CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

PROPOSED MINUTES
REGULAR MEETING OF JUNE 19, 2007 – 9:00 A.M.
700 E. TEMPLE STREET, ROOM 350

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

Staff:

Personnel:	Steven Montagna, Personnel
	Bryan Cowitz, Personnel
	Natasha Zuvich, Personnel
	Richard Bobb, City Attorney

1. CALL TO ORDER

Maggie Whelan called the meeting to order at 9:01 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

Rick Rogers and Richard Kraus requested several minor changes/additions to the proposed minutes. **A motion was made by Mike Carter, seconded by Eugene Canzano, to approve the minutes of May 15, 2007, as amended; the motion was unanimously adopted.**

4. INVESTMENT PROVIDER PRESENTATION: AMERICAN FUNDS

Lily Matias and Steve Caruthers, both of American Funds/Capital Research and Management Company, were present to review the performance of the Investment Company of America and Growth Fund of America. Ms. Matias began by indicating that the focus of the presentation would be on Investment Company of America (ICA) given that their firm was aware that the Board's consultant had identified under-performance for this product.

Mr. Caruthers then began discussing performance. He stated that the American Funds was often criticized for having size issues, but that the turnover rates and cash positions for ICA were both low and consistent with long-term levels. He further stated that ICA had been one of the twelve largest funds in the country since 1968 and assets represented one-half percent of the investable universe. Further, he stated that because the Fund was subdivided with a portfolio management structure, in addition to having 25% managed by the firm's research group, it was virtually a "fund-of-funds."

Mr. Caruthers next questioned the benchmark index, the Russell 1000 index, being used by the consultant as the point of comparison, indicating that this was not the appropriate benchmark. Mr. Canzano asked how the Fund had arrived at its weighting in cash, and Mr. Catuthers replied that this simply represented the sum of the amounts that the portfolio counselors elected to put in cash for the individual stakes they managed. Mr. Kraus asked for further information regarding how ICA was structured compared to the consultant's benchmark, and Mr. Caruthers indicated that unlike many managers American Funds did not manage its funds against an index, but rather employed a bottom-up approach to investing. Mr. Kraus asked if the 15% cash weighting was high, and Mr. Caruthers indicated this amount was consistent with long-term averages.

Mr. Caruthers next reviewed the performance of the Growth Fund of America, indicating that the Fund had $170 billion in assets which represented approximately 1% of the investable universe. Mr. Carter asked if it was intentional that six of the ten largest holdings in both ICA and Growth Fund of America were identical, and Mr. Caruthers indicated this was not planned but a random result. Mr. Kraus asked about the international holdings, and Mr. Caruthers indicated that the Fund had a ceiling of 15% held in international stocks, which represented all stocks outside of the U.S. and Canada. He further stated that presently international holdings represented 13-14% of the portfolio.

Mr. Kraus asked if the Fund's stated performance returns were net of fees, and Mr. Caruthers indicated this was the case. Mr. Kraus asked if there were further updates on the regulatory issues previously reported by the American Funds. Ms. Matias indicated that the courts had ruled favorably on the issue involving the California Attorney General, but that the Attorney General's office had appealed. She indicated that the American Funds had received an adverse ruling on a separate issue involving the NASD, but the firm had appealed this decision. She stated that it would take time to fully resolve these matters.

The presentation concluded.

5. BOARD REPORT 07-23: STABLE VALUE FUND CONSOLIDATION

Mr. Montagna indicated that staff was recommending a change in how the Board proceeded with changes to the two fixed account funds. He indicated that the Board had previously approved a consolidation of the two funds to be implemented in October 2007. He stated that since the date had been drawing near staff and the Board's consultant, Mercer Investment Consulting, had recently assessed the interest rate impact of merging the two funds.

He stated that with current interest rates Hartford participants would see an increase in yield of 4/10%, while Galliard participants would see a reduction in yield of 0.25%. He indicated that this reduction was too high and thus Mercer had been asked to look at the impact of transitioning both funds out of their pooled account structures to separate accounts, but not commingling the assets for recordkeeping purposes. He stated that Mercer indicated that doing this would result in an immediate increase in yield for both products. As a result, he stated that staff was recommending that both accounts be transitioned in this manner over the next three years, at the end of which time the entire pool of stable value money could be placed out to bid. He stated that taking this approach meant that no account holder in either plan would see a reduction in yield as a result of the consolidation itself.

He further indicated that in order to accomplish this both providers would need to wrap the two pieces of their offerings, since during the transfer from pooled fund to separate account each provider would still need to report a single asset value for both parts of the portfolio. He indicated that Galliard had experience doing this and Mercer was confident they could execute it, but that Mercer did not have similar confidence in Hartford since Hartford had no prior experience with this service. As a result, he stated that Mercer recommended the Plan contract with a separate entity to provide Hartford's wrap services, requiring a contractor selection process. As a result, he stated that staff was also recommending that the Board authorize staff to go out to bid for these services, and that the process would need to be expedited in order to have a wrap services provider in place by October 1, 2007.

Mr. Stein asked if there were any conflict-of-interest issues. The Board's counsel, Deputy City Attorney Richard Bobb, indicated there potentially could be and that the issue of the change in policy on the consolidation should be at least momentarily deferred. Mr. Montagna requested that the Board act on the issue of authorizing development of the RFP. As a result, **a motion was made by Mike Carter, seconded by Bill Stein, authorizing the immediate release of an RFP for a wrap service provider for the Hartford funds; the motion was unanimously adopted**.

(Following a Board meeting break after consideration of other items on the agenda, Mr. Bobb indicated the Board was free to proceed on consideration of the other part of the staff recommendation. ***A subsequent motion was made by Mike Carter, seconded by Bill Stein, approving staff's proposed modification to the conversion plan for the Hartford and Galliard funds to provide that while both funds will still be migrated to separate accounts, they will maintain their discrete identities as separate investment funds under the Plan until such time as the holdings in both separate accounts can be placed out to competitive bid; the motion was unanimously adopted****.)*

6. QUARTERLY FUND PERFORMANCE REVIEW

Terry Dennison, Principal with Mercer Investment Consulting, was present to provide the quarterly investment review for the period ending 3/31/07. Mr. Dennison indicated that the months of April and May were good for the markets but that June had a different tone as rising bond yields began to have a negative effect on traders.

Mr. Dennison next reviewed those funds in the Plan which were exhibiting unsatisfactory performance. He reviewed the Hartford Advisers Fund first, noting that the Fund should continue to remain on monitor status. He stated that the Capital Guardian U.S. Equity Fund should be considered to be on Watch, effective the first quarter of 2007, given its ongoing under-performance. He reviewed the Hartford Stock Fund and American Funds Investment Company of America, noting with respect to the latter that the argument that the benchmark was inappropriate did not negate the fact that other funds existed within this same category that had not under-performed the benchmark.

With respect to the Fidelity Magellan Fund and Lotsoff Small Cap Equity Fund, he stated that both funds continued to under-perform and continued to be on Watch. He indicated that there had been no change in Mercer's assessment of these funds and their continued presence in the Plan.

Mr. Dennison's presentation concluded.

7. BOARD REPORT 07-24: BROKERAGE WINDOW

Mr. Montagna presented information regarding the Plan's Self-Directed Brokerage Option (SDBO). He began by providing some background on the current program, indicating that 4% of Plan participants were in the SDBO, and that it held 4% of Plan assets. Mr. Canzano asked if participation rates had been higher in the past since absolute numbers had declined while overall participation had risen since 1999, and Mr. Montagna agreed that this would have to be the case.

Mr. Montagna indicated the average account balance was $76,829 and that participants used approximately half of the 1,500 funds available from the provider, First Trust. He reviewed trading activity, indicating that the SDBO was comprised of the Plan's more active traders, and further indicated that presently 8% of assets were held in the Money Market Fund, with the balance invested in mutual funds. Finally, he reviewed some of the major fund families utilized within OptionsPlus.

Next he reviewed the benefits of the current SDBO model, which included the ability to invest 100% of one's account balance, unlimited trading for a flat fee, bi-weekly contributions direct transferred to the SDBO, the ability to receive more personalized service because the City was one of the provider's largest clients, and a lack of broad trading restrictions. He reviewed weaknesses of the current provider, First Trust, including service levels far behind those of its competitors, low money market rates and limitations on data interactions with Great-West. He offered as examples of service level deficiencies the poor statement/confirmation quality, limited web resources and narrow, inconsistent account updates and narrow trading deadlines.

Mr. Montagna next reviewed the fee structures of the three options available through the Great-West contract. He noted that First Trust had a $75 fee annually for unlimited trading, and that Great West would collect a $75 fee if the City chose either Ameritrade or Schwab, but that those two providers would have their own trading fees as well. As a result, he indicated, fees would by appearances be increased on virtually all participants if the City opted to use a new provider. However, he indicated that First Trust probably collected a sizable amount of revenue from its money market fund, and so in effect participants invested in the Money Market were subsidizing the Plan. Nevertheless, he stated, this would be a difficult concept to communicate to participants in the SDBO.

Mr. Montagna then compared major features of the three providers, including available funds, specific trading fees and plan sponsor services. He indicated that the essential dilemma for the Board was that the current SDBO provider was not capable of performing at a level that might be expected of a Plan the size of the City's but that changing providers would raise apparent fees for participants and Great-West was not willing to administer dual providers on anything more than a temporary basis.

Mr. Canzano asked Great-West to clarify its concerns about offering two brokerage windows. Usha Archer of Great-West Retirement Services indicated that most brokerage providers would be unwilling to provide their services if they were competing with another brokerage provider, and that Great-West did not want to assume the additional administrative burdens. Mr. Montagna indicated that the Board had two potential options for proceeding, including surveying participants in the SDBO to assess their willingness to move to a new service model, and conducting a Request for Information (RFI) to explore the possibility of an independent relationship with another provider. Ms. Archer indicated that she believed it made sense to survey all Plan participants since many who were not in the SDBO currently might be interested if a different service model was used.

Ms. Whelan stated her support for proceeding with both of these next steps, indicating that it made sense to gather more information before making a decision. She indicated that because there was no formal recommendation attached with staff's presentation it made sense to have staff return to the Board after conducting more research.

There was brief discussion on the topic of whether stock trading should be allowed. Mr. Montagna indicated that this was a difficult question and one which in staff's view was separate from the question of the SDBO service model. Mr. Rogers indicated that he was in support of allowing participants the opportunity to trade stocks and believed that since these funds belonged to participants they should have the right to make investment decisions without restriction by the Plan. Ms. Whelan indicated that in the interest of time the Board should move on with the agenda and discuss the issue further when the matter was returned by staff.

11. BOARD REPORT 07-28: RETIRED PARTICIPANT SELECTION

This item was taken out of order.

Bill Stein left the room during consideration of this item. Mr. Montagna indicated that the Retired Participant Representative Selection Committee had conducted interviews on June 15th and was now recommending that the Board re-select Bill Stein as the Retired Participant Representative. Mr. Carter indicated that the Committee had interviewed many qualified candidates but that Mr. Stein was outstanding. Mr. Canzano and Ms. Whelan indicated similar sentiments. Following this discussion, **a motion was made by Mike Carter, seconded by Eugene Canzano, to select Bill Stein as the Board's Retired Participant Representative; the motion was unanimously adopted.**

Mr. Stein re-entered the room.

8. BOARD REPORT 07-25: PLAN DOCUMENT CHANGES

Mr. Montagna indicated that staff was recommending certain minor technical changes to the Plan Document to allow for all benefits provided for under the Pension Protection Act of 2006. He stated that the changes were drafted by a Mercer attorney and approved by the Board's counsel. **A motion was made by Bill Stein, seconded by Mike Carter, adopting the proposed modifications to the Plan Document for the City of Los Angeles Deferred Compensation Plan identified in Board Report 07-25; the motion was unanimously adopted**.

9. BOARD REPORT 07-26: PLAN GOVERNANCE TASK FORCE RECOMMENDATION

Mr. Montagna indicated that this report was from the Plan Governance Task Force regarding the question referred to them by the Board several months ago concerning the Pensions representative on the Board. Mr. Montagna indicated that the Task Force was recommending that the Board not make any changes to its previously approved recommended changes to the structure of the Board. He indicated that the Task Force had made several key findings: first, that historically representation on the Board has been broken out by retirement system and not employee groups; second, that this made sense because the Deferred Compensation Plan was a supplemental retirement program and the rules and benefits differed under each of the three retirement systems; third, the Task Force did not believe it made sense to provide a specific seat on the Board for any particular employee group because doing so then would create claims for representation from other employee groups; fourth, although the Task Force recognized that larger employment groups within the City might have certain advantages for the elected seats, they saw this as a fairly natural state of affairs for any election and also felt that trying to control for it would take the governance of the Plan down a road that would become unwieldy as more and more groups might claim their right to distinct representation on the Board. Given all this, the Task Force recommended that the Board not make any change to the previously approved Plan governance structure.

Mr. Canzano asked how Pensions had sent its representative to the Board in the past. Ms. Whelan indicated that the rotation system had been adopted a few years ago in reaction to the 2004 controversy regarding selection of a Plan Administrator. Following this discussion, the report was noted as having been received and filed.

10. BOARD REPORT 07-27: STAFF REPORT

Mr. Montagna indicated that Personnel Department staff member Natasha Zuvich and Great-West staff member Usha Archer had attended the Police Protective League Delegates Conference and conducted a well-regarded presentation regarding comparing the City Plan's fees with fees charged by outside entities. Sergeant Paul Weber of the Los Angeles Police Protective League was present and indicated that the presentation was received very favorably. Ms. Archer indicated that a presentation from Mike Perez, General Manager for the Department of Pensions, also discussed fees but from a slightly different perspective, and that both presentations strongly reinforced one another.

Ms. Whelan indicated her frustration that the Department of Water and Power was already prepared to implement post-severance accrued leave contributions to the Plan while the City Controller still had not made any progress. She indicated that she would be taking steps to address this. Board members also noted the article in Defined Contribution and Savings Plan Alert regarding the City's Plan and its efforts to warn participants about high-cost outside providers.

Mr. Rogers left the meeting.

12. GREAT-WEST COMMUNICATIONS REPORT

Gary Robison, Regional Manager with Great-West Retirement Services, presented the Great-West Communications Report. Mr. Robison indicated that this was the first of what would be ongoing reports to the Board regarding Great-West's communications efforts. Mr. Robison began by indicating he would be overseeing the Plan's design of new communications materials in the new "Hollywood" theme, and reviewed the major themes to be incorporated in those materials. He next discussed how Great-West would be approaching enrollment initiatives, by targeting department groups where participation was below 50% and first seeking to move above that level. He described tactics to be used including targeted mailings and participation at work meetings and other employee events.

Mr. Robison next discussed plans for educational initiatives geared towards current and retired participants. He stated that as part of that education campaign Great-West would be reaching out to gatekeepers, including department managers, union heads and others in positions to provide access to employees. He indicated that Great-West would also utilize the services of one of its minority contractors to develop specialized communication pieces on various topics.

Mr. Robison indicated that Great-West was also working closely with staff to monitor the Plan website and phone systems to ensure that they were user-friendly and error-free. He stated that staff and Great-West had formed two-person teams to focus on different parts of the communication network and were reviewing their findings at monthly staff meetings. Finally, Mr. Robison indicated that Great-West would be working closely with the retirement plans to ensure coordination of communication and educational efforts.

Mr. Montagna noted that Mr. Robison's report would be monthly and would include details about what had been accomplished in the previous month as well as plans for future efforts. He encouraged Board members to use this report as a means of becoming involved in ensuring that the highest quality communication and education services were provided to Plan participants.

13. GREAT-WEST QUARTERLY REPORT

Usha Archer, Regional Director, and Rick Kramer, Vice President Government Markets, both of Great-West Retirement Services, were present to review quarterly statistics for the Deferred Compensation Plan for the period ending 3/31/07. Mr. Kramer indicated that because much of this data had already been reviewed by the Board in other reports the discussion would focus on local office activity.

Ms. Archer indicated that the pace of participant contacts and enrollments had accelerated in large part due to the positive recent returns of the markets. She stated that at enrollment meetings typically 80-90% of participants chose to sign up with the Plan. Ms. Whelan asked whether it was possible to identify in the report how many individuals were signing up with the Plan as a result of group meetings, and Ms. Archer indicated this information could be provided.

Mr. Archer noted that despite equity wash limitations participants were moving funds out of the lower-yielding Hartford General Account and into the higher-yielding Washington Mutual Liquid Account. Mr. Carter asked whether Great-West was continuing to participate in orientation sessions for Firefighters, and Ms. Archer responded affirmatively. Ms. Whelan asked if the Police Department was continuing to provide access to recruits for Great-West and Ms. Archer indicated yes. The presentation then concluded.

Mr. Carter left the Board meeting.

14. HARDSHIP APPLICATIONS

The Board first considered those hardship applications recommended for approval. **A motion was made by Mike Carter, seconded by Eugene Canzano, to approve full withdrawals in Case Nos. 07-23, 07-24, 07-25, and 07-30, and partial withdrawals of $14,585 (net) and $20,710 (net) in Case Nos. 07-31 and 07-32, respectively; the motion was unanimously adopted.**

The Board next considered Case No. 07-15. The applicant was present. Bryan Cowitz indicated that the Board had previously not been able to find a majority on this case. The applicant indicated that his original tax issue had been resolved but he now had a secondary tax issue. Following his presentation, **a motion was made by Mike Carter, seconded by Eugene Canzano, to approve a full withdrawal in Case No. 07-15; the motion was unanimously adopted.**

The Board next considered Case No 07-26. The applicant was present. Natasha Zuvich indicated that the applicant had applied as a result of a mortgage arrearage created by a business venture that had gone awry. The applicant described the events which led to the failure of the business venture. Following her presentation and questions from Board members**, a motion was made by Eugene Canzano, seconded by Mike Carter, to approve a full withdrawal in Case No. 07-26; the motion was unanimously adopted.**

The Board next considered Case No. 07-27. The applicant was present. Natasha Zuvich indicated that staff had recommended approval of the application up to the amount of the unforeseen event of $7,130, but that the applicant was requesting additional funds. The applicant indicated that late payments and other factors required additional funding to address their financial distress. Following some discussion, **a motion was made by Eugene Canzano, seconded by Mike Carter, to approve a partial withdrawal of $23,604 (net); the motion was unanimously adopted**.

The Board next considered Case No. 07-29. The applicant was present. Natasha Zuvich indicated that staff had recommended approval of the application up to the amount of the unforeseen event of $5,073, but that the applicant was requesting additional funds. The applicant indicated that his current financial difficulties greatly exceeded the amount of his income loss and therefore needed a full withdrawal. After some discussion regarding several of his most urgent expenses, a motion was made by Eugene Canzano, seconded by Bill Stein, to approve a partial hardship withdrawal of $10,000 (net); the motion failed by a vote of 3-1 (Canzano, Stein and Whelan in favor; Kraus opposed). Mr. Kraus indicated his concern that an unforeseen event had not been established. A motion was then made by Richard Kraus, seconded by Eugene Canzano, to approve a hardship withdrawal of $5,073 (net), with authorization for staff to disburse additional amounts based on continued documented loss and without prejudice to the applicant immediately applying again to seek further disbursement; the motion failed by a vote of 3-1 (Canzano, Kraus, and Whelan in favor; Stein opposed). Upon further discussion, **a motion was made by Bill Stein, seconded by Eugene Canzano, to approve a hardship withdrawal equal to the amount necessary to allow the applicant to prevent his home from going into foreclosure; the motion was unanimously approved.**

15. REQUESTS FOR FUTURE AGENDA ITEMS

None.

16. NEXT MEETING DATE – JULY 17, 2007

17. ADJOURNMENT

A motion was made by Gene Canzano, seconded by Richard Kraus, to adjourn the meeting; the motion was unanimously adopted. The meeting adjourned at 12:55 p.m.

Minutes prepared by staff member Steven Montagna