



CITY OF *Los Angeles*
DEFERRED COMPENSATION PLAN

Board Report 24-21

Date: May 21, 2024

To: Board of Deferred Compensation Administration

From: Staff

Subject: Screening Criteria for Government Money Market Mutual Fund Search

Board of Deferred Compensation Administration
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Recommendation:

That the Board approve the screening criteria for a government money market mutual fund search as recommended by the Plan's investment consultant, Mercer, in order to produce an initial list of mutual funds for consideration by the Investments Committee.

Discussion:

On April 16, 2024, the Board of Deferred Compensation Administration approved a recommendation to conduct a government money market mutual fund search as a potential alternative option to the FDIC-Insured Savings Account offering in the Plan's core investment menu.

In electing a mutual fund search, the Plan's [Investment Policy](#), Section 6, paragraph 3 indicates:

"Mutual Fund Search - If the Board elects a mutual funds search, the Investment Consultant and staff will conduct an investment manager search of qualifying mutual fund investment strategies, applying the search and evaluation criteria as set forth by the Board. The Investment Consultant and staff will prepare a list of top-scoring firms, the number of which will be determined on a case-by-case basis (as dictated by the Board) taking into consideration factors such as the investment mandate and size of the potential provider pool. The Board's Investments Committee will review the search results and consider the recommendations of its staff and consultant, and other relevant data, in developing a recommendation for the full Board. Once the Board elects a fund, the Plan's third-party-administrator will be directed to activate that fund for the City's Plan within its recordkeeping platform."

As such, Mercer, the Plan's investment consultant, has identified screening criteria as included in its memo to the Board (**Attachment A**). Staff recommends the Board adopt the screening criteria as recommended by Mercer. Upon approval of the screening criteria, Mercer will provide an initial list of managers for the consideration of the Investments Committee.

Staff is also working concurrently to release a Request for Information (RFI) to evaluate the depth and attractiveness of the FDIC bank provider market and will provide responses to consider alongside the mutual fund search.

Submitted by: Esther Chang, Defined Contribution Plan Manager



welcome to brighter

333 South 7th Street, Suite 1400
Minneapolis, MN 55402
T +1 612 642 8884 M +1 626 940 4443
devon.muir@mercer.com
www.mercer.com

Memo

To: Board of Deferred Compensation Administration
Date: May 14, 2024
From: Devon Muir, Ana Tom-Chow, and Lauren Hansen
Subject: Government Money Market Search Screening Criteria
Copy: Esther Chang

Background: On April 16, the Board of Deferred Compensation Administration approved the Investments Committee's and Mercer's recommendation to conduct a mutual fund search for a government money market fund as a potential alternative for the FDIC Savings Account Option. As outlined in the DCP Investment Policy Statement (IPS), if the Board elects a mutual funds search, the Investment Consultant and staff will conduct an investment manager search of qualifying mutual fund investment strategies, **applying the search and evaluation criteria as set forth by the Board.** The Investment Consultant and staff will prepare a list of top-scoring firms, the number of which will be determined on a case-by-case basis (as dictated by the Board) taking into consideration factors such as the investment mandate and size of the potential provider pool. The Board's Investments Committee will review the search results and consider the recommendations of its staff and consultant, and other relevant data, in developing a recommendation for the full Board. Once the Board elects a fund, the Plan's third-party-administrator will be directed to activate that fund for the City's Plan within its recordkeeping platform.

Following the IPS guidelines pertaining to evaluation criteria highlighted above, Mercer has provided a set of evaluation criteria to produce a list of qualified candidates. We propose using the Morningstar universe of government money market mutual funds ("US Fund Money Market – Taxable") to conduct the search, as we believe it provides comprehensive representation of the category. Mercer intends to only include Government and Treasury money market funds as designated by the Prospectus Objective category since this is the predominant money market fund type used by defined contribution plans in the US.

Initial Search and Screening Criteria: To streamline the initial screening process, Mercer suggests using the following criteria (values provided are as of April 16, 2024):

- **Net Prospectus Expense Ratio:** Select the cheapest quartile (25%) of all funds (currently 0.20%)
- **7-day Sec Yield:** Select highest quartile (25%) of all funds: (currently 5.17%)

- **Fund Asset Size:** \$50 billion or greater
- **Fund Inception:** At least 10 years of track record

Further Screening Criteria: With these minimum parameters in place, Mercer will produce an initial search report for Investments Committee review. After the initial screening by the Committee, Mercer will conduct a more detailed review and comparison of candidates shortlisted by the Committee. Factors for consideration will include the fund's risk adjusted performance (i.e. information ratio and standard deviation), performance versus appropriate benchmarks and peer groups. From here, the Committee will recommend a finalist candidate to the Board.

Recommendations: Mercer recommends that the Board approve the initial selection and further screening criteria listed above. These criteria will help narrow down the candidates and ensure that the selected government money market mutual fund aligns with the City's goals and risk appetite.

Next Steps: Once the Board approves the screening criteria, Mercer will proceed with the search and evaluation process of the candidates. We anticipate that this search and selection process will be completed within the upcoming quarter.