CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF FEBRUARY 16, 2010 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:	**Not Present:**
Eugene Canzano, Chairperson	n/a
Richard Kraus, Vice-Chairperson	
Sally Choi, Second Provisional Chair	
Maggie Whelan, Third Provisional Chair	
Sangeeta Bhatia	
Cliff Cannon	
John R. Mumma	
Michael Perez	

Staff:

Personnel:	Alejandrina Basquez
	Steven Montagna
	Claudia Guevara

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:05 a.m. Mr. Canzano indicated that he wanted to begin the meeting by acknowledging that staff member Natasha Gameroz would be leaving the program to accept a position with the Los Angeles City Employees' Retirement System. Steven Montagna indicated that Ms. Gameroz had been a dedicated and exemplary worker, made significant contributions to the Plan and would be greatly missed, particularly with respect to her outstanding customer service skills. Board members thanked her and wished her well. Ms. Gameroz thanked the Board for the opportunity to have worked with them and with the Plan.

2. PUBLIC COMMENTS

None.

3. MINUTES

Sangeeta Bhatia asked if it is was possible to note in current and future minutes those members not in attendance at each meeting. Staff indicated this information could be provided. **A motion was then made by Richard Kraus, seconded by Sally Choi, to adopt the minutes of the 12/29/09 Board meeting, as amended; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION: PIMCO

Jason Kezelman of PIMCO was present to review performance information for the PIMCO Total Return Fund. Mr. Kezelman began by discussing the general bond market background, indicating that 2009 had seen a return to risk. He stated that Treasuries had sold off and agency mortgages improved as the Federal Reserve had effectively guaranteed that portion of the market. He indicated that municipal debt had also performed well, returning 15% in 2009.

Mr. Kezelman indicated that in 2009 the Total Return Fund had returned 13.8% vs. 5.9% for its benchmark index. He stated that the Fund's goal was to generate 1-1.25% of excess return each year, so this out-performance was unusual. He stated that 2009 had been a year in which every one of the Fund's major strategies had worked and that it has been the best relative performance year ever. He reviewed each of the major categories in which the Fund had outperformed, noting that in 2009 the Fund had taken overweight positions in Mortgage-Backed Securities (MBS) and benefited from security selection with corporate bonds and strategic currency positions. He stated that the Fund's average duration was 4.7 years vs. 4.6 for the benchmark.

Mr. Kezelman indicated that moving into 2010 the Fund was taking a defensive posture with respect to the U.S. because of its high debt loads, and was taking a position in Germany and some emerging markets, where debt burdens were significantly lower. He indicated that the Fund was now moving out of MBS because the sector appeared rich and because mortgage rates looked set to rise. He stated that corporate bond exposure had likewise been trimmed.

He said that looking forward PIMCO was taking a more conservative investing approach because it was nervous about the direction of interest rates in mature economies, including the U.S., where significant de-leveraging was still required. He indicated that in the U.S. private sector de-leveraging was ongoing, unemployment was persistent, and there was an unprecedented trajectory with respect to public debt. He indicated that so much had already been borrowed that it was unclear how much was left to help with the next emergency. He stated that, by contrast, no debt bubble existed in emerging markets. Further, he stated that while U.S. Gross Domestic Product growth should be strong in the first half of the year, it might not be as good in the second half due to so much of the growth being attributable to one-time stimulative factors. Mr. Kezelman then briefly reviewed the firm's growth prospects and how it had been able to hire some capable individuals as a result of consolidation in the financial services industry.

Mr. Kraus asked if the Fund was taking more of an international focus and if there was a potential to stray from its mandate. Mr. Kezelman replied that the Fund was not taking positions outside the limits of its prospectus, and its investments in Germany should be viewed more as tactical positions. Mr. Kraus next asked Mr. Kezelman to elaborate on the information contained in Page 17 of the report, specifically the time frame defining an "old normal" vs. a "new normal." Mr. Kezelman replied that the old normal really was the period from 2000-2008 when the U.S. had artificially inflated real estate values as a result of easy credit in the U.S. economy. He further added that PIMCO believed that in a low-inflation, low-growth environment the next 3-5 years would not be good for equities, and that severe market dislocations might occur more frequently.

Mr. Canzano asked if there was a potential for the Fund to exceed its limits on foreign exposure. Mr. Kezelman replied that there were a number of controls in place to ensure that such thresholds were not exceeded even within a trading day. He indicated that trade orders involving positions above the limits would be rejected, and if the size of an allocation grew beyond its prospectus limits a sell order would be triggered.

Mr. Kezelman's presentation then concluded.

5. BOARD REPORT 10-01: PENSIONS SPECIAL ELECTION

Mr. Montagna indicated that its Board report provided the results of the recent special election for the Pensions representative on the Board of Deferred Compensation Administration. He indicated that John R. Mumma had won the seat and that staff had provided an orientation and briefing to Mr. Mumma earlier in the week. Board members welcomed Mr. Mumma.

6. BOARD REPORT 10-02: ELECTION – FIRST PROVISIONAL CHAIR

Mr. Montagna indicated that this report was generated as a result of the Labor representative on the Board, Shelley Smith, having retired and resigned her position on the Board. He stated that since Ms. Smith had been the First Provisional Chair, the Board needed to elect a replacement.

Mr. Perez asked if, given that the issue of Board Chairmanship was on the agenda, the question had ever been considered as to whether and to what degree the Personnel Department General Manager should be involved in the review and control over staff work. Mr. Canzano indicated that this was probably an issue that should be considered by the Plan Governance Committee given that they were responsible for the development of bylaws and rules governing the Board.

Mr. Canzano suggested that it might make sense to have the Second and Third Provisional Chairs move up in their positions and elect a new Third Chair. Mr. Cannon indicated his belief that Ms. Whelan, the incumbent Third Chair, had previously indicated she thought being in that specific position was appropriate for her given the demands of her schedule. Following this discussion, **a motion was made by Sangeeta Bhatia, seconded by Mike Perez, to establish Sally Choi as the First Provisional Chair; the motion was unanimously adopted. A motion was then made by Mike Perez, seconded by Richard Kraus, to establish Cliff Cannon as the Second Provisional Chair; the motion was unanimously adopted.**

7. BOARD REPORT 10-03: SELF-DIRECTED BROKERGE OPTION: SCHWAB ADVISOR NETWORK

Mr. Montagna indicated that staff was recommending that the Board reconsider a policy that was adopted in June 2009 concerning access to advisory services through the Self-Directed Brokerage Option (SDBO). Mr. Montagna indicated that this issue arose due to requests from several participants who wished to have access to the advisory network offered through the brokerage window, but there was a concern indicated by the City Attorney regarding the Plan being able to obtain indemnification from participants who wished to utilize the service.

Mr. Montagna indicated that at the time staff could not identify a process by which such indemnification could be provided, but since then had taken a closer look at options and developed a recommended approach. He indicated the approach would involve revising the disclosure language that all participants receive when they sign up for the brokerage window to make specific reference to the advisory services, and then mailing that information to all SDBO participants. Mr. Montagna indicated that, in addition, staff had been working with Great-West to revise the disclosure language for new enrollments to include reference to these services. He stated that in this way all current and new enrollees would have this information, and further indicated that he had been advised by the City Attorney that this should be sufficient to protect the Plan.

Mr. Canzano asked the Board's counsel, Anita Parys, if the staff proposal was sufficient to substantially relieve the Plan of risk. Ms. Parys indicated that she believed it would, in that the proposed language was clear that participants would be assuming liability for any participation in the SDBO or use of the advisory service. Mr. Cannon asked why the language change was necessary given that the existing language seemed very broad. Mr. Montagna replied that the City Attorney's original concern was that participants had enrolled in the Plan prior to implementation of the service and the current language did not explicitly mention this service, so the revision was in the interest of exercising an abundance of caution.

Mr. Mumma asked if participants would be required to return a document to the Plan with written acknowledgment of receipt of the materials. Mr. Montagna indicated that it would not be necessary to provide a signed acknowledgment. Ms. Parys indicated that this type of distribution of the material should be sufficient to protect the Plan. Alex Basquez indicated that additional steps could be taken to publicize the matter by placing an announcement in the quarterly newsletter and posting information on the Plan website.

Following this discussion, **a motion was made by Sally Choi, seconded by Richard Kraus, approving the use of both the Charles Schwab Institutional Group and Advisor Network for Deferred Compensation Plan Self-Directed Brokerage Option (SDBO) participants following issuance to all SDBO participants of amended release language providing specific reference to these advisory services; the motion was unanimously adopted.**

8. BOARD REPORT 10-04: DEFERRED COMPENSATION PLAN BUDGET STATUS REPORT FOR QUARTER ENDING 09/30/09

Mr. Montagna indicated that staff was recommending quarterly reimbursements to the departments providing staff support to the Plan. He indicated that in the report's rolling five-year forecast the projection for surpluses in the outlying years continued to make improvements over projections in prior reports, and that this was primarily the result of the fairly rapid recovery in Plan assets which had occurred over the past year. Following this discussion, **a motion was made by Richard Kraus, seconded by Mike Perez, to (a) receive and file the status report for Deferred Compensation Plan budget accounts for the quarter ending 09/30/09; and (b) for this same quarter, to approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for $118,217.01; City Attorney for $30,753.55; and DWP for $1,397.51; the motion was unanimously adopted**.

9. GREAT-WEST QUARTERLY REPORT AND RESULTS OF PARTICIPANT SURVEY

Usha Archer, Gary Robison, and Lisa Tilley, each of Great-West Retirement Services, were present to review Plan statistical data and the results of a recent participant survey. Ms. Archer began by indicating that account manager Rick Kramer would be retiring and that Ms. Tilley would be replacing him. She then proceeded to review the report for the quarter ending 12/31/09.

Ms. Archer began by indicating that in the fourth quarter Plan assets continued to rebound from their lows earlier in the year. She stated that participation continued to grow despite the City's lack of hiring, and had risen 50% over the past eleven years Great-West had been servicing the City's account. With respect to cash flow, she stated that the large increase in the Vanguard Institutional Index Fund was a result of closing out and mapping the Hartford Stock Fund, and the large increase in the Moderate Profile Fund was the result of closing out and mapping the Hartford Advisers Fund. She further noted that with respect to Plan distributions, the total number of full distributions was down from prior quarters although the dollar amounts were significant.

Mr. Robison spoke next and reviewed participant contact and group meeting information, indicating that the numbers had been up recently as many participants retiring under ERIP were visiting the service center or were coming to the group distribution meetings which were now taking place on a weekly basis. He noted that there had been greater interest from retiring ERIP participants in the LACERS Larger Annuity program, which was unusual.

Mr. Kraus asked if the charts were correct on page 27, and Ms. Archer replied that they looked incorrect. He also asked if the assets noted on page 31 as being in the Stable Value Fund should be changed to reflect being in the newly renamed Plan Stable Value Fund; Ms. Archer indicated that should be corrected. Mr. Kraus asked if the quarterly reports could be placed on the Plan website, and Ms. Archer and Mr. Montagna indicated that they could.

Ms. Archer next reviewed the results of the participant survey. She stated that the response rate had been somewhat less than expected at 2.8% and 1,166 total respondents, but that in the current economic and budget environment it might be difficult to get people's attention. She discussed the demographic information, covering questions on account balance, age categories, and City department breakdown.

She then discussed the specific service questions and how participants had responded, indicating that 75% of participants were either satisfied or very satisfied with the call center; 58% were either satisfied or very satisfied with the automated phone line; and 84% were either satisfied or very satisfied with the website. She indicated that similar satisfaction percentages applied to questions regarding the types of information available provided on the website, the number of ways to make account changes, and the information provided on quarterly statements.

She indicated that approximately 50% of participants had not used the Great-West paperless Online File Cabinet to manage their account records or didn't understand how it worked, so Great-West recognized it needed to do a better job of publicizing this service. She then indicated that 68 of respondents were either satisfied or very satisfied with their local representatives, but indicated that she believed in looking at the report that there may have been a problem with the calculations on these numbers. Finally, Ms. Archer indicated an overall satisfaction rate with Great-West of 90%, with only 4% expressing some degree of dissatisfaction.

Mr. Canzano noted that the numbers expressing dissatisfaction were very small and consistent across virtually all of the survey questions. Ms. Whelan also stated that the satisfaction numbers were very high and she was encouraged to see this result.

10. BOARD REPORT 10-05: STAFF REPORT

Mr. Montagna indicated that staff expected to be returning at the next meeting with a report regarding procurement, and simultaneously or shortly thereafter with a report from the Investments Committee on Plan investment option restructuring. Ms. Choi indicated that the LACERS Board was in the process of concluding its review of fiduciary insurance and she would send that information to staff for consideration as it explored this issue on behalf of the Deferred Compensation Board.

11. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Canzano indicated that he was interested in examining resources for external fiduciary training. He also asked about the status of implementation of a Plan-sponsored IRA. Mr. Montagna replied that in order to resolve that issue the question of how custodial issues would be handled would need to be addressed, and that this item was on staff's project list.

12. NEXT MEETING DATE – MARCH 16, 2010

13. ADJOURNMENT

The meeting adjourned at 11:04 a.m.

Minutes prepared by staff member Steven Montagna.