

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING SEPTEMBER 17, 2013 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Eugene K. Canzano, Chairperson
John Mumma, Vice-Chairperson
Tom Moutes, Second Provisional Chair
Sangeeta Bhatia, Third Provisional Chair
Clifford Cannon
Ray Ciranna
Robert Schoonover
Margaret Whelan

Not Present:

Michael Amerian

Staff:

Personnel:

Steven Montagna
Esther Chang
Paul Makowski

David Luther
Alejandrina Basquez

City Attorney: Curtis Kidder

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:06 a.m.

2. PUBLIC COMMENTS

No public comments were made.

3. MINUTES

A motion was made by Mr. Tom Moutes, seconded by Mr. John Mumma, to approve the August 20, 2013 Regular Meeting minutes; the motion was unanimously adopted.

4. INVESTMENT PERFORMANCE REVIEW & INVESTMENT PROVIDER PRESENTATIONS:

Mr. Steven Montagna began by indicating that the presentations would begin with Mercer's review of options and quarterly report, following by investment provider presentations, and ending with a review of the international markets.

Mr. Devon Muir of Mercer Investment Consulting began by recapping and discussing the differences between the City's three primary investment tiers. He continued with a discussion of the Plan's current asset allocation and drew specific attention to the changes in the risk-based profiles as well as assets held within the DCP Large Cap Stock Fund.

Mr. Montagna asked how the recent increase in interest rates was impacting the stable value fund. Mr. Muir indicated that there was a dip in the market-to-book ratio from 102% to 101.7%, but he noted that the portfolio overall was in good health. Mr. Eugene Canzano stated that at the National Association of Governmental Defined Contributions Administrators (NAGDCA) conference, a number of attendees discussed plans for eliminating stable value options. Mr. Muir replied that Mercer had found about 15% of plans had eliminated their stable value plans, with more plans taking the step of unwrapping their portfolios.

Mr. Muir continued the discussion of performance (page 17 of the evaluation report) and noted the losses of the DCP Bond and PIMCO funds. He concluded his review of the performance summary by briefly discussing the domestic equity benchmarks on page 18 of the report.

Mr. Nolan Olsen of Duetsche Asset and Wealth Management and Mr. Alain Cubeles of Northern Trust were present to discuss the DWS EAFE Equity Index Fund. Mr. Muir began by asking how many holdings were in the fund. Mr. Cubeles replied that there 910 positions. He noted that the U.S. dollar is very strong and then reviewed some individual country returns, including Japan with a return of 52.19%, and the United Kingdom with a return of 15.63%, both countries making up 42% of the index. Mr. Robert Schoonover indicated that international markets appeared to be doing better than domestic markets, and asked if there was anything on the horizon to suggest this would change. Mr. Cubeles replied that U.S. market performance appeared to be rebounding but was volatile.

Ms. Yasmin Landy of Fidelity Investments was present and commented on the economies of Japan and Europe by stating that Japan is experiencing economic improvement it hasn't seen in 20 years and Europe is taking baby steps towards improvement. Mr. Mumma asked about China. Ms. Landy said that Hong Kong showed signs of growth but mainland China did not. Mr. Mumma asked about the increased minimum wage in Germany and what effect, if any, it would have on

the German market. Ms. Landy replied that unemployment in Germany was relatively low and that the country is in a better position than other European countries. Mr. Cubeles added that Germany is a major exporter and the cost of its goods could increase. Mr. Schoonover asked about the climate of the Euro and its future prospects. Mr. Cubeles stated that it would be best to monitor upcoming elections and see which groups come into power, which would drive future policy action impacting the Euro. He indicated that German citizens were creating pressure against the continued bailout of other European countries having taken on too much debt. Ms. Landy indicated her belief that the German election might not have much of an impact, because the Germany economy has benefited from the Euro and Germany has strong interests in maintaining its participation.

Mr. Muir observed that the Japanese market was up 17% year to date and asked for thoughts about sustainability of Japanese reforms. Ms. Landy indicated that consumption in Japan is low and that the prime minister had put together a stimulus package in an attempt to help foster consumer spending. Mr. Cubeles indicated that demographics could be an issue longer term, but the short term measures should be positive. Mr. Canzano asked how the Fukushima Power Plant event impacted the market. Ms. Landy replied that the impact of costs for importing energy was the most tangible effect. Mr. Mumma asked where Japan imports energy from. Ms. Landy stated that Australia was the prime exporter of energy to Japan.

Mr. Muir noted that the MSCI was down 10% and uncertainty in the Middle East, and asked for thoughts about the markets in these former top performing areas. Mr. Cubeles indicated that liquidity going into emerging markets was important to watch, as well as looking at frontier markets. He stated that investors are looking at areas of growth and diversification. Ms. Landy added that emerging markets show some trends in multiple markets. She said the demographics of different countries tend to create a bifurcation of growth. She said they look for markets which are better insulated.

5. GREAT-WEST QUARTERLY PLAN REVIEW

Ms. Lisa Tilley of Great West reviewed statistics for the 2nd Quarter of 2013. She reviewed participation levels, plan asset levels, and fund movements. Mr. Mumma asked for elaboration on plan participation levels, and Ms. Tilley indicated that in 2009 participation had plateaued as the City slowed hiring. Mr. Canzano asked if the increase in the bi-weekly deferral amount had been attributable to anything specific. Ms. Tilley replied that Roth contributors tended to contribute larger amounts and she added that the City of Los Angeles plan has the highest Roth participation rate of other plans she was familiar with.

Ms. Tilley continued by reviewing new cash flow and transfer activity figures. Mr. Mumma asked if there was information about how Roth amounts are invested. Ms. Tilley indicated she would look to see if a report could be generated. Mr. Montagna indicated it would be interesting to see how the Plan's overall allocations compared to target date funds. Mr. Schoonover asked how the City's allocations compared to allocations in other plans. Mr. Montagna stated that staff would ask for Mercer to assist in providing statistics. Ms. Maggie Whelan asked how the City of Los Angeles compared to the County of Los Angeles. Ms. Tilley replied that the City's stable value holdings are lower, investments are better diversified and asset allocation options are better used by participants. Mr. Montagna stated that any long-term City employee participant with more than \$150,000 in their account was generally in a position in terms of retirement income replacement, noting page 16 of the report. For comparison Mr. Robison said the average account balance in a 401(k) plan is \$80,000. Ms. Tilley added that the average 457 plans was approximately \$35,000. Mr. Mumma asked for clarification of what was included in Plan to Plan Transfers noted in the distribution information on pages 18 and 19 of the report. Ms. Tilley indicated that this meant transfers from the City's 457 to another City 457 plan. Mr. Canzano asked if the rollover figures on page 20 were for equal periods, and Ms. Tilley said that 2013 was for half a year.

Mr. Robison discussed the Local Office Activity portion of the report. Ms. Whelan asked why Recreation and Parks was not included in the group meeting list. Mr. Robison said that since so many of their staff are part time members in the Pension Savings Plan, and full-time staff are decentralized, scheduling meetings is challenging. Mr. Cannon asked if there if it was possible for Plan representatives to attend retiree group meetings. Mr. Robison indicated that in years past representatives had attended and would be happy to attend future events. Mr. Cannon stated that the retirement associations have 3-4 events a year. Mr. Montagna indicated that he'd been contacted recently by an association representative looking for a speaker, and he'd volunteered to participate.

Ms. Tilley concluded the quarterly review with an overview of the Schwab Personal Choice Retirement Account. She noted a request from a previous meeting about where Exchange Traded Funds (ETFs) are indicated in Schwab statistics, and she pointed Board members to a portion of the report indicating that they are included in the equities category.

6. BOARD REPORT 13-34: SDBO OPTIONS COMMUNICATION PLAN

Mr. Montagna indicated that staff had prepared this report to address options for sending communications to Plan participants regarding the introduction of options trading into the Self-Directed Brokerage Option (SDBO). He indicated that staff was recommending Option C, which included a Plan-wide notification by placing a notice in the next quarterly newsletter. He explained that any

communication sent from the office directly to participants could be misinterpreted as a promotional communication and that only a handful of participants would utilize options trading.

A motion was made by Mr. Mumma, seconded by Ms. Bhatia, to approve the proposed communication plan announcing options trading in the Self-Directed Brokerage Option; the motion was unanimously adopted.

7. BOARD REPORT 13-35: STAFF REPORT

Ms. Esther Chang updated the Board on work completed by staff for current, upcoming, and completed projects. She discussed the activity exhibited by staff in the categories of Counter Activity, Accrued Leave, Hardships, Loans, and Roth accounts. She concluded with a training, contract status, and project update. She added that an investment committee meeting has been scheduled for September 30th. Mr. Mumma asked if the beneficiary address change function was turned on. Mr. Montagna confirmed that the function was turned on. Mr. Montagna also added that the 3rd quarter newsletter would highlight the new website, launching October 31st. He indicated that the article would review the tile driven website layout and highlight the new Calculator and Web tools.

A motion was made by Ms. Bhatia, seconded by Mr. Schoonover, to receive and file Board Report 13-35; the motion was unanimously adopted.

8. REQUESTS FOR FUTURE AGENDA ITEMS

No requests were made.

9. FUTURE MEETING DATES

The next Regular Meeting was noted as October 15, 2013.

10. ADJOURNMENT

A motion was made by Ms. Whelan, seconded by Mr. Mumma, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 11:06 a.m.*

Minutes prepared by staff member Paul Makowski.