

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES  
REGULAR MEETING MARCH 15, 2011 – 9:00 A.M.  
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:

**Present:**

Eugene K. Canzano, Chairperson  
Richard Kraus, Vice-Chairperson  
John R. Mumma, First Provisional Chair  
Clifford Cannon, Second Provisional Chair  
Mike Perez

**Not Present:**

Sangeeta Bhatia  
Tom Moutes, Third Provisional Chair  
Bob Schoonover  
Maggie Whelan

Staff:

Personnel: 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 9:18 a.m.

2. PUBLIC COMMENT

None. Mr. Canzano asked for the Board Report 11-16: Third-Party Administrator Contract to be taken out of order. The Board agreed.

3. BOARD REPORT 11-16: THIRD-PARTY ADMINSTRATOR CONTRACT

Mr. Montagna stated that staff recommended the Board approve the draft City Council report requesting a five-year extension of the Great-West Retirement Services (Great-West) contract. He indicated that the report addressed both the Deferred Compensation Plan and Pension Savings Plan contracts. He stated that since it was difficult to obtain vendor interest in the Pension Savings Plan and there was a high degree of interrelatedness between the two plans, the contract cycles for the Pension Savings and Deferred Compensation Plans were tied together.

Mr. Montagna indicated that the report highlighted two primary reasons why the Board was requesting the extension. He stated that the first reason was due to the timing of

the implementation of the investment menu changes and noted that the second reason was due to the participant fee reduction provided for through the negotiated terms.

Mr. Perez requested that the first page of the Council Report indicate that the Plan bear all expenses of the Plan. Referring to page 3 of the report, Mr. Perez asked what was meant by "The General Manager Personnel Department is the contracting authority for [the Pension Savings] Plan, with the Board serving in an advisory capacity." Mr. Montagna stated that the City Administrative Code states that the Board serves as an advisor to the General Manager of the Personnel Department. He stated that the Pension Savings Plan was considerably less complex than the Deferred Compensation Plan and indicated that the Board was consulted during bids for the third-party administrator, the most recent being in 2000. Mr. Montagna indicated that one area that needed to be addressed with the Plan involved closing accounts for participants who had severed employment. He stated that this issue was common to similar part-time/seasonal plans. He also stated that the Plan provided only one investment option since the City was required to guarantee participants a return on their funds.

Mr. Perez asked if the work performed for the Pension Savings Plan was part of the staff's duties. Mr. Montagna stated that staff administers the Pension Savings Plan, however the volume of work was limited compared to the Deferred Compensation Plan. Mr. Canzano asked if it was a matching plan. Mr. Montagna stated that participants contribute 4.5% of their salary while the City matches with 3%.

Referring to certain language indicated in the Board Report, Mr. Kraus stated that it should refer to 2011 not to 2012. He also stated that the February 15, 2011 Minutes indicated that Ms. Bhatia had mentioned that the Water and Power Employees' Retirement System usually completes a due diligence questionnaire. He asked if it was necessary to include one. Mr. Montagna stated that it had not been a general practice of the Plan and that this had not been completed for this request. Mr. Perez stated that while Fire and Police Pensions routinely perform due diligence questionnaires, that information is for internal purposes and is not generally provided to the City Council. Mr. Canzano asked if staff was aware of the City Council's position on the extension. Mr. Montagna indicated that staff was not.

Mr. Canzano asked Mr. Perez to clarify how he would like the Council Report changed. Mr. Perez stated that he would like the first page of the report to indicate that all costs of the Plan are borne by the employees. Mr. Canzano suggested adding examples of those costs. Mr. Cannon stated that he was concerned that listing specific costs in the Report would cause confusion. Mr. Canzano stated that it could be phrased as "the Plan bears all costs including, but not limited to..." **A motion was made by Mike Perez, seconded by John Mumma, to approve staff's proposed report from the Board to the City Council requesting authority to extend the contract with Great-West Retirement Services for third-party-administrative services for the period 2012 to 2016 as amended; the motion was unanimously adopted.**

#### 4. MINUTES

Referring to page 13, Mr. Perez stated that he did not hold discussions with the Los Angeles Police Protective League, but rather the Los Angeles Police Credit Union and the Los Angeles Fire Credit Union. Mr. Mumma asked how the amendments to Board minutes are reflected. Ms. Stracke stated that the original minutes are amended and then posted as Adopted Minutes on the website.

Referring to page 7, Mr. Kraus asked how the social media discussion was concluded. Ms. Tilley stated that Great-West would continue to review options for using social media. Ms. Stracke stated that staff would review how the discussion concluded and amend the minutes accordingly. Mr. Montagna stated that if the Board was interested in pursuing the use of social media, then he recommended that the Board direct staff to review the topic further.

Referring to page 4, Mr. Cannon asked that Mr. Kraus' question regarding the number of non-contributing participants that were retirees be clarified. Ms. Stracke indicated that this could be reworded. Mr. Cannon stated that there was a discussion regarding PIMCO inviting the Board to a seminar and asked if there was a determination regarding potential conflicts of the Board attending. Mr. Montagna stated that Mr. Kidder was reviewing this and would likely have an answer at the next meeting. **A motion was made by Cliff Cannon, seconded by John Mumma, to adopt the February 15, 2011 Minutes as amended; the motion was unanimously adopted.**

#### 5. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Devon Muir, Principal Consultant for Mercer Investment Consulting (Mercer), began his presentation by describing the economic environment for the fourth quarter of 2010. He stated that GDP steadily increased over 2010, but indicated that unemployment remained above 9%. He also stated that there were concerns over debt levels of European nations and that there was significant unrest in the Middle East. He noted that 10-Year Treasuries were up for the last quarter of 2010, which had a negative impact on bonds.

Mr. Mumma asked how the events that took place earlier in the week in Japan would affect the Plan's options. Mr. Muir stated that this would most directly affect international equities, which were down 5% in the two days following the Japanese tsunami. Mr. Mumma asked if there would be an impact on US Treasuries. Mr. Muir stated that investors were leaving Japanese equity markets and headed to US Treasuries which pushed their yields down. He indicated that this would have a positive impact on the Plan's bond funds.

Mr. Muir directed the Board to page 5. He stated that there were positive returns in the U.S. equity markets for the last quarter of 2010 and year-to-date figures. He stated that emerging markets were up nearly 20%, but lagged behind the year-to-date figures for U.S. and developed market equities.

Mr. Muir continued on to page 8. He stated that a column had been added to the right of the chart indicating which funds would be retained in the new investment menu. He stated that the Board had decided to eliminate American Funds Investment Company of America, Hartford Capital Appreciation, American Funds Growth Fund of America, and Lazard Mid Cap. He indicated that the Board would still need to determine if the Plan's current international funds would be retained.

He stated that Mercer recommended that American Funds Growth Fund of America be placed on Monitor status due to quantitative and qualitative issues. He indicated that the performance of the Lazard Mid Cap fund had been sub-par even though the fund had met the 3-year objective for the 2010 fourth quarter. He stated that Mercer recommended that the fund be terminated. In regards to Fidelity Diversified International, Mr. Muir indicated that Mercer believed that the fund's strategy was solid, but recommended that it be placed on Monitor status due to poor 3-year and 5-year performance.

Mr. Kraus stated that the "Recommended Action" section of the report indicated that the Board had already taken action to eliminate Fidelity Diversified International, which appeared to contradict the last column of the report. Mr. Montagna stated that while the Board recommended elimination, the fund was still eligible to compete in the procurement process under the new investment structure.

Referring to page 10, Mr. Muir stated that the Plan had approximately \$3.1 Billion in assets, which was up for the year. He then referred to page 16 and stated that about 30% of assets were invested in stable value and cash equivalent funds, which was comparable to other plans. He stated that assets in the mid cap, small cap, and international funds were slightly lower compared with other plans, but indicated that this did not create a significant concern.

Mr. Muir stated that the Plan's weighted total fund net expense ratio was 31 basis points, which was competitive compared to other plans. Mr. Kraus asked if this would change since there would be more active funds in the new investment menu. Mr. Montagna stated that since the large cap fund would be passively managed and since a significant portion of plan assets were invested in large cap options, it was likely that the weighted total fund net expense ratio would be lower. Mr. Kraus asked if the custodian and trustee expenses would have an impact on Plan expenses. Mr. Muir stated that they would have a modest impact and would be reported on accordingly. Mr. Kraus asked if Mercer could provide information on its A-Rated managers and weight it according to current Plan asset allocations for the Investments Committee to have an estimate of whether total fees will rise, fall, or remain the same. Mr. Muir indicated that this could be provided. Mr. Robison indicated that the report did not reflect the lower American Funds fees. Mr. Montagna stated that the report Mr. Kraus had requested would be brought to the Investments Committee.

Mr. Mumma asked if the difference in asset sizes for the DWS EAFE Equity Index Fund Institutional (DWS EAFE) and Fidelity Diversified International Fund (Fidelity International) was due to recognition of the Fidelity name, which could be a case for the Plan branded investment structure if the funds were established at the same time. Mr. Montagna stated that this was possible, but there may have been some fund mapping involved as well as at the time of fund inception. Mr. Canzano added that the difference in asset sizes could also be attributed to the rates of return of each of the funds. He stated that there was a period of time where Fidelity International significantly outperformed DWS EAFE. Mr. Muir directed the Board to page 23 and stated that the five-year returns for Fidelity International outperformed DWS EAFE by twenty basis points.

Referring to page 20, Mr. Muir indicated that the Deferred Compensation Plan Stable Value Fund significantly outperformed 3-Year Treasuries. He stated that the Vanguard Total Bond Market Index Fund Institutional Plus was tracking its benchmark and indicated that the PIMCO Total Return Fund Institutional had negative returns for the fourth quarter of 2010.

Referring to page 21, Mr. Muir stated that for the three-year and five-year period, the asset allocation models were generally showing positive returns, which included the negative 2008 market returns. He stated that this indicated that the models were working according to plan. Mr. Kraus asked why the 3-year and 5-year Current Allocation-Hypothetical figures were significantly different than the actual returns. Mr. Muir stated that he would research and report back.

Continuing on to page 22, Mr. Muir stated that the American Funds Growth Fund of America had a cash position of approximately 10% and had off benchmark exposure to developed country international stocks, which was the reason for recommending that the fund be placed on Monitor status. Referring to Lazard US Mid Cap Equity Portfolio, Mr. Muir stated that the fund was in the lowest quartile of its peer universe. He stated that the fund had been on watch since the third quarter of 2008. Mr. Kraus asked why the Mercer benchmark for Vanguard Mid-Cap Index Fund Institutional was different than the Lazard US Mid Cap Equity Portfolio Institutional. Mr. Muir stated that he could review this and report back.

Referring to page 23, Mr. Muir stated that Fidelity International has had more exposure to developed markets than its peer group. He stated that the fund had held true to its strategy, but was underperforming at the 3-Year and 5-Year periods and therefore was recommended to be placed on Monitor status.

## 6. BOARD REPORT 11-17: ROTH 457 UPDATE

Ms. Gameroz stated that Mr. Kidder informed staff that changes to the Administrative Code would not be needed. She indicated that staff anticipated bringing the Plan Document changes to the Board in April. She stated that after writing the report, staff had the opportunity to meet with the Controller. She indicated that the Controller would

be placing a work order by the end of next week. Ms. Gameroz stated that the Controller's Office anticipated a May 20, 2011 production start date and also stated that staff anticipated that the earliest start date for the Roth contribution option would be June 1, 2011. In addition, she indicated that staff had a meeting scheduled with the DWP Payroll section and Great-West programmers in the upcoming week to discuss the new rules and reporting required for implementing Roth contributions. She concluded by stating that Great-West was still in the process of drafting the necessary communications pieces and indicated that staff anticipated having these for the April Board meeting.

Mr. Canzano asked if Ms. Gameroz had any indication if the payroll changes would be completed by June 1, 2011. Ms. Gameroz stated that staff believed that the changes to payroll would be completed by June 1, 2011, however, staff was still reviewing if a July 1, 2011 implementation date would be desirable in order to provide more time for developing the communications plan. Mr. Kraus asked if there were additional issues that were not elaborated on in the report with regards to relaying information between Great-West and the City. Ms. Gameroz indicated that there were no additional issues. Mr. Montagna stated that some reports from the Controller to Great-West were generated off the Legacy payroll system. He indicated that this was the case for a number of the City's vendors and while it was an issue that came up as a result of discussions regarding the Roth option, it was an issue the City would have to address across functions and departments. He indicated that at the present time it did not appear that this would impact the implementation of Roth. **A motion was made by Richard Kraus, seconded by Mike Perez, to receive and file information regarding implementation of a Roth 457 savings option within the Deferred Compensation Plan; the motion was unanimously adopted.**

#### 7. BOARD REPORT 11-18: BOARD ELECTIONS

Ms. Stracke stated that since the previous Board meeting, the General Manager of the Personnel Department formally informed the City Clerk of the upcoming elections. She also stated that staff provided the City Clerk's Elections Division with the number of LACERS and Pensions participants in the Plan. She indicated that nominating petitions would be made available in the Employee Benefits Division Office on March 25, 2011 and the deadline for returning petitions was April 8, 2011. Ms. Stracke stated that elections would be held on May 20, 2011.

Mr. Kraus asked if the LACERS and Pensions participants would be receiving a letter regarding the elections within the next day. Ms. Stracke indicated that the letter was going out on March 16, 2011 and would likely be received by participants by the end of the week. **A motion was made by Mike Perez, seconded by Richard Kraus, to receive and file information regarding upcoming elections for the Board of Deferred Compensation Administration; the motion was unanimously adopted.**

## 8. BOARD REPORT 11-19: CONTRACT STATUS UPDATE

Mr. Montagna indicated that as a result of discussions regarding the Board Bylaws, the Board requested ongoing information about upcoming RFP processes. He stated that staff recommended that the Board be provided with a quarterly report of all contracts, their terms, and an indication of when the successor RFP would take place. He indicated that presently the TPA and consulting contracts would be subject to the provision regarding vendor communication once the Bylaws were adopted.

Mr. Canzano asked if RFPs coming up in the next year and a quarter could be highlighted in future reports. Mr. Montagna stated that staff could do this, but would only show those RFP processes occurring within the year, since the adopted Bylaws would require that Board and staff disclose vendor contact within the year. Mr. Kraus asked if the TPA contract for the Pension Savings Plan should be added. Mr. Montagna stated that it was not included since it was not a contract of the Deferred Compensation Plan. Mr. Kraus asked why the Pension Savings Plan was indicated under the consulting contract. Mr. Montagna stated that the consulting contract included potential consulting services for both the Deferred Compensation and Pension Savings Plans.

Mr. Perez indicated that he would like the subject of the report to reflect that the information was provided to alert the Board of potential disclosure requirements. Staff indicated that this could be changed. **A motion was made by Richard Kraus, seconded by Mike Perez, to direct staff to provide quarterly reports to the Board advising of plan contracts, types of services and tentative dates of RFP initiation in order to keep Board members and staff aware of upcoming RFP processes and comply with the Plan's vendor communication policy; the motion was unanimously adopted.**

## 9. BOARD REPORT 11-20: STAFF REPORT

Ms. Gameroz stated that 193 participants visited the Employee Benefits Division during the month of January and indicated that 8 participants elected to defer their accrued leave. She stated that thirty-three hardship cases were submitted to Great-West with twenty-seven approved, three denied, and three pending further documentation. She stated that approximately \$14 million was deferred during February 2011, which was a 5.9% reduction over February 2010.

Referring to the drop in hardships and increase in loans, Mr. Canzano asked if these were correlated. Gary Robison of Great-West Retirement Services indicated that it was possible. He stated that participants were directed to the Plan's loan option if the participant did not qualify for a hardship. Mr. Canzano asked how many participants provide additional information that has been requested by Great-West in order to complete the hardship application. Ms. Gameroz stated that generally participants return the information by the following month. Mr. Cannon asked if there were patterns in the volume of hardship applications received. Ms. Gameroz stated that according to

data from previous years, it appeared that it fluctuates randomly. She indicated that staff could provide data for previous years. Mr. Canzano asked if staff could provide a three-year or five-year look on a one-time basis.

Referring to the project list, Mr. Perez asked if staff would provide a quarterly budget report for the next meeting. Mr. Montagna indicated that both the September 2010 and December 2010 quarterly reports would be provided at the next meeting. He continued by stating that the Bylaws would be provided at the April meeting. He stated that the Investments Committee would meet in the next few weeks. Mr. Montagna also stated that staff was reviewing ways the FDIC insurance option could be improved. He indicated that staff would bring this information to the Board in an upcoming meeting. **A motion was made by Richard Kraus, seconded by Mike Perez, to receive and file Board Report 11-20; the motion was unanimously adopted.**

#### 10. REQUEST FOR FUTURE AGENDA ITEMS

Mr. Kraus asked if staff could review how the Plan could use social media. He stated that a third-party administrator had indicated at the 2010 NAGDCA conference that it was already using social media. Mr. Perez stated that the organization was TIAA Cref. Mr. Kraus stated that he believed social media would provide a good forum for informing participants of upcoming changes to the Plan. He stated that he wanted the Board to have a clear understanding of issues related to the use of social media. Mr. Canzano asked staff to also look at the staffing resources that would be required. Mr. Perez suggested that staff specifically look at the possibility of budgeting more time for the Chief Personnel Analyst and Senior Personnel Analyst II positions.

Mr. Kraus stated that he also wanted the Bylaws to address that Board members should act first and foremost in their capacity as a fiduciary of the Plan. He indicated that this was relevant for those Board members that have positions with other Boards or organizations that may have competing objectives. Mr. Kidder stated that he was not aware if this was covered in the draft bylaws and would review the document accordingly. He indicated, however, that Board members always have a fiduciary responsibility to the Plan and are required to act in the best interest of participants and their beneficiaries at all times. Mr. Kidder stated that the Office of the City Attorney often reviews incompatibility of office. He also stated that if Board members believe there may be a conflict of interest, they should refer it to the City Attorney for review. Mr. Kraus asked if this should be in the Bylaws. Mr. Kidder stated that the draft Bylaws already include references to City and State conflict of interest rules, however, he indicated that this could be looked into.

Mr. Canzano asked staff to review various modern portfolio theory classes. He indicated that he would like staff to include the Portfolio Concepts class provided by the Wharton School of Business in Pennsylvania as one of the potential options. He also indicated that he would like information on staff attending as well. Mr. Perez suggested that staff review training that could be provided at the Board meetings. He indicated



that he believed training was valuable, but there was significant time and expense associated with traveling out of the local area.

11. NEXT MEETING DATE – APRIL 19, 2011

12. ADJOURNMENT

**A motion was made by Cliff Cannon, seconded by Mike Perez, to adjourn the meeting; the motion was unanimously adopted.** The meeting was adjourned at 10:42 a.m.

Minutes prepared by staff member Ashley Stracke.