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**CITY OF LOS ANGELES  
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MAYOR

**PERSONNEL DEPARTMENT  
EMPLOYEE BENEFITS DIVISION**

200 NORTH SPRING STREET, ROOM 867  
LOS ANGELES, CA 90012  
(213) 978-1655

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**CORRESPONDENCE REGARDING FUND CHANGES**

On behalf of the Board of Deferred Compensation Administration, thank you very much for your recent correspondence regarding pending changes to the large-company stock investment funds offered through the City's Deferred Compensation Plan. We very much welcome and value participant feedback, and appreciate the effort you made in sharing your comments and suggestions.

By way of background, let me first state that the changes to this option are part of a broad series of investment menu improvements we've been implementing over the past several years. Our objective has been to create a menu providing premium choices for major asset classes within a simplified menu, while at the same time providing a broad-based self-directed brokerage option to meet the needs of participants who prefer virtually unlimited choice.

We understand that change can sometimes be disruptive, particularly when investment options are being eliminated. We want our participants to know that no change to the investment menu is made lightly. Changes are made only after a rigorous review of alternatives, examination of best practices within the industry, and consideration of recommendations of our staff and consultant.

To address your specific concerns, the reason the Board elected to consolidate large-company stocks under a single fund option (as it is doing with all major asset classes included within the investment menu) was to help reduce the type of investor confusion that can occur when multiple choices are offered within a single asset class. Consolidation and "rebranding" options by their asset class, rather than by the name of a fund manager, helps participants understand the differences between asset classes and the value of diversification. We appreciate your suggestion that the Plan retain other actively-managed fund options. However, doing so would run counter to the benefits of simplification, which we believe assists the vast majority of participants in meeting the fundamental objective of matching their investment objectives to their risk tolerance.

We recognize, however, that some of our participants want more choices, and because of this we have expanded the options available under our Self-Directed Brokerage Option (SDBO). We appreciate your suggestion that the Plan provide participants the option of using the SDBO provider of their choice, and that it allow for direct deferrals to those providers. However, in order to optimize service and administration, the SDBO option requires an administrative and contractual relationship between its provider and our third-party-administrator, Great-West Retirement Services. In addition, many SDBO providers will not work with retirement plans. As a result, it is not feasible or practical for the Plan to administer multiple SDBO providers. We believe, however, that the current SDBO provider, Charles Schwab, is one of the premier providers in the field and can effectively deliver the service.

Although we are not able to accommodate your requests, I hope that the information contained in this response provides a greater understanding of the reasons for the changes and some of the considerations involved. If you have further comments or suggestions, I encourage you to communicate with us further. You are also welcome to contact our Plan manager, Steven Montagna, at (213) 978-1621 or via email at [steven.montagna@lacity.org](mailto:steven.montagna@lacity.org).

Thank you once again for taking the time to share your ideas and suggestions. Your participation in our process plays a vital role in making our Plan stronger.

Sincerely,

Eugene K. Canzano, Chairperson  
Board of Deferred Compensation Administration

December 6, 2011

To: City of Los Angeles Deferred Compensation Plan  
Board of Director  
C/o Mr. Eugene K. Canzano, Chairperson ([Eugene.Canzano@LADWP.COM](mailto:Eugene.Canzano@LADWP.COM))

Subject: **Concerns in regards to the Vanguard Institutional Index Plus Fund**

Dear The Board:

I am writing you to express my concern in regards to the change/consolidation of the Hartford Capital Appreciation Fund, American Funds Growth Fund of America, American Funds Investment Company of America into the Vanguard Institutional Index Plus Fund (ticker symbol: VIIIX), under the new "umbrella" name of "DCP LARGE-CAP STOCK FUND" which will take place in February 2012. ([https://www.fascore.com/PDF/cola/CB1001N\\_3Q11\\_FINAL.pdf](https://www.fascore.com/PDF/cola/CB1001N_3Q11_FINAL.pdf)).

When I contacted the Deferred Comp office in November 2011, I was told that some of the reasons for this change were:

- Based on YTD returns
- Lower expense ratio
- One large-cap fund instead of 4
- Reducing the fiduciary duties of the Board.

Below are my concerns:

- Even though the YTD returns (as of October 2011) of VIIIX was higher than the other 3 funds it supposes to replace, the 10-yr/since inception returns of VIIIX was quite below the 3 outgoing funds.
- This consolidation will eliminate the availability of actively-managed funds in large cap category to plan participants because VIIIX is an index fund. It seeks to match performance of the benchmark S&P 500 index which is "not professionally managed and does not have a defined investment objective" (ref: [https://docs.retirementpartner.com/fundov/CITYOFLA\\_VIIIX\\_FUNDOV.PDF](https://docs.retirementpartner.com/fundov/CITYOFLA_VIIIX_FUNDOV.PDF))
- The new name of "DCP LARGE-CAP STOCK FUND" may be misleading because it does not reflect the fact that the underlying fund (VIIIX) is an unmanaged index fund.
- I understand that participant always have option to choose the funds they want by opening a self-directed brokerage account with Charles Schwab. However, that should only be the last resort. To manage a self-directed brokerage account requires devoted time and financial knowledge that majority of participants do not possess. That option should be there only for those with very different needs, unique investment objectives, and high risk tolerance.
- One of the roles of the Board is to add value in guiding/selecting/offering several investment choices to provide flexibility. One fund instead of four is definitely not FLEXIBILITY. It's like putting all large eggs in one unmanaged basket. If participants

are to manage/select their own investment, then eventually the importance/role of the Board will/can be reduced.

- If self-directed brokerage account is encouraged, then I would like (and have been asking for) to be able to transfer my Defer Comp account to the brokerage firm of my choice so I can take advantage of discount pricing and premium service. What was the reason that Charles Schwab was selected as the sole provider for brokerage accounts for DWP Defer Comp participants?
- If self-directed brokerage account is encouraged, then I would like to have my contribution goes directly from my paycheck to my brokerage account without the delay of going thru Great West. To look at the big picture, this may eventually take the responsibility of administrating deferred compensation plan off the City.

In summary, I am requesting/petitioning that:

- The Board to continue to make actively-managed funds (in large cap category as well as other categories) available for participants to choose.

OR

- The Board to allow participants to open self-directed accounts at their brokerage of choice, not necessarily at Charles Schwab.
- The Board to authorize direct contribution between DWP and participants' brokerage accounts to simplify the process.

Thank you for your help.

Best regards,  
THUTHUY C. NGUYEN

For reference purpose:

RATE OF RETURNS

[https://docs.retirementpartner.com/ioag/98994-01\\_IOAG.pdf](https://docs.retirementpartner.com/ioag/98994-01_IOAG.pdf)

	10 yrs/since inception returns (as of Oct 2011)	10 yrs/since inception returns (as of Sep 2011)	2010	2009	2008	2007	2006
HARTFORD CAPITAL APPRECIATION	7.18%	6.19%	16.50%	45.67%	-45.59%	16.83%	16.61%
AMERICAN FUNDS GROWTH FUND OF AMERICA R6	4.99%	4.53%	11.16%	27.45%	-34.73%	5.94%	15.94%
AMERICAN FUNDS INVESTMENT COMPANY OF AMERICA R6	4.23%	3.30%	12.67%	34.76%	-39.07%	10.95%	10.94%
VANGUARD INSTL. INDEX PLUS (LARGE CAP)	3.74%	2.86%	15.07%	26.66%	-36.94%	5.50%	15.81%



Steven Montagna <steven.montagna@lacity.org>

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## RE: CITY OF LA DEFER COMP PLAN: letter to the Board Dec 13, 2011

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Canzano, Eugene <Eugene.Canzano@ladwp.com>

Tue, Dec 13, 2011 at 4:01 PM

To: "Nguyen, Thuthuy" <Thuthuy.Nguyen@ladwp.com>

Cc: Steven Montagna <steven.montagna@lacity.org>, Natasha Zuvich <natasha.zuvich@lacity.org>, John Mumma <Johnmumma@lapl.org>

Hi Thuthuy,

Thank you for your letter and passion about your funds.

Both your letters will be on the 12/20/2011 Board Agenda.

Unfortunately, we cannot keep the fund open.

We have provided an avenue for you to keep a fund you are passionate about. You can transfer your shares from your account to the Self-Directed Brokerage Window (SDBW) before the mapping takes place.

By moving your funds into the SDBW, you can stay invested the way YOU believe is best for you.

We support your passion. We are glad you can keep your funds invested the way you see fit.

I only wish more of our plan participants were as active and as firm in their convictions as you are.

Again, thanks for your input.

In unity,

Gene

2/14/11

City of Los Angeles Mail - RE: CITY OF LA DEFER COMP PLAN: letter to th...

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**From:** Nguyen, Thuthuy  
**Sent:** Tuesday, December 13, 2011 1:37 PM  
**To:** Canzano, Eugene  
**Cc:** [STEVEN.MONTAGNA@LACITY.ORG](mailto:STEVEN.MONTAGNA@LACITY.ORG)  
**Subject:** CITY OF LA DEFER COMP PLAN: letter to the Board Dec 13, 2011

Dear Mr. Canzano:

Respectfully submitted. Thank you.

Thuthuy C. Nguyen, PMP

Certified Project Management Professional

Senior Information System Supervisor

LADWP - Information Technology Services

213-367-1570 | [Thuthuy.Nguyen@ladwp.com](mailto:Thuthuy.Nguyen@ladwp.com)

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December 13, 2011

To: City of Los Angeles Deferred Compensation Plan  
Board of Director  
C/o Mr. Steven Montagna ([STEVEN.MONTAGNA@LACITY.ORG](mailto:STEVEN.MONTAGNA@LACITY.ORG))

Subject: **Transfer of assets to the Vanguard Institutional Index Plus Fund**

Dear the Board:

According to the Deferred Comp newsletter, on February 24, 2012, assets in the Hartford Capital Appreciation Fund, American Funds Growth Fund of America, American Funds Investment Company of America will be transferred to the Vanguard Institutional Index Plus Fund (ticker symbol: VIIX), under the new "umbrella" name of "DCP LARGE-CAP STOCK FUND" ([https://www.fascore.com/PDF/cola/CB1001N\\_3Q11\\_FINAL.pdf](https://www.fascore.com/PDF/cola/CB1001N_3Q11_FINAL.pdf)).

As I indicated in my letter to the Board dated December 6, 2011, I am against this change.

This letter is to inform the Board that you do not have my authorization to transfer my invested asset to a fund of your choice at the date of your convenience because I do not believe a single fund (VIIX) can meet my investment objectives in term of performance, diversification and risk tolerance.

I believe that while the Board may – at its option – select/limit the fund(s) available for future contribution, the Board is not granted with the power to alter participants' existing assets using the one-size-fits-all approach without regards for individual investment goals. Shuffling of assets in a down market is risky to say the least. Doing so will expose the Board to unnecessary legal risks especially in today market volatility.

Thank you for your understanding.

Best regards,

THUTHUY C. NGUYEN