



MINUTES OF THE SUPPLEMENTAL PENSION BOARD CITY OF HUNTINGTON BEACH

Tuesday, July 28, 2015
1:30 pm – 2:30 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 1:35 pm.

ROLL CALL

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

Absent: 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

Ms. Cutchen asked the members of the public for comment but received no reply.

APPROVAL OF MEETING MINUTES

The Committee reviewed and approved minutes from the April 28, 2015 meeting.

BFSG PORTFOLIO REVIEW

The Committee received and filed the Quarterly Investment Review dated June 30, 2015. Mr. Rowey provided a brief overview of economic and market conditions as they related to the performance of the Plan's investments.

The allocation of the Plan is within the permissible ranges set forth in the Investment Policy Statement (IPS). Based on 2015 capital market assumptions, the 10-year expected return of the IPS portfolio and the actual portfolio are close to the return used for actuarial purposes.

As of June 30, 2015, the portfolio has outperformed the Static Benchmark on a 3- and 5-years basis but slightly underperformed on a quarterly a 1-year basis. The portfolio has outperformed the Passive Benchmark across all measured periods with the exception of the 5-year time period.

During the quarter, U.S Bank did not make any changes to the underlying investment managers. They did make changes to the share classes used for 3 funds as recommended by BFSG at the last Committee meeting. Nuveen Short Term Bond and Nuveen Strategic Income were moved from Instl shares to R6 shares and Columbia Corporate Income was moved from Z shares to Y shares. The moves resulted in approximately \$5,000 of annual savings based on the portfolio's current positioning.

REQUEST FOR PROPOSAL

The Committee discussed the possibility of conducting a formal Request for Proposal for Investment Management. U.S. Bank has served as the Investment Manager since the Plan's inception 5 years ago. Ms. Cutchen researched the municipal code, identified an exception that may apply, and discussed the issue with the City Attorney's office. It was up to the Committee to decide whether the Request for Information conducted by BFSG earlier this year was sufficient due diligence. The RFI showed that U.S. Bank's fees were well below the average response sent in by 3 respondents. The Committee voted to table the decision until next meeting when all Committee members are present.

U.S. BANK PORTFOLIO REVIEW

The Committee received and filed U.S. Bank's Quarterly Portfolio Review dated June 30, 2015. As of June 30, 2015, the portfolio consisted of 61% equity, 29% fixed income, 8% real estate, 2% commodities and <1% cash. Plan assets declined slightly to \$44.7 million.

Mr. Rosenthal believes that interest rates will rise in the upcoming year and that traditional intermediate bond portfolio may have negative returns. As such, he has positioned part of the fixed income portfolio in short duration and high yield bonds. Mr. Rosenthal informed the Committee that he will likely move the Nuveen Strategic Income fund out of the portfolio in favor of a pure high yield bond fund. He would also like to utilize a hedged fund as part of the overall fixed income exposure. Eaton Vance Global Macro Absolute Return is considered a non-traditional bond fund by Morningstar, an asset class that is not permitted by the Investment Policy Statement. The Committee would need to approve use of the fund under one of the other categories contained in the Investment Policy Statement. The Committee tabled the decision until the next meeting.

Over the past 12 months, the portfolio returned 0.97%, which outperformed the custom benchmark at 0.09%. An overweight to domestic equity as well as strong performance among the individual equity managers contributed to outperformance, while underperformance by the bond and commodities managers detracted from performance.

ADJOURNMENT

With no further issues to discuss the meeting was adjourned at 2:50 pm.