CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING SEPTEMBER 21, 2010 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

<u>BOARD MEMBERS:</u>

Present:	**Not Present:**
Eugene K. Canzano, Chairperson	Sally Choi, First Provisional Chair
Richard Kraus, Vice-Chairperson	Michael A. Perez
Cliff Cannon, Second Provisional Chair	Maggie Whelan
John R. Mumma, Third Provisional Chair	
Sangeeta Bhatia	

<u>Staff:</u>

Personnel:	Steven Montagna
	Natasha Gameroz
	Ashley Stracke
	Claudia Guevara
City Attorney:	Chris Lee

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:10 a.m. with Mr. Canzano, Sangeeta Bhatia, Richard Kraus, and Cliff Cannon present.

2. PUBLIC COMMENT

None.

Mr. Mumma arrived at 9:12 a.m., which made a quorum. Ms. Bhatia had expressed that she would be required to leave early and requested that items needing a quorum be presented to the Board first.

3. BOARD REPORT 10-33: DEFERRED COMPENSATION PLAN TRUSTEE

Mr. Montagna stated that at the August 17, 2010 meeting, the Board had requested that staff instruct the Mercer Investment Consulting (Mercer) to conduct a review of the documents that place Plan assets in trust. He indicated that staff had spoken with the consultants who believed that the focus of the review should be on all of the Plan's authoritative documents to ensure they were in line with the best practices of the industry. Mr. Montagna indicated that the findings would be presented at the October or November Board meeting. **A motion was then made by Richard Kraus, seconded by Sangeeta Bhatia, to direct the Plan consultant to a) evaluate the City of Los Angeles Deferred Compensation Plan's authoritative documents and determine the degree to which they are consistent with best practices for meeting Internal Revenue Code Section 457 trust requirements for governmental plans, and b) if necessary, make recommendations for modifications/improvements; the motion was unanimously adopted.**

Ms. Bhatia left the meeting after the Board adopted this motion.

4. MINUTES

Mr. Kraus noted typographical errors on page 6 and page 7. He also indicated that the motion regarding the D+E+S composition structure on page 8, should state "six" affirmative votes. Mr. Kraus asked for clarification of the discussion on page 9 regarding a comment Ms. Choi made regarding the veto power of the City Council. Ms. Stracke confirmed that this statement was accurately reflected in the minutes. Mr. Kraus also requested clarification of the discussion regarding the use of an RFI reflected on page 11. Mr. Montagna confirmed that the statement was also accurately reflected in the minutes. **A motion was made by Richard Kraus, seconded by John Mumma, to adopt the minutes of the August 17, 2010 Board meeting, as amended; the motion was unanimously adopted.**

5. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Eileen Kwei and Devon Muir, Principal Investment Consultants for Mercer Investment Consulting (Mercer) presented the Quarterly Investment Performance Review. Ms. Kwei began her portion of the presentation by stating that during the second quarter of 2010 GDP grew at a slower than expected rate of 1.6%. She also stated that unemployment fell to 9.5%.

Ms. Kwei indicated that the S&P 500 was down 11.4% over the quarter erasing many of the gains seen over the past year. She stated that large-cap stocks under performed small-cap stocks and that from a style standpoint, value outperformed growth within large-cap while growth outperformed value within small-cap stocks. Referring to page 2 of the report, Ms. Kwei indicated that all ten of the sectors represented in the table declined during the second quarter. She stated that utilities and telecommunication service sectors performed slightly better than the more cyclical sectors such as materials, energy, and financials.

Ms. Kwei next presented on the Fixed Income Market. She indicated that the Barclays Capital Aggregate Bond Index was up 3.5% for the second quarter and that the trailing year results were up 9.5%. She stated that given the macro economic climate of the second quarter there was a lot of risk aversion in the market which led to treasuries being the best performing sector within the fixed income market.

In reference to the International Equity market, Ms. Kwei indicated that international equity markets fell 13.8% over the last quarter. She stated that some of this performance was attributed to the strength of the dollar. She indicated that the dollar had appreciated significantly compared to most of the major currencies with the exception of the Japanese yen. She stated that given the events that took place in Europe with the Greek Sovereign crisis, Europe was the worst performing region. She also indicated that emerging markets performed slightly better than developed markets. Mr. Kraus indicated that in light of the upcoming changes to the investment menu, he would like to see data on the international small cap investments. Ms. Kwei stated that this would be provided in the report in the future.

Ms. Kwei directed the Board to page 5 of the report and stated that the equity market significantly under performed the fixed income markets. She indicated that the five and ten year numbers show an unusual market in which the ten year returns for the S&P 500 are –1.6% and the international MSCI EAFE index returns are .6%.

Ms. Kwei stated that Plan assets were $2.75 billion dollars as of June 30, 2010 and had decreased since the previous quarter. She explained that contributions to the Plan were $60.5 million and withdrawals were $62.1 million, which indicated that most of the loss in assets was due to the market environment. Ms. Kwei stated that the Deferred Compensation Stable Value Fund represents 24% of total Plan assets, which is an increase over the prior quarter. She stated that this increase was due to the higher performance of fixed income markets in comparison to equity markets as well as the general risk aversion of investors.

Directing the Board to page 17, Ms. Kwei indicated that the expenses of the Plan were competitive and that the net expense difference was negative across all Plan investments. Ms. Kwei turned the presentation over to Mr. Muir to discuss the performance of the Plan’s individual investment funds.

Mr. Muir stated that despite the current economic climate, all of the Plan’s funds were performing as expected. He indicated that the Lazard US Mid Cap Equity Portfolio Institutional was on watch, however performed well during the second quarter. He explained that the performance issues of Lazard were attributable to the end of 2007, however, more recent quarterly performance of the fund have been acceptable.

Mr. Muir stated that markets were very volatile and that Mercer believed that this volatility would continue into the near future. Mr. Canzano asked for further clarification of the unemployment rate. Mr. Muir explained that the most commonly quoted rate representing unemployment, referred to as “U1”, does not include those people that are no longer looking for work. He stated that the "U6" rate, which measures the marginally unemployed and discouraged workers, shows unemployment closer to 16%.

Mr. Muir directed the Board to page 20 of the report. He stated the Plan's Stable Value Fund showed yearly returns of 3.8% and six-month returns of 1.8%. He indicated that this was a significant increase over a traditional money market vehicle. He stated that the 104% market-to-book ratio was significantly higher than the 2008 and 2009 rates, which were below 100%. He explained that when the market-to-book ratio is below 100% participants might be required to absorb some of the credit loss. He stated that the yearly yield of the fund was expected to be 3.8%.

Mr. Muir stated that the Vanguard Total Bond Market Index Fund Institutional Plus is tracking the index as expected and that the year-to-date performance was 5.4%. He stated that the PIMCO Total Return Fund Institutional was continuing to perform well, with year-to-date returns outperforming the index as well as the peer universe. He indicated that Mercer had recently met with PIMCO fund managers, who explained that they had recently deviated from their usual strategy and had increased their exposure to treasuries in light of their economic forecasting.

Mr. Muir stated that the life cycle profiles were tracking their benchmarks as expected. He directed the Board to page 22 to discuss the Plan's domestic equity options and indicated that the underperformance of American Funds Investment Co. of America Class A in the second quarter of 2010 was attributable to the IT sector. Mr. Muir stated that the Vanguard Institutional Index Fund Institutional Plus was tracking the index as expected, while Hartford Capital Appreciation HLS IA was trailing both its benchmark and peer universe.

Mr. Muir stated that the Vanguard Mid-Cap Index Fund Institutional was tracking the index while the Lazard US Mid Cap Equity Portfolio Institutional had recently performed well. He also indicated that SsgA Russell Small Cap Index Non-Lending Series Fund was tracking the index.

Directing the Board to page 23, Mr. Muir stated that the performance of the DWS EAFE Equity Index Fund Institutional was lagging the benchmark primarily due to the fair value pricing index funds. He continued by stating that the Fidelity Diversified International Fund has improved over second quarter of 2010, however, that the long-term performance of the fund was still lagging.

Mr. Kraus asked if any of the Plan's funds were considered A-Rated strategies by Mercer. Mr. Muir stated that of the Plan's funds, PIMCO was the only A-Rated strategy. He stated that the American Funds were considered B+ due to the size of the assets under management. He also stated that Lazard was considered B+ due to the organization's turnover in 2007 and 2008.

Mr. Kraus asked if the Plan should be more responsive to changes in the underlying funds of the Plan's investment options once the new investment menu is implemented. Mr. Montagna stated that the Board would be drafting a new investment policy in concurrence with the implementation of the new investment menu and explained that the Board could revisit its criteria for monitoring funds.

6. GREAT-WEST QUARTERLY REPORT

Usha Archer, Regional Manager, Lisa Tilley, Director of Government Operations, and Gary Robison, Local Manager, all with Great-West Retirement Services (Great-West) were present to provide the Great-West quarterly review. Ms. Tilley began the presentation with the Plan Overview. She stated that there was a 6% decrease in Plan assets over the quarter due to the change in market performance. She noted that distributions had increased from approximately $37 million in the third quarter of 2009 to approximately $62 million by the second quarter of 2010 and indicated that this was likely due to the increased number of retirees as a result of the Early Retirement Incentive Program (ERIP). Mr. Montagna stated that the increase in distribution might also be due to the increase in loan distributions.

Ms. Tilley stated that the Stable Value Fund had the largest percent of Plan assets and explained that this was typical of other defined contribution plans. She also indicated that there was an approximate 5% increase in non-contributing participants, likely due to ERIP. Ms. Archer and Mr. Robison indicated that the increase might also be a result of participants who had stopped their contributions due to furloughs.

Mr. Cannon asked if there were any statistics on how many retirees were in the Plan. Ms. Archer stated there were approximately 10,000 retired participants. Mr. Montagna stated that staff had identified the exact number during the elections for the Retiree Representative, however, the process of calculating that number was very involved, requiring the coordination of both payroll systems and Great-West.

Ms. Tilley stated that there had been a 56% increase in participants since 1999, however, the number had leveled off over the past two years. Mr. Canzano stated that he had recently learned that plans that do not provide a match generally have a 32% participation rate. Mr. Montagna stated that the City's Plan currently has a participation rate of approximately 62% of the City workforce. Mr. Robison stated that the County of Los Angeles, which provides a 4% match, has a 65% participation rate.

Ms. Tilley stated that there were net cash flows into the Stable Value Fund and the FDIC Insured Savings Option and net cash flows out of the International funds, which was expected given the market volatility of the second quarter of

2010. Looking at the Plan's transfer activity, Ms. Tilley noted that the JP Morgan Chase Certificates of Deposit (CD's) showed only outflows. Mr. Mumma asked why this was the case. Ms. Tilley explained that the Plan had closed the fund for new investments and explained that there would only be outflows for this option for the next four years. Ms. Tilley stated that large plans typically did not offer certificates of deposit. Mr. Montagna explained that the decision to discontinue the fund as part of the Plan's main investment menu was made concurrently with the decision to the expand the self-directed brokerage window, which now gives participants the ability to purchase CD's.

Ms. Tilley continued her presentation by discussing the asset allocation of Plan assets by asset class. She explained that while assets in the Stable Value Fund were high, overall Plan assets continued to be well-diversified compared to other defined contribution plans that had 40-50% of assets in their stable value fund option. She pointed out that approximately 18% of Plan assets are in the profile funds.

Mr. Kraus asked for clarification of the differences in slides 12 and 14. Ms. Tilley stated that the graph on slide 12 represented a breakdown of all assets in the Plan, while slide 14 only represented the contributions deferred into each asset class. Mr. Kraus stated that the contribution amounts for the Self-Directed Brokerage Option were significantly lower than the amount of overall assets in the Plan. Ms. Tilley indicated that the Plan's minimum account balance requirement in the core options might attribute to the low number of contributions as well.

Ms. Archer indicated that the participant count figures on slides 12 and 14 equaled numbers greater than the Plan's total participant population of approximately 40,000 because there were participants who allocated among several funds. Mr. Mumma asked if the numbers on slides 12 and 14 indicated that participants were diversifying their assets. Mr. Robison indicated that this was not necessarily the case. Ms. Tilley indicated that the Plan's new investment menu would help mitigate participant confusion regarding the Plan's funds and their various asset classes.

Mr. Mumma stated that he had learned that the County of Los Angeles (the County) was making changes to its investment fund options and asked if Ms. Archer was aware of the specifics. Ms. Archer stated that the County was reviewing possible changes to some of their fund options' underlying managers. Mr. Canzano asked how many funds the County provided. Ms. Archer stated that they had 10 funds and a self-directed brokerage option.

Ms. Tilley continued the presentation by indicating that 48% of Plan assets were in accounts with balances between $100,000 and $300,000. She indicated that assets were rising along with the average participant age.

Mr. Robison continued the presentation by discussing the local office activity. He indicated that during the second quarter, the primary focus of participant contact regarded questions and transactions due to the ERIP. He indicated that Great-West staff had increased their meetings to accommodate for the large number of retirees. He explained that many participants who chose the ERIP were displeased that they would not be able to allocate their severance pay and accrued leave to their Deferred Compensation Plan. He stated that he believed that this was an indication that the general accrued leave program was popular among participants.

Mr. Mumma asked why ERIP participants were not able to allocate their accrued leave into their Plan accounts. Mr. Robison indicated that the ERIP agreement required that severance and accrued leave money be paid out over two years. Mr. Montagna stated that this tax laws require money obtained from accrued leave to be deferred within a specific timeframe.

Mr. Robison stated that most of the group meetings presented by Great-West staff focused on retirement. He also indicated that Great-West gave a number of presentations to the City's Department of Water and Power (DWP) employees during this time because the department was hiring employees from other City departments. Mr. Mumma asked for clarification of the number of meetings given to Los Angeles Police Protective League (LAPPL) members. Ms. Archer stated that Great-West staff would look into what those figures represented.

Mr. Robison next discussed the local office phone calls. He indicated that the calls during the second quarter were generally longer and focused on questions regarding ERIP. Mr. Cannon asked if Mr. Robison believed it would be valuable to hold meetings for retired participants. Mr. Robison indicated that he believed there was, however, the dispersion of retirees made the logistics difficult. Mr. Cannon suggested that Great-West staff attend retiree association meetings. Mr. Montagna stated that staff had been working with Great-West on the logistics of shifting away from the group meeting concept and more towards a one-on-one approach to participant education.

Mr. Kraus asked if the Plan had finalized an education piece on distributions for participants. Mr. Robison indicated that it had been recently updated and was now available. He indicated that the Los Angeles City Employee Retirement System (LACERS) had heavily marketed its Larger Annuity program and as a result many participants that retired under ERIP had rolled their money into the program. Mr. Kraus asked how the Larger Annuity program was presented to participants. Mr. Robison stated that distribution options were represented in a neutral way.

Mr. Mumma asked if the Plan guided participants towards financial assistance when they requested hardships or loans. Mr. Robison stated that the Personnel

Department's Employee Benefits division office had information on the financial counseling services provided by the City's Employee Assistance Program (EAP).

Mr. Kraus directed the presenters' attention to slide 33 and asked if the figures representing information on full, partial, and periodic distributions were mutually exclusive. Ms. Tilley stated that they were. Mr. Kraus asked if Great-West would be presenting the information from the semi-annual report on the City's Pension Savings Plan. Mr. Montagna stated that reports on the Pension Savings Plan had not been presented to the Board in recent years, but could be at future meetings.

7. BOARD REPORT 10-34: STAFF REPORT

Ms. Gameroz stated that the counter activity during the month of August had increased slightly compared to the month of July, while the number of participants who deferred accrued leave amounts decreased. She indicated that the accrued leave deferrals were likely lower due to the restrictions on the payouts for ERIP participants. In regards to hardships, Ms. Gameroz indicated that forty-four cases were approved, three were denied, and eight were pending further documentation. She continued by stating that that during the month of August, 542 participants elected to obtain a new loan.

Mr. Mumma asked how the loan numbers compared to previous years. Mr. Montagna stated that the Plan adopted a two-loan policy in recent years and therefore staff would need to go back and research the numbers with this in mind in order to get a valuable comparison.

Mr. Montagna commented on staff's completed and pending projects. He stated that staff intended to report on the Great-West contract at the October 19, 2010 Board meeting. He also stated that there was a Plan Governance and Administrative Issues Committee meeting scheduled for September 30, 2010 to continue the Committee's discussion on the Board's Bylaws. He stated that staff had also met with Mercer regarding the implementation of the Plan's new investment menu and would be scheduling an Investments Committee meeting in the near future.

Mr. Canzano asked for clarification of Item 18 on the Project Update table. Mr. Montagna stated that at a previous Board meeting, staff had been requested to research the feasibility of using auto glide paths for the Plan's asset allocation funds. He explained that this feature would potentially allow a participant's allocation fund to change as they aged. He stated that the concept was similar to Life Cycle Funds.

Mr. Canzano asked if staff believed that December was a reasonable date to expect information on fiduciary liability insurance. Mr. Montagna stated that staff provided the project list as a way for the Board to establish priorities and asked if the Board would like to give this project higher priority. Mr. Canzano stated that he would like for staff to keep on target with the December 2010 date. Mr. Mumma stated that he believed that fiduciary liability insurance was closely related to the results of Mercer's survey of the Plan's governing documents.

Mr. Mumma asked what the relation was between the Deferred Compensation Plan and the City's Pension Savings Plan. Mr. Montagna stated that it is difficult to find vendors for plans such as the City's Pension Savings Plan, which is provided for part-time, temporary, and seasonal employees. He explained that one way to make the City's Pension Savings Plan more appealing to service providers was by matching the contract cycle with the City's Deferred Compensation Plan. He also explained that there were also a number of commonalities between the two Plans.

Mr. Canzano asked if there was any further discussion regarding the staff report. Mr. Kraus asked how much time Personnel Department staff spent working on participant related issues. Ms. Gameroz indicated that staff covered the counter on occasions when Great-West staff was unavailable. Mr. Montagna stated that the amount of time staff works directly with the participants would be equivalent to one full-time position.

Mr. Kraus asked what impact the furloughs have had on staff's workload. Mr. Montagna stated that Ms. Gameroz, Ms. Stracke, and Ms. Guevara were exempt from furloughs since their positions were 100% special funded. Mr. Montagna stated that for employees to be exempt from furloughs, a position must be at least 90% special funded and therefore Ms. Basquez, the City Attorney staff, and he were not exempt from furloughs. Mr. Kraus asked if staff had an understanding of the impact furloughs had on the Plan. Mr. Montagna stated that staffing related issues certainly had an impact on the Plan. He stated that having Ms. Stracke back has allowed staff to devote more resources to projects that were pending.

Mr. Kraus stated that the Plan would like to preserve staffing whenever possible. Mr. Canzano agreed. David Luther, Assistant General Manager of the Personnel Department, stated that there was nothing on the immediate time horizon that would affect staffing and suggested that the Board discuss this topic when Ms. Whelan was present.

Mr. Kraus asked if staff had anything planned for National Save for Retirement Week. Ms. Gameroz stated that a Citywide email would be sent and that Great-West would be promoting the event on the website. Mr. Kraus asked if something could be placed in the newsletter. Mr. Montagna confirmed that staff would do this.

8. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Canzano stated that he would like staff to research the City of New York's financial advice program as well as the PIMCO hedge fund strategy discussed at the 2010 National Association of Government Defined Contribution Administrators (NAGDCA) conference. Mr. Kraus also asked if staff could develop information on the constituencies of the elected Board members in order to allow the Board members to be more responsive to their needs.

9. NEXT MEETING DATE- OCTOBER 19, 2010

10. ADJOURNMENT

The meeting was adjourned at 11:10 am.

Minutes prepared by staff member Ashley Stracke.