CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION (BOARD)

PROPOSED MINUTES
MEETING OF FEBRUARY 16, 2021
CONDUCTED VIA TELECONFERENCE

BOARD MEMBERS

Present:
Thomas Moutes, Chairperson
Raymond Ciranna, Vice-Chairperson
Hovhannes Gendjian, Third Provisional Chair
Joshua Geller
Neil Guglielmo
Linda T. Ikegami

Not Present:
Robert Schoonover, First Provisional Chair
Wendy G. Macy, Second Provisional Chair
Baldemar J. Sandoval

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
Charles Hong, Assistant City Attorney

MERCER INVESTMENT CONSULTING
Devon Muir, Principal
Preet Prashar, Principal

1. CALL TO ORDER

Ray Ciranna called the meeting to order at 9:01 a.m.

2. PUBLIC COMMENTS

There were no public comments.

3. MINUTES

Board Action:
A motion was made by Mr. Guglielmo, and seconded by Mr. Geller, to approve the minutes of the January 19, 2021 regular meeting of the Board of Deferred Compensation Administration; the motion was adopted by five Board members (Ciranna, Geller, Gendjian, Guglielmo,

Ikegami); one Board member was not present at the time the motion was made and did not vote on it (Moutes).

4. BOARD REPORT 21-08: STABLE VALUE FUND REQUEST FOR PROPOSAL – PROVIDER SELECTION

Presentation Highlights:
Mr. Montagna introduced the report and Mercer's presentation of a side-by-side summary comparison of the two Stable Value Fund (SFV) proposals from Galliard Capital Management (Galliard) and Invesco. Mr. Muir presented the side-by-side analysis in Attachment A of the report and provided the following highlights:

- Page 2 – Mercer reviewed summary proposal data of Galliard and Invesco based on the following criteria: team depth, use of multiple stable value fund managers, proposed portfolio structure, underlying manager composition and style, proposed wrap providers, potential transition plan and costs, and best and final fee offers.
- Page 3 – In response to the Board's request for analysis of the potential for using two stable value managers, Mercer identified several challenges including potentially higher costs, confusion among participants and competing fund restrictions regarding movement between the two funds. Mercer recommended using a single stable value provider.
- Page 4 – Galliard is a subsidiary of Wells Fargo Asset Management which is undergoing a potential sale with two private equity firms. Mr. Muir noted that Galliard is relatively autonomous and it may be beneficial from a fee perspective to move out from under the Wells Fargo parent company.
- Page 5 – Trian Fund Management gained a 10% stake in Invesco and there is speculation that Trian would try to form a merger as Trian is a hedge fund known for pushing consolidations within the asset management industry, but it is still too early to conclude any impact on Invesco.
- Pages 7-8 – Invesco has a larger investment team but both firms have a relatively comparable set of resources and level of experience for managing the City's SVF assets.
- Page 9 – Both firms are the largest providers in the business. Galliard has $81 billion in stable value assets and $52 billion in separate account stable value assets, while Invesco has $65 billion in stable value assets and $52 billion in separate account stable value assets.
- Page 10 – Stable Value separate account management requires a specialized skill-set. In terms of the number of discretionary stable value separate accounts, Galliard has 92 and Invesco has 70.
- Page 12 – Both firms have a high-quality approach to their proposed portfolio structure with a focus on capital preservation.
- Page 13 – Both firms have a similar balance of internal versus external management, with Galliard being modestly higher in internal management at 68% vs. Invesco at 62%.

- Page 14 – The firms differ slightly in their proposed portfolio allocations with Invesco having a slightly higher duration (2.92 years vs. 2.84 years for Galliard), meaning it has slightly more interest rate risk and opportunity for slightly greater yields.
- Page 15 – Invesco proposes using four external managers while Galliard proposes using three external managers.
- Page 18 – Invesco has a higher net crediting rate of 2.36%, which is due to the longer duration ratio of 2.92 years.
- Page 19 – Invesco plans to use six wrap providers compared to Galliard's five wrap providers. Mercer believes that five or six wrap providers is a reasonable amount.
- Page 21 – Potential transition considerations – Since the current portfolio is invested entirely in collective investment trusts (CITs), it can be easily liquidated. Galliard CITs would be liquidated in cash and the overlapping external managers (Jennison and Dodge & Cox) are likely to be transitioned through in-kind transfer of holdings.
- Page 21 – CIT transaction costs would be assessed at the fund level at around or below .10% or 10 basis points, depending on market conditions.
- Page 21 – The 10-basis points is a conservative estimate but is highly dependent on the market and time of year of the transition, which can be controlled by the City.
- Page 23 – Fees – Both firms provided best and final offers resulting in a decrease in fees for Galliard from .271% to .262% and Invesco from .253% to .2338%.
- Page 23 – The largest difference in fees between the firms is in the "other fees" category, which is the operating costs of the CITs. Galliard is locked into the fees since they are a subsidiary of Wells Fargo, but the potential sale could open opportunities for lower fees.
- Page 25 – Distinctions in performance due to duration is not substantial.

<u>Board Member Comments/Questions & Responses</u>:
Mr. Ciranna asked if the chart on Page 14 showed each firm's targeted objective for asset allocation. Mr. Muir replied that Galliard's portfolio allocation is the actual breakdown while Invesco's is the proposed portfolio allocation. Mr. Ciranna also asked if those allocations can change. Mr. Muir indicated they can but are based on the guidelines provided by the DCP. Mr. Prashar noted that changes to the portfolio allocation are generally driven by large changes in the plan's demographics, which in the City's case are largely stable.

Mr. Ciranna asked if Met Tower is the same as MetLife. Mercer stated that Met Tower is a subsidiary of MetLife.

Mr. Geller asked if it would be possible for a contract with Invesco to be contingent on Invesco covering the costs of transition. Mr. Prashar indicated it would be highly unusual for a manager to agree to absorb those costs. Mr. Ciranna asked if it would be possible for the manager to share the costs. Mr. Prashar stated that is also unusual, but that Mercer can check on that if the Board requested. Mr. Muir also indicated that there are administrative costs for developing and executing a new contract.

Mr. Ciranna asked who would manage the transition. Mr. Muir stated that since it is a CIT sale, Galliard would provide the cash and Invesco would make the purchase.

Mr. Moutes asked if there are any administrative challenges if there is a provider transition for staff. Mr. Montagna stated that any transition would be manageable but that certain elements not entirely within staff's control, such as contract processing within the City infrastructure, may present challenges for timely execution of a contract. Mr. Moutes reiterated the need to communicate with the CAO and Mayor's Office regarding the cost associated with delays in contract execution.

Mr. Moutes asked if a potential contract with Galliard could contain a clause about lower fees in the event of a Wells Fargo sale. Mr. Muir indicated this could be explored and that it would be in Galliard's interest to have as low a fee as possible.

Mr. Guglielmo stated that choosing between the two firms is difficult because both are exceptional and asked if staff had a recommendation for the Board. Mr. Montagna indicated that staff did not prepare a recommendation and that any choice by the Board would be justifiable and supported by staff. Mr. Guglielmo stated that he would lean towards Invesco because of the fee savings and an excellent composite track record.

Ms. Ikegami asked what the total transition fee would be if the DCP awarded the contract to Invesco. Mr. Montagna indicated it appears to be $1.3 million, and Mr. Muir indicated the exact cost would depend on variables such as the timing and amount of cash transfers.

Mr. Ciranna asked if the .10% difference in the 10-year return of net fees was any indication of future performance by the firms. Mr. Muir replied that is not a predictor of future performance.

Mr. Ciranna indicated he is leaning towards Galliard as they have performed well, and he did not know if it is the right time to make a transition to another manager. Mr. Moutes concurred stating there is a potential for a fee reduction if there is a sale. Mr. Geller also agreed indicating that he is more concerned with the transition costs and that it is most prudent to stay with the incumbent. Ms. Ikegami also concurred that it would not be prudent to pay transition fees for similar performance results. Mr. Gendjian stated he agreed that the best choice would be to stay with Galliard given their demonstrated performance.

The Board thanked staff and Mercer for their work in providing the reports and presentations.

<u>Board Action</u>:
A motion was made by Mr. Ciranna, and seconded by Mr. Ikegami, that the Board (a) select Galliard Capital Management as the provider of the Deferred Compensation Plan (DCP) Stable Value Fund; (b) instruct staff to negotiate and draft a contract in consultation with Board counsel; and (c) authorize the Board Chairperson to execute said contract on behalf of the Board, subject to agreement between the City and the provider as to all applicable terms and conditions and all necessary approvals; the motion was unanimously adopted.

5. BOARD REPORT 21-09: STATEMENTS OF ECONOMIC INTERESTS FILING FOR STAFF POSITIONS

Presentation Highlights:
Mr. Montagna presented this report and provided the following highlights:
- The Board previously adopted 2021 strategic initiatives that included a recommendation for the Board to establish independent findings with respect to identifying positions required to file Statements of Economic Interest (SEI).
- Staff reached out to the Ethics Commission and was provided a Conflict of Interest (COI) Code Revision Schedule A Review included as Attachment A.
- Per Ethics, the Board can make recommendations to the Personnel Department regarding which positions should be included on the COI as adopted by the City Council.
- All DCP analyst positions are involved in drafting procurements, participating in evaluating responses to those procurements, drafting contracts, and developing recommended policy positions for the Board. Accordingly, staff recommends all DCP analyst positions file SEIs.

Board Member Comments/Questions & Responses:
Mr. Moutes commented that based on his prior experience, changes to the COI took a long time to be approved by the City Council and asked if this continues to be the case. Mr. Ciranna confirmed this was still the case stating that Pensions had recently made changes to its COI and is still waiting on Council approval. Mr. Moutes asked staff to provide a follow-up on this item once an update is available.

Board Action:
A motion was made by Mr. Ciranna, and seconded by Mr. Guglielmo, that the Board: (a) find that all DCP professional staff positions participate in decision-making for the purpose of procurements, contracts, and policy development for the DCP and (b) recommend to the Personnel Department General Manager that all of the DCP professional staff positions be included on the Personnel Department's COI Code for the purpose of DCP staff support; the motion was unanimously adopted.

6. BOARD REPORT 21-10: QUARTERLY STAFFING REIMBURSEMENTS – FOURTH QUARTER 2020

Presentation Highlights:
Ms. Yau presented this report and provided the following highlights:
- The Board approves staffing reimbursements on a quarterly basis for Personnel Department and City Attorney staff providing direct support of the DCP.
- Fourth quarter 2020 reimbursements totaled $200,092.31 – $158,031.44 for the Personnel Department and $42,060.87 for the City Attorney.

Board Member Comments/Questions & Responses:
There were no comments and/or questions from the Board.

Board Action:
A motion was made by Mr. Guglielmo, and seconded by Mr. Gendjian, that the Board approve reimbursements from the DCP Reserve Fund to the Personnel Department in the amount of $158,031.44 and to the City Attorney in the amount of $42,060.87 totaling $200,092.31, inclusive of the fourth quarter of calendar year 2020 ending December 31, 2020, for staff providing direct support of the DCP; the motion was adopted by five Board members (Ciranna, Geller, Gendjian, Guglielmo, Ikegami); one Board member was not present at the time the motion was made and did not vote on it (Moutes).

7. QUARTERLY INVESTMENT & ECONOMIC REVIEW: FOURTH QUARTER 2020

Presentation Highlights:
Mr. Muir presented the Fourth Quarter 2020 Investment and Economic Review and provided the following highlights:

- Page 2 – The overall trend in the fourth quarter was a bounce back in the energy and financial sectors while value stocks struggled.
- Page 2 – International stocks lagged US equities but had positive performance due to the dollar depreciation during the latter part of the year.
- Page 14 – There was no change to the DCP investment menu across risk profiles and core options.
- Page 15 – The Plan performed well, ending at $8,221.4 million, an increase of $661.5 million from the previous quarter.
- Page 17 – Galliard's parent company, Wells Fargo & Company is exploring the sale of its asset management business, leading to a "watch" designation by Mercer.
- Page 17 – Dimensional Fund Advisors US Small Cap Value Strategy and Emerging Markets All Cap Core Strategy total expense ratios are expected to decrease in cost from .51% to .39% and .48% to .39%, respectively.
- Page 18 – Ceredex Value Advisors reported an analyst departure, which Mercer does not believe will affect its rating.
- Page 20 – Despite Q1 negative returns, the plan reported over $1 billion in growth over the year.
- Page 20 – Mercer noted a trend in the SDBA which increased in percentage of total assets from 9.1% to 12.5% and now represents over $1 billion in plan assets.
- Page 21 – The DCP is economically advantageous for plan participants as it is offering better than median costs.
- Page 22 – Overall, the DCP investment options and profiles outperformed or matched the index and universal median, only underperforming relative to the Index in the Mid Cap Stock Fund and Small Cap Stock Fund.
- Page 23 – The risked-based profiles are exceeding benchmarks with the Moderate Risk Profile performing very well.
- Page 24 – The Mid Cap Stock Fund was identified as underperforming the Index, but was still ranked in the 8th percentile.

- Page 24 – The underperformance attributed to Ceredex was due to difficulties with real estate holdings.
- Page 25 – The International Stock Fund was better than median over most periods and Mercer has no recommendations for any changes to the menu.

Board Member Comments/Questions & Responses:
Mr. Moutes asked if the increase in the SDBA is related to market increases. Mr. Muir confirmed that is often the case and when the market goes back down, there is a greater focus on conservative options. There were no further comments and/or questions from the Board.

8. BOARD REPORT 21-11: DEFERRED COMPENSATION PLAN PROJECTS AND ACTIVITIES REPORT: JANUARY 2021

Presentation Highlights:
Ms. Yau presented this report and provided the following highlights:

- Due to the COVID-19 pandemic, the City's contracting process has slowed significantly directly impacting three DCP contracts:
  1) The Mercer and Galliard contracts expired on June 30, 2020 and were extended by the Board through December 31, 2021. The contract extensions have not been executed and are currently with the CAO for their review and recommendation.
  2) The Segal contract was awarded by the Board in August of 2020 for a five-year term and has also not been executed. The contract is also currently with the CAO.
- Self-Directed Brokerage Account (SDBA) – There were 17 participants who did not have liquid cash available to transfer to the Core Funds to satisfy the minimum $2,500 SBDA balance requirement.
- Voya mailed a letter to these participants providing a last chance opportunity to voluntarily transfer assets to the SDBA by February 15, 2021. Staff will report back on the status of these 17 participants at the Board's next meeting.
- Staff worked with Voya to develop a process to monitor and review SBDA balances quarterly on a go-forward basis to ensure the $2,500 minimum balance is met.
- NAGDCA announced they will host their annual conference from September 12-15, 2021 in Phoenix, Arizona and will also be developing a virtual option for those who are unable or unwilling to travel. The City's ban on non-essential travel remains in effect.
- Staff developed a new brand and logo, "Money Matters" to advertise and market the DCP's financial education events such as the current Zoom with the DCP meetings.
- On February 8, 2021, Voya entered into an agreement with Cetera Financial Group to acquire the independent financial planning channel of Voya Financial Advisors (VFA).
- Pending approval, the transition of about 900 independent financial professionals serving retail customers will transition to Cetera later this year. The transaction does not impact Voya's retirement plan clients.
- Updates to the 2021 DCP Strategic Initiatives are included in Attachment A.

Board Member Comments/Questions & Responses:
Mr. Ciranna asked if the new quarterly SBDA monitoring process will allow around 40 days, depending on the month, for the participant to make transfers to satisfy the minimum balance requirement. Ms. Yau confirmed yes. Mr. Ciranna asked if any outreach will be made to the participants. Ms. Yau stated that the process includes Voya mailing a letter as well as local retirement counselor outreach to the impacted participants.

Mr. Ciranna inquired about the validation process for contract extensions and award of new contracts. Ms. Yau replied that the Board continues to operate under the current unexpired contract until the new contract is executed. She noted that the new contract will include a ratification clause to ratify the services provided since the contract expired. Mr. Ciranna asked whether the DCP can streamline the contracting process. Mr. Montagna indicated that a potential action for the Board to take would be to communicate directly to the CAO and Mayor's Office. Mr. Ciranna agreed. Mr. Guglielmo requested that staff draft a letter to the CAO and Mayor's Office expressing the importance of executing contracts timely for the Board to fulfill its fiduciary responsibility. Mr. Montagna stated that staff can bring a draft letter for the Board's review at its next meeting. Ms. Ikegami asked if there are any operational issues due to the delay in executing contracts. Mr. Montagna noted that there are no payment issues with investment contracts since they involve asset-based fees, but consultants cannot be paid for their services without executed contracts.

9. CLOSED SESSION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(D)(2) & (E)(2) REGARDING UNPROCESSED COVID-RELATED DISTRIBUTIONS

Mr. Moutes announced there was nothing to report from the closed session item.

10. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Ciranna requested that staff draft a letter from the Board to the CAO and Mayor's Office emphasizing the importance of executing contracts timely for the Board to fulfill its fiduciary obligations.

11. NEXT MEETING DATE

A meeting was noted for March 16, 2021 at 9:00 a.m.

12. ADJOURNMENT

The meeting was adjourned at 11:40 a.m.

Minutes prepared by staff member Eric Lan.