

**THE BOARD OF PENSIONS AND RETIREMENT
DEFERRED COMPENSATION PLAN COMMITTEE MEETING
SEPTEMBER 26, 2013**

MEETING MINUTES

There being a quorum, Paula Weiss, Esquire, Alternate Board Chair, called the Deferred Compensation Plan Committee Meeting to order at 9:24 a.m., in the Board Conference Room, 2 Penn Center Plaza, 16 Floor.

Present:

Rob Dubow, Finance Director, Board Chair
Paula Weiss, Esquire, Alternate, Deputy Director of Finance
Harvey Rice, Esquire, Alternate, First Deputy City Controller
James Leonard, Esquire, Alternate, Chief Deputy City Solicitor
Brian Albert, Alternate, Deputy Human Resources Director
Celia O'Leary, Alternate, Deputy Director Human Resources
Carol G. Stukes-Baylor, Employee Trustee
Ronald Stagliano, Employee Trustee
Andrew P. Thomas, Employee Trustee
Veronica M. Pankey, Employee Trustee

Francis X. Bielli, Esquire, Executive Director
Mark J. Murphy, Deputy Executive Director
Sumit Handa, Esquire, Chief Investment Officer
Brad Woolworth, Deputy Chief Investment Officer
Christopher DiFusco, Esquire, Director of Investments
John Foulkes, Esquire, Investment Officer
Dominique A. Cherry, Investment Officer
Daniel Falkowski, Investment Officer

Also Attending:

Ellen Berkowitz, Esquire, Deputy City Solicitor
Katherine Mastrobuoni, Esquire, Assistant City Solicitor
Jo Rosenberger-Altman, Esquire, Divisional Deputy City Solicitor
Rob O'Donnell, Esquire, O'Donnell Associates
Charles Jones, Executive Director, Sinking Fund Commission
Jacob Walthour, Cliffwater
David Sharer, ICMA-RC
Steve Taylor, ICMA-RC
Randy McLaurin, ICMA-RC
Brad Nyce, ICMA-RC
Sabrina Wilkes, ICMA-RC
Daina Stanford, Administrative Assistant
Carmen Heyward, Clerk-Stenographer II
Donna Darby, Clerk-Stenographer II
Will Greene, Loop Capital
J.N. DiStefano, Philadelphia Inquirer

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Agenda Item #1 – Approval of Minutes for August 21, 2013

Ms. Weiss opened the meeting and requested a motion to approve the April 21, 2013 Minutes.

She requested a change to the sentence that read, "there being a quorum, Rob Dubow, called the Investment Committee Meeting to order...." The sentence should read, "there being a quorum, Paula Weiss, called the Deferred Compensation Plan Committee to order...."

Ms. Weiss requested a motion to approve the April 21, 2013, Minutes. Mr. Albert made the motion. Ms. O'Leary seconded. The motion passed.

Agenda Item #2 – Deferred Compensation Plan Update/Activity Report – August 2013

Ms. Cherry provided the investment update. She informed the Board that the Socially Responsible Fund options would be presented at the November 7, 2013 Board Meeting. ICMA-RC representatives were present to review the Annual Plan Review. She invited Mr. Nyce to provide the numbers for the end of August.

Mr. Nyce reported plan assets as of the end of August of \$755,558,920. There were 17,071 participants and 85 new enrollments for the month. The month of August was a record month in terms of cash flow into the Deferred Compensation Plan due to the retirees in June. As a result, \$17.9 million rolled-over into the Deferred Compensation Plan.

Agenda Item #3 – Saving and Investing Goals Presentation Approval

Mr. Nyce reported from the ICMA-RC presentation that was forwarded from the Education Subcommittee Meetings. The Education Subcommittee worked with ICMA-RC to customize the presentation which provided general information about the Deferred Compensation Plan. ICMA-RC will present this format to participants at all of their seminars. He invited the Board to ask questions or address concerns about the presentation.

Mr. Leonard requested that Mr. Nyce track participant feedback. Mr. Nyce said that ICMA-RC could distribute a survey at the end of every seminar, as a way to provide feedback. Mr. Leonard commended ICMA-RC for doing an excellent job.

Ms. Weiss requested a motion to approve ICMA-RC's Annual Plan Review Presentation. Mr. Rice made the motion. Ms. O'Leary seconded. The motion passed.

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Agenda Item #4 – ICMA Annual Plan Review

Mr. Sharer, ICMA-RC Regional Vice President, introduced the team that was presenting from ICMA and informed that the presentation would look at Plan activity over the last 12 months, as well as fees and expenses.

Mr. McLaurin reported City of Philadelphia Deferred Compensation assets at \$689,275,000 as of June 30, 2013. He noted that as of the close of business the previous day, assets were \$744,588,573, which represented an 8% increase, from the end of the Quarter. This number did not include loans. The significant increase was attributable to cash inflows of approximately \$30.0 million, as well as market performance.

The report showed assets beginning in 2010 through the end of the second quarter 2013. There was a 31% increase in assets. He pointed out that there was a 2.8 % increase from the first quarter 2013 to the end of the second quarter. He invited Ms. Wilkes to report on the Deferred Compensation Plan contributions.

Ms. Wilkes reported that as of June 30, 2013, ICMA-RC was on target to exceed 2012 contributions. She thanked Staff and the Unions for their support. She informed the Board that ICMA frequently discussed the importance of contributing more with participants. She invited Mr. McLaurin to report.

Mr. McLaurin provided the Plan Asset Allocation from June 2012 through June 2013. The report compared the City's Plan Assets to ICMA-RC's universe, showing a significant difference between the assets in the City of Philadelphia Stable Value Fund relative to the other Plans in that universe (53% vs. 33% respectively).

Ms. Weiss inquired on how the participation rate was calculated, specifically requesting clarification on what number was being used as total eligible participants. Mr. McLaurin clarified that the total number of eligible participants was 27,000.

Mr. Nyce added that the 47% participation rate included a denominator of 27,301 potential participants and only accounted for participants that were currently contributing.

Mr. Albert noted that it was, about, 13,000 currently contributing out of 27,000.

Mrs. Stykes-Baylor asked if eligible was the same as contributing. Mr. McLaurin clarified that it was not the same and that eligible but not contributing would not be included in this number.

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Mr. Bielli requested a comparison of the average age of the City of Philadelphia Plan participants allocated to the Stable Value Fund versus the other Plans in the universe. Mr. Sharer said that ICMA-RC could provide that information.

Mr. Taylor pointed to the general trend that participants across all plans in the universe were investing more conservatively as they aged.

Mr. Bielli requested that ICMA-RC provide these comparisons using a broader universe, outside of ICMA's universe of clients. Mrs. Stukes-Baylor requested that a subset be added to include the plans that were similar to the City's plan. Ms. Weiss clarified that Mrs. Stukes-Baylor was requesting an inclusion of plans that were more on the East Coast that had similar pay scales as the City's plan.

Mr. Taylor added that people should get more conservative as they aged, as risk tolerance decreases. His role was to ensure that their portfolio's remained diversified. He discussed diversification and asset allocation at the Pension Seminars, twice a month.

Mr. Nyce talked about plan participation trends since ICMA was awarded the contract in 2008. As of the end of the Quarter, there were 17,014 participants. When ICMA-RC took over in 2008, there were 13,696 active participants. Total participants have increased by approximately 3,500. Participation rates were growing.

Mr. Sharer talked about the electronic communication options for participants via the internet, the call center, as well as the voice automated system. Their reports showed that Philadelphia was at record levels, with 47% of active individuals logging on to access the website. ICMA-RC's free mobile app was used by 536 individuals from Philadelphia. Year-to-date call center participants had grown about 50% over last year's total, and they were well on track of exceeding the service usage goals.

Mrs. Stukes-Baylor asked Mr. Sharer if ICMA-RC's free mobile app was for android or iphones. He said, both.

Mr. Sharer discussed loan usage. He referenced Suzie Orman, stating that one out of every four individuals with a 401(k), had a loan balance. For the City of Philadelphia, loans represented approximately 33% of all active employees in the Plan. This was 8% higher than the national average.

Ms. Pankey asked Mr. Sharer what was the duration of the loan. He said they were five-year loans. The figure was skewed due to the fact that Philadelphia's Plan allowed individuals to refinance their loans. He informed that 923 individuals refinanced their loans in the last 12 months.

Mr. Bielli asked if ICMA was tracking how many people took advantage of the free financial planning. Mr. Sharer said that he could provide information.

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Mrs. Stukes-Baylor asked how many new loans were in the report. Mr. McLaurin said there were 2,161 first time loans.

Mr. McLaurin offered to talk about ways to mitigate loan usage. He noted a trend that differed in recent years from loan usage to buy luxury items to loan usage to help with day-to-day obligations. He added that this was a huge shift across almost all plans, not just in Philadelphia.

Mr. Stagliano asked Mr. McLaurin whether it was considered a default when people retired with an outstanding loan. Mr. McLaurin said, yes, adding that they had 90 days to repay, but if they were not able to meet that deadline, it was considered a default after the 91st day.

Mr. Nyce discussed withdrawal trends, noting an uptick in rollouts in calendar year 2013. He added that the increase could be attributable to the increased number of retirees in 2013, as opposed to the prior three years. He noted that he was on board with the prior record keeper and, that while there was an increase over the prior couple of years, it was still well below the rate of 2007, which was approximately \$30 million, compared to the current total on target to be approximately \$16 million.

Mr. Bielli asked if people expressed a willingness to keep their money in the Plan after they retired. Mr. Nyce said yes and added that he attributed this to the work that was done by the Board members, City Staff and ICMA-RC providing more awareness and education.

Mr. McLaurin distributed a spread sheet (replaced pages 23-25 in their binder) and discussed fees and expenses of the plan.

Mr. Leonard asked Mr. McLaurin to provide expense comparisons to other plans. Mr. McLaurin said that he would provide that information. Mr. McLaurin also discussed the City's Fund line-up compared to others. He said that there were 23 investment options, compared to the average of 38.

Ms. Weiss noted the 23 investments as compared to the average of 38. She asked if ICMA-RC could, also, share with the Board their experience as to what investment areas were potentially missing from the fund line up that perhaps the Board should be offering. He said, in general, the asset classes that were missing were the Guaranteed Income, as well as Socially Responsible Fund options.

Mr. Stagliano asked Mr. Dubow where the Finance and Payroll Departments were regarding the information that was requested for the FOP employees. Mr. Dubow said that he would look into it.

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Agenda Item #5 – 2nd Quarter 2013 Deferred Compensation Plan Investment Performance Report

Ms. Cherry reported that as of the end of the 2nd Quarter, assets in the Deferred Compensation Plan were just under \$716 million.

Overall performance was favorable for the Fund line-up. Four of the funds during the Quarter performed below median. There was concern about the Allianz Small Cap Value Fund. This was the second Quarter of relative underperformance for the fund against its benchmark and peers. The fund focused on dividend-paying stocks. These stocks, during the Quarter, significantly underperformed the non-dividend-paying stocks by, approximately, 5%, which significantly hurt the performance of the fund.

The magnitude of the underperformance concerned Staff. At the next Quarterly meeting, they would present recommendations for how to move forward. Staff was not concerned with the underperformance of the other three funds.

Agenda Item #6 – Vanguard Money Market Fund Report- 2nd Quarter 2013

Ms. Cherry reported that as of the end of the Quarter, assets in the Vanguard Money Market Fund were \$670,597. She noted that ICMA-RC had spoken about the mutual fund allowance from the Stable Value Fund, and it was the only income that went into the Money Market Fund every Quarter.

Ms. Cherry reported that the fund allowance for the first quarter 2013 was \$40,390. She noted that the second quarter mutual fund allowance was received, but not yet posted to the Vanguard statement from which the report was generated. It would be reflected next quarter.

Dividend income for the Quarter was \$18.00. The only expense for the quarter was for a renewal subscription to Morningstar Principia to assist Staff with Fund analysis.

At 10:09 a.m., Ms. Weiss requested a motion to adjourn the Deferred Compensation Plan Committee Meeting. Mr. Stagliano made the motion. Ms. O'Leary seconded. The motion passed.

The Deferred Compensation Plan Committee of the Board of Pensions and Retirement approved the Minutes on _____.

Paula Weiss, Esquire
Alternate Board Chair