



## MINUTES OF THE SUPPLEMENTAL PENSION BOARD CITY OF HUNTINGTON BEACH

Tuesday, January 27, 2015  
1:30 pm – 2:45 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 1:45 pm.

### **ROLL CALL**

Present: Mr. Fred A. Wilson, City Manager  
Ms. Lori Ann Farrell, Director of Finance

Absent: Ms. Alisa Cutchen, City Treasurer

Guests: 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 and approved minutes from the October 28, 2014 meeting.

### **BFSG PORTFOLIO REVIEW**

The Committee received and filed the Quarterly Investment Review dated December 31, 2014. 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 not within the permissible ranges set forth in the Investment Policy Statement (IPS). The domestic equity portion is at 41% while the maximum is 39%. Furthermore, during the quarter the Nuveen Strategic Income fund was reclassified by Morningstar from an Intermediate Bond fund to a Multisector Bond fund. As of December 31, 2014, the fund was the largest holding in the Plan with more than \$5.5 million, or 12.6%. The IPS does not expressly permit utilization of a Multisector Bond fund. The Committee agreed to interpret the Investment Policy Statement to allow for up to 5% in the fund, the same limitation that is placed on High Yield Bond funds.

As of December 31, 2014, the portfolio has outperformed the Static Benchmark across all measured time periods. The portfolio has underperformed the Passive Benchmark across all measured periods with the exception of the 3-year time period.

During the quarter, U.S. Bank removed PIMCO Total Return from the portfolio and replaced it with Baird Aggregate Bond and Nuveen Short-Term Bond. Mr. Stewart reviewed the investments utilized in the portfolio and provided the following qualitative commentary.

*Nuveen Short-Term Bond* – The fund underperformed its active and passive benchmark during the quarter due to an underweight to duration and an overweight to corporate debt. The fund will likely perform well if interest rates rise. There may be an R6 share class available that is 0.05% cheaper than the share class being utilized.

*Nuveen Strategic Income* – The fund underperformed its active benchmark during the quarter due to significant overweight in High Yield Bonds and Foreign Bonds. The fund is underweight to Treasuries, which have performed well due to a flight to quality and the increase in the U.S. Dollar. There may be an R6 share class available that is 0.05% cheaper than the share class being utilized.

*Goldman Sachs Commodity Strategy* – The significantly underperformed its active and passive benchmarks during the quarter. The fund has a significant overweight to energy, while the benchmarks invest in more of a diversified commodity pool.

## **REQUEST FOR INFORMATION RESULTS**

The review of the Request for Information results was tabled until the next Committee meeting.

## **U.S. BANK PORTFOLIO REVIEW**

The Committee received and filed U.S. Bank's Quarterly Portfolio Review dated December 31, 2014. As of December 31, 2014, the portfolio consisted of 65% equity, 25% fixed income, 7% real estate, 2% commodities and 1% cash. Plan assets totaled \$43.9 million.

The Committee informed U.S. Bank the portfolio allocation was outside the permissible range of the IPS and that they have 30 days to correct the overweight to domestic equity funds, as well as the overweight to Multisector Bond funds. Mr. Rosenthal acknowledged the differential and agreed to bring the portfolio into compliance. He will provide the Committee with an updated allocation, once the change has been made. The Committee asked Mr. Rosenthal about potentially cheaper share classes on Nuveen Short-Term Bond and Nuveen Strategic Income. Mr. Rosenthal will look into their availability.

Mr. Rosenthal provided details on his overall investment strategy. He favors domestic equity due to uncertainty abroad and a growth slowdown in Europe. He also feels that added volatility may provide a reason for increasing fixed income exposure, and that he will likely look to decrease foreign equity in favor of additional exposure. Mr. Rosenthal is also considering adding a commodities fund with precious metals exposure to diversify the asset class and reduce the overweight to energy.

Over the past 12 months, the portfolio returned 4.91, which underperformed the custom benchmark at 5.86%.

## **ADJOURNMENT**

With no further issues to discuss the meeting was adjourned at 2:45 pm.