

SFDCP Responses to Target Date Funds Investment Management Services RFP Questions

1. Would it be permissible to submit our RFP response electronically only, or are the 3 hard copies outlined in Section III (2) required for our submission to be considered complete?

Three (3) hard copies and one (1) electronic copy in .pdf format are required.

2. Are there any employer contributions to the plan? Is there a match for participant contributions and if so, what is the rate?

There are no employer contributions to the SFDCP.

3. Does the plan include auto-enrollment and auto-escalation policies? Is re-enrollment a consideration?

The SFDCP currently does not utilize auto-enrollment / auto-increase provisions. The Plan does have a participant initiated Contribution Rate Escalation feature. At this time, re-enrollment is not a consideration.

4. Are the participants eligible for Social Security?

Most employees do contribute to Social Security; however, certain members of Safety do not contribute to Social Security.

5. Which vendor executes the underlying manager trades (e.g. Voya, Russell, your custodian)? Who is the current custodian/pricing agent for the funds?

Voya Institutional Plan Services, LLC

6. Who is the trustee and custodian supporting the custom target date funds?

Voya Institutional Trust Company

7. How does SFDCP evaluate whether the TDFs are meeting objectives?

There are a range of factors, but the most essential feature will be the balance of the risk and volatility experienced along the glidepath to achieve a target income replacement level. The target income replacement level itself is a critical target, and how that is determined by respondents will itself be a key criterion in the evaluation. This is due to the presence of distinct populations within the employee base, as well as the presence of mandatory contributions to the defined benefit plans, the presence of different defined benefit formulas, and differential savings patterns amongst the employee groups.

8. Should the existing asset classes serve as a starting point for our proposed asset allocation, and are we able to remove/add asset classes?

Recommend your best thinking.

9. For question 51, should we rely on Exhibit E only, or can additional data by age cohort be provided that details salary, matching rates, contribution rates, loan activity, and withdrawal activity?

No additional information will be provided. However, the purpose of question 51 is to evaluate how your process incorporates the available information that is relevant to your process, including publicly available information as well. If it is helpful to make assumptions pertaining to those details and then illustrate their impact in order to elucidate your process, then you are encouraged to do so. Respondents are encouraged to be as thorough and detailed as possible in showing their work in response to this question, so that the RFP evaluators will both understand the recommended glidepath, but, most critically, *how* the glidepath is arrived at, and the underlying analysis that led to that point. It is especially critical to explain the methodology at play in each step, and how the specific circumstances of the SFDCP are incorporated into that analysis.

10. Can the City and County of San Francisco provide us with details on the operational flow for the interactions between the custodian, trustee, recordkeeper, and manager as well as the responsibilities assigned to each?

This is not currently relevant, because SFDCP is open to working under several proposed relationships, and are not wedded to current practice per se. With that said, at the present time, rebalancing is conducted by the recordkeeper using an existing rebalancing instruction, and the current manager has the flexibility to provide instruction for additional ad-hoc rebalancing.

- a. What oversight do you expect the glide path manager to have in ensuring the recordkeeper rebalanced and/or allocated daily cash flows as instructed?

Please see Appendix C.

- b. To produce and maintain fact sheets, what inputs are provided by the trustee and/or recordkeeper? Who is responsible for the ultimate production of the fact sheet?

Fund Fact Sheets are created by Voya through Morningstar. Fund Fact Sheets are reviewed by the Target Date Fund Investment Manager for accuracy before being published.

Additionally, the Target Date Fund Investment Manager is responsible for creating and updating the SFDCP Target Date Fund Portfolio Summary as found here:

<https://voyamarketingzone.dmplocal.com/dsc/collateral/sf-tdf-portfolio-summary.pdf>

- c. Are there any expectations to provide reporting based on a look-through of the underlying manager holdings?

No.

- d. Any additional insights to the glidepath manager's operational responsibilities to be aware of?

No.

11. Can you provide more granular data of your participant base in the 457b plan:

- a. For example, can you provide salary ranges, savings/deferral, balances, and age data for 457 plan? It would be helpful to analyze each of those (in a table) with the associated accrued DB benefit.

Please see Appendix E.

- b. Can you provide details on % of participants retiring at different ages and/or average retirement age by provided? (There are assumptions in the actuarial report for the DB plan, but do those match what happens in practice?)

Feel free to illustrate how divergence may or may not impact your analysis. However, for the present time, the details provided in Appendix E should be utilized for the sake of the response.

12. In RFP, section II (Scope of Services), #1, We would like to understand what is the distinction between the following demographic considerations:

- The impact and presence of a defined benefit plan for plan participants
- The impact of mandatory contributions to the defined benefit plan and other City and County benefits upon calculations of income replacement models

We are assuming that these two bullets collectively imply that the glide path should be designed by taking into account the income replacement from the DB plan, where the DB plan income replacement ratios are derived using the plan formulas provided. We wanted to clarify whether there was something specific about "mandatory contributions" that you would like us to consider while designing the glide path.

That is up to your firm and your practice in determining the glidepath. However, it is common practice to first identify a target income replacement ratio, and then to optimize the glidepath to achieve a high probability of meeting that income replacement target, using assumptions for various income sources, including the DB and DC plans, as well as Social Security. When mandatory employee contributions are in place, but are excluded from the estimated replacement rate, it can result in significantly overestimating the income replacement target.

13. For daily participant cash flows, are underlying manager trades allocated using a strategic allocation or through a daily process to allocate flows to underweight/overweight asset classes/managers?

This can be done either way. As a result, one of the goals of the RFP process is to determine the preferred practice(s) of the respondents.

14. Specific questions we'd like to clarify on the demographics of the DCP are:

- a. Active (contributing) participants by age cohort

In order to standardize data provided, Appendix E should be utilized.

- b. Average balance by age cohort (confirm p. 34 data just for DCP?)

Confirmed.

- c. Average savings rate by age cohort (confirm p. 34 data just for DCP?)

Confirmed.

- d. Average salary levels by age cohort

In order to standardize data provided, Appendix E should be utilized. However, salary levels in general are partially addressed in Appendix E, and are publicly available.

- e. Income replacement goal of the DC Plan

No such goal exists. This is determined by the methodology in place by either the target date fund manager, or, by the consultant evaluating the glidepath (Callan). There is no plan-wide goal per se.

- f. Objectives for length/certainty of income lasting in retirement (e.g., 95% probability of lasting to age 90)

No such goal exists. This is determined by the methodology in place by either the target date fund manager, or, by the consultant evaluating the glidepath (Callan). There is no plan-wide goal per se.

15. For the participant population, can we get the percentage by pension tier and employee type?

It is possible to assemble this information, but it requires matching individual employees and reporting on the effects. For the purposes of this RFP, the information contained in Appendix E should be relied upon.

16. We may need to include in the IMA some affiliated entities involved in our TDF services depending on the scope of services ultimately agreed to by the parties. Would those affiliated entities need to submit the vendor forms included in Appendix B with the RFP submission or can those be completed at a later date during the negotiation process as the scope of services are finalized?

It depends on the scope of services and the degree to which the affiliated entities are involved. It's possible for affiliated entities to complete the vendor forms as part of the negotiation process as the scope of services are finalized with the bidder.

17. Are the returns calculated by $(\text{Ending NAV} - \text{Beginning NAV} / \text{Beginning NAV})$, and is the expectation for the investment manager to confirm these performance returns calculated by the TPA?

19. The TPA shall calculate the performance of each of the Custom Target Date Funds and provide those performance results, and the underlying asset balances, to _____ on a periodic basis, as mutually agreed by _____, the Plan and the TPA. _____ will be responsible for promptly confirming these performance calculations and reporting this performance to the Plan on a summary basis via periodic electronic reports, and on a detailed basis to the Plan via the quarterly, in-person presentations described in item 20 below. If _____ determines performance was not calculated correctly, _____ will immediately notify the Plan, coordinate with the TPA to complete a reconciliation, and report results and issues back to the Plan.

The calculation for cumulative returns is correct as stated in the question. The Investment Manager is expected to confirm these performance returns.

18. Is in-person or virtual attendance expected at each quarterly meeting?

20. A senior member of the Service Team will attend Plan committee meetings and deliver quarterly reporting on the Custom Target Date Funds' performance, benchmarking, methodology updates, and capital markets assumptions. _____ will coordinate delivery of these reports with the Plans, and, upon request, will provide content for inclusion in the Investment Consultant's semi-annual investment review report.

At this time, virtual attendance is expected for Deferred Compensation Committee meetings and SFERS Retirement Board meetings. However, in-person attendance may be required in the future.

19. Many of the data points in Appendix E differ meaningfully from the demographic data shown in the Target Date Suitability study of September 29, 2021. Contribution rates and income replacement objectives for the DC Plan shown are significantly lower in the Suitability Study. Which data source should be relied on to understand the level of savings, contributions, and expected outcomes for the DC Plan?

That is up to your firm. However, the suitability study contained an income replacement rate that was determined in light of the mandatory contributions to the DB plan. We are not aware

of an income replacement rate being set by Appendix E, and as a result, are unsure of how to respond to the remainder of this question.

20. On page 7 of Appendix E (slide 6 from the recordkeeper titled “Cash Flow Summary”) there is a significant amount of cash in/out classified as “other”, is it possible to confirm what that includes?

“Other” primarily consists of transfers between funds. A small portion includes plan transfers, adjustments, and miscellaneous transactions.

21. In Appendix E, please confirm that the demographic data on p. 33-39 cover all participants in the Deferred Comp Plan. It isn’t clear if this includes other assets or was part of a digital engagement study that may have been a subset of the deferred comp participants. The footnote says it does not include other income or assets “unless provided by the participants”, but how would one know how many participants did provide this information?

Data on pages 33-35 and 37-39 reflect all participants within the SFDCP. Page 36 reflects the population of participants who manually entered salary data through the participant website for the purposes of calculating income replacement using Voya’s online calculator. Those who provided outside assets are reflected in their respective charts.

22. On Appendix E of the RFP, page 34, we would like to confirm that the Average Savings Rate by Age Group table refer only to employee deferrals to the SFDCP (i.e., the savings rates are separate and in addition to any employee contributions the DB plan)?

The Savings Rate only includes employee deferrals into the SFDCP.

23. What forms of income are included in the Income Replacement by Age on Appendix E, p.36 (pension, savings, Social Security?)

Sources of income include projected savings from the 457 plan, Social Security (where applicable), and other savings and future income entered by participants.