

DEFINED CONTRIBUTION PLANS TRUSTEE MEETING MINUTES

Wednesday, June 15, 2022

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting on Wednesday, June 15, 2022. The meeting was conducted via teleconference pursuant to the provisions of California Executive Order 29-20. The meeting was called to order at 1:33 p.m. by Elizabeth Correia.

1. ACTION ITEMS

A. Roll Call Elizabeth Correia

Trustees Present: Angela Colton, Gregg Rademacher (arrived at 1:58 p.m.), Elizabeth Correia, Brenton Devore, Abraham Hunt

Staff present: Quennelle Allen, Tom Brady

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

B. Dispense with the reading and approval of the minutes of February 24, 2022 Elizabeth Correia

MOTION TO ACCEPT THE MINUTES OF FEBRUARY 24, 2022 Elizabeth Correia
SECOND: Brent Devore
PASS (3-0, Angela Colton abstained)

C. Discussion of International Equity Options Jeff Nipp

The City's DC Plans have offered stand-alone, actively managed international (non-US) equity options since the mid-1990s. No passively managed options have been offered. In 2015 the Board considered adding a passive international equity option (and a passive US small cap equity option) but decided that there were already many plan options and adding more could be counterproductive. The specific options have been: Templeton Foreign from 1995 to 2007, Janus Overseas 2000 to 2014, Dodge & Cox International Stock 2008 to Present, Invesco International Growth 2014 to Present. Originally, value-oriented Templeton was the sole international equity option; the City added growth-oriented Janus to provide a style-diversified option. Eventually, the City replaced both managers, primarily due to underperformance. Dodge & Cox replaced Templeton as the value manager; Invesco replaced Janus as the growth manager.

Currently, the two international equity options have similar amounts of participant assets: Invesco with approximately \$36 million (2.0%); Dodge & Cox has approximately \$43 million (2.3%). The Invesco (commingled fund) fees are 60bp. Dodge & Cox (mutual fund) fees are 63bp, with 10bp revenue-sharing rebated to participants (for a net participant cost of 53bp). Both Invesco and Dodge & Cox are “benchmark agnostic” managers that do not explicitly position portfolios relative to any index. The Board put Invesco on the Watch List in May 2018 due to long-term underperformance. While Invesco outperformed in 2021 (by approximately 1% net of fees), longer-term results still trail the index by 1.5–2.5%, so Invesco remains on the Watch List.

The Board provided direction to schedule presentations with potential fund managers.

D. Add Schwab Personal Choice Retirement Account (PCRA) Self-Directed Brokerage Account to the 401(k) Plan

Quennelle Allen

Over recent years, staff has received numerous inquiries for adding specific types of investment options to the plans. Many options suggested are speculative in nature or specific to the individual and may not be appropriate to include in the core fund line-up per the Board’s overall investment policy strategy. As a solution the board could add a self-directed brokerage account. the Board could add a self-directed brokerage account as an option, in order to provide more investment flexibility to those city employees who are more sophisticated investors or who are interested in specific investments outside of the core line-up. Principal has partnered with Schwab to provide a self-directed brokerage account option, for the Board’s consideration. A few key features of Schwab Personal Choice Retirement Account (PCRA) include a customizable trading menu with zero commission for all ETFs, stocks and options listed on the U.S. or Canadian exchanges across all mobile, automated phone, and web trading channels; no loading fees, and over 2000 ETFs across a range of asset classes and fund companies. Fractional shares are also available. Note that only 95% of a participant’s balance can be invested in the PCRA. the remaining 5% must be invested in the core investment plan line-up offerings. There are standard brokerage fees and commission and Principal will charge an annual fee of \$100.00, which will be collected at \$25.00 per quarter. Participants pay a standard brokerage fee and commissions for trading their account and Principal will charge \$100 annually (collected as \$25 per quarter) for participants with an open brokerage account. Note, there are no fees to the plan sponsor for offering Schwab PCRA nor are there any implementation fees. Staff recommends that the Schwab PCRA brokerage account be offered through the voluntary 401k plan as a fully open brokerage window. The implementation process will be approximately 60–90 days on

the recordkeeping platform and communications would also go out to participants at that time.

The Board directed staff to research the fee structure of other options available and present the findings at the next meeting.

E. Review and Approve FY 2023 Trustee Board Budget Quennelle Allen

The budget for the operational costs of the Trustee Board resides in the Risk Management Fund. This year the proposed budget for the Board is \$635,897 reflecting an overall increase of about \$160,000 from the prior year's budget. This is primarily due to increased personnel expenditures of approximately \$154,000. Those PE increases were driven by salary increases outlined in the City's salary ordinance and the associated fringe benefit cost increases that go along with that for the positions that support the Board, as well as the addition of 1.0 FTE Employee Benefits Specialist to support the Defined Contributions Savings Plans and the Board.

The non-personnel expenditures budget increased by about \$6,000 overall, and that was primarily attributable to the annual 3% increase in the Milliman contract as well as an increase in non-discretionary information technology expenses related to Voice and Data Network services. Staff requested approval of the proposed Fiscal Year 2023 Budget.

MOTION TO APPROVE THE FY 2023 TRUSTEE BOARD BUDGET Gregg Rademacher
SECOND: Angela Colton
PASS (5-0)

2. CLOSED SESSION

In closed session, no action was taken following a service provider contract amendment discussion.

3. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Milliman First Quarter Investment Report Jeffrey Nipp

High volatility continued over the quarter as investors reacted to news about geopolitical conflicts, growing inflation pressures, and rising interest rates. Domestic stocks were lower as the market digested the magnitude of these market risks. International equity also fell as it became clear these risks could pose a threat to economic growth. The US dollar continued to strengthen against many major currencies, creating headwinds for emerging markets. Risks continue to exist around the uncertainty of the pandemic timeline, but

these largely took a backseat over the quarter as investors focused on those associated with the Russian invasion of the Ukraine. 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 increased, to 23.6% of total assets, while the Target Date Funds continued to increase, to 27.0% 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. The Principal Mid Cap Fund underperformed in the quarter, due to its growth orientation, but longer term it has performed well. The Vanguard Mid Cap Index Fund tracked its benchmark, and the Boston Trust Small Cap Fund outperformed in the quarter. The Invesco International Growth Fund outperformed its index for the quarter but continues to trail long-term. The Dodge & Cox International Equity Fund also underperformed during the quarter, while Oakmark Equity and Income Fund outperformed. The State Street Real Asset Index Fund performed very 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 underperformed.

B. Principal First Quarter Report

Denise Jensen

There was positive overall growth for the plan year over year for the third quarter, resulting in \$1.74 billion in total assets, with 2,785 outstanding loans in the amount of \$25.5 million. The plan to plan transfers as of March 31, 2022 were \$1.6 million. The average account balance as of March 31, 2022 was \$47.4k for the 401(k) Plan, \$11.5k for the 401(a) Plan, \$161.2k for the SPSP Plan, and \$41.1k for the SPSP-H Plan. Due to the unwinding 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 March 31, 2022, there are 438 participants enrolled in the 401(k) Roth option.

Principal also presented the Fee Summary for January 1, 2021 through December 31, 2021. The daily recordkeeping fee for all four plans is 6.5 basis points, totaling \$1,104,803.71 for the year. The loan setup fee is \$75 per loan, which totaled \$61,575.00 for the year. The total administrative fee was \$1,166,378.71 for the year.

C. Principal 2022 Education Update

Erin Cowell

Principal presented the framework of how they present their educational communications. The participant experience is divided into three different categories: Engage, Elevate, and Expand. Engage is the contact that goes out

to new participants encouraging them to go online and secure their retirement account. The Elevate series represents the ongoing communications Principal provides, to offer continuous support to help participants get or stay on track. The Expand communication series goes beyond retirement planning to help address other financial concerns. Principal offers a live webinar series each month, there is also a monthly e-newsletter that is sent out, and virtual meetings are also available as well.

For 2022, the targeted campaigns include Financial Wellness, Increasing Contributions, Retirement Wellness Score & Retirement Wellness Planner, and Diversification/Investment Option Review. The 2022 initiatives included a financial wellness webinar in April, a beneficiary campaign that will run after the Prop B unwinding, and a virtual benefits fair that will be held in late October.

6. COMMENTS FROM TRUSTEES, STAFF, ADMINISTARTOR, ATTORNEY

The Board welcomed Angela Colton, new Risk management Director, as the newest trustee. The City Attorney noted that while the unwinding of Proposition B will impact the SPSP-H plan as funds are transferred to the SDCERS pension system, no action is required by the Board as part of the unwinding.

7. PUBLIC COMMENT

8. NEXT MEETING

September 8, 2022 at 1:30 p.m.

9. ADJOURNMENT

Meeting adjourned at 3:25 p.m.

Backup documentation is available from the Risk Management Department