

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF OCTOBER 16, 2007 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

Board Members:

Present:

Maggie Whelan, Chairperson
Bill Stein, Vice-Chairperson
Eugene K. Canzano
Richard Kraus
Rick Rogers

Staff:

Personnel: Maryanne Keehn, Personnel
Steven Montagna, Personnel
Bryan Cowitz, Personnel
Natasha Zuvich, Personnel
Richard Bobb, City Attorney

1. CALL TO ORDER

Maggie Whelan called the meeting to order at 9:10 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

Rick Rogers asked if the statement in the minutes indicating that Plan participation levels were at 60% was correct, and Steven Montagna indicated that it was. **A motion was then made by Richard Kraus, seconded by Bill Stein, to approve the minutes of August 21, 2007; the motion was unanimously adopted.**

4. HARDSHIP WITHDRAWAL APPROVALS

Richard Kraus asked for clarifications regarding a number of the hardship applications presented for approval. With respect to Case No. 07-68, he asked whether it made sense to provide authority for staff to disburse additional amounts for continued income loss. Mr. Montagna indicated this would be beneficial. **A motion was then made by Richard Kraus, seconded by Bill Stein, to approve full withdrawals in Case Nos. 07-66, 07-67, 07-69, and 07-70; and partial withdrawals of \$21,116 (net) in Case No. 07-60, \$6,590 (net) in Case No. 07-65, \$16,998 (net) in Case No. 07-68 (with authority for staff to distribute additional amounts based on continued documented income loss), \$15,000 (net) in**

Case No. 07-71, and \$7,254 (net) in Case No. 07-72; the motion was unanimously adopted.

5. HARDSHIP WITHDRAWAL NON- OR CONTESTED APPROVALS

Case No. 07-58

The Board considered Case No. 07-58. The applicant was present. The applicant indicated that his financial emergency existed because of a loss of overtime pay and increase in his child support payments, and that he was no longer behind on his rent. The applicant acknowledged not having previously communicated this to staff. Mr. Stein indicated he was not comfortable approving the application until staff had been given an opportunity to review the new information provided by the applicant. Ms. Whelan asked for further details on the overtime, and requested that in the future staff provide more analysis and details in reports regarding historical payments of overtime. **A motion was then made by Bill Stein, seconded by Eugene Canzano, to refer the application in Case No. 07-58 back to staff for further investigation; the motion was unanimously adopted.**

Case No. 07-59

The Board next considered Case No. 07-59. The applicant was present. Bryan Cowitz indicated that the applicant had previously been approved for a hardship withdrawal and was reapplying on the basis that her spouse misled her regarding disability income he was receiving. Her further indicated that the amount of the withdrawal did not appear sufficient to eliminate her substantial mortgage arrearage. The applicant indicated that in combination with loans from family members she believed she had sufficient funds to save her home from foreclosure if the hardship withdrawal was granted. Based on this, **a motion was made by Rick Rogers, seconded by Bill Stein, to approve a full hardship withdrawal in Case No. 07-59; the motion was unanimously adopted.**

Case No. 07-61

The Board next considered Case No. 07-61. The applicant and his spouse were both present. Mr. Cowitz indicated this case was being returned to the Board following resolution of a community property concern in the Board's prior consideration. The applicant's spouse indicated that a marital separation had led to the accumulation of substantial debt and this was the reason they were now renting. Board members questioned whether the information submitted by the applicant, which indicated a substantial positive monthly net cash flow, was consistent with what the applicant was indicating with respect to this current financial distress. As a result, **a motion was made by Bill Stein, seconded by Eugene Canzano, to refer the application in Case No. 07-61 back to staff for further consideration; the motion was unanimously adopted.**

Case No. 07-62

The Board next considered Case No. 07-62. The applicant was present. Mr. Cowitz indicated that the applicant had claimed her mortgage arrearage was the result of a reduction in household income, but staff could not document the wage loss. The applicant indicated that her husband had suffered wage loss in 2005 but acknowledged that this information had not previously been provided to staff. As a result, **a motion was made by Rick Rogers, seconded by Bill Stein, to refer the application in Case No. 07-61 back to staff for further consideration, but also provide staff with the authority to approve distribution**

up to the amount of the husband's documented wage loss not to exceed the amount of the current financial emergency; the motion was unanimously adopted.

Case No. 07-63

The Board next considered Case No. 07-63. The applicant was present. Mr. Cowitz indicated that staff was not recommending approval of the application because the applicant had the ability to take out a loan. The applicant indicated he had been told he was not eligible to take out a loan in the amount for which staff indicated he was eligible. The matter was tabled while staff worked with the applicant to resolve the loan question. Upon resolution of a subsequent hardship withdrawal case, the applicant returned to the Board meeting room. Natasha Zuvich indicated that she had learned that the applicant was eligible to take out the full loan amount once he moved his funds from the Self-Directed Brokerage Window to the Plan's core options. The applicant then indicated he was willing to withdraw his application.

Case No. 07-64

The Board next considered Case No. 07-64. The applicant was present. Mr. Cowitz indicated that staff had not been able to establish a financial emergency because her home was not in imminent danger of foreclosure. Board members indicated that without a financial emergency there was no basis for a hardship withdrawal. As a result, **a motion was made by Bill Stein, seconded by Richard Kraus, to deny the application in Case No. 07-64; the motion was unanimously adopted.**

7. INVESTMENT PROVIDER PRESENTATION – DWS SCUDDER

Charles Franckowiak, Vice President and Sr. Investment Products Consultant with DWS Scudder, was present to review performance information for the DWS EAFE Equity Index Fund. Mr. Franckowiak began by indicating that the Fund was a passively managed product designed to replicate the return of the MSCI-EAFE Index.

He stated that international funds provide diversification opportunities and exposure to large multi-national firms, most of which are domiciled outside the United States. He discussed some of the measurements by which international stocks are currently more attractive than U.S. stocks, including having higher dividend yields and lower price-to-earning ratios. He referred the Board to a chart in his report indicating that since 1981 the U.S. market had never been the best performing market in the world in any single year.

Mr. Franckowiak next described the firm's indexing approach with this Fund. He stated that the Fund first matched country weights with the index but placed certain constraints on the portfolio at the industry level and with respect to risk. He stated that the managers tended to select the securities with the highest liquidity and lowest trading costs, since smaller firms tended to be a drag on performance while creating higher risks.

He stated that the goal of the Fund with respect to tracking error is to be within 6-22 basis points, not including fees. He then referred the Board to a table indicating the Fund's performance which, when accounting for fees, actually indicated positive tracking error.

Mr. Kraus asked about one of the disclosure statements with respect to fee and expense waivers. Mr. Franckowiak indicated that this was standard disclosure language and indicated that some waiver had occurred in the reporting period but none was in effect currently. Mr.

Franckowiak further indicated that the Fund had recently changed portfolio managers but that this was not expected to affect the Fund in any way given that the portfolio was largely constrained by its mandate and established practices.

Mr. Rogers asked Mr. Franckowiak if he had any comment on the current State Street bond situation. Mr. Franckowiak replied that he was not familiar with the particular details of State Street but commented on the general situation in which many hedge funds and fund managers had become very aggressive in trying to generate additional return, and that this had been reflected in very narrow yield spreads.

Mr. Kraus asked why this Fund appeared to be in the middle of the pack when compared to its peers on the Lipper rankings. Mr. Franckowiak replied that to some extent this was a product of differences between how Lipper and Morningstar categorized funds, but further indicated that the differences between performance were very narrow in this asset class.

The presentation then concluded.

8. BOARD REPORT 07-35: CAPITAL GUARDIAN CONTRACT & CORE LARGE-CAP FUND

Before consideration of this item Mr. Stein asked the Board's counsel, Richard Bobb, if, since he was an investor in this Fund, he should excuse himself from considering the matter. Mr. Bobb indicated that he should. Mr. Stein left the room.

Mr. Montagna indicated that the Capital Guardian Fund had been on performance watch for the first two quarters of 2007 and that the Plan was now in an unusual situation. He stated that the Fund was held as a separate account and, being such, required a contract in order to be offered in the Plan. He indicated that the contract would expire in April and that although normally the Plan would go out to bid at the end of an expiring contract, in this case there wouldn't be a great deal of logic in doing so because the Plan already had redundant large-cap fund offerings and this fund, because of its recent under-performance, would likely not be competitive in a new bid process.

He indicated that the Board essentially had two choices: it could either extend the current contract for some period of time, for example one year, and perhaps initiate an RFP process further down the road, or it could act to eliminate the Fund at the end of its contract term. Mr. Montagna indicated that staff would support either course of action. Ms. Whelan asked if staff had a preference. Mr. Montagna replied that eliminating the Fund at the end of April was preferable, in that the Board was already eliminating two other funds and could be adding two if it adopted the recommended addition of two new asset allocation funds pursuant to Board Report 07-37. He stated that from a communications perspective it would make it simpler for Plan participants to receive information about all these changes at the same time and for the dates to be consistent.

Mr. Rogers and Mr. Canzano both expressed their support for eliminating the Fund at the end of April. Mr. Kraus expressed a concern regarding whether participants were receiving adequate notice of the fund changes. Mr. Montagna indicated that in a prior fund elimination participants had received approximately 6 months notice and could be given a similar length of time for the current changes. He stated that the announcement of the elimination of the Fidelity Magellan and Lotsoff Capital Management Funds would be issued with the Plan's

October quarterly newsletter, but that a custom mailing to all participants could be issued which would discuss all the fund changes and still provide adequate notice to participants. He indicated that SEC requirements stipulated that participants be given notice 30-60 days prior to a fund elimination.

Following this discussion, **a motion was made by Rick Rogers, seconded by Eugene Canzano, to eliminate the Capital Guardian U.S. Equity Fund at the end of its current contract term; the motion was unanimously adopted.**

9. BOARD REPORT 07-36: ETHICS POLICY

Mr. Stein returned to the room. Mr. Montagna indicated that this matter was being returned to the Board for final approval following the Board's action at its August meeting, which indicated a notice of intention to adopt the ethics disclosure categories and was followed by a mandatory posting and notification period. Mr. Bobb indicated that he wished to correct his statement at the prior meeting that Board members would not be required to file multiple ethics statements for multiple positions, and that it was now his understanding that multiple filings were in fact required. Mr. Canzano indicated that the online forms now allowed for easier filing of multiple statements.

Following this discussion, **a motion was made by Richard Kraus, seconded by Bill Stein, adopting disclosure categories as recommended by the City Attorney's Office pursuant to the Board's coverage under the City's ethics policy; the motion was unanimously adopted.**

10. BOARD REPORT 07-37: ASSET ALLOCATION FUNDS

Susie Ardeshir of Mercer Investment Consulting was present with staff to discuss the proposal to add two additional asset allocation funds to the Plan's investment menu. Mr. Montagna indicated that the Investments Committee had been working on a plan to transition to elements of an investment menu redesign previously approved by the Board. He stated that the Committee still had considerable work to do on this project, but that it believed that the Board should proceed on one of those elements, the expansion of the asset allocation offerings. He further indicated that, to expedite the matter, the Board's consultant, Mercer Investment Consulting, had been asked to recommend the structuring and weighting of these asset allocation funds, and that this was included in the attached report from Mercer.

Following this discussion, **a motion was made by Rick Rogers, seconded by Bill Stein, to approve the addition of Ultra-Conservative and Ultra-Aggressive risk-based asset allocation funds to the City's Deferred Compensation Plan based on underlying investment structures recommended by the Board's consultant; the motion was unanimously adopted.**

11. BOARD REPORT 07-38: BUDGET STATUS REPORT & REIMBURSEMENTS

Mr. Montagna indicated that this report contained recommendations for reimbursements to the Personnel Department for the quarter ending June 2007. He indicated that the Plan's reserve accounts appeared to be doing better than expected, at least with respect to

projections for the next calendar year. He stated that staff was interested in reviewing actual data over the coming quarters to confirm the projections.

Following this discussion, **a motion was made by Eugene Canzano, seconded by Rick Rogers, to approve reimbursement from the Deferred Compensation Plan Trust Fund #896 to the Personnel Department for \$65,119.86 for the quarter ending 6/30/07; the motion was unanimously adopted.**

12. BOARD REPORT 07-39: STAFF REPORT

Mr. Montagna indicated that there were two items he wished to call attention to out of the staff report. First, he indicated a correction on the timing of the Committee meeting, indicating that the Investments Committee would meet at 10:30 and the Plan Governance & Administrative Issues Committee would meet at 1:30.

Second, he indicated that the City Controller would be implementing accrued leave deferrals by early December 2007 and DWP Payroll would follow suit with implementation in early January 2008. Ms. Whelan thanked all of those who had assisted on this project, in particular noting the assistance of the Police Protective League, without whose support she stated she did not believe the project would have been completed at this time.

13. GREAT-WEST QUARTERLY & COMMUNICATIONS REPORTS

Gary Robison of Great-West Retirement Services was present to review communications projects for the prior month. He indicated that the redesign of Plan communication materials was nearly complete. Mr. Montagna added that the materials would be presented to the Board at its November meeting. Mr. Robison then briefly reviewed Great-West's recent enrollment and educational initiatives.

14. REQUESTS FOR FUTURE AGENDA ITEMS

None.

15. NEXT MEETING DATE – NOVEMBER 20, 2007

15. ADJOURNMENT

The meeting adjourned at 12:04 p.m.

Minutes prepared by staff member Steven Montagna.