CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
MEETING OF MAY 21, 2019
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:
John Mumma, Chairperson
Raymond Ciranna, First Provisional Chair
Thomas Moutes, Vice-Chairperson
Robert Schoonover, Second Provisional Chair
Wendy G. Macy, Third Provisional Chair
Joshua Geller
Neil Guglielmo
Hovhannes Gendjian

Not Present:
Linda P. Le

PERSONNEL DEPARTMENT STAFF
Jody Yoxsimer – Assistant General Manager
Steven Montagna – Chief Personnel Analyst
Isaias Cantú – Senior Management Analyst II
Daniel Powell – Personnel Analyst
Kevin Hirose – Personnel Analyst

OFFICE OF THE CITY ATTORNEY
Curtis Kidder – Assistant City Attorney

MERCER INVESTMENT CONSULTING
Devon Muir – Principal
Ana Tom-Chow – Associate

VOYA FINANCIAL
La Tanya Harris, Registered Representative
Luis Chaves Guzmán, Participant Engagement Consultant

1. CALL TO ORDER

John Mumma 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 Neil Guglielmo, to approve the minutes of the April 16, 2019 meeting; the motion was unanimously adopted. Joshua Geller was not present for approval of the minutes. A quorum of the Board was present to vote on this item.

4. INVESTMENT MANAGER PRESENTATION

Note: Mr. Geller arrived during the Investment Manager Presentation.

The presentation from East West Bank (EWB) on the Deferred Compensation Plan (DCP) FDIC Insured Savings Option was provided by Paul Branks, Senior Vice President Regional Manager; Sherrie Carr, Vice President Branch Manager; and George Hernandez, Program Manager. Mr. Branks began by providing a historical overview of EWB and stated that their headquarters is in Pasadena, California, with 81 of their 120 bank branches located in California. He stated that since September 2014, the inception of the contract between the City and EWB, the bank's crediting rate to the DCP has increased by 2.38%. He stated that per participant balances are insured by the FDIC for up to $250,000, and any exceeding amounts are secured by EWB via Standby Letters of Credit issued by the Federal Home Loan Bank of San Francisco.

Mr. Branks explained that the crediting rate is a bank money market rate and is tied to the three-month London Inter-bank Offered Rate (LIBOR). He indicated that there might be a slight decrease in general interest rates during the year and that the market is in a low interest rate environment. He provided a historical overview of interest rates from 1984 and compared the three-month LIBOR to the quarterly Federal Funds Rate (Fed Funds) and the three-month United States Treasury Bill. He explained that Secured Overnight Financing Rate (SOFR), has been proposed as the replacement for LIBOR; however, given the limited data available there is uncertainty in recommending this as a replacement. He stated that LIBOR remains widely used by national and international businesses and selecting a successor benchmark would be a challenge. He indicated that should LIBOR cease to exist, EWB will negotiate the successor rate with the DCP.

Thomas Moutes asked about EWB's level of confidence that steps have been taken to ensure that LIBOR is not being manipulated by investment managers. Mr. Branks responded that although any given trader may be able to manipulate LIBOR by one or two basis points to increase their commission, it is difficult to consistently do so over a long period. He stated that participants in the DCP should have not experienced any diminution in their credited rate.

Devon Muir asked how EWB invests DCP assets. Mr. Branks responded that EWB's primary activity is reinvesting into the community through small and mid-sized business loans, with the majority issued in Southern California. He indicated that EWB has satellite locations in China, which are used to facilitate foreign exchange transactions.

5. QUARTERLY INVESTMENT & ECONOMIC REVIEW: MARCH 31, 2019

Mr. Muir, Principal, and Ana Tom-Chow, Associate from Mercer Investment Consulting (Mercer) introduced themselves to the Board. Mr. Mumma asked if Mr. Muir had any comments to add regarding LIBOR. Mr. Muir responded that Mercer's views have not changed and he believes that LIBOR will be deemphasized in the future. He indicated that LIBOR is expected to end in the next couple of years.

Mr. Muir presented the Performance Evaluation Report for the First Quarter of 2019. He stated that overall market performance was positive for the quarter and that U.S. equities had strong performance across the board. He indicated there was resurgence in growth equities as represented by performance of the Russell 1000 Growth at 16.1%. He reported that Small-Cap stocks performed well, as represented by performance of the Russell 2000 at 14.6%, outperforming the S&P 500. He indicated that International equities performed well in absolute terms but did not compare favorably with U.S. markets. The MSCI EAFE was up 10% and Emerging Markets were up 9.9% for the quarter. He stated that within the Fixed Income category, bond returns were positive, particularly in high yield bonds which were up 7.3% for the quarter. He explained that the DCP active bond fund, Loomis Sayles Core Plus Bond Fund, had a strong quarter due to their strategy which has a sizeable position in high yield bonds. He stated that managers that had exposure to Real Estate Investment Trust (REITS) had positive performance for the quarter. He explained that REITS perform well when interest rates fall, and when interest rates rise, they do not perform well. He stated that despite the negative fourth quarter of 2018, the DCP returns are positive over the trailing four quarters for U.S. equities, but returns remain negative for International equities.

Mr. Muir stated that the Federal Reserve (Fed) had previously projected that two interest rate increases would occur in 2019, however it has recently reneged from that position. He indicated that due to poor equity market performance at the end of 2018, the market is currently projecting interest rate decreases, with a low probability of interest rate increases in 2019. He reported that the Fed indicated it would end its policy of quantitative tightening by the end of the year, which would provide a positive tailwind. He stated that economic growth concerns raised in the fourth quarter of 2018 have diminished and the fear of heading into a recession have subsided. He indicated that expectations are for moderate growth in the near future. He indicated that there continues to be uncertainty regarding whether a trade deal between the U.S. and China would result in lifted tariffs.

Mr. Muir reported that U.S. economic growth is expected to be higher than the Eurozone, United Kingdom, and Japan. He indicated that it's expected by economists that in 2020 growth will decline but remain positive with no projection of a recession. He reviewed the impact of trade tensions and indicated that tariffs enacted across the U.S. and China do not provide an economic benefit in the short term. He indicated that while the intention of imposing tariffs is to achieve a long-term economic benefit, the short-term expectation is a significant retraction in Gross Domestic Product (GDP). He reviewed U.S. equity performance relative to the MSCI EAFE international benchmark and indicated that U.S. equities had positive performance relative to international stocks. He explained that valuation theories suggest a possibility of mean reversion with increased performance of international equities, similar to performance seen in the 1970s through the mid-1990s. He noted that market leadership tends to rotate between geographies which exhibits the value in diversification. He next reviewed sector returns in the U.S. equity market and reported that information technology was the market leader at 20.3% for the quarter. He stated that the health care sector experienced diminished performance, at 6.8% for the quarter, caused by concerns of the potential implementation of a single-payer health care system in the U.S. and ongoing reporting about pharmaceutical company price gouging.

In discussing DCP statistics, Mr. Muir indicated the DCP ended the quarter at approximately $6.6 billion and first quarter assets increased by approximately $560 million, quarter over quarter, from contributions and investment gains. He stated the DCP had 47,395 participants with account balances and the average account balance was $135,032. He stated that the Investments Committee is scheduled to meet in June to discuss the ongoing investment manager searches.

Mr. Muir then reviewed Mercer's due diligence meetings with managers. He noted that Brandes informed Mercer that their head of financial research left the firm, however Mr. Muir noted that the change doesn't affect Mercer's rating of the firm. Mr. Muir indicated that Mercer reaffirmed its convictions for Dimensional Fund Advisors' process and strategy for their emerging markets and small-cap funds. Mr. Muir noted that significant changes are underway at Galliard, which manages the DCP Stable Value Fund. He reported that Well Fargo, which owns Galliard, had been searching for an entity to purchase its recordkeeping business and announced that it would be sold to Principal. Galliard provides a stable value fund collective trust in which 30% of the assets were from Wells Fargo record kept clients. He noted that one concern is that there is a two-year non-compete requirement which would prevent Principal from trying to take that business, but after that period there is some uncertainty. Mercer downgraded their rating slightly for the collective trust, however the DCP has a separate account with Galliard which maintains an A rating. He indicated that there are also several leadership changes ahead, but they seem to be orderly and what is to be expected of a generational transition. He reported that, among the changes, two of the founders are leaving the firm but will stay on in an advisory capacity. He also noted that Mike Norman, who has worked with the DCP on its separate account, will promote to the head of Galliard.

Mr. Muir next reviewed the allocation of assets in the DCP. He reported that the Stable Value Fund holdings are at 17.7%; that the DCP Large-Cap Stock Fund continues to be the single largest option, at 31%; and the Risk-Based Profile funds increased to 19.5%. He indicated that the Risk-Based Profile funds provide diversification and serve participants well.

Mr. Muir reported on investment expenses and stated Mercer monitors the fund net expense ratio, which is 18 basis points. He stated that 22 basis points is the weighted average cost after administration is included, which is a very competitive cost level. He concluded his presentation by reviewing performance relative to benchmarks and indices for each of the DCP's funds for the period ending on March 31, 2019. He noted that the Brandes International Small Cap Equity Fund has underperformed and that a top priority during the upcoming Investments Committee meeting will be the International Small-Cap strategy.

6. BOARD REPORT 19-17: DCP CORE FUND INVESTMENT MANAGEMENT SERVICES REQUEST FOR PROPOSAL (RFP)

Isaias Cantú reported that at its September 17, 2018 meeting, the Board approved the search types and criteria on the investment mandates. He stated that at its April 16, 2019 meeting, the Board approved staff's Stable Value Fund Investment Management Services RFP, which is expected to be issued in June. He stated that Mercer has finalized its analysis on the six investment mandates for the mutual fund only search process and will convene the Investments Committee to discuss Mercer's findings and prepare Board recommendations. He stated that the DCP Core Menu RFP was based on the Stable Value RFP template, excluding the engagement exercise due to the number of responses staff anticipates to receive.

Mr. Cantú stated that based on the Board's input on the Pledge Form (Pledge) during its April 16, 2019 meeting, staff considered options with regard to necessity and frequency of the form. He stated the Governance Policies/Bylaws (Bylaws) contain language with regard to the Board's obligations for procurements and contracts. He indicated that the Bylaws are scheduled to be reviewed in July 2019, and ongoing use of the Pledge can be discussed by the DCP Governance & Administrative Issues Committee (Plan Governance). In the interim, he stated that staff recommends the Board continues with the current process of completing a Pledge for each RFP. Furthermore, he stated that staff recommends that the Board approve the recommendations as provided in the report.

Raymond Ciranna asked if any City funding is used for the investment mandates. Steven Montagna responded that the investment mandates are fully funded by participants. Mr. Ciranna suggested that the RFP be clarified to indicate that managers are able to bid for any of the DCP funds they are interested in providing services for, even multiple funds. Mr. Ciranna asked that staff highlight and clarify in the RFP that the DCP will conduct a search for institutional managers in addition to mutual funds. He stated that given the standard RFP language on subcontracting, he had concerns regarding investment managers either subcontracting their services or shifting their responsibilities to another entity. Mr. Muir responded that there is a possibility that a subadvisor relationship could exist, but was uncertain about subcontracting with investment managers.

Mr. Ciranna relayed his concerns regarding the City's contracting requirements and its impact on investment managers responding to the RFP and on the review process. Curtis Kidder responded that the City's Standard Provisions are triggered by contract type and contract funding amount, and are generally applicable to all City contracts, including the DCP. Mr. Montagna responded that if a firm submitted a proposal that did not demonstrate compliance with the City's General Contracting Provisions as indicated in the RFP, they would be excluded from consideration. Mr. Mumma, Mr. Guglielmo and Mr. Ciranna relayed their concerns with the questionnaire's rated questions. Mr. Ciranna and Mr. Guglielmo requested certain revisions to the questionnaire, given the Board's fiduciary responsibilities and maximizing returns for DCP participants. Mr. Ciranna commented that Los Angeles Fire and Police Pensions (LAFPP) and Los Angeles City Employees' Retirement System (LACERS) are not subject to the City's General Contracting Provisions for their investment contracts.

Mr. Montagna recommended that the Board defer action on DCP Core Menu RFP for a future meeting to allow staff and Board Counsel to refine the RFP and further research contracting requirements for this procurement. He noted that the current investment managers are comprised of mutual funds, thus there is no expiration date. He stated that relative to process, staff would work with Mercer on evaluating and scoring the RFP responses, particularly in technical areas, and bring the results of the DCP Core Menu RFP and the comparable mutual fund searches to the Investment Committee for review and Board recommendation.

Upon reviewing the evaluation process, Mr. Ciranna and Mr. Guglielmo relayed their concerns on how scoring would be applied and eventual selection of investment managers. Mr. Kidder stated, as approved by the Board, the DCP Core Menu RFP lists the criteria, factors, and weighting by which investment managers would be evaluated. He indicated that factors not identified in the RFP cannot be considered during evaluation of the RFP. Mr. Moutes asked about options giving the Board greater flexibility in awarding a contract. Mr. Kidder responded that scoring bands allow for some flexibility, in that a scoring band may contain multiple investment managers. He indicated that other options to provide more flexibility to the Board will be researched. Mr. Geller cautioned the Board on using a banding approach, as in his experience it could lead to lengthy meetings, with presentations, questions and answers, and other agenda items.

Mr. Montagna stated that the prior round of investment menu selections involved mutual fund only searches. He stated the challenge lies with blending the process steps of a mutual fund search with the requirements of an institutional manager procurement, which requires adhering to the City's procurement rules. He stated the Board could consider referring the synchronization of mutual fund searches and institutional manager procurements to the Investments Committee for recommendation to the Board. He stated that staff will return with conceptual options for Board consideration prior to returning with a draft RFP. Mr. Ciranna requested for information on the procedure and costs associated with transitioning between investment managers and/or mutual funds for a future meeting.

Following this discussion, **a motion was made by Wendy Macy, seconded by Mr. Ciranna, that staff (a) conduct research into whether the general City contracting requirements apply or if specific sections can be excluded from DCP contracts and (b) explore potential options for the**

DCP Core Menu Investment Management Services RFP that provide the Board flexibility in evaluating investment managers; the motion was unanimously adopted.

7. BOARD REPORT 19-18: CYBERSECURITY REVIEW

Mr. Cantú reported on the status of the DCP Cybersecurity review. He stated that on October 30, 2013, Mayor Eric Garcetti issued Executive Directive No. 2 (ED2), which assigned the Information Technology Agency (ITA) the responsibility to develop and ensure compliance of the City's cybersecurity policies. He stated that ED2 made each department responsible for securing departmental information and personal user data. He stated that ED2 includes promoting cybersecurity awareness, provides annual training on cybersecurity, and requires the creation of a business continuity and disaster recovery plan.

Mr. Cantú continued by stating that ED2 created the City's cybersecurity organization, which is comprised of three branches: the Cyber Directorate, the Integrated Security Operations Center (ISOC), and the Cyber Lab. He briefly explained the role of each of the City's cybersecurity branches. He next explained the different types of cyberattacks that the City focuses on: phishing, ransomware, and unsafe browsing. He stated that based on Segal Consulting's workshop, held in January 2019, staff discussed how to identify and address DCP's cybersecurity exposure to cyberattacks, which included performing an internal assessment of all entities involved with the DCP, reviewing policies and procedures in place, taking protective measures, and providing training and resources.

Mr. Cantú reviewed the City's resources available for cybersecurity and stated that through ITA, the ISOC works with City departments to address cyberattacks, and provides monthly best practice email notifications to all City employees. He briefly reviewed the ISOC resources that are currently in place, such as monthly emails about phishing and mandatory cybersecurity training for all City employees. He indicated that ISOC has the ability to provide more intensive cybersecurity training through their vendor Wombat. He stated that staff is working with ITA to participate in upcoming advanced cybersecurity training. Furthermore, he stated that staff conducted research into cyber-liability insurance and that the Office of the City Administrative Officer's Risk Management Division (Risk Management) indicated that the City does not have a cyber liability insurance policy. He stated that Risk Management informed him that they are working with the City's insurance broker to obtain umbrella coverage for the City and anticipate on receiving quotes for coverage shortly.

Mr. Cantú reviewed Voya Financial (Voya) resources available for cybersecurity and stated that Voya provided the Board and staff a cybersecurity review in December 2017. He reviewed Voya's cybersecurity resources and stated that Voya created login and password creation protocols to control access to the participant website. He indicated that Voya is working with staff in process refinements on the reduction of paper forms to reduce and control exposure of personal information. He next reviewed Personnel and Employee Benefits Division's steps for addressing cybersecurity. He stated that staff reviewed and implemented internal controls to limit the types of electronic and hard copy files it maintains to reduce exposure. He stated that staff recommends the Board approve the recommendation as provided in the report. Furthermore, he stated that the Plan Governance Committee could develop recommendations on the frequency of discussion of cybersecurity.

Mr. Guglielmo asked about Voya's business continuity plan in event of a cyberattack or data breach, the steps they would take to inform interested parties, and the type of services they would offer. He stated that one of the topics discussed in cybersecurity is behavioral analysis and how artificial intelligence is used to look for indicators on potential problems. Mr. Cantú responded that the Voya contract contains a data security agreement, which lists how they would respond, and how they would notify members in the event of a cyberattack. He stated that the Board Chairperson would be notified within 24 hours of a breach. He stated that Voya conducts penetration testing at least once every 12 months to ensure that they are secure from any new exposure or tactics. He also reported that the contract includes a $35 million cyber liability insurance policy for the City.

Mr. Moutes stated that given the sensitive information and security to DCP participants, he recommended the creation of an ad hoc committee rather than holding a public committee meeting. Mr. Kidder stated that the Board's Governance Policies/Bylaws allow the Board Chairperson to establish ad hoc committees. He stated that ad hoc committees cannot be comprised of a quorum of the Board, must be of limited duration, and must be of limited jurisdiction. Mr. Guglielmo requested to be alerted when this item is scheduled for a Committee meeting.

Following this discussion **a motion was made by Mr. Moutes, seconded by Mr. Guglielmo, to (a) receive and file the cybersecurity review for the DCP and (b) as amended, request that the Board Chairperson refer future study of cybersecurity to an ad hoc committee for the purpose of developing recommended strategies and structure for addressing cybersecurity risk management and drafting a DCP cybersecurity policy; the motion was unanimously adopted.**

8. BOARD REPORT 19-08: PROJECTS AND ACTIVITIES REPORT: APRIL 2019

Kevin Hirose reported that staff published four financial wellness blog posts on the DCP Resource Center page. He indicated that blog posts are frequently refreshed to provide educational resources to participants. He stated that the Plan Administrator Quartely Review, beginning with the quarter ending March 31, 2019, will contain survey results from former participants that elected to take a full distribution or an outgoing rollover to an external account or advisor. He stated that feedback gathered from the survey will assist staff in areas such as understanding the reasons behind elections and suggestions for improvement. He reported that the first quarter 2019 statements were released to participants via regular mail and email in April 2019.

Mr. Hirose indicated that as requested by the Board during its March 2019 meeting, he would review engagement statistics for the DCP's Resource Center for April 2019. He reported on the percent of participants that use mobile devices (25%) to access their account and the percent of participants that access their accounts via the DCP's Resource Center (68%). He stated that both percentages are a positive sign given staff's promotional efforts. He reviewed DCP Facebook page statistics and stated that posts to the page reached 444 unique individuals. He stated that the Facebook page receives modest traffic and that staff will continue to promote it page through communication materials and during DCP events and campaign.

Mr. Hirose reported that staff purchased an iPad for participants and new enrollees to use when checking-in for counseling with a Voya representative. He stated that the check-in application allows staff to track the reasons and the time spent with each participant, which allows staff to understand what outreach services are needed for specific populations. He stated participants are sent a follow-up survey asking about their experience with the Voya representative and feedback with the services offered. He stated that staff has received positive feedback to date.

Mr. Hirose reported that Mr. Gendjian attended the Advanced Investments Management program, held at the Wharton School. Mr. Gendjian spoke highly of the program and recommended his collegues take it. Mr. Hirose stated that Board members can contact him if they are interested in training as listed on the Travel/Training memo. He stated that staff's effort to fill its staffing vacancy remains ongoing. Lastly, he reported on the 2019 Strategic Initiatives, stating that Mr. Montagna met with Robert Schoonover to discuss labor organization outreach strategies on expanding the Automatic Enrollment Program (AEP). He stated that the Board's outside tax counsel contract with Ice Miller was executed and the City Attorney has transmitted the Plan Document to Ice Miller for review. He indicated that pending feedback from Ice Miller, Plan Governance will convene to review the proposed revisions. He stated staff is finalizing its work on the Deemed IRA Review and anticipates reporting to the Board at its June 18, 2019 meeting.

Following this discussion, **a motion was made by Mr. Gendjian, seconded by Mr. Schoonover, to receive and file the monthly projects and activities report for April 2019, including updates regarding Communications; 2019 DCP Strategic Initiatives Update; Operations; Completed Projects/Meeting Calendar; Staffing; and Committee Assignments; the motion was unanimously adopted.**

9. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Ciranna requested that staff report back on options for increasing the autonomy of the DCP.

10. ADJOURNMENT

The meeting adjourned at 11:23 a.m.

Minutes prepared by staff member Kevin Hirose.