

City of Los Angeles Deferred Compensation Plan

Investment Benchmarking – Peer Survey

April 2023



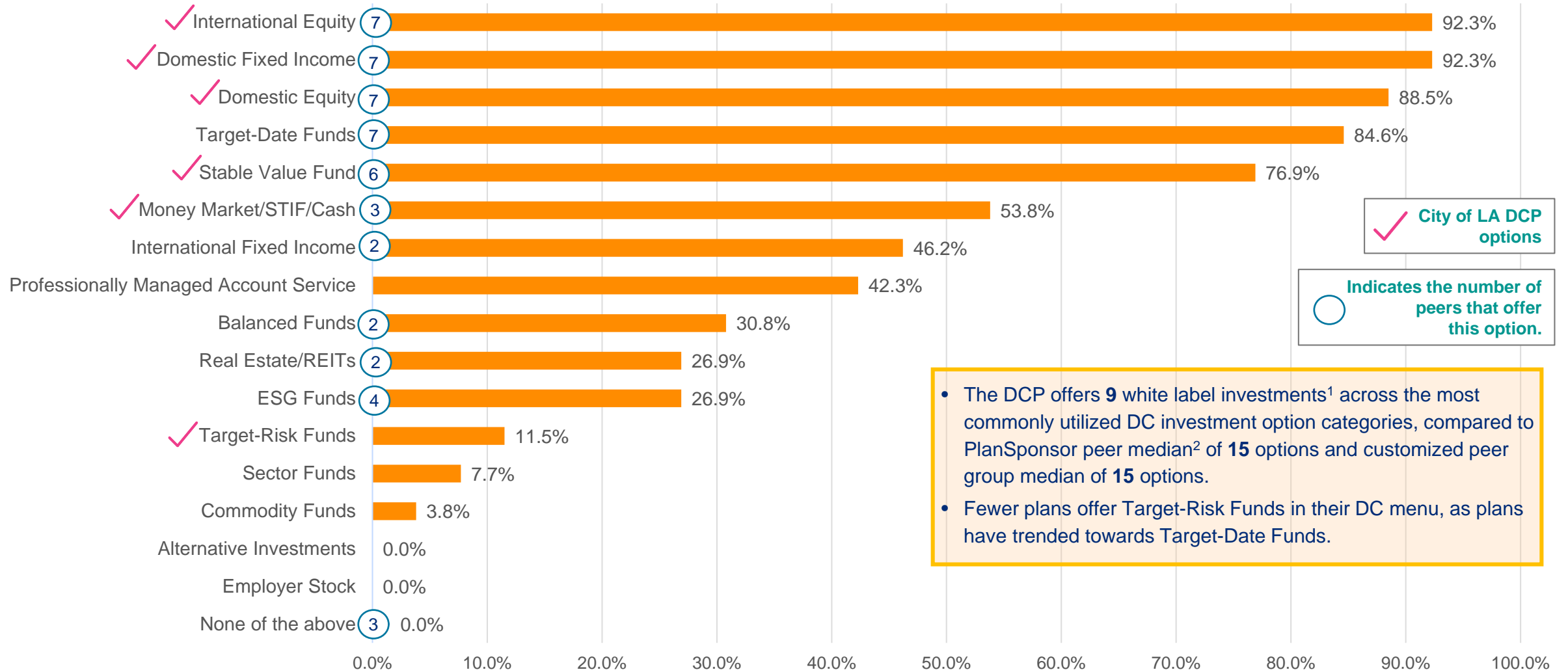
Executive Summary

Investment Benchmarking – Peer Survey

- In July 2022, Mercer presented to the Board a comparative review of the DCP which detailed how the Plan provisions, participation, and investments compared to a broad survey of comparable 457 plans.
- At that time, staff and Mercer discussed the ability to follow on with a review of plan investment offerings and fees relative to a customized peer group, and the Board requested this follow-up.
- Staff and Mercer subsequently identified a peer group of 7 public entities which agreed to participate in the study. Data provided is as of September 30, 2022, unless noted.
- We provide our findings of the custom peer group survey in this report. The findings herein provide a very high level measure of assessing DCP investment offerings and expenses in relation to similar plans which are all highly competitive in their own regard.

Peer Plan Features

Investment option prevalence



- The DCP offers **9** white label investments¹ across the most commonly utilized DC investment option categories, compared to PlanSponsor peer median² of **15** options and customized peer group median of **15** options.
- Fewer plans offer Target-Risk Funds in their DC menu, as plans have trended towards Target-Date Funds.

¹ Counting 5 target risk funds as 1 option; including FDIC-Insured Savings Account and brokerage window.

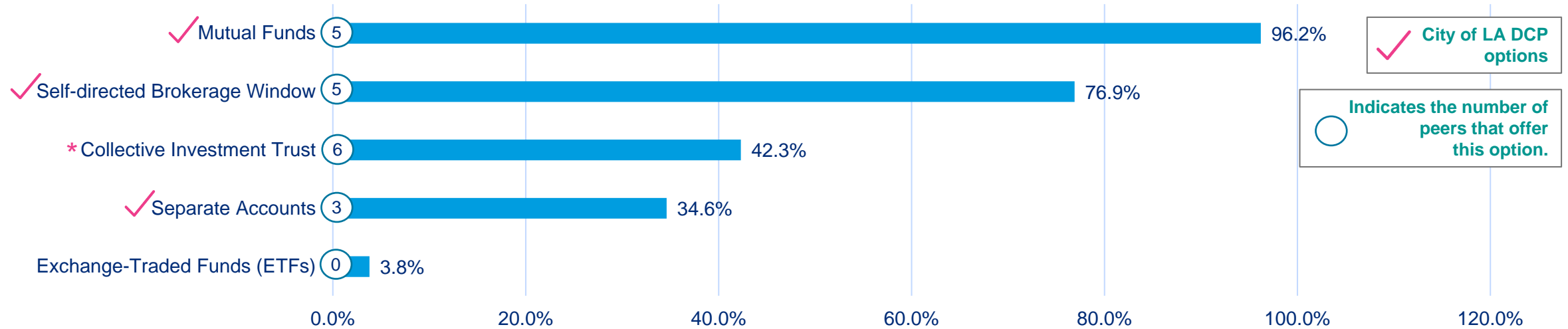
² Peer median is given for mega plans (>\$1 billion) in the 457 plan category based on PLANSPONSOR 2022 Defined Contribution Survey; 33 respondents.

"None of the above" - three of the peers offer options not listed on the chart above: diversified real return, TIPS and high yield bond.

Peer Plan Features

Comparative Analysis

Investment Vehicle Prevalence



- The DCP offers white-labelled funds, along with five out of the seven peers surveyed.
- Collective investment trusts are highly utilized amongst the customized peer group, which is indicative of an effort to lower costs even further.

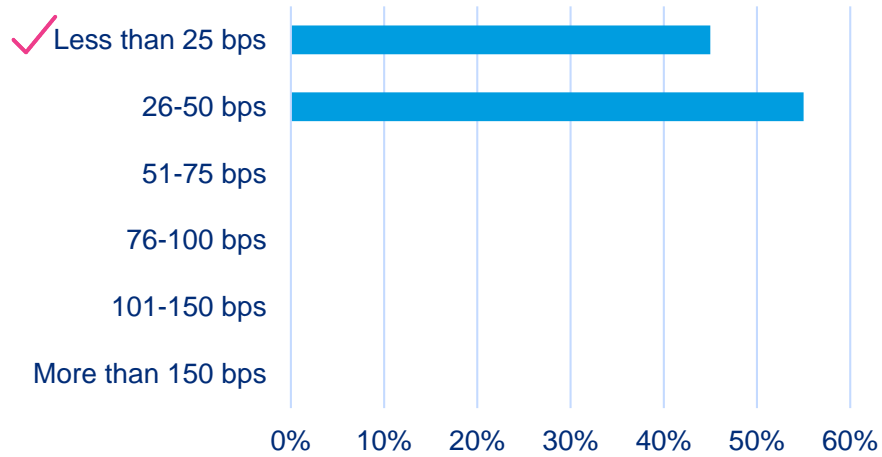
Source: PLANSPONSOR 2022 Defined Contribution Survey – 457 Plans; Mega (>\$1B); 33 respondents

✓ Denotes a feature in the City of LA DCP

* Pending implementation. Contract negotiation is currently underway with the investment managers selected.

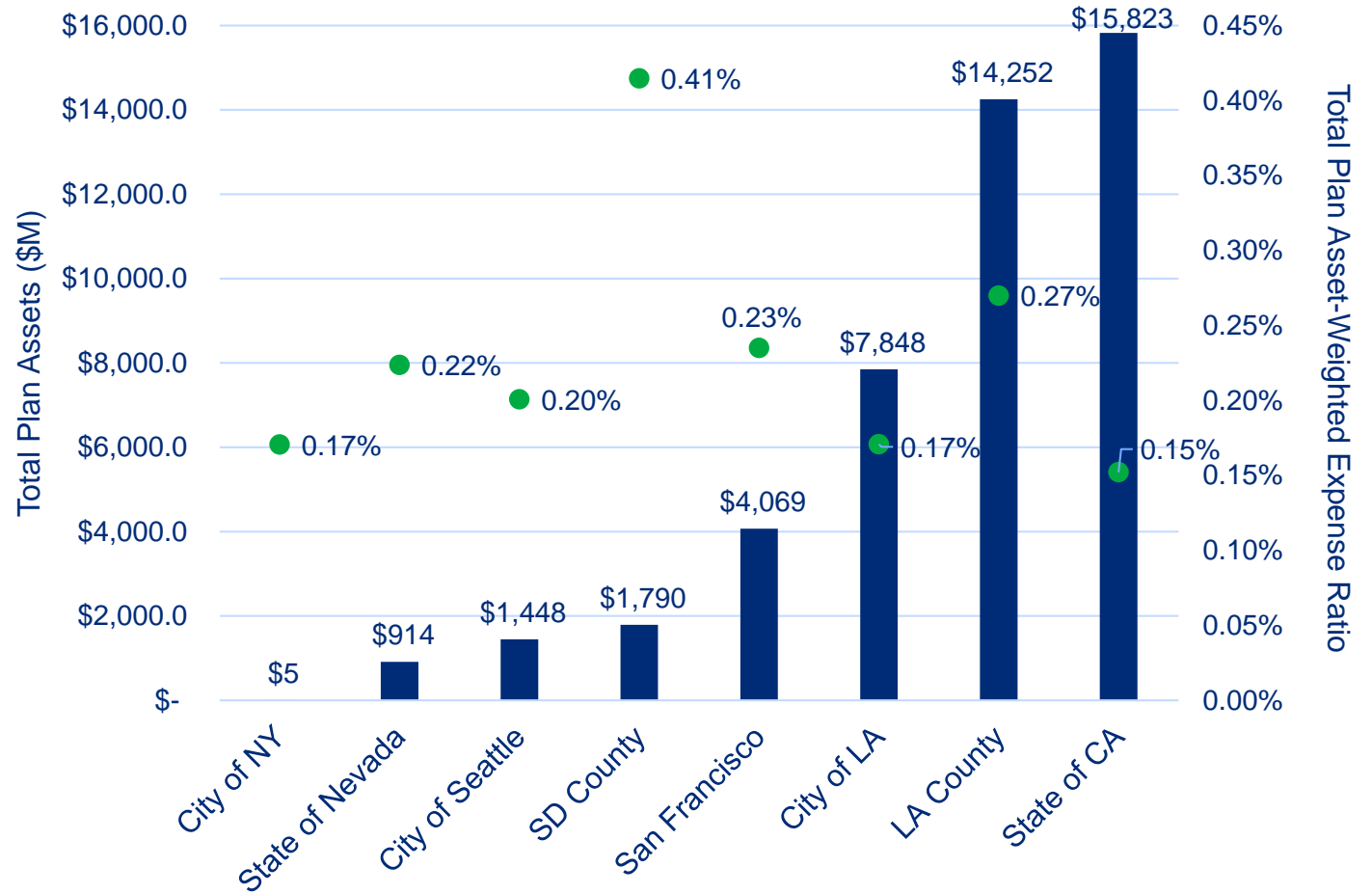
Fee Comparison

PLANSPONSOR Survey – Plan Average Asset-Weighted Expense Ratio*



- The DCP displays favorably relative to custom peer group with asset-weighted average expense ratio of 17 bps. *It should be noted that average asset-weighted expenses are in large part driven by participant allocations and the degree of active and passive management in a plan.*
- The average of the asset-weighted expense ratio across the custom peer group, including DCP, is 21 bps.

Plan Average Asset-Weighted Expenses (right scale) and Plan Assets (left scale)



*Source: PLANSPONSOR 2022 Defined Contribution Survey – 457 Plans; Mega (>\$1B); 33 respondents

✓ Denotes a feature in the City of LA DCP

Notes: Expense ratios are net of revenue sharing, where applicable. Plan average asset-weighted expenses exclude brokerage and loan assets. Fees and fund balances for City of New York are shown as of 12/31/2021.

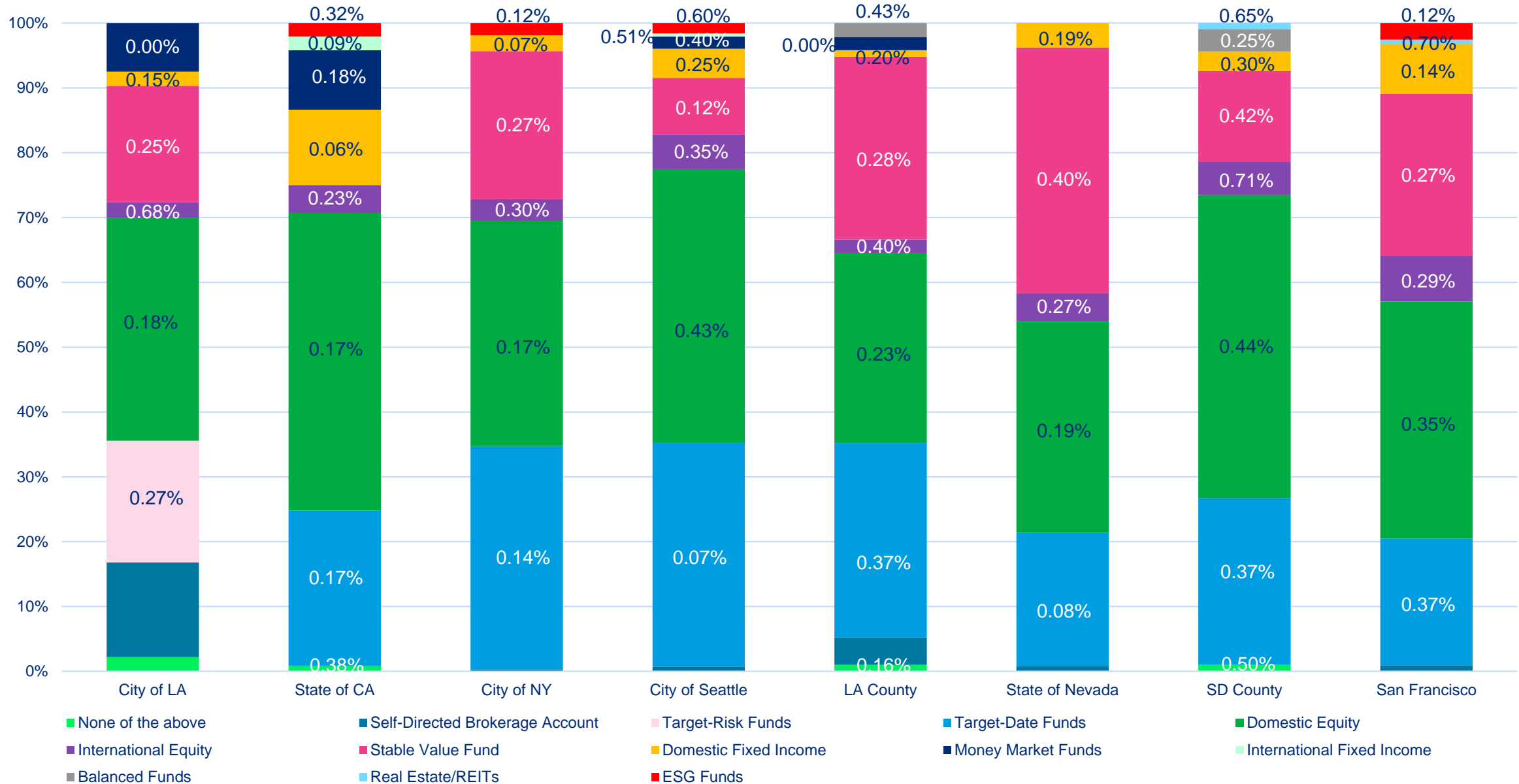
Average Expense Ratio by Asset Class

	City of LA	State of CA	City of NY	City of Seattle	LA County	State of Nevada	San Diego	San Francisco
Tier I – Asset Allocation Options								
Target Date Funds		0.17%	0.14%	0.07%	0.37%	0.08%	0.37%	0.37%
Target Risk Funds	0.27%							
Tier II – Passive Core Options								
Domestic Fixed		0.03%	0.07%	0.04%		0.04%		0.03%
Domestic Equity	0.02%	0.02%	0.05%	0.05%		0.05%	0.07%	0.03%
International Equity		0.05%		0.08%		0.08%		0.07%
Tier III – Active Core Options								
Stable Value	0.25%		0.27%	0.12%	0.28%	0.40%	0.42%	0.27%
Money Market/STIF/Cash Funds	0.00%	0.18%		0.40%	0.00%			
Domestic Fixed	0.15%	0.09%		0.46%	0.20%	0.35%	0.30%	0.25%
Domestic Equity	0.26%	0.32%	0.41%	0.68%	0.23%	0.46%	0.60%	0.51%
Global/International Fixed		0.09%		0.51%				
International Equity (Developed and Emerging Markets)	0.68%	0.40%	0.30%	0.49%	0.40%	0.46%	0.71%	0.51%
Tier IV – Specialty Options								
Diversified Real Return/TIPS Funds		0.38%			0.16%			
High Yield Bond Funds							0.50%	
Balanced Funds					0.43%		0.25%	
ESG Funds		0.32%	0.12%	0.60%				0.12%
Real Estate Funds							0.65%	0.70%

Notes: Expense ratios are net of revenue sharing, where applicable. Fees and fund balances for City of New York are shown as of 12/31/2021.

Average Expense Ratio by Asset Class and as a Percentage of Total Assets

Bar charts depict simple average of expense ratios by asset class. Size of each shaded box represents the percentage of overall plan assets.



Important notices

References to Mercer shall be construed to include Mercer (US) LLC and/or its associated companies.

© 2023 Mercer (US) LLC. All rights reserved.

This content may not be modified, sold or otherwise provided, in whole or in part, to any other person or entity, without Mercer's prior written permission.

Mercer does not provide tax or legal advice. You should contact your tax advisor, accountant and/or attorney before making any decisions with tax or legal implications

The findings, ratings and/or opinions expressed herein are the intellectual property of Mercer and are subject to change without notice. They are not intended to convey any guarantees as to the future performance of the investment products, asset classes or capital markets discussed. Past performance is no guarantee of future results. The value of investments can go down as well as up, and you may not get back the amount you have invested. Investments denominated in a foreign currency will fluctuate with the value of the currency. Certain investments, such as securities issued by small capitalization, foreign, or emerging market issuers, real property, and illiquid, leveraged (including through the use of derivative instruments), or high-yield funds, carry additional risks that should be considered before choosing an investment manager or making an investment decision.

For Mercer's conflict of interest disclosures, contact your Mercer representative or see <http://www.mercer.com/conflictsofinterest>.

This does not contain investment advice relating to your particular circumstances. No investment decision should be made based on this information without first obtaining appropriate professional advice and considering your circumstances. Mercer provides recommendations based on the particular client's circumstances, investment objectives and needs. As such, investment results will vary and actual results may differ materially.

Information contained herein has been obtained from a range of third party sources. While the information is believed to be reliable, Mercer has not sought to verify it independently. As such, Mercer makes no representations or warranties as to the accuracy of the information presented and takes no responsibility or liability (including for indirect, consequential or incidental damages), for any error, omission or inaccuracy in the data supplied by any third party.

This does not constitute an offer or a solicitation of an offer to buy or sell securities.