

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING DECEMBER 16, 2014 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Eugene K. Canzano, Chairperson
John R. Mumma, Vice-Chairperson
Clifford Cannon, First Provisional Chair
Tom Moutes, Second Provisional Chair
Michael Amerian, Third Provisional Chair
Ray Ciranna
Mary Higgins
Wendy G. Macy

Not Present:

Robert Schoonover

Staff:

Personnel:

Steven Montagna
Esther Chang
Paul Makowski

Alejandrina Basquez
Matthew Vong

City Attorney: Curt Kidder

1. CALL TO ORDER

Eugene Canzano started the meeting at 9:13 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by John Mumma, seconded by Cliff Cannon, to approve the November 18, 2014 Regular Meeting minutes; the motion was unanimously adopted.

Michael Amerian, Tom Moutes, and Mary Higgins arrived after the meeting was called to order and were not present for this motion.

4. QUARTERLY INVESTMENT REVIEW

Devon Muir of Mercer Investments Consulting discussed investment performance for the Deferred Compensation Plan funds during the third quarter of 2014. He provided a broad overview of the domestic and international markets, noting that domestic equities provided the only positive performance for the quarter.

Mr. Canzano asked if the U.S. dollar is expected to continue to strengthen. Mr. Muir indicated that the future of the U.S. dollar is hard to predict but also indicated that the recent changes in the price of oil may be a factor. Mr. Cannon asked why the price of oil was declining so sharply. Mr. Muir indicated that one factor was the recent OPEC decision to maintain supply levels even as the U.S. has sharply increased production in recent years. Mr. Canzano asked if U.S. oil production could remain profitable at current oil price levels. Mr. Muir indicated that while the current cost per barrel may make oil less profitable, continued innovation in U.S. oil production may allow oil companies to continue to be profitable even with lower global pricing levels.

Mr. Muir reviewed the Plan's investment menu, the recent change to the DCP Bond Fund's manager (from PIMCO to Loomis), and the statistical analyses for Plan asset allocations and investment expenses. Mr. Montagna asked if the "Estimated Fund Expense" on page 16, Investment Expense Analysis, was a newly reported item. Mr. Muir indicated affirmatively and noted it was a result of a prior Board request. Mr. Canzano asked for additional information regarding Stable Value Fund pricing. Mr. Muir indicated that the fee included the cost of required wrap insurance and advisory fees, but the expense of 28 basis points was competitive.

5. BOARD REPORT 14-53: INVESTMENT COMMITTEE PROVIDER RECOMMENDATIONS FOR THE DCP INTERNATIONAL FUND

Mr. Montagna reviewed the selection process used by the Investments Committee to select the international active fund manager finalists and asked Mr. Muir to provide more details. Mr. Muir illustrated the selection method of the Investment Committee by reviewing the major components of the analysis and indicated the Committee's recommendations for the final blended fund would be 65% for Developed Markets actively managed by MFS, 15% for Emerging Markets actively managed by Brandes, and 15% for International Small Cap Equities actively managed by DFA. After reviewing some of the primary factors considered in the decision-making process, including risk-adjusted return, fees and the relationships of the various providers to one another within a blended portfolio, Mr. Muir then asked if other Committee members had additional comments. Mr. Canzano added that the selection process had been comprehensive and indicated it had been difficult to choose between the recommended finalists. Mr. Amerian indicated that the consideration of downside risk in falling markets was a factor.

Mr. Mumma asked if there was a historical performance comparison between the proposed blended fund and the Plan's current options over the past few years. Mr. Muir identified this comparison by reviewing the performance information for the proposed blended fund contained within the report and the previous year performances of the Plan's current investment options in the Mercer quarterly investment review. Mr. Muir stated that the blended fund would have outperformed the Plan's current options for most periods of time. Ray Ciranna asked if the fee differential was a primary difference between the MFS-Brandes-DFA EM combination and the MFS-Brandes-Harding Loevner combination. Mr. Muir indicated affirmatively.

A motion was made by Mr. Ciranna, seconded by Tom Moutes, to approve the MFS Institutional international Equity Fund as the Active Developed Markets component, the DFA Emerging Markets Core Equity Portfolio Institutional as the Active Emerging Markets component, and the Brandes International Small Cap Equity Fund I as the Active Small-Cap component; the motion was unanimously adopted.

6. BOARD REPORT 14-54: IMPLEMENTATION OF INVESTMENT FUND MANAGERS

Mr. Montagna reviewed the implementation plan for investment fund changes and indicated a tentative target date of March 20, 2015 for all adopted investment fund changes to take effect. Mr. Mumma asked if any funds would no longer be available. Mr. Montagna indicated all funds could be found within the Self-Directed Brokerage Option (SDBO) with the exception of the SSgA Russell Small Cap Fund. Mr. Ciranna asked how communication about the eliminated SSgA Fund would be provided to participants. Mr. Montagna indicated the process would be communicated to participants in a manner similar to the one used for the previous fund change that took place in April 2012. Mr. Mumma noted that for the previous fund change, all eliminated options were made available in the SDBO. Mr. Montagna stated that while the SSgA fund was not available in the SDBO given that it was an institutional product, other such funds could be found. Mr. Ciranna asked where participants could find further information regarding the funds. Mr. Muir indicated that the Plan's fund fact sheets, which include information on underlying providers, were a resource for participants to learn further details.

Mr. Cannon asked if communication would take place in March. Mr. Montagna indicated that communication would begin in January and that the fund change would take place in March. Mr. Cannon asked if there would be an opt-out period. Mr. Montagna indicated that while participants were not required to make any changes, they would have until the fund change implementation date to actively change their elections or transfer balances.

A motion was made by Mr. Mumma, seconded by Mr. Amerian, to receive and file the report regarding planned implementation of new fund managers for the DCP Small-Cap, Mid Cap, and International Funds; the motion was unanimously adopted.

7. BOARD REPORT 14-55: PASSIVE MANAGERS, MUTUAL FUND SEARCH
RECOMMENDATION AND CRITERIA

Mr. Montagna reviewed the proposed upcoming passive manager search process. He indicated that the proposed approach would mirror the process used in the recently completed active manager search process. Mr. Muir reviewed the recommended search criteria for passive managers of the Bond, Large Cap, Mid Cap and Small Cap Equity funds and indicated that the investment vehicle recommendation for all passive managers was a mutual fund.

Mr. Mumma asked if the 12 mutual funds identified in the Bond search criteria were the only mutual funds available or the only mutual funds that met the search criteria. Mr. Muir indicated that they were the only funds available and that this was due to the large size of the bond universe comprising the index, and that generally only a smaller number of firms were able to efficiently and profitably operate within this space. Mr. Ciranna asked about the level of comfort in considering passive managers with a track record of 3 years or less. Mr. Muir indicated that this requirement allowed the Board to consider managers with proven performance records with institutional products that may have only recently established mutual fund versions of their products, and that the specific vehicle used (mutual fund or separate account) was less relevant than the manager's ability to effectively administer a products within that space.

A motion was made by Mr. Cannon, seconded by Mary Higgins, to approve recommendations of fund search types and search criteria for Deferred Compensation Plan passive equity and bond investment options; the motion was unanimously adopted.

8. BOARD REPORT 14-56: REVISION TO BOARD GOVERNANCE POLICIES
AND BYLAWS RESTRICTING TPA PROVIDER FROM SIMULTANEOUSLY
SERVING AS AN INVESTMENT PROVIDER

Mr. Montagna indicated the Board had previously directed staff to return with recommended language to add to the Board's Governance Policies, related to Third Party Administrators (TPA) simultaneously serving in an investment provider capacity. He reviewed the proposed language to be added to the Governance Polices and Bylaws. Mr. Canzano asked if legal counsel had reviewed the proposed addition. Mr. Kidder indicated affirmatively.

A motion was made by Mr. Mumma, seconded by Mr. Ciranna, to adopt revisions to the Board's Governance Policies and Bylaws prohibiting a Plan's Third Party Administrator from simultaneously serving as a Plan investment provider; the motion was unanimously adopted.

9. BOARD REPORT 14-57: CONSULTING SERVICES REQUEST FOR PROPOSAL

Mr. Montagna reviewed a draft consulting services Request for Proposals (RFP) and indicated that the services would be broken out into three distinct categories: Plan Administration, Investments, and Communications consulting. He further indicated that respondents could submit proposals for one specific category or a combination of categories. He stated that in the two prior procurements for these services the response from the vendor community had not been particularly strong and that staff was exploring options which might allow for a different method of contracting. Notwithstanding that, he said that retaining communications as a category in the consulting RFP was prudent in the event that this other approach did not prove to be successful.

Mr. Moutes asked why the Pension Savings Plan was included in the Scope of Services of the draft RFP. Mr. Montagna indicated that the consulting contracts have always included the option for Pension Savings Plan consulting and that the Personnel Department sets aside a small amount of funds for such consulting services should they be needed, but that no funding would come from the Deferred Compensation Plan. Wendy Macy asked if the review committee evaluating respondents for certain other procurements might include people other than staff. Mr. Montagna responded affirmatively and that in fact this approach had been applied in other searches, such as for the Plan's third-party-administrator.

A motion was made by Mr. Moutes, seconded by Ms. Higgins, to approve and authorize the release of the Consulting Services Request for Proposals; the motion was unanimously adopted. A second motion was made by Mr. Cannon, seconded by Mr. Moutes, to approve creation of a Review Committee consisting of Plan staff members; the motion was unanimously adopted.

10. BOARD REPORT 14-58: QUARTERLY BUDGET REVIEW AND REIMBURSEMENTS

Paul Makowski reviewed the quarterly budget reimbursement for the second quarter of 2014 and indicated that Personnel Department staff reimbursements for the quarter totaled \$135,262.02 and City Attorney reimbursements totaled \$28,127.26. Mr. Ciranna noted the Cost Allocation Plan (CAP) rate used to calculate the reimbursement, and Mr. Montagna replied that staff was exploring other options for addressing the calculation of indirect costs and would report back with more information.

A motion was made by Mr. Amerian, seconded by Mr. Ciranna, to receive and file the budget status report for the quarter ending 06/30/2014; the motion was adopted unanimously. A second motion was made by Mr. Mumma, seconded by Mr. Moutes, to approved reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$135,262.02 and City Attorney for \$28,127.26; the motion was unanimously adopted.

11. BOARD REPORT 14-59: COMMUNICATIONS/NSFRW UPDATE

Mr. Montagna began the quarterly communications report and discussed the National Save for Retirement Week promotional campaign results. He indicated that the campaign was a positive engagement tool and resulted in increases in 1) use of the Retirement Income Projection Calculator tool, 2) visits to the participant website at www.cityofla457.com, 3) phone calls and local office visits, and 4) new enrollment. He then briefly reviewed other communication and rebranding materials completed by staff.

Mr. Montagna indicated this report was intended to share the results of the promotional campaign used for National Save for Retirement Week. He stated that staff had been enthusiastic about this campaign because the retirement income projection calculator was the most important and consequential piece of information to help participants understand and make decisions around achieving retirement income security. He stated that the campaign was successful in tripling the number of sessions and unique users of the calculator as compared to the prior month, and in driving more website logins and participants updating their passwords, the latter of which is also important for laying the groundwork for more ongoing use of the website. He noted increases in other engagement metrics such as phone calls and local contacts, with 3,300 visits to the Plan's microsite and 1,093 participants, both active and retired, participating in the submission which made them eligible for the gift card drawing. He stated 221 survey responses had been received from retired Plan participants, and staff would be compiling those responses and reporting the results.

A motion was made by Mr. Cannon, seconded by Ms. Macy, to receive and file the quarterly communications activity update report for the second and third quarter of 2014; the motion was unanimously adopted.

12. BOARD REPORT 14-60: STAFF REPORT

Esther Chang review the staff report and indicated that staff was exploring possible changes to the report and anticipated proposing changes to the report format at the next Board meeting. Ms. Chang then reviewed November 2014 statistics for counter activity, accrued leave, hardship, loans, Roth dollars, and project updates.

Mr. Canzano noted that although the statistics continued to show steady growth in the Roth option, anecdotally in conversations with participants many individuals indicate to him they were not aware of it. Mr. Ciranna asked if the number of people contributing the maximum bi-weekly amount could be known. Ms. Chang indicated staff would research this and report back. Mr. Cannon asked how many Roth conversions have taken place. Ms. Chang indicated she believed it was less than five.

Mr. Montagna then introduced Wendy Macy, the new General Manager for the Personnel Department, and Matthew Vong, the new Analyst for the Deferred Compensation Plan, to the Board.

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

13. REQUESTS FOR FUTURE AGENDA ITEMS

None.

14. FUTURE MEETING DATES

The next Regular Meeting of the Board is set for January 20, 2015.

15. CLOSED SESSION

The Board recessed to Closed Session, pursuant to Government Code Section 54956.9(d)(1), to confer with its legal counsel regarding the matter entitled Estate of Francis Joseph Bolan (Los Angeles Superior Court No. BP 151381). By unanimous vote the Board authorized the City Attorney to defend this matter.

16. ADJOURNMENT

A motion was made by Michael Amerian, seconded by John Mumma, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 11:44 a.m.*