CITY OF LOS ANGELES
BOARD OF DEFERRED COMPENSATION ADMINISTRATION

MINUTES
MEETING OF JANUARY 17, 2006 – 9:00 A.M.
700 E. TEMPLE, ROOM 350

Board Members:
Present:
Shelley Smith, Chairperson
Richard Kraus
Don Keith
Bill Stein
Maggie Whelan
Eugene K. Canzano
Not Present:
Joya De Foor, Vice-Chairperson

Staff:

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

1. CALL TO ORDER

Maggie Whelan called the meeting to order at 9:10 a.m.

2. PUBLIC COMMENTS

Ms. Whelan asked if there were any public comments.

John Hill of the Department of Water and Power (DWP) indicated that the Board may want to look at accommodating a banded or tiered fee structure with a cap based on account balances and the number of accounts. He indicated that this could be successfully implemented by using a four-tier fee structure. He indicated that this fee structure does not impose long-term participants with high fees and provides a reasonable fee for participants with low account balances. Mr. Hill continued by indicating that the participant with the highest balance in the Plan is paying approximately $1,921 in fees yet the average fee is $50.00. He concluded by stating that the proposed structure could accommodate fees reasonably without building a huge surplus.

Clifford Ruff of the Los Angeles Police Protective League indicated that based on changes in the Internal Revenue Code, employees are eligible to defer vacation and/or sick time pay outs upon severing employment after the effective date of severing employment. Mr. Ruff indicated that the Controllers Office considers this item a low priority and asked that the Board consider taking what action it could to urge action by the Controller. He concluded by indicating that in reference to item # 4, participants in the Hartford Fund need to be given adequate information to understand the reasons for and benefits of this change.

Ms. Whelan asked if there were any additional public comments. There were no additional public comments.

3. INVESTMENT PROVIDER PRESENTATION: HARTFORD

Paul Meskiewicz, Managing Director, and Ryan Moore, Director of Institutional Investment Product Management and Stable Value Accounts, both with Hartford Financial Services Group ("Hartford") were present to review performance data for the City's Deferred Compensation Plan. Mr. Meskiewicz started by indicating that Hartford was founded in 1810, has 30,000 employees worldwide, is publicly traded, and has over $300 billion in assets under management. He indicated that Hartford is a Fortune 100 company and their client base ranges from corporations, foundations and endowments, to public funds. He continued by explaining Hartford's investment strategy of disciplined ideology and institutional focus.

Mr. Moore provided information on the three products Hartford offers: Hartford Stock Fund; Hartford Advisers Fund; and Hartford Capital Appreciation Fund. He indicated that the Hartford Stock and Hartford Advisers Funds' previous lead portfolio manager, Rand Alexander, retired on May 2, 2005 and as a result Sam Pannell, Senior Vice President & Partner, and Steve Irons, Senior Vice President & Partner, both with Wellington Management Company, assumed co-portfolio management responsibilities. Mr. Moore indicated that since the new management structure has been in place, the portfolio's positioning has expanded and provides for a broader investment opportunity across the style spectrum. He indicated the previous management focus was on relative value and traditional core products and the new management focus is on the same but has expanded to include deep value, contrarian value, quality growth, and aggressive growth products. Mr. Moore stated the new portfolio positioning allows the fund to outperform in various market environments. Ms. Smith indicated her concern that Hartford appears to be changing the investment focus of a fund that participants have come to expect would operate as a large cap fund. Mr. Meskiewicz replied that the fund was not really changing its strategy.

Mr. Moore continued by indicating that the overall style is solidly large-cap core and the overall makeup is consistent with the makeup of the Standard & Poor 500 Index. He indicated that the market is capped and each sector cannot go above or below five percent in sectors outside its large cap focus. He further indicated that if the environment changes, the portfolio could not change beyond the criteria set within fund guidelines.

Mr. Moore continued by reviewing the historical performance and portfolio characteristics for both the Hartford Stock and Hartford Advisers Funds. Don Keith questioned the performance of the funds, that based on the three, five, and ten-year periods, the fund had underperformed the Standard & Poor 500 Index. Mr. Meskiewicz indicated that Hartford recognizes the fund had underperformed but that it was hoped the new investment approach would lead to higher returns in the future. Eugene K. Canzano asked if the new investment philosophy had changed the risk level. Mr. Moore replied that the risk level has not substantially changed. Mr. Kraus asked if based on the bell curve graph depicted on page 6 of the report the products were equally distributed. Mr. Moore replied yes.

Mr. Moore continued the presentation by reviewing the Hartford Capital Appreciation Fund. He indicated that Saul J. Pennel manages the fund and that this fund differentiates itself from the Hartford Stock Fund through the ability to invest significantly in smaller-cap securities. He reviewed the historical performance for various periods and the performance since inception. He continued by explaining the portfolio characteristics and the top ten holding companies. He concluded by indicating that the Hartford Capital Appreciation Fund is more volatile than the Hartford Stock Fund.

Mr. Kraus asked if participants are made aware of anticipated changes to the fund. Mr. Montagna replied Great-West Retirement Services ("GWRS") updates its Fund Fact sheets available in paper form and on the GWRS website.

4. BOARD REPORT 06-01: CONSOLIDATION OF FIXED ACCOUNT OPTIONS

Mr. Montagna indicated that in October 2003 the Board had adopted an action to consolidate the Hartford General Account and Galliard Stable Value Fund contingent upon the finalization and execution of a new contract with Hartford Financial Services Group ("Hartford"). He indicated that staff would like to reaffirm the prior Board action and allow the current Board an opportunity to review the proposed consolidation of the fixed account options prior to implementation.

Wendy Young-Carter of Mercer Investment Consulting, the Plan's consultant, was present to review and lead the stable value fund discussion. Ms. Young-Carter reviewed the City's current structure, which provides two similar fixed account options: the Hartford General Account and the Galliard/Wells Fargo Total Return Stable Value Fund. She indicated that the City's fixed account options have different provisions, may confuse participants, do not allow direct transfers between either product, and have a duplicative structure. She stated that the consolidation should be viewed as an evolutionary process away from competing fixed account products, which she stated was unusual in other state and local government plans.

Ms. Young-Carter discussed what a stable value fund is and how stable value funds work. She reviewed how a wrap agreement works to protect the Plan's investment and that the stable value portfolio is equal to the fixed income portfolio plus the book value of the wrap agreement. She indicated that combining the fixed account options would lead to transparency and reduce transfer restrictions.

Ms. Young-Carter continued the discussion by indicating that the proposed consolidation would result in a reduction in participant fees from a current combined approximate 98 bps down to 34 bps when the consolidation is fully implemented, which would represent a two-thirds reduction in fees. She concluded the presentation by indicating that the proposed consolidation strategy would provide greater transparency and allow for complete securitization of assets. She indicated it would reduce restrictions, allow rapid tracking of market movement in interest rates, allow the Plan to go out to bid for each part of the Plan asset, and increase diversification, credit quality, and liquidity.

In response to a question from Bill Stein, Ms. Young-Carter verified the estimated fee reduction. Mr. Stein further asked about going out to bid on the products. Mr. Montagna indicated that the Board could go out to bid on the Galliard portion at any time. Ms. Smith indicated that staff is attempting to mitigate manager risk and that would allow the Plan to select more than two managers. Mr. Kraus asked how the money would be divided among managers and indicated that he was concerned how participants would understand the numbers and blending of products. Ms. Young-Carter indicated that any new money would be equally divided between Hartford and Galliard, then in 2009 the City would need to assess how to allocate the money between Hartford and Galliard. Ms. Whelan asked if staff had a plan on how to educate participants about the consolidation. Mr. Montagna indicated that a communication strategy was in development. Ms. Whelan asked staff to work with participants and consult representatives, such as Cliff Ruff of LAPPL, as part of this strategy.

Mr. Kraus asked what participants would see once the two funds were consolidated. Ms. Young-Carter indicated that for participants the consolidation would be transparent – they would see a single fund and single interest rates. Shelley Smith indicated that the consolidation provides transparency and commended staff and the consultant on working to get the Plan to a better place. She encouraged the principals at Hartford to cooperate with the City. Chris Stoltz, Account Manager with Hartford Financial Services Group, indicated that he would be the point of contact between staff and Mercer consulting. He indicated that he has experience with similar transitions and fixed income products and that the City should view Hartford as cooperative with the consolidation plan.

Following the discussion, **a motion was made by Bill Stein, seconded by Maggie Whelan: (a) reaffirming and approving the consolidation of the Hartford General Account and Galliard Stable Value Fund into a single stable value investment offering; (b) directing staff to proceed with taking the necessary steps in order to effect a tentative target transition date of July 1, 2006; and (c) authorizing the Board Chairperson to execute any necessary amendments required of Hartford**

Life Insurance and/or Galliard Capital Management; the motion was unanimously adopted.

5. BOARD REPORT 06-02: REQUEST FOR PROPOSAL ("RFP") FOR PLAN ADMINISTRATION

Mr. Kraus began the discussion by asking about the outside rater for the Review Committee and the cost of Mercer's consulting fees. Wendy Young-Carter of Mercer Consulting, the Plan's consultant, indicated that approximately $50,000 is projected as an expense for consulting fees. Ms. Whelan asked whether individuals serving on the review committee would be volunteers or paid for their services. Mr. Stein indicated that both retiree and active participants could be volunteers.

Following the discussion of various possible sources for an outside rater on the Review Committee, staff indicated it could return with a report summarizing the primary options. Mr. Stein asked about the current TPA contract expiration date and projected RFP time schedule. Mr. Montagna indicated that the current TPA contract expires on March 31, 2006 and based on the proposed time schedule, the RFP process could be completed in four months. He indicated that the four-month projection is based on the following: receiving Board authority to release the RFP in February 2006 and an approximate two-month response window.

Ms. Smith indicated that the Board should approach each recommendation separately for Board Report 06-02. She asked if any Board member had any questions or concerns about the recommendations included in section "a" of the staff recommendations. Mr. Kraus indicated a concern about eliminating the quote for an asset-based fee. Ms. Smith indicated she agreed with the staff recommendation because of the risk of over-paying fees if Plan assets exceed assumptions.

Mr. Canzano raised the subject of conducting vendor interviews. Ms. Smith indicated that although in certain selection processes she believed vendor interviews added to the process, in the present case she shared staff's concern that they might tend to sway the reviewer away from the formal rating criteria. She further indicated that although interviews would not be required, vendors should be prepared to answer questions in a public setting or meeting should the Board require further clarification. No further discussion on item "a" of the report.

Mr. Stein asked if the Board had the option to approve the recommended RFP and authorize staff to release it. Ms. Smith indicated she would prefer to have a copy of the final RFP presented to the Board. Ms. Smith asked if any Board member had any additional questions or concerns. Ms. Whelan indicated that she was concerned with potential vendors trying to lobby Board members. Mr. Keith asked if a list of potential vendors could be provided to the Board. Staff indicated it would do so. Board members asked staff to return at the next Board meeting with a proposed marketing cessation policy.

Following the discussion, **a motion was made by Bill Stein, seconded by Richard Kraus, authorizing staff to draft the next Request for Proposal for Plan Administration with the following guidelines: (1) define minimum core local staffing requirements as detailed in the staff report; (2) omit questions concerning investment advice or managed account; (3) omit any request for quoting of an asset-based fee; (4) include a separate questionnaire within the RFP for Pensions Savings Plan Administration; (5) approve establishment of an RFP review committee but authorize staff to draft specific options for an outside rater; (6) adopt staff's proposal for consensus scoring of RFP responses, not to include vendor interviews; and (7) direct staff to return to the Board at its February meeting with a draft Request for Proposal for Plan Administration; the motion was unanimously adopted.**

6. BOARD REPORT 06-03: STAFF REPORT & INFORMATION ITEMS

Maryanne Keehn indicated that Board of Deferred Compensation Plan meetings are now digitally recorded and stored. She requested that staff be allowed to return back to a summary style of minute writing on a trial basis. Ms. Smith indicated that the minutes of this Board are quite detailed compared to other Boards. She indicated that minutes should serve as summary and not as transcripts. Mr. Kraus asked about the Deemed Individual Retirement Account ("IRA") section of the report. Mr. Montagna replied that in general this allows sponsors to defer additional money in a Plan sponsored IRA, and that many of the regulatory questions regarding this had now been resolved so it might be something the Board would want to look at. Ms. Whelan asked staff or Great-West Retirement Services to respond to one of the participants correspondence items noted in the staff report. **A motion was made by Eugene K. Canzano, seconded by Bill Stein, to receive and file the report; the motion was unanimously adopted.**

7. HARDSHIPS

Ms. Smith indicated that Case No's. 06-01, 06-02, and 06-03 needed approval. She asked if there was any discussion needed. No discussion noted. **A motion was made by Bill Stein, seconded by Maggie Whelan, approving full hardship distributions in Case No's. 06-01, 06-02, and 06-03; the motion was unanimously adopted.**

Mr. Stein asked if the stipulated documents were received in last month's Case No. 05-22. Ms. Smith indicated that she reviewed the documents submitted and that the applicant met the contingencies. Mr. Kraus asked if staff could ask applicants for a before and after credit history summary and if future hardship reports could include the after-tax value of the hardship distribution request. Ms. Whelan indicated that the hardship process is already invasive and adding this requirement would make it more difficult for participants. Mr. Canzano agreed with Ms. Whelan and indicated that logistically it may be impossible for participants to produce this type of request. Fernando Campos indicated that future hardship reports would include an after-tax value of the hardship distribution.

8. NEXT MEETING DATE: FEBRUARY 21, 2006

9. ADJOURNMENT

A motion was made by Bill Stein, seconded by Maggie Whelan, to adjourn the meeting; the motion was unanimously adopted and the meeting adjourned at 11:47 a.m.

* Minutes prepared by Staff member Fernando Campos