

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF JULY 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
Cliff Cannon
Sally Choi
Shelley Smith

Staff:

Personnel: Alex Basquez
Steven Montagna
JoAnn Dominguez

City Attorney: Christopher Lee
Vicky Williams

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:09 a.m. He welcomed Cliff Cannon to the Board as the new Retired Participant Representative. Maggie Whelan congratulated Mr. Cannon on his election and welcomed him as well. Mr. Cannon indicated he was looking forward to his service on the Board.

2. PUBLIC COMMENTS

None.

3. MINUTES

Mr. Kraus noted some typographical errors and omissions to the minutes, which staff indicated would be corrected. **A motion was then made by Mr. Kraus, seconded by Sally Choi, to approve the minutes of June 16, 2009, as amended; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION: AMERICAN FUNDS

Lily Matias and Steve Caruthers, both with the American Funds, were present to review performance for the Growth Fund of America and Investment Company of America. Ms. Matias began by indicating that there had been no further development in the litigation issues discussed in the American Funds presentation to the Board the prior year. She indicated that an organizational change had occurred with the firm in merging the marketing for the institutional and retail groups, but noted that the team serving the City would remain intact. She indicated that notwithstanding some press reports, the financial strength of the firm remained strong. She stated the firm was privately held, conservatively run, had a strong balance sheet, and its share owners were its current employees.

Mr. Caruthers spoke next, reviewing performance first for Growth Fund of America. He reviewed the goals for the Fund and then its characteristics, noting that the Fund had a low turnover rate and low fees relative to its peers. He indicated that what selling was occurring was in the interest of trimming gains in order to invest in firms with even more compelling valuations. He stated that the Fund was somewhat less aggressive than the typical growth fund.

Mr. Caruthers next indicated that the firm was one of the largest mutual funds but that its multiple manager system allowed it to manage that size effectively, with eleven different managers and sixty decision makers involved in the portfolio. Mr. Caruthers stated that the capacity of the Fund was not unlimited and that the Fund could be frozen if it was determined that it was in the best interests of the firm to do so. Mr. Kraus asked what signals the firm would look for to make a determination that the size of the asset pool was detracting from returns. Mr. Caruthers replied that it would likely be precipitated by feedback from portfolio managers.

With respect to the Fund's holdings, Mr. Caruthers indicated that returns had been helped by an overweighting in Technology and underweighting in Financials. He stated that the firm had recently been increasing its Financials exposure.

Regarding returns, Mr. Caruthers indicated that the Fund had outperformed the S&P 500 year-to-date and over three, five and ten year periods. He stated the Fund had been able to achieve this through the consistency of its investment process.

Turning next to the Investment Company of America, Mr. Caruthers stated that the focus of the Fund was on dividend producing companies. He reviewed the characteristics of the Fund, noting the turnover rate of 31% and average holding period of three years. He reviewed the Fund's holdings, indicating that the firm currently had added a 3% allocation to bonds, putting some of its cash to work and taking advantage of some particularly attractive valuations in corporate bonds. He stated that the bond exposure was atypical and was only occurring at this time to take advantage of unique opportunities.

He next reviewed sector holdings, indicating that the Fund had overweights in technology and underweights in energy and financials, which had helped relative performance. Mr. Kraus asked how the Fund's current cash holdings compared to its long-term average. Mr. Caruthers replied that for Growth Fund of America current cash holdings were at 13% vs. a 12.5% long-term average, while for Investment Company of America cash was at 10.6% vs. a 13.6% average. He stated that these cash positions allowed the Fund to meet redemptions without having to sell holdings.

Mr. Canzano thanked both presenters for taking the time to meet with the Board. The presentation then concluded.

5. BOARD REPORT 09-38: ELECTION OF OFFICERS/ COMMITTEE MEMBERSHIP REVIEW

Mr. Montagna indicated that elections for officers typically took place in July of even-numbered years but that the Board needed to fill its Vice-Chairperson position. **Shelley Smith indicated that she wished to nominate Richard Kraus for this position; Maggie Whelan seconded the nomination, and the nomination carried with six affirmative votes and one abstention (Richard Kraus).**

Mr. Montagna indicated that since Richard had been the First Provisional Chair, this position would now need to be filled as well. Ms. Whelan indicated she wished to nominate Sally Choi for this position. There was discussion among Board members regarding whether the Provisional Chairs should be advanced in their order. Ms. Whelan indicated she preferred to remain as the Third Provisional Chair. **A motion was then made by Maggie Whelan, seconded by Shelley Smith, to nominate Shelley Smith for First Provisional Chair and Sally Choi for Second Provisional Chair; the motion was unanimously adopted.**

The Board next discussed the issue of Committee assignments. Mr. Canzano asked if Board members on existing Committees wished to make any changes. Ms. Whelan indicated her schedule had not allowed her to participate much on the Plan Governance & Administrative Issues Committee, and Sangeeta Bhatia indicated the same. Mr. Canzano asked Mr. Cannon if he wished to participate on this Committee, and Mr. Cannon replied affirmatively. Mr. Canzano indicated that the Plan Governance Committee would henceforth consist of himself, Ms. Bhatia, Mr. Cannon and Ms. Whelan.

6. BOARD REPORT 09-39: DRAFT GOVERNANCE/PLAN BYLAWS

Mr. Montagna indicated that staff had completed its first draft of proposed Board governance policies and bylaws. He stated that staff was recommending that the draft be referred to the Plan Governance Committee. Mr. Canzano asked other Board members if they had general comments regarding the draft. Mr. Kraus asked questions regarding several items, including the authority for executing contracts, requirements for advance notices of meetings, and the \$1.5 million target surplus for the reserve fund.

Mr. Kraus further inquired about the use of the term “loyalty” on page two, and Ms. Smith and Ms. Choi indicated that this was a term of art in the area of fiduciary law. Mr. Kraus asked if the policy should include a policy of annual review of the Third-Party-Administrator. Ms. Whelan indicated such a review was probably addressed within the terms of the contract and therefore should be addressed in a future contract negotiation rather than through the bylaws. Mr. Cannon asked if policies regarding the conduct of elections should be included in this document. Mr. Montagna replied that the policies adopted by the Board concerning elections should be incorporated.

Following this discussion, **a motion was made by Maggie Whelan, seconded by Shelley Smith, to refer the draft governance policies/bylaws document to the Plan Governance & Administrative Issues Committee; the motion was unanimously adopted.**

7. BOARD REPORT 09-40: BENEFICIARY DESIGNATION LANGUAGE

Mr. Montagna indicated that this issue had arisen as a result of an inquiry from Board member Mike Perez. He stated that the question was whether it was appropriate for the Plan’s beneficiary designation form to require spousal consent for that portion of a participant’s account which was not community property. He indicated that staff had researched the issue with other entities and discovered two general types of problems: first, because of the complexity of the rules, some of the simplifications of that complexity created inconsistencies; and second, in attempting to meet legal requirements, the communications generated by various entities tended to not be user-friendly.

Mr. Montagna indicated that staff had attempted to draft language which provided participants with all the rights to which they were entitled under the rules, and which communicated those rules in ways that were as user-friendly as possible. Mr. Canzano indicated that he appreciated the work done by staff and asked whether it might make more sense to have the participant designate ownership of the community property interest first. Ms. Bhatia agreed this might make more sense. Mr. Montagna replied that it might be useful to use a focus group to see how this information was being interpreted by participants. Ms. Smith agreed with this approach and observed that feedback from a focus group might indicate that participants needed more explanation of community property.

Corina Lee of the Police Protective League was in attendance and indicated that her membership needed this information and that many of them did not realize they needed to change their beneficiary designations over time, and that it might be helpful to remind them of who they had designated. Mr. Montagna indicated that many years ago staff had brought forward to the Board a recommendation for annual statements indicating beneficiary designations, but that at the time the Board had a concern regarding access to such notifications by other individuals who were in a participant’s household. There was discussion regarding using the Plan website for this purpose. Alex Basquez indicated that staff could prepare a report in which it developed a plan for notifications

and provided a report on focus group results. Mr. Kraus suggested that staff also look into incorporating a reminder about beneficiary designations into the annual Open Enrollment booklet for Flex benefits.

Following this discussion, **a motion was made by Maggie Whelan, seconded by Richard Kraus, to receive and file the staff report; the motion was unanimously adopted.**

8. BOARD REPORT 09-41: SURVEY POLICY

Mr. Montagna indicated that the Plan Governance Committee had met and was recommending a policy in which broad-based participant surveys were conducted once every three years, without precluding the Board from conducting other types of more limited surveys on an as-needed basis. **A motion was made by Sally Choi, seconded by Sangeeta Bhatia, to adopt the recommendation of the Plan Governance Committee to (a) conduct broad-based participant surveys once every three years, with the next such survey occurring in 2011; and (b) conduct more limited ad hoc surveys or alternate means of obtaining participant feedback on an as needed basis using methods including but not limited to focus groups and statistically representative sampling; the motion was unanimously adopted.**

9. BOARD REPORT 09-42: DEFERRED COMPENSATION PLAN BUDGET STATUS REPORT FOR QUARTER ENDING 03/31/09

Mr. Montagna indicated that staff was requesting reimbursements for Plan expenses for the quarter ending 03/31/09. Mr. Canzano indicated that the estimated surplus in the fifth year seemed to suggest a negative trend. Mr. Montagna replied that staff's internal calculations indicated that over a 10-year forecasting period the numbers reversed themselves, and further noted that staff's assumptions regarding staffing costs and Plan growth rates were extremely conservative, meaning actual five-year numbers were likely to be much more favorable.

Mr. Kraus asked if the interest rate assumption could be redesigned as a fixed percentage rather than dollar amount, and Mr. Montagna indicated this could be done. Mr. Kraus noted that the tables on the first and second pages differed, and Mr. Montagna replied that he had updated the chart on the first page, which was correct, but not the second page.

Ms. Whelan indicated that she wished to take this opportunity to comment on program staffing. She stated that notwithstanding the funding approved by the Board for Personnel Department staffing, because of the Department's responsibilities in the layoff process she had been forced to pull in staff from various Department Divisions to support those efforts. She indicated that Ashley Stracke had been reassigned to the layoff team, but that the Plan would not pay for any of the time Ms. Stracke spent performing layoff activities. She asked for the Board's patience as the Department dealt with the consequences of this highly unusual budget situation.

Following this discussion, a motion was made by Sangeeta Bhatia, seconded by Cliff Cannon, to receive and file the status report on Deferred Compensation Plan budget accounts for the quarter ending 3/31/09; the motion was unanimously adopted. A second motion was then made by Shelley Smith, seconded by Richard Kraus, to approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$141,131.65; City Attorney for \$19,213.63; and DWP for \$2,795.02; the motion was unanimously adopted.

10. BOARD REPORT 09-43: STAFF REPORT

Mr. Montagna indicated that the State Street Global Advisors contract and Galliard contracts were both near completion and complimented Deputy City Attorney Anita Parys for her excellent work in moving the contracts forward. He indicated that the draft City Council report updating the financial status of the Deferred Compensation Plan had been submitted to but not yet scheduled by Personnel Committee. He indicated that the pre-audit testing report previously deferred by the Board would be heard at their August meeting.

He then indicated that it had been determined that the cash incentives that were part of the Early Retirement Inctive Program (ERIP) had been determined to be ineligible for deferral into the Plan, but that employees could still participate in the accrued leave program. Ms. Whelan asked if special guidance could be prepared for Plan participants regarding accrued leave and ERIP, and Mr. Montagna indicated it could.

Mr. Montagna then referred the Board to a new chart on the last page of the report in which staff would be tracking bi-weekly cash flows to gauge the impact of the budget situation on Plan contributions. He noted that the chart showed that contributions were at a lower pace as compared to a year ago, which should be considered unusual, especially given that contribution limits had risen in 2009.

11. REQUESTS FOR FUTURE AGENDA ITEMS

None.

12. NEXT MEETING DATE – AUGUST 18, 2009

Mr. Montagna indicated that staff member JoAnn Dominguez would be retiring effective August 14th, 2009. He stated that her work in support of the Plan had been exemplary and she would be greatly missed. Ms. Whelan thanked Ms. Dominguez for her service to the Plan and wished her well on her retirement.

13. ADJOURNMENT

The meeting adjourned at 11:02 a.m.

Minutes prepared by staff member Steven Montagna.