

POLICE AND FIRE DEPARTMENT RETIREMENT PLAN

7.1b

Minutes of the Special Board Meeting

Monday

SAN JOSÉ, CALIFORNIA

July 11, 2011

CALL TO ORDER

The Board of Administration of the Police and Fire Department Retirement Plan met on Monday, July 11, 2011 in a Special Meeting at Department of Retirement Services Office, Suite 600, 1737 North First Street, Suite 580, San José, California 95112. Chairman David Bacigalupi called the meeting to order at 9:04 a.m.

BOARD MEMBERS

David Bacigalupi, Chair -Present
Conrad Taylor, Vice Chair -Present
Sean Bill, Trustee -Present
Sean Kaldor, Trustee -Present
Damon Krytzer, Trustee -Present
Drew Lanza, Trustee -Present
Vincent Sunzeri, Trustee -Present
Richard Santos, Trustee -Present
Vacant, Trustee

BOARD SECRETARY

Russell U. Crosby - Present

COUNCIL LIAISON

Pete Constant - Present

COUNSEL

Mollie Dent - Present
Russ Richeda - Present

ALSO PRESENT

Aracely Rodriguez, Office of Employee Relations
Rick Doyle, City Attorney's Office
Max Koch-Heintzeler, Intern

RETIREMENT SERVICES STAFF

Donna Busse, Deputy Director
Carmen Racy-Choy, Deputy Director
Ron Kumar
Heidi Poon

CALL TO ORDER: 9:04 a.m.

- **ORDERS OF THE DAY** - None

1. NEW BUSINESS

- 1.1 Approval of a Second Amendment to the contract with Saltzman and Johnson for conflicts counsel services to extend the term of the contract through December 31, 2011, with no increase in the maximum amount payable under the contract.

Approved (M.S.C. – Santos/Krytzer, 8-0-0).

- 1.2 Discussion and action on options related to delivery of legal services to the Plan and Board. Rick Doyle, City Attorney, and Mollie Dent, Sr. Deputy City Attorney, notified the Board that due to budget constraints, the City Attorney's Office will not be able to continue to provide City Attorney's Office staff for legal services for the Plan. They stated that the City Attorney's Office will be conducting a request for proposals (RFP) to outsource the legal services for the Plan.

Discussion was held regarding the reporting structure of the outside attorney and the roles of the Board and City Attorney's Office in selection and payment of the counsel.

Board requested the City Attorney's Office to present the draft RFP, describe in detail the decision making process for selection of the new counsel and the relationship between the outside attorney, the Board, and the City Attorney's Office at the September Board meeting. Ms. Dent from the City Attorney's Office indicated that an effort would be made to come back at the September Board meeting, however it is possible that it'll be October.

Approved (M.S.C. – Kaldor/Bill, 8-0-0).

- 1.3 Discussion of Resignation of Trustee Flaherman and replacement process under Muni Code Section 2.08.1240 "Procedure for filling public member vacancies."

Pete Constant, Council Liaison, stated that the applications received during the previous Trustee search are valid for one year. He will request that the City Council discuss the process for filling the vacant Trustee position once the Council members return from the July legislative recess.

Note & File

- 1.4 Discussion regarding Retirement Services Department staffing.

- a. Discussion and action on strategy options for the investment function.

The Trustees discussed the staffing structure of the department and other options for the investment function that the Board may pursue, such as:

- No staff, reliance on general consultants;
- Professional staff with limited reliance on general consultants and greater reliance on specialized consultants; and
- CIO-in-a-Box.

Motion to:

- evaluate the opportunity cost to the City in lost additional fund performance;
- analyze the benefits of a professional investment staff;
- evaluate the current performance versus the performance of top quartile plans on a risk adjusted basis;
- estimate the cost of retaining consultants;
- devise a backup plan to address any staffing crises that may arise;
- establish an Ad Hoc Subcommittee;
- evaluate the CIO-in-a-Box concept; and
- develop the next steps to implement Cortex's recommendations on Board independence.

Approved (M.S.C. – Sunzeri/Kaldor, 8-0-0).

- b. Review of current Retirement Services' functions, staffing, vacant positions and recruitment.

The Trustees requested that the City Manager to attend the Board's August meeting to discuss her perspective on filling the vacant positions. **Approved (M.S.C. – Sunzeri/Kaldor, 8-0-0).**

- c. Discuss and make recommendation to the City Manager requesting that Retirement Services' investment and accounting professionals' compensation be updated immediately to reflect current market conditions.

Trustees requested additional information from staff. Motion to form an Ad Hoc Subcommittee and for the members to be appointed by the Chair. Mr. Constant requested appointment to the Subcommittee. **Approved (M.S.C. – Bill/Lanza, 8-0-0).**

1.5 Discussion regarding the remaining recommendations from the Cortex Report.

Trustees discussed the findings by Cortex Applied Research and decided to address the findings further at upcoming meetings.

1.6 Discussion of Board governance issues.

- a. Prioritize Objectives
- b. Discuss "Rules of the Road"
- c. Discussion and action regarding selection of a Governance Consultant based on the RFQ responses for an amount not-to-exceed \$100,000 for period ending June 30, 2011.

Motion to authorize the Secretary or the Deputy Director to negotiate and execute an agreement with Cortex Applied Research. **Approved (M.S.C. – Kaldor/Taylor, 8-0-0).**

- d. Discuss potential committee structures.
Motion to organize three Ad Hoc Committees: one for Equity chaired by Mr. Sunzeri, one for Fixed Income chaired by Mr. Bill, and one for Alternatives chaired by Mr. Krytzer.
Approved (M.S.C. – Sunzeri/Bill, 8-0-0).

- e. Prioritize issues to be addressed by Board at coming meetings.

The following items were identified as priorities:

- Staffing and the impact of the City's budget;
- Disability Process;
- Investment Return Assumptions;
- Implementation of the Statement of Investment Policy and investment execution;
- Single operating entity to manage the Plan;
- Board independence; and
- Provide the Director/Board Secretary with more authority.

1.7 Investment Strategy discussion.

- a. Review and comment on Investment Policy Statement.
- b. Review Asset Allocation Strategy/Targets. (See Investment Policy Statement)
- c. Discuss risk management.
- d. Discuss use of hedge funds across asset classes.

Item 1.7 was deferred to the August Board meeting.

1.8 Review fiduciary insurance policy.

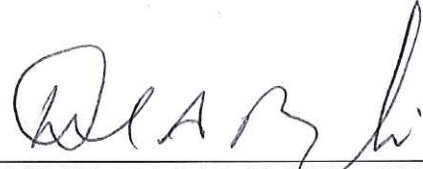
Trustee Santos stated that the application for Trustees did not indicate the cost of insurance and did not think it was appropriate for the Board to require him to pay it. It was explained that the waiver of recourse payment required to be paid by individual Trustees is to provide protection against the \$100,000 deductible that insurance companies may assess on the individual. However, the trustees may choose not to pay the \$50.00 waiver of recourse fee and be liable for the \$100,000 deductible. Trustees requested that the City Clerk's Office revise the application to reflect the cost of insurance.

- **PROPOSED AGENDA ITEMS**

- a. Standing information item on priorities;
- b. FLSA;
- c. Stipend for Trustees; and
- d. Meeting location.

- **PUBLIC COMMENTS**

- **ADJOURNMENT** 2:15p.m.



DAVID BACIGALUPI, CHAIR
BOARD OF ADMINISTRATION

ATTEST:



RUSSELL U. CROSBY
DIRECTOR, RETIREMENT SERVICES
SECRETARY, BOARD OF ADMINISTRATION