

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

MINUTES
MEETING OF APRIL 18, 2006 – 9:00 A.M.
700 E. TEMPLE, ROOM 350

Board Members:

Present:

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

Staff:

Personnel: Maryanne Keehn, Personnel
Steven Montagna, Personnel
Fernando Campos, Personnel
Joann Dominguez, Personnel
Richard Bobb, City Attorney

1. CALL TO ORDER

Shelley Smith called the meeting to order at 9:09 a.m.

2. PUBLIC COMMENTS

Ms. Smith asked if there were any public comments.

Cliff Ruff of the Los Angeles Police Protective League indicated that the Hartford Life General Account option was one of the Plan's largest investment options but that he believed the rate of return was non-competitive, and asked the Board to explore offering other investments which might be able to deliver rates of return closer to that of U.S. Treasury bonds. Steven Montagna indicated that staff could ask the consultant to review the Plan's fixed investment options and report back with respect to questions of competitiveness as well as other savings alternatives.

3. MINUTES

A motion was made by Maggie Whelan, seconded by Bill Stein, approving minutes of the January 17, 2006 and February 21, 2006 meetings; the motion was unanimously adopted.

4. BOARD REPORT 06-14: PLAN GOVERNANCE TASK FORCE RECOMMENDATIONS

Mr. Montagna indicated he was presenting on behalf of the Plan Governance Task Force regarding governance for the Board of Deferred Compensation Administration. He indicated the task force was primarily concerned with providing greater accountability on the Board to plan participants as well as creating optimal representation of various constituent groups. Mr. Montagna described the Task Force's proposal for Board governance, indicating those differences between the current and proposed composition of the Board. Specifically, he indicated that the Task Force was recommending that the General Manager Personnel Department be retained on the Board because the Personnel Department provides primary staff support to the Plan; that the City Treasurer be replaced by the three managers of the City's civilian, sworn and Department of Water and Power retirement systems, by virtue of the additional value they might bring to the Plan given their related expertise in retirement plan administration; that the three elected employee representatives from the City's three retirement/pension plans be replaced by individuals who would be directly elected by Plan participant members of the City's three retirement systems; that the retired participant representative be retained but directly elected by Plan participants; and that the labor representative be retained but regularly re-certified by the coalition of unions.

Board members commended Task Force members for their thoroughness and well considered recommendations. Board members discussed their concerns about elections, particularly the potential costs and administrative burdens associated with having elections and conducting them frequently. Mr. Stein suggested that the Task Force recommendations be referred to the Board's Plan Governance Committee for further study. Ms. Smith asked the City Attorney whether, since any changes to the governance structure would need to be reflected in revisions to the Administrative Code, if specific election procedures would need to be spelled out as part of an ordinance. Richard Bobb replied that he believed that specifics regarding procedures could be addressed in the Plan Document and would not be required to be detailed in the Administrative Code.

Mr. Keith expressed a concern about whether the new governance structure would truly increase accountability. Ms. Smith responded that a key difference was that under the Task Force proposal certain Board members could be directly elected by Plan participants, which was not the case today. Board members discussed the desirability of requiring some type of fiduciary or other training for all members of the Board.

Ms. Whelan asked if any of the Task Force members would like to address the Board. Tom Coultas, Assistant General Manager Personnel Department, indicated he had chaired the Task Force and only wished to add that the work of the Task Force had been prompted by the concerns expressed by Plan participants during the 2004 RFP process. He stated that one of the primary participant concerns was for greater Board member accountability to the membership.

Mr. Stein indicated his interest in seeing if the Board could move forward on at least some of the recommendations generated by the Task Force, even if other matters ended up being studied by the Plan Governance Committee. As a result, **a motion was made by Mr. Stein, seconded by Eugene Canzano, to endorse the proposition that the Retired Participant Representative be elected by retired Plan participants, and requiring that any elected Board Members as well as the Labor Representative on the Board be Plan participants; the motion was unanimously adopted.**

Ms. Smith next asked if the Board wished to take a position on recommendations related to composition of the Board. **A motion was made by Joya De Foor, seconded by Richard Kraus, referring Task Force recommendations related to composition of the board to the Ad-Hoc Plan Governance Committee; the motion was unanimously adopted.**

Ms. Smith next asked if the Board wished to take a position on the matter of elections. **A motion was made by Bill Stein, seconded by Richard Kraus, referring Task Force recommendations related to holding elections for Board positions to the Ad-Hoc Plan Governance Committee; the motion was carried with five ayes (De Foor, Kraus, Smith, Stein, and Whelan) and two nays (Canzano and Keith).**

Following all motions, Ms. Smith suggested that the Plan Governance Committee be noticed as a special meeting of the Board to allow other Board members to attend if they were interested. Ms. Smith indicated that she was designating Board members Stein, Whelan and Canzano to serve on the Plan Governance Committee.

5. BOARD REPORT 06-15: REQUEST FOR PROPOSAL ("RFP") FOR PLAN ADMINISTRATION – REVIEW COMMITTEE

Mr. Montagna indicated that staff's recommendation was for the Board to select Jon Springer as an outside rater on the Review Committee for the RFP for Plan Administration. Mr. Montagna noted that other candidates had been given consideration, but Mr. Springer was believed to be the most highly qualified. Mr. Montagna then indicated that Wendy Young-Carter, the Board's primary consultant with Mercer Investment Consulting, would be leaving Mercer to take employment with another firm, and that staff was therefore recommending that she be replaced with consultant Andrew Ness. Mr. Montagna indicated that Mr. Ness was an excellent replacement in that he had previously worked with the City's Plan and the City's prior RFP for Plan administrative services.

Ms. Whelan asked staff for additional details regarding Ms. Young-Carter's new

employment. Mr. Montagna indicated that Ms. Young-Carter was joining CitiStreet as its Midwest Regional Sales Director. Ms. Whelan asked the City Attorney whether, since Citistreet was a potential bidder, this might raise any potential legal concerns. Mr. Bobb indicated that the City Attorney's Office was reviewing this matter and would be reporting back shortly.

Mr. Kraus asked about the compensation to be provided to the outside rater. Mr. Montagna indicated that staff's recommendation was for a fee consistent with the amounts identified in the prior month's staff report. Mr. Kraus indicated that he believed the Board had expressed some concerns regarding paying an outside rater. Mr. Montagna replied that the matter of compensation had been discussed with Mr. Springer but that he was not willing to provide his services without compensation. As a result, given the importance of the task and the work involved, staff believed it was appropriate to pay a fee to him for his services. As a result, **a motion was made by Bill Stein, seconded by Eugene Canzano, (a) approving the selection of Jon Springer as the third rater on the Review Committee for the RFP for Plan Administration and authorizing staff to negotiate a fee for services consistent with the recommendations provided in its previous report on this topic; (b) approving the replacement of Wendy Young-Carter with Andrew Ness, Consultant with Mercer Investment Consulting, Inc.; and (c) approving a proposed disclosure form to be completed by each member of the RFP Review Committee, with participation of any Review Committee member conditioned upon receipt by the Employee Benefits Division Chief of a disclosure form signed by that individual; the motion carried with six ayes (Canzano, De Foor, Keith, Smith, Stein, and Whelan) and one nay (Kraus).**

(Ms. De Foor left the meeting upon conclusion of consideration of this item.)

6. BOARD REPORT 06-16: INVESTMENT MANAGER SEARCH – CORE BOND/MID-CAP

Marina Batliwalla, Principal Consultant with Mercer Investment Consulting, presented the results of Mercer's investment manager search for Core Bond and Core Mid-Cap investment managers. Ms. Batliwalla began by summarizing the screening process and how investment managers were identified. She indicated Mercer took both a quantitative and qualitative approach in identifying potential contenders, which included performance analysis and risk analysis. She informed the Board that all of the finalists identified in the report were well qualified and that Mercer would be comfortable recommending any one of them.

With respect to the Core Bond category, Ms. Batliwalla indicated that the Board might be able to narrow the list down by identifying whether it wished to offer a core or core-plus product. Given that the City's Plan already offered a passively managed option, she indicated that a core-plus product might be appropriate, and that if this was the case the PIMCO Total Return International ("PIMCO") fund and Hartford Total Return

Bond might be likelier candidates. There was concurrence among Board members that a core-plus manager would be appropriate.

Mr. Montagna discussed options for the Board to proceed, including conducting finalist interviews before the full Board or the Board's Investments Committee, asking staff and the consultant to make a specific recommendation or acting on the information already provided. Ms. Smith suggested that finalist interviews be conducted by the Investments Committee. Mr. Kraus indicated that he was under the impression that the Board wanted to avoid finalist presentations. Mr. Montagna indicated that this was true insofar as the RFP for Plan administrative services was concerned. Ms. Smith indicated that she believed finalist presentations were appropriate in this instance. Following this discussion, **a motion was made by Eugene Canzano, seconded by Bill Stein, to refer this matter to the Plan's Ad-Hoc Investments Committee for the purpose of holding finalist presentations with the PIMCO Total Return and Hartford Total Return funds and generating a final recommendation to the full Board; the motion carried with five ayes (Canzano, Keith, Smith, Stein, and Whelan) and one nay (Kraus).**

Next, Ms. Batliwalla discussed the Core Mid-Cap search results. Ms. Batliwalla indicated that Mercer had verified that all four contenders for the Core Mid-Cap Fund were available, but that these funds tend to close quickly. She reviewed each firm's characteristics, including total share class, total number of holdings, and expense ratios, as well as discussing performance and risk analysis. She indicated that based on this review, the Lazard Asset Management and Vanguard offerings appeared well-suited to the Board's objectives for a core product.

Following the discussion, **a motion was made by Eugene Canzano, seconded by Bill Stein, to refer this matter to the Plan's Ad-Hoc Investments Committee for the purpose of holding finalist presentations with Lazard and Vanguard and generating a final recommendation to the full Board; the motion carried with five ayes (Canzano, Keith, Smith, Stein, and Whelan) and one nay (Kraus).**

Ms. Smith indicated that staff may wish to notice these Investment Committee meetings as public meetings in the event other Board members besides those on the Investments Committee wished to attend.

7. BOARD REPORT 06-10: FIXED ACCOUNT CONSOLIDATION UPDATE

Mr. Montagna indicated that staff was essentially requesting a pause before moving forward on this matter given the recent departure of Wendy Young-Carter from Mercer and the expected time commitment expected for review of responses to the RFP for Plan Administration. He indicated that the implementation process would not move forward until staff had returned to the Board with a proposed communication plan. **A motion was then made by Richard Kraus, seconded by Bill Stein, to delay implementation of the approved phased consolidation of the Hartford General Account and Galliard Stable Value Fund until such time as staff returned with a proposed communication plan; the motion was unanimously adopted.**

8. BOARD REPORT 06-11: MARKET TIMING/ EXCESSIVE TRADING PROCEDURES

Mr. Montagna indicated this issue had been raised as a result of Great-West asking their plan sponsor clients to take formal positions on the issue of frequent trading/market timing. He stated that the staff recommendation was to adopt an interim policy but refer the issue for further study to the Plan's Ad-Hoc Investment Committee. Mr. Canzano asked if there was some definition of what constituted market timing/excessive trading. Mr. Montagna indicated that the problem was that different investment managers defined it differently, and part of the reason for asking the Board to develop a position was so the Plan could set standards, rather than having those standards dictated to the Plan, which would make the rules clear for both participants as well as investment providers. Mr. Canzano asked for an example of current limitations, and Mr. Montagna replied that the Plan's international options both had redemption charges for funds held less than 30 days. **A motion was then made by Eugene Canzano, seconded by Bill Stein, (a) adopting an interim market timing/excessive trading policy restricting individual participants from making transfers to restricted funds identified by an affected fund company for as long as the applicable fund determines; and (b) referring study of this issue and development of a more comprehensive proposed Market Timing/Excessive Trading Policy to the Plan's Investments Committee, for later consideration by the Board; the motion was unanimously adopted.**

9. BOARD REPORT 06-12: 2005 DEFERRED COMPENSATION PLAN ANNUAL REPORT

Mr. Kraus and Ms. Whelan asked for several minor adjustments/clarifications on the report. **A motion was then made by Bill Stein, seconded by Eugene Canzano, to approve the 2005 Deferred Compensation Plan Annual Report; the motion was unanimously adopted.**

10. BOARD REPORT 06-13: BUDGET STATUS REPORT AND TRUST FUND REIMBURSEMENT – 12/31/05

Mr. Montagna indicated that this budget report was the first prepared since the Board had approved consolidating, for reporting purposes, the two funds used for paying the administrative expenses of the Plan. Mr. Montagna stated that staff had used very conservative assumptions in developing the budget so as not to become over-extended with new staffing and consulting expenses, but that growth in the projected surplus suggested that the Plan was well-positioned to take on these additional expenses. **A motion was then made by Bill Stein, seconded by Maggie Whelan, approving reimbursement from the Deferred Compensation Plan Trust Fund #896 to the Personnel Department for \$48,758.31 for the quarter ending 12/31/05; the motion was unanimously adopted.**

11. GREAT-WEST REPORTS: QUARTERLY STATISTICS AND RETIRED PARTICIPANT SEMINAR

Rick Kramer, Vice-President Governmental Accounts, and Usha Archer, Local Account Manager, both of Great-West Retirement Services, were present to review Plan statistics for the quarter ending 12/31/05. Ms. Archer indicated that since much of this information was duplicative of information included in staff's annual report she would not go through it in detail, but wished to comment on the issue of excessive trading. She stated that only a handful of participants had engaged in frequent trading activities in recent months and that most of those individuals, when placed on notice about the activity, quickly ended it. Ms. Whelan asked whether departments were generally being cooperative in the scheduling of group meetings, and Ms. Archer indicated that this was the case.

12. HARDSHIPS

Ms. Smith indicated that Case No.'s 06-06 and 06-07 were for informational purposes only. She asked if there was a motion to approve the recommended approvals. Mr. Kraus indicated he had some concern with Case No 06-09 so the cases were taken separately. **A motion was made by Bill Stein, seconded by Maggie Whelan, approving a full hardship distribution in Case No. 06-08; the motion was unanimously adopted.**

Mr. Kraus discussed his concern in Case No. 06-09. Following the discussion, **a motion was made by Richard Kraus, seconded by Bill Stein, approving a partial hardship distribution in Case No. 06-09; the motion was unanimously adopted.**

Ms. Smith asked members of the audience who were not parties to Case No. 06-10 to voluntarily leave the room to provide some privacy to the applicant. Fernando Campos indicated that staff had not been able to recommend approval because of an absence of documentation of an unforeseen event.

The applicant was present and indicated that she was unaware her home would be placed at risk as a result of her bankruptcy filing. Board members asked questions regarding and discussed the details of the bankruptcy. Following the discussion, **a motion was made by Don Keith, seconded by Maggie Whelan, approving a full hardship distribution in Case No. 06-10; the motion was unanimously adopted.**

13. REQUEST FOR FUTURE AGENDA ITEMS

None

14. NEXT MEETING DATE: MAY 16, 2006

15. ADJOURNMENT

A motion was made by Eugene Canzano, seconded by Maggie Whelan, to adjourn the meeting; the motion was unanimously adopted and the meeting adjourned at 11:16 a.m.

* Minutes prepared by staff members Fernando Campos/Steven Montagna