Board Report 21-52

Board of Deferred Compensation Administration

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Date: October 19, 2021

To: Board of Deferred Compensation Administration

From: Staff

Subject: Deferred Compensation Plan Investments Consulting Services Request for Proposals Evaluation

Recommendation:

That the Board of Deferred Compensation Administration (Board):

(a) Consider the information in this report regarding the evaluation of proposals received in response to the Deferred Compensation Plan Request for Proposals for investments consulting services;

(b) Request oral presentations from some or all of the proposers, if desired; and

(c) If oral presentations are not desired, and if the Board is prepared to take action following its review of the information in this report, make a final contract award, instruct staff to negotiate and draft a contract in consultation with Board counsel, and authorize the Board Chairperson to execute said contract on behalf of the Board, subject to agreement between the City and the provider as to all applicable terms and conditions and all necessary approvals.

Discussion:

A. Background

At its **March 16, 2021** meeting, the Board approved and authorized the release of a Request for Proposals (RFP) for investment consulting services for the Deferred Compensation Plan (DCP). Since that action, the following has occurred:

- **April 14, 2021** – The RFP was released to the vendor community on the Los Angeles Business Assistance Virtual Network (LABAVN), with a response deadline of May 20, 2021.
- **April 22, 2021** – A mandatory pre-proposal conference was held.
- **May 18, 2021** – Staff notified the Board that vendors were having difficulty logging into the LABAVN website due to a systems update and migration performed by Information

Technology Agency (ITA) staff. As a result, deadlines for each step in the RFP process were extended by three weeks so vendors could work with ITA to resolve login issues.

- **June 15, 2021** – Due to vendors continuing to experience technical issues with the LABAVN system, staff extended the RFP deadlines an additional two weeks, with proposals due June 24, 2021.
- **June 24, 2021** – Proposals were received from three firms: Callan LLC (Callan); Mercer Investment Consulting, Inc. (Mercer); and R.V. Kuhns & Associates, Inc. (RVK).
- **August 23-27, 2021** – A non-rated engagement exercise with each proposer was held for the sole purpose of clarifying written responses to the RFP.

The Personnel Department's Administrative Services Division evaluated the proposals for compliance with the City's general contracting requirements. All firms were determined to have satisfied these requirements. Staff subsequently completed all of the process and evaluation steps as required in the RFP to assess each proposer's qualifications to provide the required services and generate a recommendation to the Board.

B. Investments Consulting Services RFP Evaluation and Findings

The RFP solicited expert investments consulting services for the DCP, including support on investment option monitoring, analysis, and reporting; procurements and searches; contract review and development; fund transition services; and custom research, training, and other services. The review committee consisted of DCP staff members Steven Montagna, Jenny M. Yau, Mindy Lam, and Eric Lan. In accordance with Section 5 of the RFP, the review committee utilized a qualitative and quantitative evaluation methodology, in which individual proposer responses to each RFP question were assessed relative to all proposer responses and assigned one of five qualitative ratings (Excellent, Very Good, Satisfactory, Marginal, and Unsatisfactory). Each of those ratings corresponded to a numerical value (Excellent = 5, Very Good =4, Satisfactory = 3, Marginal = 2, and Unsatisfactory = 1). After weighting the numerical values of each RFP question within each sub-category, the weighted subtotals of each category were aggregated to reach a total percentage score. The percentage score resulted in a qualitative rating determination as follows: Excellent = 90% or higher, Very Good = 80%-89%, Satisfactory = 70%-79%, Marginal = 60%-69%, Unsatisfactory = 59% and below.

(1) Executive Overview

All three firms received overall qualitative ratings of either "Excellent" or "Very Good." Based on those assessments, the determination of the review panel is that all of the proposers are established investment consulting firms with the personnel, experience, and resources necessary to support the City's DCP. Evaluations were made on a relative basis, such that higher or lower evaluations on particular questions reflect how each response was evaluated relative to responses from all proposers. Thus, the scoring differentials reflect the relative distinctions between the content of responses to the wide range of questions posed in the RFP. A complete summary of the evaluation results is provided in **Attachment A**. The overall ending result is reflected as follows:

DCP Investments Consulting Services			
Proposer	Qualitative Rating	Numerical Score	Scoring Range
Mercer	Excellent	93	90% or higher
Callan	Very Good	84	80%-89%
RVK	Very Good	81	80%-89%

Mercer demonstrated considerable knowledge capital and investment experience with its higher relative standing supported by the comprehensiveness of its resources and deeper organizational depth, and its competitive (though not the lowest) fee proposal. Callan demonstrated considerable knowledge capital and investment experience but has a less flexible and higher cost fee structure. RVK also demonstrated considerable knowledge capital and investment experience and has the most competitive fee proposal, but on a relative basis did not perform as well in certain investment topics and resources. Certain key distinctions noted by the review panel include the following:

➢ Depth/Breadth of Resources - Mercer is a larger organization with a broader level of resources and services. This organizational depth was determined by the review panel to be a greater strength due to greater resources for a wider range of potential needs, although conversely it would also be reasonable to view a smaller firm as providing opportunities for greater customization and adaptability.

➢ Proprietary vs. Outsourced Investment Manager Resources/Databases – Both Callan and Mercer have proprietary investment manager resources and databases, while RVK outsources these services. Proprietary resources were determined by the review panel to be a greater strength because they may offer greater customization, although conversely it would also be reasonable to view outsourcing as a source of greater efficiency and lower cost.

➢ Asset Allocation Funds – Certain deliverables provided by Callan and RVK suggest a larger focus of their expertise (and perhaps philosophical orientation) lies with target date, rather than asset allocation, funds (as offered in the City's DCP). This is not surprising given the wider prevalence of target date funds in defined contribution plans. Callan and RVK can certainly support the Board's asset allocation fund monitoring and development, but it is noted as a consideration in terms of aligning Board and consulting investment philosophies.

➢ Stable Value and Bank Deposit Savings Accounts – Mercer was the only proposer to have a dedicated team focused on stable value. Mercer also demonstrated more experience with respect to federally-insured bank deposit savings accounts. However, both Callan and RVK offered resources to support the City with these searches.

➢ Transition Management – Manager transitions may be a larger issue for the DCP going forward as it is likely the use of collective investment trusts will expand following conclusion of current investment manager search processes. Neither Callan nor RVK offer transition management services directly, meaning that the City would need to procure and contract for such services in the event it must transition to institutional account

investment management. Mercer, by contrast, has its "Mercer Sentinel" services which can fulfill this role without requiring additional contracting relationships.

➢ Fee Proposals – The RFP provided proposers the option of offering a fixed annual fee, hourly rates, or both. Callan proposed a fixed annual fee, Mercer proposed a hybrid, and RVK proposed the option of a fixed fee or hybrid. To make consistent comparisons, the review panel determined that it needed to assess costs over a full five-year term, as investment consulting costs are highly variable (due primarily to the fact that DCP investment management searches are mostly "lumped" into a two-year period). Certain assumptions regarding consultant workload outside of the two-year search cycle were made based on historical use of incumbent Mercer's services. Based on that analysis and estimates of future costs, RVK's costs were determined to be lowest, followed by Mercer, and Callan third.

A summary of key highlights and analysis from the proposal for each of the major categories included in the RFP written questionnaire is provided as follows:

I. **ORGANIZATIONAL STRENGTH AND CONTINUITY**
   Total Weighting – 10%
   Summary scoring results:

ORGANIZATIONAL STRENGTH & CONTINUITY (10%)	Callan Percentage Score	Callan Qualitative Rating	Mercer Percentage Score	Mercer Qualitative Rating	RVK Percentage Score	RVK Qualitative Rating
Background	95%	Excellent	93%	Excellent	93%	Excellent
Contractual Issues	96%	Excellent	91%	Excellent	96%	Excellent
Security Protocols & Disaster Recovery	99%	Excellent	92%	Excellent	98%	Excellent
Sub-Total	96%	Excellent	92%	Excellent	95%	Excellent

All three firms were found to be sound, reliable service providers. Callan scored slightly higher than RVK and Mercer due to its high senior management tenure, thorough response regarding its strategic plan and mission, and strong growth in governmental clients over the past three years. The following table provides a high-level review of key organizational data from each firm.

Category	Callan	Mercer	RVK
Background	- Employee-owned investment consulting firm established in 1973 - 99 employee shareholders representing 50% of the workforce - US headquarters in San Francisco with offices in Chicago, Denver, Atlanta, Summit, NJ, and Portland - No plans to merge or sell firm - Has never filed for bankruptcy	- Subsidiary of Marsh McLennan, a US insurance brokerage firm established in 1937; Mercer Investment Consulting, Inc. (now Mercer Investments LLC or Mercer) was established in 1972 - Marsh McLennan is a publicly held company	- Employee-owned investment consulting firm established in 1985 - 24 employee shareholders - US headquarters in Portland with offices in Boise, Chicago, and New York - No plans to merge or sell firm - Has never filed for bankruptcy

	- US headquarters in Boston with 60 global and 15 US office locations, including LA - May consider mergers and acquisitions and/or divestitures to improve business - Has never filed for bankruptcy		
Plan Clients	414 total government and private sector clients	597 total government and private sector clients (DC plans only)	146 total government and private sector clients
Revenue	Not available – privately owned firm	As of 12/31/20: $4,928 million	Not available – privately owned firm
Senior Management	Average tenure: 27 years	Average tenure: 10 years	Average tenure: 16 years
Staffing for Similar Services	As of 12/31/20: 187	As of 12/31/20: 223	As of 12/31/20: 119
Subcontracted Work	None	None	None
Contractual Items	No complaints filed and no outstanding legal issues	None indicated but response did not directly address the question	Disclosed a single complaint filed by individuals described as pension plan participants and taxpayers in the state of Kentucky and naming numerous individuals and organizations, including RVK
Security Protocols/ Disaster Recovery	Compliant/satisfactory	Compliant/satisfactory, but scoring reduced for not providing its data protection/privacy policy pending execution of a non-disclosure agreement	Compliant/satisfactory

II. **INVESTMENTS CONSULTING SERVICES EXPERIENCE AND QUALIFICATIONS**
Total Weighting – 70%
Summary scoring results:

INVESTMENT CONSULTING SERVICES EXPERIENCE AND QUALIFICATIONS (70%)	Callan Percentage Score	Callan Qualitative Rating	Mercer Percentage Score	Mercer Qualitative Rating	RVK Percentage Score	RVK Qualitative Rating
Investment Option Monitoring, Analysis, and Reporting	87%	Very Good	98%	Excellent	81%	Very Good
Procurements and Searches	83%	Very Good	87%	Very Good	77%	Satisfactory
Contract Review and Development	85%	Very Good	100%	Excellent	70%	Satisfactory
Fund Transition Services	75%	Satisfactory	100%	Excellent	70%	Satisfactory
Research, Training, and Other Services	83%	Very Good	92%	Excellent	72%	Satisfactory
Sub-Total	83%	Very Good	94%	Excellent	74%	Satisfactory

Responses to investment-related service questions formed the bulk of the RFP response. Given the volume of material received, the following tables include just two columns: the question topic and high-level a high-level summary of the relative findings as they relate to each topic.

INVESTMENT OPTION MONITORING, REPORTING & ANALYSIS	
Question Topic	General Findings
Team, roles, and experience	**Lead Consultants** Callan: Ben Taylor, Senior Vice President and Head of U.S. Tax Exempt DC Research; 14 years of investment experience, 8 at Callan, and firm partner. Mercer: Devon Muir, Principal; 17 years of experience, 13 at Mercer. RVK: Becky Gratsinger, Principal; over 25 years of investment experience; Beau Burggraff also listed as a co-consultant with 23 years of experience.
Turnover	None of the three had significant senior management turnover.
Managing competing client needs	All thee providers provided strong responses for ensuring adequate resources are available to the City; RVK emphasized a "team approach" and that it is offering two co-lead consultants.
What differentiates your strategy and philosophy	All three providers provided competent responses, with Callan emphasizing process, Mercer emphasizing resources, and RVK emphasizing philosophy.
Philosophy of investment manager monitoring and attachment of an investment manager review and analysis	All three provided competent responses with respect to their philosophy and approach to investment manager monitoring. Mercer's response excelled as did its sample deliverable, as it was very readable and easy to follow, along with being quite substantive and detailed on the technicals. Callan's deliverable was a redacted template only; RVK's sample was for a Target Date Fund review, which is not as relevant given that the City's monitoring focus is on individual managers of specific mandates.
Describe your investment manager due diligence processes	Each response demonstrated a thorough due diligence process despite the fact that they identified different items as part of their review; Mercer's response was not as easy to follow.
Quarterly performance reports	Mercer's reports were found to be the most accessible. Callan's report focused on target date funds, which the City does not offer. Both Callan and RVK appeared to have less narrative than Mercer, which made them come across as more difficult to navigate. However, all three appear fully capable of delivering the due diligence reporting required by the City.
Describe your quarterly performance reports	All providers provided strong responses with their approach to generating ongoing performance reporting. Callan and Mercer both rely on proprietary systems and described them effectively and fully, albeit with different areas of emphasis. RVK's approach is to use a third party (PARis engineered by Investment Metrics), which was evaluated as somewhat less desirable.
Stable value resources	Mercer has a separate dedicated team focused exclusively on stable value. Callan's research team monitors stable value, while RVK's response was not as compelling since they appear to only be offering to analyze issues or changes as brought forth by stable value fund managers, and they use a third-party research service (Morningstar).
Bank Deposit Savings Accounts	Callan's response was brief and suggested little experience; Mercer's response demonstrated a much deeper understanding of the specific considerations relating uniquely to FDIC products and money market funds; RVK's response focused on their proprietary system and "funds," not money market and FDIC savings accounts.
Asset allocation funds	Mercer had the strongest response because it detailed unique approaches to target date and risk-based fund development; Callan clearly has capabilities in this area but did not break out the distinctions as Mercer did; RVK referred again to third-party data and existing funds available for their review, but did describe (not as fully as Mercer) their resources in designing fund constructions.

Under- and out-performing fund reviews	Callan provided a fund search report; Mercer and RVK provided two separate reports focused on what the City requested; the strongest of all was Mercer's under-performing report because the information was communicated most effectively while also including all of the expected technical information; it was more difficult to determine what Callan would provide if the DCP had a fund under "watch" that had then deteriorated further and the consultant was recommending elimination of the fund; RVK's reports were somewhat less technical but they were good communicators, making it easy for the reader to focus.
Investment policy statement (IPS) development and elements	Mercer provided the most detailed summary and checked all the boxes in outlining what a consultant should be doing in reviewing or constructing an IPS; Callan might not have understood we were asking about investment policy statement development; RVK didn't really describe the elements of an IPS.
Investment monitoring process	Callan discussed its process, oversight committees, use of experts, and solicitation of client feedback. Mercer discussed its results (noting with specificity the value adds of its resource investment in attempting to generate alpha for its clients), and how it approaches its ratings and rankings on retention, watch, and termination of managers. They also describe elements of what specifically is used to make these evaluations as they relate to termination. RVK talked mostly about its interviews. Mercer's response was the most robust, Callan second, RVK third.

PROCUREMENTS AND SEARCHES	
Question Topic	**General Findings**
Experience in the design of fund search processes.	Callan has fewer resources but distinguish their search process by not assigning manager rankings (so as not to exclude potential candidates that might appeal to a plan sponsor's unique needs). Callan has 51 vs. Mercer's 200 manager researchers; Callan conducts 2,300 onsite meetings, Mercer 3,655 annually. RVK's response to this question did not contain the same details as the others.
Investment manager database and search resources process, including use of a proprietary or third-party database.	Callan and Mercer use proprietary systems; RVK uses a mix of proprietary and third-party. None of the three charge providers to be part of the database. Mercer has the larger proprietary database compared to Callan; RVK seems to be at a relative disadvantage because they have fewer people overall having to navigate multiple systems, although they state it makes them more efficient and able to access greater stores of information. They each use similar elements in their search process, although RVK's sorting approach claiming they use quantitative analysis of factors which appear to be more subjective (like firm, team, and philosophy) was more challenging to understand. Mercer's rating system appears effective for sorting through large pools of products.
Number of searches and types in last three years, and sample deliverable for one such search.	Callan did not have the search data the RFP asked about; Mercer did not break down the info; RVK best provided what was requested. All of the sample deliverables indicate that that each firm is well qualified to generate thorough and actionable search data reports.

CONTRACT REVIEW AND DEVELOPMENT	
Question Topic	**General Findings**
Contract development for separate accounts, commingled trusts, bank products.	Mercer provided the most comprehensive response describing its experience in contract review and development for managed accounts, including the number of such contracts (more than 30) that the staff assigned to the City's account has worked on in the past three years. Callan also provided a full response but was not as thorough in describing its experience as Mercer. Callan further indicated that the number of contracts worked on by the staff to be assigned to the City's account was 18 in the past three years. In comparison, RVK indicated it had extensive experience in this area but provided little detail explaining its experience and also indicated it did not maintain a listing of the number of contracts reviewed.

FUND TRANSITION SERVICES	
Question Topic	**General Findings**
Transition managers	Both Callan and RVK strongly believe in their clients maintaining a "bench" of transition managers, which would require that the City procure and contract for those providers. Mercer, however, has transition management resources in-house through its Mercer Sentinel services. Due to the time, complexity, and administrative challenges involved in the City's procurement process, access to transition management consulting services through a single source consulting relationship was scored higher.

CUSTOM RESEARCH, TRAINING, AND OTHER SERVICES	
Question Topic	**General Findings**
Custom research	Mercer provided three excellent examples of specific projects they worked on for specific clients. Callan and RVK did not - they referred to general, non-custom outputs.
Training resources	Callan misinterpreted the question and talked about participant education, Mercer reviewed a broad range of diverse custom and widely available resources, RVK talked about in-person training only.
Formal training programs	Callan's fiduciary presentation was the most impressive - it was rich with content, very well done; Mercer's ESG presentation was well done and also had good information but was not quite as impressive; RVK's fiduciary presentation was the least impressive. Mercer's response to the question was more detailed but Callan is to be noted for developing such a robust training series through its Callan College - this would be a rich resource for staff and the Board.
Cost of attending meetings	Callan was clear that there is no additional cost for them to attend meetings; Mercer states their costs are embedded in their billings, except for ad hoc; RVK through an assumed oversight didn't answer this question.
Unique & distinguishing characteristics of firm	Mercer has greater depth in both its client base, assets under management, and dedicated teams and services. Callan has substantial resources and appears very capable of meeting the City's needs. RVK highlighted its independence being employee-owned and never having merged or been acquired, and not selling any ancillary products. Overall, Mercer was determined to be slightly stronger on this question.
Other services	Callan distinguished itself on this question with an intriguing resource (mining of participant data for behavioral finance trends). Mercer did not submit anything, and RVK highlighted its other services outside of the investment consulting field.

III. FEES AND PERFORMANCE GUARANTEES
   Total Weighting – 20%
   Summary scoring results:

FEES & GUARANTEES (20%)	Callan Percentage Score	Callan Qualitative Rating	Mercer Percentage Score	Mercer Qualitative Rating	RVK Percentage Score	RVK Qualitative Rating
Fees & Charges	80%	Very Good	90%	Excellent	100%	Excellent
Performance Guarantees	90%	Excellent	90%	Excellent	90%	Excellent
Sub-Total	**83%**	**Very Good**	**90%**	**Excellent**	**98%**	**Excellent**

Proposers were requested to detail fees and performance guarantees to provide the services detailed in the RFP. A summary of the proposed fee structures by firm is provided in the table below.

Compensation Model	Callan	Mercer	RVK
Fixed Fee	Proposed annual fixed fee covering all consulting services included in the RFP.	Performance monitoring and reporting.	Proposed annual fixed fee covering all consulting services included in the RFP and also proposed a project based fixed fee structure.
Hourly Consulting	N/A – Did not propose hourly rates; fixed fee only.	Variable rates depending on staff, ranging from $195 - $590.	Variable rates depending on staff, ranging from $200 - $525.
Hybrid	N/A – Did not propose hybrid; fixed fee only.	Fixed fee for performance monitoring and reporting plus as-needed consulting hours based on project assigned.	Fixed fee for project based structure plus as-needed consulting hours based on project assigned.

Staff reviewed historical average expenditures over the last five years of the contract to compare how proposed fees over a future five-year contract term compared among the three firms. Because RVK offered either a fixed annual fee or a hybrid, the evaluation panel prepared two models: Model A pairs RVK's fixed fee, and Model B pairs RVK's hybrid fee, with the other two provider fee proposals. Of the two approaches, only Model A was deemed viable, as RVK's hourly rates and fixed service charges for fund reviews, etc. were significantly more expensive than its fixed fee proposal. A summary of the five-year projected fees by firm based on the two compensation models is provided in the following table:

Model A: Five-Year Projected Costs – Mercer Hybrid, Callan Fixed, RVK Fixed				
Firm	Hourly	Fixed Fee	Total Cost (5 Years)	Differential Relative to Lowest Cost
Mercer	$65,871	$82,000	$739,353	12%
Callan	N/A	$187,500	$937,500	42%
RVK	N/A	$132,500	$662,500	N/A

Model B: Five-Year Projected Costs - Mercer Hybrid, Callan Fixed, RVK Hybrid				
Firm	Hourly	Fixed Fee	Total Cost (5 Years)	Differential Relative to Lowest Cost
Mercer	$65,871	$82,000	$739,353	N/A
Callan	N/A	$187,500	$937,500	27%
RVK	$60,000	$144,300	$1,021,500	38%

Historically, the DCP investments consulting contract under Mercer has been billed on an as-needed, hourly basis. A fixed fee contract under Model A as proposed by RVK would result in the lowest estimated costs over five years. Accordingly, RVK scored highest in this category with Mercer following second and Callan third.

None of the proposers offered specific performance guarantees. Mercer and RVK indicated that they would work with the City to incorporate guarantees into the scope of work upon contract execution while Callan indicated that it would not provide performance guarantees as part of a contract.

C. Conclusion and Next Steps

The RFP provides the option for the Board to conduct interviews/receive presentations from the three proposers. The Board therefore has three options for proceeding: (a) request that presentations be scheduled from some or all of the proposers; (b) direct staff to develop a recommendation for action at the next Board meeting; or (c) take action based on the information provided in this report.

Submitted by: _____
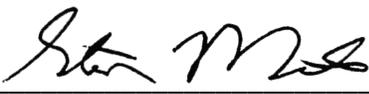
Steven Montagna, Chief Personnel Analyst

On Behalf of and Including Review Committee Members:

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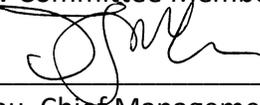
Jenny M. Yau, Chief Management Analyst

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Mindy Lam, Benefits Analyst

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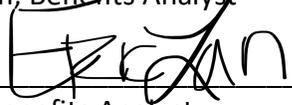
Eric Lan, Benefits Analyst

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Security Protocols and Disaster Recovery	99%	Excellent	92%	Excellent	98%	Excellent
Sub-Total	96%	Excellent	92%	Excellent	95%	Excellent
INVESTMENT CONSULTING SERVICES EXPERIENCE AND QUALIFICATIONS (70%)	Callan Percentage Score	Callan Qualitative Rating	Mercer Percentage Score	Mercer Qualitative Rating	RVK Percentage Score	RVK Qualitative Rating
Investment Option Monitoring, Analysis, and Reporting	87%	Very Good	98%	Excellent	81%	Very Good
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Fees & Charges	80%	Very Good	90%	Excellent	100%	Excellent
Performance Guarantees	90%	Excellent	90%	Excellent	90%	Excellent
Sub-Total	83%	Very Good	90%	Excellent	98%	Excellent
TOTAL	**84%**	**Very Good**	**93%**	**Excellent**	**81%**	**Very Good**