

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES  
REGULAR MEETING OF JUNE 17, 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

Staff:

Personnel: Maryanne Keehn  
Steven Montagna  
Natasha Zuvich  
Ashley Stracke

City Attorney: Richard Bobb

1. CALL TO ORDER

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

2. PUBLIC COMMENTS

None.

3. MINUTES

Mr. Montagna noted that Richard Kraus had contacted staff with several proposed corrections to the minutes, which staff had drafted into a revised version now distributed to the Board. Mr. Montagna briefly reviewed the changes. **A motion was then made by Bill Stein, seconded by Eugene Canzano, to approve the minutes of May 20, 2008, as amended; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION: LAZARD CAPITAL MANAGEMENT

Steve Simpkin, Vice President Business Development, and Christopher Blake, Managing Portfolio Manager, were present to review performance for the Lazard U.S. Mid Cap Equity Portfolio. Mr. Blake began the presentation by indicating that the performance of the fund for the prior seven months had been unacceptable. He stated

that in his 13 years managing the Fund he had encountered three difficult periods including 1999, 2003 and the current period. He indicated that commodities were the driving force behind the current under-performance, noting that there were fully nine market sectors the Fund was not invested in because of the commodity run-up. He acknowledged that there had been some stock-picking mistakes, but could attribute four hundred basis points of under-performance to commodity volatility.

He drew the Board's attention to a chart illustrating the wide divergence in performance for four sectors (Materials, Energy, Industrials and Technology) of the S&P 500 vs. the rest of the S&P 500. He noted that the former grouping essentially represented exposure to emerging markets and the balance represented the U.S. domestic market. He noted that this kind of wide divergence was unsustainable and that the commodity boom could not continue indefinitely. He stated that foreign demand was driving the price increases, and provided as an example copper demand, which was up 3% in the past year, with 90% of that increase attributable to increased demand from China.

He indicated that despite this commodity boom the Fund was going to stick to its discipline in terms of stock selection, which was focused on free cash flow. He indicated that over longer period of time the Fund had been in the first or second quartile 91% of the time. He stated that there were 790 names in the Russell Mid-Cap Index, and of the top 25 firms, 20 of those were in the oil and steel industry.

Mr. Kraus asked Mr. Blake to respond to the observation that in looking at the year-over-year results posted on page 5 of the report it appeared that the Fund had under-performed its benchmark seven out of the eleven periods noted. Mr. Blake responded that thematic markets such as the one experienced recently were difficult to understand, and that over the last two years markets had been wrestling with two conflicting concepts: anticipation of an economic slowdown vs. a belief that global growth would prevent that from being severe. Mr. Kraus responded that the issue the Board struggled with was when deviation from a benchmark should be forgiven and when it shouldn't.

Mr. Kraus next asked the Lazard representatives to respond to questions that he had been requested to pose as the Board's Labor Representative. Specifically, he asked the representatives to provide comment on Lazard's relationship to Atria Senior Living and allegedly retaliatory terminations of pro-union workers at Atria; Lazard's potential conflict of interest in advising Bear Stearns shareholders on the fairness of Bear's sale to JP Morgan, while Lazard itself derived an apparently significant benefit from the completion of the deal; and finally, corporate governance practices that allegedly disenfranchise Lazard shareholders, including a dual-class stock structure and a combined Chairman/CEO position.

Mr. Blake responded by indicating that Lazard Asset Management and Lazard Limited were two distinct organizations and he was not overly familiar with these issues, but that it was his understanding that Lazard had ended its business relationship with Atria in 2005 prior to when the alleged retaliatory actions had occurred. He indicated that Lazard Limited was established as an independent advisory firm and he was not aware

of anything improper about its advice to Bear Stearns. Finally, he indicated that he was not aware of any governance practices on the part of the firm that were not in the best interests of shareholders. Mr. Canzano asked if Lazard could verify the timeline regarding when Lazard had ended its connection to Atria, and Mr. Blake indicated he would have to research this. Mr. Canzano further noted that while the Fund appeared to sometimes under-perform in up markets it also seemed to outperform during down markets.

Two members of the public, Bob Schoonover of the Service Employees International Union (SEIU) and Plan participant, and Jojo Adeyemi, formerly employed with Atria Senior Living, were present to offer comments. Mr. Adeyemi began by indicating that he had worked as a dishwasher at Atria for minimum wage and related concerns about Atria's work practices and employment policies. He indicated he had been terminated without cause by Atria following attempts to organize employees, and that Atria had spent millions on anti-union activities. Mr. Schoonover indicated he was concerned about the issues raised by SEIU and about Lazard continuing to be in the Plan given its ongoing inability to beat its benchmark index. The Board then concluded its discussion of the matter.

## 5. QUARTERLY INVESTMENT PERFORMANCE REVIEW

Susan A. Dalton, Principal with Mercer Investment Consulting, was present to review Deferred Compensation Plan investment performance for the quarter ending 03/31/08. She introduced her support staff, Susie Ardeshir and Eileen Shin, and then began her review. She first provided a brief overview of the economic macro-environment, noting slowing economic growth and the Federal Reserve's moves to reduce interest rates. She then observed that the City's Plan contained a broad array of investment choices to its participants with appropriate opportunities to diversify.

Turning next to the summary in the report, she noted that all of the funds which had extensive under-performance had been removed from the City's Plan, leaving only one, the Lazard Mid-Cap Fund, as presently exhibiting unsatisfactory performance, although performance had improved in the most recent quarter. Mr. Kraus asked Ms. Dalton why Lazard was not rated more negatively given the fact that historically it had under-performed its benchmark more than it had outperformed. Ms. Dalton replied that performance was only one of the evaluated factors, and that Mercer's analysis also included the degree to which fund managers were consistent with their investment objectives. Mr. Montagna added that the Board had adopted an investment policy which addressed when under-performance would result in funds being placed on monitor or watch, and that a fund's performance and the investment policy would dictate whether it remained in the Plan or not. Ms. Dalton further indicated that the Lazard Fund had a value tilt and narrower focus on free cash-flow, and thus would tend to under-perform in certain markets. Ms. Ardeshir added that the Fund tends to perform better in down markets.

**Mr. Kraus then made a motion, seconded by Eugene Canzano, to refer to the Board's Investments Committee the question of whether a firm's corporate citizenship should be part of the Board's evaluation of investment managers, for a report back to the full Board; the motion was unanimously adopted.** Following adoption of the motion, Ms. Whelan indicated that although she had voted with the Board she was uncomfortable with the Board going down this road.

#### 6. BOARD REPORT 08-24: ELECTION OF CHAIRPERSON/VICE-CHAIRPERSON

Mr. Montagna indicated that due to changes to the composition of the Board, staff was recommending that the election of officers for the Plan be postponed to the 7/15/08 Board meeting. **A motion was then made by Eugene Canzano, seconded by Bill Stein, to defer the election of officers to the July 15, 2008 meeting; the motion was unanimously adopted.**

#### 7. BOARD REPORT 08-25: BOARD ELECTIONS

Mr. Montagna indicated that the City Clerk would provide the final results of the elections no later than 6/27/08. He stated that Mr. Kraus had contacted staff regarding some issues he would like to discuss, and that those issues were noted in the report.

Mr. Kraus indicated that there were several issues that he would like to refer to the Plan Governance & Administrative Issues Committee. First, he asked that Plan consider holding the elections earlier so they would not coincide with the primary season, and that this would allow more time for training new members. He next suggested that the ballot counting not be scheduled at the same time as a Board meeting.

Mr. Kraus then stated that in campaigning it had been difficult to identify who in the Plan was a plan participant, particularly for LACERS members where participation rates were relatively low. He stated that he had been told that as a candidate he could not obtain a list of employees in the plan, but he understood the labor unions were able to do so. He noted this could be an even bigger issue for anyone running for the retired representative seat. Finally, Mr. Kraus asked that the Plan review the impact of State ethics rules on campaign contributions and address them in the elections policy.

Ms. Whelan asked what type of process LACERS had for its elections, and Mr. Kraus indicated he was not familiar. **Mr. Kraus made a motion, seconded by Bill Stein, to refer these issues to the Plan Governance & Administrative Issues Committee; the motion was unanimously adopted.** Mr. Canzano indicated that scheduling could be easily addressed, however it would take time to sort through the privacy issues related to giving candidates participant information.

#### 7. BOARD REPORT 08-26: STAFF REPORT

Mr. Montagna indicated that staff would be presenting an hour long "New Board Member Orientation" immediately prior to the July 15, 2008 Board meeting. He

indicated that incumbent Board members could attend but would not be required to do so and that the regular Board meeting would not be called to order until its official start time or until a quorum was reached. Mr. Bobb stated that the Board would not need to call itself to order if a quorum was present for the presentation, as long as no decisions were going to be made.

Mr. Kraus asked about the location of the next Board meeting. Mr. Montagna replied that staff had booked Room 1200 in the Employee Relations Office of City Hall East but was also considering keeping the meeting at the current location. There was some further discussion among Board members regarding holding future meetings at the current location but adjusting the seating arrangements.

### 13. REQUESTS FOR FUTURE AGENDA ITEMS

Mr. Kraus asked whether results were available yet from the recent investments survey. Mr. Montagna replied that staff had the results and would present them at the next Board meeting.

### 14. NEXT MEETING DATE – JULY 15, 2008

### 15. ADJOURNMENT

The meeting adjourned at 10:15 a.m.

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