



City and County of San Francisco Employees' Retirement System

DEFERRED COMPENSATION COMMITTEE MINUTES

Wednesday, February 22, 2023

1145 Market Street, 6th Floor
San Francisco, CA 94103
1:00 PM

This meeting will be held in person at the location listed above. As authorized by California Government Code Section 54953(e) and Mayor Breed's 45th Supplement to her February 25, 2020 emergency proclamation, it is possible that some members of the Deferred Compensation Committee may attend this meeting remotely. In that event, those members will participate and vote by video.

Members of the public may attend the meeting to observe and provide public comment at the physical meeting location listed above and the public will be able to provide public comment during the meeting by live call-in. The public may listen to the meeting "live" by dialing 415-655-0001 and using Access Code: **2482 609 8697** and will be able to provide public comment during the meeting by live call-in. The public is encouraged to submit comments in advance of the meeting either by: (1) email to sferspubliccomment@sfgov.org or (2) recording your public comment on the Retirement System's public comment line 415-487-7020. Written public comments are limited to 150 words or less [Admin. Code § 67.16]. Public comment submitted by 5:00 p.m. PST, Friday, February 17, 2023 will be included in the record.

MISSION STATEMENT

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
A.J. Thomas

Alison Romano, CEO & CIO

Deferred Compensation Committee Meeting

PUBLIC COMMENT CALL-IN: 415-655-0001

Access Code: **2482 609 8697**

Providing Public Comment

- Public comment will be available on each item on this agenda. Each speaker will be allowed 2 minutes to speak. Comments or opportunities to speak during the public comment period are available via phone call by calling **(415) 655-0001**, access code [**2482 609 8697**], then '#' and then '#' again.
- When connected you will hear the meeting discussions, but you will be muted and in listening mode only.
- When your item of interest comes up, dial *3 to be added to the speaker line. Best practices are to call from a quiet location, speak clearly and slowly, and turn down your television, radio, or computer.

Deferred Compensation Committee Minutes

February 22, 2023

Page 3 of 8

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Sunshine Ordinance Task Force
City Hall
1 Dr Carlton B. Goodlett Place, Room 244
San Francisco, CA 94103-4689
(415) 554-7724
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OPENING CALENDAR

1. **Roll Call**
- | | |
|-----------------------|---------|
| Commissioner Bridges | 1:13 PM |
| Commissioner Driscoll | 1:13 PM |
| Commissioner Thomas | 1:13 PM |

2. **Communications**

Health and safety protocols along with building rules were read aloud.

3. **022223-03** **General Public Comment**

Commissioner Bridges called for In-Person public comment.

No public present, and In-Person public comment was closed.

Commissioner Bridges called for public comment Callers.

There were no callers and public comment was closed.

4. **022223-04** **Action Item** **Approval of the Minutes of the September 22, 2022 Deferred Compensation Committee Meeting**

Documents provided to the Retirement Board prior to the current meeting: Draft Minutes of the September 22, 2022 Deferred Compensation Committee Meeting.

Commissioner Bridges called for In-Person public comment.

No public present, and In-Person public comment was closed.

Commissioner Bridges called for public comment Callers.

There were no callers and public comment was closed.

Action: Moved by Commissioner Thomas, Seconded by Commissioner Driscoll, to approve Minutes of the September 22, 2022 Deferred Compensation Committee Meeting.

Ayes: Commissioners Bridges, Driscoll, Thomas

5. 022223-05 Discussion Item Preliminary Target Date Fund Glidepath recommendation and Tactical Asset Allocation

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum and T Rowe Price presentation.

Diane Chui Justen, Deferred Compensation Director; Ben Taylor, Callan; Andrew Jacobs van Merlen, CFA Target Date Portfolio Manager, T Rowe Price, provided an oral and written report on this item.

On October 20, 2022, the Retirement Board voted to approve T Rowe Price as the incoming Target Date Fund Investment Manager after an extensive Request for Proposal search process. Since then, Staff and Callan, Investment Consultant, have been working closely with T Rowe Price (TRP) on designing an optimal custom glidepath for the SFDCP Target Date Funds, and also with Voya, SFDCP Recordkeeper, on implementation and administrative impacts.

TRP proposed a glidepath suitable to the presence of a defined benefit plan (pension), higher salaries, longer time horizon (earlier retirement) and lower participant deferral rates. TRP's proposed glidepath, which factors in both Miscellaneous and Safety employee scenarios, supports a "through" retirement instead of a "to" retirement strategy, and recommended additional fixed income asset classes, including International Bond (USD Hedged), Global Unconstrained Bond, Long Duration Treasuries, and Short TIPS. TRP is not recommending an allocation to Stable Value at this time, as they prefer high quality, short duration exposure due to their inflation hedging characteristics.

There are still additional factors that are currently being reconciled, such as the Retiree Healthcare Trust Fund 2% deferrals, a weighted average of the variable pension contribution rates (7-12%), and the impact of the value of potential in-retirement health benefits. These could lower the recommended equity allocation and the final glidepath recommendation will be made to the Deferred Compensation Committee on April 12, 2023.

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

Commissioner Bridges called for In-Person public comment.

No public present, and In-Person public comment was closed.

Commissioner Bridges called for public comment Callers.

There were no callers and public comment was closed.

Action: This is a discussion only item.

6. 022223-06 Action Item Approval of new Target Date Fund vintages and TDF reenrollment

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum

Diane Chui Justen, Deferred Compensation Director; Ben Taylor, Callan, provided an oral and written report on this item.

T Rowe Price is the incoming SFDCP Target Date Fund investment manager. The role of the TDF investment manager is to design a custom TDF glidepath and recommend the asset allocation percentages across all the TDF vintages. Based on the TRP's preliminary recommendation, they proposed a "Through" retirement glidepath, which is a change from our existing "To" retirement glidepath designed by the outgoing TDF investment manager, Russell Investments.

The "To vs Through" preference varies across the industry of TDF investment managers and determines whether the glidepath's asset allocation remains static after age 65 (retirement date) as a "To" or continues to wind down its equity exposure after age 65 and "Through" retirement.

Currently, all participants over age 65 are defaulted in the SFDCP Retirement Income Fund. The Retirement Income Fund has a static stock allocation that is continuously rebalanced to maintain its fixed allocation and all other TDF vintages ultimately collapse into the Retirement Income Fund once they reach their dated TDF year, i.e. 2010, 2015, etc.

However, given TRP's recommendation of a "Through" glidepath, participants in the Retirement Income Fund (who are between ages 66-75) will need to be mapped to re-established 2015 and 2020 vintages to reflect the continued decrease in equity for ten years into retirement until age 75. Anyone over age 75 will remain in the Retirement Income Fund where the asset allocation does not change.

Participants may not match on both sides entirely due to over 1,000 participants having assets in multiple vintages. As such, Staff recommended a TDF reenrollment to map participants into the appropriate age-based vintage. Outreach will be made to these participants to allow them to opt out prior to the re-mapping exercise and TDF glidepath transition later this year.

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

Commissioner Bridges called for In-Person public comment.

No public present, and In-Person public comment was closed.

Commissioner Bridges called for public comment Callers.

There were no callers and public comment was closed.

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Thomas, to approve proposed Target Date Fund vintages and TDF reenrollment.

Ayes: Commissioners Bridges, Driscoll, Thomas

7. 022223-07 Action Item Approval of search process for underlying Target Date Fund Investment Managers

Documents provided to the Retirement Board prior to the current meeting: Staff Memorandum and Callan presentation.

Diane Chui Justen, Deferred Compensation Director; Ben Taylor, Callan, provided an oral and written report on this item.

SFDCP Consultant, Callan, is responsible for manager selection of all SFDCP investments, including the underlying investment managers that make up the Target Date Funds and other fund of fund portfolios within the Plan. Callan has a long-established internal search process designed to identify the best investment manager for each mandate and they plan to follow the same process for the following four additional fixed income asset classes recommended by TRP:

1. International Bond (USD Hedged)
2. Global Unconstrained Bond
3. Long Duration Treasuries
4. Short TIPS

Ben Taylor from Callan presented the manager search timing, process and criteria for each mandate.

Staff will also work closely with Callan during the search process and TRP will also weigh in on manager suitability as requested.

It was recommended to approve Callan to begin the manager search process for underlying Target Date Fund investments with goal of providing recommended managers to the Committee at the May 16th meeting.

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

Commissioner Bridges called for In-Person public comment.

No public present, and In-Person public comment was closed.

Commissioner Bridges called for public comment Callers.

There were no callers and public comment was closed.

Action: Moved by Commissioner Driscoll, Seconded by Commissioner Thomas, to approve Callan to begin the manager search process for underlying Target Date Fund investments.

Ayes: Commissioners Bridges, Driscoll, Thomas

8. 022223-08 Discussion Item Deferred Compensation Committee Member Good of the Order

Commissioner Thomas asked for a presentation to be scheduled regarding a process for automatic opt out process and noted that this request is not time sensitive.

Commissioner Thomas spoke about members wanting to see their assets in Voya on various software, i.e. Mint.

Commissioner Driscoll commented on adding private equity discussion.

Commissioner Driscoll commented about the Callan manager search committee review with SFDCP staff and wanted to confirm that investment staff would be included in this process.

Chair Bridges thanked CEO & CIO, staff and consultants.

Commissioner Bridges called for In-Person public comment.

No public present, and In-Person public comment was closed.

Commissioner Bridges called for public comment Callers.

There were no callers and public comment was closed.

Action: This is a discussion only item.

9. 022223-09 Adjournment

Having no further business, the Committee adjourned the meeting at 3:26 PM