CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
SPECIAL MEETING MARCH 20, 2012 – 9:00 A.M.
200 N. SPRING STREET, CITY HALL TOWER MEETING ROOM

BOARD MEMBERS:

Present:
Eugene K. Canzano, Chairperson
John R. Mumma, Vice-Chairperson
Tom Moutes, Second Provisional Chair
Sangeeta Bhatia, Third Provisional Chair
Michael Amerian
Michael A. Perez
Robert Schoonover
Margaret Whelan

Not Present:
Clifford Cannon, First Provisional Chair

Staff:

Personnel:	David Luther Alejandrina Basquez Steven Montagna Natasha Gameroz Esther Chang
City Attorney:	Curtis Kidder

1. CALL TO ORDER

The meeting was called to order at 9:11 a.m.

2. PUBLIC COMMENTS

There was no public comment.

Mr. Canzano announced the Plan had had won a 1st place Eddy Award for its Roth communications, which was awarded to the Plan at the Pensions & Investments Conference which he attended.

3. MINUTES

Mr. Moutes requested that his statement on page five, paragraph two of Item 9, be amended to state his remarks in total and not paraphrased.

A motion was made by Mr. Mumma, seconded by Mr. Schoonover, to approve the February 21, 2012 minutes, as amended; the motion was unanimously adopted.

4. INVESTMENT PERFORMANCE REVIEW & INVESTMENT PROVIDER PRESENTATIONS

Mr. Montagna indicated staff had consolidated Mercer Investment Consulting's (Mercer) 2011 Fourth Quarter review with two investment provider presentations, in order to facilitate a panel-type discussion. He indicated Mercer would lead off with the market review, and representatives from State Street Global Advisors and Vanguard would follow with their perspectives, along with respective fund overviews.

Ms. Eileen Kwei from Mercer indicated that in the fourth quarter, equity markets rebounded significantly. She stated domestic equity markets increased significantly as evidenced by the S&P 500, which was up 12%. She indicated this was driven by improved unemployment and GDP numbers. She stated the cyclical sector performed best, which included energy, materials, and industrials. She stated non-U.S. markets also rebounded but not as significantly, as evidenced by the MSCI EAFE index, which was up 3%. She stated fixed income markets were relatively flat; the Barclays Aggregate was up 1%.

Mr. Chris Hawkins from State Street indicated a belief that a global recovery was occurring. He indicated weaknesses in the Eurozone were, for the current time, being balanced by the U.S. and growth in India and China. He stated he believed the largest risk currently was oil prices and recommended the Plan watch these prices closely to see how they affect portfolios. He stated that in the next 12 months, it would be difficult for the U.S. to continue its recovery without solid employment growth, which would be a challenge as the quality of jobs had been declining.

Mr. David Wilson from Vanguard discussed market volatility and its measurement. He stated it had been fairly rare since the 1970s to see a trading day when almost all stocks increase or decrease. He stated however there has been a pronounced increase of these market movement occurrences since 2007, when subprime debt problems started to enter the market. He stated that in 2011, 1 out of 5 trading days had 90% of stocks moving up or down. He stated some reasons for this could be due to aggregation of thought by hedge fund managers or investment advisors putting clients into exchange-traded funds (ETFs) where one invests in the market, moving away from the traditional idea of active management. He indicated that 2011 was a struggle for active managers.

Mr. Muir agreed with this assessment and indicated Mercer has seen over 80% of active managers underperforming in recent times, but noted that 2012 has seen active managers outperforming benchmarks. Mr. Hawkins also noted that 70% of market trading seemed to be high frequency trading, which could be one of the factors affecting these large swings. Mr. Wilson indicated there is a market confidence issue at the root of these significant swings.

Mr. Perez asked how this information could benefit Plan participants. Mr. Montagna stated a macro-economic review provided context for the Board in considering Plan design issues such as adding inflation protection assets within the investment menu. He stated he would be cautious in how this information is communicated to participants as market information and predictions could be construed as Plan sponsored. Ms. Usha Archer from Great-West indicated this type of information and data might be overwhelming for a large majority of participants. She also agreed with Mr. Montagna, in that Great-West seeks to remain fund-neutral. She indicated there were other plans that do provide market commentary, and that representatives may also refer to this type of information when speaking with participants. Mr. Edward McGettigan from Vanguard indicated that Vanguard also performs recordkeeping, and commented that Vanguard encourages participants to think strategically through allocation choice and risk tolerance assessment and to avoid market timing.

Mr. Wilson indicated Vanguard attempts to replicate the S&P 500 with its Institutional Plus Share Class and is disciplined in its management. Mr. McGettigan indicated Vanguard operates at cost; there is a ratio that calculates lower costs for larger assets. Mr. Wilson stated that for Vanguard's bond fund, the method is to closely replicate the Barclays Aggregate Index. He stated identical replication is not possible as there may be bonds the holders are not selling or might be too expensive to purchase, in which case Vanguard will use bond sampling to best replicate. Mr. Wilson indicated a pricing anomaly for this fund as the Barclays Aggregate Index prices its fund at 3 p.m. versus Vanguard's pricing service, which prices at 4 p.m. when the market closes. He stated if the market is moving during the last hour of the day, it could create some negative or positive divergence from the Aggregate, though there has not been any long-term impact as pricing should correct itself the next trading day.

Ms. Megan Hart from State Street indicated the firm had $1.8 trillion under management, of which $822 billion was invested in passive equity. She indicated the investment team seeks to match the returns and characteristics of the Russell 2000 index as closely as practicable. She stated the Plan's fund has had an expense ratio of 20 basis points, with 14 basis points refunded back to the Plan. She indicated this was agreed upon when the City first began investing in the fund, and that State Street rebates back the 14 points as there was not a way for State Street to manipulate the fund's net asset value for the City alone. Mr. Mumma questioned why the fund was set up this way. Ms. Hart replied that the original share class did not provide any other option, but the new share class lowers the fee and eliminates the rebate.

Mr. Perez asked about correlations between asset classes and any expectations or predictions going forward. Mr. Wilson replied correlations are getting tighter, and as such, the concept of diversification advantage is lessened today, though it does still exist. He indicated the world is becoming increasingly global and anomalies are rare. Mr. Hawkins added that high-frequency traders were keeping the correlations tighter than they would be normally. He agreed that globalization is playing a big role, and commented that the emerging markets used to perform very differently than domestic equities.

Mr. Muir agreed the correlations have increased. He stated the Plan has adapted to this already, such as the consolidation of growth and value funds. He stated that if the Plan were to include additional asset classes to add more options for diversity, an inflation sensitive asset class could be considered. He stated the Plan could also continue to consolidate where there are marginal correlational differences between funds.

Mr. Muir continued with Mercer's 2011 Fourth Quarter report. He indicated most Plan assets are invested in stable and conservative options (35% of assets at December 31, 2011 end). He stated there was a continuing increase in risk-based profile participation. He indicated Plan assets had increased by $165 million quarter-over-quarter. He stated the Plan was always looking to reduce costs, and noted the decrease in expense ratio for the Vanguard Mid-Cap Index Fund, from 8 basis points to 6 basis points. He indicated the weighted average expense ratio for the Plan was 23 basis points. He concluded by stating year-to-date, all funds were up an average of 12-16%, though bond investments remained fairly flat.

The Board recessed at 10:55 a.m. and reconvened at 11:10 a.m.

5. BOARD REPORT 12-17: INVESTMENT SERVICES REQUESTS FOR PROPOSAL AND BUSINESS INCLUSION PROGRAM

Mr. Kidder stated the Board had requested counsel's review of the Business Inclusion Program (BIP) and its applicability to the Board. He stated he wanted to preface the conversation by indicating his guidance was not yet final as it would still need to be reviewed by management at the City Attorney's Office. He added he also needed to converse with LACERS and Pensions counsel for any similar considerations. He indicated the guidance he would be providing was an attorney-client communication and could be subject to privilege; however, he noted the Board's preference to discuss in open session.

Mr. Kidder stated the Board does need to comply with the BIP. He stated he believed compliance with the BIP would not conflict with the Board's duties and fiduciary obligations under the Administrative Code (which grants the Board its powers and authorities), common law doctrine, and the Plan's bylaws. He indicated the Board's responsibilities include the defrayal of reasonable expenses for the administration of the Plan. He stated there are also fiduciary responsibilities guided by common law, which include the duties to act prudently in the selection of investment options and retention of contractors and the administration and management of plan. He indicated LACERS and Pensions were allowed protections and held under different obligations as their powers and authorities are provided for in the City Charter and the California Constitution. He concluded that he would like to conduct additional research and to consult with the counsel for LACERS and Pensions; subsequently he would return to the Board with final guidance.

Mr. Mumma asked if the Plan was in any way excluded from directly seeking an exemption from the BIP by Council. Mr. Kidder indicated it was possible, but as the BIP was introduced in January 2011, he expressed concern the Board did not have enough facts to prove the program has hampered the retention of contractors. Ms. Whelan sought clarification whether an exemption is requested from the Council or Mayor, as the BIP was part of a Mayor's Directive. Mr. Kidder indicated it would be the Mayor's Office, though Council could also be approached; he stated the end result would be the same. Mr. Perez asked if there were any contract expiration dates to be mindful of and if staff could articulate timeframes if so. Mr. Montagna indicated there were no expiration dates impacting this particular procurement.

Mr. Montagna stated that when the Plan had previously completed similar procurements, staff had received a small number of bids or no bids at all. He stated the Board at that point, with approval from the City Attorney, had canceled the RFP and was able to move forward and select a contractor. He indicated as part of the selection, the Plan's consultant had conducted an investment manager review to come back with a list of top firms, and the Board had decided from that list. He stated if this were the case with this RFP again, the Board could either re-issue the RFP or pursue the same approach. Mr. Kidder commented that one of the reasons to go sole source is a lack of competition, though in this particular case he believed there would have to be a causal effect shown that the BIP in particular hampered the RFP response.

Mr. Perez commented that though Pensions was now exempt from the BIP, the department had previously had to follow similar contracting requirements. He indicated his preference for proceeding with the RFP, while documenting the outreach efforts and RFP results for use in requesting a longer-term solution. Mr. Mumma asked how much further the process could be delayed if the Board proceeded with the RFP but had to re-issue it due to non-response or low response. Mr. Montagna stated the total delay could be 3-4 months.

Mr. Montagna indicated staff's recommendation, if the Plan was required to comply with the BIP based on Mr. Kidder's review, would be to move forward with the RFP process, and staff could separately pursue a BIP exemption as a long-term solution. Ms. Basquez indicated staff would expend their best efforts in communicating the contracting requirements to potential contractors.

A motion was made by Ms. Bhatia, seconded by Mr. Perez, to receive and file the report; the motion was unanimously adopted.

6. BOARD REPORT 12-18: SHARE CLASS CHANGE FOR VANGUARD MID-CAP INDEX FUND

Mr. Perez indicated he was prepared for a motion given the clear reports from staff and the Plan's consultant, Mercer. **A motion was made by Mr. Perez, seconded by Ms. Bhatia, to approve a change in share class for the Vanguard Mid-Cap Institutional Index Fund from Institutional Shares to Institutional Plus Shares; the motion was unanimously adopted.**

7. BOARD REPORT 12-19: HARDSHIP WITHDRAWAL GUIDELINES - HARDSHIP EXPENSES

Ms. Gameroz indicated the Board had previously approved a policy delegating to staff the authority to approve hardship withdrawal requests for income loss that occurred more than a year prior to the date of application, so long as the circumstances of the requests comported with prior Board precedent. She stated staff had subsequently become aware that Great-West's internal policies restricted consideration of additional types of hardship expenses that occurred more than one year prior to date of application. She asked that the Board broaden the instruction to staff to include any hardship expenses that occurred more than one year prior to date of the application.

A motion was made by Mr. Perez, seconded by Mr. Mumma, to delegate to staff the authority to approve hardship withdrawal requests for any hardship expenses that occurred more than one year prior to date of application, so long as the circumstances comported with prior Board precedent; the motion was unanimously adopted.

8. HARDSHIP APPEAL WITHDRAWAL REQUEST #12-01

Ms. Gameroz stated an applicant had submitted five hardship applications to Great-West for unreimbursed medical expenses; the applicant received the full amounts of the requests except for an application dated September 15, 2010. Ms. Gameroz stated the portion of the request denied by Great-West was in the amount of $2,009 for medical expenses occurring over one year prior to the hardship application date. She stated the applicant consequently submitted an appeal to the Board for $2,009, indicating the additional amount was needed due to the cumulative effects of unreimbursed medical expenses for the applicant's dependent son. She indicated the applicant had exhausted all available alternatives. She stated staff did not concur with Great-West's finding and asked the Board to approve the additional partial withdrawal request.

A motion was made by Mr. Perez, seconded by Mr. Mumma, to approve the partial hardship withdrawal of $2,009 (net) for Case #12-01; the motion was unanimously adopted.

9. BOARD REPORT 12-20: STAFF REPORT

Ms. Chang indicated staff had compiled information for the February staff report. She stated: 221 participants visited the public counter; 16 participants elected to defer their accrued leave, for a total amount of $423,629; 42 hardship cases were submitted and 36 cases were approved for approximately $450,000 disbursed from the Plan mainly for reasons of prevention of eviction/foreclosure; 386 participants elected to obtain a new loan and approximately $4.3 million dollars disbursed from the Plan; $13,296,253 was deferred into the Plan in February, for a decrease of 0.04% year-over-year; and 103 new Roth accounts were established in February, for a total of 788 current Roth accounts. She also indicated that mailings had been sent to participants during the week of March 12th, the first being a notification for the May 2012 elections for the DWP Active Participant Representative and Retired Participant Representative seats, and the second being an informational packet related to the investment menu change that is occurring on April 20, 2012. She indicated both items were also available online.

Mr. Mumma asked for additional clarification regarding the staffing summary percentages on the last page, which he believed had changed since the previous report. Mr. Montagna indicated the changes reflected staff's recent ability to more accurately identify the actual time spent on work related to the Plan.

A motion was made by Mr. Perez, seconded by Ms. Whelan, to receive and file staff's report; the motion was unanimously adopted.

10. REQUESTS FOR FUTURE AGENDA ITEMS

None.

12. NEXT MEETING DATE – April 17, 2012

13. ADJOURNMENT

A motion was made by Mr. Perez, seconded by Mr. Mumma, to adjourn the meeting; the motion was unanimously adopted. The Board adjourned at 11:50 a.m.

Minutes prepared by staff member Esther Chang.