

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF JULY 18, 2006 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

Board Members:

Present:

Maggie Whelan, Chairperson
Eugene Canzano
Don Keith
Richard Kraus

Staff:

Personnel: Maryanne Keehn, Personnel
Steven Montagna, Personnel
Bryan Cowitz, Personnel
JoAnn Dominguez, Personnel
Richard Bobb, City Attorney

1. CALL TO ORDER

Maggie Whelan called the meeting to order at 9:46 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Richard Kraus, seconded by Eugene Canzano, to approve the minutes of June 20, 2006; the motion was unanimously adopted.

4. INVESTMENT PROVIDER PRESENTATION
FIDELITY INVESTMENTS

(Consideration of this item took place before a quorum of Board members was present and the meeting was officially called to order).

Brent Hartman, Relationship Manager, and Matt Loynachan, Investment Consultant, both of Fidelity Investments, were present to review performance information for the Fidelity Magellan Fund and Fidelity Diversified International Fund. Mr. Hartman began

by indicating that Bill Samuels had left Fidelity and Mr. Loynachan would be providing today's overview of the City's two Fidelity funds.

Mr. Loynachan began by reviewing the performance of major investment classes for the period ending March 31, 2006, as well as sector performance for the Standard and Poors 500 Index. He then drew attention to a graph that highlighted the relative out-performance of small-company stocks vs. large-company stocks over the past six years.

Next he stated that Fidelity had recently created a new investment company called Pyramis Global Advisors which was oriented towards creating products for institutional providers like retirement plans and would be primarily focused on U.S. equities. He then indicated that Fidelity would be adding approximately 75 new analysts and associates and, in a departure for the firm, would be seeking individuals with experience in the industry rather than top graduates from universities. Ms. Whelan asked if this meant the firm was seeking subject matter experts, and Mr. Loynachan responded that this was partly the case but the firm was also seeking individuals who wished to make research and analysis a career rather than using that experience to eventually manage funds themselves. Mr. Loynachan further indicated that the firm would be reorganizing its investment staff into teams specializing in various market segments, so that the focus going forward would be more on the team rather than a single manager.

Mr. Loynachan next discussed performance returns for the two funds. He indicated that the Magellan Fund had been within the top 34% of its peers over a one-year period and that the Diversified International Fund had been in the top 1% and 6% of its peers over 3-year and 5-year periods, respectively. He indicated that for Magellan, fund manager Bob Stansky had been replaced by Harry Lange approximately one year ago, and Mr. Lange had restructured the portfolio towards more small-caps, mid-caps and growth stocks, with a growing emphasis on technology stocks. With respect to Diversified International, he stated that one-year performance had been hurt by its exposure to all market sectors as well as emerging markets stocks, which had sold off sharply since May, and its under-weighting in Japan.

Don Keith questioned the poor performance of the Magellan Fund over longer periods of time as well as compared to its benchmark. Mr. Loynachan responded that although that performance had been weak, recent performance since the fund manager change had been stronger. He further indicated that many plan sponsors had been looking closely at the Magellan Fund because of its long-term performance problems and the Board would have the difficult decision of evaluating the Fund against its investment criteria.

Mr. Keith questioned the value of fees being paid by participants to Fidelity when the firm had not been able to add value as compared to the benchmark. Mr. Keith further indicated that he believed it was the Board's obligation to educate participants about poor investment performance. Ms. Whelan asked staff to respond to this issue. Steven Montagna indicated that the Plan did make performance returns readily available to participants.

Mr. Hartman indicated that he believed it would be entirely appropriate for the Board to place the Magellan Fund on watch status. He stated that the two funds rebate a significant amount of fee revenue back to the City's Plan, with 25 basis points being returned from both funds, which totaled over \$250 million in assets.

Mr. Canzano indicated that Mayor Antonio Villaraigosa had recently asked the pension funds to examine their exposure to Sudan. Mr. Hartman replied that Fidelity had created a special task force to address this issue, and had identified seventeen companies worldwide that provided direct support to the Sudanese government. He stated that none of these companies were held as investments in the City's funds, but that Fidelity at present did not have a Sudan screen. He indicated that if the Board was interested in this Fidelity would be willing to discuss the development of separate accounts wherein Plan-specific screens could be implemented.

Richard Kraus asked if there was a way to summarize the new risk profile for the Magellan Fund. Mr. Loynachan indicated that the Fund had a higher beta, smaller and more growth-oriented stocks and therefore could be expected to have higher volatility. Mr. Kraus indicated that it was likely standard deviation would have increased as well, and Mr. Loynachan indicated that this indeed was the case.

5. BOARD REPORT 06-25: INVESTMENTS COMMITTEE RECOMENDATIONS

Mr. Montagna indicated that this report included a recommendation from staff and from the Board's Investments Committee to approve the addition of the Lazard U.S. Mid Cap Equity Fund to the core investment menu for the City's Deferred Compensation Plan. Mr. Montagna indicated that the recommended firm was one of two finalist firms that had previously been referred to Committee by the Board, but that the other vendor, after the Board action, had indicated it was closing its fund to new investors.

Mr. Montagna indicated that the report also recommended that the Board authorize regular quarterly investment reviews to be conducted by the Plan consultant. He indicated that in the past these reviews had not been conducted this frequently, but that the Committee believed this approach would bring the Plan into conformance with best practices in other plans.

Mr. Keith indicated his concerns about the importance of educating the Plan membership regarding investment under-performance issues. Ms. Whelan asked staff about the degree to which the Plan could advise participants about any fund. Mr. Montagna responded that the question about fund under-performance could be addressed as part of the consultant investment reviews, and could include a mechanism to put funds on a "watch" status if they were performing poorly. Audience member Usha Archer of Great-West Retirement Services indicated that the Plan may not necessarily want to be perceived as being in the role of advising participants to get in or out of any particular fund. She further indicated that under-performance of a given fund might be more problematic if only one fund was offered within each investment

category, but in the case of Large-Cap offerings the City's Plan had a total of six funds, so participants had other options.

Mr. Canzano suggested that it could be equally problematic to eliminate investment choices that had been under-performing if they were to subsequently out-perform, thereby putting the Plan in the position of locking in losses for participants. Mr. Kraus asked if there was a means by which fund management and other changes affecting the City's investment options could be communicated to participants. Mr. Montagna indicated that presently this information was not being systematically communicated but that staff could work with the consultant to generate summary information that could be provided to the Plan Administrator.

The Board addressed the recommendations in the staff report. **A motion was made by Richard Kraus, seconded by Eugene Canzano, approving the addition of the Lazard U.S. Mid Cap Equity Fund to the Deferred Compensation Plan investment menu; the motion was unanimously adopted. A motion was made by Richard Kraus, seconded by Eugene Canzano, authorizing initiation of ongoing quarterly investment manager/performance reviews to be conducted by the Plan consultant; the motion was unanimously adopted.**

6. GREAT-WEST REPORT: WEBSITE IMPROVEMENTS

Usha Archer of Great-West Retirement Services indicated that this report summarized recent enhancements to the Plan website, such as providing more robust transaction history and making it easier to print pages off the site. Mr. Kraus asked if an announcement regarding these changes would be included in quarterly statements, and Ms. Archer indicated that it would not be included in the current quarter's statement but would be announced on the website. Mr. Canzano complimented Great-West on the general user-friendliness of the site. **A motion was made by Eugene Canzano, seconded by Richard Kraus, to receive and file the Great-West report; the motion was unanimously adopted.**

7. HARDSHIP APPLICATIONS

The Board first considered those hardship applications recommended for approval for which no applicant was present. **A motion was made by Eugene Canzano, seconded by Richard Kraus, to approve full withdrawals in Case Nos. 06-20 and 06-24; the motion was unanimously adopted.**

The Board next considered Case No. 06-21. The applicant was present. He indicated he was requesting additional funds due to financial assistance he had provided to his mother, who was living in an assisted-living facility. Given this information, as well as some additional details provided regarding the costs of work done on his home, **a motion was made by Don Keith, seconded by Eugene Canzano, to approve a partial withdrawal of \$19,000 (net) in Case No. 06-21; the motion was unanimously adopted.**

The Board next considered Case No. 06-23. The applicant was present and indicated that his house would be closing escrow this week but he would not be receiving sufficient funds from the sale to resolve his financial emergency. Board members indicated they could not identify an unforeseen event upon which to make an approval. As a result, **a motion was made by Don Keith, seconded by Richard Kraus, to deny the hardship application in Case No. 06-23; the motion was unanimously adopted.**

The Board considered Case No. 06-25. The applicant was present and indicated that the \$11,362 payment she'd received from the insurance company for her damaged vehicle had not been received by her, as indicated in the staff report, but had been sent directly to reduce the debt on the damaged vehicle. Staff indicated it had not been aware of this at the time its report was written. Based on this new information, **a motion was made by Eugene Canzano, seconded by Don Keith, to approve a full withdrawal in Case No. 06-25; the motion was unanimously adopted.**

The Board considered Case No. 06-26. The applicant was present and indicated that he had not been aware of events that occurred while he was in a training program that led to his current financial emergency. Based on this, **a motion was made by Eugene Canzano, seconded by Don Keith, to approve a \$17,400 (net) withdrawal in Case No. 06-26; the motion was unanimously adopted.**

The Board considered Case No. 06-22. The applicant was not present. Board members verified with staff that there was some income loss for the applicant. Based on this, **a motion was made by Richard Kraus, seconded by Eugene Canzano, approving a partial withdrawal of \$1,661 (net) in Case No. 06-22; the motion was unanimously adopted.**

8. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Canzano requested that the topic of automatic enrollment be placed on the agenda for a future Board meeting. Mr. Kraus asked if the Board could receive training regarding hardship applications at one of the Board meetings. Ms. Whelan asked Employee Benefits staff to take steps to ensure employees were aware of their Employee Assistance Program benefits.

9. NEXT MEETING DATE – AUGUST 15, 2006

10. ADJOURNMENT

The meeting adjourned at 11:43 a.m.

* Minutes prepared by staff member Steven Montagna