



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

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**March 12, 2014**

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

**1:00 PM**

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**COMMITTEE MEMBERS**

*Commissioners*

Leona Bridges

Joseph Driscoll

Brian Stansbury (Chair)

Jay Huish

*Executive Director*

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Commissioner Stansbury called the meeting to order at 1:25 PM

Pledge of Allegiance

Roll Call: Commissioner Leona Bridges 1:25 PM  
Commissioner Joseph Driscoll 1:25 PM  
Commissioner Brian Stansbury 1:25 PM

Public Comment Discussion Only Commissioner Stansbury reviewed the procedures for public comment.

There were no comments from the public.

03122014-01 Action Item

**Review and Approval of Minutes of the February 19, 2014 Deferred Compensation Committee Meeting**

Documents provided to the Committee prior to the current meeting: Draft Minutes

Commissioner Stansbury called for public comment. There were no comments from the public.

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Stansbury to Approve the Minutes of the February 19, 2014 Deferred Compensation Committee Meeting.

Ayes: Bridges, Driscoll, Stansbury

03122014-02 Action Item

**Review of Great West Stable Value Fund Investment Guidelines**

Documents provided to the Committee prior to the current meeting: Draft Stable Value Fund Investment Guidelines

Julia Durand, Deferred Compensation Manager, and Anna McGibbons, Angeles Investment Advisors (SFDCP Investment consultant), presented an oral and written report on this item.

Ms. Durand noted that these draw on the existing guidelines in place for Great-West, and amend them to be more consistent with plan objectives and with the guidelines approved in fall 2013 for Galliard, whose selection by the Board has not yet been implemented pending further analysis of the Stable Value Fund. The

changes were sufficiently extensive that it was not practical to include the prior guidelines with “changes marked” for the revisions.

Ms. McGibbons reviewed the proposed changes to the guidelines, including:

- **Lower Duration:** The allowable range was changed from 2 to 4 years to a new range of 1 to 3.5 years. The maximum duration was changed from 5 years to 4 years.
- **Mortgage Exposure:** Mortgage backed securities (MBS) are now limited to 60% of the portfolio’s market value in the revised guidelines. US Agency Issued Mortgage-Backed Securities & CMBS were previously unconstrained.
- **Corporate Exposure:** Bonds issued by corporations and non-corporate credit issues are now limited to 40% of the portfolio’s market value whereas the previous guidelines limited corporate and US dollar-denominated foreign debt to 20%, and securities in these sectors had to be rated A- or better. All investments must now be investment grade or better (BBB- or equivalent). The minimum average credit quality of the portfolio remains unchanged at AA- or better.
- **Other sector limits:** The revised guidelines incorporate some new sector limits on non-agency residential MBS (5% max), non-agency CMBS (10% max), non-agency asset backed securities (ABS) (15% max), and agency-residential MBS (60% max).
- **Issuer Concentration:** The revised guidelines incorporate a maximum issuer size of 2% of the portfolio’s market value for corporates, non-corporate credit issues, non-agency ABS, non-agency residential MBS, and non-agency CMBS.
- **Investment Objective:** In addition to articulating objectives of predictable returns, liquidity and strong credit quality, the guidelines state that Great-West will “manage the risk of the portfolio and portfolio exposures with the objective that the ratio of the market value of the portfolio and the book value of participant accounts is maintained at 100% or above.”
- **Performance Objective:** The benchmark remains the same (3-year constant maturity Treasury Yield), but the revised guidelines incorporate an excess of 0.15% (annualized, net of investment

and management and wrap fees) over the benchmark over a full market cycle.

- **Eliminated section on “In-Kind” Transfers:** Since the portfolio no longer holds assets designated as “Type B” Transferred Assets, this section is no longer relevant.
- **Legal Changes:** Several changes were made to bring the guidelines in-line with SFERS’ new guideline template as suggested by SFDCP counsel and to ensure best practices for a stable value portfolio.

Commissioner Stansbury called for public comment. There were no comments from the public.

Commissioner Driscoll discussed the role of the wrapper and crediting rate. Ms. McGibbons noted that the investment guidelines do not address the issue of the wrapper, and the formula for setting the crediting rate is addressed separately in the contract with Great West.

Commissioner Stansbury inquired regarding future guideline changes. Katy Porter, Deputy City Attorney, noted that the contract with Great West allows for modification of the guidelines at any point.

Commissioner Stansbury expressed concern regarding the revised duration maximum of 4 years and requested a shorter duration.

Jay Huish, Executive Director, noted that the proposed guidelines were intended to cover the current contract extension period with Great West, and the guidelines could be revised were there to be a longer term contract.

Commissioner Stansbury expressed concern regarding the allowable credit quality in the proposed guidelines. Ms. McGibbons noted this was intended to provide greater diversity in the portfolio, but the overall average credit quality remains unchanged.

Commissioner Bridges inquired regarding the prohibition on securities lending in the proposed guidelines. Staff agreed to research the issue.

The Committee directed staff to conduct additional research and present the guidelines at a future Committee meeting.

Brian Mclief, Prudential, noted that significant progress has been made in moving towards 100% of book value.

- 03122014-03 Discussion Item **Review of Semi-Annual SFDCP Performance Report**

Documents provided to the Committee prior to the current meeting: Semi-Annual SFDCP Performance Report by Angeles Investment Advisors

Documents provided to the Board prior to the current meeting: Semi-Annual Performance Analysis

This item was continued to the next Deferred Compensation Committee meeting.

This was a discussion only item.

- 03122014-04 Discussion item **General Public Comment:**

Commissioner Stansbury called for public comment. There were no comments from the public.

- 03122014-05

**Adjournment**

There being no further business, the Committee adjourned its meeting at 2:00 PM.

Respectfully submitted,

Jay Huish  
Executive Director