

Deferred Compensation Plan BOARD REPORT 12-18

Date: March 14, 2012
To: Board of Deferred Compensation Administration
From: Staff
Subject: Change in Share Class for Vanguard Mid-Cap Index Fund

*Board of Deferred
Compensation Administration
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Recommendation:

That the Board of Deferred Compensation Administration approve a change in share class for the Vanguard Mid-Cap Institutional Index Fund from Institutional Shares to Institutional Plus Shares.

Discussion:

Staff and the Board's consultant, Mercer Investment Consulting, were recently informed by Vanguard Investments that the City's Mid-Cap Index Fund is approaching a total asset level that makes it eligible for a lower-expense share class. The City presently invests in the Institutional Shares of the Vanguard Mid-Cap Index Fund. The present asset total in this Fund option is approximately \$96 million. Once total assets reach \$126 million the City becomes eligible to invest in the Institutional Plus shares, which would reduce the investment management fee from 0.08% to 0.06%.

Based on current valuations, total holdings in the Vanguard Mid-Cap Index Fund will be \$126 million following the transfer of assets in the Lazard Mid-Cap Fund to the Vanguard Mid-Cap Index Fund which will occur on April 20, 2012. This will satisfy the \$100 million threshold requirement to be eligible for the lower-cost shares.

It should be noted, however, that in approximately one year, following completion of mid-cap investment manager procurements, the Deferred Compensation Plan Mid-Cap Fund will be reconstituted to add in two active managers, which will take the Fund from managing 100% of mid-cap assets to 50% of mid-cap assets. As a result, it may be necessary to then move assets from the Institutional Plus shares back to the Institutional Shares.

Notwithstanding this, asset value growth in this option over that time might continue to make the Institutional Plus shares viable, and the procurement and fund implementation might take longer than anticipated. Even if that turns out not to be the case, the reversion back to the prior share class would be relatively easy to handle from a communications perspective, given that the reversion should occur simultaneously with establishment of the new blended fund structure for the Mid-Cap Fund. Given this, staff concurs with Mercer's findings/recommendation (see attachment) and believes the most prudent course of action is to take immediate advantage of the lower-cost share class.

Staff therefore recommends that the Board of Deferred Compensation Administration approve a change in share class for the Vanguard Mid-Cap Institutional Index Fund from Institutional Shares to Institutional Plus Shares. Upon Board approval, staff will work with Great-West to coordinate the earliest possible implementation date for the change in share class consistent with the necessary notification to Plan participants.

Submitted by: _____
Steven Montagna