



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

Tuesday, October 28, 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 1:40 pm.

### **ROLL CALL**

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

Guests: 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 and unanimously approved minutes from the July 29, 2014 meeting.

### **BFSG PORTFOLIO REVIEW**

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

U.S. Bank has brought the portfolio into compliance with the Investment Policy Statement ("IPS"). Expected returns of the current portfolio and the IPS benchmark portfolio are similar to the actuarial rate being utilized.

The portfolio has outperformed all benchmarks outlined in the IPS on a 1- and 3-year basis but continues to underperform on a 5-year basis. The standard deviation of the portfolio has been below the active and passive benchmark, but above the static benchmark. The portfolio has performed well since Mr. Rosenthal became the manager. During the quarter, U.S. Bank added Munder International Small Cap to the portfolio. Mr. Stewart reviewed the investments utilized in the portfolio and provided the following qualitative commentary.

*PIMCO Total Return* – On September 26, 2014, Founder and President Bill Gross announced his immediate resignation from PIMCO. His resignation came 2 days after the announcement of the SEC of an investigation into the PIMCO Total Return ETF, and 9 months following the resignation

of CEO Mohamed El-Erian amid confrontation with Gross. The fund has underperformed in the short term due to an overweight in TIPS and an underweight in corporate debt.

*Munder International Small Cap* – U.S. Bank added this fund during the quarter and as of the end of the quarter, approximately \$1.3 million was invested in it. The fund has a team of long-tenured managers who focus on security selection while keeping sector and country exposure roughly in line with the benchmark. Performance has been strong since inception on an absolute and risk-adjusted basis.

## **INVESTMENT MANAGEMENT SERVICES**

U.S. Bank recently reached their 5-year anniversary as manager of portfolio. The Committee voted unanimously to conduct benchmarking on the services and fees of U.S. Bank. BFGS will send a blind questionnaire with approximate plan data to several investment management firms and provide a summary at the next meeting.

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

The Committee received and filed U.S. Bank's Quarterly Portfolio Review dated September 30, 2014. As of September 30, 2014, the portfolio consisted of 59% equity, 25% fixed income, 8% real estate, 6% commodities and 2% cash.

Mr. Rosenthal informed the Committee that PIMCO Total Return had been deselected by U.S. Bank's investment team and that he was being forced to replace it. He will likely move most of the assets to Baird Aggregate Bond with a small percentage going to Nuveen Short Term Bond. The allocation to Nuveen Short Term Bond will likely gradually increase in order to reduce the portfolio's duration as interest rates rise.

The Committee confirmed that U.S. Bank does not need to hold a position in Commodities. Although the IPS benchmark is allocated with 8%, it gives the investment manager the option of investing from 0% to 12%. Mr. Rosenthal stated that he will likely reduce the exposure to commodities and inflation expectations remain low.

Over the past 12 months, the portfolio has returned 9.19% and outperformed the custom benchmark at 8.86%.

## **ADJOURNMENT**

With no further issues to discuss the meeting was adjourned at 2:45 pm.