

REPORT
FROM



THE PERSONNEL
DEPARTMENT

TO: THE HONORABLE MEMBERS OF THE PERSONNEL COMMITTEE	DATE: 11/21/2013
REFERENCE:	COUNCIL FILE:
SUBJECT: Contract Extension Request – Deferred Compensation Plan Stable Value Fund and Russell 2000 Index Fund	

RECOMMENDATION

That the City Council authorize the Board of Deferred Compensation Administration to renew contracts with Galliard Capital Management (C-115721) and State Street Global Advisors (116169) through June 30, 2015, for Stable Value Fund and Russell 2000 Index Fund investment management services, respectively.

SUMMARY

The City of Los Angeles Deferred Compensation Plan (DCP) is an optional supplementary retirement savings program established in 1983 under Section 457 of the Internal Revenue Code as well as City of Los Angeles Administrative Code Division 4, Chapter 14. All City employees, including employees of the Department of Water and Power, have the option to voluntarily set aside a portion of their salary into the Plan. Plan participants pay all costs of the Plan (the City does not contribute any monies), including administrative, consulting, investment and staffing costs. The Plan is governed by the City's Board of Deferred Compensation Administration. The Board has the authority to enter into contracts for providing Plan services, including third-party-administration, investment management, and consulting services. The Plan currently has approximately \$4.1 billion in assets and over 40,000 participants.

Certain investment options in the City's Plan are offered through vehicles requiring contracts between the Plan and the investment provider. Under City of Los Angeles Administrative Code Division 10, Chapter 1, the Board has the authority to enter into investment management services contracts for up to five years. Any contract exceeding that five-year term requires City Council authorization.

Contracts with Galliard Capital Management (C-115721) and State Street Global Advisors (116169), for Stable Value Fund and Russell 2000 Index Fund investment management services, respectively, are expiring over the next six months. The Board is requesting extension of both of these contracts through June 30, 2015, in order to provide for the most efficient allocation of Plan resources in its fund search processes.

Submitted by:


EUGENE K. CANZANO, CHAIRPERSON
Board of Deferred Compensation Administration

DISCUSSION

The nine-member Board of Deferred Compensation Administration was established by the City Council to administer the City's Deferred Compensation Plan. The Board is composed of the following:

1. General Manager Personnel Department
2. General Manager Los Angeles City Employees' Retirement System
3. General Manager Fire and Police Pensions Department
4. Retirement Plan Manager Department of Water & Power Employees' Retirement Plan
5. Elected Representative – Participant Member of Los Angeles City Employees' Retirement System
6. Elected Representative – Participant Member of Fire and Police Pensions Plan
7. Elected Representative – Participant Member of Department of Water & Power Employees' Retirement Plan
8. Elected Representative – Retired Plan Participants
9. Organized Labor Representative

Per the Administrative Code, the Board is charged with "sole authority for the operation of the Plan in accordance with its terms," including the selection of firms to provide investment management services. The Board has adopted an Investment Policy Statement (IPS) and utilizes the services of a consultant and Personnel Department staff (which provides operational management of the Plan) as part of exercising its fiduciary responsibilities in selecting Plan investment options and providers.

The Plan has a core investment menu which includes the following investment options:

- Bank Deposit Savings Account (FDIC-Insured)
- DCP Stable Value Fund
- Ultra-Conservative Profile (Asset Allocation) Fund
- Conservative Profile (Asset Allocation) Fund
- Moderate Profile (Asset Allocation) Fund
- Aggressive Profile (Asset Allocation) Fund
- Ultra-Aggressive Profile (Asset Allocation) Fund
- DCP Large-Cap Fund
- DCP Mid-Cap Fund
- Russell 2000 Index Fund
- DWS EAFE Equity Index Fund
- Fidelity Diversified International Fund

The Plan also offers a Self-Directed Brokerage Option (SDBO) which provides participants with access to thousands of additional mutual funds as well as stocks, bonds, exchange-traded-funds, and other investment choices.

The Board has a number of investment vehicles within which investments can be selected by Plan participants, including mutual funds, commingled funds, separate accounts, and bank deposit accounts. Mutual funds do not involve contracts between a plan sponsor such as the City and an investment manager. All other investment vehicle types require contracts.

Galliard Capital Management

Presently the City has a contract with Galliard Capital Management to provide investment management services for the DCP Stable Value Fund that expires on June 30, 2014. The current contract with Galliard Capital Management has been in effect since July 2009, following a competitive search process which concluded that year. As of June 30, 2013 approximately 13,001 DCP participants with a total of \$867,200,597 in assets were utilizing the Stable Value Fund as an investment option. The Board recommends extending the contract with Galliard Capital Management for one additional year through June 30, 2015.

State Street Global Advisors

The City has a contract with State Street Global Advisors to provide investment services for the DCP Russell 2000 Index Fund option that expires on December 31, 2013. The current contract with State Street Global Advisors has been in effect since January 2009, following a competitive search process which concluded that same year. As of June 30, 2013, approximately 9,057 DCP participants with a total of \$170,729,805 in assets were utilizing the Russell 2000 Index Fund option. The Board recommends extending the contract with State Street Global Advisors for 18 months, through June 30, 2015.

The proposed contract extensions would allow the City to maintain the current Stable Value Fund and Russell 2000 Index Fund options for plan participants. The Board is presently considering options for modifying the method by which it conducts searches for its investment managers. It is doing this in order to provide for the most efficient allocation of Plan resources, all of which are funded strictly and solely through participant fees.

In order to provide time to complete this review and place the Stable Value and Russell 2000 manager searches into a broader search schedule, the Board is requesting authorization from the City Council to extend the contracts with the incumbent providers through June 30, 2015. Each of these contracts already contains at-will termination provisions. As a result, extending the termination dates does not preclude the Board from terminating them at a date prior to June 30, 2015, if it should determine that doing so would be in the best interests of Plan participants.

Maintaining these options in the Plan on a continuous basis is important to providing Plan participants with a broadly diversified investment menu. Both the Stable Value Fund and the Russell 2000 Index Fund are important components of the City Plan's broadly diversified asset mix.

FISCAL IMPACT

There is no fiscal impact to the General Fund in connection with these contracts or any other aspect of administration of this program. Per the Administrative Code, all costs of administering the program are funded strictly and solely by participant fees.