

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING MAY 17, 2016 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

John R. Mumma, Chairperson
Michael Amerian, Vice-Chairperson
Cliff Cannon, First Provisional Chair
Raymond Ciranna, Second Provisional Chair
Thomas Moutes
Linda P. Le
Don Thomas

Not Present:

Wendy G. Macy, Third Provisional Chair
Robert Schoonover

Staff:

Personnel:	Gregory Dion	Steven Montagna
	Matthew Vong	Daniel Powell

City Attorney: Curtis Kidder

1. CALL TO ORDER

John Mumma called the meeting to order at 9:04 a.m.

2. PUBLIC COMMENTS

None

3. MINUTES

A motion was made by Michael Amerian, seconded by Linda P. Le, to approve the April 19, 2016 meeting minutes; the motion was unanimously adopted. *Cliff Cannon was not yet present for this motion.*

4. QUARTERLY INVESTMENT REVIEW

Devon Muir of Mercer Investments Consulting discussed the Deferred Compensation Plan's fund performance during the first quarter of 2016. He presented a broad overview of the first quarter and year-to-date capital market performance. He stated there was a rough start to the 2016 year but a reversal of course in the month of March. He stated there were slightly positive returns for Large Cap stocks. He indicated the S&P 500 increased 1.3% for the quarter despite having been down 7 - 8% at one point during February. He noted that even though the Russell 2000 Index had decreased by -1.5%, its performance did fare better by 1st quarter end in comparison to where it was in February.

Mr. Muir continued his presentation by broadly reviewing the performance of the international equity markets and stated the MSCI EAFE had decreased by -3%. He indicated, however, that the MSCI EM returned 5.7% for the quarter. Mr. Muir explained that emerging markets' currencies appreciated versus the U.S. dollar thereby providing a tailwind for investments in emerging market equities. Mr. Mumma inquired how Brazil's recent political climate would affect the MSCI EM fund performance. Mr. Muir responded that regime change that results in improved political and judicial process would be beneficial for emerging market stability. He added that Brazil, a heavy petroleum exporter, had benefited from recent stability in the oil markets.

Mr. Muir reviewed the 1st quarter performance of fixed income investments and noted that the Barclays Aggregate Index, the Plan's bond fund benchmark, had increased by 3%. He stated that the benchmark 10-year treasury was down 49 basis points in yield and served as a positive force for bond returns. He stated that the performances of US and Global Real Estate Investment Trusts (REITs) improved by 5.8% and 5.4% respectively. He then reviewed sector performance noting that utilities and telecom both showed gains of 15%. He stated that active managers did not tend to have significant exposure to those sectors resulting in their general underperformance for the quarter. He stated that the plan's active managers did relatively well in a difficult environment. He stated that the growth in GDP for the quarter was at 0.5%, a decline from 1.4% in the prior quarter.

Mr. Muir provided a breakdown of Plan assets and stated there was no significant movement in overall asset allocation. He stated total assets in the Plan had increased \$80 million, \$58 million and \$22 million of which were respectively attributable to new contributions and investment gains. He stated that the overall investment allocation of the Stable Value Fund represented approximately 20% of assets, exceeding \$1 billion. He also indicated that the risk profile funds represented about 16.6% of overall asset and added that the DCP Large Cap Stock Fund, which tracks the S&P 500, constituted 31% of overall plan assets.

Mr. Muir briefly reviewed the allocations of the Plan's underlying core funds. He then provided a review of the investment expense analysis, highlighting the fact that the Plan was offering well below median administrative cost to its participants. He continued by

reviewing the performance of the FDIC-Insured Savings Account. He stated that the market had discounted any Federal Reserve action in their upcoming June meeting, but also indicated a high probability of one or two interest rate increases, which would ultimately affect the yield of the Plan's savings account. Mr. Mumma asked how long it had been since the yield for the FDIC-Insured Savings Account had been at 1%. Mr. Muir guessed that it had probably been 18 months, but indicated he would provide a definitive answer at a future Board meeting.

Mr. Ciranna asked Mr. Muir to comment on the 3-year and 5-year performance of the Plan's funds. Mr. Muir highlighted the performance of the DCP Bond Fund and stated that although the fund had shown to underperform, he noted it was attributable to the underperformance of PIMCO, the Plan's previous bond fund manager. He stated the underperformance was dealt with by changing the fund's management composition to Loomis. He added that due to the recent change in management, there was not enough data to report on the Bond fund's 3-year and 5-year performance. He noted, however, that the fund outperformed the benchmark for the quarter.

Mr. Muir continued his report by providing an overview of the performance of the risk profile funds and noted that they all exceeded their benchmarks for the quarter. He added that over the long term the portfolios had done well and performed above the median compared to their benchmarks and other packaged products. He then reviewed the Plan's equity options and noted that the performance of the DCP Large Cap Stock Fund tracked its benchmark as expected and returned 1.3% for the quarter. He indicated the DCP Mid Cap Stock Fund underperformed the benchmark by approximately 70 basis points, but was still in the top 50% of Mid Cap funds. He reviewed the performance of the DCP Small Cap and the DCP International Stock Fund. He indicated the DCP Small Cap Stock Fund outperformed the benchmark by 80 basis points, but did not perform as well as the median. He stated the Plan's active managers underperformed their peer group, but indicated that he continued to have conviction in the Plan's current active managers. He provided a breakdown of the DCP International Stock Fund and noted its slightly positive and top quartile performance.

Mr. Montagna commented that the proposition that including active management in the Plan's core menu offerings would generally be able to outperform an all passively managed menu seemed to be occurring. Mr. Muir concluded his report by stating that the ability to add value above the benchmark exists in the international equity landscape for active managers.

5. BOARD REPORT 16-19: EXTENSION OF STEPTOE & JOHNSON CONTRACT

Steven Montagna reported on staff's recommendation that the Board make recommendations to the City Attorney regarding the contract with Steptoe & Johnson LLP ("Steptoe & Johnson"), the Plan's external tax counsel. He stated that unlike other Plan contracts, the Board of Deferred Compensation Administration was not the contracting authority for this contract, but rather makes recommendations to the City Attorney regarding the procurement. He stated the recommendation was to extend the

contract for two years and increase the contract ceiling amount by \$10,000 for the following year. He reminded the Board that funding for the contract at that level was already incorporated into the Plan's 2016 Plan budget.

Board Counsel Curtis Kidder further explained that if the Board approved the current recommendations, the process would move forward to the City Attorney's outside counsel group for review and consideration. He added that if and when the contract is approved by the outside counsel group, it would then be forwarded to City Council for final approval.

Michael Amerian asked Mr. Kidder how he viewed Steptoe & Johnson's performance from a customer service standpoint. Mr. Kidder stated he was generally satisfied with their level of service and responsiveness. He stated Steptoe & Johnson's advice had been sound and noted they do not spend a lot of time on or overbill on their projects.

A motion was made by Thomas Moutes, seconded by Mr. Amerian, that the Board recommend the City Attorney approve a two-year extension to the contract term for Steptoe & Johnson LLP for a total of five years; the motion was unanimously adopted. A second motion was made by Mr. Moutes, seconded by Mr. Cannon, that the Board approve an increase in funding for this contract of \$10,000 for total funding of \$30,000; the motion was unanimously adopted. A final motion was made by Mr. Amerian, seconded by Don Thomas, that the Board recommend the City Attorney take the necessary actions to amend the contract to provide for the term extension and additional funding; the motion was unanimously adopted.

5. BOARD REPORT 16-20: DCP 2015 ANNUAL REPORT

Matthew Vong presented the proposed draft of the 2015 Deferred Compensation Plan Annual report. He indicated that several minor errors were brought to the attention of Plan staff and would be corrected. He stated that necessary corrections to the report were pending prior to moving forward with a final print. Mr. Mumma asked that a finalized version of the report be sent to Board members for review before initiating the printing process.

A motion was made by Mr. Amerian, seconded by Mr. Cannon, to approve the draft of the 2015 Annual Report; the motion was unanimously adopted.

6. BOARD REPORT 16-21: FY 2016-17 TRAINING PROGRAM PREFERENCES

Mr. Vong stated the Board had previously approved the 2016-17 fiscal year training program at its September 2015 meeting. He indicated staff was requesting that Board members submit their preferences for upcoming conference & training events for the 2016-17 fiscal year. He indicated registration for the National Association of Government Defined Contribution Administrators ("NAGDCA") Annual Conference had opened in April of 2016. He then informed the Board of a NAGCDA Conference policy

change, effective in 2015, requiring potential attendees to first register for the conference before being allowed to reserve a room at the conference hotel. Mr. Vong concluded his presentation by requesting that Board members submit their conference training preferences to staff by May 25, 2016.

Mr. Mumma asked why the policy had changed in regards to NAGDCA Conference hotel reservations. Mr. Montagna indicated that in the past, many potential attendees would reserve and hold a block of hotel rooms, but would later cancel the reservations. He stated the new policy created more accountability and less disruption in the reservation process.

A motion was made by Mr. Cannon, seconded by Mr. Amerian, to receive and file information regarding conference training events and educational programs for Fiscal Year 2016-17; the motion was unanimously adopted.

7. BOARD REPORT 16-22: PLAN PROJECTS & ACTIVITIES REPORT

Mr. Montagna presented the staff report and updated the Board on the status of pending Communications, Operations, Administration and Governance projects for the month of April. He highlighted the administration portion of the report and stated that the Plan was able to appoint former staff member Esther Chang to be a third rater for the Third Party Administration (TPA) Request for Proposals (RFP) evaluation process. He indicated performance examinations were scheduled for the following week. He stated that it was the intent of staff to conclude review panel evaluations and bring forth their recommendations to the Board at its next meeting. Mr. Mumma requested that staff send reminders to the Board regarding the importance of the impending item(s).

Mr. Montagna provided a staff update and indicated Alexandra Castillo would be leaving her position with the Plan to accept a new employment opportunity. Mr. Mumma extended the Board's gratitude and appreciation for the work she had done for the Plan.

Mr. Montagna concluded the report by stating that the Plan had received a written response from Steel Peak Wealth Management, LLC ("Steel Peak"), a financial services firm that sent an e-mail to City employees offering their services, which in staff's view, misleadingly represented their firm as being affiliated with the City's Plan. He stated the written response from Steel Peak's legal counsel, Hamburger Law Firm, was forwarded to Board counsel. Mr. Kidder commented that if Board and staff members wanted to explore potential remedies and/or pursue the issue further, the matter could be turned over to the City Attorney's Office Unfair Business Practice Unit for review and determination of whether or not further action could be taken. Mr. Mumma indicated his interest in seeking further review on the matter. Mr. Amerian commented that the Board has the fiduciary duty to be as aggressive and strong in protecting the interest of Plan members in that regard, and asked Board counsel to proceed with a strong response to this issue. Mr. Kidder stated he would follow up with an already initiated inquiry to the City Attorney's Unfair Business Practice Unit.

A motion was made by Mr. Amerian, seconded by Mr. Moutes, to receive and file staff's update on Plan projects and activities during April 2016; the motion was unanimously adopted.

8. REQUESTS FOR FUTURE AGENDA ITEMS

None.

9. FUTURE MEETING DATES – August 16, 2016

10. ADJOURNMENT

A motion was made by Mr. Cannon, seconded by Mr. Amerian, to adjourn the meeting; the motion was unanimously adopted.

The meeting adjourned at 9:53 a.m.

Minutes prepared by staff member Matt Vong.