

**CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION (BOARD)**

PROPOSED MINUTES
MEETING OF MAY 18, 2021
CONDUCTED VIA TELECONFERENCE

BOARD MEMBERS

Present:

Thomas Moutes, Chairperson
Raymond Ciranna, Vice-Chairperson
Robert Schoonover, First Provisional Chair
Joshua Geller, Third Provisional Chair
Linda P. Le
Wendy G. Macy
Baldemar J. Sandoval

Not Present:

Neil Guglielmo, Second Provisional Chair

PERSONNEL DEPARTMENT STAFF

Steven Montagna, Chief Personnel Analyst
Jenny M. Yau, Senior Benefits Analyst II
Mindy Lam, Benefits Analyst
Eric Lan, Management Assistant

OFFICE OF THE CITY ATTORNEY

Charles Hong, Deputy City Attorney

Mercer Investment Consulting

Devon Muir, Principal

1. CALL TO ORDER

Mr. Moutes called the meeting to order at 9:01 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

Board Action:

A motion was made by Mr. Ciranna, and seconded by Mr. Schoonover, to approve: (a) minutes of the April 20, 2021 regular meeting; and (b) minutes of the May 7, 2021 special meeting of the Board of Deferred Compensation Administration; the motion was adopted by approval of six Board members (Ciranna, Le, Macy, Moutes, Sandoval, Schoonover); one Board member was not present at the time the motion was made and did not vote on it (Geller).

4. BOARD REPORT 21-26: VANGUARD PASSIVELY MANAGED FUND SELECTION

Presentation Highlights:

Mr. Montagna presented this report and provided the following highlights:

- The Board previously selected Vanguard to provide passive management services for the passively managed components of the Deferred Compensation Plan (DCP) Bond, DCP Large-Cap Stock, DCP Mid-Cap Stock, and DCP Small-Cap Stock investment options, subject to further negotiations with Vanguard regarding options for fee reductions.
- The fee for the Vanguard Institutional 500 Index Trust was reduced from 1.40 basis points to 1.20 basis points.
- The fee for the Vanguard Institutional Total Bond Market Index Trust was reduced from 2.60 basis points to 2.50 basis points.
- Staff further confirmed that the proposed mutual funds for the DCP Mid-Cap and DCP Small-Cap offerings provided the best pricing from Vanguard for those mandates.
- Mr. Muir stated that the Board's request to review the pricing yielded value for the DCP resulting in approximately \$61,000 in savings.

Board Member Comments/Questions & Responses:

Mr. Ciranna thanked staff and Mercer for obtaining further reductions in fees.

Board Action:

A motion was made by Mr. Ciranna, and seconded by Mr. Sandoval, that the Board: (a) finalize its approval of the selection of Vanguard to provide passive management services for the passively managed components of the DCP Bond, DCP Large-Cap Stock, DCP Mid-Cap Stock, and DCP Small-Cap Stock investment options; (b) approve a five-year contract term with Vanguard to provide management services for the DCP passive bond and passive large-cap equity strategies, with the effective dates of the contract to be determined; (c) instruct staff to negotiate and draft a contract in consultation with Board counsel; and (d) authorize the Board Chairperson to execute said contract on behalf of the Board, subject to agreement between the City and the provider as to all applicable terms and conditions and all necessary approvals; the motion was unanimously adopted.

5. BOARD REPORT 21-27: 2021 BOARD OF DEFERRED COMPENSATION ADMINISTRATION SPECIAL ELECTION FOR WPERP REPRESENTATIVE BOARD SEAT

Presentation Highlights:

Ms. Yau presented this report and provided the following highlights:

- Staff consulted with the City Clerk and developed a proposed timeline for conducting the special election for the Active Water and Power Employees' Retirement Plan (WPERP) Representative Board seat.
- The special election is scheduled to be held on September 16th with certification of the election results on September 30th.
- Staff also reviewed the signature-gathering requirement for the upcoming special election and noted that due to the ongoing pandemic and based on initial feedback from

candidates, obtaining nominating signatures in the current environment appears to be a difficult task. Staff therefore recommends that the signatures-gathering requirement be suspended for the upcoming special election.

- The Board previously took the same action in 2020 to suspend the signatures-gathering requirement for the election of the Active LACERS and LAFPP Representative Board seats due to the impact of the pandemic on administering the election.
- The next election for the Active LACERS and LAFPP Representative Board seats is scheduled for the spring of 2023, and since it is difficult to predict what the work environment will look like in two years, it would be best for the Board to review the signatures-gathering requirement at that time.

Board Member Comments/Questions & Responses:

Mr. Montagna noted that Ms. Le notified staff that DWP employees will be returning to the office effective June 14th, and that Mr. Guglielmo had reached out to staff to request if the DCP would be able to provide additional candidate information on its website. Mr. Montagna stated that staff would review Mr. Guglielmo's request and report back at a future Board meeting.

Ms. Le indicated that the lack of candidates running for the WPERP Board seat is likely due to a lack of interest and noted that an action by the Board to suspend the signatures-gathering requirement would take effect after DWP lifts its emergency order and employees physically return to work on June 14th. Mr. Moutes noted that it would be prudent to remove the signatures-gathering requirement as COVID-19 and the City's response to it still presents uncertainties.

Mr. Ciranna asked what would happen if the signatures-gathering requirement is removed but there are still no candidates to run for the WPERP Board seat. Mr. Montagna stated that the Board will need to reevaluate options. He stated that staff could provide additional information such as a Board member position description to participants interested in running for the Board seat. Mr. Moutes noted that LACERS attempted to compile a Board seat position description so that potential candidates are informed of the expectations of being a Board member.

Ms. Le inquired of the number of candidates who expressed interest in running for the WPERP Board seat. Ms. Yau replied there were three participants who requested the candidate materials to run for the WPERP Board seat but ultimately did not submit the materials to qualify to be placed on the official ballot.

Board Action:

A motion was made by Mr. Ciranna, and seconded by Mr. Schoonover, that the Board: (a) approve the proposed timeline for conducting a special election for the Active Water and Power Employees' Retirement Plan (WPERP) Representative Board seat and (b) suspend the signatures-gathering requirement for the upcoming special election for the Active WPERP Representative Board seat; the motion was unanimously adopted.

6. BOARD REPORT 21-28: QUARTERLY STAFFING REIMBURSEMENTS – FIRST QUARTER 2021

Presentation Highlights:

Ms. Yau presented this report and provided the following highlights:

- The Board approves staffing reimbursements on a quarterly basis for Personnel Department and City Attorney staff providing direct support of the DCP.
- Staff recommends the Board approve reimbursements from the DCP Reserve Fund covering the first quarter of calendar year 2021 totaling \$199,491.14 – \$156,157.41 for the Personnel Department and \$43,333.73 for the City Attorney.

Board Member Comments/Questions & Responses:

Mr. Ciranna commented that the Board should assess how to handle the projected surplus, including the potential for a rebate or fee reduction. Mr. Moutes replied that the Plan Governance and Administrative Issues Committee will be reviewing this topic as part of its assessment of potentially offering financial education and investment advisory services through the DCP.

Board Action:

A motion was made by Mr. Ciranna, and seconded by Mr. Geller, that the Board approve reimbursements from the DCP Reserve Fund to the Personnel Department in the amount of \$156,157.41 and to the City Attorney in the amount of \$43,333.73 totaling \$199,491.14, inclusive of the first quarter of calendar year 2021 ending March 31, 2021, for staff providing direct support of the DCP; the motion was unanimously adopted.

7. QUARTERLY INVESTMENT & ECONOMIC REVIEW: FIRST QUARTER 2021

Presentation Highlights:

Mr. Muir presented this report and provided the following highlights:

- Overall, the first quarter of 2021 was a very strong quarter.
- Page 2 – Energy and financials were two of the best performing sectors for the quarter. Bond yields rose with concerns of a potential for inflation.
- Page 3 – There was market optimism due to increasing vaccination rates and a cyclical upswing in the economy aided by favorable federal monetary and fiscal policies.
- Page 3 – Expectations are for a short term increase in inflation which will then subside.
- Page 7 – Value outperformed growth across the equity spectrum.
- Page 8 – Equity valuations are generally rich in the United States.
- Page 15 – DCP assets ended the first quarter of 2021 at \$8.5 billion, an increase of about 3.7% from the prior quarter. The increase was mainly due to investment gains.
- Page 17 – The Stable Value Fund was awarded to Galliard, Vanguard was selected to provide all four passive mandates, and active institutional procurement and mutual fund searches are currently underway.
- Page 19 – The total DCP value compared to March 2020 has increased significantly indicating participants generally did not overreact to market volatility.

- Page 19 – The risk-based profile funds continue their steady growth, now accounting for 20% of assets.
- Page 21 – The DCP weighted average for total investment expense is 16 basis points. Comparatively based on survey data, the average for plan sponsors is 25 basis points.
- Page 22 – Relative to peers, all DCP funds are very competitive.
- Page 23 – The DCP Bond Fund outperformed the benchmark by one basis point but was still negative due to the increasing interest rate environment.
- Page 23 – Risk Based Funds met benchmarks and delivered strong results.
- Page 24 – The DCP Mid-Cap Stock Fund yielded positive results but performed below the benchmark and the median.
- Page 24 – The DCP Small-Cap Stock Fund performed similarly to the Mid-Cap with positive results but also underperformed relative to the benchmark.
- Page 25 – DFA has increased 112% over the past year, as value investing has come back into favor.
- Page 25 – International funds performed better than the median for the quarter and Brandes and DFA have bounced back since their prior underperformance.

Board Member Comments/Questions & Responses:

Mr. Ciranna asked how often Mercer recommends that benchmarks be reviewed. Mr. Muir replied that the Board conducted an investment policy review in July of 2017, including benchmarks, and should conduct another review in alignment with its five-year search cycle.

8. BOARD REPORT 21-29: DCP PROJECTS AND ACTIVITIES REPORT: APRIL 2021

Presentation Highlights:

Ms. Yau presented this report and provided the following highlights:

- Fiduciary and Investment Policy Statement trainings will be scheduled in the third quarter of 2021 for Board members and staff, with a recording of the training to be provided for those who are unable to attend.
- The Fiscal Year 2021-22 Proposed Budget includes continuing the Defined Contribution (DC) Plan Manager resolution authority position, and realigning funding for all the positions supporting the DCP from the General Fund to the DCP Trust Fund.
 - Staff will work with Personnel Department's Accounting section to ensure proper protocols are implemented for accounting and reconciling funding provided in the budget for the DCP staff positions.
- Staff consulted with the CAO regarding the Citywide hiring process and was informed that the hiring freeze exemption process overseen by the Managed Hiring Committee has been reinstated. Further revisions to the Citywide hiring process may be made after the new budget is adopted in mid-June.
- Staff worked with Voya to develop a comprehensive beneficiary inheritance guide for DCP participants. The new guide will be made available on the DCP's website and staff will also communicate the new resource through the DCP's quarterly and Personnel Department's monthly newsletters.

- Staff worked with Voya to finalize the transfer of all DCP historical statements from Empower. DCP participants are now able to access these historical quarterly statements dating back to July 1999.
- Updates to the 2021 DCP Strategic Initiatives are included in Attachment A.

Board Member Comments/Questions & Responses:

Mr. Ciranna asked if the realignment of funding will create new work orders or tasks to track time. Ms. Yau stated that staff will hold internal meetings with Accounting to determine what the process will entail. Mr. Ciranna emphasized the importance of filling the DC Plan Manager position as quickly as possible.

Mr. Ciranna asked staff to track potential changes in the Brown Act as the Board has been operating under emergency orders for some time and there may be changes to how meetings are conducted as the State of California moves forward with reopening plans.

Mr. Moutes asked when the Board will be able to reconvene in person for Board meetings. Mr. Montagna replied that this is likely dependent on the City's reopening plans more generally, and staff will report back to the Board with updates.

9. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Ciranna requested an informational report on Bitcoin and cryptocurrency options available through Charles Schwab (Schwab); Mr. Montagna suggested this be addressed in a more general review of the Self-Directed Brokerage Option presented by Schwab. Mr. Montagna further noted that Mr. Guglielmo had requested staff report back on additional options for providing candidate information for Board elections.

10. NEXT MEETING DATE

A meeting was noted for June 15, 2021 at 9:00 a.m.

11. ADJOURNMENT

The meeting was adjourned at 10:12 a.m.

Minutes prepared by staff member Eric Lan.