
FEBRUARY 26, 2018

AGENDA ITEM 1
ACTION ITEM

CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

Meeting Minutes for the February 1, 2018 California Secure Choice Retirement Savings Investment Board Meeting

Board members present:

Steve Juarez for State Treasurer John Chiang
Karen Greene Ross for State Controller Betty T. Yee
Jacqueline Wong-Hernandez for Director of Finance Michael Cohen
Edward De La Rosa
Robert Purcell
William Sokol
Yvonne Walker
Dora Westerlund

Board members absent:

Heather Hooper

Staff present:

Katie Selenski, Executive Director
Brian Gould, Deputy Director
Alyssa Delacruz
Jonathan Herrera
Ruth Holton-Hodson
Eric Lawyer
Robert Hedrick, Senior Attorney, State Treasurer's Office

Consultants present:

Andrea Feirstein, AKF Consulting Group ("AKF")
Karin Bloomer, AKF
Eric Douglas, AKF
Mika Malone, Meketa Investment Group ("Meketa")
Paola Nealon, Meketa

Board Chair Steve Juarez called the meeting to order at 9:34 a.m.

Agenda Item 1 – Approval of the Minutes of the January 22, 2018 Meeting of the California Secure Choice Retirement Savings Investment Board (ACTION ITEM)

Public Comment

None

Board Action

Motion to approve the minutes of the January 22, 2018 meeting of the California Secure Choice Retirement Savings Investment Board (“Board”).

MOTION:	Dora Westerlund	SECONDED:	Edward De La Rosa
AYES:	Edward De La Rosa, Karen Greene Ross, Steve Juarez, Robert Purcell, Yvonne Walker, Dora Westerlund, Jacqueline Wong-Hernandez		
NOES:	None		
NOT VOTING:	William Sokol		
ABSTAIN:	None		
RECUSE:	None		
ACTION:	Motion Passes		

Agenda Item 2 – Discussion of Board Governance Principles (INFORMATION ITEM)

Katie Selenski, Executive Director, provided the Board a brief summary of the purpose and goal for the item. Ms. Selenski noted the item was a continuation of the Board’s ongoing governance discussion and explained the goal of the discussion was to reach agreement on a basic set of principles for Board governance to establish a foundation for a draft policy to be presented at the February 26, 2018 Board meeting. Ms. Selenski introduced program consultant Andrea Feirstein, AKF, who in turn introduced Eric Douglas and Karin Bloomer who facilitated the Board’s discussion of the governance policy.

The discussion included an overview of examples of board governance frameworks and a discussion about the evolution of boards. During this portion of the presentation the Board discussed:

- risk management and oversight;
- the need for the Board to clarify its mission, vision, goals and values; and
- the implementation timeline, and the key variables that affect it, particularly the release of the request for proposals (RFP) for program administrator and investment manager and the adoption of regulations. Board Members stated that the highest priority is to ensure the highest quality program design and complete operational readiness prior to launch and that a fall pilot commencement remains the goal but not at the expense of program quality.

The Board directed Executive Director Selenski to develop a new version of the strategic plan for the Board’s review at the March 26, 2018 Board meeting.

The Board also discussed the roles and responsibilities of Board members and staff in communicating with the media about the Program. The Board discussed the importance of consistent messaging about the Program, delegation of authority for speaking on behalf of the

Board with the media, and the appropriateness of Board members coordinating with the Executive Director or Chair when discussing the Program publicly. During the conversation, the Board requested that staff provide monthly talking points to Board Members.

The discussion also addressed key governance questions and attempted to build consensus among members for key governance principles. Topics of consensus included:

- the role of the Board in setting the vision and goals for the Program;
- the role of the Board in the preparation of the annual budget, including review and approval of the annual budget and budget oversight through receipt of regular budget updates from the Executive Director;
- only decisions of the Board acting as a body are binding on the Executive Director;
- the role of the Chair is to help clarify and define the consensus of the Board;
- the Board shall decide what reports the Board needs and the frequency of reporting;
- the need to clarify the powers delegated to the Executive Director;
- all Board meetings and minutes shall be accessible to the public and the Board will discuss whether and when proceedings should be made available via live audio broadcast;
- the Board must define codes of conduct for the Board and staff;
- the Board must define the criteria and process for evaluating the Executive Director;
- the governance policy should clarify the role of the Board Chair; and
- the Board shall establish policy concepts to clarify the role of committees and committee chairs, if any.

During the item, the Board also discussed ex-parte communications, the means by which the Board may evaluate its own performance, the proper time to begin future Board meetings, and the rules governing when the Board may meet in closed session. The Board agreed to begin the February 26, 2018 Board meeting at 11:00 a.m.

Ms. Selenski agreed to solicit additional Board feedback on the topic of governance and work with Ms. Feirstein, Mr. Douglas, and Ms. Bloomer to include in the draft governance policy. Items that were only briefly discussed during the meeting will be further discussed at the Board meeting on February 26, 2018.

Public Comment

Sarah Zimmerman, of SEIU California, noted that the Board governance presentation materials were only made available to the public on Wednesday January 31st. Ms. Zimmerman requested that the Board not move too quickly in adopting the governance policy to give the public more time to analyze the policy.

At 12:02 p.m. the Board Chair recessed the meeting for lunch.

At 1:07 p.m. the meeting resumed.

Agenda Item 3 – Discussion of Investment Beliefs and Investment Policy Statement (INFORMATION ITEM)

Deputy Director Brian Gould introduced the Program’s investment consultants Mika Malone and Paola Nealon from Meketa Investment Group (“Meketa”) to lead the continuing discussion of the Program’s Investment Beliefs. The goal of the discussion was to achieve consensus on the topics and to obtain feedback on the draft statements for each belief topic. The revised statements will be incorporated into an Investment Policy Statement to be presented for Board review at the February 26, 2018 Board meeting. Meketa presented the Board with a list of proposed investment belief topics and sample language to discuss. The Board indicated support for the following investment belief statements on the following topics:

- Transparency: “We believe it is essential to provide transparency across the Program, including investment and Program related costs.”
 - The Board agreed that participants should have daily access to their account information. If an investment structure that includes daily fund pricing is chosen by the Board, participants should have access to daily fund pricing (see further discussion on structure below under Investment Costs). The Board should also be transparent about the third-party Administrator model of the Program and all costs associated with the Program.
- Simplicity: “We believe in program simplicity across all facets of CalSavers; from access to plan structure, from education to investment options.”
 - The Board agreed to keeping the investment options simple; providing access to financial and investment education; making enrollment easy; and creating a portable retirement savings account. The Board also believes that accessing account information and educational materials should be simple and available through multiple channels. The Board requested the statement be edited to replace “CalSavers” with “the Program”.
- The Impact of Savings: “Providing a simple vehicle for saving and investing for retirement is critical to the future financial security of retirees.”
 - The Board agreed that the Program should educate participants that returns are driven by amounts contributed and the impact of investment earnings compounded over time.
- The Impact of Markets: “Given the inherent risk in markets, providing security for participant assets in early stages of savings is crucial. Over time, the Board believes in offering both low risk and higher risk investment options for retirement portfolios.”
 - The Board discussed many of the investment options and strategies that could be made available to participants (discussion took place as part of the next section on Investment Costs).
- Investment Costs: “Costs directly affect retirement outcomes, and keeping them reasonable should be integral to our program structure.”
 - The Board agreed on the importance of the statement and asked that the statement be edited to read “...and keeping them low should be integral to our program structure.”
 - While discussing costs, the Board also discussed the merits of a “reserve” approach to investments. Specifically, the Board discussed the provision in the statute that refers to investment options that address risk-sharing and smoothing of market losses and gains. Staff noted adoption of such an investment option would require approval by the Legislature. After discussion, the Board agreed that

such an investment option should not be implemented at launch, but may be considered in the future.

- The Board proceeded to discuss possible plan design options such as a capital preservation fund and custom or “white label” investment funds. The Board reached general consensus that the Program should offer as a default investment option a capital preservation fund vehicle for each participant’s first \$1,000 in contributions and that contributions above that amount should be invested in either a target date fund or a target risk fund if the participant does not make an alternative election. Ms. Selenski shared the perspective of absent Board Member Hooper with regard to the comparison of target date funds and target risk funds. The Board agreed the RFP for the program administrator and investment manager should ask bidders to include in their responses investment options that address a range of options including a capital preservation fund, a high quality bond fund, a global equity index fund, a target date or risk-based suite of funds, and an ESG/Socially Responsible Fund (shown as option number three in the Meketa materials).
- The Board also discussed the default investment options and the use of custom, or so-called “white label,” funds. Ms. Malone and Ms. Nealon discussed the differences and qualities “white label” funds, versus non-proprietary funds. The Board expressed interest in developing “white label” funds in the future, but agreed to wait to consider the option until after the Program achieves scale.
- Breadth of Participant Options: “We believe simplicity is the key to success for participants of a first time retirement savings vehicle, and the investment lineup should reflect that goal.”
 - Building on the previous discussion during the Investment Costs portion, the Board discussed the types and breadth of investment vehicles. The Board discussed the difference between and qualities of vehicle types such as exchange-traded funds (“ETFs”) versus mutual funds, the difference between and qualities of target date and target risk funds, and how to best account for the varied risk tolerance and savings needs of participants.
 - Per the discussion of plan design that occurred during the Investment Costs portion, the Board agreed with Meketa’s recommendation to request fee proposals during the RFP process to incorporate the a range of options including a capital preservation fund, a high quality bond fund, a global equity index fund, a target date or risk-based suite of funds, and an ESG/Socially Responsible Fund.
- Active vs. Passive Investments: “Passive investments should be the primary investment tool for our participants. As the Program matures, there may be opportunities for actively managed funds to play a secondary role.”
 - The Board discussed the advantages and disadvantages of active versus passive investment vehicles including fees, and the difference between ETFs and traditional mutual funds. The general consensus among the Board Members was that the RFP should state that the Board’s preference would be for passive investment options but would entertain bids with alternative recommendations.
- Plan Design: “Plan design, such as auto-enrollment, matters and will influence the success of savers.”

- The Board agreed that auto-enrollment, auto escalation, default rates and default investment options are essential considerations and the Belief Statement should reflect that.
- Financial Education: “Participants need access to simple, relevant financial and investment education.”
 - Educational topics should include compounding effects of saving and investing; estimating future retirement costs and savings needs; how costs impact results; descriptions of investment options and asset classes; budgeting; and the value of participating in the Program versus individual investing. The Board also discussed including education related to the benefits of the Program for employers.
- ESG/Socially Responsible Investing: “Socially and environmentally responsible investing is an issue important to some savers, and an investment option reflecting that belief should be offered within the lineup.”
 - The Board agreed the investment line up for the purposes of the RFP should include an ESG fund as an investment option.

The Board then discussed the proposed language for the Statement of Beliefs and made a small number of minor edits based on the discussion above.

Public Comment

None.

Other Business

None.

The meeting adjourned at 3:32 p.m.