CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

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

BOARD MEMBERS

Present:	**Not Present:**
Thomas Moutes, Vice-Chairperson	John Mumma, Chairperson
Robert Schoonover, Second Provisional Chair	Raymond Ciranna, First Provisional Chair
Wendy G. Macy, Third Provisional Chair	Linda P. Le
Joshua Geller	
Hovhannes Gendjian	
Neil Guglielmo	

PERSONNEL DEPARTMENT STAFF
Steven Montagna – Chief Personnel Analyst
Matthew Vong – Senior Personnel Analyst I
Daniel Powell – Personnel Analyst
Kevin Hirose – Personnel Analyst

OFFICE OF THE CITY ATTORNEY
Charles Hong – Deputy City Attorney III

MERCER INVESTMENT CONSULTING
Devon Muir – Principal

VOYA FINANCIAL
Luis Chaves Guzmán – Participant Engagement Consultant

1. CALL TO ORDER

Thomas Moutes called the meeting to order at 9:00 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

A motion was made by Joshua Geller, seconded by Hovhannes Gendjian, to approve the minutes of the October 16, 2018 meeting; the motion was unanimously adopted.

4. INVESTMENT MANAGER PRESENTATION

The presentation from Galliard Capital Management, Inc. (Galliard) on the DCP Stable Value fund was attended by Michael Norman, Chief Administrative Officer and Matt Kline, Senior Director. Mr. Norman began by providing a historical overview of Galliard and indicated that they have been managing the Plan's stable value fund since year 1999. He explained that Galliard approaches portfolio management as a principal preservation option, with a total return component, to keep up with inflation and provide a return to participants. He stated that stable value may not be the highest earner, but will maintain consistency and is considered a low risk investment option.

Mr. Norman stated that the stable value fund is a fixed income portfolio, underlined by bonds. He explained that Galliard couples bond portfolios with book value contracts, issued by banks or insurance companies; this allows Plan participants to transact in book value, which is principal plus accrued interest. He continued explaining the differences between book value and market value, in that market value of bonds fluctuates over time depending on the market environment, and that there will be times when the market value of bonds is less than book value. He stated that the market of book value contracts is strong, that supply is greater than demand, which allows Galliard to negotiate fees, favorable contract terms, and other significant contract provisions. He mentioned that the main competitor to stable value is money market funds, and indicated that historically stable value has outperformed money market funds by about 1% to 1.5%

Mr. Kline reviewed Galliard's stable value portfolio performance and stated over the last ten years they have outperformed the benchmark, which is the average yield of the three year treasury plus an additional 50 basis points, by an annualized 110 basis points after fees. He stated that the stable value portfolio ended the third quarter of 2018 with $1.17 billion in assets. He continued reviewing historical cash flows of participants and stated that excluding July 2018 where the Plan rebalanced the target date funds, cash flows was very smooth and manageable.

Mr. Kline reported on the portfolio performance for the end of the third quarter and stated that the crediting rate to participants has been stable and upwards trending, ending at 2.43%, and currently above 2.5%. He discussed the market value to book value ratio of the fund and indicated that it was at a healthy 98.36. He explained that we have been in a 30 year bull market, with interest rates declining, which fostered market to book ratios above 100%. He stated that normal operating range for a market to book ratio is from 95% to 105%. He next explained the yield of underlying bonds in the portfolio, which ended at 3.25%, and stated that as yields increase, the market to book ratio decreases.

Mr. Kline continued reporting that in addition to Galliard managing approximately 70% of the fund, at the end of the third quarter 2018, they added two fixed income managers, Dodge & Cox, and Jennison Associates, with each managing 15% of the fund. He stated this allowed Galliard to bring in more diversification to the underlying fixed income strategy. He indicated that they have since added Income Research & Management as another fixed income manager, and have redistributed all the external management firms to manage 10% of the fund each. Furthermore, he stated that over 2/3^{rds} of the bonds in the portfolio is rated AAA or US Government Issue.

Mr. Moutes inquired if it is typical to bring in additional external managers to further diversify the portfolio versus diversifying within the firm itself. Mr. Norman responded that they do both; however, typically with large portfolios in excess of one billion dollars, there is value in diversifying with external managers. He stated that external managers bring a different style of diversification, but it does come with a slightly higher cost. He stated that with larger portfolios there is a predisposition for style diversification to offset the different strategies over the market cycles.

Mr. Muir inquired about the trend of Galliard's portfolio in terms of using external management versus internally managing for lower costs. Mr. Norman responded that they manage approximately 120 accounts, and it is even between the accounts that want Galliard management only versus including an external manager component. He stated that the primary factor for these accounts in determining what option they choose is saving costs versus the value added from using external managers.

Mr. Kline concluded his presentation by reporting on the total annual fund expenses, stating that at the end of the third quarter, expense fees were 30.5 basis points. He stated for the end of the fourth quarter he expects to see the expense ratio drop below 30 basis points, due to negotiating lower Wrap fees and lower external management fees.

5. QUARTERLY INVESTMENT & ECONOMIC REVIEW: SEPTEMBER 30, 2018

Devon Muir, Principal from Mercer Investment Consulting (Mercer) presented the Performance Evaluation Report for the Third Quarter of 2018. He began by commenting briefly on market performance and stated that we ended on a high point of the market cycle at the end of the third quarter. He indicated that we have since moved into a tumultuous period with concerns about higher interest rates, technology sector stocks being priced to perfection, concerns about tariffs, global trade and other head winds, concerns about the European banking system, and the ongoing questions about Brexit. He stated that we have moved from an environment of placid trading to one of significant turmoil. He stated the positives have been that the Plan has held up well in this current environment and that while most of the equities are negative, they are not drastically negative, with the exception of international equities, which are down. He commented that news as of this date is that 40% of S&P 500 stocks are down 20% from their high point.

Mr. Moutes inquired if there are any concerns about the volatility of the markets. Mr. Muir responded that given that we had no volatility in 2017, it was expected to see some sort of sell out, especially given that valuations were as lofty as they were, being well above historical averages.

In discussing Plan statistics, Mr. Muir indicated that it was a positive third quarter and that assets increased by approximately $260 million, with investment gains being the primary contributor at $242 million. He stated that the Plan has 46,484 participants with account balances and the average account balance was very healthy at $138,268.

Mr. Muir provided commentary on the Plan investment managers. He first indicated that Mercer reaffirmed their B+ rating for MFS Investment Management's strategy, and that the only concern they have is depth of their portfolio management team. He next commented on Vanguard's new Chief Risk Officer, which will have no impact on Mercer's rating or on Vanguard's investment strategies.

Mr. Muir reported on the allocation of assets contained in the Plan, which is at $6.623 billion through the end of the third quarter. He indicated that on comparing assets from the third quarter of 2018 to 2017, assets were up over $600 million, which shows growth for the Plan. He also commented that the allocation of the FDIC-Insured Saving Account at 5.3%, Deferred Compensation Stable Value Fund at 16.9%, and the DCP Large Cap Stock Fund at 32.1%, all of these primary investments were positive for the year.

With regard to fee analysis, Mr. Muir stated that Mercer monitors the fund net expense ratio, which is at 18 basis points weighted average costs, and is inclusive of three basis points of revenue sharing that is deducted from the overall expense ratio. He stated that 23 basis points is the weighted average cost after administration is included, which is a very competitive cost level.

Mr. Muir concluded his presentation by reviewing performance relative to benchmarks and indices for each of the Plan's funds for the period ending on September 30, 2018. There were no further questions from the Board.

6. BOARD REPORT 18-47: PLAN COMMUNICATIONS, WEBSITE, AND PROPOSED PARTICIPANT ENGAGEMENT COMMITTEE

Daniel Powell reported staff's communication and outreach efforts for calendar year 2019. He stated that the communications calendar would provide staff direction on the release of materials and allow time to develop content. He explained that in addition to releasing Plan specific content, the calendar includes topics such as debt management, emergency savings, and estate planning, and thereby allowing participants to view the Plan as a resource for their entire financial wellness.

Mr. Powell indicated that staff would also conduct targeted outreach to underrepresented populations in the Plan, such as Public Works Sanitation employees, who represent a participation rate of 57%. He stated that targeted communication would provide an opportunity for staff to increase participation within these underrepresented populations. He stated that in September 2018, staff mailed correspondence to labor organizations and department management about their employee populations and offered Plan staff support to help bolster participation and have received positive feedback on staff's efforts.

Mr. Guglielmo stated that some participants observe market performance and may act impulsively and withdraw their funds prematurely, and he recommended that the topic of Investor Knowledge, currently scheduled for March 2019, be scheduled earlier. He stated that we should remind participants to diversify their portfolio, to teach about risk tolerance, and other investor topics. Mr. Powell stated that staff will be able to move Investor Knowledge earlier and indicated that although a topic is highlighted for a specific month, communications regarding all these topics may be included in communications throughout the year.

Mr. Powell reported that since the launch of the Board approved Resource Center on September 27, 2018 through November 2, 2018, the site has been visited by 11,600 unique visitors and has more than 17,000 page views. He stated that the site also has a pop-up that solicits feedback and that responses have been positive, with 95% of visitors indicating that they were able to find the information they were looking for and that the site was easy to navigate. He stated that based on a question raised by the Board during the September Board meeting, staff evaluated feedback from participants and recommends that the Resource Center is made the main landing page for the Plan, effective February 2019. He stated that staff has control over this site and can develop custom communications for participants versus the generic information included on the Third Party Administrator site. He explained that transitioning the Resource Center as the main landing page in February 2019 would allow staff to develop communications informing participants of this change.

Mr. Powell stated that given the complex process of developing communication materials, staff proposes the creation of a Participant Engagement Committee, which will enable Board members to oversee and provide guidance and input on the types of communications that staff creates. He stated that should the Board approve this committee, staff could revise the Board's bylaws and bring it for approval during the Board's December meeting.

Mr. Moutes inquired how about the scheduling of meeting for the proposed Participant Engagement Committee. Mr. Powell indicated that staff proposed this committee meets on a quarterly basis, due to the high volume of communication materials being released by staff.

Mr. Guglielmo voiced support for this committee and indicated that that more that the Board can provide input to staff and discuss what messaging might work would be beneficial. He also stated that staff should communicate with the Controller's Office about including Plan messaging on the bi-weekly check. He stated that the Controller has a queue and messaging can be planned months in advance. Mr. Powell indicated that staff would work with the Controller's Office on this issue.

Following this discussion, **a motion was made by Robert Schoonover, seconded by Neil Guglielmo, to (a) receive and file report regarding Plan communications and outreach; (b) approve staff's proposed 2019 schedule of communication topics; (c) approve the redirect of LA457.com to the Plan's new Resource Center; and (d) direct staff to draft revisions to the Plan Governance Policies and Bylaws providing for the creation of a Participant Engagement Committee for approval at the Board's December 18, 2018 meeting; the motion was unanimously adopted.**

7. BOARD REPORT 18-48: OUTSIDE TAX COUNSEL SERVICES

Steven Montagna reported that based on interview conducted in October 2018, the City Attorney's recommended obtaining the services of Reed Smith and Ice Miller to provide outside tax counsel services. He stated that Ice Miller would be the lead firm to work on tax counsel projects for the Plan. He indicated that they have extensive experience working with large plans and that their fees are competitive with firms engaged in providing tax counsel services. He stated that with regard to Reed Smith, Don Wellington is their lead attorney and an individual whom the Plan has had a working relationship. He stated that Mr. Wellington is a licensed attorney in California and has previous experience working with the Treasury Department and has maintained relationships with former colleagues.

Mr. Montagna stated that expenditures of outside tax counsel services for the previous five years has been less than $13,000, and that the City Attorney's recommendation is to set the contract ceiling amount at $15,000. He indicated that given the upcoming projects, staff anticipates utilizing outside tax counsel services in a great capacity than the previous contract.

Charles Hong explained that by obtaining two outside tax counsel firms, the City would have access to well qualified and competent experts. He stated that tax law can be complicated and certain areas require specific expertise that a particular firm may have. He explained that though discussions with Plan staff, the contract ceiling amount is a general allocation and there is not an appropriation on how they would be divided, but would be based on services needed.

Wendy Macy inquired if the contract ceiling amount was set at a sufficient amount given the upcoming projects lined up, such as the Deemed IRA, Plan Document review, and other treasury related tasks, that would require outside tax counsel review. She stated that given the future projects and the City's contracting process, increasing the contract ceiling amount would provide a cushion should additional funding be necessary. Mr. Geller stated that on reviewing the hourly rates of the two firms and his knowledge about ongoing contacts with LACERS that built into the contact is a 3% increase year over year.

Mr. Hong responded that in terms of engaging a law firm to work on projects, such as the Deemed IRA and Plan Document, it was the City Attorney's opinion that it would involve further discussions with the Board on the complexity and level of work it would entail. He stated that the City Attorney's Office is not resistant to increasing the ceiling amount, thereby providing more flexibility. He continued by explaining that discussions with outside tax counsel on a particular project would involve fees and if they are outside of expectations, staff would report to the Board to explain why additional funding may be required. He stated that it is difficult to identify the complexity and associated fees until work begins on a particular project.

Mr. Montagna stated that it might be reasonable to increase the ceiling amount to $30,000. He stated that there is no risk to the Plan because payment will be for actual expenditures during the contract term.

Following this discussion, **a motion was made by Mr. Guglielmo, seconded by Mr. Schoonover, to (a) approve the retention of Reed Smith and Ice Miller for the provision of tax and regulatory guidance and advice and (b) recommend to the City Council that it approve the retention and authorize the Office of the City Attorney (City Attorney) to negotiate and enter into professional services agreements with both of the law firms in a combined revised amount of $30,000 contract ceiling for the three year contract of outside tax counsel services; the motion was unanimously adopted.**

8. BOARD REPORT 18-49: PLAN PROJECTS AND ACTIVITIES REPORT: OCTOBER 2018

Matthew Vong reported that the Plan's National Retirement Security Week campaign opened on October 22, 2018. He stated that staff released an interactive quiz to promote awareness of the Plan's services and its features. He stated that preliminary numbers for this year's campaign indicate a record number of participation and that the results will be provided during the Board's December 2018 meeting.

Mr. Vong reported on the FDIC-Insured Request for Proposal (RFP) and explained that due to the scheduling of the performance exams for East West Bank, Bank of the West, and Union Bank, occurring later than originally anticipated, staff did not have sufficient time to complete evaluations and a staff report. He stated that staff expects to provide recommendations during the Board's December 2018 meeting.

Mr. Vong reported on the Financial Auditing Services RFP and stated that staff anticipates on completing evaluations and a staff report on the proposals submitted by Crowe LLP and Turner and Warren, Hwang & Conrad AC. He stated that staff expects to provide recommendations during the Board's December 2018 meeting.

Following this discussion, **a motion was made by Mr. Geller, seconded by Mr. Guglielmo, to receive and file the staff monthly activity report for October 2018, including updates regarding Communications; Project Updates; Completed Projects/Meeting Calendar; Staffing; and Committee Assignments; the motion was unanimously adopted.**

9. REQUESTS FOR FUTURE AGENDA ITEMS

None.

10. ADJOURNMENT

The meeting adjourned at 10:24 a.m.

Minutes prepared by staff member Kevin Hirose