CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
SPECIAL MEETING OF DECEMBER 5, 2017
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:	**Not Present:**
John R. Mumma, Chairperson	Thomas Moutes
Michael Amerian, Vice-Chairperson	Don Thomas
Cliff Cannon, First Provisional Chair	Linda P. Le
Raymond Ciranna, Second Provisional Chair	
Wendy G. Macy, Third Provisional Chair	
Robert Schoonover	

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

OFFICE OF THE CITY ATTORNEY
Curtis Kidder – Assistant City Attorney

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

SEGAL CONSULTING
Wendy Young Carter – Vice President

VOYA FINANCIAL
John Morrissey – Director Tax Exempt Implementation
Michelle Williams – Vice President Strategic Relationship Management
La Tanya Harris – Registered Representative
Michael W. Guenzler – Vice President Information Risk & Security

1. CALL TO ORDER

John Mumma called the meeting to order at 10:08 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Michael Amerian, seconded by Wendy Macy, to approve the minutes of the October 17, 2017 meeting; the motion was unanimously adopted.

4. CYBERSECURITY PRESENTATIONS

Wendy Young Carter said she would present from the topic of cybersecurity from the perspective of a fiduciary. Ms. Carter began by stating that a recent survey indicated 82% of U.S. Citizens state they are worried about cybersecurity. She stated she had toured many record-keeper sites, and the information technology teams she had met have told her that they are constantly bombarded by cybersecurity threats. She stated that selecting a service provider is an important fiduciary responsibility. She indicated that the risks of cybersecurity include other important issues, such as reputational fallout or impact on business operations. Mr. Mumma asked if all the financial institutions that work with the Plan would cover any losses if they were hacked. Ms. Young said that, yes, this was part of their contractual obligations.

Ms. Carter added that fiduciary insurance and cybersecurity insurance are increasingly common for private-sector defined contribution plans. She noted that breaches were often the responsibility of the service provider and not directly the responsibility of the fiduciary, but some policies provide reimbursement for indirect costs, such as hiring additional call center staff to handle increased call volume after a breach. She stated service-provider oversight is an important role for fiduciaries and that substantial due diligence is built into the City's contract with Voya. Mr. Mumma asked if the data provided by the Controller's Office was encrypted. Steven Montagna replied that the data was sent through secure sites, and that has been the case for a number of years.

Ms. Carter said that the financial industry was well aware of the potential cybersecurity risks they faced. She noted that there are mechanisms that allowed service providers to manage risks. She described the cybersecurity framework, which includes documented processes that define the policies and procedures around implementation and information security. She said that through this blueprint, the industry was attempting to standardize its responses to cybersecurity risks. She indicated that the Society for Professional Asset-Managers and

Record-keepers (SPARK) had developed a validation process that will provide a common evaluation method for cybersecurity, and that SPARK was moving quickly in this area.

Cliff Cannon asked whether there was any data on the number of attempted breaches on plans. Ms. Young replied that record-keepers monitor the number of attempts, and they are often very high. Michael Guenzler from Voya stated that the numbers were in the hundreds of thousands. He provided context to the threat landscape of cybersecurity. He stated that Voya was committed to protecting personal information. He said that previously these attacks were often merely a nuisance and motivated by tech-savvy individuals attempting to create disruption, but now they are often large-scale attacks intended for financial gain. He said that in some cases these attempted breaches were state-sponsored, and the threat landscape was changing daily.

Mr. Guenzler defined “ransomware,” such as “wannacrye” and “petya,” as malware that encrypts data and requires payment of a ransom to un-encrypt the data. He also defined “phishing,” which is a type of fraudulent email that would infect a device or compromise user credentials. He said the velocity of new vulnerabilities constantly changed, so Voya was proactive in its approach to people, technology and process. He reviewed the three key factors for Voya success. First, he said Voya recognizes that this is a business issue not just an information technology issue, so they provide all employees security awareness training. Second, he stated Voya has a multilayered cyberdefense and monitoring system along with an industry best-practice control system. Third, he stated Voya collaborates with government agencies, industry groups, and cybersecurity firms to share threat information.

Mr. Guenzler elaborated that in addition to training their workforce, Voya also continually tests their employees and contractors, including phishing tests on a monthly basis. He said Voya conducts 85,000 phishing tests per year, and they track performance whether their employees click on a link, provide credentials, or report the phishing attempt. He stated Voya also has an in-house security forensics and ethical hacking team, which includes ex-government and ex-military officials. He said that these employees often compete in global ethical hacking competitions to keep their skills sharp and regularly finish in the top 20%. He noted that Voya also trains their frontline employees on what data points to look for that could be cause for concern.

Mr. Guenzler stated that Voya deploys an advanced technical defense system that includes threat intelligence on a daily basis from the Department of Homeland Security and cybersecurity firms. He indicated Voya shares its data so it could be correlated with other firms. He said they also monitor the “dark web” for additional threats.

Mr. Guenzler said that Voya uses multifactor authentication when customers access accounts, and they monitor accounts for different kinds of activities, such as changing banks immediately before requesting a withdrawal. He noted that Voya brings in professional independent third-party testers who are encouraged to engage in an attack scenario to test Voya's defenses over a three or four-month period. He added that Voya had a philosophy of "defense and depth" that involved controls all working in unison, so hackers would have to penetrate multiple layers in order to access confidential information.

Mr. Guenzler said that Voya's processes were aligned with industry best-practice control frameworks. Voya also has a Service-Organization Control (SOC) certification, whereby Ernst and Young evaluate Voya's controls, looking at design, documentation, testing and validation controls. He said that Voya has both a SOC 1 for financial reporting and SOC 2 for its financial controls, and Voya is in alignment with the SPARK protocols that Ms. Carter mentioned in her presentation.

Ms. Carter commented that the original impetus for SPARK was to prevent confidential security information from being included in RFP responses, audits and other public information. Mr. Guenzler added that he found those regulations helpful because they were prescriptive but not overly constraining. He said that Voya also benchmarks its controls annually against best practice frameworks and its peer groups. He said that Voya has scored well in both areas.

Mr. Guenzler said that many cybersecurity experts caution their clients that it's not a matter of if a breach will occur but when. He said that Voya has a Specialized Incident Response Team (SIRT), which handles cyber breaches, fraud attempts or other unauthorized access, and Voya created a cybersecurity playbook that includes every aspect of the response for every level of the company.

Michael Amerian asked Mr. Guenzler about the role that digital currencies could have on the threat landscape. Mr. Guenzler said that online transactions, such as digital currencies, are often targets for breaches. Steven Montagna asked about ways that Voya could work with clients to prepare them for cybersecurity threats. Mr. Guenzler said that they often do presentations, like the current one, as well as additional authentication that could be used.

Mr. Mumma asked if there were other biometric indicators that Voya used, such as a thumbprint. Mr. Guenzler replied that it had been utilized in some circumstances, but presently this kind of data is not stored in their servers. Mr. Cannon asked about Voya's policy with regard to ransomware. Mr. Guenzler replied that Voya's policy is not to pay ransom, and they continually patch their system to prevent its occurrence.

5. PLAN INVESTMENTS QUARTERLY REVIEW: 9/30/17

Devon Muir of Mercer Investments Consulting provided a review of the Plan's investment performance for the third quarter of 2017.

Mr. Muir reported that the quarterly performance report was generally positive. He first reviewed the performance of the capital markets for the third quarter. He indicated that growth stocks have generally outperformed value stocks. He also reported that there was strong growth with small-cap stocks with the Russell 2000 up 5.7%. He said that international stocks performed better. He stated that the MSCI EAFE was up 5.4% compared to the S&P 500 being up 4.5%. He added that on a year-to-date basis the MSCI EAFE was up 20.0%. He noted that the returns for emerging markets were even higher with the MSCI EM up 7.9% for the quarter, and on a year-to-date basis up 27.8%.

Mr. Muir indicated that with respect to bonds, the Bloomberg Barclay's Aggregate was up 0.8% despite the Federal Reserve being in an interest-raising mode. He stated that on the longer-end, bonds have not sold, so on a year-to-date basis that index was up 3.1%. He noted that the FDIC-backed option is directly responsive to the Federal Reserve's recent interest rate increases, so that there is now a reasonable yield from that option. He added that the S&P GSCI Commodity Index was up 7.9%, due to oil prices increasing, even though it was down 3.8% year-to-date.

Mr. Mumma asked why the Japanese Yen was showing such strength. Mr. Muir replied that the dollar has declined relative to most international currencies, and the Yen less so than others. He said the Japanese economy has been in a negative yield environment but high wage growth has increased investment into Japanese markets. He said that a number of financial managers have seen opportunity in the Japanese market.

Mr. Muir noted that technology stocks, especially Facebook, Apple, Netflix and Google, have been strong drivers of growth, with the sector up 27% for the year. He also stated that healthcare, especially biotech stocks, have performed well over the quarter. He said that he would not be surprised by some pullback within the U.S. market but would expect strong growth within Europe and emerging markets. He then reviewed the Plan's assets. He stated that at the end of the quarter Plan assets were at $5,972.4 million.

Ana Tom-Chow then presented news updates on the Plan's funds from the quarter. She said that Mercer had met with Brandes to discuss the International Small Cap Equity Strategy and confirmed their B+ rating with no concerns about their team. She stated that the co-CEO Eduardo Repetto of Dimensional Fund Advisors had resigned at the end of September and been replaced by Gerard O'Reilly. She indicated that this change in leadership was not a concern and the plan was well-resourced. She stated that Loomis had been evaluated and continued to maintain its A-rating. She also said that Vanguard is one of the best passive-equity managers in the United States due to their experience and low-costs.

Ms. Tom-Chow discussed the Plan's asset allocation and noted that its allocation had not changed significantly since the last quarter. She said that the risk-based profile funds had increased slightly from 18.2% to 18.4%. She stated the DCP Large Cap Stock Fund had the largest allocation at 31.0%, followed by the Stable Value Fund at 18.5%, then the Self-Directed Brokerage Window at 7.3%. Mr. Mumma asked whether the brokerage window usage was high compared to others plans. Mr. Muir confirmed that it is relatively high. Mr. Mumma asked if there was any indication why that was the case. Mr. Muir said it was clearly a feature that Plan participants are engaging in. Mr. Montagna stated that in the Plan Administrator Quarterly Reports a supplement from Schwab is provided that provides detail. Mr. Mumma suggested he would like to have a Schwab representative present to the Board at some future date. Mr. Amerian said it would be valuable to review what people were investing in and whether the Plan had comparable lower-cost options. Mr. Montagna stated staff could arrange a presentation from Schwab.

Ms. Tom-Chow indicated that total aggregate fees for the entire Plan are 0.21% of assets. She pointed out that all net expense differentials for all funds are negative, indicating they are below median institutional expense ratios. Mr. Mumma asked whether aggregate Plan fees had previously been at 0.25%. Mr. Muir replied that the 0.25% figure included administrative costs along with investment management fees. Mr. Muir then stated that most of the Plan's funds matched or outperformed expectations for the index and universe. He noted that the DCP Bond Fund had underperformed in some cases, but Loomis had outperformed in the most recent quarter. Mr. Muir said the Ultra Conservative Profile had underperformed.

Julia Kod from Mercer stated that the FDIC-Insured Savings Account performed in line with expectations, 0.3% for the quarter and 0.8% year-to-date. She indicated the Stable Value Fund performed well under all time periods, providing a premium over the cash return from a money market fund. She stated the return for the Bond Fund was 1.0%, ahead of the Bloomberg Barclay's Aggregate by 0.2% and ahead of Mercer's peer group median by 0.2%, due to strong returns from the Loomis Sayles Core Plus Bond Fund, which returned 1.3% for the quarter. She added that over three-year and five-year returns, the fund is in line with the market index and the peer group median. She also noted that the Vanguard Total Bond Market Index Fund performed in line with expectations, closely tracking its index. She also said that the longer-term returns for the Loomis Sayles Core Plus Bond Fund remain strong when compared to the market index and the peer group median. She said that generally over the third quarter, the risk-based funds underperformed their benchmarks and their medians. Over long-term periods, however, she noted that the returns are strong when compared with their peer groups and medians. Mr. Muir said that there was a very strong performance on a year-to-date basis, ranging from 4.7% to 13.6%.

Ms. Kod next indicated that the DCP Large Cap Stock Fund performed in line with expectations, and the Mid Cap Stock Fund returned 2.4% for the quarter, which was slightly lower than expectations due to underperformance by the actively managed funds, Virtus Ceredex Mid-Cap Value Equity Fund and Voya Mid Cap Opportunities Fund. She stated over the long-term, the fund was in line with the benchmark and ahead of the peer group median. She stated the Virtus Ceredex Mid-Cap Value Equity Fund had negative returns of -0.2% and ranked at the bottom of the peer group universe. She said this was primarily due to stock selection decisions because this fund focuses on high-quality names, which was a headwind in this market environment, but generally a quality that Mercer found favorable in downtown markets. She added that over the longer-term this strategy appeared strong and the fund ranked ahead of the peer group median over three-year and five-year periods. She stated the Voya Mid Cap Opportunities Fund also struggled due to stock selection decisions because it tends to incorporate valuation in their decision-making process and also generally focuses on high-quality names, giving them the same headwind as Virtus Ceredex. She stated that on a longer-term basis the strategy appeared to be a strong one.

Ms. Kod next indicated that the DCP Small Cap Stock Fund performed well, in line with the custom benchmark and ahead of the peer group median. She said that among the underlying equity managers, DFA has strong returns while Harford Small Cap Growth HLS Fund had sluggish returns. She indicated on a longer-term basis both of these funds performed well.

Ms. Kod said that the DCP International Stock Fund returned 4.2% for the quarter, which was 2.0% behind the custom benchmark and 1.8% behind the peer group median. She said that this was due to underperformance of all three active managers: MFS, Brandes and DFA. She stated that MFS, despite sluggish returns for the quarter, had stronger relative returns over longer-term periods. She stated that Brandes has struggled this quarter and for the past year, with 1.3% returns for the quarter relative to 7.5% for the benchmark and 6.0% of the peer group median. She stated they are conservatively positioned and underweight growth-oriented sectors. She said Brandes' process and team has not changed, so Mercer expects their performance to turn around when markets reverse. Mr. Muir indicated the Board selected Brandes in order to provide protection on the market downside, and Mercer continued to have conviction in their team and their strategy.

6. BOARD REPORT 17-38: DEFERRED COMPENSATION PLAN 2016 ANNUAL REPORT

Daniel Powell began by indicating that the 2016 Deferred Compensation Plan Annual Report included not only largely the same information as previous annual reports but also new data and discussion related to the Plan's goals and metrics regarding participation, contributions, asset retention, and account withdrawals. He noted that annual reports are typically submitted to the board in early spring; however, this annual report was later than usual due to staff resources being committed to the third-party administrator transition. He stated that going forward staff's objective was to complete the report within the first quarter of the calendar year.

Ray Ciranna requested that the statement in the report indicating that participation in the Plan was a requirement for retirement income security be modified given that a number of sworn employees are able to retire with 90% of their final income, so pension benefits alone could be adequate in certain cases. Mr. Powell suggested that staff could revise the section to suggest that retirement benefits alone "may not be sufficient for all employees." Mr. Ciranna agreed that this would be an appropriate revision.

A motion was then made by Mr. Amerian, seconded by Ms. Macy, to approve the 2016 Annual Report; the motion was unanimously adopted.

7. BOARD REPORT 17-39: 2018-2020 INVESTMENT MANAGER PRESENTATION SCHEDULE

Mr. Powell indicated that pursuant to the Plan's Investment Policy Statement, the Board is responsible for periodically monitoring the Plan's investment performance and making investment option changes when necessary. He said that in accordance with the Board's role as fiduciary, the Board periodically receives presentations from investment managers providing investment services for the Plan. He added that presentations provide Board members with the opportunity to expand their knowledge of the financial industry and to ensure the responsible management of participant assets.

He stated staff had developed a proposed three-year schedule for investment manager presentations, incorporating feedback from Mercer and the Investments Committee. He noted that in the past the Plan has scheduled investment managers of similar funds to present at Board meetings together, which had the disadvantage of the Board receiving presentations which all had very similar commentary on the market and economic conditions. He stated that since Mercer provides presentations on a quarterly basis, the Investment Committee suggested having active managers present approximately twice during the course of a five-year service term and having passive managers present once during a five-year service term. He stated the proposed schedule provided for quarterly presentations at the same meeting Mercer provides its quarterly investment reviews. He said the proposed schedule generally prioritized managers who have not previously or recently presented to the Board. He noted the schedule can be modified at any time upon Board direction, and that some presentations may need to be modified so as to not have the presentation occur within a search window.

Mr. Ciranna stated he would prefer presentations that emphasize fund manager strategies and focus less on market conditions that Mercer already provides to the Board. He said he would also appreciate it if Mercer could provide a one-pager to accompany each presentation to provide more context on the background and performance of each fund. Mr. Mumma also suggested that Schwab be included as an upcoming presentation.

A motion was then made by Mr. Cannon, seconded by Mr. Mumma, to approve the 2018-2020 investment manager presentation schedule; the motion was unanimously adopted.

8. BOARD REPORT 17-40: TRAINING PROGRAM FISCAL YEAR 2018-19

Matthew Vong indicated that this report provides a proposed Training Program for Fiscal Year 2018-19. Mr. Ciranna asked what year-to-date expenditures were. Mr. Montagna indicated approximately $14,000, well below the budgeted amount. He suggested that the formula for increasing the budgeted training allotment annually could be changed to bring it in line with actual expenditures. Mr. Ciranna indicated he concurred with this.

A motion was then made by Mr. Cannon, seconded by Mr. Amerian, to approved the Training Program for Fiscal Year 2018-19; the motion was unanimously adopted.

9. BOARD REPORT 17-41: MONTHLY ACTIVITIES REPORT

Leonard Hyman presented this report. He first indicated that National Retirement Security Week, which took place October 15 – 21, had been successful. He stated that the focus of the campaign was to encourage participants to setup online access to their accounts by having themselves entered in a drawing to win a gift card. He added that emails were sent to all city employees and postcards were mailed to approximately 10,800 retirees. He stated the campaign microsite was visited by 1,250 unique visitors, and so far, 13,603 participants have established online accounts with Voya, which is roughly 30% of the Plan's participants. He also advised the Board that due to deconversion issues with data received from Empower, data cleanup went well into November, so the third quarter statements from Empower were delayed and were mailed on November 23, 2017.

Mr. Mumma commented that 30% online participation is high, even though it seemed surprising that the majority of participants do not. Mr. Montagna noted that, after the transition to Voya, the Plan very quickly reached the same level of online access that it had had under Empower. Mr. Mumma noted that, for the next meeting, Mr. Cannon would step down from his position, which would open the position for the First Provisional Chair.

A motion was then made by Mr. Cannon, seconded by Mr. Amerian, to receive and file the staff update regarding monthly activities report; the motion was unanimously adopted.

10. LEGISLATIVE UPDATE

Mr. Montagna said that after considerable debate, neither of the Congressional bills passed by the U.S. House nor U.S. Senate had language that would impact Section 457 plans. He said this was a relief given certain provisions contained in earlier drafts had eliminated the 10% early distribution penalty and repealed special catch-up provisions. He also noted that discussions of "Rothification," whereby annual contribution limits for post-tax contributions would have been set higher than pre-tax limits, although discussed had not been part of the final bills. He noted that changes were still possible as the bill moved to conference committee. Mr. Mumma asked if the National Association of Government Defined Contribution Administrators (NAGDCA) had influenced the outcome of the bill. Mr. Montagna indicated NAGDCA had been extremely active in working with congressional representatives to address potential changes that would have negatively impacted Section 457 plans.

11. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Ciranna requested an update regarding the federal tax bill, given that it would be expected to pass the conference committee by the next meeting.

12. ADJOURNMENT

The meeting adjourned at 11:35 a.m.

Minutes prepared by staff members Leonard Hyman.