CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING MARCH 15, 2016 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:	**Not Present:**
John R. Mumma, Chairperson	Robert Schoonover
Michael Amerian, Vice-Chairperson	
Cliff Cannon, First Provisional Chair	
Raymond Ciranna, Second Provisional Chair	
Wendy G. Macy, Third Provisional Chair	
Linda P. Le	
Thomas Moutes	
Don Thomas	

Staff:

Personnel:	Gregory Dion Steven Montagna	Esther Chang
City Attorney:	Curtis Kidder	

1. CALL TO ORDER

John Mumma called the meeting to order at 9:05 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

Raymond Ciranna asked that references to Board member names be reviewed to remain consistent throughout the document.

A motion was made by Mr. Ciranna, seconded by Thomas Moutes, to approve the February 16, 2016 Meeting minutes; the motion was unanimously adopted. *Cliff Cannon and Michael Amerian were not yet present for this motion.*

Mr. Mumma moved the meeting forward to item 5.

4. QUARTERLY INVESTMENT REVIEW

Devon Muir of Mercer Investment Consulting ("Mercer"), the Plan's investments consultant, discussed the Plan's fund performance during the fourth quarter of 2015. He provided a brief overview of U.S. equity performance and indicated that the S&P 500, the current benchmark for the DCP Large Cap Stock Fund, was up 7%. He stated the Russell 2000, the broad benchmark for small cap stocks, trailed in comparison to large cap stocks, indicating that the market was favoring more established securities, and that international securities had tended to underperform. He stated the MSCI EAFE had increased by 4.7% but trailed its U.S. large cap counterpart. He indicated there was generally flat performance in emerging markets. He stated interest rates had increased slightly during the quarter, negatively affecting the overall returns for bonds.

Mr. Muir stated the key headline for the 4th quarter of 2015 was continuing concern over the slowdown in economic growth in China. He indicated the devaluation of the Chinese currency led to contagion throughout the emerging markets. He stated early in 2016 markets had traded off significantly due to concern over a global economic slowdown and continued pressure on the price of oil.

Mr. Muir providing a brief overview of the macro environment and indicated that in comparison to foreign currency, the U.S. dollar was the strongest currency for the 2015 year. He noted the U.S. dollar was overvalued relative to other major currencies in terms of purchasing power parity. He stated that this would likely reverse course over the long term, but for the immediate term the dollar would maintain strength given current U.S. interest rate policy.

He reviewed the Plan's investment option array, following with an asset allocation review. He stated Plan assets totaled over $4.92 billion by the end of the 4th quarter of 2015. He indicated the risk profile funds represented about 17% of overall assets. He stated the DCP Large Cap Stock Fund and the DCP Stable Value Fund represented approximately 20% and 31% of plan assets respectively.

Mr. Muir provided an investment expense analysis and noted the overall "all-in" investment cost was at 19 basis points, and with administrative costs added in was at 25 basis points. Don Thomas, in noticing that some expense ratios were higher in comparison to passively managed funds, asked whether the Plan was continuing to evaluate active versus passive fund performance with regards to return and expense ratios. Mr. Muir stated that philosophically the Board made decisions to incorporate varying levels of active vs. passive management in the Plan's major fund classes. He stated active management was more expensive but that Plan expected its active managers to outperform passive managers over a market cycle. He indicated the full investment lineup would continue to be monitored on an ongoing basis to determine if the excess performance was achieved, and if not would review potential changes. Mr. Mumma asked how long a market cycle is. Mr. Muir stated three to five years.

Mr. Muir then reviewed Plan investment performance. He noted one year performance of the FDIC Insured Savings Account, Stable Value Fund, and DCP Bond Fund was 0.2%, 2%, and -1.7% respectively. He stated the Plan's risk-based profile funds as a whole had performed well in terms of the percentile rankings relative to the packaged risk fund universe. He stated the DCP Large Cap Stock Fund generated positive performance for the quarter and the DCP Mid Cap Stock Fund had outperformed other comparable funds. He reviewed DCP Small Cap Stock Fund performance and indicated that in general it performed as expected. He reviewed the DCP International Stock Fund, and noted that the lead portfolio manager of MFS, one of the underlying fund managers of the DCP International Fund, had announced his resignation, scheduled to occur in 2017. Mr. Muir stated the current co-portfolio manager would be transitioned to lead manager of the portfolio. He indicated that Mercer did not anticipate an issue with this change, but would continue to monitor the fund and its succession plan.

5. BOARD REPORT 16-13: APPROVAL OF THIRD PROVIDER FOR THE FDIC INSURED SAVINGS ACCOUNT OPTION

Mr. Muir and Michael Molino of Mercer provided an educational overview on how banks operate. Mr. Muir indicated that a bank's assets are considered liabilities plus equity. He stated deposits, which are considered liabilities for a bank, are used to loan to people and institutions. He indicated the goal is to loan the money at higher rates than the interest paid to the depositor. He indicated liabilities may be short term in nature in that deposits may need to be paid upon request, but loans were considered assets as they have a longer term portfolio. He indicated the Federal Reserve and/or other regulatory entities require that each bank also set aside a cash reserve, generally at 10%. Mr. Molino indicated banks will deposit assets with the Federal Reserve Bank, which pays interest on the deposits. Mr. Muir stated that since the Federal Reserve rate is low banks have restricted opportunity to make a profit. He indicated that currently banks may not want deposits because they are not able to loan money out with enough of a profit margin. Mr. Molino provided a brief history of the Federal Deposit Insurance Corporation (FDIC), noting it began with $2,500 coverage in 1934, which is now $250,000. He stated banks pay premiums to the FDIC for the deposit coverage.

Steven Montagna asked about the possibility of a negative interest rate environment in the U.S., and what the potential impact might be to the Plan. Mr. Muir stated that he was aware that almost 46% of sovereign debt was in negative yielding territory. He indicated that while the U.S. had mechanisms for a negative yield environment, he would anticipate that the Federal Reserve would continue to raise rates, though not at a significant pace due to slower economic growth. He indicated that if we were to move towards a negative yield environment, Mercer would return to the Board with strategies for alternative investment options. Mr. Cannon asked if there were any current indications that the U.S. may be approaching a negative return environment. Mr. Muir indicated the Federal Reserve had programmed its systems to allow for negative yields a few years ago. He indicated the Federal Reserve Chair had introduced the concept as a possible tool, but anticipated a policy debate over what entity had the authority to implement this. Mr. Montagna asked if the U.S. was a recession away from what the world was seeing in Europe. Mr. Muir indicated he did not believe that would happen, however, it could be a possibility, particularly given slower growth in the 4th quarter.

Esther Chang then presented the report pertaining to staff's request that the Board approve the addition of a third underlying bank provider to the Plan's FDIC Insured Savings Account Option. She stated a previously completed procurement process resulted in the selection of Bank of the West as well as East West Bank to be the underlying banking institutions for the FDIC Insured Savings Account Option. She indicated that since the RFP resulted in no additional proposers outside of the two chosen banks, the Board indicated staff would be able to procure an additional provider outside of the regular process. She stated Mercer assisted the Plan by reaching out to potential Banks that could provide the service, which resulted in a recommendation to select Union Bank as the third provider.

She stated the benefit of having a third provider was that it provided flexibility and stability for the FDIC Insured Savings Account and noted that there would be an increase in to the FDIC insurance coverage levels for account balances up to $750,000, allowing for 99.4% of participants in this option to have 100% of their balance insured by the FDIC. Ms. Chang indicated that if the Board approved the addition of Union Bank as a third provider, staff would develop the contract and notify participants via the 2nd quarter newsletter of the impending change. She stated the tentative target date for implementation would be September 1, 2016.

Mr. Muir indicated Union Bank is a large bank provider with strong financial health, and that larger banks have lower risk of default. He noted that in terms of the interest rate, the Plan would not be giving up any meaningful yield while maintaining a good risk/return tradeoff. He stated Empower Retirement, the Plan's recordkeeper, should have no issues operationally with integrating Union Bank as a provider. He indicated Union Bank had a successful history providing FDIC products within a 457 framework.

A motion was made by Mr. Ciranna, seconded by Mr. Moutes, to (a) approve the addition of a third underlying bank provider to the FDIC Insured Savings Account Option; (b) approve the selection of Union Bank as the third party provider for the FDIC Insured Savings Account Option; and (c) instruct staff to draft a proposed contract for Union Bank and authorize the Board Chairperson to execute the contract, subject to agreement between the City and the provider as to all applicable terms and conditions; the motion was unanimously adopted.

6. BOARD REPORT 16-14: SOLICITATIONS FROM FINANCIAL SERVICES FIRMS

Mr. Montagna informed the Board of a recent e-mail solicitation by an outside firm offering to assist participants in the City's Plan specifically with respect to their self-directed brokerage option (SDBO). He stated the e-mail was brought to the attention of staff by concerned Plan participants. He indicated that though the e-mail had disclaimed a relationship with Charles Schwab, incumbent provider for the Plan's SDBO, the firm did not explicitly state they are not affiliated and/or have no relationship with any other service provider within the Plan.

Mr. Montagna stated that in response to the e-mail, staff had drafted a letter from the Board Chairperson to the soliciting firm, Steel Peak Wealth Management. He indicated the letter requested that Steel Peak cease sending the e-mails on the basis that their information was and could be interpreted as implying their firm was affiliated with the City's Plan. He stated a general all-City communication was being created to remind participants of the authorized service providers for the Plan. He also noted the communication brought forward the opportunity to address the issue of administrative fees as well as to educate participants in the importance of comparing and understanding the potential costs of working with an external financial provider.

Mr. Montagna stated that one of the recently adopted administrative priorities for 2016 was rollover retention. He indicated the recent e-mails directly related to that priority. He noted these types of external solicitations are essentially attempts to get participants to roll money out of the plan, which in consequence, may potentially incur significant additional cost to the Plan members that choose to do so.

Mr. Mumma asked Board counsel Curtis Kidder whether he had reviewed the correspondence. Mr. Kidder stated he had reviewed the drafts of the letters, and advised that the Board take a stern position so that the proprietors know that they cannot act in a way to misrepresent or commit a deceptive business practice. Mr. Mumma noted there was tremendous targeting of DROP participants from outside firms, and indicated he had asked staff to work with Empower to update a fee document on the participant website in order to increase participant awareness of the Plan's current administrative fees. He also asked that this information be provided to DROP members.

A motion was made by Mr. Thomas, seconded by Mr. Cannon, that the Board receive and file the report regarding responding to solicitations to Deferred Compensation Plan participants from financial services firms not affiliated with the City's Plan; the motion was unanimously adopted.

7. BOARD REPORT 16-12: 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 February. She indicated staff had completed a draft of the 1st Quarter 2016 newsletter which would be mailed out in April. She stated an annual review was being conducted on all Plan communications documents. She indicated staff was working on website updates and reviewing the Retirement Income Projection Calculator to incorporate LACER's Tier 2 and 3 changes.

Ms. Chang transitioned to the operations portion of her report and indicated staff continued to assist participants with questions and issues mostly related to distributions and loans. She provided an update on Plan administration and status of the TPA RFP.

She indicated staff conducted a pre-proposal conference on February 17, 2016 with a total of seven firms attending. She stated staff had subsequently conducted a preliminary review of required City contracting documents submitted by two firms. She briefly explained the Business Inclusion Program (BIP) and its subcontractor outreach requirement, which needed to be completed by March 9, 2016. She stated only two firms had met the BIP subcontractor outreach requirement, and indicated that firms that did not meet this requirement would be deemed non-responsive. Ms. Chang provided an update on Plan staffing and indicated the Plan's Benefits Specialist position had recently become vacant and a new Management Assistant would be joining the team shortly. She reminded the Board members that Ethics filings were due by April 1, 2016.

Mr. Ciranna requested an update of the Plan's pending contracts. Ms. Chang stated the Segal contract was awaiting CAO approval. She indicated the Galliard contract was pending finalization of minor language tweaks and would be submitted for execution shortly. Mr. Montagna indicated the Mercer contract was approved at the end of February. Mr. Ciranna asked why Plan contracts require CAO review for approval. Ms. Chang indicated it was required pursuant to a Mayoral Directive that requires contracts of a certain dollar amount threshold or term limit be reviewed by the CAO and approved by the Mayor's Office. Mr. Ciranna asked staff to explore how the Board could streamline the approval process. Mr. Montagna indicated the Plan would have to be granted some type of exception under the Mayor's instructions with respect to contract approvals. Mr. Ciranna stated it was concerning that a Plan contract continued to be pending when the Board had provided approval six months prior. Mr. Montagna indicated Plan staff would further research the issue and come back to the Board with a report and recommendations. Following this discussion, **a motion was made by Mr. Ciranna, seconded by Mr. Thomas, to receive and file staff's update on Plan projects and activities during February 2016; the motion was unanimously adopted.**

Mr. Mumma moved the meeting back to item 4.

8. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Mumma noted Mr. Ciranna's inquiry with regards to researching ways to obtain Board authority to improve efficiency in the approval process for the Plan's contracts.

9. FUTURE MEETING DATES – April 19, 2016

10. ADJOURNMENT

A motion was made by Mr. Thomas, seconded by Mr. Amerian, to adjourn the meeting; the motion was unanimously adopted. *Mr. Ciranna was not present for this motion.*

The meeting adjourned at 10:12 a.m.