

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF APRIL 21, 2009 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Eugene Canzano, Chairperson
Richard Kraus, First Provisional Chair
Margaret Whelan, Third Provisional Chair
Sangeeta Bhatia
Sally Choi
Kurt Stabel

Staff:

Personnel: Alex Basquez
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. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Margaret Whelan, seconded by Sangeeta Bhatia, to approve the minutes of March 17, 2009; the motion was unanimously adopted.

4. INVESTMENT PROVIDER PRESENTATION: FIDELITY INVESTMENTS

Jack McDonald, Vice President and Account Executive, and Ron Henry, Investment Consultant, both of Fidelity Investments, were present to review performance information for the Fidelity Diversified International Fund. Mr. Henry began by stating

that he would first give an overview of the overall market performance for the first quarter and then he would discuss the fund.

Mr. Henry indicated that the Fidelity International Fund was out performing the MSCI EAFE. He stated that the returns of eight of the ten sectors the fund invested in had risen, including health care, information technology, and consumer staples. He indicated that Utilities and Financials had gone down. Mr. Henry stated that, as of April 16, the year to date returns for the fund were 130 basis points above the benchmark. Ms. Bhatia asked if the returns in the report were net of fees. Mr. Henry indicated that they were.

Mr. Henry stated that the fund was closed to new investors for several years and had re-opened in March 2009. He next explained the philosophy and process of Jack Bower, portfolio manager for the Fidelity Diversified International Fund. He stated that the fund had 6-10% exposure to emerging markets and 75% exposure to large cap and mid cap investments. He stated that Mr. Bower looks for stable, well-managed cash generating companies. Mr. Henry next compared the sector weights of the Fidelity Diversified International Fund against the MSCI EAFE. He stated that Mr. Bower's team was looking for investments that would take advantage of the current recession. He stated that the fund was currently getting out of health care and staples and into Information Technology and Consumer Discretionary investments.

Mr. Kraus asked why the one and five year performance numbers were lower than the index. Mr. McDonald stated that the last 18 months had a significant effect on the long term numbers and that markets had taken a sharp turn away from operating based on market fundamentals. He stated that some equilibrium had returned and the performance of the Fund should turn around as the market reverted to a more fundamentals-based state. Mr. Kraus asked if there was significance to the fact that the current portfolio structure of 290 stocks was below the normal range is between 300 and 400 stocks. Mr. McDonald replied that the 290 figure should not be interpreted to mean that the Fund was building cash or taking a more defensive stance, and that he saw this number as being consistent with the normal range. The presentation then concluded.

5. BOARD REPORT 09-20: INVESTMENT MENU CHANGES UPDATE

Mr. Montagna stated that the purpose of the report was to address the status of previously approved changes to the Plan investment menu, while also getting authorization for the Board Chairperson to execute the necessary contract with Galliard Capital Management (Galliard). He explained that with respect to the stable value consolidation, staff had been in discussion with all of the affected entities including Galliard Capital Management, Hartford Life Insurance (Hartford), Great-West Retirement Services (Great-West), and Mercer Investment Consulting (Mercer). He indicated that the parties involved had decided that June 1, 2009 would be the optimal date to transfer the funds from Hartford because at current interest rates the Plan could transition the balance at book value. He also explained that transferring the funds on a date other than June 30, 2009 would be optimal because of the additional record-

keeping complexities which can occur on quarter-ending dates. Mr. Montagna indicated that the exchange would take place on June 1, 2009 and that the funds would only be closed for trading for a few hours that morning.

Mr. Canzano asked if the June 1, 2009 transition date put any pressure on the firms involved. Mr. Montagna stated that the target date would actually make the transition smoother. Mr. Canzano asked if there was any opposition from Hartford. Mr. Montagna stated that the firm agreed to the June 1, 2009 transition date.

Mr. Montagna stated that Mercer would discuss the FDIC option candidate search at the May 19, 2009 Board meeting. He stated that it appeared that the Plan would have three viable candidates, and that participants would be informed of the change to the FDIC insured option in the upcoming quarterly newsletter. He stated that the newsletter would also inform participants of the addition of the new midcap index fund and re-composition of the Plan's Profile Funds, both of which would take place on June 1, 2009. Following this discussion, **a motion was made by Richard Kraus, seconded by Margaret Whelan, to receive and file the information regarding the implementation of pending investment menu changes; the motion was unanimously adopted.**

With respect to the recommendation concerning executing the Stable Value provider contract with Galliard, Mr. Kraus asked what terms would be included in the contract. Mr. Montagna stated that the contract would define the parameters of the fund manager's responsibilities as identified in the RFP requirements and as agreed to by the vendor. He further indicated that the contract would be very similar to the existing contract with Galliard. Mr. Kraus asked if the contract would refer to the fact that the fund would be branded under the City of Los Angeles. Mr. Montagna indicated that it would not be necessary to state this in the contract since this matter was at the City's discretion. Mr. Kraus asked what the term of the contract would be. Mr. Montagna replied that it would be a five year contract, adding that several years ago the Plan had obtained approval from the City Council to allow for five year term limits on investment provider contracts. Ms. Choi asked about where the authority for signing contracts derived from. Mr. Montagna replied that the Administrative Code provides the Board with the authority to execute contracts for the Plan. Ms. Bhatia asked which parties sign Plan contracts. Mr. Montagna stated that the City Attorney and Board Chairperson as well as an approved signer from the investment provider authorized the contracts. He indicated that the contract was then recorded with the City Clerk. Ms. Whelan asked if Ms. Bhatia thought that this should be changed. Ms. Bhatia stated that in her experience with the Department of Water and Power (DWP) retirement plan, there were generally two City signatories. Mr. Montagna indicated that Administrative Code provisions would probably need to be amended to allow for two Plan signatories. Following this discussion, **a motion was made by Margaret Whelan, seconded by Sally Choi, to authorize the Board Chairperson to execute the necessary investment management contract with Galliard Capital Management; the motion was unanimously adopted.**

6. BOARD REPORT 09-21: ENROLLMENT INITIATIVE TARGETED ENROLLMENT CAMPAIGN

Ms. Zuvich stated that staff had been working with the City Controller's Office to generate contribution data for each City department. She explained that since this was a pilot campaign, staff had decided to choose a modestly sized department. She explained that of the departmental groups with the lowest participation, elected official groups had historically been challenging to enroll due to their generally temporary employment status and Recreation & Parks was too large for a pilot program. She stated that the department of Animal Services had been selected because of its modest size.

Ms. Zuvich explained that staff had developed a marketing strategy that included departmental/employee data research and a custom marketing campaign. She stated that the marketing campaign included a special mailing that would be sent to employees of the Animal Services department that included faux movie tickets that group meeting attendees would be able to use to redeem prizes. She indicated that there would also be a film and investment trivia component to the enrollment meeting to make the presentation entertaining as well as informative.

Ms. Zuvich indicated that staff contacted Mercer regarding how to measure the success of the enrollment effort. She stated that it was determined that given a current departmental contribution rate of 39.2%, the target increase in enrolled employees of the department would be 15%.

Ms. Zuvich next discussed the Marketing Strategy. She stated that an initial mailing would be sent to all non-participants in the department, while signs would be posted at various Animal Services locations. She explained that after the meeting a department-wide email would be sent as well as a follow-up post card. She explained that the idea behind the approach was to reinforce information about the Plan using several different methods so that employees would be comfortable in enrolling. Ms. Zuvich stated that staff was anticipating to send out the special mailings and hold the meetings June 1 through July 31, 2009.

Ms. Zuvich stated that the presentation would briefly explain the employee's pension benefit and how the Plan could be used to enhance the retiree's life. Ms. Choi asked if staff had coordinated with LACERS staff to invite them to the meetings or review the materials to ensure that both LACERS and the Plan were giving a unified message, and stated that she believed that it would be beneficial for all three retirement plan as well as the Deferred Compensation Plan to unify behind the same slogan or theme. Ms. Whelan indicated that this could be done and Mr. Montagna stated it would be good to coordinate messaging with all four entities.

Mr. Stabel stated that many participants that he meets do not understand the tax implications of their retirement and Deferred Compensation Plan savings. He asked if it

would be possible to address this in the presentation. Mr. Montagna stated that this would be addressed and was addressed in other marketing materials as well. **A motion was made by Sally Choi, seconded by Margaret Whelan to receive and file the staff report; the motion was unanimously adopted.**

7. BOARD REPORT 09-22: DEFERRED COMPENSATION PLAN BUDGET STATUS REPORT

Ms. Zuvich indicated that staff was recommending that the Board approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts for the quarter ending December 31, 2008. She stated that reimbursements would be made to the Personnel Department for \$154,903.66, the City Attorney for \$19,879.94, and DWP for \$2,795.02. She explained that the reimbursements included the direct and indirect costs associated with the salaries for all positions currently servicing the Plan. She explained that indirect costs for the 08/09 fiscal year for Personnel, City Attorney, and DWP were 88.53%, 43.23%, and 82% respectively.

Ms. Zuvich indicated that as a result of the extreme market declines during the past year, Plan assets fell by 40%. She stated that only two other years in the Plan's history had shown a decline in Plan assets. She stated that staff believed that over longer time periods assets would recover at a higher than average rate and therefore staff was proposing a 9% growth rate assumption. She stated that staff anticipated that the Plan would maintain its target surplus over the next five years.

Mr. Stabel asked if staff had addressed the issue of travel expenses. Mr. Montagna stated that staff was working on a report and would be scheduling a Plan Governance and Administrative Issues Committee meeting regarding this topic within the next few weeks. **A motion was made by Margaret Whelan, seconded by Richard Kraus, to receive and file the status report on Deferred Compensation Plan budget accounts for the quarter ending December 31, 2008; the motion was unanimously adopted. A second motion was made by Sangeeta Bhatia, seconded by Richard Kraus, to approve reimbursements for the same quarter from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$154,903.66; City Attorney for \$19,879.94; and DWP for \$2,795.02; the motion was unanimously adopted.**

8. BOARD REPORT 09-23: 2008 ANNUAL REPORT

Ms. Zuvich stated that staff was submitting a draft of the Deferred Compensation Plan Annual Report for the Board's approval. She indicated that once the Annual Report was approved copies would be distributed to all elected officials and employee organizations.

Mr. Kraus stated that on Appendix A, the number difference was incorrect given the data. Ms. Zuvich stated that staff would correct this. Mr. Kraus asked if the Plan had a

survey last year and if survey results were normally included in the Annual Report. Mr. Montagna stated he believed the survey was initiated prior to 2008. Ms. Whelan asked if there was a specific schedule for how often the Plan conducted surveys. Mr. Montagna indicated that the Plan Document stated that the Plan would periodically survey. He explained that a Great West is contractually obligated to conduct a certain number of surveys through the term of the contract. Ms. Whelan stated that she believed that the Plan should define what “periodically” means. Mr. Montagna stated that the issue might be an appropriate discussion topic for the Plan Governance and Administrative Issues Committee.

Mr. Kraus asked if changes to the investment menu should be discussed in the Annual Report, and that he wanted to call attention to the fact that the Plan was being responsive to the survey results. Mr. Montagna stated that this could certainly be added. **A motion was then made by Richard Kraus, seconded by Sally Choi to approve the draft 2008 annual report for the City of Los Angeles Deferred Compensation Plan with the discussed amendments; the motion was unanimously adopted.**

9. BOARD REPORT 09-24: BOARD ELECTION UPDATE

Ms. Stracke stated that petitions for the DWP and Retired representative seats were released at the Employee Benefits Office on March 20, 2009 and returned April 3. She indicated that Eugene Canzano and Clifford Cannon were running for the DWP and Retired representative seats respectively. She also indicated that both candidates were running unopposed. Ms. Stracke continued by stating that an Official Notice of Election was created by staff and posted outside the Employee Benefits Division Office, in the office of the Elections Division of the City Clerk, and on the Personnel Department Deferred Compensation Plan website. She indicated that ballots were scheduled to be mailed on April 24, 2009 and returned to the City Clerk by May 8, 2009. She stated that the Board would receive the official election results from the City Clerk by May 22, 2009.

Corina Lee, Vice President of the Los Angeles Police Protective League, asked why the elections were still being held given that each candidate was unopposed. Mr. Canzano stated that it was partially because the Board was required to allow for write-in candidates. Ms. Whelan stated that the Board’s policy followed the rules outlined by the City Clerk. Mr. Montagna indicated that the Board’s Election Policy was modeled after the Elections Policy for LACERS, which was similar to the other two retirement plans. **A motion was then made by Richard Kraus, seconded by Margaret Whelan, to receive and file the submitted election report update; the motion was unanimously adopted.**

10. BOARD REPORT 09-25: STAFF REPORT

Mr. Montagna indicated that he would be giving an overview of the report. He stated that the consulting contract had been finalized and that the Russell 2000 index contract had been reviewed by the City Attorney and was now being reviewed by the vendor.

He continued by indicating that the Plan was to report back to the Personnel Committee in three months.

Mr. Montagna stated that staff had drafted a number of articles for the quarterly newsletter regarding changes to the investment menu. He also explained that staff had been working with the Personnel Department's Post-Layoff Services team. He stated that staff had created documents regarding accessing account funds after severance of employment. Mr. Canzano stated that he had spoken with a person that stated that in the event of a layoff, the participant looked at the moneys as a "survival fund." Mr. Montagna stated that many participants believe that they would pay an early distribution penalty if they remove the funds before the age 59 ½ because they think that IRA and 401(k) rules apply to 457b funds. He indicated that Plan representatives would be in attendance at the group presentations and provide table resources after the meeting.

Mr. Montagna next indicated that the report for the Investments Committee had been drafted by staff and was currently being reviewed by the consultant. He stated that the Investments Committee and Plan and Governance Committee meetings would be scheduled around the same time.

He stated that the pre-audit testing report had been deferred until the May meeting because staff was researching for some additional information. He also explained that staff had made significant progress on the fiduciary responsibility presentation and had tentatively scheduled it for the May 19, 2009 Board meeting.

Ms. Zuvich stated that during the month of March 14 participants contributed \$310,354 from their Accrued Leave payouts. She also indicated that there were twenty hardship cases during the month of March in which two were denied and four were pending further information. She explained that these numbers were in line with prior months.

Ms. Zuvich concluded the review of the staff report by stating that during the month of March 309 participants had obtained a new loan and had withdrawn a total of \$3,518,420. Mr. Canzano asked what the total number of loans were out in the Plan. Mr. Montagna stated that loans counted for \$167.6 million or 7.4% of Plan assets.

11. REQUESTS FOR FUTURE AGENDA ITEMS

None.

12. NEXT MEETING DATE – MAY 19, 2009

13. ADJOURNMENT

A motion was made by Richard Kraus, seconded by Maggie Whelan, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 10:27 a.m.

Minutes prepared by staff member Ashley Stracke.