CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

APPROVED MINUTES
REGULAR MEETING OF OCTOBER 20, 2009 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:
Present:
Eugene Canzano, Chairperson
Richard Kraus, Vice-Chairperson
Sally Choi, Second Provisional Chair
Margaret Whelan, Third Provisional Chair
Cliff Cannon
Michael Perez
Kurt Stabel

Staff:

Personnel:	Alex Basquez Steven Montagna Natasha Zuvich
City Attorney:	Anita Parys

1. CALL TO ORDER

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

2. PUBLIC COMMENTS

None.

3. MINUTES

Mr. Kraus asked for the addition of the word "from" in a paragraph on page four of the minutes. **A motion was then made by Cliff Cannon, seconded by Richard Kraus, to approve the minutes of August 18, 2009, as amended; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION: STATE STREET GLOBAL ADVISORS

Megan Hart, Vice President, and Christopher Hawkins, Vice President, both of State Street Global Advisors (SSgA), were present to review performance information for the SSgA Russell 2000 Index Fund. Ms. Hart began by indicating that State Street was really a bank and investment manager for institutional investors. She stated that State

Street had been required to take TARP funds but had since returned them. She briefly reviewed the global reach of the firm and its broad resources.

Mr. Hawkins indicated that SSgA was one of the largest index fund managers in the world and managed funds against eighteen Russell benchmarks, with $66 billion of their $270 billion in assets invested in Russell indices. He stated that SSgA opened its Russell 2000 Index Fund in 1988.

Mr. Hawkins reviewed the members of the index funds management team, stating that the vast majority of staff have been with the firm for over ten years, and that the firm attempts to leverage its size and assets under management to achieve competitive pricing. He indicated there were 23 traders and 80 operational staff supporting the management team.

He next reviewed the strategy of the Russell 2000 Index Fund specifically, noting that turnover is approximately 19% annually and reflects the annual reconstitution of the index, which typically is in the high teens. He indicated that the Fund manager attempts to replicate the return of the Russell 2000 index while minimizing transaction costs, and that some strategies for accomplishing this include exchanging distributions with contributions as well as certain trading strategies which provide for reduced commission costs. He indicated that 89% of the Fund's trades were at reduced cost, and only 11% involved trades through a broker or agent, which generates the highest cost.

Mr. Kraus questioned the apparent discrepancy between the positive returns of the fund and statistics noted on Page 15 of the report indicating net losses to the account. Ms. Hart replied that this was likely due to the timing of purchases and redemptions from the account. Mr. Perez asked how SSgA compared to its peers. Ms. Hart replied that SSgA monitored its competitors and that comparisons generally focused on fees. Mr. Hawkins indicated that BGI and Melon were their largest competitors. Susan Dalton of Mercer Investment Consulting added that Vanguard would also be considered a large competitor.

Mr. Kraus asked for comments regarding pending regulatory actions affecting the firm. Ms. Hart replied that State Street had received a Wells notice concerning sub-prime exposure in 2007 in some of the firm's active bond funds, which have since closed. She indicated that the firm was actively working with the SEC. Anita Parys asked if she could receive documentation regarding the Wells notice. Mr. Cannon asked about the turnover in the firm, and Ms. Hart replied that her office had very stable staffing. She indicated there were seventeen individuals who worked on the West Coast.

The presentation then concluded.

5. BOARD REPORT 09-46: J.P. MORGAN CERTIFICATES OF DEPOSIT

Mr. Montagna indicated that in early September staff had been notified by J.P. Morgan/Chase that the firm intended to cash out the Certificates of Deposit (CDs) held by the Plan and pay prorated interest on the account. He stated that staff informed the bank at that time that they were not free to do this under the terms of their acquisition of Washington Mutual Bank. He stated that the firm subsequently acknowledged it could not take this action without the consent of the City, but that the firm indicated that the Washington Mutual CDs would be converted to J.P. Morgan CDs and this would create certain operational impacts. He indicated that several conference calls were held involving the City, J.P. Morgan, Mercer and Great-West to review what those impacts would be, and as a result of those conversations all of the outstanding issues had been resolved.

Mr. Montagna indicated that one of the biggest concerns was that J.P. Morgan had initially indicated it was no longer going to be able to process redemptions from accounts by wire, which would have been problematic for Great-West, but that later J.P. Morgan agreed to process payments by wire. Mr. Montagna indicated that the conversion would thus present no material operational impact to participants.

Mr. Montagna indicated that there was still an issue regarding how to respond to J.P. Morgan's offer to pay prorated interest, and that staff brought this matter to the Board's attention before investing Plan resources in the review effort. He stated that the Board was free to reject the offer but staff's recommendation was to review it more closely. He indicated that several issues needed to be examined including whether the Plan had an option to alter the terms of investments that participants entered into with certain expectations, what would happen to the current holdings if they were liquidated, whether J.P. Morgan would be willing to extend the offer past December 2009, and what the rate-of-return impact would be to participants.

Mr. Cannon asked if participants had ever received notification regarding the guarantees of the CDs at the time of the change in providers. Mr. Montagna replied that a communication was issued regarding the acquisition of Washington Mutual and safety of assets but he did not believe a specific message was sent regarding a guarantee of CD terms/rates. Ms. Choi asked what other plans were doing with the J.P. Morgan offer. Mr. Montagna replied that he was not aware there were other plans in this situation, but Ms. Dalton indicated that she believed there were. Mr. Perez asked if there was any obvious problem with the offer, and Mr. Montagna replied that the threshold question was whether there were participants who would suffer a lower rate of return by taking the offer.

Mr. Kraus asked if staff was contemplating re-opening the CDs. Mr. Montagna indicated staff was not contemplating this, but rather bringing in a new CD provider to carry out the terms of the existing CDs only. Mr. Canzano asked if it was worth revisiting the elimination of the CDs. Mr. Montagna replied that the decision to eliminate this option was based on the Board's interest in streamlining the core investment menu. He stated that CDs would generally not be considered a core investment offering, and he further pointed out the complexity faced by participants in managing them, since upon maturity some participants might not realize that they were required to take action.

Mr. Kraus asked if it was possible to subsidize any interest rate loss suffered by participants. Mr. Montagna replied that he did not see where the funding for this would come from.

Mr. Perez indicated that he believed the matter should be investigated further. As a result, **Mr. Perez made a motion, seconded by Ms. Whelan, directing staff to work with the Board's consultant and legal counsel to generate a finding as to whether and under what conditions the offer by J.P. Morgan to provide prorated interest for terminated Certificates of Deposit would be negative, neutral, or positive for the affected participants; the motion was unanimously adopted.**

6. BOARD REPORT 09-47: PROPOSED INVESTMENT MANAGER PROCUREMENT PROCESS

Mr. Montagna indicated that this item was being held over at the request of the City Attorney. Ms. Parys indicated that she apologized for this but that the City Attorney had some issues they needed to review more closely. She indicated that this review would be completed prior to the next Board meeting.

Ms. Choi asked if, notwithstanding the discussion in the staff report, staff had looked at the possibility of obtaining exemptions on certain general contracting requirements. Mr. Montagna and Ms. Parys indicated that as a result of negotiations on the three contracts for the FDIC-Insured funds, a number of areas had been identified as exemptions for these contracts and this information could be used in future contracting.

7. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Susan Dalton of Mercer Investment Consulting was present to review investment performance data for periods ending June 30, 2009. She first provided a brief economic overview, indicating that future data would show that the recession was over and there was positive growth in the current quarter. She stated that Mercer estimated that the unemployment rate would peak in January 2010 and then decline.

Ms. Dalton next reviewed the Plan's core funds, indicating that two of the under-performing funds (Hartford Stock and Hartford Advisers) would be eliminated on November 2, 2009, and that Mercer was recommending that the third fund, the Lazard Mid-Cap Fund, be placed on Watch. She indicated that Plan assets had recovered with the markets. She further stated that the most notable change in asset allocation from the prior monthly report was the growth in the Large-Cap segment and corresponding decline in Stable Value. She stated that some of this was due to asset appreciation and some to cash flows.

Ms. Dalton next reviewed fees, noting that at 34 basis points the Plan's fees were well below average. She further indicated that Mercer was switching from Morningstar to Lipper to make its fee comparisons. Mr. Canzano noted that even at 0.20% the Plan's Ultra-Aggressive Fund was very inexpensive, but asked if the higher fee was attributable to the larger portion of the Fund invested in international stocks. Ms. Dalton replied affirmatively. Mr. Perez asked if Mercer believed the amount noted in the report as invested in international stocks was appropriate, and Ms. Dalton referred to a different portion of the report containing recently modified percentages in indicating yes.

Mr. Stabel questioned the use of the Plan's passively-managed bond fund in the asset allocation funds. Mr. Montagna replied that when the funds had been originally established there had been a decision to use all passively-managed funds, but that this issue was up for re-consideration relative to the bond fund when the Investments Committee next met to discuss proposed revisions to the Plan's core menu.

Ms. Dalton next indicated that Mercer was recommending that the Lazard Mid-Cap Fund be placed on Watch. She stated that although performance had improved somewhat in the most recent quarter, the Fund had been downgraded internally by Mercer to a B+ from A- as a result of personnel changes. She stated that manager Gary Beusser had moved to another role within the firm and an onsite visit in July 2009 with the two co-portfolio managers indicated a lack of transparency in coverage of some of the stocks held within the portfolio.

Ms. Dalton next discussed the Fidelity Diversified International Fund, which she indicated Mercer had some concerns with given the size of the Fund. She stated, however, that Mercer still had confidence in the Fund Manager, Bill Bauer, and had recently conducted an on-site visit with the management team in July 2009.

Mr. Kraus asked if there was a pattern of the City Plan actively managed funds slipping in performance. Ms. Dalton replied that in evaluating the funds Mercer's analysis was focused on changes in personnel, prolonged periods of under-performance and any potential style drift. Mr. Montagna stated that Mr. Kraus' question related directly to the question of active vs. passive management and that this issue would be discussed in the upcoming Investments Committee meeting regarding potential investment menu changes. The discussion then concluded.

8. BOARD REPORT 09-48: GREAT-WEST PARTICIPANT SATISFACTION SURVEY

Usha Archer of Great-West Retirement Services was present to review a proposed Great-West on-line survey of Plan participants. Ms. Archer indicated that this survey was intended to complement, not replace, the existing survey process used by the Plan. Mr. Canzano asked what type of response rate Great-West expected to achieve, and Ms. Archer indicated she hoped for 20%. She stated that she believed this was achievable given that the Plan's most recent paper-based survey response rate was over 20%, and that Great-West registered approximately 80% unique participants going online to monitor their accounts.

Mr. Kraus asked if the survey questions were fairly standard. Ms. Archer replied they were and used for many of their plans, with a few questions specific to the City population. Mr. Cannon asked if the demographics of respondents would be measured, and Ms. Archer replied that they would but only based on the demographic questions included in the survey. The discussion of this matter then concluded.

9. BOARD REPORT 09-49: BUDGET STATUS REPORT FOR QUARTER ENDING 06/30/09

Ms. Zuvich indicated that staff was recommending reimbursements in the amounts indicated in the staff report. Mr. Kraus asked at what point the longer-term projections of a declining surplus would need to be addressed. Mr. Montagna indicated that they would need to be addressed at whatever point there was an imminent likelihood of the City being unable to fulfill its contractual fee obligations to the Plan Administrator, but given the conservative assumptions used in the projections, including staffing at full salary authorities, having to take such action was unlikely. Mr. Montagna pointed out that in the current year alone the Plan rate of return was double the assumed rate.

Following this discussion, **a motion was made by Richard Kraus, seconded by Maggie Whelan, to approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for $130,223.99; City Attorney for $19,478.61; and DWP for $2,795.02; the motion was unanimously adopted**.

10. BOARD REPORT 09-50: STAFF REPORT

Mr. Montagna indicated that the monthly staff report had been modified somewhat to list all of those projects on staff's project list. He indicated that most of staff's efforts over the past two months had been focused on development of the three bank provider contracts for the new bank deposit account option. He also noted that staff, as a result of conversations occurring at the 2009 NAGDCA Conference, was in the process of developing an informal working group of other large State of California defined contribution plan sponsors.

Mr. Stabel asked if Great-West provided counseling to Plan participants who called inquiring about hardship withdrawals. Ms. Archer indicated that counseling was not provided and would be outside the scope of what would be appropriate. Ms. Whelan indicated that resources were available to employees through the Employee Assistance Program (EAP). Alex Basquez indicated that an article regarding the City's EAP resources could be included in the next Plan newsletter. Gary Robison of Great-West Retirement Services indicated that the Police Protective League offered certain legal services to its members. Mr. Stabel asked how loans were coordinated with hardships, and Mr. Robison replied that loans were easier to obtain because the conditions for approval were very minor.

Mr. Canzano indicated his appreciation of staff's work and noted the list of pending projects in the report. He asked what prospects existed for having staff member Ashley Stracke return to her assignment with the Plan. Ms. Whelan replied that the Department would continue to be faced with the challenge of managing layoff efforts and that even if the early retirement incentive program was approved, restructuring would be required to adjust to the reduction in resources.

Mr. Kraus asked if the hardship charts were going to include the breakdown he'd previously requested; Ms. Zuvich replied that this information had been requested and should be included in the next staff report.

11. REQUESTS FOR FUTURE AGENDA ITEMS

None.

12. NEXT MEETING DATE – NOVEMBER 17, 2009

13. ADJOURNMENT

The meeting adjourned at 11:13 a.m.

Minutes prepared by staff member Steven Montagna.