



SFERS
San Francisco Employees' Retirement System

City and County of San Francisco
Employees' Retirement System

**DEFERRED COMPENSATION
COMMITTEE MINUTES**

March 4, 2020

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

Leona Bridges, *Chair*
Joseph Driscoll
Brian Stansbury

Jay Huish
Executive Director

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OPENING CALENDAR

1. Pledge of Allegiance

2. Roll Call

Commissioner Bridges 1:05 PM
Commissioner Driscoll 1:05 PM
Commissioner Stansbury Absent

3. 030420-03

General Public Comment

Chair Bridges called for general public comment.

There was no public present and public comment was closed.

4. 030420-04 Action Item

Approval of the Minutes of the December 18, 2019 Deferred Compensation Committee Meeting

Documents provided to the Committee prior to the current meeting: Draft Minutes of the December 18, 2019 Deferred Compensation Committee Meeting

Chair Bridges called for public comment.

There was no public present and public comment was closed.

Action: Moved by Commissioner Driscoll, Seconded by Chair Bridges, to approve Minutes of the December 18, 2019 Deferred Compensation Committee Meeting.

Ayes: Commissioners Bridges, Driscoll

Absent: Commissioner Stansbury

5. 030420-05 Action Item

**Investment Manager for SFDCP's Stable Value mandate:
Semi-finalist presentations and Possible Committee Action**

Documents provided to the Committee prior to the current meeting: Staff Memorandum, Callan Search Process Presentation, Invesco Presentation and Galliard Presentation

The Committee heard semi-finalist presentations from:

Invesco – presenters Jennifer Gilmore, Jessica Cole, Andy Aposto and Delia Roges

Galliard – presenters Mike Norman, Nick Gage and Jamie Morgan

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

Ms. Chui Justen described the search process and highlighted the comparisons of the two semi-finalist firms.

Ms. Chui Justen reported that, as of December 31, 2019, the SFDCP Stable Value Fund ("SVF") holds nearly \$1 Billion in participant assets, accounting for nearly 25% of Plan assets. SVF is managed by Galliard Capital Management and Ms. Chui Justen reported that the Galliard contract with the SFDCP will expire on June 30, 2020. As a result, on September 17, 2019, the Deferred Compensation Committee directed Staff and Callan to conduct a Stable Value Manager Search.

On February 3, 2020, Staff and Callan invited Galliard (\$76 B in AUM), Invesco (\$59 B in AUM) and Mellon (\$20 B in AUM) to the SFDCP office for on-site interviews. Each firm was allotted one hour to discuss their key strengths and differentiators from their competitors. Ms. Chui Justen reported that after the interviews, the search committee determined that, of the three firms, Galliard and Invesco seemed best positioned for the SFDCP mandate due to their fixed income expertise, depth and breadth in wrap provider oversight and negotiations, and firm dedication to the SV business. She reported that, while Mellon offered the most competitive manager fee, they also had a substantial subadvisor fee due to their preference for investing in other funds, as opposed to directly managing fixed income investments.

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

Chair Bridges commented that she believes the managers are very similar but would like to see Galliard focus more on diversity in managers in their manager search and review.

Ms. Chui Justen and Greg Ungerman, Callan, recommended staying with Galliard as they continue to do a good job and have continued to lower fees. Both Staff and Consultant reported that there is no differentiation between the two semi-finalist firms that would justify the disruption and the transition costs associated with a change in SV manager to make a change at this time.

Chair Bridges called for public comment.

There was no public present and public comment was closed.

Action: Moved by Commissioner Driscoll, Seconded by Chair Bridges, to approve Galliard as investment manager for the SFDCP's Stable Value mandate.

Ayes: Commissioners Bridges, Driscoll
Absent: Commissioner Stansbury

6. 030420-06 Discussion Item Private Equity and SFDCP Target Date Funds

Documents provided to the Committee prior to the current meeting: Staff Memorandum, Callan Memo and Russell Presentation

Diane Chui Justen, Deferred Compensation Plan Manager, Greg Ungerman, Callan, Jackie Pedraza and Steve Murray, Russell Investments, presented an oral and written report on this item.

Ms. Chu Justen reported that as of January 31, 2020, the SFERS Pension Fund has a 20% allocation to Private Equity (P/E) and it appears to be serving the pension well as SFERS is one of the top-performing public pension funds in the nation. As a result, Board members have expressed interest in whether an allocation to P/E would make sense for the San Francisco Deferred Compensation Plan (SFDCP).

Ms. Chui Justen pointed out that the SFERS Pension Fund, a defined benefit plan (DB), relies on mandatory employee contributions as well as employer contributions from the participating employers. The SFDCP, a defined contribution plan (DC), is solely based on voluntary contributions from employees - there are no employer contributions or employer match from the participating employers.

Ms. Chui Justen pointed out that while Private Equity is an example of a high performing asset class, it is very expensive and the investment gains are generally not apparent until over the long term, negating liquidity needs in the meanwhile. This can result in potentially inequitable distributions of costs and benefits depending on where participants are in their life stage, or when they joined the DC plan. Ms. Chui Justen reported that Intel is currently involved in litigation after using private equity and hedge funds as a sleeve in their Target Date Funds. The plaintiffs are citing inappropriateness of P/E investments in a DC plan, high fees as a result and underperformance; the case(s) is being considered by the Supreme Court.

Staff asked Callan and Russell to opine on the viability of the only two "off the shelf" Private Equity CITs available, one managed by Partners Group and the other managed by Pantheon. To date, neither of these P/E CITs have been implemented in any external DC plan. Pantheon offers their own P/E CIT within their own 401(k) plan and has roughly \$2.5 million in DC assets as a result. Neither Callan nor Russell recommended their inclusion within the SFDCP Target Date Funds due to these P/E CITs lacking the required features necessary for DC investments.

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

Chair Bridges called for public comment.

There was no public present and public comment was closed.

Action: This is a discussion only item.

7. 030420-07 Discussion Item Review of FY 2020-21 and 2021-22 SFDCP Division Budget

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

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

Mr. Huish commented that this budget is prepared in consideration of controlling the administrative costs to the participants.

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

Chair Bridges called for public comment.

There was no public present and public comment was closed.

Action: This is a discussion only item.

8. 030420-08 Discussion Item SFDCP / Recordkeeper Update

Documents provided to the Committee prior to the current meeting: Staff Memorandum and Voya Presentation

Diane Chui Justen, Deferred Compensation Plan Manager, Greg Ungerman, Callan and Brian Merrick, Kim Anderson, Voya, presented an oral and written report on this item.

Staff and Voya announced the following releases in March:

- March 2 release is the online Self-Directed Brokerage (SDB) enrollment experience, where SFDCP participants can enroll in a TD Ameritrade (TDA) SDB account via the website, as well as accept the e-Consent release form to indemnify the Retirement Board, the SFDCP and SFERS of investments in an SDB account.
- Rollout of the expanded SDB platform to include mutual funds, ETFs and US based securities is targeted for no earlier than March 16, to provide Staff the opportunity to provide notice to existing SDB participants of this enhancement and the requirement to sign the "Acknowledgement and Release" form in order to access to these investments. TDA requires new account numbers as part of the expanded SDB platform and will be sending out Welcome Kits with a new PIN (Personal Identification Number) in early March to existing SDB users to set up a new permanent user ID and password. On March 16, all SDB investments will be moved from the prior SDB account to the new TDA account, which will have access to the expanded SDB platform. Those who have not completed the "Acknowledgement and Release" form will have read-only SDB access until the consent process is completed.
- Integration of SFERS (defined benefit plan) and SFDCP (deferred compensation plan) benefits via public pension modeling on the SFDCP participant website provided by Voya. The launch date is targeting March 23 and Staff and Voya are looking forward to a smooth rollout of bringing this holistic experience to retirement planning.

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

Commissioner Driscoll suggested that Staff and Voya conduct extensive beta testing on the integrated modeling application before it is rolled out on the SFDCP website. Staff and Voya assured Commissioner Driscoll that they are conducting extensive beta testing on this application.

Chair Bridges called for public comment.

There was no public present and public comment was closed.

Action: This is a discussion only item.

9. 030420-09 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 ¶24.) 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.

Chair Bridges announced that the next Deferred Compensation Committee meeting would be scheduled for December 18, 2020.

Commissioner Driscoll asked that Mr. Merrick express gratitude on behalf of SFERS to Mr. Charlie Nelson since he is working with DCALTA on adding alternatives to the Defined Contribution Plan.

Chair Bridges called for public comment.

There was no public present and public comment was closed.

Action: This is a discussion only item.

10. 030420-10 Adjournment

Having no further business, the Committee adjourned the meeting at 4:36pm

Respectfully submitted,



Jay Huish, Executive Director