

CITY OF LOS ANGELES  
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

MINUTES  
MEETING OF JULY 19, 2005 – 9:00 A.M.  
700 E. TEMPLE, ROOM 350

Board Members:

**Present:**

Don Keith  
Richard Kraus  
Bill Stein  
Maggie Whelan

Staff:

Personnel: Maryanne Keehn, Personnel  
Steven Montagna, Personnel  
Fernando Campos, Personnel  
JoAnn Dominguez, Personnel  
Richard Bobb, City Attorney

1. CALL TO ORDER

Board member Maggie Whelan chaired the meeting and called it to order at 9:15 a.m.

2. PUBLIC COMMENTS

None.

3. MINUTES

Ms. Whelan asked if there were any changes or comments regarding the minutes. Richard Kraus indicated that he had communicated to staff regarding some changes. Steven Montagna indicated there were a few typographical modifications noted by Mr. Kraus, and that Mr. Kraus had also asked that the June 21, 2005 minutes reflect the discussion regarding the timeliness of minute preparation as well as a correction of some statistics quoted by the Great-West representative. Mr. Montagna stated that these changes could be incorporated. As a result, **a motion was made by Richard Kraus, seconded by Bill Stein, to approve the minutes of the March 15, 2005 meeting as amended; the motion was unanimously adopted. A subsequent motion was made by Richard Kraus, seconded by Don Keith, to approve the**

**minutes of the June 21, 2005 meeting as amended; the motion was unanimously adopted.**

#### 4. INVESTMENT PROVIDER PRESENTATION: CAPITAL GUARDIAN

Kyle Colburn, Relationship Manager, and Terry Ragsdale, Investment Specialist, of Capital Guardian Trust Company were present to review performance information regarding the Capital Guardian U.S. Equity Fund. Mr. Colburn began by reviewing the asset holdings of the Capital Group organization as a whole and noted some of its client profiles. He then briefly summarized the investment process utilized by Capital Guardian, including a discussion of the firm's emphasis on fundamental research and analysis and its portfolio manager system for subdividing stock selection. Finally Mr. Colburn referred the Board to a description in the presentation booklet of those individuals acting as portfolio managers, noting the lengthy tenures of these individuals with the firm and in investment management generally.

Mr. Colburn then stated that the Fund had a year-to-date return of  $-1.12\%$  compared to the benchmark return of  $-0.81\%$ . Over a one-year period, the return had been  $5.29\%$  vs.  $6.3\%$  for the benchmark. Over the lifetime of the Fund the return had been  $15.9\%$  vs.  $14.8\%$  for the benchmark.

Mr. Ragsdale then began a discussion of investment performance. Mr. Ragsdale referred the Board to Page 9 of the presentation booklet. He stated that the Fund currently had 157 stocks in its portfolio, but that the top 20 firms represented 36% of the portfolio. He discussed some of the holdings in the top 20, beginning with Sallie Mae, which he stated was a domestic provider of student loans with little exposure to interest rate and credit risk and strong going-forward prospects. He further noted General Electric, which had 15-20% projected annual earnings growth, and Lowe's, a firm he stated was growing its top line, improving its logistics, was projected to provide 15% annual earnings growth, and was below the S&P 500 average multiple. He then briefly discussed United Technologies, a firm producing elevators and jet engines, among other products. He described how some viewed the firm as being cyclical because it produced materials for cyclical industries, but that in fact the various industries had cycles at different times, and looking historically the firm had grown its earnings approximately 10% every year.

Mr. Ragsdale next discussed how the Fund's holdings broke down by sector weighting, indicating that the Fund was overweight in Energy, Health Care and Information Technology. However, Mr. Ragsdale clarified that with respect to Energy the Fund was actually underweight in the integrated oils whose fortunes were tied more to fluctuations in the price of oil, and overweight in oil services companies, reflecting the firm's belief that the oil industry has been under-investing for decades and that oil companies will need to increase their capital spending in order to keep up with demand.

Mr. Ragsdale indicated that much of the explanation for the recent performance of the Fund could be attributed to developments in the pharmaceutical industry. He stated

that over the past year a number of safety issues and concerns about expiring patents have prompted a sharp retraction in share prices for pharmaceutical stocks, in which the Fund has been over-weighted. However, he indicated that the stocks in which the Fund invests have compelling valuations and strong drug pipelines, and the Fund expects them to outperform.

In addition, Mr. Ragsdale indicated that the Fund is overweight on information technology, as reflected by its substantial positions in firms like Microsoft and Cisco. He indicated that the Fund is underweight on industrials but has a bigger presence in this sector than it had at the beginning of the year.

He next referred the Board to page 4 of the presentation booklet, which compared the Fund's returns with the returns of the S&P 500. He indicated that over the lifetime of the Fund, the Fund had outperformed the index by 110 basis points, while year-to-date it had under-performed by 33 basis points. He indicated that the explanation for the recent under-performance lay in the relative under-performance of financials, consumer discretionary and healthcare sectors. He noted that for the one-year period ending in March 2005, the Fund had under-performed the S&P 500 by three percent, but that two of that three percent was attributable to the under-performance of the health-care holdings.

Mr. Kraus asked how long the Fund had been in existence. Mr. Colburn replied that the strategy had been in place since approximately 1977. Mr. Kraus asked for verification of the Fund's expense ratio as being .48% - Mr. Colburn indicated that this was the case. Mr. Kraus then asked about providing additional statistical analysis on the Fund, including the Sharpe ratio and standard deviation. Mr. Ragsdale said this information could certainly be provided.

Mr. Kraus then asked for an explanation of the statistics included on page 5 concerning summary attribution analysis. Mr. Ragsdale indicated that these tables essentially broke out the Fund holdings and returns by market sector and compared them to the benchmark index so that it was possible to see which specific sectors contributed to under-performance or out-performance.

The presentation then concluded.

## 5. ETHICS

Deputy City Attorney Richard Bobb indicated to the Board that for the purposes of this meeting he would only be providing a brief overview of City ethics requirements, with the intention that the City Attorney's Office would provide a more comprehensive review at the next Board meeting. He began by indicating that the biggest component of City ethics requirements is addressing potential conflicts of interest. He stated that once an Ethics Policy is developed for the Board, Board members will be required to file a Form 700, or Statement of Economic Interests. He indicated that the category of filing

determines what is required to be disclosed, and that categorization is dependent upon the level of discretion exercised by an individual in their particular capacity.

Mr. Bobb introduced Deputy City Attorney Lonnie Eldridge, who was in the audience, and indicated that Mr. Eldridge would be working with the City's Ethics Commission on determining proper disclosure categories and developing the Ethics Policy. Mr. Bobb indicated that another feature of the City's Ethics rules was the disclosure of gifts and being aware of which things can and cannot be accepted. In addition, Mr. Bobb stated that ethics rules also addressed political activity and fundraising, and that while no individual loses his or her right to engage in such activity, it cannot be done as part of the individual's official duties.

Mr. Bobb indicated that if Board members have questions or need advice on City ethics issues, they should direct them to Mr. Eldridge or the Ethics Commission, but since he (Mr. Bobb) acts in the capacity of advising the Board as an entity, it was important to avoid situations where he might be giving Board members personal advice. He indicated that if Board members wished to obtain more information regarding City ethics rules and policies, these could be found on the City's website, including the ethics handbook, Gov. Code Section 1090 and the Conflict of Interest Code.

Mr. Stein asked if Board members needed to worry about filing Conflict of Interest Statements in the absence of a policy for the Board. Mr. Bobb indicated that theoretically Board members were under an obligation to file now, but the problem was they really could not do so because they didn't have an adopted policy. Ms. Whelan indicated her concern that the City's ethics rules in some sense were narrower than the broader ethical issues faced by the Board concerning their fiduciary obligations and proper codes of conduct in dealing with contractors. She asked whether the Board could establish broader ethics requirements that went beyond the City's policies. Mr. Bobb indicated he was unsure of the answer to that but would research and respond at a future point.

Mr. Stein asked if recent guidance from the Mayor's Office concerning contractors applied to the Board. Mr. Bobb indicated that the recent Executive Directive issued by the Mayor addressed Commissions, not Boards, the distinction being that Commissions are established by the City Charter and Boards are established by ordinance. However, he noted that the Board could choose to adopt the provisions of that Directive for itself if it so chose.

## 6. REPORT 05-22: REQUEST FOR PROPOSAL FOR PLAN CONSULTING SERVICES

Mr. Montagna indicated that it might be helpful to first provide some background on the development of this RFP. He indicated that the Board had issued an RFP for Plan consulting services in 2004 and, as a result of that RFP, two responses were received. However, he stated the Board was unable to enter into a long-term contract with either

vendor because they did not meet certain Standard Provision requirements in their responses, specifically relating to the City's Minority and Women-Owned Business Outreach program. As a result, the Board elected to enter into a short-term contract with Mercer Investment Consulting below the applicable contract ceiling amount of \$100,000 related to Minority/Women's Business Outreach, and directed staff in March of 2005 to develop a new RFP and re-do the bid process.

Mr. Montagna stated that, concurrently, staff had been developing a Request for Proposal for Investment Management services and brought this to the Board. The Board had asked for certain revisions relating to general contract requirements and, in conjunction with these revisions, staff had worked with the City Attorney's Office to revise the overall structure of the RFP to make it more user-friendly. Mr. Montagna indicated that, now having developed this new RFP format, the technical portions of the consulting services RFP had been combined with that format and were being presented here today. After having received Board feedback, Mr. Montagna indicated that staff's intent was to return to the Board with the Investment Management RFP at the next Board meeting.

Mr. Montagna stated that Board member Kraus had already contacted staff with one suggested modification of the RFP, specifically adding a question relating to disclosure of relationships between the consulting firms and investment managers, and that staff supported adding this question. Ms. Whelan asked about the applicability of Standard Provisions requirements, given discussion at a previous meeting that these requirements might not apply to Deferred Compensation Plan contracts. Mr. Bobb indicated that upon subsequent review a determination had been made that these requirements do in fact apply because the funds are held by the Plan in trust for Plan participants.

Ms. Whelan asked staff for clarification regarding a section of the RFP referencing points available for Minority/Women outreach if vendors attended the pre-proposal conference, since she understood those requirements were pass/fail. Mr. Montagna explained that although all Standard Provisions requirements were pass/fail for the purposes of proceeding to the next level of review and real scoring of responses, within the Minority/Women outreach evaluation specifically was a scoring system utilized by the Mayor's Office to determine whether a vendor had met that specific requirement. Staff indicated that part of this system involved awarding 10 points to vendors who attended the pre-proposal conference.

Mr. Stein asked if staff had considered the approach of looking at fees separately from the service evaluation, specifically in having vendors submit them separately and considering fees only following evaluation of the service factors. Mr. Montagna indicated that staff had not considered this approach. Mr. Keith asked for clarification regarding the increase on the amount of the contract for the consultant. Mr. Montagna indicated that this was only an increase of the contract ceiling amount to \$99,000, just below the \$100,000 limit referenced earlier that allowed for non-applicability of Minority/Women outreach provisions. He stated that Mercer was only paid for actual

work performed, so raising the contract ceiling to this level and extending the term did not necessarily mean that this limit would be reached in terms of actual expenditures.

Following this discussion, **a motion was made by Don Keith, seconded by Bill Stein, (a) approving staff's revised draft Request for Proposal for Plan Consulting Services; and (b) approving extension of the current contract with Mercer Investment Consulting from August 31 through December 31, 2005, and increasing the contract ceiling amount from \$75,000 to \$99,000; the motion was unanimously adopted.**

#### 7. BOARD REPORT 05-23: ADMINISTRATIVE ISSUES TASK FORCE UPDATE/GREAT-WEST CONTRACT

Mr. Montagna indicated that the Administrative Issues Task Force was continuing to make progress. He stated that staff had met with Mercer to develop recommendations with respect to the conduct of a survey to be presented to the Task Force at a meeting to be held July 27. However, he indicated that given initial information regarding the length of time involved in survey development, issuance and tabulation, it was necessary to extend the Great-West contract. He indicated that staff's specific recommendation was that the contract be extended through March 31, 2006.

Mr. Kraus asked whether the Board could act before the City Council acted. Mr. Montagna replied that the Board's action was to approve extension of the Great-West contract at the same time that it was requesting authority from the City Council to do so. He indicated that, assuming Council concurrence, the contract could then be extended without requiring further action by the Board.

Mr. Keith asked for further information regarding development of the Task Forces. Mr. Montagna responded that the Task Force had been formed in response to the controversy occurring in 2004 regarding the Board's previous Plan Administrative Services RFP. He stated that the Board took an action in August 2004 to select a vendor, Nationwide Retirement Solutions, to replace Great-West which had resulted in a negative participant reaction. He stated that participants had contacted the City Council, Board members, and staff, the end result being that the Council had vetoed the Board's decision in October 2004. He indicated that in November 2004 a lawsuit had been filed by Nationwide, delaying consideration of the Council's action, but that in March 2005 the Board elected to reject all proposals and cancel the RFP process. Further, when it took this action the Board requested that staff form participant-led Task Forces composed of randomly selected Plan participants to consider the recommendations of the City Council in more detail and develop specific recommendations for consideration by the Board. Staff indicated that the Administrative Issues Task Force had been asked to focus immediately on survey development, since Council had specifically asked that a survey be issued prior to issuance of a new RFP.

Following this discussion, **a motion was made by Bill Stein, seconded by Richard Kraus, approving extension of the contract with Great-West Retirement Services through March 31, 2006, and requesting staff to seek authority from the City Council to effect the extension; the motion was unanimously adopted.**

8. REPORT 05-24: ADMINISTRATIVE FEE TRUST FUND  
RECONCILIATION/REIMBURSEMENT

Mr. Montagna indicated that this report was generally a routine item for the Board. He stated that the Administrative Fee Trust Fund was the repository for the fifty-cent fee paid by Plan participants to fund the City's internal administration of the program. **A motion was made by Bill Stein, seconded by Richard Kraus, approving reimbursement from the Deferred Compensation Plan Trust Fund #896 to the Personnel Department for \$50,469.05 for the quarter ending 3/31/05; the motion was unanimously adopted.**

9. GREAT-WEST REPORT: DWP BENEFITS FAIR/SURVEY

Usha Archer of Great-West Retirement services was present to discuss Great-West's participation in a Benefits Fair held by the Department of Water and Power (DWP). Ms. Archer indicated that this was a two-week event for DWP and that Great-West had seen approximately 250 individuals. She further indicated that Great-West had taken this opportunity to solicit some feedback from DWP participants regarding their satisfaction with the Plan. She stated that 158 DWP employees took a short survey and returned it, with an overall 75% expressing satisfaction with the Plan. She indicated that Great-West's intent was to develop similar surveys for similar events going forward. **A motion was made by Richard Kraus, seconded by Bill Stein, to receive and file the report; the motion was unanimously adopted.**

10. GREAT-WEST REPORT: LOCAL 347 TARGET MAILING

Ms. Archer presented a report to the Board regarding Great-West's efforts with respect to targeted mailings issued to MOUs with low representation. She stated that most recently Great-West had been working with SEIU Local 347 to issue a special mailing under a cover letter prepared by the union. Board members offered suggestions for strategies for additional outreach. **A motion was made by Richard Kraus, seconded by Bill Stein, to receive and file the report; the motion was unanimously adopted.**

11. REPORT 05-25: STAFF ADMINISTRATIVE REPORT

Mr. Montagna indicated, for the benefit of the newest Board members, that this was a routine monthly statistical report and that more comprehensive statistical data would be

provided in the quarterly report from Great-West. Ms. Whelan asked why DWP new enrollment data wasn't included in staff's chart and Mr. Montagna replied that these charts were developed using data readily available for staff, and that it was sometimes difficult obtaining the information from DWP payroll staff. Ms. Whelan stated she believed it was important to provide the DWP data and said that if a letter from her would be helpful to secure it she would sign it. Staff indicated it would work on obtaining the necessary information from DWP. **A motion was made by Richard Kraus, seconded by Bill Stein, to receive and file the report; the motion was unanimously adopted.**

## 12. HARDSHIPS

Mr. Montagna stated that Board members Kraus and Stein had advised staff of some errors on its original report, which is why a revised report was being distributed at this meeting. **A motion was made by Bill Stein, seconded by Richard Kraus, approving a full hardship distribution in Case No. 05-14; the motion was unanimously adopted.**

## 13. NEXT MEETING DATE: AUGUST 16, 2005

## 12. ADJOURNMENT

**A motion was made by Richard Kraus, seconded by Bill Stein, to adjourn the meeting; the motion was unanimously adopted.** The Chairperson adjourned the meeting at 11:15 a.m.

\* Minutes prepared by staff member Steven Montagna