



## MINUTES OF THE SUPPLEMENTAL PENSION BOARD CITY OF HUNTINGTON BEACH

Tuesday, January 28, 2014  
1:30 pm – 3:00 pm  
Fourth Floor Conference Room #1  
Civic Center, 2000 Main Street  
Huntington Beach, California 92648

### **CALL TO ORDER**

The meeting was called to order at 1:30 pm.

### **ROLL CALL**

Present: Mr. Fred A. Wilson, City Manager  
Ms. Alisa Cutchen, City Treasurer  
Ms. Lori Ann Farrell, Director of Finance

Guests: Ms. Joyce Zacks, Deputy City Treasurer  
Mr. Chris Rowey, Benefit Funding Services Group (BFSG)  
Mr. Darren Stewart, BFSG  
Mr. Richard Rosenthal, U.S. Bank  
Mr. Yuval Selik, U.S. Bank

### **PUBLIC COMMENTS**

No members of the public were present for comment.

### **APPROVAL OF MEETING MINUTES**

The Committee reviewed minutes from the October 29, 2013 meeting. Ms. Farrell moved to approve the minutes and Mr. Wilson seconded. The minutes were unanimously approved.

### **BFSG PORTFOLIO REVIEW**

The Committee received and filed the Quarterly Investment Review dated December 31, 2013. Mr. Rowey provided a brief overview of economic and market conditions. GDP continued to grow at a moderate pace. Although the Unemployment Rate is trending downward, labor force participation dropped to an all-time low. The Bond Market as measured by the Barclays Aggregate Index was slightly negative for the quarter due to the announcement by the Federal Reserve that it will be tapering asset purchases. Domestic equity markets outperformed foreign equity markets, but both had strongly positive returns.

During the quarter, U.S. Bank made a few manager changes but made only slight changes to the overall asset class allocations. Domestic equity exposure is higher than the maximum range allowed by the newly adopted Investment Policy Statement, while foreign equity exposure is lower than the minimum. The Committee has given U.S. Bank until the end of the year to bring the portfolio in-line with the Investment Policy Statement, in order to avoid the forced sale of securities at inopportune times. Asset Allocation contributed to a strong quarterly performance when compared to the three benchmarks identified in the Investment Policy Statement.

Mr. Stewart reviewed the mutual funds being utilized by U.S. Bank on a quantitative basis and provided additional qualitative details on the following funds:

Nuveen Strategic Income performed well due to a heavy overweight in high yield bonds. High yield bonds constitute almost 40% of the portfolio and corporate bonds total almost 75%. The portfolio is likely to be more correlated to equities than the typical intermediate bond fund.

The CEO and co-CIO of PIMCO recently resigned. The founder, Bill Gross, remains the manager PIMCO Total Return and the change may affect the company as a whole but should have little impact on the fund.

Laudus International was added to the portfolio during the 4<sup>th</sup> quarter. Charles Schwab is the overlay manager for the fund consisting of 6 sub-advisers. The expense ratio is fairly high at 1.25%. Performance has been strong across all measured time periods.

Oppenheimer Developing Markets was added to the portfolio during the 4<sup>th</sup> quarter. The fund takes a different approach to emerging markets investing, often avoiding natural resources in favor of consumer stocks that benefit from the growing middle class of emerging markets economies. Performance is strong across all measured time periods.

The submitted portfolio review was received and filed.

### **REVIEW OF U.S. BANK FEES**

The Committee received and filed an analysis of U.S. Bank fees based on assets as of December 31, 2013.

U.S. Bank charges the account a 0.13% fee for investment management as well as a 0.03% fee for administrative services. In addition, U.S. bank is collecting 0.19% of indirect revenue from assets invested in Scout International. As of December 31, 2013, the indirect revenue adds approximately 0.02% to U.S. Banks total revenue. Mr. Stewart pointed out that many of the funds used in the portfolio offer revenue sharing, but that U.S. Bank is unable to collect.

### **U.S. BANK PORTFOLIO REVIEW**

The Committee received and filed U.S. Banks Quarterly Portfolio Review dated December 31, 2013.

The portfolio performed well for the quarter and was up more than 5.5%. As of December 31, 2013, total assets are greater than \$41 million.

Mr. Rosenthal noted that strong performance from the commodities fund and the fixed income funds contributed to performance as did an overweight to domestic equity. When asked about the two new fund additions, Mr. Rosenthal pointed out that although Laudus International has a high expense ratio, performance has more than covered the additional expense. Also, assets were shifted out of Aberdeen Emerging Markets and into Oppenheimer Developing Markets due to a note by U.S. Bank research to its portfolio managers that exposure in Aberdeen Emerging Markets was too high.

Mr. Rosenthal will look into whether the IPS benchmarks can be shown in the U.S. Bank portfolio review.

### **ADJOURNMENT**

With no further issues to discuss, Ms. Cutchen moved for adjournment and Ms. Farrell seconded. Meeting was adjourned at 2:50 pm.