



SFERS

San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System

DEFERRED COMPENSATION COMMITTEE MINUTES

December 18, 2019

1145 Market Street, 6th Floor
San Francisco, CA 94103

1:00 PM

MISSION STATEMENT

Our mandate is simple: Deliver an exceptional voluntary retirement program, with empowering education and advanced tools that enable participants to achieve their financial retirement goals.

DEFERRED COMPENSATION COMMITTEE MEMBERS

Commissioner Leona Bridges, *Chair*

Commissioner Joseph Driscoll

Commissioner Brian Stansbury

Jay Huish

Executive Director

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OPENING CALENDAR

1. Pledge of Allegiance

- 2. Roll Call**
- | | |
|------------------------|---------|
| Commissioner Bridges | 1:15 PM |
| Commissioner Driscoll | 1:15 PM |
| Commissioner Stansbury | 1:15 PM |

3. 121819-03 General Public Comment

Commissioner Bridges called for general public comment.

There were no comments from the public and public comment was closed.

4. 121819-04 Action Item Approval of the Minutes of the September 17, 2019 Deferred Compensation Committee Meeting

Documents provided to the Committee prior to the current meeting: Draft Minutes of the September 17, 2019 Deferred Compensation Committee Meeting

Commissioner Bridges called for public comment.

There were no comments from the public and public comment was closed.

Action: Moved by Commissioner Stansbury, Seconded by Commissioner Driscoll, to approve Minutes of the September 17, 2019 Deferred Compensation Committee Meeting.

Ayes: Commissioners Bridges, Driscoll, Stansbury

5. 121819-05 Action Item Approval of proposed investment manager for the SFDCP's US and Global REIT mandates

Documents provided to the Committee prior to the current meeting: Staff Memorandum, Callan US and Global REIT presentation

Diane Chui Justen, Deferred Compensation Plan Manager, Greg Ungerman and Alex Hoy, Callan, presented an oral and written report on this item.

At the September 17, 2019 Deferred Compensation Committee (DCC) meeting, Callan recommended the DCC place Morgan Stanley's Global Real Estate Fund and US Real Estate Funds on the Watch List, due to persistent underperformance relative to peers and the funds' respective indexes. Upon review of Callan's recommendation, the Deferred Compensation Committee instructed Staff and Callan to conduct a replacement manager search for the SFDCP's US and Global REIT mandates.

Beginning with a universe of 73 firms that offer both US and Global REIT strategies, the following three firms rose to the top for consideration: Cohen & Steers, Duff & Phelps, and Principal. As part of the search process, Callan and Staff interviewed these three candidate firms as potential replacements on November 12th.

Upon completion of these interviews, a deep review of each firm's investment performance, philosophy, fee and portfolio management structure, as well as a follow up RFI "Request for Information" regarding each firm's stance on diversity and inclusion, Callan concluded and recommends with Staff's approval that Principal should replace Morgan Stanley for both the US and the Global REIT Fund mandates.

The Committee reviewed and discussed the report and engaged in a question and answer session.

Commissioner Driscoll spoke about the performance numbers and asked that staff include the other contenders as the Board would like to see all the alternatives.

Commissioner Bridges called for public comment.

There were no comments from the public and public comment was closed.

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Stansbury, to approve Principal as the US REIT mandate for the core fund lineup as well as Principal for the Global REIT mandate as an underlying fund in our Target Date Funds both using the CIT Vehicle.

Ayes: Commissioners Bridges, Driscoll, Stansbury

6. 121819-06 Action Item Approval of proposed revisions to the SFDCP Investment Policy Statement

Documents provided to the Committee prior to the current meeting: Staff Memorandum, SFDCP Investment Policy Statement – redline and clean version

Diane Chui Justen, Deferred Compensation Plan Manager, presented an oral and written report on this item.

At the August 14, 2019 Board meeting, the Retirement Board voted to expand the SFDCP's self-directed brokerage platform to include mutual funds, ETFs, and U.S. exchange securities. The following SDB investments were approved:

- Mutual funds that are registered under the Investment Company Act of 1940, and
- U.S. publicly-offered securities that
 - 1) are exchange-traded funds ("ETFs"), real estate funds that qualify as REITs for U.S. federal tax purposes, equity securities or bonds,
 - 2) in each case, at the time of purchase, are liquid, widely held and freely transferable securities, and
 - 3) are purchased only on U.S. exchanges

As a result, Staff and Callan have reviewed and revised the Investment Policy Statement to reflect these changes in Section 5 – Investment Options of the Plan, Self-Directed Brokerage Option.

The Committee reviewed and discussed the report and engaged in a question and answer session.

Commissioner Bridges called for public comment.

There were no comments from the public and public comment was closed.

Action: Moved by Commissioner Stansbury, Seconded by Commissioner Driscoll, to approve proposed revisions to the SFDCP Investment Policy Statement and forward to the Retirement Board with a recommendation for approval.

Ayes: Commissioners Bridges, Stansbury

Noes: Commissioner Driscoll

Motion to Reconsider: Moved by Commissioner Stansbury, Seconded by Commissioner Driscoll, to reconsider prior motion to approve the SFDCP Investment Policy Statement and forward to the Retirement Board with a recommendation for approval.

Ayes: Commissioners Bridges, Driscoll, Stansbury

Action: Moved by Commissioner Stansbury, Seconded by Commissioner Driscoll, to adopt staff's proposed revisions to the SFDCP Investment Policy Statement with the following amendment that the exact formatting used on the face page of Staff's memo, to be the same formatting used in the Investment Policy Statement.

On page 9, second to last paragraph will read:

The Plan's Self-Directed Brokerage Option ("SDBO") offers Participants access to

- Mutual funds that are registered under the Investment Company Act of 1940, and
- U.S. publicly-offered securities that
 - 1) are exchange-traded funds (“ETFs”), real estate funds that qualify as REITs for U.S. federal tax purposes, equity securities or bonds,
 - 2) in each case, at the time of purchase, are liquid, widely held and freely transferable securities, and
 - 3) are purchased only on U.S. exchanges

Ayes: Commissioners Bridges, Driscoll, Stansbury

7. 121819-07 Discussion Item SFDCP / Recordkeeper Update

Documents provided to the Committee prior to the current meeting: Staff Memorandum, Voya Presentation and SDB Participant Assumption of Risk and Release Form

Diane Chui Justen, Deferred Compensation Plan Manager and Brian Merrick (Voya), presented an oral and written report on this item.

The SFDCP effectively transitioned recordkeeper services to Voya Financial (Voya) on September 3, 2019. Numerous plan enhancements were launched over the past three months including, but not limited to:

- Reduced recordkeeping fees
- Direct deposit of SFDCP loan proceeds and ACH repayments
- Managed Account Service – fee based Professional Management
- Online Enrollment – available 24/7 at sfdcp.org
- Contribution rate escalator – automatic increases of deferrals
- *futureReady* Model Portfolios – asset allocation portfolios featuring low cost index funds with quarterly rebalancing at no additional cost
- Online Appointment Scheduling – participants can choose counselor and location preference

For Q1, Staff and Voya are preparing to launch an online Self-Directed Brokerage (SDB) enrollment experience for participant ease, and an expanded SDB platform to include mutual funds, ETFs and US based securities, no earlier than March 1, 2020 (pending Retirement Board approval of the SFDCP Investment Policy Statement on February 12). The expanded SDB platform will be released alongside an accompanying e-Consent form to indemnify the Retirement Board, the SFDCP and SFERS of investments in an SDB account. Participants must scroll down to accept the Acknowledgement and Release button prior to accessing the expanded SDB platform. The Retirement Board is not responsible for monitoring the performance of investments available through the SDB platform.

The SFDCP currently uses TD Ameritrade's SDB platform with Voya. In early October, TD Ameritrade announced 100% commission free trades for ETFs and equities, and participants will reap these benefits when the SDB platform allows for these types of investments in late February or early March 2020. However, a recent press release in late November announced that Charles Schwab intends to purchase TD Ameritrade for \$26 Billion. Details on the merger are still developing and the combined firms are projected to serve more than 24 million brokerage accounts with over \$5 Trillion in client assets. In the meantime, Staff is proceeding "business as usual" with TDA and expects zero impact to the aforementioned Q1 SDB rollouts.

Staff is excited to debut DB/DC (defined benefit and deferred compensation) integration via public pension modeling through the SFDCP participant website provided by Voya. The launch date is targeting March 1 and a demo of the actual SFDCP experience will be available at the next DCC meeting. In testing data accuracy and the user experience, Staff and Voya worked with SFERS' Actuary, Ms. Janet Brazelton, who was very pleased with her findings. Final programming is in process to incorporate her feedback and to tailor the experience to SFERS/SFDCP. Staff and Voya are looking forward to a smooth rollout of bringing this holistic experience to retirement planning.

Ms. Chui Justen announced the hiring of the fifth SFDCP counselor, Mr. Anthony Chiu, who speaks Cantonese and that another counselor speaks Spanish. Mr. Chiu will be located full time at the SFDCP office for walk-ins.

The Committee reviewed and discussed the report and engaged in a question and answer session.

Commissioner Stansbury asked that staff follow up and report back to the Committee on what notifications or confirmations are sent to members when signing up for self-directed programs on the website.

Commissioner Bridges called for public comment.

There were no comments from the public and public comment was closed.

Action: This is a discussion only item.

8. 121819-08 Discussion Item Retirement Board Member Good of the Order

Retirement Board members may request that any matter be calendared at a future meeting. All such requests shall be calendared in a reasonable time. (Board Operations Policy ¶124.) The Board will not discuss any items requested to be calendared until a subsequent meeting when the matter is included on the agenda with the required public notice.

Commissioner Bridges confirmed with the Committee that the next Deferred Compensation Committee would be scheduled for Wednesday, March 4, 2019 at 1:00 PM.

Commissioner Stansbury spoke about outside vendors contacting members about questions on their pension and asked staff to start thinking about how we make sure that our members know what resources are available to them by the SFDCP.

Commissioner Driscoll spoke about the City's rules on solicitation on government property and asked to place budget and improvement on target date funds on next agenda.

Commissioner Bridges called for public comment.

There were no comments from the public and public comment was closed.

Action: This is a discussion only item.

9. 121819-09

Adjournment

Having no further business, the Committee adjourned the meeting at 2:45 PM

Respectfully submitted,



Jay Huish, Executive Director