

# DEFERRED COMPENSATION PLAN BOARD REPORT 13-36

Date: November 1, 2013

To: Board of Deferred Compensation Administration

From: Staff

Subject: - **Contract Extensions:** Galliard Capital Management and State Street Global Advisors  
- **Request for Proposal:** Bank Deposit Savings Account

*Board of Deferred  
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## Recommendation:

That the Board of Deferred Compensation Administration (a) approve staff's draft report to the City Council recommending extension of the contracts with Galliard Capital Management and State Street Global Advisors through June 30, 2015; (b) subject to Council approval, authorize the Board Chairperson to execute the necessary contract amendments extending these contracts; and (c) approve the draft proposed Request for Proposal (subject to final changes as to form required by the City Attorney and Personnel Department staff) for providers for the Deferred Compensation Plan Bank Deposit Savings Account investment option.

## Background

This report addresses investment manager search processes for three investment categories for which contracts will be expiring over the next year, as follows:

Investment Menu Option	Incumbent Provider	Contract Termination Date
1. Russell 2000 Index Fund	State Street Global Advisors	31-Dec-13
2. Stable Value Fund	Galliard Capital Management	30-Jun-14
3. Bank Deposit Savings Account	Bank of the West	30-Sep-14
	Bank of America	30-Sep-14
	City National Bank	30-Sep-14

The Russell 2000 Index Fund and Stable Value Fund contracts will be discussed first, followed by the Bank Deposit Savings Account contracts.

### **A. Russell 2000 & Stable Value Fund Contracts**

Under City of Los Angeles Administrative Code Division 10, Chapter 1, the Board is authorized to enter into up to five-year contracts with investment providers. Extending a contract beyond five years requires City Council approval.

The City's Deferred Compensation Plan has contracts with Galliard Capital Management ("Galliard") and State Street Global Advisors ("SSgA") to provide investment management services for the Plan's Stable Value Fund and Russell 2000 Index Fund, respectively. This five-year contract with Galliard expires June 30, 2014. The five-year contract with SSgA expires December 31, 2013.

Staff's quarterly contract monitoring report and internal files incorrectly recorded the termination date of the SSgA contract as being December 31, 2014. In the process of reviewing this contract in connection with the Investment Committee's consideration of procurement issues, staff determined that the contract summary page and file date had been recorded incorrectly, and that the termination date reflected in the contract was actually December 31, 2013.

Immediately prior to this, the Board's Investments Committee had met to review Plan investment menu objectives relative to the City's procurement/contracting requirements, the Plan's investment policy, and the Board's administrative responsibilities. Staff is in the process of preparing a report on this topic for discussion at the Board's December 17, 2013 meeting. In this report, the Committee will be recommending some potential changes to investment manager search processes.

Given the pending termination date of the SSgA contract, as well as consideration of potential changes to the process by which the Board searches for fund managers, staff is recommending that the Board approve a request to City Council (see attached) to extend the contract with SSgA for up to 18 months, through June 30, 2015. This extension will provide additional time for the Board to consider options for searching for investment managers, and to incorporate this search process into other investment manager searches which are still pending.

With respect to the contract with Galliard Capital Management for Stable Value Fund management, although the Board's consultant advises that a procurement for this investment category can be conducted within the balance of time remaining until expiration of the incumbent contract, staff recommends that the Board secure authorization from Council to extend this contract as well, for up to an additional twelve months, through June 30, 2015. This will provide additional time for the Board and staff to develop further clarity on where the procurement for these services can be most efficiently targeted relative to other manager search processes.

Extending these contracts would not preclude the Board from terminating these contracts prior to the contract expiration date, should the Board determine this would be in the best interest of the Plan.

### **Bank Deposit Savings Account**

The City's Plan offers a Bank Deposit Savings Account investment option, the assets of which are insured by the Federal Deposit Insurance Corporation (FDIC). This option is a blend of deposits held at three institutions (Bank of America, Bank of the West, and City National Bank) with which the Plan has contracts that expire on September 30, 2014.

Attached to this report is a draft Request for Proposal (RFP) for this investment option. Staff is requesting that the Board approve the RFP. The parameters and requirements of the providers have been prepared by the investment consultant and reviewed by staff, and are similar to the criteria that were used in the prior procurement for these services. The final document may be modified as to form by the City Attorney and Personnel Department contractual services staff.

The Board should be aware that staff was recently contacted by the relationship manager from City National Bank, who indicated that the Bank was interested in reducing or eliminating its participation in this account because it is attempting to reduce its liabilities and improve its funding ratio (banks may view bank deposits such as these as “liabilities” because in theory they are subject to immediate withdrawal from investors).

Given this, it is possible (based on when the procurement is completed and any potential new contracts are executed) that the Board may determine it is in the best interests of the Plan to terminate the contract with City National Bank and shift assets to an alternate provider at a date prior to September 30, 2014. However, there is no immediate need to do so.

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

Approved by: \_\_\_\_\_  
Alex Basquez