

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES  
REGULAR MEETING OF AUGUST 15, 2006 – 9:00 A.M.  
700 E. TEMPLE STREET, ROOM 350

Board Members:

**Present:**

Maggie Whelan, Chairperson  
Bill Stein, Vice-Chairperson  
Joya C. De Foor  
Don Keith  
Richard Kraus  
Shelley Smith

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

Richard Kraus requested several corrections or verifications. **A motion was then made by Mr. Kraus, seconded by Bill Stein, to approve the minutes of July 29, 2006; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION  
CAPITAL GUARDIAN

Michael Nyeholt, Relationship Manager, and Terry Ragsdale, Investment Specialist, both with Capital Guardian, were present to review the Deferred Compensation Plan's Capital Guardian U.S. Equity Fund. Mr. Nyeholt introduced the discussion by briefly reviewing the objectives of the fund, corporate structure, and investment philosophy and process.

Mr. Ragsdale next spoke, beginning by reviewing the macro economic environment. He indicated that the recent market decline that had begun in May was led by market sectors

perceived by investors as more vulnerable to risk, such as technology. He indicated that Capital Guardian was less worried about inflation and a slowing economy than the market in general.

He next reviewed those sectors in which the Fund had been hurt relative to its benchmark. He indicated that the sectors in which the Fund had been hurt by an overweight position included information technology and health care, while those in which it had been hurt by an underweight position included energy. He stated that those relative disadvantages had been mitigated somewhat by the stock selection within the categories, and reviewed some specific company names.

He stated that, looking forward, the Fund was finding the most value in those sectors which had substantially under-performed this year, including technology and pharmaceuticals. He indicated that the recent sell-off had, if anything, caused Capital Guardian to become even more aggressive, given the firm's positive outlook on prospects for the market. He indicated the firm's belief that corporate earnings growth would come down from its strong recent double-digit growth to the high single digits. He indicated further that investors had a great deal of cash on the sidelines and that mergers and acquisitions had increased without having yet become wildly speculative. Finally, he indicated that valuations in the market were very reasonable relative to bond yields. He stated that on the less optimistic side the firm was somewhat concerned about energy prices as a risk to the market, and that geopolitical risks are always a concern but not one the Fund attempts to predict or build an investment strategy around.

Mr. Ragsdale next reviewed the Fund's largest holdings. He stated that the Fund was overweight by 7% in technology, but that achieving that overweight position had not been an objective. Rather, he stated, the Fund was finding some of the most attractive valuations in stocks such as Microsoft, Cisco and Intel. He stated that the Fund was similarly overweight in health care and focused on what was in the product pipeline. With respect to the energy sector, he stated that the Fund was under-weighted, believing that the current price of oil was not justified on a fundamental basis and that as much as \$20-\$25 per barrel of the current price was the product of trading speculation. He indicated that the Fund's focus was on oil services firms, given the Fund's belief that oil was becoming increasingly harder to extract and that large oil companies had been under-investing in production in recent years and would need to expand those outlays over the next ten years.

Don Keith indicated his concern that the Fund's return had exceeded the return of the S&P 500 by only 1.14% during the time that it had been made available in the City's Plan. Mr. Nyeholt indicated that the Fund historically had outperformed the S&P 500 by wider margins and that the Fund managers believed it was well positioned to outperform in the future. Steven Montagna indicated that the excess return was annualized. Ms. Smith commented that consistent out-performance over a benchmark like the S&P 500 was not an easy task in the large-cap arena. Mr. Nyeholt acknowledged that, subtracting fees from the return, the return on the Fund had not been as strong as the firm would have liked.

Mr. Kraus indicated that the history of performance returns suggested that the Fund tended to have years of strong out-performance mixed in with years of under-performance. Mr. Ragsdale acknowledged that this was the case. Mr. Kraus inquired about standard deviation compared to the benchmark. Mr. Ragsdale indicated he did not have that information but

that he expected the Fund's standard deviation was higher than the S&P 500 given some of the higher beta stocks in the over-weighted market sectors. Mr. Kraus suggested that it would be helpful to present the investment returns in the form of the value of a dollar invested in the Fund vs. the value of a Fund invested in the benchmark. Mr. Nyeholt indicated that the information could certainly be presented in this way.

## 5. BOARD REPORT 06-26: PLAN GOVERNANCE

Mr. Montagna indicated staff had prepared two draft documents for Board review. He stated the first was a draft report from the Board to the City Council which set forth the specific Plan Governance changes previously approved by the Board, and the second document a draft of proposed Administrative Code language that would be reflective of the Board's approved changes as well. Mr. Montagna indicated that staff's intent was to prepare the proposed Administrative Code early in the process rather than wait until after Council had adopted any changes, so that the Board would have an opportunity to work through any issues that might not have been fully addressed when it had originally considered the matter. He stated that examples of these issues included specifics surrounding elections as well as certification of the Board's Labor Representative.

Bill Stein noted some minor corrections to the Council report, and stated that he believed it was important to encourage members of the Plan Governance Task Force to attend the Council meetings at which these items would be considered since the Board's actions had only marginally deviated from the recommendations of the Task Force. Mr. Kraus questioned whether the Board had indeed adopted the position that all Board members would be required to be Plan participants and would be disqualified from serving on the Board if they were not participants. Maggie Whelan and Ms. Smith indicated that they believed this was reflective of the position taken by the Board. Mr. Montagna noted that the actual proposed Administrative Code language merely stated that Board members would be required to be Plan participants but did not discuss disqualification.

Mr. Kraus next questioned the proposed requirement that the Labor Representative position on the Board be required to be re-certified by employee organizations every two years. He stated his concern was that this requirement had not been discussed when Cheryl Parisi, who had spoken on this issue at the Board meeting in which the Labor Representative position was reviewed, was present. Ms. Smith indicated that she had spoken with Ms. Parisi on this matter and believed that she and other City unions would be supportive of this requirement, which Ms. Smith indicated she believed was a minimal requirement.

Cliff Ruff of the L.A. Police Protective League was present in the audience and spoke on this matter. He indicated that he believed the Administrative Code should provide even more specific information regarding what should be required of City unions in terms of appointing a representative on the Board. Ms. Smith indicated that she understood Mr. Ruff's position on this but that she believed the intent of the Task Force recommendation and prior Board action was not to impose too many requirements on employee organizations with regard to how they conducted their process.

Following this discussion, a motion was made by Bill Stein, seconded by Shelley Smith, to approve the draft reports as modified; the motion failed with three affirmative votes (Smith, Whelan and Stein) and three negative votes (De Foor, Kraus and Keith). Board members

who had voted against the motion were asked to explain their concerns. Mr. Kraus indicated his concern was the language regarding requiring that the Labor Representative be re-certified every two years. Ms. De Foor indicated her concern was that the language regarding the consequences of a Board member not being a participant in the Plan was not sufficiently clear. Mr. Keith indicated he did not support the recommendations generally.

Ms. Smith proposed a solution whereby the language regarding the two-year certification would be removed from the current draft language, and the proposed requirement sent out to City labor unions to invite their comment. As a result, **a motion was made by Ms. Smith, seconded by Bill Stein, (a) approving staff's draft City Council report and draft proposed Administrative language absent discussion of a bi-annual certification requirement for the Labor Representative position on the Board and (b) directing staff to distribute the proposed bi-annual certification requirement to City Labor Unions to invite their feedback; the motion carried with four ayes (Kraus, Smith, Stein and Whelan) and two nays (De Foor and Keith).**

## 6. BOARD REPORT 06-27: SURVEY DEMOGRAPHICS REPORT

Mr. Montagna indicated that when the recent Plan survey results were originally presented to the Board staff had indicated it would return with additional demographic results. Mr. Montagna indicated that Jason Jaross of Mercer Human Resource Consulting was present and would present those additional demographic results.

Mr. Jaross began by reviewing results for preferences in use of the website, call center and print communications. He stated that generally website familiarity was strongest among the younger population but diminished at older ages, with a sharp dropoff occurring after age 65. With respect to the call center, he indicated that the results showed an opposite trend, with older participants exhibiting a stronger preference than younger participants.

Mr. Jaross stated that the City's sworn population had a higher degree of familiarity with and use of the website compared to the City population as a whole. However, when looking at satisfaction with retirement knowledge and comfort making decisions, he stated that the sworn population exhibited lower readings than the general population. He indicated that differences between the sworn and general City population were a consistent theme in the demographic survey results. Mr. Montagna noted that one of the possible explanations for this might relate to the high level of integration of this work population, which might explain both its higher comfort level with certain services but also heightened anxiety over decision-making relative to perceptions of how well others in their peer group might be doing.

As another example of this, Mr. Jaross indicated that on the questions of whether more should be done by the City to provide assistance and automated investments, the sworn population was more supportive of these proposals than the general population. He further indicated that the sworn population had the highest level of interest in obtaining additional information. When the question regarding additional information was broken down by age, he stated there was a large variance between different age groups, with younger populations exhibiting a strong preference vs. older populations.

Mr. Jaross went on to discuss the automatic enrollment question, noting that retired civilian and sworn were significantly more favorable on this concept than active employees.

Regarding other services without additional charges such as automatic contribution increases and life-cycle funds, he stated that younger populations had a greater preference for this than older groups.

Regarding new services that would involve an additional charge, Mr. Jaross indicated that the only working group exhibiting a favorable variance was the active sworn population, and that younger participants were more positive on these services as well. Finally, he stated that survey questions without meaningful variance included plan satisfaction and plan costs vs. services.

Mr. Keith indicated that he believed these results showed the importance of providing more information to Plan participants. Mr. Montagna indicated that, with the increased staffing provided by the Board in Personnel Department and Plan Administrator staffing under the next contract, he believed that the Plan would finally have the kind of resources needed to take communications, education and outreach to a higher level, including soliciting more participant feedback through surveys. Mr. Kraus suggested that as part of this effort the Board look at conducting focus groups to obtain more in-depth feedback. He further indicated that these focus groups could be conducted for participants as well as non-participants.

Following this discussion, **a motion was made by Richard Kraus, seconded by Bill Stein, to receive and file the staff/consultant report regarding Plan survey demographics; the recommendation was unanimously adopted.**

#### 7. BOARD REPORT 06-28: RFP FOR PLAN ADMINISTRATION UPDATE

Mr. Montagna indicated that the Review Committee was on schedule with its review of responses to the Board's Request for Proposal. He stated the Committee would be holding an all-day discussion on Friday, August 25<sup>th</sup>.

#### 8. BOARD REPORT 06-29: STAFF REPORT

Board members thanked staff for generating a running list of pending issues. Cliff Ruff of the L.A. Police Protective League indicated that with respect to the soon to be signed Pension Protection Act of 2006 he wished to state that the League supported the concept of automatic enrollment.

Mr. Montagna indicated that one of the new Personnel Department staff positions had been filled, but that the Accounting Clerk position had not been included in the City's adopted budget as originally anticipated. Ms. Whelan asked staff to determine whether it was possible to fill the position using a substitute authority.

#### 9. HARDSHIP APPLICATIONS

The Board first considered those hardship applications recommended for approval for which no applicant was present. **A motion was made by Shelley Smith, seconded by Bill Stein, to approve full withdrawals in Case Nos. 06-27, 06-28, 06-31, and 06-32, and partial withdrawals of \$13,866 (gross) and \$11,586 (gross) in Case Nos. 06-33 and 06-34, respectively; the motion was unanimously adopted.**

The Board first considered Case No. 06-30. The applicant and his spouse were both present. The applicant's spouse indicated that taking out a loan would not resolve their problems because of the additional loan payment burden. After questioning the applicant, Board members indicated their concern that IRS rules require that the loan option be exercised first. As a result, **a motion was made by Don Keith, seconded by Bill Stein, postponing further consideration of the application until the applicant had exhausted the option of taking a loan from his Deferred Compensation Plan account and staff could re-examine his financial status; the motion was unanimously adopted.**

The Board next considered Case No. 06-29. The applicant was not present. Mr. Montagna informed the Board that the applicant had submitted additional correspondence but that staff had not had an opportunity to research or verify the claims. Board members weighed the applicant's financial emergency against the question of whether an unforeseen event had been established. A motion was then made by Joya De Foor, seconded by Bill Stein, denying the hardship application in Case No. 06-29; the motion carried with four ayes (De Foor, Kraus, Stein, and Whelan) and two nays (Keith and Smith).

#### 10. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Keith asked that the issue of reporting to participants regarding fund performance be added as a future agenda item. Mr. Montagna indicated that at the following month's meeting the consultant would be returning with a performance review and recommendations with respect to when funds should be placed on watch status.

#### 11. NEXT MEETING DATE – SEPTEMBER 19, 2006

#### 12. ADJOURNMENT

The meeting adjourned at 11:34 a.m.

\* Minutes prepared by staff member Steven Montagna