



MINUTES OF THE SUPPLEMENTAL PENSION BOARD CITY OF HUNTINGTON BEACH

Tuesday, October 29, 2013
1:3 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 1:33 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 July 30, 2013 meeting. Ms. Cutchen 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 September 30, 2013. Mr. Rowey provided a brief overview of economic and market conditions. The government shutdown and debt ceiling negotiations have likely detracted from GDP. Third quarter GDP estimates have been delayed until November. The Federal Reserve delayed tapering and is not expected to begin until the middle of next year. Equity prices rallied during the quarter as foreign markets outperformed due partially to a decline in the value of the U.S. Dollar.

Despite making a few manager changes during the quarter, U.S. Bank made little change to the overall allocation of the portfolio. The portfolio remains overweight to domestic equity when compared to the allocation of the Investment Policy Statement. The managers utilized by U.S. Bank have a bias toward growth equity as analysis of the underlying equity securities shows over 40% invested in growth stocks with just 20% in value stocks and 40% in blend stocks. The overweight to equity versus fixed income was beneficial during the quarter and has been for several years. The overweight to domestic equity versus foreign equity detracted from performance during the quarter. The overweight to foreign emerging markets equity vs. foreign developed markets equity detracted from performance during the quarter.

Mr. Stewart reviewed the mutual funds being utilized by U.S. Bank. During the quarter, four funds were added to the portfolio.

The fixed income portion of the portfolio was previously allocated entirely to PIMCO Total Return but was split with Nuveen Strategic Income during the quarter. Nuveen Strategic Income has a flexible management mandate, a significant amount of credit exposure, and a longer duration than the Barclays Aggregate Index. The fund has performed well over all measured time periods, but is underperforming based on risk-adjusted performance. The 10-year standard deviation of the fund is more than twice the Barclays Aggregate Index.

Dodge & Cox Stock was added to the portfolio to compliment Vanguard Equity Income in the Large Cap Value category. The fund uses a team-management approach and has an excellent track record of investing in undervalued securities. Management tends to outperform in up markets while underperforming in down markets.

Golden Large Cap Core was added to the portfolio in the Large Cap Blend category. The boutique management firm utilizes quantitative screens with qualitative follow-up to select roughly 50 stocks. Management also manages a strategy for Wells Fargo, but this fund has just \$30 million in assets. Performance is above average on a 3-, and 5-year basis but does not have a 10-year track record.

During the quarter, U.S. Bank replaced Invesco Balanced-Risk Commodity Strategy with Goldman Sachs Commodity Strategy. The Goldman Sachs fund has a much smaller allocation to precious metals and a much larger allocation to energy than the Invesco fund.

INVESTMENT POLICY STATEMENT FINALIZATION

The Committee voted to adopt the Investment Policy Statement dated October 29, 2013 with a targeted investment return of 6.5%. U.S. Bank will have 12 months to bring the portfolio into compliance with the new Investment Policy Statement but may not make security purchases which place the portfolio further from the permissible allocation ranges.

U.S. BANK PORTFOLIO REVIEW

Mr. Rosenthal described each of the fund additions for the quarter. Dodge & Cox Stock and Golden Large Cap Core were added to increase diversification among domestic equity. Mr. Rosenthal believes that Nuveen Strategic Income will perform well versus its peers during a period of rising interest rates. Invesco Balanced-Risk Commodity Strategy was removed from the portfolio due to a significant concentration in a single security.

Mr. Rosenthal does not believe the small asset base of the Golden Large Cap Core fund will be an issue and also believes Nuveen Strategic Income is more conservative than PIMCO Total Return.

Nuveen Real Estate was recently moved to the newly available R6 share class to take advantage of a lower expense ratio.

As of September 30, 2013, the portfolio totaled nearly \$38 million but has increased to over \$40 million during the past month. On a year-to-date basis, manager selection has detracted from performance in fixed income, real estate, and commodities. An overweight to equity has contributed to performance.

ADJOURNMENT

With no further issues to discuss, Ms. Cutchen moved for adjournment and Ms. Farrell seconded. Meeting was adjourned at 2:55 pm.