

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

PROPOSED MINUTES
MEETING OF OCTOBER 30, 2020 – 1:00 p.m.
CONDUCTED VIA TELECONFERENCE

COMMITTEE MEMBERS

Present:

Raymond Ciranna, Chairperson
Josh Geller
Hovhannes Gendjian
Neil Guglielmo

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

Mr. Ciranna called the meeting to order at 1:04 p.m.

2. PUBLIC COMMENTS

An unidentified member of the public made a comment that did not pertain to any item on the meeting agenda. Mr. Hong requested that all public comments be made with a sense of decorum.

3. MINUTES

Board Action:

A motion was made by Mr. Gendjian, and seconded by Mr. Guglielmo, to approve the minutes of the January 14, 2020 regular meeting of the Board of Deferred Compensation Administration Investments Committee; the motion was unanimously adopted.

4. INVESTMENTS COMMITTEE REPORT 20-02: STABLE VALUE FUND REQUEST FOR PROPOSAL (RFP)

Presentation Highlights:

Mr. Steven Montagna introduced Mr. Devon Muir and Mr. Preet Prashar of Mercer Investments (Mercer) to provide a Stable Value primer, and an evaluation of the responses to the Stable Value Fund RFP.

Mr. Muir and Mr. Prashar presented the following:

Stable Value Primer (Attachment A)

- Page 2 – Capital preservation in retirement plans typically have three primary objectives – to provide yield, stability, and liquidity through Stable Value funds or Money Market/FDIC-backed funds.
- Page 2 – 75% of deferred compensation plans offer a Stable Value Fund option.
- Page 3 – The DCP uses Custom Separate Stable Value Accounts, which allows the DCP to own the assets.
- Page 6 – Separate Stable Value Accounts allow for risk diversification and can be managed by a single or multiple bond managers.
- Page 8 – Equity Wash Provisions are designed to restrict participants from attempting to arbitrage interest rates by trading in and out of interest-bearing investments.

Evaluation of Responses to the RFP (Attachment B)

- Page 2 – Background of the RFP and a list of the 14 firms submitting a proposal in response to the RFP.
- Pages 3 to 4 – Candidate overviews of the 14 firms.
- Page 5 – The RFP evaluation process focused on the following factors: organizational strength and continuity, investment experience, investment approach and process, investment performance, portfolio transition, administration and reporting, and fees. The greatest difference between proposers was in investment experience.
- Page 6 – Summary evaluation of each firm’s proposal based on the RFP evaluation factors with a color-coded ranking – dark green is excellent, green is favorable, yellow is reasonable, and red is less desirable.
- Page 9 – Organizational Strength and Continuity – All of the proposers exhibited signs of well-managed businesses with a significant number of personnel and office locations. While some firms have slightly more favorable characteristics in certain dimensions, there was not a critical differentiator among the proposers within this category.
- Page 11 – Investment Experience – All of the proposers ranked excellent in their historical management of stable value assets. However, for Stable Value assets under management (AUM), five proposers ranked “less desirable” due to their assets under management being less than the DCP’s Stable Value assets of \$1.35 billion.
- Pages 12 and 13 – Galliard, Invesco, and GSAM are market leaders in overall Stable Value assets under management, with Galliard and Invesco managing 44% of the separate accounts in the context of all separate accounts managed by the 14 firms combined.

- Page 14 – DCP policy has been to target the City’s portfolio comprising less than 20% of the manager’s total assets at time of hire.
 - Mr. Ciranna asked if 20% is a reasonable threshold. Mr. Muir replied that he believes the Board set an appropriate threshold.
- Pages 18 – Investment Approach and Process – Managers with average duration greater than 2.1 to 3.5 years were viewed favorably while those that often exceeded 3.5 years (DCP maximum guideline) were viewed less favorably. Similarly, managers which tended to run short duration were viewed less favorably.
- Page 20 – Breakdown of each firm’s proposed portfolio allocations with the estimated number of underlying funds.
- Page 21 – Wrap provider diversity should be well-diversified and ICMA’s and Putnam’s allocations could potentially result in liquidity issues; Great West’s 48% allocation represents single wrap risk.
- Page 22 – Market book ratios above 100% indicate the manager historically navigated interest rates and credit cycles well. Ratios too high or low are not as favorable because they may indicate undesired risk.
- Pages 25 to 26 – Investment Performance – Cumulative fund performance was relatively consistent across all providers.
- Page 28 – Portfolio Transition, Administration, and Reporting – Most managers provided steps for transition plans. Mercer has confidence in all providers to manage a transition well.
- Page 28 – Several proposers do not consider the self-directed brokerage account a competing option.
- Page 30 – Fees – All fees provided by proposers are competitive. Investment contract (wrap) fees are generally consistent, but firms with greater assets are in a better position to negotiate contracts.

Board Member Comments, Questions, and Responses:

Mr. Gendjian thanked Mercer for the detailed analysis and asked what the best next step would be. Mr. Muir stated that the DCP Board historically requests a short list of three to five providers.

Mr. Gendjian asked what the cost would be of a transition from the incumbent to a new provider. Mr. Muir stated that there are underlying transition costs of removing assets via cash. Mr. Prashar indicated that a transition of in-kind assets would be preferable, and the transition could take six to eight months.

Mr. Ciranna asked if the Committee members would be comfortable sharing their short list of top firms. Mr. Guglielmo listed Galliard, Invesco, T. Rowe Price, Vanguard, and PIMCO as his top choices. Mr. Gendjian listed Galliard, Invesco, PIMCO, and Vanguard as his top choices. Mr. Geller agreed with Mr. Gendjian. Mr. Ciranna stated that Galliard and Invesco stood out most based on their size and ability to influence wrap providers, and listed PIMCO and Vanguard as potential additions.

Mr. Montagna asked how the Committee would like to proceed. Mr. Ciranna stated he was comfortable bringing these options to the Board if staff and Mercer could clarify the brokerage options for PIMCO and Vanguard's transition plans. Mr. Ciranna asked the Committee if there was a need for investor presentations. Mr. Guglielmo stated he is familiar with the firms and does not think it would be necessary. Mr. Gendjian stated it may offer an opportunity for the Board to interact and receive education about Stable Value funds. Mr. Geller agreed but stated that he did not think presentations would be necessary. Mr. Ciranna stated he believed the Mercer presentation was thorough and presentations would not be necessary at this stage. Mr. Montagna indicated that Mercer and staff could present at the next Board meeting with the stable value primer, evaluation of the RFP proposal, and summary of the Committee's discussion. He indicated the Board would have the option to request proposer presentations.

Committee Action:

A motion was made by Mr. Guglielmo, and seconded by Mr. Geller, that the Investments Committee recommend that the Board consider Galliard, Invesco, Vanguard, and PIMCO as the top tier proposers for the Stable Value Fund RFP and include an option for the Board to request oral presentations of the top tier proposers; the motion was unanimously adopted.

5. REQUEST FOR FUTURE AGENDA ITEMS

There were no requests for future agenda items.

6. ADJOURNMENT

The meeting was adjourned at 3:45 p.m.

Minutes prepared by staff member Eric Lan.