

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING JULY 19, 2011 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

Present:

Eugene K. Canzano, Chairperson
John R. Mumma, First Provisional Chair
Clifford Cannon, Second Provisional Chair
Tom Moutes, Third Provisional Chair
Michael Amerian
Sangeeta Bhatia
Bob Schoonover

Not Present:

Michael Perez
Margaret Whelan

Staff:

Personnel: David Luther
Alex Basquez
Steven Montagna
Natasha Gameraoz
Ashley Stracke
Claudia Guevara

City Attorney: Curtis Kidder

1. CALL TO ORDER

The meeting was called to order at 9:10 a.m.

2. PUBLIC COMMENTS

None. Mr. Canzano reopened Public Comment after the Investment Provider presentation to welcome the newest Board member, LACERS Representative Michael Amerian. Mr. Amerian provided some general information regarding his background and indicated he was looking forward to serving on the Board.

3. MINUTES

A motion was made by Sangeeta Bhatia, seconded by Bob Schoonover, to adopt the June 21, 2011 minutes; the motion was unanimously adopted.

4. INVESTMENT PROVIDER PRESENTATION: AMERICAN FUNDS

The presenters for Capital Group were Senior Vice-President Michael Bowman and Vice-President Steve Caruthers. Mr. Caruthers introduced Mr. Bowman as the Plan's new relationship manager. Mr. Bowman began by indicating that on June 24, 2011, the SEC determined that Capital Group did not violate the anti-reciprocal rule and was therefore not fined and this issue could now be considered closed.

Mr. Caruthers directed the Board to page 12. He stated that American Funds was focused on long-term results based on global research. He noted that American Funds was managed by a collection of individuals, which added a layer of diversification to its management. He also indicated that employees with Capital Group had been with the company for over 25 years.

Mr. Caruthers continued to page 13 and stated that Growth Fund of America was "growth" by objective, but not necessarily by style and indicated that the portfolio contained both typical and non-traditional growth companies. He stated that there were several reasons why Growth Fund of America had not outperformed the index in recent time periods. In particular, he stated that in 2008 the Fund had large holdings in the financial sector including Fannie Mae, Freddie Mac, and Citigroup which alone caused a 4% decline in performance.

Mr. Caruthers directed the Board to page 20 to discuss Investment Company of America. He indicated that the small and mid cap markets had affected the performance of the fund. He also stated that approximately 15% of the fund was comprised of non-US based companies. He indicated that across all of its portfolios Capital Group had increased its holdings in the consumer discretionary and industrial sectors to take advantage of the economic recovery.

Mr. Mumma asked what the total assets were for each fund. Mr. Caruthers stated that assets for Investment Company of America were \$63.4 billion while Growth Fund of America had \$160 billion in assets. Mr. Cannon asked if the size of assets were manageable. Mr. Caruthers responded by stating that Capital Group had a unique way of managing assets and explained that the Growth Fund of America portfolio had over 60 managers, each of whom held 30 to 50 names on average. Mr. Bowman also indicated that Capital Group had added value over the last ten years.

Mr. Mumma asked how the funds had performed since 1999. Mr. Bowman stated that he did not have that information, but gave the performance since 2001.

Mr. Canzano reopened Public Comment.

5. BOARD REPORT 11-45: BOARD OFFICERS

Mr. Montagna stated that the Board Vice-Chair position had been occupied by former Board member Richard Kraus and would therefore need to be replaced. Mr. Canzano

suggested that all provisional chairs fill the position immediately above their current position. Each provisional chair indicated that they were comfortable with that suggestion. **A motion was made by Michael Amerian, seconded by Sangeeta Bhatia, to appoint John Mumma as Vice-Chairperson, Cliff Cannon as First Provisional Chair, and Tom Moutes as Second Provisional Chair to the Board of Deferred Compensation Administration; the motion was unanimously adopted.**

Mr. Mumma stated that he believed it may be helpful to appoint a Board member with more seniority to the Third Provisional Chair seat. Ms. Bhatia stated that she would accept the Third Provisional Chair position. **A motion was then made by John Mumma, seconded by Cliff Cannon, to appoint Sangeeta Bhatia as Third Provisional Chair to the Board of Deferred Compensation Administration; the motion was unanimously adopted.**

6. BOARD REPORT 11-51: FUND MIGRATION OPTIONS

Mr. Montagna stated that at the June 21, 2011 meeting the Board requested that staff return with an option for accelerating the migration of three underperforming funds to its new investment menu. He began by stating that staff recommended retaining the original migration schedule for Growth Fund of America since the migration could only be accelerated by three months and since it was likely the Fund would need to be moved simultaneously with the Plan's other large-cap funds. He also stated that since the three funds comprise a significant amount of Plan assets greater attention would need to be given to the communication efforts regarding the migration.

Mr. Moutes stated that the benchmark used in the staff report for Growth Fund of America was not consistent with the benchmark provided in the vendor presentation. Devon Muir, Principal Consultant with Mercer Investment Consulting (Mercer), stated that Mercer believed that the Russell 1000 Growth Index was most representative of the Fund, however managers were able to choose what benchmark to include in a fund's prospectus. Mr. Moutes asked that the Plan standardize what information was presented in the reports from vendors to the Board. Mr. Canzano agreed.

Mr. Muir stated that this topic had been discussed as part of creating the investment manager only meetings the Board had elected for in the future. Mr. Mumma asked how reasonable it was for the Plan to mandate what information the fund managers place in their reports. Mr. Muir indicated the request was reasonable. **A motion was then made by John Mumma, seconded by Tom Moutes, to retain the original schedule for migration of large-cap funds, including Growth Fund of America, to take place in early 2012; the motion was unanimously adopted.**

Mr. Montagna continued by stating that staff recommended that the migration of the Lazard Mid-Cap Stock Fund take place at the same time as the large-cap migration. He indicated that replacement of the mid-cap fund would require a procurement process, however, he also indicated that the funds could be mapped to the Vanguard Mid-Cap Index Fund while the procurement process was underway. He stated that this was

consistent with elimination of the active small-cap manager a several years prior. He indicated that all mid-cap assets would be passively managed for the first part of 2012. **A motion was made by Sangeeta Bhatia, seconded by John Mumma, to accelerate migration of the Lazard Mid-Cap Stock Fund to occur simultaneously with migration of the Plan's actively managed large-cap funds; the motion was unanimously adopted.**

Mr. Montagna continued by indicating that if the Plan were to map the Fidelity Diversified International Fund to the DWS EAFE Equity Index Fund while the Plan conducted a procurement process, all international fund assets would be passively managed. He stated that this would be inconsistent with the Plan's objective to make all international funds actively managed. He also indicated that the degree of underperformance of the fund was not as significant as the Lazard Mid-Cap Fund and stated that the fund was outperforming the benchmark at the one-year mark. Given these reasons, Mr. Montagna indicated that staff recommended that the Board retain its original schedule for the migration of the Fidelity International Fund. **A motion was made by Cliff Cannon, seconded by Bob Schoonover, to retain the Board's original schedule for migration of the Fidelity Diversified International Fund to take place in the third quarter of 2012; the motion was unanimously adopted.**

7. BOARD REPORT 11-46: PLAN BYLAWS

Ms. Stracke stated that the Board last reviewed the Board Governance Policies/Bylaws at the April 19, 2011 meeting and had requested several changes to the document, which were highlighted in track changes formatting. She began reviewing the changes by stating that the title page included a reference to the website where the Bylaws would be posted. She continued by stating that references to the Commissioner Code of Ethics had been replaced with references to Executive Directive No. 1 – "Ethics in Government" which states that City Officials and staff shall participate in mandatory ethics training and file disclosure forms in a timely fashion.

Mr. Mumma asked if the changes referred to in the Board report represented all of the Board's requested changes. Ms. Stracke confirmed that all of the Board's requested changes had been incorporated as well as some additional changes that had been requested by the City Attorney.

Ms. Stracke continued by stating that a brief description of Charter Section 245 had been incorporated into Section 2.1A(2) of the Bylaws. She also indicated that the provision regarding Board member resignations had been moved from Section 4: "Committee Operations & Governance Policy" to Section 3: "Governance & Administration of Meetings." She stated that the provision had been rephrased to state that Board members "may resign by informing the Board or staff, preferably in writing, of the effective date of his/her resignation."

Ms. Stracke stated that a provision had been added to the beginning of Section 4: "Committee Operations & Governance Policy" stating that the purpose of Committees

was to review items referred by the Board and propose recommendations to the full Board. She also indicated that a provision had been added to the same section stating that at least two members are required to conduct a Committee meeting.

In regards to vendor communication, Ms. Stracke indicated that former Board member Richard Kraus had asked that this provision be strengthened to include matters outside of the procurement process. She stated that the provision had been changed to state that “Board members and staff shall not communicate with current or prospective vendors or their representatives, or any other person or organization, for the purpose or intent of having a particular vendor secure or maintain a contract or business with the City’s Plan, or otherwise realize financial gain from the City’s Plan.”

Ms. Stracke concluded her review of the changes to the Bylaws by stating that Board Counsel requested that Section 7B be amended to include a reference to Los Angeles Municipal Code 49.5.17 regarding commissioner participation in the contracting process.

Referring to Section 7.1B, Mr. Mumma asked that the provision be corrected to state that “no member of the Board shall participate directly in the development, review, evaluation, negotiation, or recommendation process of responses to RFPs or any other requests for award of a contract, contract amendment, or change order involving the Board except as provided in Los Angeles Municipal Code Section 49.5.17 ‘Commissioner Participation in Contracting Process.’ All such reviews shall be conducted by the Board’s staff, consultant, and/or other members of a review committee established by the board for each RFP.” The Board and Board Counsel agreed. **A motion was made by Sangeeta Bhatia, seconded by John Mumma, to adopt the Board of Deferred Compensation Administration Governance Policies/Bylaws as amended; the motion was unanimously adopted.**

8. BOARD REPORT 11-47: ROTH 457 IMPLEMENTATION

Ms. Gameroz stated that the revised Plan Document had been posted to the Personnel Department and Great-West Retirement Services (Great-West) Plan-level websites. She indicated that staff was still working with ITA and the Controller’s Office on developing an automated interface that would allow for automated uploads of participant Roth deferral elections. She also indicated that a special mailing was sent to all active employee participants on June 24, 2011 regarding the new Roth 457 savings option and that Great-West had started holding educational seminars regarding Roth.

Ms. Gameroz stated that staff would provide the Board with the numbers of participants who elected Roth deferrals at the next Board meeting. Mr. Canzano suggested amending the “Change Deferral” webpage to clarify the process for making deductions. Ms. Gameroz stated that language had been added to the site to help participants navigate that section.

Ms. Bhatia asked if there was a plan to have automated uploads of the DWP deferral files as well. Ms. Gameroz stated that DWP had indicated that they would only give Plan

staff limited access to the payroll systems and therefore the process could not be automated.

Referring to a hypothetical matching program, Mr. Schoonover asked if it would be possible for the City to provide employees with Roth contributions. Ms. Tilley indicated that the plan sponsor contributions would need to be pre-tax. Mr. Montagna continued by stating that there were several options on how to implement a matching program. He stated that the plan sponsor could contribute dollars that counted towards the participant's annual contribution limit. He also stated that another approach would be for the City's contributions to go into a 401(a) plan so that the participant's annual contribution limit would not be affected. Mr. Montagna indicated that the 401(a) approach would be administratively complex since its implementation would require another plan with its own plan document. **A motion was made by Sangeeta Bhatia, seconded by John Mumma, to receive and file the following information regarding the implementation of the Roth 457 savings option within the Deferred Compensation Plan; the motion was unanimously adopted.**

9. BOARD REPORT 11-48: PARTICIPATION FOCUS GROUP VOLUNTEER POOL

Mr. Montagna stated that staff recommended that the Board direct staff to draft a proposal to develop volunteer pools of Plan participants interested in taking part in future focus groups. He indicated that the Roth process had shown the value of using focus groups to obtain information on how participants would receive and process the communications pieces. He stated that an advantage of developing a pool of volunteers was that the Plan would be able to customize groups within certain parameters.

Mr. Canzano asked what would be a typical focus group size. Mr. Montagna indicated that focus groups usually have 8 to 10 participants. Mr. Canzano asked what pool size would be desired. Mr. Montagna stated that it would probably be best to have at least 100 to 200 volunteers. Mr. Canzano stated that it may be beneficial to track their service as well to ensure volunteers did not become too familiar with the information.

Ms. Bhatia asked how the focus groups were formed before. Mr. Montagna stated that staff had conducted focus groups in different ways including asking Personnel Department division chiefs to volunteer staff to participate. Mr. Canzano suggested that staff include language regarding how long a typical focus group session would last and a provision regarding supervisor approval. **A motion was made by Cliff Cannon, seconded by John Mumma, to (a) approve a proposal to develop volunteer pools of Plan participants interested in serving on focus groups for Plan communication materials and other Plan administrative issues and (b) direct staff to return with a proposed solicitation and application form; the motion was unanimously adopted.**

Mr. Moutes left the meeting at 10:25 a.m.

10. BOARD REPORT 11-49: CONTRACT STATUS UPDATE

Mr. Montagna stated that staff was in the process of drafting an RFP for fund custodian services and that the other outstanding RFP was for consulting services. **A motion was made by Sangeeta Bhatia, seconded by Cliff Cannon, to receive and file the quarterly report regarding plan contracts, services, and tentative dates of RFP initiation; the motion was unanimously adopted.**

11. BOARD REPORT 11-50: STAFF REPORT

Ms. Gameraoz stated that counter activity slightly increased in June compared to May. She indicated that loan and hardship activity remained steady and also indicated that there was a .62% decrease in deferrals compared to June 2010.

In regards to completed and outstanding projects, Mr. Montagna stated that the RFP for the consultant had been on hold due to issues regarding the standard provisions and general contracting requirements, but that the RFP should be released shortly. He also indicated that staff would bring information to the Board regarding the FDIC option at an upcoming meeting.

Mr. Canzano stated that it appeared that deferrals had started to stabilize. Mr. Montagna indicated that he would be interested in seeing if Roth would increase deferrals or if participants would change their pre-tax deferrals. Mr. Canzano asked if staff or Great-West had a feel for how participants were reacting to Roth. Mr. Montagna indicated that from his perspective Roth participation would initially be low but would gradually build over time as participants began noticing more of their peers participating.

Mr. Mumma asked if the Board would be addressing Committee assignments. Mr. Canzano asked staff to report back to the Board regarding the Committee composition.

Mr. Mumma asked for more information regarding the participant correspondence attached to the staff report. Mr. Montagna indicated that participants were notified of the change in the Self Directed Brokerage providers before it took place, however, the participant asked that these types of notifications be provided at the Plan-level website as opposed to only on the Great-West website. Mr. Mumma asked if this information had been incorporated. Mr. Montagna indicated that this would be provided on the Plan-level website in the future. **A motion was made by Michael American, seconded by John Mumma, to receive and file Board Report 11-50; the motion was unanimously adopted.**

12. REQUESTS FOR FUTURE AGENDA ITEMS

None.

13. NEXT MEETING DATE – August 16, 2011

14. ADJOURNMENT

A motion was made by Sangeeta Bhatia, seconded by Bob Schoonover, to adjourn the meeting; the motion was unanimously adopted. The meeting was adjourned at 10:40 a.m.

Minutes prepared by staff member Ashley Stracke.