17. The members of the board have the fiduciary responsibility for the investment of plan assets. The assets of the plan must be held for the exclusive purpose of providing retirement benefits and defraying reasonable expenses. The California Constitution states the specific standards are the duty of prudence, duty of loyalty (exclusive purpose rule), and duty to diversify investments to minimize the risk of loss and to maximize the rate of return, unless under the circumstances it is clearly not prudent to do so.

The members of the Board must discharge their duties with respect to the plan solely in the interest of, and for the exclusive purpose of providing benefits to participants and their beneficiaries, minimizing employer contributions there to, and defraying reasonable expenses of administering the plan or trust.

The California Constitutional provision indicates that a Board's duty to plan participants and beneficiaries takes precedence over any other duty.

D. TPA Search Update

Jeffrey Nipp

The process is under way for the TPA search. The RFP was posted on August 20, 2020, questions by bidders are due by August 31, 2020. There will be 12 days to answer those questions. The deadline for final submissions will be September 25, 2020. Milliman will evaluate all submissions once received and summarize the results to be presented at the next Board meeting. Next actions can be determined based on the results during the October meeting.

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 included six questions and was open from January 8, 2020 through January 31, 2020.

There were 638 respondents, with the majority showing interest in having the 401k Roth option and attending more educational workshops. Staff will work with Wells Fargo to ensure education is available.

Staff will work to get executive team approval for adding the Roth option to the 401k plan. Following executive team approval, Staff will work with the Human Resources Department to notice the unions regarding change. If there are no concerns raised by the unions, Staff will present the amendment to the 401k plan adding the Roth option to City Council for final approval.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTARTOR, ATTORNEY

The City attorney and staff will research educational topics to be presented at future meetings.

The City made the decision to make the CARES Act provisions available for the 401k plan and the SPSP plan, which are the two plans that allow for loans and hardship distributions.

Staff worked with Wells Fargo to enact the provisions for the 401k plan, but the SPSP plan required a member vote before adopting plan amendments, per the plan document. The vote was held the week of August 10, 2020.

The vote resulted in a majority of the SPSP participants approving the amendment of the SPSP plan to adopt the CARES Act provisions and staff is working with Wells Fargo to enact them.

Since the CARES Act was implemented in the 401k plan on June 5, 2020, one participant has taken a loan related to COVID-19 for just over \$20,000, 21 participants have deferred loan repayments, and 162 participants have taken COVID-19 related distributions for a total \$1.72 million.

4. PUBLIC COMMENT

One non-agenda comment was submitted by a member of the public via the electronic submission form.

The comment was submitted on Wednesday, July 15, 2020 by Karl Kosmas and it states: The "Setting Every Community Up for Retirement Enhancement (SECURE) Act," enacted Dec. 20, 2019 as part of a government spending package (PL 116-94), allows parents to take early withdrawals of up to \$5,000 from their retirement accounts without penalty within a year of a child's birth or adoption.

The SPSP-H does not allow for the aforementioned Act. I contacted Wells Fargo, and they stated that the terms of the SPSP-H are dictated by the City, meaning that you could allow for this. Please modify the SPSP-H to allow for this act. It's just another perk/ benefit for City employees with new families, additionally, it will help the City attract and retain employees. Most retirement plans allow for this, except ours.

And included in the comment was a link to the SECURE Act:

[https://urldefense.com/v3/____https://www.congress.gov/bill/116th-congress/house-bill/1994/text____;!!OBed2aHXvKmHymw!l8waYJ1HiqjxbTbiezx5SbtO-8OedcNz-_tGO-plHa8KeZh7OMk2rRLiChpXqKAVSFk\\$](https://urldefense.com/v3/____https://www.congress.gov/bill/116th-congress/house-bill/1994/text____;!!OBed2aHXvKmHymw!l8waYJ1HiqjxbTbiezx5SbtO-8OedcNz-_tGO-plHa8KeZh7OMk2rRLiChpXqKAVSFk$)

5. NEXT MEETING

The next meeting is scheduled for October 29, 2020.

6. ADJOURNMENT

Meeting adjourned at 3:52 p.m.

Backup documentation is available from the Risk Management Department.