

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OCTOBER 18, 2011 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Eugene K. Canzano, Chairperson
John R. Mumma, Vice-Chairperson
Clifford Cannon, First Provisional Chair
Tom Moutes, Second Provisional Chair
Sangeeta Bhatia, Third Provisional Chair
Michael Amerian
Michael A. Perez
Robert Schoonover
Margaret M. Whelan

Staff:

Personnel: David Luther
Alejandrina Basquez
Steven Montagna
Natasha Gameroz
Esther Chang

City Attorney: Curtis Kidder

1. CALL TO ORDER

The meeting was called to order at 9:07 a.m.

2. PUBLIC COMMENTS

Mr. Kane Mayer introduced himself as a current police officer and registered investment advisor. Mr. Mayer stated that under the Deferred Compensation Plan (the "Plan"), he believed no mechanisms were available to react to market fluctuations, e.g. when the market is not doing well there is no defensive action, and when the market recovers there is no mechanism to recover losses. He indicated that perhaps these types of mechanisms may not be allowable under the Deferred Compensation Plan due to regulations and codes and/or City Attorney concerns over potential litigation, but asked if there was a way to explore options for introducing concepts or mechanisms to adjust investments in a fluctuating market.

Eugene Canzano asked for further clarification. Mr. Mayer indicated that in his opinion investment advisors not only recommend buying or selling of stock but also assisted with market forecasting and identifying indicators to help clients mitigate losses in a down market and recover those losses in an up market. He stated that he believed participants could only ride out market fluctuations under the current Plan structure. He indicated he'd spoken with many retirees who had gone through the 2008 and 2001 downturns and that many did not have an option to wait years to regain losses.

Michael Perez asked if Mr. Mayer had spoken to Personnel Department staff regarding these concerns. Mr. Mayer responded that his understanding was that addressing the Board would be the first step in introducing this topic in a public forum, but could speak with staff if that was appropriate. Mr. Canzano referred Mr. Mayer to staff.

3. MINUTES

A motion was made by Mr. John Mumma, seconded by Mr. Perez, to approve the September 20, 2011 minutes; the motion was unanimously adopted.

4. INVESTMENT PROVIDER PRESENTATION: HARTFORD INSURANCE COMPANY

Eric Webber and Seamus Britt presented information regarding the Hartford Capital Appreciation HLS Fund. Mr. Webber began with an overall perspective of Hartford and the Fund. He stated that Hartford focused on world-class research, independent thinking and active management. He stated the firm has \$100 billion in assets under management, which are predominantly in U.S. equities. He indicated Hartford offers a unique investment approach, supported by an investment advisory group of 22 investment professionals conducting over 200 investment research meetings annually with a wide variety of other investment firms to review current market themes and explore ideas for potential new products.

Mr. Webber stated that Hartford works with a sub-advisor, Wellington Management Company ("Wellington"). He indicated Wellington is headquartered in Boston, has been in business since the 1920s, and became a privately held firm in 1979. He stated that it is one of the largest privately held firms and concentrates on money management with over \$700 billion in assets worldwide. He stated the firm is comprised of over 500 investment individuals, structured into teams providing "investment boutiques." He indicated the teams conduct daily 45-minute meetings, meaning 500 individuals all over the globe exchanging ideas. He stressed the global reach of the company, and stated that Wellington has 47 global analysts based in 7 different countries meeting with companies on daily basis. He further stated the firm is unique in its compensation structure, as an analyst is compensated well enough to be a career analyst in his/her area, which equates to a depth of knowledge that is unmatched in the market place. He indicated that many of these global analysts have more than 20 years of experience.

Mr. Britt introduced himself as a senior portfolio specialist. He reviewed fund performance, indicating that the fund is built as a large-cap core fund and concentrated in deep value and aggressive growth stocks. He described fund management as a basket of smaller portfolios that incorporate unique perspectives on the market but in the context of providing a diversified strategy. He indicated that there is a primary portfolio manager who pulls ideas from the other managers.

Mr. Britt then discussed long-term performance, stating that though it has been a difficult year, over the long term the fund has been successful in its approach and rewarding for its investors. He pointed out other periods in the past that the fund has performed poorly, but that the fund had typically recovered strongly.

Mr. Britt then discussed recent performance. He stated portfolio managers have sought out fundamentally strong companies but not been rewarded recently due to challenging market conditions, despite a small recovery the past month. He stated the fund started underweight to energy and was not able to anticipate the unrest in the Middle East and Africa or the Japanese tsunami. He indicated performance issues were primarily due to poor stock selection, and though not pleased with recent performance there were not plans to make significant changes. He stated Hartford is confident in Wellington's strong track record and believed the fund would be rewarding in the long run.

Mr. Mumma asked if the same individuals were running the fund since 1998-99, which were the earliest dates included in the long-term fund performance assessment. Mr. Britt indicated there had been one senior flagship investor since fund inception, but that in 2007 Wellington incorporated a multiple portfolio manager approach. He indicated this change had been a net positive, as portfolio managers collectively have performed better than the original flagship manager. Mr. Britt indicated confidence in this continued approach and that the senior flagship investor still manages a majority of the fund.

Mr. Canzano referred to page 16 and asked why the net operating and gross operating expenses were the same. Mr. Britt responded that while he was not an expert in mutual fund pricing, he stated that often in a newer fund operating expenses were waived and the overall expense ratio is set high. He stated this fund was large enough that there was no need to waive the expense ratio, allowing net and gross costs to be the same.

Mr. Canzano expressed hopes to see more positive numbers going forward. Mr. Britt expressed that Hartford is optimistic about the portfolio. Mr. Mumma asked for confirmation that there would be no change in investment approach. Mr. Britt confirmed.

5. BOARD REPORT 11-65: CONSULTING SERVICES CONTRACT EXTENSION

Ms. Natasha Gameroz indicated that at the May 17, 2011 meeting, the Board approved a draft of the Consulting Services RFP. She stated that the RFP was released on August 9, 2011 and responses were due September 30, 2011. She further stated that

due to confusion regarding the Business Inclusion Program (part of the City's general contracting requirements), the deadline was extended to October 17, 2011.

Ms. Gameroz stated that seven RFP responses were received compared to two received during the prior RFP process. She indicated that in the next few weeks staff would be scoring responses and viable candidates would be eligible to compete in the performance exam portion of the RFP process. She also stated that the review and recommendations for action should be provided to the Board by year-end. She indicated the actual contract would most likely not be developed and executed by the end of Mercer's contract, which terminates December 31, 2011, and that due to Mercer's heavy involvement in the RFP development process it would be prudent to extend Mercer's contract for another six months, from January 1, 2012 through June 30, 2012. She indicated the Board had latitude to contract with multiple providers for consulting services and extension of the contract would not preclude them from contracting with other firms. Ms. Gameroz added that staff had drafted a report from the Board to City Council requesting authority to extend the contract, and that contingent upon Council approval staff would return to the Board to amend the contract term and ceiling amount.

Mr. Clifford Cannon indicated there seemed to be an error in the dates of the current contract term in the Board report as well as the draft Council report. Ms. Gameroz acknowledged the error and confirmed that the current contract expires on December 31, 2011; she also confirmed that this would be corrected on the Council report.

Mr. Mumma asked if staff had addressed the delays in the RFP process and what could be done to avoid similar delays in the future. Ms. Gameroz indicated the delay was due largely to the Business Inclusion Program process being completed online for the first time. Steven Montagna added that the RFP process seems to get lengthier and more complicated, though every attempt is made to start early enough to complete in a timely manner. Mr. Perez indicated that in his department delays occur routinely. Ms. Margaret Whelan indicated that there are many participants in the approval process and unfortunately staff cannot control responsiveness of the CAO, City Attorney, or Mayor.

Mr. Mumma inquired as to what would happen if Council did not approve the extension of the contract. Mr. Montagna indicated he was not certain but would assume that some consultant projects such as the current RFP search would need to be put on hold. Sangeeta Bhatia asked if there is a standard termination clause. Mr. Montagna affirmed there was, if notice was given within a specified timeframe.

Mr. Canzano asked for clarification on the extension term. Mr. Montagna responded that should another consultant be hired, staff could allow the six months to run out for Mercer or terminate the existing contract early. He also indicated that staff had written the RFP to contemplate multiple contracts for investment, regulatory/administration, and communications consulting. He stated that the intent was to provide the Board with several consulting options. Mr. Canzano indicated his understanding that the extension was up to six months, that the City would not be locked into the six-month term, and that there would be a clause for at-will termination. Mr. Kidder confirmed.

Tom Moutes asked what other issues or discrepancies might arise if Mercer was not re-selected. Mr. Montagna indicated that this would be difficult to predict until staff assessed the RFP responses.

A motion was then made by Mr. Perez, seconded by Mr. Robert Schoonover, to approve the extension of the contract with Mercer Investment Consulting, Inc., and to approve and authorize release of the draft report to City Council requesting the extension; the motion was unanimously adopted.

6. BOARD REPORT 11-66: INVESTMENT MANAGEMENT SERVICES REQUEST FOR PROPOSAL / INVESTMENT MENU IMPLEMENTATION UPDATE

Ms. Gameroz indicated that at the Board's May 17, 2011 meeting, the Board had approved implementation of remaining changes to the investment menu, now in its second phase, which involved establishing the DCP Mid-Cap, DCP Small-Cap, and DCP International Funds. She stated staff had been working with Mercer to draft one RFP for all investment mandates. She indicated Mercer maintained a database (the Mercer Global Investment Manager Database) that served as a repository for investment manager products and services, and that virtually all firms which can provide the investment management services sought in the RFP have their data within the database. She further stated that the database is an "open architecture" system and a firm can add information at any time.

Ms. Gameroz stated that the draft RFP had already been reviewed by the Personnel Department's Administrative Services Division (ASD) but not yet by the Board's legal counsel. She recommended the Board's approval of the RFP contingent upon counsel's agreement to the language as to form. She indicated staff did not anticipate many changes since the general language used in the RFP is similar to language used in the previous Fund Custodian services RFP. She also stated she had worked with ASD and the City Attorney's Office to obtain exemptions for general contracting requirements, and that exemptions had been obtained from Public Works/Contract Administration for the LWO (Living Wage Ordinance), EBO (Equal Benefits Ordinance), CRO (Contractor Responsibility Ordinance), SDO (Slavery Disclosure Ordinance), and FSHO (First Source Hiring Ordinance). She indicated this would simplify the submission process but would not affect mutual fund providers as those entities do not need to contract with the City. She indicated staff had provided a procurement schedule, with transfer of all funds tentatively scheduled for November 1, 2012.

Devon Muir indicated the questions in the RFP which were included in Mercer's database. He indicated that RFP respondents can submit their information online, but can still submit a paper copy. He stated that these questions relate directly to the evaluation criteria listed in Section 5 of the RFP. He indicated that the weight will predominantly be applied to qualitative methods, such as strength of strategy, but that significant weight would also be applied to long-term performance. He stated fees would make up a moderate portion, as well as organizational strength.

Mr. Perez stated that there are managers possessing strong long-term performance records but have experienced more recent weak performance, and asked if those managers would be considered pursuant to recent discussion of this concept as part of formulating the Plan's Investment Policy Statement (IPS). Mr. Muir replied that there had been language in the draft IPS regarding the "mean reversion" phenomenon to which Mr. Perez alluded to, but this language was not included in the final draft. He stated that managers would not be unduly penalized for negative short-term performance if the long-term performance has been exemplary. Mr. Montagna indicated that the IPS language was modified to provide the Board with the flexibility described by Mr. Perez, and that this would be built in to the evaluation process. Mr. Canzano asked if there would be a "short list" for each asset class. Mr. Montagna confirmed. Mr. Perez said that the Board would rely on staff's judgment to bring back any information or recommendations related to the mean reversion concept.

Mr. Mumma asked if the Board would be reviewing raw data or information that was already vetted, meaning staff recommendations and rankings with justifications. Mr. Muir responded that the findings would be synthesized in a compact report. Mr. Mumma asked how the Board would identify the short-term versus long-term performance comparisons. Mr. Muir responded that Mercer could provide that by including performance tables. Mr. Montagna indicated prior reports have included considerable supplementary data. Mr. Muir indicated Mercer could provide as much data as the Board requests.

Mr. Canzano asked Mr. Muir to confirm that the Board is not involved directly in the evaluation process, that Mercer/staff would make the recommendations, and that Mercer/staff would consider firms broadly as discussed. Mr. Muir confirmed.

Mr. Mumma indicated he had noticed some missing information, such as insurance coverage amounts. Mr. Montagna indicated this information was not available at the time the report was submitted, and that insurance information is provided by the City's Risk Management staff. Mr. Mumma questioned a comment on page 7 under the "DCP Small-Cap Stock Fund." Mr. Montagna indicated that the comment was included in error, and that it was an editorial comment that was left on the draft.

Mr. Mumma asked if staff could provide explanation on the Contractor Responsibility Ordinance (CRO) and the First Source Hiring Ordinance (FSHO). Mr. Montagna indicated that the CRO requires vendors to disclose prior contracts with the City so that staff may better assess the contractor. Mr. Kidder added that vendors fill out a questionnaire to identify other contracts with the City and public entities. Mr. Montagna indicated that the FSHO is a requirement that addresses the dislocation of personnel and the desire for vendors to give preference to hiring these employees. Mr. Mumma asked if this meant personnel that might be displaced when a new vendor takes over a contract. Mr. Kidder confirmed and indicated that this was the most recent addition to the City contracting provisions. He continued that if there is a displacement, City

residents are given priority in selection process to encourage use of local resources. Ms. Whelan added that it applies to Los Angeles based businesses.

Ms. Bhatia inquired if there is any language that addresses lobbyists or placement agents. Mr. Montagna referred to page 23 where there is a Lobbyist Disclosure question and Endorsement Disclosure question. He also referred to page 24 and indicated a series of questions addressing issues with vendors and prior contracting relationships.

Mr. Cannon asked if “IRC” should be “IRS” on page 5 of the RFP. Mr. Montagna indicated that IRC stands for Internal Revenue Code and was the appropriate reference. Mr. Cannon also asked for clarification on the Slavery Disclosure Ordinance. Mr. Montagna stated that the SDO is meant to determine whether a corporation had in the past engaged in or profited from slavery. Ms. Whelan indicated the requirement is for disclosure only, and does not create a specific consequence.

A motion was made by Mr. Mumma, seconded by Ms. Bhatia, to approve and authorize the release of the RFP for Investment Management Services, pending final review as to form by Board Counsel; the motion was unanimously adopted.

Mr. Mumma referred back to the Hartford presentation and asked Mr. Muir if Mercer had any thoughts regarding Hartford’s fundamental investment strategy change from a single portfolio manager to multi-managers in 2007. Mr. Muir indicated Mercer did address it at the time of the change, but overall Mercer regards Wellington as a firm that has a deep bench of talent and would maintain confidence in the firm’s ability to successfully manage the fund.

7. BOARD REPORT 11-67: STRATEGIC PLAN – MISSION & VALUE STATEMENTS

Mr. Montagna indicated that staff was in the midst of creating a strategic plan for the Deferred Compensation Plan. He stated that at the prior Board meeting the Board had reviewed assumptions to be used for Plan resources. He stated that the next step was to have discussion regarding what the mission and values of the Deferred Compensation Plan should be. He indicated staff did research to obtain information from other organizations that put these documents together and also looked at other governmental plans, although few of the latter appeared to create strategic plans.

Mr. Montagna stated there are certain common considerations that are typically addressed in developing mission statements. He indicated the report included questions that would assist the Board in thinking about the Plan’s mission.

Mr. Canzano stated he would like to add that the Plan strives for the lowest possible fees to the goals. Ms. Whelan indicated that she agreed with Mr. Canzano’s comment. Mr. Moutes indicated he would like to see the mission statement more lofty and aspirational and not as wordy. Mr. Schoonover stated he would like to see the mission statement a little more broad based. He further noted that he thought the purpose of the

Plan was to supplement employees' pensions. Mr. Mumma stated that he revised the mission statement and had included what both Mr. Moutes and Mr. Schoonover had indicated. He suggested revising the mission statement to state: "The mission of the City of Los Angeles Deferred Compensation Plan is to provide active and retired City employees' with a supplemental retirement and savings program that offers enhanced retirement and financial security."

Mr. Perez referred to page one of the report and suggested the Plan use a score card to measure the progress of goals. He stated that it would make it easy for Board members to access how the Plan is doing. He further commended staff on the document.

The Board next discussed the draft vision statement. Mr. Mumma indicated he would revise the vision statement to state, "Our vision is that the Plan's participants will achieve the highest possible returns on their investments with the lowest possible fees." Mr. Canzano agreed with Mr. Mumma's revisions however asked to include experience and expert customer service.

Mr. Montagna stated the intent of a vision statement is to define an organization's aspirations for the future. Mr. Perez stated he would like to retain the language in the draft to include diligent, forward-thinking Plan administration guided solely by what is in the best interests of Plan participants. Mr. Moutes agreed that the bullet points in the report are important, but he saw them more as goals. Mr. Canzano suggested revisiting the vision statement; Mr. Montagna indicated staff would return with revisions addressing the Board's comments. **A motion was made by Mr. Moutes, seconded by Mr. Perez, to receive and file the report; the motion was unanimously adopted.**

8. BOARD REPORT 11-68: CONTRACT STATUS UPDATE

Mr. Montagna indicated that this report provided a quarterly update of all contracts associated with the Plan. He stated that staff is working on the amendment that would extend the Great-West contract. He further noted that staff had already provided the Board with information regarding the consulting contracts and indicated there were no imminent actions necessary for the other contracts, since the expiration dates are much further out. **A motion was made by Mr. Moutes, seconded by Mr. Mumma, to receive and file the report; the motion was unanimously adopted.**

9. BOARD REPORT 11-69: STAFF REPORT

Ms. Gameroz summarized staff activity for the month of September 2011. She indicated counter activity had decreased slightly in the month of September and Accrued Leave Activity decreased as well (in number of participants and dollar amount). Regarding hardship activity, she stated there were 55 hardship cases submitted to Great-West, with 45 approvals, one cancellation, one denial, and eight pending further documentation. She further indicated that loan activity participation slightly decreased with \$4,714,399 withdrawn from the Plan for loan payouts. She next indicated that bi-weekly deferral cash flows had increased 0.15% over the year.

Mr. Montagna next introduced Esther Chang as the newest member of the Deferred Compensation staff. He indicated that she would be an excellent addition to the team. Mr. Canzano welcomed Ms. Chang to the Plan on behalf of the Board.

Mr. Mumma asked if a recurring update in the staff report regarding the number of employees contributing to Roth could be provided. Mr. Montagna responded it could. Mr. Canzano asked if staff had current numbers on participants who have elected Roth. Mr. Montagna indicated he believed the number was close to 500. Mr. Canzano suggested providing an informational piece to participants about easing into Roth contributions. Ms. Whelan asked if DWP staff had included the Deferred Compensation Plan brochure that was in the civilian Flex Benefits booklet for Open Enrollment. Ms. Basquez stated that DWP's Open Enrollment is not until May 2012, therefore it would provide staff with ample time to make sure the Roth brochure is included. Mr. Mumma indicated the Police Protective League sends Open Enrollment materials around the same time as DWP, and that the League would be happy to include similar information in their materials. Mr. Montagna stated that staff just issued a Citywide email for National Save for Retirement Week, which included mention of the Roth savings option.

Mr. Cannon next referred to the project list in the staff report and asked about prior Board discussion of retiree loans. Mr. Montagna responded there had been discussion several years ago but some operational obstacles had been identified. At the time, Great-West was not prepared to allow for retiree loans. Mr. Cannon indicated he would be interested in seeing the pros and cons to retiree loans. Mr. Canzano asked if this item could be moved up on the project list. Mr. Montagna responded affirmatively. **A motion was made by Mr. Moutes, seconded by Mr. Mumma, to receive and file the report; the motion was unanimously adopted.**

10. REQUEST FOR FUTURE AGENDA ITEMS

None.

11. NEXT MEETING DATE – November 15, 2011

12. ADJOURNMENT

Mr. Canzano indicated he would not be present at the next Board meeting and Mr. Mumma would be acting as Chair. Ms. Whelan reminded everyone about completing their online Ethics training, and that the deadline was Friday, October 21st.

A motion was made by Mr. Cannon, seconded by Mr. Perez, to adjourn the meeting; the motion was unanimously adopted. The meeting was adjourned at 10:26 a.m.

Minutes prepared by staff members Esther Chang and Natasha Gameroz.