CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF DECEMBER 16, 2008 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

BOARD MEMBERS:
Present:
Sangeeta Bhatia
Richard Kraus
Michael Perez
Kurt Stabel
Margaret Whelan

Staff:

Personnel:	Maryanne Keehn Steven Montagna Natasha Zuvich Ashley Stracke
City Attorney:	Anita Parys Vicky Williams

1. CALL TO ORDER

Mr. Kraus asked if there was a procedure in place for selecting an acting chairperson when both the chairperson and vice-chairperson are not in attendance. Mr. Montagna explained that staff was currently drafting a policy to address this issue. It was agreed upon by the Board members in attendance that Ms. Whelan would chair the current meeting. She called the meeting to order at 9:10 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

Mr. Kraus requested that on page three the turnover in regards to PIMCO be specified as personnel turnover. He further requested that his comment regarding National Save for Retirement Week reflect that he was impressed by the turnout at the Library Department specifically. Regarding page 7, Mr. Kraus requested that the minutes reflect that Ms. Dalton stated that there were regulatory issues affecting State Street but that she did not believe these related to the administration of the Fund. **A motion was made by Richard Kraus, seconded by Kurt Stabel, to approve the minutes of November 18, 2009; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION – DWS SCUDDER

Charles Franckowiak, Vice-President with DWS Investments, was present to review the performance of the DWS EAFE Equity Index Fund. Mr. Franckowiak began by noting that "Scudder" had been officially removed from the name. He then reviewed the fastest growing markets world-wide, noting that of the growth rates indicated on page 5 of his report the United States had the lowest at 2.5%. Mr. Perez asked how much of the world's total equities were outside the United States; Mr. Franckowiak indicated he did not know but would estimate approximately 60-70%. Mr. Kraus asked, of the countries indicated on the listing, how many were not included in the MSCI EAFE index; Mr. Franckowiak responded that he was unsure but did not believe any of these were excluded. Mr. Franckowiak indicated that the projected growth rates were as of 4/7/08 and since then prospects for growth had fallen sharply.

Mr. Franckowiak next indicated that the fund managers used a modeling or sampling process to keep trading costs low and reduce the potential for tracking error. He stated that in using sampling the managers first attempted to match the portfolio at country weighting, then make sure that the industry weightings were consistent with the index. He indicated that to the extent some companies found in the index were excluded from the portfolio, they tended to be smaller-sized firms possessing thin liquidity and higher relative trading costs. He then stated that the Fund performed very well with respect to tracking error.

Mr. Franckowiak next briefly reviewed the biography of the Fund manager, Shaun Murphy, who he indicated had taken over administration of the Fund approximately one year ago. He stated that September had been the worst in 20 years for the Fund, followed immediately by the worst October. He stated that through December 10th the EAFE index was down 45.53%, although the Fund was outperforming the index by about 1%. He indicated that in looking at 5-year performance number the Fund only trailed by six basis points even after taking into account the 47 basis point management fee.

Mr. Franckowiak then commented on general market conditions, indicating that weighing on markets going forward was the need to unwind a tremendous amount of leverage across the globe. He stated that investors had lost confidence in the world's financial systems but that some signs of stability were emerging. He indicated that with a tremendous amount of cash on the sidelines, and aggressive steps being taken by central banks and governments worldwide, he expected that the extreme risk aversion currently in display would gradually begin to wane. He stated that as things began to normalize fundamentals would return to prominence, aided by low inflation, additional liquidity from the Federal Reserve, and the fall in oil prices, noting that the latter was currently providing the equivalent of a $300 billion annual stimulus.

Mr. Kraus asked for comments regarding the Fund's Lipper rankings. Mr. Franckowiak responded that Lipper places the Fund in a slightly different and less accurate category than Morningstar, but that the Fund is still performing exactly as would be expected over a 5-year period. Mr. Kraus asked if there was anything more challenging about indexing in the current market, and Mr. Franckowiak replied that effectively managing trading costs through portfolio sampling was crucial in periods of sharp volatility and thin liquidity, and that this had benefited this Fund in recent time periods. He further indicated that currency exchange rates were also a factor as the stronger dollar had added to market declines. He indicated that in the third quarter of 2008, while in local terms markets were down 13%, including the impact of the dollar returns were down 20.5%.

Ms. Bhatia asked for comments regarding Northern Trust and its securities lending. Mr. Franckowiak responded that Northern Trust was a sub-advisor for this Fund, that he was not aware of any securities lending being done with the Fund, but he would research that further. He indicated that Northern Trust sub-advises but that Scudder-DeutscheBank complete the Fund regulatory filings.

This then concluded Mr. Franckowiak's presentation.

5. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Susan Dalton, Principal with Mercer Investment Consulting, was present to review performance for the Deferred Compensation Plan investment options. She began by providing a brief economic overview, indicating that in the third quarter of 2008 virtually all markets outside of U.S. Treasuries had fallen sharply. She then stated that the Plan had $2.6 billion in assets as of quarter end, with an average account balance of $65,000 and a median balance of $29,000. She stated that Hartford was the largest Plan option with 15.3% of assets. She indicated that the average fund management cost of 40 basis points was less than the institutional average of 70 basis points.

Ms. Dalton next reviewed the individual funds in the Plan. She stated that the Hartford Advisers Fund and Hartford Stock Fund were both under-performing and had been noted as "Unsatisfactory" in the report. She indicated that the stock portion of the Advisers Fund was essentially the same investment strategy used in the Stock Fund, and that both had thus suffered from under-weighting in key categories as well as poor stock selection. She indicated that although Lazard was still noted as not having satisfactory performance its numbers had improved of late.

Mr. Kraus asked if Ms. Dalton had any comments regarding Northern Trust and securities lending, and she replied that she would have to look into their securities lending practices and report back. Mr. Kraus then asked if the Plan really needed the Hartford Advisers fund, which was a balanced fund, when it already had its asset allocation funds. Mr. Montagna replied that it probably did not which was why the Investments Committee was considering a proposal to eliminate that offering. Mr.

Perez asked if the Plan should provide exposure to emerging markets, and Ms. Dalton agreed that it should and this should be addressed in the investment menu redesign. Mr. Stabel agreed that emerging markets should be a Plan option and observed that participants were probably under-invested in international stocks.

Mr. Perez asked for more clarity on the Board's investment policy and whether a Board action was necessary to place funds on watch. Mr. Montagna indicated that given the recent under-performance of the two Hartford funds it was appropriate to place them on Watch and that a formal recommendation for such would be forthcoming to the Board.

6. BOARD REPORT 08-49: FDIC-INSURED SAVINGS RFP

Mr. Montagna stated that staff recommended that the Board approve its proposed RFP for FDIC insured savings providers. He explained that the concept was to create a new core option made up of three financial institutions which would both expand FDIC insurance coverage for participants and provide the Board with the flexibility to move assets quickly should one of the institutions within the option become insolvent. Mr. Montagna also indicated that during the RFP pre-bid process, staff would stress to the vendors the importance of complying with the City's general contracting provisions, given the difficulties in this area with several recent RFPs.

The Board next reviewed the draft RFP. In reference to the first paragraph of page nine of the RFP, Mr. Kraus asked whether it was optimal to have financial institutions report the interest rate at the beginning of each calendar quarter or to have the interest rate quoted daily. Ms. Dalton stated that it would be possible to ask for a daily interest rate, however participants were accustomed to a quarterly fixed rate. In regards to number five on the same page, Ms. Bhatia asked if in the interest of full disclosure, the Plan should request that financial institutions report the fees and expenses to participants. Mr. Montagna stated that the Plan had taken this into consideration before, however, it was not a standard practice for banking institutions and if stated as a minimum qualification, it could drastically reduce the number of eligible institutions for the RFP. In regards to number thirteen, Ms. Bhatia requested that the RFP quantify what was meant by "sufficient deposit capacity." Mr. Montagna stated that this would be added to the RFP.

In regards to number fourteen on page nine of the RFP, Mr. Kraus requested that the parentheses be closed. He also asked if the Plan should request that the financial institutions provide the percentage of debt made up of sub-prime mortgages. Ms. Dalton stated that this information could be requested, but she believed it should only be seen as informational and not count against an institution if not submitted (Michael Perez left the room at 10:15 am). In regards to number fifteen on the same page, Ms. Bhatia asked if it was a requirement that the financial institutions be registered investment providers. Ms. Dalton stated that this was requested in the RFP for informational purposes and was not a requirement.

Mr. Kraus asked that number twenty on page fifteen refer to the Local Agency Security Program (LASP). Ms. Dalton stated that this clarification would be made. In regards to numbers twenty-six and twenty-eight, Ms. Bhatia asked why the financial institutions were requested to give information regarding filed complaints and litigation only from the past five years. Mr. Montagna stated that this was standard language for RFPs, however, staff could extend the time period to ten years. (Michael Perez rejoined the Board at 10:30 a.m.) **A motion was made by Richard Kraus, seconded by Michael Perez, to approve the amended draft Request for Proposal for FDIC-insured savings providers and authorize its immediate release; the motion was unanimously adopted.**

7. BOARD REPORT 08-50: BUDGET STATUS QUARTER ENDING 9/30/08

Ms. Zuvich stated that staff recommended that the Board approve the reimbursements for the quarter ending September 30, 2008. She stated that the Personnel Department, City Attorney, and DWP should be reimbursed $158,770.24, $25,285.57 and $2,795.02 respectively, which included the salaries and indirect costs of the 4.8 positions servicing the plan. She indicated that the indirect costs for the 2008/2009 fiscal year for the Personnel Department had increased to 88.53%, while those associated with the City Attorney decreased to 43.23%. She stated that the indirect costs associated with DWP had not changed. Ms. Zuvich noted that using the current assumptions, staff projected a $1 million surplus after ten years. She also indicated that assuming an 8.7% increase in Plan assets, the Plan would have a $1.5 million surplus after ten years. **A motion was made by Michael Perez, seconded by Richard Kraus, to approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for $158,770.24; City Attorney for $25,285.57; and DWP for $2,795.02; the motion was unanimously adopted.**

8. BOARD REPORT 08-51: REVISED ENROLLMENT FORM

Mr. Montagna indicated staff had been working with Great-West on a revised enrollment form. He stated that the goal of this project was to make the form more visual, logical, and otherwise user-friendly. He stated that this communication piece was redesigned to first and foremost make sense to the participant. Mr. Montagna noted one aspect different compared to the old form was having the asset allocation funds listed first and represented visually. He stated the next project would involve redesign of the distribution form.

Mr. Perez questioned the beneficiary portion of the form. He stated that the form should allow a participant to designate up to 50% of his/her account balance to an individual other than the participant's spouse, if they choose to do so. He requested that the form be reviewed to allow for this change, since California law requires only fifty percent of assets be considered community property. Mr. Montagna replied staff would research this with the Plan Administrator and City Attorney and, if change is warranted, implement the change.

Mr. Kraus questioned the wording “Mid-Company Stocks” versus “Mid-Cap Stocks” on the enrollment form. He indicated this might cause confusion among participants. He further suggested an explicit indication with the investment choices to represent the level of risk with the investment choice. Ms. Bhatia indicated there could be a problem if participants assumed that certain investments, such as bonds, are not risky. Mr. Montagna indicated one solution could involve adding a bar next to each category with a legend. Mr. Robison from Great-West Retirement Services stated that local representatives inform participants that bonds also could have risk, especially during an interest rate trough. Mr. Perez recommended adding a short explanation of the investment choices. Mr. Montagna replied that the intention was to reduce the total verbiage and clutter on the form, and that the form was part of the enrollment booklet, where additional information regarding the funds was already present.

Ms. Bhatia asked whether this revised enrollment form would be available online. Mr. Montagna responded the Plan was moving toward online enrollment. Ms. Bhatia stated that with the website functionality, a participant could learn more information about each fund. **A motion was made by Richard Kraus, seconded by Michael Perez, to receive and file the submitted revised enrollment form for the Deferred Compensation Plan; the motion was unanimously adopted.**

9. BOARD REPORT 08-52: PENSIONS & INVESTMENTS CONFERENCE

Mr. Montagna indicated one Board member had expressed an interest in attending the Pensions and Investments East Coast Defined Contribution Conference in Miami Beach, Florida. Mr. Montagna stated the Board would need to approve the necessary funding. Ms. Whelan asked Mr. Montagna to explain the conference. Mr. Montagna noted that the conference addresses all Defined Contribution Plans, not just 457 Plans. He further stated that the National Association of Government Defined Contribution Administrators (NAGDCA) is the only conference focused on 457 Plans specifically, while the Pensions and Investments Conference tends to be focused more on the private sector 401(k) world.

Ms. Whelan next asked for the costs associated with one Board member’s attendance at the Pensions and Investments Conference. Mr. Montagna responded that there was no registration fee necessary, as a result of the Plan winning one of the Eddy Awards, so the cost would be for airfare, hotel, etc. Ms. Whelan asked how the Plan won the award. Mr. Montagna replied that the Plan was a winner as a result of the “Premiere” communication materials. He further stated that the Eddy Awards recognize the best practices in Defined Contribution investment education.

Mr. Perez indicated he was concerned with attending conferences during this difficult economic environment when participants had experienced significant losses in their accounts. Mr. Kraus stated the Board had set aside funding to allow for additional education opportunities and he was comfortable with having someone attend. A motion was then made by Richard Kraus, seconded by Kurt Stabel, to approve the necessary funding for one Board member’s attendance to the Pensions and Investments East

Coast Defined Contribution Conference; the motion failed by vote of 4-1 (Bhatia, Kraus, Stabel, and Whelan in favor; Perez opposed). Staff indicated the matter would return for reconsideration at the next Board meeting.

10. BOARD REPORT 08-53: STAFF REPORT

Mr. Montagna gave a brief overview of events and projects staff was currently involved with. He stated that staff was drafting an update report to be submitted to the Personnel Committee. He next explained that the Investments Committee requested additional information regarding the finalists for a passively managed mid-cap fund. He stated that the Committee would be meeting again to review the information in January or February.

Mr. Montagna continued with the report by stating that staff had encountered difficulties in establishing an Individual Retirement Account. He explained that it appeared that the development of an IRA and the redesign of the core investment options would need to be concurrently considered by the Investments Committee.

Mr. Montagna next explained that staff was creating goals and metrics for the Plan. He indicated that staff would start by creating goals and metrics for the Communications function since it was the largest operation of the Plan. He stated that staff would come back to the Board for input during the process.

Mr. Montagna concluded by explaining that the Fiduciary Responsibility presentation and the creation of Board by-laws had been placed on hold until the City Attorney's Office designated a new attorney for the Plan. He stated that staff would inform the Board once the attorney was appointed. Mr. Perez asked if information regarding an investments policy would be part of the Board by-laws. Mr. Montagna stated that the by-laws were intended to codify the operation of the Board Meetings and formalize policies such as the Request for Proposal process, and that an investment policy document would be separate.

11. REQUEST FOR FUTURE AGENDA ITEMS

None.

12. NEXT MEETING DATE – JANUARY 20, 2008

13. ADJOURNMENT

Before adjourning, Ms. Whelan recognized Mr. Montagna for his service to the Deferred Compensation Plan. She indicated that his performance was outstanding and that he had a genuine passion for the Plan and participants. She then presented him an award on behalf of the Board for his work at the 2008 National Association of Government Defined Contribution (NAGDCA) conference. **A motion was then made by Margaret**

Whelan, seconded by Sangeeta Bhatia, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 11:09 a.m.

Minutes prepared by staff members Steven Montagna, Natasha Zuvich, and Ashley Stracke.