CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF MARCH 18, 2008 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

Board Members:
Present:
Eugene K. Canzano
Michael J. Carter
Richard Kraus
Rick Rogers

Staff:

Personnel:	Steven Montagna, Personnel
	Natasha Zuvich, Personnel
	Ashley Stracke, Personnel
	JoAnn Dominguez, Personnel
	Richard Bobb, City Attorney
	Vicky Williams, City Attorney

1. CALL TO ORDER

Eugene Canzano called the meeting to order at 9:03 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Mike Carter, seconded by Richard Kraus, to approve the minutes of February 19, 2008; the motion was unanimously adopted.

(Note: Items 4, 5, and 6 were heard out of order in order to accommodate the schedules of the presenters)

5. INVESTMENT PROVIDER PRESENTATION: GALLIARD CAPITAL MANAGEMENT

Mike Norman, Vice President with Galliard Capital Management, was present to review performance for the Galliard Stable Value Fund. Mr. Norman began by indicating that Galliard presently had $30 billion in assets under management, including $5.7 billion added in 2007. He said the firm had been growing, adding new staff and new technology. He provided a review of the current market environment, noting that recent changes to the U.S. Treasury yield curve indicated a flight to quality following recent economic and market distress. He further indicated that inflation had begun increasing even as interest rates were declining.

Mr. Norman next stated that the Plan's holdings were held within the Wells Fargo Stable Return Fund and that this fund had outperformed its benchmark 100% of the time since inception in 1985 when looking at rolling 3-year and 5-year periods. He further stated that management at the Fund had not changed since 1985. He stated that all current holdings in the Fund were rated AA or better, but noted that over the past year the Fund had lagged its benchmark due to distortions in the Treasury bill market resulting from the extreme conditions in the credit markets and flight to quality.

He indicated that total assets in the Stable Return Fund were $10.5 billion and the current yield was 4.88%. He stated the Fund was broadly diversified and had suffered no material impact due to the turmoil in the fixed-income markets. He indicated that the Fund had only a 2% allocation to sub-prime investments, but all were rated AAA. He stated the Fund had not purchased any of the holdings which had proved to be particularly problematic in the current credit crisis, and that they had been avoided specifically because the Fund managers could not identify the real collateral of the holdings. He stated that the Fund currently held 8% in its cash buffer in order to meet liquidity needs.

Mr. Norman indicated that the Fund's objective was to keep performance consistent over time, and added that its performance relative to peers had helped it maintain a consistent growth rate, with only one year (2006) of declining assets. He reviewed the Fund's holdings and noted that the firm felt very confident about all of its underlying providers.

Mr. Canzano asked Mr. Norman to verify his interpretation of the charts on page 6 of the report. Mr. Norman replied that the charts indicated that the Fund had consistently outperformed its peers, and was not adding volatility to the portfolio in order to generate return. This concluded Mr. Norman's presentation.

6. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Terry Dennison of Mercer Investment Consulting was present to review investment performance for the Plan for periods ending 12/31/07. Mr. Dennison began with a market overview, indicating that what was presently occurring in the financial markets was a re-pricing of risk. He indicated that risk had gone from being severely under-priced to currently very expensive. He stated that the Federal Reserve had been lowering interest rates to combat the economic slowdown but that the impact of this course of action on the value of the U.S. dollar was a problem if the European Central Bank did not reduce interest rates concurrently. He indicated that, absent this action from oversees, a significant carry trade could develop between the U.S. dollar and the euro.

Mr. Dennison next went on to state for the record that the Plan offered a broad range of investment choices sufficient to provide participants with the opportunity to diversify their investments. He further stated that the Plan's fees were substantially lower than average fees for similar investments. He indicated that both Lotsoff and Capital Guardian were continuing to perform poorly but that the Board had already made decisions to eliminate these funds. He indicated that with these eliminations the Plan had only one problematic fund and that was the Lazard Mid-Cap Fund. He reviewed some of the factors involved in Lazard's under-performance.

Mr. Rogers noted some discrepancies between Galliard's performance and the benchmarks they used, and asked how appropriate and reliable these benchmarks were for measuring performance. Mr. Dennison illustrated some of the complexities of benchmarking a stable value fund given that it provides an alternative to money market rates of return. Mr. Montagna indicated that when there was a discrepancy between a benchmark used by a provider and one used by a consultant, the Board should consider the consultant's benchmark the final arbiter for measuring performance. Mr. Kraus asked why such a disparity existed between the two benchmark components used by Galliard, and Mr. Dennison replied that they represented two different components of measuring performance that would not always be consistent with one another over short periods of time. Mr. Kraus further asked whether it was important to review whether the fund had strayed from the objectives that had been established in the original Request for Proposal, and Mr. Dennison replied that such consistency was an important level of analysis as well.

Mr. Carter questioned the performance discrepancies for the international fund, and Mr. Dennison explained some of the complexities involved in international benchmarking due to exchange rates and liquidity of some of the corporations. Mr. Kraus asked whether it was appropriate to ensure that fund managers did not stray from their investment objectives. Mr. Dennison indicated that this was an important level of analysis, but agreed with Mr. Montagna that fund objectives may change over time for other reasons and that it was important to make adjustments in benchmarks to accurately measure performance.

Mr. Montagna asked Mr. Dennison if, given some of the concerns about Lazard's recent performance, it would be wise for the Board to look at the possibility of adding a passively managed mid-cap fund. Mr. Dennison indicated he would support a review of this matter. Mr. Kraus indicated that adding a passively-managed mid-cap fund would also help to round out the underlying components of the Plan's Profile Funds.

Mr. Kraus questioned why the consultant's report did not reflect elimination of the Capital Guardian U.S. Equity Fund, and Mr. Montagna indicated this was likely because that decision was made separately from the consultant's investment review and for reasons in addition to fund under-performance. Mr. Carter asked Mr. Dennison what he thought about adding a Real Estate Investment Trust (REIT). Mr. Dennison replied that adding a REIT or Treasuring Inflation Protected Security (TIPS) fund were both worthy of consideration, and explained the different types of REIT funds. Mr. Canzano asked about the impact of rate cuts by the Federal Reserve. Mr. Dennison replied that the risk for the Federal Reserve was weakening of the dollar and inflation.

Mr. Dennison's presentation concluded.

4. TRANSITION PLAN: SELF-DIRECTED BROKERAGE OPTION

Usha Archer and Rick Kramer, both of Great-West Retirement Services, were present to present Great-West's proposed timeline for transition of the Fiserv OptionsPlus program to Charles Schwab as the new Self-Directed Brokerage Option (SDBO) provider. Ms. Archer indicated that the timeline as indicated in the Great-West report was fluid since all the details had not been worked out between the two providers. She indicated that after review of the funds held by participants in OptionsPlus there were only a handful that were not available with Charles Schwab. Mr. Rogers asked whether this was a problem of individual funds or fund families not being available, and Ms. Archer replied that it was an individual fund issue.

Ms. Archer next discussed that the blackout period indicated was somewhat unusual because the way funds were held by Fiserv required manual re-registration. She indicated that the plan was to begin the re-registration process immediately but that to complete the process required the cooperation of the underlying fund managers. She indicated that as assets were re-registered they would open up to trading under Charles Schwab. She indicated that the proposed timeline was conservative because of some of the unknowns associated with this manual re-registration process.

She next made reference to draft correspondence to Plan participants regarding the transition, stating that the language might change pending further internal review by Great-West. Mr. Rogers asked whether individuals who held unavailable funds would be contacted directly by Great-West, and Ms. Archer indicated they would. Mr. Carter asked if DROP participants might receive marketing solicitations from Schwab for some of their products, and Ms. Archer replied that Great-West's contract with Schwab had a no-marketing clause but that this would need to be monitored closely.

Mr. Kraus asked what would happen to bi-weekly deferrals during the transition period and Ms. Archer indicated she would have to research this and respond later. Mr. Canzano asked about the availability of the Fidelity Magellan Fund under Charles Schwab and Mr. Montagna and Ms. Archer clarified that the Fund would be available immediately at the time of fund termination for individuals who were in OptionsPlus, and that those funds would then be eligible to be transferred over to Charles Schwab. Mr. Canzano asked if new participants would be eligible to enroll in Schwab at the time of initiating the transition, and Mr. Kramer indicated he believed that was the case. Mr. Canzano asked if the current $75 fee would be the same, and Ms. Archer indicated it would.

Mr. Montagna indicated that staff's recommendation, based on the report from Great-West, was for the Board to approve defaulting any assets held by OptionsPlus participants in funds not offered by Charles Schwab into the Schwab money market account. As a result, **a motion was made by Mike Carter, seconded by Rick Rogers, to approve establishing the Charles Schwab money market account as the default holding for liquidated OptionsPlus mutual funds not held by Charles Schwab; the motion was unanimously adopted.**

7. BOARD REPORT 08-06: TWO-LOAN POLICY FOR LOAN PROGRAM

Mr. Montagna indicated that staff was recommending the Board approve a change to the Plan's loan policy to permit two loans. He stated that originally the Plan had set up the loan program to permit only one loan because loans were new to the City's Plan as well as to the government sector generally, but that given the success of the program as well as current financial difficulties being experienced by participants, staff believed it made sense to add greater flexibility.

Each Board member expressed his support for the change. Mr. Canzano asked a question regarding whether the loan program would affect the highest-balance rule. Ms. Archer responded that it would not change the rule but that both loans would be taken into account in calculating the formula.

Following this discussion, **a motion was made by Rick Rogers, seconded by Mike Carter, approving a change to Plan Document provisions regarding the Deferred Compensation Plan Loan Program to permit a maximum of two simultaneous loans which participants may take from their accounts; the motion was unanimously adopted**.

8. BOARD REPORT 08-07: BOARD ELECTIONS

Mr. Montagna briefly discussed upcoming elections for the Board's LACERS and Pensions representatives. He indicated that the Board's process would look very similar to the process used by the retirement systems for their elections.

9. BOARD REPORT 08-08: DWP BENEFITS STATEMENT

Mr. Montagna reviewed a situation involving theft of confidential information for Department of Water and Power (DWP) employees. He stated that Great-West staff and Personnel Department staff had been working with DWP to institute some additional security precautions to help protect employees. He indicated that the primary concern was to protect against fraudulent loans, but that since all checks issued by the Plan are required to go to a member's address of record, the focus was on creating additional protections in for address changes as well as ending the practice of issuing temporary PIN numbers over the phone.

Mr. Canzano indicated that he had been informed that the stolen computer equipment had been recovered and no identity theft had been apparent. Mr. Montagna stated that he wished to acknowledge Great-West's support and efforts on this project, which he noted were made without requesting compensation as might occur with other contractors. Mr. Canzano thanked Great-West for its support.

10. BOARD REPORT 08-09: RESPONSE TO CITY COUNCIL REGARDING GREEN FUNDS

Mr. Montagna indicated that pursuant to last month's Board action staff had drafted a response to the City Council concerning Green funds. He stated that as part of this report, staff had researched the availability of green funds in the current and new brokerage windows, and it appeared that much more in the way of socially responsible investing would be available under Charles Schwab. He indicated that one of the points made in the report was that offering just one green or socially responsible fund might not be very effective because there's such a variation in how they're constructed and because people have different values that are important to them in socially responsible investing.

Board members expressed their support for the report. Following this discussion, **a motion was made by Richard Kraus, seconded by Mike Carter, approving the draft response to City Council; the motion was unanimously adopted.**

11. BOARD REPORT 08-10: ANNUAL REPORT, GREAT-WEST QUARTERLY STATISTICS REVIEW, AND COMMUNICATIONS REPORT

Ms. Archer, Mr. Kramer and Gary Robison of Great-West staff, and Natasha Zuvich of Personnel Department staff, briefly presented the draft 2007 annual report and quarterly statistics review for the periods ending 12/31/07. Highlights of the reports were noted. Mr. Canzano asked about the substantial percentage shift in small-cap vs. large-cap assets, and Mr. Montagna replied that this was due to the reclassification of the Hartford Advisers Fund from mid-cap to large-cap.

Mr. Robison reviewed the Great-West Communications Report. He noted various activities of local staff. Mr. Rogers asked for clarification on what was meant by corrections to the website. Mr. Robison indicated that the website was constantly reviewed for issues such as faulty redirects or non-functional links as participants navigated through the site.

12. BOARD REPORT 08-11: STAFF REPORT

Ms. Zuvich indicated that an Investments Committee meeting would be held on March 26, 2008, and the agenda for it would be issued later on in the week. She indicated that the Investments Survey would be released on March 26 and that results/analysis would be presented to the Board approximately two months following issuance. Finally, she reviewed hardship applications for the month of February. Mr. Canzano asked if “Denial Without Prejudice” should be removed since it was not a “Distribution Reason.” Ms. Zuvich indicated she would correct this for the next report.

13. REQUESTS FOR FUTURE AGENDA ITEMS

None.

14. NEXT MEETING DATE – APRIL 15, 2008

15. ADJOURNMENT

The meeting adjourned at 11:00 a.m.

Minutes prepared by staff member Steven Montagna.