

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

PROPOSED MINUTES
MEETING OF NOVEMBER 16, 2021
CONDUCTED VIA TELECONFERENCE

BOARD MEMBERS

Present:

Thomas Moutes, Chairperson
Raymond Ciranna, Vice-Chairperson
Robert Schoonover, First Provisional Chair
Neil Guglielmo, Second Provisional Chair
Joshua Geller, Third Provisional Chair
Linda P. Le
Baldemar J. Sandoval
Jeremy Wolfson

Not Present:

Wendy G. Macy

PERSONNEL DEPARTMENT STAFF

Paula Dayes, Assistant General Manager
Steven Montagna, Chief Personnel Analyst
Mindy Lam, Benefits Analyst
Eric Lan, Benefits Analyst

OFFICE OF THE CITY ATTORNEY

Charles Hong, Deputy City Attorney

1. CALL TO ORDER

Mr. Moutes called the meeting to order at 9:01 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 minutes of the October 19, 2021 regular meeting; the motion was adopted by approval of seven Board members (Ciranna, Geller, Guglielmo, Le, Moutes, Sandoval, Wolfson); one Board member was not present at the time the motion was made and did not vote on it (Schoonover).

4. BOARD REPORT 21-54: DETERMINATION REGARDING TELECONFERENCING OPTION FOR BOARD MEETINGS PURSUANT TO ASSEMBLY BILL 361

Board Action:

A motion was made by Mr. Ciranna, and seconded by Mr. Wolfson, that the Board (a) adopt the attached Resolution and determine, pursuant to Section 54953(e)(1)(B)-(C) of the California Government Code, as amended by Assembly Bill (AB) 361, that due to the ongoing COVID-19 State of Emergency (COVID Emergency) proclaimed by the Governor on March 4, 2020, conducting Board meetings in person without continuing to provide a teleconference and/or videoconference option for the Board members and the public, would present imminent risks to the health or safety of attendees; and (b) request that staff report back every thirty (30) days or sooner for the Board to consider the circumstances of the COVID Emergency (and/or any other applicable State or County of Los Angeles Department of Public Health (LA County DPH) order) and determine, as required by AB 361, whether the COVID Emergency (and/or any other applicable State or LA County DPH order) continues to directly impact the ability of the members to meet safely in person and/or state or local officials continue to impose or recommend measures to promote social distancing; the motion was adopted by approval of seven Board members (Ciranna, Geller, Guglielmo, Le, Moutes, Sandoval, Wolfson); one Board member was not present at the time the motion was made and did not vote on it (Schoonover).

5. BOARD REPORT 21-55: INVESTMENT CONSULTING SERVICES PROCUREMENT

Presentation Highlights:

Mr. Montagna presented this report and noted the Board requested oral presentations from each proposing firm: Callan LLC (Callan), Mercer, and RVK Inc. (RVK).

Mr. Ben Taylor and Mr. Ryan Cunningham presented from Callan:

- Page 2 – Introduced the primary consulting team of Mr. Taylor and Mr. Cunningham.
- Page 3 – Callan is employee-owned with 130 current owner-employees and has 50 years of experience, with 172 defined contribution clients representing over \$1.6 trillion in assets including over \$1.1 trillion in public sector defined contribution plan client assets.
- Page 6 – Callan provides committee oversight over any major deliverable for peer review
 - Mr. Wolfson asked how many clients each primary consultant has. Mr. Taylor stated he has eight retainer clients with a specific focus on larger, complicated clients. Mr. Cunningham noted he currently has eight clients as well.
- Page 7 – Defined Contribution Research Team provides highly detailed research and produces publications.
- Page 9 – Investment and performance monitoring is based on proprietary systems.
- Page 11 – Callan provides documentation of decision making, review processes, feedback and monitoring systems, performance and fund reviews, and best practice updates.
- Page 12 – Callan has 54 specialty consultants and uses proprietary databases but not an approved list of managers with assigned manager ratings prior to a manager search.
 - Mr. Wolfson asked about Callan’s review process with respect to qualitative reviews and manager interviews. Mr. Cunningham indicated the research team

continually reaches out to investment managers, with over 2,000 touchpoints per calendar year. Mr. Taylor also indicated that any manager is allowed to participate in Callan's proprietary database.

- Page 15 – Outlines Callan's search process.
 - Mr. Ciranna asked how often Callan would interact with DCP managers. Mr. Cunningham replied he regularly schedules quarterly meetings with managers and that it may vary based on utilization with plan clients.
- Page 16 – Callan has trust, custody, securities lending, and transition management consultants.
 - Mr. Wolfson asked if Callan could walk through a hypothetical transition process. Mr. Taylor stated they assess and then make recommendations to procure for a transition manager bench based on bid reviews and pre-trade analysis.
 - Mr. Wolfson asked about the post-mortem review and if Callan utilizes a T-standard benchmark. Mr. Taylor responded it does as well as additional metrics.
- Page 17 – The capital markets research team can advise on risk-based funds.
- Page 18 – Callan routinely issues publications and education is core to the Callan culture.
- Page 21 – Callan proposes an annual retainer fee of \$187,500 and has a fee for projects outside the proposed retainer.
 - Mr. Wolfson asked if the fees are negotiable if the Board were to select the firm. Mr. Taylor indicated affirmatively.

Mr. Devon Muir, Mr. Peter Eibsen, and Mr. Greg Cran presented from Mercer:

- Page 4 – Mr. Muir will be the lead consultant and has been for the past 11 years, alongside Ms. Ana Tom-Chow, Mr. Eibsen, Ms. Julietta Bell, and Mr. Cran, the latter of whom works with Mercer Sentinel.
 - Mr. Wolfson asked how many clients lead consultants cover. Mr. Muir indicated he has 14 clients.
- Page 8 – Mercer has over 200 global manager researchers who assign ratings, and over 700 DC clients with over \$1.2 trillion in defined contribution plan assets.
- Page 10 – Investment manager research capability is shown by over 200 investment manager researchers across the world who provide detailed performance notes through a proprietary global investment manager database.
 - Mercer evaluates managers based on a qualitative and quantitative framework.
 - Mr. Wolfson asked how Mercer prioritizes manager evaluation with respect to the ranking list. Mr. Muir stated that managers have an annual minimum meeting requirement with the manager research team in person, but lower rated or unrated managers are escalated for more frequent meetings.
- Page 11 – Investment manager research is contained in due diligence notes in quarterly reports with ad-hoc notes provided to the staff and Board when necessary.
- Page 12 – Mercer's investment approach focuses on providing participants with custom white label funds and target risk funds for broader diversification.
- Page 13 – Better diversification and decision making is informed by analyzing participant demographics.

- Page 14 – Capital market assumptions are updated quarterly to update risk profile funds.
- Page 15 – Stable value is focused on three pillars of diversification (bond portfolio, wrap provider, and underlying wrap providers).
- Page 16 – Mercer has worked with the City on RFP procurement and search processes, with a current institutional product RFP procurement and mutual fund search.
- Page 17 – Mercer Sentinel is a dedicated global specialist team that focuses on transition management utilizing a transition management database and peer review process.
 - Mr. Wolfson asked how Mercer avoids a conflict of interest if not selected to assist with transition services as the investment consultant. Mr. Cran stated there is no conflict because each transition is focused on the client’s best interests.
 - Mr. Wolfson inquired about benchmarking transition performance and whether the costs would be hourly or flat fee. Mr. Muir replied that costs fall into the hourly project fee. Mr. Cran indicated that a postmortem involves an implementation shortfall approach tailored to the client’s needs.
- Page 21 – Mercer’s fee for performance monitoring is \$82,000 annually with several strategic and ad-hoc consulting services on an hourly basis.
 - Mr. Ciranna asked about Mercer’s proprietary manager database compared to eVestment. Mr. Muir replied that Mercer’s database is open and free for all managers to participate and covers over 35,000 strategies and over 7,000 managers, whereas eVestment does not have any qualitative research.

Ms. Becky Gratsinger, Mr. Beau Burggraff, and Ms. Paige Blaser, Mr. Jonathan Kowolik, and Mr. Stephen Budinsky presented from RVK:

- Page 3 – RVK is 100% owned and non-discretionary.
- Page 4 – RVK’s model is full-access so clients can receive support and service at any time.
 - Mr. Wolfson asked how many clients Ms. Gratsinger and Mr. Burggraff cover. Ms. Gratsinger stated she has seven large plan relationships and 13 total clients. Mr. Burggraff indicated he has 11 plan relationships.
- Page 6 – Investment manager research team has an average of 17 years in the industry, and the individuals on the team do not have dedicated client assignments, allowing them to be available as a resource.
- Page 7 – Investment manager monitoring consists of online or in-person meetings, and the client service team will also meet with managers and service providers.
 - Mr. Ciranna asked about RVK’s third-party database. Mr. Burggraff stated that RVK uses eVestment for static information, but qualitative research is contained in the 1,300 research/manager meetings.
- Page 8 – Third-party database provides due diligence information and is further informed by manager meetings.
 - Mr. Wolfson asked about the manager review process for a manager not already in RVK’s lineup. Ms. Gratsinger stated RVK would proactively research the product and add it to RVK’s database.
- Page 9 – Performance reporting is customized based on what the client would like to see.

- Mr. Ciranna asked who would be presenting the quarterly reports. Ms. Paige responded that it would likely be Ms. Gratsinger or Mr. Burggraff.
- Page 12 – RVK’s research process uses resources from its manager research and DC teams to coordinate knowledge to inform plan design and administration.
- Page 13 – RVK is experienced with risk-based funds that the DCP utilizes.
- Page 16 – RVK currently monitors 55 stable value funds with over \$9 billion in assets.
- Page 18 – Search processes would be monitored by the team and RVK would be heavily involved to control and influence the outcomes.
- Page 19 – RVK supports clients with operation procurements and transition management and provides a customized support model.
- Page 20 – The dedicated investment operations solutions group is embedded into the client service team and works to maintain the operational provider database.
- Page 23 – Fund transition service is customized based on industry best practices of a transition management program using one or two managers following a bidding process.
 - Mr. Wolfson asked what metrics are the most important for post-trade performance and whether the transition manager service is included in the flat fee. Mr. Kowolik replied the transition manager service is included in the flat fee.
- Page 29 – Fee proposal is given in two options in either a general consultant fee at \$132,500 per year, or component pricing, and pricing is negotiable.

Board Member Comments/Questions & Responses:

Mr. Wolfson thanked staff for coordinating the oral presentations and asked staff to highlight differences between the firms. Mr. Montagna noted the differentials on pages 3-4 of the report, highlighting the depth of resources, differences in proprietary and outsourced investment manager resources, and fee proposals.

Mr. Wolfson asked if Mercer’s fee proposal was higher than the current rate. Mr. Montagna stated the proposed fee is in line with current rates. Mr. Wolfson inquired if there was any way to negotiate the contract upon selecting a firm. Mr. Montagna indicated yes.

Mr. Schoonover asked if there were any improvements from Mercer’s service over the course of the firm’s relationship with the city. Mr. Montagna stated that Mercer had performed well but their history did not impact evaluation by staff of the proposals.

Mr. Ciranna indicated that staff’s objective scoring provided helpful evaluation regarding each firm’s experience and qualifications. Mr. Moutes agreed and stated that his evaluation priorities were the firm’s availability and quality of services as well as cost.

Board Action:

A motion was by Mr. Wolfson, and seconded by Mr. Guglielmo, that the Board tentatively select Mercer to provide investment consulting services, and direct staff to conduct final negotiations with respect to its fee proposal and report back; the motion was adopted by approval of seven Board members (Ciranna, Guglielmo, Le, Moutes, Wolfson, Sandoval,

Schoonover); one Board member was not present at the time the motion was made and did not vote on it (Geller).

6. BOARD REPORT 21-56: MID-CAP VALUE EQUITY FUND AND MID-CAP GROWTH EQUITY FUND SELECTIONS

Presentation Highlights:

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

- The Investments Committee's review of the Mid-Cap mandate progressed in stages beginning with a comprehensive pool of products in response to the RFP and was narrowed down to several highest ranked firms.
- The Investments Committee recommends the Board select BlackRock Fundamental Mid-Cap Growth Equity Fund and the Wells Fargo Special Mid-Cap Value Equity Fund, contingent on final negotiations prior to final contract awards.

Board Member Comments/Questions & Responses:

Mr. Guglielmo noted that Mercer's informative and detailed analysis of all the firms, including criteria such as stability, turnover, and risk, allowed the Investments Committee to narrow down the top-quality firms. Mr. Wolfson thanked Mercer for the detailed review and noted that the evaluation included looking at how various manager portfolios worked in combination.

Board Action:

A motion was made by Mr. Guglielmo, and seconded by Mr. Ciranna, that the Board tentatively approve selection of the BlackRock Fundamental Mid-Cap Growth Equity Fund and the Wells Fargo Special MidCap Value Equity Fund, both collective investment trusts, as providers for the Deferred Compensation Plan Mid-Cap Fund, subject to final negotiation with the providers of both firms with respect to their fee proposals, and request that staff report back on the results of negotiations prior to providing specific direction regarding the contract awards; the motion was unanimously adopted.

7. BOARD REPORT 21-57: STAFFING AND SUCCESSION PLANNING - RECRUITMENT/SELECTION PROCESS FOR PERMANENT DC PLAN MANAGER APPOINTMENT; INTERIM APPOINTMENT TO DC PLAN MANAGER

Presentation Highlights:

Mr. Montagna presented the first half of the report and provided the following highlights:

- Staff has worked with the Personnel Department's Selection Division to issue the DC Plan Manager examination, which will be released November 18, 2021.
- Since there is an established Ad-Hoc committee for the process, staff recommends adjusting the Ad-Hoc committee's mandate to develop recommendations for the Board to make to the Personnel Department regarding conduct of the DC Plan Manager selection process up to and including execution of the final selection process and onboarding of the selectee.

Ms. Dayes presented the second half of the report and provided the following highlights:

- Personnel Department has been evaluating current and upcoming vacancies such as the Chief Personnel Analyst position, DC Plan Manager, and Senior Benefits Analyst position.
- Staff recommends appointing Mr. Montagna in lieu of the DC Plan Manager to dedicate 100% of his time towards the DCP and allow the Personnel Department to fill the Chief Personnel Analyst concurrently.
- The transition would allow Mr. Montagna to train the new Chief Personnel Analyst and allow him greater focus towards the DCP.
- If the DC Plan Manager selection process does not conclude with a viable candidate, additional contingencies include filling the Senior Benefits Analyst II and Senior Benefits Analyst I position prior to the DC Plan Manager to provide oversight and support.

Board Member Comments/Questions & Responses:

Mr. Ciranna asked if there are any potential barriers to filling the vacant positions. Ms. Dayes indicated that none are anticipated but updates will be reported to the Board.

Mr. Guglielmo indicated his support of the transition plan and asked if the Personnel Department would continue to share fiscal responsibility for Mr. Montagna's salary. Ms. Dayes stated Mr. Montagna would continue his practice of allocating hours based on the actual work performed.

Board Action:

A motion was made by Mr. Ciranna, and seconded by Mr. Guglielmo, that the Board modify its instructions to the Ad Hoc DC Plan Manager Selection Committee to request that it develop recommendations for the Board to make to the Personnel Department regarding conduct of the DC Plan Manager selection process up to and including execution of the final selection process and onboarding of the appointee; and (b) recommend to the Personnel Department General Manager that Steven Montagna be placed in-lieu of the DC Plan Manager position beginning on or around January, 2022 and ending with the appointment of a permanent DC Plan Manager but no later than April 29, 2022; the motion was unanimously approved.

**8. BOARD REPORT 21-58: QUARTERLY STAFFING REIMBURSEMENTS THIRD QUARTER
2021 AND DCP INTERN FUNDING REQUEST**

Presentation Highlights:

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

- Beginning in fiscal year 2021-2022, the DCP has realigned salaries from the General Fund to the DCP Reserve Fund, such that the only required action of the Board would be for partially dedicated positions that still require reimbursement action.
- The 10-year projection of the Reserve Fund balance has been temporarily removed pending the Plan Governance committee's annual resource review and will be brought to the Board separately at a later meeting.
- Staff recommends an increase in the budgeted amount for the DCP Intern to provide additional support to the DCP.

Board Member Comments/Questions & Responses:

Mr. Ciranna indicated support for increasing support to the DCP by increasing the budgeted amount for the DCP intern as staff has been short-staffed.

Board Action:

A motion was made by Mr. Ciranna, and seconded by Ms. Le, that the Board (a) approve reimbursements from the Deferred Compensation Plan (DCP) Reserve Fund to the Personnel Department in the amount of \$66,713.11 and to the City Attorney in the amount of \$22,448.91 totaling \$89,162.02, inclusive of the third quarter of calendar year 2021 ending September 30, 2021, for staff providing direct support of the DCP; and approve the DC Intern position to be employed on a full-time basis for the duration of 2021 and until such time as the Board adopts its budget for Plan Year 2022; the motion was unanimously approved.

**9. BOARD REPORT 21-59: DEFERRED COMPENSATION PLAN PROJECTS AND ACTIVITIES
REPORT: SEPTEMBER 2021**

Presentation Highlights:

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

- Staff is planning a communications campaign to announce the increased contribution limits for 2022 to encourage all employees to increase contributions.

Board Member Comments/Questions & Responses:

There were no comments or questions from the Board.

10. REQUESTS FOR FUTURE AGENDA ITEMS

There were no requests for future agenda items.

11. NEXT MEETING DATE

A special meeting was noted for a date to be determined and a regular meeting was noted for December 21, 2021, at 9:00 a.m.

12. ADJOURNMENT

The meeting was adjourned at 11:23 a.m.

Minutes prepared by staff member Eric Lan.