DEFINED CONTRIBUTION PLANS TRUSTEE BOARD
MEETING MINUTES

Thursday, February 23, 2023

The Defined Contribution Plans Trustee Board of the City of San Diego held its regularly scheduled meeting on Thursday, February 23, 2023. The meeting took place in the City of San Diego Council Committee Chambers. Location: 202 C Street, 12th Floor, San Diego, California. The meeting was called to order at 1:39 p.m. by Elizabeth Correia.

1. ACTION ITEMS

A. Roll Call

Trustees Present:	Angela Colton, Elizabeth Correia, Gregg Rademacher, and David Onate
Trustees Absent:	Abraham Hunt
Staff present:	Quennelle Allen, Thomas J. Brady
Presenters:	Denise Jensen (Principal) and Jeffrey Nipp (Segal Marco)

B. Dispense with the reading and approval of the minutes of December 06,2022

MOTION TO ACCEPT THE MINUTES OF December 06, 2022 — Gregg Rademacher
SECOND: — Angela Colton
PASS (3-0, David Onate abstained)

2. STAFF REPORTS AND INFORMATIONAL ITEMS

A. Segal Marco Fourth Quarter Investment Report — Jeff Nipp

For the first time all year, there were positive returns in both Stocks and Bonds in the Fourth Quarter. U.S. equities were up +7.6% for the quarter ending December 31. The Fed raised interest rates by 50 basis points (“bps”) in December, a slower pace than its previous 75 bps increases. Overall market sentiment has improved following declining inflation readings, which in turn boosted equity markets. Value significantly outperformed growth during the quarter, as weaker growth expectations for 2023 hurt technology and longer duration growth equities and investors sought more attractive valuations within value sectors. For the quarter ending December 31, large cap growth underperformed small cap growth while large cap value outperformed small cap value. This can be explained by sector performance and differentiation of sector weights in varying benchmarks. Due to a weakening U.S. dollar, progress on China reopening, and an increased demand outlook, energy lead the way again (+22.8%) for all U.S. sectors. Consumer Discretionary (-10.2%) and Telecom (-1.4%) were the only sectors to post negative returns. For the entire year, however, only Energy (+65.7%) and Utilities (+1.6%) finished net positive.

Developed international stocks were up +17.3% during the quarter, as investors expected that inflation was peaking. Aggressive central bank moves and lower risk from the Russia/Ukraine war benefitted non-dollar currencies. Europe had strong positive returns of +19.4% during the quarter, outperforming other regions, as the European Central Bank slowed the pace of interest rate hikes and U.K. sterling appreciated against the U.S. dollar following the resignation of PM Truss, resulting in the abandonment of her fiscal spending and tax cut plan. Japanese stocks were up +13.2%, as the yen appreciated roughly 9% against the U.S. dollar during the quarter and with a strong third quarter earnings season for that country. All international sectors were positive in the quarter, with Financials (+23.9%), Materials (+20.7%), and Energy (+19.8%) producing the highest returns. Defensive sectors of the market such as Consumer Staples (+10.6%) and Telecom (+10.1%) lagged overall. Despite the positive fourth quarter, only Energy (+27.7%) managed to produce positive returns for the year.

Emerging markets were up +9.7% during the quarter, as the weakening U.S. dollar and cooling inflation benefitted emerging economies. Turkey continues to produce the strongest returns, supported by the central bank's loosening monetary policy. China outperformed after Beijing ended its "Zero Covid" policy, resulting in an accelerated economic re-opening. Middle East markets, including Qatar and Saudi Arabia, underperformed as they were impacted by weaker energy prices. Brazil continues to underperform following Lula's election and continued policy uncertainty. All emerging market sectors were positive in the quarter. Telecom (+13.8%) rebounded as inflationary and demand concerns were minimized with Energy (+4.2%) lagging the index. Russia's early year performance continues to weigh heavily on Energy's 1-year return. Though all sectors showed strong returns for the quarter, all sectors remained net negative for the year.

Invesco International Growth and Oakmark Equity and Income Funds are on the Watchlist. During the Special Board Meeting on October 26, 2022, the Board selected two new international equity options, replacing the two existing options. Once the necessary administrative and participant communication tasks are completed, Invesco will be terminated; targeted transition date is May 2, 2023. Oakmark, which is still down on the 5-year, remains on the watchlist.

In regards to the performance of the investment line-up, the large cap index funds all tracked their benchmarks during the quarter. The Principal Mid Cap Fund has lagged recently, but continues to have a very good long-term record. Boston Trust has outperformed for the quarter; it was included to be a defensive strategy and is performing well in that approach.

On the International side, Dodge & Cox and Invesco both outperformed their benchmarks. Oakmark has performed better recently, the equity portion is value-oriented and that is helping them. The State Street Real Asset Fund is a passive fund and notably for the year it was the star performer up 3.28%. It had commodity exposure which helped.

Target date funds performed exactly as you would expect. The nearer dated funds are for the older population, and are more conservative, more value, which performed well in the quarter. Longer dated funds for the younger population are more aggressive on the equities side, more small cap, more growth, more international and all of those lagged last year, so they are in line with expectations. The three year is hitting the benchmark. Since inception 4.5 years ago, they are all ahead of their benchmarks. All ranking very highly in their peer groups.

B. Principal Fourth Quarter Report — Denise Jensen

There has been a decline in total assets from just over $1.8 billion at the end of 2021 to just over $1.3 billion at quarter end December 31, 2022. This was no surprise due to the market volatility experienced in 2022. With two out of four plans offering an option for a loan, we experienced a decline in the number of outstanding loans, which decreased from 2,842 loans down to 2,667 loans as of December 31, 2022. The actual outstanding loan amount remained level, but the decline represents a good trend.

The total plan to plan transfers through 2022 was $3.2 million. Which is not a result caused by the reversal of Prop B, this is truly individuals that were buying years of service back into their SDCERS plan using their City plan dollars. As it pertains to the number of participant accounts, the reversal of Prop B caused an increase in the 401(a) and 401(k) accounts, and a decrease in the SPSP-H Plan.

The managed income percentage of assets, percentage of referrals, and overall diversification remains relatively unchanged from last quarter. From a Roth perspective, the Roth feature being added to the 401(k) plan effective 07/01/2021 has been a positive decision. Since inception, we have had 1,085 participants take advantage of this contribution feature.

Effective 03/31/2023, PGI CIT mid cap equity fund is being renamed Principal Mid Cap Equity Fund, and Principal is coordinating with staff regarding participant communication.

Principal is adding a PCRA to the 401(k) plan and is currently working with staff on the initial documentation for execution. Once complete, an amendment to the service agreement between Principal and the City will be crafted and the change will be implemented. This anticipation is that the implementation will occur in the summer.

Principal is focusing on their participant experience with a goal of reaching more participants than ever before through a Strategic Roadmap. The mobile app experience is being enhanced. Plan participants will be able to view retirement account information on an Apple watch (this is not available for Android users), the Principal app will have push notifications, and participants can now access the Principal message Center through the app. They are looking to increase engagement through simple, personalized experiences. Participants will be able to build a complete financial picture with the Total Retirement Solutions; digital assistants in chat and artificial intelligence for the web, text, and phone are being modernized; the cash distribution experience is being improved allowing for money to be expedited, more digital options, new proactive notifications, along with a status tracker; the benefit calculator is being enhanced; Retire view is being improved.

In the future, Principal is going to redesign the retirement wellness planner, and performance chart, refresh systems to account for non-binary gender identification, increase engagement through simple personalized experience by leveraging the cloud to scale, integrate, and deliver features quicker, making customer interactions more personalized and efficient. Some of the key features of initial changes will include an options landing page where they are combining the loans and withdrawals tabs into one single landing page, which was difficult to navigate between the two. They listened to customer feedback from surveys and are creating this new “my options” tab to make it easier for participant usage. Principal will continue to enhance their participant experience from beginning to end.

President Joe Biden has signed into law the Consolidated Appropriations Act of 2023 on December 29, 2022, which contains the SECURE 2.0 Act of 2022 that includes changes to retirement plans and Individual Retirement Arrangements (IRAs). Parts of the SECURE 2.0 legislation won’t go into effect until after this year, while others can immediately impact organizations and retirement savers.

The RMD increase to age 73 for 2023 is already active and in action. Plans that do not have a Roth feature will have changes for catch-ups for workers making more than $145k.

C. Environmental Social Governance (ESG) Overview and Rules — Thomas J. Brady

The US Department of Labor (DOL) has issued its final rule regarding environmental, social, and governance (ESG) factors used by plan sponsors when selecting retirement plan investments and exercising shareholder rights, such as proxy voting. These rules clarify that when a fiduciary selects investments for a qualified plan, the choice must be based on relevant risk and return analysis, which can include the economic effects of climate change and other ESG considerations. These ESG rules modify the duties of loyalty and prudence stating that fiduciaries can consider participant preferences when creating a menu of prudent investment options for participant-directed individual account plans. The DOL noted that offering ESG funds may lead to increased retirement savings because available investment options may be better aligned with participant interests.

Defined contribution plans, as opposed to defined benefit plans, tend to have a higher risk when selecting funds that have ESG factors because they may be subject to class action litigation alleging that an investment option was not prudent. When evaluating ESG funds, plan sponsors should not compare them against other ESG funds, but rather compare them against non-ESG funds to evaluate whether or not to add the fund to the investment lineup. It's only prudent to have investment options that have good returns that perform well for the participants. The DOL regulations are not directly applicable to governmental plans, as such, the Board is not bound to comply.

3. COMMENTS FROM TRUSTEES, STAFF, ADMINISTRATOR, ATTORNEY

4. PUBLIC COMMENT

Steven Bates submitted an electronic comment regarding how the Defined Contributions Plans Administrator changed from Wells Fargo to Principal.

5. NEXT MEETING

June 18, 2023 at 1:30 pm

6. ADJOURNMENT

Meeting adjourned at 2:38 pm.

Backup documentation is available from the Risk Management Department