DEFERRED COMPENSATION PLAN
BOARD REPORT 09-20

Date: April 9, 2009

To: Board of Deferred Compensation Administration

From: Staff

Subject:: Investment Menu Changes Update

Recommendation:
That the Board of Deferred Compensation Administration:
(a) Receive and file the following information regarding implementation of a number of pending investment menu changes; and
(b) Authorize the Board Chairperson to execute the necessary investment management contract with Galliard Capital Management.

Discussion:
The following information is provided as an update on progress towards implementing a number of pending investment menu changes recently approved by the Board:

(1) Stable Value Consolidation - Significant progress has been made towards consolidating the Plan's Galliard Stable Value Fund and the Hartford General Account into a single "City of Los Angeles Stable Value Fund." At the Board's March 17, 2009 meeting, the Board selected Galliard Capital Management as its manager for this mandate. Since Galliard is the incumbent manager for a portion of the assets, the consolidation is focused on transitioning Hartford assets to Galliard.

A telephonic conference meeting involving Galliard Capital Management, Hartford Life Insurance, Great-West Retirement Services, Mercer Investment Consulting and staff was held on April 1, 2009. At this meeting it was determined that an optimal date to move Hartford assets would be June 1, 2009. Although Hartford's contract expires June 30, 2009, there are two primary reasons that all parties believe an earlier date is preferable.

First, at current interest rates the Plan has an opportunity to transition the full balance of funds held with Hartford (approximately $437 million) at book value, and therefore in cash. A significant change in the direction of interest rates might change this situation and require the exercise of a 12-month "put" option in which the funds would transition over a full year. Although this is not anticipated, it is also true that given the unusually low short-term interest rate environment, those rates have generally only one direction to go – up. When interest rates rise the value of the underlying bonds will fall, which could jeopardize the ability to swiftly transition at book value bonds held within Hartford's portfolio.

Given the current structural weakness of the economy it is unlikely that a dramatic interest rate move is in the offing anytime soon. However, in the interest of being prudent it would appear that the more quickly the funds can be moved out of Hartford the greater the opportunity to preserve the current full book value status.

Second, from Great West's record-keeping perspective, fund changes ideally are handled outside of quarter end dates due to the complexities of reporting and valuation that occur across their client base at those times. Those complexities can sometimes produce complications in the transition process. As a result, moving the transition date to early June will help assure a seamless transition.

The transition itself, as currently planned, will take place within a very short window of time. The assets will be delivered to Galliard on May 31 (a non-market day) and settlement will occur the morning of June 1. Great-West indicates that the Fund will be closed to trading for only a few hours on the morning of June 1. There will be no change in the unit value of the existing Galliard Stable Value Fund, since this is essentially a cash purchase (albeit a large one) in the Fund. The re-branding of the Fund will occur at the time of transition. Announcement of the change will occur in the quarterly newsletter to be distributed to Plan participants at the end of April.

To continue as the Plan's Stable Value Fund manager, Galliard will need to execute a new contract. This is an action item that should have been included as part of the prior month's recommendations related to this item. As a result, staff is now recommending that the Board authorize the Board Chairperson to execute the necessary contract with Galliard Capital Management to continue as the Plan's Stable Value provider.

(2) Liquid Account/Certificates of Deposit – Mercer Investment Consulting has made substantial progress on its investment manager search for the Plan's FDIC-Insured savings option. A report and recommendations are expected at the Board's May 19, 2009 meeting.

JPMorgan Chase has provided a letter confirming that it will honor the rates and terms of the Plan's Certificates of Deposit (CDs). As indicated in last month's Board report, the FDIC had provided written confirmation to staff that JPMorgan was obligated to honor those rates/terms, so JPMorgan's correspondence is fully consistent with that. CD assets will be frozen for new contributions effective July 1, 2009. The transition from the Liquid Account to the FDIC-Insured Savings Option is tentatively scheduled for on or around September 1, 2009, pending results of Mercer's analysis and subsequent Board actions.

(3) Mid-Cap Index Fund Introduction – The Vanguard Mid-Cap Index Fund will be introduced to the Plan effective June 1, 2009.

(4) Asset Allocation Funds Recomposition – The restructuring of the Plan's Asset Allocation Funds is also targeted for June 1, 2009, at the same time the Vanguard Mid-Cap Index is introduced. There will be no blackout associated with the recomposition.

The restructuring would occur on the night of June 1 and the funds would be available for trading as normal the following day.

Staff will continue to report on progress towards implementation of these investment menu changes at future Board meetings until all changes have been made effective.

Submitted by: ____________________________
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Approved by: ____________________________
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