

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Minutes of the Board Meeting

THURSDAY

SAN JOSÉ, CALIFORNIA

December 11, 2008

CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met at 8:34 a.m., on Thursday, December 11, 2008, in regular session at the Department of Retirement Services, 1737 N. First St., Suite 600 - San José, California.

ROLL CALL

Present:

DAVID BUSSE

Jeffrey Perkins

Matt Loesch

Patrick Skillsky

Pete Constant

Forrest Williams

CHAIR, Civil Service Representative

Public Member

Employee Representative

Employee Representative

City Council Representative

City Council Representative

ALSO PRESENT:

Russell U. Crosby

-Secretary/Director

Mollie Dent

-City Attorney

Tamasha Johnson

-Staff

Debbi Warkentin

-Staff

Karin Carmichael

-Staff

Tom Conte

-GSA

Ron Kumar

-Staff

Antonio Guerra

-Mayor

Veronica Niebla

-Staff

Ceara O'Fallon

-Staff

Donna Busse

-Staff

Linda Hurley

-MGO

Sally Griffin

-Airport

Allison Suggs

-OER

Bill Thomas

-Retiree

Allen DeMers

-HR

Bob Leininger

-SJREA

Rhonda Snyder

-Staff

Tom Reilly

-OE3

REGULAR SESSION

Chair Busse called the meeting to order at 8:34 a.m. He stated Item 1b was withdrawn at the applicant's request. Item 1f has a service-connected disability pending, and Item 1g should show reciprocity.

The Secretary introduced Ali Amiry, Retirement Services new Investment Officer. He noted Dr. Amiry's impressive educational background.

ORDERS OF THE DAY

Ceremonial Item: Presentation of commendation to Forrest Williams for his service to the FCERS Retirement System

Chair Busse read the recitals into the record. He thanked Mr. Williams for his service on the Board.

RETIREMENTS

CONSENT CALENDAR (Items 1 thru 7)

(M.S.C. Constant/Williams) to approve Consent Calendar. Motion carried 6-0-1. (Vacant)

Service retirements approved:

Lilly Q. Geary, November 29, 2008

Dora C. Ouimet, January 10, 2009

Robert Ramirez, November 29, 2008

William H. Smith, Jr., November 1, 2008

Charles T. Wear, November 13, 2008

Deferred Vested retirements approved:

Kathy D. Helmer, December 27, 2008 (w/Reciprocity)

Barbara Ramsey, December 4, 2008 (w/Reciprocity)

Beverly A. Vessa, December 28, 2008 (w/Reciprocity)

DEATH NOTIFICATIONS (Item 8 - Moment of Silence)

The Chair stated there would be a moment of silence for the death notifications.

OLD BUSINESS (Item 9-14)

9. Travel Audit compliance update.

Mrs. Niebla stated a memo has been provided; the newest development is that the City has prepared a Draft Travel Policy which will be reviewed at the Policy Committee following the Board meeting.

10. Election of Board Chair and Vice Chair for 2009.

(M.S.C. Perkins/Constant) to approve Dave Busse as Chair and Matt Loesch as Vice-Chair for 2009. Motion carried 6-0-1.

11. Update on the soundness of the Federated Retirement's investment portfolio.

Mr. Kumar stated the memo that was provided in the meeting packet outlines losses as of 11/21/08; the updated numbers are \$1.4 billion as of 12/9/08; which is up approximately \$72 million however the market continues to fluctuate. The portfolio has declined 29.4% YTD, and 25.0% since 6/30/08.

Member Loesch requested that the memo reflect market comparisons in the future.

Mr. Kumar stated that he can provide the comparisons but the data will be unaudited.

12. Discussion of Resolution No. 6364 revising excess earnings as of 30 June 2007 for the purpose of transfer to Supplemental Retiree Benefit Reserve. (Continued from November)

Mrs. Racy-Choy stated that a correction had been identified as being required for the calculation to the SRBR, with the general reserve fund not having been credited with interest. Legal counsel requested that staff look at prior years. In the course of doing so, staff identified another error, as well as some other issues. Counsels' major concerns involve tax matters and the correctness of prior SRBR distributions. The process of determining the best method of dealing with the issues is still under discussion; so staff recommends deferral of this item until February.

Ms. Dent stated the issue with the current year's calculation dates back two additional years. In 2005 the reserve account was collapsed and the SRBR calculation was done differently because a Municipal Code change was implemented at that time. That is why staff needs to go back to that timeframe at least, as it affects the balance in the SRBR. Other issues are in the early stages of investigation in what appears to have been an over-distribution some time back.

There was further discussion about a timeline to resolving the issues and hardships that retirees may face.

Member Constant stated he agrees that a quick resolution is needed but what negative impact might it have; he does not want to compound a problem but to move expeditiously. He requested that, once the investigations into the accounts are completed, the Board be provided with a one page memo showing a year by year summary of what was done, what could have been done, and the aggregate.

Mrs. Racy-Choy stated staff considered establishing an amount to distribute in the interim, and then staff

could distribute additional funds if necessary. However, the dollar amounts staff calculated to offset the prior distributions, if legally allowed, could leave nothing to distribute this year.

Member Loesch requested that in addition to the memo, he would like to know how going forward this type of error can be prevented. He also expressed concern regarding the health account.

Ms. Dent stated that the earnings need to be credited in the health account per IRS and the Code rules. That raises the issue of whether or not we need to credit 100% of account earnings and calculate the figure without having specific investments allocated to the medical account, which has been occurring since before the formation of the SRBR. Assuming that an error has been made, the question then becomes how to make the correction, and where does the money come from. This type of error is only an issue in the years in which there are excess earnings, so it will not effect every year. Part of the analysis will include the way the SRBR calculation is performed, what the correct distribution amount will be, how to make the correction, and the over distributions since FY 1999.

The Secretary stated staff plans rigorous reviews with legal counsel, auditors, and the actuary on the distributions and the calculations for both the Federated System and the Police & Fire Plan.

This item was deferred to February.

13. Discussion of Resolution No. 6357 declaring excess earnings as of 30 June 2008 for the purpose of transfer to Supplemental Retiree Benefit Reserve. (Continued from November)

This item was deferred to February. See discussion under Item 12.

14. Discussion and action on the Supplemental Retiree Benefit Reserve (SRBR) distribution for the Federated City Employees' Retirement System. (Continued from November)

This item was deferred to February. See discussion under Item 12.

NEW BUSINESS (Items 15-17)

(Out of Order)

17. Discussion and action relating to Northern Trust's securities lending and custodial services. (Time Certain 9:00 a.m.)

Chair Busse thanked staff for the comprehensive report they provided the Board.

Mr. Amiry presented a memo addressing the Northern Trust security lending account, and discussed securities lending, the status of the securities lending program at Northern Trust and its deficiencies, and the possible outcomes, risks and rewards associated with security lending.

He said that on 9/18/08 the Plan received a letter from Northern Trust stating they had a deficiency of approximately \$2 million in securities lending; \$33 thousand was due to the Lehman bankruptcy, which is a permanent impairment – the money is gone. A \$1.1 million loss is due to decrease in value of asset backed securities – car loans, credit cards – and \$0.98 million loss is due to decrease in value of corporate bonds holdings such as Citi group, Morgan Stanley. The market has worsened since 9/18/08 with the current market value of the deficiency at \$4.6 million. After consulting with an external bond manager, staff estimates that if all assets were sold today, the Plan will incur an additional 30-40% (\$20-\$25 million dollar) loss since there is no liquidity in the fixed income market.

Mr. Amiry reviewed three available options and the potential financial impact of each one.

Staff recommends to continue with the staged withdrawal from the program and on 1/2/09 reevaluate the process with Northern Trust.

There was discussion relating to the other options and the effects of selecting one of those approaches.

Mr. Lee Selander, Executive Vice President of Northern Trusts' Securities Lending Program, provided a brief introduction of his colleagues and himself. He stated the program perspective changed on 9/14/08 when the market began having liquidity issues with short term lending instruments. When Lehman went bankrupt, which they held collateral in many pools, it was a 10% or \$150 million impairment, the other 90% was market freeze up. All assets were within the guidelines when they were initiated but eventually started moving outside the guidelines. Core USA was a \$30 billion dollar portfolio, with Northern Trust being one of the first to call a collateral deficiency, although competitors did not but still locked their clients in. Northern Trust made various options available to their clients who wanted to get out of the program. He stated Northern Trust did nothing wrong in terms of management; we are in unprecedented times with the current market conditions. The portfolio continues to have unrealized losses which they hope will remain unrealized. Northern Trust gave an additional 20% income split to clients, which is the method that they are paid on the commission, so if they reduced the split too low they will have zero fees. As of today, they feel Northern Trust has taken appropriate measures and what they have offered is on a best efforts basis. Of the three options they offered clients (over 300 in the program) the vast majority exercised the first option which is to remain in the program. 30% of Northern Trust clients took the second option to do a staged withdrawal process. Northern Trust operates under the premise that all clients are treated fairly and equitably. They have remained in communication with clients and there is a host of information available on their website, which is updated on a weekly basis.

Member Perkins asked how the staged withdrawal is orchestrated and how the clients in the staged withdrawal process are treated versus those that are staying in the program.

Mr. Selander stated 50% of the assets mature every night so anything due is moved into overnight assets. On a daily and weekly basis Northern Trust reviews the need to call another collateral deficiency. He feels that all clients are treated equally.

Member Constant stated he hoped having this discussion would bring comfort about doing business with the Northern Trust Company, but the presentation provided today is not what he expected and discouraged his trust in the relationship.

(Back on Agenda)

15. Discussion and action on the request from City of San Jose Employee Foundation for Federated Retirement Roster, to include retiree's name and address.

Mr. Tom Conte, Member of SJEF, stated they need the list of retirees. In the past 30 years, the foundation has received the list so they could send newly retired actives notices/invitations to events. This year they have not been successful in obtaining the list. The Foundation does not have a database because they always relied on being provided the information, and as an aside they noted they shred the lists after use.

Member Loesch stated this item was brought to his attention by someone he has worked with, so he offered his assistance to bring it before the Board.

Chair Busse stated that they receive several requests from many organizations and at this time no information has been provided. He would refer this matter to legal.

Ms. Dent stated the Board has to make a decision that they will provide it as public information or not. Once it is public information though, anyone can request it, so that includes marketers or whoever asks. The bigger issue is of privacy of a home address and if it is released to one then it would have to be released to any organization.

There was further discussion on ways to accommodate requests by third parties.

The Secretary stated outside organizations are groups people choose to join, and although they are valuable there needs to be a separation between the populations served. We have to be prudent in the use of Trust Fund staff time and resources in providing services. The fees to provide some services are substantial. The Trustees have not previously approved requests for information, it was a decision made by administration in the office, which was inappropriate.

Member Williams stated he recommends the Foundation approach retirees directly.

(M.S.C. Loesch/Williams) to deny request. Motion carried 5-0-1-1. (Vacant; No: Skillsky).

16. Approval of request from Connie Wolff to terminate retirement benefits for her return to employment effective December 14, 2008.

(M.S.C. Perkins/Williams) to approve. Motion carried 6-0-1. (Vacant)

STANDING COMMITTEES / REPORTS / RECOMMENDATIONS (Items 18-21)

- 18. **Committee for Investments (Perkins/Loesch/Busse – alternate/Williams)**
- 19. **Committee of the Whole (Full Board) – last meeting 11 December 2008**
- 20. **Real Estate Committee (Williams/Vacant/Skillsky– alternate/Busse) – TBD**
- 21. **Policy Committee (Busse/Perkins/Constant) – Next meeting 11 December 2008**

**EDUCATION AND TRAINING
PUBLIC/RETIREE COMMENTS**

Mr. Leininger stated that once a name list goes out, many retirees complain of receiving marketing and junk ads. Also, for the Foundation, department directors attend those functions so they should be able to track people as they are leaving since the organization is for recent retirees.

FUTURE AGENDA ITEMS

ADJOURNMENT

There being no further business, at 10:25 a.m., **Chair Busse** adjourned the meeting.

**DAVE BUSSE, CHAIR
BOARD OF ADMINISTRATION**

ATTEST:

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

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**DAVE BUSSE, CHAIR
BOARD OF ADMINISTRATION**

ATTEST:

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