

# MERCER

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MARSH MERCER KROLL  
GUY CARPENTER OLIVER WYMAN

June 15, 2010

## City of LA 457 Plan Plan Structure Review

Susan Dalton, Los Angeles



## Proposed Investment Structure

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# Overview



## Proposed Investment Structure

### Overview

- City of LA is considering moving to a fund structure where investment options would be generically rebranded to City of LA DCP
  - Create investment options by asset class using a single or multi-manager approach; result is a style neutral portfolio
  - Mutual funds are the primary investment vehicle
  - Goal is not to exceed 10-12 investment options
  
- Rationale for moving towards this fund structure is to:
  - Reduce the number of investment options within the Plan structure
  - Promote investor focus on diversification and risk tolerance
  
- The investment committee has met and reviewed the structures available for consideration. The following slide outline the decisions made and those pending

# Overview

## Decision Review

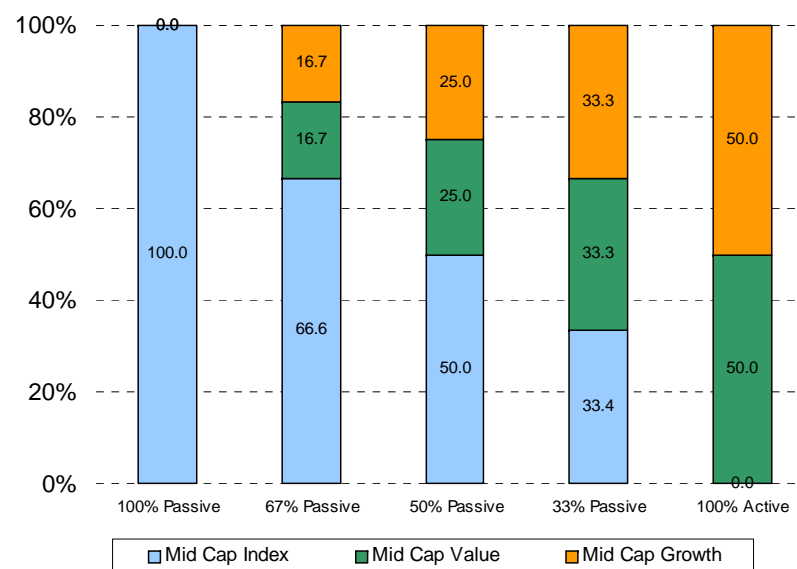
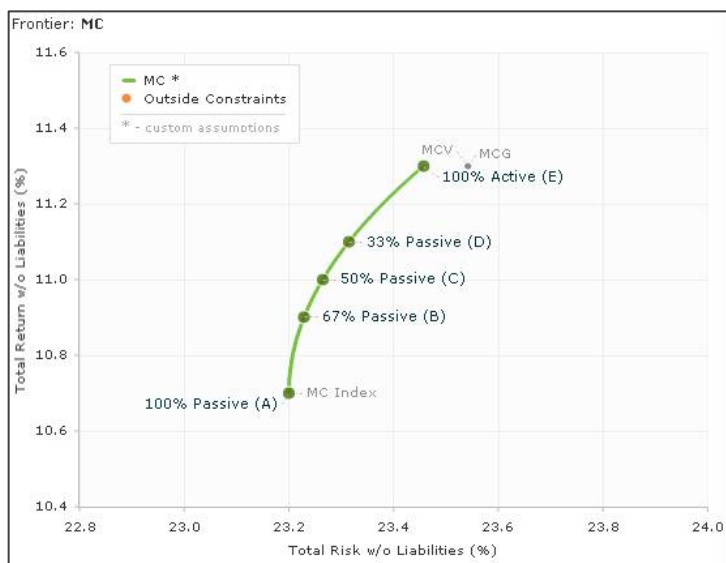
NEW DCP INVESTMENT MENU DESIGN		
Investment Option	Structure	Status
Bank-Deposit Account	Blend of 3 Underlying Bank Providers	Implemented
Stable Value Fund	Single vendor with broadly diversified holdings	Implemented
DCP Bond Fund	50% Active/50% Passive	Approved
DCP Ultra-Conservative Asset Allocation Fund	Blend of Stable Value & passive funds	Implemented
DCP Conservative Asset Allocation Fund	Blend of Stable Value & passive funds	Implemented
DCP Moderate Asset Allocation Fund	Blend of Stable Value & passive funds	Implemented
DCP Aggressive Asset Allocation Fund	Blend of Stable Value & passive funds	Implemented
DCP Ultra-Aggressive Asset Allocation Fund	Blend of Stable Value & passive funds	Implemented
DCP Large-Cap Stock Fund	100% Passive Management (S&P 500 Index)	Approved
DCP Mid-Cap Stock Fund	TBD	Board Discussion Pending
DCP Small-Cap Stock Fund	34% Passive/ 33% Value Active / 33% Growth Active	Approved
DCP International Fund	TBD	Board Discussion Pending
Self-Directed Brokerage Option	Broad universe of funds, stocks and bonds	Implemented



# Mid Cap Equity

# Mid Cap Equity

## Portfolio Structuring – Portfolio Options

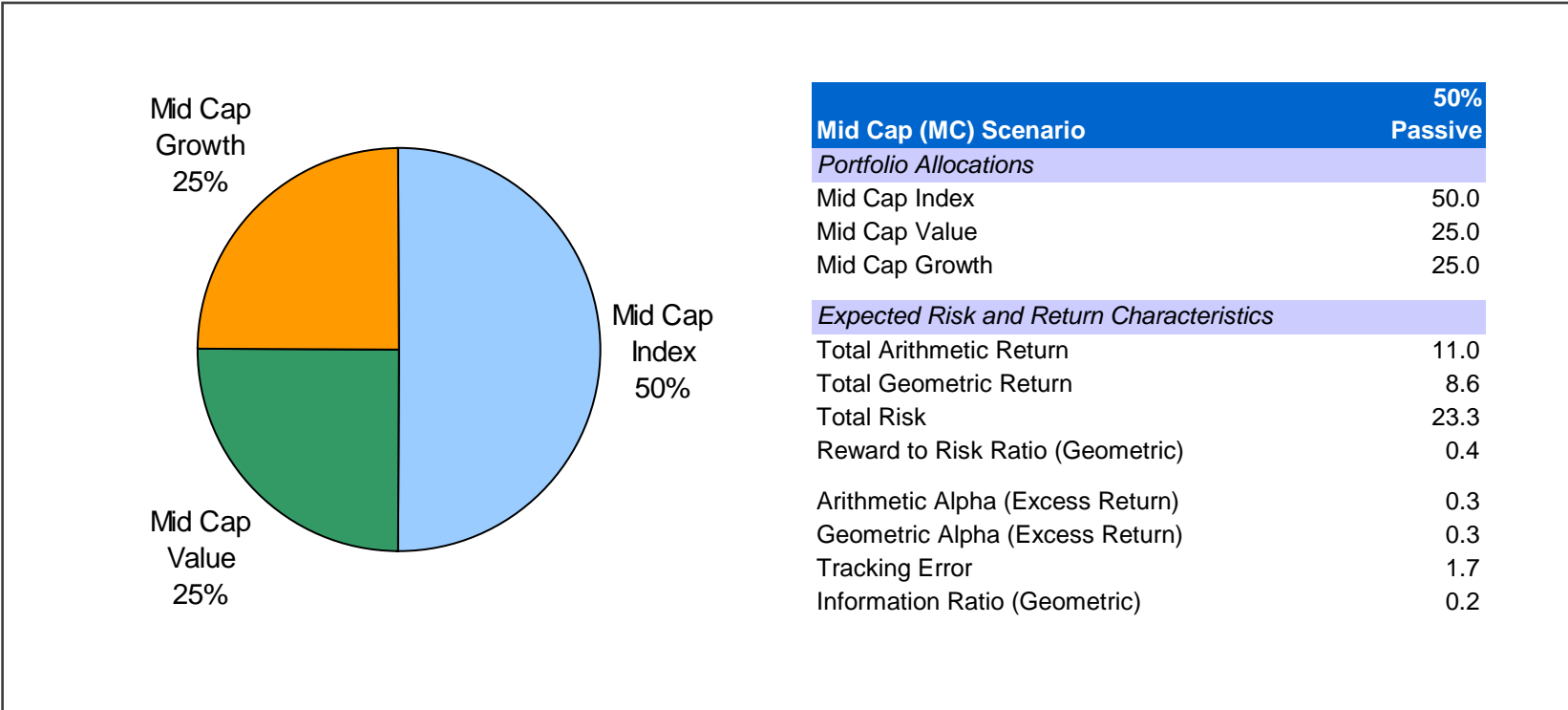


Mid Cap (MC) Scenario	100% Passive	67% Passive	50% Passive	33% Passive	100% Active
<i>Portfolio Allocations</i>					
Mid Cap Index	100.0	66.6	50.0	33.4	0.0
Mid Cap Value	0.0	16.7	25.0	33.3	50.0
Mid Cap Growth	0.0	16.7	25.0	33.3	50.0
<i>Expected Risk and Return Characteristics</i>					
Total Arithmetic Return	10.7	10.9	11.0	11.1	11.3
Total Geometric Return	8.4	8.5	8.6	8.7	8.9
Total Risk	23.2	23.2	23.3	23.3	23.5
Reward to Risk Ratio (Geometric)	0.36	0.37	0.37	0.37	0.38
Arithmetic Alpha (Excess Return)	0.00	0.20	0.30	0.40	0.60
Geometric Alpha (Excess Return)	0.00	0.19	0.29	0.37	0.54
Tracking Error	0.00	1.16	1.73	2.31	3.46
Information Ratio (Geometric)	NA	0.16	0.17	0.16	0.16

# Mid Cap Equity

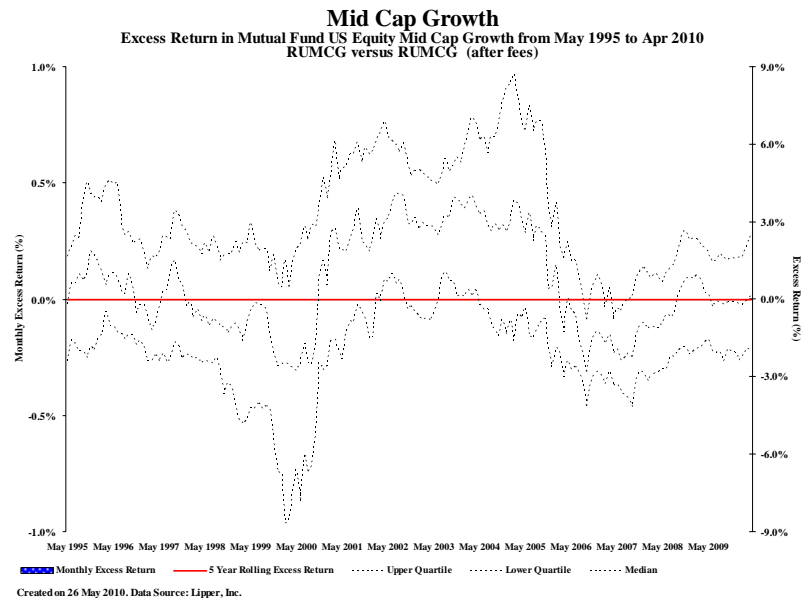
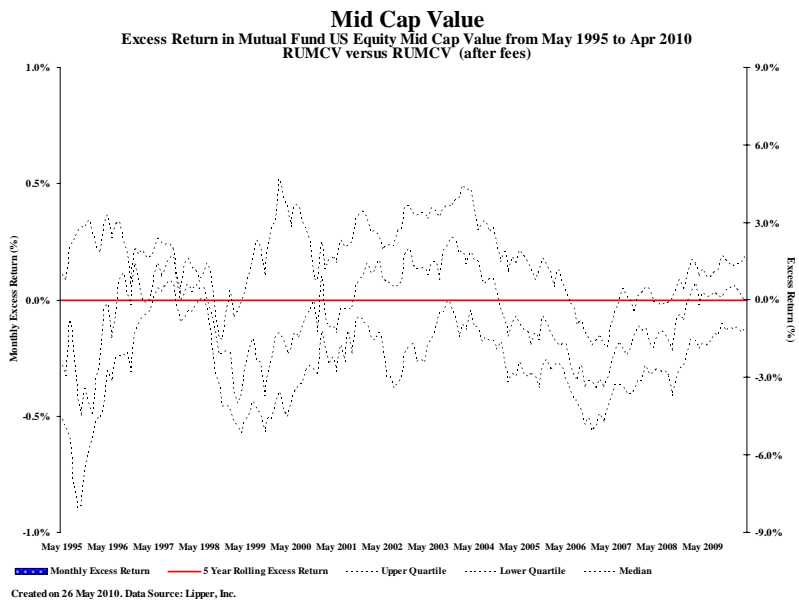
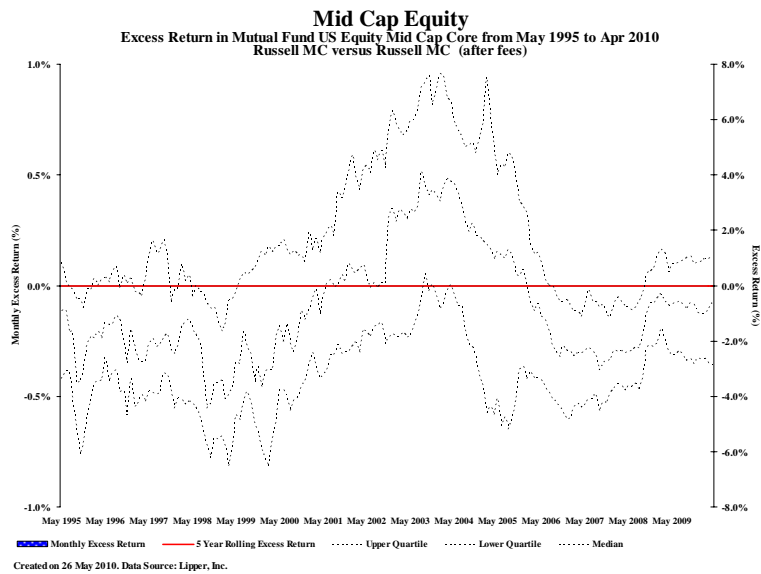
## Proposed Investment Structure

NEW DCP INVESTMENT MENU DESIGN		
Investment Option	Structure	Rationale
<b>DCP Mid-Cap Stock Fund</b>	Select 50% Passive, 25% Active Growth, 25% Active Value	Goal is for participants to focus on asset allocation



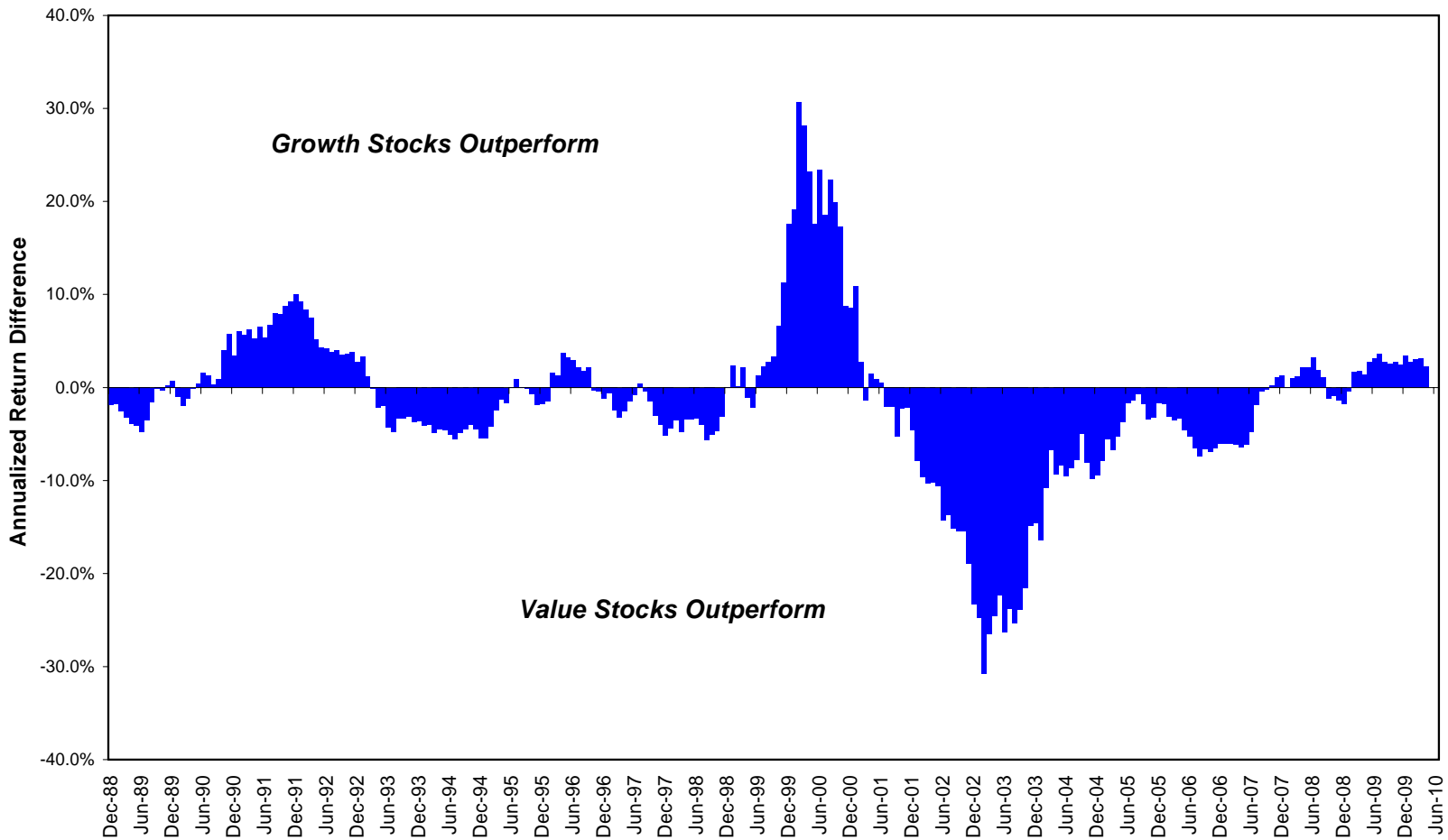


# Mid Cap Equity Supporting Data



# Mid Cap Equity Supporting Data

## Russell Mid Cap Growth Index Minus Russell Mid Cap Value Index for Rolling Three-Year Periods

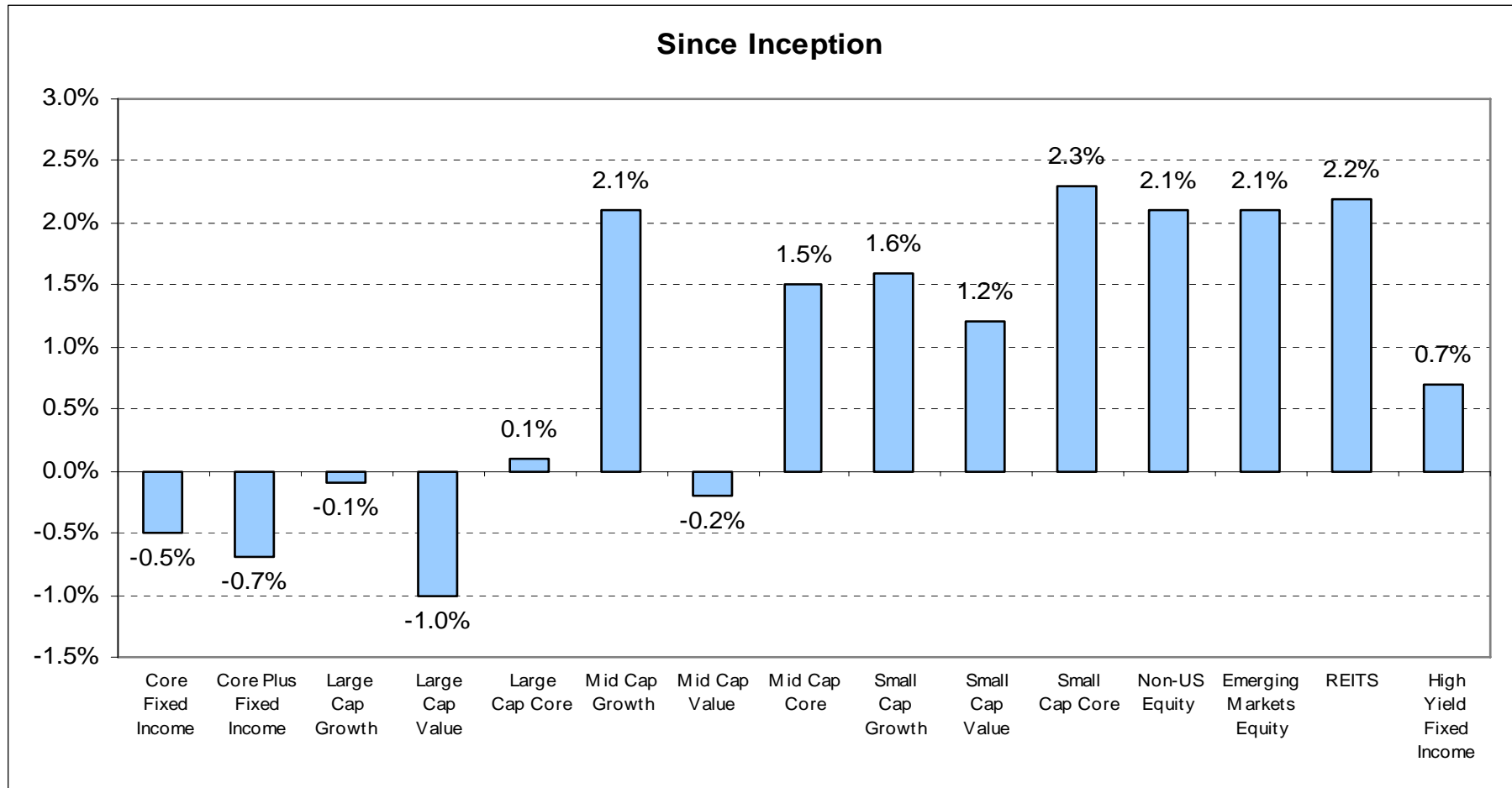


# Appendix

## Active vs. Passive Management

Manager Research – Alpha opportunities exist through Manager Selection

Value Added Through Mercer Manager Research Recommendations ending March 31, 2009



Note: As of March 31, 2009. Value added is calculated as the average return per annum for the A and A- rated strategies since inception less the average return of the style specific benchmark. Since inception dates for all asset classes shown above is January 1996 except for REITS which is September 2004.

# Portfolio Modeling

## Modeling Assumptions – Equity

Asset Class	Nominal Annual Terms			Previous Nominal Expected Returns			
	Geometric Return Equivalent	Arithmetic Expected Return	Annual Standard Deviation	Sep 2009 Geometric Annual Returns	Jun 2009 Geometric Annual Returns	Mar 2009 Geometric Annual Returns	Dec 2008 Geometric Annual Returns
<b>Domestic Equity</b>							
All Cap	8.3%	10.3%	20.5%	8.4%	8.4%	8.4%	8.4%
Large Cap	8.2%	10.0%	20.0%	8.2%	8.2%	8.2%	8.2%
Mid Cap	8.3%	10.7%	23.2%	8.4%	8.4%	8.4%	8.4%
Small Cap	8.5%	11.2%	25.1%	8.5%	8.5%	8.5%	8.5%
Micro Cap	8.7%	12.9%	31.8%	8.9%	8.9%	8.9%	8.9%
Small/Mid (SMID)	8.5%	10.9%	23.4%	8.4%	8.4%	8.4%	8.4%
<b>International Equity</b>							
Develpd Mkts – Unhedged	8.3%	10.3%	21.5%	8.2%	8.2%	8.2%	8.2%
Develpd Mkts – Hedged	8.2%	10.1%	20.5%	8.2%	8.2%	8.2%	8.2%
Emerging Markets	8.5%	11.4%	26.0%	8.4%	8.4%	8.4%	8.4%
World ex-U.S. Small Cap	8.5%	11.1%	24.6%	8.4%	8.4%	8.4%	8.4%
World ex-U.S.	8.6%	10.5%	21.0%	8.4%	8.4%	8.4%	8.4%
Global Equity	8.7%	10.3%	18.9%	8.4%	8.4%	8.4%	8.4%
Global Small Cap	8.9%	11.0%	21.8%	8.6%	8.6%	8.6%	8.6%

Source: Mercer Capital Market Outlook, January 2010