

CITY OF TORRANCE
DEFERRED COMPENSATION PLAN COMMITTEE
DECEMBER 6, 2012 MEETING MINUTES

Members Present: Ms. Dana Cortez – City Treasurer
Mr. Eric Tsao – Finance Director
Mr. John Fellows – City Attorney
Ms. Mary Giordano – Assist. City Manager

Guests: Ms. Carol Say – Great-West Retirement Services
Ms. Usha Archer – Great-West Retirement Services

Committee Consultants: Mr. Darren Stewart 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 Dana Cortez on December 6, 2012 at 1:10 pm. The meeting was intended to review the third quarter 2012 City of Torrance Deferred Compensation Plans (the “Plans”) performance report prepared by BFSG, and other items listed on the agenda.

INVESTMENT MEETING

I. ACCEPTANCE AND FILING OF SEPTEMBER 13, 2012 MEETING MINUTES

Ms. Cortez made a motion to accept and file the September 13, 2012 meeting minutes. The motion was seconded by Mr. Tsao, and unanimously accepted.

II. FEE DISCLOSURES FOR GOVERNMENTAL PLANS

Ms. Archer reviewed the provisions of 404(a)(5), which address participant level fee disclosures in retirement plans. She noted that the way in which the Department of Labor (“DOL”) requires that disclosures be presented to participants under the provision is in conflict with SEC rules; however, plans governed by ERISA have been granted a safe harbor exception with respect to the conflict, and as such, ERISA governed plans received the disclosures accordingly. Non-ERISA governed plans administered by Great-West, such as the City Plan, have not provided disclosures to their participants as they are awaiting further guidance from the DOL and SEC. Once provided, Ms. Archer advised that the draft disclosure will be provided to the Committee for their review prior to being sent to participants. She further advised that participants currently have access to fees via the applicable forms and plan website.

Plan-level disclosures, which conform with ERISA’s 408(b)(2) disclosure requirements, have already been provided to Ms. Cortez for review. Great-West continues to enhance the 408(b)(2) disclosure as there are currently some discrepancies in the way in which the data is reported. Ms. Archer advised that Great-West anticipates a March 31, 2013 completion date with respect to the plan-level disclosures.

III. Retirement Plan Quarterly Investment Review (3Q12)

Mr. Stewart reviewed the Quarterly Investment Report, which was distributed at the meeting. He provided a market commentary, and reviewed the funds in the Plan from both a qualitative and quantitative perspective. Noteworthy funds for the quarter are as follows:

Torrance Stable Value: The fund continues to outpace the custom stable value category benchmark, and its market-to-book also remains strong.

Dodge & Cox Income: The fund posted 3-year underperformance due to its very short duration. The fund is conservatively positioned in anticipation of rising interest rates.

Dodge & Cox Stock: Three and 5-year underperformance continue due to the fund’s overweight in financials during the 2008 credit crisis; however, the fund has improved over the short-term for the quarter, largely due to the recent large bank stock rally.

Growth Fund of America: The fund's outperformance relative to its benchmark and peers in the short-term is attributable to sector selection; due in part to management's overweight in foreign equities and cash, both of which outperformed for the quarter. Performance on a 3- and 5-year basis continues to lag and is attributable to the same factors that helped performance in the short-term. The team of nine portfolio managers employs a down-capture strategy, which typically outperforms in declining markets and, as such, has contributed to relative outperformance for the quarter, year-to-date, and one-year periods. Long-term performance remains strong.

A review of the Lifestyle offerings demonstrated some underperformance in the Aggressive fund due to its foreign allocation, which caused some drag on returns.

As of September 30, 2012, each of the funds continues to be ranked as either "perform" or "outperform" per the Investment Policy Statement evaluation methodology. The Plan's average rank as of the reporting period was 13, and its weighted rank was 17, which are both considered "outperform."

Point-in-time Plan level returns demonstrated outperformance against the custom passive and active benchmarks on a 3-month, one-, 3- and 5-year basis, and the Plan-weighted expense ratio remains competitive at 53 basis points versus the category at 79 basis points.

The Part-Time (3121) Plan performance was reviewed. As of September 30, 2012, the funds continue to be predominantly ranked as either "perform" or "outperform." The Plan's average rank as of the reporting period was 28, and its weighted rank was 23, which is considered "perform" and "outperform," respectively.

Ariel Appreciation was the one fund noted as having an "underperform" ranking, largely due to its 10-year performance. It has a heavy allocation in the consumer discretionary and financials sectors, which helped short-term performance. Mr. Stewart advised that there was a recent money manager change; however, one of the fund's long-term managers remains in place and, as such, the change is not concerning.

Also noteworthy for the quarter was the Great-West Federated Bond fund, which lags its benchmarks on a short-term through 3-year basis due to its MBS exposure. The funds longer duration has helped performance somewhat, but MBS have not performed as well as corporates.

ADMINISTRATIVE MEETING

IV. Great-West Plan Review

Ms. Say and Ms. Archer reviewed the Great-West Plan Review, including a discussion on recent employee education efforts, the Retirement Income Control Panel, and participant statistics.

Ms. Say advised that there have been many new hires with respect to the education efforts. As such, many new hire orientations have been held. She further advised that the targeted seminars for the 30 – 40 age group was well attended, with 45 attendees at the October 26th event, and 9 attendees at the November 2nd event. Great-West is in the process of measuring participant behavior to determine the overall success of the seminar initiative.

The Retirement Income Control Panel will be rolled out during the first quarter of 2013 to help participants measure the potential outcomes of their retirement savings efforts. The automatic contribution accelerator has also been activated to simplify the process of increasing deferral amounts for participants.

It was reported that 1,554 participants maintained an account with a balance in Plan A, with assets totaling approximately \$134.4 million as of September 30, 2012. Ms. Archer reviewed statistics pertaining to before-tax paycheck contributions by age, and average account balance by age.

A discussion ensued regarding the Plan's Expense account balance. The Committee reviewed the ways in which monies may be used, including payment for targeted seminars, consulting fees, and potential reductions in share class expense ratios. The Committee will work with BFSG to continue to explore

ways in which to best utilize the monies in the account. Further, Ms. Archer was asked to provide a historical accounting of the account for discussion at the next Committee meeting.

V. Signed Great-West Contract Renewal – Status Update

Ms. Archer advised that the Great-West contract renewal for Plan A has been executed and was implemented effective mid-September 2012. The Part-Time Plan contract is pending approval by City Council. Ms. Cortez advised that City Council had questions regarding the updated contract, which she was currently in the process of responding to. It is anticipated that the Part-Time Plan contract amendment will be executed during the first quarter of 2013.

Ms. Cortez advised that she had attended the recent NAGDA conference, which she found to be very informative. Topics discussed included helping participants understand their responsibility in saving for retirement, automatic enrollment, and automatic contribution accelerator. She recommended that other Committee members attend the conference, if possible, in the future.

VI. Closing

The Deferred Compensation Committee meeting adjourned at 2:05 pm.