

REPORT FROM

OFFICE OF THE CITY ADMINISTRATIVE OFFICER

Date: January 3, 2014

CAO File No. 0150-10130-0000

Council File No. 13-1599

Council District: All

To: The Personnel and Animal Welfare Committee

From: Miguel A. Santana, City Administrative Officer *MAS*

Reference: Report from Personnel Department dated November 21, 2013; referred by the Personnel and Animal Welfare Committee for report

Subject: **PROPOSED CONTRACT AMENDMENTS WITH STATE STREET GLOBAL ADVISORS AND GALLIARD CAPITAL MANAGEMENT FOR THE CITY OF LOS ANGELES DEFERRED COMPENSATION PLAN INVESTMENT MANAGEMENT SERVICES**

SUMMARY

The Personnel Department requests authority on behalf of the Board of Deferred Compensation Administration (BDCA) to execute Amendment No. 2 to Contract No. C-116169 with State Street Global Advisors (Contractor) and Amendment No. 1 to Contract No. C-115721 with Galliard Capital Management (Contractor) to provide investment management services for the Russell 2000 Index Fund and the Stable Value Fund, respectively, for the City of Los Angeles Deferred Compensation Plan (DCP). The proposed Amendments would extend the term of the contract with State Street Global Advisors by eighteen months from January 1, 2014 to June 30, 2015 and with Galliard Capital Management by twelve months from July 1, 2014 through June 30, 2015. The total compensation is based on the value of assets in the fund and the fee schedule established in each contract. In order to provide DCP participants with a broadly diversified investment menu, it is recommended that each contract be extended to June 30, 2015 to maintain service continuity for Plan participants. The BDCA reviewed and approved the contract extensions on November 19, 2013, subject to approval of the City Council.

The City of Los Angeles DCP (the Plan) is a voluntary, supplementary retirement savings program available to full-time civilian, sworn, and Department of Water and Power (DWP) employees who are contributing members to their retirement system. The DCP provides eligible employees the opportunity to voluntarily set aside a portion of their salary into the Plan to invest pre-tax or after-tax dollars into investment vehicles offered through the DCP to build future wealth and retirement security. DCP participants pay all costs of the Plan including administrative, consulting, and investment costs through fees collected from Plan participants. Accordingly, the City does not contribute any funds to administer the Plan. The Plan currently has approximately \$4.1 billion in assets and over 40,000 participants.

The Plan is governed by a nine-member BDCA, which has authority to enter into contracts to assist in its provision of Plan services, including third-party administration, investment management, and consulting services contracts for up to five years in accordance with Los Angeles Administrative Code (LAAC) Section 10.5.

The BDCA entered into investment management service contracts with State Street Global Advisors for portfolio management of the Russell 2000 Index Fund and Galliard Capital Management for portfolio management of the Stable Value Fund in January and July 2009, respectively, following a competitive search process that concluded that same year. As of June 30, 2013, 9,057 DCP participants were utilizing the Russell 2000 Index Fund and 13,001 DCP participants were utilizing the Stable Value Fund as an investment option. These options are important components of the DCP because they provide Plan participants with a broad menu of investment options. In order to ensure these investment options are available to Plan participants on a continual basis, it is recommended that the contracts with State Street Global Advisors and Galliard Capital Management for management of these funds be extended to June 30, 2015.

In addition, the BDCA is currently in the process of reviewing its options for modifying the method by which it conducts searches for its investment managers. Such review is necessary in order to provide for the most efficient allocation of Plan resources. Extending the contracts to June 30, 2015 will provide sufficient time for the BDCA to complete this review and place the Russell 2000 and Stable Value investment manager searches into a broader search schedule for future competitive bidding. Each of the contracts contains at-will termination provisions which allow the BDCA to terminate the contracts prior to June 30, 2015, should the BDCA determine that doing so would be in the best interest of the Plan.

Per Charter Section 1022, the Personnel Department determined that this type of work is highly specialized, and that there are no classifications of City employees that can perform these services. As such, the Contractors will be compensated based on the value of the assets in each fund and the fee schedule established in each contract for the complete and satisfactory performance of the terms of the contract.

In accordance with LAAC Section 10.5, City Council approval of the proposed amendments is required because the term of each contract exceeds five years. According to the Personnel Department, the Contractors have complied with all City contracting requirements, policies, and procedures.

RECOMMENDATIONS

That the City Council approve, and authorize the Board of Deferred Compensation Administration to execute the following amendments for the City of Los Angeles Deferred Compensation Plan, with total compensation based on the value of assets in the fund and the fee schedule established in each contract for the complete and satisfactory performance of the terms of the contract, subject to the review and approval of the City Attorney:

1. Amendment No. 2 to Contract No. C-116169 with State Street Global Advisors, to extend the term by eighteen months for a new term effective January 1, 2009 through June 30, 2015 to provide investment management services for the Russell 2000 Index Fund; and
2. Amendment No. 1 to Contract No. C-115721 with Galliard Capital Management to extend the term by twelve months for a new term effective July 1, 2009 through June 30, 2015 to provide investment management services for the Stable Value Fund.

FISCAL IMPACT STATEMENT

There is no fiscal impact to the General Fund associated with the recommendation provided in this report. All costs of administering the City of Los Angeles Deferred Compensation Plan, including investment management costs are funded solely by participant fees.

MAS:JMY:11140026h

Attachments

**SECOND AMENDMENT TO CITY CONTRACT NO. C-116169 BETWEEN
THE CITY OF LOS ANGELES AND
STATE STREET GLOBAL ADVISORS
FOR INVESTMENT MANAGEMENT SERVICES**

This Second Amendment to City Contract No. C-116169, effective January 1, 2014, is entered into by and between the City of Los Angeles, a municipal corporation (hereinafter referred to as "City"), and State Street Global Advisors (SSgA), a division of State Street Bank and Trust Company ("State Street"), a Massachusetts corporation, (hereafter referred to collectively as "Contractor").

RECITALS

1. Effective January 1, 2009, through December 31, 2013, City and Contractor entered into City Contract No. C-116169 (the "Contract") for Contractor to provide investment management services for a Russell 2000 Index fund offered within the City of Los Angeles Deferred Compensation Plan;
2. The term of the Contract ends on December 31, 2013, but the City has a continuing need for investment management services for a Russell 2000 Index Fund within the City of Los Angeles Deferred Compensation Plan;
4. City and Contractor are desirous of amending the Contract for the purposes of: (a) extending the provision of services under the Contract for an additional period beginning January 1, 2014, through June 30, 2015, and (b) performing otherwise under the same terms, covenants and conditions as are contained in the Contract, except as otherwise provided herein;
5. The City Council, at its meeting of _____, authorized the Board of Deferred Compensation Administration to renew the City's contract with Contractor for the period of January 1, 2014 through June 30, 2015; and
6. Funding for the services provided hereunder by Contractor is exclusively paid from fees paid by Deferred Compensation Plan participants who are investors in the fund managed by Contractor;

NOW, THEREFORE, the City and Contractor, in consideration of the premises and of the terms, covenants and conditions set forth herein, hereby covenant, agree and represent as follows:

1. Article 5.0, Term of Agreement, is hereby modified to read as follows: "This Contract shall commence January 1, 2009 and end June 30, 2015, subject to the termination provision contained herein."
2. Attachment A, entitled "Standard Provisions for City Contracts (Rev. 03/09)" is hereby deleted and replaced with "Standard Provisions for City Contracts (Rev. 06/12)," and incorporated herein by reference.

IN WITNESS THEREOF, the parties hereto have caused this First Supplemental Agreement to be executed by their respective duly authorized representatives.

THE CITY OF LOS ANGELES

STATE STREET GLOBAL ADVISORS,
A division of State Street Bank and Trust Company

By _____
EUGENE K. CANZANO
Chairperson, Board of Deferred
Compensation Administration

By: _____

Date _____

Date _____

By: _____

Date _____

APPROVED AS TO FORM:

ATTEST:

MIKE FEUER, City Attorney

JUNE LAGMAY, City Clerk

By _____
CURTIS S. KIDDER
Assistant City Attorney

By _____
Deputy City Clerk

Date _____

Date _____

* Approved Signature Methods:

1. Two signatures: One of the Chairman of the Board of Directors, President, or Vice-President, and one of the Secretary, Assistant Secretary, Chief Financial Officer, or Assistant Treasurer.
2. One signature of a Corporate-designated individual together with a properly attested resolution of the Board of Directors authorizing the individual to sign

City Business License Number: _____

Internal Revenue Service Taxpayer Identification Number: **04-1867445**

Agreement Number **C-116169**

Phone: — Fax:

**FIRST AMENDMENT TO CITY CONTRACT NO. C-115721 BETWEEN
THE CITY OF LOS ANGELES AND
GALLIARD CAPITAL MANAGEMENT, INC.
FOR INVESTMENT MANAGEMENT SERVICES**

This First Amendment to City Contract No. C-115721, effective January 1, 2014, is entered into by and between the City of Los Angeles, a municipal corporation (hereinafter referred to as "City"), and Galliard Capital Management, Inc., a Minnesota corporation, (hereafter referred to collectively as "Contractor").

RECITALS

1. Effective July 1, 2009, though June 30, 2014, City and Contractor entered into City Contract No. C-115721 (the "Contract") for Contractor to provide investment management services for a Stable Value Fund offered within the City of Los Angeles Deferred Compensation Plan;
2. The term of the Contract ends on June 30, 2014, but the City has a continuing need for investment management services for a Stable Value Fund within the City of Los Angeles Deferred Compensation Plan;
4. City and Contractor are desirous of amending the Contract for the purposes of: (a) extending the provision of services under the Contract beginning July 1, 2014, through June 30, 2015, and (b) performing otherwise under the same terms, covenants and conditions as are contained in the Contract, except as otherwise provided herein;
5. The City Council, at its meeting of _____, authorized the Board of Deferred Compensation Administration to renew the City's contract with Contractor for the period of July 1, 2014 through June 30, 2015; and
6. Funding for the services provided hereunder by Contractor is exclusively paid from fees paid by Deferred Compensation Plan participants who are investors in the fund managed by Contractor;

NOW, THEREFORE, the City and Contractor, in consideration of the premises and of the terms, covenants and conditions set forth herein, hereby covenant, agree and represent as follows:

1. Article II (A), Time of Performance, is hereby modified to read, "The term of this Agreement will commence on July 2009 and end on June 30, 2015, subject to the termination provision contained herein."
3. Attachment A, entitled "Standard Provisions for City Contracts (Rev. 03/09)" is hereby deleted and replaced with "Standard Provisions for City Contracts (Rev. 06/12)," and incorporated herein by reference.

IN WITNESS THEREOF, the parties hereto have caused this First Supplemental Agreement to be executed by their respective duly authorized representatives.

THE CITY OF LOS ANGELES

GALLIARD CAPITAL MANAGEMENT, INC.

By _____
EUGENE K. CANZANO
Chairperson, Board of Deferred
Compensation Administration

By: _____

Date _____

Date _____

By: _____

Date _____

APPROVED AS TO FORM:

ATTEST:

MIKE FEUER, City Attorney

JUNE LAGMAY, City Clerk

By _____
CURTIS S. KIDDER
Assistant City Attorney

By _____
Deputy City Clerk

Date _____

Date _____

* Approved Signature Methods:

1. Two signatures: One of the Chairman of the Board of Directors, President, or Vice-President, and one of the Secretary, Assistant Secretary, Chief Financial Officer, or Assistant Treasurer.
2. One signature of a Corporate-designated individual together with a properly attested resolution of the Board of Directors authorizing the individual to sign

City Business License Number: **2330641-0001-1**

Internal Revenue Service Taxpayer Identification Number: **41-1813702**

Agreement Number **C-115721**

Phone: (612) 667-3219 Fax: _____