

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION
INVESTMENTS COMMITTEE

PROPOSED MINUTES
MEETING OF JANUARY 14, 2020 – 10:00 a.m.
200 N. SPRING STREET, ROOM 805

COMMITTEE MEMBERS

Present:

Raymond Ciranna, Chairperson
Thomas Moutes

Not Present:

Hovhannes Gendjian
Lita Payne

PERSONNEL DEPARTMENT STAFF

Steven Montagna, Chief Personnel Analyst
Daniel Powell, Senior Personnel Analyst I
Anna Ancheta, Personnel Analyst
Mindy Lam, Personnel Analyst

OFFICE OF THE CITY ATTORNEY

Curtis Kidder, Assistant City Attorney

MERCER INVESTMENT CONSULTING

Devon Muir, Principal

1. CALL TO ORDER

Mr. Raymond Ciranna called the meeting to order at 10:02 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. INVESTMENTS COMMITTEE REPORT 20-01: INVESTMENT MANAGEMENT SERVICES AND STABLE VALUE FUND MANAGEMENT SERVICES REQUESTS FOR PROPOSALS

Presentation Highlights:

Mr. Steven Montagna and Mr. Devon Muir, Mercer Investments (Mercer), reviewed the revisions made to the Request for Proposals (RFPs) and noted the following:

- The Investment Management Services RFP revisions aligns the investment manager evaluation process with the mutual fund search process.

- Page 1-2 details the revised process, highlighting staff and Mercer Investment's analysis and evaluation of the proposals that will be presented to the Investment Committee.
- Page 2 explains the RFP questionnaire designed to maximize information available on Mercer's open database and streamline the RFP.
 - Mercer's database has approximately 7,000 firms and approximately 25,000 strategies.
- Given the large number of potential applicants, the RFP does not include an Engagement Exercise; however, the Board still reserves the option to interview the top proposers.
- Page 2 identifies inapplicable City Ordinances removed from the RFP in order to generate a larger response to the RFP.
- Attachment A, Page 13-15 lists the enhanced minimum requirements to act as an evaluative filter.
- Mr. Montagna also reviewed the Stable Value Fund Management RFP and noted the following:
 - Page 2 indicates that Mercer's open database does not include stable value funds, necessitating a more comprehensive RFP questionnaire.
 - Mr. Muir noted that Stable Value Funds have multiple strategies, multiple funds, and customized responses.
- Mr. Montagna indicated that the RFP process should be taken incrementally, targeting the critical mandates first, with a goal of one Investments Committee meeting per month.
 - Mr. Kidder noted that the quorum for the Committee is two members.

Board Member Comments, Questions, and Responses:

The Committee asked how managers can be added to Mercer's database. Mr. Montagna noted that the process to be added is simple and managers can be added as part of their RFP submission process. The Committee inquired how the insurance limits were determined in the Stable Value Fund RFP. Mr. Montagna stated that the Risk Management section of the Office of the Chief Administrative Officer (CAO) provides the amounts. The Committee suggested revising question 15 on the Questionnaire to remove the Slavery Disclosure Ordinance/Border Wall Contracting Disclosure Ordinance Form and NRA Disclosure Ordinance. The Committee also asked about a detailed investment strategy question in the RFP. Mr. Muir responded that the question seeks to evaluate the proposer's customized approach to managing DCP assets. Mr. Montagna added that the question also identifies the proposer's provisions to manage unexpected cash flow into and out of the fund, since Stable Value Funds cannot be moved into similar investments that are regarded as competing.

Committee Action:

A motion was made by Mr. Ciranna, seconded by Mr. Moutes, to recommend approval and release of draft Requests for Proposals (RFPs) for (a) Deferred Compensation Plan (DCP) Investment Management Services and (b) Stable Value Fund Investment Management Services; the motion was unanimously adopted.

4. ORAL DISCUSSION REGARDING THE BOARD'S ABILITY TO EVALUATE INVESTMENT MANAGERS

Oral Discussion

- Mr. Montagna reviewed the discussion from the December Board meeting regarding how quickly the Board can act if it encounters an underperforming investment manager.
- Mr. Montagna noted that the Investment Policy could contain a structured set of options to take by the Board if an investment management fund is underperforming.
- Mr. Montagna further noted Mercer continues to do its due diligence to monitor and discuss with the consistently underperforming investment managers.
- Mr. Muir indicated that although terminating an investment manager is a given solution, there has to be a determination on what happens to the assets in that fund.
- The Committee suggested that if an investment manager underperforms for a year, they should be included in a watch list to monitor closely, and after a second consecutive year, they should meet with the Board to explain the issues that were encountered.
- Mr. Montagna noted that per the Investment Policy Statement, investment managers are expected to report to the Board at least once during their contract term.
- The Committee also suggested a possible transition manager as a vehicle to move the assets into if an investment manager is terminated.
- The Committee noted that it would be important to hear from underperforming managers as part of a fair and transparent process.

Committee Action:

No action taken.

5. REQUEST FOR FUTURE AGENDA ITEMS

The Committee requested staff to prepare a report regarding including specific options to take in the Investment Policy Statement if an investment manager underperforms. The Committee also requested staff to prepare a separate report regarding transition managers.

6. ADJOURNMENT

The meeting adjourned at 11:08 a.m.

Minutes prepared by staff member Eric Lan.