

CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
REGULAR MEETING OF FEBRUARY 20, 2007 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

Board Members:

Present:

Maggie Whelan, Chairperson
Bill Stein, Vice-Chairperson
Eugene Canzano
Michael Carter
Richard Kraus
Rick Rogers

Staff:

Personnel: Maryanne Keehn, Personnel
Steven Montagna, Personnel
Bryan Cowitz, Personnel
Natasha Zuvich, Personnel
JoAnn Dominguez, Personnel
Richard Bobb, City Attorney

1. CALL TO ORDER

Maggie Whelan called the meeting to order at 9:05 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

A motion was made by Mike Carter, seconded by Eugene Canzano, to approve the minutes of December 19, 2006; the motion was unanimously adopted.

4. INVESTMENT PROVIDER PRESENTATION: GALLIARD/WELLS FARGO

Mike Norman, Principal, and John Caswell, Managing Partner, were present from Galliard Capital Management to review performance for the Galliard Stable Value Fund. Mr. Norman began by briefly reviewing firm fundamentals, indicating that the company presently had \$23.6 billion in assets, 83 clients and 21 separate accounts. He further indicated that the strategies in the portfolio had been quite successful, as it had outperformed the broad market 86% of the time, in 46 out of 53 rolling three- and five-year periods.

Mr. Caswell spoke next, indicating he had co-managed the portfolio since 1988. He stated that the management objective was principal preservation, and that the firm had never had a material liquidity or credit quality issue in its 25 years of existence. He indicated that the strategy invests only in book value instruments.

Next describing some of the portfolio characteristics, Mr. Caswell indicated that the target duration of the holdings was three years, with the maximum percentage of holdings in security backed contracts at 15%. He stated that Guaranteed Investment Contracts would not exceed 3%, and were currently at 1%. He stated that 5% of the fund's holdings were kept in cash for market liquidity.

Regarding performance returns, Mr. Caswell indicated that the yield rose last year because of rising interest rates throughout the year, allowing the portfolio to re-invest maturing holdings at higher yields. Mr. Kraus asked why there was such a large discrepancy between the fund's performance and its benchmark over three- and five-year periods. Mr. Caswell indicated that the benchmark was somewhat misleading because it recorded market value of the underlying holdings, while the portfolio was always measured at book value. He indicated that the company looks to its peer universe as well, and that its performance was consistently in the top one-third of its peers.

Mr. Kraus asked how the fund's yield currently compared to rates that could be earned on money market accounts. Mr. Caswell replied that the current state of an inverted yield curve meant that money market rates were very competitive, but that over time stable value products could be expected to deliver 100-150 basis points above money market rates in a normal yield-curve environment. Mr. Kraus asked if the current environment changed the investment approach, and Mr. Caswell replied that it did not. He stated that the firm focused on three-year rates and that this was the best way to track rates long-term.

Rick Rogers asked what comprised the fund's peer universe. Mr. Caswell indicated that there were approximately 25 funds in this universe and that information regarding the returns of those products could be provided to the Board.

Mr. Caswell proceeded to discuss the average quality of the fund's holdings, effective duration and blended yield, indicating that the return was expected to soon exceed 5%. He concluded by reviewing how the portfolio achieves diversification in order to protect the underlying assets. The presentation concluded.

5. BOARD REPORT 07-02: HARDSHIP APPLICATION PROCESSING

Mr. Montagna indicated that this matter was on the agenda as a result of Mr. Kraus's request that the Board look at taking policy positions on hardship applications involving community property issues and financial emergencies being experienced by a participant's non-dependent/non-beneficiary. With respect to the community property issue, Mr. Montagna indicated that a case had been heard by the Board last month involving a pending community property claim, and that the Board had given conditional approval of that application. He stated that what was problematic in this approach was that in between the time of approval and when community property issues might be resolved the applicant's situation might have changed considerably. He stated that staff would support a policy action by the Board not to consider those applications until all community property issues had been resolved.

With respect to claims involving non-dependents/non-beneficiaries, Mr. Montagna indicated staff would also support a policy action to not bring those cases to the Board if it was clearly established that the applicant's sole purpose of withdrawal was to give the money directly to the non-dependent/non-beneficiary. However, he noted that in cases where an applicant has experienced some type of related personal expense, for example travel expenses or lost income, staff would still propose bringing those to the Board for resolution.

Mr. Canzano asked, in cases involving community property issues, if there was some legal instrument that would allow a spouse to waive his or her community property rights before the divorce was finalized. Board counsel Richard Bobb indicated that if the court approved the agreement it would be acceptable but short of that any such waiver could be changed at any point prior to final action by the court. Mr. Rogers indicated he believed the staff proposals were reasonable. Mr. Kraus asked if it was possible to add a sentence in the hardship reports indicating that there were no issues involving community property interest or claims by non-dependents/non-beneficiaries. Mr. Montagna indicated this could be done. Ms. Whelan asked if a court could order a payment from a participant's account. Mr. Bobb replied that a court could attempt that but that such an approach was not consistent with Internal Revenue Service regulations.

Mr. Rogers asked how the Board should proceed to implement this. Mr. Montagna replied that the Board could direct staff to propose language to be inserted into the Plan Document provisions addressing hardship withdrawals. As a result, **a motion was made by Rick Rogers, seconded by Richard Kraus, directing staff to develop modifications to the Plan Document to prohibit Board consideration of hardship applications involving pending community property issues and hardship withdrawals made by applicants for non-dependents/non-beneficiaries; the motion was unanimously adopted.**

Mr. Stein indicated that he would be open to additional suggestions from staff regarding potential policy issues connected with consideration of hardship withdrawals. Mr. Montagna indicated one tool that might be helpful for the Board would be to include as part of its standard Board package distribution a one-page summary guide reflecting the core elements of the information included in the Board presentation on hardships from the prior month.

6. BOARD REPORT 07-03: PLAN GOVERNANCE

Mr. Montagna indicated that this item had been placed on the agenda at the request of Board member Mike Carter and that staff had provided a report of background information. Mr. Montagna stated that the plan governance changes previously adopted by the Board had been approved by the City Council, and that if the Board wished to reconsider any of them it was staff's recommendation that they do using the same process they had previously, which would mean recalling the volunteer members of the Plan Administrative Issues Task Force and asking them to study the issues and develop recommendations.

Mr. Carter stated his concern that because of the demographics of Pensions members a Firefighter was unlikely to serve on the Board again. Mr. Rogers asked if the issue had been considered by the Administrative Issues Task Force. Mr. Montagna replied that he could not recall to what extent the matter had been discussed by the Task Force. Mr. Rogers asked if minutes had been taken of the meetings. Mr. Montagna indicated they had not but several

reports had been generated regarding the Task Force recommendations. Mr. Rogers asked if it was possible to have those reports provided to Board members. Mr. Montagna indicated that was easily done. There was discussion regarding holding an accelerated meeting to discuss the matter, but Mr. Carter indicated he would be satisfied with receiving the reports as soon as practical and the matter considered at the next regular Board meeting.

7. FIDUCIARY LIABILITY INSURANCE – ORAL REPORT FROM CITY ATTORNEY

Board Counsel Richard Bobb indicated that a question had arisen during a Plan Governance Committee meeting regarding fiduciary liability insurance for Board members and whether the Board needed to purchase insurance. Mr. Bobb indicated he had spoken with the attorney for the Los Angeles City Employees Retirement System (LACERS) and Pensions and determined that all Board members were covered under City Charter provisions.

8. BOARD REPORT 07-04: STAFF REPORT

Mr. Montagna indicated that the following month would include a presentation about new communication efforts being undertaken by staff, including a revamping of Great-West's written communication materials. Mr. Carter asked about turnout for DROP meetings, and Usha Archer of Great-West Retirement Services replied that turnout had been very strong.

9. HARDSHIP APPLICATIONS

The Board first considered those hardship applications recommended for approval. Maryanne Keehn noted that the applicant in Case No. 07-12 was present and wished to request additional funds. **A motion was then made by Bill Stein, seconded by Eugene Canzano, to approve partial withdrawals of \$2,937 (net) and \$4,756 net in Case Nos. 06-54 and 07-09, respectively, and a full withdrawal in Case No. 07-10; the motion was unanimously adopted.**

The Board next considered Case No. 07-12. The applicant was present. The applicant indicated that he was applying for additional funds to pay for purchase of a vehicle and that presently he was not able to transport himself to work. **A motion was then made by Eugene Canzano, seconded by Bill Stein, to approve a partial withdrawal of \$14,828 (net) in Case No. 07-12; the motion was adopted by a vote of 5-1 (Canzano, Carter, Rogers, Stein and Whelan in favor; Kraus opposed).**

Ms. Whelan left the meeting.

The Board next considered Case No. 07-05. The applicant was not present. Following a brief discussion, **a motion was made by Mike Carter, seconded by Bill Stein, to deny the hardship application in Case No. 07-05; the motion was unanimously adopted.**

The Board next considered Case No. 07-11. The applicant was present. The applicant indicated that he'd experienced difficulty obtaining documentation for his grandfather's illness. There was discussion regarding the fact that the basis for staff's inability to recommend approval of the application was not only the lack of documentation but the fact that the need for the withdrawal appeared to be substantially based on the financial emergency of a non-dependent/non-beneficiary. **A motion was then made by Eugene Canzano, seconded by**

Mike Carter, to approve a hardship withdrawal in Case No. 07-06 equal to those documented unforeseen expenses directly incurred by the applicant; the motion was unanimously adopted.

The Board was then notified that there was an appearance in Case No. 07-09, on which the Board had earlier in the meeting taken action. Mr. Stein asked the City Attorney how the Board should proceed. Richard Bobb indicated that the Board would first need to vote to reconsider the item if that was the Board's intent. **A motion was then made by Eugene Canzano, seconded by Rick Rogers, to re-open the case; the motion passed by a vote of 4-1 (Canzano, Carter, Rogers and Stein in favor; Kraus opposed).**

The Board then reconsidered the case. The applicant indicated that he was requesting additional funds to prevent his home from going into foreclosure. Mr. Stein and Mr. Kraus expressed concerns that the applicant's financial emergency appeared to be the result of lost rental income, not typically a situation that would be considered unforeseen and unavoidable. Mr. Canzano indicated his concern was that the applicant would lose his home if a withdrawal was not approved. A motion was made by Eugene Canzano, seconded by Mike Carter, to approve a hardship withdrawal equal to the cost of both the funeral expenses as well as the amount due on the mortgage payment; the motion failed by a vote of 2-3 (Canzano and Carter in favor; Kraus, Rogers and Stein opposed). Mr. Rogers indicated he could not support approving the funeral expenses as an addition to the financial emergency amount of the mortgage arrearage. A motion was then made by Mike Carter, seconded by Rick Rogers, to approve a hardship withdrawal equal to the mortgage arrearage; the motion failed by a vote of 3-2 (Canzano, Carter and Rogers in favor; Kraus and Stein opposed). A second motion was made by Eugene Canzano, seconded by Mike Carter, to approve a hardship withdrawal equal to the cost of both the funeral expenses added to the amount due on the mortgage payment; the motion failed by a vote of 2-3 (Canzano and Carter in favor; Kraus, Rogers and Stein opposed). Mr. Stein asked the City Attorney whether, if the Board took no action, the earlier approval would stand. Mr. Bobb advised the Board that it would not. As a result, **a motion was made by Richard Kraus, seconded by Mike Carter, to approve a partial withdrawal of \$4,756 (net) in Case No. 07-09; the motion was unanimously adopted.** In response to a question from the Board, Mr. Bobb advised that the applicant could reapply on new circumstances or new information, but that the Board could not reconsider its action absent one of those.

10. REQUESTS FOR FUTURE AGENDA ITEMS

None.

11. NEXT MEETING DATE – March 20, 2007

12. ADJOURNMENT

The meeting adjourned at 11:27 a.m.

* Minutes prepared by staff member Steven Montagna