



## Board Report 19-26

Date: July 16, 2019

To: Board of Deferred Compensation Administration (Board)

From: Staff

Subject: Core Menu Investment Management Services Request for Proposal (RFP)

### Board Members

**John R. Mumma**  
*Chairperson*

**Thomas Moutes**  
*Vice-Chairperson*

**Raymond Ciranna**  
*First Provisional Chair*

**Robert Schoonover**  
*Second Provisional Chair*

**Wendy G. Macy**  
*Third Provisional Chair*

**Joshua Geller**  
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**Neil Guglielmo**  
**Linda P. Le**

### Recommendation:

That the Board (a) approve expanding combined institutional manager procurement and mutual fund search processes to include the Mid-Cap Value Equity, Mid-Cap Growth Equity, Small-Cap Value Equity, Small-Cap Growth Equity, International Small-Cap Equity, and International Emerging Markets Equity mandates; and (b) direct staff and the Investments Committee to work together to develop and submit a revised Core Investments Menu RFP for Board approval.

### Discussion:

#### A. Background

Following is a summary of the Board's actions to date regarding its 2018-19 investment manager search processes:

- At its **July 17, 2018** meeting, the Board considered a report from staff regarding upcoming investment manager searches for the DCP investment menu and a 2018-19 investment manager search plan.
- On **September 17, 2018**, the Investments Committee met to consider recommendations from staff and Mercer Investments (Mercer) with respect to fund search types and search criteria for each investment mandate.
- On **October 16, 2018**, the Board adopted recommendations from the Investments Committee with respect to fund search types and search criteria to be applied to each investment mandate.
- On **March 19, 2019**, the Board received and filed a report from staff providing an investment manager search update and indicating that staff would present a draft RFP for Stable Value Fund Investment Management Services for the Board's approval at its April 16, 2019 meeting.

- On **April 16, 2019**, the Board approved staff's proposed RFP for Stable Value Fund Investment Management Services. The Board further requested that staff return at the next meeting with a modified recommendation with respect to a proposed "Pledge Form Regarding Conflict-of-Interest, Confidentiality and Proposer Communications."
- On **May 21, 2019**, the Board reviewed staff's proposed draft RFP for DCP Core Menu Investment Management Services and requested that staff review options for modifying the RFP requirements as they relate to the City's general contracting requirements.
- On **June 18, 2019**, the Board directed staff to draft revisions to the Stable Value Fund and DCP Core Menu Investment Management Services RFPs to include an evaluation process which is aligned with the Board's established mutual fund search process and to work with the City Attorney's Office and Office of Contract Compliance to identify all non-applicable provisions of the City's general contracting requirements for the investment of DCP funds.

### **B. Expanding RFP to Include all Bond/Equity Investment Mandates**

As previously discussed with the Investments Committee and the Board, the DCP Investment Policy Statement (IPS) provides that the Board may utilize mutual fund searches and/or institutional manager procurements to fill the various investment mandates comprising the DCP's investment menu. Mutual fund searches are defined as a review of the broad universe of mutual fund investment vehicles available within a specific investment category and for which a contractual relationship between the fund manager and the DCP is not available or required. An institutional manager procurement is defined as a review of proposals from managers of institutional investment products (e.g., separate accounts, commingled trusts, and bank deposit accounts) within a specific investment category for which a contractual relationship between the fund manager and the DCP is required.

The IPS provides that the Board has the option of selecting either a mutual fund search or institutional manager procurement, or a combination of both, to conduct a search process. On October 16, 2018, the Board approved fund search types for all DCP investment options; some searches were designated as mutual fund only searches, and others designated as combined institutional manager procurement and mutual fund searches.

The Board previously approved mutual fund only search processes for the following investment mandates:

- Mid-Cap Value Equity
- Mid-Cap Growth Equity
- Small-Cap Value Equity
- Small-Cap Growth Equity
- International Small-Cap Equity
- International Emerging Markets Equity

The Investments Committee met on June 13, 2019, to begin its process for reviewing mutual fund search results for the Mid-Cap Value Equity and Mid-Cap Growth Equity investment mandates. However, following the Board's June 18, 2019 meeting, staff consulted separately with both Board counsel Curtis Kidder as well as Devon Muir from Mercer to discuss the desirability and feasibility of changing the current mutual fund only searches to combined institutional product and mutual fund searches.

Staff's interest in pursuing this possibility arose from the evolving concept for redesigning the DCP Core Menu RFP. In building out the broad parameters of the RFP, staff proposed to Board Counsel and Mr. Muir an RFP process which, at a high level, would flow as follows:

- Mercer would conduct an institutional manager procurement from its open database investment manager platform applying the investment screening criteria previously adopted by the Board and also outlined in the Investment Policy Statement
- Those fund managers, along with any other fund manager wishing to propose a fund product meeting the Board's investment screening criteria, would subsequently be provided the opportunity to submit a response to the RFP
- The RFP would be simplified to primarily request only that the vendor indicate its interest in having its product considered as part of the evaluation and verify that its fund information is current and fully updated on Mercer's open database platform
- Mercer would then prepare combined reports providing the Investments Committee with results of its evaluation of both the institutional funds as well as mutual funds that passed the Board's adopted screening criteria
- The Investments Committee would then evaluate all mutual fund and institutional fund candidates simultaneously and engage with the consultant to identify the most highly qualified funds to recommend to the Board

This RFP approach would provide the Board with the ability to cast the widest net for finding both high-quality fund managers as well as investment vehicles providing optimal pricing for the DCP and its participants. Given the benefits of conducting a search process with such broad reach, staff proposed to Board Counsel and Mercer that the RFP also include those searches presently identified as mutual fund only, thus ensuring that searches for all DCP core menu investment mandates would cast the widest net for high-quality fund managers and optimal pricing. Both Board Counsel and Mercer supported this approach.

Staff then discussed this option with Investments Committee Chair Ray Ciranna, proposing that the mutual fund only searches presently underway be suspended until such time as the Board could consider staff's recommendation to revise the searches. Mr. Ciranna agreed with suspending the searches until the Board could consider staff's recommendation. Mr. Ciranna and staff further agreed that as the redesigned RFP represents a new approach for the Board, it would be helpful to have the draft initially reviewed by the Investments Committee before it is taken to the full Board.

As a result, staff recommends that the Board (a) approve expanding combined institutional manager procurement and mutual fund search processes to include the Mid-Cap Value Equity, Mid-Cap Growth Equity, Small-Cap Value Equity, Small-Cap Growth Equity, International Small-Cap Equity, and International Emerging Markets Equity mandates; and (b) direct staff and the Investments Committee to work together to develop and submit a revised Core Investments Menu RFP for Board approval.

Submitted by:

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Steven Montagna