

Deferred Compensation Plan

BOARD REPORT 11-55

Date: August 4, 2011

To: Board of Deferred Compensation Administration

From: Staff

Subject: Investment Menu Implementation Update/
Market Volatility & Fund Changes

*Board of Deferred
Compensation Administration
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John Mumma, Vice- Chairperson
Cliff Cannon, First Provisional Chair
Tom Moutes, Second Provisional Chair
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Recommendation:

That the Board of Deferred Compensation Administration receive and file the following information regarding implementation of pending changes to the Deferred Compensation Plan investment menu.

Discussion:

Beginning in 2007 the Board of Deferred Compensation Administration began a process to review and redesign the Plan's core investment menu. The objectives for this process included:

- (1) Reducing the number of core investment options; and
- (2) Branding funds by the Plan rather than investment provider.

A chronology of the Board's actions toward these objectives is provided in an attachment to this report. More recently, at its May 10, 2011 meeting, the Board approved a proposal from staff regarding implementing the balance of remaining changes to the investment menu. The Board subsequently modified this implementation plan to accelerate elimination of the Plan's actively managed Lazard Mid-Cap Fund. Implementation will occur in two phases.

The first phase involves establishing the DCP Bond Fund and DCP Large-Cap Stock Fund, and migrating the actively managed Lazard Mid-Cap Fund into the Plan's passively managed Mid-Cap Fund. No procurements are required to complete this phase of implementation. Implementation is scheduled to take place in the first quarter of 2012.

The second phase of implementation involves establishing the DCP Mid-Cap, DCP Small-Cap, and DCP International Funds. Implementation is scheduled to take place at the end of the third quarter of 2012. To implement this phase the following procurements must take place in 2012:

- ◆ Active Growth Mid-Cap Manager
- ◆ Active Value Mid-Cap Manager
- ◆ Active Growth Small-Cap Manager

- ◆ Active Value Small-Cap Manager
- ◆ Active Developed Markets International Manager
- ◆ Active Emerging Markets International Manager
- ◆ Active Small-Cap Markets International Manager

Below is a schedule developed by staff that details anticipated steps for the upcoming procurements. Staff will report to the Board on a monthly basis with a status update until the procurements have been completed. In order to make the process more efficient, one RFP for all investment mandates will be drafted and brought to the Board for review at the October 18, 2011 meeting. The transfer of all funds is tentatively scheduled for November 1, 2011. However, due to the size of the project and the inherent variables that go along with the review and development process of Requests for Proposal and contracts, this implementation date will need to remain fluid.

Procurement Schedule Implementation of Investment Menu Changes November 1, 2012			
Days Remaining	Date	Activity	Status
469	7/21/2011	Meeting with Mercer Investment Consulting to develop project plan	Completed
461	7/29/2011	Meeting with Personnel Department Administrative Services Division (ASD) to coordinate plan for RFP and contract development.	Completed
458	8/1/2011	Meeting with Board Counsel to coordinate plan for RFP and contract development.	Completed
428	8/31/2011	1 st Draft RFP Due from Mercer & Staff	
392	10/6/2011	Review of RFP Completed by Personnel Department ASD & Board Counsel	
380	10/18/2011	Board reviews RFP for Approval	
352	11/15/2011	Final Board approval of RFP (if necessary)	
	11/15/2011	Issue RFP	
286	1/20/2012	RFP Due Date	
185	4/30/2012	Mercer & Staff Complete Review of RFP Responses	
170	5/15/2012	Board Meeting - Selection of Vendors	
162	5/23/2012	Special Board Meeting (if necessary)– Selection of Vendors	
155	5/30/2012	Special Board Meeting (if necessary) – Selection of Vendors	
134	6/20/2012	Staff & Mercer Complete First Draft of Contracts	
58	9/4/2012	Review of Draft Contracts by Personnel Department ASD & Board Counsel Completed	
44	9/18/2012	Board Reviews Contracts for Approval	
16	10/16/2012	Final Board Approval, if not adopted at previous meeting	
8	10/24/2012	Receive Contracts Signed by Vendors	
3	10/29/2012	Contracts Signed by Board Chair and Board Counsel, submitted to City Clerk	
0	11/1/2012	Funds Transferred	

Market Volatility & Fund Changes – The Board Chairperson requested that staff provide some commentary with respect to the recent volatility in investment markets and whether that might have any impact on the proposed timing of planned fund changes. Given that the first phase of fund migration is not scheduled to occur until the first quarter of 2012 (approximately six months from the present), staff does not see any basis for making changes to the proposed fund migration plan at the present time. More broadly, given that the migrations will occur instantaneously and discontinued funds will be mapped to the same asset classes, staff does not see a basis for delaying changes based on market fluctuations.

Submitted by: _____
Ashley Stracke

Reviewed by: _____
Natasha Gameroz

Approved by: _____
Steven Montagna

CHRONOLOGY OF BOARD'S INVESTMENT MENU REDESIGN

Expanded the Plan's asset allocation funds from 3 to 5 by adding in "Ultra-Conservative" and "Ultra-Aggressive" portfolios.	Completed March 2008
Completed a survey of Plan participants for the purpose of gauging reaction to the potential for streamlining the Plan's investment menu.	Completed July 2008
Transitioned from prior SDBO provider Fiserv to full service provider Charles Schwab , adding stocks, bonds, ETFs, and an expanded universe of mutual funds to the menu for SDBO participants.	Completed August 2008
Eliminated five funds for performance reasons which also helped consolidate the core investment menu (including the Fidelity Magellan Fund, Capital Guardian U.S. Equity Fund, Lotsoff Small-Cap Equity fund, Hartford Stock Fund and Hartford Advisers Fund).	Completed Various Months during 2008 - 2009
Added a Mid-Cap index fund to the Plan's asset allocation funds.	Completed July 2009
Eliminated Certificates of Deposit from the investment menu.	Completed July 2009
Created a blended "City of Los Angeles Stable Value Fund" by mapping assets from an insurance company general account.	Completed July 2009
Created a blended "City of Los Angeles Bank Deposit Savings Account" which expand FDIC coverage by using multiple providers.	Completed September 2009
Approved consolidation of the Plan's actively managed large-cap funds into a single "DCP Large-Cap Stock Fund" comprised solely of a passively managed S&P 500 Index Fund; and approved creation of a "DCP Bond Fund" composed 50% actively managed/50% passively managed.	<ul style="list-style-type: none"> ◆ Approved April 2010 ◆ Anticipated Implementation Date: First Quarter 2012
Approved creation of a "DCP Small-Cap Fund" composed 34% passively managed/33% active growth/33% active value.	<ul style="list-style-type: none"> ◆ Approved May 2010 ◆ Anticipated Implementation Date: November 1, 2012
Approved creation of a "DCP Mid-Cap Fund" composed 50% passively managed/25% active growth/25% active value.	<ul style="list-style-type: none"> ◆ Approved June 2010 ◆ Anticipated Implementation Date: November 1, 2012
Approved creation of a "DCP International Fund" composed 100% actively managed.	<ul style="list-style-type: none"> ◆ Approved August 2010 ◆ Anticipated Implementation Date: November 1, 2012
Approved the use of a Fund Custodian to provided as-needed unitization services for separate accounts that might be included in the Plan's investment lineup.	<ul style="list-style-type: none"> ◆ Approved January 2011 ◆ Anticipated Implementation Date: November 1, 2012