

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

PROPOSED MINUTES
MEETING OF DECEMBER 21, 2021
CONDUCTED VIA TELECONFERENCE

BOARD MEMBERS

Present:

Thomas Moutes, Chairperson
Raymond Ciranna, Vice-Chairperson
Neil Guglielmo, Second Provisional Chair
Joshua Geller, Third Provisional Chair
Baldemar J. Sandoval
Jeremy Wolfson

Not Present:

Robert Schoonover, First Provisional Chair
Linda P. Le
Wendy G. Macy

PERSONNEL DEPARTMENT STAFF

Steven Montagna, Chief Personnel Analyst
Mindy Lam, Benefits Analyst
Eric Lan, Benefits Analyst

OFFICE OF THE CITY ATTORNEY

Charles Hong, Deputy City Attorney

MERCER INVESTMENT CONSULTING

Devon Muir, Principal

1. CALL TO ORDER

Mr. Moutes called the meeting to order at 9:31 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. Wolfson, to approve: (a) minutes of the November 16, 2021 regular meeting; and (b) minutes of the December 15, 2021 special meeting of the Board; the motion was adopted by approval of five Board members (Ciranna, Geller, Guglielmo, Moutes, Wolfson); one Board member was not present at the time the motion was made and did not vote on it (Sandoval).

4. BOARD REPORT 21-61: DETERMINATION REGARDING TELECONFERENCING OPTION FOR BOARD MEETINGS PURSUANT TO ASSEMBLY BILL 361

Board Member Comments/Questions & Responses:

Mr. Wolfson asked if it was necessary for the Board to take action on the resolution so soon after its December 15 special meeting adoption of a resolution. Mr. Montagna indicated that the prior special meeting action was actually more directly aligned with the November 16 resolution adoption, as the 30-day approval would have otherwise not been met if the Board had waited until the present meeting to act.

Board Action:

A motion was made by Mr. Wolfson, and seconded by Mr. Ciranna, that the Board find and adopt the attached Resolution and, pursuant to Section 54953(e)(1)(B)- (C) of the California Government Code, as amended by Assembly Bill (AB) 361, that due to the ongoing COVID-19 State of Emergency (COVID Emergency) proclaimed by the Governor on March 4, 2020, conducting Board meetings in person without continuing to provide a teleconference and/or videoconference option for the Board members and the public, would present imminent risks to the health or safety of attendees; the motion was adopted by approval of five Board members (Ciranna, Geller, Guglielmo, Moutes, Wolfson); one Board member was not present at the time the motion was made and did not vote on it (Sandoval).

5. BOARD REPORT 21-62: SELECTIONS FOR DCP ACTIVELY MANAGED MANDATES: SMALL-CAP VALUE EQUITY, SMALL-CAP GROWTH EQUITY, CORE PLUS FIXED INCOME MID-CAP VALUE AND MID-CAP GROWTH EQUITY

Presentation Highlights:

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

- The Investments Committee recently completed Stage 3 review for the DCP Small-Cap Fund active growth and equity and DCP Bond Fund actively managed mandates.
- The second set of recommendations reflect BlackRock and Wells Fargo's improved fee positions and Mercer's and staff's recommendations for approval and contract execution.

Mr. Muir continued with the presentation and provided the following highlights:

- Page 2 – DCP Small-Cap Equity Finalists
 - Neuberger Berman is recommended for Value and Columbia is recommended for Growth.
 - Both have fundamental strategies dating back to the 1990's.
 - Both would be provided as lower-cost Collective Investment Trusts (CITs).
- Page 3 – Both firms aim to identify value opportunities to exploit market inefficiencies and show long-term success in buying investments at the right time.
- Page 5 – No revenue sharing is provided in the Neuberger/Columbia composite and the net expense ratio is 0.44%, lower than the competitive universe.
- Page 6 – The overall fund construction blends growth and value to achieve diversification through a complete market cycle.

- Page 8 – The Information Ratio is 1.1, in the first percentile, indicating strong risk adjusted performance.
- Page 11 – Core Plus Fixed Income Finalists
 - Manulife – should provide good participation in up markets.
 - Cost for the strategy at 0.17% is competitive.
- Page 13 – The blend of Manulife and Vanguard is 0.10%, saving around \$400,000 compared to the current fund construction.
- Page 14 – The new fund shows better than median percentile rankings across the board.
- Page 16 – The new fund has similar Information Ratio, competence, and value add results.

Board Member Comments/Questions & Responses:

Mr. Ciranna stated that the Investments Committee thoroughly discussed the available options to determine the recommended blend. Mr. Wolfson inquired if it was necessary to go through two stages of approval, or if the Board could have a contingent approval with subsequent receive and file actions. Mr. Montagna indicated this could be done. Mr. Ciranna and Mr. Moutes indicated agreement with this approach.

Board Action:

The following Board Action was taken prior to the Board discussion of the Small-Cap section of the report:

A motion was made by Mr. Ciranna, and seconded by Mr. Guglielmo, that the Board (d) approve five-year contract terms for the BlackRock Fundamental Mid-Cap Growth Equity Fund and the Wells Fargo Special Mid-Cap Value Equity Fund, both collective investment trusts, as providers for the Deferred Compensation Plan Mid-Cap Fund, with the effective dates of the contracts to be determined; (e) direct staff to negotiate and draft the necessary contracts with BlackRock and Wells Fargo, including the finalization of investment management fees, in consultation with Board counsel; and (f) authorize the Board Chairperson to execute said contracts 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 adopted by approval of five Board members (Ciranna, Geller, Guglielmo, Moutes, Wolfson); one Board member was not present at the time the motion was made and did not vote on it (Sandoval).

The following Board Action was taken after the Board discussion of the Small-Cap section of the report:

An additional motion was made by Mr. Ciranna, and seconded by Mr. Guglielmo, that the Board (a) approve five-year contract terms for the Columbia Threadneedle Small-Cap Growth Equity Fund and the Neuberger Berman Active Small-Cap Value Equity Fund, both collective investment trusts, as components of the Deferred Compensation Plan Small-Cap Fund, with the effective dates of the contracts to be determined; (b) approve selection of the Manulife Investment Management Core Plus Fixed Income Fund, a collective investment trust, as a component of the Deferred Compensation Plan Bond Fund, with the effective date of the contract to be determined; (c) direct staff to negotiate and draft the necessary contracts with Columbia Threadneedle, Neuberger Berman, and Manulife Investment Management, including the finalization of investment management fees, in consultation with Board counsel; and (d)

authorize the Board Chairperson to execute said contracts 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 adopted by approval of five Board members (Ciranna, Geller, Guglielmo, Moutes, Wolfson); one Board member was not present at the time the motion was made and did not vote on it (Sandoval).

6. BOARD REPORT 21-63: DCP 2022 RESOURCE REVIEW

Presentation Highlights:

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

- The Plan Governance & Administrative Issues Committee (Committee) recommended the following Reserve Fund assumptions:
 - DCP Assets Growth Rate decrease from 7% to 6% based on updated future investment rate of return from Mercer.
 - Net enrollment growth unchanged at 3%.
 - Long-term administrative expenses increased from 2% to 3% based on more stability in staffing over the long term.
 - Indirect costs decrease from 115% to 91% and 93% for Personnel and City Attorney, respectively.
 - Stable Value Fund average rate of return unchanged at 2%.
- Significant changes in staffing are anticipated including filling the positions of DC Plan Manager and Senior Benefits Analyst I, as well as the dedicated position with Voya focused on goals and data for participant outcomes.
- Time should be provided for new staff resources to develop and conduct their own assessment of resource questions, including the addition of new staff positions.
- A source of potential additional costs is leased office space and technology purchases.
- It is recommended to table an investment advice platform concept until payroll systems conversions are completed for the City and DWP.
- It is recommended to advance the annual resource review to provide timely development of any resulting budget requests.

Board Member Comments/Questions & Responses:

Mr. Ciranna asked if the Committee considered increasing the target reserve fund to ensure there was enough in the Reserve Fund. Mr. Montagna noted that was not discussed but that it could be added into the new policy and reviewed annually.

Board Action:

A motion was made by Mr. Guglielmo, and seconded by Mr. Ciranna, that the Board (a) adopt the following DCP Growth and Expense variable and Fee variable assumptions for use in projecting future DCP Reserve Fund balances: (1) DCP Assets Growth Rate - 6%; (2) Net Participation Growth Rate - 3%; (3) Annual Administrative Expenses Growth Rate - 3%; (4) Special Rates Increase Factor: Personnel - 91%; (5) Special Rates Increase Factor: City Attorney - 93%; (6) Stable Value Fund Average Rate of Return - 2%; (7) Participant Fees: Annual Basis Point Charge - 0.09%; (8) Participant Fees: Annual Dollar Cap - \$115; (b) request that staff draft

a proposed budget policy for adoption of the Board to address roles and responsibilities of the DC Plan Manager and the Board and including a timetable for conducting DCP resource reviews, developing annual budget requests to the Mayor and City Council, and engaging with stakeholders in support of its resource objectives; and (c) postpone further review of offering platform-based investment advice pending successful completion of City and DWP payroll system conversions; the motion was unanimously adopted.

7. BOARD REPORT 21-64: RECRUITMENT/SELECTION PROCESS FOR DC PLAN MANAGER

Presentation Highlights:

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

- The Board’s Ad Hoc DC Plan Manager Selection Committee (Committee) regarding the DC Plan Manager recruitment process provided the recommendations in the report.
- There were a smaller number of candidates meeting minimum qualifications resulting from the recruitment process that produced several findings and recommendations.
 - Civil Service Exemption: The Personnel Department’s Selection Division indicated it is still possible for the Board to pursue exemption of this position, which would provide additional options for conducting recruitment and meet the Board’s original intent for the position.
 - Executive Recruitment Service: The Committee recommends exploring options for working with an executive recruiter so that the Board would have a potential option of utilizing those services if the position exemption is approved.
 - Current DCP Staffing: The Committee recommends that the Board formally recommend that the Personnel Department fill the vacant Senior I position for the DCP as soon as practical and provide training to the incoming Benefits Division Chief and Senior II positions regarding the DCP so that the positions can continue to support the DCP until the DC Plan Manager position is filled.
 - Exam Process: If a civil service exam process occurs a Board member would be solicited to participate with staff it may be helpful to solicit an outside rater.
 - Certification Interviews: The Committee recommends the interviews be conducted by members of the Board interested in participating, which would be done during closed session.

Board Member Comments/Questions & Responses:

Mr. Moutes asked if the City Attorney would be available to help draft language to appeal to the fiduciary responsibility of the Mayor to approve of the Civil Service exemption of the DC Plan Manager position. Mr. Montagna stated that staff would reach out for assistance.

Mr. Wolfson asked what the process would be if the exemption is granted after the position is filled. Mr. Montagna indicated that would require further review but candidates could be advised of this potentiality as part of the process. Mr. Ciranna asked how many current candidates are being considered and if they were from inside or outside the City. Mr. Montagna indicated that information was not yet available. Mr. Ciranna noted that LAFPP’s CIO position cost \$90,000 for

executive recruitment. Mr. Moutes stated he hopes the Board does not need to utilize an executive recruiter and that the right candidate is already in the pool of applicants.

Mr. Ciranna inquired about the timing of the recruitment process. Mr. Montagna indicated that the list should be established within the next few weeks, and staff would begin working on the exemption letter immediately. Mr. Moutes asked to include a requested due date in the letter to try to encourage a prompt response.

Board Action:

A motion was made by Mr. Guglielmo, and seconded by Mr. Ciranna, that the Board (a) authorize the Board Chairperson to, in consultation with staff, draft and submit a communication to the Office of the Mayor renewing the Board’s request that the DC Plan Manager position be exempted from civil service; (b) request that staff develop a proposal for the most expedited process practical for securing the services of an executive recruiting firm; (c) recommend to the Personnel Department that the vacant Senior Benefits Analyst I position dedicated to the DCP be filled as soon as practical; (d) recommend to the Personnel Department that it, upon filling the Employee Benefits Division’s successor Chief and Senior Benefits Analyst II positions, provide DCP administrative training to these staff so they can support the DCP until the permanent appointment of a DC Plan Manager; (e) solicit a Board member volunteer to serve as an examination rater and request that staff solicit participation from a comparable large plan executive administrator to serve, if available, as an additional rater for the DC Plan Manager examination; and (f) find that final selection interviews should be conducted by all Board members interested in participating; the motion was unanimously adopted.

8. BOARD REPORT 21-65: INVESTMENT CONSULTING SERVICES CONTRACT

Presentation Highlights:

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

- Mercer has reduced its flat-fee costs for providing ongoing performance management monitoring to \$80,000 annually as well as holding its hourly rates consistent with the current expiring contract.

Board Member Comments/Questions & Responses:

Mr. Ciranna thanked Mercer for their work with the Investments Committee and excellent services. Mr. Moutes also thanked Mr. Muir and the Mercer team for their work.

Board Action:

A motion was made by Mr. Ciranna, and seconded by Mr. Wolfson, that the Board (a) finalize its approval of, and a five-year contract term for, Mercer Investment Consulting, Inc. to provide Deferred Compensation Plan investment consulting services, for a five-year contract term beginning January 1, 2022, and ending December 31, 2026; (b) direct staff to negotiate and draft the necessary contract with Mercer 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.

9. QUARTERLY INVESTMENT & ECONOMIC REVIEW: THIRD QUARTER 2021

Presentation Highlights:

Mr. Muir presented the report and provided the following highlights:

- Page 3 – Third Quarter performance was subdued with a transition away from growth stocks as large-cap stocks performed well and small/mid-cap stocks rotated out of favor.
 - The US dollar has been strong which has led to international equity sell-offs.
 - The expectation is that rate hikes will begin gradually with higher short-term rates in 2022, which may have negative effects on bond results.
- Page 7 – Sector results in US equities were generally flat for in the third quarter.
- Page 8 – The MSCI US Index fell from 29.7 to 25.9.
- Page 15 – Assets declined \$7.0 million.
- Page 18 – Wells Fargo Asset Management has sold under the new brand named Allspring, to which Galliard now belongs.
- Page 19 – Assets are currently at \$8.9 billion, a \$1.4 increase from last year.
 - Domestic equity has increased to 38% and stable value has decreased to 14.6% of DCP assets.
 - Brokerage window assets increased to 14.2% from 11.4%.
- Page 21 – The fund net expense ratio after the expense rebate is at 0.16%. After additional expenses, the total expense ratio is 0.19%, which is very competitive.
- Page 23 – Active management in the funds is exceeding benchmarks.
- Page 24 – The primary contributor to mid-cap performance was the Voya Mid-Cap Opportunities Fund.
- Page 25 – DFA has improved and continues to be competitive.

Board Member Comments/Questions & Responses:

There were no comments or questions from the Board.

10. BOARD REPORT 21-66: 2021 NATIONAL RETIREMENT SECURITY MONTH CAMPAIGN RESULTS

Presentation Highlights:

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

- The 2021 National Retirement Security Month (NRSM) campaign was themed “LA’s the Place” and featured an online interactive quiz, dedicated landing page, and a special collaboration with the Broadcasting Retirement Network.
- Staff promoted the campaign via Citywide and Voya emails, postcard mailings, newsletter ads, social media, and weekly prize drawings.
- The 2021 Campaign resulted in the highest engagement numbers to date for the DCP, with 8,277 total participants (an increase of over 50% from prior years), 23,786 unique

page views on the website (an increase of 164% over prior years), over 3,000 contribution changes, and a 57% increase in total enrollments.

- Staff is launching a targeted communications outreach using a customized email and postcard to 426 individuals who participated in the campaign but are not presently enrolled in the DCP.
- Future years will have a greater focus on engagement with the retiree population.

Board Member Comments/Questions & Responses:

Mr. Ciranna congratulated staff on a great campaign and fantastic numbers.

Board Action:

A motion was made by Mr. Sandoval, and seconded by Mr. Ciranna, that the Board receive and file the report; the motion was unanimously adopted.

**11. BOARD REPORT 21-67: DEFERRED COMPENSATION PLAN PROJECTS AND ACTIVITIES
REPORT: NOVEMBER 2021**

Presentation Highlights:

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

- Staff's new proactive service to support participants nearing their maximum contributions by monitoring end of year contributions helped over 300 participants meet their contribution limits and maximize savings.
- A status update on each of the strategic initiatives is provided in Attachment A.

Board Member Comments/Questions & Responses:

Mr. Ciranna thanked staff for the hard work and innovation in continuing to find ways to help participants.

Board Action:

A motion was made by Mr. Ciranna, and seconded by Mr. Guglielmo, that the Board receive and file the report; the motion was unanimously adopted.

12. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Ciranna requested a monthly update to the DC Plan Manager recruitment and selection process.

13. NEXT MEETING DATE

A regular meeting was noted for January 18, 2022, at 9:00 a.m.

14. ADJOURNMENT

The meeting was adjourned at 10:43 a.m.
Minutes prepared by staff member Eric Lan.