

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES

Thursday, February 24, 2022

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting on Thursday, February 24, 2022. The meeting was conducted via teleconference pursuant to the provisions of California Executive Order 29-20. The meeting was called to order at 2:02 p.m. by Elizabeth Correia.

1. Action Items

A. Roll Call Elizabeth Correia

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

Staff present: Quennelle Allen, Tom Brady

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

B. Dispense with the reading and approval of the minutes of
November 18, 2021 Elizabeth Correia

MOTION TO ACCEPT THE MINUTES OF NOVEMBER 28, 2021 Gregg Rademacher
SECOND: Brenton Devore
PASS (4-0, Abraham Hunt abstained)

C. Discussion of International Equity Options Jeffrey Nipp

The Trustee Board put Invesco on the Watch List in May 2018 due to long-term underperformance of the ACWI ex-US Growth Index. While Invesco outperformed in 2021 (by ~1% net of fees), longer-term results still trail the index by 1.5-2.5%, so Invesco remains on the Watch List. Significant strategy asset outflows as well as recent personnel turnover are also key issues regarding the Invesco Fund; as a result, the Trustee Board held a discussion of possible international equity options and whether to terminate/replace Invesco in the fund line-up. Milliman presented a variety of International Equity Option Structure alternatives and recommended, if Invesco were to be retained, to only do so in a white label structure. Milliman to return with more focused options at the next meeting for further discussion.

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Milliman Fourth Quarter Investment Report

Jeffrey Nipp

Developed international markets (MSCI EAFE) were modestly up as the recovery abroad continued and the market reacted favorably to the milder impact of the Omicron variant. Emerging Markets (MSCI EM) fell, making it one of the worst-performing asset classes for the quarter, as the dollar generally strengthened and the continued sell-off in China impacted the market. The broad fixed income market (Bloomberg US Aggregate Bond Index) rose slightly in the quarter but fell 1.54% for the year amid inflation concerns and an announcement that the Federal Reserve will soon slow the pace of its bond-buying stimulus program. The unemployment rate fell to 3.9%. Real GDP rose 2.3% annualized in the third quarter after rising 6.7% in the second. Inflation picked up as the Consumer Price Index rose by 7% for the 12 months ended December 31, 2021. As for the outlook, high volatility continued over the quarter as investors reacted to news about increasing Omicron cases, growing inflation pressures, and rising interest rates. Unlike the prior quarter, however, these concerns were largely shaken off, driving domestic stock values higher. International equity also rose as investors were undeterred from buying quality stocks despite virus concerns. The US dollar strengthened against most major currencies, creating headwinds for emerging markets. Risks continue to exist around the uncertainty of the pandemic timeline and rising cases of the Omicron variant as the economy continues to reopen. China's slowing economy and regulatory crackdowns have also impacted the broader market. Taken all together, a focus on long-term goals and objectives continues to be a prudent course, balancing downside risk at current valuations with the potential for upside performance.

Investment in the Managed Income Fund continued to decrease, to 22.4% of total assets, while the Target Date Funds increased to 26.8% of total assets.

The Invesco International Growth and Oakmark Equity and Income Funds will both remain on the watchlist. The index funds have tracked the benchmarks very closely. Both the Principal Mid Cap and Boston Trust Small Cap Funds outperformed in the quarter. The Invesco International Growth Fund and the Dodge & Cox International Equity Fund both also outperformed their benchmarks during the quarter, while Oakmark Equity and Income Fund underperformed. The State Street Real Asset Index Fund performed well due to inflation; the Managed Income Fund outperformed the benchmark as well. For the Target Date Funds, the shorter dated funds outperformed, while the longer dated funds marginally underperformed.

Milliman presented a memo summarizing a recent change to the benchmarks for Capital Group's Target Date Funds (TDFs), as well as recent rebalancing moves in certain TDFs. As of January 1, 2022, the benchmarks for Capital Group's TDFs are the S&P Target Date Indexes, replacing the previously used S&P Target Date "Through" Indexes. The "Through" indices are a subset of the broader S&P Target Date Indexes, which include TDFs whose glide paths go both "to" and "through" retirement. Capital Group made this change because the "Through" indices have historically had 5-6% higher equity allocations, and greater volatility, than Capital Group's TDFs. They found that the equity beta (the sensitivity of the portfolios to equity market moves) of their TDFs is much closer to that of the broad-based set of S&P Target Date Indexes than to that of the more narrowly-focused set of "Through" indices, even though Capital Group's TDFs are "through" vehicles. Milliman will reflect this benchmark change beginning with the Q1/2022 performance reports. Milliman also updated Appendix 1 of the City's Investment Policy Statement with the revised benchmarks. In November 2021, Capital Group's Target Date Solutions Committee implemented minor fund allocation changes in order to bring the equity allocations of longer-dated TDFs (2050 through 2065 vintages) back within those funds' upper flexibility threshold for equity exposure. Specifically, the committee reduced the allocations to the World Growth and Income Fund and the Investment Company of America Fund by 1% each and increased the allocations to the Global Balanced Fund and the American Balanced Fund by 1% each.

Milliman also presented an update on the Managed Income fund. In December, Milliman had a call with Columbia Threadneedle regarding their plans to convert the Met Life Separate Account component of the City's Managed Income Fund into a new book value wrap contract with Met Tower Life. As a wholly-owned subsidiary of Met Life, Met Tower Life has the full backing and credit rating of the parent company, so there will be no change to the financial stability of the City's Managed Income Fund. The conversion of the book value "wrap" from Met Life to Met Tower Life will have no operational impact on participants, but will result in very minor fee savings (16bp instead of 17bp). Additionally, the fact that all of the underlying bond portfolio will now be invested under a 1-5 year mandate provides the potential for slightly higher returns over time, though actual results will depend upon market conditions and portfolio management decisions. Columbia Threadneedle expects to complete this portfolio conversion in late Q1/22 or early Q2/22.

B. Principal Fourth Quarter Report

Denise Jensen

Growth was positive overall for the third quarter, resulting in \$1.83 billion in total assets, with 2,842 outstanding loans in the amount of \$25.7 million. The plan to plan transfers as of December 31, 2021 were \$2.9 million. There were 7,607 distinct users for the Principal website. The average account balance as

of December 31, 2021 was \$50k for the 401(k) Plan, \$14.3k for the 401(a) Plan, \$168.2k for the SPSP Plan, and \$42.6k for the SPSP-H Plan. Due to the unraveling of Proposition B, there will continue to be an increase in participation in the 401(a) Plan. The overall diversification has remained relatively unchanged from last quarter. As of December 31, 2021, there are 346 participants enrolled in the 401(k) Roth option.

Looking back at 2021, it was a milestone year with the completion of the integration with the City of San Diego retirement plans from Wells Fargo to Principal, bringing in an enhanced participant website, the Principal mobile app, and a plan sponsor experience with a wealth of digital education. The customer protection guarantee has been simplified as well. Principal will reimburse participants employer-sponsored retirement accounts for losses from unauthorized activity occurring due to no fault of their own. Principal created new and innovative experiences through capturing feedback by listening to financial professionals, consultants, employers, and consumers through touch points established with them.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

The Trustee Board directed staff to schedule discussion for a self-directed brokerage account during a future meeting.

4. PUBLIC COMMENT

There were no comments from the public.

5. NEXT MEETING

June 15, 2022 at 1:30 p.m.

6. ADJOURNMENT

Meeting adjourned at 3:32 p.m.

Backup documentation is available from the Risk Management Department