



City and County of San Francisco  
Employees' Retirement System

**DEFERRED COMPENSATION  
COMMITTEE MINUTES**

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**April 27, 2016**

1145 Market Street, 6<sup>th</sup> Floor  
San Francisco, CA 94103

1:00 PM

**SFDCP 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 Joseph Driscoll, *Chair*

Commissioner Leona Bridges

Commissioner Brian Stansbury

Jay Huish

*Executive Director*

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**OPENING CALENDAR**

Commissioner Driscoll called the meeting to order at 1:10 PM

**1. Pledge of Allegiance**

- 2. Roll Call**
- |           |         |
|-----------|---------|
| Bridges   | 1:10 PM |
| Driscoll  | 1:10 PM |
| Stansbury | 1:10 PM |

**3. 04272016-03 General Public Comment**

Commissioner Driscoll called for public comment.

There were no comments from the public.

**4. 04272016-04 Action Item Review and Approval of the March 16, 2016 Deferred Compensation Committee Minutes**

Documents provided to the Committee prior to the current meeting: Draft Minutes of the March 16, 2016 Deferred Compensation Committee Meeting

Commissioner Driscoll called for public comment.

There were no comments from the public.

**Action:** Moved by Commissioner Bridges, Seconded by Commissioner Stansbury to approve the Minutes of the March 16, 2016 Deferred Compensation Committee Meeting

Ayes: Bridges, Driscoll, Stansbury

**5. 04272016-05 Action Item Review and Approve Recommendation to Retain Russell Investments as SFDCP's Target Date Fund Investment Manager**

Documents provided to the Committee prior to the current meeting: Staff Memorandum; TDF Recommendation presentation from Angeles Investment Advisors, LLC; and Russell Investments' performance analysis

Diane Chui Justen, Deferred Compensation Manager, and Leslie Kautz, Angeles Investment Advisors (SFDCP Investment Consultant) presented a verbal and written report on this item.

Ms. Chui Justen reported that Russell Investments is the current Target Date Fund Investment Manager for San Francisco's 457(b) Deferred Compensation Plan. The Target Date Funds are the SFDCP's qualified default investment alternative. The contractual agreement between SFDCP and Russell Investments will expire on June 30, 2016.

Upon Retirement Board approval, Staff and Angeles Investment Advisors LLC, ("Consultant") issued a Request For Proposal (RFP) on October 19, 2015 to solicit bids for Target Date Fund Investment Management Services for the City and County of San Francisco Deferred Compensation Plan. The SFDCP received seven (7) bid responses to the RFP.

As a result of the initial evaluation, four (4) semi-finalists (AllianceBernstein, JP Morgan, State Street Global Advisors and Russell Investments) were invited to deliver a presentation to the Target Date Fund RFP Review Panel on March 1, 2016. The review panel consisted of SFDCP/SFERS Staff (Diane Chui Justen, Mhalou Villamejor, and Robert Shaw) and SFDCP Consultant, Angeles Investment Advisors (Leslie Kautz and Anna McGibbons). Staff and Angeles recommended retaining Russell Investments as the Target Date Fund Investment Manager and presented this recommendation to the Committee on March 16, 2016.

At the March 1, 2016 Committee meeting, the Committee tabled the TDF recommendation and requested additional information on performance; they also suggested a site visit to learn more about Russell's dynamic asset allocation strategies (DAA).

Staff reported that Angeles and Russell worked on additional analysis, in parallel. Their findings both confirmed that TDF performance has lagged due to a larger allocation to global equity and certain specialty asset classes. Russell provided an analysis showing this was appropriate considering the income replacement goal hence the allocation to low correlated equities for capital preservation. They also explained the importance of diverse equity exposure and how the TDFs will perform differently in respective markets.

Staff also reported that gauging performance against Morningstar peer groups may not be the most adequate comparison, considering the universe is primarily off the shelf target funds from Fidelity, Vanguard, and T Rowe. Angeles provided a benchmarking analysis, which explained the suitability of some benchmarks over others, and highlighted that the SFDCP has not experienced a full market cycle yet, given the short track record of these funds (four years).

Given this additional analysis, and confirming to the Committee that Russell has met all the TDF objectives established at the launch of the funds, staff and consultant recommended to retain Russell Investments as the Target Date Fund Investment Manager.

Commissioner Bridges noted that she had reviewed materials and additional research

and supported the recommendation.

Commissioner Driscoll discussed recent Target Date performance. He spoke in support of the recommendation to retain Russell, but noted the need to continue address performance going forward.

Commissioner Stansbury spoke in support of the recommendation and requested additional performance data for last cycle, including peer comparison data and evaluation of Russell's recommendations during the economic downturn.

Commissioner Driscoll spoke in support of the request for additional information.

Commissioner Driscoll called for public comment.

There were no comments from the public.

**Action:** Moved by Commissioner Bridges, Seconded by Commissioner Driscoll to approve the recommendation to retain Russell Investments as SFDCP's Target Date Fund Investment Manager and forward to the full Retirement Board with a recommendation for approval.

Ayes: Bridges, Driscoll, Stansbury

**6. 04272016-06 Action Item Semi-Finalist Presentations - Investment Consultant Services RFP**

Documents provided to the Committee prior to the current meeting: Staff Memorandum; Gay Lynn Bath Biography

Diane Chui Justen, Deferred Compensation Manager presented a verbal and written report on this item.

Ms. Chui Justen reported that Angeles Investment Advisors is the current investment adviser for the SFDCP. The current contract with Angeles will expire on June 30, 2016.

Upon Retirement Board approval, Staff issued a Request For Proposal (RFP) on January 22, 2016 to solicit bids for Investment Consulting Services for the City and County of San Francisco Deferred Compensation Plan. The SFDCP received seven (7) bid responses to the RFP from the following firms:

1. Angeles Investment Advisors, LLC
2. Aon Hewitt
3. Callan Associates Inc
4. Cammack Retirement Group
5. NEPC, LLC
6. NFP Retirement
7. Segal Rogerscasey

SFDCP staff partnered with Gay Lynn Bath in the evaluation of RFP responses. For eleven (11) years, Ms. Bath served as the Plan Administrator for the Oregon Savings Growth Plan (OSGP), a 457(b) plan offered by the Public Employees Retirement System (PERS). Prior to that time, Ms. Bath was the 401(k) Plan Manager at the Public Employees Retirement System of Idaho (PERSI). Her background in government and deferred compensation (DC) plans made her an ideal resource to help score the RFPs.

In review of the RFP responses, Staff and Ms. Bath evaluated the investment consultant capabilities of the seven (7) proposers. While each of the firms met the minimum qualifications, three (3) firms (Callan Associates, NEPC LLC and Segal Rogerscasey) rose to the top based on their responses and were invited to make presentations to the Committee.

Commissioner Stansbury left the meeting at 1:40 PM, returned at 1:48 PM

Ms. Chui Justen introduced Greg Ungerman, Senior Vice President, and Ben Taylor, Vice President, Callan.

They presented:

- An overview of Callan and the proposed team for SFDCP;
- Experience with public sector Defined Contribution plans
- Manager search and due diligence process
- Performance measurement
- Research and education
- Target Date Suitability Review

Commissioner Stansbury asked for clarification of the source of their target date data used in their review process. Mr. Taylor stated that the Callan database is developed through direct contact with investment managers through a proprietary questionnaire.

Commissioner Driscoll asked for clarification as to their fiduciary status with the SFDCP. Mr. Taylor stated that they would serve as co-fiduciaries.

Commissioner Driscoll asked if Callan was open to increasing their insurance coverage on this contract. Mr. Ungerman stated that they would be willing to consider an increase; however other clients have deemed their level of coverage to be sufficient.

Commissioner Driscoll asked if to and through glide path analysis was available. Mr. Taylor stated that it was.

Commissioner Bridges asked for identification of the biggest threat to this segment of the market. Mr. Taylor noted pending regulatory changes at the federal level.

The Callan representatives distributed an updated fee proposal.

Ms. Chui Justen introduced Carolyn Smith, Partner, and Kevin Cress, Senior Consultant, NEPC.

They presented:

- NEPC's Value Proposition;
- An overview of NEPC and the proposed team for SFDCP;
- An overview of NEPC's defined contribution investment consulting services, including performance reporting, due diligence, and manager selection process;
- NEPC's annual deferred compensation plan & fee survey;
- Legal and regulatory monitoring;
- Record keeping vendor evaluation and selection; and,
- Custom Target Date Funds

Commissioner Driscoll asked if NEPC utilized the same process for discretionary and non-discretionary clients. Ms. Smith responded that the same process was used.

Commissioner Driscoll requested clarification regarding the inclusion of "alternatives" in NEPC's sample models and constructs for custom target date funds. Ms. Smith noted that the reference was to real estate (REITS and real property).

Commissioner Driscoll asked if NEPC tracks its experience on past assumptions. Ms. Smith confirmed this was done as part of their scenario analysis process.

Commissioner Driscoll asked if NEPC had recommended any absolute return strategies for deferred compensation plan clients. Ms. Smith responded that they had only recommended hedging in risk parity strategies.

Commissioner Stansbury asked if NEPC could offer any recommendations for changes to SFDCP. Ms. Smith suggested considering streamlining options for participants. Mr. Cress suggested changes to the investment policy statement wording to allow for cheaper share strategies and to refine watch list criteria.

Ms. Chui Justen introduced Wendy Carter, Vice President, and Glenn Ezard, Senior Consultant, Segal Rogerscasey.

They presented:

- An overview of Segal Rogerscasey's consulting services and the proposed team for SFDCP;
- Investment fund selection, research, and evaluation
- Performance monitoring, including analytical resources and investment reporting;
- Investment policy review and update; and,
- Continuous plan design review, including "Deep Dive Plan Review"

In response to a question from Ms. Chui Justen, Ms. Carter noted that she has direct experience in deferred compensation record keeping as well as being an investment consultant to deferred compensation plans.

Commissioner Driscoll asked for clarification on the relationship between Segal Rogerscasey consulting services and Segal's actuarial services. Ms. Carter noted that both are part of The Segal Group.

Commissioner Driscoll asked they had implemented any hedge fund strategies. Mr. Ezard noted that they have previously implemented hedging strategies (liquid alternatives) for clients.

Following receipt of the presentations, the Committee discussed next steps.

Commissioner Stansbury requested some additional follow up from Staff and that the Committee continue this item to a meeting to be scheduled in May 2016. The Committee agreed to continue the item until their next meeting.

Commissioner Driscoll called for public comment.

There were no comments from the public.

**7. 04272016-07 Adjournment**

Having no further business, the meeting adjourned at 4:30 PM.

Respectfully submitted,  
Jay Huish, Executive Director