



MINUTES OF THE SUPPLEMENTAL PENSION BOARD CITY OF HUNTINGTON BEACH

Tuesday, July 29, 2014
1:30 pm – 3:00 pm
Fourth Floor Conference Room #2
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. Michele Warren, Director of Human Resources
Mr. Chris Rowey, Benefit Funding Services Group (BFSG)
Mr. Darren Stewart, BFSG
Mr. Dennis Mullins, U.S. Bank
Mr. Yuval Selik, U.S. Bank

PUBLIC COMMENTS

No members of the public were present for comment.

RECESS TO CLOSED SESSION – ROGER W. HAM REQUEST TO INITIATE BENEFITS

The Committee recessed to closed session at 1:35 pm to review and consider an opinion by outside legal counsel on the request by Mr. Ham to initiate benefits.

RETURN TO OPEN SESSION – ROGER W. HAM REQUEST TO INITIATE BENEFITS

The Committee returned to open session at 1:40 pm and announced its determination to provide Mr. Ham with benefits prospectively and pay 4 years of benefits retroactively.

APPROVAL OF MEETING MINUTES

The Committee reviewed and unanimously approved minutes from the April 29, 2014 meeting.

ADMINISTRATIVE REGULATION TO REVIEW REQUESTS FOR ELIGIBILITY

The Committee reviewed and edited a draft Administrative Regulation prescribing the method by which benefit requests will be processed. The revised copy was unanimously approved by the Committee.

BFSG PORTFOLIO REVIEW

The Committee received and filed the Quarterly Investment Review dated June 30, 2014. Mr. Rowey provided a brief overview of economic and market conditions as they related to the performance of the Plan's investments.

During the quarter, U.S. Bank made only one change to the funds utilized in the portfolio. Scout International was replaced with T. Rowe Price International Growth & Income. Mr. Stewart commented that an institutional version of the new fund is not yet available.

U.S. Bank continues to move the portfolio closer to compliance with the Investment Policy Statement. Domestic equity exposure remains above the range maximum and foreign equity exposure remains below the range minimum. The Committee has given U.S. Bank until the end of the year to bring the portfolio into compliance.

Performance has improved and the portfolio is now outperforming the passive and static benchmark over the last 12 months. 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:

Large outflows continue at a reduced rate for PIMCO Total Return. Over the last year, underperformance and corporate instability has caused \$59 billion in net outflow. Performance during the quarter improved as Treasury Inflation Protected Securities and Emerging Market Debt rebounded. A significant underweight to corporate debt makes the fund a nice complement to Nuveen Strategic Income.

Management at T. Rowe Price International Growth & Income utilizes a diverse valuation process incorporating both relative and absolute valuation analysis into the selection of stocks. The portfolio is fairly diverse with over 100 holding. Management tends to underweight emerging markets equity while overweighting small and mid-capitalization companies. The lower average market capitalization contributed to the fund's outperformance during market rallies and underperformance during market declines. The value-oriented fund complements the growth-oriented Laudus Market Masters.

U.S. BANK PORTFOLIO REVIEW

The Committee received and filed U.S. Bank's Quarterly Portfolio Review dated June 30, 2014. Mr. Mullins filled in for Mr. Rosenthal who was on vacation.

As of June 30, 2014, the portfolio consisted of 64% equity, 24% fixed income, 7% real estate, and 4% commodities. Among the equity holdings, the portfolio was overweight domestic equity, especially small and mid-capitalization companies. Mr. Mullins stated that U.S. Bank believes that large cap domestic equity and emerging markets equity are the best sectors in the short-term. Although the portfolio is underweight these asset classes, Mr. Mullins believes the portfolio is well positioned for long-term growth.

The fixed income portion of the portfolio continues to contribute positively to relative performance. Over the last 12 months, the portfolio's fixed income position has returned 7.58% compared to the benchmark of 4.38%.

ADJOURNMENT

With no further issues to discuss the meeting was adjourned at 2:40 pm.