

# Deferred Compensation Plan

## BOARD REPORT 17-07

Date: March 21, 2017

To: Board of Deferred Compensation Administration

From: Staff

Subject: Investments Committee Policy Recommendations  
and Update on Investment Menu/Policy  
Statement Review

*Board of Deferred  
Compensation Administration  
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### **Recommendation:**

That the Board of Deferred Compensation Administration approve recommendations of the Investments Committee to:

- (a) Adopt proposed changes to the Board's Governance Policies/Bylaws Section 7.2, providing the Board with greater latitude relative to addressing simultaneous service provider relationships with its Third Party Administrator (TPA) and investment providers;
- (b) Find that the present inclusion of the Voya Mid-Cap Fund as part of the Plan's blended DCP Mid-Cap Fund does not provide a substantial risk of actual or perceived incentive for the incoming TPA, Voya Institutional Plan Services, to favor that investment over others within the Plan's investment menu; and
- (c) Receive and file staff update regarding other activities of the Investments Committee relative to the Deferred Compensation Plan investment menu and the Investment Policy Statement.

### **Discussion:**

#### **A. Background**

At its **October 18, 2016** meeting, the Board referred to the Investments Committee ("Committee") a review of the Deferred Compensation Plan Investments Menu and Investment Policy Statement, and review of the investment mandate presently filled by the Voya Midcap Opportunities Fund, which represents the growth sleeve of the Plan's DCP Mid-Cap Fund. At the Investments Committee meeting of **December 4, 2016**, the Investments Committee requested that staff develop proposed language with respect to the Board's Governance Policies/Bylaws Section 7.2, providing the Board with greater latitude relative to addressing simultaneous service provider relationships with its Third Party Administrator (TPA) and investment providers. At its meeting on **January 26, 2017**, the Investments Committee considered a report and recommendation from staff in response to the Committee's request.

This report provides recommendations from the Investments Committee relative to simultaneous service provider relationships with its Third Party Administrator (TPA) and investment providers and a specific finding regarding the Voya Mid-Cap Fund. This report

also provides an update on other activities of the Investments Committee relative to the Deferred Compensation Plan investment menu and Investment Policy Statement.

## **B. Rules Governing Simultaneous Service Provider Relationships/Finding Regarding Voya Mid-Cap Fund**

The Board's Governance Policies/Bylaws Section 7.2 (**Attachment A**) presently provides that, "In order to maintain a high standard of neutral and unbiased administrative services and investment counseling, the Board will not simultaneously contract with the same contractor for Third-Party Administrator (TPA) services and for Plan investment advice or investment provider services." At its meeting on December 4, 2016, the Investments Committee discussed the potential value of modifying this language to provide the Board with greater latitude towards the fundamental objective of taking actions solely and exclusively in the best interest of Plan participants, and asked that staff develop proposed changes to address this.

Staff developed draft replacement language for Section 7.2, and at its meeting on January 26, 2017, the Investments Committee took an action to recommend that the Board adopt this language. The proposed revision/replacement language is stated as follows:

*"In order to maintain a high standard of neutral and unbiased administrative services and investment counseling, the Board will not simultaneously enter into service provider relationships for Third-Party Administrator (TPA) services and for Plan investment provider services when investment-related services are either (a) bundled together with TPA services as part of a combined administrative/investment offering, (b) offered as a separate stand-alone investment option, or (c) provide a substantial risk of an actual or perceived incentive for the TPA to favor particular investments over others within the Plan's investment menu. The Board's decision-making regarding service provider relationships will always be guided by its determination of what is in the best interest of Plan participants."*

The Investments Committee's objective in recommending these changes is to broaden the Board's discretion in cases involving simultaneous service offerings, recognizing that each situation may involve unique circumstances that should be evaluated independently. The Committee's finding is that the replacement language retains the fundamental objective of ensuring neutral and unbiased administrative services and investment counseling, but provides for certain additional tests that allow discretion in situations where the Board's actions to identify the most highly qualified investment managers can be weighed as part of the analysis.

The proposed language provides that simultaneous service provider relationships would be precluded in situations where an individual or suite of investment products are bundled with the TPA's services; where an investment product is offered as a stand-alone option in the City's Plan; or where the offering would otherwise present a substantial risk of an actual or perceived incentive for the TPA to favor a particular investment over another. The Board would determine, on a case-by-case basis, whether a substantial risk existed.

Should the Board adopt this change, a finding would need to be reached in the instant case involving the Voya Mid-Cap Fund as to whether the present inclusion of this Fund would provide a substantial risk of actual or perceived incentive for the incoming TPA, Voya Institutional Plan Services, to favor that investment over others within the Plan's investment menu. The Committee's recommendation is that the Board find that the substantial risk test has not been met. All of the Plan's options are "white-labeled," meaning they are communicated by asset class rather than investment manager. Further, the Voya Mid-Cap Fund is blended with two other managers into the DCP Mid-Cap Fund and, in connection with that, the Fund's five risk-based asset allocation funds. In total, the Fund is present in all but three of the Plan's equity options. The diffusion of the investment makes it difficult to envision a scenario where the Voya Mid-Cap Fund specifically could, in any practical or substantial way, be communicated with preference over the Plan's other options.

Finally, the Investments Committee recognized the thorough and disciplined process engaged in by the Board to select the Voya Mid-Cap Fund as the provider for the growth sleeve of the DCP Mid-Cap Fund. That decision which was made in fulfillment of the Board's fiduciary obligation to determine the best option for this mandate. Given all of these considerations, the Committee's finding is that retaining the Voya Fund would be in the best interest of Plan participants.

### **C. Update on Investment Committee Activities**

Over its two recent meetings the Investments Committee has been working with the Board's investment consultant, Mercer Investment Consulting, to review options and considerations relative to design of the Deferred Compensation Plan investment menu. The Committee has held discussions related to optimizing the Plan's risk-based asset allocation funds as well as incorporation of other asset classes into those funds and/or the Plan menu as a whole. These deliberations are near completion and a report on this topic to the full Board will be presented upon conclusion of the Committee's review. Concurrent with that is a review and recommended updates to the Plan's Investment Policy Statement, also to be presented once the Committee completes its review process.

Submitted by:

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Steven Montagna