

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OCTOBER 20, 2015 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

John R. Mumma, Chairperson
Michael Amerian, Vice-Chairperson
Cliff Cannon, First Provisional Chair
Raymond Ciranna, Third Provisional Chair
Linda P. Le
Wendy G. Macy
Robert Schoonover
Don Thomas

Not Present:

Thomas Moutes, Second Provisional Chair

Staff:

Personnel:

Gregory Dion
Steven Montagna
Alexandra Castillo

Esther Chang
Matthew Vong

City Attorney: Curtis Kidder

1. CALL TO ORDER

John Mumma called the meeting to order at 9:04 a.m.

2. PUBLIC COMMENTS

Steven Montagna introduced the Board to Gregory Dion, new Assistant General Manager of the Personnel Department.

Mr. Mumma stated he had recently attended a Plan Sponsor Council of America Conference and noted that their seminars were a refreshing take on many of the same issues experienced by the City's Plan. He recommended this event for anyone who wished to attend in the future.

3. MINUTES

A motion was made by Raymond Ciranna, seconded by Robert Schoonover, to approve the revised July 21, 2015 meeting minutes; the motion was unanimously adopted. A second motion was made by Mr. Schoonover, seconded by Mr. Ciranna, to approve the September 15, 2015 Regular Meeting minutes; the motion was unanimously adopted.

Michael Amerian, Cliff Cannon and Don Thomas were not present for the vote on this item. Mr. Mumma moved the meeting forward to item number 7.

4. BOARD TRAINING: INVESTMENT PERFORMANCE ANALYSIS

Devon Muir, Mike Molino, and Ana Tom-Chow of Mercer Consulting provided investment training to the Board.

Mr. Muir explained the concept of asset classes and stated they are groups of securities that behave similarly to one another in terms of risk/return characteristics and are highly correlated. He stated the major classes are bonds and equities. He indicated bonds represent a debt that is owed by a corporation, government or financial entity. He stated these entities issue a promise to pay with future regular payments and a final maturity payment at the termination of the bond. He stated a subset of bond investment that is utilized is a stable value fund, which represents investments in short to intermediate duration bonds that provide a guarantee of book value treatment through the presence of contracts with wrap insurance providers.

Mr. Muir stated the second major category of investments is stocks, which represent a claim of ownership in a company. He stated the returns are attributable to capital appreciation, though with more seasoned companies, there is often a stream of income in the form of dividend payments. He stated stocks are traded on exchanges and are highly transparent. He stated alternative investments include hedge funds, real estate, private equity and commodities - all investments that are considered more niche investments for defined contribution plans.

Mr. Muir presented the ratings scale for bonds. Mr. Montagna asked about the reliability of bond rating agency assessments. Mr. Muir stated rating agencies are known for being slow with their assessments and noted that there is also somewhat of a conflict of interest as the rating agencies are paid by bond issuers to rate their securities. He indicated that steps have been taken to rectify the issues, but noted the real question is whether the bond rating agencies are moving in real time. He stated most asset managers will not rely solely upon bond ratings as an indication of credit worthiness.

Mr. Molino continued the presentation by explaining stocks and their characteristics. He explained how stocks are categorized by market capitalization, which refers to the asset size of the publicly traded company. He indicated the number of shares that are

outstanding for a company multiplied by the share price would provide the company's market capitalization. He stated market capitalizations are separated into large, mid, and small cap asset classes. He explained the different geographical focuses of stocks, which can be comprised of U.S. and/or international developed, emerging market, and regional stocks. He stated that stocks may also be categorized by sector, industry, and economic sensitivity.

Mr. Muir moved the presentation forward by discussing the concepts of risk and return. He explained the concept of total return, which is the amount of capital appreciation and income earned during a period. He explained excess returns pertain to portfolio return for the period over the benchmark return. He noted the types of risk associated with equities are volatility of performance and/or tracking error in comparison to the applicable benchmark. He stated that risk adjusted performance can be measured by ratios derived from deviations or variance in performance.

Mr. Ciranna asked for thoughts on assessing active manager performance and what significance should be given to measurements against the respective benchmark or peer group performance, and the period of time over which the assessment of performance should be reasonably made. Mr. Muir stated that while it is difficult to define a set period of time, it is standard to review 3 and 5 year performance. He stated the main concern should be focused on determining whether a style preference is out of favor vs. poor stock-picking vs. deviation from strategy, etc. He stated that while comparisons to the benchmark and to peer groups are good indicators, funds should be monitored to identify any varying performance and whether there is a justification for it.

Mr. Muir then briefly spoke about portfolio theory and noted a graph representing the "efficient frontier" which demonstrates the strategies that deliver the greatest level of return for a given level of risk. He indicated the benefits of diversification through the blending of various asset classes, which can deliver the most efficient level of return for a given level of risk. Mr. Thomas asked if passive versus active investing could be included with this chart so that it can be determined whether the Plan's managers are adding any value. Mr. Muir indicated that could be done.

Mr. Muir moved the presentation forward to the quarterly performance reporting section. Ms. Tom-Chow presented the performance summary table which indicated returns for various time periods. She explained the use of percentiles to rank the performance of any fund compared to respective benchmark returns. She also discussed performance attribution, and indicated the performance of any equity can be attributed either to sector weighting and/or stock selection. She stated that generally one would want to see strong performance due to sector weighting rather than stock selection, as the latter was subject to more risk.

Mr. Montagna stated the intention of the training was to provide some foundation for the Board when reviewing the quarterly performance review that Mercer provides. Mr. Mumma stated that explaining any specific outliers in performance for any particular

fund during a future quarterly performance report may be helpful in explaining investment performance concepts.

5. BOARD REPORT 15-51: THIRD PARTY ADMINISTRATOR RFP & PARTICIPANT COMMUNICATIONS

Mr. Montagna updated the Board on the Third Party Administrator (TPA) Request for Proposal (RFP) development process and presented a draft of a participant survey. He stated the goal of the survey was to engage Plan participants, inform them of the procurement process, and provide an opportunity to obtain feedback that could help inform the RFP. He indicated staff was additionally in the process of conducting focus groups which provide another means of assessing participant sentiment. He noted the survey would be reasonable in length in order to maximize the number of respondents.

Mr. Ciranna commented on the multitude of “level of awareness” options made available for respondents, particularly in question 10 of the survey, and noted that it may be difficult for respondents to ascertain the difference between “very aware” and “extremely aware.” Mr. Mumma concurred. Mr. Montagna noted this and indicated this would be corrected.

Mr. Montagna stated the survey would be requesting feedback pertaining to how participants value various Plan features. He stated the survey would also gauge the level of participant confidence in the Plan and how participants access sources of information related to the Plan. He noted that some of this data would be useful for long-term benchmarking purposes and should be repeated in future surveys.

He stated the survey would be asking where participants go to conduct their transactions. He stated the purpose of the survey was also to obtain feedback regarding investment decisions and noted that initial responses from focus groups indicated that participants frequently accessed outside sources of information for investment advice. He indicated the survey would also identify the interest level for potential new services, products and features that the Plan was not currently offering. He noted that in terms of investment advice, previous surveys have generally indicated that people were unwilling to pay for it. He stated that focus groups conducted so far had indicated participants generally believed investment advice should not be paid for by those who were not using it.

Mr. Mumma addressed the survey question regarding “investment advice and whether participants would be willing to pay for it,” indicating it may be better to ask in two questions to separate the desire for the actual investment advice and then to identify whether participants would pay a fee for it. Mr. Montagna concurred and indicated the survey would be revised accordingly.

Mr. Ciranna asked if staff was going to conduct additional focus groups before finalizing the survey. Mr. Montagna stated staff had already conducted two focus groups and several more were scheduled.

Mr. Cannon asked if retirees were participating in the focus groups. Ms. Chang indicated that of the two focus groups conducted to date, two retirees had participated. She noted participation was a matter of the location of the retiree's residence and if transportation was available to the retiree. Mr. Montagna stated it was a challenge to obtain participation from retirees and indicated incentives may need to be improved in the future.

A motion was made by Mr. Amerian, seconded by Mr. Cannon, to receive and file the report and update regarding development of the Deferred Compensation Plan Request for Proposal for Third-Party-Administration; the motion was unanimously adopted. A second motion was made by Mr. Amerian, seconded by Mr. Cannon, to approve the proposed participant survey, as revised, to be issued to all Plan participants.

Mr. Ciranna was not present for the vote on this item.

6. BOARD REPORT 15-52: PLAN PARTICIPATION GOALS AND METRICS

Alexandra Castillo provided a report addressing keys statistics and metrics for Plan participation. She stated the Board had previously adopted a goal to achieve a 3% annual increase in new enrollments. She indicated the Plan had coordinated a targeted enrollment initiative for the Department of Transportation's (DOT) Crossing Guards and Traffic Officers as part of the overall enrollment initiative. She stated the targeted campaign had ended in late September and indicated staff would provide final results of the campaign at a subsequent Board meeting.

Ms. Castillo presented information addressing fiscal year 2014-15 participation metrics, including the targets and progress relative to fiscal year 2015-16. She stated the City's participation rate was at 69%, compared to a state and local government plan average participation rate of 40%. She stated the overall Plan participation count for 2014-15 fiscal year end was 41,327. She stated there were 436 new enrollees with a net increase of enrollment of 276. Mr. Montagna noted the positive net participation number indicated there was progress being made with increasing participation on a net basis, which is a number impacted both by new enrollment as well as the attrition of non-employee participants who cashed out their account balances.

Ms. Castillo next presented the gross enrollments for fiscal year 2015-16 through September 18th and noted that the overall enrollment goal for the year was 1,426. She stated the plan had averaged 147 new enrollments per month since the beginning of the 2015-16 fiscal year.

Ms. Castillo presented data indicating departmental participation rates, showing the current progress each department had made thus far in reaching enrollment targets. Mr. Cannon asked if each department was aware of their targeted enrollment numbers. Mr. Montagna stated that as the Plan continued its benchmarking exploration, one of the things that needed to take place was enhanced communication with departments. He indicated that he had recently been able to share this information at a meeting attended by City departmental personnel directors; he stated that one of the departments with lower participation had indicated its interest in increasing their participation rate.

A motion was made by Mr. Cannon, seconded by Mr. Amerian, to receive and file staff's presentation regarding Plan participation goals and metrics; the motion was unanimously adopted.

Mr. Ciranna was not present for the vote of this item.

7. BOARD REPORT 15-53: NAGDCA 2015 CONFERENCE REVIEW

Esther Chang reported the highlights of the 2015 NAGDCA Annual Conference. She indicated the keynote speaker's presentation had focused on the issue of older Americans facing poverty in retirement. She stated the speaker had proposed creation of a guaranteed retirement account product that could be offered nationwide. Ms. Chang stated that the regulatory update noted the Supreme Court's recent same gender marriage decision, along with recent changes to legislation related to sworn employees and withdrawals of retirement funds at age 50. She also shared information related to the Supreme Court case of *Tibble v. Edison International*. She stated the premise of this case was that Edison had maintained a retail share pricing for a mutual fund offered within its retirement plan investment line-up when an institutional share class was available. She noted the Supreme Court ruled that Plan sponsors have a fiduciary responsibility to continually monitor investment decisions for participants.

A motion was made by Mr. Schoonover, seconded by Ms. Macy, to receive and file the report containing highlights of information presented at the 2015 National Association of Governmental Defined Contribution Administrators (NAGDCA) Annual Conference in Indianapolis, Indiana; the motion was unanimously adopted.

Mr. Cannon was not present to vote on this item. Mr. Mumma moved the meeting forward to item number 8.

8. BOARD REPORT 15-54: QUARTERLY CONTRACTS UPDATE

Ms. Chang provided the Board with an update on current contracts and procurements. She stated staff was making progress with the TPA search process. She provided

updates on the status of contracts for Segal, Mercer, Bank of the West and Galliard Capital Management and noted the Segal contract was being finalized.

A motion was made by Mr. Amerian, seconded by Mr. Schoonover, to receive and file the quarterly report regarding the status of Deferred Compensation Plan contacts and procurements; the motion was unanimously adopted.

Mr. Cannon was not present for the vote on this item. Mr. Mumma moved the meeting forward to item number 9.

9. BOARD REPORT 15-55: PLAN PROJECTS & ACTIVITIES REPORT

Ms. Chang presented the monthly staff report and updated the Board on the status of pending Communications, Operations, Administration and Governance projects. Mr. Ciranna asked whether alphanumeric passcodes would be required for all Plan participants. Ms. Chang stated new participants were required to create an alphanumeric passcode, while it was optional for current participants to change their current PIN to an alphanumeric passcode. She stated the Plan wanted to provide current participants with adequate notice before making alphanumeric passcodes mandatory for all participants.

A motion was made by Mr. Ciranna seconded by Mr. Thomas, to receive and file staff's update on Plan projects and activities during September 2015; the motion was unanimously adopted.

Mr. Mumma moved the meeting back to item number 4 of the agenda.

10. REQUESTS FOR FUTURE AGENDA ITEMS

None.

11. FUTURE MEETING DATES – November 17, 2015

12. ADJOURNMENT

A motion was made by Mr. Amerian, seconded by Mr. Thomas, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 11:27 a.m.

Mr. Ciranna was not present for the vote on this item.