



## Board Report 20-21

Date: May 19, 2020

To: Board of Deferred Compensation Administration

From: Staff

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

### Board of Deferred Compensation Administration

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### Recommendation:

That the Board of Deferred Compensation Administration (Board) direct staff to insert language into the Investment Management Services and Stable Value Fund Investment Management Services Requests for Proposals (RFPs) to advise proposers that the City reserves the option to request and consider (a) updated performance information incorporating the time periods most proximate to the evaluation of each investment mandate; and (b) the most recent portfolio characteristics in its evaluation of each investment mandate.

### Discussion:

#### A. Background

This report provides the Board with recommendations regarding the Deferred Compensation Plan (DCP) RFPs for Investment Management Services and Stable Value Fund 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 Management 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 manager procurement 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 Investments LLC 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 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 RFPs for Investment Management Services and 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.
- (a) On **March 31, 2020**, the Board approved pausing release of the Deferred Compensation Plan (DCP) Investment Management Services and Stable Value Fund Investment Management 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. The Board further approved amending its approval for extending the term of contracts with Galliard Capital Management Inc. (Galliard) and Mercer to include an additional six months, through December 31, 2021, for total 6.5-year terms. Finally the Board directed staff to amend its report to City Council recommending extension of the Galliard and Mercer contracts in accordance with the recommended revised contract terms for Galliard and Mercer and authorized the Board Chairperson and Vice-Chairperson to sign and submit the report.

## **B. Issuance of Pending Investment Management Services and Stable Value Fund RFPs**

In Board Report 20-13, staff recommended that the Board pause issuance of its two pending investment RFPs to assess whether the extraordinary financial and market impacts of the COVID-19 epidemic should alter in any way its inquiries of the investment provider universe. Staff and Mercer subsequently jointly examined this question.

Since the March 31, 2020 Board meeting, investment markets have rebounded significantly. The S&P 500, a broad proxy for the US stock market, closed at 2,237.4 on March 23, 2020. Since that point in time, as of May 5, 2020, the S&P 500 has advanced 28% relative to the March 23, 2020 low. Other domestic and international markets have similarly rebounded. Looking at calendar year-to-date 2020 performance, the S&P 500 is down only 11.2% as of May 5, 2020.

The market movements both down and up have been sharp. Both moves occurred over very short periods of time. It is unknown whether future movements over the course of the remainder

of the year and into 2021 will be as volatile. However, the potential for volatility requires the Board, staff, and Mercer to be particularly attuned to ongoing performance and the composition of the underlying portfolios as the investment manager review process unfolds. Staff and Mercer discussed two relatively minor recommended adjustments to the RFPs which will assist in this regard:

1. The RFPs should advise proposers that the City reserves the option to request and consider updated return information incorporating the most recent time periods available in the evaluation of each investment mandate. Given the wide scope of the search, not all of the included investment mandates will be reviewed simultaneously. With recent volatility and the potential for this volatility to continue for the foreseeable future, providing the City with the flexibility for considering more recent periods of performance (so long as all providers are evaluated consistently) will ensure that the Board has access to the most current and relevant data as part of its decision-making process. This flexibility would apply to all investment vehicle types considered, including both institutional products proposed in response to the City's RFPs as well as mutual funds considered through the Mercer database.
2. The RFPs should also advise proposers that the City reserves the option to request and consider updated portfolio characteristics including sector weights for the most recent time periods available for evaluation of each investment mandate. Significant market volatility can produce shifts in sector weightings which may be misaligned with the investment manager's targets. Similar to the justification for providing flexibility for requesting information regarding performance returns, providing the City with the flexibility to consider the most recent portfolio characteristics (so long as all providers are evaluated consistently) will ensure that the Board has access to the most current and relevant data as part of its decision-making process. This flexibility would apply to all investment vehicle types considered, including both institutional products proposed in response to the City's RFPs as well as mutual funds considered through the Mercer database.

As a result, staff recommends that the Board direct staff to insert language into the Investment Management Services and Stable Value Fund Investment Management Services RFPs to advise proposers that the City reserves the option to request and consider (a) updated performance information incorporating the time periods most proximate to the evaluation of each investment mandate; and (b) the most recent portfolio characteristics in its evaluation of each investment mandate.

Assuming the Board's approval of these modifications, staff will proceed to immediately issue the RFPs in accordance with the Board's prior approval and direction on February 18, 2020.

Submitted by:



Steven Montagna, Chief Personnel Analyst