

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

ADOPTED MINUTES
MEETING OF JUNE 7, 2022
CONDUCTED VIA TELECONFERENCE

BOARD MEMBERS

Present:

Raymond Ciranna, Vice-Chairperson
Robert Schoonover, First Provisional Chair
Neil Guglielmo, Second Provisional Chair
Joshua Geller, Third Provisional Chair
Dana H. Brown
Jeremy Wolfson

Not Present:

Thomas Moutes, Chairperson
Linda P. Le
Baldemar J. Sandoval

PERSONNEL DEPARTMENT STAFF

Daniel Powell, Senior Personnel Analyst II
Mindy Lam, Benefits Analyst
Eric Lan, Benefits Analyst

OFFICE OF THE CITY ATTORNEY

Charles Hong, Deputy City Attorney IV

Voya Financial

Deirdre Jones, Vice President, Strategic Relationship Management
Drew Russell, Director of Strategic Initiatives

MERCER INVESTMENT CONSULTING

Devon Muir, Principal
Peter Ebsen, Associate

SEGAL CONSULTING

Wendy Carter, Vice President
Diane McNally, Senior Vice President of Segal Select
Anna Bell, Regional West Manager of Segal Select

1. CALL TO ORDER

Mr. Ciranna called the meeting to order at 2:02 p.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

Board Action:

A motion was made by Mr. Schoonover and seconded by Mr. Guglielmo, to approve minutes of the April 19, 2021 regular meeting of the Board and May 17, 2022 special meeting of the Board; the motion was unanimously adopted by the Board.

4. BOARD REPORT 22-31: DETERMINATION REGARDING TELECONFERENCING OPTION FOR BOARD MEETINGS PURSUANT TO ASSEMBLY BILL 361

Board Member Comments/Questions & Responses:

There were no comments/questions from the Board.

Board Action:

A motion was made by Mr. Wolfson and seconded by Mr. Schoonover, that the Board adopt the attached Resolution and find, pursuant to Section 54953(e)(1)(B)-(C) of the California Government Code, as amended by Assembly Bill (AB) 361, that due to the ongoing COVID-19 State of Emergency (COVID Emergency) proclaimed by the Governor on March 4, 2020, conducting Board meetings in person without continuing to provide a teleconference and/or videoconference option for the Board members and the public, would present imminent risks to the health or safety of attendees; the motion was unanimously adopted by the Board.

5. BOARD REPORT 22-32: 2022 TRAINING AND TRAVEL PROGRAM

Presentation Highlights:

Mr. Powell introduced the report and provided the following highlights:

- The Board last approved the Training and Travel Program for Fiscal Year 2021-22, which is effective through June 30, 2022.
- The Board subsequently adopted a calendar year basis for the annual Training and Travel Program.
- The proposed 2022 Training and Travel Program includes previously approved training elements and proposed elements through the rest of calendar year 2022.

Board Member Comments/Questions & Responses:

There were no comments or questions from the Board.

Board Action:

A motion was made by Mr. Schoonover and seconded by Ms. Brown, that the Board approve the proposed 2022 Training & Travel Program; and (b) complete and submit the Training Interest Form (Attachment C) to DCP staff; the motion was unanimously adopted by the Board.

6. BOARD REPORT 22-23: QUARTERLY STAFFING REIMBURSEMENTS – FIRST QUARTER 2022

Presentation Highlights:

Mr. Powell presented the 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, which are funded through the DCP Trust Fund and requires Board approval.
- First quarter 2022 reimbursements totaled \$85,386.23, including \$59,394.83 for the Personnel Department and \$25,991.40 for the City Attorney.

Board Member Comments/Questions & Responses:

Mr. Ciranna noted that the ten-year projection indicates a surplus versus the target and asked when staff would revisit the surplus discussion. Mr. Powell indicated that once the new DC Plan Manager is selected, staff would reinitiate the discussion with the Board.

Board Action:

A motion was made by Mr. Guglielmo and seconded by Mr. Wolfson, that the Board approve reimbursements from the Deferred Compensation Plan (DCP) Reserve Fund to the Personnel Department in the amount of \$59,394.83 and to the City Attorney in the amount of \$25,991.40 totaling \$85,386.23 for staff providing direct support of the DCP during the quarter ending March 31, 2022; the motion was unanimously adopted by the Board.

7. BOARD REPORT 22-34: DEFINED CONTRIBUTION PLAN MANAGER EXEMPTION AND RECRUITMENT

Presentation Highlights:

Mr. Powell presented the report and provided the following highlights:

- The Mayor’s Office indicated their support for the DC Plan Manager exemption and noted that the Personnel, Audits, and Animal Welfare (PAAW) Committee will consider the item in the third week of June.
- Three contracts for executive recruitment services have been approved and executed.
- Staff will work with the Personnel Department to develop the scope of work and allow the three firms to bid.
- Staff will review the bids and bring a recommendation to the Board.

Board Member Comments/Questions & Responses:

Mr. Guglielmo asked if it would be helpful to have members of the Board available to answer questions and show support during the PAAW consideration. Ms. Brown noted that she will be present for the meeting. Mr. Guglielmo indicated that it would be good for the Board to show support in any way possible and that he is confident in Ms. Brown’s presence at the meeting.

Ms. Brown noted that the item is not currently on the draft agenda, but noted she would have staff check on the item.

Mr. Ciranna asked if the three firms have experience recruiting for DC Plans. Mr. Powell noted that this would be requested in the bid proposals for the Board to review. Mr. Ciranna requested that staff continue to update the Board in the next meeting as the Board is interested in if the firms have experience with DC Plan executive recruitment.

Mr. Wolfson asked if the names of the firms are public. Mr. Powell confirmed that the contracts are all executed and the names of the firms are The Energists, Partners in Diversity, and The Hawkins Company.

Mr. Ciranna asked about the timeline to receive bids from the three firms. Mr. Powell indicated that the DCP does not need to wait for the DC Plan Manager exemption to be approved before staff develops the scope of work for the Request for Bid. Mr. Ciranna asked how the Board would review the responses. Mr. Wolfson asked if there is flexibility to pursue additional firms in the event the DCP does not select any of the bids. Ms. Brown stated that the DCP would need to first execute a contract to use a firm's services but noted that other departments may already have a contract that the DCP can use. Mr. Powell indicated that staff will provide background on the three firms and also research available executive recruiting contracts that the DCP can use from other departments, such as the Department of Water and Power, Los Angeles Fire and Police Pensions, and Los Angeles World Airports. Mr. Powell also indicated that staff would rate the proposals and provide an overview for the Board's consideration, similar to a Request for Proposal.

Board Action:

A motion was made by Mr. Schoonover and seconded by Ms. Brown, that the Board receive and file an update regarding the requested exemption and executive recruitment for the Defined Contribution Plan Manager position for the City's Deferred Compensation Plan; the motion was unanimously adopted by the Board.

8. QUARTERLY INVESTMENT & ECONOMIC REVIEW: FIRST QUARTER 2022

Presentation Highlights:

Mr. Muir and Mr. Ebsen provided the following highlights:

- Page 3 – First quarter of 2022 showed hyperfocus on inflation and what the Federal action might be to contain it.
 - Energy prices rose as a result of the Russian invasion of Ukraine.
 - Bond environments are negative and affect investment options.
 - Oil and other energy-related commodities have increased substantially in price.
 - Diversion in technology and communication services stocks with greater favor towards value orientation.
 - The DCP designed the core options with exposure to both value and growth to provide benefit to the participants despite the negative economic environment.
 - International equity has performed slightly better than US equities
 - Bonds decreased 5.9% for the quarter based on the Bloomberg Aggregate.
- Page 7 – Large-caps and value stocks outperformed in Q1.
- Page 8 – Significant reduction in US equity evaluations from a trailing P/E ratio of 26.1 to 23.1, but is still considered high.
- Page 10 – Capital market overview shows an upward shift in yields.
 - The Federal Reserve raised short-term interest rates by 50 basis points, which will positively affect FDIC options but will likely have a negative effect on stable value returns.

- Page 14 – DCP totaled \$9,082 million, with a loss of \$390.5 million.
- Page 17 – Update on the implementation of the DCP’s selected contract.
- Page 18 – Dimensional Fund Advisors removed Russia from its list of approved markets for investment but the DCP had minimal exposure to Russian equity.
- Page 20 – Despite the negativity, there is still significant growth compared to the prior year.
- Page 22 – Effective Net Expense ratio compared to the peer group fee range shows that the DCP’s investments are competitive with the cheapest investment costs.
- Page 23 – DCP Mid Cap Stock fund slightly underperformed due to Ceredex’s strategy.
- Page 24 – FDIC will continue to increase due to the raised interest rate environment.
 - Risk-based profile funds performed well over the long term.
- Page 25 – DCP Mid Cap Stock fund underperformed as Ceredex had no exposure to energy stocks while being overweight in IT and healthcare.
- Page 26 – DFA performed well compared to the benchmark while Hartford Small Cap trailed compared to the peer group.

Board Member Comments/Questions & Responses:

Mr. Wolfson noted Mercer’s view of an increased probability of recession and asked about the probability of a U.S. and European recession. Mr. Muir stated that there is a higher probability than the prior year and the elevated inflation will last for a period of two to three years and expects that the Federal government will act nimbly to balance inducing a recession and stimulating inflationary pressures.

9. FIDUCIARY LIABILITY INSURANCE REVIEW

Presentation Highlights:

Ms. Carter, Ms. McNally, and Ms. Bell provided the following highlights:

- Public sector fiduciary liability insurance is designed to protect plans and/or trustees, committees, and employees against lawsuits alleged breaches of fiduciary duty and negligence in the administration of the plan.
- There are a wide variety of policies that differ with regards to policy limits and benefits coverage.
- Governmental plans typically choose to purchase fiduciary liability insurance due to its obligation to protect, indemnify, and possibly provide sovereign immunity to fiduciaries who are responsible for their respective plans.
- Policies can be expanded to cover committees and provide different types of immunity.
- Policies are designed based on the plan’s state and type of exposure in the claim history of the fund.
- Fiduciary policies provide coverage to the plan and the plan fiduciary with self-retentions applied, whereas a Side-A policy covers the personal liability of just the plan fiduciaries without retentions applied.
- Retentions can be imposed on individuals in the plan according to the carrier’s risk assessment and can vary depending on class action type exposures versus indemnification and non-indemnification type claims.

- Carriers are offering stricter underwriting requirements, and are building in increments between five and ten million.
- There is more recent claim activity against 401K plans for private and public sector universities.
- Fiduciary liability insurance is a proven way to protect plans against unforeseen risks.
- The goal would be to identify a policy with the broadest protection with adequate limits of liability.
- Based on the DCP's peer group of similar asset size, typical limits purchased are between \$15 million and \$25 million for the Side-A policy and \$25 million or higher for fiduciary liability insurance policies.

Board Member Comments/Questions & Responses:

Mr. Guglielmo asked if other 457 plans also have fiduciary liability coverage. Ms. McNally noted that it depends and that it's still an underserved market with growing interest. Mr. Guglielmo asked about the usage of the insurance for plans that have fiduciary liability coverage. Ms. McNally indicated that the number of claims is increasing across the country. Mr. Ciranna asked if plans prefer Side-A coverage or fiduciary liability insurance. Ms. McNally stated that cost and risk tolerance of the plan determine the type of coverage selected by plans.

Mr. Ciranna asked if the Board had provided additional action beyond requesting the additional information presented by Segal. Ms. Carter noted that the Board requested an educational response about the policies and the current litigation environment. Mr. Ciranna and Mr. Guglielmo indicated interest in requesting that staff and Segal develop an RFP to receive proposals and quotes for Side-A and fiduciary liability insurance.

Mr. Powell stated that the City Attorney will provide a report on the Lexin vs. City of San Diego case at the Board's next meeting.

10. BOARD REPORT 22-35: 2022 PARTICIPANT OUTCOME GOALS AND STRATEGIES

Presentation Highlights:

Mr. Powell and Mr. Russell presented the report and provided the following highlights:

- Staff and Voya are implementing and improving the methodology to develop new goals for the 2023 calendar year.
- The methodology is comprised of the following steps:
 - Review the goal categories of Participation, Contributions, Distributions, and Asset Retention.
 - Initiate historical data analysis to identify potential participant segment trends and underserved markets that impact outcomes.
 - Utilize Strengths, Weaknesses, Opportunities, and Threats (SWOT) Analysis.
 - Review and identify communication and engagement methods that are necessary and potentially unused communication tools that leverage behavioral finance.
 - Establish and execute 2023 strategy with City and Voya approval.
- Staff plans to present goals and strategies to the Board at its September meeting.

Board Member Comments/Questions & Responses:

There were no questions or comments from the Board.

11. BOARD REPORT 22-36: DCP PROJECTS & ACTIVITIES REPORT FOR APRIL 2022

Presentation Highlights:

Mr. Powell presented the report and provided the following highlights:

- Staff submitted a NAGDCA Leadership Award submission, which the DCP has won for the past two years.
- A correction to the Investments Committee Assignment was noted: Mr. Sandoval should be listed instead of Mr. Geller.
- The DCP is discussing leasing opportunities with Los Angeles City Employees' Retirement System (LACERS) and Los Angeles Fire and Police Pensions (LAFPP) as well as General Services' Real Estate Services division to identify new leasing opportunities.

Board Member Comments/Questions & Responses:

There were no comments or questions for the Board.

12. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Guglielmo requested a report from staff to develop an RFP for fiduciary liability insurance for the Board's consideration.

13. NEXT MEETING DATE

A regular meeting was noted for June 21, 2022, at 9:00 a.m.

14. ADJOURNMENT

The meeting was adjourned at 3:34 p.m.

Minutes prepared by staff member Eric Lan.