

City of Austin Employees' Retirement System

MINUTES
CITY OF AUSTIN EMPLOYEES' RETIREMENT SYSTEM
Special Called Board Meeting
Education & Planning Workshop
Tuesday, July 29, 2008
6650 Comanche Trail, Austin, Texas

Board Members Present

Janet Bartles
Eyna Canales-Zarate-*dept. 3:00 p.m.*
Reagan David
Francine Gertz
Ed Golden
Elizabeth S. Gonzales
Mark Monteith-*departed 12:21 p.m.*
Anthony B. Ross, Sr.
Ronnie Wilson

Absent

Leslie Browder

Staff and Guests Present

Stephen C. Edmonds, Executive Director
Donna Boykin, Finance Manager
Rhonda Helm, Operations Manager
Rosaree Koepsel, Administrative Supervisor
Babette Ruiz, Executive Assistant
Barney Knight, General Counsel
Eric Ralph, Investment Consultant
Lewis Ward, Actuarial Consultant
Art Alfaro, City of Austin
Terry Burnham, Ph.D., Acadian Asset Mgt.
Jack Gastler, Acadian Asset Mgt.
Britt Harris, Teachers Retirement System

The meeting was called to order at 9:00 a.m. by Board Chair, M. Monteith.

1. Agenda Review and Opening Comments

M. Monteith welcomed Board Trustees, staff, and guests. Executive Director S. Edmonds reviewed the agenda and explained that the morning would be devoted to investment topics; the afternoon would include a session on benefits and funding, followed by a discussion of operational priorities for the coming months.

2. Behavioral Finance

Dr. Terry Burnham, former Harvard economics professor, gave a presentation entitled "Behavioral Finance: Neuro- and Macro-Economics". The presentation highlighted the fact that different parts of the brain have different and sometimes powerful impacts on perceptions. This topic is relevant to investment decision-making, particularly as it affects the perception of risk.

3. Alternative Investments

Mr. Britt Harris, Chief Investment Officer at the Teachers Retirement System of Texas, gave a presentation about the process used by his retirement system in introducing and implementing various new investment strategies. He emphasized the diversifying effect

of alternative asset classes. He noted that implementation strategies in some cases may be different for small funds (e.g. fund of funds).

M. Monteith departed at 12:21 p.m.

4. Asset Allocation

Investment Committee Chair R. David and Investment Consultant Eric Ralph led a discussion about the process for further evaluation of alternative investments for the City of Austin Employees' Retirement System (COA ERS). It was discussed that a decision had already been made to aim toward maximizing potential return with the existing level of risk. Consensus developed on the next steps in the process which include holding a special Investment Committee meeting in September to determine with which new asset classes the Board would be comfortable and then determining what resources would be necessary to implement those asset classes (i.e. determine what would be doable). The Board discussed the importance of constant Board education related to the different asset classes, as well as the importance of the full Board supporting decisions made by a consensus of the Board regardless of personal opinions (i.e. "speak with one voice").

A date in September for the Investment Committee meeting will be determined later. The meeting will be expected to last at least half a day, but will be scheduled to allow for a full day if necessary. All Board Trustees are encouraged to attend if possible.

5. Benefit Design and System Funding

Benefits and Services Committee Chair E. Canales-Zarate led the initial discussion for this session. There was discussion about the long history of COA ERS providing cost-of-living adjustments (COLAs) to retirees, through 2002. Since that time, the funding condition of the System has prevented increases. The Supplemental Funding Plan adopted by the Austin City Council in 2005 provides funding assistance in the form of a contribution subsidy, but is not designed to raise funding to a level sufficient to grant cost-of-living increases.

E. Canales-Zarate departed at 3:00 p.m.

Consensus developed on an initial approach. First, a meeting will be sought with the City Manager to brief him on the Supplemental Funding Plan and the current financial status of the System. Participants will include the Executive Director, Benefits and Services Committee Chair, City Manager's designee to the Board, and the System's actuary.

Second, a communication piece on the funding situation will be developed. Specifically, this communication will address the fact that COLAs cannot be given under the current funding situation and that the current Supplemental Funding Plan is not designed to reach a funding level sufficient for future COLAs. It is anticipated that this communication piece will be rolled out at the October Annual Members' Meeting.

The importance of the new City Council Board representative was discussed as well as the importance of developing a plan for communicating with the City Council regarding the System's situation.

6. System Benchmarks and Operational Priorities

S. Edmonds reviewed high level system-wide benchmarks for 2007. In addition, he provided a comparison against standards developed by the Public Pension Coordinating Council. These standards are not being met by the System due to issues related to adequacy of funding and cost-of-living adjustments.

Operational priorities discussed included: salary market study, completion of Chief Investment Officer recruitment, space planning, study of the effect of Austin Police Retirement joining the Proportionate Program, tax counsel review of the plan and a new IRS determination letter, review of the affidavit process, continued business continuity planning, and succession planning.

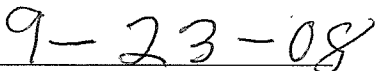
In terms of potential staffing needs for the future, there was discussion of a communications specialist, in-house counsel, and file room assistant (possibly part-time). Consideration of the file room assistant will be deferred until evaluation of currently available staff resources should the affidavit process be modified significantly. In-house counsel is a consideration further in the future. It was suggested that the communications specialist position be added in the 2009 budget process so it can be implemented as soon as determined feasible by the Executive Director; this position is a key element to a service oriented organization.

It was suggested by the Executive Director that 2009 might be an appropriate time during the Board Workshop to develop a new strategic plan.


The meeting was adjourned at 4:00 pm.




Mark Monteith, Board Chair



Date



Stephen C. Edmonds, Executive Director



Date