

**CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION**

PROPOSED MINUTES
MEETING OF MAY 19, 2020
CONDUCTED VIA TELECONFERENCE

BOARD MEMBERS

Present:

Thomas Moutes, Chairperson
Raymond Ciranna, Vice-Chairperson
Robert Schoonover, First Provisional Chair
Hovhannes Gendjian, Third Provisional Chair
Joshua Geller
Neil Guglielmo
John Mumma

Not Present:

Wendy G. Macy, Second Provisional Chair
Linda P. Le

PERSONNEL DEPARTMENT STAFF

Steven Montagna, Chief Personnel Analyst
Jenny M. Yau, Senior Management Analyst II
Mindy Lam, Personnel Analyst
Eric Lan, Management Assistant

OFFICE OF THE CITY ATTORNEY

Curtis Kidder, Assistant City Attorney

MERCER INVESTMENT CONSULTING

Devon Muir, Principal
Ana Tom-Chow, Senior Associate

1. CALL TO ORDER

Thomas Moutes called the meeting to order at 9:02 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

A motion was made by Mr. Gendjian, seconded by Mr. Mumma, to approve the minutes of the March 31, 2020 and April 27, 2020 special Board meetings; the motion was unanimously adopted.

4. QUARTERLY INVESTMENT AND ECONOMIC REVIEW: MARCH 31, 2020

Devon Muir, Principal from Mercer Investment Consulting (Mercer) provided an investment and economic review for the quarter ending March 31, 2020. He began by stating that the S&P 500 was down 34% as of March 31, 2020, but noted a slight recovery due to the impact of the federal stimulus package. He indicated that in light of the market volatility resulting from the COVID-19 pandemic, the market declined by 20%. He noted that aggressive federal activity provided support for increasing bond prices, leading to greater emphasis on risk-based bonds. Additionally, he noted that federal monetary spending to buy back distressed assets produced overall confidence in the market's recovery. He stated that despite the continued volatility, Mercer expects growth beginning in the second quarter of 2020 through the end of the year, along with continued volatility.

Next, Mr. Muir highlighted certain market trends. He stated energy and commodities had fallen, while healthcare and information technology sectors held up best in equity market sectors. He indicated the energy sector suffered in part due to the impasse between Saudi Arabia and Russia. He stated that the economic consensus was that the economy would end down 7-8% by year-end. He indicated Mercer expects 2021 to demonstrate continued growth and recovery despite significant challenges. He stated 10 million initial jobless claims were filed in the first two weeks of March. He noted that global equities performed poorly due to effects of the pandemic.

Mr. Muir observed that improvement in equity valuations does not necessarily indicate recovery in earnings. He indicated that the negative yield curve phenomenon is a result of federal action, normalizing the curve. He stated that while most of the developed world has negative yields, the Federal Reserve appears committed to a positive yield curve.

Mr. Muir next provided an update on DCP investment managers. He stated that Dimensional Fund Advisor (DFA) Chief Financial Officer's retirement had no material effect on Mercer's rating of the strategy. He also noted that Galliard received a notice of litigation by a participant in the Wells Fargo 401(k) Plan and Mercer will monitor, but Mercer believes Galliard will not be materially impacted by the litigation. He also noted a recent decrease in Galliard's management fee.

Next, Mr. Muir discussed the DCP's performance summary. He stated that assets decreased \$937 million and investment losses totaled \$956 million. He indicated that the FDIC option presently has a blended rate of 1.8195. Ana Tom-Chow, Senior Associate with Mercer, next discussed equity funds. She stated the Vanguard Institutional Index performed negatively for the quarter but met the industry benchmark. She indicated that solid long-term performance and high ratings mitigate potential concerns. She indicated the Voya Mid-Cap Opportunity Fund outperformed its benchmark by 200 basis points due to investments in healthcare and science. She stated that the DCP Small-Cap Fund under-performed its benchmark but still placed above the median. She stated the Small-Cap Fund was divided equally between Vanguard, Dimensional Fund Advisors (DFA), and Hartford. She noted DFA was underweight on utilities and healthcare, while being overweight in energy, which led to under-performance, and that Hartford's performance was impacted by lack of exposure to utilities and poor selection in consumer discretionary. She

indicated the DCP International Stock Fund outperformed its benchmark and was above the median. She stated the MFS Institutional International Equity Fund consists of 65% white label funds and outperformed the benchmark and the Brandes International Small Cap Equity Fund was affected by poor stock selection in real estate and the Mexican market.

5. BOARD REPORT 20-19: 2020 DEFERRED COMPENSATION PLAN (DCP) STRATEGIC INITIATIVES

Mr. Montagna presented this report. He reviewed the status of 2019 strategic initiatives, indicating a majority of these initiatives were in progress and being carried forward to 2020. He next provided a brief overview of each of the eleven DCP proposed strategic initiatives for calendar year 2020 as follows:

- 1) Election Policies and Procedures – He indicated that the Policies and Procedures were recently amended to account for the unique circumstances presented by COVID-19, but staff is recommending a thorough review of the entire policy, which would ultimately be referred to the Plan Governance and Administrative Issues Committee.
- 2) Fiscal Year (FY) 2020-21 Participant Goals and Outcomes – He stated that this is an annual initiative and that staff is more thoroughly re-examining all DCP goals in light of the current financial and economic backdrop that may impact participation, contribution, and distribution patterns. He indicated staff anticipates presenting proposed FY 2020-21 goals to the Board at its August meeting.
- 3) Participant Survey – He stated that recent economic and market events, as well as broader workforce and retired participant trends, may be shifting perspectives on saving, investing, and withdrawing funds and that it would be valuable to solicit participant feedback to help inform DCP goals through a survey, with survey development recommended to be referred to the Participant Engagement Committee.
- 4) Defined Contribution Plan Manager Classification and Investment Manager Services – He indicated further detail on these two initiatives was provided in staff reports 20-20 and 20-21.
- 5) Plan Document Review – He noted staff has completed a comprehensive review of the Plan Document and is now requesting feedback from outside DCP counsel, Ice Miller.
- 6) DCP Financial Audit – He indicated the contract is nearly completed and upon its execution, staff will work with the contractor to initiate the financial audit.
- 7) Investment Advisory and Financial Education Services Review – He stated staff is currently reviewing the responses received in response to the Request for Information and will report its findings and evaluation to the Board at a future meeting.
- 8) Automatic Enrollment Program Participation – He stated staff is developing a discussion document for the City’s labor organizations and that timing of engaging with the labor organizations will be done in consultation with the Board’s Labor representative.
- 9) Develop a Strategic Communications Plan – He stated that a strategic communications plan would complement the results of the participant survey and serve as a long-term plan for delivering effective and coordinated DCP messaging.

- 10) Deemed IRA Review – He indicated that completing the Deemed IRA review is expected to be a two-year strategic priority for both 2020 and 2021, with actual implementation of a Deemed IRA targeted for 2021.

A motion was made by Mr. Mumma, and seconded by Mr. Guglielmo, to (a) approve proposed 2020 DCP strategic initiatives as follows: (1) Review and update the Board’s Election Policies and Procedures; (2) Adopt Updated Fiscal Year (FY) 2020-21 Participant Goals and Outcomes; (3) Design Participant Survey; (4) Create Defined Contribution Plan Manager Classification; (5) Complete Investment Manager Searches; (6) Complete Plan Document Review; (7) Initiate DCP Financial Audit; (8) Complete an Investment Advisory and Financial Education Services Review; (9) Expand Automatic Enrollment Program Participation; (10) Develop a Strategic Communications Plan; (11) Complete Deemed IRA Review; (b) direct the Plan Governance and Administrative Issues Committee to review the Board’s Election Policies and Procedures and return to the Board with recommendations; and (c) direct the Participant Engagement Committee to develop a draft participant survey and return to the Board with recommendations; the motion was unanimously adopted.

6. BOARD REPORT 20-20: DEFINED CONTRIBUTION PLAN MANAGER CLASSIFICATION AND POSITION AUTHORITY STATUS UPDATE

Mr. Montagna presented this report. He provided an update on recommendations received by the Personnel Department, Classification Division in its consideration of the creation of the Defined Contribution Plan Manager classification. He stated that the Classification Division advised against using the title “Executive Director” as previously suggested, as that title is equivalent to the level of General Manager. Instead, he noted that the Classification Division recommended revising the title of the new classification to “Defined Contribution Plan Manager.”

Additionally, he noted several changes that were made regarding the minimum requirements on the class specification. He explained that the revisions to the minimum requirements would diminish the possibility of diluting the pool of eligible candidates with internal applicants that lack defined contribution plan experience. He further noted that the revised requirements permit the greatest amount of flexibility to fill the position by providing the ability to recruit candidates in both the private and public sector (both inside and outside the City) who have experience in executive level and/or highly technical aspects of defined contribution plan administration. Lastly, he stated that staff is recommending that the Board amend the charge of the Ad Hoc Committee on DCP Autonomy to include reviewing and advising on matters regarding the creation of the new classification, including compensation and recruitment considerations.

The Board asked if the current economic situation would delay progress on establishing a position of Defined Contribution Plan Manager in the budget. Mr. Montagna stated that the creation of the classification is not impacted by the current economic situation. He stated that moving forward with the creation of the new classification would provide momentum for establishing a new position in the budget for the classification. The Board agreed on the importance of moving forward in creating the new classification.

A motion was made by Mr. Ciranna, and seconded by Mr. Guglielmo, to (1) approve the revised class specification for Defined Contribution Plan Manager to be submitted to the Personnel Department's Classification Division for approval by the Civil Service Commission; (2) amend the charge of the Ad Hoc Committee on Deferred Compensation Plan Autonomy to include reviewing and advising on matters regarding the creation of a new Defined Contribution Plan Manager classification; and (3) direct the Ad Hoc Committee on Deferred Compensation Plan Autonomy to review proposed salary ranges and recruitment considerations for the new Defined Contribution Plan Manager classification and report back with recommendations to the Board; the motion was unanimously adopted.

7. BOARD REPORT 20-21: INVESTMENT MANAGEMENT SERVICES AND STABLE VALUE FUND INVESTMENT MANAGEMENT SERVICES REQUEST FOR PROPOSALS (RFPs)

Mr. Montagna presented this report. He stated that the Board approved postponing issuance of the DCP Investment Management Services and Stable Value Fund Investment Management Services RFPs at its March 31, 2020 Board meeting. He explained that staff, along with Mercer, recommended minor changes to the language in the RFPs to advise proposers that the City reserves the option to request and consider updated return and portfolio information incorporating the most recent time periods available, to account for potential market volatility.

A motion was made by Mr. Ciranna, and seconded by Mr. Mumma, to direct staff to insert language into the Investment Management Services and Stable Value Fund Investment Management Services Requests for Proposals (RFPs) to advise proposers that the City reserves the option to request and consider (a) updated performance information incorporating the time periods most proximate to the evaluation of each investment mandate; and (b) the most recent portfolio characteristics in its evaluation of each investment mandate; the motion was unanimously adopted.

8. BOARD REPORT 20-22: QUARTERLY STAFFING REIMBURSEMENTS – FOURTH QUARTER 2019 AND FIRST QUARTER 2020

Ms. Yau presented this report. She stated that staff is recommending the Board approve reimbursements from the DCP Reserve Fund to the Personnel Department in the amount of \$320,911.15 and City Attorney in the amount of \$76,570.02 covering the fourth quarter of 2019 and the first quarter of 2020. She explained that the reimbursements include an adjustment from the third quarter of 2019 due to the publication of Special Rates 42, which resulted in a decrease in reimbursement percentages for the Personnel Department and City Attorney. She further explained that the decrease in the reimbursement percentages resulted in a decrease of about \$5,300 which was applied as a credit against the 2019 fourth quarter and 2020 first quarter staffing costs reimbursements.

A motion was made by Mr. Mumma, and seconded by Mr. Gendjian, to approve reimbursements from the Deferred Compensation Plan (DCP) Reserve Fund to the Personnel Department in the amount of \$320,911.15 and the City Attorney in the amount of \$76,570.02, inclusive of the fourth quarter of calendar year 2019 ending December 31, 2019 and the first

quarter of calendar year 2020 ending March 31, 2020, for staff providing direct support of the DCP; the motion was unanimously adopted.

9. BOARD REPORT 20-23: DEFERRED COMPENSATION PLAN PROJECTS AND ACTIVITIES REPORT

Ms. Yau presented this report. First, she provided an update on the Coronavirus Aid, Relief, and Economic Security (CARES) Act. She stated that following the Board's approval of new loan and distribution provisions for the DCP under the CARES Act, staff prepared and released a Citywide email with a direct link to an online blog post on the DCP website with additional information and Frequently Asked Questions on the CARES Act provisions. She noted CARES Act provisions were available to DCP participants effective May 4th. She then noted that as of May 10th, Voya had received 120 calls related to the CARES Act and 52 participants have taken Coronavirus-Related Distributions totaling \$2.1 million; 15 participants have chosen CARES Act deferred loan payments; three participants have taken out CARES Act new loans totaling \$240,000; and two participants suspended Required Minimum Distribution installment payments. She also stated staff will report CARES Act data to the Board each month.

Next, Ms. Yau provided an update on the 2020 DCP Board election. She explained that Election Day was May 15th, and that ballots will be counted and tallied by the City Clerk on May 19th. She stated that once the City Clerk completes counting of all ballots and certifies the election results, staff will report the results of the election to the Board at its next meeting.

Lastly, Ms. Yau highlighted staff's collaboration with Los Angeles World Airports (LAWA) on developing a communications piece for its Separation Incentive Program (SIP). She indicated a copy of the custom communications piece developed for a special mailing from LAWA to employees eligible for the SIP was provided as a report attachment.

Mr. Montagna then concluded the presentation by introducing Eric Lan as a new analyst for the DCP. He stated Mr. Lan was initially hired in Employee Benefits as a contracts and procurement analyst. He stated Anna Ancheta, who previously worked with the DCP, will now be providing staff support with the City's Wellness Program.

10. REQUESTS FOR FUTURE AGENDA ITEMS

There were no requests for future agenda items.

11. NEXT MEETING DATE

A meeting was noted for June 16, 2020 at 9:00 a.m.

12. ADJOURNMENT

The meeting was adjourned at 10:12 a.m.

Minutes prepared by staff member Eric Lan.