

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING FEBRUARY 18, 2014 - 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
Sangeeta Bhatia, Third Provisional Chair
Michael Amerian
Robert Schoonover

Not Present:

Tom Moutes
Ray Ciranna
Margaret Whelan

Staff:

Personnel:

Steven Montagna
Esther Chang
Paul Makowski

Alejandrina Basquez

City Attorney:

Curtis Kidder

1. CALL TO ORDER

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

2. PUBLIC COMMENTS

No public comments were made.

Mr. Canzano acknowledged a retirement announcement for Board member Sangeeta Bhatia. Ms. Bhatia expressed her gratitude for being able to serve on the Board and for the contributions of fellow Board members and staff. She indicated that this may be her last Board meeting as she plans to retire in March.

3. MINUTES

A motion was made by John Mumma, seconded by Ms. Bhatia, to approve the January 21, 2014 Regular Meeting minutes; the motion was unanimously adopted.

4. GREAT-WEST PLAN QUARTERLY REVIEW: PERIOD ENDING 12/31/13

Gary Robison, of Great-West Financial, introduced himself to the Board and indicated that he would be presenting the entire quarterly report on behalf of colleagues not present at the meeting. He began discussion of the Plan Overview section of the presentation and discussed participant contributions. He indicated that additional figures for average participant deferral amounts were reported for the fourth quarter, as previously requested by the Board. Steven Montagna added that the deferral amounts were to be used in the defining of metrics and in the process of reviewing them more closely staff had identified some corrections needing to be made to the methodology. Mr. Robison then discussed the historical participant amounts and indicated that the participation level has stayed relatively flat since 2010. Mr. Canzano commented that the enrollment level staying consistently flat is perhaps not a negative sign when considering the reduction in the City's workforce that occurred over this period.

Mr. Robison next discussed transfer activity and asset allocations for the final quarter of 2013. He noted that the asset allocation by class figures now break out the small and mid-cap amount into separate figures, as previously requested by the Board. He also noted that the contribution allocations now include a distinction of the Roth portion of total contributions for each asset class. Mr. Canzano noted that Roth contributions were strongest in the portfolio options and asked for more information about the members who are electing Roth options. Mr. Robison indicated that younger and newer plan participants tend to elect the Roth option more often. Mr. Mumma asked how the younger and newer plan participants typically invest. Mr. Robison indicated that new and young sworn participants tend to elect the aggressive portfolio options while new and young civilian participants tend to elect moderate options.

Mr. Robison began discussion of the Administrative Overview section of the presentation and indicated that the number of defaulted loans is up by about 2.5 percent over the last quarter. Mr. Mumma asked if the defaulted number includes all defaulted loans for the life of the plan or just the new defaulted loans for the tax year. Mr. Robison indicated that it is a historical count of all defaults, but that he would check on the figure. He next reviewed participant internet statistics. Mr. Montagna noted that the number of logins divided by three would provide the monthly average logins which is a key metric figure and is something that would be included in future reports. Mr. Robison concluded review of the Administrative Overview section by discussing the Online Statement delivery and indicated that the figures reported may be incorrect. He stated that they would check the numbers listed and report back in the next quarter's report.

Mr. Robison then discussed the Local Office Activity section of the report. Mr. Canzano asked how often Great-West staff saw a participant contributing the maximum amount. Mr. Robison responded that it is seen most often with participants nearing retirement. Mr. Montagna added that a report was prepared a few years ago and he believed it indicated that maximum contributors were around 7-8% of participants. Mr. Robison next reviewed the Group meeting frequency and quantities listed in the report. Cliff

Cannon asked why Fire and Police Pensions had such a large number of attendees and zero enrollments. Mr. Robison replied that many were already enrolled and nearing retirement. Mr. Montagna added that some of the meetings listed in the report were pre-retirement meetings and some were enrollment meetings, but that both types of meetings were reported together.

Mr. Robison concluded the quarterly review with discussion of the appendix. Mr. Mumma asked what each column meant, since there were no column headers on the appendix. Mr. Robison indicated that the column titles will be corrected. Mr. Canzano raised a question from a participant about Schwab transactions in which the participant encountered a problem with a margin account requirement when margin accounts are not an option provided by the Plan. Mr. Montagna indicated that staff was aware of the participant's problem and that Great-West was looking into the issue. Mr. Robison added that the participant was recently contacted by a Schwab liaison who is working to resolve the issue but he added that it appeared to be that the participant had a separate outside Schwab account and may have had confusion between the two Schwab accounts.

5. BOARD REPORT 14-07: PROPOSED CHANGES TO INVESTMENT POLICY STATEMENT AND PROPOSED SEARCH SCHEDULE

Mr. Montagna discussed proposed changes in the investment policy statement as approved previously in concept by the Board. He indicated that the report before the Board includes proposed revisions in complete form and also in redline track changes form for comparison to the prior version of the policy. He indicated that the proposed mutual fund search method is an option that the Board may exercise but that the Board will still have the ability to perform a traditional institutional manager procurement based on a finding as to what would best serve Plan participants. He explained that the process would begin by staff and consultant bringing a recommendation to the Board as to whether the search should be a mutual fund search or a procurement search or a combination of both search options. He indicated the Board would then adopt an option to move forward. He then indicated that staff and the consultant would then perform a search and then bring results to the Investment committee, which would then develop a recommendation to the full Board. He said that once the Board makes a final decision it would be communicated to Great West for implementation. He indicated that this process would shorten the overall selection time. He also indicated that the goal moving forward would be to fill the active manager positions not currently filled for this current calendar year. He indicated that passive manager searches would be initiated next year. He explained that this process assumed searches would be repeated after five years.

Mr. Mumma asked about information made available to the public and referenced the following redlined terminology regarding the mutual fund search process on page 11 of the attachment: *"All materials produced in the evaluation, ratings, and ranking of these mutual funds will be public documents and available for review by interested parties."*

Ms. Bhatia added that she did not believe that all documents submitted for a Request for Proposals are formally available during the decision process pursuant to the California Public Records Act. Curtis Kidder indicated that all documents are eventually public documents but that timing was the key concern to be addressed with regards to the California Public Records Act. He cited a court case related to the availability of public records during the selection process and indicated that all selection documents are not required to be made available to the public until the selection process has concluded.

Mr. Montagna indicated that the materials produced by the consultant were summary in nature, publicly made available, and consistent with reports prepared in prior search processes. He indicated that treating the proposal documents as public documents does not create an issue for competitors during the selection process due to the nature of the documentation submitted. Devon Muir of Mercer introduced himself to the Board and added that providing manager search results as a public record for investment manager searches is standard practice and doesn't recognize any competitive concern. Alejandra Basquez asked if it would be best for staff to go back and take a look further into past practices and possibly redefine the terms of the search process. Mr. Canzano indicated that Board and Committee meeting information is made available to the public at the time of the meeting and that any information provided in meetings from potential candidates would become public information. Ms. Bhatia responded in agreement but clarified that supporting materials used to create meeting documents should not be identified as public documents. Ms. Basquez indicated that the California Public Records Act outlines requirements for final documents and asked if it may be best to rely on the Public Records Act for requirements instead of writing specifics into the policy document. Mr. Mumma asked if the sentence regarding public availability could simply be stricken from the policy, as it did not appear necessary. Mr. Kidder agreed that it may not be appropriate to attempt to limit or define applicability of public record law. Mr. Canzano asked for Board consensus on removing the sentence from the document completely, and other Board members indicated their agreement.

A motion was made by Ms. Bhatia, seconded by Mr. Mumma, to remove the sentence which reads, “All materials produced in the evaluation, ratings, and ranking of these mutual funds will be public documents and available for review by interested parties”, from proposed investment policy revisions but to otherwise adopt the proposed changes incorporating the option for a mutual-funds search process for filling investment manager mandates; the motion was unanimously adopted. A second motion was made by Ms. Bhatia, seconded by Robert Schoonover, to adopt staff’s recommendations for moving forward with pending fund searches as detailed in the included schedule; the motion was unanimously adopted.

6. BOARD REPORT 14-08: PROPOSED CHANGES TO STABLE VALUE FUND CONTRACT PROVISION REGARDING INVESTMENT GUIDELINES

Mr. Montagna began a discussion on a proposed change to investment guidelines by describing the two quality standards for investment managers. He indicated that the two quality standards consisted of a minimum quality standard set for a single wrap insurance provider and an average quality standard set for all wrap insurance providers. He also indicated that the quality standards correlate to the credit ratings of companies which rank on a Standard and Poor's list from a high of AAA to a low of BBB-. He then indicated that the proposal to change the investment guidelines, which originated from Galliard Capital Management, is to eliminate the average quality standard. He explained that the reason for this recommendation is because the minimum standard is currently higher than the average standard. Mr. Muir added that Mercer concurred with the proposal from Galliard. He indicated that the average rating for wrap contract providing companies has decreased over the past few years and that there are now fewer companies with ratings above an A- credit quality rating. He also indicated that this proposal will continue to ensure having exposure to the highest rated wrap providers available.

Mr. Schoonover asked for clarification if this action is to lower bond quality ratings in order to retain capacity. Mr. Montagna responded negatively. He clarified that the ratings in discussion were the ratings of the companies providing wrap contracts only, not the ratings of the underlying bonds. He indicated that wrap contracts purchased by these companies are intended to provide insurance which protects the plan. Mr. Muir further added that the insurance companies selected to insure the bond portfolio are a requirement in order for the Plan to provide a Stable Value Fund. Ms. Bhatia asked what added risk, if any, is involved with the proposed change. Mr. Muir replied by indicating that there was not really any added risk in this action but that there is an added benefit of retaining a larger selection pool of wrap insurance providers. Mr. Montagna indicated that the wrap contract insurance as it applies to the Stable Value Fund allows the participant to trade funds in and out of the fund at book value. He added that if a wrap contract was not in place, a participant would be required to trade at market price.

Ms. Bhatia asked if the lower quality ranking companies have enough capacity to cover the aspects of the wrap insurance. Mr. Muir clarified that the rating of all companies has been lowered and indicated that the ability of the companies to perform is not necessarily related to the decrease in the credit ratings. Mr. Mumma asked if the five companies listed for wrap providers were exclusively the decision of Galliard Capital since the contract held between Galliard and the City did not specify a number of wrap contract providers. Mr. Muir responded affirmatively and indicated that the number is dictated by market performance. Mr. Mumma asked if the change was adopted, would the same five be retained short term. Mr. Muir responded affirmatively. Mr. Cannon asked what would happen if no change was made. Mr. Montagna indicated that, under the current rating scale, the wrap contract provider currently used with a rating lower than the standard would be removed causing Galliard to ask the other providers to pick up the balance. He added that if none of the providers would be willing to pick up the balance, the asset would be turned to cash and may reduce the overall rate of return on the fund.

A motion was made by Ms. Bhatia, seconded by Mr. Mumma, to receive and file the report regarding changes to the current contract with Galliard Capital Management to provide Stable Value Fund investment options; the motion was unanimously adopted. A second motion was made by Ms. Bhatia, seconded by Mr. Mumma, to authorize staff to incorporate proposed changes to the contract's "Quality Guidelines" into the draft amendment presently being developed to extend the contract between the City and Galliard Capital Management; the motion was unanimously adopted.

7. BOARD REPORT 14-09: HISTORICAL TRUST FUND SUMMARY

Paul Makowski reviewed the historical budget report and indicated that it reflected actual budget expenditures for 2008 to 2012. Mr. Mumma asked if the historical budget data could be added to the Annual Report for the Plan. Mr. Montagna confirmed that it would be added. **A motion was made by Michael Amerian, seconded by Mr. Cannon, to receive and file the Historical Trust Fund Summary Report; the motion was unanimously adopted.**

8. BOARD REPORT 14-10: STAFF REPORT

Esther Chang reviewed activity for the month of January 2014 and reviewed counter, accrued leave, hardship, loan, and Roth statistics. She then reviewed the project update list for completed and pending staff projects. **A motion was made by Mr. Cannon, seconded by Mr. Amerian, to receive and file the staff report; the motion was unanimously adopted.**

9. REQUESTS FOR FUTURE AGENDA ITEMS

No requests were made.

10. FUTURE MEETING DATES

The next Regular Meeting is set for March 18, 2014.

11. ADJOURNMENT

A motion was made by Mr. Schoonover, seconded by Mr. Mumma, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 10:33 a.m.*

Minutes prepared by staff member Paul Makowski.