



MINUTES OF THE SUPPLEMENTAL PENSION BOARD CITY OF HUNTINGTON BEACH

Tuesday, January 26, 2016
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
Ms. Lori Ann Farrell, Director of Finance

Guests: Mr. Colin Stevens, Treasury Analyst
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

None

APPROVAL OF MEETING MINUTES

The Committee reviewed and approved minutes from the October 27, 2015 meeting.

BFSG PORTFOLIO REVIEW

The Committee received and filed the Quarterly Investment Review dated December 31, 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). This includes the exception granted by the Committee for Columbia Corporate Income to be considered in the Intermediate Bond category. 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. Ms. Farrell will reach out to the actuary about potential changes to the actuarial rate and will provide the new rate to BFSG. BFSG will provide updated capital market assumptions at the next meeting.

As of December 31, 2015, the portfolio has underperformed the Static Benchmark on a quarterly- and 1-year basis, but has outperformed on a 3- and 5- year basis. The portfolio has outperformed the Passive Benchmark across all measured periods.

There were no fund changes made during the quarter. BFSG followed up with U.S. Bank on anticipated share class changes and was told that they would occur by the end of the January. The changes will save the portfolio approximately \$8,200 per year in expenses.

The Committee discussed the significant relative underperformance of the portfolio's Commodity allocation. The fund currently in the portfolio utilizes a benchmark with significantly more energy exposure that has led to the underperformance. The poor performance has not had a significant effect on overall portfolio performance due to the underweight of the sector by U.S. Bank.

REQUEST FOR PROPOSAL

The Committee discussed the possibility of conducting a formal Request for Proposal ("RFP") for Investment Management and Trust and Custody. The Committee agreed to move forward with the RFP as the 5-year anniversary of U.S. Bank's selection recently passed. BFSG will work with Mr. Slobojan to draft the questionnaire, which will be reviewed by the Committee at the next meeting.

U.S. BANK PORTFOLIO REVIEW

The Committee received and filed U.S. Bank's Quarterly Portfolio Review dated December 31, 2015. As of December 31, 2015, the portfolio consisted of 58% equity, 29% fixed income, 9% real estate, 2% commodities and 3% cash. The elevated cash position is due to capital gains distributions which were made in December. Due to significant market volatility, U.S. Bank is yet to have invested the cash. Plan assets increased during the quarter to \$44.2 million.

Mr. Rosenthal informed the Committee that Laudus International MarketMasters and Oppenheimer Developing Markets have been delisted by U.S. Bank. Mr. Rosenthal will likely replace these funds during the upcoming quarter.

The Committee made Mr. Rosenthal aware of the concerns regarding the relative underperformance of Goldman Sachs Commodity Strategy. Mr. Rosenthal stated that the commodity funds available through U.S. Bank are very limited, but that he will conduct additional research to determine if there is a viable replacement.

Over the past 12 months, the portfolio returned -1.25%, which outperformed the custom benchmark at -2.68%. A significant underweight in commodities contributed to performance while fund selection detracted from performance in every asset class except foreign equity.

ADJOURNMENT

With no further issues to discuss the meeting was adjourned at 2:50 pm. The next meeting will be held on April 26, 2016.