

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES  
REGULAR MEETING APRIL 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  
Raymond Ciranna, Second Provisional Chair  
Wendy G. Macy, Third Provisional Chair  
Linda P. Le  
Robert Schoonover  
Don Thomas

**Not Present:**

Thomas Moutes

Staff:

Personnel:	Gregory Dion	Steven Montagna	Alexandra Castillo
	Esther Chang	Matthew Vong	Daniel Powell

City Attorney: Curtis Kidder

1. CALL TO ORDER

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

2. PUBLIC COMMENTS

Mr. Mumma announced that Esther Chang recently accepted a new job opportunity and would soon vacate her position as Assistant Plan Manager. On behalf of the Board, Mr. Mumma expressed appreciation for Ms. Chang's outstanding work in administering the Plan. He extended his congratulations and wished her well in her future endeavors.

3. MINUTES

**A motion was made by Cliff Cannon, seconded by Robert Schoonover, to approve the March 15, 2016 Meeting minutes; the motion was unanimously adopted. Michael Amerian was not yet present for this motion.**

#### 4. INVESTMENT PROVIDER PRESENTATIONS

Devon Muir of Mercer Investment Consulting (“Mercer”), the Plan’s investments consultant, stated the Plan’s active managers for the DCP Mid-Cap and Small-Cap funds were in attendance to provide presentations to the Board. He indicated it was an opportunity for the Board to not only meet the Plan’s active fund managers, but for these firms to introduce their organizations and explain the philosophies of their respective investment strategies.

##### RIDGEWORTH INVESTMENTS/CEREDEX VALUE ADVISORS

Steve Loncar of Ceredex Value Advisors (“Ceredex”), the Plan’s DCP Mid-Cap Fund active value manager, began his presentation by introducing Ceredex as a boutique under its parent company, Ridgeworth Investments. He stated Ceredex focuses on the value side of investing. He briefly introduced their investment team and highlighted that their portfolio managers possess an average of 27 years of experience. He stated Ceredex currently has approximately \$4.3 billion in assets under management. Mr. Muir stated there had been no specific disclosure of City of Los Angeles assets within Ceredex’s report, as some investment managers may not have direct access to this information from the recordkeeper, and noted there was approximately \$78 million dollars in assets as of December 31, 2015.

Mr. Loncar continued his presentation and defined Ceredex as a traditional value manager that looks at valuation relative to the fundamentals of the securities they analyze. He stated Ceredex builds its portfolio one stock at a time and does not utilize a top-down macro theme that controls their portfolio makeup. He stated the difference between Ceredex and its peers within the value space is that all securities in their portfolios pay dividends. He highlighted the three elements of Ceredex’s investment process, stating that 1) every security they hold must pay a dividend; 2) there needs to be identification of low expectation stocks or companies that are trading at the lower end of their valuation range; and 3) determination that a certain factor will help identify an uncovered security in terms of improvement of the company’s fundamental situation. He stated all three tenets must be present for a security to be included in their portfolio.

Mr. Loncar summarized fund performance relative to its inception date with the Plan, and indicated returns were slightly impacted, with it -5.21% versus the Russell Mid-Cap Value Index benchmark at -4.48%. He noted that though there had been negative investment performance in the short term, Ceredex would continue to stay the course with their investment process, with direction to stocks where they see more value such as Real Estate Investment Trusts (REIT), utilities and consumer staples.

Mr. Muir asked what gives Ceredex confidence over the long term that their services will add value and compensate for the fees they are charging. Mr. Loncar stated Ceredex is an investment manager that will stick to its investment knitting, and that they believe they are investing in companies that have good capital, are well managed, and can outperform the benchmark over the long term. He indicated there can be periods of

volatility, but that their firm hopes they can offer the Plan confidence in what they can offer in performance over the long term.

## VOYA FINANCIAL

Kevin Kuhner, Senior Vice President in Institutional Sales and Relationship Management of Voya Financial (“Voya”), the Plan’s DCP Mid-Cap active growth manager, provided a brief overview of their firm. He stated Voya manages approximately \$209 billion in assets, \$123 billion of which is for external clients. He stated Voya had a significant defined contribution business both in asset management and plan services. He provided a breakdown of Voya’s investment management group, highlighting that they have a broad based investment platform, investing in almost all asset classes. He then highlighted the mid-cap growth assets under management, indicating \$3.6 billion across a variety of separate accounts, mutual funds and other types of co-mingled vehicles.

Erin Doyle continued the presentation by providing an overview of the mid-cap growth mandate Voya was managing for the Plan, noting that they were managing approximately \$77.5 million in assets as of March 31, 2016. She briefly reviewed Voya’s equity investment team, provided an overview of their investment process, and presented the current performance of the portfolio. She summarized the growth philosophy of the firm, indicating it searches for three components within each investment, which are business momentum, valuation, and market recognition. She defined business momentum as the way in which a business is growing and market recognition as the market recognizing a company’s positive growth by rewarding its stock with price appreciation.

Ms. Doyle continued her presentation by summarizing Voya’s investment process, indicating they have a bottom-up process driven by the attractiveness of individual stocks, recognizing benchmark weight, analyst conviction, expected return and perceived risk. She provided an overview of the portfolio characteristics and then provided a performance review for the fund and stated that since the inception of the Plan’s account through March 31, 2016, benchmark performance decreased by -5.47% whereas fund performance had decreased by -3.16%. She noted that Voya had managed to slightly protect the fund on the downside as compared to how the Plan would have performed if it had invested in an index fund. She stated Voya has been a top quartile manager in comparison to its peers and hoped to continue to be able to deliver positive performance versus the benchmark and peers. She presented the performance attribution of the fund, sorted and ranked by sector, noting that information technology and industrials topped the list. She concluded her presentation by providing the list of stocks that were the top contributors and detractors to the Voya Mid-Cap Opportunities Fund performance.

## HARTFORD FUNDS

Brian Kraus of Hartford Funds, the DCP Small-Cap active growth manager, provided an overview of their firm, which oversees roughly \$75 billion in client assets. He stated 2015 was a successful year for Hartford as a mutual fund company with a little over \$1.5 billion in positive net flows into their strategies. He stated Hartford's sole sub-advisor of the fund is Wellington Management Company, which oversees approximately \$900 billion in client assets. He indicated Wellington was only involved in investment management and not in other ancillary business lines.

Mr. Kraus provided an overview of their investment team and noted there were currently two portfolio managers on the Hartford Small Cap Growth fund, led by Mamman Chally and David Elliott. He stated the fund's approach is very bottom-up, meaning there are no macro forecasts or interest rate expectations that are attached to crafting large investment themes, but instead is rooted in trying to identify individual companies to invest in. He stated that Hartford views the U.S. equity market as poised to outperform other regions of the world and expects emerging markets such as China to continue to be volatile going forward. He stated Small-Cap U.S. companies in particular tend to have less sensitivity to what is occurring in emerging markets. Mr. Kraus noted that in U.S. equity markets, as defined by the MSCI U.S. index, the P/E ratios do appear to be high in comparison to other regions. He stated that Hartford tends to think the valuation is deserved because in comparison to other places to invest, the U.S. economy, in its current state, is much more robust, healthy and deserving of a higher valuation premium.

He provided an overview of how the fund was being managed, with 80% being managed by Mamman Chally's U.S. Discipline equity team and 20% being managed by Wellington's Quantitative Systematic equity team led by David Elliott. He stated the benefit of combining the two philosophical approaches to investing is diversification, which can lead to consistent returns for investors over the long term. He stated the investment philosophy that is the underpinning of Mr. Chally's strategy is that the market tends to be slow in identifying the signs to improving quality in companies. He indicated the best way of exploiting the slow process is through very robust, bottom-up fundamental research. He stated Wellington is one of the leaders in the space of being able to uncover unique investment insights about companies. He provided a summary of Wellington's quantitative investment approach and stated the goal of this group is to effectively select securities by trying to analyze every individual stock in the U.S. Small-Cap universe to see if there are any factors that drive the performance of companies over time and by assessing what factors influence the return of each of those companies individually. He summarized the fund's economic exposures as of the end of February, and noted the fund was not designed to take on massive investments on any economic sector. He stated the performance of their strategy would be driven by idiosyncratic risk taking or very stock specific risk.

Mr. Kraus summarized that the performance of the fund over the past three months was challenging for an investment strategy that is very fundamentally driven, as a lot of the

factors that drove the recent market returns were more macro oriented. He stated any investments with risk attached to it sold off significantly and the portfolio was not shielded from that.

5. BOARD REPORT 16-16: THIRD PARTY ADMINISTRATION  
RFP REVIEW PANEL

Steven Montagna stated the Plan had received two responses to the Third Party Administrator (TPA) RFP, one from its incumbent provider, Empower Retirement, and the other from Voya Financial. He stated both responses were determined to be compliant with the City's general contracting requirements. He indicated in the interim, staff had recently become aware that the intended third rater on the review panel, Ms. Chang, would be leaving her position with the Plan. He indicated in light of this development, staff recommended an outside rater be used and identified and recommended Julia Durand as a potential candidate to be the outside rater. He listed her credentials, highlighting that she was a former National Association of Government Defined Contribution Administrators (NAGDCA) president and program administrator for the City and County of San Francisco's 457 Plan. Mr. Montagna indicated staff believes she would provide valuable perspective on the responses to the RFP. He then asked the Board to authorize staff's recommendation to work with the Board Chairperson to execute a personal services contract for her services.

Raymond Ciranna asked if the Plan was satisfied with two responses to the TPA RFP. Mr. Montagna stated that Wendy Young-Carter of Segal Consulting had informed the Board at a previous meeting that within the mature, large governmental plan market, potential vendors were being very selective about where they make investments. He indicated that significant investment was required for implementing set up for a Plan as large and complex as the City's, which may have been one of the reasons why the Plan did not receive more responses. He also noted that pricing had become very competitive over time within the industry, and the profit margins for these types of services were not as significant as they used to be.

Mr. Cannon inquired whether it was critical to have a third rater for the TPA RFP. Mr. Montagna stated that given the significance of the contract, having a third rater would bring more value and credibility to the process. Linda Le asked if any effort was made to reach out to one of City's three retirement plans to be involved with the selection process. Mr. Montagna stated he believed the administration of the City's Plan differed from the administration of defined benefit plans, and noted the current RFP was specific to procuring services that are unique to the administration of participant directed, defined contribution plans. He indicated having a third rater with experience in administering this type of program could potentially add more value to the selection process.

Mr. Ciranna stated he was fine with having an additional rater, and asked that staff provide additional background information about Ms. Durand. He then asked what the hourly rate would be for her services. Mr. Montagna stated that using the same

methodology previously used in 2006, the current rate would approximately be \$300 per hour. He noted that this fee did not deviate much from the rates that were provided ten years ago, which was \$280 per hour. Mr. Ciranna asked if there was going to be a contract limit. Mr. Montagna stated that component would be determined during contract negotiations and that staff recommended working with the Board Chairperson to determine something that was reasonable.

Mr. Mumma asked Board Counsel, Curtis Kidder whether it was in the purview of the Board to procure a personal services contract, forgoing the typical open bidding process. Mr. Kidder stated that typically, for procurement of professional services, the Board is to use some sort of process unless the Board can justify going for a sole service contract. He stated there are guidelines in the City's Administrative Code, and he noted that some findings would typically have to be reached to meet the requirements of the code. Mr. Mumma asked what those findings would entail. Mr. Kidder stated that staff would provide a written justification that sole source findings were made, and such a document would be placed into the contract file.

Ms. Le indicated her preference to find staff from one of the City's three retirement systems to possibly serve as a third rater. Mr. Mumma asked Mr. Kidder what, if any, conflicts might exist with using a subordinate to a member of the Board as a third rater. Mr. Kidder stated that under ethics rules pertaining to procurements, members of the Board cannot serve on the evaluation committee. He indicated, however, that he would have to research further whether or not those rules would apply to subordinates of members of the Board.

Gregory Dion asked that the Board provide additional direction and instruction as to potential alternatives in case there are contracting issues for procuring the third outside rater. Mr. Mumma stated he had spoken to Mr. Montagna regarding the possibility of retaining Ms. Chang's services for the duration of the RFP evaluation process. Don Thomas stated his first preference would be for Ms. Chang to serve as the third rater.

After further discussion, **a motion was made by Mr. Mumma, seconded by Mr. Amerian, that the Board direct staff to explore and/or execute one of the following options, in order of preference, for the TPA RFP evaluation panel: 1) have Ms. Chang be temporarily loaned back to the Plan and serve as the third rater; 2) contract services for an outside third rater, with a maximum cap of \$20,000; 3) work with Board Counsel to determine whether a conflict of interest would exist if the Plan were to identify a third rater from one the City's three defined benefit plans who would possess similar knowledge and expertise; or 4) proceed with two raters for the TPA RFP; the motion was unanimously adopted.**

**A motion was made by Mr. Ciranna, seconded by Mr. Mumma, to receive and file the update regarding responses to the Request for Proposal (RFP) for Deferred Compensation Plan Third Party Administrator services; the motion was unanimously adopted.**

## 6. BOARD REPORT 16-17: 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 March. She provided an update regarding the e-mail solicitation of Plan participants from the external financial services firm, Steel Peak Wealth Management Services (Steel Peak). She indicated staff, with Board approval, had sent a letter to Steel Peak on March 18, 2016 addressing the Plan's concerns. She also stated a Citywide email was sent on March 15, 2016 to notify employees that Steel Peak was not endorsed by the Plan. She stated the 1Q newsletter was in the process of being finalized and would be mailed out shortly.

Ms. Chang transitioned to the Plan administration portion of her report and indicated staff had already provided an update on the TPA RFP. She stated all of the Plan's recently pending contracts had been executed, noting that the Galliard contract was executed on April 13, 2016. She stated that staff would continue to work on a new contract with Union Bank to provide services for the Plan's FDIC-Insured Savings Account. She then provided a staffing update and introduced the Plan's new Management Assistant, Daniel Powell to the Board. She stated Mr. Powell would be working on the Plan's communications and metrics projects going forward. She stated that Claudia Guevara returned to the Plan to fill the Benefits Specialist position, and would be handling the day-to-day operational paperwork and requests from Plan participants.

Mr. Montagna provided the Board a legislative update regarding California Senate Bill 1297. He stated the pending bill with the California legislature would make it clear under the law that a local government employer would be free to create an auto-enrollment program and set certain types of requirements as to how it would be in effect. He noted that the language regarding the requirements of the bill very much reflected what the City's Plan had already done in drawing up its program, particularly with auto-enrollment only being implemented for union represented employees as long as the authority is included in their MOU. He stated it was his understanding that the bill was not currently out of committee.

**A motion was made by Mr. Amerian, seconded by Mr. Schoonover, to receive and file staff's update on Plan projects and activities during March 2016; the motion was unanimously adopted.**

## 7. REQUESTS FOR FUTURE AGENDA ITEMS

## 8. FUTURE MEETING DATES – May 17, 2016

## 9. ADJOURNMENT

Before adjournment, Mr. Montagna took a moment to commend Ms. Chang for her accomplishments and the phenomenal work she had done in creating efficiencies that

benefited the Plan and met the needs of its participants. He noted admirable dedication in making the City's Deferred Compensation Plan a success.

**A motion was made by Mr. Amerian, seconded by Mr. Thomas, to adjourn the meeting; the motion was unanimously adopted.**

The meeting adjourned at 10:58 a.m.