

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Minutes of the Board Meeting

THURSDAY

SAN JOSÉ, CALIFORNIA

May 16, 2013

CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met on Thursday, May 16, 2013 at 8:38 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 -Absent
Stuart Odell -Present
Ed Overton -Present(Arrived at 8:39 a.m.)

NON-VOTING BOARD MEMBER

Pete Constant -Absent

DIRECTOR RETIREMENT SERVICES

Roberto L. Pena -Present

COUNSEL

Jeffrey Rieger, General and Fiduciary Counsel
 -Present

RETIREMENT SERVICES STAFF PRESENT: Donna Busse, Sonia Morales, Linda Alexander, Tram Doan, Daryn Miller, Heidi Poon, Lesley Lamb, Barbara Hayman, Toni Johnson.

ALSO PRESENT: Mary Cornell, AFSCME-CEO; Yolanda Cruz, AFSCME-MEF, Jeff Regier; Reed and Smith, Alex Gurza, Deputy City Manager; Cheryl Parkman, OER; Allison Suggs, OER; Susan Devencenzi, Retiree; Doug Riccobond, PBCE; Joan Butts, AHE; Cynthia Kuenno, ESD; Gerry Chappuis, AFSCME; Vera Todorov, ALP; Glenn Schworbach, ALP; Linda Ross, Meyers Nave; Brian Doyle, Retiree.

There was a motion to add an item to the Closed Session agenda relating to items 2.7c, 5.4a & 5.4b and a related communication that came to the Board after the agenda posting deadline. Mr. Rieger explained that California Government Code section 54954.2(b)(2) allows the Board to add Closed Session items after the posting deadline and that the authority for the Board to meet in closed session in this instance is found in California Government Code section 54956.9. Mr. Rieger further specified that subdivisions (d)(2) and (d)(4) of section 54956.9 authorized the closed session in this instance.

Approved. (M.S.C. Loesch/Andrews 6-0-0, 1-absent Dirks)

Board entered into Closed Session at 8:42 a.m. and reconvened at 10:49 a.m. into Open Session.

CLOSED SESSIONS

Closed Session Agenda

I. OLD BUSINESS-DEFERRED/CONTINUED ITEMS

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

Mulholand, et al v. City of San Jose, et al, Santa Clara County Superior
Court No. 1-12-CV-219748.

**2. CLOSED SESSION: CONFERENCE WITH LEGAL COUNSEL – EXISTING
LITIGATION PURSUANT TO GOVERNMENT CODE SECTION 45956.9(a) (4 CASES)
(MEASURE B LITIGATION)**

Mukhar, et al v. City of San Jose, et al.
Santa Clara County Superior Court Case No. 1-12-CV-226574

Harris, et al v. City of San Jose, et al.
Santa Clara County Superior Court Case No. 1-12-CV-226570

AFSCME v. City of San Jose, et al.
Santa Clara County Superior Court Case No. 1-12-CV-227864

San Jose Retired Employees Association v. City of San Jose.
Santa Clara County Superior Court Case No. 1-12-CV-233660

II. NEW BUSINESS

Investments

**A. CLOSED SESSION: CONFERENCE WITH INVESTMENT CONSULTANT
PURSUANT TO GOVERNMENT CODE SECTION 54956.81 TO CONSIDER
PURCHASE OF PARTICULAR PENSION FUND INVESTMENTS (TWO
INVESTMENTS).**

**B. CLOSED SESSION: PUBLIC EMPLOYEE APPOINTMENT AND EMPLOYMENT.
GOVERNMENT CODE SECTION 54957(b)(1) – POSITION: CHIEF INVESTMENT
OFFICER/ASSISTANT DIRECTOR OF RETIREMENT SERVICES.**

The Board returned from Closed Session at 10:42a.m., and reconvened into Open Session at 10:49a.m. There was no reportable action out of Closed Session.

OPEN SESSION – 9:30 A.M. time-certain or soon thereafter
Regular Agenda

- **ORDERS OF THE DAY**
- Item 5.1a – Waive Sunshine – Received Late
- Item 5.3 - Waive Sunshine – Report added

There was a motion to approve the Orders of the Day.

Approved. (M.S.C. Andrews/Druyan 6-0-0, 1-absent, Dirks).

1. DISABILITY RETIREMENTS

1.1 Application for a Service-Connected Disability

- a. **Cynthia Kverno**, Senior Engineering Technician, Environmental Services Department. Request for a Service-Connected Disability Retirement, effective May 28, 2011; 19.48* years of service. (No recommendation)

Ms. Lamb summarized the report and answered questions from the Board. A continuation was requested by the applicant to obtain more information and present to the Board when available.

2. CONSENT CALENDAR (Items 2.1 through 2.9)

A motion was made to approve the Consent Calendar Items 2.1 through 2.9.

Approved. (M.S.C. Loesch/Andrews 6-0-0, with 1-absent, Dirks).

2.1 Approval of Staff Recommendation to Grant Non-Service-Connected Disability

- a. **Douglas Riccobono**, Building Inspector Combo, Planning, Building and Code Enforcement Department. Request for a Non-Service-Connected Disability Retirement, effective May 29, 2012; 21.89* years of service. (Recommended approval)

2.2 Approval of Service Retirements

- a. **Thomas E. Conte**, Equipment Maintenance Supervisor, Public Works Department, effective June 22, 2013; 29.64* years of service.
- b. **Matthew Farrell**, Program Manager, Department of Transportation, effective June 22, 2013; 6.22* years of service. (With reciprocity)
- c. **Theresa A. Hayes**, Marketing & Communications Manager, Environmental Services Department, effective June 8, 2013; 15.03* years of service.
- d. **Cynthia M. Jaszka**, Legislative Secretary, City Clerk's Office; effective June 22, 2013; 15.20* years of service.
- e. **Julita T. Luty**, Nurse Practitioner, Human Resources Department; effective April 13, 2013; 5.8* years of service.

- f. **Deborah Mendez** Secretary, Parks, Recreational & Neighborhood Services Department; effective June 22, 2013; 27.44* years of service.
- g. **Manuel Sifuentes Jr.**, Survey Field Supervisor, Public Works Department; effective May 11, 2013; 30.10* years of service.

2.3 **Approval of Deferred Vested**

- a. **Geoffrey A. Cady**, Administrative Officer, Fire Department, effective March 6, 2013; 8.24* years of service. (*With reciprocity*)
- b. **Richard Desmond**, Deputy Director, Library Department, effective June 10, 2013; 28.74* years of service.

2.4 **Rescission of Retirement Application**

- a. Approval to rescind the application of **Ralph Villafuerte**, approved at the February 21, 2013 meeting for the effective date of April 27, 2013.

2.5 **Approval of Board Minutes**

- a. Approval of Board Minutes of April 18, 2013.

2.6 **Approval of Return of Contributions**

- a. Voluntary
- b. Involuntary

2.7 **Acceptance of Communication/Information Reports**

- a. Pension & Investments Article: “Go big” in alternatives, conference attendees urged”, Published April 23, 2013.
- b. March 2013 performance flash report for Pension Trust.
- c. Letter from Association of Legal Professionals (ALP), regarding ALP’s Response to City’s Retiree Healthcare Modified Proposal, dated May 6, 2013.
- d. **Educational Travel Reports:**
 - Pension Bridge, San Francisco, CA, April 16-17, 2013 – by Trustee Lara Druyan.
 - Commonfund Forum, Hollywood, CA, March 9-11, 2013 – by Trustee Lara Druyan
 - CalAPRS Trustees Roundtable, Doubletree Hotel, San Jose, CA, February 8, 2013 – by Trustees: Dirks, Loesch and Armstrong.

- 2.8 Report out of Closed Session regarding investments approved at the September 20, 2012, January 17, 2013 and February 21, 2013 Board meetings.

2.9 Approval of Travel / Conference Attendance

a. Trustees:

1. Marty Dirks
 - CalAPRS Trustees Roundtable, Burbank, CA - June 14, 2013.
 - SACRS Spring Conference 2013, Napa Valley Marriott Hotel – May 14-17, 2013 - CANCELLED

b. Staff:

1. Roberto L. Peña
 - CalAPRS Administrators' Roundtable, Marriott Burbank Airport, Burbank, CA – June 21, 2013.
2. Daryn Miller
 - Due Diligence – Investment Manager: New York, NY – May 13, 2013.
 - Annual NEPC Client Conference, Boston Convention Center, Boston, MA – May 14-15, 2013.

3 DEATH NOTIFICATIONS (Moment of Silence) Note and File.

- 3.1 **William D. Benevich**, Senior Building Inspector, retired 11-13-76, died 03-23-13. No Survivorship benefits.
- 3.2 **Neal E. Bohnet**, Environmental Specialist, retired 01-06-91, died 03-15-13. Survivorship benefits to Ruth E. Bohnet, spouse.
- 3.3 **Lester T. Dion**, Plant Equipment Supervisor, retired 03-17-79, died 03-14-13. No survivorship benefits.
- 3.4 **John E. Eastus**, Deputy City Manager, retired 09-01-84, died 03-07-13. Survivorship benefits to Sherry L. Eastus, spouse.
- 3.5 **George Gardin**, Public Works General Supervisor, retired 01-06-79, died 03-24-13. Survivorship benefits to Henrietta Gardin, spouse.
- 3.6 **Paul W. Ramos**, Maintenance Worker II, active employee, died 02-14-13.

4 OLD BUSINESS-DEFERRED/CONTINUED ITEMS - None

5 NEW BUSINESS

5.1 Investments

Item 5.1a was heard after Item 5.1d.

- a. **Discussion and action to include the OCIO project in the scope of services of the current Cortex Applied Research's governance contract.**

Mr. Iannucci gave his report via telephone and answered questions from the Board.

A motion was made to approve employing Cortex for this RFI, and two-step process and the initial cost not to exceed \$45,000.00

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.

Approved. (M.S.C. Druyan/Andrews, 6-0-0, with 1-absent, Dirks).

Item 5.1b was heard before Item 5.1a.

- b. Discussion and action regarding the adoption of the Real Estate operating guidelines as Appendix C of the Investment Policy Statement.

Ms. Wirick led the discussion via telephone and answered questions from the Board.

A motion was made to adopt the Real Estate operating guidelines as Appendix C of the Investment Policy Statement.

Approved. (M.S.C. Overton/Andrews, 6-0-0, with 1-absent, Dirks).

- c. Discussion and action regarding the approval for the Secretary to negotiate and execute the second amendment with RS Investments.

Ms. Yeniy led the discussion and answered questions from the Board.

A motion was made to approve the Secretary to negotiate and execute the second amendment with RS Investments.

Approved. (M.S.C. Druyan/Andrews, 6-0-0, with 1-absent, Dirks).

- d. Discussion and action regarding Hedge Fund manager performance reporting.

Ms. Doan led the discussion and answered questions from the Board.

A motion was made to approve the Hedge Fund manager performance reporting.

Approved. (M.S.C. Andrews/Druyan, 6-0-0, with 1-absent, Dirks).

5.2 Discussion and action on System Expenses for March 2013.

Chair Loesch led the discussion and responded to questions from the Board regarding the System Expenses for March 2013.

A motion was made to approve the System Expenses for March 2013.

Approved. (M.S.C. Andrews/Druyan, 6-0-0, with 1-absent, Dirks).

5.3 Discussion and action regarding Cortex Phase II Report & Recommendations.

Tom Iannucci from Cortex led the discussion via telephone in the Cortex Phase II Report and answered questions from the Board. He stated that the recommendation mirrors the 2009 report. Mr. Iannucci made four priority recommendations:

1. Grant full authority to the Board to manage the Systems.
2. Staff to evaluate the feasibility of Cortex Recommendation numbers 4, 5, 9, 11, 13 & 14, with implementation plan.
3. Ad Hoc Committee to work on #1, Board Independence with the P & F Board.
4. The Board to forward the report to all stakeholder representatives.

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A motion was made to approve the Cortex Phase II Report & Recommendations with the focus on Recommendation #1.

Approved. (M.S.C. Loesch/Andrews, 6-0-0, with 1-absent, Dirks).

An amended motion was made to approve the Cortex Phase II Report & Recommendations with the focus on Recommendation #1 and to create an Ad Hoc Independence Committee consisting of Chair Loesch, Mr. Overton and Mr. Dirks.

Approved. (M.S.C. Loesch/Druyan, 6-0-0, with 1-absent, Dirks).

5.4 Contribution Rates and Amounts for 2013-2014.

Items 5.4a & 5.4b were heard simultaneously.

- a. Discussion and action regarding Resolution 7421 setting new city and employee Pension and OPEB contribution rates and amounts for 2013-2014 for Federated members in Tier 1 to be effective June 23, 2013.**

Chair Loesch gave a summary and requested to hear from the members and the City first. The members of the Plan and the City made public comments regarding resolution 7421 setting new City and employee Pension and OPEB contribution rates and amounts for 2013-2014 for Federated members in Tier 1 to be effective June 23, 2013.

- b. Discussion and action regarding Resolution 7422 setting new city and employee Pension and OPEB contribution rates and amounts for 2013-2014 for Federated members in Tier 2 to be effective June 23, 2013.**

A motion was made to continue the meeting on Items 5.4a & 5.4b on June 20, 2013.

Approved. (M.S.C. Andrews/Armstrong, 6-0-0, with 1-absent, Dirks).

Item 5.3 was reopened after Item 5.4

Mr. Pena had a question regarding the Ad Hoc committee. Mr. Pena stated that the Ad Hoc committee was to deal with the Cortex report. This was discussed by the Board and an amended motion was made.

An amended motion was made to approve the Cortex Phase II Report & Recommendations with the focus on Recommendation #1 and to create an Ad Hoc Independence Committee consisting of Chair Loesch, Mr. Overton and Mr. Dirks.

Approved. (M.S.C. Loesch/Druyan, 6-0-0, with 1-absent, Dirks).

Item 5.5 was heard after the reopening of Item 5.3

- 5.5 Discussion and action regarding authorizing the Secretary to work with the City Attorney's Office to negotiate and execute the Second Amendment to the Agreement Among the Board of Administration for the Federated City Employees' Retirement System, the City of San Jose, and Reed Smith LLP for legal services to increase the maximum compensation by \$250,000 for an amount not to exceed \$750,000.**

Ms. Busse led the discussion and answered questions from the Board.

A motion was made to approve the authorization for the Secretary to work with the City Attorney's Office to negotiate and execute the Second Amendment to the Agreement among the Board of Administration for the Federated City Employees' Retirement System, the City of San Jose, and Reed Smith LLP for legal services to increase the maximum compensation by \$250,000 for an amount not to exceed \$750,000.

Approved. (M.S.C. Overton/Andrews, 6-0-0, with 1-absent, Dirks).

5.6 Discussion and action on adoption of a Portable Electronic Device Policy.

Ms. Hayman led the discussion and answered questions from the Board.

A motion was made to approve the adoption of a Portable Electronic Device Policy and to clarify throughout the document regarding access to personal devices being limited to Board/City Business only.

Approved. (M.S.C. Loesch/Andrews, 6-0-0, with 1-absent, Dirks).

6 COMMITTEES/REPORTS/RECOMMENDATIONS

6.1 Investment Committee (Druyan/Odell/Andrews)

Last Meeting: May 8, 2013

- Next Meeting: June 12, 2013

a. Update from Chair of the Investment Committee.

Trustee Druyan provided an update to the Board. Ms. Druyan requested to include on future recommendations whether an item should be discussed in Open or Closed Session.

b. Minutes of April 10, 2013, Joint Federated and Police & Fire Investment Committee meeting.

Receive and file.

6.2 Audit Committee (Armstrong/Andrews/Overton)

Last Meeting: May 16, 2013

- Next Meeting: August 1, 2013

a. Update from Chair of Audit Committee

Chair of the Audit Committee, Trustee Armstrong, gave an update of the Audit Committee to the Board members. Next meeting will be on June 20, 2013.

6.3 Governance Committee (Loesch/Armstrong/Odell)

Last Meeting: May 2, 2013

- Next Meeting: June 6, 2013 – Joint meeting

a. Update from Chair of Governance Committee.

Chair Loesch gave an update of the Governance Committee to the Board members.

6.4 Ad Hoc Personnel Committee (Loesch/Druyan/Dirks)

- a. Update from Chair of Ad Hoc Personnel Committee. **Receive and File.**

6.5 Ad Hoc Policy and Procedures Committee (Overton/Loesch)

- a. Update from Chair of Ad Hoc Policy and Procedures Committee. **Receive and File.**

7 EDUCATION & TRAINING - NONE

7.1 Educational Programs and Courses

7.2 Conferences and Seminars

7.3 Research Papers and Articles

- **FUTURE AGENDA ITEMS - NONE**
- **PUBLIC/RETIREE COMMENTS - NONE**
- **ADJOURNMENT**

The meeting was adjourned at 1:05p.m.



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

ATTEST:



**ROBERTO L. PEÑA
DIRECTOR, RETIREMENT SERVICES**