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DEFERRED COMPENSATION PLAN BOARD REPORT 09-14



Date: March 5, 2009

To: Board of Deferred Compensation Administration

From: Staff & Mercer Investment Consulting

Subject: - Hartford Stock Fund/Hartford Advisers Fund
- Hartford Trading Platform Change

Recommendation:

That the Board of Deferred Compensation Administration:

- (a) Terminate the Hartford Stock Fund and Hartford Advisers Fund approximately six months following the date of announcement of this elimination to Plan participants, with any existing assets mapped to the Plan's Vanguard Institutional Index and Moderate Profile funds, respectively; and
- (b) Approve a change in trading platform for the three Hartford variable funds covered under the Plan's existing group insurance contract with Hartford, for whatever duration the funds are held past the contract's expiration date of June 30, 2009.

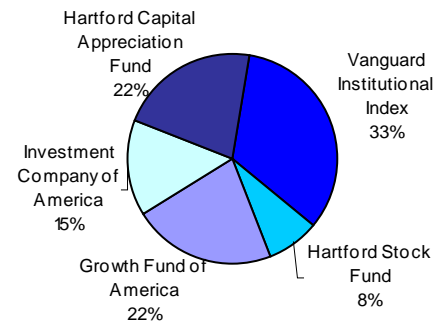
Discussion:

At the Board's January 20, 2009 meeting, the Board acted to place the Hartford Stock Fund and Hartford Advisers Fund on Watch status beginning with the third quarter of 2008. Formal notification of this was provided to Hartford on January 21, 2009. As noted in the attached consultant's report and concurrently presented quarterly investment review for periods ending 12/31/08, both funds have continued their under-performance in key three and five year performance categories and staff believes both funds should be held to have been on Watch for the quarter ending 12/31/08 as well. The Board has the latitude within its adopted policies regarding fund removal to eliminate a fund if the fund has been on "Watch" for a minimum of two consecutive quarters. That threshold has now been crossed. As a result, staff and Mercer now jointly recommend that the Board exercise its option to eliminate these funds.

In addition to removing under-performing funds from the Plan, elimination would have the added effect of further streamlining the Plan's core investment menu. It would reduce redundancies in the Plan's large-company stocks category, and fully eliminate a redundancy in the Plan's asset allocation funds category.

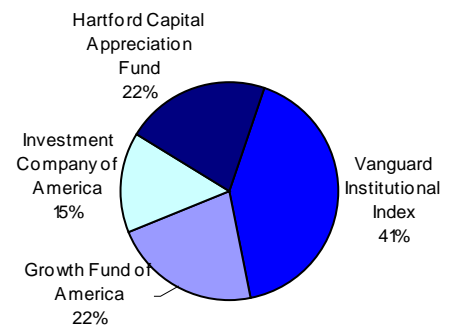
Hartford Stock Fund – Presently the Plan has five large-company stock funds. The table/chart below provide a summary of those funds and their relative asset totals:

Current Large-Cap Funds	Asset Totals
Vanguard Institutional Index	\$ 255,594,128
Hartford Stock Fund	\$ 61,277,278
Growth Fund of America	\$ 170,862,603
Investment Company of America	\$ 114,590,768
Hartford Capital Appreciation Fund	\$ 170,236,312
Total-->	\$ 772,561,089



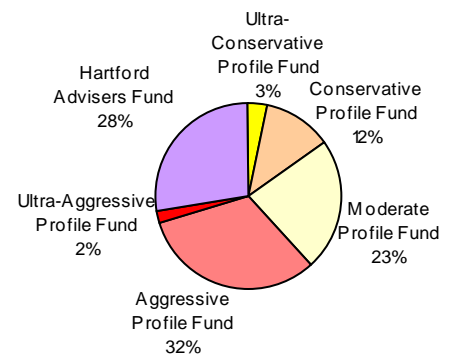
Staff is proposing that, in accordance with recent prior Board actions to eliminate two other large-cap funds (the Fidelity Magellan and Capital Guardian U.S. Equity funds), this fund be mapped to the Vanguard Institutional Index Fund, the Plan’s core passively managed large-cap offering. Participants would have the prior opportunity to assign their Hartford Stock assets to any of the Plan’s investment options, but assuming all assets were mapped over to the Vanguard Institutional Index, the revised standing of large-cap funds would look approximately as follows:

Post-Termination Large-Cap Funds	Asset Totals
Vanguard Institutional Index	\$ 316,871,406
Growth Fund of America	\$ 170,862,603
Investment Company of America	\$ 114,590,768
Hartford Capital Appreciation Fund	\$ 170,236,312
Total-->	\$ 772,561,089



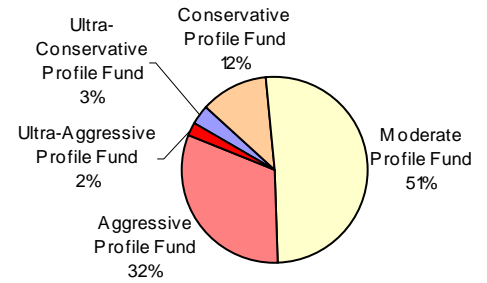
Hartford Advisers Fund – The Hartford Advisers Fund is a “balanced” fund, which is another term consistent with the term “asset allocation” fund. The City has five asset allocation funds. The table/chart below provide a summary of those funds and their relative asset totals:

Current Asset Allocation Funds	Asset Totals
Ultra-Conservative Profile Fund	\$ 6,206,403
Conservative Profile Fund	\$ 21,819,573
Moderate Profile Fund	\$ 42,218,160
Aggressive Profile Fund	\$ 58,059,156
Ultra-Aggressive Profile Fund	\$ 4,224,779
Hartford Advisers Fund	\$ 50,958,440
Total-->	\$ 183,486,511



Mercer’s analysis indicates that the Adviser Fund’s holdings are closest in structure to the Plan’s proposed restructured (see Board Report 09-16) Moderate Profile Fund. Participants would have the prior opportunity to assign their Hartford Adviser assets to any of the Plan’s investment options, but assuming all assets were mapped over to the Moderate Profile Fund, the revised standing of asset allocation funds would look as follows:

Post-Termination Asset Allocation Funds	Asset Totals
Ultra-Conservative Profile Fund	\$ 6,206,403
Conservative Profile Fund	\$ 21,819,573
Moderate Profile Fund	\$ 93,176,600
Aggressive Profile Fund	\$ 58,059,156
Ultra-Aggressive Profile Fund	\$ 4,224,779
Total-->	\$ 183,486,511



Timeline and Fund Platform Change – Staff is proposing that, consistent with recent prior fund eliminations, these funds be removed as options from the City’s Plan approximately six months following the date of announcement of elimination to Plan participants. Notification would be provided in the March 2009 quarterly newsletter (which should be received towards the end of April 2009), meaning that final elimination would occur on or around November 1, 2009.

In addition, since the Hartford group contract will expire June 30, 2009, it will be necessary to shift the three Hartford variable funds from their current trading platform to a separate mutual fund trading platform. This will allow the funds to continue to be offered past July 1, 2009, but be carried on a mutual fund platform so that the funds can be offered outside of a contractual agreement (in the same way that mutual funds are made available in the City’s core option menu or via the brokerage window). Board approval of this change in platform may or may not be a technical necessity, but in the event that it is staff is recommending that the Board approve the change in trading platform as part of action on this item.

Monitor/Watch Policy - At the Board’s February 17, 2009 meeting, questions arose as to the origination of policies regarding fund elimination and in what capacity they were held. Staff indicated at that meeting that the Board does not have a discrete document in which its investment policies with respect to fund removal have been retained and that development of this document is being done concurrently with the work of the Investments Committee in moving forward with plans to reshape the Plan’s core investment menu. A request was made to provide a copy of the original Board report and Board action which established the Monitor/Watch policy (attached). Further, as discussed at the prior Board meeting, those procedures and methodology are re-stated in each quarterly investment review provided by the Plan’s consultant.

Submitted by: _____
Steven Montagna

Approved by: _____
Maryanne Keehn