

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF AUGUST 21, 2007 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

Board Members:

Present:

Eugene K. Canzano
Michael Carter
Richard Kraus
Rick Rogers

Staff:

Personnel: Steven Montagna, Personnel
Bryan Cowitz, Personnel
Natasha Zuvich, Personnel
Richard Bobb, City Attorney

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:00 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

Richard Kraus asked for some clarification in the minutes about noting when Board members exit and return to the meeting room during discussion items. He further asked that in the IRA discussion item mention be made of his question on how IRA implementation might impact the consideration of changes to the core investment menu. **A motion was then made by Mike Carter, seconded by Rick Rogers, to approve the minutes of July 17, 2007, as amended; the motion was unanimously adopted.**

4. HARDSHIP WITHDRAWAL APPROVALS

Richard Kraus asked staff for more details regarding the discussion in several of the hardship applications regarding community property issues having been identified. Mr. Bobb indicated that previously hardship cases would not be sent to the Board if they involved a pending divorce action, even absent a formal community property interest claim having been issued to the Plan by the participant's spouse. He stated that now those cases would be permitted to go forward to the Board. Mr. Canzano asked if written waivers of community property interest could now be accepted by the Board, and Steven Montagna indicated that such correspondence would now apparently not be needed in the absence of a formal community property interest claim. **A motion was then made by Mike Carter, seconded by Rick**

Rogers, to approve full withdrawals in Case Nos. 07-42, 07-43, 07-45, 07-47, 07-48, 07-49, 07-51, and 07-52, and a partial withdrawal of \$8,886 (net) in Case No. 07-54; the motion was unanimously adopted.

5. HARDSHIP WITHDRAWAL NON- OR CONTESTED APPROVALS

Case No. 07-41

The Board considered Case No. 07-41. The applicant was present. The applicant indicated that he lived in his rental property. He stated that he and his wife were separated and that his wife had been contributing to utility and miscellaneous expenses for the property. Board members indicated that the loss of these funds could be used as a basis for establishing an unforeseen event. **A motion was then made by Mike Carter, seconded by Rick Rogers, to approve a full withdrawal in Case No. 07-41; the motion was unanimously adopted.**

Case No. 07-46

The Board next considered Case No. 07-46. The applicant was present. Natasha Zuvich indicated that staff was recommending a partial withdrawal of \$4,384 equal to the documented amount of funeral expenses. The applicant indicated he was requesting a full withdrawal of \$53,804 because he was behind on his mortgage and needed other financial assistance. The applicant indicated he had provided cash assistance to family members suffering from cancer or in assisted living. After some discussion, **a motion was made by Rick Rogers, seconded by Mike Carter, to approve a hardship withdrawal in an amount equal to the applicant's funeral expenses and documented financial assistance to family members, up to a full withdrawal assuming documentation of the latter; the motion was unanimously adopted.**

Case No. 07-50

The Board next considered Case No. 07-50. The applicant was present. Bryan Cowitz indicated that staff was recommending a partial withdrawal of \$4,398 equal to the documented cost of vehicle repair. The applicant indicated that she needed a full withdrawal of \$26,925 in order to purchase a new vehicle. Board members discussed the fact that the cost of repairing the current vehicle exceeded its estimated value. Following her presentation and questions from Board Members, **a motion was made by Mike Carter, seconded by Rick Rogers, to approve a full withdrawal in Case No. 07-50; the motion was unanimously adopted.**

Case No. 07-53

The Board next considered Case No. 07-53. The applicant was present. Bryan Cowitz indicated that staff was not recommending approval of the application. The applicant indicated that her boyfriend was not working and that she was having difficulty with her expenses. Board members indicated that the loss of the boyfriend's income was unforeseen to the applicant. Following her presentation and questions from Board Members, **a motion was made by Mike Carter, seconded by Rick Rogers, to approve a partial withdrawal of \$4,200 (net) in Case No. 07-53; the motion was unanimously adopted.**

Items 7 and 8 were taken out of order.

7. CONSULTANT PRESENTATION: CREDIT MARKETS & IMPACT ON PLAN INVESTMENTS

Mr. Montagna began by indicating that staff had requested Mercer's attendance at this meeting in order to provide information to the Board regarding recent turmoil in the credit markets and the potential impact on Plan investments. He indicated that there was no written report since the item had been scheduled so quickly, but that staff believed it was prudent to provide the Board an opportunity to discuss the issue sooner rather than later given that the next regular Board meeting wouldn't be until October.

Terry Dennison, Senior Consultant with Mercer Investment Consulting, was present to discuss recent market events and their potential impact on the credit markets and Plan investment options. Mr. Dennison began by indicating that the market's assessment of risk had changed substantially over the past few months. He stated that, in fact, risk had not been a concern until very recently as indicated by the narrow spreads on fixed income investments.

Mr. Dennison explained that a market's most important function is to determine price, but that this process had broken down recently with sub-prime mortgages. He indicated that in a trading environment where investors weren't willing to bid it was difficult to determine true value. He noted that the Federal Reserve and other central banks around the world had intervened to maintain liquidity in the market, but it was unclear how much damage had been done to the real economy by the sub-prime issue.

Mr. Dennison went on to indicate that the Federal Reserve was attempting to assess its next step, and that it's dilemma was that the real economy was doing quite well so it preferred not to lower rates which might appear to reward those who had been taking inappropriate risk-taking. He indicated that market uncertainties appeared to be abating somewhat in the current week, and confidence was beginning to return.

With respect to the Plan's investment options, he indicated that Mercer would be working with staff to examine the holdings of the fixed income providers to determine to what degree, if any, there might be exposure to some of the credit instruments which had been most affected by the recent turmoil. Discussion of this item then concluded.

8. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Terry Dennison reviewed performance returns for Plan investment options for the quarter ending 6/30/07. He indicated that a positive development was that two of the Plan's investments which previously had been on the Unsatisfactory list, Hartford Stock Fund and Hartford Advisers Fund, had both improved to Satisfactory.

Mr. Dennison then briefly discussed the two remaining funds on the Unsatisfactory list, including Capital Guardian U.S. Equity and Investment Company of America Funds. He indicated that both funds were being monitored closely.

With respect to recently eliminated funds, he first reviewed the performance of the Fidelity Magellan Fund. He indicated that the Fund had turned in some recent out-performance but given the severity of the long term under-performance it was very unlikely to turn around those numbers anytime soon. With respect to Lotsoff, he stated that this Fund had also begun to show the beginning of a turnaround in performance. Mr. Montagna noted that staff had provided Board members with a monthly update of Lotsoff's performance, which showed that in the month of July the Fund had fallen again to under-performing its benchmark.

6. INVESTMENT PROVIDER PRESENTATION: FIDELITY INVESTMENTS

Jeff Miller, Vice President, and Brent Harman, Vice President, both with Fidelity Investments, were present to review performance of the Fidelity Magellan and Fidelity Diversified International Funds. Mr. Miller began by discussing performance for the Magellan Fund, indicating that year- to-date through the previous day's market close the Fund had returned 6.8% vs. 3.1% for the S&P 500. He indicated that the Fund had a new manager, Harry Lange. He further indicated that Morningstar had reclassified the Fund in its "Large Growth Funds" category for peer comparison purposes and he believed this change was appropriate. Mr. Rogers asked if the reclassification was a result of the Fund having changed its strategy. Mr. Miller responded that the Fund's strategy had not changed significantly but that the Fund had a broad mandate and the Fund manager had discretion on how assets could be invested.

Mr. Miller next discussed the Fidelity Diversified International Fund. He stated that historically the Fund had been a top-performer in its peer rankings but that its multi-year rankings had fallen because of one bad year in 2006, in which the Fund was underweight on oil company stocks and Japanese stocks. He stated that presently the Fund was underweight on financial stocks and that this had benefited performance during the recent market downturn. He indicated that the Fund took a risk-controlled approach and recently had reduced its emerging markets exposure, from approximately 16-17%, to 7-9%, due to concerns regarding valuations.

The presentation concluded.

9. BOARD REPORT 07-34: ETHICS POLICY

Mr. Montagna indicated that this report recommended that the Board take action to indicate its intent to adopt disclosure categories recommended by the City Attorney's Office. Richard Bobb indicated that the Board was required to give public notice of its intent to adopt the disclosure categories, and then once it had done so it could act to adopt those categories and would be covered under the City's Ethics Policy. Mr. Bobb indicated that Board members would then need to file ethics statements, although he noted that many individuals already filed these statements pursuant to other positions they held.

Mr. Canzano asked whether it was necessary to file multiple statements. Mr. Bobb indicated that it would depend on whether the disclosure categories differed in the various positions. Mr. Rogers indicated that he had been filing multiple statements for some time.

A motion was then made by Rick Rogers, seconded by Mike Carter, to indicate the intent of the Board to adopt disclosure categories recommended by the City Attorney's

Office pursuant to the Board's coverage under the City's Ethics Policy, and direct staff to return this matter to the Board for final adoption at the next regularly scheduled Board meeting; the motion was unanimously adopted.

10. BOARD REPORT 07-35: STAFF REPORT

Mr. Montagna presented this report, indicating the fifty-cent fee had been eliminated in the previous week's paycheck. He noted the attachments to the staff report providing participation rates by Department and MOU, and indicated that the Plan had officially passed the 60% level. He stated that this official rate was low, since there were some participants who had stopped contributing to the Plan but nevertheless were still participants by virtue of having account balances. Mr. Carter suggested that Great-West make efforts to encourage individuals who had stopped contributing to renew their contributions. Mr. Montagna noted that staff had noticed an increase in people having stopped their contributions and had theorized that this was a result of real estate and credit woes and the difficulty many families were having in meeting their basic living expenses.

Mr. Canzano asked why the MOU report did not include DWP unions. Mr. Montagna replied that DWP Payroll had indicated they were not able to provide a participation report broken down by MOU.

11. GREAT-WEST QUARTERLY & COMMUNICATIONS REPORTS

Usha Archer, Regional Director, and Gary Robison, Regional Manager, both with Great-West Retirement Services, presented the Great-West Quarterly and Communications Reports. Ms. Archer began by indicating that Plan assets had grown to \$2.8 billion. She further indicated that despite market losses in the subsequent period she presently did not expect to see a large decline in this figure, given offsetting steady inflows of new money as well as the significant portion of Plan assets held in non-market investments.

She next reviewed the participant totals, commenting that the number of non-contributing participants had increased but that this figure included retirees. She indicated that she supported outreach efforts to individuals who may have stopped contributing to the Plan for reasons other than financial distress and that Great-West could build a targeted marketing campaign for this effort. Ms. Archer next reviewed net cash flow figures, noting that the largest inflows were to the Washington Mutual Liquid Account, as well as average account balance data, which she noted showed a plurality of participant accounts in the range of \$100,000-\$200,000.

Mr. Robison then reviewed local activity, indicating that monthly participant contacts had risen to approximately 4,000 in June, a high for the year. He indicated that local staff were extremely busy with group meetings, both in terms of enrollment meetings as well as DROP meetings. He then briefly discussed other statistics on participant contacts, including use of the toll-free line as well as the website.

With respect to the latter, Mr. Canzano asked if it was possible to offer some kind of simulation program on the website to help overcome some of the initial reservations some individuals might have about conducting certain transactions on-line. Ms. Archer indicated that it might be possible to provide some kind of on-line tutorial.

Mr. Robison next discussed the Great-West Communications Report. He indicated that staff had reviewed initial drafts and Great-West was in the process of incorporating revisions. He reviewed in further detail recent enrollment initiatives, noting in particular that Great-West had made headway with Recreation and Parks, one of four Departments targeted for its lower participation rates, which had the largest enrollment increase of all Departments for the first half of 2007. He indicated he expected their participation rate to shortly exceed 40% and from there hoped to move towards 50%.

Mr. Kraus commented that he had noticed that most of the Plan communications made reference to “the Board” having taken certain actions without having given credit to the role played by staff and Great-West in the decision-making process. Ms. Archer suggested it might be helpful to provide a general article in a future newsletter describing the roles played by each in making decisions affecting the Plan.

The presentation concluded.

12. REQUESTS FOR FUTURE AGENDA ITEMS

None.

13. NEXT MEETING DATE – OCTOBER 16, 2007

15. ADJOURNMENT

The meeting adjourned at 11:44 a.m.