

# FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

## Minutes of the Board Meeting

**THURSDAY**

**SAN JOSÉ, CALIFORNIA**

**OCTOBER 14, 2010**

### CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met on Thursday, October 14, 2010, in regular session at City Hall in the Council Chambers, 200 East Santa Clara Street San José, California 95113.

### ROLL CALL

#### PRESENT:

<b>Matt Loesch</b>	<b>Chair/Trustee</b>
<b>Ed Overton</b>	<b>Vice Chair/Trustee</b>
<b>Pete Constant</b>	<b>Trustee – Absent</b>
<b>Ash Kalra</b>	<b>Trustee – Arrived at 8:45 A.M.; Departed at 10:00 A.M.</b>
<b>Arn Andrews</b>	<b>Trustee</b>
<b>Jeffrey Perkins</b>	<b>Trustee</b>
<b>VACANT</b>	<b>Trustee</b>

#### ALSO PRESENT:

<b>Russell U. Crosby</b>	<b>-Secretary/Director</b>	<b>Ron Kumar</b>	<b>-Staff</b>
<b>Mollie Dent</b>	<b>-City Attorney</b>	<b>Carol Bermillo</b>	<b>-Staff</b>
<b>Russell Richeda</b>	<b>-Conflicts Counsel</b>	<b>Bill Pope</b>	<b>-OE3</b>
<b>Alison Suggs</b>	<b>-OER</b>	<b>Sharon Erickson</b>	<b>-City Auditor</b>
<b>Joe Rais</b>	<b>-City Auditor</b>	<b>Gerry Chappuis</b>	<b>-MEF</b>
<b>Toni Johnson</b>	<b>-Staff</b>	<b>Diana Chavez</b>	<b>-City Auditor's Office</b>
<b>Melanie Kirmse</b>	<b>-CEO</b>	<b>Donna Busse</b>	<b>-Staff</b>
<b>Michael Moehle</b>	<b>-Staff</b>	<b>Sonia Morales</b>	<b>-Staff</b>
<b>Ali Amiry</b>	<b>-Staff</b>	<b>Heidi Poon</b>	<b>-Staff</b>
<b>Linda Dittes</b>	<b>-AFSCME</b>		

## REGULAR SESSION

*Chair Loesch* called the meeting to order at 8:40 a.m.

### ORDERS OF THE DAY

*Chair Loesch* made the following changes to the agenda:

**Item 5(a)** needs to be corrected from Arcdeacon to Archdeacon.

**Item 13** is pulled as Trustee Constant is not attending the conference.

**Item 17** to be heard first.

**Item 21** to be heard when the conference call system is functioning and Meketa can participate.

**(M.S.C. Perkins/Andrews) Motion to approve the Orders of the Day. 5-0-1 (Constant – Absent)**

**17. Receipt of report from Auditor's Office titled "Pension Sustainability: Rising Pension Costs Threaten the City's Ability to Maintain Service Levels – Alternatives for a Sustainable Future." – This item is Note & File.**

*Ms. Erickson* explained that the City Auditor's Office released the report on pension sustainability and, at a high level, the report identifies that the rising pension benefit costs will have a dramatic impact on the City's ability to provide services. Most of the recommendations in the report were directed to City Council and City Administration, but there are three recommendations that are important for the Board. Recommendation #2 recommends an actuarial audit every five years, if the System's actuary has not changed; Recommendation #5 recommends that City Council be fully informed on System performance and receive the System's Comprehensive Annual Financial Report, and that staff provide a presentation to the City Council regarding the financial status and performance of the Plan; and Recommendation #6 recommends that staff prepare a summary of the System's financial status and performance and provide this summary to plan members and retirees.

*Chair Loesch* commented that the report provided good information, but questioned whether the average person reading the report would come away with full understanding of the status and nuances of the plans. The numbers provided in the report seem to illustrate the worst possible scenario and it would be helpful to readers if the numbers provided a reasonable range.

*Ms. Erickson* responded that the process of preparing the report was extraordinarily complex and the auditor's role is to be a third-party observer and provide the information to the City Council, City Administration, the Retirement Boards, and stakeholders. The goal of the report is to attract attention to the problem and its impact on the City's general fund; the report is not attempting to redesign the pension plans.

*Chair Loesch* asked for comments from staff regarding the report's suggestion of moving the administration of the pension plans to CALPERS as there has been considerable negative press about what is happening at CALPERS.

*Secretary Crosby* explained that (1) CALPERS has lower administrative costs because it can spread its costs across a significantly larger population and (2) the pension plans under management at San Jose have vastly outperformed CALPERS over the past two years paying for their administrative costs for the next century.

*Ms. Erickson* stated that at the time of the report the combined administrative costs for both plans were about 2.6% of total contributions, which was in line with Sacramento County and San Bernardino, which were at 2.6% and 3.0% respectively.

*Trustee Kalra* asked *Ms. Erickson* about the completion of the report being accelerated and why it was necessary.

*Ms. Erickson* explained that the report was originally planned to be issued for the November Public Safety Meeting, but was moved up to be released prior to the voters voting on ballot issues regarding pensions, so there would be no issues of withholding information. In addition, the City Council initiated the General Fund Structural Deficit Elimination Task Force and the report's historical information would be helpful to the task force.

**RETIREMENTS**

1. **Disability Retirements - None**
2. **Disability Retirement for Re-Hearing - None**
3. **Change in Status - None**

**CONSENT CALENDAR (Items 4 through 13)**

**(M.S.C. Kalra/Andrews) Motion to approve. 5-0-1 (Constant – absent)**

4. **Request for approval of Non-Service-Connected Disability Retirements - None**
5. **Request for approval of Service Retirements**
  - a) Richard P. Archdeacon, Inspector II, Planning, Building & Code Enforcement, effective October 30, 2010; 27.04 years of service.
  - b) John L. Clara, Council Assistant, Council Office, effective October 16, 2010; 15.01 years of service.
  - c) Ginger Deem, Senior Engineering Tech, Public Works Department, effective October 30, 2010; 30.35 years of service.
  - d) Alice Gutierrez, Office Specialist, General Services Department, effective October 16, 2010; 9.05 years of service. (With reciprocity)
  - e) Peter Lawrence Mateo, Heavy Diesel Operator, Environmental Service Department, effective October 16, 2010; 23.73 years of service.
6. **Deferred Vested**
  - a) Linda A. Young, Staff Technician, Police Department, effective September 30, 2010; 12.54 years of service.
7. **Board Minutes**

Approval of Minutes of September 9, 2010
8. **Return of Contributions**
  - a) Voluntary
  - b) Involuntary
9. **Investment Summary Report**
  - a) Report on Investments as of July 31, 2010.
  - b) Report on Investments as of August 31, 2010.
10. **Approval of Monthly Expenditures**

Report of Federated Retirement Plan expenses for August 2010
11. **Investments**
  - a) Adoption of Resolution Number 6693 acknowledging receipt of report on investments for the period July 1 through July 31, 2010.
  - b) Adoption of Resolution Number 6694 acknowledging receipt of report on investments for the period August 1 through August 31, 2010.

**12. Communication/Information**

- a) Benefits Review Forum Report for September 2010.
- b) Open Enrollment Benefit Changes 2011.

**14. DEATH NOTIFICATIONS (Moment of Silence) – Note & File**

- a) William E. House, Retired Senior Buyer, retired 3/29/80, died 9/6/10. Survivorship benefits to Gloria E. House, spouse.
- b) Ted J. Kerber, Retired Chief of Surveys, retired 6/18/05, died 8/24/10. Survivorship benefits to Phyllis Kerber, spouse.
- c) Harry Kevorkian, Retired General Deputy City Attorney, City Attorney's Office, retired 1/3/81, died 9/19/10. No survivorship benefits.
- d) Claire M. Peterson, Retired Senior Typist Clerk, retired 3/28/87, died 9/11/10. Survivorship benefits to Eugene Peterson, spouse.

**OLD BUSINESS/DEFERRED-CONTINUED ITEMS**

**15. Continuance of Disability Process Study Session: Legal Review. – *This item is Note & File.***

*Ms. Dent* reviewed and summarized the San Jose Municipal Code, Other Governing Systems regulations, State Law, Federal Law, and court cases regarding the disability process, definition of the benefit, and legal basis for approving or denying disability retirements.

**NEW BUSINESS**

**16. Approval to rescind retirement application of Greg D. Schultz; approved September 9, 2010. (M.S.C. Overton/Perkins) Motion to approve. 5-0-1 (Constant – Absent)**

**18. Consideration and action on the application for a re-hearing of Shirleen Lilly, Staff Technician, Environmental Services. (Service-Connected Disability request; 12.13 years of service). – *Item deferred.***

**19. Adoption of Resolution 6692 denying the application of Raul Guerrero for a Service-Connected Disability after rehearing.**

*Ms. Dent* stated that as Trustee Kalra was not present for the rehearing, he should not vote on this issue.

**(M.S.C. Perkins/Overton) Motion to adopt. 4-0-2 (Kalra – Abstain; Constant – Absent)**

**20. Consideration and recommendation to the City Council on an ordinance amending San Jose Municipal Code Section 3.28.365 relating to real estate investments, to allow the Board to take title to real estate and real estate related debt instruments through a title holding corporation satisfying the requirements of Internal Review Code Section 501(c) (2) or through a limited liability company. (M.S.C. Overton/Perkins) Motion to recommend approval to City Council. 5-0-1 (Constant – Absent)**

**STANDING COMMITTEES / REPORTS / RECOMMENDATIONS**

**21. Committee for Investments (Perkins/Loesch/Andrews-alternate/Vacant) –  
Next meeting October 28, 2010**

- a) Summary of Minutes of the August 26, 2010 Investment Committee meeting.  
**(M.S.C. Andrews/Perkins) Motion to approve. 5-0-1 (Constant – absent)**
- b) Approval to reallocate \$135 million of the Plan's current global equity allocation equally between two active Global Value Equity managers and for the Secretary to negotiate and execute agreements with Tradewinds Global Investors and Artisan Partners.

*Trustee Overton* asked about the selection of Tradewinds Global Investors as they have a small asset amount in global equity, only two years of experience in the asset class, and the lowest staffing ratio.

*Ms. Wirick* explained that, while Tradewinds Global Investors does have a small asset amount in global equity, the firm has been managing approximately \$4 billion in similar strategies for quite some time.

*Chair Loesch* asked for a quick summary regarding the asset allocation shift from domestic and international equities to global equities.

*Ms. Wirick* stated that research has shown that managers who are skilled in selecting stocks can add more alpha if they look at a broader opportunity set as corporations operate around the world now. The System's asset allocation is focused on global equity and Tradewinds is one of the foremost managers in the global space.

*Trustee Perkins* stated that the process for selecting managers is slightly different with Meketa and additional strength in staff being able to perform due diligence on managers and present several qualified finalists to the Investment Committee. The global equity asset class is new and the decision at the Investment Committee level was that the two recommended managers provide a complement to this investment strategy as well as progress to balance the overall equity in the allocation of assets. The two recommended managers presented to the Investment Committee and, after rounds of questions with the managers, it was clear that they have two approaches to the asset class that are different but complementary for the System to obtain the best possible return out of the asset class.

**(M.S.C. Andrews/Overton) Motion to approve. 5-0-1 (Constant – Absent)**

- c) Status of Investment Program. – *This item is Note & File.*

*Trustee Perkins* stated that it would be good for the Board to have a summary of the progress toward the target asset allocation and what work remains to be done.

*Ms. Wirick* explained that the new asset allocation was adopted in February 2010, which moved the equity allocation away from the traditional division between domestic and international to global equity, lowered the fixed income allocation, and raised the alternatives allocation. In April 2010, the portfolio was transitioned toward the new asset allocation with

passive management until active managers could be hired. As of July 2010, the global equity allocation was close to target while fixed income was high due to assets being parked in fixed income while alternative managers are selected. Since July 2010, the Board has approved new investments in the opportunistic, real assets, and commodities spaces making the current asset allocation closer to target, which will be reflected in the 3Q2010 performance report.

In the global equity space, progress was made with the hiring of RS Investments for domestic small and micro cap equity and the recent hiring of Artisan Partners and Tradewinds for global value equity. The next two asset classes to be brought to the Investment Committee and then the Board are foreign small cap and emerging markets managers. These searches have been completed by staff and Meketa and hiring of the managers will happen over the next few months.

For the Fixed Income asset class, the high yield managers Seix and MacKay Shields were retained, the core government bonds and TIPS investments will remain passively managed as those are efficient asset classes, and, over the next few months, searches will be completed for investment grade credit managers.

For the alternative asset classes, the real estate and private equity managers were retained. Significant progress has been made in the alternatives space with three direct lending managers, GSO, Medley, and White Oak, and two risk parity commodities managers, Credit Suisse and First Quadrant, recently hired. Regarding hedge funds, manager searches are expected to begin in the coming months.

*Secretary Crosby* stated that, while significant progress has been made, there is a substantial delay from the approval of hiring managers to the completion of the contracts. The process of negotiating with managers in new investment spaces for pension plans takes time.

#### **Policy Committee (Vacant/Overton/Constant – alternate/Loesch)**

#### **EDUCATION AND TRAINING**

*The following items are Note & File.*

#### **22. Notification of CalAPRS' Trustees Round Table**

- a) Trustees' Round Table, San Diego, CA – October 15, 2010.
- b) Trustees' Round Table, Double Tree Hotel, 2050 Gateway Place, San Jose, CA – January 28, 2011.
- c) General Assembly, Monterey, CA – March 3, 2011 thru March 8, 2011.

#### **Notification of IFEBP Training**

- a) 56<sup>th</sup> U.S. Annual Employees Benefits Conference, Honolulu, HI – Sunday, November 14, 2010 thru Wednesday, November 17, 2010.
- b) Foundations for Trustees 1, Hilton, San Diego, CA – Saturday, November 20, 2010 thru Sunday, November 21, 2010.
- c) Foundations for Trustees 2 Pensions, Hilton, San Diego, CA – Saturday, November 20, 2010.
- d) Foundations for Trustees 2 Group Benefits, Hilton, San Diego, CA – Sunday, November 21, 2010.

- e) Investments Institute, Las Vegas, NV – Monday, April 11, 2011 thru April 13, 2011.
- f) Portfolio Concepts and Management, Philadelphia, PA – Monday, May 23, 2011 thru Thursday, May 26, 2011.
- g) Trustees and Administrators Institutes – New Trustees, Hilton, San Francisco, CA – Monday, June 13, 2011 thru June 15, 2011.

**FUTURE AGENDA ITEMS**

*Chair Loesch* noted that the November Board meeting will be held Wednesday, November 10, due to Veterans Day holiday.

**PUBLIC/RETIREE COMMENTS – NONE**

**ADJOURNMENT**

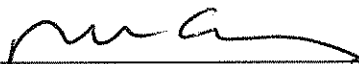
*Chair Loesch* adjourned the meeting at 11:31 a.m.



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

**ATTEST:**



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**RUSSELL U. CROSBY, DIRECTOR  
BOARD OF ADMINISTRATION**