CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
MEETING OF MARCH 20, 2018
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:
John R. Mumma, Chairperson
Michael Amerian, Vice-Chairperson
Raymond Ciranna, First Provisional Chair
Robert Schoonover, Second Provisional Chair
Wendy G. Macy, Third Provisional Chair
Neil Guglielmo

Not Present:
Cliff Cannon
Linda P. Le
Don Thomas

PERSONNEL DEPARTMENT STAFF
Jody Yoxsimer – Assistant General Manager
Steven Montagna – Chief Personnel Analyst
Matthew Vong – Management Analyst
Daniel Powell – Personnel Analyst
Kevin Hirose – Personnel Analyst

OFFICE OF THE CITY ATTORNEY
Curtis Kidder – Assistant City Attorney

MERCER INVESTMENT CONSULTING
Devon Muir – Principal
Ana Tom-Chow – Associate

VOYA FINANCIAL
Michelle Williams – Vice President Strategic Relationship Management
La Tanya Harris – Registered Representative
Luis Chaves Guzmán – Participant Engagement Consultant

DIMENSIONAL FUND ADVISORS
Robert Deere – Investment Director, Senior Portfolio Manager and Vice President
Ted Simpson – CFA, Vice President

1. CALL TO ORDER

John Mumma called the meeting to order at 9:03 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

A motion was made by Robert Schoonover, seconded by Wendy Macy, to approve the minutes of the January 16, 2018 meeting; the motion was unanimously adopted.

4. PLAN INVESTMENTS QUARTERLY REVIEW: 12/31/17

Devon Muir presented the Mercer Investment Consulting's Performance Evaluation Report for the Fourth Quarter of 2017. He began by commenting on the capital market performance and provided context on where the Plan stands this year.

Mr. Muir reported that large cap growth tended to dominate; the Russell 1000 Growth was up 8% percent for the quarter, and up 30% on the year. He indicated that Facebook, Apple, Amazon, Netflix, and Google, were the benchmark names that drove the market, and that the IT sector was up in excess of the 30% return for the year. He stated that small caps tended to under preform larger more established businesses; the Russell 2000 had very good performance at 3.3% for the quarter and close to 15% for the year.

Mr. Muir reported that international equities over the last six quarters had produced large returns. He stated that the MSCI EAFE had a 4.2% return for the quarter, up 25% for the year. He indicated it outperformed the S&P 500. He stated a performance driver was currency depreciation of the US dollar, which was a tailwind for US investors and international equities. He further observed better fundamentals from international economies, particularly in Europe and the emerging markets.

Mr. Muir reported that the MSCI Emerging Markets index delivered a strong performance, up 7.4% for the quarter and 37% for the year. He then provided background on international managers, especially those that favored Asian economies. He explained that it is typical for active managers to be underweight in Japan given sluggish growth over the past several decades, but Japanese stocks had performed well.

Mr. Muir next discussed bonds and commented that the Barkley's aggregate was up 40 basis points for the quarter and that despite the Federal Reserve raising rates, yields were relatively unchanged for the fourth quarter and into 2018. He stated there has been a significant up-tick in Treasury yields which has been negative for bond prices. With respect to commodities, he indicated there had a significant bounce in the price of oil.

Mr. Ciranna asked whether Mr. Muir foresaw any approaching equalizing of value stock performance as compared to growth stocks. Mr. Muir responded that approximately seven years ago growth stocks were performing poorly, and that you have cycles where growth and value rotate in and out of favor. He stated it would not surprise him to see reversion occur soon. He also pointed out that for the Plan, investment manager Brandes Investment

Partners (Brandes) experienced significant underperformance with their deep value orientation, but that they believe over time the value exposure is going to be compensated.

Mr. Mumma inquired what HFRI FOF stood for. Mr. Muir responded that it refers to a hedge fund research and fund of funds benchmark that blends hedge fund strategies.

Mr. Muir briefly reported on sector performance of US Equities. He stated that the IT sector was up 38.4% for the year, health care was at 22.1%. He reported that a number of sectors that are growth oriented performed well, but telecom, utilities, consumer staples, and value-oriented sectors tended to languish. He stated that over time he expects equalization.

Mr. Muir stated that his observation of US Equities on a price to earnings (P/E) Trailing 12-month basis and over the cyclical Shiller P/E is that the valuation of this space looks stretched. He stated that internationally the P/E looks more compelling, with Europe trading significantly below the US. He then stated that as you look at Emerging Markets, it is 15x trailing earnings, and tends to be a better value.

Mr. Ciranna commented that the yield curve has been flattening and asked Mr. Muir if he believes it will continue to flatten. Mr. Muir responded that when the quarter ended, the 10-year was approximately 2.6%, but at 2.9% as of today. He stated there has been a substantial run up in Treasury yields, which may be in response to expectations of higher inflation, and that tax law changes might add a trillion dollar of debt over 10 years. He stated he expects the Federal Reserve to enact three one-quarter rate increases over the year, and would expect the longer end of the curve to move up as opposed to staying flat. He stated that in the immediate term, it is negative for bond investors and for bond options in the Plan, but that long-term investors want to be compensated with higher yields and this is the only way to move out of the financial decline.

Mr. Muir reported on overall asset allocation. He stated there had been an increase in the risk based profile funds, at 19% versus the previous year at 17.3%. He commented that another trend is the decline in use of the Stable Value Fund and FDIC-Insured Fund, as participants take on more risk.

Mr. Muir stated that as of December 31, 2017 total assets were at $6.2 billion vs. $5.4 billion from December 31, 2016. He reviewed Plan investment expenses, noting that when compared to the median net expense ratio, the Plan is offering well below median costs in each category. He then stated that net of revenue sharing back to participant accounts, the total cost of the plan is 23 basis points, a very competitive pricing level.

Mr. Muir next reviewed performance returns. He stated that the FDIC Fund yield at year-end was at 1.2775%. He stated that the Stable Value Fund experienced slight underperformance relative to benchmarks. He stated that the DCP bond fund was up 4.4% for the year and in the top 31% of bond strategies. He stated the Ultra-Conservative Profile Fund was up 1.3% in excess of the benchmark for the quarter, and 6% for the year. He indicated the Conservative Profile Fund was up 10%, and the Ultra-Aggressive up 19%.

Mr. Muir next reviewed the DCP Large Cap Stock Fund, which he said had a very strong year, up 21.8%, and 6.6% for the quarter. He stated the DCP Mid Cap Stock Fund has an element of passive investment management and exposure to mid-cap value through Ceredex and Voya's Mid Cap Opportunity Fund. He stated Voya's performance bolstered this fund, which returned 18.7% performance for the year and 6% for the quarter, with slight underperformance relative to the benchmark, but in the top 21% of its peer group.

Mr. Muir indicated that Ceredex was challenged during the year, and although absolute performance was good, it was slightly below median and below the benchmark over the recent periods. He then stated that although Voya's Mid Cap Opportunities underperformed the benchmark by about 20 basis points, it still performed above the median and had a strong absolute performance, with the most recent quarter close to 8%.

Mr. Ciranna commented that with Ceredex, the 10-year number is positive; however, year one, three and five do not meet the benchmark and asked Mr. Muir if he had any thoughts or concerns. Mr. Muir responded that Ceredex had some bad timing in positions and stock selection challenges, but that it is useful to see how managers perform in a down market, and if they do not pick up relative ground on the downside, they would be more cause for concern.

Mr. Muir reported that the DCP Small Cap Stock Fund underperformed for the year by a slight amount, but is still in the top third of its peer group. Given that Dimensional Fund Advisors was presenting at the meeting later, Mr. Muir indicated he would defer comments.

Mr. Muir reported on the DCP International Stock Fund, which in aggregate performed well at 26.5% return for the year, but was below benchmark and slightly below median. He stated that the primary driver of underperformance was due to performance of the Brandes fund, which had performed the worst in its peer group and in the 100th percentile. He stated that the one-year numbers were off 21% from the benchmark, and that their defensive posture with 13% in cash had hurt performance. He further stated Brandes was underweight in information technology, which also hurt.

Mr. Ciranna inquired as to how many stocks Brandes likes to own. Mr. Muir indicated 80 to 100. He stated Brandes has a deep value orientation that can sometime diverge meaningfully from the benchmark in an upward biased market. He indicated Brandes is scheduled to come in August 2018 for the investment manager presentation, and one option would be to have them present earlier in May 2018 to get a better understanding of their underperformance.

Mr. Mumma inquired on the status of Brandes this year given that they are one quarter into the year. Mr. Muir responded that Brandes is slightly below the benchmark right now and the benchmark is negative in their first month, and their benchmark is down about 2%. He stated that Brandes has done better in this volatile environment, with the first month being positive.

Mr. Ciranna commented that with Brandes's concentrated 80-100 stocks versus an investment manager like Dimensional Fund Advisors, which holds more, there is diversification. He stated that he would be open to have Brandes come in earlier. Mr. Amerian also stated that he believes it would be a good idea to move Brandes's scheduled presentation to an earlier meeting and inquired as to if there had been any indication that they are considering changing their strategy. Mr. Muir responded that Brandes has continued to hold their positions, and that Mercer believes that at some point they would expect to see a reversion and produce some excess performance. Mr. Mumma noted the one year has been poor, but they are still in the top 1% after a particularly bad year.

Mr. Muir indicated the 17.5% Brandes position within the Plan's International Fund is sized appropriately. He stated that when the Board selected this option, they considered other, more diversified alternatives, but the strategy was that to add value it would be in the small cap spectrum within the international space. He stated that this most recent period has not been an environment favoring Brandes. Mr. Montagna noted that within the next twelve months, the Plan will be fully engaged in its next search cycle for all of the Plan's investment offerings, so all of the City's incumbents would in similar positions in having to compete for the business. Mr. Muir closed by stating that the Plan had very strong growth for the year. There were no further questions regarding Mercer's Plan Investments Quarterly Review.

5. INVESTMENT MANAGER PRESENTATION

The investment manager presentation from Dimensional Fund Advisors (DFA) was attended by the Robert T. Deere, Investment Director, Senior Portfolio Manager and Vice President; and Ted Simpson – CFA, Vice President.

Mr. Simpson indicated he is the Plan's primary client service representative and has been in this field for approximately 15 to 16 years working with clients similar to Los Angeles throughout California. Mr. Deere indicate he has been at Dimensional for 26 ½ years and had established one the strategies used by the City's Plan 25 years ago.

Mr. Simpson provided a brief overview of DFA and the two strategies used by the Plan since 2015, the US Small Cap Value Portfolio and Emerging Markets Core Equity Portfolio. He stated that DFA is a stable, successful investment management firm with headquarters in Austin, Texas, and that he and Mr. Deere are based in Santa Monica, California.

Mr. Simpson indicated DFA constructs and manages client portfolios while trying to beat the market in a broadly diversified way without having to rely on outguessing the market. He explained that since it is difficult to pick stocks and time markets on a consistent and profitable basis, DFA creates broadly diversified portfolios relying on academic research that identifies characteristics and provides an advantage to DFA portfolios and its clients. He reviewed two client events: one on July 31, 2018 in their Santa Monica office and an institutional annual symposium in Texas April 23-25, 2018.

Mr. Deere next presented DFA's strategy. He stated DFA believes markets do a good job of sorting out information, and as limited information hits the markets, securities trade very quickly and adjust rapidly but do not necessarily have the same expected return. He explained four major factors that differentiate the returns of one equity manager over another: (1) staying fully invested, (2) taking advantage of the fact that smaller companies as a group have had higher returns than larger companies, (3) capitalizing on value-priced stocks tend to outperform growth stocks, and (4) once you adjust for company size and relative price, stocks that trade at little bit higher profitability seem to do better. He indicated that value stocks have much lower earnings than growth stocks but higher returns historically.

Mr. Deere then indicated that one of the strategies utilized by the Plan is the US Small Cap Value strategy. He indicated that historically, it is the highest returning part of the market, but it does not mean you get a high return regularly. He reviewed a portion of the printed materials indicating that post 2008 value stocks have underperformed relative to growth, but DFA believes value will return to favor eventually. Mr. Deere then reviewed the two strategies.

For the US Small Cap Value Strategy, Mr. Deere stated that DFA invests in the bottom 10% of the stock market in terms of overall valuation (stocks roughly $4 billion or less in market capitalization). He indicated stocks they exclude include highly regulated public utilities and real estate investment trusts, since over the long run they have severely underperformed the average value index. For the Emerging Markets Core Strategy, he stated this strategy includes all parts of the market but is tilted towards smaller lower priced and higher profitability stocks relative to book valued cash flow earnings. He stated DFA believes this strategy will outperform the MSCI emerging markets index by about 100 basis points.

Mr. Deere then explained that the Small Cap Value Portfolio has just over 1,000 names, and the Emerging Markets Core strategy 4,800 names, both very diversified. He stated that DFA has a cap in place such that no single country represents more than 17½ of the strategy. Mr. Ciranna asked to confirm that DFA internally limits the country sector to about 17%. Mr. Deere confirmed.

Mr. Deere next reviewed performance of the US Small Cap Value Portfolio. He explained this strategy has outperformed the Russell 2000 Value Index over five and ten years due to DFA's value and size tilt. Mr. Mumma asked if returns are net of fees. Mr. Deere confirmed.

Mr. Deere then reviewed performance of the Emerging Markets Core Equity Portfolio. He stated this strategy has outperformed the MSCI Emerging Markets due to DFA's version of small value stocks performing well. He stated that over three, five, and ten year periods they achieved their goal of 100 basis points a year, net of fees, above the major market index. Mr. Simpson stated that their report provided a corporate review section. There were no further questions.

6. BOARD REPORT 18-08: PROPOSED ADJUSTMENT TO PARTICIPANT FEES AND 2018 BUDGET ADOPTION

Matthew Vong reported that at its January 16, 2018 meeting the Board requested that the Plan Governance & Administrative Issues Committee (Committee) conduct a review of Plan long-term revenues and expenses and develop recommendations for further action. He stated the Committee convened on February 1, 2018 and staff was presenting recommendations from the Committee that the Board approve a reduction in the Plan's administrative fees from 0.10% to 0.09% and reduction in Plan's administrative fee cap from $125 to $115.

Mr. Vong reviewed the Reserve Fund target and forecasting assumptions. He stated that in order to maintain stability within the fee structure, the Plan tries to maintain a target reserve amount of 50% of annual operating expenses. He indicated staff reported to the Committee that the Plan had realized significant cost reductions related to the transition to Voya, the new Third-Party Administrator (TPA). He indicated reductions include the annual per-participant TPA account management fee falling by 13.4%; rollover fees, hardship processing fees, and asset allocation fund recordkeeping fees have been eliminated; and savings in investment fund share class costs, for a total of approximately $1.25 million annually.

Mr. Vong stated that in addition the Plan has experienced a sharp increase in assets, which rose by 15.4% in 2017, exceeding the long-term assumed increase of 6.5%. He stated that given these fee reductions, staff provided the Committee multiple reserve fund projections scenarios. He first reviewed the Baseline Scenario, which is the status quo projection and results in a projected ten-year surplus of $8.9 million, significantly above the ten-year target of $1.6 million. He then reviewed a projection involving a worst-case scenario involving a 30% decrease in assets in year one, which resulted in a $5 million reduction in the surplus compared to the baseline, but with the reserve fund balance still well above target.

Mr. Vong next reviewed the impact of a potential one basis point reduction to the participant fees versus a reduction of the fee cap to $115. He stated both scenarios show similar outlooks to the ten-year projection. Finally, he reviewed a combined scenario involving reducing the basis point fee and the fee cap, while also factoring in a 30% reduction in Plan assets, which still showed the Plan meeting its reserve fund target.

Mr. Vong stated that after discussion by the Committee and given the structural reductions in fees from the change in the TPA, as well as the growth in plan assets, the Committee recommended a reduction to both the administrative fee and the fee cap as proposed in the report. He stated that reducing the asset-based fee would reflect the benefits of the positive actions taken by the Board in changing TPAs and apply across the participant base up to those with the fee cap. He further stated that reducing the fee cap takes an additional step forward towards equalizing the fee structure for larger account holders.

Mr. Mumma stated that the change probably does not get the Plan down to a targeted reserve, but with potential upcoming projects that will require funding, for instance audits, financial advice, and additional staffing, it was a prudent step in the right direction. He further stated that a key objective for the Committee was to convene annually to revisit.

Mr. Ciranna indicated he was supportive of the reductions. He inquired about communication of this development, as it will be important to members to be aware of the possibility of adjustments, reductions and increases, periodically. He indicated that we should communicate to members that this would be reviewed on an annual basis.

Mr. Amerian stated that the Committee was mindful in trying to spread the benefit of the cost savings that the Plan has been able to achieve by switching to Voya, and provide a reduction for all participants.

Following this discussion, a motion was made by Mr. Ciranna, seconded by Mr. Amerian that the Board of Deferred Compensation Administration: (a) approve recommendations from the Plan Governance and Administrative Issues Committee to: (1) reduce the Plan's administrative fee presently assessed on all participant account balances by one basis point (0.01%), from .10% to .09%; (2) reduce the Plan's current

administrative fee cap from $125 to $115; (3) direct staff to convene the Plan Governance and Administrative Issues Committee on an annual basis to review and conduct Plan fee and revenue analyses; the motion was unanimously adopted.

Mr. Mumma requested the Board now review the proposed 2018 Budget Adoption. Mr. Ciranna asked if Mercer was still comfortable with the projected rate of return (ROR) for Plan assets at 5.77%. Mr. Muir indicated this projection was accurate. He stated that an update was collaborated on with staff several months ago but nothing had changed since then.

Mr. Ciranna then inquired about enrollment assumption of 2% annually and if staff had looked at cost of living increases, to determine if someone receives an increase in salary do participants increase their Plan contributions. Mr. Montagna replied this data had not been previously captured by the Plan, but that general observations are that during times of economic distress enrollments and contributions appear to decline. Mr. Schoonover stated that from his personal experience if you have a good strategy in place when salary increases are scheduled and implement an aggressive 90-120 day window to notify participants about increasing contributions ahead of their salary increases, you would be successful.

Mr. Powell commented that with the census file that is transmitted to Voya, Plan staff is now able to track salary information against deferral as a percentage of salary. Mr. Ciranna indicated he would be interested in the increases in member contributions relative to scheduled salary increases in the future. Mr. Montagna commented that staff would have further comments when discussing the next item on the agenda regarding goals and metrics.

Mr. Ciranna then asked for a breakdown of the $185,000 allocated for consulting costs. Mr. Vong responded by indicating that for the first half of 2018, Mercer will be doing its ongoing performance monitoring, which will total $45,000, and is expected to incur approximately $95,000 in costs for the second half of the year as the fund manager selection process begins. He further stated that staff also factored in expected expenses for use of the Plan's outside counsel, which totals around $10,000, and the Segal contract, which totals around $20,000 and will be used for Board training and the Plan Document review. He stated that in total this amounted to $170,000, with a slight cushion of $15,000 for any unexpected projects that might be requested. Mr. Ciranna asked if the budget for Plan audits should be added in or included for the future, and inquired about the time line for Plan audits. Mr. Montagna replied that the Plan can included an additional amount, but based on feedback from Segal and other governmental peers it was unclear what the costs would be. He stated that staff would have to issue the procurement to see who responds and then determine the amount to allocate. For the balance of 2018, Mr. Montagna indicated it unlikely any audit costs would accrue given the time required to procure and establish a contract. Mr. Ciranna commented that for Fire and Police Pension audits he believed their contract amount is $82,000 annually, and he anticipates a Plan audit would be much less. Mr. Montagna stated the cost of a Plan audit might be in the range of $40,000. Mr. Mumma asked that the Board consider audit costs after more information is available.

Mr. Ciranna asked about staffing costs and if the allocation is based on historical charges to the Plan. Mr. Montagna responded that these projections are based on current salaries of staff positions, and that given the elongation of salary steps this is a more accurate approach.

Following this discussion, a motion was then made by Mr. Ciranna, seconded by Mr. Guglielmo that the Board of Deferred Compensation Administration: (b) adopt proposed Deferred Compensation Plan budget for Plan Year 2018; the motion was unanimously adopted.

7. BOARD REPORT 18-09: PLAN AUDITS

Mr. Vong presented this report. He indicated that the last time a Plan audit was conducted was in 2003, based on a Request for Proposal initiated by the Board. He stated that at that time defined contribution audits were not common, but that staff's research indicated that this practice is occurring more frequently with certain plans.

Mr. Ciranna asked if performing an annual audit has ever been brought before the Board. Mr. Montagna responded that the topic has arisen informally at prior Board meetings, and that in 2003 the Board at that time did not believe the analysis they were provided with warranted the amount expended. He stated that since 2003 much has changed with respect to the complexity of defined contribution plans and staff's research suggested that annual audits were a best practice. Mr. Ciranna indicated he agreed.

Following this discussion, a motion was made by Mr. Ciranna, seconded by Mr. Schoonover that the Board of Deferred Compensation Administration (a) receive and file information regarding defined contribution plan audits; and (b) direct staff to draft for Board approval a Request for Proposal (RFP) for Deferred Compensation Plan auditing services; the motion was unanimously adopted.

8. BOARD REPORT 18-10: PLAN GOALS, STRATEGIES AND METRICS

Daniel Powell presented this report. He provided a status update regarding Plan goals for Fiscal Year (FY) 2016-17, adopted during the Board meeting held October 18, 2016, and proposed goals for FY 2017-18. He reviewed FY 16-17 goals, the number of participants and those eligible, the participation rate, the proposed goals for the current FY, and detailed year-to-date progress.

Mr. Ciranna asked if the larger number of enrollments in October 2017 was due to the outreach and communications that were released about the change to Voya. Mr. Powell responded that it could be due to the attention to the Plan created by the change.

Mr. Powell stated that staff's focus was making use of new data now available from Voya. He indicated that staff proposed establishing a contribution goal of 2%, but that it will be refined to exclude accrued leave deferrals. He stated that the Plan is not on pace to reach this goal in the current FY, but this was largely due to the Plan's success in enrolling new employees since they tend to contribute smaller dollar amounts. He indicated that going forward the targets will likely be refined to focus on contributions as a percent of pay.

Mr. Ciranna inquired if staff can break out new enrollments by new employees vs. current employees, as that may help with targeted communications. Mr. Powell indicated that data could be generated by years of service. Mr. Mumma asked if there could be a specific Board report regarding targeted communications. Mr. Powell indicated staff would be providing progress reports on a quarterly basis.

Mr. Powell then highlighted the new retirement calculator. He stated that as a result of using the calculator 2,890 participants have changed their contributions. He indicated 2,764 participants increased the dollar amount of their contributions on average from $365 to $381, and 126 increased their contributions from 8.3% to 10.1% of salary. He indicated that 500 participants have elected thus far to contribute as a percentage of pay instead of a dollar amount, and that this is viewed positively since their contributions will automatically increase with pay increases without having to actively change anything in the system.

Mr. Powell then stated that next month Voya is launching a month-long targeted “Save More” campaign encouraging increased contributions from participants who have not updated their contribution amount in the last six months. He further that after the campaign Voya will provide detailed analytics as to who viewed the mail, interacted with the link, and ultimately took action on increasing their contributions. Mr. Mumma asked if this campaign is targeting participants though work emails or personal emails. Mr. Powell responded that it is a combination of both work and personal emails. Mr. Mumma commented that for the Police and Fire systems emails are not always forwarded to employees, and many employees do not work in an office environment. Mr. Powell indicated that the emails Voya will be sending utilize emails provided by participants as part of setting up their accounts, and that the distribution of the invitations will be not through Citywide emails.

Mr. Mumma then asked about efforts regarding asset retention. Mr. Powell replied that distributions and asset retention are related, and that with the census information provided to Voya, newly retired employees will now receive a mailer letting them know about their options to stay in the City’s Plan, the benefits of staying in the Plan, and how to compare fee if they are considering rolling out their money from the Plan. Mr. Ciranna stated that this is a good strategy and he is aware that his members are often asked to roll their funds out to external advisors.

Mr. Amerian asked if the fee comparison is available to participants who separate from service for other reasons. Mr. Powell replied that the information will be provided to all participants separating from service. Mr. Amerian commented that since he is leaving City service, he has a range of options he can choose from and thought the worksheet would be beneficial. Mr. Powell responded that he could provide Mr. Amerian with an early draft.

Mr. Powell then stated that another part of the strategy is participant-based research He indicated that a brief survey would be issued to participants that close their account. This will allow staff to analyze the rationale behind the rollover. He stated staff is also researching other data, such as the average span of time spent withdrawing Plan funds.

Mr. Ciranna inquired about rollovers, if they were full or partial, as he has many members buying back time, and what percent of people are buying back time. Mr. Powell replied that 55% of rollover elections are to the City’s pension systems.

Mr. Schoonover asked how outside advisors obtained information about City employees. Mr.

Montagna replied that staff's observation was that typically it is coworkers that connect participants to advisors. He further stated that there is no way for external advisors to access participant information through the Plan.

Mr. Amerian asked Mr. Muir if he was aware how external advisors obtain participant information. Mr. Muir responded that he is not aware of anything automated, but recalled years ago that a firm set up a table at a City facility, which was based off a typical brokerage model of soliciting individuals. Mr. Montagna commented that sometimes firms reach out to departments and ask them to be able to present information, a practice not endorsed by the Personnel Department.

Mr. Mumma indicated that when he has talked about the Plan at Fire stations he is aware that a personal financial advisor has already been there, often spreading incorrect information about the Plan, and he spends a lot of time trying to correct the misinformation. Mr. Mumma stated the Police have an outstanding policy wherein individuals not on an approved list cannot speak at Police facilities, but if watch commanders are not aware of who is on the list, advisors can still be present.

Mr. Powell then reviewed data indicating participation rate and deferral rate by years of service. He stated that newly hired employees do not on average contribute much less than more tenured employees as a percent of pay.

Mr. Powell then indicated that as staff moves forward from the transition, an additional emphasis would be on monitoring and measuring the customer service experience. He indicated that staff would be reporting next month on a number of initiatives for customizing and improving Plan operations. Mr. Mumma asked if the Plan is having any more or less challenges with customer service issues. Mr. Powell responded that there has been a decrease in customer service issues as transition issues are being resolved.

Mr. Guglielmo commented that getting information out to potential members, especially new hires, is important. He indicated that telling employees about the power of compounding interest is a great story that should be told often and in different ways using different medias. He stated that if Plan staff has not done so recently, he recommended reaching out to Personnel Directors to ensure each new hire packet has some material about the City's Plan. He then asked if the Plan has any issues with members updating their beneficiaries. Mr. Powell replied the Plan recently conducted a targeted campaign to encourage updating beneficiaries. He stated in addition, with the new website, as participants log in, if they do not have a beneficiary they are reminded to add one.

Following this discussion, a motion was made by Mr. Ciranna, seconded by Mr. Guglielmo that the Board of Deferred Compensation Administration (a) receive and file this report regarding Deferred Compensation Plan goals, strategies, and metrics; and (b) adopt Fiscal Year 17/18 goals to: (1) increase the number of gross new enrollments by 6%; (2) increase average participant contributions by 2%; (3) reduce the number of closed accounts as a percent of retired participant accounts from 7% to 6%; and (4) reduce the number of outgoing rollovers as a percent of retired participant accounts from 5% to 4%; the motion was unanimously adopted.

9. BOARD REPORT 18-11: AUTOMATIC ENROLLMENT PROGRAM

Mr. Vong asked if the Board members had questions about the report. Mr. Mumma indicated the update was straightforward and mentioned that he discussed with Mr. Montagna alternatives for implementing the notice requirement for sworn members.

A motion was made by Mr. Amerian, seconded by Ms. Macy that the Board of Deferred Compensation Administration receive and file staff update regarding pilot implementation of the Deferred Compensation Plan's Auto-Enrollment Program; the motion was unanimously adopted.

10. BOARD REPORT 18-12: CONSULTING SERVICES CONTRACT EXTENSIONS

Mr. Montagna stated that this Board report was in reference to a recommendation that the Board extend contracts with Mercer Investment Consulting (Mercer) and Segal Consulting (Segal) for an additional two years. He stated that per Los Angeles Administrative Code, Division 10, Section 10.5, the Board has the authority to enter into five-year contracts for all Plan service providers, but that when these contracts were initially executed in July 2015, the provision enabling five-year contracts for all Plan service providers had not yet been adopted by the City Council.

Mr. Ciranna asked Mercer how many ad hoc research studies that the Plan has requested Mercer to complete. Mr. Muir responded that ad hocs could be projects such as calculating the expected rate of return and that they are compensated for these projects on an hourly basis. He stated that the additional contract amount requested is an average based on the work they have completed on behalf of the City over the last few years. He indicated that two-years ago hourly charges totaled less than $5,000, and the last year, hourly charges exceeded $20,000. Mr. Ciranna inquired if the Plan's Investments Committee requested special projects during the last year. Mr. Muir responded that they worked on the Investment Policy Statement. Mr. Montagna stated the Plan is also going to have Mercer participate in providing the onboarding training. Mr. Amerian asked if the schedule of investment manager searches at the end of this year was included with these fees. Mr. Montagna responded that the calculation incorporates higher expenditures in years four and year five as a result of the investment manager searches.

Mr. Mumma asked Mr. Kidder if the extension to five years is authorized by the City Council, even if the initial contract predated the updated Administrative Code provisions. Mr. Kidder confirmed that City Council authority applied to specified types of contacts, regardless of whether they were already executed or were new contracts, and that the Board has the authority to add two years to an existing three-year contract.

Following this discussion, a motion was made by Mr. Ciranna, seconded by Mr. Amerian that the Board of Deferred Compensation Administration approve (a) extension of contracts with Segal Consulting (Segal) and Mercer Investment Consulting (Mercer) for the period July 1, 2018 through June 30, 2020; (b) an increase in the Mercer contract ceiling amount of $379,000 for proposed years four and five of the contract; (c) no increase in the Segal contract ceiling amount for proposed years

four and five of the contract; and (d) authorization for the Board Chairperson to execute the necessary contract amendments; the motion was unanimously adopted.

11. BOARD REPORT 18-13: PLAN PROJECTS & ACTIVITIES REPORT

Mr. Mumma asked if Board members had any questions pertaining to this report. No questions were raised. Mr. Mumma then inquired to Mr. Montagna if there were any specific items that needed special attention.

Mr. Montagna indicated that this was the last meeting for Mr. Amerian, the Los Angeles City Employees' Retirement System Participant Representative, as he had been appointed to a judgeship with the Los Angeles County Superior Court. He indicated Mr. Amerian joined the Board in July 2011 and thanked him for his service to the City's Plan.

Mr. Amerian stated that it was a pleasure to work with the Plan and colleagues. He further stated that Board members have always been collegial, with a positive tone set by the Board Chairperson, Mr. Mumma, and prior Chairperson Mr. Eugene Canzano, and by Mr. Montagna. Mr. Amerian recalled that when he first started with the Board, Mr. Montagna provided him a Plan orientation and an appreciation of where the Plan has been and its long term goals. He stated the Plan has met its goals and grown the membership base. He also acknowledged Mr. Muir's expertise, knowledge, and ability to present information. He further stated that the City benefits from Mr. Muir and his team at Mercer from their expertise. Mr. Mumma thanked Mr. Amerian for being on the Board.

Mr. Mumma welcomed Mr. Guglielmo to the Board. He inquired about former staff member Mr. Leonard Hyman. Mr. Montagna responded that Mr. Hyman left the City and relocated to Northern California for another job opportunity.

Mr. Mumma stated that given the departure of Mr. Amerian and with the upcoming elections for the DWP Active Participant Representative and Retired Participant Representative, the Board would defer committee assignments until elections have concluded. Mr. Mumma inquired about the LACERS Active Participant Representative seat, and if it would be combined with this upcoming election. Mr. Montagna responded that the LACERS Active Participant Representative would not be part of this current election cycle, but would occur shortly after via a special election.

Mr. Ciranna inquired about the upcoming Plan Document Review, which is scheduled for the meeting on April 17, 2018. Mr. Montagna responded that staff is coming forward with a project plan only.

Following this discussion, a motion was made by Mr. Amerian, seconded by Mr. Ciranna that the Board of Deferred Compensation Administration receive and file staff monthly activity report for January and February 2018, to include updates regarding Governance; Board Member Departure, Special Election, and Election of Officers; Communications; Completed Projects/Meeting Calendar; Staffing; and Committee Assignments; the motion was unanimously adopted.

12. REQUESTS FOR FUTURE AGENDA ITEMS

The next meeting is scheduled for April 17, 2018. The Board did not make any specific requests for future agenda items.

13. ADJOURNMENT

The meeting adjourned at 10:59 a.m.

Minutes prepared by staff member Kevin Hirose.