CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF NOVEMBER 18, 2008 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:
Present:
Sangeeta Bhatia
Richard Kraus
Michael Perez
Kurt Stabel
Shelley Smith
Margaret Whelan

Staff:

Personnel:	Steven Montagna Natasha Zuvich Ashley Stracke Jo Ann Dominguez
City Attorney:	Anita Parys Vicky Williams

1. CALL TO ORDER

Acting Chairperson Margaret Whelan called the meeting to order at 9:10 a.m. Ms. Whelan requested a moment of silence in memory of Deputy City Attorney Richard Bobb, who she indicated had unexpectedly passed away the past weekend.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Richard Kraus, seconded by Mike Perez, to approve the minutes of September 30, 2008; the motion was unanimously adopted. A motion was made by Shelley Smith, seconded by Richard Kraus, to approve the minutes of October 21, 2008; the motion was unanimously adopted.

4. INVESTMENT PROVIDER PRESENTATION - PIMCO

Jason Kezelman, Vice President and Relationship Manager, was present to review performance for the PIMCO Total Return Bond Fund. Mr. Kezelman began by reviewing the general economic backdrop. He indicated that sharp losses had been experienced in virtually all major asset classes as global leverage had begun unwinding. He stated that the pace of these losses had accelerated over the last two months and affected U.S. stocks, international stocks and commodities. He further indicated that fixed income markets had been impacted as well, with U.S. Treasuries being the only portion of the market that had experienced positive returns. He noted that even Treasury Inflation Protected Securities (TIPS) had fallen 8% in October.

Mr. Kezelman next reviewed the Treasury yield curve, indicating that the curve had steepened after having been inverted in 2007. He indicated that the LIBOR rate, the lending rate used between lending institutions, had gone from 2.8% in late August to 5% at its peak before retreating following government intervention.

Reviewing some of the different bond types, he indicated that financials had been the worst performers, with an average 4.5% spread on investment debt vs. mortgage backed securities. With respect to the latter, he indicated that the virtual takeover of Freddie Mac and Fannie Mae by the Federal government had not provided as much relief as had been hoped, but that improvements were still expected longer term.

Mr. Kezelman next reviewed performance returns, indicating that year-to-date the Fund had outperformed its benchmark by 70 basis points, and by 90 basis points since its introduction to the City's Plan. He stated, however, that the Fund had under-performed its benchmark over the last three months as it was impacted by its exposure to corporate debt and in particular financial stocks, which it had begun taking positions in at the beginning of 2008. He indicated that although financials had been severely hurt the Fund manager believed that there were significant opportunities in this space and was positioning the Fund for the longer term.

Mr. Kezelman indicated that 60% of the Fund's investments were in mortgage backed securities but that most of this was agency debt backed by prime loans, and 57% in Fannie Mae mortgages. He indicated that 17% of holdings were in corporate debt but this was concentrated in companies falling under the umbrella of recent government intervention.

He indicated that the recently passed Federal rescue package was having a positive effect and Fund managers were optimistic that as the overall economic environment improved the Fund would be well-positioned to take advantage. He indicated that the U.S. government had been more responsive than other governments throughout the world. He stated that the Fund would continue to be underweight on Treasuries as the Fund managers saw little opportunity for appreciation there.

Richard Kraus acknowledged the Fund's strong relative returns and then asked Mr. Kezelman if he could provide more detail around the reason for the Fund's recent fee increase. Mr. Kezelman replied that fees had increased by three basis points not to provide additional compensation to fund managers but to meet higher obligations for compliance and regulatory oversight. Mr. Kraus next asked for comment on Mercer's observations in its quarterly investment review that PIMCO had experienced significant recent personnel turnover. Mr. Kezelman replied that the organization had seen some retirements of senior staff but that he did not believe these were indicative of a problem with retaining quality personnel, and that highly qualified replacements had been selected.

Mr. Perez asked if PIMCO could include in its next report an indication of activity with respect to the rating agencies. Mr. Kezelman replied that he could certainly do so, and Mr. Montagna indicated that staff would find a way to do this in advance of the next annual presentation from the firm. Ms. Smith asked if PIMCO could help draft an article geared towards Plan participants providing some education on recent events in the fixed income markets, and Mr. Kezelman indicated he would do so. With no further questions, his presentation then concluded.

5. GREAT-WEST QUARTERLY PLAN REVIEW

Rick Kramer, Director of Government Operations; Usha Archer, Regional Manager; and Gary Robison, Local Manager, all with Great-West Retirement Services, were present to provide the Great-West quarterly review. Mr. Kramer began by stating that Plan assets had decreased in the third quarter from $2.7 to $2.5 billion. Mr. Kramer stated that 34% of Plan assets were in fixed interest investments. He also indicated that there was a significant increase in deposits.

Mr. Kramer next discussed the breakdown of assets by investment. He noted that assets in the Hartford Life General Account had increased compared to the previous quarter, while assets in Washington Mutual decreased. He explained that the reason for this might have been because the rate of return for Hartford was 4.35% during the third quarter, while Washington Mutual's was at 2.68%.

Mr. Kramer stated that for the third quarter there were 30,542 contributing participants and 9,236 non-contributing participants. He indicated that the number of non-contributing participants could be due in part to participants reaching their contribution limits for the year. Mr. Perez asked if Great West tracked the number of accounts that were terminated each quarter. Ms. Archer stated that during the third quarter 243 participants took a full distribution of their accounts. Mr. Montagna asked if this information could be compared to previous quarters in future reports. Mr. Kramer confirmed that Great-West could provide this information.

Mr. Robison continued the presentation with a discussion regarding local office activity and Plan contact information. Mr. Robison stated that there had been a large increase in the volume of phone calls. He indicated that many participants were calling in regard to Hartford's lower stock value. He explained that in these cases, local staff often reminded participants that their investment was not in Hartford stock. He also indicated the local Great West staff had double the coverage at the City Hall office during the third quarter to handle the high volume of participant inquiries.

In regard to group meetings, Mr. Robison explained that in addition to independently scheduled enrollment meetings, local Great-West staff had been working with Natasha Zuvich to schedule DROP meetings at the fire stations and police academy. He stated that group meetings now averaged approximately six hundred attendees per month.

Mr. Robison concluded with an administrative overview. He stated that 2008 year-to-date assets rolled over into the Plan were larger than rollover assets out of the Plan. He indicated that this was unique compared to previous years in which rollover assets out of the Plan exceeded rollovers into the Plan. Ms. Whelan asked why this may be the case. Mr. Robison explained that local Great-West staff had been making a more concerted effort of explaining to participants the benefits of keeping their assets in the City's Plan. Ms. Whelan stated that the message appeared to be resonating with participants.

Mr. Kraus concluded the discussion by stating that he was impressed by the turnout at the Library Department for October's National Save for Retirement Week. He stated that both Great West and Personnel Department staff worked well explaining complex topics in addition to enrolling new participants.

6. BOARD REPORT 08-44: FDIC INSURED OPTIONS

Mr. Montagna stated that the Investments Committee recommended to the Board that the Plan adopt a multi-vendor model for the FDIC insured option. Mr. Montagna explained that the Committee had decided that this would both expand the amount of FDIC coverage for participants as well as provide the Plan the ability to move assets quickly should one of the institutions within the option become insolvent.

Mr. Montagna stated that as a result of its discussion, the Committee also recommended that the Board discontinue offering Certificates of Deposit (CDs) as a core option. He explained staff's finding that CDs create communication difficulties in which participants routinely forget to rollover matured investments. He further explained that participants would still have access to CDs through the Self-Directed Brokerage Option.

Mr. Montagna explained that should the Board approve the release of the RFP for the end of 2008, the structure for the FDIC insured option should be in place by the middle of 2009 at which point the elimination of the CD option could coincide. Board members indicated that they did not have the attachment containing the minimum qualifications for financial institutions provided by Mercer. The materials were then distributed to the Board members. Mr. Montagna stated that the criteria would also be included in the RFP once it was returned to the Board for approval. **A motion was then made by Michael Perez, seconded by Shelley Smith, to a) create a blended multi-vendor savings option, b) eliminate the Plan's Certificates of Deposit, and c) direct staff**

and Mercer to draft an RFP for these services and return to the Board with that draft and proposed implementation timetable as soon as practical; the motion was unanimously adopted.

7. BOARD REPORT 08-45: STABLE VALUE FUND RFP/ THIRD-PARTY-ADMINISTRATOR ROLE

Mr. Montagna indicated that with respect to the recently issued RFP for a Stable Fund Manager, three of the four firms submitting proposals were found to be non-compliant with the City's Standard Provisions. Mr. Montagna indicated that as a result staff's recommendation to the Board was to cancel and re-issue the RFP. He further stated that the common provision which appeared to have posed the greatest difficulty for these firms concerned Minority and Women Owned Business Outreach (MBE/WBE). He indicated that he had spoken with each firm and determined that the failure to meet the requirement resulted from a fundamental misunderstanding of its requirements.

Ms. Whelan asked what resources were provided to vendors to help them understand the requirements. Mr. Montagna indicated that the City held mandatory pre-proposal conferences in which Bobbi Jacobsen, the Personnel Department's resident contracts expert, reviewed all Standard Provisions requirements in detail, including MBE/WBE requirements. Ms. Whelan expressed her concern regarding having staff spend additional time re-issuing RFPs. Ms. Smith indicated that sometimes the people attending the conference are not the ones later assembling the response and that appropriate communication of those requirements was key. Ms. Whelan requested that staff do all that it could to impress upon vendors the important of following through with the requirements.

Susan Dalton of Mercer Investment Consulting indicated that a potentially positive result of this situation was that some vendors not previously aware of the provider search might now be eligible to compete. Following this discussion, **a motion was made by Shelley Smith, seconded by Michael Perez, approving cancellation of the August 22, 2008 Request for Proposal (RFP) for a Stable Value Fund manager and approve its immediate re-issuance; the motion was unanimously adopted.**

Mr. Montagna next indicated that one of the firms responding to the original RFP was the Plan's Third-Party Administrator (TPA). He indicated that the staff report raised some concerns regarding having a TPA assume both the role of Plan administrator as well as investment provider. Mr. Montagna stated that when the Plan unbundled in 1999 one of the goals of restructuring was to remove TPA incentives to recommend any specific investment options offered within the Plan. He further stated that he had contacted Deputy City Attorney Richard Bobb regarding whether conflict-of-interest concerns existed with this situation, and that Mr. Bobb had replied that upon consultation with the City Attorney's ethics expert, there was no direct conflict of interest given the fact Great-West cannot advise participants where to invest their money, but that an appearance of conflict-of-interest could exist and the Board was free to exclude its TPA from competing on that basis.

Kent Morris of Great-West Retirement Services asked to address the Board. He indicated that he understood staff's concern around Great-West proposing an investment offering but that the product's fees were fully transparent. Additionally, he indicated there would be no incentive to any Great-West employee for having a participant move funds into the stable value fund. He also stated that other public defined contribution plans have used TPAs as investment providers. Finally, he stated that Great-West derives revenue from participant loans and thus has compensation incentives even under the existing structure of the Plan.

Ms. Smith replied that the Board probably would not be having this discussion if the Plan did not have its institutional history with its former providers. She stated she did not believe there was a conflict of interest. She indicated that the Board could make a decision to exclude the TPA out of an abundance of caution on the issue of appearance, but that she was skeptical whether that was required in this instance. Ms. Bhatia indicated she concurred with Ms. Smith's comments, and suggested that if Great-West was awarded the contract it might be possible to structure the contract with provisions to help guard against a conflict-of-interest.

Mr. Perez indicated that this was a difficult situation but that he agreed with staff's recommendation. He stated that participants are looking for guidance from Great-West representatives regarding investment selections which makes it difficult to avoid the appearance of conflict-of-interest. Mr. Kraus asked if this situation had been addressed in the past. Mr. Montagna replied that this specific issue had not. Mr. Kraus asked if the RFP could be written to inquire as to whether a vendor had been involved in any legal issues/complaints. Mr. Montagna replied that RFPs already routinely include this question.

Ms. Whelan indicated that there was a recommendation before the Board and asked if any Board member wished to make a motion. A motion was made by Michael Perez, seconded by Kurt Stabel, to have the Board take a position that in order to prevent the appearance of a conflict-of-interest and to promote the neutral and unbiased communication of investment options to Plan participants, any firm serving as the Deferred Compensation Plan Third-Party-Administrator (TPA) would not simultaneously be permitted to be a Plan investment provider; the motion failed by a vote of 3-3 (Perez, Stabel and Whelan in favor; and Smith, Kraus and Bhatia opposed).

There was some further discussion as to whether any additional action was needed before issuing the RFP to make clear that Great-West would be permitted to submit a proposal. Mr. Montagna indicated that the RFP would be issued under the same terms as it had been previously and therefore no additional action was required by the Board.

8. BOARD REPORT 08-46: RUSSELL 2000 INDEX AND MID-CAP INDEX FUNDS

Susan Dalton presented findings regarding Mercer's evaluation of responses to the RFP for a Russell 2000 Index Fund manager. She indicated that State Street Global Advisors scored higher than BlackRock in the overall evaluation. She noted that both firms had difficulty with the Organizational Strength and Continuity portion due to BlackRock's President stepping down in the first quarter of 2008 and State Street acquiring a new CIO and CEO in 2008.

Ms. Dalton indicated that both firms offered commingled funds and daily valuation. She stated that State Street had an advantage as a result of the $8 billion in assets managed under this mandate, whereas BlackRock had $367 million. She indicated both firms had strong management teams which had been together for a number of years. She stated the investment approach for each firm slightly varied, with BlackRock using optimized sampling while State Street used a full replication strategy. She stated that both firms use futures for liquidity reasons.

Ms. Dalton stated that in terms of performance both firms scored similarly, but that State Street had an advantage as to fees which were 0.06% per annum. She stated BlackRock had more volatility in its tracking error and higher long-term tracking error than State Street for three and five year tracking. She further noted some regulatory issues affecting State Street but stated she did not believe these related to administration of the Fund.

Ms. Smith indicated that these results appeared to demonstrate a clearly superior proposal for State Street. As a result, **a motion was made by Shelley Smith, seconded by Sangeeta Bhatia, to approve the re-selection of State Street Global Advisors as the Plan's Russell 2000 Index Fund manager; the motion was unanimously adopted.**

9. BOARD REPORT 08:47: PROPOSED REVISIONS TO ELECTIONS POLICY

Based on discussion at the October 2, 2008 Plan Governance and Administrative Issues Committee meeting, staff member Ashley Stracke indicated that staff was first recommending that the Board's Election Policy include section headings in order to provide greater clarity for discussion of policy and potential amendments. Mr. Montagna added that the Board had previously adopted this policy at the time elected positions were created on the Board but had not revisited the policy since, and so in part staff's recommendations were intended to clean up the governing document.

Ms. Stracke next indicated that staff was recommending inclusion of an amendment specifying that Employee I.D. numbers rather than Social Security Numbers be used to identify Department of Water and Power (DWP) participant ballots. Ms. Bhatia indicated that DWP employees do not use Social Security Numbers and that Employee ID numbers would be preferable.

Ms. Stracke next indicated that staff was proposing including a section in the policy concerning reporting of gifts related to third party candidate support, in response to questions raised by Board member Richard Kraus. Mr. Montagna indicated that Mr. Kraus' question concerned whether a reportable gift event might occur if a third party spent funds on behalf of a candidate in excess of annual gift limits applicable to that entity. Mr. Montagna stated that the City Attorney's Office had responded by indicating that the support might be considered a gift to the extent there was coordination between the candidate and the third party. Mr. Kraus added that his concern was that candidates be made aware of this in some fashion.

Ms. Smith indicated her belief that this discussion was not appropriate for the Board's policy. Ms. Whelan indicated her support for not including it in the policy given that the information provided was not very substantive. Mr. Montagna indicated that the intent of the two Committee members, Eugene Canzano and Bill Stein, who had developed this recommendation, was simply to help make candidates aware of this potential issue without necessarily attempting to offer guidance on it.

Mr. Kraus indicated that elected officials are given guidance and he believed that Board members should be given guidance as well. Ms. Smith replied that obligations for elected officials like City Council members were different than those for members of administrative bodies such as the Board. Mr. Kraus suggested that some type of orientation be provided to potential candidates.

Ms. Whelan indicated that neither staff nor the Board have expertise with this subject and therefore it would not be appropriate for either to attempt to interpret State rules. Mr. Stabel indicated that he was not aware of this issue when he ran for his position and he believed someone should be providing information. Ms. Whelan raised the possibility of the City Clerk providing assistance in educating candidates. Ms. Smith indicated that she did not expect the City Clerk would accept this responsibility and did not believe it was their responsibility either. Mr. Kraus indicated that assistance did not necessarily need to be provided as part of the election policy or by staff, but should be provided somewhere.

Discussion turned to a proposal to amend Section D, Paragraph 4 to specify a lower number of required signatures for the nomination of candidates separated from City service. Mr. Montagna indicated that the Committee members believed that 100 to 200 signatures was too high of a requirement for this category but had not developed a recommendation for a specific number and believed the full Board should weigh in on the matter. Mr. Montagna indicated that Mr. Stein and Mr. Canzano had considered as few as five to ten signatures.

Ms. Smith stated her belief that the retiree seat should be self-nominated. Mr. Montagna replied both Mr. Stein and Mr. Canzano felt there should be some modest requirements involved with the candidacy. Ms. Whelan indicated that she believed a modest requirement was reasonable, and that if a potential candidate did not know at least five-ten participants in the Plan it was questionable whether they could make a legitimate claim to be representing the constituency. Ms. Bhatia indicated that at DWP the retiree organization typically endorses its representative.

Following this discussion, Ms. Whelan observed that there did not appear to be a consensus developing and that it would probably make sense to defer this issue until at least one of the Committee members was present to share the Committee's thinking. As a result, staff was requested to hold this item for a future meeting at which one or more Committee members who had participated in the original discussion was available for a regular Board meeting.

10. BOARD REPORT 08-48: STAFF REPORT

Ms. Zuvich stated that the Treasury Department had announced that the contribution limits for Section 457 plans would increase for 2009. She explained that limits for participants under age 50, over age 50, and those in Catch-Up would increase to $16,500, $22,000, and $33,000 respectively. Ms. Zuvich indicated that a payroll flyer would be distributed to all City Departments for the first payday in December.

Ms. Zuvich next discussed the Plan's accrued leave and hardship activity. She stated that during October 2008, thirteen participants contributed $196,750 of accrued leave. In addition, she stated that nineteen hardship cases were submitted to Great-West. She indicated that thirteen cases were approved, four were denied, and two were pending further documentation.

Ms. Zuvich concluded the report by stating that there would be a Pensions & Investments East Coast Defined Contribution Conference in February 2009. Mr. Montagna indicated that Board action would be necessary to approve attendance if a Board member was interested in attending. . **A motion was then made by Shelley Smith, seconded by Sangeeta Bhatia, to receive and file the submitted staff report; the motion was unanimously adopted.**

11. REQUEST FOR FUTURE AGENDA ITEMS

None.

12. NEXT MEETING DATE – December 16, 2008

13. ADJOURNMENT

A motion was made by Shelley Smith, seconded by Kurt Stabel, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 11:20.

Minutes prepared by staff members Steven Montagna, Natasha Zuvich, and Ashley Stracke.