

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

PROPOSED MINUTES  
MEETING OF JANUARY 19, 2021  
CONDUCTED VIA TELECONFERENCE

**BOARD MEMBERS**

**Present:**

Thomas Moutes, Chairperson  
Raymond Ciranna, Vice-Chairperson  
Robert Schoonover, First Provisional Chair  
Wendy G. Macy, Second Provisional Chair  
Joshua Geller  
Neil Guglielmo  
Linda T. Ikegami  
Baldemar J. Sandoval

**Not Present:**

Hovhannes Gendjian, Third Provisional Chair

**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

**VOYA FINANCIAL**

Shelley Fredrick, Vice President Strategic Relationship Management

**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

#### Board Action:

A motion was made by Mr. Geller, and seconded by Mr. Schoonover, to approve the minutes of the December 15, 2020 regular meeting of the Board of Deferred Compensation Administration; the motion was unanimously adopted.

### 4. BOARD REPORT 21-01: STABLE VALUE FUND REQUEST FOR PROPOSAL PROVIDER PRESENTATIONS

#### Presentation Highlights:

Mr. Steven Montagna introduced Galliard and Invesco, the two Stable Value Fund proposers invited by the Board to present at today's meeting. Mr. Montagna noted that the Board has the option to request additional information from staff, the consultant, or the proposers; or staff can agendize a recommendation for Board action at the next meeting.

#### Galliard Presentation

Presenters: Jaime Morgan, Mike Norman, Nick Gage, and Andrea Johnson highlighted the following information:

- Galliard is a wholly owned subsidiary of Wells Fargo Asset Management Holdings, LLC. Galliard has operated on its own since its start and there would be no impact on current operations if Galliard was sold by Wells Fargo.
- Galliard has more than 220 institutional clients with a focus on large public entities including 12 Stable Value Fund clients with greater than \$1 billion in assets.
- Galliard's approach to Stable Value portfolio management is based on an awareness that it is a conservative option for participants and should be managed to minimize volatility.
- Galliard effectively integrates fixed income portfolio management with contract management addressing cash flows, investor demographics, plan design, and withdrawal risks.
- Galliard has dedicated teams, systems, and a proprietary grading tool.
- Galliard's crediting rate is reset quarterly, or more often as needed.
- Galliard's City of Los Angeles portfolio recognizes minimal cash flow volatility enabling a strategy that outperforms their average accounts.
- Galliard's proposed strategy is consistent with the current strategy, including a modest liquidity buffer for daily participant activity, and an emphasis on short and intermediate duration strategies; short duration is managed by Galliard and intermediate duration is managed by sub-advisors to promote diversification.
- Galliard utilizes 5 contract issuers (Transamerica, Prudential, Voya, State Street, MetLife).
- The current fund's market to book ratio as of June 30, 2020 is 104.6%, within a historical range between 95 to 105 based on the macro interest rate environment.
- Over 60% of bond issues are rated AAA.
- Galliard's focus is on principle preservation, generating income, and controlling risk.

- Galliard strategically overweights non-Treasury sectors of the market consistent with enhancing income with high quality holdings.
- Galliard's fee proposal is 0.271% inclusive of management and contract fees.

### Invesco Presentation

Presenters: Delia Roges, Andy Apostol, and Matt Kline highlighted the following information:

- Invesco is an investment manager with \$1.2 trillion in assets.
- Invesco has \$13 billion in stable value assets for government plan assets.
- One of Invesco's major client is the County of Los Angeles with \$5.0 billion in assets.
- Invesco's investment approach is conservative with a focus on high quality diversification at all levels and strong risk control.
- Invesco tends to have longer duration than others in the industry with higher market to book ratio, higher yields, and higher crediting rates.
- A unique aspect of Invesco's portfolio structure is an allocation to core investment grade bonds providing broader sector and yield curve exposure.
- Invesco's proposal includes four external subadvisors collectively managing 35% of the portfolio (Jenison, Loomis Sayles, PIMCO, and Dodge & Cox).
- Invesco carefully selects subadvisors bringing complementary skillsets to the portfolio; for example, Loomis Sayles offers deep corporate credit sector and security selection experience while PIMCO brings a top-down macroeconomic perspective.
- Invesco reduces risk with broad diversification across primary investment-grade sectors.
- Invesco has over 72% in AAA rated securities with 8% in BBB securities.
- Invesco's performance consistently outperforms the benchmark.
- Invesco has successfully transitioned 42 plans within 6-8 weeks and will be able to have the City's portfolio ready immediately.
- Invesco's fee proposal is 0.2529%, which includes its management expenses, wrap expenses, subadvisor expenses and other administrative expenses.

### Board Member Comments/Questions & Responses:

Mr. Ciranna requested that any action be deferred to the next meeting so that staff and Mercer can present a side-by-side comparison of the proposals' portfolio structure, fees, strength of team, underlying manager style, proposed wrap providers, and transition plans and costs. Mr. Moutes asked the City Attorney if it is appropriate to request a last best and final offer from the proposers. Mr. Kidder replied that the contents of the RFP will have to be reviewed to make that determination. Ms. Ikegami requested that the side-by-side comparison also include specific dollar amounts to compare equally between the proposers. Mr. Moutes asked for Mercer's feedback regarding the potential for having multiple providers. Mr. Muir and Mr. Prashar noted that two standalone options is generally not recommended but Mercer would report formally.

### Board Action:

**A motion was made by Mr. Ciranna, and seconded by Mr. Guglielmo, that the Board consider presentations from providers Galliard Capital Management and Invesco and direct staff and**

**Mercer to provide a side-by-side comparison of the Stable Value Fund proposals from Galliard and Invesco at the Board's February meeting; the motion was unanimously adopted.**

#### **5. BOARD REPORT 21-02: DEFERRED COMPENSATION PLAN 2021 PLAN YEAR BUDGET ADOPTION**

Presentation Highlights:

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

- The Board approved certain Growth, Expense, and Fee variable assumptions for use in projecting future Reserve Fund balances. These assumptions were used to prepare the 2021 plan year budget.
- The budget includes revenue and expenditure items for administering the DCP.
- Any actions taken by the Board to reduce the long-term projected Reserve Fund Balance will be incorporated into future budget forecasts when the Board makes those decisions.

Board Member Comments/Questions & Responses:

Mr. Ciranna requested a report that includes a comparison of budgeted versus actual expenditures for the prior three years.

Board Action:

**A motion was made by Mr. Ciranna, and seconded by Ms. Ikegami, that the Board: (a) adopt the proposed budget for the Deferred Compensation Plan's (DCP) 2021 Plan Year and (b) request staff to provide a comparison of budgeted versus actual expenditures for the prior three years; the motion was unanimously adopted.**

#### **6. BOARD REPORT 21-03: 2021 DEFERRED COMPENSATION PLAN STRATEGIC INITIATIVES**

Presentation Highlights:

Mr. Montagna presented this report and provided the following highlights of each initiative:

- DC Plan Manager – Obtaining approval to fill this position is a priority but there are some challenges given the City's present fiscal crisis. Staff will be working with the Chairperson on this matter and provide updates moving forward.
- Ethics Policy and Statement – The identification of required filers for ethics purposes, and any related details, is currently handled through other Personnel Department staff. In keeping with the objectives of DCP autonomy provisions in the recently adopted MOU, staff will be working with the City's Ethics Commission to have the Board take a greater role in defining positions required to file a Statement of Economic Interests.
- Plan Document Review – The Administrative Issues and Plan Governance Committee (Committee) met last week to review proposed changes to the Plan document. Staff expects to schedule one more meeting with the Committee before bringing the full document to the Board for its review and approval.
- Investment Manager Searches – Staff has been working with Mercer on the next report regarding the DCP's passively managed fund and expects to convene the Investments Committee in February.

- Investment Advice/Financial Education Services – Staff anticipates achieving some level of clarity on how to proceed within the first quarter of 2021.
- Request for Proposal (RFP) for DCP Investment Consulting Services – The Mercer contract expires at the end of 2021 and staff is drafting an RFP for Board review and approval.
- DCP Audit – The contract with Crowe has been executed. Staff is gathering information on the audit process and will provide a full report to the Board once it is ready.
- Auto Enrollment – Staff recognizes that while labor organizations may be focused on other items, staff is hopeful that a dialogue can resume within the first half of the year.
- Deemed IRA – The Deemed IRA investment menu options will be considered as the Investment Committee reviews DCP investment options through the investment manager RFP process.
- Participant Goals and Outcomes, Survey, and Communications Strategic Plan – The Board adopts participant goals and outcomes on a fiscal year basis. Staff is developing strategies for obtaining data and feedback from participants and integrating this information into an engagement strategy that is flexible, iterative, and fosters accountability.

Board Member Comments/Questions & Responses:

Mr. Ciranna noted the aggressive work plan for the calendar year and asked if staff has enough resources to accomplish them. Mr. Montagna stated that staff’s approach is to attempt to make varying levels of forward progress on all of the initiatives, even if they are not completed by year-end. He indicated his greatest concern was the Plan audit due to staff resource requirements for this project and having to pull data from the City’s and DWP’s payroll systems while both systems are in the process of transitioning to new platforms. Mr. Moutes stated that delays due to the pandemic can be brought to the Board as needed. Mr. Ciranna concurred.

Board Action:

**A motion was made by Mr. Ciranna, and seconded by Mr. Schoonover, that the Board approve proposed 2021 Deferred Compensation Plan (DCP) strategic initiatives as follows: Governance: (1) Conduct Defined Contribution (DC) Plan Manager Position Selection Process; (2) Develop Board Findings Regarding Filing of Statements of Economic Interests and Related Requirements; (3) Complete Plan Document Review; Procurements and Contracts: (4) Complete Investment Manager Searches; (5) Complete Investment Advisory and/or Financial Education Services Review; (6) Complete Request for Proposal for DCP Investment Consulting Services; Operations and Plan Design: (7) Initiate DCP Financial Audit; (8) Design Automatic Enrollment Program Supplemental Model; (9) Develop Options for Deemed IRA Investment Menu; Communications and Member Outcomes and Engagement: (10) Adopt Fiscal Year 2021-22 Participant Goals; (11) Implement Participant Survey Plan; (12) Develop DCP Communications Strategic Plan; the motion was unanimously adopted.**

**7. BOARD REPORT 21-04: DEFERRED COMPENSATION PLAN 2021 BOARD ELECTIONS:  
ACTIVE WPERP REPRESENTATIVE/RETIREE REPRESENTATIVE**

Presentation Highlights:

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

- Staff will be working with the City Clerk to assist with elections for two Board seats – the retiree representative and Water and Power Employees’ Retirement Plan (WPERP) representative.
- The term for both seats end on June 30, 2021 and the elections to fill those seats will be held on May 13, 2021, with new terms beginning July 1, 2021, and ending on June 30, 2024.
- There the three key changes applying to the upcoming elections:
  - 1) The option to provide for the submission of petitions and petition signatures electronically, if the Board so designates.
  - 2) The reduction of the petition signatures requirement for the WPERP representative to a minimum of 50 and a maximum of 100.
  - 3) The elimination of the petition signatures requirement for the retiree representative.
- Due to the ongoing pandemic, staff recommends the Board approve: (1) that petitions to run for the 2021 Board elections be provided electronically to candidates and (2) that signatures be provided electronically for the 2021 Board election of the WPERP seat.

Board Member Comments/Questions & Responses:

There were no comments and/or questions from the Board.

Board Action:

**A motion was made by Mr. Ciranna, and seconded by Mr. Baldemar, that the Board approve that: (1) the petitions for the 2021 Board election for the Active Water and Power Employees’ Retirement Plan (WPERP) Representative and Retiree Representative be provided electronically to candidates by Deferred Compensation Plan (DCP) staff; and (2) petition signatures may be provided electronically in lieu of original/physical signatures for the 2021 Board election for the Active WPERP Representative; the motion was unanimously adopted.**

**8. BOARD REPORT 21-05: 2020 BOARD MEMBER AND STAFF TRAINING REPORT**

Presentation Highlights:

Mr. Lan presented this report and provided the following highlights:

- Due to the COVID-19 pandemic and the City’s ban on non-essential travel, the only training attended by the Board and staff in 2020 was the NAGDCA annual conference which was conducted virtually.
- Fiduciary and Investment Policy Statement (IPS) training to be provided by the DCP’s consultants will be scheduled for the third quarter of 2021 and will need to be completed by December 31, 2021 for those not participating in the group training.

Board Member Comments/Questions & Responses:

There were no comments and/or questions from the Board.

## **9. BOARD REPORT 21-06: 2020 BOARD AND COMMITTEE MEETING ATTENDANCE REVIEW**

### Presentation Highlights:

Mr. Lan presented this report and stated that the report provides a review of Board member's attendance at Board and Committee meetings in 2020.

### Board Member Comments/Questions & Responses:

There were no comments and/or questions from the Board.

## **10. BOARD REPORT 21-07: DEFERRED COMPENSATION PLAN PROJECTS AND ACTIVITIES REPORT: DECEMBER 2020**

### Presentation Highlights:

Mr. Montagna presented this report and provided the following highlights:

- Staff became aware of a settlement between the Securities and Exchange Commission (SEC) and Voya Financial Advisors (VFA), a subsidiary of Voya, impacting only VFA retail clients.
- The issue concerns the practice of investment advisors placing their clients into mutual fund share classes with 12b-1 fees when lower-cost share classes were available.
- The SEC is engaged with VFA and also over 110 firms which reached similar settlements resulting in the return of certain fee amounts to their customers, paying a civil penalty to the SEC, and retaining an independent compliance consultant meeting SEC guidelines.
- This issue did not involve Voya's retirement plan clients.

### Board Member Comments/Questions & Responses:

Mr. Ciranna asked if Voya reached out to staff regarding the SEC settlement. Mr. Montagna indicated that he reached out to Voya upon seeing press on the matter. Ms. Shelley Fredrick noted that the retirement section of Voya was also finding out about the settlement in real time. Mr. Ciranna asked if Voya issued an official press release. Mr. Mark Sides, Voya's lead counsel on this matter, stated that neither Voya nor the SEC has released an official press release but that clients impacted by the settlement would receive a letter this week. Mr. Ciranna stated that the lack of proactive communication to Voya's clients is concerning. Ms. Frederick stated that Mr. Montagna reached out as she was becoming aware of the matter. Mr. Moutes concurred with Mr. Ciranna and stated that he hopes a similar situation will not occur in the future. Mr. Sides noted that he will provide this feedback to Voya leadership.

Mr. Ciranna inquired about the progress of the Human Resources Payroll (HRP) transition. Ms. Yau replied that staff began discovery sessions with the HRP team over the summer and the project has progressed now to finalizing requirements on the census and payroll files that are exchanged between Voya and the payroll system. She noted that the file layouts will remain primarily the same with a few enhancements to include additional data such as ethnicity and email address. She further noted that staff is working with the same Voya analyst, Mr. Jim Gulak

who worked on the City's transition from Empower to Voya and Mr. Gulak's institutional knowledge and experience has been a tremendous asset during the transition process.

Mr. Ciranna inquired about the Self-Directed Brokerage Account (SBDA) minimum balance issue affecting participants. Mr. Montagna stated that staff is working with Voya to create a better process for participant communication and monitoring of account balances to minimize future incidents. Mr. Ciranna asked if the \$2,500 minimum balance is included in the Plan Document. Mr. Montagna replied that the minimum balance is established in the contract and consistent with the requirement of the prior DCP recordkeeper. Mr. Ciranna requested that staff report back on process improvements for managing the SBDA. Mr. Montagna replied that staff will provide an update on the outcome for the remaining participants and an outline of the proposed process to monitor account balances moving forward.

Mr. Guglielmo asked if there are automatic communications sent to participants informing them of their ability to contribute more to the DCP when they turn 50. Mr. Montagna stated there is no automatic communication, but staff will see if Voya can implement this outreach moving forward.

Mr. Sandoval asked about the annual contribution limits and whether strong savers exceeding the limits will be penalized by the IRS. Mr. Montagna stated that the current payroll system does not allow participants to contribute beyond their contribution limit. Ms. Yau added that staff is collaborating with the new payroll system vendor, Workday on enhancements in the new payroll system that will allow participants to reach the maximum contribution limit by adjusting year-end contributions automatically. Mr. Ciranna inquired if participants interested in Catch-Up needed to contact Voya. Mr. Montagna replied that participants would need to reach out to the local representatives to initiate Catch-Up.

#### **11. REQUESTS FOR FUTURE AGENDA ITEMS**

Mr. Ciranna requested a report providing a side-by-side comparison of important elements of the Stable Value Fund proposals. Mr. Ciranna also requested a report regarding how domestic partnerships are handled in the DCP.

#### **12. NEXT MEETING DATE**

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

#### **13. ADJOURNMENT**

The meeting was adjourned at 10:51 a.m.

*Minutes prepared by staff member Eric Lan.*