CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
JULY 18, 2017
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS

Present:
John R. Mumma, Chairperson
Cliff Cannon, First Provisional Chair
Raymond Ciranna, Second Provisional Chair
Wendy G. Macy, Third Provisional Chair
Thomas Moutes
Robert Schoonover
Don Thomas

Not Present:
Michael Amerian, Vice-Chairperson
Linda P. Le

PERSONNEL DEPARTMENT STAFF
Jody Yoxsimer – Assistant General Manager
Steven Montagna – Chief Personnel Analyst
Matthew Vong – Management Analyst
Daniel Powell – Personnel Analyst
Leonard Hyman – Management Assistant

OFFICE OF THE CITY ATTORNEY
Miguel Dager – Assistant City Attorney

MERCER INVESTMENT CONSULTING
Julia Kod – Senior Associate
Ana Tom-Chow - Associate

1. CALL TO ORDER

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

2. PUBLIC COMMENTS

None.

3. MINUTES

The minutes were tabled to the August Board meeting pending additional edits.

4. PLAN ADMINISTRATOR QUARTERLY REVIEW

Joan Watkins, Client Relationship Director with Empower Retirement, and La Tanya Harris, Local Retirement Services Counselor, were present to provide the Plan Administrator quarterly review. Ms. Watkins began by indicating that Plan assets increased by four percent during the quarter. She stated deposits had almost doubled due in large part to participants front-loading their deposits at the beginning of the year. She stated the Plan also saw a 14% increase in Roth balances. She noted that there had not been any significant change in the overall distribution of fund assets. She indicated that since the second quarter of 2003, the Plan had seen a 219% increase in Plan assets.

Ms. Watkins indicated that the number of overall as well as active participants had both increased. She stated that the total number of participants is 43,425, and the Plan continues to see good activity in adding new participants, including 585 enrollees in the last quarter. Ms. Watkins stated that the median account balance is up to $51,758, and the number of participants with a Roth account is 6,798, representing a 7% increase. Mr. Mumma asked if the number of participants was an all-time high, and she confirmed that it was.

Ms. Watkins indicated that with respect to participant cash flows, there had been some movement out of the Stable Value Fund, indicating more confidence in equities. She said that overall asset allocation had not changed quarter over quarter. She reviewed contribution allocations by asset class, indicating that the largest cash flows are to the profile portfolios, followed by the Large Cap Fund and Stable Value Fund.

Mr. Watkins indicated the average account balance among participants was $125,525. She stated 2,059 participants have balances over $500,000, versus last quarter’s total of 1,803. She also said that there was an increase in participants with a balance over $1,000,000 from 170 to 202.

Mr. Cannon asked if there was the ability to keep track of the number of retirees in the Plan. Mr. Montagna said that Empower did not have the ability to record-keep that information. Instead, he said, the Plan identifies that information by running the list of participants against the City’s payroll systems. He stated that moving forward the eligibility file would allow the

Plan to easily identify the number of retirees. He added that the Plan had estimated roughly 8,000 retirees the last time the Plan held an election.

Ms. Watkins continued with her presentation by indicating that distributions by dollar and participants had not changed significantly since last quarter. She indicated that distributions were up from the prior quarter but required minimum required distributions are down, because those distributions are typically at their highest during the 4th quarter each year.

Ms. Watkins indicated rollovers into and out of the Plan were slightly down from last quarter. She noted that outgoing rollovers were directed to firms that have appeared before, as well as the firms of Pershing, Edward Jones, and National Financial Services, which were new from last quarter but have been included in previous reports.

Ms. Watkins next stated that total balances for outstanding loans were down from last quarter. She noted that loan defaults for the quarter were down at 89. She stated that the average outstanding loan was $20,042. She pointed out that hardships were down a little bit from last quarter, with 52 approved, 9 pending documentation, and 8 denied due to no qualifying event. She said that reasons for distributions due to hardships continue to remain the same, such as foreclosures, evictions, loss of income and illness.

Ms. Watkins next reviewed Keytalk statistics. She said total logins were 11,947, up from last quarter, and Internet types and trends remained the same. She stated total logins were 289,610, up from last quarter, and the number of participants who receive online statements went from 34% to 36%.

La Tanya Harris next provided a report on local staff activity during the quarter. She indicated that local staff had 10,037 contacts with participants over the quarter, and popular topics included accrued leave, catch-up, enrollment, deferrals, DROP contributions, purchase of service credit, and rollovers. She stated local staff conducted 85 meetings with City employees. She indicated meetings frequently occur with LACERS, LAFPP, LAX and LAPPL. She stated that most meetings are primarily Plan updates, but also enrollments and new employee orientations.

Ms. Harris stated that 2,177 individuals had attended group meetings and 1,965 individuals who attended one-on-one sessions, both at City Hall and in the context of group meetings. She indicated that their office receives an average of 1,800 phone calls per month, including many calls transferred from other points of contact. Mr. Cannon asked why so many calls had to be transferred. Ms. Watkins replied that staff in the Glendale office are not licensed to counsel participants, so they can handle basic questions only. Mr. Montagna added that there are certain processes the Plan had decided should be handled by local staff, such as catch-up or accrued leave, which have unique characteristics within the City and are best addressed by local staff.

5. BOARD REPORT 17-22: THIRD-PARTY ADMINISTRATOR TRANSITION UPDATE

Steven Montagna presented the Third-Party Administrator (TPA) update. He began by indicating that the blackout period discussed in last month’s update would not affect participant trading in the Self-Directed Brokerage Option (SDBO). He stated the only limitation was that participants would not be able to transfer funds from their core options to the SDBO.

Mr. Montagna next discussed an issue with the eligibility file that was raised by a programmer within the Controller’s Office. He noted that providing the eligibility file to the TPA was a key goal for the transition because it allowed for service and outcomes improvements like online enrollment, online distribution, and data-driven goals development. He said that the staff had held constructive meetings with the City Controller and Board counsel and that the issue was proceeding to be resolved. He stated that the use of eligibility files is not uncommon within the City, nor is it uncommon with other deferred compensation plans, including California agencies such as L.A. County.

Mr. Montagna said that since the last board meeting, staff created a first draft of the contract documents. He indicated that Voya returned the contract within a very short period of time and those comments had been delivered to Board counsel, with those edits scheduled to be returned by August 1, 2017. He indicated staff’s goal was to finalize the contract language by the end of August, so staff can move the contract for Mayor’s Office review in September.

Leonard Hyman next discussed (Qualified Domestic Relations Order (QDRO) processing. He said that QDROs are presently handled by the City Attorney’s Office. He stated this process includes answering questions from participants, their spouses, and attorneys; receiving and responding to joinders; placing distribution-holds on participants’ accounts; and reviewing draft QDROs to ensure they meet the City’s guidelines. He stated that staff performed a cost-benefit analysis to determine whether to keep this function with City or assigning to Voya’s QDRO processing unit. He said Voya submitted Statements of Work for handling QDROs and joinders, and that staff then reviewed the City’s costs He indicated that during 2012-

2016, the City Attorney's Office administered 254 account separations, and total direct and indirect costs were $155,141. He noted that the Legal Secretary providing the services performs a range of legal services to the Plan which include processing more complex beneficiary claim issues, researching certain administrative and legal issues at the request of Personnel Department staff, and responding to inquiries that may come from Plan participants. He noted that QDRO hours by themselves are not uniquely tracked, but staff estimates 70% of the 2012-2016 gross cost, or $108,000, can be attributed to those 254 cases, which amounts to a per-case cost of approximately $425. He said Voya's proposed pricing is $400 per QDRO and $125 per joinder, or approximately $525 total per case, meaning that for 254 cases Voya would have charged approximately $133,000. However, he noted that certain aspects of the process would still be subject to City review and involvement, and that legal assistance provided by the City Attorney's office includes very high level of personalized customer service, including lengthy discussions with Plan participants and their spouses that are unlikely to occur in a call center environment. He stated that given these findings regarding both costs and service levels, staff recommended the Board approve retaining Qualified Domestic Relations Order (QDRO) processing as an internal function performed by City staff.

Mr. Montagna proceeded to indicate that staff would be providing culture training to Voya's call center customer service team, and that this type of training is considered a best practice at Voya. He said it would give Voya call center representatives an opportunity to interact with staff to learn about the nuances of the City's population and Plan. He then informed the Board that staff and Voya had drafted a second mass mailing to plan participants, which was provided as an attachment to the staff report. He stated this communication would provide additional information about the conversion period and new Plan services and features. He stated there would be final communications sent at the time of the transition.

Mr. Mumma commented that the mailing referred to the Plan as a "Supplemental Retirement Plan" which may be unfamiliar to participants, making it less likely that they would open this piece of mail, and suggested more emphasis on "Deferred Compensation Plan." Mr. Schoonover indicated employees often think that they will receive full salary when they retire, but this Plan would enable them to reach full their full salary. Mr. Montagna said that is part of what the Plan does in its messaging and counselling. Ms. Macy said that when participants receive their final Empower statement that says zero dollars, some will be alarmed, so she wanted to ensure participants open their mailing. Mr. Powell stated that the mailing would be inside envelopes, and the first thing that participants would see was the transition timeline.

A motion was then made by Mr. Cannon, seconded by Mr. Schoonover, to receive and file staff's update regarding the Deferred Compensation Plan's Third Party Administrator (TPA) transition; the motion was unanimously adopted. A second motion was then made by Mr. Moutes, seconded by Mr. Schoonover, to approve retaining Qualified Domestic Relations Order (QDRO) processing as an internal function performed by City staff; the motion was unanimously adopted.

6. BOARD REPORT 17-23: INVESTMENT COMMITTEE RECOMMENDATIONS

Mr. Powell provided the Board with an overview of staff and the Investments Committee's recommendations regarding the Plan's investment menu and Investment Policy Statement. He indicated that the Investments Committee met on December 14, 2016, January 26, 2017, and April 13, 2017 in order to review the Plan's Investments Menu and Policy Statement with assistance from Mercer Investment Consulting. He indicated that the report included recommendations relative to the optimization of the Plan's risk-based asset allocation funds and proposed revisions to the Plan's Investment Policy Statement.

He reported that Mercer conducted a review of the Plan's Core Investment Menu and generated a report identifying potential changes for consideration. He stated the recommendations included (a) consolidating the Mid Cap and Small Cap funds into a single Small-Mid ("SMID") cap fund; (b) adding a diversified real assets and/or Real Estate Investment Trust (REIT) fund; and (c) optimizing current asset allocation within the risk-based asset allocation, or "profile" funds.

Mr. Powell stated that a SMID-Cap fund is a blending of small and mid-cap equities into a single investment vehicle. He stated that staff and Committee members discussed the benefit of investment menu simplification against the value in providing two investment choices, but decided to defer making a decision until its next review. He stated that doing so would allow time to complete the transition to the Plan's new TPA and minimize additional disruption to Plan participants. Mr. Ciranna added that the issue will be revisited by the Investments Committee after the conclusion of the TPA transition.

Mr. Powell then reviewed Real Asset Funds, including REIT funds. He stated that a real assets fund is an investment in physical assets such as real estate, commodities, and other asset classes which may be sensitive to changes in inflation and that diversified real asset funds are designed to provide inflation protection and enhance diversification as they have relatively low correlation with stocks and bonds. He stated that that some real asset funds can be volatile and therefore may not be deemed appropriate as a stand-alone investment option. He reported that the Committee reviewed the merits adding this option or incorporating it into the Plan's risk-based asset allocation funds. He stated that at the January 26, 2017 Committee meeting, Mercer reported its finding that, according to their asset allocation modeling, the addition of real assets would result in only a marginal improvement in expected risk and return. Additionally, he reported that Mercer also modeled the benefits of solely adding publicly traded REITs, but found that doing so would also only provide marginal benefits to the overall profile portfolio expected risk/return. He stated that most diversified, blended real asset funds are relatively new and managers of these funds often take very different approaches to portfolio construction, which makes them difficult to compare to one another. Further, he indicated that the limited universe and short track record of offerings in this space means that the City would likely be constrained in finding a mutual fund offering or conducting an RFP for an institutional product that meets the Plan's objectives. He reported that based on these considerations, the Committee elected to not consider the addition of real asset or REIT funds at this time.

Mr. Powell then reviewed proposed optimizations of the Plan's risk-based asset allocation funds. He stated the Plan established DCP-branded risk-based asset allocation funds in 2007 to provide participants with diversified fund options that align with their desired investment objectives and risk tolerance. He indicated each fund is comprised of major asset classes for which allocations vary between funds according to the desired risk-return relationship. He reported that, utilizing a methodology called Mean-Variance Optimization (MVO), Mercer presented what it identified as an "Efficient Frontier" depicting a set of optimized Plan portfolios that offer the greatest level of return for a given level of risk. He reported that Mercer provided an analysis of the Plan's risk-based fund portfolios under four scenarios: (a) current state – how existing allocations plot without any change; (b) optimizing the mix of current assets already available in the Plan; (c) including the addition of only REITs; and (d) including the addition of Real Assets in the form of TIPS, commodities, and REITs.

Mr. Powell stated that Mercer's report indicated that when current asset allocations were plotted along the Efficient Frontier, they were found to be generally very efficient with only minor optimizations needed to move them directly onto the Efficient Frontier. He reviewed the specific optimizations recommended by the Committee and stated the optimizations were expected to result in an improved risk/return relationship as well as only minor changes to blended-fund portfolio fees. With respect to the timing of implementation, he stated that Mercer and the Committee members recommend that implementation be deferred until after the transition of TPA providers is complete so as to minimize the disruption to Plan participants as well as provides staff and Voya with the opportunity to develop a thorough transition and communications plan.

Lastly, Mr. Powell reviewed proposed changes to the Plan's Investment Policy Statement. He stated the policy statement was amended to state that it will be reviewed no less than once every three years; added language clarifying participant assumption of risk when investing in the market; added a definition of the "prudent investor" standard; and added language allowing investment managers of separate accounts to vote security proxies in the interest of the Plan. He stated that a separate account is a fund investment vehicle wherein the plan owns the account and underlying securities in the fund, which differs from a mutual fund wherein investors in the fund are the fund owners. He reported that the proposed language would allow the manager of a DCP separate account vehicle to vote on behalf of the Plan in the event that there was a voting measure pertaining to an individual security within the portfolio and specific instructions pertaining to voting measures are provided within the contract with the account manager. He stated the language added to this section does not apply to proxy voting on administrative and governance issues for mutual funds. He stated the Plan currently doesn't have a policy regarding proxy voting for mutual funds on behalf of Plan participants, and the Committee does not recommend establishing one at this time.

Mr. Mumma asked if the recommendation regarding proxies is consistent with how the City's defined benefit plans operate. Mr. Ciranna and Mr. Moutes indicated that their departments have policies for proxy voting. Mr. Powell clarified that the proposed language only applies to separate account managers, which is currently only Galliard. Mr. Montagna stated this issue may be revisited if the Plan has additional institutional direct contracted relationships. Mr. Mumma asked whether the proposed changes are adequate without a policy in such a scenario. Mr. Ciranna stated that in the future the Board could establish a proxy policy, and that his department did so over the course of several years. Mr. Mumma asked why the Plan would allow voting the shares without having a policy. Mr. Moutes stated that the assumption is that fund managers will make decisions in the best interest of the fund relative to the risk/return relationship. Mr. Ciranna suggested that the Investments Committee take up this issue next year. Mr. Ciranna also thanked staff, Mercer, and the Committee members for their assistance in drafting the proposed recommendations.

A motion was made by Mr. Ciranna, seconded by Mr. Moutes, to (a) adopt proposed optimizations to asset allocations within the Plan's risk-based asset allocation funds; and (b) adopt proposed revisions to the Plan's Investment Policy Statement; the motion was unanimously adopted.

7. BOARD REPORT 17-24: TRAVEL POLICY RECOMMENDATIONS

Matthew Vong provided the Board an overview of staff's recommendations to amend the Plan's Training/Education/Travel policy to streamline the travel reimbursement approval process. He also discussed Plan practices and/or strategies to lessen the financial burden incurred by Board members and staff with respect to paying the upfront costs related to Plan travel. He indicated staff's first recommendation involved amending the Plan's travel policy to designate the Board Chair as the initial approving authority of travel reimbursement request, otherwise known as Personal Expense Statements (PES), submitted by other Board members or Plan staff. He stated that the Vice-Chairperson would alternatively serve as the initial approving authority of a PES submitted by the Board Chairperson.

Mr. Vong reported that staff's second recommendation was to modify the Plan's Travel policy to include language that would address situations where there are differing interpretations of the City's travel policy as it applies to Plan travel reimbursements. He stated the language would create an additional review process that would allow the Board, in coordination with Personnel, to refer reimbursement inquiries to the Controller for final review and disposition.

Mr. Vong indicated that staff recognized the financial burdens that can be involved in Plan travel, in particular the upfront costs that can be incurred by a traveler. He indicated the Board had previously requested that staff research the option of issuing travel advances. He stated that although the Controller's travel policy allows for travel advances, due to the labor intensive nature of processing them the Controller's preference is for flights to be booked through the City's Travel Store, paying for the registration fees directly, and processing travel reimbursements in a timely manner. He stated the latter component would be staff's major point of focus in streamlining the reimbursement process. He stated that as long at a PES is submitted in good order, it would take no longer than a week and half for a reimbursement check to be issued and received via U.S. mail. He further stated that to ensure prompt processing of travel reimbursements, staff recommended that Board members and/or Plan staff submit their reimbursement requests immediately following a training event. He noted that Plan staff and ASD would: (1) coordinate the advance review of any submitted documents to determine that they are in good order; (2) ensure documents are signed by the initial approving authority; (3) and submit documents for prompt processing. Mr. Vong concluded his report by stating that these steps would help mitigate potential financial burdens for travelers, as reimbursement checks would likely be issued in advance of a balance being due on a credit card.

A motion was made by Mr. Schoonover, seconded by Mr. Thomas, to (a) approve modifications to the Plan's Training/Education/Travel Policy that would designate the Board Chairperson as the approving authority of Board member and Plan staff training/travel reimbursement requests, designate the Vice Chairperson as the approving authority of the Board Chairperson's Plan training/travel reimbursement requests, and approve changes to the Plan's Training/Education/Travel Policy as delineated in this report establishing a process for the Board to resolve contrary findings relative to individual training/travel reimbursement requests; and (b) receive and file information on current practices to expedite processing of training/travel reimbursements; the motion was unanimously adopted.

8. BOARD REPORT 17-25: PLAN PROJECTS & ACTIVITIES REPORT

A motion was made by Mr. Cannon, seconded by Mr. Mumma, to receive and file staff's update on Plan projects & activities during June 2017; the motion was unanimously adopted.

9. REQUESTS FOR FUTURE AGENDA ITEMS

None.

10. NEXT REGULAR MEETING DATE – AUGUST 15, 2017

11. ADJOURNMENT

A motion was made by Mr. Thomas, seconded by Mr. Cannon, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 10:03 a.m.

Minutes prepared by staff members Daniel Powell, Leonard Hyman, & Matthew Vong