CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING AUGUST 17, 2010 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:	**Not Present:**
Eugene K. Canzano, Chairperson	None
Richard Kraus, Vice-Chairperson	
Sally Choi, First Provisional Chair	
Cliff Cannon, Second Provisional Chair	
Maggie Whelan, Third Provisional Chair	
Sangeeta Bhatia	
John R. Mumma	
Michael A. Perez	

Staff:

Personnel: Alejandrina Basquez
Steven Montagna
Natasha Gameroz
Ashley Stracke
Claudia Guevara

City Attorney: Anita Parys

1. CALL TO ORDER

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

2. PUBLIC COMMENT

None.

3. MINUTES

Mr. Kraus noted typographical errors on page 7 and requested clarification regarding the motion to approve the disclosure form on page 8, which states that the motion passed with a 4 – 1 vote. He stated that at least five Board members were needed to approve a vote. Mr. Montagna agreed and stated that a subsequent vote on the motion was made and approved upon the return of Ms. Bhatia to the meeting. Mr. Kraus concluded the review of the minutes by requesting that staff include the discussion about having investment reports from the consultant along with investment provider presentations. Mr. Montagna indicated that this would be included. **A motion was then made by Richard**

Kraus, seconded by Cliff Cannon, to adopt the minutes of the July 20, 2010 Board meeting, as amended; the motion was unanimously adopted.

4. FIDUCIARY RESPONSIBILITIES PRESENTATION: GREAT WEST RETIREMENT SERVICES

Usha Archer of Great West Retirement Services (Great West) introduced Marilyn Collister, Senior Director of Legislative and Regulatory Affairs for Great West. Ms. Collister began her presentation by stating that fiduciary responsibility was a timely topic given the downturn in the market, increased market volatility, and fund company scandals in recent years. She highlighted the differences between the roles of the "employer" and the "fiduciary." Ms. Collister explained that establishing, designing, and determining to amend/terminate the plan were considered employer decisions and that the implementation of these decisions results in fiduciary responsibilities. She stated that the Small Business Protection Act of 1996 brought about changes to the way funds were held and that while all defined contribution funds once belonged to the employer, governmental plans are now required to hold the funds in trust.

Mr. Perez asked Ms. Collister to clarify the last bullet point on page seven. Ms. Collister explained that 457(f) funds are not subject to the trust requirement that 457 (b) funds are. Mr. Perez asked if the City has access to the Plan's funds. Ms. Collister stated that the City could not access the funds and that they must be held for the exclusive benefit of participants and their beneficiaries. Mr. Perez asked if this was explicitly stated in the Plan's trust document. Ms. Collister stated that this was a requirement stated by the Internal Revenue Code (IRC).

Ms. Parys asked Ms. Collister whether or not the IRC required a formal trust. Ms. Collister stated that 457(b) plans could use a formal trust, a custodial agreement, or place the money into an annuity contract. She continued by stating that a formal trust could be created by either a trust document or by provisions of the City's Plan Document. Ms. Whelan asked what type of trust the Plan uses. Mr. Montagna stated that there was language in the City's Administrative Code that stated that "457 (b) plan assets were hereby placed into trust." Ms. Whelan asked if the Administrative Code stated that the City held the trust. Mr. Montagna cited Attachment D (City of Los Angeles Ordinance 172105, section 4.1404, Investment Fund and Trust) included with Board report 10-29. Mr. Cannon stated that the Board still needed clarification on what was meant by "held by the City." Mr. Montagna stated that later on in the agenda, the Board would review a drafted letter asking the City Attorney for clarification of that specific topic.

Ms. Collister continued her presentation by stating that government plans are exempt from the Employee Retirement Income Security Act (ERISA), and that California state laws, which are applicable to the City Plan, closely mirror ERISA.

She also stated that the Los Angeles City Administrative Code identifies a number of fiduciary roles of the Board. Mr. Perez explained that the City Council has the ability to overturn a decision of the Board. Ms. Collister explained that in the event the City Council vetoed a decision they might also become fiduciaries of the Plan. Ms. Parys asked if the City Council had an ongoing fiduciary responsibility since it has the power to veto the Board's decisions. Ms. Collister stated it would depend on the specific circumstance of the City. She explained that if the Plan Document cited the City Council as a fiduciary, the body would be an ongoing fiduciary. She also explained that a person or body that is exercising discretion might also become a fiduciary of the Plan. Mr. Montagna stated that the City Administrative Code does not explicitly cite the City Council as a fiduciary of the Plan. Mr. Perez asked if decisions regarding staffing of the Plan would be considered fiduciary. Ms. Collister said that she believed it would be considered an employer decision. Ms. Whelan asked what types of decisions of the Board were subject to City Council veto. Mr. Montagna referenced Administrative Code Ordinance 172415, which indicated that all actions of the Board are subject to City Council veto.

Ms. Collister continued with a discussion on co-fiduciaries. She explained that the Board could not eliminate its fiduciary responsibility by selecting another individual or entity to take on certain responsibilities. She explained that when the Board must delegate responsibilities it should use objective criteria for selection and monitor the work continuously. She stated that attorneys, consultants, and record keepers are considered advisors and not fiduciaries as long as they do not make the decisions for the Plan. Ms. Choi asked if there was a benefit of making an individual or entity fiduciaries. Ms. Collister stated that typically there were no advantages to making someone a fiduciary because of the co-fiduciary liability.

Mr. Perez asked if staff would be considered fiduciaries of the plan. She explained that if staff were following Board instruction then they would not be considered fiduciaries. Mr. Montagna asked if staff processing distribution requests would be considered a fiduciary responsibility. Ms. Collister stated that it would depend on the instruction staff received. She gave an example of plans delegating hardship approvals to Great West where Great West receives explicit directions on the criteria for approving requests. She stated that this would not be considered a fiduciary responsibility because the Board had instructed when Great West could make the distributions. Mr. Kraus asked about the terms the City's Plan made with Great West for hardship delegation. Mr. Montagna stated that the Plan had instructed Great West to administer hardships in accordance with IRS regulations.

Ms. Collister stated that the fiduciary duties of the Board were 1) acting solely in the best interest of plan participants, 2) carrying out duties prudently, 3) following the plan documents, 4) diversifying plan investments, and 5) paying only reasonable plan expenses. She stressed that plan boards cannot put the interests of the employer above the interests of the plan beneficiaries and indicated that if plans follow a prudent process then the employer is less likely to be found liable in the event of a lawsuit. She also stressed the importance of operating in compliance with the Plan document.

Ms. Collister stated that the California Government Code recognizes that fiduciaries may delegate control over investment choices to the plan participants. She stated that the Board's fiduciary responsibility lies in selecting and monitoring the investment menu as well as educating participants on the investments. She explained that the Board is not liable for the individual investment choices of participants.

Ms. Collister indicated that it was important for plans to identify fiduciaries and clarify the extent of their responsibilities. She also indicated that it was necessary to provide periodic training, especially with the addition of new Board members. She concluded her presentation by directing the Board to the "Fiduciary Checklist" pages 26 – 29 of the report.

Mr. Perez thanked Ms. Collister and asked if there was anything she could suggest for the Plan to do in terms of documenting its responsibilities. Ms. Collister stated that the Board should review the current governing documents of the Plan and determine if they should be revised. Mr. Canzano also thanked Ms. Collister.

5. BOARD REPORT 10-27: MERCER INVESTMENT CONSULTING

Mr. Montagna stated that Principal Consultant Susan Dalton had left Mercer Investment Consulting (Mercer). He indicated that she had been instrumental in helping the Plan with the changes to the investment menu. He stated that staff had met with the replacements for Ms. Dalton and explained that all indications were that they were well versed in the topics that Ms. Dalton was assisting the Plan with.

Devon Muir, Principal Investment Consultant, introduced himself and stated that he specialized in assisting defined contribution plan clients with developing investment policies, manager selection, and investment portfolio structuring and monitoring. He indicated that his clients included the State of New Mexico Deferred Compensation Plan as well as the California State University 4 03 (b) plan. He stated that prior to working with Mercer, he had been employed by several boutique investment firms.

Eileen Kwei, Principal Investment Consultant, introduced herself. She stated that she was based out of Mercer's San Francisco office and that she has ten years of investment consulting experience. Ms. Kwei stated that the client she has worked with that was most similar to the City's Plan would be the State of Nevada Deferred Compensation Plan. She explained that she had experience setting investment strategy and determining investment structures of defined contribution plans as well as on-going monitoring of investment options. She stated that she specialized in defined contribution plans, sits on several committees with Mercer and is a member of several industry trade publications.

Mr. Canzano welcomed Mr. Muir and Ms. Kwei. Mr. Mumma asked each consultant how long they had been working in the investment consulting profession as well as how long they had been with Mercer. Mr. Muir stated that he had eleven years of investment consulting experience and had been working with Mercer for two years. He also stated that he had an MBA and CFA designation. Ms. Kwei stated that she had ten years of investment consulting experience and one year of experience with Mercer. She indicated that prior to working with Mercer, she had worked for another investment consulting firm in San Francisco. She stated that she graduated from UC Berkley and also had the CFA designation.

Mr. Perez asked if both of the consultants would be attending the Board meetings. Mr. Muir stated that he would be the lead consultant since he was located in the Los Angeles area and that Ms. Kwei would be attending Board meetings on a quarterly basis. Mr. Muir stated that he understood that the Plan was in the middle of undertaking significant projects and that Mercer wanted to ensure that the firm was dedicating sufficient resources to assist the Plan.

6. BOARD REPORT 10-28: INVESTMENT MENU

Staff passed out a corrected version of page 11 of the report, which reflected a change in one of the graph's axes. Mr. Muir stated that the change did not effect the analysis of the data.

Mr. Muir started his presentation by stating that the Board reviewed three portfolio options for the International Equity Structure at its last meeting. He indicated that the Developed + Emerging + International Small Cap (D+E+S Active) portfolio shown on page 8 was recommended by staff since it focuses on active management. He indicated that the Board requested additional information comparing and contrasting active and passive management of international portfolios.

Mr. Muir directed the Board to page 10 of the report, which compared the D+E+S Active portfolio to the D+E+S Passive portfolio. He explained that while both portfolios have the same allocations (65% Developed, 17.5% Emerging, and 17.5% Small Cap) the D+E+S Active portfolio has nearly 1% higher returns over the D+E+S Passive portfolio. Mr. Kraus stated that it appeared that the graph on page 10 showed returns net of fees. Mr. Muir stated that this was correct. Mr. Kraus stated that he was concerned that the graph may be exaggerating the difference in returns between the active and passive portfolios since actively managed funds are generally more costly than passively managed funds. Mr.

Muir stated that geometric returns are generally not plotted against the standard deviation and indicated that if the arithmetic return were used on the graph, the returns for D+E+S Active would probably be lowered by 1%. However, he also indicated that the returns would still be higher than the D+E+S Passive portfolio.

Mr. Canzano stated that the Board prefers to view returns net of fees. He then asked what underlying numbers were being used to determine the expected risk and return characteristics. Mr. Muir stated Mercer projected excess returns of .9%, .95%, and 1.9% for the international developed, emerging market, and small cap managers respectively. He also stated that on a historical basis these figures were very conservative. Mr. Canzano asked if Mercer was using the universal median or the median of A-Rated managers when comparing expected rates of return. Mr. Muir indicated that the universal median for managers was used. Mr. Mumma asked why there was a large difference in the tracking error between the D+E+S Active and D+E+S Passive portfolios. Mr. Muir stated that by definition, active managers take on different risk exposure than the index therefore there will be variability in the excess return. However, he also indicated that over the long term the total return was expected to outperform the index.

Mr. Muir stated that there were three main reasons why Mercer believed that active managers would outperform passive managers in an international fund portfolio. The first reason was due to the ability to obtain increased disclosure. The second reason was because of index construction peculiarities. He stated that at one point during the 1990s Japan represented over 60% of the Morgan Stanley EAFE index and today the country represents only 20% of the index. He explained that the ability for active managers to identify overheated economies helps them avoid the pitfalls of managers that follow the index. He indicated the third reason active managers outperform the index is due to the variability of currencies and the ability of active managers to trade around currency exposure.

Mr. Muir next referred the Board to page 11. He stated that the graph compared two D+E+S Active portfolios of the median managers of the universe and the median of Mercer's A-Rated managers relative to the D+E+S Passive portfolio and the MSCI ACWI ex-US index. He stated that the graph showed the growth of $100 over a ten-year period for each of the three portfolios and the index. He stated that the D+E+S Passive represents a slight improvement to the MSCI ACWI ex-US index because of the addition of small cap funds. He further stated that the graph showed that the median return for the D+E+S Active portfolio exceeded the D+E+S Passive portfolio. He explained that using Mercer's strategies for identifying highly performing managers, the median A-Rated manager show an improvement on the median managers of the D+E+S Active portfolio universe.

Mr. Kraus asked if the graph showed returns net of fees. Mr. Muir stated that the figures represented were net of fees and geometric returns. Mr. Kraus asked if Mr. Muir could comment on why the expected future returns are higher than the historic returns. Mr. Muir stated that estimates are twenty years in nature and explained that equities in general are expected to return anywhere from 7.5 to 10% depending on investment type and capitalization size. He stated that Mercer did not project that the economic factors present in 2008 to 2010 would persist far into the future. Mr. Kraus asked how often projections are updated. Mr. Muir stated that the projections are updated quarterly and that he would consider the underlying assumptions to be conservative. Mr. Montagna asked if it was correct to say that the relative returns remained consistent even during the downturns. Mr. Muir agreed and explained that one of the main reasons for using active managers is to protect against pitfalls of the market. Ms. Choi asked how many managers are currently considered “A-Rated” by Mercer. Mr. Muir stated that it was roughly 10 - 20% of the Mercer universe.

Mr. Canzano asked if the A-Rated managers represented the top quintile of the universe. He explained that an A-Rated manager’s past performance may or may not be in the top quintile of all managers and indicated that the factors used to identify A-Rated managers included a review of their investment practices, transaction costs, and overall business strategies.

Ms. Kwei directed the Board to page 12. She stated that graphs showed that both the universal median and median of A-Rated D+E+S Active managers outperformed the ACWI ex-US index. She stated that the graphs showed the average performance of the managers as well as their performance in up and down markets. She stated that the graphs showed that Mercer’s A-Rated managers have historically outperformed the median active managers of the universe. Mr. Kraus stated that it looked as though the graphs indicated that it was very important to pick the top active managers in order to outperform the index. Mr. Muir stated that this was correct and that Mercer uses robust criteria for selecting managers.

Ms. Kwei directed the Board to page 13. She explained that there are a wide variety of strategies available in all three asset classes of the active space. She stated that there were significantly fewer passive strategies to choose from, which could make implementation difficult particularly in international small cap should the Board choose passive management.

Mr. Perez asked what staff would recommend and asked the consultants to discuss how they determined to use active and passive management for the other investment menu asset classes. Mr. Muir stated that the decisions were based on market efficiency. Mr. Montagna stated that staff concurred with the consultants’ recommendation to adopt the structure identified on page 9 of the report.

Mr. Canzano asked for clarification on the procurement process. Mr. Montagna stated that the mutual funds in Mercer’s database would be reviewed by the consultant and if selected, could be “turned on” by Great West. He explained that if an institutional fund wanted to be considered, the firm would need to participate in the City's normal procurement process.

Mr. Kraus asked for the consultants to discuss the potential for emerging market and small cap funds to close to investors in the future. Ms. Kwei stated that most mutual funds close to new investors and remain open to existing investors. She stated that typically if a closed fund is on the plan investment platform any participant may invest in a fund even if they were not invested in the fund before it closed. Mr. Muir stated that firms would generally view the Plan as the investor.

A motion was made by Mike Perez, seconded by John Mumma, to adopt the recommended D+E+S composition structure for the Deferred Compensation Plan core International Fund; the motion was adopted with seven affirmative (Cannon, Canzano, Choi, Mumma, Perez, and Whelan) and two negative (Bhatia and Kraus) votes.

Mr. Montagna asked the Board to approve staff's recommendation to refer the investment menu changes to the Investments Committee. **A motion was made by Sally Choi, seconded by Mike Perez to refer to the Investments Committee development of an implementation plan for the approved core menu changes; the motion was unanimously approved.**

Mr. Cannon asked if the Board President was allowed to refer something to a committee without a motion. Mr. Montagna stated that a motion simply clarifies the direction the Board has taken. Mr. Canzano concurred.

7. BOARD REPORT 10-29: CORRESPONDENCE TO CITY ATTORNEY REGARDING TRUSTEE STATUS

Mr. Montagna explained that there was discussion regarding who was the Plan trustee at the previous Board meeting. Ms. Choi stated that she would want to know the fiduciary responsibilities of the Board if the City Council vetoed a decision of the Board. Mr. Montagna stated that the Administrative Code indicates that while the City Council may veto a decision, it is not capable of making a decision in its place. Ms. Parys stated that she believes that the letter is necessary since she reviewed the governing documents and trusts of other plans in the state that show the fiduciary responsibilities defined more clearly.

Ms. Whelan asked if the City were able to access the Plan's assets. Ms. Parys stated that the City would not be able to access the money. Ms. Whelan asked for more clarification on how the money is moved. Mr. Montagna stated that the employer could not access the money since it is in trust.

Mr. Mumma asked if the language in the Administrative Code was legally sufficient to declare the funds held in trust. Ms. Parys stated that the current documentation is likely sufficient, however, that she would feel more confident if there were formal trust documents. Mr. Montagna stated that in 1999 the City Attorney stated to the Board that the language in the City Administrative Code was legally sufficient. He explained that staff presented a formal trust document and changes to the administrative code at that time that would establish who the trustee was and what their responsibilities were. He stated that the Board was told by the City Attorney that this was not needed.

Ms. Whelan stated that it was clear that the Board needed clarification. Mr. Canzano asked if Ms. Collister had any additional input. Ms. Collister stated that it was essential for the Plan to have its assets held in trust or the Plan would not be eligible. She stated that from the documents that she had seen, the Plan's assets were held in trust and were held by the City, however, obtaining additional information and creating documents that more clearly outlined the responsibilities of the Board would be helpful and prudent.

Ms. Choi suggested that instead of asking the City Attorney for an opinion, the Board could propose changes to the City Administrative Code that it felt needed to be made to make trustee designation and responsibilities more clear. Mr. Montagna stated that this would essentially repeat the process that was undertaken in 1999. Mr. Canzano asked the Board if they were interested in putting the letter on hold while Ms. Parys drafted new language for the City's Administrative Code that would be proposed to the City Council. Mr. Canzano also asked if the Plan would also want to address the possibility of creating a separate trustee document.

Mr. Mumma stated that he believed it would be better for the City Attorney to be involved from the beginning given that the City Council will seek advice from the City Attorney. Ms. Choi asked if it were possible to seek outside counsel. Mr. Perez stated that it would require approval from the City Attorney. Mr. Perez stated that he would recommend going forward with both options. Ms. Choi asked if it would be helpful for the Board members to sit down with City Attorney staff. Ms. Whelan stated that she believed that staff is well versed in the topic and that it might be helpful to meet informally with the City Attorney.

Mr. Montagna stated that the letter would help the Board clarify the current language. Ms. Choi asked if the Plan's governing documents had been audited. Mr. Montagna stated that staff could go to Mercer and ask for a review of the Plan's documents. Mr. Kraus asked if the City Council veto power was common among other boards in the City. Ms. Choi stated that she believed that almost every board and commission was subject to it except for the LACERS and Fire and Police Pension Boards since the funds of both plans were held in trusts separate from the City.

Mr. Canzano asked if the Board wanted to postpone sending the letter. Mr. Montagna stated that the Board could direct staff to have the consultant conduct a review of the Plan's governing documents and specifically ask if the Plan has clearly defined its trustees and their responsibilities. He indicated that the Board would be able to find out if the Plan's documents were in accordance with industry best practices. Ms. Choi stated that this would just help clarify roles of the Plan's trustees.

Mr. Cannon asked if there was a conflict of interest if Mercer conducted the audit since the Board hired the consultant. Mr. Canzano stated that Mercer was hired to give advice on such matters. Mr. Montagna stated that staff could come back to the Board with a report to be clear on the intentions of the Board.

Mr. Perez indicated that he believed it would be prudent for staff to write a report in order to carefully determine what information was needed by the Board. **A motion was made by Mike Perez, seconded by Richard Kraus, to direct staff to develop a report that would clearly outline the information the Board would request from Mercer Consulting; the motion was unanimously adopted.**

Mr. Canzano indicated that he would be taking Board Report 10-31: Provisional Chairs out of order.

8. BOARD REPORT 10-31: PROVISIONAL CHAIRS

Mr. Montagna stated that staff brought back this topic at the request of the Board in order to have a fuller Board for the discussion. Mr. Canzano stated that there have been concerns about the General Manager of the Personnel Department having a Provisional/Chairperson role.

Mr. Montagna stated that the current chairs and provisional chairs were as follows: Eugene Canzano, Chairperson; Richard Kraus, Vice Chairperson; Sally Choi, First Provisional Chair; Cliff Cannon, Second Provisional Chair; Maggie Whelan, Third Provisional Chair. Ms. Whelan stated that she was comfortable stepping down from the Third Provisional Chair, but also indicated that she had been Chair in previous years. She stated that she did not recommend that there be changes to the Board's Bylaws in regards to the General Manager of the Personnel Department having a leadership position on the Board.

Mr. Perez stated that he believed from a governance standpoint, having the General Manager of the Personnel Department was awkward given the supervisory role to staff. He stated that it could become particularly complicated in terms of setting the agenda. Mr. Mumma asked for clarification on how the General Manager of Personnel could set something on the agenda. Ms. Whelan indicated the General Manager could direct staff to change the agenda and modify reports. Ms. Choi stated that she did not see a problem having a position on the Board mainly because the Board as a whole has the ability to add topics to the agenda.

Mr. Kraus asked if the Plan had defined the limitations and the scope of the duties and responsibilities of the provisional chairs. Mr. Montagna stated that the Plan Governance and Administrative Issues Committee is currently addressing this topic with the review of the Board Bylaws. Mr. Mumma stated that he believed that for the purposes of appearance, the General Manager of the Personnel Department should not have a leadership role on the Board. Mr. Mumma nominated Mr. Perez for the Third Provisional Chair. Mr. Perez stated that he was uncertain of his plans in the near future and would like to decline the nomination.

Mr. Mumma asked when the vacant labor position on the Board would be filled. Mr. Canzano stated that the position was a labor appointee and that the Plan did not play a role in that appointment process. Mr. Montagna confirmed that the process is completely determined by the labor unions. Mr. Mumma asked how long the position has been vacant. Mr. Montagna stated that the position has been vacant since November of 2009.

A motion was made by Richard Kraus, seconded by Maggie Whelan, to appoint John Mumma as Third Provisional Chair of the Board of Deferred Compensation Administration; the motion was unanimously adopted.

Mr. Canzano stated that Ms. Whelan needed to take leave of the meeting. He asked if staff member Ashley Stracke, who was on loan to the City's layoff team, would start working for the Deferred Compensation Plan full-time. Ms. Whelan stated that the City had finished the current round of layoffs and that layoff team members had been released to their Divisions. She stated, however, that more layoffs could be called for in the future. Ms. Whelan thanked the Board for their patience.

9. BOARD REPORT 10-30: THIRD-PARTY ADMINISTRATOR REQUEST FOR PROPOSAL

Mr. Montagna stated that the Board had requested staff to provide additional information on the Third Party Administrator (TPA) contract. He proceeded to explain the options available to the Board. He explained that the Board could extend the contract with City Council approval. He stated that the City Council provided the authority for a five-year contract in 2006 and that the current contract has a provision that would allow the Plan to extend it for an additional five years. He indicated that if the Board were to choose to extend the current contract, it could be up to, but may not exceed, five years. Mr. Montagna stated that there was no language that would allow the Plan to proceed with a contract without City Council approval.

Mr. Montagna stated that the Plan could use an RFI, however, the Plan would still need to go to the City Council to extend the current contract. He continued by stating that staff had begun the process of developing an RFP for a five-year contract and had submitted a timeline. Mr. Montagna stated that the Plan would still need to go to the City Council to get approval for the five-year contract since it extended beyond the three years allowed by the City Administrative Code. Mr. Montagna indicated that the Plan would not need to go to the City Council if it issued an RFP for a three-year contract, however, he also indicated that staff did not recommend this option given the scope and complexities of the services the TPA would need to provide the Plan. He stated that a three-year contract could have an significant impact on pricing.

He indicated that an argument could be made to extend the contract given the upcoming changes to the investment menu as well as the current limits on staff resources. Mr. Kraus asked if there was any benefit in asking for a shorter extension than the five years allowable under the current contract. Mr. Montagna stated that this could be done. Mr. Mumma asked if the Plan could request an additional two year extension of the contract if it were currently only to request a three year extension. Mr. Montagna stated that this was also possible.

Mr. Kraus asked if it would be possible to have the language in section 10.5 of the Administrative Code include an exception for TPA contracts. Mr. Montagna stated that a proposal was made to the City Council to have all Plan contracts included in this section, however the City Council elected to have the section only apply to the Plan's investment management services. He indicated that he believed that this was a consequence of the 2004 TPA contract controversy. Mr. Kraus stated that the Plan might be able to show the City Council that the Plan's procurement processes have improved greatly since that time.

Mr. Canzano asked if staff believed it was probable that the Plan would receive a five-year extension. Ms. Basquez stated that the Plan could request a two-year extension with the option to extend additional years. She indicated that the City Council's main concern would be to make sure that the City was receiving a competitive offer. Mr. Canzano asked how the pricing would be affected if the Plan were to extend the contract. Ms. Basquez stated that by extending the contract, the current TPA is bound by the pricing stated in the RFP. Mr. Montagna stated that the Plan would extend the contract under the existing terms and conditions.

Mr. Mumma asked the pension managers if their plans had experienced objections from the City Council for similar contract extensions. Ms. Choi stated that LACERS had extended the contract of their consultant for an additional two years with a ten percent fee reduction. Mr. Perez stated that the Fire & Police Pension system had also been able to receive fee reductions with their contract extensions as well. Ms. Bhatia suggested that the Plan request an extension for five years and show the Council the ability for the City to terminate the contract beforehand.

Mr. Perez stated that he believed it might be difficult to extend the contract without a reduction in fees. He stated that he believed the City Council might question what the Plan was doing to reduce costs. Mr. Perez asked what the dollar value of the contract was. Mr. Montagna stated that it was approximately $1.6 million a year. Mr. Canzano stated that he would be inclined to try extending the contract for five years in order to retain stability. Mr. Perez stated that he supported that decision as long as the Plan was able to provide fee concessions as well and said that this would be consistent with the processes of the pension systems.

Mr. Mumma asked how long it might take to initiate the contract extension process. Mr. Montagna stated that the Board could direct staff to meet with Great West to negotiate new terms and report back at the October 2010 Board meeting. Ms. Basquez stated that staff could also provide a draft City Council report should the Board want to proceed with the contract extension.

A motion was made by Sally Choi, seconded by Mike Perez, to direct staff to meet with Great West Retirement Services to negotiate fee and service conditions of a five-year contract extension and to also report back with a drafted report for the City Council requesting a five-year extension of the Plan's current Third Party Administrator contract; the motion was unanimously adopted.

10. BOARD REPORT 10-32: STAFF REPORT

Mr. Montagna stated that this was a standard report and asked for any questions. Mr. Canzano asked about the axis on the deferral tracking graph. Ms. Gameroz stated that there was a typographical error.

A motion was made by John Mumma, seconded by Mike Perez, to receive and file Board Report 10-32; the motion was unanimously adopted.

11. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Mumma stated that he would not be able to attend the next meeting, but would like to contribute telephonically and asked if the Board allowed this. Ms. Choi stated that this was possible as long as the Brown Act was followed. Mr. Montagna stated that staff could look into this with the City Attorney.

Mr. Mumma asked when the Plan document was last reviewed. Mr. Montagna stated that it was last reviewed and updated about one year ago. Mr. Mumma requested that a review of the Plan document be put on a future agenda in order for the Board to perform its due diligence.

12. NEXT MEETING DATE- SEPTEMBER 21, 2010

Mr. Kraus asked whether the meeting would be canceled due to the NAGDCA conference. Mr. Montagna stated that staff would verify a quorum for the upcoming meeting and communicate that to the Board.

13. ADJOURNMENT

A motion was made by Richard Kraus, seconded by John Mumma, to adjourn the meeting; the motion was unanimously adopted.

Minutes prepared by staff member Ashley Stracke.