

Deferred Compensation Plan

BOARD REPORT 18-12

Date: March 20, 2018

To: Board of Deferred Compensation Administration

From: Staff

Subject: Consulting Services Contract Extensions

*Board of Deferred
Compensation Administration
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Michael Amerian, Vice-Chairperson
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Robert Schoonover, Second Provisional Chair
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Recommendation:

That the Board of Deferred Compensation Administration approve (a) extension of contracts with Segal Consulting (Segal) and Mercer Investment Consulting (Mercer) for the period July 1, 2018 through June 30, 2020; (b) an increase in the Mercer contract ceiling amount of \$379,000 for proposed years four and five of the contract; (c) no increase in the Segal contract ceiling amount for proposed years four and five of the contract; and (d) authorization for the Board Chairperson to execute the necessary contract amendments.

Discussion:

A. Background

At the December 5, 2014 meeting of the Board of Deferred Compensation Administration, the Board authorized the release of a Request for Proposal (RFP) for Plan administration and investment consulting services. At its May 8, 2015 meeting, the Board selected Segal Consulting to provide Plan administration consulting services; and Mercer Investment Consulting to provide Plan investment consulting services.

The initial terms of the contracts were set for three years, for the period July 1, 2015 through June 30, 2018. At the time the Board approved selection of the providers, the Los Angeles Administrative Code (LAAC) permitted the Board to enter into five-year contract terms for investment service providers only. Subsequently, effective April 13, 2016, the City Council amended LAAC Division 10 (Contracts), Section 10.5, to add a new Section 7 providing the Board with authority to enter into contracts for terms of up to five years for all Plan service providers.

Staff's finding is that both Segal and Mercer have capably provided the services required under their contracts. Staff further finds that the Plan would be best served by foregoing a new procurement process at this time and extending the terms of both providers for an additional two years under the same terms and conditions.

B. Mercer Contract

Mercer provides three primary categories of services under its contract: (1) ongoing investment performance monitoring and reporting, at a fixed annual cost of \$82,000; (2) ad hoc miscellaneous research and other assignments, billed at hourly rates, that in the first three years of the current contract have averaged approximately \$15,000 annually; and (3) investment manager searches as directed by the Board which range in cost depending upon whether they are passive manager mutual fund searches, active manager mutual fund searches, or Requests for Proposal (RFPs) for contracted investment managers.

Should the Board approve staff's recommendation to extend the Mercer contract, the contract ceiling amount will also need to be increased beyond the current total three-year ceiling amount of \$270,000 (equating to \$90,000 annually). To date, \$256,229.51 has been expended under the contract. No investment management searches were conducted during the initial three years of the contract. Ad hoc miscellaneous research and other assignments somewhat exceeded anticipated expenditures; as a result, an increase to the contract ceiling amount would be necessary even if the contract term was not extended.

To calculate the estimated costs over a two-year contract extension, staff included ongoing investment performance monitoring and reporting, ad hoc miscellaneous research, and the costs of investment manager searches. Investment manager search costs can range based on the volume of RFP respondents or managers who pass initial screenings. At staff's request, Mercer provided a projection of the estimated low and high end of search costs by category for all of the Plan's investment mandates (**Attachment A**). As indicated in Attachment A, the upper range of the cost projections is \$185,000. Actual costs may come in below the maximum end of the range. However, staff recommends setting the contract ceiling amount at the maximum end of the range so that additional contract amendments are not required. The City's Plan will only pay for actual incurred costs if actual expenditures fall below the maximum end of the range.

As indicated in the table below, based on assumed maximum costs for proposed contract years four and five in all investment consulting categories, staff recommends that the contract ceiling amount be increased by \$379,000.

Service Category	Contract Year	Contract Year	Total
	Four	Five	
Ongoing Investment Performance Monitoring and Reporting (Flat Fee)	\$ 82,000	\$ 82,000	\$ 164,000
Ad Hoc Research/Reporting	\$ 15,000	\$ 15,000	\$ 30,000
Investment Manager Searches Total	\$ 92,500	\$ 92,500	\$ 185,000
Totals	\$ 189,500	\$ 189,500	\$ 379,000

C. Segal Contract

With respect to the Segal contract, staff does not recommend an increase in the contract ceiling amount. The current three-year contract ceiling amount is \$180,000. To date, expenditures have totaled \$87,310, well below that limit. Segal's anticipated expenses over the proposed years four and five of the contract are not anticipated to exceed the balance currently available (\$92,690).

Submitted by: _____
Kevin Hirose

Approved by: _____
Steven Montagna

PROJECTED INVESTMENT MANAGER SEARCH COSTS

Requests for Proposal		
	<i>Low End Cost Range</i>	<i>High End Cost Range</i>
FDIC	\$ 5,000	\$ 7,000
Stable Value	\$ 22,500	\$ 30,000

Passive Manager Search		
	<i>Low End Cost Range</i>	<i>High End Cost Range</i>
Bond Fund Index	\$ 5,000	\$ 7,000
Large Cap Equity Index	\$ 5,000	\$ 7,000
Mid Cap Equity Index	\$ 5,000	\$ 7,000
Small Cap Equity Index	\$ 5,000	\$ 7,000

Active Manager Search		
	<i>Low End Cost Range</i>	<i>High End Cost Range</i>
Bond Fund Active	\$ 12,000	\$ 15,000
Mid Cap Value Equity	\$ 12,000	\$ 15,000
Mid Cap Growth Equity	\$ 12,000	\$ 15,000
Small Cap Value Equity	\$ 12,000	\$ 15,000
Small Cap Growth Equity	\$ 12,000	\$ 15,000
International Developed Equity	\$ 12,000	\$ 15,000
International Small Cap Equity	\$ 12,000	\$ 15,000
Emerging Markets Equity	\$ 12,000	\$ 15,000

TOTAL-->

\$ 143,500	\$ 185,000
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