CITY OF Los Angeles
DEFERRED COMPENSATION PLAN

Investments Committee Report 23-01

Date: September 22, 2023

To: Investments Committee

From: Staff

Subject: DCP Investment Options Structure Review

Recommendation:

That the Investments Committee (Committee) review and affirm the Deferred Compensation Plan (DCP) investment options structure, with a report to be made to the Board of Deferred Compensation Administration, or request that staff return with additional information.

Discussion:

A. Background

The Board of Deferred Compensation Administration developed the Investment Policy Statement (IPS) to define the investment objectives of the Deferred Compensation Plan (DCP) and establish policies and procedures in order that the objectives will be met in a prudent manner consistent with governing rules and regulations. In accordance with Section 5 of the IPS, it is prudent to periodically review the Deferred Compensation Plan's investment structure (the broad categories of investment options offered) and participant demographics to affirm appropriateness of fit for participants.

B. Discussion

To assist in the review of the DCP investment options structure, the DCP investments consultant, Mercer, has prepared a high-level presentation for the Investments Committee, which is included as an attachment to this report. The presentation provides an overview of:

a) Investment array relative to Mercer's best practices and market trends
b) DCP participant demographics
c) Analysis of the Plan's investment structure including:
    i) A review of the Committee's philosophy regarding the Risk Profile Funds (TRFs)
    ii) Consideration for a dedicated passive suite of options

iii) Appropriateness of offering a FDIC-insured savings option versus Money Market and Stable Value
iv) Consideration for a combined active US SMID Cap Equity option
v) Introduction and education on new mandates such as Diversified Inflation Hedge (DIH and real assets) and Environmental, Social and Governance (ESG) Options

Mercer's summary of recommendations is provided on page 56 of the attached presentation.

Staff recommends that the Committee provide direction as to what topics it might wish to explore further. Of the topics that Mercer has identified, staff recommends that consideration be focused, at least initially, on two areas: review of the FDIC-insured savings account option and consideration of a diversified inflation protection option.

Submitted by: Esther Chang, Defined Contribution Plan Manager

Mercer

welcome to brighter

City of LA Deferred Compensation Plan

Investment Structure Review

September 22, 2023

A business of Marsh McLennan

Agenda

Today's Topics:

Overview

Plan Demographic Review

DCP Investment Structure Review

- Mercer's Reference Portfolio "Clean Sheet" Investment Structure
- City of LA DCP Current Investment Structure

Asset Allocation Options

- Revisit Committee's Philosophy Regarding Risk Profile Funds (TRFs) vs. TDFs

Core Options

- Passive Tier
  - Suite of Passive Options
- Active Tier
  - Capital Preservation
  - Appropriateness of offering FDIC options vs. Money Market Fund, Stable Value Option

Agenda, continued

Today's Topics, continued:

Core Options, continued

- Active Tier
  - Growth (Equity Focused): US Mid and US Small vs. US SMID
  - Inflation Sensitive: Diversified Inflation Hedge (DIH) Option (Education)
  - Global Blend: Environmental, Social & Governance (ESG) Option (Education)

Summary of Recommendations

Appendix

Potential Future Meeting Topics:

Non-Core Options

- Discussion on illiquid assets/alternatives: HF, PE (not as standalone option, might be included in custom TRFs/TDFs)

Other topics of interest: Managed Accounts, Retirement Income

Risk Profile Funds (TRFs) Asset Allocation Review (if retained) and

DCP Fund Portfolio Structuring (analyzing underlying weights to each sub-asset class) Review

IPS Update

Overview

- It is prudent to periodically review the Deferred Compensation Plan’s investment structure (i.e., broad categories of investment options offered) and participant demographics to affirm appropriateness of fit for participants and ensure it remains competitive.
- In this investment structure review, we analyze:
  – Investment array relative to Mercer’s best practices and market trends
  – DCP participant demographics
  – A stepwise analysis of the Plan’s investment structure including:
    - A review of the Committee’s philosophy regarding the Risk Profile Funds (TRFs)
    - Consideration for a dedicated passive suite of options
    - Appropriateness of offering FDIC options vs. Money Market and Stable Value
    - Consideration for a combined active US SMID Cap Equity option
    - Introduction and education on new mandates such as Diversified Inflation Hedge (DIH and real assets) and Environmental, Social and Governance (ESG) Options
- A summary of recommendations is provided at the end of this study

Plan Demographic Review

1

Demographics
Total Plan Snapshot

35,096 ACTIVE
16,824 TERMINATED
51,920 TOTAL

$172K VS $60K
average account balance | median account balance

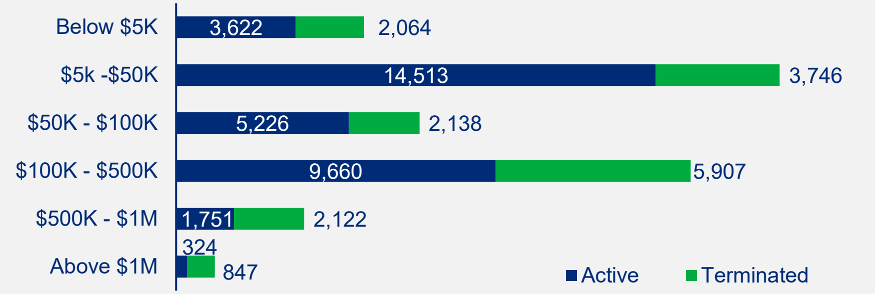
15.4 YEARS
average tenure

51 YEARS
average age

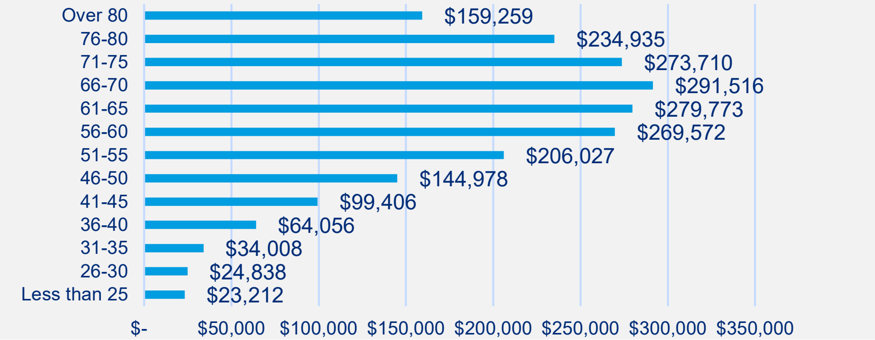
92.3%
participation rate

5.3%
average participant total deferral rate

BALANCE BREAKDOWN

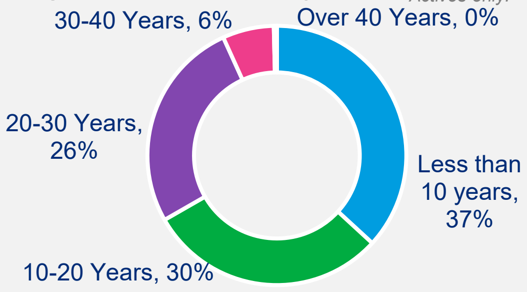


AVERAGE BALANCE BY AGE



TENURE BREAKDOWN

Actives only.



AGE BREAKDOWN

8% vs 1%
NEW SAVERS (<30 years)

54% vs 10%
MID CAREER (30-49 years)

36% vs 46%
PRE RETIREMENT (50-65)

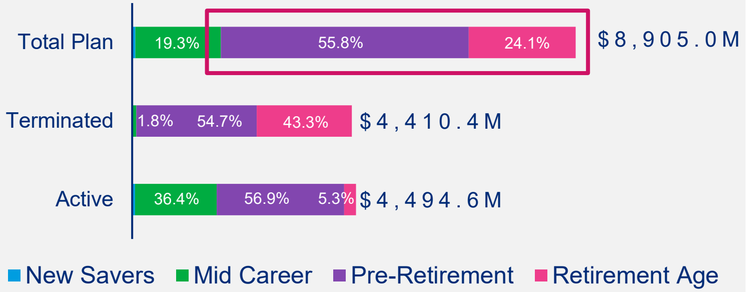
3% vs 43%
RETIREMENT AGE (>65)

■ Active
■ Terminated

LOAN UTILIZATION

Participants with loans	11,511
Median loan balance	$10,604
Average loan balance	$14,284

ASSET BREAKDOWN



Data provided by Voya. Participants with a balance as of June 30, 2023 unless otherwise noted. Figures may not sum due to rounding. Participants excluded from data with unknown ages.

Demographics

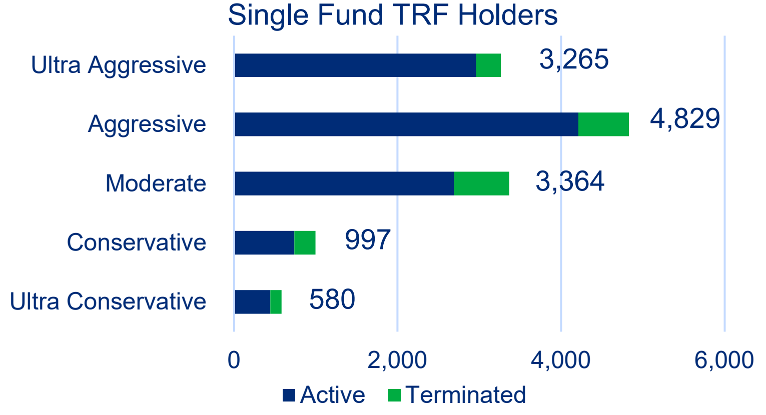
DCP Participant Investment Profile

NUMBER OF INVESTMENTS	0	1	2	3	4	5	6-9	10 & ABOVE	
# of Participants	70	20,628	11,626	6,641	4,602	3,307	4,453	593	51,920
% Total Plan Participants	0%	40%	22%	13%	9%	6%	9%	1%	100%

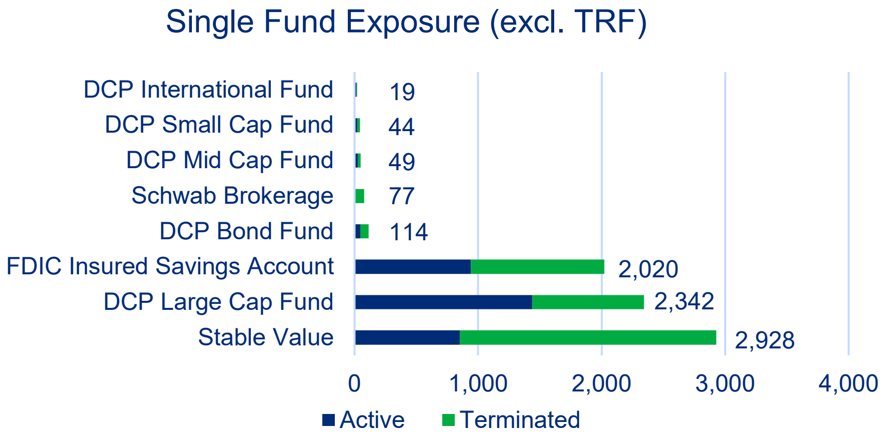
While the majority of single fund holders are invested in target risk funds, there is opportunity to communicate diversification benefits to those single fund holders that are not in target risk funds.

OPPORTUNITY TO COMMUNICATE TO PARTICIPANTS

13,035 (OR 63%) ARE SINGLE TARGET RISK HOLDERS. THE MAJORITY OF SINGLE FUND HOLDERS ARE INVESTED IN THE AGGRESSIVE PORTFOLIO.



7,593 (OR 37%) ARE SINGLE FUND NON-TRF HOLDERS.



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*Number of investments held excludes any loans held by participants.

Single TRF Exposure

City of LA DCP Participants (Single Fund TRF Holders Only)

TRF Held	Age Group: Less than 25	26-30	31-35	36-40	41-45	46-50	51-55	56-60	61-65	Over 65	Grand Total
Ultra Conservative	16	57	86	58	62	48	60	73	56	64	580
Conservative	26	93	117	86	100	87	119	108	109	152	997
Moderate	71	323	366	345	375	383	402	418	318	363	3,364
Aggressive	123	458	659	691	810	761	580	410	202	135	4,829
Ultra Aggressive	131	604	718	631	438	307	200	130	63	43	3,265
Grand Total	367	1,535	1,946	1,811	1,785	1,586	1,361	1,139	748	757	13,035

Observations:

Of all participants invested in a single TRF, 67.5% of participants are either invested in the default TRF or a TRF within one risk level of their default based on age.

- There is an education opportunity for the participants that are invested in a TRF further away from their default risk level.
- In general, for participants that do not appropriately “fit” their current profile fund selection based on age, there is tendency towards a more aggressive allocation.
  - This may be due to a conscious decision (i.e., with the presence of a DB plan, participants can tolerate more risk) or an unconscious one (i.e., participants have not reset their risk tolerance over time).

DCP Investment Structure Review

2

Mercer's Reference Portfolio "Clean Sheet" Investment Structure

<table>
<tr><th>Objective</th><th colspan="2">Investment Options</th><th>Investor Type</th></tr>
<tr><td colspan="4">Asset Allocation Options</td></tr>
<tr><td>Professionally Managed</td><td>Target Date Funds</td><td>Managed Accounts</td><td>Do it For Me</td></tr>
<tr><td colspan="4">Core Options</td></tr>
<tr><td></td><td>Passive</td><td>Active</td><td rowspan="9">Guide Me</td></tr>
<tr><td>Capital Preservation</td><td></td><td>Stable Value</td></tr>
<tr><td rowspan="2">Income Focused</td><td>US Core Bond Index</td><td>US Core Plus</td></tr>
<tr><td></td><td>Retirement Income</td></tr>
<tr><td>Inflation Sensitive</td><td colspan="2">Real Assets</td></tr>
<tr><td>Growth (Equity Focused)</td><td></td><td></td></tr>
<tr><td>– US Large</td><td>Blend</td><td></td></tr>
<tr><td>– US SMID</td><td>Blend</td><td>Blend</td></tr>
<tr><td>– World ex-US</td><td>Blend</td><td>Blend</td></tr>
<tr><td colspan="4">Non-Core Options</td></tr>
<tr><td></td><td colspan="2">Brokerage Window</td><td>Let Me Do It</td></tr>
</table>

Legend

- Accumulation Focused
- Retirement Income Focused

City of LA DCP Current Investment Structure

Objective	Investment Options		Investor Type
Asset Allocation Options			
Professionally Managed	1 DCP Profile Funds (5 Customized TRFs)		Do it For Me
Core Options			
	2 Passive	Active	Guide Me
Capital Preservation		3 FDIC-Insured Savings Account DCP Stable Value (100% Galliard Separate Account)	
Income Focused		DCP Bond Fund (50% Vanguard Total Bond Market Index Fund + 50% Loomis Sayles Core Plus Bond Fund)	
Inflation Sensitive		4 Diversified Inflation Option	
Growth (Equity Focused)			
– US Large	DCP Large Cap Stock Fund (100% Vanguard Institutional Index Fund)		
– US Mid		DCP Mid Cap Stock Fund (50% Vanguard Mid-Cap Index Fund + 25% Virtus Ceredex Mid-Cap Value Equity Fund + 25% Voya MidCap Opportunities Fund)	
– US Small		5 DCP Small Cap Stock Fund (33.4% Vanguard Small Cap Index Fund + 33.3% DFA US Small Cap Value Portfolio + 33.3% Hartford SmallCap Growth HLS Fund)	
– World ex-US		DCP International Stock Fund (65% MFS Inst Intl Equity Fund + 17.5% Brandes Intl Small Cap Equity Fund + 17.5% DFA Emerging Markets Core Equity Portfolio)	
Non-Core Options			
	Schwab PCRA Self-Directed Brokerage Account		Let Me Do It

Legend

- Accumulation Focused
- Retirement Income Focused

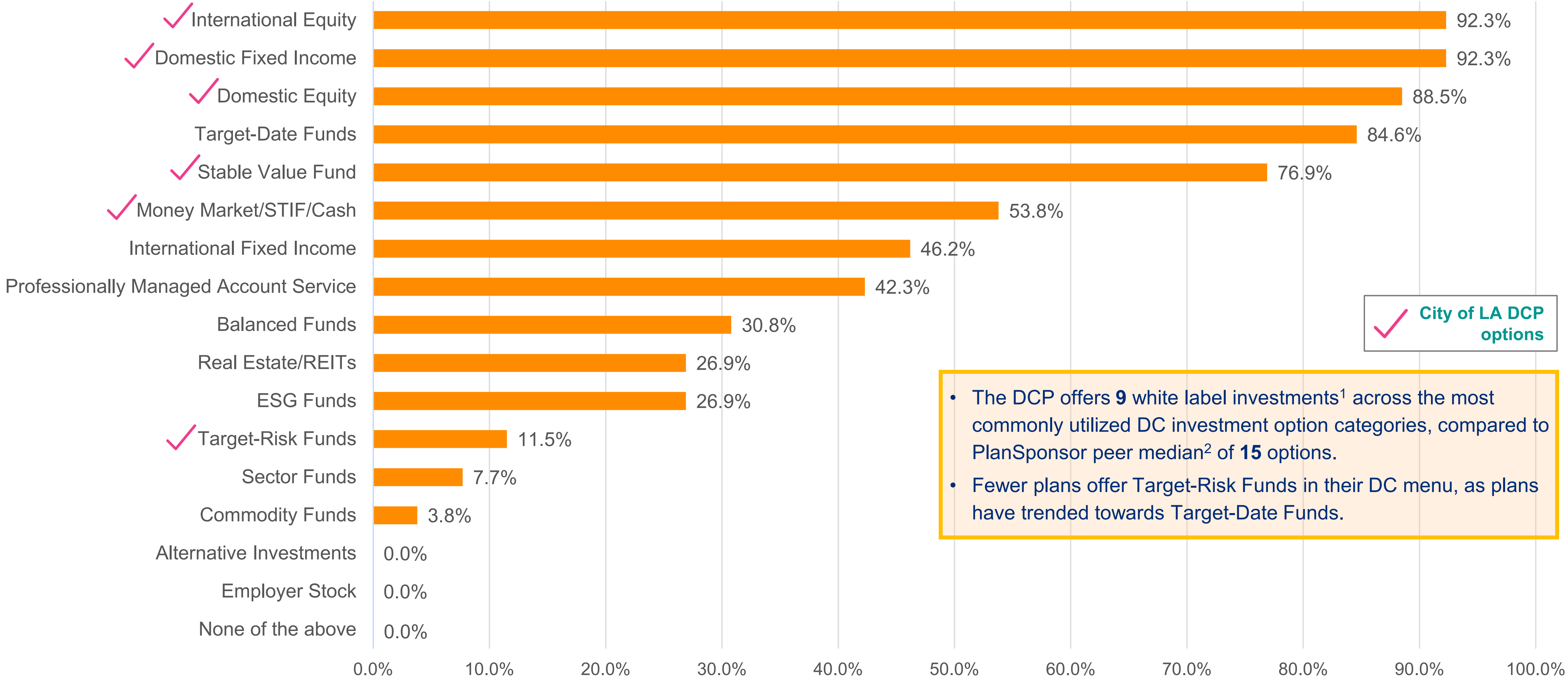
Considerations:

1. Determine if the Committee's philosophy around TRFs vs. TDFs is still applicable and suitable for participants in the DCP.
2. Consider expanding the offering of passive core options.
3. Evaluate suitability of current capital preservation options and potential alternatives.
4. Consider adding a diversified inflation hedge option.
5. Review utilization of Small & Mid Cap Stock options and consider consolidation to a singular SMID option.

Mercer

Market trends and comparative review

Investment option prevalence



- The DCP offers **9** white label investments[1] across the most commonly utilized DC investment option categories, compared to PlanSponsor peer median[2] of **15** options.
- Fewer plans offer Target-Risk Funds in their DC menu, as plans have trended towards Target-Date Funds.

[1] Counting 5 target risk funds as 1 option; including FDIC-Insured Savings Account and brokerage window.
[2] Peer median is given for mega plans (>$1 billion) in the 457 plan category based on PLANSPONSOR 2022 Defined Contribution Survey; 33 respondents.

Asset Allocation Options:
Target Risk vs Target Date

3

DCP Target Risk Profile Portfolios

- The goals of City of LA's target risk funds, as outlined in the Plan's Investment Policy Statement, are as follows:
  - To achieve the income and capital appreciation commensurate with the risk posture of each fund
  - Total return of each risk-based lifecycle fund shall correspond to the asset allocation (between stocks, bonds, cash, and other asset classes) at any given point in time
- City of LA currently offers five target risk profiles, ranging from Ultra Conservative to Ultra Aggressive. These funds make up 19.7% of total Plan assets, as of 3/31/23.
  - These funds have an average effective net expense ratio of 27 bps, below the median of 66 bps.
  - The DCP target risk profiles consist of differing allocations to the Plan's Core Options, listed below:

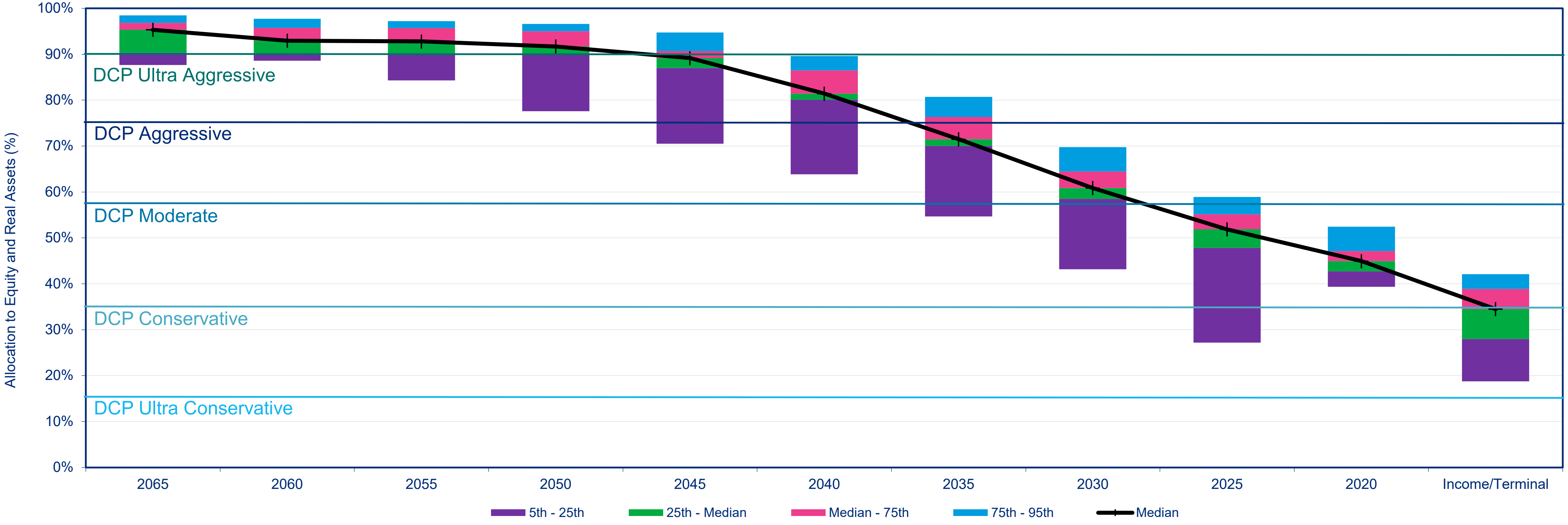
DCP Risk Profile Portfolios Allocation	***Ultra Conservative (%)***	***Conservative (%)***	***Moderate (%)***	***Aggressive (%)***	***Ultra Aggressive (%)***
DCP Stable Value	35.0	15.0	0.0	0.0	0.0
DCP Bond Fund	50.0	50.0	42.0	25.0	10.0
DCP Large Cap Stock Fund	6.0	15.0	20.0	25.0	30.0
DCP Mid Cap Stock Fund	2.0	3.0	6.0	8.0	10.0
DCP Small Cap Stock Fund	2.0	3.0	6.0	8.0	10.0
DCP International Stock Fund	5.0	14.0	26.0	34.0	40.0
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Target Risk/Target Date Comparison

- Target Risk Funds do not change their allocation to equity over time, it is ***static*** – requires participant to periodically re-assess their risk level and fund choice.
- Target Date Funds have a ***dynamic*** asset allocation that generally allocates less to equity as participant ages – allows participant to pick a fund once for the duration of their career.

	Target Risk Funds	Target Date Funds
Investor Type	"I like to think about this every two or three years"	"I like to make one decision that will last for a long time"
Investor Decision	Subjective – requires participant to know risk tolerance (risk profile questionnaire)	Objective – requires participant to know expected date of retirement Participants are more likely to have the knowledge to select a fund based on their retirement age than to understand their risk tolerance
Communications	Initial risk profile questionnaire, then on-going communication to encourage re-evaluation of risk profile	Up front communication to describe fund intention
Asset Allocation	Diversified portfolios; automatically rebalance to static allocations Leverage existing investment options	Diversified portfolios; automatically rebalance to a more conservative portfolio over time Participant inertia is a powerful force – having an asset allocation option that rebalances as participants age is valuable
Demographics	Designed to suit a large population	Designed to suit a large population. Demographics change over time. Use of custom funds can help address specific plan features and demographics.
Plan Sponsor Responsibility	Current custom funds require asset diversification, asset allocation, style and rebalance decisions	Custom target date funds would require similar decisions, with the addition of glide path choices. Could also look at using highly rated 'off the shelf' funds to ease decisions.

Glidepath Comparison (as of 3/31/2023)



- The DCP Target Risk Profiles have, on average, a lower allocation to equity and real assets compared to the median target date fund across all the vintages.
- As noted earlier, allocations remain static, thus requiring participants to periodically reassess their risk versus the dynamic de-risking nature of a target date fund.

Considerations

Potential alternatives to target risk funds:

'Off-the-shelf' Target Date Funds	Many highly rated providers of target date funds. Adds another manager to oversight. Removes some of the sponsor decisions. Would consider impact to stand alone fund fees.
Custom Target Date Funds	Can customize attributes to demographics. Administratively complicated (unless outsource).
Managed Accounts	This service is similar to a personalized target date fund. However, unless participants engaged or record keeper can feed a lot of data automatically, becomes an expensive target date fund.
Combination Solution	The market is constantly evolving. Funds using both target dates and managed accounts, personalized target date solutions, multiple glide paths (conservative/aggressive), and alternative glide paths ("V" shape) are available.

Affirm use of target risk funds, and consider optimization of current portfolios,

OR

Do further education/searches on alternative options with the intention of moving away from current model portfolios.

Core Options – Passive Tier

4

Active vs Passive

Alpha potential for traditional asset classes

While active management has the potential to add value to some degree in some markets, it may not always be the most appropriate option. Within DC plans, we aim to provide access to passive and active options, but a periodic review of which options are implemented actively and passively is important as market dynamics may shift more permanently over time.

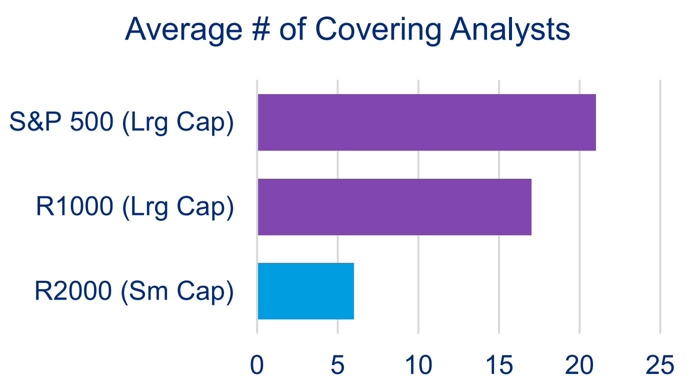
Gross Alpha Potential	Equities	Fixed Income	Comments
Low	US Large Cap		Equity: S&P 500 efficient, stock concentration (FAANG). Note that even in efficient markets, high index turnover and associated transaction cost may lead to underperformance by passive managers (before passive provider fees).
Medium	Developed International Markets (ex-US)	Sovereign / IG Credit	Equity: developed markets outside the US are less efficient. Fixed income: compared to equities, fixed income has a greater diversity of market participants who are not maximizing profits, such as banks managing their balance sheets, governments financing budgets, insurance companies matching liabilities, central banks pursuing policies. It is acknowledged managers may use duration and curve trades, in addition to sector / security selection.
High	Small Caps (US and International Developed) Emerging Markets	Absolute Return	Equity: fewer market participants and lower institutional ownership, less analyst coverage. Many types of emerging markets and small caps. Large and diverse universe. Fixed income: the less constrained / absolute return focused the fixed income strategy, the higher the ability to create additional alpha versus cash plus benchmarks.

Traditional Asset Class Beliefs:

1. There is room for active and passive management. What matters is how skilled you are relative to other market participants
2. Markets with a higher degree of institutionalization, security/stock concentration, availability of information, analyst coverage and efficient trading and settlement systems will be priced more efficiently.
3. Active management should be pursued in markets which provide the opportunity for the skilled investment manager to better forecast, and implement cost–effectively.

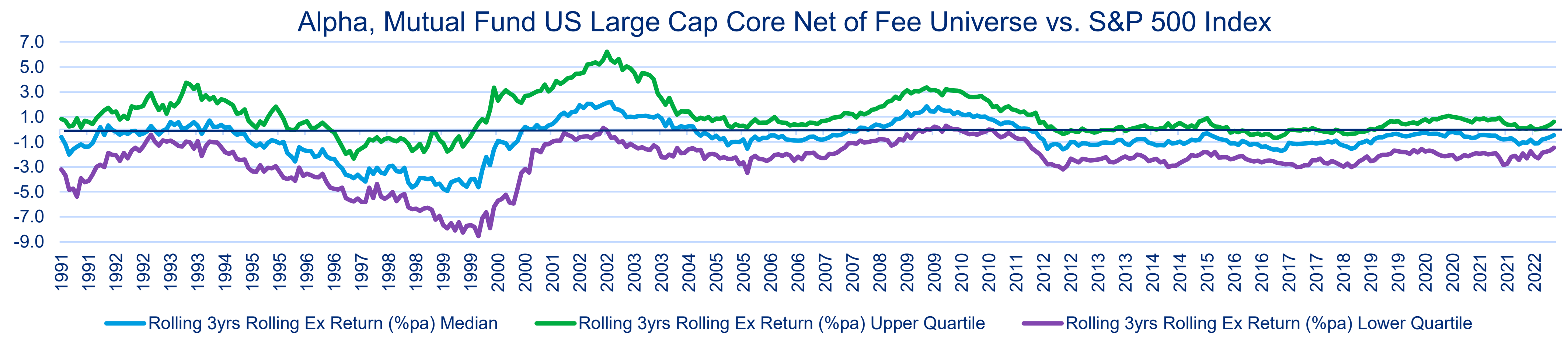
US Large Cap Equity

- The US Large Cap equity market is generally viewed as an **efficient asset class**.
- This is in part due to the extensive research available on large cap companies, which **limits informational advantages** by active large cap managers.
- We have also seen **higher concentration** that has resulted in fewer stocks driving overall index performance.
- Large Cap equity is typically **liquid with a wide breadth of investable securities.**



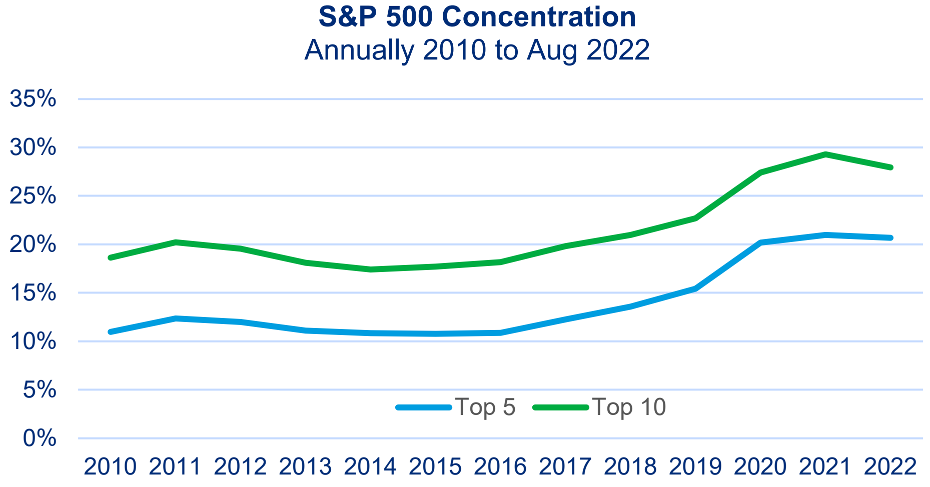
Source: FactSet. Data provided by JP Morgan on June 10, 2022.

Mercer recognizes certain headwinds within the US Large Cap asset class have become more persistent. While Mercer believes active management has a role within portfolios, we believe that a passive implementation within US Large Cap may benefit plan participants.



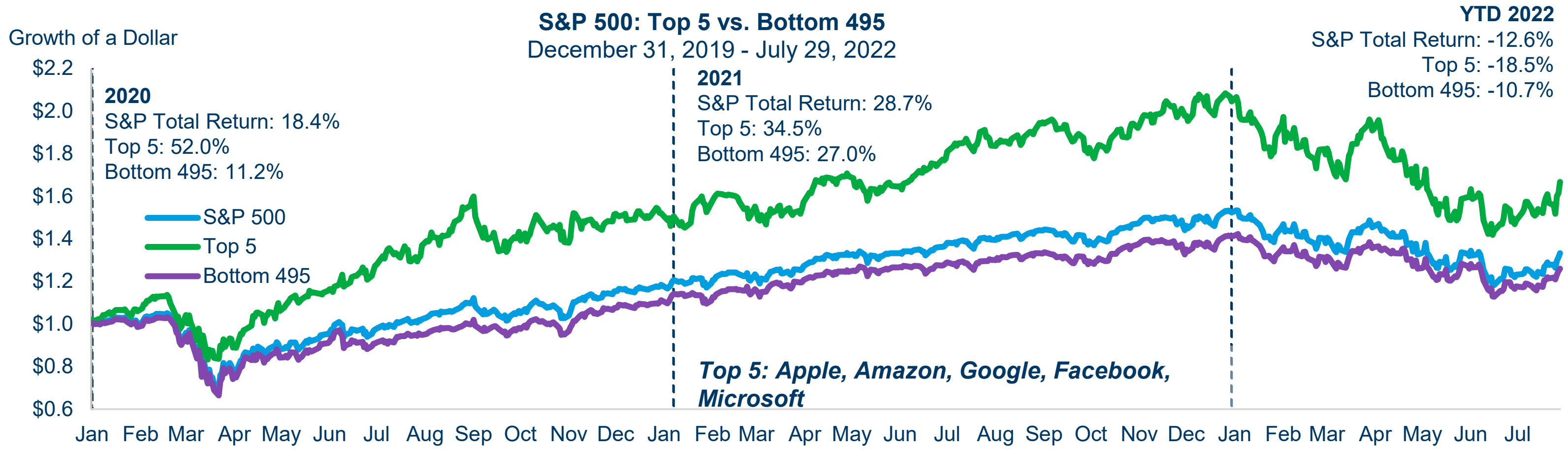
US Large Cap Index concentration

Impact on performance



Source: Bloomberg, iShares Core S&P 500 used as a proxy for the S&P 500 Index. January 2010 through August 2022.

- For over a decade, we have seen the top holdings within the S&P 500 Index grow as an overall portion of the index.
- This makes it difficult for active managers to express conviction in the largest holdings within the index relative to risk controls (e.g. maximum position limits).
  - Many mutual funds are classified as "diversified" by securities law, which requires certain limits on holdings and ultimately may force collective underweighting of the top index positions which potentially gives them an automatic performance headwind in certain market environments.



Source: Bloomberg. December 31, 2019 through July 29, 2022

- The top 5 stocks within the S&P 500 index have driven recent performance.
- Large cap growth indices (e.g. Russell 1000 Growth) exhibit even more pronounced concentration and performance issues.

US Large Cap: passive vs. active considerations

Summary

- While active management has the potential to add value to some degree in some markets, it may not always be the most appropriate option.
- **Investors should only invest actively where they believe that they can meet the conditions for success**, including having the necessary tolerance for underperformance.
- Given the market efficiency, index concentration and deterioration in historical performance of active US large cap managers, a passive implementation continues to appear appropriate.

City of LA DCP Passive Large Cap Equity

Clean Sheet Structure:

Objective	Investment Options		Investor Type
	Asset Allocation Options		
Professionally Managed	Target Date Funds	Managed Accounts	Do it For Me
	Core Options		
	Passive	Active	Guide Me
Capital Preservation		Stable Value	
Income Focused	US Core Bond Index	US Core Plus	
		Retirement Income	
Inflation Sensitive	Real Assets		
Growth (Equity Focused)			
– US Large	Blend		
– US SMID	Blend	Blend	
– World ex-US	Blend	Blend	
	Non-Core Options		
	Brokerage Window		Let Me Do It

City of LA:

	Passive	Active	
Capital Preservation		FDIC-Insured Savings Account DCP Stable Value (100% Galliard Separate Account)	Guide Me
Income Focused		DCP Bond Fund (50% Vanguard Total Bond Market Index Fund + 50% Loomis Sayles Core Plus Bond Fund)	
Growth (Equity Focused)			
– US Large	DCP Large Cap Stock Fund (100% Vanguard Institutional Index Fund)		
– US Mid		DCP Mid Cap Stock Fund (50% Vanguard Mid-Cap Index Fund + 25% Virtus Ceredex Mid-Cap Value Equity Fund + 25% Voya MidCap Opportunities Fund)	
– US Small		DCP Small Cap Stock Fund (33.4% Vanguard Small Cap Index Fund + 33.3% DFA US Small Cap Value Portfolio + 33.3% Hartford SmallCap Growth HLS Fund)	
– World ex-US		DCP International Stock Fund (65% MFS Inst Intl Equity Fund + 17.5% Brandes Intl Small Cap Equity Fund + 17.5% DFA Emerging Markets Core Equity Portfolio)	
	Non-Core Options		
	Schwab PCRA Self-Directed Brokerage Account		Let Me Do It

	Allocation		Performance (as of March 31, 2023)						
	Asset $	%	10 Year	7 Year	5 Year	3 Year	1 Year	CYTD	3 Month
DCP Large Cap Stock Fund (VIIIX)	2,407,958,773	27.8	12.2 (23)	12.4 (23)	11.2 (25)	18.6 (10)	-7.7 (13)	7.5 (43)	7.5 (43)
S&P 500 Index			*12.2 (23)*	*12.4 (23)*	*11.2 (23)*	*18.6 (7)*	*-7.7 (10)*	*7.5 (43)*	*7.5 (43)*
Mercer Mutual Fund US Equity Large Cap Index Median			12.0	12.2	11.0	18.3	-8.2	7.5	7.5

Observations:

- The DCP Large Cap Stock Fund consists of one underlying strategy: Vanguard 500 Index (VIIIX).
- 21,697 participants (42%) are invested in the DCP Large Cap Stock Fund.
- The Large Cap Stock Fund is the largest allocation of assets in the DCP, constituting 27.8% of total Plan assets.
- 11.4% of participants invested in one fund hold the Large Cap Stock Fund as their only investment.
- The fund has consistently performed in line with its benchmark (S&P 500) across all time periods.

Considerations:

- A passive large cap equity strategy aligns with Mercer's best practices.

Passive Management Considerations

Clean Sheet Structure:

	Passive
Capital Preservation	
Income Focused	US Core Bond Index ✗
Inflation Sensitive	*Possible consideration* ✗
Growth (Equity Focused)	
– US Large	Blend ✓
– US SMID	Blend ✗
– World ex-US	Blend ✗

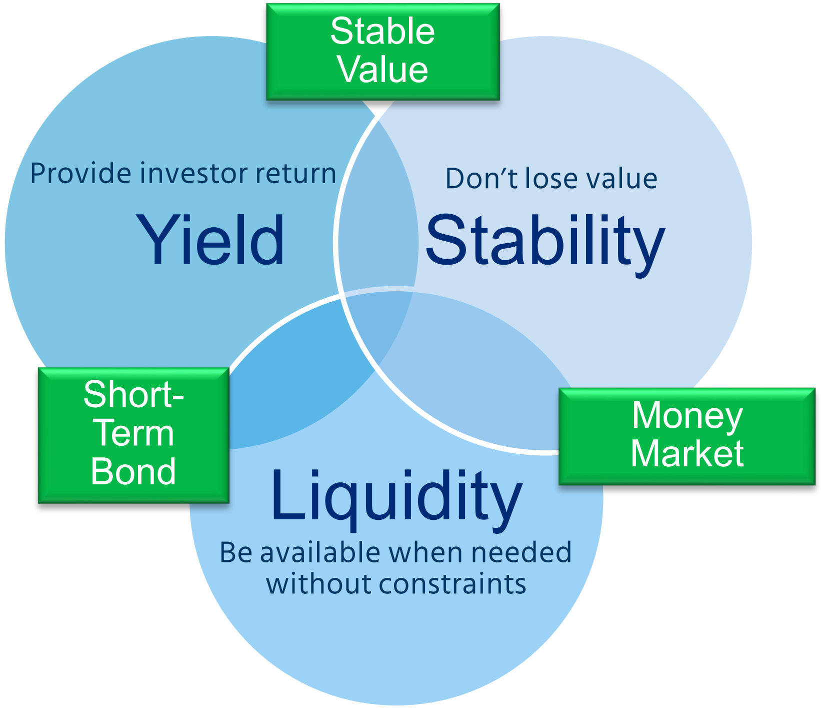
- The City of LA DCP currently offers only one passive core option – the DCP Large Cap Stock Fund.
- While passive large cap and active management in less efficient areas of the market is consistent with Mercer's best practices, adding passive options could give opportunities to participants solely seeking low-cost passive management.
- Plan has done very well by being active in the areas not currently covered in the passive array, but it is relatively conventional to offer a passive choice to participants in these asset classes.
- A potential outcome, however, may be dilution of assets from the current DCP core options into new passive funds if they were offered, reducing the purchasing power of the Plan with active managers.

Core Options – Active Tier

5

Capital Preservation

Overview: City of LA DCP currently offers an FDIC savings option and a stable value fund.

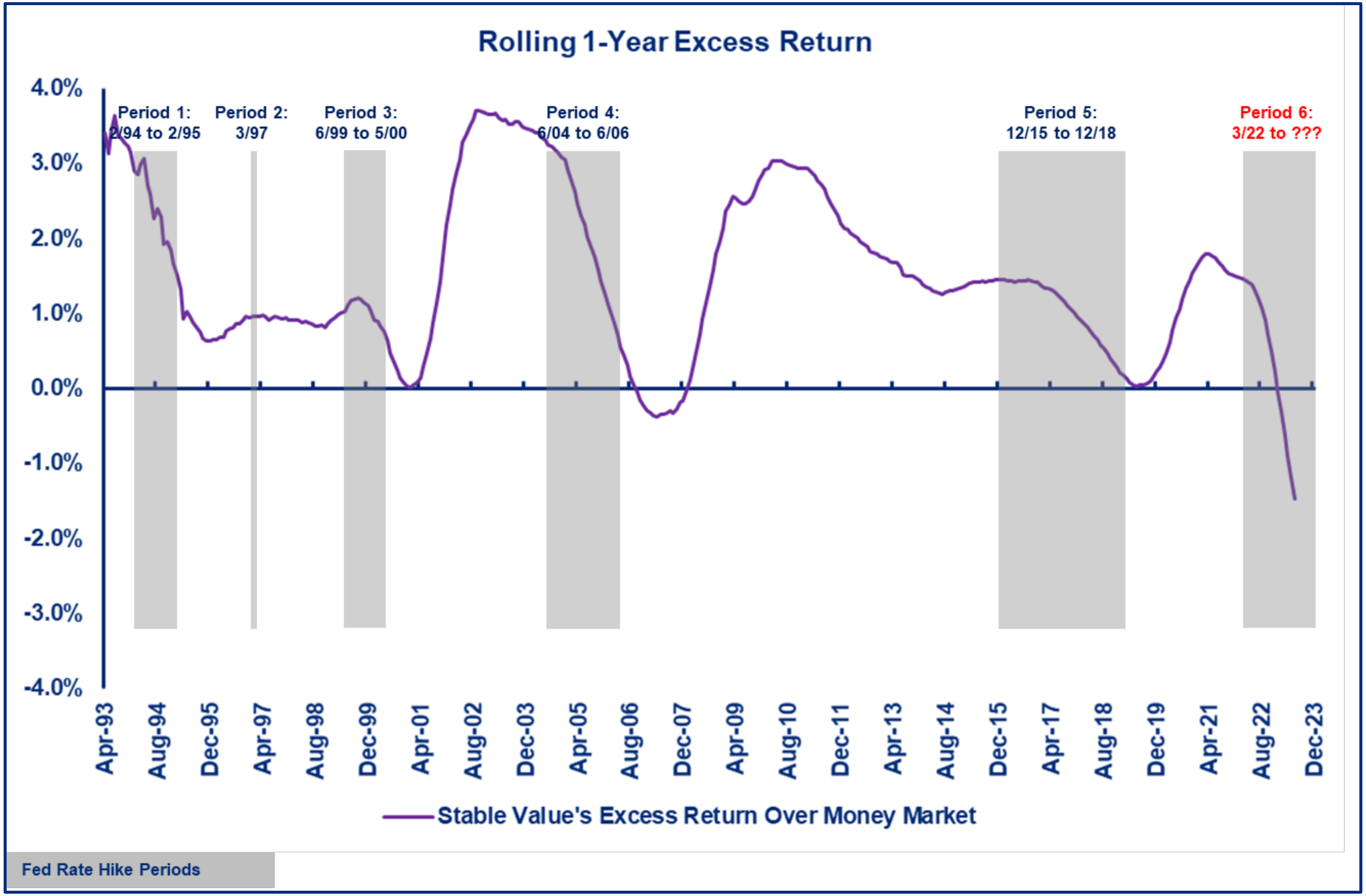


- No solution provides all three objectives
- Capital preservation option not meant to serve as a long-term investment
- Stability and liquidity should be primary objectives; yield should be secondary. However, yield becomes more important if retirees stay in the plan.

Stable Value Funds:

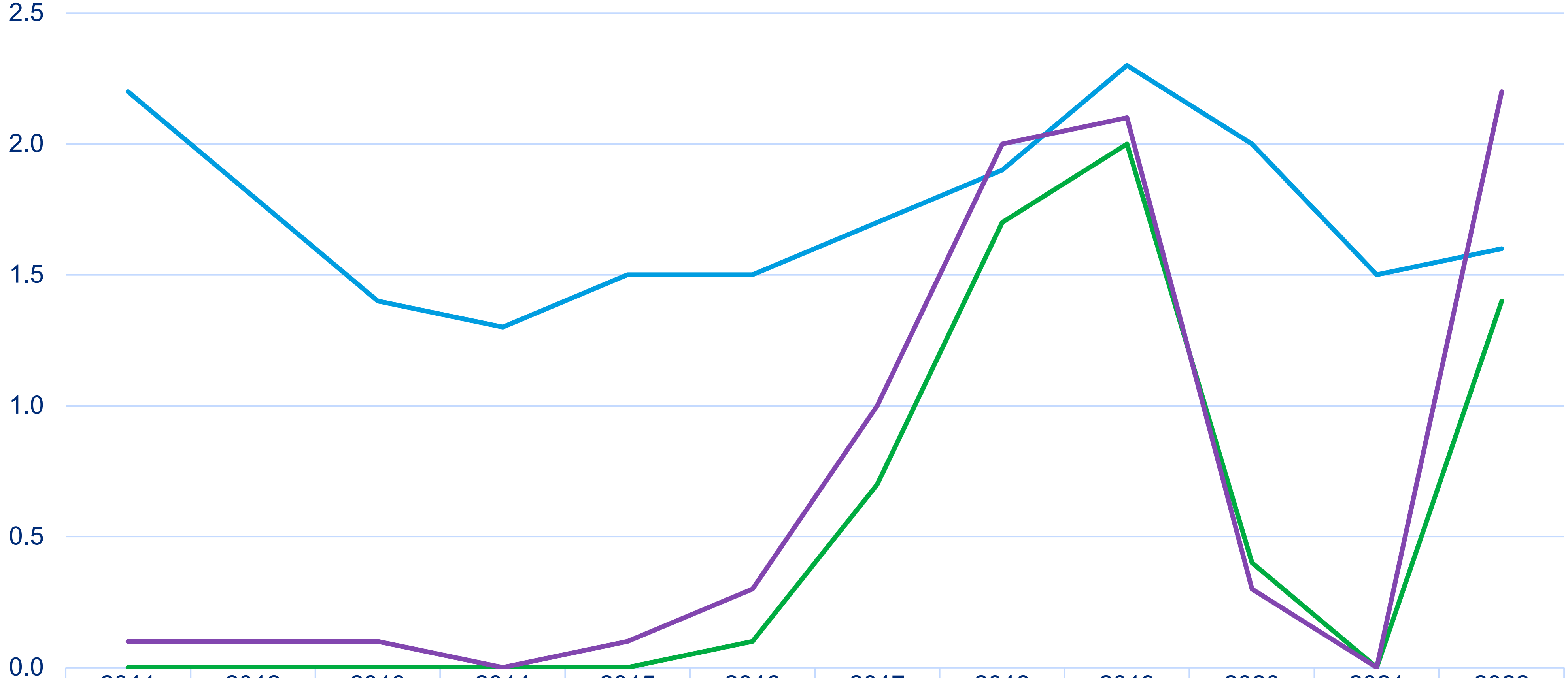
- Seek to provide *book value payout* of principal plus accrued income for participant transactions as opposed to *market value payout*
  - In other words, value of participant account should remain stable or increase, but **should not go down**
- Tend to deliver returns similar to short- to intermediate-term bonds with volatility similar to that of a money market fund

Stable Value's Excess Return Over Money Market



Historical Median Returns

Return in $US (after fees) over last 12 calendar years ending December 2022

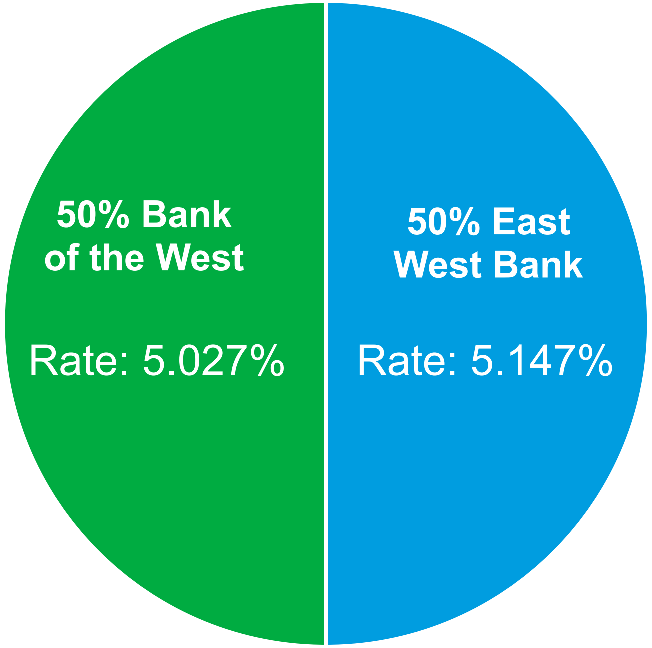


	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Stable Value Median	2.2	1.8	1.4	1.3	1.5	1.5	1.7	1.9	2.3	2.0	1.5	1.6
Money Market Median	0.0	0.0	0.0	0.0	0.0	0.1	0.7	1.7	2.0	0.4	0.0	1.4
3-Month T-Bill	0.1	0.1	0.1	0.0	0.1	0.3	1.0	2.0	2.1	0.3	0.0	2.2

Source: Mercer Insight

City of LA FDIC-Insured Savings Account

FDIC-Insured Savings Account



Blended Rate: 5.0868%

Performance (%)

	10 Year	5 Year	3 Year	1 Year	CYTD	3 Month
FDIC-Insured Savings Account	1.2	1.7	1.4	3.9	2.4	1.2
Mercer Mutual Fund Money Market Universe	0.8	1.4	1.2	3.6	2.3	1.2

- The DCP FDIC-Insured option is invested with 2 underlying banks, though the preferred number of providers for the option is 3. Currently, it provides aggregate FDIC coverage of $500,000 ($250,000 per bank).
- The FDIC option has provided competitive yield historically relative to government money market funds, but it does come with greater complexity and arguably risk than a money market surrogate.
  - Considerations:
    - monitoring of bank providers
    - periodic RFPs required
    - recordkeeping/administrative complexity
    - government money market funds have comparable or better security of assets

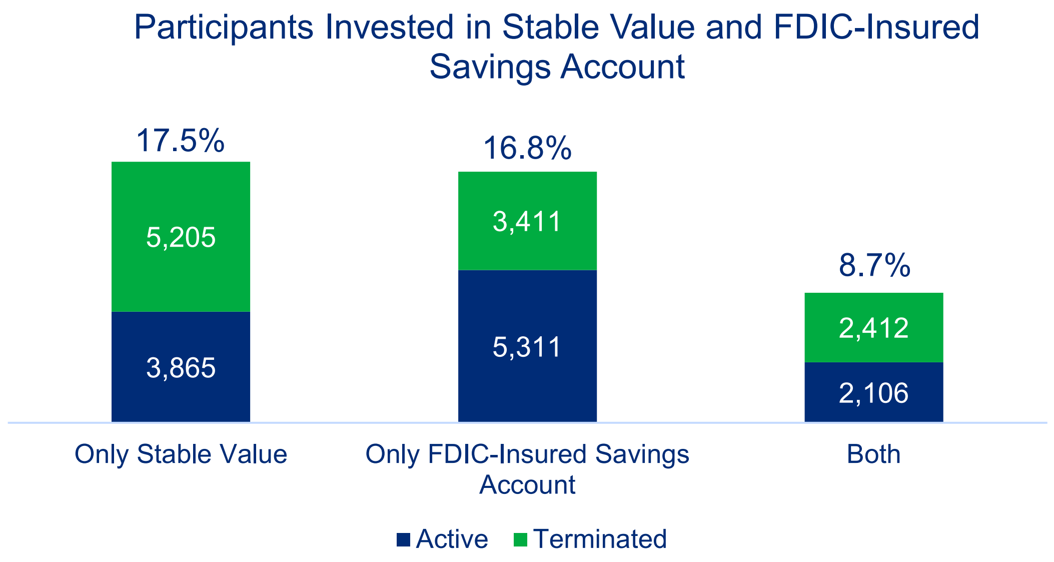
Capital Preservation Options

Clean Sheet Structure:

Objective	Investment Options		Investor Type
Asset Allocation Options			
Professionally Managed	Target Date Funds	Managed Accounts	Do it For Me
Core Options			
	Passive	Active	
Capital Preservation		Stable Value	
Income Focused	US Core Bond Index	US Core Plus	
		Retirement Income	
Inflation Sensitive	Real Assets		Guide Me
Growth (Equity Focused)			
– US Large	Blend		
– US SMID	Blend	Blend	
– World ex-US	Blend	Blend	
Non-Core Options			
	Brokerage Window		Let Me Do It

City of LA:

	Passive	Active	
Capital Preservation		FDIC-Insured Savings Account DCP Stable Value (100% Galliard Separate Account)	
Income Focused		DCP Bond Fund (50% Vanguard Total Bond Market Index Fund + 50% Loomis Sayles Core Plus Bond Fund)	
Growth (Equity Focused)			
– US Large	DCP Large Cap Stock Fund (100% Vanguard Institutional Index Fund)		Guide Me
– US Mid		DCP Mid Cap Stock Fund (50% Vanguard Mid-Cap Index Fund + 25% Virtus Ceredex Mid-Cap Value Equity Fund + 25% Voya MidCap Opportunities Fund)	
– US Small		DCP Small Cap Stock Fund (33.4% Vanguard Small Cap Index Fund + 33.3% DFA US Small Cap Value Portfolio + 33.3% Hartford SmallCap Growth HLS Fund)	
– World ex-US		DCP International Stock Fund (65% MFS Inst Intl Equity Fund + 17.5% Brandes Intl Small Cap Equity Fund + 17.5% DFA Emerging Markets Core Equity Portfolio)	
Non-Core Options			
	Schwab PCRA Self-Directed Brokerage Account		Let Me Do It



Observations:

- 22,310 participants (43%) are invested in DCP Stable Value and/or the FDIC-Insured Savings Account.
- 4,518 participants (9%) are invested in both funds.

Considerations:

- Mercer recommends retaining the Deferred Compensation Stable Value Fund and review the appropriateness of the FDIC Insured Savings Account.
- 77% of 457 plans use Stable Value funds*

Mercer

[2] Mega plans (>$1 billion) in the 457 plan category based on PLANSPONSOR 2022 Defined Contribution Survey; 33 respondents.

City of LA DCP Bond Fund

Clean Sheet Structure:

Objective	Investment Options		Investor Type
Asset Allocation Options			
Professionally Managed	Target Date Funds	Managed Accounts	Do it For Me
Core Options			
	Passive	Active	Guide Me
Capital Preservation		Stable Value	
Income Focused	US Core Bond Index	US Core Plus	
		Retirement Income	
Inflation Sensitive	Real Assets		
Growth (Equity Focused)			
– US Large	Blend		
– US SMID	Blend	Blend	
– World ex-US	Blend	Blend	
Non-Core Options			
	Brokerage Window		Let Me Do It

City of LA:

	Passive	Active	
Capital Preservation		FDIC-Insured Savings Account DCP Stable Value (100% Galliard Separate Account)	Guide Me
Income Focused		DCP Bond Fund (50% Vanguard Total Bond Market Index Fund + 50% Loomis Sayles Core Plus Bond Fund)	
Growth (Equity Focused)			
– US Large	DCP Large Cap Stock Fund (100% Vanguard Institutional Index Fund)		
– US Mid		DCP Mid Cap Stock Fund (50% Vanguard Mid-Cap Index Fund + 25% Virtus Ceredex Mid-Cap Value Equity Fund + 25% Voya MidCap Opportunities Fund)	
– US Small		DCP Small Cap Stock Fund (33.4% Vanguard Small Cap Index Fund + 33.3% DFA US Small Cap Value Portfolio + 33.3% Hartford SmallCap Growth HLS Fund)	
– World ex-US		DCP International Stock Fund (65% MFS Inst Intl Equity Fund + 17.5% Brandes Intl Small Cap Equity Fund + 17.5% DFA Emerging Markets Core Equity Portfolio)	
Non-Core Options			
	Schwab PCRA Self-Directed Brokerage Account		Let Me Do It

	Allocation		Performance (as of March 31, 2023)						
	Asset $	%	10 Year	7 Year	5 Year	3 Year	1 Year	CYTD	3 Month
DCP Bond Fund	180,802,230	2.1	1.5 (50)	1.5 (41)	1.2 (53)	-1.8 (79)	-4.5 (48)	3.5 (20)	3.5 (20)
Blmbg. U.S. Aggregate Index			*1.4 (62)*	*0.9 (86)*	*0.9 (72)*	*-2.8 (95)*	*-4.8 (54)*	*3.0 (48)*	*3.0 (48)*
Mercer Mutual Fund US Fixed Core Median			1.5	1.4	1.3	-0.4	-4.6	2.9	2.9
Vanguard Total Bond Market Index Fund Inst Plus (VBMPX)	-	-	1.3 (48)	0.9 (57)	0.9 (61)	-2.8 (69)	-4.7 (67)	3.2 (36)	3.2 (36)
Vanguard Splc Blmbg. US Agg Flt Adj			*1.4 (43)*	*0.9 (55)*	*1.0 (60)*	*-2.7 (68)*	*-4.7 (68)*	*3.0 (47)*	*3.0 (47)*
Mercer Mutual Fund US Fixed Index Median			1.3	1.1	1.2	-0.8	-2.8	2.9	2.9
Loomis Sayles Core Plus Bond Fund Y (NERYX)	-	-	2.1 (18)	2.2 (17)	1.5 (30)	-0.9 (62)	-4.3 (46)	3.8 (9)	3.8 (9)
Blmbg. U.S. Aggregate Index			*1.4 (62)*	*0.9 (86)*	*0.9 (72)*	*-2.8 (95)*	*-4.8 (54)*	*3.0 (48)*	*3.0 (48)*
Mercer Mutual Fund US Fixed Core Median			1.5	1.4	1.3	-0.4	-4.6	2.9	2.9

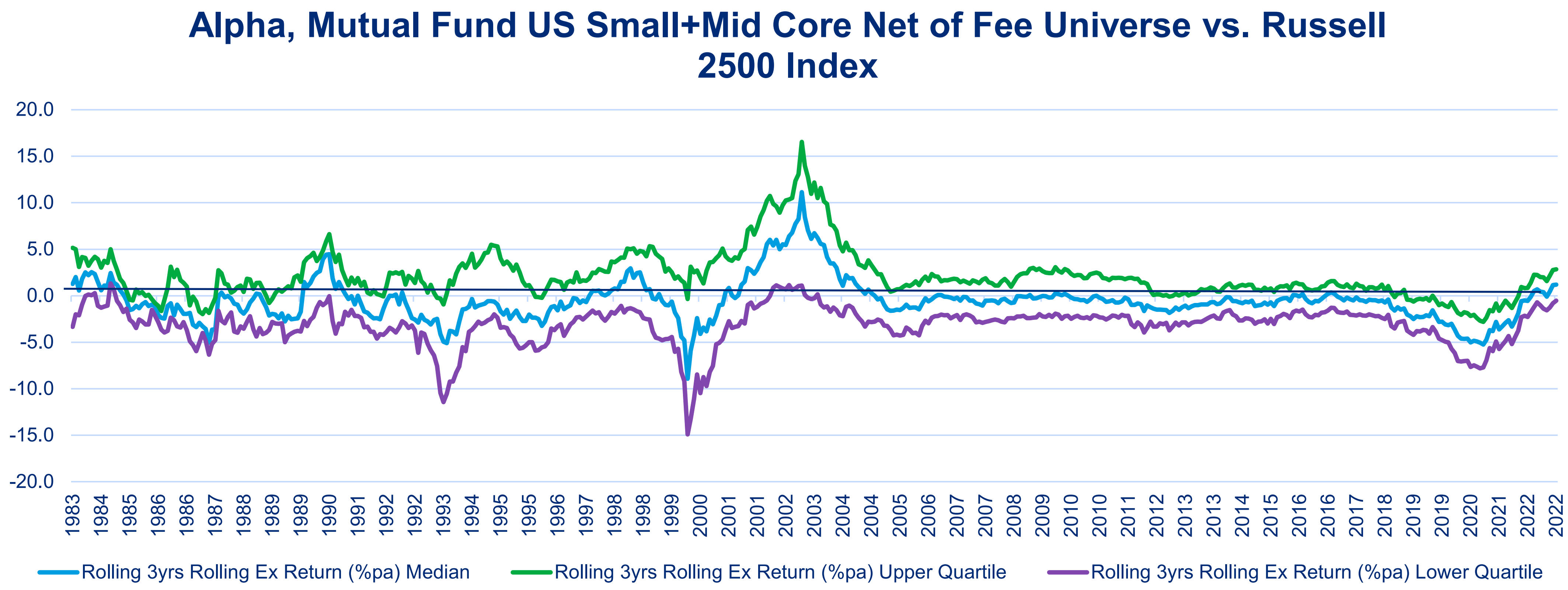
Observations:

- 6,763 participants (13.0%) are invested in the DCP Bond Fund.
- 2.1% of total Plan assets are invested in this fund.
- The Fund has outperformed its index across all time periods.

Considerations:

- Mercer recommends retaining the DCP Bond Fund.
- Consideration should be given to lessening the degree of passive management in the Fund with the possibility of a standalone passive option being added to the line-up.

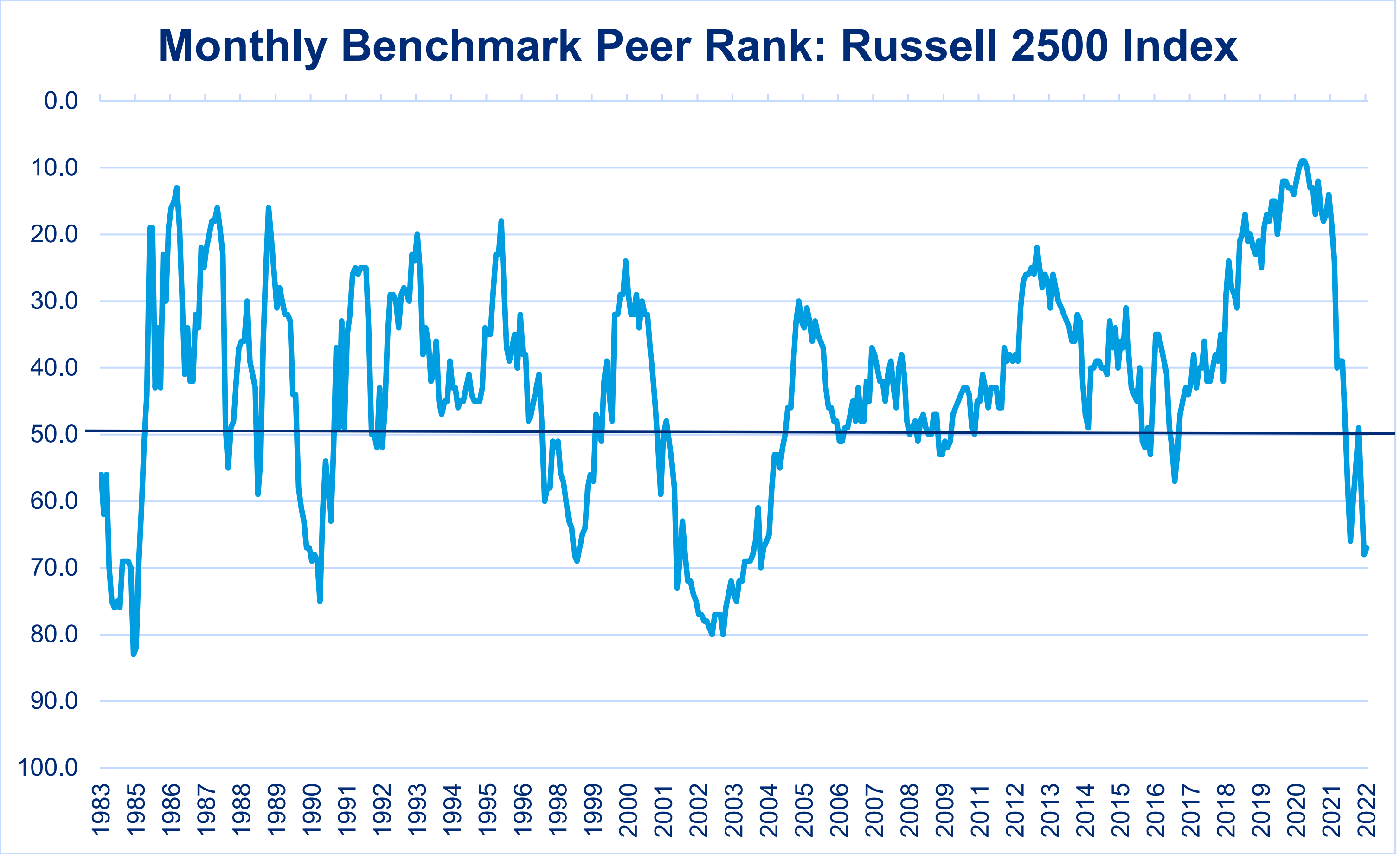
US Small + Mid Core as of December 31, 2022



Observations

From 1984 to mid-2022, alpha for small+mid cap core managers peaked during the early 2000's (1600 bps). From 2012 through 2018, top quartile managers have consistently provided alpha (40 bps to 120 bps) with the rare median manager squeezing out some excess return. Small+Mid Core managers experienced negative excess return across a majority of the universe from the onset of 2019 through the end of 2021. During 2022, top quartile managers provided alpha generally ranging from 90 bps to 280 bps and median managers experienced outperformance seven out of twelve months.

US Small + Mid Core as of December 31, 2022



Observations

Over time, the benchmark for the Small+Mid core universe has faired well within the peer group, showing recovery from global economic events.

- During the past five years, the Russell 2500 has been a top half performer except for seven months during 2022 and a top quartile performer 62% of the last five years.
- The benchmark has also maintained a top-half position 89% of the time over the last 10 years.
- Since 1984, the benchmark has been a top-half performer 74% of the time, with very apparent cyclicality.
- Benchmark rankings were more erratic prior to the early 2000’s, but were still largely within the top-half of the peer group.

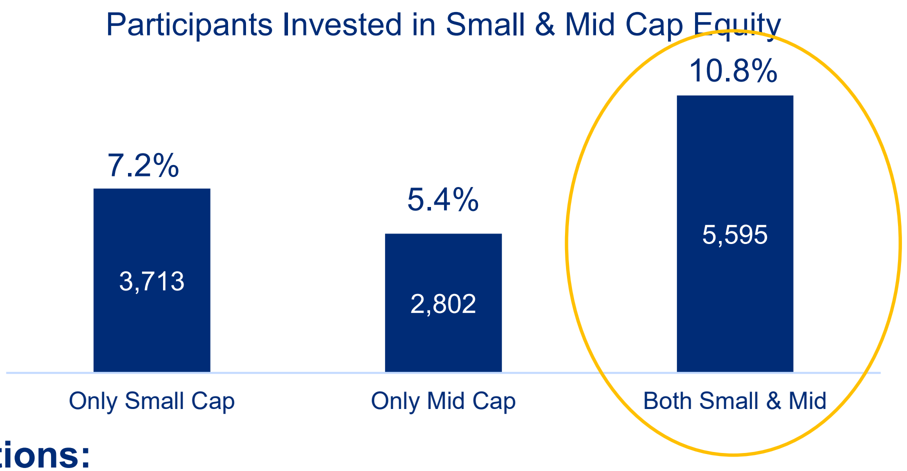
US Small-Cap and Mid-Cap Equity

Clean Sheet Structure:

Objective	Investment Options		Investor Type
	Asset Allocation Options		
Professionally Managed	Target Date Funds	Managed Accounts	Do it For Me
	Core Options		
	Passive	Active	Guide Me
Capital Preservation		Stable Value	
Income Focused	US Core Bond Index	US Core Plus	
		Retirement Income	
Inflation Sensitive	Real Assets		
Growth (Equity Focused)			
– US Large	Blend		
– US SMID	Blend	Blend	
– World ex-US	Blend	Blend	
	Non-Core Options		
	Brokerage Window		Let Me Do It

City of LA:

	Passive	Active	
Capital Preservation		FDIC-Insured Savings Account DCP Stable Value (100% Galliard Separate Account)	Guide Me
Income Focused		DCP Bond Fund (50% Vanguard Total Bond Market Index Fund + 50% Loomis Sayles Core Plus Bond Fund)	
Growth (Equity Focused)			
– US Large	DCP Large Cap Stock Fund (100% Vanguard Institutional Index Fund)		
– US Mid		DCP Mid Cap Stock Fund (50% Vanguard Mid-Cap Index Fund + 25% Virtus Ceredex Mid-Cap Value Equity Fund + 25% Voya MidCap Opportunities Fund)	
– US Small		DCP Small Cap Stock Fund (33.4% Vanguard Small Cap Index Fund + 33.3% DFA US Small Cap Value Portfolio + 33.3% Hartford SmallCap Growth HLS Fund)	
– World ex-US		DCP International Stock Fund (65% MFS Inst Intl Equity Fund + 17.5% Brandes Intl Small Cap Equity Fund + 17.5% DFA Emerging Markets Core Equity Portfolio)	
Non-Core Options			
	Schwab PCRA Self-Directed Brokerage Account		Let Me Do It



Observations:

- 12,110 (23.3%) of participants are invested in the US Small Cap Stock Fund and/or the US Mid Cap Stock Fund.
- Only 7.4% of total Plan assets are invested in the Small and Mid Cap Stock funds.
- Low utilization of participants investing in only the US Small Cap Fund (7.2% of participants) or only the US Mid Cap Fund (5.4%).

Considerations:

- Consider offering a combined active US SMID Cap Equity fund to address participant preference to use both options (46% of users of the small/mid cap options) and simplify portfolio allocation decisions.
- Also, review portfolio construction (allocations to passive management) in consideration of possible addition of a passive US SMID Cap Equity option as a standalone option.

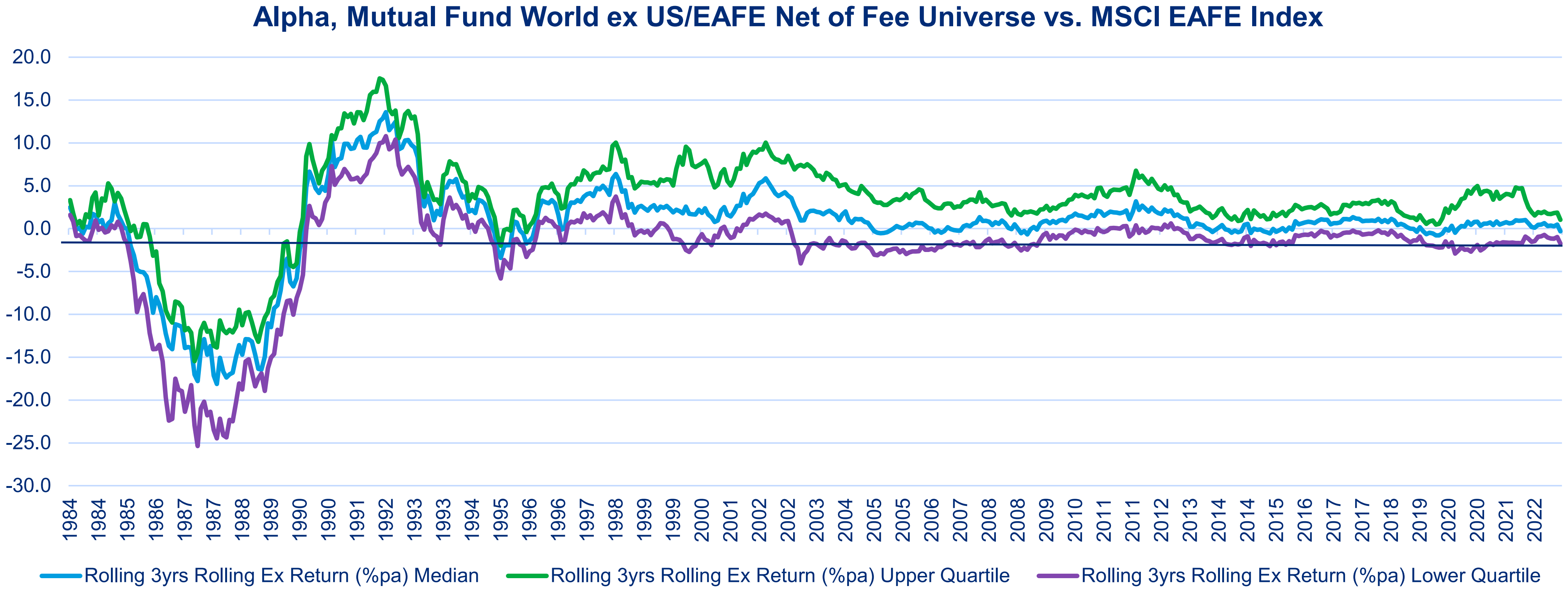
DCP US Small-Cap Stock and Mid-Cap Stock Funds

	Allocation		Performance (as of June 30, 2023)													
	Asset $	%	10 Year		7 Year		5 Year		3 Year		1 Year		CYTD		3 Month	
DCP Mid Cap Stock Fund	344,526,161	3.8	10.4	(20)	10.3	(28)	8.4	(31)	11.7	(89)	15.6	(21)	9.2	(20)	5.6	(20)
DCP Mid Cap Stock Custom Benchmark			*10.5*	*(19)*	*10.3*	*(28)*	*8.5*	*(30)*	*11.7*	*(89)*	*15.2*	*(26)*	*9.7*	*(16)*	*4.9*	*(34)*
Mercer Mutual Fund US Equity Mid Cap Core Median			9.2		9.3		7.5		14.5		12.9		7.1		4.4	
Vanguard Mid Cap Index Fund Instl Plus (VMCPX)			10.5	(1)	10.3	(1)	8.6	(8)	12.0	(67)	13.7	(85)	8.8	(71)	4.8	(51)
Vanguard Spliced Mid Cap Index (Net)			*10.5*	*(1)*	*10.3*	*(1)*	*8.6*	*(8)*	*12.0*	*(67)*	*13.7*	*(85)*	*8.8*	*(71)*	*4.8*	*(53)*
Mercer Mutual Fund US Equity Mid Cap Index Median			9.2		9.6		7.3		12.5		15.0		9.0		4.8	
Virtus Ceredex Mid-Cap Value Equity (SMVTX)			8.6	(52)	8.6	(56)	6.3	(57)	12.8	(99)	10.6	(56)	3.6	(66)	4.2	(48)
Russell Midcap Value Index			*9.0*	*(42)*	*8.2*	*(67)*	*6.8*	*(47)*	*15.0*	*(84)*	*10.5*	*(59)*	*5.2*	*(47)*	*3.9*	*(58)*
Mercer Mutual Fund US Equity Mid Cap Value Median			8.7		8.9		6.7		17.2		11.4		4.4		4.2	
Voya Mid Cap Opportunities Fund Portfolio I (IIMOX)			10.9	(52)	11.4	(56)	9.7	(28)	9.5	(28)	24.3	(5)	15.8	(35)	8.4	(16)
Russell Midcap Growth Index			*11.5*	*(34)*	*12.0*	*(35)*	*9.7*	*(27)*	*7.6*	*(52)*	*23.1*	*(6)*	*15.9*	*(34)*	*6.2*	*(42)*
Mercer Mutual Fund US Equity Mid Cap Growth Median			10.9		11.5		9.0		7.8		18.1		14.5		5.8	
DCP Small Cap Stock Fund	314,027,080	3.5	-		9.7	(34)	6.0	(42)	14.2	(68)	15.7	(27)	8.9	(30)	6.0	(16)
DCP Small Cap Stock Custom Benchmark			*8.6*	*(45)*	*9.0*	*(45)*	*4.9*	*(64)*	*11.4*	*(87)*	*13.1*	*(50)*	*8.4*	*(37)*	*5.2*	*(27)*
DCP Small Cap Hypothetical			*9.1*	*(32)*	*9.6*	*(35)*	*6.0*	*(43)*	*14.2*	*(68)*	*16.1*	*(24)*	*9.0*	*(28)*	*6.1*	*(15)*
Mercer Mutual Fund US Equity Small Cap Core Median			8.4		8.8		5.6		15.6		13.0		7.1		4.2	
Vanguard Small Cap Index Instl Plus (VSCPX)			9.5	(13)	9.7	(10)	6.6	(10)	12.6	(44)	14.9	(21)	9.3	(21)	5.3	(22)
Vanguard Spliced Small Cap Index (Net)			*9.4*	*(14)*	*9.6*	*(10)*	*6.6*	*(12)*	*12.5*	*(45)*	*14.8*	*(22)*	*9.2*	*(22)*	*5.3*	*(23)*
Mercer Mutual Fund US Equity Small Cap Index Median			8.2		8.7		4.5		11.5		12.3		8.1		5.2	
DFA US Small Cap Value Portfolio Institutional (DFSVX)			8.6	(25)	9.8	(20)	6.5	(25)	24.6	(22)	15.4	(29)	4.4	(51)	4.5	(26)
Russell 2000 Value Index			*7.3*	*(62)*	*7.7*	*(74)*	*3.5*	*(82)*	*15.4*	*(87)*	*6.0*	*(81)*	*2.5*	*(76)*	*3.2*	*(59)*
Mercer Mutual Fund US Equity Small Cap Value Median			7.9		8.6		5.1		20.2		11.3		4.6		3.7	
Hartford Small Cap Growth HLS Fund IB (HBSGX)			8.7	(76)	8.8	(84)	4.1	(88)	5.3	(77)	16.6	(44)	12.9	(38)	8.1	(11)
Russell 2000 Growth Index			*8.8*	*(73)*	*9.3*	*(77)*	*4.2*	*(87)*	*6.1*	*(71)*	*18.5*	*(28)*	*13.6*	*(28)*	*7.1*	*(17)*
Mercer Mutual Fund US Equity Small Cap Growth Median			9.7		10.7		6.8		8.9		15.6		11.3		5.1	

The DCP Mid Cap Stock Fund has had favorable peer rankings, though passive management has been effective in this space

Performance for the DCP Small Cap Stock Fund has been favorable over most periods relative to benchmark and peers

International ex-US as of December 31, 2022

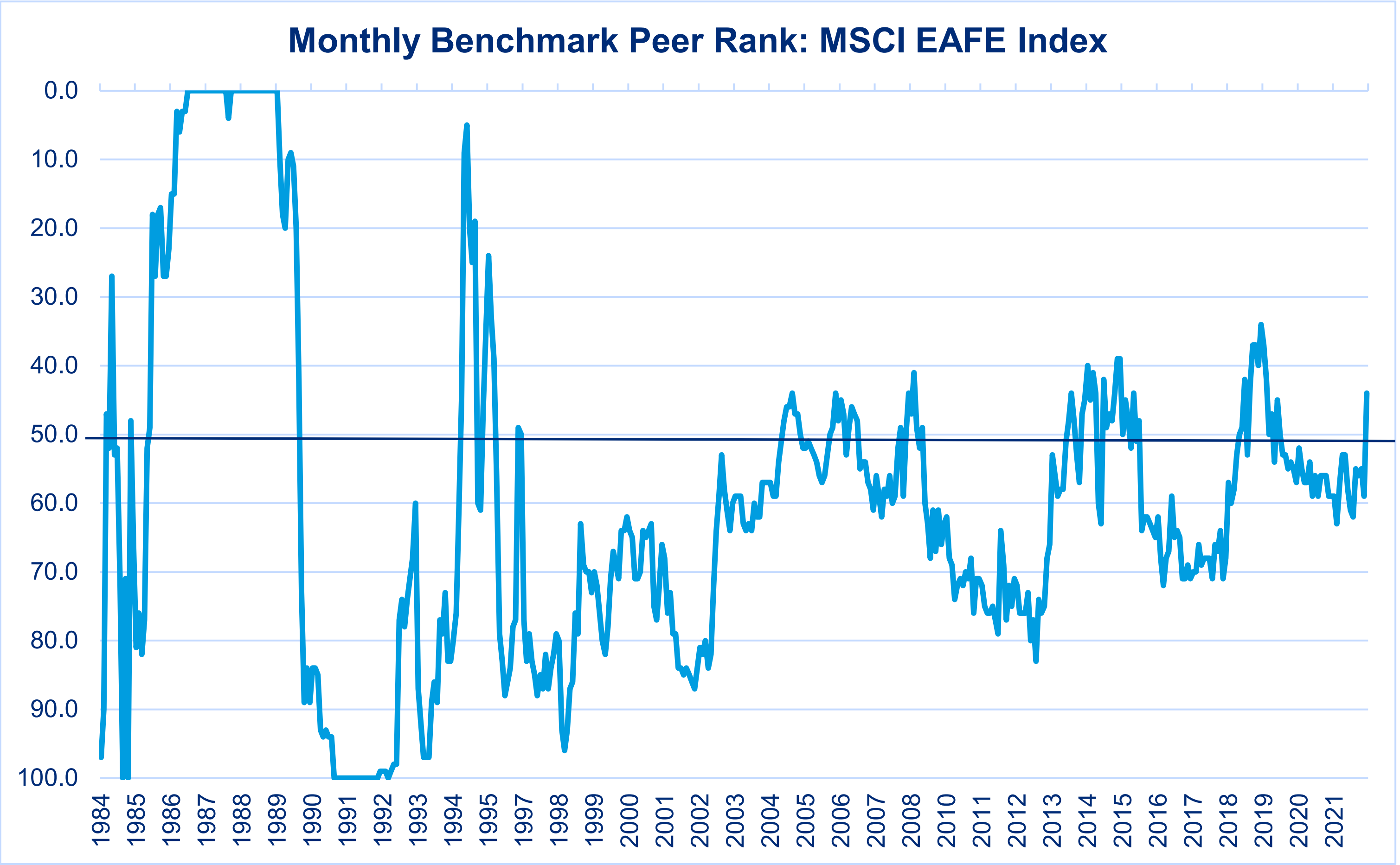


Observations

Provided historical benchmark performance within the peer group (available on the next page), it is not surprising that most World ex US / EAFE managers, including bottom quartile managers on occasion, have provided alpha over almost the entire period since early 1990.

Alpha has tightened for this universe, where top quartile managers were earning consistent 500 bps to 1000 bps over the index in the late 1990’s through early 2000’s (median was consistently 250 bps to 500 bps), now managers are only able to provide 250 bps to 500 bps in the top quartile and minimal alpha over the index for median managers. Bottom quartile managers have failed to provide alpha in recent years.

International ex-US as of December 31, 2022

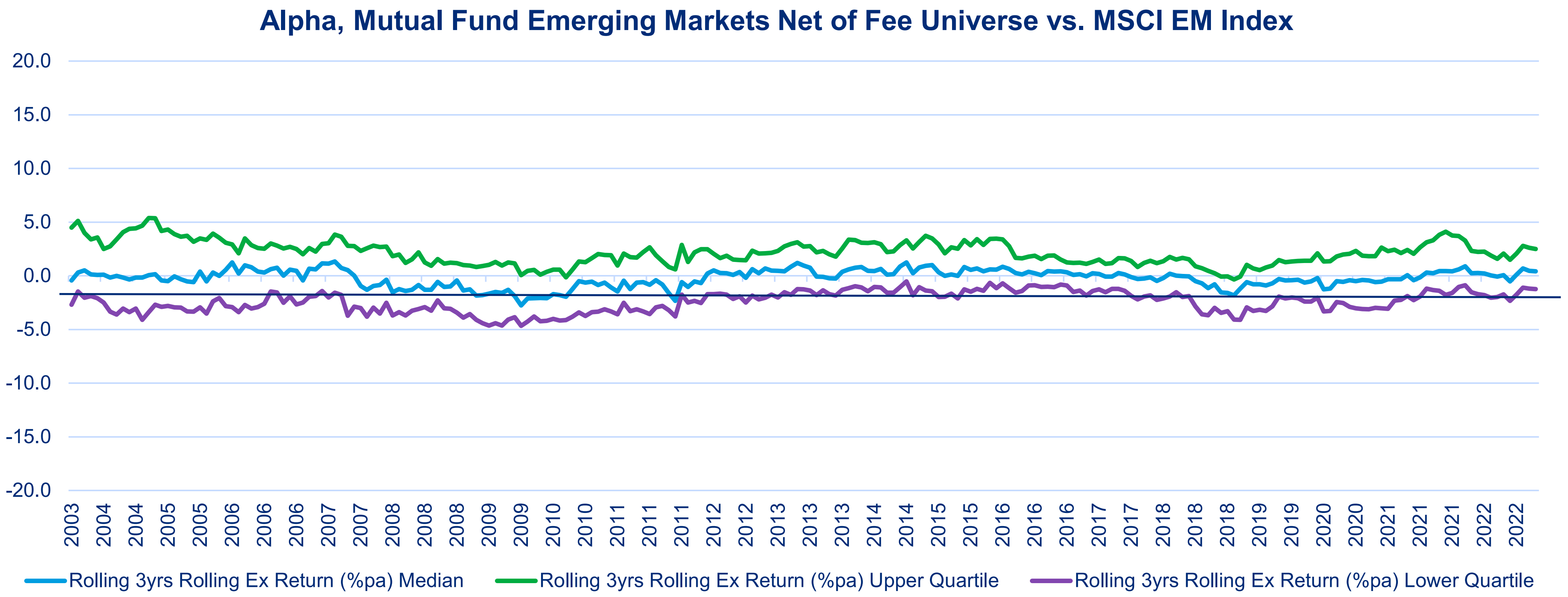


Observations

Over time, the benchmark for the World ex US/EAFE universe has struggled against the peer group.

- During the past five years, the MSCI EAFE has only been a top half performer 25% of the time (almost all of 2019 and two months in 2020, and December 2022).
- During the last 10 years, the benchmark has managed a slightly better 30% appearance in the top half of its peer group.
- Since 1984, the benchmark has been a top-half performer just 28% of the time.
- The benchmark experienced top decile performance in late 1986 through mid-1989 before crashing to the bottom of the peer group.

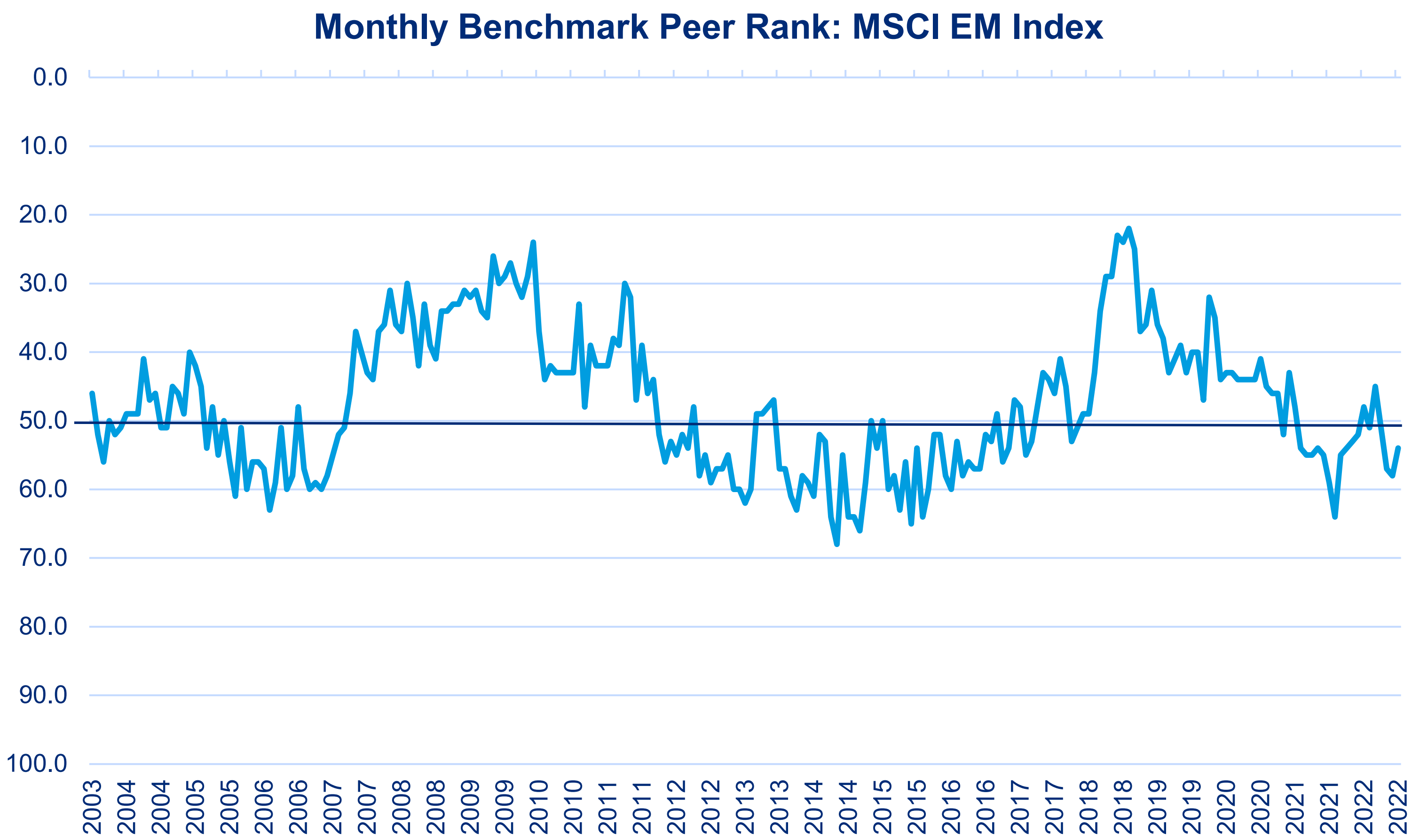
Emerging markets as of December 31, 2022



Observations

Top quartile emerging markets managers have been able to provide consistent alpha (except for 5 months) over the last almost 20 years, ranging from 10 bps to 530 bps. Median managers have fluctuated in their ability to provide alpha over the same period, demonstrating cycles of excess returns (2005 – 2007, most of 2012 – 2016, and late 2021 into 2022). Bottom quartile managers have failed to add alpha over the trailing period. Unlike some other asset classes, emerging markets has not seen the same apparent tightening of excess return across the universe.

Emerging markets as of December 31, 2022



Observations

Over time, the benchmark for the Emerging Markets universe has cyclically appeared in the top half of its peer group.

- During the past five years, the MSCI EM has been a top half performer 68% of the time.
- However, over the last 10 years, the benchmark only maintained top-half performance 45% of the time.
- Since 2003, the benchmark has been a top-half performer 55% of the time, experiencing periods of underperformance (parts of 2004, 2005 – 2007 and most of 2012 through 2017) balanced with outperformance in the complimentary years.

International Equity

Clean Sheet Structure:

Objective	Investment Options		Investor Type
Asset Allocation Options			
Professionally Managed	Target Date Funds	Managed Accounts	Do it For Me
Core Options			
	Passive	Active	
Capital Preservation		Stable Value	
Income Focused	US Core Bond Index	US Core Plus	
		Retirement Income	
Inflation Sensitive	Real Assets		Guide Me
Growth (Equity Focused)			
– US Large	Blend		
– US SMID	Blend	Blend	
– World ex-US	Blend	Blend	
Non-Core Options			
	Brokerage Window		Let Me Do It

City of LA:

	Passive	Active	
Capital Preservation		FDIC-Insured Savings Account DCP Stable Value (100% Galliard Separate Account)	
Income Focused		DCP Bond Fund (50% Vanguard Total Bond Market Index Fund + 50% Loomis Sayles Core Plus Bond Fund)	
Growth (Equity Focused)			
– US Large	DCP Large Cap Stock Fund (100% Vanguard Institutional Index Fund)		Guide Me
– US Mid		DCP Mid Cap Stock Fund (50% Vanguard Mid-Cap Index Fund + 25% Virtus Ceredex Mid-Cap Value Equity Fund + 25% Voya MidCap Opportunities Fund)	
– US Small		DCP Small Cap Stock Fund (33.4% Vanguard Small Cap Index Fund + 33.3% DFA US Small Cap Value Portfolio + 33.3% Hartford SmallCap Growth HLS Fund)	
– World ex-US		DCP International Stock Fund (65% MFS Inst Intl Equity Fund + 17.5% Brandes Intl Small Cap Equity Fund + 17.5% DFA Emerging Markets Core Equity Portfolio)	
Non-Core Options			
	Schwab PCRA Self-Directed Brokerage Account		Let Me Do It

	Allocation		Performance (as of March 31, 2023)						
	Asset $	%	10 Year	7 Year	5 Year	3 Year	1 Year	CYTD	3 Month
DCP International Stock Fund	237,876,313	2.8	-	7.5 (12)	5.1 (11)	15.7 (18)	1.4 (14)	9.8 (21)	9.8 (21)
DCP International Stock Custom Benchmark			*4.7 (60)*	*5.9 (50)*	*2.4 (56)*	*12.1 (59)*	*-4.4 (61)*	*7.1 (62)*	*7.1 (62)*
DCP International Hypothetical			*6.0 (18)*	*7.5 (12)*	*5.1 (11)*	*15.7 (18)*	*1.5 (13)*	*9.8 (21)*	*9.8 (21)*
Mercer Mutual Fund World ex US/EAFE Equity Median			5.0	5.9	2.6	12.9	-3.2	7.8	7.8
MFS International Instl Equity Fund (MIEIX)	-	-	6.9 (10)	8.8 (4)	6.9 (4)	14.4 (29)	1.6 (13)	10.0 (19)	10.0 (19)
MSCI EAFE (Net)			*5.0 (49)*	*6.2 (41)*	*3.5 (30)*	*13.0 (48)*	*-1.4 (35)*	*8.5 (39)*	*8.5 (39)*
Mercer Mutual Fund World ex US/EAFE Equity Median			5.0	5.9	2.6	12.9	-3.2	7.8	7.8
Brandes International Small Cap Equity Fund I (BISMX)	-	-	5.4 (25)	3.7 (84)	2.6 (25)	21.8 (6)	10.9 (5)	13.6 (1)	13.6 (1)
MSCI EAFE Small Cap (Net)			*5.9 (13)*	*5.3 (42)*	*0.9 (69)*	*12.1 (83)*	*-9.8 (83)*	*4.9 (88)*	*4.9 (88)*
Mercer Mutual Fund World ex US/EAFE Equity Small Cap Median			4.4	5.0	1.4	14.5	-5.4	6.3	6.3
DFA Emerging Markets Core Equity Portfolio Inst (DFCEX)	-	-	2.9 (27)	5.9 (24)	0.6 (26)	14.1 (16)	-8.3 (37)	5.6 (28)	5.6 (28)
MSCI Emerging Markets (Net)			*2.0 (47)*	*4.9 (47)*	*-0.9 (52)*	*7.8 (60)*	*-10.7 (66)*	*4.0 (66)*	*4.0 (66)*
Mercer Mutual Fund Emerging Markets Equity Median			1.8	4.8	-0.8	8.9	-9.5	4.7	4.7

Observations:

- 8,895 participants (17%) are invested in the DCP International Stock Fund.
- Only 2.8% of total Plan assets are invested in the fund.
- The DCP International Stock Fund has outperformed its benchmark over all historical periods.
- The three underlying funds provide good diversification and exposure to different international markets.

Considerations:

- Retain the DCP International Stock Fund
- Also, consideration of possible addition of a passive broad International Equity option as a standalone option.

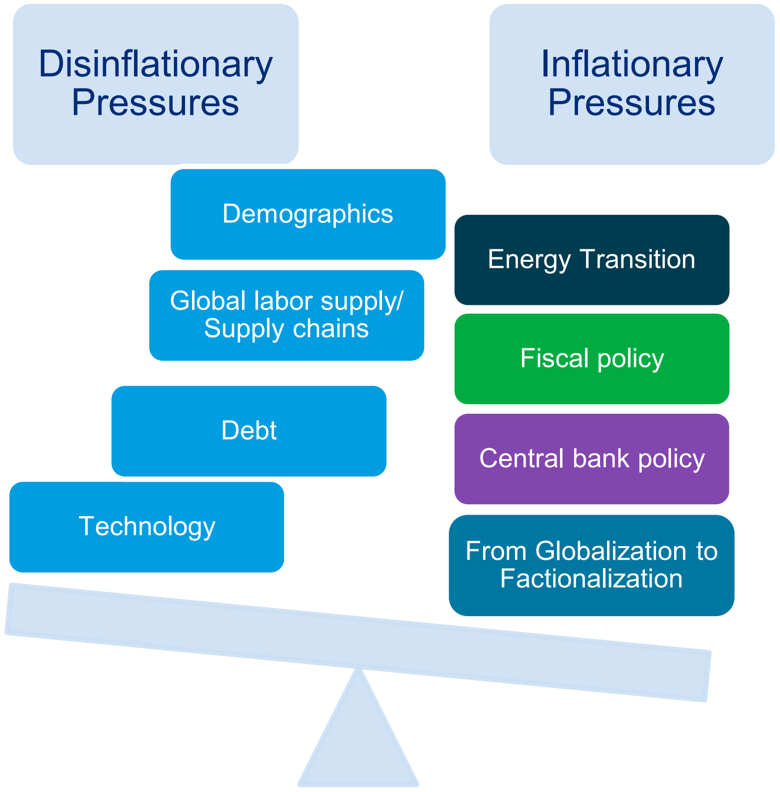
Inflation Sensitive: Diversified Inflation Hedge Option

6

Structural inflation risks remain

The future is likely to characterized by more frequent inflation shocks

- Secular forces driving disinflation over the last three decades have been turning the other way
  - Globalization is slowing at best, the world is becoming more factionalized. This could lead to a more fragile world, especially in relation to resource security and supply chains.
  - Governments will likely prefer to reduce the newly issued public debt indirectly through higher inflation rather than outright taxation. This time, debt may not be disinflationary as the case when held by the private sector.
  - Energy transition requires large upfront investments, which is resource intensive
  - An aging population could become inflationary (consumption > production)
- Technological process may or may not be sufficient to offset the inflationary forces
- On balance, we believe the risk of seeing a wider range of inflation outcomes has increased, including among them:
  - more frequent inflation regime changes
  - higher inflation volatility and shocks
  - longer periods of higher inflation levels

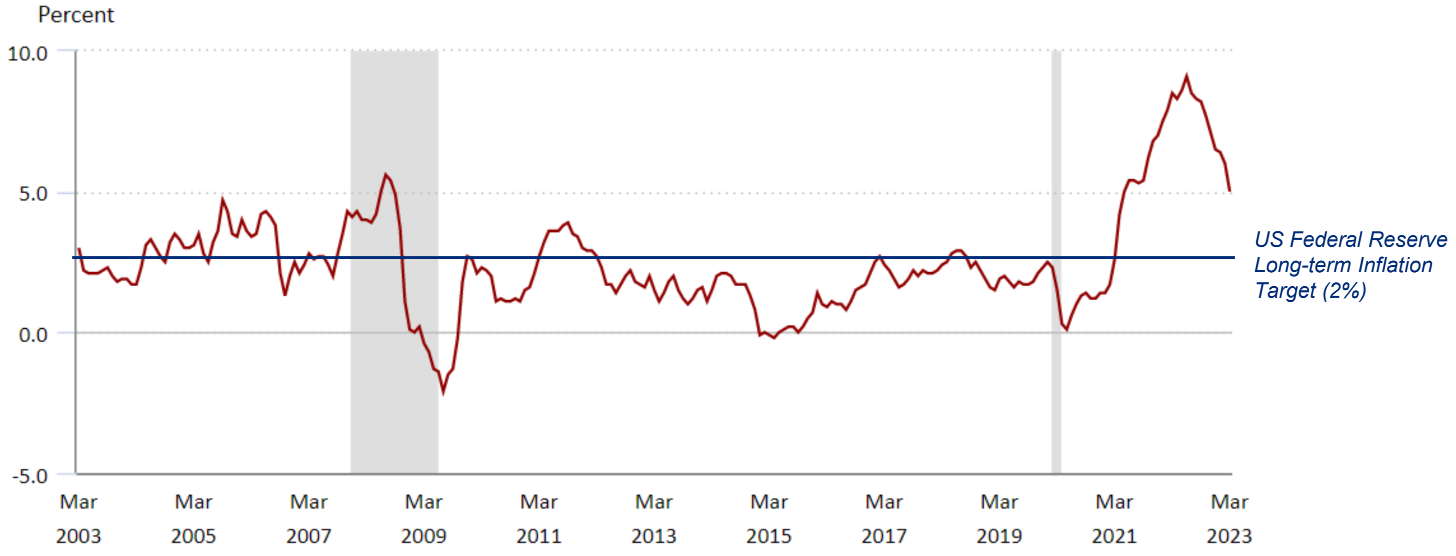


Why are we talking about inflation now?

Where do we currently stand?

The Consumer Price Index (CPI) is the average change in the prices paid by urban consumers for goods and services. It is often viewed as a reference of inflation.

Inflation levels remain elevated above central bank target levels. The Fed is continuing to reduce its holdings of Treasury securities, agency debt, and agency mortgage-backed security (AMBS), as described in the Plans for Reducing the Size of Federal Reserve's Balance Sheet that were issued in May 2022. The Fed decided to increase short-dated rates range to 4.75% - 5.00% percent. The Fed is strongly committed to returning inflation to its 2 percent objective.*



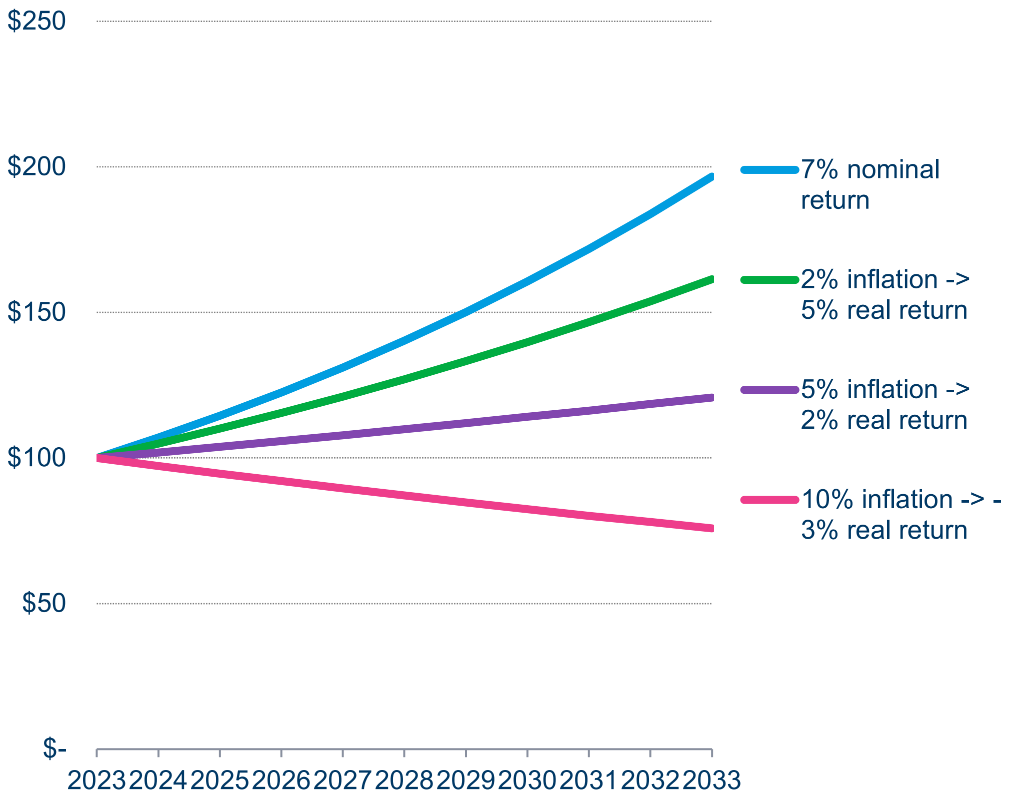
Note: Shaded area indicates recession as determined by the National Bureau of Economic Research

As of March 2023, CPI – All Urban Consumers increased by 5.0% over the trailing 12 months; down from the largest increase in 40 years of 9.1% as of June 2022.**

Impact of higher inflation on DC participants

Near retirees & retirees may be most impacted

- **Increased price of goods & services, including health care costs.** This can be especially burdensome to retirees on fixed income.
- **Reduced real portfolio returns.** May be significant when compounded over longer periods impacting asset accumulation for all participants, especially near-retirees or retirees.
- **Monetary action can hurt conservatively invested participants.** Interest rate increases aimed at curbing inflation often have a negative impact on bond prices, which may lead to negative returns on bond funds often used by near-retirees and retirees.
- The chart on the right shows how even small increases in inflation can significantly reduce portfolio returns in real terms (i.e., after adjusting for inflation) if nominal returns do not keep up:
  - 7% nominal returns p.a. and no inflation would double the amount invested after ten years while purchasing power remains constant
  - 7% nominal returns and 10% inflation p.a. would reduce the investor's purchasing power by 25% after ten years



Source: Mercer. For illustrative purposes only.

Inflation

Near retirees & retirees may be most impacted

People

- Retirees and near retirees are likely the more inflation sensitive group
- Plan participants age 55+ make up **42%** of total participants with a balance and hold **66%** of plan assets

Investments

- DCP does not currently offer a specific inflation hedge
- **It may be appropriate to add a stand-alone diversified inflation protection option**

Education

Does your recordkeeper have educational materials on inflation? Are portfolio advice and guidance tools adept at addressing inflation?

Inflation protection

Potential benefits & considerations of a diversified inflation approach

Mercer recommends a liquid diversified inflation hedging fund as a standalone inflation protection option.

Spectrum of available diversified inflation hedge options (increased diversification & complexity to the right)**:**

Single Asset Class Exposure:
TIPS
Commodities
REITs

Passive Option with combined exposure to asset classes, such as TIPS, Commodities, REITs, etc.

Active Option with combined exposure to TIPS, Commodities, REITs, natural resource stocks or precious metals, etc. Often has ability to tactically allocate

Added exposure to illiquid real assets such as energy infrastructure through master limited partnerships

Potential Benefits

- Provides participants with an option to directly protect portfolio against various inflationary environments without having to construct their own inflation protecting portfolio from scratch
- Serves as a diversifier to traditional equities and bonds; can potentially benefit those not just looking for inflation protection
- Portfolio manager can strategically allocate among inflation sensitive asset classes based on market environment

Potential Considerations

- Blended asset class approach requires careful communication & education to avoid confusion and potential overlap with other strategies (e.g. target date funds with inflation sensitive asset classes)
- Will lag traditional equities and fixed income in low inflationary environments; some products have not had live track records through all types of inflationary cycles

Diversified Inflation Hedge (DIH) strategies

What do they do?

- DIH strategies' main objective is to protect against a broad range of inflation scenarios.
- They seek to deliver **real** (inflation-adjusted) earnings streams via three broad groups of **liquid** asset classes:
  - *Inflation-sensitive assets such as commodities, precious metals, and natural resource equities*
  - *Defensive assets such as TIPS*
  - *Yield-orientated assets such as REITs*
- DIH managers typically have a strategic allocation to a mix of these asset classes. The higher the degree of hedging, the higher the concentration in inflation-sensitive assets, and the higher the volatility.
- Active managers tactically position towards their primary medium term inflation scenario.

	Lower inflation hedging	Moderate inflation hedging	Highest inflation hedging
Inflation-sensitive	15% – 30%	20% – 45%	50% – 75%
Defensive	35% – 55%	10% – 40%	25% – 40%
Yield-orientated	25% – 40%	30% – 60%	0% – 30%
Total	100%	100%	100%
Expected Volatility	<9%	9% – 11%	>11%

For illustrative purposes only.

DCP Plan - Sponsor Considerations

People

52% of City of LA participants are over the age of 50.

32% of participants are terminated.

32% take systematic withdrawals.

Investments

Inflation hedging can come in the form of Target Risk Funds or Standalone funds.

City of LA's DCP Target Risk Funds range in their fixed income and stable value allocations from 85% in the Ultra Conservative fund to 10% in the Ultra Aggressive fund.

Education

City of LA may want to consider educational materials on inflation in partnership with Voya.

Are portfolio advice and guidance tools adept at addressing inflation?

Mercer suggests adding a diversified inflation protection fund.

Global Blend: Environmental, Social, & Governance (ESG) Option

7

What is Sustainable Investment?

Mercer's Definition: A process which actively considers the financial and investment implications of environmental, social and governance (ESG) issues.

These considerations can have a material impact on financial performance, and therefore may be taken into account, alongside other economic and financial metrics, in assessing the risk and return potential of an investment.

The Principles for Responsible Investment (PRI) defines responsible investment as a strategy and practice to incorporate environmental, social and governance (ESG) factors in investment decisions and active ownership.

Source: https://www.unpri.org/pri/an-introduction-to-responsible-investment/what-is-responsible-investment

What is ESG?

ESG issues that may be considered include:

Environmental concerns

- Climate change
- Energy efficiency
- Waste and pollution
- Water and resource scarcity

Social concerns

- Health and safety
- Stakeholder concerns
- Demographics
- Labor and supply

Corporate governance concerns

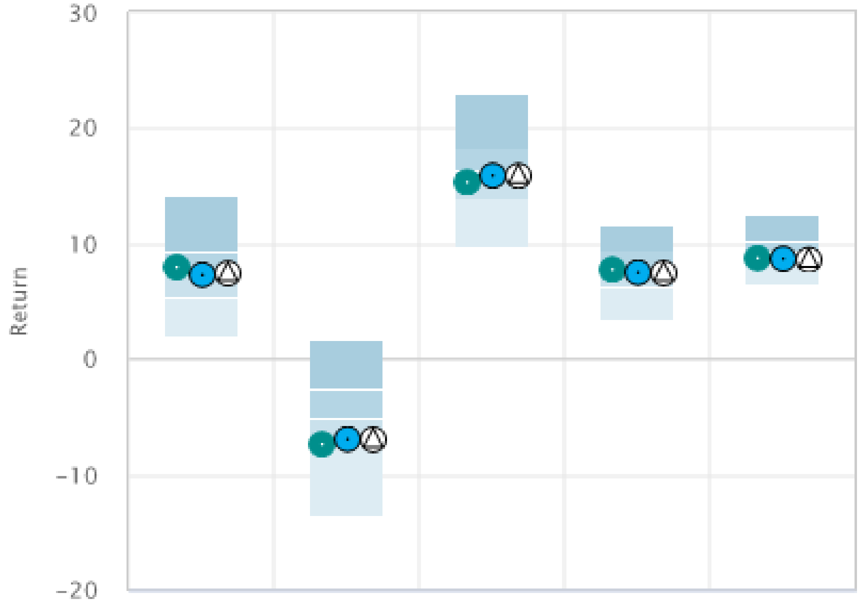
- Audit quality
- Board structure
- Remuneration
- Shareholder rights

ESG Leaders Perform In-line over Long-term Periods

Gross performance of the MSCI ACWI ESG Leaders, MSCI ACWI Low Carbon Leaders, and MSCI ACWI benchmarks, against Mercer's Global Equity universe

MSCI ACWI ESG Leaders, MSCI ACWI Low Carbon Leaders

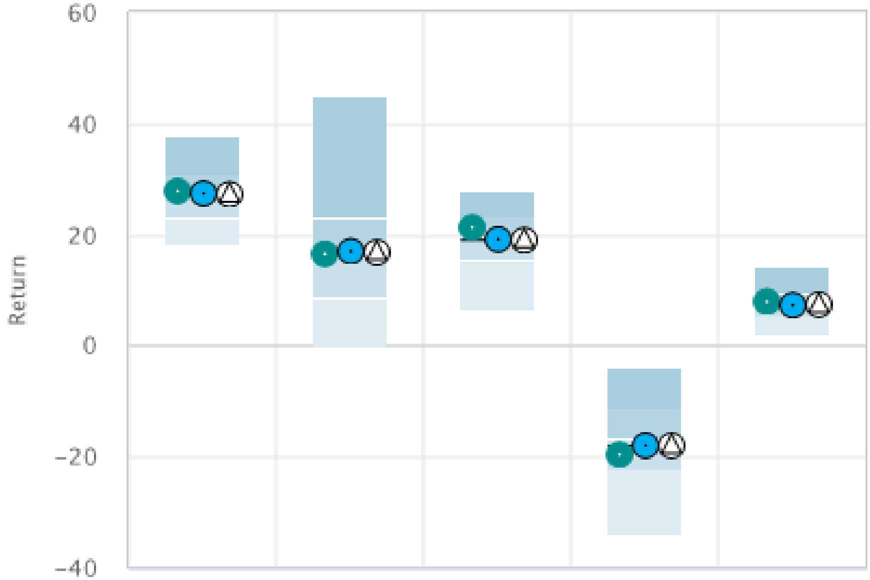
Return in $US (before fees) over 3 mths, 1 yr, 3 yrs, 5 yrs, 10 yrs ending March-23
Comparison with the Global Equity universe (Percentile Ranking)



	3 mths (%)	1 yr (%)	3 yrs (%pa)	5 yrs (%pa)	10 yrs (%pa)
ESG	8.0 *(36)*	-7.4 *(73)*	15.3 *(59)*	7.8 *(50)*	8.8 *(63)*
LOW CARBON	7.3 *(50)*	-6.9 *(69)*	15.9 *(53)*	7.5 *(55)*	8.7 *(65)*
ACWI	7.4 *(46)*	-7.0 *(70)*	15.9 *(53)*	7.5 *(56)*	8.6 *(65)*

MSCI ACWI ESG Leaders, MSCI ACWI Low Carbon Leaders

Return in $US (before fees) over last 5 calendar years ending March-23
Comparison with the Global Equity universe (Percentile Ranking)



	2019 (%)	2020 (%)	2021 (%)	2022 (%)	3 mths to 3/2023 (%)
ESG	27.9 *(43)*	16.6 *(46)*	21.3 *(36)*	-19.6 *(65)*	8.0 *(36)*
LOW CARBON	27.5 *(45)*	17.1 *(44)*	19.2 *(53)*	-17.9 *(56)*	7.3 *(50)*
ACWI	27.3 *(46)*	16.8 *(45)*	19.0 *(53)*	-18.0 *(56)*	7.4 *(46)*

Source: MercerInsight. For informational purposes only. The Global Equity Universe represents return relative to a strategy-relevant mutual fund peer group comparison using Mercer peer group definitions. For illustrative purposes. Past performance does not guarantee future results. The performance and the time periods shown represent a variety of economic and market conditions, including the unpredictability of such conditions and includes periods of market volatility. Please see the following link for information on indexes: https://www.mercer.com/content/dam/mercer/attachments/private/nurture-cycle/gl-2020-investment-management-index-definitions-mercer.pdf One cannot invest directly in an index. Please see the following link for third party data information from Mercer Insight: https://www.mercerinsight.com/ImportantNotices.aspx

Department of Labor ESG investing rule

Key themes for DC plan fiduciaries

Final rule allows fiduciaries to consider any factor they reasonably determine to be relevant to the risk or return of an investment

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DC fiduciaries can consider participant preferences, but can't add imprudent investments even if participants request them.

New clarifications better reflect the nature of DC menu construction.

Returns to historical tie-breaker standard, but DOL suggests DC plan investment selection isn't a zero-sum game.

Eliminates restriction on incorporation of collateral factors in Qualified Default Investment Alternatives (QDIAs)

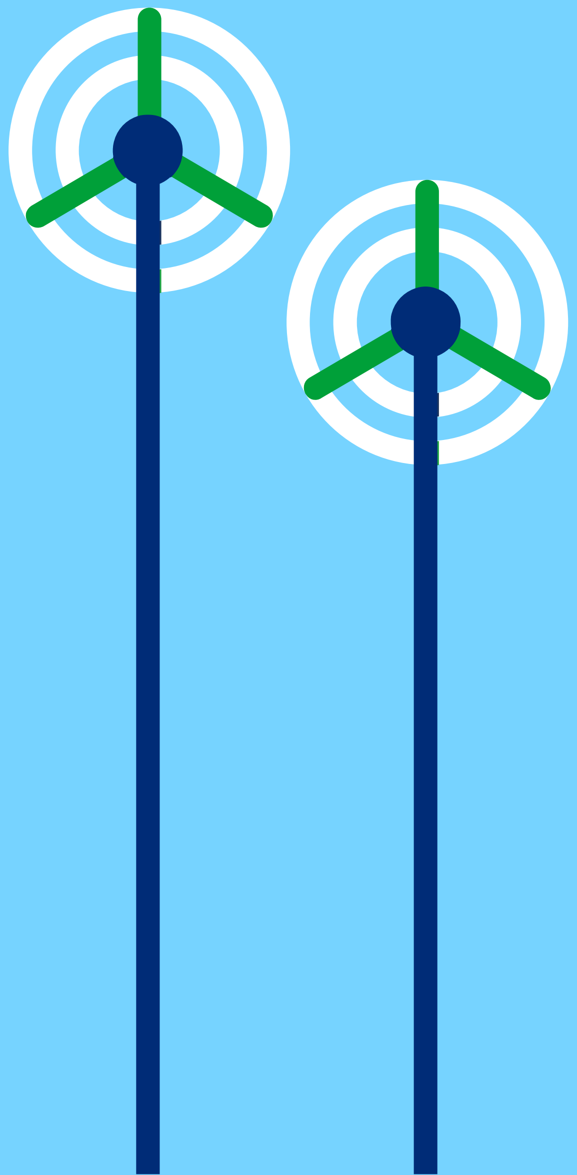
Economic effects of climate change and other ESG considerations may be risk and return factors

Department of Labor ESG investing rule

Proxy voting and exercising shareholder rights

- Exercise of shareholder rights, including proxy voting, is a fiduciary act
- Fiduciaries should explore efficient structures instead of abstaining
- Fiduciaries may consider the effects of the plan's exercise of shareholder rights, either alone or together with other shareholders
- No special documentation or monitoring requirements
- Doesn't apply to underlying securities held by mutual funds, which are typically voted by the fund manager
- Doesn't apply to voting rights passed through to participants
- Dec. 1, 2023 effective date for two provisions
  - Exercise of shareholder rights by mangers of pooled "plan asset" funds, like CITs
  - Requirement to review a third party's proxy-voting guidelines for consistency with ERISA before following voting recommendations

Mercer GRIST: [On second thought, DOL has softer touch with ESG investing rule (Dec. 13, 2022)]



ESG Adoption in US Defined Contribution (DC) Plans

US DC Plans Offering ESG Fund(s)	All Industries		Insurance Industry
Plan Size	Overall	AUM > $1B	Overall
2023 Survey[1]	16.0% (n=2,562)	12.3% (n=153)	14.0% (n=70)
2022 Survey[1]	13.7% (n=2,401)	11.7% (n=153)	8.9% (n=88)

[1] The PLANSPONSOR 2023 Defined Contribution (DC Insurance/Reinsurance) Survey (reflects 2022 plan data) results incorporate the responses of 2,562 plan sponsors from a broad variety of U.S. industries.
[2] The PLANSPONSOR 2022 Defined Contribution (DC Insurance/Reinsurance) Survey (reflects 2021 plan data) results incorporate the responses of 2,401 plan sponsors from a broad variety of U.S. industries.

Third party DC data shows limited, yet growing uptake

Implementation Considerations

How could City of LA adopt ESG in its DCP?

Investment Menu Construction	• Consider the interests of participants in offering **standalone ESG-focused option or tier**
Manager Selection	• Consider the quality of the ESG investment process adopted by potential managers in **selection decisions**
Manager Monitoring	• **Monitor managers** for the implementation of their ESG investment process and/or the ESG characteristics of their portfolios
Stewardship	• Monitoring investment managers' **voting and engagement activity** particularly on controversial ESG issues

Important Notice: The consideration of any strategy related to incorporating environmental, social, and governance considerations to an ERISA plan's processes and investments should be made with advice from the plan's ERISA legal counsel and solely with the best economic interests of the plan. Mercer, as an investment adviser, cannot advise an ERISA plan sponsor on the strategy that they pursue.

Summary of recommendations

The following provides a synopsis of our recommendations:

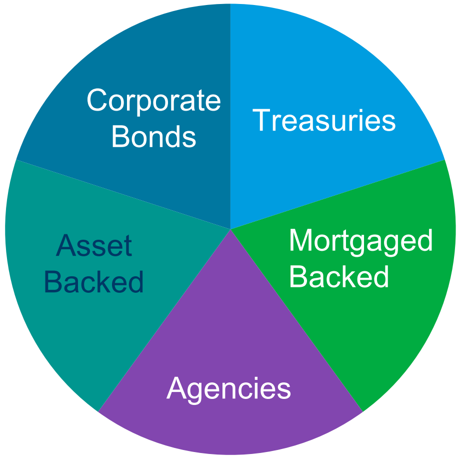
1. **Asset Allocation Options** – Target Risk versus Target Date Funds:
   - Determine if the Committee's philosophy around Profile Risk Portfolios (TRFs) vs. TDFs is still applicable and suitable for participants in the DCP
2. **Passive Core Options**:
   - Consider offering a complete suite of passive tier, which includes broad asset classes such as core bond, large cap (DCP has a current option), SMID cap and international equity
   - Retain DCP Large Cap Stock Fund as a passive option
3. **Active Core Options**:
   - Consider appropriateness of the FDIC Insured Savings Account as a capital preservation option and potential alternatives
   - Consider adding a diversified inflation hedge option as there is a large proportion of participants near or at retirement
   - Consider consolidating the Small and Mid Cap Equity Options into one SMID Cap Equity Option
   - Retain DCP Stable Value, DCP Bond and DCP International Stock funds
4. **Potential Future Meeting Topics:**
   - Non-Core Options (Discussion/Education on illiquid assets/alternatives: Hedge Funds, Private Equities)
   - Other Topics of Interest: Managed Accounts, Retirement Income
   - Risk Profile Funds (TRFs) Asset Allocation Review (if retained) and
     DCP Fund portfolio structuring (analyzing underlying weights to each sub-asset class) review
   - IPS Update

Appendix

8

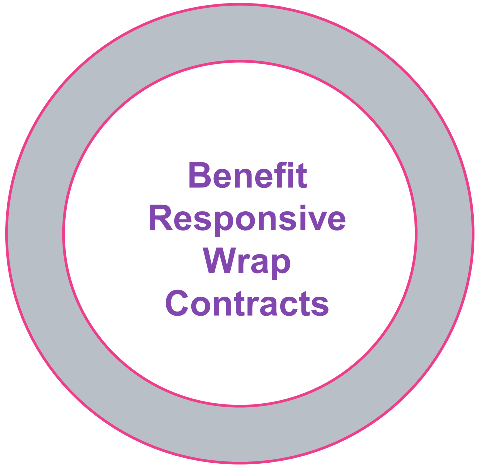
Structure of Stable Value Funds

1 Fixed Income Portfolio



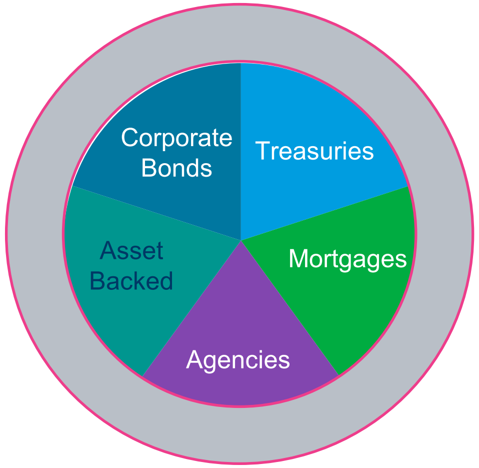
- ✓ Underlying Assets invested in **Fixed Income Market** run by one or multiple managers
- ✓ **Primarily in AAA-rated** with portfolio avg. of AA or higher
- ✓ Invested along Yield Curve with **Average Duration of 2-3.5 years**

2 Wrap Agreement(s)



- ✓ Typically issued by one or more **Bank or an Insurance company**
- ✓ Permits participants to **transact at book value** by charging **Wrap Fees**
- ✓ Amortizes gains/ losses over the time through the **Crediting Rate.** Crediting rate is a direct result of underlying portfolio performance as defined by Wrap providers

3 Stable Value Portfolio



- ✓ Diversified portfolio of **high credit-quality assets**
- ✓ Stable Share Price & relatively stable return. Wrap agreements also provide a guarantee of principal (crediting rate never <0%).
- ✓ Higher Returns than most money market options in full market cycles

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ESG investing refers to environmental, social, and governance considerations that may have a material impact on financial performance, and therefore are taken into account, alongside other economic and financial metrics, in assessing the risk and return potential of an investment. Thematic investing involves investing with a goal, at least in part, to achieve an impact on an environmental, social, or governance issue, alongside generating return and mitigating risk.

As always, the decision to invest in ESG-themed options, like all options, must be in the best financial interest of the plan and its participants.

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