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DEFERRED COMPENSATION PLAN BOARD REPORT 08-17



Date: May 9, 2008

To: Board of Deferred Compensation Administration

From: Staff

Subject: - Investment Management Services Request for Proposal
- Asset Allocation Funds

Recommendation:

That the Board of Deferred Compensation Administration (a) approve the recommendation of the Investments Committee that a Mid-Cap Fund be added to the Deferred Compensation Plan core investment menu as well as integrated into the Plan's Asset Allocation or "Profile" funds; (b) approve the attached Request for Proposal for Russell 2000 Index and Mid-Cap Index Investment Management Services; and (c) approve the consultant's proposed re-composition of the Plan's Asset Allocation funds.

Discussion:

Staff has developed a Request for Proposal (RFP) for investment management services for a Russell 2000 Index Fund and a Mid-Cap Index Fund manager. The Russell 2000 Index portion of the RFP had been under development for several months. The Mid-Cap portion was added as a result of, and is submitted concurrently with, a recommendation from the Board's Investments Committee to add a Mid-Cap Index Fund to the City's Deferred Compensation Plan core menu.

Russell 2000 Index Fund – The Russell 2000 Index fund is an investment category presently offered as part of the core investment menu for the Plan. The Russell 2000 Index fund represents the small company stock portion of the U.S. markets. The City presently has a five-year contract with State Street Global Advisors to provide this fund. The contract with State Street expires December 31, 2008. As a result, in keeping with past practice and in compliance with City contracting rules, it is now time to place this category out for competitive bid.

Mid-Cap Index Fund – The Board's Investments Committee, in consultant with staff and the Board's consultant, Mercer Investment Consulting, has met several times to discuss the question of whether a Mid-Cap Index Fund should be added to the Plan's core investment menu. The Plan already offers an actively managed Mid-Cap Fund,

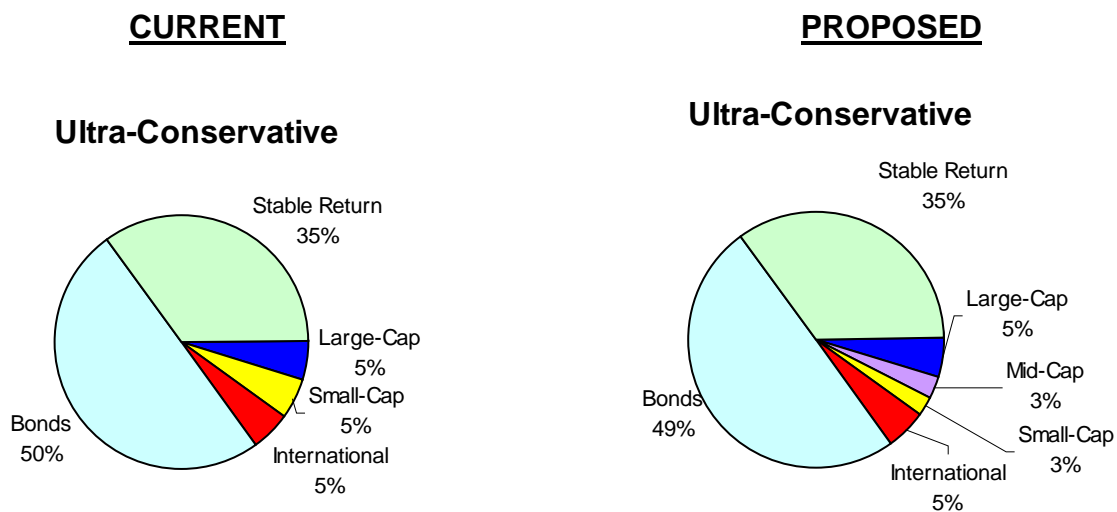
but given (a) recent performance concerns with this manager identified by the Plan’s consultant, and (b) an interest in enhancing the Plan’s asset allocation, or “Profile” funds (see discussion below), the Committee is now prepared to recommend to the Board that a Mid-Cap Index fund be added.

To accomplish this it will be necessary to issue a Request for Proposal. Given that the Russell 2000 Index RFP was already under development, staff has combined the two into a proposed single RFP. Mercer was primarily responsible for drafting the technical portions of the RFP, including the threshold minimum requirements.

Mercer prepared a report on Mid-Cap index funds for the Committee (see attached) which it will present to the full Board. In this report, Mercer indicated that there are two indices that potentially could be used to comprise the index fund. However, given the small number of managers within this space, Mercer advised, and the Committee concurs, that the RFP should be open to products managed to either index.

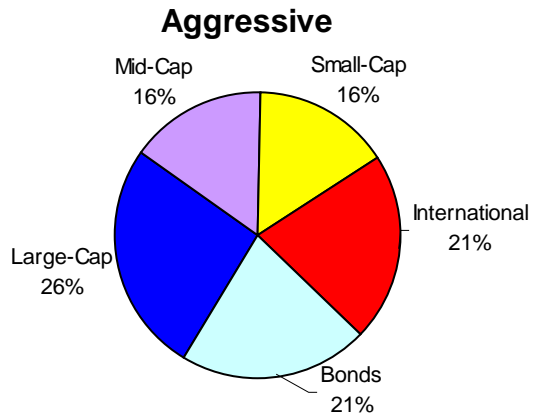
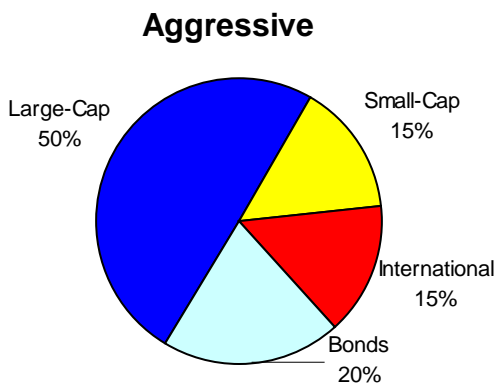
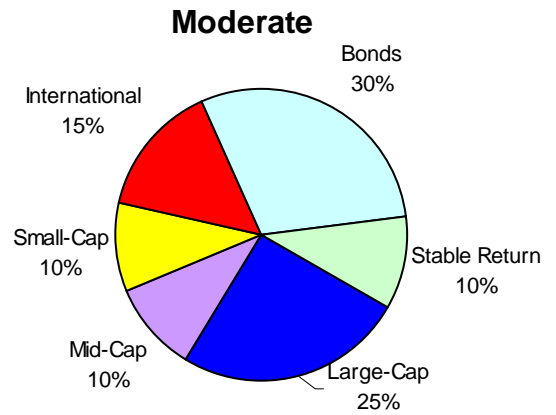
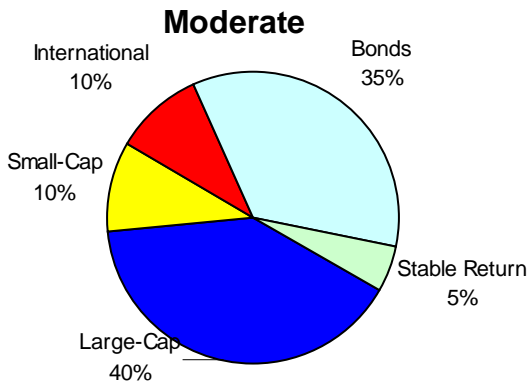
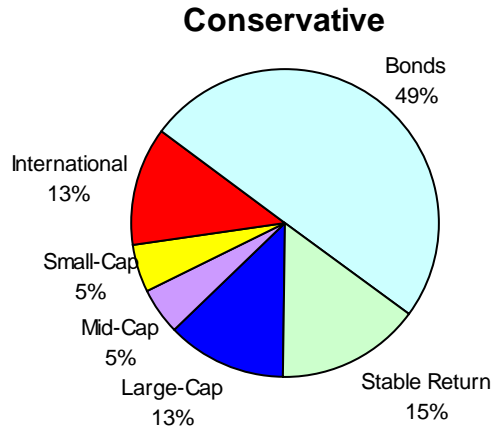
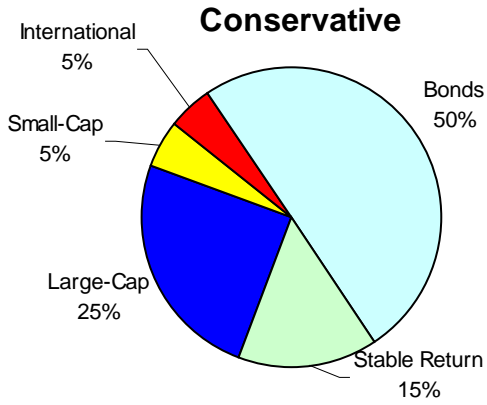
Asset Allocation Funds – As previously indicated, the Committee believes that adding a passively-managed Mid-Cap Fund to the Plan’s investment menu would also provide an opportunity to enhance and more fully round out the Plan’s Asset Allocation funds. As a result, staff requested that Mercer develop a recommendation with respect to how to restructure these funds with a mid-cap component. A separate report/recommendation from Mercer on that topic is attached.

Following is a side-by-side comparison of the Plan’s asset allocation funds as currently constituted and as Mercer is proposing they be restructured. Please note that along with adding in the Mid-Cap category Mercer is also recommending an increase in International stock representation (and decrease in U.S. stock representation) across most of the fund categories in order to reflect the growing weighting of other world economies and markets relative to the United States:



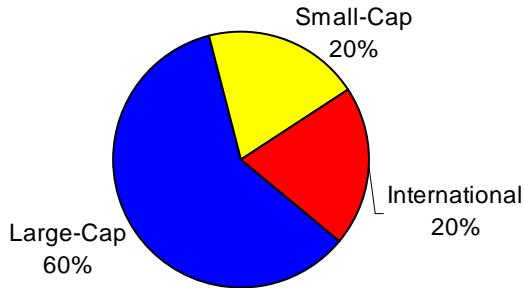
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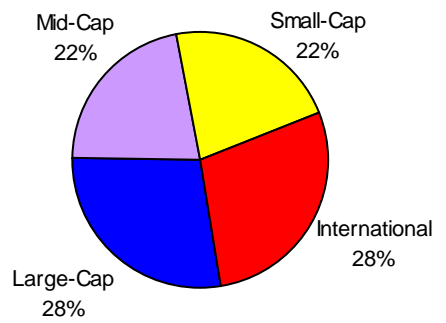
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PROPOSED

Ultra-Aggressive



Staff concurs with the recommendations of the Committee and the consultant and requests approval for moving forward with the Request for Proposal.

Submitted by: _____
Steven Montagna

Approved by: _____
Maryanne Keehn