CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF MAY 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
Michael Perez
Shelley Smith

Staff:

Personnel:	Alex Basquez Steven Montagna Natasha Zuvich
City Attorney:	Steven Hong Vicky Williams

1. CALL TO ORDER

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

2. PUBLIC COMMENTS

None.

3. MINUTES

Richard Kraus questioned one of the statistics noted in the minutes in reference to a staff report; Steven Montagna indicated that the minutes accurately reflected the staff report but the number could be reviewed again separately. **A motion was made by Margaret Whelan, seconded by Sally Choi, to approve the minutes of April 21, 2009; the motion was unanimously adopted. A second motion was made by Richard Kraus, seconded by Margaret Whelan, to approve the minutes of May 6, 2009; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION: GALLIARD CAPITAL MANAGEMENT

Michael Norman, Vice President with Galliard Capital Management, was present to review performance for the Galliard Stable Value Fund. He began by indicating that in 2008 the firm had experienced its best year ever in terms of asset growth and now had $4.4 billion assets under management and was one of the top three stable value providers nationwide. He indicated the firm was a wholly-owned subsidiary of Wells Fargo.

He next went on to discuss the economic environment. He stated that Gross Domestic Product (GDP) had declined 6.3% and experienced the weakest six months of economic growth since 1957-58. He noted, however, that economists were generally expecting a positive GDP number later this year. He indicated that housing starts were down but that was a positive in that it indicated the burning down of inventory. He noted certain signs of improvement in the economic environment, notwithstanding rising unemployment and a decline in consumer confidence. He stated that in prior recessions housing and the auto industry had typically led the economy out of recession but that this was less likely to occur in this recession.

Mr. Norman next discussed the fixed income market, indicating that it had improved substantially with liquidity returning to the market and market spreads narrowing. He indicated that corporate earnings were decent and major banks had passed federal government stress tests. He stated that last year Treasuries were quite over-valued but that this excessive valuation had recently declined.

He next reviewed the holdings of the City's Fund, indicating that it presently contained $178 million of assets and a market to book value ratio of 97.57%, which was very close to par. He indicated that this was a very strong figure compared to stable value assets generally. He indicated that the return of the Fund in recent periods was 4.79% before fees, but that yields were expected to come down as new funds were being invested at rates between 2-4%. He indicated that the re-set rate for the Fund expected in June was 4.25%, but this was still substantially better than stable value funds generally, most of which were paying in the 3.5%-4.00% range.

Mr. Norman next reviewed the holdings of the Fund, indicating that 78% were rated AAA or above, with a focus on bonds of shorter duration and higher quality. Shelley Smith asked how the firm assessed quality given questions raised about the reliability of agency ratings. Mr. Norman replied that agency ratings were only one factor considered, and that Galliard made independent qualitative assessments, providing as an example the distinction between senior AAA and lower-quality AAA, the former of which yielded 10 basis points less than the latter but was not losing market value. He stated that the same was true in the corporate bond environment, and that while it was true that certain unknown factors such as potential fraud were almost inherently unknowable, the way to manage risk was to be extremely well-diversified.

Mr. Kraus asked whether the benchmark indicated by Galliard was the same used by the consultant. Mr. Norman replied that it was the same one used in the City's recent Request for Proposal (RFP). Mr. Kraus next asked at what point the market to book value ratio would be considered too low. Mr. Norman indicated that the current consensus is that the low 90's is problematic, and that there are some stable value funds which currently are in the mid-80's. Mr. Kraus then asked generally whether Plan participants were protecting themselves from inflation risk if they concentrated all of their assets into stable value. Mr. Norman indicated that this was an issue plan sponsors were exploring as part of looking at default investments in the Plan.

Mr. Norman next indicated that in the prior year stable value wrap providers had seen their ratings reduced but since then had taken steps to regain financial strength. He stated that although wrap fees had increased from 8-10 basis points to 10-15, the good news from an industry perspective was that the increased fee revenue was not only helping to support their overall financial health, it was also drawing in other firms to compete, which would over time expand wrap capacity generally.

Finally, Mr. Norman reviewed the planned consolidation of Hartford General Account assets into the Stable Value Fund, and stated that the plan was to have the assets carried as an asset of the Stable Value Fund beginning approximately July 1, 2009, and then await the formal movement of the assets at some point thereafter. He stated that from the participant perspective the consolidation would take place on the early July date.

5. BOARD REPORT 09-28: FDIC-INSURED PROVIDERS

Mr. Montagna indicated three core criteria were being used to evaluate prospective candidates for the Plan's new FDIC-Insured blended option. He stated that the first concerned their institutional viability, and that the Plan's consultant would shortly review its findings indicating that each firm had met that test. He indicated that the second criteria was operational viability, which meant the degree to which each firm could work with the recordkeeper with respect to its rate-setting structure. He indicated that the final criterion was contracting viability, to ensure that each firm could meet the City's general contracting requirements. He indicated that staff was presently working with the candidate firms to have them complete Standard Provisions documents and have their legal staff review general contracting requirements to see if there were areas where a firm wished to make qualifications and, if so, whether or not those presented serious obstacles to executing a contract.

Ms. Choi expressed her concern that the Board's options for contracting might be limited by requiring vendors to meet City requirements and stated that this issue related to the concern regarding the independence of the Board and the outstanding presentation on fiduciary obligations. Board counsel Steven Hong indicated that the fiduciary presentation was pending with the City Attorney's Office and that the issue creating the delay was the question about the Board's independence. He stated that it appeared that under the City Administrative Code the City Council was the ultimate authority of the Plan.

Ms. Whelan indicated her view that the true fiduciary responsibility for administering the program resided with the Board because of its responsibilities for administering the program. Mr. Hong replied that he did not believe that the Board's fiduciary oversight role was in conflict with a determination that the Board's actions could not be independent of Council oversight. Ms. Smith indicated it was important to be clear that the immediate question was whether the Board had the authority to execute contracts on its own terms without having to limit its candidate pool as a result of general City contracting requirements. Mr. Montagna asked if the Board had any recourse or independence if, for example, the Mayor's Office were to indicate that a particular contractor was ineligible based on its failure to conduct an adequate Minority/Women-owned business outreach process. Mr. Hong indicated he would have to research this internally within the City Attorney's Office. Ms. Choi indicated to Mr. Hong that the Board was looking for flexibility on this matter and asked that the City Attorney's Office look at this issue to determine what options were available. Mr. Perez indicated that he believed the Board at some point should look at whether there might be instances where City Attorney advice on certain matters could be conflicted and, if so, whether the Board should have the option of going to outside counsel for advice.

Following this discussion, Susan Dalton, Principal with Mercer Investment Consulting, presented her findings with respect to the analysis of the firms. She reviewed operating strength first, noting Wells Fargo's recent merger with Wachovia and each firm's senior management changes. She stated that firms needed to have a minimum of $2 billion in assets under management to be considered, such that holdings with the City represented no more than 5% of total assets. She stated that Bank of America and Wells Fargo were quite large, with $1.8/$1.3 trillion in assets under management respectively, while City National and Bank of the West had $16.5/$67 billion, respectively.

She next indicated that Mercer looked for diversification in each firm's revenue sources and that all firms were well-diversified. She stated that none of the firms had significant sub-prime exposure. Reviewing their capital Tier 1 ratios, she indicated that the calculation calculates capital relative to assets, and that the critical number is risk-based capital, which is also the figure that the FDIC looks at. She indicated that for each firm the risk-based capital number was within acceptable ranges, exceeding the 6% goal.

Ms. Dalton next indicated that the federal government had recently conducted stress tests of the nineteen largest banking institutions and that Bank of America and Wells Fargo had been included in that review. She stated that the government had indicated that Bank of America needed $34 billion in additional capital and Wells Fargo $14 billion in order to meet the worst-case scenarios envisioned by the government. She stated that the banks would likely argue that the government didn't account for ongoing earnings in its calculations and that the worst-case scenario was extreme, so she did not view the government findings as worrisome with respect to the institutional viability of the firms.

Ms. Dalton next reviewed current agency ratings and then the relevant experience of the firms, noting that City National and Bank of the West offered a similar product to other clients but that Bank of the West had not disclosed those client names. She indicated that the other two firms, although they did not offer a similar product, were well positioned to do so going forward.

She next reviewed the rate history of the firms, and stated that the returns over time were very well correlated with the exception of City National for a brief period last year since its rate was tied to the Libor rate which had encountered some unusual volatility related to the current economic crisis. She stated her belief that the rates should continue to correlate well with one another going forward based on the methodologies proposed by each firm. She stated that with respect to the timing of when rates would be declared, the firms were flexible except for Wells Fargo which indicated it was limited to a weekly rate. She stated Bank of the West was offering a rate floor of 1%.

Mr. Canzano asked whether the fact that Wells Fargo was limited to weekly reporting was a potential problem from a record-keeping perspective, and Ms. Dalton indicated it was. Mr. Kraus asked whether it was a concern that Bank of the West would not disclose its clients, and Ms. Dalton indicated that this was concerning and that Mercer would continue to work with them to disclose this information. Mr. Kraus asked if Bank of the West should have received a 10 in the relevant experience category when it was not willing to disclose its governmental clients, and Ms. Dalton acknowledged that the scoring should probably be adjusted to reflect that they did not disclose this information. Mr. Canzano asked if all firms had local offices, and Ms. Dalton indicated they did but that the servicing of the accounts for Bank of the West would be out of Walnut Creek. Ms. Bhatia asked if the banks should all be required to disclose their fees, and Ms. Dalton indicated that this was not as crucial because the fees referenced in the review were FDIC fees which were standard, and that those fees whether disclosed or not would be captured as part of the net return offered on the product.

Following this discussion, **a motion was made by Shelley Smith, seconded by Mike Perez, directing staff and the consultant to move forward in establishing operational and contracting viability with the four potential FDIC-Insured savings option providers identified in the consultant's analysis, and return at the next Board meeting with a final recommendation for selected vendors; the motion was unanimously adopted**.

6. BOARD REPORT 09-29: FEE OVERAGE/CORRECTION – SELF-DIRECTED BROKERAGE WINDOW

Rick Kramer, Director of Government Operations with Great-West Retirement Services, was present to discuss a fee overage that had occurred with the former provider of the City's Self-Directed Brokerage Option (SDBO). He stated that the error had occurred because the provider, First Trust, had failed to institute the fee cap on its system once that was adopted by the Plan, resulting in an overcharging of fees in the approximate amount of $60,000. He indicated that 3,170 participants were affected but that the fee overages had been calculated and the amounts were being returned to participants. Ms. Smith asked what the largest overage amount was, and Mr. Kramer indicated it was approximately $2,000. Ms. Choi asked what steps were being put into place to prevent this type of situation from recurring. Mr. Kramer replied that the situation could not recur now because Great-West collected all of the fees for the Plan by requiring that a minimum amount of funding by held in the Plan's core options by any SDBO participant for the specific purpose of fee collection.

Ms. Smith commented that this problem was a result of the fact that the City introduced its SDBO with a provider that over time proved not to be ideal. She indicated that she was gratified to see that the dollar amounts were relatively modest, overages had been refunded and the problem would not recur again. Following this discussion, **a motion was made by Mike Perez, seconded by Maggie Whelan, to receive and file the reports from staff and Great-West; the motion was unanimously adopted**.

7. GREAT-WEST QUARTERLY PLAN REVIEW

Rick Kramer, Usha Archer, and Gary Robison, all with Great-West Retirement Services, were present to review the Plan's quarterly report for the period ending 03/31/09. Mr. Kramer began by reviewing current Plan assets and cash flows in and out of the various Plan options. He indicated that inflows continued to be strong into the Plan saving options, excluding the Washington Mutual products, as short-term yields had dropped sharply. He discussed asset allocation both by current assets as well as new contributions. Ms. Archer noted that contributions into the Asset Allocation funds continued to be stronger than their current relative asset holdings.

Mr. Robison next reviewed local account activity. He indicated that the number of group meetings was beginning to fall off as hiring had largely stopped. Ms. Whelan asked if it was possible to indicate the number of participants who signed up as a result of group meetings. Ms. Archer indicated this data was typically on this chart but had somehow fallen off and would be restored.

Mr. Perez asked if there had been any decline in the number of individuals who were rolling their DROP funds to the Deferred Compensation Plan. Mr. Robison indicated that his guess was that more than half were rolling their funds into the Plan. Ms. Whelan asked if there was a means of determining what was happening to DROP money with more precision. Mr. Robison indicated that the Plan didn't have a means of identifying this. Mr. Perez indicated Pensions could look at generating this information. Mr. Canzano asked if retired participants interested in rolling funds out of the Plan were made aware that leaving even a small amount in the Plan would enable them to roll their entire account balance back to the Plan at a future date. Mr. Robison indicated that participants were routinely advised of this.

Ms. Archer indicated that as opportunities to enroll new employees declined it was important to remember that Great-West saw its mission as not only about enrolling but also providing education and other support services to existing participants. Mr. Canzano asked for some adjustments to the presentation of data on Page 37 of the report. Board members observed that Great-West's quarterly report was one of the most effective, understandable and user-friendly reports of its type, and that Great-West was to be commended for developing it.

8. BOARD REPORT 09-30: ENROLLMENT INITIATIVE TARGETED ENROLLMENT CAMPAIGN

Natasha Zuvich presented the staff report regarding the targeted enrollment initiative for the Department of Animal Services, which she indicated would begin June 2nd. She referenced the communication samples presented as attachments to the report, and Board members remarked on how clever and visually engaging they were. Ms. Archer noted that these materials had been developed by a member of their Marketing team, Michael Beindorff. Following this discussion, **a motion was made by Sally Choi, seconded by Richard Kraus, to receive and file the staff report; the motion was unanimously adopted.**

9. BOARD REPORT 09-31: BOARD ELECTION UPDATE

Mr. Montagna indicated that since its staff report was written the City Clerk had provided the certified results of the Board's recent election. He congratulated Gene Canzano and Cliff Cannon as the newly elected representatives of the DWP Active Participant and Retired Participant seats on the Board, respectively. Mr. Montagna indicated that an orientation for Mr. Cannon would be scheduled soon. Ms. Whelan asked when he would join the Board, and Mr. Montagna replied it would be at the Board's July meeting.

10. BOARD REPORT 09-32: STAFF REPORT

Mr. Montagna noted a few items in the staff report, including the fact that the City had won another award, from the Hermes Creative Awards, for its new communication materials. He stated that the report included correspondence from Great-West reviewing its financial strength. There was some discussion regarding the impact of the City's budget situation on the Plan, and Mr. Montagna indicated that it was likely that should mandatory furloughs occur many participants would cancel or reduce their contributions into the Plan.

11. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Perez asked if the issue of disclosure of marketing contacts could be placed onto the agenda, and Ms. Choi indicated that she had requested this at the prior special meeting. Ms. Smith indicated that the issue for the Deferred Compensation Plan might be focused more on lobbyists rather than placement agents as in the case of the retirement/pension plans.

12. NEXT MEETING DATE – JUNE 16, 2009

13. ADJOURNMENT

A motion was made by Shelley Smith, seconded by Richard Kraus, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 11:34 a.m.

Minutes prepared by staff member Steven Montagna.