



City and County of San Francisco  
Employees' Retirement System  
**DEFERRED COMPENSATION  
COMMITTEE MINUTES**

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**October 15, 2014**

30 Van Ness Avenue, Suite 3000  
San Francisco, CA 94102

**3:00 PM**

**MISSION STATEMENT**

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**COMMITTEE MEMBERS**

***Commissioners***

Leona Bridges (Chair)

Joseph Driscoll

Brian Stansbury

**Jay Huish**

***Executive Director***

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Frank Darby, Administrator  
Sunshine Ordinance Task Force  
City Hall  
1 Dr Carlton B. Goodlett Place, Room 244  
San Francisco, CA 94102-4689  
(415) 554-7724  
by fax at 415 554-7854  
or by email at [sotf@sfgov.org](mailto:sotf@sfgov.org)

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Commissioner Bridges called the meeting to order at 3:10 PM.

- Pledge of Allegiance
- Roll Call:
- |                        |         |
|------------------------|---------|
| Commissioner Bridges   | 3:10 PM |
| Commissioner Driscoll  | 3:10 PM |
| Commissioner Stansbury | Absent  |
- Public Comment      Discussion Only      Commissioner Bridges reviewed the procedures for public comment.  
There were no comments from the public.
- 10152014-01      Action Item      **Review and Approval of Minutes of the August 20, 2014 Deferred Compensation Committee Meeting**  
Documents provided to the Committee prior to the current meeting: Draft Minutes  
Commissioner Bridges called for public comment.  
There were no comments from the public.  
Action: Moved by Commissioner Driscoll, Seconded by Commissioner Bridges to Approve the Minutes of the August 20, 2014 Deferred Compensation Committee Meeting.  
Ayes: Bridges, Driscoll  
Absent: Stansbury
- 10152014-02      Action Item      **Review and Approval of Recommendation to Replace Core Bond Fund**  
Documents provided to the Committee prior to the current meeting: Staff and Angeles Investment Advisors memoranda  
Julia Durand, Deferred Compensation Manager, and Leslie Kautz, Angeles Investment Advisors, presented an oral and written report on this item.  
Ms. Durand reported that the PIMCO total Return Fund has been SFDCCP's Core Bond offering since

2004 and is part of the custom target date funds. SFDCP placed PIMCO Total Return on the 'Watch List' in early 2014 following the departure of then CEO Mohamed El-Erian. Staff and Consultant felt closer observation of the company was warranted as a result of this senior departure in addition to performance that has trailed its peers. While El-Erian did not have portfolio management responsibilities for the PIMCO Total Return fund, we believed the fund deserved closer scrutiny due to potential instability at the firm as a result of this senior departure.

Additionally, PIMCO Total Return's performance trailed its peers in 2013, and the fund experienced significant outflows over the past year.

The immediate resignation of co-founder and CIO Bill Gross on September 26, 2014, was a significant negative event for the PIMCO total Return Fund. Gross had been the sole portfolio manager of PIMCO Total Return since inception. Participants held about \$273 million in the PIMCO Total Return Fund. Staff and Consultant recommended replacement of the PIMCO Total Return Fund with Baird Core Plus Bond Fund.

SFDCP also holds PIMCO High Yield and PIMCO Commodity Real Return within its Target Date Funds. SFDCP assets in those funds are \$14.4 million and \$23.5 million, respectively, as of 6/30/14. As Bill Gross was not directly involved with either of those funds, we do not recommend changes at this time but will be monitoring the funds more closely and reporting back to SFDCP.

In addition, PIMCO is an underlying bond manager in the Galliard Stable Value portfolio; Galliard has utilized PIMCO in multi-manager Stable Value solutions since 1999. Since the announcement of Gross' resignation, Galliard has been conducting a full review of its utilization of PIMCO strategies, has downgraded its rating of PIMCO from Superior to Good, and placed PIMCO on its Watch List, placing any further allocations on hold.

Ms. Kautz reported that a due diligence site visit with PIMCO has been scheduled by Prudential, the SFDCP Third Party Administrator. Commissioner Bridges requested a report back on the outcome of the planned site visit to the members of the Committee when

available.

Commissioner Driscoll inquired if the Committee could take immediate action to terminate the manager if the outflows continued. Jay Huish, Executive Director, confirmed the Board could ratify the Committee's action. He noted that the Executive Director has the authority to implement immediate termination should circumstances or market conditions change prior to the next Board meeting.

Commissioner Bridges called for public comment.

There were no comments from the public.

Action: Approve recommendation to replace Core Bond Fund and forward to the full Board with recommendation to approve.

Ayes: Bridges, Driscoll  
Absent: Stansbury

10152014-03 Action Item

**Review and Approval of Revised Galliard Investment Guidelines to unwrap managed income fund**

Documents provided to the Committee prior to the current meeting: Staff and Angeles Investment Advisors memoranda

Julia Durand, Deferred Compensation Manager, and Leslie Kautz, Angeles Investment Advisors, presented an oral and written report on this item.

Ms. Durand reported that Galliard has requested revisions to the guidelines to clarify that Stable Value Collective Funds are permitted at the fund level and not just at the underlying asset guideline level. The change maintains the risk-averse orientation of the guidelines while permitting a meaningful fee reduction of 2.2 basis points. This change reflects the improvement of the Stable Value Fund's market to book ratio.

Commissioner Bridges called for public comment.

There were no comments from the public.

Action: Approve revised Galliard Investment Guidelines and forward to the full Board with recommendation to approve.

Ayes: Bridges, Driscoll  
Absent: Stansbury

- 10152014-04 Action Item

**Review and Approval of SFDCP Mission Statement**

Documents provided to the Committee prior to the current meeting: Staff memorandum

Julia Durand, Deferred Compensation Manager, presented an oral and written report on this item.

Over the past few years, the Deferred Compensation Committee has discussed and considered adopting a mission statement for the SFDCP. At its August 20, 2014 committee meeting, the Deferred Compensation Committee directed staff to prepare a draft SFDCP mission statement for consideration by the Committee at its next committee meeting.

Staff prepared three draft SFDCP Mission Statements for the committee's consideration.

Commissioner Bridges requested the opportunity to further review the drafts with staff. The item was continued to a future Committee meeting.

Commissioner Bridges called for public comment.

There were no comments from the public.

Action: This was a discussion only item.

- 10152014-05 Action Item

**Review and Approval of Recommendation to Eliminate Mid-Cap Funds**

Documents provided to the Committee prior to the current meeting: Staff and Angeles Investment Advisors memoranda

Julia Durand, Deferred Compensation Manager, and Leslie Kautz, Angeles Investment Advisors, presented an oral and written report on this item.

Ms. Durand reported that Angeles Investment Advisors presented a recommendation at the August 20, 2014 Deferred Compensation Committee meeting to eliminate the three Mid Cap Funds from the core fund line-up. At the request of the committee, Angeles provided additional information regarding that recommendation and presented alternatives to full elimination of Mid Cap funds.

Based on the Angeles presentation of options, Commissioner Driscoll recommended that the Committee consider condensing the current three mid-cap funds to one option as the default for mapping, and to not change mid-cap funds in target date funds until the Russell Investment Advisors (SFDCCP Target Date Consultant) glidepath review is complete. He further recommended that communications to participants regarding the change provide a list of mid-cap funds in the brokerage window, and develop education materials and tools to include disclaimer approved by Office of the City Attorney.

Ms. Kautz noted the list of available options in the brokerage window was subject to change. Mr. Huish noted this would be an educational tool and not investment advice for participants.

Katie Porter, Deputy City Attorney, noted that there would be a 60-90 day notice requirement for participants prior to mapping.

Mr. Huish further noted that other educational options, short of a list issued by SFDCCP, are available and the educational materials could be brought back to members of the Committee for their consideration.

Ms. Porter noted that this would require appropriate disclaimer.

Commissioner Bridges called for public comment.

William [last name not provided], inquired as

to how the Committee proposed action would impact the Target Date Funds.

Action: Approve Recommendation to eliminate two Mid-Cap Funds from the Core Fund Line-up and forward to the full Board with recommendation to approve.

Ayes: Bridges, Driscoll  
Absent: Stansbury

<input type="checkbox"/> 10152014-06	Possible Action Item	<p><b>Request from Plan Sponsor to Consider Allowing Employees to Borrow Against Their 457(b) Account Balance</b></p> <p>Documents provided to the Committee prior to the current meeting: Letter from Plan Sponsor and Staff Memorandum</p> <p>Julia Durand, Deferred Compensation Manager, and Jay Huish, Executive Director, presented an oral and written report on this item.</p> <p>Ms. Durand reported that during the City's labor contract negotiations earlier this year, a handful of labor organizations proposed that the City allow employees to borrow against the SFDCP. Upon conclusion of its labor negotiations, the City forwarded a letter to Executive Director Huish which encourages SFERS, as the SFDCP administrator, to consider modifying the SFDCP plan document to include the option of allowing employees to borrow against their 457(b) account balances, consistent with IRS Code 457(b). The City requested that this loan option be available to both City and Municipal Transportation Authority participants.</p> <p>The Committee directed staff to prepare an analysis and recommendation regarding the City's request to amend the SFDCP plan document to allow participants to borrow against their SFDCP account balances.</p> <p>Commissioner Bridges requested additional information on history of the loan option with SFDCP as part of the analysis.</p>
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Commissioner Driscoll noted that the cost of administration should be included in the analysis.

Commissioner Bridges called for public comment.

There were no comments from the public.

Action: This was a discussion only item.

- 10152014-07 Discussion Item **SFDCP Manager Report:**
- **Update on GoalMaker Implementation**
  - **Future Committee Meeting Dates**

Documents provided to the Committee prior to the current meeting: Staff report

Julia Durand, Deferred Compensation Manager, and Leslie Kautz, Angeles Investment Advisors, presented an oral and written report on this item.

Mr. Huish reported that Ms. Durand will be leaving the SFDCP to explore other employment options. Committee members expressed their appreciation for her efforts on behalf of the SFDCP participants and scheduled their next meeting for December 3, 2014.

Commissioner Bridges called for public comment.

There were no comments from the public.

This is a discussion only item

- 10152014-08 Discussion item **General Public Comment:**

Commissioner Bridges called for public comment.

There were no comments from the public.

**Deferred Comp Committee Minutes**

**October 15, 2014**

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10152014-09

**Adjournment**

Having no further business, the Board adjourned their meeting at 4:20 PM.

Respectfully submitted,  
Jay Huish, Executive Director