

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

ADOPTED MINUTES
REGULAR MEETING OF APRIL 18, 2023
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:

Thomas Moutes, Chair
Neil Guglielmo, Vice-Chair
Robert Schoonover, First Provisional Chair
Jeremy Wolfson, Second Provisional Chair
Joshua Geller, Third Provisional Chair
Dana H. Brown

Not Present:

Linda P. Le
Joseph Salazar

PERSONNEL DEPARTMENT STAFF

Paul Makowski, Chief Management Analyst
Esther Chang, Senior Personnel Analyst II
Mindy Lam, Benefits Analyst
Eric Lan, Benefits Analyst

OFFICE OF THE CITY ATTORNEY

Charles Hong, Deputy City Attorney II

MERCER INVESTMENT CONSULTING

Devon Muir, Principal
Ana Tom-Chow, Associate

1. CALL TO ORDER

Mr. Moutes called the meeting to order at 9:06 a.m.

2. PUBLIC COMMENTS

There were no public comments.

Mr. Moutes noted and recognized the life, service, and passing of Board Member Baldemar “Jerry” Sandoval, who was elected to the Board in 2020 as the Active Participant LAFPP Representative and provided significant contributions to the DCP while also serving on three committees. The Board offered condolences to the family, friends, and colleagues at LAPD, and proposed adjourning the meeting in his honor.

3. MINUTES

Board Member Comments/Questions & Responses:

There were no comments or questions from the Board.

Board Action:

A motion was made by Mr. Schoonover and seconded by Mr. Guglielmo, to approve minutes of the February 21, 2023 Board meeting and February 27, 2023 Special Board meeting; the motion was adopted by approval of five Board members (Geller, Guglielmo, Moutes, Schoonover, and Wolfson); one Board member was not present at the time of voting (Brown).

4. BOARD REPORT 23-15: REVIEW OF BOARD MEETING FORMAT AND CONSIDERATION OF REMOTE PARTICIPATION UNDER AB 2449

Presentation Highlights:

Ms. Chang introduced the report and provided the following highlights:

- The meeting on April 18, 2023 is an in-person meeting with a courtesy livestream and dial-in option.
- Under a hybrid meeting structure, meetings must be stopped if there is an interruption in the livestream or teleconference functions, whereas an in-person meeting could continue to meet.
- The hybrid meeting would allow for remote meeting provisions under AB 2449 under specific circumstances such as emergency circumstances and just-cause exceptions.

Board Member Comments/Questions & Responses:

Mr. Guglielmo noted his preference for option one, to hold an in-person meeting adhering to the Brown Act with the convenience of a livestream and call-in feature for public attendees.

Mr. Geller asked for an average of the number of public commenters. Ms. Chang indicated that there are only a few call-in attendees at a single meeting. Mr. Geller noted that since there are not a large number of public commenters, it may be best to hold in-person meetings. Mr. Moutes agreed and stated that the Board can change this in the future if needed.

Mr. Guglielmo asked if Cityfone is available for the DCP Board meetings. Ms. Chang stated that the CSC Commission room is not set up for Cltyfone.

Board Action:

A motion was made by Mr. Guglielmo and seconded by Mr. Wolfson, that the Board approve in-person meetings with a courtesy live-stream offering; the motion was adopted by approval of five Board members (Geller, Guglielmo, Moutes, Schoonover, and Wolfson); one Board member was not present at the time of voting (Brown).

5. BOARD REPORT 23-16: FDIC SAVINGS ACCOUNT OPTION

Presentation Highlights:

Ms. Chang introduced the report and provided the following highlights:

- The DCP utilizes two underlying bank providers: East West Bank and Bank of the West.
- Each bank provides a crediting interest rate that is currently set based on the 3-month London Interbank Offered Rate (LIBOR), which is expected to sunset in June 2023.
- An alternative crediting methodology is required.

Mr. Muir provided the following highlights:

- LIBOR will sunset in mid-2023 and has been the subject of controversy due to its manipulation by various bank participants and regulatory and financial repercussions.
- The market is moving toward alternatives such as the Secured Overnight Financing Rate (SOFR), American Interbank Offered Rate (Ameribor), and Bloomberg Short-Term Bank Yield Index (BSBY).
- LACERS and DWP have indicated they will use SOFR in place of LIBOR going forward, which is consistent with Mercer's recommendation.
- SOFR is a lower interest rate than LIBOR and the banks have provided a measure that is to put future reference rates in parity with the prior LIBOR-based rate.
 - East West Bank proposed a 3-Month Term SOFR plus 0.18%.
 - Bank of the West tentatively proposed a 3-Month Term SOFR plus 0.13%.
- Bank of the West is currently finalizing its acquisition by Bank of Montreal.

Board Member Comments/Questions & Responses:

Mr. Wolfson agreed that the transition to SOFR should be done, and asked about the difference in rates between the banks and whether participants could allocate funds to one bank instead of another to take advantage of a higher rate. Mr. Muir clarified that the rate is blended between the banks due to the prior RFP requirements, but that could be changed in future procurement processes.

Mr. Wolfson asked about the regional banking crisis and the banks' asset liability management. Mr. Muir noted that both are well-capitalized banks and have FDIC coverage. Mr. Muir stated that the option is offered to provide an incremental benefit than an alternative money-market option. Mr. Paul Branks of East West Bank indicated that the option provides a safe and stable return for participants.

Mr. Geller asked how the rate of SOFR plus 0.13% or 0.18% was determined. Mr. Muir indicated that there was negotiation with the banks to land at the rates being offered. Mr. Geller asked if having multiple managers is optimal to maximize FDIC protection. Mr. Muir stated that the DCP previously has had three underlying providers, which is preferable, but contractually was not viable as the City's requirements proved to be a barrier in continuing the relationship. Mr. Geller asked if there is any discretion from the Board to determine a different allocation between providers. Mr. Muir stated that while the primary goal is capital preservation, the DCP Investment Policy allows a higher allocation to a provider offering a substantially higher rate, though at the cost of lower FDIC coverage.

Mr. Wolfson clarified that as long as each bank does not exceed the FDIC limit of \$250,000, then there is no decrease in FDIC coverage. Mr. Muir indicated that is correct but operational reasons led the DCP to an equal mix.

Mr. Wolfson asked about alternatives in the event of a lack of contracts from an RFP. Mr. Muir noted that the DCP could then look to treasury money market accounts.

Board Action:

A motion was made by Mr. Guglielmo and seconded by Mr. Wolfson, that the Board approve the proposed amendment to the contracts between the City of Los Angeles Deferred Compensation Plan and (1) East West Bank and (2) Bank of the West, in order to reflect a change to the benchmark used and interest crediting rate calculation methodology for the FDIC-Insured Savings Account; and authorize the Board Chairperson to execute the amendments, subject to final modification as to form by the City Attorney; the motion was adopted by approval of five Board members (Geller, Guglielmo, Moutes, Schoonover, and Wolfson); one Board member was not present at the time of voting (Brown).

6. BOARD REPORT 23-17: 2023 DEFERRED COMPENSATION PLAN BOARD ELECTIONS UPDATE AND SPECIAL ELECTION FOR ACTIVE LAFPP REPRESENTATIVE

Presentation Highlights:

Ms. Chang introduced the report and provided the following highlights:

- Four qualified candidates will be placed on the ballot for the Active Participant LACERS Representative election.
- Official ballots will be mailed beginning May 1, 2023, and are due back by May 19, 2023.
- There were no qualified candidates for the Active Participant LAFPP Representative Board seat, and the election will be canceled.
- Staff will provide an updated special election timeline with an anticipated election date of mid to late July.
- Upon Board approval, staff will conduct additional outreach to the Fire and Police Departments and sworn labor organizations in order to better promote this opportunity.
- In order to be qualified for the ballot, a potential candidate must obtain a minimum of 50 nominating signatures, either electronically or physically.
- Staff found that the City's other retirement boards have varying candidate requirements. Given this, and as the Board recently reviewed the minimum signature requirements, staff recommended continuing this requirement for the special election.

Board Member Comments/Questions & Responses:

Mr. Geller noted that LAFPP members also include Port Police and Airport Police and recommended coordinating communications through labor organizations.

Board Action:

A motion was made by Mr. Guglielmo and seconded by Mr. Schoonover, that the Board approve receive and file staff's update on the 2023 Active LACERS and LAFPP Representative elections and direct staff to conduct a Special Election for the Active LAFPP Representative seat for the remainder of the unexpired term ending June 30,

2026, due to no candidates qualifying for the May 19, 2023 regular election, as soon as administratively feasible and allow nominating petitions to additionally be submitted electronically with electronic signatures; the motion was adopted by approval of five Board members (Geller, Guglielmo, Moutes, Schoonover, and Wolfson); one Board member was not present at the time of voting (Brown).

7. INVESTMENT BENCHMARKING - PEER SURVEY

Presentation Highlights:

Mr. Muir and Ms. Tom-Chow provided the following highlights:

- Page 2 – Staff and Mercer identified a peer group of 7 public entities that agreed to participate in the study.
- Page 2 – The weighted average expense for the DCP is favorable relative to the group. The weighted average expense may also depend on the degree of active management.
- Page 3 – The most commonly used investment options for 457 plans for plans with greater than \$1 billion in assets.
- Page 4 – Collective Investment Trusts (CITs) are highly utilized amongst the peer group.
- Page 5 – The average of the asset-weighted expense ratio across the peer group is 21 basis points (bps).
- Page 6 – The DCP and Los Angeles County offer Bank Deposit accounts whereas other plans offer money market cash accounts.
 - The prevailing trend is to use target date funds whereas the DCP uses target risk funds due to a philosophical preference.
 - ESG has grown in prominence in the market.

Board Member Comments/Questions & Responses:

Mr. Wolfson asked if Mercer also evaluated the plan fees based on an equal weight. Ms. Tom-Chow indicated that the report shows evaluation on equal weights on a class basis. Mr. Wolfson asked if ESG funds consist of a blend of equity or fixed income. Mr. Muir noted that the survey data would reflect equity. Mr. Wolfson asked if most other plans do not offer self-directed brokerage accounts. Mr. Muir noted that five of the seven plans offer self-directed brokerage accounts.

Mr. Guglielmo asked if there are any options that participants request that the DCP currently does not provide. Ms. Chang indicated that there have not been any specific requests but that staff will research and provide an update to the Board. Mr. Guglielmo asked if any peers are providing options that the DCP has not yet considered. Mr. Muir noted that diversified real asset options are growing in popularity.

Mr. Geller asked about the peer group composition and whether there were other plans that could be helpful to compare against. Mr. Muir noted that the peer group was selected based on staff's understanding of plans most similar and comparable to the DCP.

8. OVERVIEW OF DCP ASSET PROTECTIONS

Presentation Highlights:

Ms. Chang provided the following highlights:

- Page 2 – DCP participants inquired about the health of Schwab Bank in response to news reports and subsequent to the collapse of Silicon Valley Bank, Silvergate Bank, and Signature Bank.
- Page 3 – DCP Assets are held in trust for the exclusive benefit of DCP participants, and Voya is a directed trustee and does not have discretionary control.
- Page 4 – The DCP offers capital preservation options through the FDIC-Insured Savings Account and the DCP Stable Value Fund (which is backed by insurance contracts), and Core options that are subject to market risk but also have a multi-manager fund structure.
- Page 5 – 80% of client cash held at Schwab Bank is insured dollar-for-dollar by the FDIC.

Board Member Comments/Questions & Responses:

Mr. Guglielmo asked if there are other protections that should be considered by the DCP. Mr. Muir stated that the DCP has increased the protection of DCP assets by providing a segregated trust with the DCP as the beneficial owner, and noted that the investment options are in line with market practice.

Mr. Guglielmo asked if the DCP has taken all reasonable necessary steps along with the market and peers in protecting its assets. Mr. Muir agreed.

Mr. Geller offered a note of appreciation for staff's response in providing this report.

Mr. Muir noted another facet of protection in that cybersecurity is continually important to maintain and stated that Voya can provide occasional updates to the Board. Mr. Guglielmo indicated the importance of registering accounts online and checking account history regularly.

9. BOARD REPORT 23-18: DEFERRED COMPENSATION PLAN PROJECTS AND ACTIVITIES REPORT: FEBRUARY AND MARCH 2023

Presentation Highlights:

Mr. Lan and Ms. Chang introduced the report and provided the following highlights:

- Staff is currently in end-to-end testing for Phase 2 of the Human Resources Payroll (HRP) project, which will last through June 2023. The project is expected to continue and be deployed at the end of December 2023.
- The DWP Workday implementation is scheduled to launch in January 2024 but may be delayed.
- Staff launched multiple communications campaigns to encourage higher contributions for those eligible for the age-50 contribution limit and to encourage the use of installment distributions for those who are separated from service.
- The Ad Hoc DC Plan Manager Selection Committee has met to discuss the timeline and proposed selection plan.

Board Member Comments/Questions & Responses:

There were no comments or questions from the Board.

10. REQUESTS FOR FUTURE AGENDA ITEMS

Ms. Brown requested an agenda item regarding alternatives to the Board's meeting date and time due to a scheduling conflict.

11. NEXT MEETING DATE

A regular meeting was noted for May 16, 2023 at 9:00 a.m.

12. ADJOURNMENT

The meeting was adjourned at 10:46 a.m. in honor of Baldemar "Jerry" Sandoval's service to the Board.

Minutes prepared by staff member Eric Lan.