



CITY OF *Los Angeles*

DEFERRED COMPENSATION PLAN

Board Report 20-13

Date: March 31, 2020

To: Board of Deferred Compensation Administration

From: Investments Committee & Staff

Subject: Postponement of Investment Management Services and Stable Value Fund Management Services Requests for Proposals (RFPs)

Board of Deferred Compensation Administration

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Recommendation:

That the Board of Deferred Compensation Administration (Board):

- (a) Postpone release of the Deferred Compensation Plan (DCP) Investment Management Services and Stable Value Fund Investment Manager Services RFPs for a minimum of 60 days, with direction to staff to report back within 30 days (or the next available Board meeting after 30 days) with updated findings and recommendations as to when and how to proceed with conducting the procurements;
- (b) Amend its approval for extending the term of Contract No. C-127342 with Galliard Capital Management Inc. (Galliard) for investment management services of the DCP Stable Value Fund by adding an additional six months to include a total extension from July 1, 2020 through December 31, 2021 for a total 6.5-year term;
- (c) Amend its approval for extending the term of Contract No. C-127171 with Mercer Investment Consulting, Inc. and Mercer (US) Inc. (Mercer) for investment consulting services by adding an additional six months to include a total extension from July 1, 2020 through December 31, 2021 for a total 6.5-year term; and
- (d) Direct staff to amend a report to City Council recommending extension of Contract No. C-127342 and Contract No. C-127171 in accordance with the amended conditions noted above and authorize the Board Chairperson and Vice-Chairperson to sign and submit the report.

Discussion:

A. Background

This report provides the Board with recommendations regarding the Deferred Compensation Plan (DCP) procurement action plan for investment management services. Following is a summary of the Board's actions to date regarding the search:

- On **June 19, 2019**, the Board directed staff to (a) draft revisions to the DCP Investment Management Services and Stable Value Fund Investment Manager Services RFPs to include an evaluation process aligning with the Board's established mutual fund search process and (b) work with the City Attorney's Office and Office of Contract Compliance to identify all non-applicable provisions of the City's general contracting requirements for the investment of DCP funds.
- On **July 16, 2019**, the Board approved staff's proposed process to administer parallel mutual fund and institutional product searches for all DCP investment mandates.
- On **December 10, 2019**, the Board (a) approved 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; (b) approved increasing the maximum compensation limit by \$330,000 from \$649,000 to \$1,095,500; (c) directed staff to prepare a report to City Council recommending extension of Contract No. C-127171 for one additional year; and (d) authorized the Board Chairperson and Vice-Chairperson to sign and submit the report.
- On **January 14, 2020**, the Investments Committee (Committee) reviewed and approved staff's proposed revised RFPs.
- On **February 18, 2020**, the Board (a) approved draft Requests for Proposals (RFPs) for (i) DCP Investment Management Services and (ii) Stable Value Fund Investment Management Services; (b) approved extending the term of Contract No. C-127342 with Galliard Capital Management Inc. (Galliard) for investment management services of the DCP Stable Value Fund by one additional year from July 1, 2020 through June 30, 2021 for a total six-year term; (c) directed staff to prepare a report to City Council recommending extension of Contract No. C-127342 for one additional year; and (d) authorized the Board Chairperson and Vice-Chairperson to sign and submit the report.

In the weeks following the last Board meeting an extraordinary upheaval of global economic and investment markets has occurred as a result of the 2019 novel coronavirus (COVID-19) pandemic outbreak. Containment efforts are posing a severe shock to the global and national economy. Financial markets have reacted with significant volatility. The S&P 500, widely regarded as a proxy for domestic equity markets, declined 32% from its February 19, 2020 high through March 20, 2020.

State and local orders released on March 19, 2020, directed Los Angeles and State of California residents to stay home and limit all non-essential activities. The City Council has reduced its meetings and canceled all of its Committee meetings for the month of March. A Citywide promotional and hiring freeze was announced on March 20, 2020.

B. Delaying Issuance of RFPs

Given the extraordinary COVID-19 related events, staff believes the Board should provide a short period of time to assess their impact on upcoming procurements, for two primary reasons:

- **Market Volatility Impact on Procurement Data** – Staff would like to review with Mercer how recent investment market volatility might impact construction of inquiries regarding, and evaluation of, the key data to be used in evaluating investment service provider performance. If adjustments are needed, they should be vetted thoroughly and brought back to the Board for approval.
- **Staffing Impact on Procurement and Contracting Services** – It is not clear at present that the Employee Benefit Division has the resources that will be required to execute not only the investment management procurement processes but also additional contracts that could result from those procurements. In the short-term, the hiring freeze will impact the Personnel Department’s ability to fill vacant positions for an indefinite period of time. In addition, it is unclear how current emergency conditions (involving telework, COVID-19 emergency initiatives, and Disaster Service Worker deployment) could further impact staff support of the DCP. Finally, the severity and duration of the fiscal impact of the COVID-19 crisis on the City’s budget (also an unknown) could impact available staff resources over the medium- and long-term.

In light of these unknowns, staff recommends that the Board postpone release of the DCP Investment Management Services and Stable Value Fund Investment Manager Services RFPs for a minimum of 60 days, with direction to staff to report back within 30 days (or the next available Board meeting after 30 days) with updated findings and recommendations as to when and how to proceed with conducting the procurements.

As previously indicated, the Board approved extending the Mercer and Galliard contracts through June 30, 2021. The request for these extensions has not yet been submitted to the City Council. Given the uncertainties potentially impacting the DCP Investment Management Services and Stable Value Fund Investment Manager Services RFPs, as noted above, staff believes it would be prudent to provide the Board with the latitude to continue both of these contracts for an additional six months (through December 31, 2021), if necessary. Adding this additional time would not preclude the Board from acting to approve new contracts at an earlier date but would remove the need to go back to the City Council requesting a further extension if circumstances warranted. The previously approved contract ceiling amount of \$1,095,000 on the Mercer contract is sufficient to cover the anticipated expenditures for extending the Mercer contract an additional six months.

Submitted by:

Steven Montagna, Chief Personnel Analyst