

# Deferred Compensation Plan BOARD REPORT 14-55

Date: December 5, 2014  
To: Board of Deferred Compensation Administration  
From: Staff  
Subject: Passive Manager Search Recommendations

*Board of Deferred  
Compensation Administration  
Eugene K. Canzano, Chairperson  
John R. Mumma, Vice-Chairperson  
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Tom Moutes, Second Provisional Chair  
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## Recommendation:

That the Board of Deferred Compensation Administration approve the recommendations of staff and the investment consultant with respect to fund search types and search criteria for Deferred Compensation Plan passive equity and bond investment options.

## Discussion:

At its February 18, 2014 meeting, the Board adopted a search schedule for the Plan's investment options. The search schedule provides for rolling searches for all the Plan's investment options over a five-year time frame, as follows:

<b>INVESTMENT MENU SEARCH SCHEDULE</b>
<b>YEAR 1 (2014)</b>
Active Equity/Bond Funds FDIC-Insured Savings Providers
<b>YEAR 2 (2015)</b>
Passive Equity/Bond Funds Stable Value Fund
<b>YEAR 3 (2016)</b>
None
<b>YEAR 4 (2016)</b>
None
<b>YEAR 5 (2017)</b>
None

The Board is in the process of finalizing selections of all its actively managed bond/equity funds, as per its schedule. The search schedule now provides for investment manager searches for the Plan's passive equity and bond investment options in 2015, as well as a search for its Stable Value Fund manager (for which the Board approved a draft Request for Proposal at its November 18, 2014 meeting).

For its equity/bond managers, the IPS provides the Board with the option of conducting institutional manager procurements or mutual fund searches, depending upon what the Board determines to be in the best interest of Plan participants. For its 2014 active bond/equity manager searches, the Board utilized mutual fund searches as the search vehicle. Staff and the Board’s consultant, Mercer Investment Consulting (“Mercer”), are similarly recommending that the mutual fund search process be used for the 2015 passive manager fund searches.

The Mercer report also contains recommended fund search criteria for each investment option. The search criteria utilize and provide further specificity with respect to the existing investment fund parameters already included in the IPS. Upon adoption by the Board, the Investment Consultant will apply these search criteria against the applicable mutual fund universe of funds and, for each category, identify those funds which have passed the criteria. As was the case with its 2014 active manager searches, the results of this screening will then be presented to the Investments Committee for further review and for the purpose of developing recommendations for fund selection to the full Board.

The following table summarizes the funds to be included in the passive manager searches. Details as to the recommended fund search types and search criteria are included in the attached report from Mercer.

<b>Search Year 2 (2015)</b>							
	<b>Investment Menu Option</b>	<b>Fund Sub-Category</b>	<b>Presently Filled?</b>	<b>Incumbent Provider</b>	<b>Incumbent Fund</b>	<b>Assets</b>	<b>Recommended Search Vehicle</b>
<b>PASSIVE MANAGERS</b>	DCP Bond Fund	Passive Bond	Yes	Vanguard	Mutual Fund	\$250 million	<b>MUTUAL FUND</b>
	DCP Large-Cap Fund	Passive Large-Cap	Yes	Vanguard	Mutual Fund	\$1.6 billion	<b>MUTUAL FUND</b>
	DCP Mid-Cap Fund	Passive Mid-Cap	Yes	Vanguard	Mutual Fund	\$116 million	<b>MUTUAL FUND</b>
	DCP Small-Cap Fund	Passive Small-Cap	Yes	SSgA	Institutional (commingled fund)	\$102 million	<b>MUTUAL FUND</b>

All searches and final selections are expected to conclude within the first six months of 2015. Staff recommends that the Board adopt the search vehicle types and search criteria for each of the passive equity and bond fund options identified in this report and the attached report.

Submitted by: \_\_\_\_\_  
Steven Montagna