

**CITY OF TORRANCE**  
**DEFERRED COMPENSATION PLAN COMMITTEE**  
MARCH 25, 2010 MEETING MINUTES

**Members Present:** Ms. Linda Barnett – City Treasurer  
Ms. Elaine Winer – HR Director  
Mr. Eric Tsao – Finance Director  
Ms. Mary Giordano – Assist. City Manager  
Mr. John Fellows – City Attorney

**Committee Consultants:** Mr. John Campbell and Ms. Rachel Fequiere - Benefit Funding Services Group  
("BFSG")

**CALL TO ORDER**

A special meeting of the Deferred Compensation Committee (the "Committee") was called to order by Linda Barnett on March 25, 2010 at 2:40 pm. The meeting was intended to review a high-level overview of the Committee's fiduciary responsibilities, and the fourth quarter 2009 City of Torrance deferred compensation plans (the "Plans") performance report.

**1. FIDUCIARY OVERVIEW**

The Committee reviewed a Fiduciary Overview presentation prepared by BFSG. Fiduciary responsibilities and best practices were briefly discussed, including the implementation of bylaws to identify the Committee members and their role as it relates to the Plans. The bylaws, which are still under review within the City, shall be designed to correspond with the provisions of the various Plans' documents. Ms. Barnett noted that the documents will likely need to be reviewed and restated as they have not been restated for some time.

An updated draft of an Investment Policy Statement ("IPS") was provided as a take-away for the Committee's review prior to the next Committee meeting. Ms. Fequiere covered the general format of the IPS, which closely corresponds to the City's existing IPS. The circulated draft was noted as having been updated to reflect current best practices and an enhanced investment evaluation methodology.

The Committee asked for additional reading materials regarding their responsibilities as Committee members. Ms. Fequiere committed to providing a copy of ERISA 404(c) and other information that would be helpful in understanding 457 deferred compensation committee membership. In addition, fiduciary education topics will be added to upcoming Committee meeting agendas to continue the review and discussions relating to roles and responsibilities.

Other items agreed upon by the Committee are the addition of "Approval of the Prior Meeting Minutes" to the meeting agendas going forward, and delivery of a soft copy of the Plans' investment review at least one week prior to the scheduled meeting date. Ms. Fequiere committed to these initiatives and will work with Ms. Barnett to schedule the next 4 quarterly meetings

**2. INVESTMENT EVALUATION METHODOLOGY**

Mr. Campbell reviewed the BFSG investment evaluation methodology, which focuses on fund performance, risk-adjusted performance, style consistency, and expense. The methodology utilizes a ranking scale to identify funds that are outperforming, performing, or underperforming. Anything that ranks below 25% is considered "outperform," 26-50% is ranked "perform," and anything ranked in the bottom 51% is considered "underperform." This approach to evaluating the funds should enable the Committee to quickly identify funds that may have potential concerns.

The Committee discussed the process for making a fund change. Mr. Campbell explained that should a fund change be warranted, BFSG would prepare an analysis consisting of 3-5 funds for the Committee's consideration. All aspects of the evaluation methodology would be applied to analyzing the funds so that the Committee may make an informed decision with regards to changing an option available in the Plans.

### **3. RETIREMENT PLAN QUARTERLY INVESTMENT REVIEW**

Mr. Campbell reviewed the layout of the Quarterly Investment Review report. Each quarter, the report will contain an overview of the market environment, a summary of the funds in the portfolios, an update on asset allocation and balances in the Plans, and detailed mutual fund performance analysis.

Each of the funds in the Plans was reviewed. Mr. Campbell noted that the Plans are well diversified, with a wide range of asset classes from which the participants may choose. Noteworthy funds for the quarter included Dodge & Cox Stock, which has some lagging 3 and 5-year performance; JP Morgan Mid Cap Value, which had some short-term underperformance due to an overweighting in financials and an underweighting in energy; Fidelity Advisor Leveraged Co Stock, which posted strong one-year performance but is noted as being a very volatile fund; and Alliance Bernstein International Growth, which has recently experienced some manager and analyst turnover, and is somewhat volatile due to its overweighting in emerging markets.

As weighted, the Plans overall rank 16%, which is considered “outperform.” As compared to the custom passive and active benchmarks, the Plans outperform on a 3-month, one, 3, and 5-year basis; take slightly more risk than the category average, but are more efficient, as evidenced by the 3-year Sharpe ratio. The weighted expense ratio was noted as being competitive when compared to the category average.

Funds warranting additional scrutiny in the Part-time Plan included American Century Ultra, which significantly lags on a 5 and 10-year basis; Oppenheimer Capital Appreciation, which performed well in 2009 but underperformed in 2008 due to its slightly more aggressive style than the peer group; and Columbia Mid Cap, which underperformed the category peer group in all but the 3-month period ending 12/31/2009.

Ariel Appreciation and Maxim Ariel Small Cap Value were also discussed. Both funds are managed by John Rogers, Jr. His style led to strong short-term performance in 2009, but both funds are noted as having concentrated portfolios with low turnover, and an overweighting in asset manager-type financials. For diversification and volatility reasons, Mr. Campbell would like to discuss these funds in greater detail at the next Committee meeting.

It was noted that the Part-time Plan assets default to the guaranteed fund. Participants with over \$1,000 may choose to redirect their account balances to the other available funds in the Part-time Plan; however, the majority of participants do not move their money from the guaranteed options. Mr. Campbell proposed potentially changing the default fund to something that would qualify as a Qualified Default Investment Alternative (“QDIA”). More information on QDIA’s will be discussed at a future meeting. In the interim, the Committee will continue to work with Great West in looking for ways to educate participants about the benefits of diversification.

### **4. ADJOURNMENT**

With no further items to address, the meeting was adjourned at 4:10 pm.