CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING JUNE 19, 2012 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:
Eugene K. Canzano, Chairperson
John R. Mumma, Vice-Chairperson
Clifford Cannon, First Provisional Chair
Tom Moutes, Second Provisional Chair
Sangeeta Bhatia, Third Provisional Chair
Michael Amerian
William Raggio
Robert Schoonover

Not Present:
Margaret Whelan

Staff:

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

1. CALL TO ORDER

The meeting was called to order at 9:04 a.m.

2. PUBLIC COMMENTS

There was no public comment.

3. MINUTES

Mr. Canzano asked for clarification regarding the Roth contribution amounts on page 2, in reference to a Great-West quarterly report. Ms. Usha Archer of Great-West indicated she would provide an update to staff as she discovered those amounts had been incorrectly reported.

A motion was made by Mr. Mumma, seconded by Mr. Moutes, to approve the May 15, 2012 minutes; the motion was unanimously adopted. *Mr. Cannon arrived at 9:30 a.m. and was not present for this vote.*

4. INVESTMENT PERFORMANCE REVIEW & INVESTMENT PROVIDER PRESENTATIONS

Mr. Devon Muir with Mercer Investments Consulting stated that the broad theme of the first quarter was remarkably different compared to the market's status present day. He indicated U.S. market equities were up and that the key trend of the first quarter for fixed income was an increase in yields. He stated this changed dramatically in the second quarter with a massive reduction in bond yields. He indicated that while the U.S. market was outperforming Europe, continued expectations were for more growth from the emerging markets. He speculated that Asia or Latin America would soon outpace growth from the rest of the world. He stated that in terms of sector performance, the most positive returns were in the information technology, financial, and consumer discretionary sectors, with consumer staples and utilities underperforming compared to the broad market.

Mr. Jack McDonald from Fidelity Investments introduced himself and Ms. Yasmin Landy and Mr. Ron Henry. Ms. Landy stated the last several years had been volatile, with much concern over geopolitical risk and assumptions of growth across the globe. She stated while there was a lot of movement across markets, there were steps in mitigating risk. She indicated that a strategy Fidelity implemented to minimize risk was to assess areas such as geographic reach, so that if a company was weak in one market, there was potential growth in another; or whether there were tax or regulatory implications for those companies that are geographically locked down, such as utilities.

Mr. Charles Franckowiak, from DWS Investments, introduced himself and Mr. Alain Cubeles, who represented Northern Trust, the sub-advisor to the DWS EAFE Index Fund. Mr. Franckowiak stated there was much uncertainty over the sustainability of a recovery, or whether there would be more downturns. He stated there was a slowdown in the U.S. market, which affected many markets that are dependent on the U.S. economy. Mr. Cubeles commented that there was also speculation as to what could happen should Greece discontinue the Euro. He indicated if there was a disorderly departure from the Euro, if there were capital restrictions or if markets were closed for an extended period, the country could be removed from the EAFE index to be placed in a standalone category. He indicated the index was normally reviewed and subject to reconstitution in May and November.

Mr. Schoonover asked how long the U.S. can add to its debt without impacting its economy. Ms. Landy stated the timeframe was difficult to peg, but there was definite need for deleveraging high levels of debt; she indicated that households had already begun the deleveraging process. Mr. Franckowiak indicated the big challenge to any level of debt was not the absolute dollar amount, but the ratio against the GDP. He stated that while the U.S. continues to have affordable rates, debt can be rolled over once it matures at low cost. He stated the challenge will emerge should rates rise. He stated the biggest component of the solution was growth, and the U.S. was not growing as it should be, historically, coming out of a recession. He stated that compared to the global market, there was still a high demand for U.S. Treasuries.

Mr. Cubeles stated in terms of performance, the DWS EAFE Index Fund had been tracking very closely to the benchmark and in the last year had outperformed by approximately ten basis points. He indicated there were tracking errors, such as: fund expense fees, which are 50 basis points; the fund's participation in a securities lending program, which costs about 12 basis points; and dividend withholdings, which the index withholds at a higher amount than the U.S., which is able to reclaim about 20-25 basis points a year. He stated the fund looks to buy and sell securities that are the most liquid and have the lowest transaction costs. He indicated this method can result in the fund not being an exact replica of the index; however, it enables the fund to maintain its lower management fee.

Ms. Landy stated that the cumulative 3-month performance for the Fidelity Diversified Fund demonstrated the firm's strategy had started to add value in 2012. She stated that the energy sector was a top detractor last year for the fund. She stated that Fidelity continued to identify places of opportunity, such as emerging markets, where there have been large numbers of populations emerging from poverty, driving consumption in sectors such as healthcare. She stated there has been value added to the fund due to stock selection. Mr. Muir noted that the first quarter performance relative to benchmark was similar, but the performance against peers was slightly below median in the 3 and 5-year performances. Ms. Landy indicated that at the time, peer groups had more exposure to emerging markets.

Mr. Moutes asked DWS Investments to provide reasoning for including a securities lending component in its strategy. Mr. Franckowiak stated the program allowed contributions towards returns in a low risk manner to keep costs down. Mr. Moutes asked for a report-back on the securities lending return, year-by-year over 5 or 10 years, which also demonstrated the impact on the portfolio.

Mr. Franckowiak stated in November 2011, Deutsche announced a strategic review of the DWS U.S. asset management business. He stated that Deutsche performed strategic reviews of its services typically on a 10-year cycle; there had not been one conducted since the acquisition of the U.S. asset management business. He stated that in February, talks had begun with Guggenheim Partners in New York regarding a possible sale, however as of the end of April, talks had concluded and there was no longer a pending sale. He indicated DWS also had recently gained a new CEO and Board due to the previous CEO's retirement; he stated there were no indications of resuming any sales but indicated the decision could be reevaluated by the new management.

Mr. Muir concluded with the remainder of the investment performance review. He stated the PIMCO Bond Fund, which constituted 50% of the DCP Bond Fund, was up in performance; the fund had made incorrect market calls last year, but had since corrected its strategy and was now up 5.5% year-to-date. He stated there was slight underperformance with the risk-based funds as these were predominantly passively managed funds. He stated all funds that were on monitor status for performance reasons were corrected by the April 20th investment menu change implementation; American Funds and the Lazard Mid-Cap Fund were transitioned out of the Plan's menu.

The meeting was recessed at 10:33 a.m. and was re-convened at 10:45 a.m.

5. BOARD REPORT 12-32: DEPARTMENT OF LABOR FEE DISCLOSURE REQUIREMENTS

Mr. Montagna stated that the Department of Labor (DOL) had released two sets of rules governing fee disclosure in retirement plans to ensure investment and plan fees were adequately disclosed to participants and sponsors. He indicated these rules were mandatory for plans covered under ERISA. He stated that while the Deferred Compensation Plan is not covered under ERISA and therefore not subject to its rules, he recommended the Plan voluntarily comply as a best practice. He stated that the new rules required plan sponsors to provide periodic notices to plan participants and eligible non-participants, and for covered service providers to forward to plan sponsors any direct and indirect costs related to services provided as well as general fee disclosures. He indicated that for the notices to plan participants, the Plan would provide pertinent information in the quarterly newsletters rather than a separate mailing. He stated that in the notice for non-participants, a separate mailing would be required but it could be viewed as a marketing opportunity for the plan; he noted there were approximately 13,000 City employees who were eligible but not currently enrolled.

Mr. Mumma indicated his agreement with providing the fee disclosure to participants. He stated his hesitance with providing this information to non-participants, but could see the benefit in sending out an initial notice if staff would be able to measure how participation is affected as a result of this type of mailing. Ms. Bhatia asked whether electronic delivery of this information would suffice. Mr. Montagna stated there was no clear guidance from the DOL; however, electronic delivery would nonetheless be ineffective as the Plan does not have all non-participant e-mail addresses and there would be individuals who would not have easy access to the internet.

Mr. Moutes indicated the Plan could possibly leverage resources and work with other entities, such as LACERS, in order to take advantage of possible joint mailing opportunities. Mr. Montagna stated that the Benefits Division was also considering in the future combining mailings with benefits-related open enrollment materials.

Mr. Raggio asked whether there was any governing document that precluded the Plan from using Plan funds to provide such documentation to non-participants. Mr. Montagna stated the Plan already provides print materials to encourage new enrollments, particularly when representatives provide enrollment packets when providing table service at different City locations or when speaking at new employee orientations. He further added that the cost of sending print material to non-participants would be relatively inexpensive.

Mr. Moutes asked whether the Plan had any data on what ages employees began their initial contributions. Ms. Archer indicated this data was not yet tracked; however, she stated that anecdotally, the average employee in attendance of an orientation was between the ages of 30 and 40 years old.

Mr. Canzano asked Mr. Kidder whether approving voluntary compliance would make it a permanent obligation for the Plan. Mr. Kidder indicated as it was voluntary compliance, it would not obligate the Plan on an on-going basis, particularly if the Board specifies in its motion the approval would be for the initial mailing only and subsequent action would be contingent upon staff's analysis of the effectiveness of the notice. He further recommended that language be included in the notice to the non-participants that the communication method may be subject to change.

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

A motion was made by Mr. Moutes, seconded by Mr. Mumma, to approve staff's recommendation to voluntarily comply with the new DOL rules as a matter of best practice, providing however that the communication to non-participants would be done on a test-basis initially and that voluntary compliance should not be regarded as an ongoing obligation of the Plan going forward; the motion was unanimously adopted.

Mr. Schoonover departed at approximately 11:08 a.m.

6. HARDSHIP APPEAL CASE NO. 12-02

Ms. Chang stated a participant was appealing to the Board after receiving a denial of their hardship request by Great-West. She stated the participant had cited prevention of foreclosure/eviction as the reason for their hardship request. She indicated Great-West had denied the participant's request as the participant had already been foreclosed upon and was in the process of being evicted, which Great-West considered irreversible and not a qualifying event for a hardship. She stated the participant subsequently appealed to the Board. She stated the participant was concurrently searching for another home, and had indicated significant difficulty in attempts to find another residence due to the pending eviction and foreclosure; the participant indicated many leasing offices required several months of rent in advance, which amounted to a large up-front cost. She stated that the participant had an urgent need to move as soon as was feasible as the court had provided a timeline within which the participant could vacate the foreclosed property and avoid the formal recording of an eviction action. She stated the participant eventually found a suitable option but needed assistance with the large up-front cost. She indicated that since the participant's appeal had been filed a few days prior to the May Board meeting, the appeal was not brought before the Board until the June meeting. She stated that due to this timing, the participant had to borrow funds from a relative in order to cover the up-front costs of relocating, and was now, in effect, asking the Board for approval of the hardship request in order to repay the loan.

Mr. Mumma asked why an approval was recommended if the Plan had not historically approved similar requests. Mr. Montagna indicated the participant's case was unique in that had the participant requested the hardship prior to the foreclosure, Great-West would have approved the request; additionally, had the participant submitted the appeal to the Board earlier, staff would have found that the need for funds constituted an emergency need and the approval would have aligned with past Plan decisions.

Mr. Raggio asked whether the Plan had tax counsel available for consult. He questioned whether a personal loan was a qualifying reason for a hardship. Mr. Kidder indicated that the City Attorney's Office was conducting interviews for tax counsel and preparing to make a selection. He indicated meanwhile that the Plan Document could be used as a guide. He stated that according to the language in the Plan Document regarding hardships, each case can be weighed individually. Mr. Montagna stated the larger risk, rather than any court complications, would be the scrutiny of an IRS audit. He stated that should the IRS ever decide to audit the Plan, weight would be placed on whether the Plan followed a prescribed process rather than making arbitrary judgments.

A motion was made by Ms. Bhatia, seconded by Mr. Cannon, to approve the appeal of the hardship denial in Case No. 12-02; the motion was unanimously adopted.

7. BOARD REPORT 12-33: 2012 BOARD ELECTIONS

Ms. Chang reported that the elections for the Board had concluded, and the results had been certified by the Office of the City Clerk, Election Division. She stated that both Mr. Canzano and Mr. Cannon had been re-elected to their seats as the Active DWP Participant Representative and Retired Participant representative, respectively.

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

8. BOARD REPORT 12-34: STAFF REPORT

Ms. Chang indicated information had been compiled for the May staff report. She stated 233 participants visited the public counter. She indicated 53 participants elected to defer their accrued leave for an amount of $1,368,635; she stated these numbers were significantly higher than average. She indicated 46 hardship cases were submitted; 39 cases were approved and 2 denied, with the balance pending additional information. She stated the requests mainly cited reasons of preventing eviction or foreclosure; a total of $364,663 was disbursed for these hardships. She indicated 496 participants elected to obtain a new loan, for about $5.8 million dollars disbursed from the Plan. She stated deferrals had tracked higher in May due to the three pay periods in the month; she indicated $20.7 million had been deferred to the Plan. She indicated Roth deferrals increased by 56 new elections, increasing the total number of Roth deferrals to 945; she stated the participation rate of those contributing to the Plan increased slightly to 3.3%.

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

Mr. Mumma departed at approximately 11:25 a.m.

9. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Moutes asked for a follow-up report regarding the Board's request for tax counsel and asked Mr. Kidder to make note of the Plan's need while the City Attorney's Office proceeds with its tax counsel selection process.

Mr. Canzano asked if there was any input on how to coordinate the investment manager presentations differently; he asked staff to develop possible alternative ideas and to report back to the Board for discussion.

10. NEXT MEETING DATE – JULY 17, 2012

11. ADJOURNMENT

A motion was made by Mr. Cannon, seconded by Mr. Amerian, to adjourn the meeting; the motion was unanimously adopted.

The Board adjourned at 11:34 a.m.

Minutes prepared by staff member Esther Chang.