CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
MEETING OF MAY 15, 2018
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:
John Mumma, Chairperson
Raymond Ciranna, First Provisional Chair
Wendy G. Macy, Third Provisional Chair
Cliff Cannon
Linda P. Le

Not Present:
Robert Schoonover, Second Provisional Chair
Neil Guglielmo
Don Thomas

PERSONNEL DEPARTMENT STAFF

Steven Montagna – Chief Personnel Analyst
Isaias Cantú – Senior Management Analyst II
Matthew Vong – Senior Personnel Analyst I
Daniel Powell – Personnel Analyst

OFFICE OF THE CITY ATTORNEY
Curtis Kidder – Assistant City Attorney

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

VOYA FINANCIAL
Michelle Williams – Vice President Strategic Relationship Management
La Tanya Harris – Registered Representative
Luis Chaves Guzmán – Participant Engagement Consultant

BRANDES INVESTMENT PARTNERS
Brent V. Woods, CFA – Chief Executive Officer
Marsha Otto, CFA – Director, Mutual Fund Sales & Portfolio Management
Luiz G. Sauerbronn – Director, Investments Group

1. CALL TO ORDER

Mr. Mumma called the meeting to order at 9:20 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

Ray Ciranna requested a correction to the minutes to note that he had called the meeting to order.

A motion was then made by Mr. Ciranna, seconded by Mr. Cannon, to approve the minutes of the April 17, 2018 meeting, as amended; the motion was unanimously adopted.

4. QUARTERLY INVESTMENT & ECONOMIC REVIEW: MARCH 31, 2018

Devon Muir presented Mercer Investment Consulting's Performance Evaluation Report for the First Quarter of 2018. He began by commenting on capital market performance. He reported that the Plan ended with slightly negative returns after experiencing a significant level of volatility over the course of the quarter. He stated that the volatility was due to concerns about potential trade wars and rising interest rates. He stated that within the Russell 1000 Growth Index of large-cap stocks, technology stocks performed well, up 1.4%. He stated it had been a better market for true growth stocks and that despite the US dollar depreciating, international equities were slightly negative. He stated that emerging markets were generally positive.

Mr. Muir reported that the bond market as represented by the Barclays Aggregate Index was down 1.5% for the quarter, which was attributable to the rising interest rate environment. He stated that there were negative returns for real estate investment trusts, which typically do not perform well when interest rates rise. He stated that commodities were flat to slightly negative.

Mr. Muir reported on sector performance and stated that consumer discretionary and technology were the only market sectors with positive returns. He stated that true growth-oriented sectors tended to dominate. He indicated telecommunication services, consumer staples, and energy were significantly lagging the rest of the market and that these tended to have more of a value orientation.

Mr. Muir continued to discuss capital markets and stated that during the first quarter of 2018 there was a significant increase in interest rates from December 31, 2017. He stated there was a shift upward in the US Treasury yield curve across all maturities, which flattened at the long end. He stated that 10-year Treasury yields were up 34 basis points quarter over quarter and that 30-year Treasury yields were up 23 basis points, which had a negative effect on the price of bonds.

Mr. Muir reported on the Plan's investment options and indicated that the Board's previously approved asset allocation changes to the Plan's Profile Funds would become effective on June 29, 2018. He stated the changes would increase the level of international equity and were intended to add diversification and optimization to the Profile Funds.

Mr. Muir indicated that Plan assets were down $2.8 million quarter over quarter and ended at $6.22 billion. He stated the Plan saw significant participant inflows which were offset somewhat by investment losses. He indicated there are healthy balances within the Plan and that there is growth in overall assets year over year. He stated that the bulk of participant balances are below $25,000; however, roughly 33% have above $100,000.

Mr. Muir next reviewed asset allocation data comparing March 2017 to March 2018. He indicated that there had been movement away from the more conservative options. He stated that the FDIC-Insured Savings Account presently has slightly less representation in the Plan compared to last year largely due to equities appreciating and becoming a greater portion of the portfolio. He stated that similarly the Stable Value option was at 19.3% in March 2017 and was now at 17.4% of assets. He stated that one of the primary beneficiaries of the shifting of allocations is the Profile Funds, which were moving closer to 20% of Plan assets compared to five years ago when they represented approximately 10% of Plan assets.

Mr. Ciranna asked if there was data with respect to the number of participants who had shifted assets away from the Stable Value Fund. Mr. Montagna responded that staff would work with Voya to see what occurred and determine a net cash flow amount. Mr. Muir stated that looking at deferrals percentages could also provide some insight as well.

Mr. Muir reported on investment expenses and indicated they were relatively stable. He stated the overall investment expense ratio after expense rebates, on a weighted average basis, is at 18 basis points. He further indicated that with the cost of administration at five basis points, all-in fees were at 23 basis points, a very competitive cost level.

Mr. Muir next reviewed performance relative to benchmarks and indices for each of the Plan's funds for periods of time ending March 31, 2018. He noted that during Brandes' presentation he would ask them to comment on their one-year performance, where there is significant divergence. He stated that Mercer is not recommending any changes to Plan investment options at this time.

5. INVESTMENT MANAGER PRESENTATION

Marsha Otto, Director of Mutual Funds from Brandes Investment Trust (Brandes), introduced herself and her colleagues, Brent Woods, CEO, and Luiz Sauerbronn, Director of Investments Group. Mr. Woods gave a brief overview of Brandes and addressed the retirement of Charles Brandes. He stated that the firm was established in 1974 and headquartered in San Diego, California. He stated that Brandes is an employee-owned firm in a limited partnership. He stated the firm applies a value investing approach and is not trying to look like the benchmark. He further stated that unfortunately because of their value-oriented strategy, sometimes over shorter periods of time they do not compare favorably to the benchmark, but that their goal is to add value over longer time periods.

Mr. Mumma asked if there was a particular market in which Brandes thrives. Mr. Wood responded that the fund performs better when value investing is in favor.

Mr. Wood addressed Charles Brandes' unexpected retirement, stating that this had resulted in minimal impact on assets, with outflows totaling less than half a percent of total assets since the announcement. Mr. Wood assured the Board that Mr. Brandes was not involved with the City's small-cap strategy. He stated that the partners are working towards a smooth transition and are in the process of fully purchasing Mr. Brandes' shares of the firm. He also stated that Mr. Brandes could not sell his shares to a third party. He closed by stating that firm assets have been stable for the last several years and presently Brandes has around $30 billion in assets under management.

Mr. Sauerbronn provided a brief overview of the value equity premium across different markets. He stated that the last five years have been difficult all over the world with regard to value investing. He indicated that in comparison to growth, value underperformed throughout 2017.

Mr. Muir asked if Brandes is characterizing the most recent environment as a normal up market. Mr. Sauerbronn responded that the most recent environment had been a robust up market. He stated that underperformance is not unusual when growth is preferred over value for a sustained period of time and that the value approach requires patience over a long investment horizon.

Mr. Sauerbronn reported on the International Small Cap Equity Fund and stated that for 2017 absolute return was close to 12%. He stated that normally 12% returns would be considered strong, but that unfortunately in 2017 the benchmark was at 33% and the highest it had been since 2009. He stated that the Small Cap Equity Fund has outperformed the S&P developed fund benchmark in eight of the last ten years and outperformed the MSCI EAFE benchmark in six of the last ten years.

Mr. Sauerbronn then reported on the top ten holdings within the International Small Cap Equity Fund. He stated that they have a collection of businesses that they feel are high quality and are not paying a lot for, but that unfortunately, the market has not been positive for them lately.

Mr. Ciranna commented that growth has performed well over the last several years and that it appears they are positioning the portfolio to account for a future shift; he asked when Brandes anticipates a shift back to value. Mr. Sauerbronn responded that the timing of a shift back to value would be difficult to determine. Mr. Wood stated that Brandes tends to be cautious in predicting what will occur in the short term, but indicated they are confident in their strategies over the long term.

Mr. Sauerbronn commented on Brandes' thoughts on risk and strengths contained within their portfolio. He stated that Japan was their largest country exposure, with all but three holdings trading below book value. Given that holdings are trading below book value, he stated that it indicates a very attractive valuation. He stated that they do not have many cyclical and financial exposures, which tend to underperform in down markets. He stated that they have a large cash position, which has been a drag in the fast-rising market. He stated they have exposure in areas where markets are risky, such as the UK, which they feel is an opportunity. He stated that Brandes has significant exposure to companies off-index at 63% of the portfolio.

Mr. Ciranna asked for the percentage of cash that Brandes is holding. Mr. Sauerbronn responded that they are currently holding approximately 10% cash and that they have been as high as 14% in the past. He indicated that this amount of cash holding is higher than average and that it is not a decision to hold cash, but is the result of being able to find the right opportunities and having the right allocations. Mr. Ciranna further asked about the percentage of cash holdings during the last 10-years.

Mr. Sauerbronn responded that during the last ten years it has been as low as 1% to as high as 14%. Mr. Ciranna commented about the off-index number, listed at 63% of the portfolio, and asked about the last ten years and whether it was around 60% consistently. Mr. Sauerbronn responded that they do not have the statistic available at this moment, but stated that their active share is extremely high, in the high 90's. He stated that they would research data for the off-index and provide it to the Board.

Mr. Sauerbronn reported that 74% of Brandes' investments are in companies that are have been in existence for thirty or more years. He stated the oldest company in their portfolio has been around for over 200 years. He stated that the typical company in their portfolio is a well-established business.

6. BOARD REPORT 18-23: PLAN AUDIT REQUEST FOR PROPOSAL

Matthew Vong reported that at its March 20, 2018 meeting the Board approved staff's recommendation to draft a Request for Proposal (RFP) to procure financial auditing services for the Plan, pending Board review and approval. He stated that staff strives to be transparent to prospective respondents by providing information about the design, services, and features of the Plan, including the services that the Plan is requesting. He indicated that the RFP includes a detailed questionnaire and a performance exam which allows staff to evaluate each prospective respondent's services and capabilities.

Mr. Mumma asked if there was anything different in this RFP compared to prior Plan audit RFP requests. Mr. Montagna responded that this RFP includes questions related to the Third-Party Administrator transition and what steps a prospective firm would take to review and provide feedback on the transition. He also stated that the structure and detail of the questionnaire had been modified from previous versions based on updated best practices in the construction of RFPs.

Mr. Mumma asked if counsel has reviewed this RFP. Mr. Montagna responded that the typical procedure for this is to present it to the Board for its review and address questions related to the services being requested; once that is complete the next step is to have the document reviewed by the Personnel Department's Administrative Services Division and City Attorney as to form before it is released to the public.

Mr. Ciranna asked if staff was aware of any firms that would be bidding on this RFP. Mr. Montagna responded that staff has been in contact with other entities that have requested similar services, but that since this is a relatively small field of firms providing these types of services, it was unclear who might submit a proposal.

Mr. Mumma stated that he recalled hearing that performing audits on governmental defined contribution plans are not widely performed and that the City's Plan is moving ahead of other entities by looking into this type of review. Mr. Montagna agreed and noted it is more common for larger plans to conduct audits. Additionally, he stated that the pricing for performing audits varies and is dependent on the plan's complexity.

Following this discussion, a motion was made by Mr. Ciranna, seconded by Ms. Macy, that the Board of Deferred Compensation Administration approve and authorize release of the proposed

Request for Proposal for Deferred Compensation Plan financial auditing services; the motion was unanimously adopted.

7. BOARD REPORT 18-24: PILOT AUTO ENROLLMENT PROGRAM IMPLEMENTATION UPDATE

A motion was made by Mr. Cannon, seconded by Mr. Ciranna, that the Board of Deferred Compensation Administration receive and file an update regarding pilot implementation of the Deferred Compensation Plan's Auto-Enrollment Program (AEP); the motion was unanimously adopted.

8. BOARD REPORT 18-25: SOCIAL MEDIA PILOT PROGRAM

Daniel Powell presented this report. He indicated that staff was requesting that the Board approve a six-month pilot program to use social media platforms for communicating with Plan participants, to instruct staff to report back on progress and any refinements needed and to adopt the proposed social media and comment policy. He then stated that social media is being proposed as a new way to engage Plan participants and eligible non-participating employees by using websites that people are already using. He stated that this would provide another venue for participants to interact with the Plan. He noted that industry research completed by the Pew Research Center indicated that YouTube and Facebook have the highest utilization; however, YouTube is primarily a video sharing service, whereas Facebook is geared towards online interaction between users. He stated that staff contacted other public entity plan sponsors for feedback on their experience using social media platforms and their responses had been positive, including statements that using these platforms has been a valuable way to reach out to participants and more effective than using email and USPS mail. He indicated that using social media was a supplement for these plans and not the primary source of disseminating information to participants.

Mr. Mumma asked how the City's Plan would monitor comments to the page and respond to participant issues. He stated that he foresees situations where individuals might air grievances with the Plan, talk about investment choices not performing well, or other issues. Mr. Powell responded that staff did communicate with outside plan sponsors about this issue and that the social media page can be an effective tool to demonstrate the responsiveness and professionalism of the plan sponsor. Mr. Mumma asked who would monitor these sites and what level of staff involvement would this entail. Mr. Powell responded that staff and Luis Chaves Guzmán, Voya's Participant Engagement Consultant, would be monitoring. Mr. Montagna stated that this is a pilot program and it will allow staff to measure how much staff time it will require and whether it is increasing participant engagement. He stated that if the results were not consistent with the objectives the site could be discontinued.

Mr. Ciranna asked if the Plan is starting with Facebook and YouTube at this time. Mr. Powell responded it was. Mr. Ciranna stated that although smaller in scale than what the Plan is proposing, his experience has been positive from using Facebook with Fire and Police Pensions regarding addressing feedback. Mr. Mumma stated that although he does not have a personal social media account, he understands the challenges of maintaining one. Ms. Le stated that the Department of Water and Power has a Facebook page and that they have a couple of staff members that monitor the site and asked how much staff time the Plan will allocate. Mr. Powell responded that based on feedback from other plan sponsors, staff believes it should not take more than a few hours per week and staff would be monitoring the amount of time required to manage it. He also stated that the Plan is not developing new content to post on the Facebook site but using existing content. Mr. Ciranna stated that an issue to be aware of is that an individual can post comments late night or on the weekend and could be sitting there until staff returns and addresses the matter. Mr. Powell stated that the account could be set up to provide that an administrator receive notifications when an individual posts a comment immediately. He also stated that staff could include a statement on the site that the account is monitored during normal business hours.

Mr. Mumma asked Mr. Guzmán if this social media campaign would be linked to the Voya mobile application, as he has received a lot of negative feedback from participants on the functionality of it. Mr. Guzmán responded that his experience with Facebook is that it can be used to educate participants on using the mobile application, using the regular website, and address communication issues. Mr. Guzmán stated that Facebook is essentially an ongoing open survey so that the Plan can capture feedback from its participants.

Ms. Le stated that for mass mailings and communications, she recalls that staff presents before the Board before action is taken and asked if staff would present before the Board before action is taken with regard to Facebook posts. Mr. Montagna responded that when staff develops communication materials, such as flyers and quarterly newsletters, it does not regularly come before the Board since those materials are continually being revised and updated. He indicated that the content that will be posted on Facebook would be pre-existing items already created by the Plan.

Mr. Powell stated that staff initially wanted to present the Plan's inaugural video before the Board; however, it is still in development and staff will be presenting it in June and as a result, the Facebook launch would be moved to July 2018. Mr. Mumma asked if the video could be emailed to the Board instead of waiting until the next meeting to view it. Mr. Kidder cautioned that anything involving Board deliberation constitutes a serial meeting. Mr. Mumma stated that the video could be emailed to the Board members individually to avoid being considered a serial meeting and that any questions or comments should be directed toward Plan staff only. Mr. Montagna indicated that staff could work with the City Attorney to address the communication of this. Ms. Le asked about how much it cost to produce the video. Mr. Montagna responded that the video was created at essentially zero cost outside of purchasing camera equipment, as the Plan did not utilize consulting assistance or an outside production company.

Following this discussion, a motion was made by Mr. Ciranna, seconded by Mr. Cannon, that the Board of Deferred Compensation Administration (a) approve a six-month social media pilot program for the Deferred Compensation Plan and instruct staff to periodically report back on its progress and any necessary refinements and (b) adopt the proposed Deferred Compensation Plan Social Media and Comment Policy; the motion was unanimously adopted.

9. BOARD REPORT 18-26: PLAN REIMBURSEMENTS FIRST QUARTER 2018

A motion was made by Mr. Ciranna, seconded by Ms. Le, that the Board of Deferred Compensation Administration approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for $149,674.75 and City Attorney for $23,375.36 for the quarter ending 03/31/18; the motion was unanimously adopted.

10. BOARD REPORT 18-27: PLAN PROJECTS AND ACTIVITIES REPORT

Mr. Vong reported that the ballot tally for the 2018 Regular Elections for the DWP Active Participant Representative and Retired Participant Representative seats are being held at the City Clerk's Office and that the results will be certified to the Board by May 25, 2018. He also reported that the City Clerk's Office was reviewing the nominating petitions for 2018 Special Elections for the LACERS Active Participant Representative to determine which applicants meet the election requirements to be listed on the ballot.

Mr. Vong reported on the hiring of Mr. Isaias Cantú, Senior Management Analyst II, whose initial assignment will be to provide oversight for the entire Employee Benefits Division, including the Deferred Compensation Plan. He then stated that he accepted a promotional opportunity as a Senior Personnel Analyst I and will continue with overseeing the daily operations of the Plan.

Mr. Ciranna asked about the status of planning for the next investment manager searches. Mr. Montagna responded that staff would provide a report in July 2018 with a proposed project plan and include items such as the order of the searches and investment committee schedule.

Following this discussion, a motion was made by Mr. Cannon, seconded by Mr. Ciranna, that the Board of Deferred Compensation Administration receive and file the monthly activity report for April 2018, to include updates regarding Communications; Governance; Completed Projects/Meeting Calendar; Staffing; Committee Assignments; and Investments Update; the motion was unanimously adopted.

11. REQUESTS FOR FUTURE AGENDA ITEMS

The next meeting is scheduled for June 19, 2018. The Board did not make any specific requests for future agenda items.

12. ADJOURNMENT

The meeting adjourned at 10:40 a.m.

Minutes prepared by staff member Kevin Hirose.