

CITY OF TORRANCE DEFERRED COMPENSATION PLAN COMMITTEE

December 12, 2013 MEETING MINUTES

- Members Present:** Ms. Dana Cortez – City Treasurer
Mr. John Fellows – City Attorney
Ms. Leyta Fuentes – Operations/HR Manager
Ms. Mary Giordano – Assistant City Manager
Mr. Eric Tsao – Finance Director (present at the meeting until 3:00pm)
- Guests:** Mr. Javier Obando, Mr. John Borne, and Ms. Carol Say – Great-West Retirement Services
- Committee Consultants:** Mr. John Campbell, Ms. Rachel Fequiere, and Mr. Evan Pickering - Benefit Funding Services Group (“BFSG”)

CALL TO ORDER

A specially-called meeting of the Deferred Compensation Committee (the “Committee”) was called to order at 2:00pm at 3031 Torrance Blvd., Torrance, CA 90503. A quorum was present throughout.

INVESTMENT MEETING

I. Acceptance and Filing of the September 5, 2013 Meeting Minutes

All present Committee members accepted and approved the September 5, 2013 minutes as written.

II. Fund Search – Foreign Large Equity

Due to ongoing concerns with AllianceBern International Growth, which serves as one of the Plan’s foreign large equity offerings, BFSG prepared a Fund Search of alternate options for the Committee’s consideration. The search compared the AllianceBern International Growth fund to the following funds: Artisan International; BlackRock EAFE Eq Index; MFS International Growth; and Vanguard International Growth. Each fund was compared based on the Plan’s Investment Policy Statement (“IPS”) criteria, including qualitative factors and quantitative factors such as performance, risk-adjusted performance, style consistency, and cost.

It was noted that the MFS International Growth fund is currently offered in the Part-Time Plan as a sub-advised Great-West offering. In light of that fact, the Committee considered replacing the AllianceBern fund with the MFS fund; however, Mr. Campbell advised that the Vanguard International Growth fund was more similar in style to the AllianceBern fund, and as such would serve as a better mapping option. Due to the Vanguard funds strong historical performance and competitive pricing, a motion was made, seconded, and unanimously approved by all members who were present at the meeting: Ms. Cortez, Mr. Fellows, Ms. Fuentes, Ms. Giordano, and Mr. Tsao:

RESOLVED, to replace the AllianceBern International Growth fund with the Vanguard International Growth fund in the investment lineup. Great-West will work to execute the fund change as soon as administratively possible and will follow-up with Benefit Funding Services Group if there are any questions.

A discussion ensued regarding whether the Vanguard International Growth fund should also be used in the Part-Time Plan. After discussion, however, the Committee concluded that a change to the Part-Time Plan was not warranted as the MFS fund is also a strong performer and has served the Part-Time Plan well. Further, changing to the Vanguard fund in the smaller Part-Time Plan would result in cost considerations.

III. Retirement Plan Quarterly Investment Review (3Q13)

Mr. Campbell provided a market overview including information on: Gross Domestic Product, inflation, unemployment, Federal Reserve Policy on interest rates, benchmark index returns, and sector returns the overview provided context for the performance of the underlying funds in the Plan. Each fund was then reviewed, in accordance with the Plan's IPS. Additional qualitative commentary was provided on the following funds:

Torrance Stable Value continues to outpace the custom stable value category benchmark; however, Mr. Campbell and Mr. Borne proposed a call with the stable value manager to discuss the fund's Investment Policy. The current Policy greatly limits the securities that may be purchased for the portfolio. While the fund has performed well, some concern was expressed over its ability to continue to outperform absent a less stringent investment policy. All members present at the meeting agreed with the proposal to have a call. Mr. Borne committed to making the necessary arrangements for the next Committee meeting.

PIMCO Total Return rebounded for the quarter partially due to the decline of the dollar which benefited the non-dollar denominated debt holdings. On a 5- and 10-year basis the fund has outperformed its active and passive benchmark. Manager Bill Gross tactically manages the portfolio allocation making long-term macroeconomic investment decisions. The fund's performance ranks in the top 9 percentile among its peers over a 10-year basis.

Dodge and Cox Stock outperformed its benchmark and peer group for the quarter primarily due to its overweight to cyclical stocks. The fund tends to outperform during robust markets, and is currently overweight to the technology and financial sectors.

Plan-level returns demonstrated outperformance against the passive and active benchmark across all measured time periods (3-month, one-, 3-, 5-, and 10-years). As weighted the Plan's Sharpe Ratio (risk-adjusted return) was noted as being higher than the equally-weighted category average, though the Plan does take slightly higher risk as measured by 3-year standard deviation.

The Part-Time (3121) Plan fund performance was reviewed in accordance with the IPS criteria. Three 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 fund:

Ariel Appreciation is overweight to consumer sensitive companies and the financial sector. The fund is an up-market performer and is more concentrated than its peer group. It has outperformed its peers and benchmark over a one-, 3-, and 5-year basis.

ADMINISTRATIVE MEETING.

IV. Great-West Quarterly Report

Mr. Obando and Ms. Say reviewed the Plan Review prepared by Great-West Retirement Services. Items discussed include the Plan participation rate; asset allocation by age; average number of fund holdings by age; website usage; phone usage; and distributions. It was noted that 248 distributions have been taken thus far during 2013, totaling approximately \$8.3 million. Mr. Borne suggested that one potential way to reduce the number of withdrawals from the Plan would be to give potential exiting employees a fee comparison that they could subsequently provide to whoever is assisting them with rolling money out of the Plan. The fee comparison sheet could potentially demonstrate the value that the City's Plan offers the participant. Ms. Fuentes indicated that during an employee's exit interview, she provides Ms. Say's contact information and strongly encourages them to reach out to Ms. Say to understand the options they have regarding their 457 Plan assets.

V. Participant Survey

Mr. Obando presented sample employee surveys that could be used to determine areas of interest, satisfaction, and dissatisfaction with the Plan. A discussion was held regarding the method of distributing the survey. Due to the high utilization of the website the Committee concluded that online distribution would most likely be the best method. Ms. Cortez motioned to create a subcommittee with Ms. Fuentes

to develop a draft survey customized for the City. She will bring a draft survey to the next Committee meeting for review and consideration. All four remaining members at the meeting motioned, seconded, and unanimously approved the subcommittee and the plan to proceed: Ms. Cortez, Mr. Fellows, Ms. Fuentes, and Ms. Giordano:

RESOLVED, subcommittee formed to develop a participant survey that will be reviewed at the next Deferred Compensation Committee Meeting.

VI. Closing

A motion to adjourn the Deferred Compensation Committee Meeting was seconded, and unanimously approved by the four remaining Committee members at the meeting: Ms. Cortez, Mr. Fellows, Ms. Fuentes, and Ms. Giordano. The meeting adjourned at 3:15 pm.

MOTION APPROVED, Deferred Compensation Plan Committee Meeting adjourned.