CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF MAY 20, 2008 – 9:00 A.M.
200 N. SPRING STREET, ROOM

Board Members:
Present:
Maggie Whelan, Chairperson
Bill Stein, Vice-Chairperson
Eugene K. Canzano
Richard Kraus
Rick Rogers

Staff:

Personnel:	Maryanne Keehn Ashley Stracke Steven Montagna JoAnn Dominguez
City Attorney:	Richard Bobb

1. CALL TO ORDER

Maggie Whelan called the meeting to order at 9:06 a.m.

2. PUBLIC COMMENTS

Andy Potter of the Service Employees International Union (SEIU) indicated he was present to express the union's concerns regarding Lazard Capital Management, an investment manager with the Plan. Mr. Potter indicated he understood that the Plan's Lazard Mid-Cap Fund had experienced recent performance problems. He stated that SEIU was concerned with Lazard's involvement in suppressing union activity in a company called Atria Senior Living; its role in advising Bear Stearns on the value of its firm which SEIU believed worked to the detriment of shareholders; and its involvement in municipal bond scandals. Mr. Potter asked that the Board keep these concerns in mind as it continued to monitor the Fund and the firm over time.

3. MINUTES

A motion was made by Bill Stein, seconded by Eugene Canzano, to approve the minutes of April 15, 2008; the motion was unanimously adopted.

4. INVESTMENT PROVIDER PRESENTATION: WASHINGTON MUTUAL BANK

(note: Richard Kraus entered the meeting several minutes after this presentation began)
Milt Bledsoe, Vice President; Brian Dodge, Government Investment Manager; Peter Freilinger, Senior Vice President; and Glen Simecek, First Vice President; all of Washington Mutual Bank,

were present to provide an investment review of the Washington Mutual Liquid Account and Certificates of Deposit (CDs). Mr. Bledsoe began by noting his over 20-year relationship with the City's Plan. Mr. Freilinger then provided a review of the current status of the organization, indicating that Washington Mutual was the 6th largest bank, the 6th largest credit card issuer, and the 1st in multi-family portfolio holdings. He noted the Bank's presence in 18 of the 30 largest metropolitan areas.

Mr. Freilinger next reviewed the Bank's funding base, stating that 47% came from retail deposits and only 11% from institutional non-retail deposits. He stated that at the end of March 2008 the Bank had $50 billion of excess liquidity and expected to grow that by an additional $30-40 billion before the end of the year.

He indicated that the Bank had struggled recently in its mortgage business, particularly that portion involved in loans to sub-prime borrowers. He stated the bulk of the losses had occurred with loans generated through broker relationships, not loans issued through branches, and that as a result the Bank had shut down its wholesale and broker mortgage lending operations and refocused on branch lending. Reviewing the overall loan portfolio mix, he indicated that the Bank's credit card business had experienced recent success in connection with its purchase of Providian. He further noted that the Bank was also significantly involved in loans for multi-family units in the range of $1-2 million.

Mr. Freilinger next discussed the fact that the Bank had sufficient excess capital to weather the current difficult environment. He stated it had 360 basis points of excess capital over and above federal regulatory requirements, and that the Bank had experienced growth in its small deposit activity. However, he stated, the current challenges were not over yet and as a result the Bank would continue to take steps to protect assets and assist customers by helping homeowners stay in their homes where possible, and when not possible by easing the foreclosure process.

Mr. Dodge spoke next, first reviewing asset protections in place for investors with the Bank. He indicated that Federal Deposit Insurance Corporation (FDIC) insurance provided guarantees of up to $250,000 for each individual account holder, and that a second line of protection existed through the California Local Agency Security Program (LASP). He stated that this program specifies a necessary level of collateral for all deposits representing 110% of the account values, and that the Bank has averaged an additional $26 million over and above this amount.

Mr. Dodge next reviewed specific information for the City's Plan participants, noting that there were 9,843 participants with assets in excess of $350 million, and that 298 of these participants had assets above the FDIC coverage threshold of $250,000. He indicated that 12.7% of all the City's Plan assets were held in Washington Mutual products, and the Washington Mutual Liquid Account was the most popular option in the Plan. Mr. Dodge also reviewed current rates, noting that CD rates were generally in line with competitors' rates while the Liquid Account was providing a premium of 1.5% above the average money market fund. Finally, he reviewed some of the local area grants made by Washington Mutual, which totaled $7.2 million in 2007.

Mr. Kraus asked for clarification of the rating system used in the presentation booklet and whether those ratings had declined, and Mr. Freilinger indicated that the rates had been falling but appeared to have stabilized in the last few months. Mr. Kraus next asked for comments regarding what he understood was a recent contentious shareholders meeting. Mr. Freilinger indicated that he had attended this meeting and that it had indeed been contentious over issues such as executive compensation.

Mr. Kraus next posed some general rhetorical questions with respect to the impact of fees on low-yielding bank deposits as well as whether the Plan should be taking steps to examine why so much of Plan assets were held in savings products. Mr. Montagna replied that although education in this area was an ongoing challenge, it could also be true that many participants, particularly retired ones, might have holdings in savings as a way of managing risk.

5. BOARD REPORT 08-16: RFP FOR CONSULTING SERVICES

Mr. Montagna indicated that staff was recommending Board approval of a draft RFP for Plan Consulting Services, including proposed rating factors, and to further approve a proposed review committee structure. He stated that the Board had previously authorized drafting of the RFP to provide opportunities to contract with multiple best-of-class service providers. He indicated that with respect to the structure of the review committees, the intent was to make use of the new resources coming to the Board with the addition of the managers of the City's three retirement programs in July.

Mr. Stein asked when the current consultant contract expired and the timing of the release of the RFP. Mr. Montagna replied that the current contract expired in December 2008 and that the RFP process should take several months to complete. Mr. Kraus asked for an explanation of the differences in the rating factors. Mr. Montagna indicated most of the differences were a result of the use of performance tests in two of the three consulting areas. Mr. Rogers asked if the questionnaire asked for client references, and Mr. Montagna indicated that it did. He then asked if consultants could be required to be fiduciaries to the Plan and to submit ADV filings and document SEC registration. Mr. Bobb replied that he would have to research this. Mr. Montagna indicated he could work with Mr. Bobb to clarify this issue and determine how it might be addressed in the RFP.

Mr. Rogers then suggested switching the Pensions and LACERS representatives in the proposed review committee structure given the size of Pensions' assets under management and LACERS' recent efforts with communications. Staff and other Board members indicated their support of this. Mr. Rogers asked if Board members would serve on these review committees, and Ms. Whelan indicated they could not as a result of a recent Mayor's Directive. A question then arose as to whether a conflict of interest would exist if the retirement system managers designated one of their staff members to serve on a committee, given the prohibition on Board members serving on review committees. Mr. Bobb indicated he would have to research this. Mr. Montagna indicated that in the RFP for Plan Administration each member signed a confidentiality agreement and that a similar approach could be used for this RFP. Ms. Whelan suggested expanding this to include the retirement plan managers, and Mr. Kraus suggested expanding it to the entire Board.

Mr. Kraus then indicated that he appreciated some of the questions in the RFP, particularly those which were more practical and situational in nature, because they related to issues the Plan was pursuing. Following this discussion, **a motion was made by Bill Stein, seconded by Eugene Canzano, approving and authorizing the immediate release of the proposed Consulting Services Request for Proposal (RFP), including proposed rating factors and weights and as modified pending review of items raised in discussion, and providing tentative approval for a general structuring of RFP Review Committees, including switching the Pensions and LACERS panelists, subject to final approval of their specific composition at the July 2008 meeting or later; the motion was unanimously adopted.**

6. BOARD REPORT 08-17: RFP FOR RUSSELL 2000/MID-CAP INDEX FUNDS

Staff indicated this report contained three separate recommendations: a recommendation from the Investments Committee to add a passively managed mid-cap fund to the City's core investment menu; a recommendation to approve a draft RFP combining a search for the mid-cap fund with a search for a passively managed small-cap fund which staff had previously been preparing because the Plan was coming to the end of a 5-year contract with the incumbent provider; and a consultant recommended re-composition of the Plan's Asset Allocation Funds to include the passively managed mid-cap component. Mr. Montagna indicated that the Board's consultant, Mercer Investment Consulting, would begin by providing a presentation regarding mid-cap index funds.

Susan A. Dalton, Principal with Mercer Investment Consulting, began by indicating that Mercer supported the addition of a Mid-Cap Index Fund to the City's core investment menu. She indicated that two indices existed for measuring the performance of mid-cap stocks, and that given the limited number of fund managers (8-10) in the passively managed mid-cap space Mercer recommended that the RFP be structured to permit proposals based upon either index.

She next reviewed the differences between the two indices, stating that the S&P Mid-Cap 400 had a smaller market capitalization and average market cap than the Russell Mid-Cap. She indicated that both indices had periods where they had out-performed the other, with the S&P Mid-Cap having done so over longer time periods and the Russell Mid-Cap having done so over shorter periods. Mr. Kraus asked about a question he had raised in Committee regarding the potential for the Russell Mid-Cap creeping into the large-cap space over time. Ms. Dalton replied that presumably large-cap firms would see their capitalization grow concurrently and that Mercer did not view this as a significant concern.

Following this discussion, **a motion was made by Eugene Canzano, seconded by Bill Stein, to approve the recommendation of the Investments Committee that a Mid-Cap Fund be added to the Deferred Compensation Plan core investment menu and to approve the proposed Request for Proposal for Russell 2000 Index and Mid-Cap Index Investment Management Services; the recommendation was unanimously adopted**.

Discussion next turned to the proposed restructuring of the Asset Allocation Funds. Ms. Dalton and Susie Ardeshir, Analyst with Mercer Investment Consulting, reviewed the proposed new allocations, noting that they addressed not only the inclusion of the mid-cap component but also expanded international stock exposure and bond exposure in certain profiles in order to achieve a similar level of expected return with a reduced level of risk. Mr. Kraus asked if the expected future returns with the new allocations would stand up to back-testing. Ms. Aredeshir indicated that they should given that the components of the profiles are all index funds and simply represent the performance of various market segments over time. Mr. Kraus then asked whether the composition of the asset allocation funds should be periodically reviewed, and Ms. Dalton replied that they should be reviewed every 3-5 years.

Following this discussion, **a motion was made by Bill Stein, seconded by Eugene Canzano, to approve the consultant's proposed re-composition of the Plan's Asset Allocation funds; the motion was unanimously adopted**.

7. BOARD REPORT 08-18: SELF-DIRECTED BROKERAGE OPTION

Mr. Montagna indicated that the transition of the Self-Directed Brokerage Option (SDBO) was proceeding smoothly, and that very little negative participant feedback had been received. He next indicated that the staff report contained correspondence from the Los Angeles Police Protective League urging consideration of adding individual stocks to the brokerage window. He stated that staff's recommendation was that the Board direct staff to conduct a comprehensive analysis of this issue and to report back to either the Investments Committee or the full Board.

Corina Lee of the LAPPL was present and indicated that she would prefer that this issue be addressed sooner rather than later given that within approximately six months a large number of DROP participants would be retiring, and this issue was of particular concern to them. Given this, the Board decided to have staff report back directly to the full Board rather than having the issue heard first in Committee. Following this discussion, **a motion was made by Rick Rogers, seconded by Richard Kraus, directing staff to prepare a policy review/presentation for consideration by the full Board regarding permitting trading of stocks/bonds and exchange-traded funds in the SDBO; the motion was unanimously adopted.**

8. BOARD REPORT 08-19: BUDGET STATUS REPORT-QUARTER ENDING 03/31/08

Mr. Montagna indicated this budget review covered the first quarter of 2008. He indicated that these reports would henceforth include additional tables to provide the Board with backup data for some of the lead numbers in the report.

Mr. Canzano asked what options existed if the Plan's revenue and expenses began to fall out of balance. Mr. Montagna replied that there were a number of steps that could be taken, including reviewing consulting and personnel costs. Ms. Whelan asked if reinstating the payroll fee was an option. Mr. Montagna indicated it was, although a fee increase was the least desirable option from staff's perspective. Ms. Whelan indicated that she would be disinclined to reduce services if a modest fee increase would suffice. Mr. Montagna reminded the Board that the five-year projections were very theoretical and that all of staff's modeling used very conservative assumptions. He stated that fairly minor adjustments in the actual growth of Plan assets could create the potential for additional surpluses. Mr. Stein indicated that the Plan Governance Committee had planned to review the budget accounts on an annual basis and could review some of these issues more substantively then.

Following this discussion, **a motion was made by Bill Stein, seconded by Rick Rogers, to approve reimbursements from the Deferred Compensation Plan Reserve Fund accounts to the Personnel Department for $125,302.18; City Attorney for $26,190.83; and DWP for $2,795.02; the motion was unanimously adopted**.

9. BOARD REPORT 08-20: BOARD ELECTIONS

Mr. Montagna indicated that the elections process continued to proceed smoothly. He stated that the next event would occur at the end of the week when the official notice of election was posted. He further stated that ballots would be mailed the following week and due prior to the next Board meeting, although results would not be available until June 27th. The item was noted as having been received and filed.

10. BOARD REPORT 08-21: NAGDCA CONFERENCE

Mr. Montagna indicated that staff was requesting approval from the Board for funding for this year's NAGDCA Conference. He stated staff could assist with room reservations since some availability issues already existed, particularly with respect to nights immediately preceding the conference. Regarding air reservations, he indicated staff was advising that individuals hold off on making those purchases until after approval from the Mayor's Office had been approved. Mr. Canzano asked how likely it was that the Mayor's Office would not give approval. Ms. Whelan indicated that she did not see any reason for not approving the request, but that recently travel requests had taken longer than usual to process. Following this discussion, **a motion was made by Richard Kraus, seconded by Bill Stein, to approve the necessary funding for available Board members and staff to attend the 2008 NAGDCA conference in Baltimore, Maryland; the motion was unanimously adopted.**

11. BOARD REPORT 08-22: STAFF REPORT

Mr. Montagna indicated the report was brief but that staff was pleased to report that Natasha Zuvich would be returning to her former position. He further noted that hardship activity had been very light for the month of April.

12. GREAT-WEST QUARTERLY PLAN REVIEW

Gary Robison of Great-West Retirement Services was present to discuss Plan statistics for the quarter ending 03/31/08. He indicated that Plan assets had fallen back with the first quarter's market decline but participation continued to grow. He reviewed cash flows and indicated that a significant amount of money had exited the stock funds and flowed into the Washington Mutual Liquid Account. He noted that the Plan's asset allocation funds continued to grow as a percentage of overall Plan assets, and now represented 5.1% of the total.

Mr. Robison next reviewed group meeting activity. Ms. Whelan asked if Great-West had experienced any problems in obtaining access to recruits at the Police Academy, and Mr. Robison replied that they had not. He then discussed rollover activity. Ms. Stein asked if Grat-West believed that the roll-outs were unusual or represented significant numbers of retirees exiting the Plan. Usha Archer, also of Great-West Retirement Services, was present and indicated that she did not believe this was the case, and that the City actually had very low levels of funds rolled out of the Plan compared to other plans. Mr. Kraus asked about the labeling of the chart for hardship reasons. Mr. Montagna indicated that the chart should be made consistent with the chart presented in its monthly staff reports.

13. REQUESTS FOR FUTURE AGENDA ITEMS

None.

14. NEXT MEETING DATE – JUNE 17, 2008

15. ADJOURNMENT

The meeting adjourned at 11:12 a.m.

Minutes prepared by staff member Steven Montagna.