

**CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION (BOARD)**

PROPOSED MINUTES  
MEETING OF DECEMBER 15, 2020  
CONDUCTED VIA TELECONFERENCE

**BOARD MEMBERS**

**Present:**

Thomas Moutes, Chairperson  
Raymond Ciranna, Vice-Chairperson  
Wendy G. Macy, Second Provisional Chair  
Hovhannes Gendjian, Third Provisional Chair  
Joshua Geller  
Neil Guglielmo  
Linda T. Ikegami

**Not Present:**

Robert Schoonover, First Provisional Chair  
Baldemar J. Sandoval

**PERSONNEL DEPARTMENT STAFF**

Steven Montagna, Chief Personnel Analyst  
Jenny M. Yau, Senior Management Analyst II  
Mindy Lam, Personnel Analyst  
Eric Lan, Management Assistant

**OFFICE OF THE CITY ATTORNEY**

Curtis Kidder, Assistant City Attorney

**MERCER INVESTMENT CONSULTING**

Devon Muir, Principal  
Preet Prashar, Principal

**VOYA FINANCIAL**

Shelley Fredrick, Vice President Strategic Relationship Management  
La Tanya Harris, Registered Representative  
Luis Chaves Guzman, Participant Engagement Consultant

**1. CALL TO ORDER**

Thomas Moutes called the meeting to order at 9:03 a.m.

**2. PUBLIC COMMENTS**

There were no public comments.

### 3. MINUTES

Board Action:

**A motion was made by Mr. Ciranna, and seconded by Mr. Guglielmo, to approve the minutes of the October 20, 2020 regular meeting of the Board of Deferred Compensation Administration; the motion was unanimously adopted.**

#### 4. BOARD REPORT 20-43 – DEFERRED COMPENSATION PLAN (DCP) AUTONOMY

Presentation Highlights:

Mr. Steven Montagna presented this report and provided the following highlights:

- The Board authorized the Board Chairperson to work directly with staff to draft a Memorandum of Understanding (MOU) between the Board and Personnel Department.
- The City Attorney worked closely with staff to ensure the MOU aligned with the City Charter and Los Angeles Administrative Code provisions.
- Page 2 of the report details the acknowledgements and terms of the MOU.
- Upon adoption of the MOU, the DCP will immediately begin operating under its provisions.
- The Benefit Chief and Assistant Division Chief will continue to provide oversight of the DCP and staff until the DC Plan Manager position is filled.

Board Member Comments/Questions & Responses:

Mr. Ciranna thanked Ms. Macy, Mr. Moutes, and staff for their cooperative work in drafting the MOU.

Board Action:

**A motion was made by Mr. Ciranna, and seconded by Mr. Guglielmo, that the Board: (a) approve a proposed Memorandum of Understanding (MOU) between the Board and the Personnel Department regarding the reporting relationship and duties for staff assigned to work with the City of Los Angeles Deferred Compensation Plan (DCP); and (b) assuming adoption of the MOU, recommend to the General Manager Personnel Department that, pending filling of the DC Plan Manager position, DC Plan Manager duties continue to be assigned on an interim basis to the current Employee Benefits Division Chief and Assistant Division Chief staff supporting the DCP; the motion was unanimously adopted.**

#### 5. BOARD REPORT 20-44: STABLE VALUE FUND REQUEST FOR PROPOSAL (RFP)

Presentation Highlights:

Mr. Montagna introduced this report and provided the following background information.

- The Board will be considering reports and analysis from the Investments Committee, staff, and Mercer with respect to DCP investment options in the upcoming months.
- A Request for Proposal (RFP) for Stable Value Fund investment manager services was issued in July generating 14 proposals.

- Mercer provided an evaluation of the proposals to the Investments Committee at their October 30, 2020 meeting.
- The Board has the option of hearing oral presentations from some or all proposers, conducting additional analysis, or acting on a selection.

Mr. Muir, Principal, and Mr. Prashar, Principal, of Mercer Investment Consulting presented the following highlights from Attachment A of the report:

- Page 2 – Two tiers of finalists consisting of four total firms for Stable Value Fund investment management services: Tier A – Galliard (Incumbent) and Invesco; Tier B – PIMCO and Vanguard.
- Page 3 – Candidate overview of the four firms including assets under management.
- Pages 4-6 – Overview of evaluation process, Mercer summary evaluation of firms by evaluation criteria, and key findings.
- Pages 8-11 – Brief background of four firms including firm history and experience, team, and process/philosophy.
- Pages 15-18 – Summary of investment experience of the four firms. Mr. Prashar noted Galliard and Invesco have a larger number of separate accounts which distinguishes them from the other two firms and has value given issues that can arise with such accounts.
- Pages 20-24 – Review of investment approach and process of the four firms.
- Page 25 – Vanguard proposed the most diversified wrap portfolio.
- Page 28 – Market to Book Value is the measure of the premium if all assets are liquidated. A value far above 100% is not necessarily negative but raises questions.
- Pages 30-31 – Comparison of investment performance over 10 years of the four firms.
- Page 35 – Estimate of total fees is generally similar and competitive across the four firms.

Board Member Comments/Questions & Responses:

Mr. Ciranna asked why PICMO shows less than desirable for historical duration on Page 20 of Attachment A. Mr. Muir replied that duration is the measure of interest rate risk associated with the portfolio. Mr. Ciranna thanked Mercer for summarizing a large volume of information in a helpful presentation. Mr. Guglielmo concurred.

Mr. Moutes asked Investments Committee members if they had specific recommendations for the Board to adopt. Mr. Ciranna suggested the Board schedule an interview with the Tier A firms – Galliard and Invesco. Ms. Ikegami asked what the Committee would investigate in an interview with the candidates. Mr. Ciranna replied that the interview would provide the opportunity for the Board to further assess the firm’s team, investment experience, philosophy, approach, results, and fees. Mr. Muir added that the Board should also ask about potential transition plans.

Board Action:

**A motion was made by Mr. Guglielmo, and seconded by Mr. Ciranna, that the Board: (a) review and consider reports and findings from the Deferred Compensation Plan (DCP) Investments Committee, investment consultant, and staff regarding responses to the DCP RFP for stable value fund management services; and (b) direct staff to schedule oral presentations by Galliard and Invesco at a future Board meeting; the motion was unanimously adopted.**

## 6. BOARD REPORT 20- 45: DEEMED IRA INVESTMENT MENU

### Presentation Highlights:

Mr. Montagna presented this report and provided the following highlights:

- Implementation of a Deemed IRA account is progressing.
- There is a regulatory obstacle for including Collective Investment Trusts (CITs) within a Deemed IRA, particularly as it relates to the use of CITs within stable value funds.
- CITs are pooled investment vehicles organized as trusts and designed for use by institutional investors, not for individual use.
- The guidance provided by the Internal Revenue Code for allowed investments within IRAs does not include CITs; most firms and plan sponsors assume CITs are not eligible for IRAs.
- The Stable Value Fund contains CITs and are integrated into DCP risk-based funds.
- NAGDCA is presently seeking regulatory relief that will require concurrence from both the Securities and Exchange Commission (SEC) and Department of Treasury (Treasury) that could result in a no-action letter.
- The Deemed IRA may still be possible with the use of a smaller or more refined investment menu; if regulatory relief is granted, the DCP can pursue replicating the DCP core menu for the Deemed IRA.
- Staff recommends the Investments Committee work with Mercer to develop options and considerations for a potential alternative investment menu design for the Deemed IRA.

### Board Member Comments/Questions & Responses:

Mr. Ciranna asked if the City can offer support to NAGDCA in its pursuit of regulatory relief. Mr. Montagna stated the City can provide information to NAGDCA about what challenges the plan has faced so that they can inform the Treasury. Mr. Guglielmo asked about the time frame and cost in developing a customized investment menu for the Deemed IRA. Mr. Montagna stated that there would not be an additional cost since the DCP is currently in the process of conducting investment manager searches.

Mr. Guglielmo also whether the Treasury can alter a no-action letter if granted. Mr. Hong stated that there is a risk because a no action letter is a position taken, not an interpretation. He indicated that additional analysis could possibly lead to a retraction of a no-action letter. Mr. Ciranna requested that staff work with NAGDCA to provide any necessary information required to support their discussions with SEC and Treasury as well as generate a letter of support from the City of Los Angeles.

### Board Action:

**A motion was made by Mr. Ciranna, and seconded by Mr. Guglielmo, that the Board direct the Investments Committee to work with staff and the Deferred Compensation Plan (DCP) investment consultant to develop options and considerations for a potential alternative investment menu design for the DCP Deemed IRA; the motion was unanimously adopted.**

## **7. BOARD REPORT 20- 46: PROPOSED REVISIONS TO BOARD OF DEFERRED COMPENSATION ADMINISTRATION ELECTION POLICIES AND PROCEDURES**

### Presentation Highlights:

Ms. Yau presented this report and provided the following highlights:

- Staff, in consultation with the City Attorney and assistance from the City Clerk, reviewed the Board Election Policies and Procedures and completed a draft of proposed revisions:
  - 1) Edited section headers, terms, and statements for consistency and clarity.
  - 2) Addition of provision for submission of nominating petitions and nominating petition signatures electronically in lieu of hard copy petitions and original signatures.
  - 3) Elimination of nominating petition signatures requirement (minimum of 10 and maximum of 20) for the retired/separated participant representative.
  - 4) Reduction of nominating petition signatures requirement for the LACERS, LAFPP, and WPERP employee representative from a minimum of 100 and a maximum of 200 to a minimum of 50 and a maximum of 100.
- The Plan Governance & Administrative Issues Committee reviewed these changes at its November 18<sup>th</sup> meeting and noted the following:
  - 1) A primary benefit for retaining nominating petition signatures is that it demonstrates a candidate has some level of support from the constituent group the candidate is seeking to represent and would also encourage greater participation in DCP elections.
  - 2) Retaining nomination petition signatures also poses a challenge for candidates to collect signatures while many employees are telecommuting. City ethics ordinances may also prohibit electioneering in City facilities.
  - 3) There are merits of eliminating nominating petition signatures entirely.
- Mr. Kidder stated the City Ethics Ordinance prohibiting campaign activity on City property and City facilities does not apply to DCP Board elections, although Governance Code Section 8314 prohibits the use of City time and resources for personal activities.
- Ms. Yau provided an overview of the nomination process for the active employee and retired member seats on the LACERS and LAFPP Boards for comparative purposes.

### Board Member Comments/Questions & Responses:

Ms. Ikegami asked if individuals will still be able to vote by mail. Ms. Yau confirmed yes. Mr. Moutes stated he is in favor of removing the signature requirement for the retired Board member seat and the quality of the candidates running for the seat would not be impacted. He indicated that the retired LACERS Board member seat does not require signature gathering and has generated high quality candidates. He noted the quality of the candidate can be determined by the candidate's nomination statement.

Mr. Guglielmo asked why the LACERS active member Board seat requires signatures but the LAFPP active member Board seat does not require signatures. Mr. Ciranna stated that the LAFPP Board did not want candidates traveling to multiple police and fire stations to gather employee signatures. Mr. Guglielmo indicated that the LACERS active member Board seat signature requirement should also be eliminated to maintain consistency. Mr. Montagna clarified that the LACERS and LAFPP seat for the DCP Board still require signature gathering and the proposed

modification recommended by staff is to reduce the number of signatures from a minimum of 100 and a maximum of 200 to a minimum of 50 and a maximum of 100. Mr. Guglielmo stated support for electronic signature gathering.

Board Action:

**A motion was made by Mr. Guglielmo, and seconded by Ms. Ikegami, that the Board approve proposed modifications to the Board Election Policies and Procedures; the motion was unanimously adopted.**

## **8. BOARD REPORT 20- 47: 2021 DCP RESOURCE REVIEW**

Presentation Highlights:

Mr. Montagna presented this report and provided the following highlights:

- The Plan Governance & Administrative Issues Committee met on November 18, 2020 and recommended no changes to assumptions used in projecting long term balances for the DCP Reserve Fund.
- Staff recommends the Board find the cost of investment advice services can be reasonably funded within the existing fee structure.
- Staff recommends the Board defer action on strategies for reducing the long-term projected Reserve Fund balance until the Board assesses investment advice services.
- The assumptions used in projecting future DCP Reserve Fund balances represent a conservative evaluation of the DCP growth and expense and fees variables.
- Staff utilized information from the Request for Information for investment advice and/or financial education services to produce the Investment Advice Fees Scenario.
- The Reserve Fund balance can be reduced to its targeted balance by introducing a permanent fee reduction, executing periodic fee holidays, or adding new services.

Board Member Comments/Questions & Responses:

Mr. Ciranna asked if the Board reviews DCP resources annually. Mr. Montagna replied that the DCP resource review is conducted on an annual basis.

Board Action:

**A motion was made by Mr. Ciranna, and seconded by Ms. Ikegami, that the Board: (a) approve the following Deferred Compensation Plan (DCP) Growth and Expense variable and Fee variable assumptions for use in projecting future DCP Reserve Fund balances: (1) DCP Assets Growth Rate - 7%; (2) Net Enrollment Growth Rate - 3%; (3) Annual Expenses Increase Factor - 2%; (4) Special Rates Increase Factor: Personnel - 115%; (5) Special Rates Increase Factor: City Attorney - 115%; (6) Stable Value Interest Rate - 2%; (7) Participant Fees: Annual Basis Point Charge - 0.09%; (8) Participant Fees: Annual Dollar Cap - \$115; (b) find that the cost of investment advice services at the level illustrated in the staff report can reasonably be funded under the existing fee structure; and (c) defer further action with respect to strategies for reducing the long-term projected Reserve Fund balance until the Board has completed its assessment of investment advice services; the motion was unanimously adopted.**

## 9. 20-48: QUARTERLY STAFFING REIMBURSEMENTS – THIRD QUARTER 2020

### Presentation Highlights:

Ms. Yau presented this report and provided the following highlights:

- The Board approves staffing reimbursements quarterly.
- Third quarter 2020 reimbursements total \$165,789.90 for the Personnel Department and \$45,821.39 for the City Attorney.
- DCP staff assignments have been adjusted so that full-time Personnel Department staff supporting the DCP are now 100% dedicated to the DCP.
- Staff will utilize the gross method to calculate indirect costs for all positions working exclusively with the DCP.

### Board Member Comments/Questions & Responses:

Mr. Hovhannes asked if the total reimbursement amount should equal to \$211,611.29, not the stated \$211,601.86 that is included in the staff recommendation of the report. Ms. Yau stated the total amount in the recommendation should be \$211,611.29.

### Board Action:

**A motion was made by Mr. Ciranna, and seconded by Mr. Geller, that the Board approve reimbursements from the Deferred Compensation Plan (DCP) Reserve Fund to the Personnel Department in the amount of \$165,789.90 and to the City Attorney in the amount of \$45,821.39 totaling \$211,601.86, inclusive of the third quarter of calendar year 2020 ending September 30, 2020, for staff providing direct support of the DCP; Mr. Ciranna amended his motion that the total reimbursement be corrected to \$211,611.29, and seconded by Mr. Geller; the motion was unanimously adopted.**

## 10. QUARTERLY INVESTMENT & ECONOMIC REVIEW: SEPTEMBER 30, 2020

### Presentation Highlights:

Mr. Muir presented the third-quarter 2020 review and provided the following highlights:

- Page 15 – Assets increased \$377.1 million from the prior quarter.
- Page 17 – Loomis, Sayles & Company reported a CIO departure in line with a long-term transition plan.
- Page 18 – Dimensional Fund Advisors rating decreased to B+ due to evaluation of a quantitative process based on the sole use of a price-to-book metric.
- Page 20 – Asset allocation breakdown of the DCP's funds.
- Page 22 – The DCP continues to maintain a low fund net expense ratio of .20%.
- Page 23 – The DCP Small Cap Stock Fund shows underperformance since the Russell Small Cap Index has been difficult to outperform.
- Pages 24-26 – Performance Summary
  - The Stable Value Fund's strong numbers are beating the stated benchmark.
  - The DCP Bond Fund shows strong performance due to the strength of the Loomis Sayles Core Plus Bond Fund.
  - The DCP Large Cap Stock Fund continues to show strong performance.

- The DCP Small Cap Stock Fund yielded 7.3% (19<sup>th</sup> percentile) and is doing better than most other actively managed strategies.
- The quarter to date performance for all investments show strong results.

Board Member Comments/Questions & Responses:

Mr. Ciranna asked what Mercer’s cutoff for the rating process is. Mr. Muir indicated that B+ is the lower range of an acceptable rating. Mr. Ciranna noted that MFS has carried the International Equity while Brandes and DFA have struggled. Mr. Muir stated that the current investment manager procurement process will assist in evaluating strategies that blend well together. He indicated that MFS comprises 65% of International Equity.

**11. PLAN ADMINISTRATOR QUARTERLY REVIEW: SEPTEMBER 30, 2020**

Presentation Highlights:

Ms. Shelley Frederick presented Voya’s third-quarter 2020 review and provided the following highlights:

- Page 7 – Plan assets are \$7.37 billion, a 5.4% increase from the prior quarter.
- Page 8 – There are a total of 50,292 participants in the plan with an average balance of \$146,000 vs. Voya’s book of business average of \$39,000.
- Page 22 – The average employee contribution rate is 5.56% with 3,214 participants contributing as a percent-of-pay.
- Page 27 – Full distributions totaled 104 unique participants.
- Pages 59-62 – Ms. La Tanya Harris stated local retirement counselors have experienced an increase in call volume, emails, and virtual meetings. Total quarterly engagements rose to 5,236 from 3,485 in the prior quarter, with significant activity related to the Separation Incentive Program.
- Mr. Luis Chavez-Guzman presented the Digital Engagement statistics.

Board Member Comments/Questions & Responses:

There were no comments and/or question from the Board.

**12. BOARD REPORT 20-49: 2020 NATIONAL RETIREMENT SECURITY MONTH (NRSM) CAMPAIGN RESULTS**

Presentation Highlights:

Mr. Lan presented this report and provided the following highlights:

- The 2020 NRSM campaign was the most successful campaign to date for the DCP.
- A total of 5,507 individuals participated in the NRSM campaign which consisted of an interactive quiz compared to a previous high in 2018 of 3,264 participants.
- The campaign month recorded 20,173 pageviews and 8,993 unique pageviews and produced the highest engagement metrics (e.g. total account logins, total calls, contribution changes, etc.) compared to the prior three years.



- Almost 500 individuals who are eligible but not participating in the DCP also participated in the NRSM campaign quiz. Staff will conduct a targeted outreach to these individuals by sending them a postcard and reminder email to encourage them to enroll in the DCP.

Board Member Comments/Questions & Responses:

Mr. Moutes congratulated staff on a successful NRSM campaign.

**13. BOARD REPORT 20-50: DEFERRED COMPENSATION PLAN PROJECTS AND ACTIVITIES  
REPORT: OCTOBER TO NOVEMBER 2020**

Presentation Highlights:

Ms. Yau presented this report and provided the following highlights:

- A total of 2,700 participants have accessed CARES Act provisions since its inception.
- The CARES Act provisions adopted by the Board expire on December 31, 2020 unless the federal government passes additional legislation to extend them.
- The Human Resources and Payroll (HRP) project to implement a new payroll system to replace the City's legacy payroll system, PaySR has begun and with a projected go-live date of January 2022; staff continues to work with the HRP team on configuration requirements for DCP processes.
- The same Voya implementation team that worked on the City's transition from Empower has been assigned to the HRP implementation effort and will work directly with DCP staff and the new vendor, Workday on reviewing and finalizing requirements and DCP business processes in the new payroll system.

Board Member Comments/Questions & Responses:

There were no comments and/or questions from the Board.

**14. REQUESTS FOR FUTURE AGENDA ITEMS**

There were no requests for future agenda items.

**15. NEXT MEETING DATE**

A meeting was noted for January 19, 2021 at 9:00 a.m.

**16. ADJOURNMENT**

The meeting was adjourned at 11:18 a.m.

*Minutes prepared by staff member Eric Lan.*