

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING JUNE 17, 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
Michael Amerian
Ray Ciranna
Robert Schoonover
Margaret Whelan

Not Present:

Tom Moutes, Second Provisional Chair
Mary Higgins

Staff:

Personnel: Steven Montagna Alejandrina Basquez
Esther Chang
Paul Makowski

City Attorney: Curtis Kidder

1. CALL TO ORDER

Eugene Canzano started the meeting at 9:08 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by John Mumma, seconded by Ray Ciranna, to approve the May 20, 2014 Regular Meeting minutes; the motion was unanimously adopted.

4. QUARTERLY INVESTMENT REVIEW: PERIOD ENDING 3/31/2014

Devon Muir, of Mercer Investment Consulting, began discussion of the quarterly performance report for the first quarter of 2014. He indicated that the general theme of the first quarter was much more subdued returns compared to 2013. He indicated an underlying driver was investors pausing due to strong returns they received in 2013. He indicated that large cap stocks tended to perform better and small cap stocks tended to sell off. He continued by recapping domestic and international equity returns for the first quarter 2014 in comparison to their 1-year performance, and indicated that the first quarter of 2014 reflected declining rates for fixed income returns which resulted in better performance in comparison to past year performance. Mr. Mumma asked about recent inflation and its potential impact on bonds. Mr. Muir replied that an outbreak of inflation would adversely affect bonds as bond prices would fall in connection with higher yields.

Mr. Muir indicated that active manager searches for the mid-cap, small-cap and bond funds would be presented to the Investments Committee soon. He indicated that overall assets at the end of the first quarter were \$4.34 billion, up \$63.8 million quarter over quarter, with \$52 million attributable to gains, \$74 million in contributions, and \$63 million in withdrawals. He indicated the largest asset pool is in the DCP Large Cap Stock Fund option which tracks the S&P 500 and holds 33% of assets. He stated the second largest asset holding option is the Deferred Compensation Plan Stable Value Fund option with 21% of assets, and that the risk based profile funds hold 16% of assets.

Mr. Muir then explained the summary of asset allocation of underlying core fund information and breakdown of investment expenses, indicating that the expense ratios were all below the median with the exception of the EAFE Equity Index Fund, which would be phased out upon completion of revisions to the International Equity Fund and elimination of any passive management exposure in that option. He indicated the weighted expense for the Plan is 18 basis points.

Mr. Muir next individually reviewed the Plan's investment options and updated the Board on their relative performance. He indicated that the FDIC-Insured Savings Account held about 7% of assets and had a positive yield, compared to money markets accounts which had relatively no market yield, and was up 10 basis points for the quarter. He indicated that the Deferred Compensation Plan Stable Value Plan was up 0.50% for the quarter, and the DCP Bond Fund up 1.6%, which was slightly below the benchmark due to underperformance of the active manager, PIMCO. He stated PIMCO had seen some recent significant outflows and experienced some management turmoil, and Mercer was monitoring developments. He reviewed performance of the risk-based portfolios which showed strong performance over the last year of up to 20%. Lastly, he discussed international holdings and indicated that Fidelity Diversified International had a challenging quarter and was down 0.80%. He indicated that underperforming European stocks had been a significant headwind.

5. BOARD REPORT 14-22: PENDING MUTUAL FUND SEARCHES UPDATE

Steven Montagna discussed pending mutual fund search processes and indicated that the consultant, Mercer, was finalizing the initial search results based on search criteria previously adopted by the Board. He indicated that staff would soon reach out to Investment Committee members for scheduling a meeting to review the list and begin the selection process. He then indicated that the review process may take multiple meetings to accomplish and would be arranged as a two-step process. He stated that Committee members would screen the candidate pool established by Mercer to refine the pool to 2-3 candidates. He indicated that Mercer would go back and obtain any additional information requested by the Committee to aid in the decision process from the refined list of candidates, then develop a recommendation to the full Board at the next available Board meeting. He indicated that because of the large number of searches, it was expected that approximately 4-6 Committee meetings would be required to complete the entire process. He indicated that ideally the selection process would conclude around October/November for 2015 first quarter implementation. He then indicated that the search for passive managers would commence later in 2015.

A motion was made by Margaret Whelan, seconded by Mr. Mumma, to receive and file the report updating the Board on pending mutual fund searches; the motion was unanimously adopted.

6. BOARD REPORT 14-23: OFFICIAL RESULTS FOR 2014 BOARD ELECTION

Esther Chang reviewed the 2014 Board election results and congratulated Mr. Mumma for winning the Los Angeles Fire & Police Pensions participant seat and Mr. Amerian for winning the Los Angeles City Employees' Retirement System participant seat. Ms. Chang stated that the full official results were attached to the report and indicated that around 1,700 votes were tallied for the LACERS election and around 600 votes for the LAFPP election. Mr. Canzano asked for clarification about the voter turnout for LACERS and LAFPP, being 12.96% and 5.19% respectively. Ms. Chang responded affirmatively.

A motion was made by Mr. Cannon, seconded by Mr. Ciranna, to receive and file information regarding the official election results of the Active LACERS and LAFPP Participant Representative seats on the Board of Deferred Compensation Administration; the motion was unanimously adopted.

7. BOARD REPORT 14-24: ELECTION OF THIRD PROVISIONAL CHAIR

Ms. Chang discussed the vacancy of the Third Provisional Chair position and indicated that the Board should designate a member to fill the position. Ms. Whelan nominated Robert Schoonover for the Third Provisional Chair officer position. Mr. Mumma indicated a concern with attendance. Mr. Canzano indicated that good attendance is desirable in order to assure a quorum. Mr. Cannon nominated Board member Mr. Amerian for the Third Provisional Chair officer position. Ms. Whelan indicated that attendance for Mr. Amerian might also be a concern. Mr. Amerian indicated he would be

willing to accept the nomination and also indicated that his previous court appearance schedule had created complications which have since been mitigated. Mr. Canzano and Mr. Mumma both indicated support for the nomination of Mr. Amerian.

A motion was made by Mr. Cannon, seconded by Mr. Mumma, to elect Michael Amerian as the Third Provisional Chair; the motion was unanimously adopted.

8. BOARD REPORT 14-25: QUARTERLY BUDGET REVIEW AND REIMBURSEMENT

Paul Makowski discussed the reimbursement for the quarter ending December 31, 2013 and indicated that reimbursement totaled \$155,518 for Personnel Department staff and \$17,193 for City Attorney staff. He then indicated that supporting documentation for reimbursement figures was included on attachments A & B of the report.

A motion was made by Mr. Mumma, seconded by Mr. Cannon, to receive and file the status report on Deferred Compensation Plan budget accounts for the quarter ending 12/31/2013; the motion was unanimously adopted. A second motion was made by Mr. Ciranna, seconded by Mr. Cannon, to approve quarterly reimbursement from the Deferred Compensation Plan Reserve Fund account to the Personnel Department and City Attorney; the motion was unanimously adopted.

9. BOARD REPORT 14-26: PLAN DOCUMENT REVIEW AND ACTION PLAN

Ms. Chang reviewed upcoming plans for reviewing the Plan Document and potential changes to process related to Beneficiary Designation and Claims, In-Plan Roth Conversions, Return to Work Retirees, and other areas such as Hardships and Qualified Domestic Relations Orders. Mr. Mumma asked if the Plan Document currently allows for Roth conversions when someone separates from City service. Ms. Chang responded affirmatively. Ms. Chang then indicated that proposed Plan Document revisions would be reviewed by the Plan's tax counsel before returning to the Board for a recommendation. Mr. Canzano asked about the contractual work of the tax counsel. Curtis Kidder responded that the tax counsel, Steptoe and Johnson, had been under contract for about a year and had worked on various projects with staff, including an earlier training presentation to Board.

A motion was made by Mr. Mumma, seconded by Ms. Whelan, to receive and file information regarding staff's proposed plan for a procedural and compliance review of the Plan Document; the motion was unanimously adopted.

10. BOARD REPORT 14-27: PLAN COMMUNICATIONS UPDATE

Mr. Makowski began discussion of communication activity for the quarters ending 12/31/2013 and 3/31/2014 and indicated that the majority of communication activity revolved around the late October 2013 launch of the new website. He then indicated

that staff was still working on reworking plan communication and informational flyers in the new design theme. Mr. Montagna then discussed plans for National Save for Retirement Week and indicated that staff would prepare a proposal for a campaign which would be presented to the Board at an upcoming meeting. He indicated that the campaign would mainly focus around the retirement income projection calculator and may include an incentive program for participants to use the calculator and report their results. He indicated that the objective would be to collect more data from participants and to increase web usage.

Mr. Cannon asked if retirees could be included in this effort. Mr. Montagna indicated that staff would look into including something unique for retirees as part of this National Save for Retirement Week outreach effort. Mr. Mumma indicated it would be valuable to provide some type of education regarding distributions for retirees. Mr. Schoonover indicated that retirees may still be working and building retirement after they leave City service. Mr. Canzano noted a need for Required Minimum Distribution education. Mr. Mumma asked whether participants living outside of the United States still paid taxes on their disbursements. Lisa Tilley of Great-West Financial indicated that United States tax laws still apply as long as the account remains held in the United States.

A motion was made by Mr. Cannon, seconded by Mr. Mumma, to receive and file information regarding Plan communication activity; the motion was unanimously adopted.

11. BOARD REPORT 14-28: STAFF REPORT

Ms. Chang reviewed statistics for counter activity, accrued leave, and processed hardships. Mr. Canzano asked for clarification on the number of hardships for 2014 and indicated that they were less than the same period in 2013. Ms. Chang responded that the numbers were correct. Mr. Canzano noted the decline in hardship numbers, and Mr. Mumma asked if other plans were seeing a similar trend. Ms. Tilley indicated that other plans managed by Great-West Financial have also seen a drop in hardship numbers.

Ms. Chang next reviewed deferral and Roth statistics. Mr. Mumma asked if there was data on the number of retiree Roth conversions. Ms. Tilley indicated it was a small number but did not have the information immediately available. Mr. Mumma asked if retirees could convert a portion of their account. Ms. Tilley responded affirmatively but indicated that the tax issue was a concern because the active participant cannot take a withdrawal to pay for taxes. Mr. Mumma asked if there was any pending legislation to change those rules. Ms. Tilley responded negatively. Mr. Canzano indicated that participant education is needed in the area of withdrawals and conversions.

A motion was made by Ms. Whelan, seconded by Mr. Amerian, to receive and file the staff report; the motion was unanimously adopted.

12. REQUESTS FOR FUTURE AGENDA ITEMS

None.

13. FUTURE MEETING DATES

The next Regular Meeting is set for July 15, 2014.

14. ADJOURNMENT

Mr. Canzano, on behalf of the Board, congratulated Ms. Whelan on her retirement and years of service with the City. Mr. Canzano and Mr. Mumma presented Ms. Whelan with a certificate of appreciation from the Board. Mr. Montagna also stated his congratulations and gratitude to Ms. Whelan for her years of support and effort on behalf of the Plan and its participants.

A motion was made by Ms. Whelan, seconded by Mr. Mumma, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 10:11 a.m.*

Minutes prepared by staff member Paul Makowski.