

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF DECEMBER 18, 2007 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

Board Members:

Present:

Maggie Whelan, Chairperson
Bill Stein, Vice-Chairperson
Eugene K. Canzano
Michael J. Carter
Joya C. De Foor
Richard Kraus
Rick Rogers

Staff:

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

1. CALL TO ORDER

Maggie Whelan called the meeting to order at 9:06 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

Three corrections to the minutes were noted by Board members Kraus and Stein. **A motion was then made by Richard Kraus, seconded by Eugene Canzano, to approve the minutes of November 27, 2007, as amended; the motion was unanimously adopted.**

4. HARDSHIP WITHDRAWAL APPROVALS

Mr. Kraus noted a typographical correction in Case No. 07-93 and requested a clarification of the financial emergency/unforeseen event in Case No. 07-96, which was provided by Natasha Zuvich. **A motion was then made by Bill Stein, seconded by Mike Carter, to approve full withdrawals in Case Nos. 07-93, 07-94, 07-95, 07-96, 07-97, 07-98, and 07-99; and partial withdrawals of \$9,864 (net) in Case No. 07-87; and \$7,916 (net) in Case No. 07-92 (with authority for staff to distribute additional amounts based on continued documented income loss); the motion was unanimously adopted.**

5. HARDSHIP WITHDRAWAL NON- OR CONTESTED APPROVALS

Case No. 07-77 (Re-consideration of Case No. 07-77 occurred following item 7 on the agenda.)

The applicant was not present. Richard Bobb indicated that no Board action was required as the matter had already been voted upon at the Board's November 27, 2007 meeting.

6. INVESTMENT PROVIDER PRESENTATION: PIMCO

Jason Kezelman, Vice President with PIMCO, was present to review performance information for the PIMCO Total Return Fund. Mr. Kezelman began by reviewing recent market macro events related to sub-prime losses and their impact on credit markets. He indicated that the PIMCO Total Return Fund had been positioned early for such events, and that the Fund held no sub-prime collateralized debt obligations (CDOs), structured investment vehicles (SIVs) or other of the troubled securities which had been discussed in the financial press. He further stated that the Fund did not hold any low-quality sub-prime mortgages.

Joya De Foor asked if the Fund had exposure to any of the banks or lenders such as Countrywide which had been affected by the credit crisis. Mr. Kezelman responded that the Fund did not hold any Countrywide debt but did have exposure to some high-quality corporate holdings. He further stated that high-quality sub-prime represented approximately 1.5% of the total portfolio.

Mr. Kezelman then proceeded to review performance data for the Fund. He noted that the Fund had substantially outperformed the benchmark index year-to-date as well as since its inception in the City's Plan 1/31/07. He indicated that factors which had helped included yield curve positioning, an under-weight position on corporates, and approximately 6% exposure to non-U.S. currencies.

He stated that the Fund continued to be positioned anticipating a U.S. economic slowdown in 2008. He indicated that the big issue was the downturn in housing and the belief that the downward cycle still had more time to go and would impact consumer spending as more mortgages re-set. He stated that the Fund's investment manager, Bill Gross, had indicated his belief that the Federal Reserve would need to continue cutting rates to a range of 2.75-3.25. He indicated that the Fund was avoiding Treasuries due to their recent strong rally and was finding some value in high-quality mortgages and agency-backed investments. He stated that emerging markets bonds were deemed attractive as well, and that the Fund had a 10% ceiling on how much emerging market debt it could hold. Mr. Kezelman then briefly reviewed some personnel changes at PIMCO, including the addition of Alan Greenspan to the organization and the return of Mohamed El-Erian as co-CEO and co-CIO.

Mr. Canzano asked if future presentations could include definitions of some of the acronyms used in the presentation booklet, and Mr. Kezelman indicated they could. Ms. De Foor asked if recent coordinated efforts by central banks to improve market liquidity had affected the Fund's strategy, and Mr. Kezelman indicated they did not and that such moves would be viewed as positive for the Fund's investments. He further stated that the impact of the central bank activity was limited and might not address the problem of banks' unwillingness to loan to one another. He stated that the Federal Reserve was struggling somewhat to address the current crisis. Mr. Kezelman's presentation then concluded.

7. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Terry Dennison of Mercer Investment Consulting was present to review Plan investment performance data for the quarter ending 9/30/07. Mr. Dennison began by briefly reviewing the impact of the credit crisis on the financial markets, and stated that although housing and the automobile industry, which represented 9% of gross domestic product, appeared to have been affected by these problems, thus far the rest of the economy had not sustained substantial impact. He indicated that the real concern at the moment appeared to be inflation.

He then indicated that the Board should be aware that one of the Plan's investment managers, State Street Global Advisors (SsgA) had experienced losses in one of its money market funds of approximately 44% and that this matter was expected to go to litigation. He indicated that this should have no impact on the SsgA index fund part of the City's Plan, but the real impact might be longer term, as the firm's bonus system for its managers was tied to the firm's overall performance and thus could lead to personnel retention issues.

Mr. Dennison then reviewed the Plan's management fees, indicating that the institutional products offered by the City's Plan represented substantial savings over equivalent peers within the investment universe. Mr. Canzano requested that the column on the chart detailing the fee comparison be re-labeled to indicate that it represented the peer group. Mr. Dennison indicated this would be corrected.

Mr. Dennison next commented on the recently added PIMCO Fund, stating the Fund had substantially out-performed its benchmark. He next commented on the Fidelity Magellan Fund, which he noted was scheduled as a separate item on the Board's agenda. He indicated that although the Fund's performance had improved recently the Board might wish to compare its performance to one of the other large-cap funds offered in the City's Plan, the Hartford Capital Appreciation Fund, which had greatly out-performed Magellan over both the short- and long-term. Mr. Dennison finally commented on the Lazard Mid-Cap Fund, which he stated had exhibited weak performance relative to its benchmark but not relative to its peers, which had all been significantly exposed to financial stocks.

Mr. Dennison's presentation then concluded.

10. BOARD REPORT 07-47: PARTICIPANT PRESENTATION RE FIDELITY MAGELLAN *Item 10 was taken out of order so that the consultant could be present for the discussion.*

Plan participant Samuel Sayah was present to request that the Board reconsider its decision to eliminate the Fidelity Magellan Fund. Mr. Sayah began by indicating that he had obtained signatures from 98% of the officers at the West Valley station supporting retention of the Magellan Fund. He stated that as of that day the Magellan Fund's performance was 2% ahead of the performance for the Hartford Capital Appreciation Fund and was matching the three-year performance returns for its benchmark. He noted further that the Fund had the lowest administrative fee of the City's large-cap funds and had a much better investment management system than another of the City's offerings, Growth Fund of America.

Ms. Whelan asked for staff to comment on the matter. Mr. Montagna indicated that one of the factors leading to the Board's decision to terminate Magellan was the overall redundancy in the City's large-cap offerings, and that the Board had previously stated its commitment to begin consolidating Plan investment options in order to support more effective asset allocation decisions by Plan participants. He indicated that notwithstanding this the Board, through its Investments Committee, was moving cautiously in this regard and ensuring that Plan participants were informed and part of the decision-making process, unlike many of its government plan sponsor peers who had made similar consolidation decisions more unilaterally and without obtaining participant feedback. Mr. Montagna indicated that notwithstanding recent performance improvement by Magellan, staff's position was that elimination of the Fund was the appropriate step to meet a larger and more fundamental objective for the Plan as a whole.

Mr. Rogers asked if the Plan's consultant could provide additional information comparing the Hartford Capital Appreciation Fund with the Magellan Fund, and Mr. Dennison indicated he would do so. Mr. Rogers then commented that he continued to support the decision to consolidate fund offerings, and that he was still concerned that the Magellan Fund had changed its focus so much in recent time periods. **A motion was then made by Rick Rogers, seconded by Eugene Canzano, to receive and file the staff report; the motion was unanimously adopted.**

8. BOARD REPORT 07-45: HARDSHIP WITHDRAWAL PROCESSING

Mr. Montagna indicated that this report contained a recommendation from the Plan Governance & Administrative Issues Committee with respect to reassigning the primary responsibility for processing hardship withdrawals from Personnel Department staff to the Plan Administrator. Mr. Montagna indicated that this recommendation was based on the Committee's research into other plans as well as into the process used by Great-West to process hardship requests for other clients. He stated that the Committee found that transferring the function to the Plan Administrator would substantially improve customer service and processing time for hardship applicants, create more consistency in application of IRS rules since Great-West has standardized its process across all its clients and has its own legal resources to draw on, and would also improve customer service for Plan participants as a whole by freeing up Personnel Department staff to spend more time in other Plan functions.

Mr. Canzano indicated that the factor that particularly swayed him on this change was the improvement in customer service to hardship applicants as well as the interview conducted with Great West. He indicated that in this interview he had posed some situational questions to Great-West staff regarding how they would handle certain hardship cases and that their responses suggested they would take a similar interpretation to the Board's. He further indicated that he believed this approach would reduce costs for the Plan over the long run.

Mr. Stein indicated that he believed the Committee's proposal did not have any downsides, and stated that he was also particularly persuaded by the interview with Great-West. He indicated that the additional cost to the Plan for hardship processing would be more than offset by the more effective use of City staff. He noted that many other large, comparable plans have their Plan administrator perform this function and do not do it in-house.

Ms. De Foor indicated her support of the recommendation. She added that an additional benefit would be that this approach would reduce the number of individuals who would have to have their cases heard in public sessions, which she believed was a much more compassionate approach. Shelley Smith, former Board member, was in attendance and spoke in favor of the recommendation, noting that hardships had always been one of the most difficult functions performed by the Board and that she believed this approach represented a better solution for applicants.

Mr. Kraus asked what kind of oversight of Great-West would be provided, and Mr. Montagna indicated that regular reporting on applications and outcomes could be provided to the Board. Rick Kramer of Great-West Retirement Services was in attendance and indicated that the Board could also review some random cases and that sample audits of hardship reviews were something Great-West did for its other clients. Mr. Kraus asked whether the work could be continued to be performed by the Personnel Department if additional staff were hired. Maryanne Keehn indicated that the work could be performed with existing staff but that the point of the recommendation was to improve customer service as well as utilize the broader experience that Great-West could provide since it provides this service for many of its clients.

Following this discussion, **a motion was made by Richard Kraus, seconded by Mike Carter, to approve reassigning hardship withdrawal processing from Personnel Department staff to Great-West Retirement Services, and further authorize the Board Chairperson to execute the necessary contract amendment with Great-West to provide for this service; the motion was unanimously adopted.**

9. BOARD REPORT 07-46: BUDGET STATUS REPORT/REIMBURSEMENTS

Mr. Montagna indicated that this was the first budget report reflecting the higher and expanded reimbursement methodology recently approved by the Board, and included for the first time reimbursements to the City Attorney's Office and Department of Water and Power. He stated that each quarterly report would include five-year forecasts for projected revenue and expenses for the Plan. He stated that the current projection showed the Plan's surplus gradually coming down closer to the targeted reserve amount of \$1.5 million previously identified by the Board. He stated that the impact of the fee reduction was about what had been expected, but two factors which had largely offset one another were the size of recent cost-of-living increases and stronger than expected growth in Plan assets and participation.

Following this review, **a motion was made by Eugene Canzano, seconded by Bill Stein, approving reimbursements for the quarter ending 09/30/07 from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for \$119,969.78; City Attorney for \$23,921.78; and DWP for \$2,706.66; the motion was unanimously adopted.**

11. BOARD REPORT 07-43: STAFF REPORT

Mr. Montagna briefly reviewed the various items included in the report. He noted that interest in the Accrued Leave Deferral Option had been strong and was expected to increase with the release of a special mailing to Plan participants which would be received shortly by Plan participants. Board members asked that discussion of this option be included in retirement seminars.

12. GREAT-WEST COMMUNICATIONS REPORT

Gary Robison of Great-West Retirement Services briefly reviewed the status of various communication projects. He stated that Great-West was developing a payroll stuffer regarding the Saver's Tax Credit, which could be particularly beneficial to lower-income employees.

13. REQUESTS FOR FUTURE AGENDA ITEMS

Ms. De Foor asked if there could be some discussion regarding the payroll system and Catch-Up contributions. Mr. Montagna indicated he would follow up with Ms. De Foor to obtain further information on her concerns.

14. NEXT MEETING DATE – JANUARY 15, 2008

15. ADJOURNMENT

The meeting adjourned at 10:40 a.m.