

BOARD OF ADMINISTRATION

*City Hall
Wing Committee Rooms 118-120
200 East Santa Clara Street, San Jose, CA 95113*



Meeting Minutes - Final

Thursday, September 19, 2013

8:30 AM

City Hall, Wing Rooms 118-120

Federated City Employees' Retirement System

BOARD MEMBERS

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

NON-VOTING BOARD MEMBER

Pete Constant

COUNSEL

Harvey Leiderman, General and Fiduciary Counsel

DIRECTOR RETIREMENT SERVICES

Roberto L. Peña

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.

CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met on Thursday, September 19, 2013 at 8:30 a.m., in regular session at City Hall in the Wing Meeting Rooms 118-120, 200 East Santa Clara Street, San Jose, CA 95113.

Chair Loesch called to order both the Federated City Employees' Retirement System and the Health Care Trust meeting at 8:30 a.m.

Present: 7 - Matt Loesch, Lara Druyan, Arn Andrews, Michael Armstrong, Martin Dirks, Stuart Odell and Ed Overton

CLOSED SESSION

The Board entered into Closed Session at 8:32 a.m.

CLOSED SESSION AGENDA ITEMS WILL BE HEARD AT 8:30 A.M.

I. CLOSED SESSION INVESTMENTS

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

II. CLOSED SESSION NEW BUSINESS-DEFERRED/CONTINUED ITEMS

- a. **CLOSED SESSION:** CONFERENCE WITH LEGAL COUNSEL - THREATENED LITIGATION PURSUANT TO GOVERNMENT CODE SECTION 54956.9(b) (ONE CASE)
- 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 reconvened from Closed Session at 9:25 a.m. and entered into Open Session at 9:34 a.m.

There was no reportable action out of Closed Session.

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

• ORDERS OF THE DAY

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

- Item 5.1(i) - new Item added late and to be heard before Consent Calendar.
- Item 5.1(f) - 2 addendums added and received late.
- Item 5.1(g) - to be heard before Items 5.1(e) & 5.1(f),

Request to Waive Sunshine on the following items:

- Item 2.3(a) – revised Minutes added.
- Item 5.1(b) - Item was received late.
- Items 5.1(d & e) - received late.
- Item 5.1(i) – received late.
- Item 6.6b - posted late.
- Health Care Agenda - Item A.3 – added revised minutes.

A motion was made to approve the Orders of the Day and Waive Sunshine on the indicated items.

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

Item 5.1(i) was heard before Item 1.1a.

1.1 Application for a Service-Connected Disability

Item 1.1a was heard after Item 5.1i.

- 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. (*Continued from the May 2013 Board Meeting.*)

Ms. Kverno was present with her attorney, Mr. Butts. Ms. Lamb, Benefits Manager, read the medical restrictions into the record. There was discussion on whether the Board should accept the late handout received from Dr. Das at the Board meeting. Dr. Das represented that the new material was cumulative of the material already in the record, and confirmed that he had not shown it to the applicant or her attorney in advance of the meeting. After further discussion, the Board agreed that there was no need to accept the new document and Dr. Das withdrew it from consideration in the record. The Board moved forward with the hearing. Dr. Das stated his concerns and answered questions from the Board.

Extensive discussion continued. The Applicant's attorney made his presentation and rebutted the statements of Dr. Das. The Applicant presented no further witnesses for consideration, and her attorney declined the invitation to question any witnesses. After the hearing was closed, the Board deliberated in public session.

A motion was made to approve the Service-Connected Disability for Cynthia Kverno.

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

2 CONSENT CALENDAR

A motion was made to approve Consent Calendar Items 2.1 through 2.8.
Approved. (M.S.C. - Druyan/Dirks, 7-0-0)

2.1 Approval of Service Retirements

- a. Dale A. Bennett, Maintenance Supervisor, Department of Transportation, effective October 12, 2013; 30.00* years of service.
- b. Angela F. Cipperly, Community Service Supervisor, Office of Economic Development, effective October 1, 2013; 13.03* years of service.
- c. Monlita B. Gregorio, Senior Office Specialist, Police Department, effective October 12, 2013; 15.08* years of service.
- d. Robert E. Heimgartner, Jr., Facility Repair Worker, General Services Department, effective October 26, 2013; 30.04* years of service
- e. Dawn D. Perry, Community Program Administrator, Library Department, effective August 31, 2013; 06.78* years of service.
- f. Nick D. Reyes, Senior Maintenance Worker, Parks, Recreation and Neighborhood Services Department, effective August 19, 2013; 21.84* years of service.
- g. William F. Sherry, Director of Aviation, Airport Department, effective September 28, 2013; 08.67* years of service.
- h. Lisa Solomon, Senior Public Safety Dispatcher, Fire Department, effective October 26, 2013; 23.58* years of service.
- i. David Wayne Tucker, Environmental Services Program Manager, Environmental Services Department, effective September 28, 2013; 25.92* years of service.
- j. Gary D. Van Wegen, Building Inspector, Planning, Building and Code Enforcement Department, effective October 12, 2013; 15.07* years of service.

2.2 Approval of Deferred Vested

- a. Elani G. Flores, Senior Office Specialist, General Services Department, effective October 30, 2013; 12.33* years of service. (With reciprocity)

- b. Frank C. Jeu, Maintenance Assistant, Parks, Recreation and Neighborhood Services Department, effective August 16, 2013; 10.14* years of service.
- c. Jaime M. Locquiao, Airport Noise Abatement Manager, Airport Department, effective October 25, 2013; 14.16* years of service.
- d. John C. Reed, Plant Mechanic, Environmental Services Department, effective October 15, 2013; 18.03* years of service.
- e. Daniel Rodriguez, Building Inspector, Planning, Building & Code Enforcement Department, effective September 7, 2013; 10.27* years of service. (With reciprocity)
- f. Ben P. Tripousis, Transportation Policy Manager, Department of Transportation, effective October 12, 2013; 14.56* years of service.

2.3 Approval of Board Minutes

- a. Approval of Board Minutes from August 15, 2013.

2.4 Approval of Return of Contributions

- a. Voluntary/Involuntary

2.5 Acceptance of Communication/Information Reports

- a. Quarterly Board Attendance and Travel Reports.
- b. July 2013 Performance Flash Report for the Pension Trust.
- c. City Council Memo regarding the Early Retiree Reimbursement Program.
- d. Letter from B. Doyle to Board of Administration, May 16, 2013 and related email exchange.

2.6 Approval of Travel / Conference Attendance

- a. Matt Loesch, Chair
 - Charter Financial Analyst Program, Publications & Exam, December 2013.
- b. Lara Druyan, Trustee
 - Institutional Investors' Roundtable, The Westin ST. Francis Hotel, San Francisco, CA- December 2-4, 2013.

2.7 Rescission Of Retirement Application

- a. Approval to rescind the application of **Mary Ellen Sanchez**; approved at the August 15, 2013 meeting for the effective date of June 4, 2013.

2.8 Approval of Change in Retirement Date

- a. Approval of change in retirement date for **Thomas D. Norris**; from November 8, 2013 to November 9, 2013.

3. DEATH NOTIFICATIONS (Moment of Silence)

- a. Notification of the death of **Jean Ashby**, Typist Clerk II, retired July 8, 1978, died July 19, 2013. No survivorship benefits.
- b. Notification of the death of **Lydia Diangson**, Parking Control Officer, retired October 31, 1998, died July 30, 2013. Survivorship benefits to Domingo Diangson, spouse.

4. OLD BUSINESS-DEFERRED/CONTINUED ITEMS

- a. Discussion and action on recruitment for Chief Investment Officer.

Mr. Pena led the discussion and answered questions from the Board. Mr. Pena stated that a new compensation range for the position will be presented to the City Council on October 1st for approval. If approved, there will be a second round for the search of the CIO. Mr. Pena would like to have someone in place by early spring 2014. He also stated that Police and Fire will be considering at the next Board meeting to have Alan Martin from NEPC to temporarily act in the role of interim CIO but will be classified as a "special project" under the contract for Police and Fire from October 1, 2013 - April 1, 2014. There was a lengthy discussion about the pros and cons of a non-staff interim CIO for only one of the two retirements funds.

A motion was made to a continue the CIO search with Alliance Services under their existing contract and for staff to come back to the Board with a budget, a schedule and impact of any relationship the Police and Fire Board has with another entity and the impact to staff.

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

- b. Discussion and action on authorizing the Secretary to negotiate and execute the Second Amendment to the agreement with Cheiron, Inc., for actuarial services, extending the term to August 31, 2015, amending the hourly rate schedule, and increasing the total compensation for an amount not-to-exceed \$1,200.00.

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

A motion was made to extend the contract for 60 days, setting the not to exceed amount at \$1.2 million and adding the 2014 Valuation to the scope of services for a fixed cost of \$90,000. Staff was to go back to Cheiron and discuss the hourly rates.

The maker and seconder agreed to amend their motion to include a MFN clause in the contract.

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

5. NEW BUSINESS

- a. Discussion and action regarding the approval of employer contribution rates for Tier 2B (Tier 2 without Health Care benefit, hired on or after September 27, 2013).

Chair Loesch led the discussion and referenced the chart and the memo in the packet. Ms. Busse stated that Cheiron and Ice Miller are satisfied with the numbers.

A motion was made to approve the Tier 2B Contribution Rates at 6.68% for members and 17.27% for the City.

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

- b. Discussion and action on the report of the Plan Expenses for June 2013.

Chair Loesch led the discussion and answered questions from the Board.

A motion was made to approve the report of the Plan Expenses for June 2013, excluding the Chief of Police recruitment expense.

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

- c. Oral update from the Director of Retirement Services, Roberto L. Peña.

Mr. Peña updated the Board regarding the extension of the 6 months lease. The Auditors have been in the office since August. His selection of Division Manager will be made next week. Aynur Yeniay was offered the Financial Analyst position to be effective November 4, 2013. Mr. Peña noted that staff was preparing new member handbooks. Mr. Peña also congratulated and acknowledged Mr. Leiderman for making the top 100 Lawyers in California.

- d. Discussion and action on Military Leave Ordinance Memo.

Ms. Busse led the discussion and answered questions from the Board. Ms. Jennifer Schembri from the City Manager's Office addressed some of the Board's questions.

A motion was made to direct staff to work with Counsel and the City on implementing issues on the Ordinance as it relates to the administration of the plan.

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

5.1 Investments

- a. Presentation of the 2nd Quarter 2013 Performance Report for the Pension Trust.
- Ms. Wirick from Meketa led the presentation of the 2nd Quarter 2013 Performance Report for the Pension Trust and answered questions from the Board. No action required.
- b. Discussion and action regarding the System's standard deviation performance reporting.
- Ms. Wirick led the discussion regarding the Systems Standard Deviation Performance and answered questions from the Board. No action required.
- c. Discussion and action regarding public investment alternatives to the infrastructure swap.
- Mr. Brad Reiger from Meketa led the discussion regarding public investment alternatives to the infrastructure swap and answered questions from the Board.
- A motion was made to transition out of the swap and approve \$100 million investment in SSgA and the Brookfield global infrastructure index.
- Approved. (M.S.C. - Andrews/Dirks, 7-0-0)
- d. Discussion and action regarding White Oak contract amendment.
- Mr. Reiger from Meketa led the discussion regarding the White Oak contract amendment and answered questions from the Board.
- There was a motion to adopt Maketa's recommended action.
- Approved. (M.S.C. - Overton/Druyan, 6-0-0, with Andrews absent)
- Trustee Andrews stepped out at 11:33 a.m.

Health Care Trust Agenda Items A.1, A.2 and A.3 was heard after Item 5.1d. Item 5.1g. was heard at 12:03 p.m. after break.

- e. Discussion and action of the Capital Market Assumptions.
- Item 5.1e was heard after Item 5.1g
- The Board directed Staff to take item back to the Investment Committee to further discuss Capital Market Assumptions around hedge funds.
- f. Presentation of the process to determine the assumed rate of return and a survey of CA public pension plans and a global survey of Defined Benefit plans.

This item was heard after 5.1e, as noted in the Orders of the Day.

Ms. Wirick led the presentation and answered questions from the Board. Bill Hallmark from Cheiron was available via teleconference for any questions from Board.

Note and filed.

- g. Presentation by Fiduciary Counsel on Fiduciary Obligations in Adopting the Assumed Rate of Return and Discount Rate.

Item 5.1g was heard before Items 5.1(e&f), as noted on Orders of the Day.

Mr. Leiderman made a Presentation on Fiduciary Obligations in Adopting the Assumed Rate of Return and Discount Rate.

Note and filed.

Mr. Constant departed at 12:40 p.m.

- h. Discussion and direction regarding assigning the risk management RFI Project to a Committee of the Board.

This item was heard after 5.1f, as noted in the Orders of the Day. Mr. Armstrong recused himself from the discussion. The discussion was led by Mr. Pena and he answered questions from the Board.

A motion was made to leave the direction regarding assigning the risk management RFI Project to the Audit Committee and to come back with recommendations to the Board on how to deal with issues of conflict.

Approved. (M.S.C. - Loesch/Overton, 6-0-0)(Armstrong recused).

- i. Discussion and action on the status of the proposed amendments to the contract with Albourne America, LLC.

Item 5.1i was heard before Consent Calendar, as noted on Orders of the Day.

Following discussion, a motion was made to approve the proposed amendments to the Albourne America LLC contract.

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

6. COMMITTEES/REPORTS/RECOMMENDATIONS

6.1 Investment Committee (Druyan, Odell, Andrews)

Last Meeting: September 11, 2013

Next Meeting: October 9, 2013

- a. Update from the Chair of the Investment Committee. Receive and file.
Chair of the Investment Committee, Trustee Druyan updated the Board on Liquidity Analysis, tactical rebalancing by the staff, RFI project and merging markets.

- b. Minutes of the June 12, 2013 Joint Federated and Police & Fire Investment Committee meeting. Receive and file.
Received and filed.
- c. Minutes of the August 28, 2013, Joint Federated and Police & Fire Investment Committee meeting. Receive and file.
Received and filed.

6.2 Governance Committee (Loesch, Armstrong, Overton)

Last Meeting: May 2, 2013

Next Meeting: September 19, 2013

- a. Update from the Chair of the Governance Committee. Receive and file.

There was no update from the Committee. The next Governance meeting will be on September 19, 2013.

6.3 Audit Committee (Armstrong, Andrews, Overton)

Last Meeting: August 1, 2013

Next Meeting: November 21, 2013

- a. Update from the Chair of the Audit Committee. Receive and file.

There was no report from the Audit Committee.

6.4 Ad-Hoc Personnel Committee (Loesch, Druyan, Dirks)

- a. Update from the Chair of the Ad Hoc Personnel Committee. Receive and file.

There was no report from the Ad Hoc Personnel Committee.

6.5 Ad-Hoc Policy and Procedures (Overton, Loesch)

- a. Update from the Chair of the Ad Hoc Policy and Procedures Committee.
Receive and file.

There was no report from the Ad Hoc Policy and Procedures.

6.6 Ad Hoc Cortex Response Committee (Loesch, Overton, Dirks)

- a. Update from the Chair of the Ad Hoc Cortex Response Committee. Receive and file.

Trustee Odell departed at 1:29 p.m.

Items 6.6(a&b) were heard concurrently. Chair Loesch led the discussion and gave an update to the Board.

- b. Discussion and action on Cortex Phase II Report and Recommendations.

Chair Loesch led the discussion on the Cortex Phase II Report and Recommendations.

A motion was made to:

- Approve the principles on page 6 of the presentation of the Ad Hoc Cortex Response Committee.
- Approve the Committee communication with stakeholders.
- Split the cost of the Cortex presentation to the City Council with the Police and Fire Department Retirement Plan.
- Coordinate a stakeholder meeting.
- Bring back to the Board draft charter language and details.

Approved. (M.S.C. - Loesch/Druyan, 5-0-0, Absent - Odell)

7. EDUCATION & TRAINING

- a. Educational Programs and Courses

Received and filed.

- b. Conferences and Seminars

Received and filed.

- c. Research Papers and Articles

Received and filed.

• **FUTURE AGENDA ITEMS**

None.

• **PUBLIC/RETIREE COMMENTS**

None.

• **ADJOURNMENT**

The meeting was adjourned at 1:44 p.m.



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

ATTEST:



ROBERTO L. PEÑA
DIRECTOR, RETIREMENT SERVICES