CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
MEETING OF OCTOBER 16, 2018
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:
Thomas Moutes, Vice-Chairperson
Raymond Ciranna, First Provisional Chair
Robert Schoonover, Second Provisional Chair
Wendy G. Macy, Third Provisional Chair
Joshua Geller
Hovhannes Gendjian
Linda P. Le

Not Present:
John Mumma, Chairperson
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
Curtis Kidder – Assistant City Attorney

MERCER INVESTMENT CONSULTING
Devon Muir – Principal

VOYA FINANCIAL
Michelle Williams – Vice President Strategic Relationship Management
Kelly Montgomery – Client Relationship Manager
La Tanya Harris – Registered Representative
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 Hovhannes Gendjian, seconded by Raymond Ciranna, to approve the minutes of the September 18, 2018 meeting; the motion was unanimously adopted.

4. BOARD TRAINING: U.S. RETIREMENT BENEFIT DESIGN

Staff indicated that the training on U.S. Retirement Benefit Design would have to be rescheduled because Wendy Young Carter, the presenter from Segal Consulting, was unable to attend today's meeting.

5. PLAN ADMINISTRATOR QUARTERLY REVIEW: JUNE 30, 2018

The Third-Party Administrator (TPA) quarterly review for the second quarter of 2018 was attended by Michelle Williams, Vice President Strategic Relationship Management; Kelly Montgomery, Client Relationship Manager; La Tanya Harris, Registered Representative; and Luis Chaves Guzmán, Participant Engagement Consultant. Ms. Williams began by discussing Plan goals for increasing participant enrollment and increasing the annual average contribution amounts for Fiscal Year (FY) 2017-18. She stated that the target for increasing enrollment was an increase of 6%, or approximately 2,325 new participants and the annual average contribution amount target was an increase of 2%, or approximately $264 per pay period. She indicated that the Plan exceeded the enrollment goal with 3,106 new participants but fell short in the annual average contribution, with an average dollar amount of $260 per pay period. She next discussed the Plan's goal of reducing account closures by 6% and stated that this goal was reached with 5.6% of closures. She indicated the Plan fell short in reducing rollovers to 4%, with 10.4% of the retiree population rolling over their funds to another plan.

Ms. Williams continued by stating that Plan assets had reached $6.4 billion. She stated there were 46,028 participants having an average account balance of $138,282. She indicated the average loan balance was $14,911. She stated the total full-time employee participation rate was 75%, the average pre-tax deferral was $305.30, and the average Roth deferral was $161.75.

Ms. Williams next provided a brief overview of participation rates of the top and bottom ten City departments and Memorandum of Understanding (MOU) groups, and indicated that there are opportunities to improve participation within under-represented groups. Mr. Gendjian inquired about the lower participation rate for Department of Water and Power (DWP) employees as compared to sworn. Steven Montagna responded that the sworn are a unique population having historically reached 85-90% participation due to a strong peer network that reinforces the benefits of enrolling into the Plan early. He stated the DWP participation rate is aligned with the overall average. Mr. Gendjian offered his help with outreach efforts for DWP employees. Linda Le added that the DWP annuity program competes with the City's Plan and that could also explain some of the challenges of enrolling DWP employees in the Plan.

Ms. Williams next reported on contribution amounts, noting that the Plan had 31,527 participants making contributions in the second quarter of 2018. She discussed contribution amounts by age group and participants contributing as a percentage of salary. Mr. Ciranna asked for data regarding the number of participants contributing the maximum dollar amount. Mr. Montagna responded that the data can be provided at a future meeting; Ms. Williams indicated that she would include it in future quarterly reviews.

Ms. Williams reported on participant distributions and provided a breakdown by disbursement type: full, installment, and partial distribution. She reported on unforeseeable emergency withdrawal requests and the number of those approved and denied, with the top withdrawal reason being mortgage foreclosure/eviction. She stated that denied requests were mostly due to invalid supporting documentation or a bill not being provided. She reported on rollover activity and provided an overview of the top ten external financial institutions to which participants roll their accounts. She highlighted rollovers that were going to the City's three pension systems and which represent 59% of rollovers exiting the Plan.

Joshua Geller asked if there were any metrics regarding what the rollovers go towards, for example buying service credit or purchasing an annuity. Mr. Montagna responded that most rollovers are for purchase of service credits. Ms. Le stated that for the Water and Power Employees' Retirement System (WPERP) it is all purchase of service credits, and Mr. Ciranna indicated the same for Los Angeles Fire and Police Pensions (LAFPP).

Ms. Williams reported on the balances by investment, transfer activity by investment, and participant balances by number of investment. She stated that the risk-based portfolios have a high participation rate. She reported on the Self-Directed Brokerage Option (SDBO) and participant loans. Mr. Ciranna asked if demographic information was available regarding those investing in the risk-based portfolios. Ms. Williams added that new participants generally prefer the risk-based portfolios but investor inertia often results in legacy assets remaining in those assets. She stated that the demographic breakdown would be included in future quarterly reviews. Wendy Macy stated that in accordance with the Mayor's gender equity goals, this data could support targeted outreach efforts.

Mr. Guzmán reported on participant engagement and interaction with the retirement calculator. He stated that 22% of participants took action after interacting with the retirement calculator. He reviewed engagement statistics by phone call, mobile application, paperless transactions, and the top ten reasons for call center contacts. Ms. Harris reviewed local representative site visits for the quarter.

6. BOARD REPORT 18-44: 2018-2019 INVESTMENT MANAGER SEARCHES

Mr. Montagna reported that at its July 17, 2018 meeting the Board requested that the

Investments Committee develop recommendations regarding the upcoming investment manager search plan consisting of the type of search process, the proposed investment and evaluation criteria for each mandate, and provider selections following execution of the search process. He stated that the Investments Committee convened on September 17, 2018, and this report provided their recommendations for moving forward with searches. He indicated that Devon Muir of Mercer Investment Consulting (Mercer) was present to summarize the findings that informed the Committee's recommendations.

Mr. Muir began by stating that Mercer first developed recommendations as to whether to conduct a mutual fund search only, an institutional manager procurement only, or a combination of both. He explained that a mutual fund search allows the Board to look at the entire mutual fund universe and screen by the criteria as established by the Board. He indicated that institutional manager procurement involves a Request for Proposal (RFP) and may produce a smaller number of responses but allow the City to customize fee arrangements.

Mr. Muir discussed the passive fund search recommendations and indicated that the estimated mandates consist of over $2 billion in the DCP Large-Cap fund with $232 million, $130 million and $194 million in the DCP Bond, DCP Small-Cap and DCP Mid-Cap funds, respectively. He explained that the Plan's mutual fund investments managed by Vanguard currently have relatively low expense ratios ranging from two to four basis points (0.02% - 0.04%). He stated there has been a compression of index fund pricing within the market space and the City may have opportunities for fee reductions. He reviewed the qualitative factors for the search including assessing investment team strength, portfolio construction, transaction costs, and business management. He then reviewed quantitative factors including tracking error and net return. He stated that the Committee's recommendation was to conduct an institutional manager procurement process as well as mutual fund search.

Mr. Muir indicated that with respect to bond investments a potential exists for lower commingled trust pricing. He discussed proposed screening requirements for the DCP Bond Fund passive manager search. He stated the objective was to screen five to seven of the most qualified index providers in categories that would meet the thresholds set by the Plan. He indicated the minimum criteria includes availability in pooled investment vehicles; vehicles that are open to new investors; and vehicles compatible with the City's Third-Party Administrator platform. He stated the desired strategy should have at least a 10 year track record with a demonstrated low level of tracking error against the Bloomberg Barclays U.S. Aggregate Bond index. He stated that the desired pool vehicle should have a substantial amount of assets because having scale is an important factor in not only better replication of the benchmark but also lower costs, as fixed costs of the funds are distributed across a larger base of investments. He indicated screening would look for expense ratios equal to or less than three basis points.

Mr. Muir stated the intent of the screening criteria is to provide minimum requirements for the institutional manager procurements. He also indicated that the same criteria would be utilized when administering the proposed concurrent mutual fund screenings, allowing for the delivery of a best-in-class index fund pool for consideration by the Investments Committee and Board.

Mr. Muir proceeded to provide an overview of the proposed passive Large-Cap equity procurement. He stated there was $2.3 billion in the mandate size. He indicated that although the Plan is currently paying a very low expense ratio of two basis points (0.02%), an institutional fund procurement may result in lower costs which can translate to meaningful savings when looking at the overall large asset base. He listed the minimum screening criteria, stating that the Plan is looking for availability in pooled investment vehicles, at least a 10-year record of tracking the S&P 500, and large, seasoned strategies consisting of over $50 billion in assets. He stated the minimum expense ratio to be considered is three basis points.

Mr. Muir proceeded to provide an overview of the proposed Passive Mid-Cap equity procurement and mutual fund screening criteria. He stated the current cost of this mandate was four basis points and this was the proposed minimum threshold for the screening. He stated the desired strategy should have a track record of seven years or longer. He indicated the suggested benchmark was the S&P Midcap 400 Index or a relatively interchangeable index, provided that the returns are relatively similar and have a high degree of correlation. He stated the minimum assets under management in the strategy should be at least $5 billion. He briefly provided an overview of the Passive Small-Cap Equity procurement, indicating that the sought after expense ratio would be four basis points or lower.

Mr. Muir provided an overview of the proposed active investment fund search evaluation factors. He noted qualitative factors include the evaluations of investment research strength, portfolio construction, implementation of strategy, and effective business management in the interest of investors over the long term. He briefly reviewed the quantitative factors indicating that the Board has always had an emphasis on long-term performance as opposed to short-term. He stated that given vacillations in short-term performance the Plan wants to anchor to longer term performance of seven to ten years if available, and seek a demonstrated level of excess performance in a risk managed fashion. He reviewed the recommendations and noted that although most of the proposed search processes entailed conducting a mutual fund search, there was value in conducting institutional manager procurements for certain mandates. He first reviewed the Active Core Plus mandate for which the Investments Committee recommended administering an institutional procurement. He stated that savings may be possible and that a reduction in the expense ratio to 10 basis points would translate to $287,000 in savings. He outlined the minimum criteria for the screening process which includes focusing on seasoned strategies of seven years or longer, strategies of at least $7.5 billion under management, and strategies with an investment expense ratio equal to or less than 0.34%.

Mr. Muir provided an overview of the proposed Active Mid-Cap and Mid-Cap Value search process. He stated the recommendation was to continue using a mutual fund search process for these strategies given that pricing within the institutional mutual fund universe continues to be competitive in comparison to typical commingled trust pricing. He stated that the capacity of top managers was relatively constrained. He indicated the minimum screening criteria for these two strategies includes at least a five year track record with minimum assets under management being at least $600 million. He stated the maximum assets in the strategy should be $25 billion and that investment expenses should be no higher than 1%.

Mr. Muir proceeded to review the proposed search process for the Plan's Active Small-Cap Growth and Small-Cap Value mandates and noted that the estimated mandate sizes each equate to $131 million. He outlined the minimum search criteria and indicated that the Plan is looking for seasoned track records with minimum assets in excess of $600 million and an expense ratio of 1% or below.

Mr. Muir provided an overview of the proposed institutional manager procurement and mutual fund screening process for the Active International Developed Markets Equity mandate. He stated there is $401 million dollars in this category. He indicted the rationale for issuing an RFP for this mandate is because this institutional product category has shown to have a median cost of 53 basis points (0.53%) for a mandate size of $250 million or greater, whereas the Plan is currently paying 71 basis points (0.71%). He stated that if the Plan were to save .1% of the $400 million dollars, it would translate to $400,000 in savings for the Plan.

Mr. Muir concluded his presentation by reviewing the proposed search processes for the Plan's International Small-Cap Equity and Active Emerging Markets Equity mandates. He stated both strategies have estimated mandate sizes of $105 million. He stated that the recommendation is to continue using mutual funds for these mandates due to the lack of institutional products in both of these spaces. He indicated that for the International mandate the Plan was looking for strategies that have assets under management ranging from $600 million to $20 billion along with an investment expense ratio equal to or less than 1.15%. He stated that for the Emerging Markets mandate the criteria included screening strategies that range from $5 - $35 billion under management with an investment ratio equal to or less than 1.15%.

Mr. Ciranna thanked Mr. Muir and his team for conducting the research and addressing, in the presentation, the questions previously posed by the Investments Committee members. He stated that expanding some of the searches to the institutional market space provided opportunities for the Plan to obtain the best value.

Following this discussion, **a motion was made by Mr. Ciranna, seconded by Mr. Gendjian, to (1) approve Investments Committee recommendations for 2018-2019 Deferred Compensation Plan investment manager searches with respect to (a) type of search process (mutual fund and/or institutional manager procurement) to be applied to each investment mandate and (b) the evaluation criteria for each mandate; and (2) direct staff to return to the Board with a proposed Request for Proposal (RFP) for institutional managers for mandates approved by the Board; the motion was unanimously adopted.**

7. BOARD REPORT 18-45: WEB RESOURCE CENTER AND SOCIAL MEDIA UPDATE

Daniel Powell reported on the Plan's new onsite resource center, which launched on September 27, 2018. He stated that during the first week of launch, the resource center had been accessed by 1,770 unique visitors. He stated that staff is also developing a custom microsite for the National Retirement Security Week campaign through this resource center. He next presented two new Plan videos, “How to Save” and “How to Invest.”

Mr. Geller asked how many videos staff anticipated releasing per quarter. Mr. Powell responded that the release of videos would depend on the complexity of the videos filmed and subsequent production, but approximately two to three per quarter. Mr. Moutes commented that the State of Missouri presented some excellent videos during the NAGDCA conference and that it may be interesting for the Board to review some of their videos. Mr. Montagna indicated that staff could provide some samples of their videos at the next Board meeting.

Following this discussion, **a motion was made by Ms. Le, seconded by Mr. Geller, to (a) receive and file the activity update regarding the Deferred Compensation Plan web resource center and social media page and (b) approve new videos for posting; the motion was unanimously adopted.**

8. BOARD REPORT 18-46: PLAN PROJECTS AND ACTIVITIES REPORT: SEPTEMBER 2018

Mr. Montagna reported that the Plan’s National Retirement Security Week campaign is scheduled for October 21-27, 2018. He stated that staff had been working with the Mayor’s Office on filming a short video supporting this campaign and it would be released to all City employees and retirees enrolled in the Plan. He stated that the campaign and the City’s Plan will also be presented with a commendation from the City Council and Councilmember Paul Koretz, Chair of the Personnel and Animal Welfare (PAW) Committee.

Mr. Montagna provided an update on the outside tax counsel procurement and reported that staff and the Board’s legal counsel will be conducting interviews with four firms. He stated that once the interviews have concluded a report will be provided to the Board with recommendations.

Matthew Vong reported on the Financial Auditing Services Request for Proposal (RFP) and stated that two firms submitted responses and that the proposals are being reviewed by the Personnel Department’s Administrative Services Division (ASD). He stated that once ASD determines whether the submissions are compliant with the City’s general contracting requirements staff would proceed with evaluating and scoring the responses. He indicated that staff was planning to submit a recommendation to the Board at its December 18, 2018 meeting.

Mr. Powell provided an update on the FDIC-Insured RFP and stated that the three firms that submitted responses have been found to be in compliance with the City’s contracting requirements. He stated that staff has completed its evaluation of written responses and was scheduling the firms for performance examinations.

Mr. Vong reported on staff’s visit to Voya’s headquarters and call center and stated that staff was able to observe the daily operations of Voya’s staff and discuss how they can enhance Plan services for participants. Mr. Powell added that Voya is working on new resources for the Plan, which will be helpful in engaging participants through targeted outreach and other communication campaigns.

Following this discussion, **a motion was made by Mr. Ciranna, seconded by Mr. Geller, to receive and file the staff monthly activity report for September 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 10:31 a.m.

Minutes prepared by staff members Kevin Hirose and Matt Vong.