

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
SPECIAL MEETING OF DECEMBER 29, 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
Sangeeta Bhatia
Cliff Cannon

Not Present:

Michael Perez
Shelley Smith
Maggie Whelan, Third Provisional Chair

Staff:

Personnel: Steven Montagna
 Natasha Zuvich

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:10 a.m. Mr. Canzano indicated that due to the fact that he was not feeling well he was requesting that Vice-Chairperson Richard Kraus chair the meeting. Mr. Kraus indicated that since a quorum was not yet present he would take the agenda items out of order. He further stated that once a quorum was established he would first address those items requiring Board action in the event that Mr. Canzano needed to leave the meeting early and the Board would lose its quorum.

2. PUBLIC COMMENTS

None.

10. SPECIAL ELECTION – PENSIONS REPRESENTATIVE

Mr. Montagna indicated that staff had been notified on November 5 that the incumbent Pension representative on the Board would be resigning. He stated that according to Board policies the Plan was required to run an election within 90 days if there was more than one year left on the original term, which was true in this case. Mr. Montagna

stated most of the process had already unfolded, that ballots would be mailed on January 8th and results certified by the City Clerk by February 5th, meaning that the new Board member would be eligible to attend the Board's February meeting.

Mr. Kraus asked if staff was aware of the reason that the prior incumbent had resigned his position. Mr. Montagna indicated that he was not able to disclose this information. Mr. Kraus noted that the item would be considered received and filed.

Sangeeta Bhatia entered the meeting following consideration of this item, thus establishing a quorum.

3. MINUTES

Mr. Kraus indicated that he had two minor typographical corrections to the minutes which he would provide staff separately. **A motion was then made by Sally Choi, seconded by Cliff Cannon, to approve the minutes of October 20, 2009, as amended; the motion was unanimously adopted.**

5. BOARD REPORT 09-51: J.P. MORGAN CERTIFICATES OF DEPOSIT

Mr. Montagna indicated that at the prior Board meeting staff had been requested to work with the Board's consultant, Mercer Investment Consulting, to review the proposal from J.P. Morgan/Chase regarding early liquidation of the CDs. Mr. Montagna indicated that Mercer's analysis concluded that there would be some groups of participants who would be negatively impacted by the offer and that the Plan was not in a position, in the current interest rate environment, to be able to place them in an equivalent investment and guarantee that they would be made whole for the interest they otherwise would have earned. Mr. Montagna added that concurrently staff had asked J.P. Morgan/Chase whether it was willing to extend the offer past the end of 2009, and J.P. Morgan/Chase replied that it was not. He indicated that because of the interest rate issue and for the additional practical reason that there was insufficient time to take an alternative course of action, staff and Mercer were recommending that the offer be rejected.

Mr. Kraus asked if some participants would have been advantaged by the offer. Susan Dalton of Mercer Investment Consulting replied that there were a few groups of participants who would have received the full amount of interest up front, but that these groups were in certificates with lower interest rates. She indicated that the groups in the longer-term certificates with higher rates were the ones that could not be guaranteed an equivalent rate of return because interest rates were presently so low. Ms. Choi asked if J.P. Morgan/Chase was required to honor the original rates and terms, and Ms. Choi replied that they were. Mr. Cannon asked what happened to the certificates as they expired, and Mr. Montagna indicated they would default into the FDIC-Insured savings account unless the participants elected something different.

Following this discussion, **a motion was made by Gene Canzano, seconded by Sangeeta Bhatia, to reject the proposal from J.P. Morgan Chase to provide prorated interest on terminated Certificates of Deposit; the motion was unanimously adopted.**

8. BOARD REPORT 09-52: DEFERRED COMPENSATION PLAN BUDGET

Mr. Montagna indicated that staff was recommending that the Board adopt a budget for the 2010 Plan year. He stated this was the first time the Board was being asked to adopt a budget and that most of the information presented was information also presented to the Board in quarterly budget reviews, but that an annual budget improved transparency and provided a more accurate view of where the Plan's accounts would be in one year's time.

Mr. Cannon asked why there were two vacant staff positions if Plan positions were special funded. Mr. Montagna replied that currently the City's general budget situation and the operational needs of the Personnel Department created limitations on the ability to fill vacant positions. He indicated that filling the vacancies would require taking staff from other more critical functions. Ms. Choi asked why the Department couldn't take a transfer from outside the Department. Mr. Montagna replied that it would be more appropriate to postpone this discussion for a time at which Department management could be present. Ms. Choi asked if this matter could be calendared for a future meeting.

Following this discussion, **a motion was made by Cliff Cannon, seconded by Eugene Canzano, to adopt staff's proposed budget for the 2010 calendar year; the motion was unanimously adopted.**

9. BOARD REPORT 09-53: CALIFORNIA DEFINED CONTRIBUTION NETWORK

Mr. Montagna indicated that staff was recommending approval for funding for one staff member to participate in a regional meeting of an ad hoc group that had recently been formed of large Section 457 plan sponsors in the State of California. Mr. Cannon questioned whether meal expenses were part of the request, and Mr. Montagna indicated they were included in miscellaneous expenses. He further indicated that total expenses should be approximately \$350. Following this discussion, **a motion was made by Sally Choi, seconded by Cliff Cannon, to approve the necessary funding for one staff member to attend a proposed meeting of the California Defined Contribution Network in Sacramento, California, March 23-24, 2010; the motion was unanimously adopted.**

4. HARDSHIP APPEAL

Natasha Gameroz indicated that in Case No. 09-01 the applicant was applying for a full withdrawal in order to reduce his debt. She stated that the applicant had previously received a hardship distribution to bring him current on his mortgage and was eligible to

receive an additional distribution because he was again behind on his payments, but that he wished to withdraw the entire amount. She indicated the applicant had previously taken out two loans from his account. She stated the applicant's situation resulted in part from a loss of overtime due to a reduction of hours at his Fire station, as well as financial assistance he had provided to family members. She stated, however, that the amount of hardship distribution he was already eligible for had made him whole with respect to the wage loss.

Board members inquired as to the circumstances under which loans could be taken or modified. Ms. Gameroz indicated that participants were limited to two loans up to 50% of the participant's account balance or \$50,000, whichever is less, and that the applicant had already taken out all he was eligible for. In response to a question from Ms. Choi, Mr. Montagna indicated that Federal tax rules do not allow a participant to modify or increase the amount of a prior loan.

Mr. Kraus questioned whether an additional withdrawal would address the underlying problem or merely postpone its resolution. The applicant replied that he believed a full withdrawal would allow him to eliminate sufficient debt to restore financial balance. Ms. Choi asked if Federal regulations prohibited a withdrawal for a prospective emergency. Mr. Montagna indicated this was correct. Mr. Canzano indicated that the applicant could apply for withdrawals should he continue to fall behind on his mortgage, but the regulations prohibited a lump sum withdrawal in anticipation of a future emergency.

Following this discussion, **a motion was made by Cliff Cannon, seconded by Sangeeta Bhatia, to adopt the staff recommendation not to approve additional disbursement exceeding the applicant's financial emergency in Case No. 09-01; the motion was unanimously adopted.**

5. QUARTERLY INVESTMENT PERFORMANCE REVIEW/ STATE STREET COMMENTARY

Susan Dalton of Mercer Investment Consulting was present to review investment performance data for periods ending September 30, 2009. She first provided a brief review of the Plan's core funds, indicating that two under-performing funds (Hartford Stock and Hartford Advisers) had been eliminated on November 2, 2009, and a third, the Lazard Mid-Cap Fund, had previously been placed on Watch status by the Board. She indicated that the Fidelity Diversified International Fund was noted in the report as having Unsatisfactory performance, but its performance had improved and she would have more details on that later.

She next reviewed Plan assets and noted that they had recovered with the markets to a current \$2.7 billion. She indicated the median account balance and stated that the largest grouping of accounts remained at levels below \$25,000. She then briefly reviewed Plan holdings by fund, noting that the Plan's Stable Value Fund held 23% of assets followed by the Vanguard Institutional Index Fund with 11%.

Ms. Dalton next reviewed fees, indicating that investment fees were well below average in all categories excluding the DWS EAFE Equity Index Fund. In response to questions from the Board, Ms. Dalton indicated that the indication in the report that Vanguard Mid-Cap Index Fund fees were higher than average was incorrect.

She next discussed each of the Plan's holdings and performance. She stated that the Stable Value Fund and the Plan's bond funds were performing well, and that the asset allocation funds were all performing as expected. She indicated that two of the three Hartford funds had been eliminated from the Plan. She stated that Growth Fund of America continued to perform well but that Mercer would continue to monitor the firm's ability to handle its asset growth. She stated that the Lazard Mid-Cap Fund had registered some recent improvement in its numbers but that Mercer had downgraded the Fund to a B+ rating because of changes in the firm's research structure and investment team.

With respect to the Fidelity Diversified International Fund, Ms. Dalton referred the Board to a handout which indicated that as of 12/23/09 this Fund had improved its performance across all time periods. She indicated that this was a result of one very poor quarter falling off the review period and one extremely positive quarter being added in. Mr. Cannon questioned how it was possible for the fund's rating to improve that dramatically. Ms. Dalton replied that this could happen in situations where such an extreme variance existed between the eliminated quarter and the one added on. Ms. Dalton indicated that Mercer continued to be concerned about Fidelity's incoherence with respect to capacity management in all of its funds, but that it retained its "A" rating on the firm based on its confidence in the fund manager.

Mr. Cannon asked for comments regarding the fact that the two eliminated Hartford funds showed positive numbers on the summary page while the Plan was retaining two funds with negative numbers. Ms. Dalton indicated that the Hartford funds' numbers had been poor for an extended period of time when they were placed on Monitor/Watch and subsequently eliminated, that the Lazard Mid-Cap Fund was now on Watch, and that the Fidelity Diversified International Fund was with more recent data beating its benchmark across all time periods. Mr. Kraus indicated that the Hartford funds had also been eliminated because they were redundant of other large-cap funds in the City's Plan.

Mr. Kraus asked if it was possible to include Mercer's internal ratings in future reports. Ms. Dalton indicated she would look into that but those ratings were considered proprietary and confidential which was why they were not customarily included in the quarterly reports. Mr. Kraus asked if it was possible to compare the passively managed funds not just to their respective indices but to the appropriate asset class universe as well. Ms. Dalton indicated she believed this could be done. Mr. Kraus asked if it was possible to backdate the comparisons of the asset allocation funds; Ms. Dalton indicated she would investigate this. Mr. Kraus asked if it was possible to add in the summary results from the prior quarter for comparison purposes. Ms. Dalton indicated she believed this was possible.

Ms. Dalton next discussed a memorandum included with the Board package which commented on recent State of California litigation against State Street Corporation regarding foreign exchange trades for two California pension funds. Ms. Dalton indicated that this had no impact on the City's SSgA Russell 2000 Index Fund, which is managed by a subsidiary of State Street and for which the types of trades described in the litigation were not applicable. Mr. Kraus asked if a firm's overall corporate well-being was considered in evaluating its capabilities, and Ms. Dalton replied that this information was taken into consideration particularly as it might relate to the overall viability of the firm to continue providing its services. The presentation then concluded.

7. GREAT-WEST QUARTERLY REPORT AND PLAN SPONSOR SURVEY

Rick Kramer, Vice-President, and Gary Robison, Local Account Manager, both of Great-West Retirement Services, were present to review statistics for the Deferred Compensation Plan for the quarter ending 09/30/09. Mr. Kramer began by indicating that Plan assets continued their recovery in the third quarter and had reached \$2.7 billion. He indicated that participation had grown to 40,590 participants. He stated that there was very little of significance in terms of participant transfer activity, although assets in the J.P. Morgan/Chase CDs fell by \$11 million as more CDs matured and were not renewed. He stated that there had also been a \$7.5 million outflow from the Plan's Stable Value Fund and corresponding \$9.9 million inflow into the Plan's actively managed bond fund.

Mr. Robison spoke next, briefly summarizing the Plan's participant contact and group meeting activity. He indicated that group meeting numbers had been boosted by the Animal Services enrollment effort. He then indicated that Great-West was going to be issuing a Plan sponsor survey to solicit feedback from Board members and staff regarding Great-West's services. Mr. Kraus indicated that the recommendation from Great-West was to keep this information confidential and asked if Board members had any concerns about this. No further comments on this matter were received from the Board. The presentation then concluded.

11. BOARD REPORT 09-55: ANIMAL SERVICES ENROLLMENT INITIATIVE

Natasha Gameroz summarized the results of the Department of Animal Services enrollment campaign, indicating that the effort had increased total participation in the Department from 39% to 48%, or an increase of 33 members. She stated that although this fell short of the target 56 additional members, given the timing of the campaign which was in the midst of the recent bear market, staff believed that the campaign was still successful.

Ms. Choi indicated the effort was commendable and very successful given the timing challenges. Mr. Canzano and Mr. Cannon indicated they saw the campaign as having been successful as well. Mr. Kraus asked staff to assess the challenges and what lessons had been learned. Ms. Gameroz replied that the challenges were in the

general market conditions, and that many employees asked questions regarding why they should join when investors were losing money. She further indicated that it was sometimes difficult to have employees present for the entire presentation because of their work demands. Mr. Robison added that sometimes the best way to conduct outreach was to join in at the end of a regular staff meeting. The presentation then concluded.

12. BOARD REPORT 09-56: STAFF REPORT

Mr. Montagna indicated he would highlight just a few items. He stated that staff was continuing to work with the City Attorney on procurement process issues and that he expected a report back at the Board's February meeting. He indicated that similarly a report back from the Investments Committee regarding the Plan's investment options should be provided at the Board's February meeting. He stated that the Plan Governance Committee had begun its work on Plan bylaws and that their work was expected to take place over several meetings.

Ms. Choi commented that she appreciated the fact that fiduciary liability insurance was on the agenda of pending issues and that LACERS was in the process of looking into this issue for the LACERS Board. She stated that the results of that review would likely be beneficial to staff's research. Mr. Kraus noted that the report had indicated Great-West was not able to provide the data he was looking for with respect to hardship applications. He asked if it was possible to obtain this information. Mr. Montagna replied that the information could be provided on a custom basis. Mr. Kramer indicated that he would look into the possibility of capturing this data on the system.

13. REQUESTS FOR FUTURE AGENDA ITEMS

None.

14. NEXT MEETING DATE – JANUARY 19, 2010

15. ADJOURNMENT

The meeting adjourned at 11:13 a.m.