

CITY OF TORRANCE
DEFERRED COMPENSATION PLAN COMMITTEE
June 13, 2013 MEETING MINUTES

Members Present: Ms. Dana Cortez – City Treasurer
Mr. John Fellows – City Attorney
Ms. Leyta Fuentes – Operations/HR Manager
Ms. Mary Giordano – Assist. City Manager

Members Absent: Mr. Eric Tsao – Finance Director

Guests: Ms. Carol Say – Great-West Retirement Services
Mr. John Borne – Great-West Retirement Services

Committee Consultants: Mr. John Campbell and Mr. Evan Pickering - Benefit Funding Services Group
("BFSG")

CALL TO ORDER

The first quarter meeting of the Deferred Compensation Committee (the "Committee") was called to order at 2:00pm.

INVESTMENT MEETING

I. Acceptance and Filing of March 7, 2013 Meeting Minutes

A correction to the minutes was advised, requiring Ms. Leyta Fuentes to be added to the members present list. The corrected minutes will be redistributed. With only that modification noted, a motion to accept and file the March 7, 2013 meeting minutes was seconded and unanimously approved by the Committee.

II. Stable Value Fund Review

Bill Thorton from Great-West presented via telephone an overview of the City of Torrance's custom stable value fund. The conversation covered portfolio construction, interest rate outlook, and current economic trends. The management team structure was presented and it was noted that the same manager and team has been in place since the fund's inception. The team has given guidance that the fund will be reducing the portfolios average duration over the near-future to protect against a rising interest rate environment.

III. Retirement Plan Quarterly Investment Review (1Q13)

Mr. Campbell from BFSG provided a market overview in order to provide context to the performance of the Plan's underlying funds. Economic data including: domestic GDP, inflation (headline and core), unemployment, and the current interest rate environment. Benchmark index returns for the quarter and a trailing 1, 3, 5, & 10 year horizon were reviewed including S&P 500, MSCI EAFE, and Barclays Aggregate Bond Index. Mr. Campbell provided an overview of the performance and evaluation rankings of the Plan's funds but gave more in-depth commentary on the following:

Dodge and Cox Income has outpaced its benchmark for the quarter, due in part to an overweight in corporate holdings. Long-term the fund is a strong performer; however over a 3-year basis the fund has lagged its category peer group due to a lower duration of the portfolio.

Templeton Global Bond has outperformed its benchmark and peer group across all measured time periods. The fund invests internationally, and currently has a lower duration than its peers which limits the exposure to interest rate risk. The fund ranks in the top percentile over a 5- and 10-year basis.

AllianceBern Intl Growth underwent some recent management and team structural changes. Additionally, the fund over the quarter and over a 1-year basis has underperformed its benchmark. Recently, the fund has trimmed the amount of holdings in the portfolio to its higher conviction names. In consideration of the recent changes, Mr. Campbell recommended putting this fund on

Watch in order to monitor for improved performance and manager consistency. The Committee agreed.

As of March 31, 2013, there were three funds ranked as “perform” with the remainder ranked as “outperform.” The Plan’s average rank as 3/31/13 period was 13, and its weighted rank was 14, which are both considered “outperform.”

Plan-level returns demonstrated outperformance against the passive and active benchmark across all measured time periods (3-month, 1, 3, and 5-years), and doing so with a higher Sharpe ratio (risk-adjusted return).

The Part-Time (3121) Plan fund performance was reviewed. Two funds ranked as “underperform” per the Investment Policy Statement five funds ranked as “perform” and nine funds ranking as “outperform.” Mr. Campbell provided a more detailed discussion on the following:

Ariel Appreciation out performed its peers and benchmark over the quarter and a 1-year basis. This is typical of the fund which tends to perform better in robust markets, which is evident in the funds 5-year ranking placing it in the top decile. This fund tends to have higher volatility due to the slightly more concentrated portfolio.

ADMINISTRATIVE MEETING

IV. Great-West Quarterly Report

Ms. Say provided a brief first quarter overview. It was noted that new employee orientation is up and the number of attendees for the quarter was 28. Also discussed was the Plan distribution summary, which demonstrated the amount of distributions taken for the quarter including the reasons for the distributions.

V. De Minimis Account Analysis – Great West

Great-West presented an analysis outlining the amount of participants with a balance under \$1,000 that has been inactive for 24 months and 36 months. The intent of the analysis was to determine the cost savings that could be recognized by paying out de minimis accounts. After reviewing the material the Committee agreed to better define “de minimis” account in the Plan Document and to research how the inactive tag is being assigned to an employee. The Committee agreed to revisit this material next quarter.

VI. Plan Revenue Modeling – BFSG

BFSG presented material outlining estimated Plan revenue generation, the required cost to Great-West and the estimated annual qualified Plan expenses. Currently the revenue generated by the funds is sufficient to cover the Great-West cost to administer the Plans, and enough to cover the estimated annual Plan fixed-costs. However, when reviewing the Plan qualified expenses the Committee decided to increase the estimated budget for the NAGDCA conference to cover every Committee member. The revised estimate for the annual total Plan qualified expenses was \$94,000.

VII. Plan Expense Reimbursement Account “PERA” Policy

After reviewing the plan revenue modeling presented by BFSG, the Committee decided to modify the PERA policy document to maintain a reserve required balance in the account of two full years of estimated qualified Plan expenses. With only that revision the Committee agreed to adopt the policy. The Committee agreed to review the Policy regularly on a go-forward basis.

VIII. Closing

The Deferred Compensation Committee meeting adjourned at 4:10 pm.