

CITY OF TORRANCE
DEFERRED COMPENSATION PLAN COMMITTEE
September 5, 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. Javier Obando – Great-West Retirement Services
Mr. Brent Neese – 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 second quarter meeting of the Deferred Compensation Committee (the "Committee") was called to order at 10:30am.

ADMINISTRATIVE MEETING

I. Acceptance and Filing of the June 13, 2013 Meeting Minutes

The minutes were unanimously accepted and approved as written.

II. Great-West Quarterly Report

Ms. Say reviewed the Great-West quarterly report. Outlined were statistics on the new employee orientations, group education seminar, and individual counseling session attendees and number of meetings held which were noted as being effective in participants increasing their contribution amounts.

Also closely reviewed were the distributions taken for the quarter. It was noted that outside of the service credit the largest distribution was taken as a rollover to a traditional IRA. A discussion was held considering the possibility of reviewing a month-to-month distribution analysis to coordinate a targeted education campaign in select months around the benefit on the stable value product offered in the Plan and the competitive return versus available retail options. In order to help retain distributions, Great-West will monitor the demographics of individuals taking distributions and will report to the Committee.

As an update to the redistribution of monies to Plan participants from the reimbursement account, Ms. Say provided the notification letter which will be received by participants. The Committee reviewed the letter and it was noted that the letter heading is after the date the distribution will occur and the body of the letter will need to be revised to proper tense to reflect the redistribution has already occurred. Great-West will work to revise the document prior to the letter's distribution.

III. De Minimis Balances Update

A discussion was held regarding the duration an inactive employee of the City is kept on the payroll file. It was determined the length was 24 months which is consistent with the Plan's definition. Great-West will work with the City to run a report annually for participants in the Plan who have been inactive for 24 months and have a balance in the Plan of less than \$1,000. Those particular participants are deemed to have de minimis account balances and will have their account balance paid out to them. It was noted this report will be ran on an annual basis and will be effective December 2013.

IV. Defense of Marriage Act Ruling and Potential Plan Impact

Mr. Borne provided a recap to the Committee on the recent Supreme Court's ruling on the Defense of Marriage Act and specifically the impact on it striking down Section 3 of the Act which legally defines marriage as between a man and woman. Additionally, as an update the IRS has since given guidance for tax filing purposes that the Federal Government will recognize same-sex couples who were legally married and moved to a state that does not recognize same-sex marriage. Mr. Borne advised that the City will need to review all Plan related documents and forms to confirm there is no specific language which specifically defines a married couple as man and wife. Such documents include but not limited to: QDRO's, eligible rollover distributions, qualified joint and survivor annuities, loans and default beneficiaries. Great-West will confirm there is no gender specific language in the Plan document.

INVESTMENT MEETING

V. Retirement Plan Quarterly Investment Review (2Q13)

Mr. Campbell provided an economic overview in order to provide context to the investment performance of the underlying funds in the Plan. Economic data points that were reviewed included GDP (which was noted as being revised higher from an initial 1.7% to 2.5% for the 2nd quarter, inflation (core and headline), and unemployment. A brief recap on the Federal Reserve's current monetary policy was reviewed giving context to the current employment and inflation environment. Mr. Campbell discussed the benchmark returns for the quarter including: S&P 500, Barclays US Aggregate Bond Index, and the MSCI EAFE which is a measure of the international market's investment returns. It was noted that over the course of the quarter the yield on the US 10-year issue rose 65 basis points, which was reflected in the return of the Barclays US Aggregate Bond Index which was negative for the quarter. Mr. Campbell also provided fixed income sector performance and noted that the TIPS and emerging markets debt securities were the worst performing fixed income sectors for the quarter. Also reviewed were the domestic equity sector returns and the global equity asset class returns. Mr. Campbell reviewed the underlying funds in the Plan but provided a more in-depth review of the following funds:

Dodge and Cox Income which is traditionally more credit-oriented than its peer group outperformed its peers and benchmark for the second quarter and all other measured time-periods. The fund tends to take less interest rate risk which is reflected its shorter duration than its peers, which was a benefit to the fund for the quarter while interest rates rose.

PIMCO Total Return underperformed its benchmark and peer group for the quarter in part to its overweight to TIPS and emerging market debt. The fund's manager, Bill Gross, tends to make macroeconomic tactical bets and occasionally is too early with the decision. The fund still ranks in the top decile in returns over a 10-year basis and has outperformed its benchmark and peers over a 1, 3, 5, and 10-year basis.

American Funds Growth Fund of America outperformed its benchmark and peers for the quarter and on a one-year time horizon largely due to management's strategy. Due to its diversified nature, the fund typically outperforms in declining markets and performs in line with its benchmark and peers in rallying markets and an overweight allocation to consumer discretionary and healthcare helped short-term performance. 3- and 5-year performance was hindered by an overweight to foreign equities, a region which significantly underperformed the domestic markets in the mid-term. Long-term performance is in the top 30% amongst its peers.

AllianceBern Intl Growth is currently on Watch due to some recent management and analyst team structural changes. The fund also has undergone some reorganization of the portfolio holdings and trimmed the portfolio down to its higher-conviction stocks selections. The fund continued to underperform for the quarter against its peer group and benchmark and is ranked an underperform on a 3-and 5-year basis. Mr. Campbell recommended that the fund remain on Watch and BFSG bring a search for potential alternatives to this fund at the next quarterly meeting, and the Committee agreed.

As of June 30, 2013, in the Plan there was one fund ranked "underperform" but all of the remaining funds ranked as "outperform" according to the ranking methodology as outlined in the IPS. The Plan's average fund rank for the second quarter was 13, and its weighted rank was 13, 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) of 1.49 versus the custom benchmark of 1.23.

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

Ariel Appreciation is a more concentrated fund than its peers and as a result tends to be more volatile in its returns. The fund tends to perform better in up-markets and as a result has outperformed its benchmark and peer group for the quarter, 1-, 3, and 5- year basis.

VI. Closing

The Deferred Compensation Committee meeting adjourned at 11:45 pm.

