

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

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

BOARD MEMBERS:

Present:

Eugene Canzano, Chairperson
Richard Kraus, Vice-Chairperson
Maggie Whelan, Third Provisional Chair
Sangeeta Bhatia
Cliff Cannon

Not Present:

Sally Choi, Second Provisional Chair
John R. Mumma
Michael Perez

Staff:

Personnel: Alejandrina Basquez
Steven Montagna
Natasha Gameroz
Claudia Guevara

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:08 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Richard Kraus, seconded by Maggie Whelan, to adopt the minutes of the 03/16/10 Board meeting; the motion was unanimously adopted.

4. INVESTMENT PROVIDER PRESENTATION: FIDELITY

Jack McDonald and Ron Henry, both with Fidelity Investments, were present to review performance for the Fidelity Diversified International Fund. Mr. McDonald began by indicating that this Fund was the flagship international fund for Fidelity. Mr. Henry then indicated that when Fidelity had last presented the markets were sharply down, and that a year later performance had significantly improved. He provided a variety of statistics supporting this, but noted overall that much of the recovery in 2009 was led by lower

quality stocks. He indicated that the Fidelity Diversified International Funds had underperformed some of its peers as a result of its lower exposure to emerging markets, which represented approximately 5-6% of holdings. He indicated that total exposure to emerging markets was capped at 15%. Mr. Cannon asked if there was a time-frame established for moving up to that limit. Mr. Henry replied that there was no objective to move higher, that the holdings of the Fund were purely driven by stock selection, and that 7% had been the highest level reached in recent years.

Mr. Henry indicated that one of the questions Fidelity frequently received regarding this Fund related to what the firm was doing to support stock selection. He indicated that 212 new research analysts had been hired between 2005-2008, and that a number of new managers had been brought on board as well. He stated that the firm's corporate access is strong and that on average Fidelity meets with 10-14 firms on a daily basis. Mr. McDonald indicated that the firm is also frequently compared to its peers, and he indicated that the Fund would be expected to excel in a sideways market where the emphasis would be more on quality.

Mr. Henry indicated that with respect to performance the Fund had been ahead of the market prior to last year's rally, fell behind during the rally, and was ahead again after the rally. He then reviewed how much value had been added during up and down markets. He concluded the presentation by indicating that the Fund was not built to be volatile but to provide a core international focus and return. The presentation then concluded.

5. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Susan Dalton of Mercer Investment Consulting was present to review Plan investment performance for the period ending 12/31/09. Ms. Dalton began with a brief economic review, recounting that unemployment remained high, the housing market weak, and interest rates low as the year ended. She noted that within the equity markets the S&P 500 gained 6% during the quarter with technology stocks a strong performer and financial stocks under-performing. She also noted returns in fixed income and international markets.

Ms. Dalton next reviewed the Plan's investment option menu, noting that only one option, the Lazard Mid-Cap Fund, was presently noted as having Unsatisfactory performance. She reviewed Plan assets and fees, then discussed the City's investment options fund by fund. She stated that the Stable Value Fund maintained a sizable portion of participant assets, and that the Plan's bond funds were performing well, particularly the PIMCO Total Return Fund, which had generated outsized performance and was now moving away from mortgage bonds and more into international holdings.

With respect to the Plan's asset allocation funds, she indicated that the underlying benchmarks might need to be adjusted. She indicated that Growth Fund of America's long-term numbers were strong but that more recent performance had faltered, and Mercer was continuing to watch this Fund closely because of concern about Fund size.

She stated that Mercer was also closely watching the Fidelity Diversified International Fund because of concerns regarding asset size. She indicated that Fidelity had a propensity to be an asset-gatherer and in the past exhibited a reluctance to close its funds. She stated that nevertheless Mercer believed the Fund had a strong manager and Mercer thought highly of Fidelity's research capabilities.

She indicated that the Lazard Mid-Cap Fund was still failing to meet its long-term performance objectives but that more recent performance had improved and Mercer was hopeful that performance would continue to improve as the market moved to an emphasis on higher quality which was more in line with the Fund's strategy.

Mr. Canzano indicated that he'd noted the wide fee advantage the City's Plan had over its peers. Mr. Kraus thanked Mercer for incorporating the changes to the report that he'd suggested previously.

6. BOARD REPORT 10-06: INVESTMENT MANAGER PROCUREMENT

Mr. Montagna presented the staff report regarding investment manager procurement. He began by indicating that this matter concerned investment manager searches only. He stated that there were two primary types of funds that could be offered in the City's Plan: mutual funds and institutional funds. He indicated that a key difference between the two was that mutual funds were pooled investments governed by a prospectus and that institutional funds, of which there were several types, were governed by direct contractual relationships between an entity and provider. He indicated that there were approximately 4,300 mutual funds and 3,000 institutional funds, and that the City's Plan had nine of the former and two of the latter.

Mr. Montagna indicated that from the Plan's inception in 1983 until 1999 what was then an Advisory Committee chose investment options without issuing Requests for Proposal (RFPs), but rather chose funds off the fund platforms available under its former bundled administrative/investment services contracts. He stated that in 1995 the City Council acted to transfer the program from the City Treasurer to the Personnel Department, to change what was a Plan Advisory Committee to a Board, and to give the Board contracting authority. He stated that beginning in 1999, when the Plan's administrative services contracts were unbundled from its investment manager selections, the Board began issuing RFPs.

Mr. Montagna next reviewed the steps in the typical RFP process, which included using the consultant to recommend minimum criteria and a questionnaire, Board adoption of same, issuance of a public notice, vendor submission of responses, consultant analysis of the responses, development of a short list of candidates, and Board action to make the selection. He indicated that there were three problems with this approach: it was difficult to get vendors to respond, the Board typically was only able to consider a few of the potential candidates, and the City's general contracting provisions were applied as a screen against mutual funds even when no contract with a mutual fund provider would ultimately need to be executed.

He stated that staff had developed a recommended modified procurement process which was largely identical to the RFP process with the exception that the Plan would not ask potential vendors to submit information that the Plan already had. He indicated that the data points that would be analyzed were already contained within the consultant's database and thus it was not necessary to have vendors submit that information again, especially given that the process of doing so functioned to sharply limit the candidate pool, was an inefficient means of gathering information, and screened out mutual funds when a contract with the provider would not be executed.

Board members asked Anita Parys if she wished to respond. Ms. Parys indicated that her office had concerns in two areas: first, that the consultant's process for arriving at a refined list of candidate firms would not be transparent, and second, that the Board might not be meeting its fiduciary obligations. She indicated that her office had developed a memorandum which reflected these concerns and had provided it to staff. Mr. Montagna responded that the consultant's review process could be as transparent or more transparent than the process used when issuing a traditional RFP; he stated that the only real difference was in how information was gathered from the providers.

Mr. Canzano observed that the Board also had a fiduciary obligation to conduct a process that was in the best interests of Plan participants. Ms. Whelan questioned whether the references indicated by Ms. Parys were applicable to the City's Plan given that the Plan did not involve City money. Mr. Cannon asked if staff had reviewed the memo developed by Ms. Parys. Mr. Montagna replied he had but that his understanding from the City Attorney was that it was an informal document and did not represent the position of their office.

Mr. Cannon asked if vendors would ever not be interested in bidding. Mr. Montagna replied that he could not envision a circumstance in which a mutual fund company would wish to or be capable of declining an investment in its shares, although issuers of institutional funds might have problems with certain contracting requirements. Ms. Bhatia indicated that at the Department of Water and Power Retirement Plan the consultant was used to screen vendors and develop a short list and then the RFP was issued to those vendors. Mr. Montagna indicated that an approach like that was very similar to with the approach recommended by staff. Ms. Whelan expressed her concern that so much time had elapsed in obtaining a response from the City Attorney's Office on this issue.

Mr. Kraus asked whether, if a screening process was employed, it was possible to see which firms did not make the short list. Mr. Montagna replied that the Board could see as much or as little information as it wished. He stated that, as an example, if the Board wanted to set a minimum requirement related to assets under management, and wished to see all the firms that were excluded from consideration because they did not meet that minimum requirement, this could be provided.

Mr. Montagna indicated that the recommended process would be much more open to the vendor community because, notwithstanding any minimum criteria established by the Board, potentially any vendor could be considered even if they were not aware that the City was conducting a search. Ms. Dalton indicated that Mercer's fund database provided the means for any interested vendor to submit its information electronically and be included on its database.

Following this discussion, **a motion was made by Sangeeta Bhatia, seconded by Cliff Cannon, directing staff to draft a communication from the Board to the City Attorney requesting a response to the staff positions and questions outlined in the staff report; the motion was unanimously adopted.**

7. BOARD REPORT 10-07: STAFF REPORT

There was no discussion of items included in the staff report.

5. PUBLIC COMMENTS

Mr. Canzano reopened public comments. Rick Kramer of Great-West Retirement Services indicated he was retiring and that this would be his final Board meeting. He indicated that he'd worked with the Plan for many years and that the City would be particularly missed. Mr. Canzano thanked Mr. Kramer for his outstanding service to the Plan and indicated the deep appreciation of the Board for all of his efforts. Mr. Montagna indicated that Mr. Kramer had the unique quality of always being able to find solutions to even the most challenging of situations, and that he was very grateful for the many times he had helped the Plan navigate difficult issues. Ms. Whelan indicated that Mr. Kramer was a highly valued colleague who would be deeply missed.

8. REQUESTS FOR FUTURE AGENDA ITEMS

None.

9. NEXT MEETING DATE – APRIL 20, 2010

10. ADJOURNMENT

The meeting adjourned at 10:40 a.m.

Minutes prepared by staff member Steven Montagna.