CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
MEETING OF AUGUST 21, 2018
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:
John Mumma, Chairperson
Thomas Moutes, Vice-Chairperson
Raymond Ciranna, First Provisional Chair
Wendy G. Macy, Third Provisional Chair
Joshua Geller
Hovhannes Gendjian
Neil Guglielmo
Linda P. Le

Not Present:
Robert Schoonover, Second Provisional Chair

PERSONNEL DEPARTMENT STAFF
Jody Yoxsimer – Assistant General Manager
Steven Montagna – Chief Personnel Analyst
Isaias Cantú – Senior Management Analyst II
Matthew Vong – Senior Personnel Analyst I
Daniel Powell – Personnel Analyst
Kevin Hirose – Personnel Analyst

OFFICE OF THE CITY ATTORNEY
Curtis Kidder – Assistant City Attorney

MERCER INVESTMENT CONSULTING
Devon Muir – Principal
Ana Tom-Chow – Associate

MFS INSTITUTIONAL INTERNATIONAL EQUITY FUND
Chris A. Sunderland – Institutional Portfolio Manager
Carolyn Lucey – Director, Relationship Manager

VOYA FINANCIAL
La Tanya Harris – Registered Representative

1. CALL TO ORDER

John Mumma called the meeting to order at 9:00 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

A motion was made by Thomas Moutes, seconded by Neil Guglielmo, to approve the minutes of the July 17, 2018 meeting; the motion was unanimously adopted.

4. QUARTERLY INVESTMENT & ECONOMIC REVIEW: JUNE 30, 2018

Devon Muir, Principal, and Ana Tom-Chow, Associate, from Mercer Investment Consulting (Mercer) introduced themselves to the Board. Mr. Muir presented the Performance Evaluation Report for the Second Quarter of 2018. He began by commenting on capital market performance and stated that US equities posted positive returns, whereas international equities posted negative returns. He stated that despite market volatility or concerns about trade wars, as well as a higher interest rate environment, there has been decent performance from US equities. He explained that the key theme for the quarter and year-to-date has been the dollar strength, and even with concerns about tariffs, the dollar has rallied across all other major world currencies.

Mr. Muir reported that international equities had a tumultuous run and indicated that due to currency declines, the MSCI EAFE benchmark was down 1.2% for the quarter. He noted that international equity markets were positive, but as the dollar appreciated relative to other currencies, it made growth difficult for US investors and international stocks. He indicated that emerging markets were down 8% for the second quarter and down 6.7% year-to-date. He stated that the Federal Reserve has been in a rate-raising mode and indicated that there are expectations of another increase in September 2018.

Mr. Muir reported on sector performance and pointed out that one interesting change in direct correlation to the increase in the price of oil was that energy sector performance at 13.9% was the top-performing sector for the quarter. He stated that consumer discretionary and technology continue to post positive returns, while utilities, materials & processing, telecomm services, and consumer staples were all in negative territory.

Mr. Muir, in discussing Plan statistics, indicated that it was a positive quarter despite underperformance by some of the active managers. He stated that overall Plan assets ended at $6.365 billion, which represents an increase of $146 million. He stated that contributions were higher than withdrawals by approximately $16 million and the investment gains were close to $130 million. He stated that the average account balance was very healthy, at $134,000, with a median account balance of $58,000 at the end of the quarter.

Mr. Muir next provided commentary on certain Plan investment managers. He first indicated that Brandes Investment Partners (Brandes) had undergone certain organizational changes but stated that Mercer continues to have conviction with respect to the reliability of the firm. He stated that Brandes' strategy in the DCP International Stock Fund continues to struggle given its defensive style and focus on staples, but performance is consistent with general current market performance of value-oriented investing strategies.

Mr. Muir next discussed Galliard Capital Management (Galliard). He indicated that this firm is charged with negotiating wrap contracts, which are insurance products for the Stable Value Fund that allow the Fund to invest in longer than cash duration bond portfolios, guaranteeing that participants can transact at book value. He stated that Galliard announced that they have negotiated lower fees with certain Fund providers and that this has reduced the Fund's investment management fee from 19.2 to 17.8 basis points. He explained that fees have trended downward as more banks and other financial institutions have entered into the market as wrap providers.

Mr. Ciranna commented on the management summary that described Galliard's analytical tools and systems as being adequate and not as robust as larger firms. He asked if the Plan should be concerned with this review. Mr. Muir responded that Mercer's research team conducts evaluation on managers and, when comparing Galliard's analytical research tools and systems to larger bond managers, they are not rated as high. He explained, however, that Galliard manages a short duration portion of the portfolio and their approach is reasonable for the strategy. He affirmed that Galliard is the largest stable value fund manager and that they would be included in a top selection of stable value funds. He further stated that the research team's rating for Galliard is an "A".

Mr. Muir next reported on asset allocation data, comparing total plan assets of June 2017 to June 2018. He stated that there was growth year over year totaling $571 million. He stated that one of the largest investment options was the Stable Value Fund at 17.4% of total Plan assets, which was down from the previous year. He explained the reasoning behind this decrease is due to increased risk level from participants and the reallocation of the profile portfolios. He further explained that participant investment in risk-based portfolios continued to increase and comprised 19.1% of Plan assets. He noted that the Schwab PCRA Self-Directed Brokerage Account's (Schwab) assets comprised of 7.8% of Plan assets. He indicated that Schwab is scheduled to present at the Board meeting on September 18, 2018, and will be able to provide insight on the composition of the brokerage window.

Mr. Muir reported on Plan investment expenses and stated that the expense ratio after expense rebates, on a weighted average, is at 18 basis points. He further reported that when factoring in the cost of administration, the all-in expenses are at 22 basis points, which is a very competitive cost level.

Mr. Muir and Mr. Tom-Chow concluded their presentation by reviewing performance relative to benchmarks and indices for each of the Plan's funds for the period ending on June 30, 2018. There were no further questions from the Board.

5. INVESTMENT MANAGER PRESENTATION

Carolyn Lucey, Director of Relationship Management from MFS Institutional International Equity Fund (MFS) introduced herself and her colleague Chris Sunderland, Institutional Portfolio Manager. Ms. Lucey provided a brief overview of MFS and stated their headquarters are based out of Boston, Massachusetts and that they have been a manager of the Plan's portfolio for three years, managing close to $400 million assets. She next reviewed the returns though June 30, 2018, and stated that the strategy continues to perform well since July, increasing the active return on investment for years one, three, five, and ten. She explained that the Plan is invested in a flagship strategy at MFS, which accounts for $23 billion in assets of the firm's $474 billion in total assets.

Mr. Sunderland reviewed the long-term performance of MFS Institutional International Equity Fund and stated that over 89 quarters, the strategy has out-performed the benchmark 53 quarters for an average quarterly relative outperformance of 66 basis points, net of fees. He reported on sector weights and discussed the sectors that the fund is overweight and underweight. He reported that year to date as of June 30, 2018, the return on invested capital for the portfolio was 12% versus the benchmark of 8.8%.

Mr. Sunderland reported on regional exposure and explained country weights relative to the index, by domicile and by revenue. He explained that the strategies most overweight are North America and emerging markets. He stated they were most underweight in Japanese markets, where they have struggled to find growth in companies that meet above average growth metrics. For emerging markets overweight, he stated that it is attributable to multinational companies which have 30%-40% exposure in these markets and are leveraged to rising wages and the growing middle class.

Mr. Moutes asked about the impact of the slow and uncertain rollout of Brexit, and about potential contagion events from the Turkey financial crisis or within the European continent. Mr. Sunderland responded that there are no contagion events from Turkey despite the plunging lira and political turmoil. In regards to Brexit, he stated that negotiations are still occurring and as to the uncertainty of the rollout, they continue to monitor the situation and that the strategy is underweight in the United Kingdom at 3.8%.

Mr. Sunderland reviewed the performance of the strategy and reported that second quarter of 2018 was strong, up 140 basis points versus the benchmark, with year to date performance exceeding 153 basis points versus the benchmark. He reported that special products & services and technology were the top sector contributors for second quarter 2018 performance and that more value came from sector allocation than normal. He reported that year to date performance is similar to second quarter 2018 performance in that there was more value from sector allocation, with special products & performance and technology as top contributors to performance. He indicated that the strategy has been more defensive and has been adding health care, medical device and medical equipment names, with more sustainable and durable earnings. He concluded by stating that they are monitoring the global activities, and that they will take advantage of volatility as it presents itself, keeping in line with their philosophy and process.

Mr. Muir asked whether MFS, in terms of valuations and opportunities, is finding areas that are more attractive for the strategy. Mr. Sunderland responded that the team recently traveled to Japan, Hong Kong, and Beijing, including company conferences in Europe. He stated that Japan and Europe have lagged behind the United States on a one, three, five, and ten year basis, until this year. He stated that although the United States has taken a lead again due to the strong dollar, Japan and Europe economies continue to improve on a relative basis and have a chance to post better returns in the next three to five years given the economic cycle. He concluded by stating that they are finding value in different areas around the world and that there is not one region where it is best to invest in.

5. BOARD REPORT 18-38: 2018 CUSTOM WEB RESOURCE CENTER AND SOCIAL MEDIA IMPLEMENTATION PLAN

Daniel Powell reported that at its April 17, 2018 meeting, the Board approved staff's recommendation to develop a custom website for the Plan. He stated that the website would serve as a resource center for Plan participants and provide supplemental communications offered by Voya. He stated that staff partnered with Voya to develop a website that can be quickly updated to meet the needs specific to our Plan and interact with all of its core audiences, including the retired population. He stated that a live demonstration of the website will be presented during the September 18, 2018 Board meeting.

Mr. Powell reported that at its May 15, 2018 meeting, the Board authorized staff's proposal to launch a six month social media pilot program using the Facebook platform. He explained that staff had mapped out a communications calendar for the materials that will be released to the Facebook platform and that the calendar highlights the target audience that the Plan is trying to reach.

Mr. Mumma inquired how the new social media account would be advertised. Mr. Powell responded that the Facebook account would be announced in the quarterly newsletters, All-City emails, and on the Plan website.

Mr. Ciranna noted that postings are listed as a few dates to a couple of weeks apart and inquired as to the methodology of the release dates. Mr. Powell responded that with this new pilot program, staff is intentionally spacing communication materials out to assess the best frequency to use in this new platform. Mr. Ciranna stated that the communications calendar refers to materials that have been released previously and inquired if it will be an overload of information being posted on Facebook. Mr. Powell responded that staff believes the releases are appropriate, as there are specific participant groups that are engaged with the Plan and active on social media.

Mr. Mumma asked how the Board would be updated on the statistics of the social media program. Mr. Powell responded that updates regarding the social media program will be included in the quarterly Goals and Metrics report.

Following this discussion, **a motion was made by Mr. Guglielmo, seconded by Hovhannes Gendjian, to approve the proposed 2018 custom web resource center and social media implementation plan; the motion was unanimously adopted.**

6. BOARD REPORT 18-39: PLAN REIMBURSEMENTS SECOND QUARTER 2018

Matthew Vong stated that staff recommends approval for reimbursements from the Deferred Compensation Plan Reserve Fund to the Personnel Department and City Attorney for the quarter ending June 30, 2018. He explained that the Plan maintains a reserve fund consisting of participant fees collected by the Plan's Third-Party Administrator, Voya Financial. He stated that the Plan utilizes two accounts to pay for expenditures. He indicated that the first account is held by Voya and acts as a repository for participant fees and is used to pay for a majority of Plan expenses. He indicated that the second account is held by the City and is used for processing travel and equipment expenses. He explained that the Personnel Department and City Attorney initially pay for staff costs and that the Board approves transferring funds from the Reserve Fund to the Personnel Department and City Attorney for reimbursement purposes.

Mr. Vong reported on the 10-year projection of the Plan's Reserve Fund. He explained that there are eight key variables and assumptions adopted by the Board that are used to calculate the long-term reserve fund projections. He stated that the Board, at its March 2018 meeting, adopted reductions to the participant fee cap and basis points charged against participant accounts and that the Reserve Fund projections incorporate those reductions into projections. He indicated that the key variables and assumptions are reviewed by the Plan Governance and Administrative Issues Committee on an annual basis. He stated that the Committee annually reviews the status of long-term projections and evaluates if additional adjustments should be considered. He stated that staff will schedule the next Committee meeting in December 2018. Mr. Mumma requested that the meeting be scheduled earlier to ensure a quorum.

A motion was made by Mr. Moutes, seconded by Mr. Guglielmo, to approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for $147,320.15 and City Attorney for $35,838.46 for the quarter ending 06/30/18; the motion was unanimously adopted.

7. BOARD REPORT 18-40: PLAN PROJECTS AND ACTIVITIES REPORT: JULY 2018

Steven Montagna reported that staff received an update from the Office of the City Attorney that Don Wellington, who previously provided tax counsel and pension services for the Plan through a contract with the firm Steptoe & Johnson, LLP, has left the firm and is working for Reed Smith, LLP. He stated that Reed Smith, LLP has declined to continue its relationship with the Plan and that the City Attorney's Office is currently engaged in a Request for Proposal (RFP) process. He stated that, pending approval by the Board and Council, the City Attorney anticipates that an executed contract should be in place by October 20, 2018.

Curtis Kidder added that the City Attorney is looking for tax counsel for all retirement plans. Mr. Mumma asked the reasoning why Reed Smith, LLP declined a relationship with the Plan. Mr. Kidder responded that Reed Smith, LLP was being selective on the relationships that they were continuing with the City, in part due to cost effectiveness.

Mr. Geller asked for clarification whether the RFP was for all retirement plans, including the City's Deferred Compensation Plan. Mr. Kidder responded that Mr. Geller was correct. Mr. Geller asked if he had any information regarding the RFP responses that were received. Mr. Kidder responded that he has been in communication with Anne Haley with the City Attorney's Office who is handling the RFP process and is awaiting information as to the responses. Mr. Geller stated that he will be able to discuss the RFP responses with Mr. Kidder as staff in his section was able to review the RFPs.

Isaias Cantú reported on the investment manager search and stated that at the July 17, 2018 meeting, the Board directed staff to convene the Investments Committee to develop recommendation to the Board for the upcoming investment manager search. He stated that on August 13, 2018, staff communicated with Mercer and discussed the agenda, content, and deliverables for the initial meeting with the Investments Committee. He stated that Mercer is developing materials for the meeting and that staff will communicate with the Committee Chairperson to set the agenda and establish a meeting date in September 2018.

Mr. Powell reported on the FDIC-Insured Request for Proposal (RFP) and stated that staff has received three responses which are being evaluated by staff and Mercer. He reported that responses were received from East West Bank and Bank of the West, who are current incumbents, and Union Bank. He indicated that all three firms have been found to be compliant with the City's contracting requirements. Mr. Mumma recalled the Plan experienced issues with Union Bank during a previous RFP process with respect to not being able to comply with City contracting requirements. Mr. Montagna stated that the RFP process is an open competitive process and Union Bank's proposal will be evaluated in accordance with criteria as indicated on the RFP.

Mr. Vong reported on the pilot Automatic Enrollment Program (AEP) with the Los Angeles Police Protective League (LAPPL). He stated that staff is working with Voya Financial and have finalized an authorization form, which will be provided to academy cadets to complete and submit during orientation. He indicated that the next cadet class begins on September 4, 2018. He stated that the first auto enrollment communication will begin following the cadets' graduation from the academy and confirmation of membership in the Los Angeles Fire & Police

Pensions.

Mr. Guglielmo asked if there is any requirement that cadets submit the authorization form to staff. Mr. Vong indicated that there were no requirements. Mr. Guglielmo requested that staff report back to the Board on AEP and provide data regarding total class size and how many cadets submitted the form. He stated that this could provide the Plan information as to future outreach efforts. Mr. Vong indicated that staff would provide this information. Mr. Montagna stated that it would be interesting to observe whether there is a preference for voluntary enrollment, where participants make their own investment decisions, or whether the AEP is more attractive where the contribution amount and investment choice are already established.

Following this discussion**, a motion was made by Mr. Guglielmo, seconded by Wendy Macy, to receive and file the staff monthly activity report for July 2018, including updates regarding Informational Items; Project Updates; Completed Projects/Meeting Calendar; Staffing; and Committee Assignments; the motion was unanimously adopted.**

8. REQUESTS FOR FUTURE AGENDA ITEMS

The Board did not make any specific requests for future agenda items.

9. ADJOURNMENT

The meeting adjourned at 10:30 a.m.

Minutes prepared by staff member Kevin Hirose.