

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Minutes of the Board Meeting

THURSDAY

SAN JOSÉ, CALIFORNIA

June 21, 2012

CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met on Thursday, June 21, 2012 at 8:35 a.m., in regular session at City Hall in the Wing Meeting Rooms 118-120, 200 East Santa Clara Street, San José, California 95113.

PRESENT:

BOARD MEMBERS

Matt Loesch, Chair -Present
Lara Druyan, Vice-Chair -Present
Arn Andrews -Present
Michael Armstrong -Present
Martin Dirks -Present
Stuart Odell -Present
Ed Overton -Present

NON-VOTING BOARD MEMBER

Pete Constant -Present

DIRECTOR RETIREMENT SERVICES

Russell U. Crosby -Present

COUNSEL

Harvey Leiderman -Present

RETIREMENT SERVICES STAFF

PRESENT

Donna Busse, Deputy Director, COO
Carmen Racy-Choy, Deputy Director, CIO
Veronica Niebla
Toni Johnson
Sonia Morales
Ron Kumar

ALSO PRESENT:

Allison Suggs, Office of Employee Relations
Gay Gale, Public Works
Mary Cornell, AFSCME-CEO
Gerry Chappuis, AFSCME
Steve McCourt, Meketa Investment Group

CALL TO ORDER: 8:35 a.m.

• ORDERS OF THE DAY

Chair Loesch made the following changes to Orders of the Day:

Item 4.2, to be heard after Item 3.1

Item 3.3, to be heard after Item 4.5

Item 1.4(i), add "With Reciprocity"

Item 4.1b, change date to May 31, 2012.

A motion was made to approve the Orders of the Day

Approved. (M.S.C. – Overton/Andrews, 7-0-0)

Recognition of Russ Richeda

Access the video or audio, the agenda and related reports for this meeting by visiting the Retirement Services website at <http://sjretirement.com/> or http://sanjose.granicus.com/ViewPublisher.php?view_id=44. If you have any questions, please contact the Retirement Services Department at (408) 794-1000.

1. CONSENT CALENDAR (Items 1.1 through 1.9)

A motion was made to approve the Consent Calendar with a change on Item 1.9a to add "Cancelled".

Approved. (M.S.C. – Andrews/Druyan, 7-0-0)

1.1 Approval of Investment Minor Agreements

- a. Approval of Minor Investment Agreement authorizing the Secretary to negotiate and execute an Agreement with Glass Lewis & Co., LLC for proxy voting for an amount not to exceed \$150,000 (this amount split 50/50 with Police & Fire Department Retirement Plan) for three year term ending June 30, 2015;
- b. Approval of Minor Investment Agreement authorizing the Secretary to negotiate and execute an Agreement with eVestment Alliance for Investment Manager Database for an amount not to exceed \$135,000 (this amount split 50/50 with Police & Fire Department Retirement Plan) for a three year term ending June 30, 2015.

1.2 Approval of Deferred Vested / Non-Service-Connected Disability

Linda R. Norwood, Public Safety Dispatcher II, Police Department, effective June 9, 2012; 11.44* years of service. Pursuant to Part 21, Section 3.28.2420(E) of the San Jose Municipal Code. *(With reciprocity) (Deferred from May 2012 Board meeting)*

1.3 Approval of Service Retirements

- a. **Theresa S. Adikara**, Crime Intelligence Analyst, Police Department, effective June 9, 2012; 23.84* years of service.
- b. **Diane Ajluni**, Senior Account Clerk, Fire Department, effective May 26, 2012; 15.40* years of service.
- c. **Steven L. Blum**, Associate Architect, Public Works Department, effective August 18, 2012; 10.19* years of service.
- d. **Connie R. Bowles**, Senior Events Coordinator, Public Works Department, effective July 14, 2012; 9.23* years of service.
- e. **James D. Dawson**, Survey Field Supervisor, Public Works Department, effective September 1, 2012; 15.17* years of service.
- f. **Gay Gale**, Program Manager I, Public Works Department, effective June 30, 2012; 15.05* years of service.
- g. **Donald B. Gleaton**, Lab Technician I, Environmental Services Department, effective June 23, 2012; 18.10* years of service.
- h. **Ronald E. Heikkila**, Equipment Mechanic, General Services Department, effective July 21, 2012; 30.01* years of service.
- i. **Elizabeth J. Larson**, Senior Office Specialist, Department of Transportation, effective June 23, 2012; 26.89* years of service.

- j. **Ronald J. Leung**, Senior Construction Inspector, Public Works Department, effective August 4, 2012; 30.08* years of service.
- k. **Romeo M. Manuel**, Investigator Collector II, Finance Department, effective June 23, 2012; 17.80* years of service.
- l. **Maung-Win Maung**, Associate Engineer, Environmental Services Department, effective June 23, 2012; 18.55* years of service.
- m. **Carla M. Morrison**, Gardener, Parks, Recreation & Neighborhood Services, effective July 21, 2012; 27.56* years of service.
- n. **Juan L. Rodriguez**, Senior Maintenance Worker, Department of Transportation, effective August 4, 2012; 21.15* years of service.
- o. **Lisa D. St. Jacques**, Senior Construction Inspector, Public Works Department, effective August 4, 2012; 30.01* years of service.
- p. **Yolanda F. Vasquez**, Office Specialist II, Human Resources, effective July 21, 2012; 5.53* years of service.
- q. **Julie M. Zensius**, Senior Office Specialist, Information Technology, effective September 1, 2012; 15.05* years of service.

1.4 Approval of Deferred Vested Retirements

- a. **Andrew A. Adelman**, Chief Building Official, Planning, Building & Code Enforcement Department, effective August 17, 2012; 6.0* years of service. *(With reciprocity)*
- b. **Loretta J. Blomberg**, Senior Office Specialist, Police Department, effective July 20, 2012; 19.33* years of service.
- c. **Laura E. Duran-Olivas**, Warehouse Worker I, Airport Department, effective July 14, 2012; 21.11* years of service.
- d. **Mikel Gonzalez**, Senior Custodian, Airport Department, effective May 11, 2012; 11.76* years of service.
- e. **Mark T. Kerr**, Electrician, Department of Transportation, effective July 30, 2012; 5.84* years of service.
- f. **Cheryl L. Obos**, Senior Public Safety Dispatcher, Police Department, effective August 15, 2012; 11.85* years of service.
- g. **Michael A. Ortega**, Plant Shift Supervisor, Environmental Services Department, effective July 4, 2012; 18.59* years of service.
- h. **Peggy A. Tomasso**, Librarian II, Library Department, effective August 29, 2012; 7.12* years of service.
- i. **Cornelia M. VanAken**, Senior Librarian, Library Department, effective August 1, 2012; 9.82* years of service. **Added "With reciprocity", as noted on Orders of the Day.**

1.5 Rescission of Retirement Application

- a. Approval of rescinding application of **Ruben G. Canela**, approved at the May 17, 2012 meeting for the effective date of June 23, 2012.

1.6 Approval of Board Minutes

Approval of Board Minutes of May 17, 2012.

Access the video or audio, the agenda and related reports for this meeting by visiting the Retirement Services website at <http://sjretirement.com/> or http://sanjose.granicus.com/ViewPublisher.php?view_id=44. If you have any questions, please contact the Retirement Services Department at (408) 794-1000.

1.7 Approval of Return of Contributions

- a. Voluntary
- b. Involuntary

1.8 Acceptance of Communication/Information Reports

- a. Pending Projects.
- b. Memo from City Manager, Debra Figone regarding: Retirement of Russell Crosby, Director of Retirement Services, dated May 17, 2012.
 - 1. Memo from the Chairs of the Police & Fire Retirement Plan Board and the Federated City Employees Retirement System regarding: Recruitment for Director of Retirement Services, dated May 25, 2012.
- c. NBC Bay Area Story, regarding SJ Disability Retirement Investigation, dated May 21, 2012.
- d. GFOA Certificate and Award of Financial Reporting Achievement for its Comprehensive Annual Financial Report for the Fiscal Year Ended June 2011, dated May 16, 2012.
- e. Business Continuance plan annual mock event.
- f. CalAPRS Principles of Pension Management for Trustees at Stanford Law School - March 27-30, 2012 – Educational Travel Report – by Lara Druyan and Michael Armstrong.
- g. Letter from Cheiron, Bill Hallmark regarding: Questions for California State Audit of the City of San Jose, dated June 5, 2012.
- h. SALT 2012 Conference, May 8-11, 2012 – Educational Travel Report – by Marty Dirks.
- i. The New York Times Article on South Carolina's Pension Push Into High-Octane Investments, dated June 9, 2012.

1.9 Approval of Travel / Conference Attendance

- a. Arn Andrews - CalAPRS, Trustees' Round Table, DoubleTree Hotel, San Jose, CA – June 8, 2012. ("Cancelled" – as noted on Orders of the Day)
- b. Marty Dirks - CalAPRS, Trustees' Round Table, Los Angeles Marriott Burbank Airport, CA – October 19, 2012.
- c. Matt Loesch - CalAPRS, Trustees' Round Table, DoubleTree Hotel, San Jose, CA – June 8, 2012. (CANCEL)

2. DEATH NOTIFICATIONS (Moment of Silence) **Note and file**

- 2.1 **Elenore J. Byers**, Library Clerk, retired 01/02/99, died 04/16/12. No survivorship benefits.
- 2.2 **Maxine Moore**, Librarian II, retired 04/12/86, died 04/18/12. Survivorship benefits to John Moore, Spouse.
- 2.3 **Florencio Tenorio**, Maintenance Worker II, retired 07/01/01, died 04/07/12. Survivorship benefits to Janice Tenorio, Spouse.
- 2.4 **John J. Tomlin**, Gardener, retired 05/03/08, died 05/04/12. No survivorship benefits.
- 2.5 **Merle M. Vaughn**, Parks Facility Supervisor, retired 01/06/96, died 04/14/12. No survivorship benefits.

Access the video or audio, the agenda and related reports for this meeting by visiting the Retirement Services website at <http://sjretirement.com/> or http://sanjose.granicus.com/ViewPublisher.php?view_id=44. If you have any questions, please contact the Retirement Services Department at (408) 794-1000.

3. OLD BUSINESS-DEFERRED/CONTINUED ITEMS

3.1 Discussion and action on Governance policies developed by Cortex.

Tom Iannucci from Cortex, via teleconference, gave an overview on the governance policies and responded to any questions and comments from the Board.

a. Investment Committee Charter

- Item 4c – remove “material”
- Item 4f – remove “open session”
- Item 10 – change “plan” to “system”
- Item 13 – change “advise” to “consult”

A motion was made to approve the Investment Committee Charter with revisions.

Approved. (M.S.C. – Loesch/Andrews, 7-0-0)

b. Chief Investment Officer Charter

- Change “Role” to “Charter” in title

A motion was made to approve the Chief Investment Officer Charter with revisions.

Approved. (M.S.C. – Andrews/Druyan, 7-0-0)

c. Reporting and Monitoring Policy

- Add “Operational Risk Assessment” after Item 13.
- Item 30, change to Annual Expense Review;
- Add Risk Assessment Report after Item 33, to be paired with Item 7 of the CIO Charter.

A motion was made to approve the Reporting and Monitoring Policy with revisions.

Approved. (M.S.C. – Loesch/Dirks, 7-0-0)

d. Strategic Planning Policy

A motion was made to approve the Strategic Planning Policy.

Approved. (M.S.C. – Dirks/Overton, 7-0-0)

Item 3.2 was heard after Item 4.2.

3.2 Discussion and action on City Council Ordinance regarding Federated City Employees' Health Care Trust Issues.

a. Discussion and action on request for legal opinion of tax counsel.

Mr. Leiderman led the discussion on City Council Ordinance regarding Federated Retiree Health Care Trust issues. He reported that the City Council agreed to hold off on employee contribution BEING TRANSFERRED INOT THE City's Section 115 Trust until they receive advice from the Tax Counsel. Board member Constant stated that the City Council will not deposit employee contributions into the Section 115 Trust until they receive certainty from the IRS that it complies with the law.

Note and file

Chair Loesch made a change on Orders of the Day to move Item 4.7 after Closed Session Items 3.4 and 3.5.

Approved. (M.S.C. – Andrews/Dirks, 7-0-0)

Item 4.2 was reopened.

Councilmember Constant addressed the Board regarding the high deductible plan for retirees and that it would be beneficial to explore on our own and ask City Council what are other options for health savings account.

Item 3.3 to be heard after Item 4.5, as noted on Orders of the Day.

3.3 Update on Payroll Audit and Pensionable earnings issues. Receive and file.

a. Discussion and action on City's correction process.

Ms. Niebla report that the City Attorney's Office had sent the Department an email stating that the City would agree not to take a credit against its FY 2012-13 contributions due to the previous years' overpayment of contributions.

A motion was made for item to be referred to Cheiron regarding what would be the appropriate methodology on actuarial standards and practices fore crediting the City's past overpayment of contributions.

Approved. (M.S.C. – Andrews/Druyan)

b. Discussion and action regarding interest payments on correction amounts.

Mr. Leiderman led the discussion regarding interest payments on correction amounts and responded to questions and comments from the Board. Item was referred to the Audit Committee.

Note and file

c. Discussion and action regarding assignment to Audit Committee.

Chair Loesch stated that any work on the audit or financial audit to be directed to the Audit Committee.

Chair Loesch read the Closed Session Items 3.4 and 3.5 into record. An additional lawsuit was filed the week after the Federated City Employees' Retirement System Agenda was posted.

Chair Loesch read the lawsuit into record as follows:

Mukhar et al, Plaintiffs v. City of San Jose, et al.

Defendants, Board of Administration for the 1975 Federated City Employees' Retirement Plan, Necessary Party in Interest, Santa Clara County Superior Court No. 112 CV 226574

A motion was made to Waive Sunshine on the additional lawsuit that was filed after the Federated City Employees' Retirement System Agenda was posted.

Approved. (M.S.C. – Andrews/Armstrong, 7-0-0)

Entered into Closed Session at 12:55 p.m.

3.4 CLOSED SESSION: CONFERENCE WITH LEGAL COUNSEL – LITIGATION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(a),

Paul Mulholand, James Unland and Mary Follenweider, Plaintiffs v. Russell Crosby, Mike Moehle, City of San Jose and Does 1 through 10 Defendants; the Board of Directors of the San Jose Police and Fire Retirement Board and the Board of Directors of the City of San Jose Federated City Employees Retirement System, Necessary Parties in Interest, Santa Clara County Superior Court No. 1-12-CV-219748.

3.5 CLOSED SESSION: CONFERENCE WITH LEGAL COUNSEL – SIGNIFICANT EXPOSURE TO LITIGATION, PURSUANT TO GOVERNMENT CODE SECTION 54956.9(b)(1),

City of San Jose, Plaintiff v. San Jose Police Officers' Association, et al.; Defendants, United States District Court, Northern District of California (San Jose Division), No. C12-02904

Chair Loesch reconvened from Closed Session at 1:33 p.m.

There was no report out from Closed Session on Items 3.4, 3.5 and the additional lawsuit.

OPEN SESSION

4. NEW BUSINESS

4.1 Investments

Steve McCourt from Meketa Investment Group presented the March 31, 2012 quarterly performance report along with Laura Wirick (via teleconference) and answered questions from the Board.

- a. Presentation of the March 31, 2012 quarterly performance report by Meketa Investment Group.**
- b. Presentation of Investment Performance (Flash Report) for period ending April 30, 2012.**

Chair Loesch asked Meketa to present to the Investment Committee on the revised presentation of the quarterly performance report.
- c. Approval of the first amendment to the agreement between Federated City Employees' Retirement System and Meketa Investment Group for a three year term and not to exceed amount of \$1,275,000.**

A motion was made to approve the first amendment to the agreement between Federated City Employees' Retirement System and Meketa Investment Group for a three year term and not to exceed amount of \$1,275,000.

Approved. (M.S.C. – Overton/Dirks, 7-0-0)

d. Approval of MacKay Shields' policy guideline request on passive overages.

A motion was made to approve the MacKay Shields' policy guideline request on passive overages.

Approved. (M.S.C. – Andrews/Dirks, 7-0-0)

e. Approval of White Oak's request to exceed the concentration limit of the portfolio in order to fully fund an investment.

A motion was made to approve White Oak's request to exceed the concentration limit of the portfolio in order to fully fund and investment.

Approved. (M.S.C. – Overton/Armstrong, 7-0-0)

f. Approval for the Secretary to negotiate and execute an agreement with Russell Investments for the upcoming portfolio transition.

A motion was made to authorize the Secretary to negotiate and execute an agreement with Russell Investments for the upcoming portfolio transition.

Approved. (M.S.C. – Andrews/Druyan, 7-0-0)

Item 4.2 was heard after Item 3.1, as noted on Orders of the Day.

4.2 Discussion and action regarding Tier 2 and Lowest Cost Healthcare plan.

Alex Gurza, Deputy City Manager, addressed the Board regarding Tier 2 and Lowest Cost Healthcare plan and responded to questions from the Board.

A motion was made to direct staff to provide existing documents and Last Best and Final to Cheiron to authorize them to answer what are the effects on Tier 2 on existing plan from the new; and cost it out, then report back to the Board in August.

Approved. (M.S.C. – Dirks/Druyan, 7-0-0)

A motion was made to provide Cheiron with Tier 2 contribution rates and direct staff to provide pricing information for the new lowest cost plan to Cheiron to use as part of the 2013-14 Valuations contribution rates.

Approved. (M.S.C. – Andrews/Armstrong, 7-0-0)

4.3 Discussion and action regarding San Jose Retirement Services Audit Plan for 2012.

Ms. Niebla led the discussion regarding the Audit Plan for 2012 and responded to questions from the Board.

A motion was made to accept the San Jose Retirement Services Audit Plan for 2012.

Approved. (M.S.C. – Andrews/Druyan, 7-0-0)

4.4 Discussion and action on Plan Expenses for April 2012.

Ms. Niebla presented the Plan Expenses for April 2012 and responded to questions from the Board.

A motion was made to approve the Plan Expenses for April 2012.

Approved. (M.S.C. – Andrews/Druyan, 7-0-0)

4.5 Discussion and action of renewal on Cortex Contract.

A motion was made to approve the renewal of the Cortex Contract.

Approved. (M.S.C. – Dirks/Druyan, 7-0-0)

Item 4.6 was heard after Item 3.3.

4.6 Discussion and action to authorize the Secretary to negotiate and execute the 1st amendment to the agreement with L.R. Wechsler, Ltd. for Consulting Services to:

Ms. Busse led the discussion regarding the amendment to the agreement and responded to questions from the Board.

- a. Extend the term of the Agreement for Phase I-IV through December 31, 2012 at no additional cost; and**

A motion was made to extend the term of the Agreement for Phase I-IV through December 31, 2012 at no additional cost.

Approved. (M.S.C. – Loesch/Dirks, 7-0-0)

- b. Add Phase V – Pension Administration System Implementation and Oversight Services for an amount not to exceed \$1,150,000, for a term ending December 31, 2016. (This cost is split 50/50 between the Police and Fire Department Retirement Plan and the Federated City Employees' Retirement System).**

Ms. Busse addressed the Board regarding the Phase V. Trustee Odell requested more information regarding Phase V. The Board agreed to agendaize the item for the August Board Meeting.

Item 4.7 was moved after the Closed Session Items 3.4 and 3.5.

4.7 Educational Presentation by ReedSmith: Discussion of fiduciary liability insurance. Receive and file. (Deferred from April 2012 Board meeting)

Deferred

4.8 Revised committee assignments. Receive and file.

Chair Loesch led the discussion regarding revised committee assignments. He stated, based on advice from Counsel, that there will not be "Alternates" on committees.

A motion was made to approve the revised committee assignments.

Approved. (M.S.C. – Overton/Andrews, 7-0-0)

5. COMMITTEES/REPORTS/RECOMMENDATIONS**5.1 Policy Committee (Overton/Armstrong/Loesch – alternate/Andrews) – None****5.2 Investment Committee (Druyan/Odell /Dirks –alternate/Armstrong)**

- Next Meeting: June 13, 2012

- a. Minutes of April 25, 2012 meeting. **Note and file**
- b. Minutes of May 25, 2012 meeting. **Note and file**
- c. Update from Chair of Investment Committee.

Trustee Druyan, Chair of the Investment Committee updated the Board on the particulars of the Investment Committee regarding Albourne's presentation on Private Markets, Tradewinds, MacKay Shields, Russell Overlay and requested staff to update Committee on the Hedge Fund due diligence.

5.3 Ad Hoc Governance Committee (Loesch/Armstrong/Odell – Alternate/Dirks)

Last Meeting: February 16, 2012 - Next Meeting: TBD

5.4 Ad Hoc Personnel Committee (Loesch/Druyan/Overton – Alternate/Dirks)

Last Meeting: May 18, 2012 - Next Meeting: June 18, 2012

Chair Loesch updated the Board on the status of the Ad Hoc Personnel Committee regarding the review of the CIO job description and a request to the City to draft a CEO policy.

6. EDUCATION & TRAINING **Note and file****6.1 Educational Programs and Courses**

- a. SACRS Public Pension Investment Management Program 2012, UC Berkeley at Haas School of Business, Berkeley, CA – July 16-18, 2012.
- b. CalAPRS - Trustees' Round Table, Los Angeles Marriott Burbank Airport, LA – Friday, October 19, 2012.

Trustee Dirks updated the Board on the discussions held at the CalAPRS June 18th meeting.

6.2 Conferences and Seminars**6.3 Research Papers and Articles**

Access the video or audio, the agenda and related reports for this meeting by visiting the Retirement Services website at <http://sjretirement.com/> or http://sanjose.granicus.com/ViewPublisher.php?view_id=44. If you have any questions, please contact the Retirement Services Department at (408) 794-1000.

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Board of Administration Minutes

June 21, 2012

Page 11 of 11

- FUTURE AGENDA ITEMS None
- PUBLIC/RETIREE COMMENTS None
- ADJOURNMENT

Chair Loesch opened the Federated Retiree Health Care Trust meeting at 12:20 p.m. and adjourned it at 12:22 p.m.

Meeting was adjourned at 1:35 p.m.



MATTHEW LOESCH, P.E., CHAIR
BOARD OF ADMINISTRATION

ATTEST:



RUSSELL U. CROSBY
DIRECTOR, RETIREMENT SERVICES