

FEDERATED CITY EMPLOYEES' RETIREMENT SYSTEM

Minutes of the Board Meeting

THURSDAY

SAN JOSÉ, CALIFORNIA

May 17, 2012

CALL TO ORDER

The Board of Administration of the Federated City Employees' Retirement System met on Thursday, May 17, 2012 at 8:35 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 (arrived @ 8:35 a.m)

Arn Andrews -Present

Michael Armstrong -Present

Martin Dirks -Present

Stuart Odell -Present

Ed Overton -Present

NON-VOTING BOARD MEMBER

Pete Constant -Present (arrived @ 8:40 a.m)

DIRECTOR RETIREMENT SERVICES

Russell U. Crosby -Present

COUNSEL

Harvey Leiderman -Present

RETIREMENT SERVICES STAFF

PRESENT

Donna Busse, Deputy Director, COO

Carmen Racy-Choy, Deputy Director, CIO

Veronica Niebla

Toni Johnson

Sonia Morales

Troy Gavin

ALSO PRESENT:

Allison Suggs, Office of Employee Relations

Charles Allen, AFSCME

Bill Pope, OE3

Gay Gale, City Employee

Mary Cornell, AFSCME-CEO

Gerry Chappuis, AFSCME

LaVerne Washington, AFSCME-CEO

CALL TO ORDER: 8:35 a.m.

• ORDERS OF THE DAY

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

Item 1.2 – Deferred

Item 1.3h – Change retirement date to June 9, 2012 and 24.94 years of service.

Consent Calendar

Items 3.1abde

Items 3.1c & 3.1f to be heard concurrently with Items 4.4 and 4.5.

Item 3.2

Items 4.1 to 4.6

Items 4.7 & 4.8 – to be heard after Closed Session

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Items 5.1 to 6.4 – end

Closed Session Items 3.3 & 3.4

A motion was made to approve the revised Orders of the Day.

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

1. CONSENT CALENDAR (Items 1.1 through 1.9)

A motion was made to approve Consent Calendar, excluding Item 1.2 which was Deferred.

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

1.1 Approval of Lifetime Monthly Payment Option to be paid to **Lolita Q. Heath**, ex-spouse of Engineering Technician II, Roy Heath, to be effective June 1, 2012 under Part 23, Section 3.28 of the San Jose Municipal Code.

1.2 Approval of Deferred Vested / Non-Service-Connected Disability

Linda R. Norwood, Police Dispatcher II, Police Department, effective June 9, 2012; 11.44* years of service. Pursuant to Part 21, Section 3.28.2420(E) of the San Jose Municipal Code. (With reciprocity) **Deferred**

1.3 Approval of Service Retirements

- a. **Maria I. Canchola**, Library Clerk, Library Department, effective June 23, 2012; 15.83* years of service.
- b. **Ruben G. Canela**, Community Activity Worker, Parks, Recreation and Neighborhood Services, effective June 23, 2012; 11.70* years of service.
- c. **Angela Chen**, Administrative Officer, Finance Department, effective June 30, 2012; 22.96* years of service.
- d. **Daniel M. Clanton**, Building Inspector/Combination, Planning, Building & Code Enforcement Department, effective June 2, 2012; 15.03* years of service.
- e. **William F. Clark**, Senior Deputy City Attorney, City Attorney's Office, effective June 23, 2012; 15.10* years of service.
- f. **Parviz Ezzatyar**, Associate Engineer, Planning, Building & Code Enforcement Department, effective June 9, 2012; 15.09* years of service.
- g. **Nasario M. Gutierrez**, Recreation Program Specialist, Parks, Recreation & Neighborhood Services, effective June 23, 2012; 27.48* years of service.
- h. **James J. Ham**, Senior Accountant, Police Department, effective June 23, 2012; 24.98* years of service. **Change retirement date and years of service as noted on Orders of the Day**
- i. **Mary Hom**, Supervising Application Analyst, Information Technology Department, effective June 30, 2012; 28.65* years of service.
- j. **Christine A. Meyers**, Groundworker, Parks, Recreation & Neighborhood Services, effective April 17, 2012; 21.14* years of service.
- k. **Daniel Tong**, Legal Services Administrator, City Attorney's Office, effective June 24, 2012; 29.64* years of service.

- l. **Robert A. York**, Supervising Application Analyst, Library Department, effective June 9, 2012; 15.20* years of service.

1.4 Approval of Deferred Vested Retirements

- a. **Sheryl Bowens-Atkins**, Staff Specialist, Environmental Services Department, effective June 14, 2012; 27.67* years of service.
- b. **Maria D. Cueto**, Senior Custodian, Airport Department, effective April 23, 2012; 9.17* years of service.
- c. **Linda Horwedel**, Senior Planner, Planning, Building & Code Enforcement Department, effective June 9, 2012; 10.02* years of service.
- d. **Patricia Nguyen**, Senior Account Clerk, Office of Economic Development, effective May 4, 2012; 23.72* years of service.
- e. **Steven M. Roemer**, Parks Manager, Parks, Recreation & Neighborhood Services, effective June 23, 2012; 20.65* years of service.

1.5 Approval of Change of Retirement Date

- a. Approval of change of retirement date of **Ricky Tijani**; from March 31, 2012 to May 15, 2012, approved at the February 16th Board meeting.

1.6 Approval of Board Minutes

Approval of Board Minutes of April 19, 2012.

1.7 Approval of Return of Contributions

- a. Voluntary
- b. Involuntary

1.8 Acceptance of Communication/Information Reports

- a. Pending Projects.
- b. Internal Revenue Service letter regarding Compliance Statement for: San Jose Federated City Employees Retirement System, dated February 24, 2012.
- c. CalAPRS Trustees Round Table, February 3, 2012 – Educational Travel Report – by Arn Andrews.
- d. IMN Alternative Investment Summit, September 21-22, 2010 – Educational Travel Report – by Matt Loesch.
- e. Personal Accident Insurance Rate Change and Special Open Enrollment for Vision Insurance.
- f. Federated Retirement Contribution Rates letter to active Members regarding new Retirement Contribution Rates, dated May 9, 2012.

1.9 Approval of Travel / Conference Attendance

- a. Matt Loesch - CalAPRS, Trustees' Round Table, DoubleTree Hotel, San Jose, CA – June 8, 2012.
- b. Marty Dirks - CalAPRS, Trustees' Round Table, DoubleTree Hotel, San Jose, CA – June 8, 2012.
- c. Carmen Racy-Choy - Due Diligence – Hedge Fund On-Site:
 - New York – Week of July 9, 2012. **(Date change from 4/16/12)**
 - Geneva, London – Week of June 4, 2012. **(Revised: added Geneva)**
- d. Daryn Miller - Due Diligence – Hedge Fund On-Site:
 - New York – Week of July 9, 2012. **(Date change from 5/7/12)**
- e. Heidi Poon - Due Diligence – Hedge Fund On-Site:
 - New York – Week of May 7, 2012. **(Date change from 4/16/12)**
 - Dallas, Minneapolis – Week of May 14, 2012. **(Date change from 4/23/12, CANCEL Greenwich)**
 - Geneva, London – Week of June 4, 2012. **(Revised: added Geneva)**

2. DEATH NOTIFICATIONS (Moment of Silence) **Note and file.**

- 2.1 **Richard D. Aust**, Airport Security Police Officer, retired 05/31/86, died 03/09/12. No survivorship benefits.
- 2.2 **Esther Davila**, Custodian, retired 04/22/06, died 01/30/12. Survivorship benefits to Raul Davila, spouse.
- 2.3 **John E. Spalding**, Administrative Assistant III, retired 10/17/85, died 03/14/12. Survivorship benefits to Barbara Spalding, spouse.
- 2.4 **Ernest W. Tershuren**, Chief Mechanical Inspector, retired 01/05/85, died 02/25/12. No survivorship benefits.
- 2.5 **Robert Vega**, Gardener, retired 10/04/87, died 03/18/12. No survivorship benefits.
- 2.6 **Richard J. Westheimer**, Plant Equipment Mechanic, retired 04/13/89, died 04/02/12. Survivorship benefits to Mary Westheimer, spouse.

3. OLD BUSINESS-DEFERRED/CONTINUED ITEMS

3.1 Discussion and action on Governance policies developed by Cortex.

Tom Iannucci from Cortex, via teleconference, gave an overview on the governance policies and responded to any questions and comments from the Board. Items 3.1c and 3.1f were heard concurrently with Items 4.4 and 4.5.

a. Role of Board Chair

A motion was made to approve the Role of Board Chair Charter.

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

b. Audit Committee Charter

A motion was made to approve the Audit Committee Charter, as amended.

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

c. Roles in Vendor Selection

Item 3.1c was moved to be heard concurrently with Item 4.4.

A motion was made to approve the Roles in Vendor Selection as revised.

Clarify “material projects” expense as anything greater than \$10,000.

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

d. Board Education Policy

A motion was made to approve the Board Education Policy as amended.

Add phrase “at the end of the fiscal year”, pg G-11, Item 8.

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

e. Investment Policy

Board discussed briefly and concurred to bring the Investment Policy to the Investment Committee for further review then bring back to the June Board meeting.

No action taken.

f. Personnel Committee Charter

Item 3.1f was heard concurrently with Item 4.5.

Board discussed briefly and agreed to defer approval until the newly created Ad Hoc Personnel Committee has had time to review the policy.

No action taken.

3.2 Discussion and action on questions to pose to the City Administration regarding implementation of June 5th Pension Ballot Measure and its impact on the administration and investment of the fund.

Mr. Leiderman led discussion on the questions to the City Administration regarding the June 5th Pension Ballot Measure.

A motion was made to move questions forward to the City Administration and to City Council and place topic with Governance Committee.

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

**Chair Loesch read Closed Session item into record before 10 minute break,
Entered into Closed Session at 11:13 a.m. upon returning from Break after Item 5.4.**

3.3 CLOSED SESSION: CONFERENCE WITH REAL PROPERTY NEGOTIATORS.

Pursuant to Government Code Section 54956.8

Property: Milpitas Warehouse, 746-876 South Milpitas Blvd., Milpitas CA 95035

Negotiator: Stanley Iezman, American Realty Advisors

Under negotiation: Price and terms of payment

Probable Value of Property: Exceeds \$1 million

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**3.4 CLOSED SESSION: CONFERENCE WITH LEGAL COUNSEL – LITIGATION
PURSUANT TO GOVERNMENT CODE SECTION 45956.9(a),**

Paul Mulholand, James Unland and Mary Follenweider, Plaintiffs v. Russell Crosby, Mike Moehle, City of San Jose and Does 1 through 10 Defendants; the Board of Directors of the San Jose Police and Fire Retirement Board and the Board of Directors of the City of San Jose Federated City Employees Retirement System, Necessary Parties in Interest.

Chair Loesch reconvened from Closed Session at 12:16 p.m.

There was no report out on Closed Session Items 3.3 and 3.4.

OPEN SESSION

4. NEW BUSINESS

Item 4.1 was heard after Item 3.2, as noted on Orders of the Day.

4.1 Presentation of Investment Performance (Flash Report) for period ending April 30, 2012.

Ms. Racy-Choy reported to the Board that they will have the policy benchmark added on the next Investment Performance Flash Report. Also, Trustee Druyan requested to have a comparison to other plans added.

Note and file

4.2 Presentation by Russell Investments on Portfolio Overlay Services.

Steve Cauble and Greg Nordquist from Russell Investments presented a review of the Portfolio Overlay Services and responded to questions and comments from the Board.

Extensive discussion continued.

Item 4.2 will be brought forward to the June Investment Committee for further discussion on questions raised at the Board meeting.

Note: Chair Loesch called to Order at 9:45 a.m. the Federated Retiree Health Care Trust Fund Agenda to be discussed along with Item 4.3.

4.3 Discussion and action on proposed City Council Resolution regarding Health Care Trust issues.

Mr. Leiderman led the discussion on the proposed City Council Resolution regarding establishment of IRC Section 115 Health Care Trusts.

Extensive discussion continued.

A motion was made to direct General Counsel to request that the City Attorney's Office approve the Board's obtaining a written opinion from Ice Miller to address four issues:

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- 1) May Employee money be paid into 115 Trust
- 2) May Employee money be paid into the 115 Trust on pre-tax basis
- 3) Will Employee have the ability to withdraw from the 115 Trust if they terminate from City Employment
- 4) Who bears the risk of the IRS disallowing any of these actions?

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

A motion was made to request City Council to not approve contributions being made into the 115 Trust until the Board receives a report from its tax counsel.

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

Item 3.1c and Item 4.4 were heard concurrently.

- 4.4 Discussion and action regarding authorization for the Director to enter into one or more agreements with a combined total not to exceed \$95,000 for a search consultant to recruit an Assistant Director and an Investment Officer.**

Alex Gurza, Deputy City Manager, addressed the Board.

A motion was made to authorize the Director to select between EFL Associates and Alliance Resource Consulting for an amount not to exceed \$95,000, plus expenses.

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

Item 3.1f and Item 4.5 were heard concurrently.

- 4.5 Discussion and action on whether and in what forum to meet with the City Administration regarding succession planning within the Department of Retirement Services as requested by the Administration.**

Mr. Gurza, Deputy City Manager, led the discussion regarding what forum to meet with the City Administration regarding succession planning within the Department of Retirement Services.

A motion was made to create an Ad Hoc Personnel Committee for succession planning, to work in conjunction with the Police & Fire Department Retirement Plan, to not last more than 6 months and to replace the existing Ad Hoc Staffing and Salaries Committee. Personnel Committee consists of: Trustee Loesch as Chair, Trustee Druyan and Trustee Dirks.

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

- 4.6 Discussion and action on Plan Expenses for March 2012.**

A motion was made to approve the Plan Expenses as submitted by the Director for March 2012.

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

Items 4.7 and 4.8 were heard after Closed Session Items 3.3 and 3.4.

- 4.7 **Educational Presentation by ReedSmith: Discussion of fiduciary principles and duties. Receive and file. (Deferred from April 2012 Board meeting)**

Mr. Leiderman provided a brief educational session on fiduciary principles and duties and responded to any questions or comments from the Board.

- 4.8 **Educational session from Counsel on conflicts of interest. Receive and file.**

Mr. Leiderman provided an educational session of scenarios on conflicts of interest and responded to questions and concerns from the Board.

5. COMMITTEES/REPORTS/RECOMMENDATIONS

- 5.1 Policy Committee (Overton/Armstrong/Loesch – alternate/Andrews) – None

- 5.2 Investment Committee (Druyan/Odell /Dirks –alternate/Armstrong)

- Next Meeting: May 25, 2012

- a. **Minutes of March 28, 2012 meeting. Note and file.**
b. **Update from Chair of Investment Committee.**

Trustee Druyan, Chair of the Investment Committee updated the Board on the particulars of the Investment Committee regarding an educational session by Black Rock, Trade Winds, not going with General Counsel, hiring transition managers.

- 5.3 Ad Hoc Governance Committee (Loesch/Armstrong/Odell – Alternate/Dirks)

- Next Meeting: TBD

- 5.4 Ad Hoc Governance Committee on Staffing and Salaries (Loesch/Druyan/Overton – Alternate/Dirks) - Next Meeting: TBD

Committee terminated and substituted by the new Ad Hoc Personnel Committee.

6. EDUCATION & TRAINING **Note and file.**

- 6.1 **Educational Programs and Courses**

- 6.2 **Conferences and Seminars**

- 6.3 **Research Papers and Articles**

- 6.4 **CalAPRS Training**

- a. Trustees' Round Table, DoubleTree Hotel, 2050 Gateway Place, San Jose – Friday, June 8, 2012.

- **FUTURE AGENDA ITEMS**
 - Discuss amending contract for legal.
- **PUBLIC/RETIREE COMMENTS** None
- **ADJOURNMENT**

Meeting was adjourned 1:20 p.m.



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

ATTEST:



RUSSELL U. CROSBY
DIRECTOR, RETIREMENT SERVICES