CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

ADOPTED MINUTES
REGULAR MEETING OF JULY 15, 2008 – 9:30 A.M.
200 N. SPRING STREET, ROOM

Board Members:
Present:
Maggie Whelan, Chairperson
Bill Stein, Vice-Chairperson
Sangeeta Bhatia
Eugene K. Canzano
Sally Choi
Richard Kraus
Michael Perez

Staff:

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

1. CALL TO ORDER

Maggie Whelan called the meeting to order at 9:43 a.m. and welcomed Sangeeta Bhatia, Sally Choi and Mike Perez onto the Board. Board members thanked staff for the New Board Member Orientation presentation that immediately preceded the meeting.

2. PUBLIC COMMENTS

None.

3. MINUTES

Richard Kraus requested an addition on page 3 of the minutes noting Bob Schoonover's comment that he shared the concerns of SEIU. **A motion was then made by Bill Stein, seconded by Eugene Canzano, to approve the minutes of June 17, 2008, as amended; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION: AMERICAN FUNDS

(Note: Sangeeta Bhatia left the meeting at 10:13 during consideration of this item.)

Lily Matias, Client Relationship Manager, and Steve Caruthers, Investment Relationship Manager, were present to review performance for the Growth Fund of America and Investment Company of America. Ms. Matias asked the Board if there were any particular issues they wanted reviewed as part of this discussion. Mr. Kraus asked that the status of pending regulatory actions be reviewed, and further asked that the firm respond to questions raised by the Plan consultant regarding managing growth.

Ms. Matias responded first to the question regarding the status of regulatory actions. She indicated that the California State Attorney General had filed suit alleging that American Funds did not properly disclose its relationships with broker-dealer firms, that American Funds had subsequently counter-sued, and that both parties eventually mutually decided to drop their suits. She indicated that the Securities and Exchange Commission (SEC) had investigated American Funds' use of broker-dealers but had determined it would not pursue any action against the company. She further indicated that the Financial Industry Regulatory Authority (FINRA) had issued an adverse ruling against the American Funds on the same issues, but that this ruling had been appealed to the SEC.

Ms. Matias then reviewed what the firm identified as its distinguishing features, including a value-oriented approach to investing, an extensive global research effort and its multiple portfolio counselor system. She indicated that the firm utilized 5-11 counselors per fund depending on the size of the fund, and that all individuals in that role were promoted from the ranks of portfolio analysts rather than coming from the outside. Ms. Choi asked what mandates and discretion were provided to counselors with respect to what they could invest in. Ms. Matias responded that they were free to invest in any industry and could also invest in international firms. She further indicated that the amount of assets they had to invest varied depending upon the counselor.

Mr. Kraus asked how this structure addressed the potential for contradictions in investment approaches that might have the effect of canceling out one another. Mr. Caruthers responded that such a canceling out could occur from time to time, but that weekly conference calls helped to foster good communication to coordinate strategies. Mr. Kraus asked if the portfolio strategy could be considered analogous to a "fund of funds" approach, and Mr. Caruthers replied that the difference was communication, in that counselors did not function in a silo model but regularly exchanged ideas and information. Mr. Caruthers further indicated that controls were in place to ensure that any proposed trade would not violate the fund's mandate or restrictions.

Mr. Caruthers then went on to review performance of the two funds. He stated that the value-oriented approach each fund took towards investing tended to produce better relative returns in down markets but might not capture all of the upside in bull markets. He stated that the portfolio turnover rate was 26% so that the average holding time for a stock was four years. Mr. Perez requested an explanation regarding why the beta for Growth Fund of America was identical to that of the S&P 500, and Mr. Caruthers indicated that typically it would be lower and that this was an anomaly.

Mr. Caruthers next discussed the sector holdings for Growth Fund of America. He noted that the Fund's performance had been helped by being overweight in energy equipment and services and underweight in financials. With respect to Investment Company of America, he noted the lower beta of the fund relative to the S&P 500, a similar turnover rate and lower volatility. He indicated that the Fund had also similarly benefited in its sector holdings through its low exposure to financial stocks.

Mr. Canzano noted that the Fund had outperformed in every market period indicated in the report. Mr. Kraus commented that perhaps the proof of the firm's investment approach was in the performance results. The presentation then concluded.

5. BOARD REPORT 08-26: PLAN SURVEY RESULTS

Mr. Montagna indicated that staff would review the summary finding from the survey in its report. He began by reviewing the demographic results, noting that the survey results were compared to the overall Plan participant population and/or the City workforce, depending on whether or not comparative data was available. He stated that there were somewhat higher response rates among older participants and lower among younger participants, and also some differences in response rates for certain racial/ethnic categories. He further indicated that the gender breakdown appeared to correspond exactly with the workforce.

Mr. Montagna next reviewed core survey findings, beginning by indicating that the pupose of the survey had been to introduce concepts around changes to the Plan's core investment menu the Board has been considering, and then to see how participants reacted to those concepts. He indicated that these changes had been contemplated as a result of research indicating that having in excess of 10-12 options in a participant-directed defined contribution plan tends to result in poorer asset allocation decisions.

He then reviewed questions related to investment interest and confidence. He first stated that the results indicated approximately 2/3 of Plan participants either have very little interest in investing or do not have the time to spend if they do have an interest. Regarding investor confidence, he indicated that only 21% of respondents felt fully confident about investing. Ms. Whelan commented that she did not find the results to be very surprising given her general observations that many participants did not have the time or necessarily the interest to try to master this complex subject area.

Addressing the next group of questions, Mr. Montagna noted that 42% of participants indicated they understood the asset class of their current holdings, but the balance either did not know or indicated they would need to research in order to find out. He stated that approximately half of respondents said they understand the overall investment menu while half did not.

Regarding the investment branding concept, he indicated that the results suggested broader support for the “branding by asset class” concept than might have been expected given that this proposal represented a fairly fundamental change in how participants understood their choices. He made a similar point regarding the question concerning reducing the number of core options, in which a plurality of respondents indicated their support.

Mr. Montagna indicated that he believed the survey results provided a credible basis for moving forward with further study of the redesign options. He further indicated that the Board should continue its efforts to communicate with and involve Plan participants, noting that the 21% response rate suggested a population that was engaged with their program to a much greater degree than might be found in other plans.

Mr. Kraus commented that he believed the results validated the importance of providing an investment menu that could help participants achieve effective asset allocation through use of its core funds and asset allocation offerings but also meet the needs of more active participants through its Self-Directed Brokerage Option (SDBO). Mr. Canzano indicated that he appreciated inclusion of participant comments in the results and that future surveys could include comment lines for each question because they were particularly illuminating. Mr. Montagna added that he believed the quality of the product provided by Great-West’s survey firm was excellent.

Following this discussion, **a motion was made by Bill Stein, seconded by Richard Kraus, to receive and file results of the Investments Survey and to refer further study of those results to the Investments Committee for the purpose of developing recommendations for further action; the motion was unanimously adopted**.

6. BOARD REPORT 08-27: ELECTION OF CHAIRPERSON & VICE-CHAIRPERSON/BOARD COMMITTEES

Following some brief discussion, **a motion was made by Maggie Whelan, seconded by Bill Stein, that Eugene Canzano be selected as the new Board Chairperson; the motion was unanimously adopted**. **A subsequent motion was made by Eugene Canzano, seconded by Richard Kraus, that Bill Stein be selected as Vice-Chairperson; the motion was unanimously adopted.**

Board members next discussed Committee assignments. Mr. Montagna indicated that the new Chairperson should designate Committee membership following expressions of interest from other Board members. It was agreed that Board members would notify staff of their interest and that staff would in turn relay that information to Mr. Canzano for appointment of Committee memberships at or prior to the Board’s next regular meeting.

7. BOARD REPORT 08-28: BOARD ELECTIONS

Mr. Montagna indicated that stated this report contained the final results of recent elections for the LACERS and Fire/Police Pensions representatives on the Board. He noted that Richard Kraus had won the election for the LACERS seat, and Kurt Stabel had won the election for the Pensions seat. He stated that staff would be meeting soon with staff of the City Clerk's Office to identify where improvements could be made to the process, and that this information would in turn be presented to the Board's Plan Governance & Administrative Issues Committee. The item was noted as having been received and filed.

8. BOARD REPORT 08-29: STAFF REPORT

Mr. Montagna briefly reviewed the staff report, noting that a number of these pending items were previously reviewed in the pre-meeting "New Board Member Orientation." He indicated that staff expected to review some issues concerning the Plan's savings options at the next Board meeting and was working on developing some literature to provide information to Plan participants regarding FDIC Insurance. Mr. Kraus indicated that he had been contacted by participants who had asked about the feasibility of the Plan providing multiple FDIC-insured options. Mr. Montagna indicated this was an issue that would be addressed in its report.

9. REQUESTS FOR FUTURE AGENDA ITEMS

None.

10. NEXT MEETING DATE – AUGUST 19, 2008

11. ADJOURNMENT

A motion was made by Eugene Canzano, seconded by Bill Stein, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 10:50 a.m.

Minutes prepared by staff member Steven Montagna