



MINUTES OF THE SUPPLEMENTAL PENSION BOARD CITY OF HUNTINGTON BEACH

Tuesday, July 30, 2013
1:47 pm – 3:05 pm
Civic Center, Conference Room B-7
Civic Center, 2000 Main Street
Huntington Beach, California 92648

CALL TO ORDER

The meeting was called to order at 1:47 pm.

ROLL CALL

Present: Mr. Fred A. Wilson, City Manager
Ms. Alisa Cutchen, City Treasurer

Absent: Ms. Lori Ann Farrell, Director of Finance

Guests: Mr. Dahle Bulosan, Accounting Manager
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 January 29, 2013 meetings. Mr. Wilson moved to approve the minutes and Ms. Cutchen seconded. The minutes were unanimously approved.

BFSG PORTFOLIO REVIEW

The Committee received and filed the Quarterly Investment Review dated June 30, 2013. Mr. Rowey provided a brief overview of economic and market conditions. The Federal Reserve signaled that it may taper bond purchases in the near future causing yields to spike and bond prices to fall. Domestic equities were slightly positive for the quarter outperforming foreign markets.

U.S. Bank continues to hold an overweight to growth-oriented domestic equity versus the target allocation in the Investment Policy Statement. The overweight to growth has detracted from performance in the short-term as value-oriented securities have outperformed. While the overweight to domestic equity has contributed to relative performance, an overweight of foreign emerging markets versus foreign developed markets has detracted from performance. As of June 30, 2013, the portfolio consisted of 17% of foreign equities in total with 6% allocated to emerging markets. During the quarter, the portfolio performed in-line with its active benchmark and underperformed its passive benchmark. The positive contribution of a tactical overweight to equity was offset by underperformance among individual managers.

Mr. Stewart reviewed the mutual funds being utilized by U.S. Bank. During the quarter, two funds were added to the portfolio and one was removed. Fidelity Capital Appreciation was added to the portfolio and

received half of the allocation to RiverPark Wedgewood Equity. Fidelity Capital Appreciation has performed well across all measured time-periods. Management has been in-place for approximately 5 years and has significant flexibility in exercising a capital appreciation mandate. The fund is fairly aggressive, performing better in up-markets than down-markets. T. Rowe Price Real Estate was removed from the portfolio and replaced with Nuveen Real Estate Securities. Nuveen's long-term manager uses a broad view of real estate and invests in securities other than REITs. Historical performance has been strong.

During the quarter, PIMCO Total Return underperformed the Barclays Aggregate Bond Index and its peers due largely to an overweight in non-dollar denominated debt. Invesco Balanced Risk Commodity Strategy significantly underperformed its index and peer group due to a large position in precious metals.

INVESTMENT POLICY STATEMENT REVIEW

BFSG distributed a draft Investment Policy Statement to the Committee. The new Investment Policy Statement includes a Target Asset Allocation based on an expected rate of return of 6.0% and reduces the ranges available for tactical discretion. Adoption will require U.S. Bank to increase its fixed income exposure and decrease its domestic equity exposure. The Committee agreed that U.S. Bank will be allowed 12 months to implement the changes following adoption. BFSG will make the changes to the Investment Policy Statement and distribute via email. Adoption will be voted on at the next meeting.

U.S. BANK PORTFOLIO REVIEW

Mr. Rosenthal stated that he believes increasing fixed income exposure at this time will not be beneficial to the performance of the portfolio due to his opinion that interest rates are likely to increase. Mr. Rowey responded that the Target Asset Allocation was created strategically, with risk-management in mind, and that the Investment Policy Statement allows U.S. Bank to utilize instruments providing less interest rate risk than a typical intermediate bond fund.

On a year-to-date basis, manager selection has detracted from performance in fixed income, real estate, and commodities. The overweight to domestic equities has contributed to performance.

Mr. Rosenthal stated that he is considering splitting the real estate exposure which is currently entirely allocated to Nuveen Real Estate Securities. Nuveen is positioned with more than 10% in Simon Property Group, causing the stock to be the largest holding in the overall portfolio. Mr. Rosenthal is concerned by the concentration and will likely add a fund during this quarter.

Mr. Rosenthal informed the Committee that he is considering other options for Invesco Risk-Balanced Commodity Strategy as the fund has significantly underperformed since being added to the portfolio earlier this year.

ADJOURNMENT

With no further issues to discuss, Ms. Cutchen moved for adjournment and Mr. Wilson seconded. Meeting was adjourned at 3:05 pm.