

**DEFINED CONTRIBUTION PLANS TRUSTEE BOARD
SPECIAL MEETING MINUTES**

October 26, 2022

The Defined Contribution Plans Trustee Board of the City of San Diego held a special meeting on Wednesday, October 26, 2022. The meeting was conducted via teleconference pursuant to the provisions of California Executive Order 29-20. The meeting was called to order at 9:31 a.m. by Elizabeth Correia.

1. ACTION ITEMS

a. Roll Call

Elizabeth Correia

Trustees Present: Elizabeth Correia, Gregg Rademacher, Angela Colton, Brenton Devore

Trustees Absent: Abraham Hunt

Staff present: Quennelle Allen, Thomas Brady

Presenters: Jeffrey Nipp (Segal Marco), Denise Jensen (Principal), James Gautrey (Schroders), John Chisholm (Schroders), Brad Angle (Schroders), Steven Cassriel (Dodge & Cox), Ray Mertens (Dodge & Cox), Geoffrey Crim (Vanguard), Stacey Morrison (Vanguard), Audrey Kotlyarenko (Vanguard), Hugh Watters (Vanguard)

b. Interviews of finalists and selection of International Equity Fund Manager

Jeffrey Nipp

During the June 2022 meeting, the Board provided direction to schedule presentations with potential international equity fund managers as possible replacements to the Invesco International Growth Fund and the Dodge & Cox International Stock Fund.

Three International Equity Active Managers and one Passive Manager were invited to present to the Board for the October special meeting:

- Schroders Investment Management - *International Alpha, ACWI ex-US* (Active, Commingled Fund)
- Dodge & Cox - *Dodge & Cox International Stock Fund* (Active, Mutual Fund Vehicle)
- The Vanguard Group - *Vanguard International Core Stock Fund* (Active, Mutual Fund Vehicle)
- The Vanguard Group - *Vanguard Institutional Total International Stock Market Index Trust* (Passive, Commingled Fund)

i. Schroders

Brad Angle
John Chisholm
James Gautrey

Globally, Schroders has over \$930 billion in assets under management as of June 30, 2022, and has 60 different investment teams across 38 locations. Schroders deliberately runs a high cost business model to provide value from a local presence. They have centralized resources for different investment teams, which aids in a better understanding of trends and risks. The International Alpha Equity strategy uses a proprietary risk framework helping to drive consistently strong risk adjusted returns. Schroder emphasized a differentiated approach based on the stability of a 200 year old organization with global resources and risk management; well resourced, highly experienced portfolio management team with global perspective leveraging extensive local resources; a distinctive philosophy focused on unanticipated growth and an innovative approach to research and risk management; and a focus on performance consistency and downside protection. The annual commingled fund management fee is 45 bps, plus 10bps of operational expenses.

ii. Dodge & Cox

Steven Cassriel
Ray Mertens

Dodge & Cox's philosophy is based on individual security selection, price discipline, a long-term view, and portfolio diversification. They seek to build a portfolio of well-established companies where the current market valuation does not adequately reflect the company's long-term profit opportunities. Through bottom-up security selection focusing on companies' long-term fundamentals, they aim to identify solid business franchises. Their total investment universe consists of non-U.S. companies, with market capitalizations generally above \$3 billion. Dodge & Cox employs a rigorous price discipline, so the portfolios generally have below-average valuations, compared to the market averages. Portfolio diversification is an important tool in mitigating risk; they seek to maintain exposure to most major sectors of the economy as well as limit undue exposure to any one outcome. They have an experienced, integrated, and stable investment team, where analysts can advocate for the best ideas, and the directors work with several entities to make the most effective decisions. The annual mutual fund expense ratio is 62 bps (net to participants 52).

iii. Vanguard

Audrey Kotlyarenko
Geoffrey Crim
Stacey Morrison
Hugh Watters

a) Vanguard International Core Stock Fund – Wellington (Active)

The team seeks to build an “all weather” portfolio in which stock-specific risk drives the majority of tracking error through a sophisticated and centralized risk management approach. The multi-disciplinary approach yields an opportunity set of 350 to 400 companies, of which the advisor will make selections based on its assessment of each company’s management teams, capital allocation, and competitive advantages. The advisor seeks to create a portfolio that prioritizes stock specific exposure, limiting the portfolio’s style, factor, region, and industry risk exposure. The portfolio investment approach utilizes quant, macro, ESG, and fundamental inputs. The team believes an ESG perspective can yield differentiated conclusions on management behavior and business practices. Vanguard’s framework for evaluating current and prospective managers emphasizes qualitative criteria, not short-term performance. Wellington is one of 24 external partners. About \$800 billion are entrusted with the 24 external partners, which makes Vanguard the largest user of the sub advised model. The multidisciplinary investment approach is differentiated and systematically leverages the breadth and depth of Wellington’s global research platform. The annual mutual fund expense ratio is 35 bps.

b) Vanguard Institutional Total International Stock Market Index Trust (Passive)

The International portfolio is an index product. The primary objective of the product is to track the performance of the FTSE Global All Cap ex US Index as closely as possible. One of the challenges that arises in an international product is the cost of trading. They have representation established in all regions of the market. They have a presence in Europe with an office in London, Asia-Pacific with an office in Australia, and the US, with offices in Pennsylvania and Arizona. This allows them to facilitate very efficient trading across all international regions, while providing the same level of care and diligence as they would for US security executions to all of the local regions, allowing to lower the cost of trading for this type of portfolio, and align it with the performance of the benchmark. The fair value pricing factor accounts for time differentials between closures between international markets and the 4 p.m. Eastern Standard Time closure when they price the portfolio. The annual commingled fund fee is 8 bps.

Discussion noted there is some style bias with Dodge & Cox being a value-oriented manager and with Schroders being a growth-oriented manager. This can result in periods of time where a style can have a head wind or a tail

wind. Vanguard focusing on a core fund to alleviate style bias and the fact that the process helps protect in difficult markets and would be a good feature for a DC plan. The combination of Wellington as the manager, the nature of the process and a 35-basis point fee, is very compelling for an actively-managed option. It also makes sense to have a low cost, 8 basis point cost for the exposure of the passive fund. Having an investment manager with a lower fee serves well for fiduciary oversight. The Board discussed the mapping for the new structure, but due to complexities discussed, they motioned to vote on the policy, and delegate the implementation and mapping of the new structure to the City's Plan Administrator and Deputy City Attorney.

MOTION TO REPLACE INVESCO INTERNATIONAL GROWTH
FUND AND DODGE & COX INTERNATIONAL EQUITY FUND
WITH VANGUARD ACTIVE AND PASSIVE FUND MANAGERS Elizabeth Correia

SECOND: Greg Rademacher
PASS (4-0)

2. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

3. PUBLIC COMMENT

4. NEXT MEETING

December 06, 2022 at 1:30 p.m.

5. ADJOURNMENT

Meeting adjourned at 11:46 a.m.

Backup documentation is available from the Risk Management Department