

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
MEETING OF DECEMBER 10, 2019
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:

John Mumma, Chairperson
Thomas Moutes, Vice-Chairperson
Raymond Ciranna, First Provisional Chair
Wendy G. Macy, Third Provisional Chair
Joshua Geller

Not Present:

Robert Schoonover, Second Provisional Chair
Hovhannes Gendjian
Linda P. Le
Lita Payne

PERSONNEL DEPARTMENT STAFF

Steven Montagna, Chief Personnel Analyst
Jenny M. Yau, Senior Management Analyst II
Daniel Powell, Senior Personnel Analyst I
Anna Ancheta, Personnel Analyst
Mindy Lam, Personnel Analyst

OFFICE OF THE CITY ATTORNEY

Charles Hong, Assistant City Attorney

MERCER INVESTMENT CONSULTING

Devon Muir, Principal

1. CALL TO ORDER

John Mumma called the meeting to order at 9:01 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. QUARTERLY INVESTMENT & ECONOMIC REVIEW: SEPTEMBER 30, 2019

Devon Muir, Principal from Mercer Investment Consulting (Mercer), began his review of the third quarter by indicating that the quarter had a positive start but experienced volatility caused by concerns over trade tensions and Brexit. He added that the quarter ended with some improvement and with modestly positive equity returns. He attributed positive returns in bonds and fixed income to the global slowing of growth, trade tensions, and three rate cuts in 2019.

Mr. Muir next reviewed DCP investment options, stating that overall DCP assets were nearing the \$7 billion mark, with an increase of \$75 million in the third quarter. He stated that there was an increase in the risk-profile funds, now reaching 20% of overall DCP assets. He highlighted that Galliard will be reducing its management fee from 7.5 basis points to 7 basis points, saving \$65,000 in Stable Value Fund management fees.

Mr. Muir reviewed investment manager updates for certain managers used in the DCP. With respect to the Hartford Small Cap Growth (HLS) Fund (Fund), he noted that Mercer's investments team met with lead portfolio manager Mammen Chally and that the team was underwhelmed with the manager's knowledge of holdings of the portfolio. Board members expressed concerns regarding Mercer's observation of Mr. Chally's lack of knowledge and understanding of the portfolio and asked Mr. Muir what actions should be taken in this type of situation. Mr. Muir acknowledged and agreed with the Board's concerns and stated that, although the manager's deficiencies were concerning, Mercer still had confidence in the investment team behind Mr. Chally. He added that Hartford is a mutual fund distribution company while Wellington manages the portfolio. He stated that Mercer gave Hartford an average B rating, and did not recommend immediate action. He further stated that performance was reasonable and was actually exceeding the benchmark. He noted that the Board will have an opportunity to evaluate the Fund's position in the DCP in connection with the Board's upcoming investment manager search processes.

Mr. Montagna added that following Board approval of the Investment Management Services Request for Proposal (RFP) and mutual fund search process, the Investments Committee will assess and develop selection recommendations to the Board. He stated that in the interim if the need to act quickly on replacing a manager arises, the mutual fund search process provides a faster option to change managers since contracts are not required for mutual fund providers. The Board requested exploration of all possible actions that can be taken to address unusual or critical deficiencies of an investment manager and that this discussion be added to the next Investments Committee meeting agenda. Mr. Montagna agreed and indicated that DCP staff and Committee members will evaluate all the possible measures to take in similar or worse scenarios. In the interim the Board requested that Mercer closely monitor Mr. Chally's and the Fund's performance and immediately notify the Board of issues or concerns requiring Board attention, and provide an update regarding the Fund as soon as practical.

Mr. Muir next reported on the DCP's asset allocation, investment expense analysis, and performance summary, stating that there were no significant changes. He highlighted the DCP's investment net expense difference and that it was well below median cost for participants in each of the investment categories. He reported modest underperformance in the Stable Value Fund and Small Cap Stock Fund. He indicated that the 3-year yield for the Stable Value Fund, although underperforming the benchmark, was still in the 27th percentile in its universe. He stated that Dimensional Fund Advisors (DFA) U.S. Small Cap Portfolio had underperformed primarily due to its exclusion of Real Estate Investment Trusts (REITs) from the portfolio. He added that Mercer had confidence that DFA's performance would improve over time. He reported that Brandes International Small Cap Equity Fund continued to struggle and would be closely monitored by Mercer.

4. BOARD REPORT 19-35: CONSULTING SERVICES CONTRACTS

Steven Montagna reviewed staff's recommendations to the Board with respect to DCP consulting services contracts. He indicated that staff was requesting that the Board approve an extension of the investment consulting contract with Mercer Investment Consulting, Inc. and Mercer (US) Inc. (Mercer), and an increase in the contract ceiling amount. He also recommended that the Board approve staff's draft Request for Proposal (RFP) for Plan Administration and Communications consulting services and execute the proposed Pledge Form Regarding Conflict of Interest Confidentiality, and Proposer Communications ("Pledge Form").

Mr. Montagna stated that both contracts with the incumbent consultants will expire in June of 2020. He indicated that staff recommended extending Mercer's contract for a sixth year to avoid the potential for disruption in the Board's investment manager search processes in 2020 as those processes rely heavily on Mercer's proprietary database. The Board indicated that the procurement for consultants would ideally not occur concurrent with the investment manager search process. Mr. Montagna indicated he agreed but that the current investment manager search cycle had been delayed due to the search process improvements that the Board had recently adopted. He indicated that if the Board approves the extension staff will prepare a report to City Council recommending approval for an additional year.

Mr. Montagna discussed staff's recommendation that the Board approve the issuance of the procedural RFP with respect to the Segal contract as well as execution of the proposed Pledge Form. The Board requested that staff develop a more efficient means of addressing the goals of the Pledge Form in light of similar Board responsibilities outlined in the Board's Governance Policies/Bylaws. Mr. Montagna indicated that the Board could defer action on the Pledge Form and that staff would prepare a recommendation regarding this topic for the next Board meeting.

Following this discussion, a motion was made by Mr. Ciranna, seconded by Mr. Geller to (a) approve (i) extending the term of Contract No. C-127171 with Mercer Investment Consulting, Inc. and Mercer (US) Inc. (Mercer) for investment consulting services by one additional year from July 1, 2020 through June 30, 2021 for a total six-year term and (ii) increasing the maximum compensation limit by \$330,000 from \$649,000 to \$1,095,500; (b) direct staff to prepare a report to City Council recommending extending Contract No. C127171 for one additional year and authorize the Board Chairperson and Vice Chairperson to sign and submit the report; and (c) approve and authorize the issuance of the draft RFP for Plan Administration and Communications consulting services; the motion was unanimously adopted.

5. BOARD REPORT 19-36: FINANCIAL EDUCATION AND INVESTMENT ADVISORY SERVICES

Daniel Powell reviewed recommendations from staff and the Plan Governance and Administrative Issues Committee with respect to approving the issuance of a Request for Information (RFI) for financial education and investment advisory services. He indicated that many DCP participants have expressed interest in receiving greater advice and support that currently cannot be provided by the DCP's Third-Party Administrator (TPA). He highlighted that retirement readiness is inseparable from other aspects of an employee's financial life and that offering investment advice services could support the needs of an important subset of the participant population and support the DCP's asset retention goals. He stated that the DCP's unique positioning engages and supports every employee population, including civilian, sworn, and Department of Water and Power (DWP) employees. He indicated that an investment advisor provided by the DCP would be carefully vetted and overseen by the City, which would ensure participants

are not subject to excessive fees.

Mr. Powell explained the difference between financial education services and investment advice - financial education as general information for financial needs, and investment advice as to specific recommendations in investments. He indicated that active City employees currently have existing financial education services available through Employee Assistance Program (EAP) services and that financial counseling is provided for Deferred Retirement Option Plan (DROP) and Los Angeles Police Protective League (LAPPL) members. He also indicated that participants who have accounts with the Charles Schwab Self-Directed Brokerage Option (SDB) can receive investment advice from an advisor if they opt for that service. He stated that Voya offers advisory services called Voya Retirement Advisors that can be easily incorporated into the DCP's existing platform with two components: a fee-based service via an asset-based charge and a basic free service. He added that the free service cannot be provided unless the fee-based service is activated. He stated that if the Board were to pursue this option, DCP's current on-site retirement counselors could acquire the necessary Financial Industry Regulatory Authority (FINRA) licensing to provide investment advice. He indicated that the asset-based fee structure imposes higher relative costs for larger account balances with no fee cap.

Mr. Powell next discussed the Charles Schwab Intelligent Advisory subscription fee model which is a new service currently only available to retail customers. He indicated that it offers unlimited access to a Certified Financial Planner who provides financial planning and investment advice with a one-time planning fee of \$300 and an ongoing \$30 per month advisory fee. He indicated that this fee model is useful to understand as a potential developing alternative to an asset-based fee design.

Mr. Powell stated that if the DCP were to expand its service offerings, participants would be best served by options that offer one-on-one meetings with an advisor and feature a non-variable flat fee. He also stated that the issuance of an RFI for financial education and investment advisory services would aid the DCP in reviewing program options from the vendor community. Board members indicated that they would be interested in a service wherein the advisor would not sell financial products. Mr. Powell agreed and responded that if the DCP were to offer these services, the providers would be vetted by the City to ensure financial products were not sold. The Board also asked if there are any liability considerations involved with offering investment advice. Mr. Powell responded that staff had discussed the topic with its consultant, Segal, and they had provided guidance from the Department of Labor. The Board recommended that staff also confer with the City Attorney and include this topic in the RFI.

Mr. Montagna indicated that a robust survey of City employees will be conducted to determine specific needs for financial education and advice before any recommendations are presented to the Board. Jenny Yau indicated that managing financing was the most utilized training topic according to a recent EAP report for civilian employees. Board member John Mumma added that based on his experience with the Los Angeles Police Protective League Board, he found that there is an equal interest in both financial education and investment advisory services. The Board agreed that the services discussed could broadly benefit every City employee population, including the retirees.

Following this discussion, **a motion was made by Mr. Ciranna, seconded by Mr. Geller to approve issuing a Request for Information for financial education and investment advisory services; the motion was unanimously adopted.**

6. BOARD REPORT 19-37: TRAINING/EDUCATION./TRAVEL POLICY REVISIONS

Mindy Lam reviewed recommendations from staff and the Plan Governance and Administrative Issues Committee with respect to adopting proposed modifications to the Travel and Training Policy (Policy). She reported that concerns were discussed at the Board's October meeting regarding the Policy's definition of "Staff" and the pre-approval process for training and travel attendance. She indicated that the Plan Governance & Administrative Issues Committee (Plan Governance Committee) adopted staff's proposed changes to the Policy which sought to address the Board's concerns.

Ms. Lam indicated that the Plan Governance Committee and staff recommend changing the definition of "staff" to more broadly include City of Los Angeles employees who provide vital support to the DCP but are not in the Personnel Department and who may not have their salary reimbursed by the DCP. She stated that amending the definition of "staff" to "*positions within the Personnel Department or City Attorney's Office providing support to the Board in its administration of the Plan*" will remedy the limitations of the current Policy and provide reimbursement of training, education, and travel expenses for all positions that support the DCP.

Ms. Lam stated that although the Training/Travel Program is approved by the Board each year, the Plan Governance Committee and staff recommend amending the Policy to clarify that the Board approve travel for specific Board and staff member attendees before travel occurring. She indicated that the change will provide greater transparency related to the DCP's training and travel expenditures.

Following this discussion, **a motion was made by Mr. Moutes, seconded by Mr. Ciranna to adopt proposed modifications to the Training/Education/Travel Policy as detailed in the staff report; the motion was unanimously adopted.**

7. BOARD REPORT 19-38: MEETING MINUTES

Anna Ancheta reviewed recommendations from the Plan Governance Committee and staff regarding a revised approach to the current practice of taking minutes. She stated that the challenges of the current method are the significant amount of staff time it requires to prepare, redundancy of information already part of DCP's public record, and the risk of not capturing the intention behind remarks as stated during a meeting.

She stated that the Plan Governance Committee and staff recommended the following changes: (1) providing a summary instead of a detailed narrative of each Board discussion, without noting every comment by each Board member; and (2) omitting information that is contained within staff reports and vendor presentations. She indicated that these changes would achieve a better balance between maintaining a detailed written record of the meeting and making the production of minutes more efficient.

Following this discussion, **a motion was made by Mr. Moutes, seconded by Mr. Geller to approve revising the current practice of taking minutes by (a) providing a summary (not a detailed narrative) of Committee and/or Board member discussions that arise in consideration of a given action, without transcribing and attributing each comment made by a given speaker; and (b) omitting information that is otherwise provided in staff reports and/or vendor presentations to the extent it would be redundant of information already a part of the public record; the motion was unanimously adopted.**

8. BOARD REPORT 19-39: DCP PROJECTS AND ACTIVITIES REPORT: OCTOBER THROUGH NOVEMBER 2019

Daniel Powell began the DCP Projects and Activities Report with Board member updates. He indicated that Board member Neil Guglielmo has taken a leave of absence from his position as General Manager of the Los Angeles City Employees' Retirement System (LACERS) and that effective November 4, 2019, Lita Payne would be General Manager of LACERS and serve on the Board until Mr. Guglielmo's anticipated return in May of 2020. He also indicated that effective November 2019, Board member Linda Le left her position as Department of Water & Power (DWP) Retirement Plan Manager to pursue a new position within the department. He indicated that Ms. Le continues to serve as the interim Retirement Plan Manager and will continue to serve on the Board until a replacement is hired. He provided an update regarding LA457.com website traffic results during National Retirement Security week and stated that a full report regarding the campaign would be presented to the Board in an upcoming meeting.

Following this discussion, **a motion was made by Mr. Geller, seconded by Ms. Macy to receive and file the monthly projects and activities report for October and November 2019; the motion was unanimously adopted.**

9. REQUEST FOR FUTURE AGENDA ITEMS

Mr. Ciranna proposed that staff and the Investments Committee review the protocols and qualifications for termination of investment managers. Mr. Mumma also requested staff to prepare a recommendation regarding the Pledge Form Regarding Conflict of Interest Confidentiality and Proposer Communications for the next Board meeting.

10. ADJOURNMENT

The meeting adjourned at 10:32 a.m.

Minutes prepared by staff member Anna Ancheta