CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING JUNE 18, 2013 - 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:	**Not Present:**
Cliff Cannon, First Provisional Chair	Eugene K. Canzano
Tom Moutes, Second Provisional Chair	John Mumma
Sangeeta Bhatia, Third Provisional Chair	Robert Schoonover
Michael Amerian	
Ray Ciranna	
Margaret Whelan	

Staff:

Personnel:	Steven Montagna	David Luther
	Esther Chang	Alejandrina Basquez
	Paul Makowski	
City Attorney:	Curtis Kidder	

1. CALL TO ORDER

Cliff Cannon called the meeting to order at 9:08 a.m.

2. PUBLIC COMMENTS

No public comments were made.

Mr. Cannon welcomed new Board Member Ray Ciranna to the Board. Mr. Cannon stated that Mr. Ciranna was the newly appointed seat for Fire and Police Pensions and served as the General Manager. He concluded his introduction by noting that Mr. Ciranna was replacing the position held by interim general manager William Raggio.

3. MINUTES

A motion was made by Mr. Amerian, seconded by Mr. Moutes, to approve the May 16, 2013 minutes; the motion was unanimously adopted.

4. INVESTMENT PERFORMANCE REVIEW & INVESTMENT PROVIDER PRESENTATIONS

Mr. Devon Muir, of Mercer Investments Consulting, stated he would be covering the quarterly report as well as leading the discussion with two of the Plan's fund managers from Vanguard and State Street Global Advisors (SSgA).

Mr. Edward McGettigan and Ms. Kiesha Earle, both from Vanguard, introduced themselves. Ms. Earle began with the market overview, stating that the broader theme in 2012 was that the best performing sector was emerging markets. She stated investors were looking for yield. She stated equities outperformed fixed income, with riskier assets even within fixed income performing better while than U.S. Treasuries. Mr. Muir stated quantitative easing and monetary policy across the globe were driving these returns; he asked for comments regarding the difficulty for active managers in being able to outperform benchmark indices. Ms. Earle stated that in 2011, 2012, and to a lesser extent 2013, markets have been much more correlated than in the past, making investment selection more challenging. She stated it had been difficult for active managers to outperform benchmarks and that they have struggled to add value in the current environment and over longer periods.

Mr. Muir asked for forward-looking perspectives on the market. Ms. Earle stated the market was being driven primarily by valuation, with corporate cost-cutting in the last few years providing companies with strong balance sheets and leaving them better able to sustain economic shocks going forward. She stated the Fed's balance sheet will be important in supporting confidence, though it was anticipated that any future actions by the federal government should not present major shocks.

Mr. Montagna asked the representatives from SSgA for their comments to Mr. Muir's questions. Ms. Megan Hart and Mr. Jim Nelson, both from SSgA, introduced themselves. Mr. Nelson stated the federal government was purchasing mortgage backed equities and long-term treasuries were keeping rates artificially low. He stated the federal government had indicated this policy would continue until unemployment dropped below 6.5% and unemployment was currently at 7.5%. He stated it was SSgA's opinion that the government would continue with quantitative easing until 2014 as growth was moderate in the U.S. and there had not been much of a material decline in unemployment. He indicated the federal government seemed to be encouraging moves to riskier assets as virtually no reward existed in fixed assets. Ms. Earle stated Vanguard believed the federal government would continue quantitative easing until 2015.

Mr. Montagna asked if anyone knew how much of the assets in the defined contribution space were actively versus passively managed. Ms. Hart stated SSgA had observed a move towards more passively managed assets, but had no statistics. Mr. Muir stated that from his experience, he still observed a large portion of funds still actively managed.

Mr. Muir asked Mr. Nelson for SSgA's forward-looking perspectives. Mr. Nelson indicated that while the private sector was healthy, two major headwinds to growth were the decrease of household wealth and residential construction. He stated many had lost equity in their homes while residential construction had seen a decrease in demand after overbuilding the supply. He stated the deleveraging of household debt was slowing as well, with people taking on some debt again for bigger purchases. Mr. Montagna asked if it was considered a positive development that debt was going back to pre-recession levels. Mr. Nelson stated it could be seen more as the consumer being more confident in spending and that banks may be easing on lending. He indicated that while the economic situation has improved, the current recovery was only at one-third the speed of a typical recovery. Mr. Nelson also stated that while U.S. housing starts were increasing, single family housing starts were still barely a third of the 2005 peak; he indicated that outside of a recession, housing starts have not been this low since the mid-1960s, when the population was two-thirds of the current population.

Mr. Muir asked for thoughts on the anticipated increase in mortgage rates. Mr. Nelson stated that it could bode well for the market short-term, as people might try to lock in rates before they increased. Ms. Earle stated housing was not driving the economy as it had been in previous recessions; however, with pent-up demand and if lending became more free-flowing, opportunities may be provided for housing growth. She stated Vanguard anticipated that the housing and construction market would be the stronger drivers of the economy in 2014.

Mr. Muir asked if there were any comments on aging U.S. demographics and the impact on investment returns. Ms. Hart stated they were seeing more young people wanting to save with long-term goals, with saving rates increasing. Mr. McGettigan stated they were not seeing most retirees pulling out of equities upon retirement; rather, they were staying in the plan and/or rolling over to an IRA. He stated retirees were not usually drawing down their accounts until they were required to at age 70½. Mr. Nelson stated people were also working longer and that this extension would change the risk profile of participants. Mr. Ciranna asked if it was possible to study these demographic changes and analyze the impact. Mr. Montagna stated it would be beneficial to identify this information on a Plan level to understand retired participant behavior, and to see where they might be invested and any patterns or shifts in asset allocation over time.

Mr. Muir asked the fund managers to speak on their firms and fund performance. Mr. McGettigan stated Vanguard was founded as an at-cost company that was owned by its underlying mutual funds, with investors and owners being the same. He stated Vanguard's focus was on investors and operated at cost – any profit was returned to owners in the form of lower expense ratios. Ms. Earle reviewed performance of three Vanguard funds: the large-cap index, mid-cap index, and bond index funds. Ms. Earle also stated that the benchmark for the DCP Mid-Cap Fund had changed to the CRSP Index. She stated this change was primarily based on fees, as the CRSP provided a longer-term contract with more cost certainty. Mr. Muir asked when the transition occurred. Ms. Earle stated it occurred on January 31, 2013. Mr. McGettigan also clarified that the expense ratio for the mid-cap index fund decreased due to the size of the Plan's investment at $172 million, and was now at an expense ratio of 6 basis points, down from 8 basis points. Mr. McGettigan indicated the change occurred in March of this year.

Ms. Hart stated SSgA was part of State Street Corporation, and the focus of the firm was on institutional investing. She stated SSgA had $2 trillion under management, with $260 billion in the defined contribution space. She stated the SSgA team had very low turnover with an average tenure of 17 years. She stated SSgA conducts a participant survey twice a year and uses it as a guiding tool. Mr. Cannon asked how the participant surveys were conducted. Ms. Hart stated a third-party was hired to conduct them electronically. Mr. Cannon asked if these results were shared. Ms. Hart stated that written copy was provided earlier in the year to Plan staff. Mr. McGettigan stated that Vanguard also conducts a similar survey once a year, which was just recently completed. He stated copies would be sent to Plan staff. Ms. Hart stated the survey results greatly assist SSgA in determining what is really driving participant behavior. Ms. Hart reviewed performance of the small-cap fund managed by SSgA. She stated performance tracking was tight to the benchmark, even with the net expense ratio of the fund being 6 basis points.

Mr. Muir continued with Mercer's quarterly performance report. He stated major investment options in the Plan continued to be the stable value and large-cap funds. He stated an increase in selection of the risk-based funds, with a 1% increase quarter-over-quarter. He stated the Plan's net expense ratio for its funds, on a blended basis, was an average of 19 basis points of fees, or 26 basis points after administrative fees. He reviewed performance of the Plan's funds, noting in particular the Fidelity Diversified International Fund. He indicated this fund's performance was decent on a relative basis in the active management space within the last quarter and year.

The Board adjourned for a short recess.

Mr. Muir reported that his colleague Ms. Eileen Kwei, who had also been assigned to the City's account, had left the firm to enter the field of portfolio management. He stated he would continue to be the City's primary contact for investments consulting.

5. BOARD REPORT 13-20: RETIREMENT INCOME ILLUSTRATION CALCULATOR

Ms. Chang provided an update on the retirement calculator expected to roll out with a separate web tool later this year. Ms. Chang indicated that staff had conducted participant testing of the calculator in May with 24 individuals. Ms. Chang said the observations showed that although the complexity of the material created a widely varied experience for users, the overall outcome was consistently well-received.

Ms. Chang stated that the calculator would be most useful with the aid of local representative guidance through one-on-one counseling sessions. She mentioned that staff also intended to make the calculator available on the web with user guides and possibly a prerecorded webinar for use as instructional aides. Ms. Chang expressed that introduction of the calculator was tentatively scheduled for November 2013.

Ms. Chang indicated that staff wished to invite Board member testing as well, and that a testing session was suggested to take place after the next regular board meeting as a special meeting. Mr. Cannon took a quick poll to see the Board's position to testing the calculator and there were no objections.

Ms. Bhatia asked if a link to the calculator could be provided to Board members before the testing. Because of the risk of a serial meeting and Brown Act violation, Mr. Kidder said that anything made available to the Board should be made available to the public. Mr. Ciranna asked if the calculator was ready for public view. Ms. Whelan confirmed that it was a draft and was not ready for the public to use. Mr. Kidder stated that the calculator could be provided as a draft with a note that its availability could change at any time due to its draft status. Ms. Basquez added that there was a plan to share with retirement staff members.

Mr. Ciranna asked about providing access to the public at the special meeting. Mr. Kidder said that he and Plan staff were working on ways to provide access to the public. Mr. Ciranna asked for clarification on the timeline for all tools on the new website. Mr. Montagna confirmed that the goal was to roll out all options at the same time. He continued to state that only 20% of the participant population view their accounts online. Mr. Montagna stated that some of this 20% would hopefully use the new features and pass on information by word of mouth, thereby steadily increasing interest and also helping to build engagement with the Plan's website. Mr. Montagna added that staff hoped that the calculator would be used as an opportunity to engage participants with their accounts and begin visualizing their retirement income in more concrete terms. Mr. Cannon asked if there would be a helpline. Ms. Chang confirmed the existence of help notes within the calculator, as well as the support of local staff.

Ms. Bhatia stated that she would be comfortable receiving a personal demonstration in lieu of testing. Mr. Amerian asked if a demonstration could be provided to each Board member. Mr. Kidder mentioned that a demonstration for each member could be considered a serial meeting. Ms. Whelan stated it would be best to go with the original recommendation of having staff organize a presentation of the calculator to the full Board.

A motion was made by Ms. Bhatia, seconded by Mr. Amerian, to receive and file information regarding development of the Retirement Income Illustration Calculator and to schedule a special meeting for July 16, 2013 for the purpose of Board member testing of the calculator; the motion was unanimously adopted.

6. BOARD REPORT 13-21: 2013-14 CONFERENCE TRAINING

Mr. Montagna indicated that the Board had previously adopted a training program and annual training budget, with conference training involving travel budgeted at approximately one event per Board/staff member per year. He added that residual funds from the prior year may allow for Board members to attend an additional event in FY 2013/14 using residual 2012 funding.

Mr. Montagna indicated that Board members should identify their conference preferences by completing and submitting the form included in the item packet to staff. He then indicated that staff would summarize then and report back to the Board at the next Board meeting with a resulting travel recommendation. Mr. Montagna also asked the Board to submit any additional travel training preferences for 2014/15 on the comments section at the bottom of the preference form.

Ms. Whelan stated a note of caution that with a new mayor elect, the Board did not know what travel restrictions or limitations might be in effect for next year. Mr. Moutes stated a concern over the fiduciary responsibility of the Board and mentioned that restricting education and training opportunities for Board members, particularly those who are new to their seat, conflicts with the ability of the Board to meet its responsibilities. Ms. Whelan agreed. Mr. Montagna reminded the Board that the adopted training and travel policy includes allocations to bring training into the Boardroom. He further asked the Board to submit their conference preference forms no later than Friday, June 21st.

A motion was made by Mr. Moutes, seconded by Ms. Whelan, to receive and file information regarding conference training events for FY 2013/14 and provide staff with completed conference preference forms; the motion was unanimously adopted.

7. BOARD REPORT 13-22: STAFF REPORT

Ms. Chang reviewed the staff report for the month of May 2013. She particularly noted increases and decreases to the areas of Counter Activity, Hardships, Loans, and Roth Accounts. Ms. Chang concluded with noting updates to the project list and staffing summary as included in the report.

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

8. REQUESTS FOR FUTURE AGENDA ITEMS

None were discussed.

9. NEXT MEETING DATE – JULY 16, 2013

10. ADJOURNMENT

A motion was made by Ms. Whelan, seconded by Mr. Amerian, to adjourn the meeting; the motion was unanimously adopted. *The meeting adjourned at 11:00 a.m.*

Minutes prepared by staff member Paul Makowski.