

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES

Tuesday, August 31, 2021

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting on Tuesday, August 31, 2021. The meeting was conducted via teleconference pursuant to the provisions of California Executive Order 29-20. The meeting was called to order at 1:49 p.m. by Elizabeth Correia.

1. ACTION ITEMS

A. Roll Call Elizabeth Correia

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

Staff present: Quennelle Allen, Thomas Brady

Presenters: Denise Jensen (Principal) and Jeffrey Nipp (Milliman)

B. Dispense with the reading and approval of the minutes of
May 26, 2021 Elizabeth Correia

MOTION TO ACCEPT THE MINUTES OF MAY 26, 2021 Gregg Rademacher
SECOND: Elizabeth Correia
PASS (2-0)
Julio Canizal (Abstain)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Principal Second Quarter Report Denise Jensen

Growth was positive for the second quarter resulting in \$1.719 billion in total assets, with 2,947 outstanding loans in the amount of \$26.7 million. Plan to plan transfers as of June 30, 2021 were \$1.4 million. There were 5,744 distinct users for Principal website. The average account balance also increased in all four plans. The average account balances as of June 30, 2021 for the 401k was \$48.6k, \$19.1k for the 401a plan, \$157.2k for the SPSP plan, and \$37.7k for the SPSP-H plan. The number of participants has increased in the 401k and the SPSP-H plans. Diversification trended lower in the quarter, with an account considered to be diversified if the account is allocated among investment options from at least three diverse asset classes and that have materially different risk and return characteristics.

Results of a survey conducted between May 25, 2021 and June 30, 2021 to gauge satisfaction following participant engagement was presented, showing overall satisfaction to be at least 4.0 out of 5.0 for all plans.

B. Second Quarter Report

Jeffrey Nipp

Markets were up broadly over the quarter as the global economic recovery continued. U.S. stocks (S&P 500) were higher as economic fears related to the coronavirus continued to subside, and more people became vaccinated.

Developed international markets (MSCI EAFE) were also positive as the recovery continued abroad. Emerging Markets (MSCI EM) rose as growth expectations in emerging economies increased. The broad fixed income market (Bloomberg Barclays Aggregate Bond Index) rose too, as intermediate, and long-term interest rates fell.

The City's plans experienced over \$88.0 million in investment gains in the second quarter. The Target Date Funds make up 25.6% of total plan assets, whereas the Managed Income Fund now represents 24.4% of plan assets.

No changes are recommended at this time for the watchlist. The index funds have all matched their benchmarks. Good quarters for the Principal Mid-Cap Fund and the Boston Trust Small Cap Fund as both active domestic equity managers outperformed. The Invesco International Growth portfolio is more defensive growth and did not keep up with the growth benchmark, which is why they will remain on the watchlist. Dodge & Cox outperformed the benchmark, as did the Oakmark fund, which is now ahead of the benchmark over five years, but still lags over three years, but if they continue to perform well, they will likely be recommended for removal from the watchlist. The State Street Real Assets Fund has done very well over the quarter. The Managed Income Fund outperformed the benchmark as well. For the Target Date Funds, the longer dated funds with more growth holdings performed better than the shorter dated funds that have more value-oriented equities.

Milliman presented a memo regarding the Target Date Funds (TDF), as the City's DC Plans reached their 3-year track record for the investment in Capital Group's American Funds Target Date Funds in May 2021. Capital Group established the Target Date Solutions Committee and the Capital Solutions Group to apply qualitative judgment and quantitative modeling for monitoring and enhancing the firm's Target Date Fund offerings. Based on work done by these two teams over the last 1-2 years, Capital Group instituted some adjustments to the components of the TDF strategies, effective in May of this year. Importantly, the adjustments do not significantly alter the overall stock/bond mix that defines the TDF glide paths, which retain their long-term "through retirement" nature. The various adjustments specifically

apply to one or more of the glide path phases: Accumulation, Transition, and Distribution. Overall, these adjustments have resulted in 1-2% allocation increases to small/mid cap equity in the Accumulation phase, with offsetting reductions in allocations to non-US large cap equity. In the Distribution phase, the result is 1-3% increases in US large cap equity, with offsetting reductions in non-US large cap equity. Other minor adjustments to various sub-asset classes have left aggregate equity and fixed income allocations within 1% of their previous levels.

When the Capital Group TDFs were selected as options for the Plans in 2018, the expense ratios of the funds ranged from 35-46bp (shorter-dated funds with higher fixed income allocations have lower fees than longer-dated funds with more equity exposure). Those fees have declined over time, and today range from 30-40bp. These are extremely competitive fees for actively-managed strategies.

As of June 30, 2021, since their inception in May 2018, all of the Capital Group TDFs have outperformed their respective S&P Target Date “Through” indices. This net-of-fee outperformance ranges from 0.1% for the 2010 and 2020 funds to 1.9% for the 2040 fund; all of the 2035-2060 funds have outperformed by 1.7% or more.

Milliman concluded that these remain low cost actively-managed strategies that have produced good performance for San Diego’s DC Plans and effectively serve their role as the Plans’ default investment option.

Milliman also presented a memo regarding a Columbia Threadneedle personnel update. Columbia Threadneedle manages the City of San Diego Managed Income Fund, in which the City’s DC Plans have about \$420 million invested as of 6/30/21. Recently, Columbia Threadneedle announced the upcoming retirement (effective January 2022) of the firm’s Chief Investment Officer, Colin Moore. He will be replaced by William Davies, who is currently the firm’s CIO of EMEA and Global Head of Equities. Davies has been with Columbia Threadneedle since 1993. Since that time, he served as a European equities’ portfolio manager and in various equity leadership roles before becoming Head of Equities—EMEA in 2016 and then Global Head of Equities in 2017. Columbia Threadneedle expects to announce succession plans for his CIO-EMEA and Global Head of Equities roles soon.

Milliman concluded that this transition is a well-planned and communicated one and should have no effect on the firm’s management of the City’s Managed Income Fund.

C. Staff Updates

Quennelle Allen

The provisions for the QBOAD to the SPSP and 401k plans are now available for eligible employees. The 401k Roth option is also now available. Communications have been sent out to all City employees.

The SPSP-H plan has been closed to employees originally hired on or after July 10, 2021. They will be enrolled in to the SDCERS pension system. Police Recruits will still be enrolled into the SPSP-H plan while they are in the academy until negotiations have concluded and an agreement has been reached. For the employees hired between July 20, 2012 and July 10, 2021 the City is still in negotiations for a make-whole remedy. It was noted that Article 12 of the SPSP-H plan document allows for plan to plan transfers from the SPSP-H plan to the SDCERS pension system. The participant may voluntarily elect to transfer a portion or all the SPSP-H account to SDCERS. No agreement has been reached at this time.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTARTOR, ATTORNEY

Abraham Hunt's term as Trustee representing the mandatory DC plans has ended. Staff is working on the call for nominations to fill that seat and anticipates having a new Trustee elected in time for that person to attend the next meeting in November.

4. PUBLIC COMMENT

5. NEXT MEETING TBD

6. ADJOURNMENT

Meeting adjourned at 2:42 p.m.

Backup documentation is available from the Risk Management Department