

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING MARCH 17, 2015 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Clifford Cannon, First Provisional Chair
Tom Moutes, Second Provisional Chair
Michael Amerian, Third Provisional Chair
Ray Ciranna
Robert Schoonover
Wendy G. Macy
Linda P. Le

Not Present:

John R. Mumma

Staff:

Personnel:

Alejandrina Basquez
Steven Montagna

Esther Chang
Paul Makowski
Matthew Vong

City Attorney: Curt Kidder

1. CALL TO ORDER

Acting Chairperson, Cliff Cannon started the meeting at 9:02 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Tom Moutes, seconded by Robert Schoonover, to approve the February 17, 2015 Regular Meeting minutes; the motion was unanimously adopted.

4. QUARTERLY INVESTMENT REVIEW

Devon Muir of Mercer Investments Consulting discussed the Deferred Compensation Plan's fund performance during the fourth quarter of 2014. He presented a broad overview of the fourth quarter and year-to-date capital market performance, highlighting the positive increases of U.S. equity markets. He indicated it was a positive year for investors in the DCP Large Cap Stock fund. He stated the persistent theme seen throughout 2014 was a return to volatility, which was attributed to the significant decline in the price oil and uncertainty in developed Europe as well as emerging markets. He stated stocks that were energy sensitive tended to sell off significantly.

Mr. Muir reviewed the performance of international equities and noted the significant decline in developed currencies and emerging markets, which was significantly attributed to the declining price of oil. He stated that there was fairly mixed performance for the 1st quarter of 2015.

Steven Montagna asked about the status of interest rates since the beginning of the year. Mr. Muir stated they are starting to increase slightly. He indicated rates had declined in January, but started to reverse course in February. He noted that rates in March were fairly directionless, but the 10-year rate was 2.05%, which was a significant increase from 1.6% in January.

Mr. Muir reviewed the investment options of the Plan. He commented that Mercer had updated their reporting system and noted the difference in "look and feel" of the report. He stated the analytics Mercer was able to provide under the new system were improved. He then reviewed the risk profile funds and the array of core options, which have been streamlined over the past several years.

Mr. Muir reviewed a summary of asset allocation and highlighted that the overall assets totaling \$4.8 billion dollars represented an increase of \$145 million dollars quarter over quarter. He stated the predominant holdings to be in the Deferred Compensation Stable Value Fund at 19% and the DCP Large Cap Stock Fund at 33% of total Plan assets. He stated that when looking at the risk profile funds, an upward progression can be seen on the overall utilization and indicated it amounted to about 16% of overall participant assets at the end of the 4th quarter. He reviewed the breakdown of assets by fund.

Mr. Muir reviewed the investment expense analysis portion of the report. He stated that the weighted average cost of the Plan was 17 basis points. He indicated that when factoring in the cost of administration, it was still very low at about 23 basis points. He reported the net expense ratio for the funds offered by the Plan continue to rank well below the median of the comparable peer group. He stated that with the recently approved fund changes, the funds' risk return expectations have improved. He noted that in terms of cost, none of these investment options, even with the insertion of a level of active management, exceeded the mid-point of the comparable peer group.

Mr. Muir continued to review fund performance and stated the Stable Value fund had positive growth of 1.8 percent for the year. He noted there was a change in managers from PIMCO to Loomis for the DCP Bond Fund. He indicated that while bonds overall performed positively in the 4th quarter, high yield bonds suffered and active managers underperformed. He stated that on a blended basis, the DCP Bond Fund performed above the median at the 43rd percentile. Mr. Muir reported on the performance for the risk profile funds. He noted that a median peer group has been assembled and inserted in the report that would provide another measure of performance for the risk profile funds.

Mr. Muir stated passive management of funds paid off quite well for the year. He stated international equities had negative performance in the face of a lagging international equity market. He indicated Fidelity did well in protecting its portfolio on the downside while beating the benchmark by about 2.5 percent over a three month period and by 1.7 percent over a one year period.

Mr. Muir finished his presentation by stating Mercer provided more enhanced details and analytics to the Plan performance evaluation report. He welcomed feedback or constructive criticism to make the report more useful and stated Mercer was seeking ways to create more insightful tools to measure overall performance.

5. BOARD REPORT 15-17: BENEFICIARY DESIGNATION

Ms. Esther Chang stated the Board had previously discussed the status of participant beneficiary designations. She indicated based on the results of the Plan administered “National Save for Retirement Week” participant survey, 21% of respondents had indicated their beneficiary designation was outdated. She indicated staff wanted to ensure the status of participant beneficiary designations were on file and up-to-date. She noted that though participants can normally record their beneficiary via the Plan website or calling the KeyTalk hotline, they would generally provide their beneficiary information when initially enrolling in the plan. She indicated there is a small population of Plan participants that recorded their beneficiaries with the previous Plan provider, and stated that due to the length of time they have been with the Plan, their information may have not carried over to the current record keeper. She indicated staff had analyzed beneficiary designations and determined 12% of participants, or approximately 4,900 participants, currently do not have a beneficiary designation on file. She indicated of the 4,900 participants, approximately 3,300 are active and 1,500 are terminated. She also stated more than 77% of participants have not updated their information within the last 5 years.

Ms. Chang indicated staff desired to move forward with an awareness campaign in order to encourage plan participants to update their beneficiary designations. She stated staff had consulted with Empower Retirement about similar campaigns implemented by other Plans and reported that the New Jersey Transit Plan had

administered a campaign which was able to reduce their number of participants without a beneficiary designated by half.

Ms. Chang presented staff's proposed action plan to the Board and indicated a key component of the campaign was to have Empower activate a feature that would allow beneficiary information to be printed on participant quarterly statements. She stated this idea was brought to the attention of the Board in the past, but was ultimately not implemented due to privacy concerns. She stated as part of the overall effort, this component would be instrumental in raising participant awareness of their current beneficiary designations.

Ms. Chang stated an article could be included in the 2nd quarter newsletter informing participants of this beneficiary awareness campaign and providing advance notice that beneficiary designations would be included on subsequent statements. She proposed that beneficiary information begin to be printed on 3rd quarter participant statements, which would be mailed out in October. She stated this would be timed with new web postings on the Plan website, efforts to distribute mass e-mail notifications, coordination with local Plan representatives to incorporate additional messaging to their table service as well as group presentations, and development of communication pieces for the City's defined benefit plans and employee labor organizations. She stated staff would track the progress of the implemented action plan and periodically report back to the Board. She indicated staff's ultimate goal was to increase the number of people having beneficiary designations on file.

Mr. Schoonover stated that in the past, his union had administered a campaign where card notifications were sent to its members informing them of the status of their beneficiary designations. He indicated their campaign gave union members an opportunity to re-submit beneficiary data. He noted that there was a significant number of requests for beneficiary changes during their campaign. Mr. Cannon asked whether staff had an additional course of action in the event this awareness campaign did not reach all of its intended participants. Ms. Chang stated staff would evaluate the beneficiary data on a quarterly basis, and reassess the necessity for additional efforts to further reach out to participants. She stated with the ability to run reports, staff can determine the individuals who do not have a beneficiary on file and indicated it was possible to send out additional targeted mailings to those participants. Mr. Moutes stated that in regards to defined benefit plans, there are members that purposely do not submit beneficiary designations because, even absent one, they are comfortable with the way benefits would be distributed by default or in accordance with the applicable rules. He added he was unsure full compliance would be achieved or necessarily desirable depending on the participant's wishes. Ms. Chang agreed and stated it may be beneficial to still ensure participants were informed of the Plan's beneficiary rules, which state that in the event there is no beneficiary on file, the spouse or the registered domestic partner is generally the designated beneficiary. She stated staff was looking to change that language in order to reduce the Plan's role in determining the appropriate beneficiary in those situations.

Wendy Macy suggested that in addition to obtaining updated e-mail addresses when communicating with participants, the Plan could request other missing and/or useful information at the same time. Mr. Montagna indicated that could be done. Ray Ciranna asked about the status of available e-mail addresses for active participants. Ms. Chang indicated that 77% of participants with a designated beneficiary have an e-mail on file. Ms. Chang indicated Empower Retirement is currently looking into adding system enhancements which would enable them to send mass e-mails to Plan participants. She stated these enhancements would be implemented over time, but indicated the Plan is currently limited to sending all-City e-mails or possibly utilizing third-party services to send targeted e-mails. Mr. Montagna indicated that Empower would have the ability to send targeted e-mails in 2017. Mr. Ciranna asked why the implementation date was not sooner. Ms. Joan Watkins of Empower Retirement stated that this was a significant system enhancement, and projects like were implemented on programming schedule; she indicated this enhancement was scheduled to be implemented in 2017.

Alejandrina Basquez shared information regarding a separate project, currently in the planning stages, by the Personnel Department and the Controller's Office, which would add "Self Service" options in the City Payroll System (PaySR). She stated these system enhancements would allow employees to update fields like their address, and indicated this new feature could potentially allow users to input e-mail information as well. She indicated this could be a future tool that staff could utilize to extract participant e-mail addresses and could be another means of communication for the Plan.

A motion was made by Michael Amerian, seconded by Ms. Macy, to receive and file staff's report on the status of participant beneficiary designations for the Deferred Compensation Plan; the motion was unanimously adopted. A second motion was made by Mr. Schoonover, seconded by Ms. Macy, to approve staff's proposed beneficiary awareness communications campaign; the motion was unanimously adopted.

6. BOARD REPORT 15-18: ELECTION OF BOARD OFFICER POSITIONS

Matthew Vong reviewed staff's recommendation for the Board to conduct an election to elect a new Chairperson. He indicated the previous Chairperson, Eugene Canzano, the DWP active employee representative, had retired from City service in February of 2015. He stated the Plan Bylaws suggest that in the event an officer vacates the Board, the Board shall elect a new officer to fill the vacated position at the earliest meeting possible following that individual's separation from the Board. He added that in the potential event the Board elects the Vice-Chair as the Chairperson, or one of the Provisional Chairs as the Chairperson or Vice-Chair, the Board will need to take additional action to replace any vacated officer positions.

Mr. Cannon opened nominations for board officers. Mr. Moutes nominated John Mumma. Mr. Amerian noted for the record that he had been informed Mr. Mumma was interested in the position of Board Chairperson. **A motion was made by Mr. Moutes,**

seconded by Mr. Schoonover, to nominate John Mumma as Board Chairperson. The motion was unanimously adopted.

Mr. Moutes then nominated Mr. Cannon for Vice-Chairperson, however, Mr. Cannon respectfully declined the nomination. Ms. Macy nominated Mr. Amerian as Vice-Chairperson; Mr. Amerian accepted the nomination. **A motion was made by Ms. Macy, seconded by Mr. Schoonover, to nominate Mr. Amerian as Vice-Chairperson; the motion was unanimously adopted.**

A motion was made by Mr. Moutes, seconded by Ms. Macy to nominate Mr. Ciranna as Third Provisional Chair; the motion was unanimously adopted.

The responsibility of Acting Chairperson was passed to the newly elected Vice-Chairperson, Mr. Amerian.

7. BOARD REPORT 15-19: PLAN PROJECTS & ACTIVITIES REPORT

Ms. Chang updated the Board on the status of pending Communications, Operations, Administration and Governance projects. She stated for the month of February, staff was working on the communication of fund changes to participants, which included updates to the website and letters sent to participants invested in the SSgA Russell Fund. She updated the Board on operations projects and stated staff was working with Empower to finalize operational details of the auto-enrollment project and discuss opportunities to improve workflow and provide better service to participants. She stated staff was going to have a site visit with Empower in April, at which time they would further discuss different topics to help streamline processes.

Ms. Chang continued to update the Board on administration projects and noted that the Plan's investment consultant, Mercer, was currently assessing 6 respondents to the Stable Value Fund Manager Request for Proposal (RFP). She also indicated the Plan had recently released the Consulting Services RFP. She indicated staff was continuing to compile data to be used for Plan benchmarking as well as departmental metrics purposes. She stated staff would eventually be reporting back to the Board on the CAP Rate project, but additional items needed clarification before doing so.

Ms. Chang stated staff was finalizing revisions to the Plan Document related to auto-enrollment, in-Plan Roth conversion, and beneficiary designations. She updated the Board on Board Elections and indicated that petitions would be made available starting March 27th for potential Retired and Active DWP Participants representative candidates. She stated staff would report back to the Board once there is an official candidates list. Ms. Chang finished by reporting on a couple of informational items. She stated the CEO of Loomis, Sayles & Company had stepped down; she noted that Loomis is the manager of the active allocation of the DCP Bond Fund. She indicated Mercer Consulting had informed the Plan of this change and indicated it would have no impact to the Plan's investments. She additionally reported Vanguard, the fund manager of

several of the Plan's underlying passive fund options, had extended an invitation to the Plan and its Board members to attend its Institutional Forum.

Mr. Ciranna asked who administers the Board elections. Ms. Chang stated that the Office of the City Clerk – Elections Division administers all Board elections, but noted that Deferred Compensation staff does work on certain portions of the process such as providing a list of eligible voters and/or candidates and preparing and coordinating the nominating petition documents.

A motion was made by Mr. Cannon, seconded by Mr. Schoonover, to receive and file staff's update on Plan projects and activities; the motion was unanimously adopted.

8. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Ciranna expressed his interest in receiving a report that assesses the Plan's current capability to access participant contact information. He expressed his concern that there is an inability to target e-mails, which seems like a technological option that should be available at this time. He stated he would like staff to explore other available options prior to Empower's 2017 e-mail system enhancement. Mr. Montagna stated that could be researched and reported back to the Board.

9. FUTURE MEETING DATES

The next Regular Meeting of the Board is set for April 21, 2015.

10. CLOSED SESSION

The closed session was cancelled. Mr. Kidder stated there were no new updates for the Board on the pending litigation matter. He stated the matter could be addressed further at the next meeting's closed session.

11. ADJOURNMENT

A motion was made by Mr. Cannon, seconded by Mr. Ciranna, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 9:50 a.m.*