

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES  
REGULAR MEETING JANUARY 19, 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  
Thomas Moutes, Second Provisional Chair  
Raymond Ciranna, Third Provisional Chair  
Linda P. Le  
Wendy G. Macy

**Not Present:**

Robert Schoonover  
Don Thomas

Staff:

Personnel:	Gregory Dion	Steven Montagna	Alexandra Castillo
	Esther Chang	Paul Makowski	Matthew Vong

City Attorney: Curt Kidder

1. CALL TO ORDER

John Mumma called the meeting to order at 9:10 a.m. Mr. Mumma moved the meeting forward to Item 5.

2. PUBLIC COMMENTS

None.

*The call for public comment occurred after Items 5 through 9 and Item 4.*

3. MINUTES

**A motion was made by Raymond Ciranna, seconded by Linda Le, to approve the December 22, 2015 Special Meeting minutes; the motion was unanimously adopted.**

#### 4. BOARD REPORT 16-01: ELECTION OF OFFICERS

Mr. Mumma stated he was honored to serve as Board Chairperson and indicated his interest in retaining his seat. He stated he had previously communicated with Vice-Chairperson, Michael Amerian and Third Provisional Chair, Mr. Ciranna, both of whom informed him of their interest in retaining their seats as Board officers. Mr. Mumma asked First Provisional Chair, Cliff Cannon, and Second Provisional Chair, Tom Moutes, whether they were interested in retaining their officer positions. Mr. Cannon affirmed his interest. Mr. Moutes withdrew his name from consideration.

Mr. Mumma opened nominations for Board officers. **A motion was made by Mr. Ciranna, seconded by Mr. Amerian, to nominate and elect Mr. Mumma as Board Chairperson; the motion was unanimously adopted.**

**A motion was made by Mr. Mumma, seconded by Mr. Cannon, to nominate and elect Mr. Amerian as Vice-Chairperson; the motion was unanimously adopted.**

**A motion was made by Mr. Ciranna, seconded by Mr. Moutes, to nominate and elect Mr. Cannon as First Provisional Chair; the motion was unanimously adopted.**

Mr. Amerian recommended that Mr. Ciranna be elected to Second Provisional Chair. **A motion was made by Mr. Mumma, seconded by Mr. Moutes, to nominate and elect Mr. Ciranna as Second Provisional Chair; the motion was unanimously adopted.**

Mr. Cannon nominated Ms. Le as Third Provisional Chair. Ms. Le then nominated Wendy Macy as Third Provisional Chair. Ms. Macy indicated she accepted the nomination. **A motion was made by Ms. Le, seconded by Mr. Ciranna, to elect Ms. Macy as Third Provisional Chair; the motion was unanimously adopted.**

#### 5. INVESTMENT PROVIDER PRESENTATION

Brian Hobin, Client Portfolio Manager and Gene Morrison, Product Manager from Loomis Sayles (Loomis) provided the Board an overview and update regarding performance of the Plan's actively managed Core Plus Bond Fund. Mr. Hobin noted that Kevin Charleston became the new president and CEO of Loomis effective May 2015 and gave a brief overview of his credentials. He indicated that Bob Blanding, previous president and CEO at Loomis had retired after working 20 years with the firm and indicated Mr. Blanding maintained a position as Chairman of the Board and continued to be involved in the overall strategy of the firm. He stated Loomis finished the 2015 year with \$230 billion in assets under management. He indicated the Plan had a total of \$26 billion in assets in the Core Plus Bond Fund.

Mr. Hobin pointed out that Loomis Sayles is a research driven firm that retains managers with over 30 years of experience in credit research and macro strategies. He

stated Loomis had expanded their quantitative research capabilities, which is an area that would help their investment teams with overall risk management. He noted that Loomis had committed \$88 million to proprietary research in 2015.

Mr. Hobin provided an update on the macroeconomic environment and indicated 2015 was a very challenging year overall, most notably in the third quarter. He indicated the beginning of 2016 had been challenging as well. He reported forecasts of 2.1% and 3% growth in the U.S. and global economies, respectively. He stated China's volatile economy had impacted the markets in the past year, and that its growth was behind expected consensus. He stated it was their view that the continuing drop in oil prices was unsustainable, but in the second half of 2016, Loomis expected oil prices to correct and reach the \$50 - \$55 per/barrel range. Mr. Cannon asked what the drivers were that would lead to the correction in oil prices. Mr. Morrison stated this projection was based on an expected reduction in supply.

Mr. Morrison provided a product overview and indicated that Loomis desired to outperform the benchmark by 1% – 1.7% over one full market cycle, which is defined as a 3 – 5 year period. He stated the fund's benchmark is the Barclays U.S. Aggregate Index. Mr. Morrison provided the performance of the portfolio for quarter ending December 2015. He noted performance of the fund for the one year period was -3.84% versus the benchmark of +0.55%. He stated that in 2015, Loomis' strategy was to take advantage of what they believed to be a year of slow and steady global economic growth of 2% - 3% led by the United States. He stated in that environment, Loomis intended to underweight treasuries and overweight other parts of the market they felt would help preserve capital. He noted, however, that the opposite had occurred and risk markets sold off and the U.S. dollar strengthened more substantially than forecasted. He acknowledged that Loomis' strategy did not work in 2015, but that Loomis was well-positioned for 2016. Mr. Morrison continued his presentation by briefly reviewing the portfolio's maturity, duration, sector, and quality distribution data. He then explained the diversification of the portfolio broken down by securities, sector, quality and country.

Mr. Mumma asked for the fund expense cap. Mr. Morrison indicated it was 0.50%. Mr. Mumma commented positively on Loomis' returns over the 5- and 10-year performance periods, and stated he hoped that the current quarter's performance would reverse course and lead to positive future gains. Mr. Mumma asked Devon Muir from Mercer Consulting for his input on the reported subject matter. Mr. Muir stated that Loomis, as the active manager of the Core Plus Bond Fund, allowed for different exposure to some investment sectors that the benchmarked index would not necessarily allow and which was expected to generate added value over the benchmark. Mr. Mumma deferred Mercer's Quarterly Investment review and moved the meeting forward to item 6.

#### QUARTERLY INVESTMENT REVIEW

Mr. Muir discussed the Deferred Compensation Plan's fund performance during the third and fourth quarter of 2015. He presented a broad overview of the third quarter and year-to-date capital market performance. He indicated the negative performance was in line

with Loomis' assessment in regards to certain aspects of the bond market. He stated the S&P 500 had decreased by 6.4% and that the Russell 2000 Index had decreased by approximately 12%. He stated international equities generally underperformed. He stated the markets' performance for 2015 was lackluster, noting falling oil prices and commodities as reflected by the S&P GSCI Commodity Index (-19.3% for the quarter).

Mr. Muir reviewed the investment option array and provided a breakdown of overall Plan assets of approximately \$4.75 billion, a decrease of \$221 million quarter over quarter. He reported that by the end of the 4<sup>th</sup> quarter, total assets had recovered to approximately \$4.9 billion. He reported on the asset allocations for the Plan and stated the risk based funds represented 16.6%. He indicated the DCP Large Cap stock fund continued to be the single most used option of the Plan at 30.4%. He stated the Stable Value Fund represented about 20% of overall plan assets. He then reviewed the fund expenses and noted the total investment expense ratio was 0.19%. He indicated the total "all-in" expenses including administration was 0.25%.

Mr. Muir reviewed the Plan's fund performance and risk profiles. He noted that though the numbers were generally slight to fairly negative for the 3<sup>rd</sup> quarter, the long term risk profiles (5 – 10 years) have held up very well relative to their benchmark. He reviewed the performance of US equity and noted the DCP Large Cap stock fund decreased in line with the market. He stated the commitment to passive investment of the DCP Large Cap stock fund was the right approach as that fund over the long term maintained very strong rankings relative to active management. He indicated the DCP Mid Cap stock fund underperformed slightly in a very negative market, but still fared well relative to comparable managed strategies. He provided a breakdown of the DCP Small Cap stock which slightly outperformed the benchmark. He reviewed the performance of international equity funds which decreased by 9.6%, slightly outperforming the benchmark but faring slightly below the median. He concluded his review by stating that there was generally improved performance in the 4<sup>th</sup> quarter of 2015, but it did not erase the negative performance for the first three quarters of the year.

## 6. BOARD REPORT 16-02: REQUEST FOR PROPOSAL – THIRD-PARTY ADMINISTRATION

Steven Montagna, joined by Wendy Young Carter from Segal Consulting, presented the proposed final draft of the Plan's third-party administrative services Request for Proposal (RFP). He stated the presentation would highlight components of the questionnaire, explain the evaluation process and briefly review the timeline for the overall search process. He indicated the Plan Profile and Scope of Services portion of the RFP was intended to provide the vendor community ample information in order to help them make assessments as to whether they would be interested in competing for the Plan. He also stated the questionnaire provides an efficient opportunity for the exchange of information between the City and vendor community. He noted there were 330 questions in the questionnaire and indicated staff had worked diligently to reduce the number of questions while ensuring and achieving a well-rounded assessment. He stated "problem resolution essay questions" were included in the questionnaire and indicated the challenging essay questions were based on practical issues staff had

encountered while administering the program. He stated some of these questions would explore the challenges inherent with firms offering broad based processes and recordkeeping platforms intended to work for multiple clients versus the individual plan sponsors such as the City's Plan interested in more customization. He continued his presentation by briefly explaining the additional components of the questionnaire and addressed the questions that explore organizational structure, regulatory issues, references, as well as the plan level services offered by potential vendors.

Ms. Carter transitioned to the recordkeeping portion of the presentation. She described the important drivers for the many questions pertaining to recordkeeping services. She stated the first driver was not only to obtain information about how vendor systems work, but more importantly how to get a sense of their vision for the future in terms of developmental timelines for enhancements. She stated independent audits were also important and that thorough reports and analysis pertaining to record keeping systems and security protocol would be requested. She indicated that large public sector employers tend to have customized payroll processing which can create challenges. She therefore indicated it was important to get full information on a vendor's ability to handle such challenges. She indicated the RFP would also assess the capabilities to administer white label funds and an auto-enrollment program. Ms. Carter stated that in terms of cyber security, the RFP would examine vendor processes for audits, as well as security checks for assessing hacking vulnerabilities.

Mr. Montagna reviewed the participant services portion of the RFP. He stated participant services are a Plan priority. He emphasized that the quality of the vendor's points-of-contact for participants are drivers for whether individuals are able to obtain information and ultimately achieve success as defined by the Plan. He stated the Plan would be asking vendors about the variety and quality of enrollment, marketing, and educational materials they could produce. He stated staff would review a vendor's forms for level of complexity and efficiency. He indicated that while participating in a communications retreat with Segal Consulting in January, staff started the development of short and long term strategies and objectives for the Plan, and one of the objectives addressed communication material. As a result, he stated that staff would consider adding to the RFP the unbundling of communication responsibilities from the TPA and requesting a separate price point for such a service. He stated the RFP would also ask whether vendors would accommodate the Plan's retirement income projection calculator and assess a vendor's stance on retirement readiness and the degree in which the vendor would work with the Plan to build on this concept.

Ms. Carter explained the Self Directed Brokerage Option (SDBO) portion of the questionnaire. She stated the SDBO is a Plan component that has low utilization but high complexity. She stated it consists of a complex interchange between the record keeper and the SDBO provider. She indicated the RFP would ask a variety of questions about all the various processes that would be required for such an interchange. She indicated that in terms of trustee services, the Plan would ask vendors whether they provide custodial oversight of assets. She indicated the questionnaire would also be evaluating investment advice and managed account services, which has become

relatively prevalent in the defined contribution space. She concluded by stating that the RFP would also be asking whether vendors could potentially offer a deemed IRA option.

Mr. Montagna discussed the fees section of the RFP. He stated the questionnaire would ask for fees on a per participant and transaction basis. He added the RFP would investigate the assumptions that are made in terms of how vendors anticipate the growth of the Plan and its effect on fees. He noted the final section of the RFP pertained to the Plan conversion process and that it would not be rated. He stated this section was intended to address the conversion process if the Plan changed its TPA.

Mr. Cannon asked how the RFP would be addressing required minimum distributions. Ms. Carter noted that RMDs are one of the most difficult aspects of defined contribution recordkeeping in terms of providing notices, ensuring that participants are aware of the requirements, and ensuring that the processing completed by a record keeper coincides with a participant's wishes. Mr. Mumma asked if there is an expectation of how many responses the Plan would receive. Ms. Carter stated the large unbundled public sector recordkeeping space is a relatively small universe of potential bidders. She stated that potentially there may be 1 to 4 candidates who submit a bid. Mr. Mumma asked if the overall components of the Plan would look similar to its current state, if there was a change in the Plan's TPA. Ms. Carter stated that record keepers are very experienced in managing the participant communication process as they outline all the communication points during an implementation process. She indicated challenges may occur in a participant's web experience when transitioning between two record keepers. She noted that demo websites would be requested and provided by any potential vendor during the search process.

Mr. Montagna stated it was staff's proposal for the RFP to be evaluated by a review panel comprised of three Plan staff members and a representative from Segal Consulting. Ms. Le asked how the RFP would be advertised. Mr. Montagna stated the RFP would be posted on the LABVN website. Mr. Ciranna asked if the Plan would be advertising in any other publications. Ms. Chang indicated that staff would look at other possible options to advertise the RFP.

Mr. Montagna indicated staff intended to release the RFP on or around February 1, 2016 with a response date of March 18, 2016. He stated there would be approximately two months to complete the evaluation process including performance exams. He stated recommendations would be presented to the Board at the June meeting.

**A motion was made by Mr. Cannon, seconded by Ms. Le, to adopt and authorize release of the draft RFP for Third-Party-Administrative Services according to the timetable indicated in the report; the motion was unanimously adopted. A second motion was made by Mr. Ciranna, seconded by Mr. Cannon to receive and file the report and update regarding progress of this procurement; the motion was unanimously adopted.**

## 7. BOARD REPORT 16-03: INDIRECT REIMBURSEMENTS AND CAP RATE

Mr. Montagna stated staff was recommending a change in the methodology used to calculate indirect salary cost reimbursement to the City. He stated the core rational for this was that based on the fact that there had been inconsistencies with the methodology. He stated the recommended changes were intended to promote greater consistency and transparency. He indicated the Los Angeles Administrative Code states the Plan must reimburse all administrative costs of the Plan. He stated there are two ways the City could potentially determine the calculation of salary and indirect costs, including utilizing the CAP Grant Funded Special Programs Rate or the Personnel Department's Special Balance of Department – Support Service Rate.

Mr. Montagna stated that rates are calculated using categories of costs. He described the major categories as costs pertaining to Fringe Benefits, Central Services, Department Administration & Support, and Compensated Time Off. He explained that rates are produced by examining a work unit, calculating the costs associated with supporting the work unit, obtaining the salaries paid to the employees within the work unit, and dividing that amount by the cost center. He stated that the calculation would produce the rate. He emphasized that rates are calculated on a “look back” basis in that when the Controller's Office is calculating these rates, they do not know various costs in real-time, but are estimating and projecting a rate for a particular period. He stated that adjustments may be made after the fact.

Mr. Montagna provided a historical summary and timeline pertaining to calculating administrative and indirect costs of the City's Plan. He indicated that staff and Board members were concerned with the volatility of the CAP rates, which was what prompted the current review. He explained that staff could identify and obtain available information to determine how costs and rates were calculated only for more recent years. He indicated that staff had been notified that records going back further were no longer available, thus making it difficult to definitively determine what had been included in the calculations for those years. He also noted there were inconsistencies in the calculations.

Mr. Montagna presented historical data and compared the CAP Grant Funded Special Programs Rate versus the Personnel Department's Special Balance of Department - Support Services Rate. He then provided the reasons why the Plan should use the Special Balance of Department - Support Services Rate. He stated the Plan is not a Federal grant-funded program and there is no requirement that it be treated as such for the purposes of calculating indirect costs. He indicated staff could not identify any compelling reason to separate Plan staff from other similar Personnel Department staff working on similar programs in the same Division and the same workspace. He stated there have been inconsistencies and wide fluctuations in the calculation of the CAP “Grant Funded Special Programs” Rate due to changing methodologies. He stated applying the Personnel Department's Special Balance of Department – Support Services Rate would provide more transparency, visibility, and consistency. He indicated a similar review was done with the City Attorney's Office and their feedback coincided

with staff's recommendation. He recommended that the Plan amend the reimbursement process to use the Personnel Department's Special Balance of Department – Support Services Rate and the City Attorney Special Municipal Counsel & Legislative Services Rate for future calculations of Plan staffing indirect costs. He indicated staff could then retroactively apply the special rates to Fiscal Year 2007/2008 to determine what the reimbursements would have been, thus enabling Plan staff to make proper assumptions and calculations going forward. Following discussion by the Board, **a motion was made by Mr. Ciranna, seconded by Mr. Amerian, to receive and file staff's discussion on reimbursement methodology for administrative and operational costs of the Deferred Compensation Plan; the motion was unanimously adopted. A second motion was made by Mr. Ciranna, seconded by Mr. Amerian, to direct that staff use the Personnel Department's Special "Balance of Department – Support Services" Rate and the City Attorney Special "Municipal Counsel & Legislative Services" Rate for future calculations of Plan staffing indirect costs, and to retroactively adjust reimbursements for prior fiscal years dating back to Fiscal Year 2007/2008; the motion was unanimously adopted.**

#### 8. BOARD REPORT 16-04: STABLE VALUE FUND CONTRACT

Esther Chang stated that at the previous month's meeting the Board had granted Galliard Capital Management (Galliard) the sole responsibility for investment decision-making authority in the performance of its investment management role for the DCP Stable Value Fund. She noted this included any decision making as it pertained to selection of sub-advisors. She then presented the proposed contract draft to the Board. She stated the proposed contract with Galliard included language indicating that Galliard would have to provide the Board advance notice of any changes that are substantive to the fund as well as causes of any change in the fund's fees. Mr. Mumma asked about the likelihood of any significant increases in sub-contractor fees. Mr. Muir indicated this was unlikely. **A motion was then made by Mr. Amerian, seconded by Ms. Macy, to approve the proposed contract with Galliard Capital Management for the Deferred Compensation Plan Stable Value Fund; the motion was unanimously adopted.**

#### 9. BOARD REPORT 16-05: AUTO-ENROLLMENT PROGRAM UPDATE

Ms. Chang provided an update related to implementation of the Plan's auto-enrollment program (AEP). She noted that a meeting had occurred with the PaySR Project Task and Schedule Working Group on January 7, 2016. She stated the meeting was attended by representatives from the Mayor's Office, Information Technology Agency (ITA), Controller's Office, Personnel Department, and the Office of the City Administrative Officer (CAO). She indicated the purpose of the meeting was to set programming priorities for PaySR, which includes the Plan's auto-enrollment program. Ms. Chang introduced a letter drafted by staff that would come from the Board Chairperson to the Controller's Office so as to communicate the Board's high priority for the auto-enrollment program. Mr. Cannon asked if there were any concerns with the functionality with DWP's payroll system in implementation of the AEP. Ms. Chang stated



the DWP confirmed that the programming requested by the Plan was possible, but the Plan would need to communicate a time frame for execution.

**A motion was made by Mr. Ciranna, seconded by Mr. Cannon, to receive and file staff's report providing an update to implementation of the Deferred Compensation Plan Auto Enrollment Program (AEP); the motion was unanimously adopted. A motion was made by Mr. Ciranna, seconded by Mr. Cannon, authorizing the Board Chairperson to issue a communication on behalf of the Board to the City Controller with respect to implementing the payroll functionality for the AEP; the motion was unanimously adopted.**

Mr. Mumma moved the meeting back to item 4.

10. BOARD REPORT 16-06: BOARD MEETING ATTENDANCE REVIEW

**A motion was made by Mr. Ciranna, seconded by Ms. Le, to receive and file information regarding the 2015 Board and Committee attendance; the motion was unanimously adopted.**

Mr. Mumma moved the meeting back to item 5 for Mercer's Quarterly Performance Review.

11. BOARD REPORT 16-07: PLAN PROJECTS & ACTIVITIES REPORT

Ms. Chang presented the staff report and updated the Board on the status of pending Communications, Operations, Administration and Governance projects for the month of December. She stated staff and Empower had recently posted a website bulletin related to market volatility. She indicated the 4<sup>th</sup> quarter newsletter had been finalized and would be mailed the following week. She indicated staff was working on a Plan fee disclosure which would provide participants an overview of all Plan fees. She then reported that staff had participated in a communications retreat with Segal Consultants and would provide a report of what was discussed at the next Board meeting.

Ms. Chang transitioned to the operations portion of her report and stated there was a higher volume of calls in the month of December, many of which pertained to contributions changes, catchup enrollment and required minimum distributions. She updated the Board on the status of contracts and stated the Bank of the West contract was finalized and executed. She indicated the Mercer and Segal contract was pending final approval from the Mayor and CAO. She noted the Galliard contract would be finalized soon as the Board had already seen the tentative final version of the language. Ms. Chang concluded her report by reminding the Board to take mandatory online ethics training, which was required to be completed by February 1, 2016.

**A motion was made by Ms. Le, seconded by Mr. Macy, to receive and file staff's update on Plan projects and activities during December 2015; the motion was unanimously adopted.**

12. REQUESTS FOR FUTURE AGENDA ITEMS

None.

13. FUTURE MEETING DATES – February 16, 2016

14. ADJOURNMENT

**A motion was made by Mr. Cannon, seconded by Mr. Mumma, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 11:26 a.m.***