

# Deferred Compensation Plan BOARD REPORT 11-78

Date: December 8, 2011  
To: Board of Deferred Compensation Administration  
From: Staff  
Subject: Investment Menu Implementation

*Board of Deferred  
Compensation Administration  
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John Mumma, Vice- Chairperson  
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## Recommendation:

That the Board of Deferred Compensation Administration (a) approve postponing the implementation date for the Large-Cap, Bond and Mid-Cap fund options to April 20, 2012; and (b) receive and file information regarding implementation of pending changes to the Plan investment menu and the Plan's Request for Proposals.

## Discussion:

**Background** - At the September 20, 2011 Board meeting, staff discussed the process of implementation for the balance of remaining changes to the investment menu. The second phase of implementation involves establishing the DCP Mid-Cap, DCP Small-Cap, and DCP International Funds. To implement this phase the following procurements must take place in 2012:

- Active Growth Mid-Cap Manager
- Active Value Mid-Cap Manager
- Active Growth Small-Cap Manager
- Active Value Small-Cap Manager
- Active Developed Markets International Manager
- Active Emerging Markets International Manager
- Active Small-Cap Markets International Manager

At the October 18, 2011 Board meeting, the Board approved and authorized release of a Request for Proposal for Investment Management Services pending final review as to form by Board Counsel. Board Counsel has completed his review. The RFP was scheduled to be released on December 13, 2011. However, two issues related to the City's general contracting requirements have resulted in staff being unable to meet this target. One issue involves the City's recently passed Local Business Preference Ordinance, and the second involves the City's Business Inclusion Program requirements.

**Local Business Preference Ordinance** - The Local Business Preference Ordinance was adopted by the City Council on October 14, 2011. The intent of this ordinance is to provide preferences to potential City contractors if they are deemed to be "local businesses." The ordinance requires that an Awarding Authority "shall apply the preference to the Bid solely for Bid evaluation purposes such that the total price bid by a Local Business shall be reduced by

eight percent of the amount bid by that Local Business, and the reduced Bid amount shall be deemed the amount bid by that bidder.”

Initially it was staff’s understanding that the ordinance became effective upon publication, and that the Investment Management Services RFP would be impacted. Staff was in the process of seeking direction from the Personnel Department’s Administrative Services Division, the Department of Public Works Bureau of Contract Administration, and Board counsel regarding whether and how the ordinance would impact this RFP. However, on December 7<sup>th</sup> staff was informed by the Bureau of Contract Administration that the ordinance will not become effective until guidelines are published by the Bureau, which does not appear to be imminent. As a result, although many questions regarding the ordinance will be need to be addressed relative to future Board RFPs, it is anticipated that the Investment Management Services RFP will not be impacted.

Notwithstanding this, the Mayor’s Office has advised City departments not to issue RFPs in the month of December, as they are anticipating that their City contractor website, [www.labavn.com](http://www.labavn.com), will be heavily impacted by businesses applying for certification pursuant to adoption of this ordinance.

*Business Inclusion Program* – The Business Inclusion Program (BIP) creates targets for participation by Minority-owned Business Enterprises (MBEs), Woman-owned Business Enterprises (WBEs), Small Business Enterprises (SBEs), Emerging Business Enterprises (EBEs), Disabled Veteran-Business Enterprises (DVBEs), and all Other Business Enterprises (OBEs) in the performance of City contracts. Citywide targets for participation are indicated as follows:

MBE Participation:	<b>18 %</b>
WBE Participation:	<b>4%</b>
SBE Participation:	<b>25%</b>
EBE Participation:	<b>8%</b>
DVBE Participation:	<b>3%</b>

As part of encouraging participation in contracts by these firm types, BIP requires that bidders complete an outreach process for potential subcontracting opportunities as a condition of responsiveness to an RFP. Conducting the outreach process is required even in instances where few if any subcontracting opportunities may have been identified. Staff has been informed that there are no exemptions to this ordinance.

Demonstration of compliance must be completed through the [www.labavn.com](http://www.labavn.com) website. In the Consulting Services RFP, there was vendor confusion over BIP requirements, some of which did not become clear until after the RFP submission deadline (which could have placed consideration of their proposals at risk). Although these issues were resolved favorably, the process illuminated some potential pitfalls for vendors in meeting these requirements.

Given this, staff is concerned about the impact of BIP on the City’s Investment Management Services RFP. Given that the potential volume of respondents is significantly higher than in typical procurements, staff is attempting to identify alternatives for addressing BIP requirements which would mitigate the potential for large numbers of otherwise viable products and providers being disqualified from consideration. Given the significance of the

potential impact, and given that a high disqualification rate could result in the RFP having to be canceled and reissued, staff's focus is on creating an optimal strategy for addressing BIP before the RFP is released.

*Custodial Services RFP* – The Custodial Services RFP, previously approved by the Board for release, has been similarly impacted by these issues concerning BIP and the Local Business Preference Ordinance. Staff is working to release this RFP as soon as possible. The risks with respect to BIP compliance are likely much more manageable because the pool of firms capable of providing the requested services is relatively small.

Additional information regarding these matters will be provided at the Board meeting on December 20<sup>th</sup>. A formal update will be provided at the next Board meeting.

**Communication Materials & Investment Menu Change Schedule (First phase of implementation)** – Implementation of the new Deferred Compensation Plan Large-Cap, Bond and Mid-Cap Funds is presently scheduled to take place on February 24, 2012. Staff has been working with Great-West Retirement Services to draft communication materials for these changes. Those materials as presently drafted are provided as Attachment A to this report.

Among the services provided by Great-West to the City's Plan is legal/compliance review of communications documents issued by the Plan. Due to the high volume of materials they review and the safeguards they utilize in their review process, that process typically takes approximately 12 days. In addition, additional steps in the editing, proofing and printing process add approximately 20 days to the total time needed from creating a tentative final document to actual mailing.

Although the February 24<sup>th</sup> deadline can still be met, and notwithstanding an initial focus group on communication materials scheduled for December 12<sup>th</sup>, the current deadline does not allow us time to perform the more extensive focus group testing that we believe is desirable for a communications effort of this significance. For this effort in particular, staff believes it is crucial to have adequate time to incorporate participant feedback and refine materials.

As a result, staff is recommending that the implementation date for implementing the Large-Cap, Bond and Mid-Cap fund options (which includes the elimination of certain existing fund options from the City's menu) be postponed to April 20, 2012. This allows approximately sixty days for refinement of the communication materials. It would also demonstrate responsiveness to the request from some participants for additional time to plan their transitions from to-be-eliminated funds to the new menu. The change in date would be communicated immediately on the Plan website and through the first quarter newsletter, which will be received in late January.

**Participant Comments** - Since the introductory announcement of the pending investment menu changes in the third quarter 2011 newsletter, staff and local Great-West staff have been contacted by approximately 25 participants expressing concerns over the loss of existing fund options. Some of these participants have also expressed concerns over the timing and communication of the fund changes.

Although the number of participant inquiries has been modest, staff welcomes this participant feedback. These conversations not only create opportunities for staff to share in more detail the reasoning for the planned changes, they also provide gateways for participants to share valuable suggestions which staff can use to improve its communications efforts or address other issues. As an example, one participant suggested that the fund fact sheets for the new investment options be made available sooner rather than later. As a result, staff is working to accelerate development of these materials, and will be including them in focus group materials.

In another example, in comments and follow-up conversations involving individuals who spoke during Public Comments at the November 15, 2011 Board meeting, staff received valuable suggestions and input from them which will help to improve the communications effort. In response to a concern about information concerning the changes not being provided on the Plan’s website, staff has added a link on the front page of the website to information about the pending changes, which can be updated as new information is developed. In addition, another concern expressed related to creating more ease in being able to access the City’s internal Deferred Compensation Plan website from the Great-West website – this is in the process of being addressed and staff expects to make this functionality available shortly.

Staff has received one written piece of correspondence regarding the change and has drafted a response (see attached). As always, staff views participant feedback as a vital and valuable resource for improving administration of the Plan.

**Implementation Calendar** - Below is a schedule developed by staff that details anticipated steps for the investment transition process. Along with procurement milestones, the calendar now incorporates communications development milestones. All of these dates are subject to revision, noting especially the uncertainties created by application of the City ordinances previously discussed in this report.

Procurement Schedule Implementation of Investment Menu Changes November 30, 2012			
Days Remaining	Date	Activity	Status
498	7/21/2011	Meeting with Mercer Investment Consulting (Mercer)	Completed
490	7/29/2011	Meeting with Personnel Department Administrative Services Division (ASD)	Completed
487	8/1/2011	Meeting with Board Counsel	Completed
457	8/31/2011	1 <sup>st</sup> Draft RFP Due from Mercer & Staff	Completed
421	10/6/2011	Review of RFP Completed by Personnel Department ASD & Board Counsel	Completed
409	10/18/2011	Board reviews RFP for Approval pending final review by Board Counsel	Completed
388	11/8/2011	Initial draft of 1st phase investment menu change due from staff (main mailer, FAQs, cover letter)	Completed
353	12/13/2011	Focus Group – initial session for 1st phase mailer	
353	12/13/2011	Issue RFP	

346	12/20/2011	Board to review 1 <sup>st</sup> phase investment menu change mailer	
329	1/6/2012	Focus Group – second session for 1st phase mailer	
317	1/18/2012	Board reviews latest drafts 1 <sup>st</sup> phase investment menu change material	
315	1/20/2012	Focus Group – third session for 1st phase mailer	
305	1/30/2012	2011 4 <sup>th</sup> Quarter Newsletter finalized for mailing with reminder for 1st phase menu change	
287	2/17/2012	RFP Due Date	
284	2/20/2012	Finalize mailer for 1 <sup>st</sup> phase investment menu change (cover letter, mailer, FAQs, SDBO sheet, funds fact sheets)	
224	4/20/2012	Funds transferred for 1 <sup>st</sup> phase of investment menu change	
214	4/30/2012	2012 1 <sup>st</sup> Quarter Newsletter finalized for mailing – recap of 1st phase, note for 2nd phase	
185	5/29/2012	Mercer & Staff Complete Review of RFP Responses	
164	6/19/2012	Board Meeting - Selection of Vendors	
157	6/26/2012	Special Board Meeting (if necessary)– Selection of Vendors	
150	7/3/2012	Special Board Meeting (if necessary) – Selection of Vendors	
147	7/6/2012	Post initial notice regarding fund selections on websites	
129	7/24/2012	Staff & Mercer Complete First Draft of Contracts	
133	7/20/2012	First draft of 2 <sup>nd</sup> phase investment menu change mailer due from staff	
123	7/30/2012	2012 2 <sup>nd</sup> Quarter Newsletter finalized for mailing – update on vendor/fund selection by Board for 2 <sup>nd</sup> phase	
112	8/10/2012	Focus Group – initial session for 2 <sup>nd</sup> phase materials	
102	8/20/2012	Board reviews drafts for 2 <sup>nd</sup> phase investment menu change materials	
98	8/24/2012	Focus Group – second session for 2 <sup>nd</sup> phase materials	
84	9/7/2012	Focus Group – third session for 2 <sup>nd</sup> phase materials	
73	9/18/2012	Board reviews latest drafts for 2 <sup>nd</sup> phase investment menu change materials	
57	10/4/2012	Review of Draft Contracts by Personnel Department ASD & Board Counsel Completed	
56	10/5/2012	Finalize mailer for 2 <sup>nd</sup> phase investment menu change (cover letter, mailer, FAQs, SDBO sheet, funds fact sheets)	
45	10/16/2012	Board Reviews Contracts for Approval	
32	10/29/2012	2012 3 <sup>rd</sup> Quarter Newsletter finalized for mailing – reminder about upcoming fund changes for 2 <sup>nd</sup> phase	

10	11/20/2012	Final Board Approval, if not adopted at previous meeting	
4	11/26/2012	Receive Contracts Signed by Vendors	
1	11/29/2012	Contracts Signed by Board Chair and Board Counsel, submitted to City Clerk	

Submitted by:

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