

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES  
REGULAR MEETING OF MARCH 17, 2009 – 9:00 A.M.  
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

**Present:**

Eugene Canzano, Chairperson  
Richard Kraus, First Provisional Chair  
Shelley Smith, Second Provisional Chair  
Sally Choi  
Michael Perez

Staff:

Personnel: Maryanne Keehn  
Steven Montagna  
Natasha Zuvich  
Ashley Stracke

City Attorney: Steven Hong  
Vicky Williams

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:10 a.m.

2. REMEMBRANCE – BILL STEIN

Mr. Canzano stated that Bill Stein, Board of Deferred Compensation Administration Vice-Chairperson and long time City employee, had recently passed away and that he would be dearly missed. Mr. Canzano then requested a moment of silence in memory of Mr. Stein.

3. PUBLIC COMMENTS

Mr. Canzano stated that staff member Maryanne Keehn was leaving the City to work for the County of Los Angeles. The Board congratulated her and wished her well with her new position.

#### 4. MINUTES

Mr. Perez asked if the Fiduciary Responsibility presentation that staff was working on with the City Attorney would address City Council's authority over staffing of the Deferred Compensation Plan. Mr. Montagna indicated that this had not been intended for the fiduciary presentation but could be added. Mr. Perez stated that since he believed the selection of staff was a fiduciary concern, the Board should have authority over this. Ms. Smith stated that this should be an issue the City considers since the Plan operates similarly to the proprietary departments. Mr. Canzano stated that since the Plan was self funded through participant fees, he also believed that the Board should have authority over staffing. **A motion was made by Richard Kraus, seconded by Michael Perez, to approve the minutes of February 17, 2009; the motion was unanimously adopted.**

#### 5. BOARD REPORT 09-13: STABLE VALUE FUND PROVIDER

Mr. Montagna introduced Phil Suess, Principal Consultant for Mercer Investment Consulting in Chicago. He indicated that Mr. Suess led the review of responses for the recent Request for Proposal for a Stable Value Fund provider.

Mr. Suess began his presentation by explaining that the key issue when evaluating a stable value fund is the structure of the portfolio and level of diversification. Mr. Kraus asked in what way Ameriprise did not meet the general contracting requirements threshold. Mr. Montagna indicated he believed the specific problem was with minority and women-owned business outreach.

Mr. Suess continued his presentation by reviewing page four of the Discretionary Stable Value Manager Search report. He explained that Galliard, Dwight, and Great West/Putnam were all diversified, while PIMCO and State Street managed all of their assets internally. He explained that Galliard's fees were neither highest nor lowest compared to the other candidate firms, however, given their structure, Galliard's fees were competitive. He indicated that Galliard provided a moderate duration of three years and provided diversification through access to non-proprietary investment managers and utilization of multiple wrap providers.

Mr. Montagna asked Mr. Suess to provide an overview of stable value funds generally. Mr. Suess stated that the reason participants invest in a stable value fund was because it gives them the ability to earn interest above money market rates without market fluctuation. He stated that these funds invest in bond portfolios, and that the book value of the bonds is guaranteed by wrap contracts with separate providers. He also explained that stable value funds generally represent one of the most popular options in government defined contribution plans.

Ms. Choi asked why Galliard had higher fees than some of the other fund providers. Mr. Suess stated that it was because Galliard used outside managers as part of its diversification strategy. Ms. Smith stated that she believed that given the purpose of the

stable value fund, it was a sensible tradeoff to gain the expertise of a number of high performing outside managers rather than to choose a fund that only uses internal managers. Mr. Suess stated that Galliard was able to aggregate the balances of their clients and give access to those managers at a lower cost than if the Plan was to create its own portfolio.

Mr. Suess explained that the report broke down the components of each fund into “low duration,” “intermediate,” and “aggregate” to more easily compare each manager. Mr. Kraus asked how the portfolio would be established and if the Plan could provide input into the parameters. Mr. Suess stated that the portfolio would be specific to the Plan and that it would be created with input from the consultant. Mr. Perez stated that while he felt comfortable with staff’s recommendation, he wanted to know how fund performance would be evaluated. Mr. Suess explained that the fund would be evaluated against the benchmark of a three month T-bill plus one hundred fifty basis points since stable value funds only have value if they are achieving returns above the money market rate. Following this discussion, **a motion was made by Shelley Smith, seconded by Richard Kraus, to approve the selection of Galliard Capital Management as the Plan’s Stable Value Fund manager and instruct staff to execute a transition of assets from the Hartford General Account to a newly branded City of Los Angeles Stable Value Fund effective approximately July 1, 2009; the motion was unanimously adopted.**

## 6. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Ms. Dalton began her presentation by stating that the economy continued to decline in the fourth quarter of 2008. She stated that GDP contracted 3.8% during the fourth quarter. She indicated that consumer spending was weak and that federal interest rates were at record lows. Ms. Dalton explained that the S&P 500 Index fell 37% which was the worst year for the index since 1937. She indicated that small-cap investments under performed large-cap investments for the fourth quarter but performed better for the year. She also stated that there was a flight to quality, which caused Treasuries to perform better than other investments. Ms. Dalton indicated that the MSCI EAFE index fell 19.9% and that Equity REITS declined 38.8%.

Ms. Dalton continued by providing an overview of the Plan’s investment options. She stated that three funds were given an unsatisfactory performance for the three and five year periods for the fourth quarter of 2008. She stated that it was recommended that both the Hartford Advisers and Hartford Stock funds be terminated. She indicated that this would be discussed at great length later in the meeting. She also explained that although the Lazard Mid Cap fund had under performed for the quarter and had been placed on the watch list since the fourth quarter of 2007, it had been performing better in recent quarters and therefore Mercer was not recommending moving this Fund onto Watch status. Ms. Dalton noted that the Board’s investment policies for review/removal of funds were on page nine of the report.

In regards to the Plan as a whole, Ms. Dalton stated that assets were down 12% and that at the end of the quarter there were 40,106 participants with an account balance. She stated that the median balance was \$24,973 and indicated that the majority of participants had account balances of less than \$25,000. She further indicated that the second and third largest asset groups were \$25,001 to \$50,000 and \$100,001 to \$200,000 respectively. Ms. Dalton stated that the Hartford Life General Account held the highest percentage of the Plan's assets and increased from the previous quarter.

Referring to page 18 of the report, Ms. Dalton stated that assets had increased in the stable value funds and money market accounts. She also indicated that this change came at the expense of the large-cap investments. Mr. Kraus asked if this was due to recent market performance. Ms. Dalton stated that it was due to both migration as well as performance. Ms. Dalton also gave a brief overview of the investment expense analysis and stated that in all cases the Plan's fees continued to be below the average institutional expense ratio.

Ms. Dalton continued the presentation by stating that the Hartford Advisers fund had 68% of holdings in stock even though it was benchmarked to 60% stocks, 40% bonds. She explained that Mercer recommended that the fund be terminated and mapped to the Moderate Profile fund. She further indicated that the Hartford Stock fund had performed in the bottom quartile of the large-cap universe and it was recommended that this fund be terminated and mapped to the Vanguard Institutional Index.

Mr. Perez asked for clarification regarding the personnel changes with the Lazard Mid Cap Equity Institutional discussed on page 22 of the report. Ms. Dalton stated that Mercer looks at both quantitative and qualitative signs when recommending watch status. She explained that Gary Busser of Lazard recently took another position within the organization and that two other managers joined the Mid Cap management team to replace him. She stated that Mercer would be monitoring this change closely. She further stated that there was a change in management with the Fidelity International Fund and that although the performance faltered recently, Mercer did not believe it was cause for concern given its long-term track record.

Mr. Kraus asked if the Plan's funds were using the same benchmarks that the Board used to measure their performance to evaluate them in the Request for Proposal. Ms. Dalton stated that she believed this was the case. Mr. Montagna stated that some Plan funds were legacy funds and not selected pursuant to a Request for Proposal. Mr. Perez asked if there was a policy that required a change in a fund's benchmark to be brought to the Board. Mr. Montagna stated that changes to the benchmark are highlighted in the Plan Performance Evaluation Report and discussed, but that the change in benchmarks could certainly be brought to the Board as an approval item in the future.

Mr. Canzano asked where new contributions were being invested. Usha Archer, Regional Manager for Great West Life, stated that those figures would be highlighted in the next quarterly report from Great West. Mr. Perez asked what Great West staff was

telling participants during this bear market. Gary Robison, Regional Manager for Great West Life, stated that participants were given information about how to effectively develop a long-term investment strategy and that the Deferred Compensation Plan was a supplement to, rather than the primary source of, their retirement income.

#### 7. BOARD REPORT 09-14: HARTFORD STOCK / HARTFORD ADVISERS FUNDS

Mr. Montagna stated that staff recommended that the Board take action to terminate the Hartford Stock and Hartford Advisers Funds given that they had been on the Watch list for the past two quarters. He indicated that terminating the funds would also help achieve the Board's objective of consolidating the Plan's core investment options. Mr. Montagna stated that the Hartford Stock Fund was proposed to be mapped to the Vanguard Institutional Index Fund and the Hartford Advisers Fund mapped to the Moderate Profile Portfolio.

Mr. Montagna stated that staff was also recommending that the Board approve a change in the trading platform for the three Hartford variable funds covered under the Plan's current Hartford contract for whatever duration the funds are held past the contract's expiration date of June 30, 2009. **A motion was then made by Shelley Smith, seconded by Michael Perez, to terminate the Hartford Stock Fund and Hartford Advisers Fund approximately six months following the date of announcement of this elimination to Plan participants, with any existing assets mapped to the Plan's Vanguard Institutional Index and Moderate Profile funds, respectively; the motion was unanimously adopted.**

Mr. Canzano asked what the fee implications would be for the change in the trading platform. Mr. Montagna stated that there would be no changes to the fees for the continued funds. **A motion was then made by Shelley Smith, seconded by Richard Kraus, to approve a change in trading platform for the three Hartford variable funds covered under the Plan's existing group insurance contract with Hartford, for whatever duration the funds are held past the contract's expiration date of June 30, 2009; the motion was unanimously adopted.**

#### 7. BOARD REPORT 09-15: JPMORGAN/WASHINGTON MUTUAL & FDIC- INSURED OPTION RFP

Mr. Montagna stated that the Plan only received one response to the FDIC-Insured Savings Option Request for Proposal (RFP). He also indicated that JPMorgan Chase had informed staff that the company would not be bidding and did not intend to continue offering its business to the Plan after September of 2009. Mr. Montagna stated that staff contacted the City Attorney regarding what options were available to the Plan regarding the RFP. He indicated that the City Attorney determined that it would be acceptable for the Plan to cancel the RFP and have the consultant conduct an investment provider search in the same way as it had done for the passively managed mid-cap option. He continued by stating that as a result of this review, the Board could then enter contracts with the selected providers. Mr. Montagna stated that staff

believed that at least three viable firms would be interested. He also stated that staff would need to conduct the analysis quickly in order to choose the providers by September. Mr. Montagna stated that staff contacted the FDIC regarding JPMorgan's obligation to honor the Plan's current Certificates of Deposit. He stated that FDIC indicated that as a result of the terms the FDIC set in overseeing the acquisition of Washington Mutual, JPMorgan was obligated to continue the existing CD assets at their original rates. Mr. Montagna indicated that the Plan would stop offering Certificates of Deposit starting July of 2009. He further indicated that all existing Certificates of Deposit would be grandfathered and would be allowed to continue to maturity. He stated that it would take five years for the Certificate of Deposit termination process to be completed. Following this discussion, **a motion was made by Michael Perez, seconded by Sally Choi, to cancel the Plan's January 9, 2009 Request for Proposal for investment management services for an FDIC-Insured savings option; the motion was unanimously adopted.**

Mr. Kraus asked if staff believed there would be sufficient viable firms interested in the business. Mr. Montagna stated that staff had spoken with representatives from several firms who had originally indicated an intent to bid; one firm had missed the mandatory pre-bidder's conference due to an internal problem and another stated they did not have the resources to complete the initial RFP response. Following this discussion, **a motion was made by Michael Perez, seconded by Sally Choi, to instruct the Plan's consultant, Mercer Investment Consulting, to initiate an FDIC-savings provider search with the goal of identifying those viable and most qualified firms to meet the City's objectives for this option; the motion was unanimously adopted.** Mr. Montagna indicated that Mercer and staff would present its findings in May.

#### 8. BOARD REPORT 09-16: MID-CAP INDEX/ASSET ALLOCATION FUND RESTRUCTURING

Mr. Montagna stated that the addition of a passively managed mid-cap index fund would fill a hole in the Plan's investment menu. He stated that the Investments Committee was recommending that the Vanguard Mid-Cap Capitalization Index Institutional Fund be added to the Deferred Compensation Plan core investment menu. He also stated that staff was recommending that the Board instruct staff to proceed with the implementation of the Plan's restructured profile funds. He indicated that since this was a new option to the plan, there were no pending time constraints to implement the changes. He further explained that the timing would have to be coordinated with other upcoming changes to the investment menu. **A motion was then made by Shelley Smith, seconded by Michael Perez, to approve the recommendation of the Investments Committee that the Vanguard Mid-Cap Capitalization Index Institutional Fund be added to the Deferred Compensation Plan core investment menu; the motion was unanimously adopted.**

Ms. Dalton presented the information included in her report regarding the asset allocation fund restructuring. Mr. Montagna noted that the Board had previously approved this recomposition. Ms. Dalton indicated that she had rerun the analysis that

had generated the original recommended restructuring and the results were unchanged. Mr. Kraus asked if the market downturn would have changed any of the recommendations, and Ms. Dalton indicated that the numbers had come up exactly as they had before and this was to be expected given how recently the prior analysis had been conducted. **A second motion was then made by Shelley Smith, seconded by Michael Perez, to approve staff's recommendation to instruct staff to proceed with implementation of the Plan's restructured risk-based asset allocation ("Profile") funds at the earliest possible date consistent with other potential investment menu changes occurring in the near term; the motion was unanimously adopted.**

Mr. Kraus asked how often the Plan should revisit the composition of the Profile Funds. Ms. Dalton stated that the Plan should review this every three years. Mr. Kraus asked if Mercer could provide a review of the profile funds in the quarterly investment report when an evaluation was due. Ms. Dalton said that this would be provided.

#### 9. BOARD REPORT 09-17: PLAN SPONSOR AWARDS

Mr. Montagna stated that staff was informed that the Plan had won the Plan Sponsor magazine "Plan Sponsor of the Year Award" for the Municipal category. Staff proceeded to distribute an article about the City Plan published by Plan Sponsor. Mr. Canazno stated that he believed that the Plan should send a representative to accept the award. Mr. Perez indicated that he was uncomfortable incurring an expense paid by participant fees in sending a representative to accept the award. Ms. Smith stated that she concurred with this sentiment but was hopeful that the appreciation of the Plan could still be expressed to Plan Sponsor.

#### 10. BOARD REPORT 09-18: BOARD ELECTION UPDATE

Mr. Montagna stated that staff had begun making the necessary preparations for the May 8, 2009 election of the Department of Water and Power Participant and Retired Participant Representative positions for the Board of Deferred Compensation Administration. Mr. Kraus asked if any information regarding the elections had been posted to the Plan's website. Ms. Stracke indicated that information would be posted. Mr. Kraus asked if it was possible to add election information to the newsletter. Mr. Montagna stated that the newsletter would be delivered after the May 8 Election Day, however, staff could put a vote reminder on the participant website as well as the Personnel Department website.

#### 11. BOARD REPORT 09-19: STAFF REPORT

Mr. Montagna gave an overview of the Staff Report. He stated that staff and the City Attorney had made progress with the Consulting and Russell 2000 proposed contracts and were currently waiting for the vendor's response in each case. He continued with his review of the report by stating that while the next Investments Committee meeting had not been scheduled, staff was hoping to hold it within the next month. He explained

that given the number of reports on this month's Board meeting agenda, staff had postponed reports regarding the Pre-Audit Testing and 2009 Enrollment Initiative.

Mr. Canzano asked if the number of hardship cases was comparable to prior year numbers. Ms. Zuvich stated that the number of hardships was consistent with this time last year but higher than the longer-term average. Ms. Smith stated that in the talks regarding possible early retirement incentives, it had been mentioned that employees may be able to purchase service credit using their accrued leave. She stated that she wanted staff to be aware of the potential affect of such an action and prepare accordingly.

#### 12. REQUESTS FOR FUTURE AGENDA ITEMS

None.

#### 13. NEXT MEETING DATE – JANUARY 20, 2008

#### 14. ADJOURNMENT

**A motion was made by Shelley Smith, seconded by Michael Perez, to adjourn the meeting; the motion was unanimously adopted.** The meeting adjourned at 10:55 a.m.

Minutes prepared by staff member Ashley Stracke.